

After Nevada GOP push, Treasury changed lucrative policy benefiting one county

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June 22, 2018

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The Treasury Department last week reversed itself after lobbying by Nevada Republicans and agreed to let a previously ineligible county reap huge benefits from the new tax law.

The effort was led by Nevada's governor, Brian Sandoval (R), and Sen. Dean Heller (R-Nev.), who separately spoke with Treasury Secretary Steven Mnuchin and pushed for Storey County to win designation as an "Opportunity Zone," which was established in the law to help distressed areas attract money.

Working behind the scenes to help the effort was a Storey County brothel owner and real estate investor, Lance Gilman, who told local officials that the designation could lead to a surge of investments within the next few years. Gilman is also a major GOP donor and made a \$5,000 campaign contribution to Heller in the midst of the process, the biggest contribution he had ever given to a candidate for federal office.

Treasury officials had initially deemed that Storey County's income levels were too high to qualify, based on the metrics they had used to judge every other nomination for the special tax status. But after weeks of prodding from Nevada officials, Treasury relented and gave the designation to Storey County using new data.

The successful campaign to win this lucrative designation illustrates how political pressure can redirect billions of dollars in federal benefits, which are supposed to be distributed in a non-arbitrary manner.

It shows how the new tax law, meant to simplify the tax code when it passed in December, is creating opportunities for

gamesmanship — in this case by public officials and business executives seeking to exploit the Trump administration’s discretion in interpreting the law. Vermont, for example, also asked the Treasury Department to choose a different county for the Opportunity Zone designation but was rebuffed.

Gilman did not respond to several requests for comment. Sandoval’s involvement was confirmed by an exchange of letters he had with top Treasury officials and a statement from his office. Heller’s involvement was confirmed by his office in a statement from the senator.

“We’ll see the . . . fruit of our actions here in the next four or five years,” Gilman said Tuesday at a meeting of the county commission. In addition to owning the Mustang Ranch brothel, Gilman is a county commissioner.

But several other Nevada business owners are furious at the designation. To push Storey County for the Opportunity Zone designation, Sandoval had to withdraw the April 20 nomination of Dayton, Nev., an economically depressed neighboring community that lacks Storey County’s huge industrial center.

This has led to accusations of unfairness, and several executives said they haven’t gotten the straight story about why their nomination was pulled without their knowledge.

“That would be a concern to me as a Lyon County resident because Lyon County is definitely impoverished compared with Storey,” said John Cassinelli, a Dayton business owner and member of the county’s advisory board. “Storey is reaping a ton of benefit just having the [industrial center] within their county line. They are getting a ton of tax money from those businesses there.”

Two other parts of Lyon County did qualify as Opportunity Zones, but not Dayton. Lyon’s median household income is \$49,007. Storey County’s median income is \$65,508.

Tweaked guidelines

In addition to massive tax cuts, the GOP tax law created new “Opportunity Zones,” a special designation meant for low-income communities as a way to attract investment and spur economic growth. To qualify as an Opportunity Zone, census tracts have to meet specific income requirements to ensure that wealthy enclaves that don’t need extra government help don’t qualify.

Governors nominated census tracts, and those applications were reviewed by Treasury officials and later approved. Sandoval had wanted to nominate Storey County but was told by Treasury officials it wouldn’t qualify. The county is

Sandoval had wanted to nominate Storey County but was told by Treasury officials it wouldn't qualify. The county is in northwestern Nevada, and much of it is undeveloped, but it does have the Tahoe-Reno Industrial Center, which Gilman co-created several decades ago.

Tesla, Google and other companies have large presences there, although many workers live in neighboring counties.

“The Tahoe-Reno Industrial Center may be the most important economic development area since the Silicon Valley,” Heller said in a statement to The Washington Post. “With companies like Tesla, Google, Switch, and Walmart locating there, the economic benefits to Reno and all of Northern Nevada have been enormous. So, of course I would do everything in my power to see it reach its ultimate success. I will always fight for economic development and growth in Nevada — that’s my job.”

On April 20, Sandoval nominated 61 Nevada census tracts for the Opportunity Zone designation, but he and Heller pressed Treasury to change their guidelines in a way that would let Storey qualify. On May 8, according to a letter Sandoval sent to Mnuchin, Sandoval officially withdrew the nomination for Dayton and modified his proposal to include a nomination for Storey.

On June 15, acting IRS commissioner David J. Kautter wrote Sandoval a letter of his own, telling him that the agency had decided to adjust its process in a way that would allow Storey to qualify.

Storey County is the only census tract that was able to use the different measurement. Vermont had initially inquired if it could use similar metrics but was told it could not.

Treasury officials said that Nevada politicians simply pointed out an inconsistency in their review process and that this led them to change the guidelines for everyone going forward. They denied there were any special favors given.

“The state of Nevada raised an issue relating to data supporting Opportunity Zone nominations,” a Treasury Department spokesman said. “In response to Nevada’s feedback, the [Internal Revenue Service] has clarified its procedures and all future nominations.”

Heller is in a heated contest for reelection in November, and President Trump is going to Nevada to campaign for him on Saturday. Heller cast one of the decisive votes to help push the tax cut bill into law last year.

Gilman told other county officials on Tuesday that neighboring Lyon County had agreed to forgo the Opportunity Zone designation for Dayton in order for Storey County to qualify, but this was news to officials in Dayton.

“It’s unconscionable that in this day and age these kinds of things can happen,” said Dennis Hof, owner of four brothels in Lyon County, including the Moonlite BunnyRanch, and a GOP candidate for state assembly. “Anything we’ve got we should keep. If they gave Lance [Gilman] something, what did we get for it? . . . We don’t just give things away for nothing.”

Lyon County Manager Jeff Page, in an interview, said he had agreed to the change because Storey County was much more likely to draw in big investors than “mom and pop” businesses in Dayton. He predicted that increased development in Storey County eventually would lead to more investment in Lyon County, even without the special designation for Dayton.

“You have to have that private money that’s willing to invest,” Page said.

Financial benefits

Storey and Lyon counties are in a libertarian area of Nevada that permits brothels and are often looking for creative ways to attract deep-pocketed investors. Hof, star of the HBO series “Cathouse,” wrote an autobiography called “The Art of the Pimp” and says he’s the biggest private taxpayer in Lyon County. Gilman sends the chefs for his brothel to serve dinner at a local senior center, a way to soften up locals who are uneasy with his business.

Local business leaders have long looked to diversify the area’s economies beyond brothels and tourism, and the Storey County industrial park has helped markedly in the past decade.

Gilman recently sold more than 60,000 acres of the industrial park land to a company called Blockchains, it announced in January. He was listed in several media reports as taking on an advisory role with the company at that time.

But Jeffrey Berns, Blockchains’s chief executive, wrote in a statement that “Lance Gilman does not work for” the company.

He declined to provide more information about Blockchains’s plans for Storey County, saying “we are still in stealth mode until our launch.”

Blockchains stands to reap huge financial benefits from Treasury’s reversal because parts of its financial investment in Storey County could be tax exempt. Or if it decides to sell the land it recently purchased, the value could be much higher because of the tax benefits that are conveyed.

“They are in prime position to attract literally billions and billions of dollars of stranded investment dollars that’s in the cryptocurrency,” Gilman said at the commission meeting. It was unclear precisely what he was referring to, but he said earlier in the meeting that cryptocurrency funds could be used somehow as investments in Storey County.

He seemed to suggest that people would use money they have stored in cryptocurrencies — such as bitcoin — to invest in Storey County under the Opportunity Zone designation. He did not say what the money would be used for.

In Lyon County, Cassinelli said he hoped the Opportunity Zone investment could be used in their county to build infrastructure and affordable housing.

Mary-Sarah Kinner, Sandoval’s communications director, said the governor did not speak with Heller or Gilman about the issue and raised it directly with Mnuchin.

“Nevada originally wanted to nominate the Storey County tract but was told by [Treasury officials] that it did not qualify,” she said. “After continued research, which revealed a discrepancy between Treasury guidance and IRS regulations, Governor Sandoval and Secretary Mnuchin spoke. Based on that conversation, Nevada submitted the revised letter.”

Gilman played a central role in helping lure Tesla to Storey County several years ago, and the firm built a massive factory that creates vehicle batteries. But business in Storey County hasn’t always been robust.

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During the recession, the area relied in part on business from the Mustang Ranch brothel for consistent revenue.

Blockchains already had purchased the Storey County property from Gilman and other investors before the Treasury reversal, so it's unclear how the designation would bring in additional investors. It could give existing property owners a tax break based on the size of their investment in buildings and facilities.

It's unclear what precisely the company does. On its website, which lists no names or officers, it says it "conceptualizes and incubates blockchain-powered ideas, ventures, and businesses." It says it "serves as a proponent and platform for the next generation of technological disruption — changing the way individuals and businesses transact and interact with one another all across the world."

Berns has been its chief executive only since January.

The company issued a Twitter post praising the move: "Just when we thought things couldn't get more exciting . . . Thank you @GovSandoval."
