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For years, a public water district blurred the line between business and government — with a developer's brothel workers at the helm

19-24 minutes

Officials who oversee a water district exempt from state regulation work and live at a brothel owned by the public face of the world's largest industrial park, raising questions about whether governmental powers such as eminent domain are being wielded by a private entity.

District documents, election records and interviews show an insular county — next to Reno and where Lance Gilman, the brothel owner, now serves as a commissioner — gave a private water company controlled by the Tahoe-Reno Industrial Center (TRIC) the power of a public entity.

How workers on Gilman's payroll came to lead the public board, charged with serving water to some of the world's top firms, reflects greater tensions about whether certain companies are benefiting from the region's rapid growth and which politicians have given them an upper hand.

As billions of dollars of capital have flowed into the park with investments from online retailers such as Amazon and big tech companies such as Google, the arrangement has prompted concerns about the role of government and the concentration of power, especially with the fate of a multimillion-dollar pipeline at stake. Where does the business end and the government start? With TRIC's water district, it is often hard to tell.

In at least one instance, Gilman signed for both the master developer and the water district, through its private operator, on the signature page of an agreement, district records show.

"They want to be public when it benefits them," said Paul McKenzie, a former Reno councilman who works for the construction trade union. "But the rest of the time, they want to be private."

Gilman confirmed with *The Nevada Independent* that all of the board members work and live at the brothel. He said in an interview last week that Nevada law required a board comprising local residents. Few, if any, residents live in the industrial district other than those at the brothel. Asked whether the arrangement posed a conflict, Gilman demurred, casting blame on state law.

"Let me ask you this," he said, "would you rather shut [the park] down and not have it? That's the ultimate. It you want to have [the park] and you want to have a utility company, you got to have residents and the state makes us do that. So really it's the state's fault, not the developer."

When Gilman was asked if he felt members of the board, who also work for him, would vote against him, he said: "It really hasn't come to that so for me to speculate, would that happen? I wouldn't expect it to, no."

"But on the other hand, they're individuals. But it hasn't come to that because you have to understand where we stand right now: It's not that big yet," he added, referring to water use in the park.

The industrial district serves about 150 companies with roughly 800 acre-feet of water, a fraction of the water rights Gilman says it is entitled to. Now it is looking to add to its supply at the park.

The water district wants to seize private property, through eminent domain, for a multi-million dollar project to pipe effluent from a regional wastewater facility. The pipeline will deliver an additional 4,000 acre-feet of water, Gilman noted. That amount could serve about 8,000 households every year. Under the deal, the water district would take on a larger role.

But it is far from being a sleepy operation.

The water district has negotiated an agreement with the city of Reno, the city of Sparks and the region's water purveyor. It has negotiated with the state and the Governor's Office of Economic Development. It

has applied for water rights and fought to protect them in court. It has entered into agreements with companies to be the exclusive provider of their water.

Over the past year, the water district has taken steps to professionalize its operations, hiring a general manager and requesting the County Commission take over the board's oversight role. The public water district is working through a transition so it is not operated by the developer.

Robert Sader, a lawyer for the industrial park's developer and the water district's private operating company, said in an interview that conflicts are unavoidable because board members must be residents.

"This is a circumstance we have discussed at length with Storey County and it's one of the primary reasons we have encouraged Storey County to assume governance," Sader said.

Current board members report income from at least one of Gilman's companies. In the past, his former partner and a person who identifies himself on LinkedIn as Gilman's director of security, have served on the water district's board, according to election records.

"They are vested with powers of a public entity and their ability and apparent willingness to use those powers, particularly as it relates to the taking of private property is incredibly significant, not just to the individuals whose property is potentially at risk but to the integrity of the process itself," said Ben Kieckhefer, a Republican state senator who represents parts of Reno.



Storey County Commissioner Lance Gilman, owner of the Mustang Ranch, speaking at a meeting on Aug. 22, 2019. (Andrea Laue/The Nevada Independent)

Thirsty for water

The district, operated by a developer-controlled company, wants more water to sustain and grow the park. To do so, it is looking down the highway. For years, the water district has been negotiating an agreement with the city of Reno, Sparks and a regional water provider to build a pipeline that would bring treated effluent to the park.

[The deal was cast as a win-win](#) that could help local governments defer costly upgrades while boosting the industrial park, considered an integral part of diversifying Nevada's gaming-reliant economy.

In order to construct the pipeline, the board members — closely tied to Gilman — recently voted on three resolutions to seize private property through eminent domain. That is a special power prohibited by the Nevada Constitution if private land is being seized for another private party.

If the title for the easement was in the name of the district — and a judge said there was a need and necessity for the project that was in the public interest — it might not violate the provision.

But the court, which must approve the eminent domain action, has yet to review the case. The [water district board failed to notify](#) the affected property owner, a requirement under state law.

In a statement, the water district acknowledged a “defect in the public notice.” It is planning to reconsider the action at a meeting next month. Based on statements from Gilman and the board president, Thompson, the district still sees eminent domain as necessary to build the pipeline.

“We’ve been working with the property owners for more than two years,” Gilman said, noting that the property owner would be compensated. Thompson, in a statement, said the property owner was offered a “premium price” and argued the pipeline would cause “minimal impact.”

When Gilman was asked if he thought using eminent domain was fair, he replied: “Is it fair for one property owner out of a 20-mile run that has a few acres to stop the whole project when it’s for the community good?... It’s basically going to benefit the entire Northern Nevada economy.”

The board president, Kris Thompson, does not appear to have recused himself from any negotiations, despite serving three potentially conflicting roles. He is the industrial park’s project manager, the risk manager for L. Lance Gilman Family Trust and a Storey County planning commissioner.

Minutes from board meetings show that the board — comprising Gilman’s employees — has authorized Thompson to sign multiple agreements concerning the pipeline. As board president, he also filed an affidavit for the eminent domain case.



A sign for land at the Tahoe Reno Industrial Center on Sept. 12, 2018. (David Calvert/The Nevada Independent)

The private operator

Thousands of companies incorporate in Delaware each year. In September 1998, one of them happened to be the TRI Water and Sewer Company (TRI is an acronym for the industrial park).

On Feb. 1, 2000, Storey County signed a development agreement with that company, giving TRI Water and Sewer Company the exclusive authority to operate as the area’s water utility.

Then the company went public — sort of.

In an ordinance that same day, Storey County formed a General Improvement District (GID). In Nevada, there are dozens of GIDs that provide essential public services — water, power, sewer — to fill the gaps where local government cannot. They are public quasi-municipal entities that are separate from the counties that form them. Free from state oversight, GIDs are governed by an elected Board of Trustees or by county commissioners required to follow open meeting law.

Gilman was not elected to the Storey County Commission until 2012.

By 2001, TRI Water and Sewer Company was once again running the water service, but this time within a public entity after the district board approved an operating contract with the firm.

That meant the private utility company would now be exempt from state regulation. The Public Utilities Commission of Nevada regulates the rates, planning and compliance of 27 private water utilities, but it does not oversee political subdivisions, where the board often fulfills that role.

From the outset, the industrial park’s developer ran TRI Water and Sewer Company. The district rules also gave the company some oversight responsibility. In effect, the water district, a political subdivision of the state of Nevada, was controlled by the private developer of the industrial park.

Storey County approved the deal, but it is a governance structure that could be seen as presenting some inherent conflicts between what is in the public and private interest.

TRI Water and Sewer’s president is Don Roger Norman, a primary funder of the park’s infrastructure. In 2017, records show Norman signed a contract on behalf of the developer and the water district, a political subdivision, through TRI Water and Sewer Company, its operator.

The water supply agreement, which discusses the pipeline, was signed with another regional developer. It appears to have been approved by the water district’s board, all of whom receive income from Gilman. But the board minutes are not specific, and they show several deals have been submitted to board members “pursuant to a nondisclosure and confidentiality agreement.”

Until 2015, state filings show that the private water company was run by Vincent Griffith, who played a critical role in the industrial park’s genesis. In addition to operating the water company, Griffith helped design the park’s infrastructure through another company, Reno Engineering.

Griffith said he has not been involved in the utility for five years and could not speak to its recent activities, such as the eminent domain action. Griffith added that he did not see a conflict with the setup, noting that it had been approved by the county and vetted by the park’s companies.

In a one-hour interview earlier this year, Gilman described himself as a spokesman for Norman. Gilman said he views himself as less of a developer and more of a broker at the park.

“I’m a spokesperson for Roger Norman, and Roger Norman is really the puppetmaster behind the curtain,” Gilman said. “I did all of the marketing, all of the advertising, [and] all of the selling.”



Lance Gilman, a Storey County Commissioner, and business partner Roger Norman, during an interview following a meeting with wild horse advocates in Reno on Oct. 23, 2019. (David Calvert/The Nevada Independent)

Checks on power

Regulation is a central check on utilities, meant to protect ratepayers and the public interest. It's the price utilities pay for getting a monopoly to service an area. And in the case of water utilities, they can exercise significant power through the acquisition, control and use of their water rights.

At some districts, boards clash with developers or project proponents over issues.

Take Coyote Springs, the long-attempted master-planned community outside of Las Vegas. The developer has water rights and pays the cost of its infrastructure. But its water service operates within a GID, and its board provides a regulatory check on what it can and cannot do. Last year, that [board raised concerns](#) about whether Coyote Springs could start constructing new homes.

The Nevada Independent went to the TRI water district's office Wednesday and reviewed hundreds of pages of minutes and contracts from recent board meetings. Meetings often ran about ten minutes, despite votes on complex agreements with companies and other governmental entities about the use of water. The minutes that were reviewed did not show that board members disclose financial interests in the industrial park or their employment relationship with Gilman.

The current board members all report income from at least one of Gilman's enterprises, and Gilman has disclosed an interest in the private water company on his state election forms.



The Mustang Ranch on Aug. 22, 2019. (Andrea Laue/The Nevada Independent)

The brothel board

When the board's composition changes, Gilman's brothel is usually at the center of it.

In 1999, the Internal Revenue Service confiscated the Mustang Ranch during legal proceedings with its former madam, an ex-county commissioner, after its former owner Joe Conforte fled the country facing tax evasion charges. Conforte, an infamous figure once called the Al Capone of Storey County by *The Los Angeles Times*, was known for his tight control over local politics.

Gilman [bought the brothel buildings in 2003](#) through an auction from the federal government. He outbid the late brothel magnate Dennis Hof by about \$50,000. Gilman once [told *The Economist*](#) that cash from the brothel helped keep the industrial park afloat during the Great Recession.

"Without Mustang Ranch, there might not be TRI," he told the magazine.

It turns out the Mustang Ranch was supporting the industrial park in more ways than one.

By 2004, Susan Austin had filed to serve on the water district's board. In numerous media reports, Austin has been named as the brothel's head madam and Gilman's former partner.

Gilman does not appear to have ever served on the board, according to election records.

But he said he lives at the Mustang Ranch in an interview this year about [a defamation suit](#) against a blogger questioning his residency. The current board members, he said, do too.

Thompson, the board president, works as a risk manager for the Mustang Ranch, Gilman said. After the publication of this story, Thompson said in an email that the information was incorrect. He said he was the risk manager for L. Lance Gilman Family Trust.

In election filings, he reports income from Tahoe Reno Industrial Center, LLC and L. Lance Gilman Commercial Real Estate. He does not report receiving income from the brothel, nor does Jennifer Barnes, a board member Gilman identified as the brothel's head madam. The final board member lists Cash Processing Services, the firm behind the Mustang Ranch.

Election law requires candidates to report all sources of income.

Two brothel workers were originally appointed by the other board members to fill vacancies. Most of the board members list the same lawyer under the contact section of their financial disclosures.

Within the water district's service territory, only 10 residents are registered to vote or eligible to serve on the district board. The Storey County clerk said in an email that one voter might live "at a property as onsite security," but the brothel is otherwise the primary place of residence.

Across the state, district elections are rarely competitive. In many cases, they are never held because there is only one candidate for an open seat. The water district has struggled to find board members, operating with three board members when the law suggests a board have five.

But the unique setup means that Mustang Ranch workers — all paid by a developer — have had an outsized role on the public board, meant to regulate how the water monopoly operates.

Loose oversight has led to conflicted boards before. In 2016, [a district attorney accused](#) South Lake Tahoe's sewer district, controlled by three casino executives who did not live in the district, of hatching a plan to discredit a county planner and advance a controversial effluent project.

Where that board comprised competing casinos, power appears to be even more concentrated with the entire district board working for Gilman while also living at his residence and business.

Thompson, in an email, said the attorney for the property owner affected by eminent domain was behind the criticism of the district. He conceded that the district board comprised "local folks," but Thompson said that it was no different than any other general improvement district. The lawyer, Thompson said, sought to try his case "through the media and publicity seeking."



Kris Thompson, project manager for the Tahoe Regional Industrial Center on Wednesday, Sept. 12, 2018. (David Calvert/The Nevada Independent)

Public and private benefit

After remarks to wild horse advocates last week, Gilman said in an interview that the developer would pay for the effluent pipeline, and the companies would eventually pay back those costs.

“Roger Norman and our group have to build it,” Gilman said, standing in front of Norman. “That’s a requirement. But the people that are going to pay for it ultimately are the companies that are going to use the water. And they have all kinds of expansion plans and things going on.”

At Storey County Commission meetings, existing companies, including Tesla and Switch, have testified in favor of the effluent pipeline project. Other developers, including Reno Land, Inc. and Emerald Lake Town Center, a retail project, have said in the past that they support the pipeline.

The public could benefit too. By supporting the park, the pipeline could generate more economic activity in the region. Sending it water would also relieve the pressure on local municipalities to do upgrades on a wastewater treatment plant. Upgrades to the plant are expected to cost millions.

Sader is not aware of whether the water district’s structure has precedence anywhere else in the state. But he said that the water district has operated within compliance of the requirements for forming such an entity.

Still, Sader said that the water district is in a place of transition with the goal of phasing out the developer’s involvement so that the water district can serve as an independent public entity. It now has a dedicated office at the park, and the board hired a general manager earlier this year.

“It’s time for this transition to take place with the water and sewer — for it to be run separately and independently without the master developer being involved,” he said.



Wild horses at the Tahoe Regional Industrial Center on Wednesday, Sept. 12, 2018. (David Calvert/The Nevada Independent)

For years, McKenzie, the former Reno councilman and an advocate for the construction union, attempted to get information about how the water district operated, who got contracts and how the projects were being put out to bid. He said policymakers mostly brushed off his concerns.

But for him, the issue strikes deeper than the water district. It is about what happens when private interests exert control over a county and muddy the lines of government in the process. It’s not just the attempt to use eminent domain. He is also concerned that the way the industrial park was set up was meant to circumvent regulation and labor laws for public works projects.

“That stuff out there hasn’t been done right,” he said.

Update: This story was updated at 10:33 a.m. on Nov. 1 after Kris Thompson clarified in an email that he is the risk manager for the L. Lance Gilman Family Trust, not the Mustang Ranch, as its owner Lance Gilman had stated in a recorded interview.

INDY FAST FACTS

Ben Kieckhefer



Office: State senator, District 16

Party: Republican

In current office: 2010-present

Birth year: 1977

Job: Director of client relations, McDonald Carano Wilson (law firm)

Education:

DePaul University (B.A., English)

University of Illinois, Springfield (M.A., Public Affairs Reporting)

Top Donors:

Las Vegas Sands \$30,000

Wynn Resorts \$10,000

Eldorado Resorts \$10,000