

FBI operation helped re-elect Harvey mayor

State, feds leave troubling practices largely unchecked

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The glossy campaign fliers arrived in time to help Harvey's besieged mayor.

Eric Kellogg's police department was mired in scandal, reports of violent crime were rising and challengers were calling him corrupt.

But the fliers showed a different picture: Kellogg smiling with officers and shoveling dirt at groundbreaking ceremonies, as well as skewed statistics declaring that Harvey was on the mend.

The rescue came from an odd backer, the Tribune has learned: an undercover FBI agent.

The agent had been placed in a local strip club to investigate corruption. And for reasons federal officials won't discuss, records show the agent formed a special political committee and primed it with about \$140,000. The committee then flooded the crucial 2007 mayoral race with money that helped Kellogg to victory, even as federal agents were probing the mayor's police department.

The FBI's involvement — uncovered in this Tribune investigation — set the stage for a series of actions by state and federal agencies that preserved the status quo and masked problems in Harvey.

The Tribune documented earlier this week how Harvey has the stark combination of high violent crime and few arrests — with police officers facing a smorgasbord of allegations that often go unchecked.

The latest investigation has found that outside agencies ignored and enabled Harvey's leaders in ways that may have made things worse. The revelations are based on a review of numerous civil and criminal court cases as well as local, state and federal records.

After the undercover federal agent aided Kellogg's campaign, another powerful federal agency came in to document systemic problems in his police department — only to leave without forcing reforms.

And all along, state officials have neglected to take key steps to stop the city and Kellogg from repeatedly breaking disclosure laws, helping the mayor maintain power with money from secret backers while also obscuring the city's dire financial state.

Residents have been left with a town where the violent crime rate is higher than it was during Kellogg's first full year in office a decade ago. And, based on the records that the Tribune has seen, the suburb appears hard-pressed to improve crime-fighting. It is nearly insolvent, owing millions of dollars that it has no clear way to pay back after insider deals helped drain city accounts.

'New Harvey Rising'

Kellogg gained a following in Harvey as a football coach who spoke of beating the odds in the hardscrabble town, coming from a poor, large family to attend college and go into public office.

Starting at the Harvey Park District, he rose through the ranks before running for mayor, making impassioned speeches denouncing his hometown's crime, cor-

ruption and racism. By 2003 he had unseated the incumbent, riding a groundswell of calls for reform.

But by the end of his first term, opponents said he was becoming part of the problem.

Kellogg, who came to office promising “A New Harvey Rising,” surrounded himself with relatives. He put his brother, a full-time plumber, in charge of a new police initiative. He named his sister as his main assistant, and for city attorney he chose his newly licensed niece. He said the hires saved the town money.

Kellogg also brought back police officers who supported his campaign after being cast out by the previous administration over allegations of wrongdoing. He said the officers had been wrongly maligned.

Some of those police hires eventually came under fire again, this time in lawsuits that accused them of having gang ties, brutalizing citizens and fumbling cases.

As his first term was coming to a close, Kellogg was hit with headlines that said his police didn’t solve any homicides in 2005, and the numbers hadn’t improved much in 2006. City Council members revolted, asking in vain for state police to audit the local force.

Soon state and county investigators marched into police headquarters and seized records and evidence related to dozens of unsolved crimes. By then, Harvey’s violent crime rate had jumped 30 percent over Kellogg’s first full year in office.

Amid all that, Kellogg asked voters for a second term.

Five challengers vied to defeat him at the polls, but their efforts were countered by a new man in town.

Campaign secrets

As Election Day approached in spring 2007, a new political committee came to life: The Harvey Good Government Group 2007.

State records show the committee was created by a man named Carlos Vargas, using an address that traced to a fifth-floor condo overlooking the relatively safe suburb of Oak Lawn. Vargas’ occupation is listed on state records as “construction consultant,” and he is reported as the source for \$141,300 lent to the committee.

Court records would later reveal that Vargas was an undercover FBI agent with about a dozen assignments under his belt, working national security, public corruption and organized crime cases — though few knew that at the time. Vargas isn’t the agent’s real name.

His cover: the new manager helping remodel the Skybox strip club on Halsted Street. The club was owned by Michael Wellek, who became an FBI informant at some point after IRS agents seized \$12 million in cash from a warehouse he controlled in 2003, according to court records.

The Vargas-tied committee reported about \$130,000 in spending on election-related activities like printing, newspaper ads, cable TV time, get-out-the-vote efforts and polling. Of the total, the committee reported spending \$17,000 on postage and mailing.

Federal authorities declined to tell the Tribune where the money came from,



ZBIGNIEW BZDAK/TRIBUNE PHOTO 2013

Harvey Mayor Eric Kellogg received campaign help for his 2007 re-election bid from an undercover FBI agent.

although they said it wasn't government money.

The Tribune found three fliers from the mayoral campaign that supported Kellogg and bear the name of the Vargas-tied committee: "Paid for by Harvey Good Government Group 2007."

The fliers contain material that appears to mirror Kellogg's campaign, including a roster of his good deeds and photographs from city events. One touted Kellogg's economic development initiatives, though his signature achievement — redeveloping the long-shut Dixie Square Mall — was floundering. Another said the mayor balanced the budget, though the records would later show multimillion-dollar deficits.

And another flier said the mayor helped reduce crime, though statistics showed violent crime at its highest level since he first took office.

The committee's spending amounted to far more than what Kellogg's challengers reported spending, combined, and twice as much as Kellogg's campaign reported spending.

"If I had that kind of money, I would have had a shot," said challenger Thomas Dantzler, a former alderman.

Kellogg emerged from the six-person race with a winning 43 percent of the vote.

The Tribune asked the FBI and the U.S. attorney's office to explain their actions in the 2007 race. Both instead issued a joint statement saying, in part, that "undercover operations are a critical tool in rooting out public corruption."

Vargas' undercover work at the club was one part of a multiphase, multiyear investigation of politicians and police officers, according to FBI testimony in a later drug trial.

It is not unusual for undercover federal agents to make campaign contributions or to set up fake businesses that do real business as part of sting operations. The FBI and the U.S. attorney's office, in their statement, said they followed all protocols.

But the FBI has so far refused to release records in the case that could illuminate who approved the campaign efforts and why.

Vargas' role as an undercover agent at the Skybox became public the year after Kellogg was re-elected, after the agent concluded his work luring local officers to act as security on fake drug deals. Fifteen officers were charged, including Harvey cops, among them Archie Stallworth.

Stallworth was caught telling Vargas that Harvey was a great place for large drug transactions because "if anything goin' down, we gonna know about it." Stallworth, since convicted, maintains he was only hoping to take down Vargas the drug dealer.

Stallworth was close to Kellogg. At Stallworth's 2009 trial, an FBI agent said investigators asked Stallworth to cooperate against Kellogg. He later told the Tribune he declined.

Trial evidence also showed that a year after the election, Vargas boasted to Stallworth about working with city officials to land a coveted casino license for the suburb.

"The mayor knows, the aldermen are in," Vargas said, according to a transcript of a recorded conversation. "It's gonna be huge."

Harvey didn't get the license from the state — Des Plaines did.

Kellogg declined to be interviewed or answer questions about the 2007 election and Vargas' role in it.

Feds walk away

After Kellogg's re-election, the headlines on Harvey's problem Police Department prompted a visit from the FBI's sister agency: the Civil Rights Division of the Justice Department.

The division has immense power through the federal courts to demand that



ZBIGNIEW BZDAK/TRIBUNE PHOTO

Though Eric Kellogg's campaign has failed to file about a dozen reports over three years, the State Board of Elections has fined him only once, for \$5,000.

problem departments shape up, which it has done across the country, including forcing departments in Highland Park and Mount Prospect in 2000 to ensure that they weren't unfairly targeting minorities for traffic tickets. More recently, the division forced police in Missoula, Mont., to ensure that they properly handled rape investigations.

But the division didn't look at Harvey's notoriously shoddy rape investigations, instead focusing on police brutality. It spent three years — from December 2008 to January 2012 — reviewing Harvey's haphazardly kept records and noted "serious concerns" that officers routinely roughed up residents. It declared the department "devoid of supervisory oversight and accountability."

But Justice officials did nothing to force Harvey to change.

Instead, the town was given "recommendations," such as rewriting its policies and procedures. Harvey officials said at the time that they would make the changes.

Justice Department officials declined to explain their decision to the Tribune. Nebraska criminologist Sam Walker, a national expert on police accountability who once served as a consultant to the civil rights division, said he was surprised by the decision. He said federal officials had plenty of evidence of widespread problems in Harvey to push for the appointment of an outside monitor.

"It's a little surprising given how utterly dysfunctional the department appears," Walker said.

Flouting the law

At the same time that Justice officials did not force reform, state officials were failing to enforce a key law that would have exposed how the city's finances had started to spiral out of control.

Illinois law requires cities and villages to hire licensed auditors to go through their books and release an annual report that sheds light on their financial state.

It's meant to ensure public finances are readily known and aboveboard.

Harvey stopped producing the audits in Kellogg's second term, saying they were too expensive.

During the information blackout, the Tribune has found through records, the city borrowed millions while failing to set aside millions more for legally required

public safety pension payments.

Harvey also obtained water from the city of Chicago on credit, sold it to residents and other suburbs, then stiffed Chicago on multimillion-dollar bills, according to court records.

The suburb, meanwhile, was underfunding police, to the point that detectives were forced for years to juggle three-digit caseloads without regular Internet access.

Yet all the while, officials let loose on development gambles, including an insider deal that went bust.

The depths of the downward spiral shouldn't have been secret.

By law, the state comptroller is supposed to force towns to file the audits Harvey was refusing to compile. The comptroller can even hire an auditing firm to go to a town, scour the books and then charge the town for the work.

But the state comptroller didn't do that in Harvey, instead routinely asking the city, to no avail, to comply with the law.

So when voters turned to another heated mayoral race in 2011, they had little basis to judge Kellogg's assurances that city finances were OK.

Kicking off that re-election bid, the two-term mayor gathered his supporters in a storefront campaign office and boasted that new business was moving in and policing had improved.

He portrayed himself as the city's defender against outside forces.

"I will fight, and I need you to fight with me," Kellogg said to cheers, amid a backdrop of campaign signs that urged: "Keep The New Harvey Rising."

But the mayor was denying residents even more information: who was funding his campaign.

In previous years, Kellogg's campaign committee filed disclosure reports that showed his mon-

ey coming from strip club interests, liquor stores, city contractors and employees, among others.

In typical races, critics can point to a candidate's list of contributors to question whom the politician is really fighting for.

But in this race, the mayor's committee simply stopped filing the reports — obscuring where his campaign money was coming from or going toward, as well as how much he was spending.

The scope of the violation is rare for a sitting mayor, say those familiar with the law.

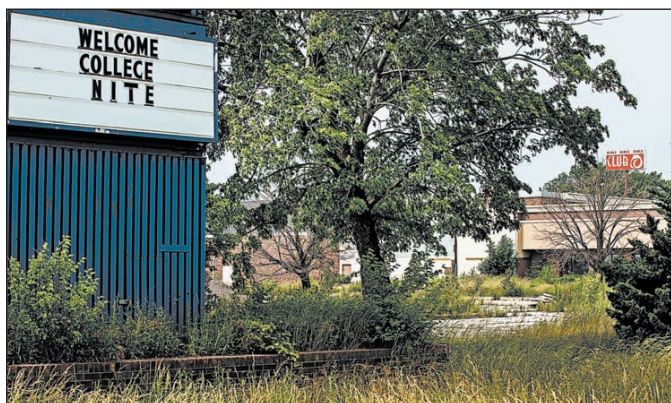
"This destroys people's faith in the political system," said Kent Redfield, a professor emeritus at the University of Illinois at Springfield who helped craft the state's campaign finance laws.

Yet the State Board of Elections did nothing to force Kellogg to comply before the election. He faced four challengers and won with 40 percent of the vote.

No action

More than two years later, Kellogg continued to flout state disclosure laws, and state agencies continued to decline to use their full authority.

On the campaign end, the State Board of Elections levied a \$5,000 fine against



ZBIGNIEW BZDAK/TRIBUNE PHOTO 2013

The city took a major development gamble in spending at least \$10 million to fix up a privately owned hotel next to a strip club at the town's edge that is now half-gutted and in foreclosure.

How the FBI helped re-elect a onetime target of corruption probe

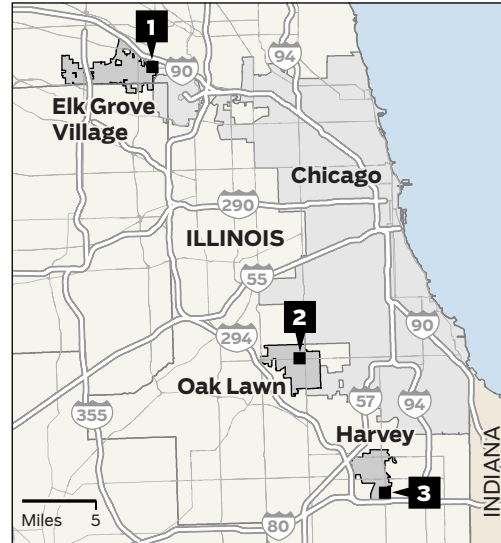
The FBI planted an undercover agent in a Harvey club in 2007. Records show he quickly started a political action committee that paid for campaign material gushing about the suburb's controversial mayor, who won re-election.

TIMELINE OF FBI INVOLVEMENT

- 1** In 2003, federal agents seize \$12 million found in warehouse tied to strip club owner Michael Wellek. At some point, he begins cooperating with FBI.

- 2** In early 2007, FBI places undercover agent in an Oak Lawn condominium. Agent is given the alias Carlos Vargas.

- 3** Vargas starts a job as manager/remodeling consultant at Skybox strip club in Harvey, also owned by Wellek. The agent starts networking to find corruption.



- 4** Weeks before the local election, Vargas forms a political committee, listing its headquarters as his Oak Lawn condominium.

	FORM D-1 STATEMENT OF ORGANIZATION
	PLEASE TYPE OR PRINT IN BLACK INK
Full name and complete mailing address of Political Committee:	
THE HARVEY GOOD GOVERNMENT GROUP 2007 9440 S. 51ST AVENUE OAK LAWN, ILLINOIS 60453	



NAME OF POLITICAL COMMITTEE		2007	POLITICAL COMMITTEE IDENTIFICATION NUMBER
THE HARVEY GOOD GOVERNMENT GROUP			S-9396
7. REQUIRED COMMITTEE OFFICERS.* (IF AMENDING, LIST ALL AS OF TODAY'S DATE.)			
POSITION	NAME	MAILING ADDRESS, DAYTIME PHONE NUMBER, AND E-MAIL ADDRESS	
CHAIRMAN	CARLOS VARGAS	9440 S. 51ST AVE OAK LAWN, ILLINOIS 60453	

Kellogg's committee, though the board could have levied many more fines for about a dozen missing reports. The fine has not been paid.

The board has the power to force a committee to perform an audit and hand over the records to the state in some cases.

It hasn't done that in Kellogg's case.

Kellogg has sought to distance himself from the issue, saying through a spokesman that he only recently became aware that Citizens to Elect Eric J. Kellogg — of which he is chairman — did not reveal its fundraising over the last three years.

The committee's treasurer is a Kellogg relative. The spokesman said the mayor has "directed the committee" to contact the state.

Election board Director Rupert Borgsmiller said the agency is hamstrung by a statute that requires months of notices and hearings before fines are levied.

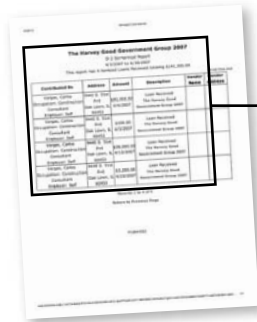
It is a process easily derailed when certified letters from the board go unaccepted, which has happened with Kellogg's committee.

Borgsmiller conceded that the agency had not tried to hand-deliver the notices to the mayor to speed up the process but said the agency planned to do so in the near future.

"We can't do everything in a timely fashion — we try," Borgsmiller said.

Unpaid fines could theoretically keep Kellogg off next year's ballot, but under the

5 Vargas is listed in state records as lending the committee a combined \$141,300 over three weeks.



The Harvey Good Government Group 2007					
D-2 Semiannual Report					
4/3/2007 to 6/30/2007					
This report has 4 Itemized Loans Received totaling \$141,300.00					
Contributed By	Address	Amount	Description	Vendor Name	Vendor Address
Vargas, Carlos Occupation: Construction Consultant Employer: Self	9440 S. 51st Ave Oak Lawn, IL 60453	\$80,000.00 4/4/2007	Loan Received The Harvey Good Government Group 2007		
Vargas, Carlos Occupation: Construction Consultant Employer: Self	9440 S. 51st Ave Oak Lawn, IL 60453	\$100.00 4/3/2007	Loan Received The Harvey Good Government Group 2007		
Vargas, Carlos Occupation: Construction Consultant Employer: Self	9440 S. 51st Ave Oak Lawn, IL 60453	\$58,000.00 4/13/2007	Loan Received The Harvey Good Government Group 2007		
Vargas, Carlos Occupation: Construction Consultant Employer: Self	9440 S. 51st Ave Oak Lawn, IL 60453	\$3,200.00 4/23/2007	Loan Received The Harvey Good Government Group 2007		

6 Agent's committee is listed as paying for fliers touting mayor's work during first term.

7 Results:

■ Kellogg wins six-way race.

■ Agent arrests Harvey police officer for corruption, asks him to cooperate in probe of Kellogg, but cop refuses.

■ Authorities prosecute that cop. FBI pulls agent out of Harvey.

■ Five years later, federal officials say government money wasn't used, but they won't say who provided the cash.

SOURCE: Tribune reporting

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law, he may be able to counter such a move by simply appealing the fines.

As for city finances, years ticked by without a licensed firm scrubbing Harvey's books.

In that time, the city took a major development gamble, spending at least \$10 million to fix up a privately owned hotel next to a strip club at the town's edge.

The Tribune previously reported how the city comptroller was also working for the developer at the time and how the city failed to keep close tabs on how taxpayer money was spent.

The hotel is now half-gutted, languishing in foreclosure and leaving city taxpayers with little to show for the investment.

That revelation hasn't prodded the comptroller's office to use its power to forc-

ibly audit Harvey's books.

The state comptroller did start tallying fines against the city last year, which so far total more than \$20,000.

Harvey officials are appealing the fines, saying they are a "financial burden."

A spokesman for Comptroller Judy Baar Topinka declined to discuss Harvey's case, other than to say the department has "forwarded documents to legal authorities for review."

In recent months, the city moved to play catch-up with its filing requirements, submitting four years worth of broad financial reports that were not vetted by auditors, and one 5-year-old report that was.

The city is still short audited reports for the last four fiscal years.

Experts say it remains impossible to know the true depth of the city's financial problems.

From reviewing what is available, one public finance expert at the University of Illinois at Chicago, Rebecca Hendrick, said: "I wonder how they are paying their bills."

Coupled with other issues the Tribune discovered, the documents underscore how years of challenges have gathered into a financial avalanche:

- The city spent at least \$12 million more than it took in from taxes and fees over four years, with no clear explanation for how the shortfalls were covered.
- There is little to no money in savings, while long-term debt has ballooned to about \$50 million, most of it coming in Kellogg's second term.
- The state says Harvey stopped paying into its police and fire pension funds, paying just \$140 toward \$7.3 million owed over a three-year period. The back payments owed have reached about \$10 million.
- The running tab that Chicago says Harvey owes for water has reached \$18 million, about the same amount as the suburb takes in from taxes and fees over an entire year.

The city typically spends about \$5.5 million a year on police, a figure that has not kept pace with inflation in recent years.

Still, the range of the city's financial troubles was glossed over during an annual budget hearing this summer.

In a boardroom at Harvey's aging City Hall, Kellogg sat under an enlarged, gold-hued city seal, against a wood-paneled wall.

He spoke optimistically about the city's financial future, pointing to a budget that called for increased police spending, partly based on shaky new taxes and fees.

The meeting didn't directly address how the city will deal with the millions owed to Chicago for water, the pension funds or debt payments on the botched hotel development.

Residents were left to judge the city's financial state on the word from officials, with Kellogg assuring them: "I think we are in a great position."