

Gambling czar bet millions on Kentucky getting casinos

His casino empire, his personal finances and his integrity all are under siege.

He recently lost his only New Jersey casino license in a high-stakes case that has reverberated throughout the gambling industry. And regulators in the four states where he is still in the gambling business – Indiana, Louisiana, Mississippi and Nevada – are investigating or reviewing his operations.

Now, gambling czar and hotelier William J. Yung III is looking for new action in a different venue, investing millions to make casinos a reality in Kentucky and to win himself a seat at the table.

Since last May, Yung – a registered Republican in Florida, where he claims legal residency to reduce his taxes – has made political donations totaling USD 1,049,500 that have at least indirectly buttressed the pro-casino cause championed by Kentucky's Democratic governor, Steve Beshear.

And earlier this year, according to published reports, Yung paid USD 7 million for land on which to build his hoped-for casino in Kenton County, near Cincinnati, even though expanded gambling in Kentucky appears no better than a long shot.

A successful and generally well-regarded hotel operator who in the early 1990s expanded into legalized gambling, Yung has a less than stellar track record in the casino business.

In addition to the New Jersey enforcement action and the inquiries in other states, Yung since October 2005 has failed in attempts to obtain casino licenses in Missouri and Illinois.

New Jersey regulators characterized Yung's philosophy as managing „efficiently run facilities through streamlining operations and cost-cutting methods.“ Those methods have caused a backlash at several of his casinos, including those in Nevada and Indiana, as well as in New Jersey, where staff reductions allegedly affected both the quality of service and the level of security.

The 67-year-old Yung also has run afoul of the Internal Revenue Service for a questionable USD 30million tax shelter in the Cayman Islands, which Missouri gaming officials have questioned along with his Florida residency and nearly USD 100,000 worth of personal items that Yung charged to corporate credit cards in 2003 and 2004.

Yung declined to comment for this story. After initially agreeing to an interview, he canceled the appointment a few days later, saying he had to be out of town. After failing to respond to three subsequent requests to reschedule it, Yung sent word through his secretary that he was „not interested“ in answering questions.

I. Nelson Rose, a professor at Whittier Law School in California who teaches, lectures and writes about gambling law, predicted that Yung would have difficulty winning a new license anywhere after New Jersey regulators revoked his right to operate there.

Yung and his company, Columbia Sussex Inc., „took a tremendous hit“ to their reputations, Rose said in an interview.

„Taking a license is the death penalty. Any regulator who gives them a new license now knows that they could be embarrassed, and administrative agencies don't like to be embarrassed. ... Politics aside, and politics doesn't often enter in, he would not get a license in Kentucky.“

Generous Donor: Gifts in Kentucky governor's race reflect hopes for casino legislation

The bulk of Yung's recent political contributions came in the form of a USD 1 million donation to the Bluegrass Freedom Fund on Aug. 14, during Beshear's ultimately successful campaign against incumbent Republican Gov. Ernie Fletcher.

As a so-called „527“ organization, the fund was ostensibly issue-oriented and nonpartisan; as such, it could accept unlimited donations. In fact, however, it launched a withering, thinly veiled television advertising campaign against Fletcher's ethics, using his own words to vilify him for hypocrisy.

Yung was by far the most generous giver to the fund, surpassing labor unions, racetracks including Churchill Downs, and the Democratic Governors Association. The largest individual contribution after Yung's was USD 50,000.

Yung, who had given \$ 1,000 to Beshear's campaign a week before the May 22 primary election, followed up his Bluegrass Freedom Fund gift with a USD 38,500 contribution in October to Kentucky Victory 2007, a political action committee.

Of that amount – the maximum allowed by law – USD 28,500 went to the Democratic National Committee, with the balance funneled to the Kentucky Democratic Party. Among the 188 individual contributors to Victory 2007, only 13 matched Yung's generosity.

And on Nov. 20, just two weeks after Beshear handily won the governor's race, Yung gave USD 10,000 to the committee planning his inauguration.

Yung, who also has donated at least USD 43,600 to Republicans since 2000, including a USD 1,000 contribution to Fletcher in 2003, has made no secret of the fact that his recent generosity to Democrats was motivated by a desire to help enact casino gambling in Kentucky and to position himself to be part of the new industry.

Beshear, however, has insisted that Yung's largesse will count for nothing, even if casinos are legalized in Kentucky.

„The way we proposed doing the free-standing casino licenses (was) in a competitive-bid process,“ Beshear said in an interview last week. „So whether somebody contributed to me doesn't put them in any better stead than anybody else.“

Casino Aztar: Layoffs violated commitment, Evansville mayor complains

Yung's Casino Aztar riverboat in Evansville paid USD 125,100 last June to settle a 14-count disciplinary proceeding with the Indiana Gaming Commission.

While testifying under oath in New Jersey, Yung twice asserted incorrectly that those violations were committed by the casino's previous owner, despite being reminded after the first false statement that all 14 occurred after he acquired the casino in January 2007.

Even before the Indiana settlement, regulators there were investigating complaints from Evansville Mayor Jonathan Weinzapfel that substantial employee layoffs at the casino violated staffing-level pledges Yung had made to the city and the state when he bought Casino Aztar.

„He made commitments which he reneged on,“ Weinzapfel said in an interview. „I am doing my job as mayor of the city in protecting the city's interests. It is a privilege to operate a casino in Indiana; it's not a right.“

„This is a state-granted monopoly, and when owners like Columbia Sussex don't follow through on their commitments, there's no reason why the state should continue to grant them this monopoly.“

Weinzapfel declined to say whether he thought Kentucky should grant Yung a casino license if such gambling is legalized. But

when asked whether Yung has been a good corporate citizen in Indiana, Weinzapfel replied, „No.“

On March 31 the Indiana commission will consider whether Casino Aztar's license should be renewed. Yung has put the boat up for sale.

Among the issues the commission will review is the New Jersey Casino Control Commission's Dec. 12 decision not to renew Yung's license to operate the Tropicana Casino and Resort in Atlantic City. It was just the second such action in the commission's 30-year history. Yung had owned and operated the Tropicana for less than a year.

New Jersey regulators cited Yung's inept management of the Tropicana; staff cuts so severe that they provoked what witnesses described as a „cleanliness crisis“; and the casino's „abysmal“ record of noncompliance with state regulations. Yung is appealing the decision, but the Tropicana is already on the market and is being operated under the direction of a commission-appointed trustee.

In addition to stripping Yung of one of his most prominent casino properties, the New Jersey commission fined him USD 750,000 – the largest penalty ever imposed on the state's gambling industry.

And for good measure, the commission's 63-page opinion excoriated Yung's business acumen, saying it was necessary „to tell a long-time and otherwise apparently successful businessman that he lacks business ability.“ Further, it accused Yung of exhibiting a „lack of cooperation on a grand scale“ and of decision-making that was „seriously flawed.“

Moreover, the commission questioned Yung's honor, saying that his „professed lack of understanding“ of some aspects of the casino's operations „strains credulity.“

It concluded that his application for relicensing must be

rejected „for lack of good character, honesty and integrity and contumacious defiance of the regulatory process.“

Yung testified at length under oath in September, and again in November during eight days of hearings in New Jersey, when he made the false statements about the Indiana disciplinary proceedings. At one point, when asked to describe his role in Columbia Sussex, he replied:

„I’m totally involved in the operation of the hotels, and ... I clearly monitor what’s going on at the casinos. And if you talk to any of the employees that are to come up here later, I think you’ll find out I’m totally involved in most everybody’s job that I deal with. It’s not that I’m an absentee owner. Believe me, I’m at work six days every week.“

Later, he added: „I’m a more of a hands-on guy than, I think, most CEOs. ... I make all the major decisions.“

Yet he also repeatedly pleaded ignorance of key issues and also of documents, including some he had signed, leading one member of the Casino Control Commission to wonder aloud how Yung could rightfully claim to be both so involved and so uninformed.

And the commission said in its opinion: „If he truly does not know the answers to some fundamental questions a fair inference is that he does not pay sufficient attention to regulatory matters to merit (operating) in New Jersey.

The alternative – that he knows the answers and chose to testify as he did – carries no less grave a consequence for his suitability here.“

Investigations: Licensing missteps in New Jersey triggered inquiries elsewhere

Partly as a result of the New Jersey decision, Yung’s operations in Nevada now are under investigation.

Dennis Neilander, chairman of that state's Gaming Control Board, declined to discuss details of the inquiry except to say that it involves both a review of Yung's actions in New Jersey and „monitoring of the audit, security and other regulatory compliance“ of his six Nevada casinos.

That resulted from a complaint to the Gaming Control Board last December by a union local representing employees at Yung's Tropicana Hotel and Casino in Las Vegas about „potential criminal activities“ there.

Culinary Workers Union Local 226 asserted that reductions in staffing at the casino may have contributed to a rise in rowdy behavior, the regular presence of pimps and prostitutes on the property, and thefts from vehicles.

Yung also has fought losing battles with regulators in states other than New Jersey:

Last March, his inability to obtain a gambling license in Illinois resulted in a missed opportunity to purchase and operate the Casino Queen riverboat at East St. Louis, and caused Yung to file suit against the boat's owner to recover a USD 5 million escrow deposit.

Yung blamed the state's Gaming Board for his failure to obtain the license. Board officials countered that Yung's company had effectively scuttled the deal by not filing required documents in a timely fashion.

In October 2005, Yung withdrew his application for a casino license in Missouri, where he had sought to purchase and operate the President Casino riverboat in St. Louis. Although Yung initially testified in New Jersey last November that his primary motivation for withdrawing was because „we didn't want to deal with Missouri,“ he subsequently admitted the actual reason: Officials there had told Yung that his application would be denied if he persisted.

Moreover, Yung acknowledged his concern that denial of a license in Missouri could jeopardize his gambling properties elsewhere. For example, state law in Louisiana, where Yung has casinos in Amelia and Baton Rouge, holds that anyone whose license has been revoked, or who has been found unsuitable for licensure in any other jurisdiction, is ineligible to obtain a license in Louisiana for five years.

And indeed as a result of the New Jersey decision, Yung's licenses in Louisiana are the subject of an „open investigation“ by the Louisiana State Police, according to Sgt. Dino Carlomagno of the Gaming Licensing Section.

The Missouri Gaming Commission has never disclosed publicly what it found so troubling about Yung. Gene McNary, the commission's executive director, declined in a recent interview to discuss the case.

But Yung testified in New Jersey that Missouri regulators gave him several reasons for their intention to recommend denying him a license. They included his Florida residency, the disputed tax shelter in the Cayman Islands and the personal use by Yung of Columbia Sussex corporate credit cards.

When Yung was asked during the New Jersey hearings about the purpose of his Florida residency, he initially replied, „Basically to be a Florida resident.“ Under further questioning, he conceded that the arrangement actually was to reap tax advantages afforded by living there. Unlike Kentucky, Florida has no income tax for individuals.

„And Missouri had a problem with this?“ Yung was asked about his decision to adopt Florida as his home state. „Yes,“ he replied.

According to records in the New Jersey licensure case, Yung spends only a week or two each year in Florida, where he has a condominium in Naples, on the Gulf of Mexico. But in 2000, he obtained a Florida driver's license and registered to vote in

that state. Both are factors considered by Florida officials in determining legal residency.

In his New Jersey testimony, Yung said that he also lives in Ohio for part of the year, to ensure that he is not in Kentucky long enough to be considered a legal resident, which would subject him to the state's income tax.

He and his wife, Martha, own a condominium in Ohio, and she is listed as the sole owner of a palatial, 11,328-square-foot home on 4.7 acres in Edgewood, Ky., near the Summit Hills Country Club. The house, valued at USD 2.6 million, has six bedrooms, five bathrooms, a three-car garage and an in-ground pool, according to records of the Kenton County property valuation administrator's office.

IRS Scrutiny: Cayman Islands tax-shelter decision said to show ,disregard' for rules

Last June, the Yungs and a family trust paid the Internal Revenue Service a total of USD 15.5 million in back taxes, penalties and interest to settle a case in which the IRS took a dim view of the Cayman Islands tax shelter, according to New Jersey Casino Control Commission records.

Testifying in New Jersey, Yung described the USD 30 million tax shelter as a way to bring income generated by his Cayman Islands hotel into the United States while „paying only a minimum of taxes.“

But in imposing penalties on the Yungs and the family trust, the IRS said the transaction showed a „demonstrated disregard“ for IRS rules and regulations, in part for failing to report the dividends in question as income.

New Jersey investigators said Yung should be „far more circumspect with regard to future tax matters,“ but they concluded that it was a case of „tax avoidance, certainly not one of tax evasion.“

Yung said he relied on an accounting firm's advice to participate in the tax shelter, and he has filed suit against the firm, Grant Thornton LLP, in Kenton Circuit Court. A spokeswoman at the firm's Chicago headquarters declined to comment on its dealings with Yung.

According to New Jersey records, Grant Thornton issued an opinion in August 2001 warning that the tax shelter posed a „significant risk,“ and that an IRS challenge to it likely would succeed. Yung testified in New Jersey that he had no recollection of the opinion.

„I just let the accountants and the attorneys read this stuff,“ he said.

The IRS, however, concluded that the Yungs „accepted the rewards of a too-good-to-be-true deal,“ relying on the Grant Thornton opinion without fully reading it „to shield themselves from penalties.“ Yung's tax returns for 1988, 1990 and 1991 were audited by the IRS, according to records in the New Jersey licensing case. Some of the losses that he and his wife had declared were disallowed, requiring them to pay additional tax and interest totaling USD 777,839, according to the records.

More recently, charges for personal items totaling approximately USD 97,000 that Yung billed to three Columbia Sussex corporate credit cards in 2003 and 2004 were called into question. The items included artwork (a fountain and some pieces of brass), European vacation trips, personal expenses at his Florida residence, jewelry, a daughter's wedding and eight flights by Martha Yung and other family members or friends on a corporate jet, according to the New Jersey records.

The records indicate that Yung „addressed those matters“ on his 2004 individual federal income-tax return by reporting them as miscellaneous income.

In 2003 Yung's Lighthouse Point Casino in Greenville, Miss., ran afoul of the U.S. Treasury Department for allegedly failing to file required reports in connection with 142 currency transactions exceeding USD 10,000. Without admitting guilt, the casino and Yung agreed in May 2003 to pay a civil penalty of USD 350,000.

It was only the ninth such case brought by the federal government against a casino during the past decade, and the fine was the second-largest imposed.

Yung is not under investigation in Mississippi, where he has three casinos, according to Larry Gregory, executive director of that state's Gaming Commission. But Gregory said the commission is reviewing the New Jersey case, „looking to see what was done there, to see if any action should be considered here.“

Yung, who graduated from the University of Cincinnati in 1962 and who has seven children, has told reporters for The Cincinnati Enquirer and The Wall Street Journal in recent weeks that, notwithstanding his regulatory setbacks, he remains confident about his ability to stabilize and expand his casino operations. They involve 12 properties, including the one for sale in Indiana and another on the market in Mississippi.

Hotel Holdings: Empire began in 1970s with Days Inn in Boone County

More sprawling by far than his network of casinos is Yung's hotel empire, which began modestly with a Days Inn in Boone County that Yung said he helped build himself in the early 1970s, and which now encompasses more than 80 properties offering more than 30,000 rooms in 32 states, the District of Columbia and the Cayman Islands.

According to Columbia Sussex's Web site, three of those hotels are in Kentucky: the Sheraton Cincinnati Airport Hotel;

Holiday Inn Airport South on Fern Valley Road in Louisville; and Louisville Marriott East on Embassy Square Boulevard in Jeffersontown.

Yung is the nation's largest operator of full-service Marriott hotels, 38 in all, and company officials speak glowingly of his stewardship.

„He's one of our top operators,“ said Steve Joyce, executive vice president of global development and owner franchise services for Marriott International Inc. „They said he didn't do a good job running the hotel (and casino in New Jersey). He does an excellent job of running ours.“

But casino analysts and others involved with the gambling industry say that any application from Yung to run a casino in Kentucky should be greeted with considerable scrutiny, if not outright skepticism.

Sumit Desai, a gambling and leisure stock analyst for Morningstar Inc., said Yung „doesn't have that much of a track record, and the track record he has isn't that good.“

Yung and the Tropicana „had plenty of opportunity to fix this, and they didn't,“ Desai said. „It makes you wonder why, what sort of an operator they would be elsewhere.“

Gene O'Shea, a spokesman for the Illinois Gaming Board, which did not grant Yung a license last year, said it would be „very problematic“ for anyone seeking a casino license in that state to have lost a license somewhere else, „especially if that jurisdiction is New Jersey.“

„When it comes to regulatory compliance, one of the strictest states is considered to be New Jersey,“ O'Shea said. „We're pretty tough, but they're even tougher.“