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Donald Carano  
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Dear Mr. Carano,

This letter has only one intent which is to let you know the truth about the disaster at Verdi. We believe that you have been kept in the dark and insulated from the facts. The truth may not be nice news but it is very important for you to know it.

In 2003 my wife and I purchased the River Pines subdivision from the Eldorado (or so we thought). We are now in the final steps of bankruptcy and it looks like we will end up with nothing. Our life estate has been destroyed as well as our hopes for the future. At this time we should have been enjoying the fruits of our lives work, vacations, cruises, wine tasting in Napa, but that isn't the case. We tried to help a friend solve a problem and make a profit doing so. Our anticipations were not extreme, just a reward for what we did and what we risked. But the purchase of River Pines was a disaster. Conventional wisdom would be that we were victims of circumstances like the economy or that we just made some bad decisions. But we were not the victim of circumstances or bad judgement. What happen to us and the others that invested is literally criminal (*including fraud, forgery, skimming and income tax evasion*). The root of our problems were not what we did but the things that your friend, partner and Eldorado manager Raymond Poncia did. This story, a book of sorts, is going to read. And we think you should be one of the first to do so.

There is no explanation for Poncia's actions except his intent to do so. He planned what he did and he knew what he was doing. When we ran into problems he and his people did nothing to correct or mitigate the problems he caused. He just took the opportunity to take more. I don't know his motives but power, greed, and his house all played a factor. The most important motive might have been that he didn't want to be caught telling you lies.

There were two main problems. One is that we paid all money that the Eldorado was paid but we didn't get all that the Eldorado sold. This doesn't add up until you realize that Poncia decided to cut a piece of the action for himself, with no investment or cost. He skimmed and put pieces of the property in his own pocket.

The other problem was that we paid for water service but your water company had no capability of providing water service.

## **Water Service for River Pines - Background**

In 1975 you were part of a group that purchased the River Pines property from Viking Metals in Verdi. The group also bought 12% of Verdi Springs Water Company and a [commitment for all the water needed to develop the land.](#)

You and Poncia then took over the property and proceeded with the subdivision. You obtained a “water service commitment” from Verdi Springs Water Company which was required for creating the subdivision. The agreement required that you drill a backup ground water well. The County approved the subdivision and the map was recorded. Rather than building the subdivision the improvements were bonded, you paid taxes on subdivided land and you signed a subdivision improvement agreement. That agreement required that you comply with all of the approval conditions including performing the obligations under the “water service commitment”.

The Eldorado then bought the subdivision with Poncia’s idea to build a golf course. The casino also bought the 12% interest in Verdi Springs Water Company and assumed the “water service commitment”. Poncia was again put in charge. This time of the golf course project and was told to keep the original entitlements in place in the event that the golf course didn’t work out. At that time the water company was still a utility providing water service to the adjacent industrial park. The Eldorado drilled the two wells for Verdi Spring Water Company as required in the “water service commitment”. One was dry but the other was very productive.

By 2001 the Eldorado had decided not to build a golf course. Poncia was in charge of selling the property. By then you and Poncia had also acquired majority interest in Verdi Springs Water Company and he was its president. He made a deal with us which required that the subdivision be reconfigured. He made application with Washoe County and as president of the water company he signed the two maps that were required. Those maps state that Verdi Springs Water Company was a public utility.

We bought the property and started building the infrastructure and we built our dream golf course. We sold lots and in 2008 decided to finish the road and install the water mains and hook up to the Verdi Springs Water Company facility. We did all that was required to get a water project permit but Verdi Springs would not cooperate. [Poncia would not confirm the original “water service commitment” which was the one thing we needed.](#)

In order to get time to work out the problem we filed Chapter 11 bankruptcy. We tried for a year with the help of our bank to get water service. Poncia told me he was trying to help but had problems that he wouldn’t explain.

## **Water Service for River Pines - Fraud and Forgery**

In 2009 the bank foreclosed on the remaining lots. In final attempt to find out what happened I research the records at the Nevada PUC and found out the the problem with water service was that Verdi Springs had divested itself of water service 13 years before our purchase when it sold its water system. Of course without a water system the company couldn’t provide water service. [Poncia would not confirm the original commitment because he had cancelled it.](#)

When you subdivided River Pines there was a “water service commitment” and Verdi Springs was a utility. When the Eldorado purchase River Pines there was a “water service commitment” and Verdi Springs was a utility. When the Eldorado sold to us you said it owned a “water service commitment” and you assigned it to us. We paid for a subdivision with water service. The deal would never have happened without it.

We have now lost everything because there was no “water service commitment.” Poncia had cancelled it in 1990 during the time the Eldorado owned the land. He could have told the truth but he did just the opposite and continued to represent that the original agreement as valid. He signed two record maps stating that Verdi Springs Water Company was a public utility. He lied, committed fraud and forgery. He suborned your forgery by having you sign the [“Assignment of Water Service Commitment”](#). He knew we were being severely harmed and he did nothing to help. The “Assignment of Water Service Commitment” that you signed was no different than a check written on a closed account. ( or and endorsement of a bad check) The opportunity for water service was gone.

Everything In this letter is completely documented. In 1989 Verdi Springs Water Company had to reorganize because of a change in PUC regulations which resulted in the formation of the Verdi Mutual Water Company. Initially Poncia agreed for the Eldorado to become a member of the new non profit. Membership was required to get water service.

Poncia really wanted the Eldorado to build the golf course and he changed his mind about membership in the new water company. He decided not to become a member. You’ll have to ask him why. I think that he realized that what was required for domestic water service would also be required for a golf course. Namely the very productive well and the water rights. He chose the golf course and the “water service commitment” was cancelled.

Poncia was in the room when Verdi Mutual was formed and he completely understood what was happening. William Campbell and Bill Parish did nothing wrong. They told Poncia everything that was happening. They published what was happening. There was no dark of the night theft and no giving away of water rights.

A “water service commitment” is artfully defined in Nevada law. It is an agreement between an existing water purveyor (*existing purveyor with water system and customers, a utility*) and the developer of a project. There was such an agreement when you and Poncia subdivided and also when the Eldorado purchased. But there was no “water service commitment” when the Eldorado sold to us nor when you assigned it to us. Like most frauds we were fooled. Should we not have trusted Poncia? Should we not have believed you? Would a Reno icon sell us a agreement that didn’t exist? Poncia committed fraud and forgery and I think he suborned the same from you.

## **The Skim**

The other problem with the River Pines deal was that Poncia decided to use the sale to skim from the Eldorado. His plan was simple, deliberate and patient. To understand how the skim worked I can point to what transpired on just a few dates. What happened on the first three dates is exactly what we expected and exactly what was in our original written sale agreement.

On May 30, 2003 Western Title conducted a double simultaneous escrow. The Eldorado sold its land and received \$2,500,000. My wife and I were one of the buyers. We paid \$2,250,000 and received about 30% of the land. Poncia was the other buyer. He paid \$250,000 and received 70% of the land.

On Dec 12, 2003 our exchange company, the Starker Group, purchased a portion of the golf course land and Poncia told that us that we would have the right to use the balance pending a final land use agreement. Poncia was paid \$250,000.

In March, 2004 the Eldorado filed its [2003 annual report with the SEC](#) which Poncia signed. The Eldorado reports that there were no transactions with Eldorado manager Poncia and that he received no distributions or compensation.

In December 2009 Poncia came into Bankruptcy Court with a clear title claim which was referred to District Court. Documents were submitted and Poncia testified to the facts. He stated that his purchase of Eldorado land was a good business deal. He said it was also to help us finance our purchase and that it was not connected to any other agreement. He specifically said there was no agreement to sell us the land he had purchased.

## **DISCUSSION - the Skim**

Up until Poncia filed his clear title action everything appeared to be consistent with the Eldorado's SEC report. Eldorado had sold its land. The Downings had purchased the land, were selling the lots and had built a golf course. Everything seemed consistent with the report and the law. What had happened was consistent with the story you and Poncia told to the SEC. Apparently, the Eldorado assumed as we did that Poncia's earlier purchase was just to help us do a 1031 exchange. He was acting for the benefit of the Eldorado and not his own and therefore it didn't need to report it. After all by then we had constructed the golf course and had paid Poncia what he paid. It looked just like what you reported.

But then Poncia brought the clear action suit the whole transaction was put into a different light. A change of story. In that action he testified that what happen on May 30, 2003 was unrelated to any other event, transaction or agreement and especially our purchase of the golf property. He said his purchase of 70% of the land for 10% of the costs was just a good business deal and that he was just helping us out. But his purchase was actually a plan to get compensation from the Eldorado without reporting it or paying taxes, a skim. It also constituted fraud and tax evasion and other crimes.

Poncia's new story is in direct conflict with the Eldorado SEC report and with IRS reports ,etc. Poncia's new story is that we were willing participates. He said what we paid was just what the property was worth. That leads to his acquired property having a market value of over five million dollars. Not a surprise, he was told that's what its was worth if left as a subdivision by his real estate agent Tricky Watson.

Poncia purchased property for below book value which is prohibited. He purchased substantially appreciated property for below market value which is also prohibited. The purchase was not reported as required. His friends and lawyers helped him hide what he was

doing and what he did. If you start added up the events his disregard for the law casts a very large shadow.

But maybe his change of story was just what he had to do to protect his legal interests. Unfortunately if that is true he committed perjury and fraud. The truth is Poncia planned to skim from the beginning. There is letter from Henderson to us that states that beginning on May 30, 2003 Poncia had always anticipated making money on Eldorado's sale. It wasn't a super large amount but it was a large amount to us and our future. And in just a few years he would have no obligation to allow us to use the land. ("*... at some point Hotel-Casino Management, Inc should receive more than \$100 a year Base Rent....*")

What happen at Verdi is a story of what was suppose to happen versus what did happen. I think its important to go over a few more facts and have attached an accounting of the details. There are also a few misrepresentation of the facts that are also explained in detail. The most important is that the land in question was not just a worthless flood plain. It was a combination of flood plain and what had been 20 of the original lots plus 2 large parcels. Those lots could easily be created again and the other parcels subdivided.

Another fact related to the money trail is that Poncia loaned us money and most of it was paid back. When the water problem arose we were unable to repay him a \$215,000 note. For that the courts gave him 3 additional parcels totaling 16 acres. Considering that his portion of the original Eldorado profit was \$265,000 he has made out quite well. For basically no costs he now owns more than 50 of the original 84 acres. That's a big skim with no taxes.

Poncia got his way by telling lies. One of the biggest is that the golf course was not making money. His lawyer stood in both courts and represent to the judges that the monthly reports we made show no profit. The truth is that each of those reports all show a profit ( its a line on page 4 that says "profit = \$"). I confronted his lawyer about this and apparently he was mistaking cash in the bank for accumulated IBITA. Per our tax return for the last year we operated (2009) the golf course had produced over \$65,000 which was paid in interest and debt reduction. Of course our bank account balance didn't grow. The reports and tax returns also show that we were increasing sales at nearly 20% a year with no increase in costs. We were on our way to a very profitable business.

## **Recap**

After River Pines had been subdivided Poncia decided he would rather have it be a golf course. He was put in charge of the project and also built his new estate just across the river. When the water company had to reorganize Poncia decided to give up the "water service commitment". He knew he had been told to keep the subdivision entitlements and he knew he was breaching the development agreement.

When the Eldorado decided not to build the golf course, Poncia was put in charge of selling the land. He obtained an appraisal that assumed the subdivision would be abandoned and converted to a few large estates. You approved that price.

I came up with a plan that satisfied Poncia's desire for privacy. The plan kept a portion of the subdivision intact and used the rest as a golf course. The plan supported the sales price but it only worked with a "water service commitment" and some income from the non-residential land ( the golf course).

We moved forward and purchased the most valuable portion (retained subdivision) assuming we had the right to buy the remaining golf portion when our 1031 was ripe. But Poncia had his own idea. If a fraction of the total was nearly worth what the Eldorado wanted he would just put up the difference and buy the majority of the land for his own uses at a steal of a price. He knew this was against the bond holder agreement and SEC / IRS rules. He knew he would be evading taxes. He covered up what was going on by making it look like we had bought all the property. He continued to hide what was going on for years. Our bankruptcy changed that plan which led to the mess we all are now in.

I have had to report what happened to the IRS in an attempt to avoid our 1031 being a fraud for improving land that we didn't own. I am also going to follow this letter up with reports to every legal authority that will listen. You might not care that Poncia cheated us or the Eldorado but it might be important for you to know that Poncia broke the law doing so.

Whether our story is fact or fiction is easily determined. Was the original "water service commitment" a commitment for water service? Did Poncia know what that he had cancelled the commitment? Was it OK for Poncia to sign the maps stating that your company was a public utility? Did you believe there was a "commitment for water service" when you assign it to us? Did the Eldorado provide a bond for all those years without having water service? Is a double escrow a legal way to hide a illegal transaction? Was there nothing wrong with Poncia buying 70% of River Pines for 10% of the total paid?

On March 24, 2004 Poncia signed a 10-K report to the SEC and in December, 2009 Poncia came to Federal Court and then District Court with documents and testimony. The information presented on these dates are inconsistent and directly opposite related to Poncia's purchase of property. On one of these occasions he lied.

Poncia got us into a business deal. He loaned us some money. We paid him a \$300,000 commission, We paid him 10% interest and were on the way to pay off the debt. But he expected more. He wanted a piece of the action for life and full ownership of half our golf course. This story is as if the "Streets of New York" comes to Reno.

Again, the reason for this letter is just to tell you the truth, let you know what is going on and give you a chance to understand why this disaster happened. I am posting this story on the web with all the documentation at [www.verdi.us/disaster](http://www.verdi.us/disaster). I have not yet published that address. A digital version of this letter with links is also posted there. ( [www.verdi.us/disaster/letter](http://www.verdi.us/disaster/letter) )

Thank you

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Steve Downing

PS. There was one thing I wanted to include in this letter but I didn't know where to put it. In 2008 our bank was having a problem with cash ( they had lost a lot of cash on Fanny Mae & later were sold by the Feds). I asked Poncia if he wanted to take over their note. He responded by offering that the Eldorado might buy the golf course. But the price he offered was half our investment and didn't work for us. We would be left with a large debt and at that time we had no way to sell lots because of the water service problem. In this process he showed me the Eldorado budget for the purchase. It consisted of \$1,500,000 to us. \$1,000,000 for improvements and \$2,000,000 for water rights. A year later when I fully researched the water problem I found out that in 1975 Verdi Springs had commitment to provide all the water necessary to develop River Pines. That commitment went with the land and was sufficient so that the Eldorado had no need to purchase \$2,000,000 of additional water rights. (from Poncia and you). I think Poncia was just trying to get more just like he did with the skim.

#### Attachments

#### Pages from the Web Site

[Map- The sale of River Pines, May 30, 2003](#)

Shows what Poncia says is just good business.

[Map - Explanation of Parcel 17 creation](#)

How it gained value

[Assignment of Water Service Commitment, May 30,2003](#)

Poncia's lawyer said that what you assigned to us was not a commitment for water service. This is the "check written on a closed account"

[Bill of Sale, Water System](#)

Verdi Springs sell its water facilities and becomes a holding company.

[Staff Report, Nevada PUC](#)

Verdi Springs divested itself of water service

[BLA map and RTA maps](#)

Poncia signs a public documents stating that your water company was a public utility when it was not.

