

Joint Meeting
PUBLIC HEARING

57

before

SENATE JUDICIARY & ASSEMBLY COMMERCE COMMITTEES

S.B. #90 & S.B. #91

February 22, 1971

Chairman Monroe called the meeting to order at 9:10 a.m.

Committee Members Present: Chairman Monroe
Senator Close
Senator Foley
Senator Dodge
Senator Wilson
Senator Young
Assembly Commerce Committee

Guests: Jerry Higgin - Sparks Nugget
Guy Shipler - KOLO - TV
John A. Stratton - Gaming Control Board
Bob Galli - Sheriff, Washoe County
John Granoth - Harrah's
James A. Hume - North Shore Club
Nathan S. Jacobson - Kings Castle
Harry Rosenberg - Kings Castle
C. Robert Cox - Woodburn Law Firm
David W. Hagen - Gaming Ind. Association
Edward E. Bowers - Exec. Secretary-Nevada Gaming Comm.
Edward H. Nigro - Pres. Sahara Nevada Corporation
Herb Jones - Recrion Corporation (Attorney)
Mead Dixon - Harrah's - Attorney
Lloyd Dyer - Harrah's
Roy Vantt - Review Journal - Las Vegas
Dick DeWitt - KCRL TV
E.T. Applegate - International Leisure Corp. (V.P.)
R. E. Cahill - Nevada Resort Association
Les Kofoed - Gaming Ind. Assn. of Nevada
Russell W. McDonald - Legislative Counsel Bureau

S.B. #90 - Proposes various amendments to law concerning licensing,
control of corporate gaming.

Russ MacDonald reviewed the purpose of the bill and the subcommittees conclusions as outlined in Bulletin No. 93 "Gaming Supervision and Control in Nevada" published by the Legislative Counsel Bureau, which is part of these minutes designated as Attachment 1.

Mr. R. E. Cahill of the Nevada Resort Association in Las Vegas introduced Mr. E. Timothy Applegate, Vice President of the International Leisure Corporation who discussed the recommendations made by the International Leisure Corporation, attached to these minutes and designated as Attachment 2.

Chairman Monroe: You oppose the recommendation that we extend the 60 day period for denying or approving the issuance or transfer of securities to 90 days (Page 4, Lines 16 - 32). Other licensees have to wait 90 days, why not corporations?

E. T. Applegate: Usually the individuals and their background are being investigated. Its a different type of investigation where no new ownership interests are involved. Usually its the reorganization of an organization where no new investigation is necessary.

Chairman Monroe: Suppose there's a new corporation making application where it involves a number of people. The investigation requirements are much more involved than in several individuals making application. The involvment in corporations is much greater.

E. T. Applegate: I must agree that there could be a great deal of investigation required. They key factor is what the commissions experience has been in investigations. It is my understanding that the majority have not been of the type that require exhaustive investigation.

Mead Dixon: I concur with Mr. Applegate's remarks. I will confine myself to two sections of the bill. I recommend the language on Page 2, Line 9, substantially be retained. The language says "information and data should be considered confidential". Nowhere do I find that provision in the proposed amendment. It would seem to me that where we talk about disclosure, since the matter of information gathered is in so many ways personal, that at least the information should be considered confidential and should not be released. I don't want the implication to be that the information is furnished and could be disseminated.

My second comment points to Page 3, Line 27 and the retention of waiver requirements. When corporate gaming became a real possibility there was a great concern over how to draft the statutes. There is a great deal of complexity in the statue. Waiver was written in to give the power to deal with circumstances when it was necessary. Section 463.500 has a provision that says that a corporate gaming licensee may be traded if approved by the commission. If the commission could not waive the rprovision, it could not trade stock. Waiver provisions should be retained.

Senator Dodge: Our aim was to actually permit waiver only on restricted endorsements. I think we want to spell out as clearly as we can rigid areas of compliance and minimum areas of waiver. You are suggesting that we need to have other areas of waiver. Why don't you list the areas and let us look them over section by section. The language is too broad for permitting the commission to waive any and all of the requirements. If there are some sections where waiver would be desirable, they should be spelled out.

Mead Dixon: You could get into a crunch where you wouldn't want to wait two years and it would be better for the commission to have discretion. I can conceive of a situation where you might run into technical problems. Might be with requirements to repurchase stock for cash when you find someone unsuitable. There should be some provision for flexibility in the statutes.

Assemblyman McKissick: Can you explain Section 11 on Page 6 of the waiver provisions. I don't see how you could tighten them up, except for restrictive endorsement.

Mead Dixon: We haven't them tightened up, we enlarged to make it more workable.

Assemblyman Wilson: You were concerned with keeping confidentiality. What parameters would you suggest?

Mead Dixon: What's wrong with the language that you had.

Senator Dodge: Would it be acceptable to you if we retain lines 9 - 13 and then go down to the disclosure provision?

Mead Dixon: Yes, but I can't understand why the policy board is given the authority to enlarge disclosure as previously set forth. This allows for disclosure any time the board says so. If I am asking for discretion in areas of waiving, I am willing to give discretion in other areas.

Assemblyman Hilbrecht: I think we ought to provide for specific areas where there ought to be authority to waive rather than broad language. Could you supply us with instances?

Mead Dixon: If you are going to allow a licensee corporation to be publicly traded, waive the restriction of the act as to publicly traded corporations.

Assemblyman Ashworth: Can't we limit to certain specific number of instances that would cause difficulty.

Assemblyman Capurro: There was very few instances in the statute where we were actually waiving statutes. We felt that by going back to particular statutes they wished to waive we could amend this point. There were very few instances where we had to waive any statutes here.

Assemblyman McKissick: I have copies of a memo delivered to us from Paul Laxalt, (attachment 3), which supports your view. "I would call your attention to the deletion of the waiver provisions of sub-paragraph 2 of NRS 463.489 and raise the question of whether the blanket denial of the right to waive is really in the public interest. I would ask the committees in their wisdom, to consider whether some degree of flexibility should be retained to meet the special situations with which gaming authorities are constantly confronted."

Assemblyman Hilbrecht: On Line 31, Page 2, I was wondering if your group has any comment on changing to policy commission rather than board of commission on Line 9.

Mead Dixon: I see no particular objection. It is probably wise, if you are talking about disclosure, to have rules and regulations set down rather than just the commission itself making decisions.

Chairman Monroe: Do you suggest we retain language on lines 13 to 24 or back off at line 12 and adopt new language.

Mead Dixon: I didn't take a stand on that. Personal preference would be to retain the old statute because it spells out time and methods when disclosure should be made. I assume the committee had some reason for enlarging the disclosure provisions.

S.B. #91 - Changes organizational structure, operational procedures of state gaming control board and Nevada gaming commission.

Russell McDonald reviewed this bill and the subcommittee's conclusions as outlined in Bulletin 93, attachment 1.

Les Kofoed: I'm Director of Gaming Industry Association of Nevada. Most of the recommendations in 91 are acceptable and I won't give you any trouble. I have reservations with Section 6 on Pages 1 and 2, which outlines the responsibilities of the administrative division. Maybe these qualifications are too strictly drawn. There are before the legislature two or three bills dealing with loosening up qualifications because they are too strictly drawn where the agencies could not afford to pay for those qualifications. I have been told that this is about as loosely drawn as can be and still get the kind of man we want in that position. I have reservations but am not entering any formal objection.

Page 2, Line 9, which outlines the responsibilities of the surveillance division, I believe to be ambiguous for this reason. The powers of the board are set out in 463.140 of the law. Licensing is a function of three members of the board, not any one member. It should be corrected, probably drawing amendment to change the wording by adding immediately after "enforcement" the phrase "functions and all investigation functions necessary and proper in connection with application for licensing." Without this you might be opening the door to setting up a gambling czar.

My question with Section 10 on Page 2, referring to the selection and make up of the policy board or committee as it will be known under this bill, is that I think the people most vitally interested in the future of gaming are the governor, commission, control board, and industry itself. I believe we would be defeating the purpose originally intended if we permit this type of commission to be established. For the past years we have never had on commission or board anyone with actual casino experience. The board or the commission or the governor have not had administrative experience in casino business.

I think setting up two persons, one from the north and one from the south, is a good idea, but I wonder about appointment of two persons of public at large. What good could they do. We have been severely criticized that the industry would be asked to be represented on the policy board. We wouldn't care if we could vote on that committee, but would like to be represented.

I am sure they would all feel there would be some advantage, even if made in an advisory capacity without any vote.

I strongly feel that the advisory board be kept as it is with one exception. On Line 47, subparagraph A on Page 2, "one member, who shall be a resident", is going to put Nye County in position of not having anyone named for that committee because if my industry association makes recommendations, I can't nominate a man from Nye County because he would represent the southern district. I would suggest that be changed to delete Nye county so that it would be put back in the north.

Where the qualifications of board and board members are set up, I have reservations that the qualifications for fiscal director are too strong. But I have been advised that's as it should be so I will voice no objection.

In Section 14 on Page 4, I strongly suggest we leave it as is. In the first place, if you remove it, you will be removing what I believe strongest point of gaming control act. That is, centralized responsibility. This bill would divide that responsibility six ways. I can foresee a problem if adopted and there is a situation where there's a three man carry over on the commission. They in turn appoint a three man control board: Six men who could be opposed to the governor. I don't think that you can enact that into law. I don't think any governor would be about to sign it. I don't think we should do anything to weaken the control, we should increase the authority and power they have.

The matters contained in Section 14 and 16 are matters I feel need to be discussed between legislative board and commission.

Senator Young: Is there any duplication between the policy committee and the gaming commission as far as policy making is concerned. If so, how can it be resolved.

Les Kofoed: The policy committee would create no problems: Industry creates the problems. The problems are either uncovered or discovered by the governor, committee, or the board. If discovered, it is up to the committee to come up with best solution.

Assemblyman McKissick: Suppose the governor was opposed to the restriction of legislation and went around to all control board members and suggested a change. He would be talking through appointees who could change the legislation. I would like to hear your comments on that point.

Les Kofoed: A situation such as you explained could develop, but it works both ways. I have experienced occasions where members have been out to defeat the governor. I'm in favor of all arguments for clipping wings, but we can't legislate against a bill because a candidate might have the support of the industry.

Nathan Jacobson: I'm very concerned with the underlying problem in the State of Nevada. There is a lack of confidence in your own industry. If there is a corrupt governor, why should the reference be on casinos; why not the power industry or any other industries? I resent the constant implication of casinos. We elect officials and can not legislate on one particular industry because an official might be corrupt.

I think gaming has operated very favorably in this state. I think you have done a great job in regulating a difficult industry. It is a known fact that one technical expert has a more valuable solution than the others. One problem is that the gaming industry is a technical field, yet I don't think the technical point has been represented.

Senator Young: Would there be any merit to have board members appointed by legislature?

Les Kofoed: I don't see any advantage. There would be a delay in time and they would have to leave positions vacant.

Assemblyman Capurro: On Page 2 regarding surveillance division language, it was changed for the purpose of investigating licensees only. I don't think it was intended that the surveillance director is for investigating licensees but to investigate and enforce any violations.

Les Kofoed: I think you have a point well taken. I read pretty well but don't understand. The wording must be that he has investigative powers. It should be clarified so that he is not a licensing member of the control board.

Phil Hannafin: I'm Director of Nevada Gaming Commission. I do have a few remarks about the comments in general. I think the bills introduced essentially appear to be good legislation. I think one point recently discussed having to do with dismissing or diluting the governor's responsibility is not good legislation. The Governor must have access and should not be a buffer between the commission and control board.

The Control board is essentially the policy agency. I think there has been some confusion of terms and that the public may be confused that the commission and board are the same or confuse the functions of each. The Board is policy agency and the commission is the court. The Governor ought to have control of the policy agency. Commission is protected to a large degree because of term appointments. They can not be removed except for cause and with consent of legislative commission. I think we have to be careful in distinguishing functions of the commission as opposed to the board.

If the portion of the legislation was removed, I would be content with the balance of the legislation.

On S.B. 91, on Page 2, Sections 5 through 25, it is my understanding that by means of subpoena, a federal agency could get any piece of information they want from the gaming control board. If that information is available by means of subpoena, the only effect this is truly going to have is a slap in the face of federal government. They are going to be able to get the information if they want to. I haven't been requested for any piece of information except by subpoena. I can't refuse and neither can the state, whether the policy board refuses or not.

Assemblyman McKissick: I am concerned with the method of removal of gaming control board members in S.B. 91. One extreme is at the pleasure of the governor, the other extreme is with cause. Section 463.027 says that commissioners can be removed by the governor "if in his opinion". This was not extended to the board members. Would you give some thought to the insulation of the board members?

Phil Hannafin: I think when you approach a job like this, you approach it with the idea that you have to do what your conscience directs regardless of pressures. I don't think there is any other way to handle it. Probably if the board members insulated, there would result a feeling of too much power, and that is unhealthy.

We have to be careful in that area.

Chairman Monroe: I have heard that the performance of the audit function was not adequate.

Phil Hannafin: I don't believe the audit is satisfactory. There has never been an audit guide or manual. I hope to have one this summer for the first time. I find many of our audits are gathering meaningless information and not adequately protecting the industry and the state. The industry needs protection from itself: Running unchecked it will devour itself.

Herb Jones: I'm representing Recrion Corporation. They asked me to appear on S.B. #91. We would like to have two members on the policy board. We are very firm on that position. It would be a contribution to the board. We would also like to have two members on the advisory board.

Chairman Monroe: Does your group feel the recommendations are generally sound?

Herb Jones: I can state that they would support position that Phil Hannafin just made in reference to being against taking the power away from the governor.

Public Hearing adjourned at 11:00 a.m.

Respectfully submitted,

Eileen Wynkoop, Secretary

Approved: _____

BULLETIN No. 93 WAS NOT INCLUDED WITH THE OTHER ATTACHMENTS FOR THIS SET OF MINUTES.
IT CAN BE FOUND IN THE RESEARCH LIBRARY OR AT THE WEB ADDRESS BELOW

**GAMING SUPERVISION AND CONTROL IN NEVADA:
LCB BULLETIN No. 93**

[HTTP://WWW.LEG.STATE.NV.US/LCB/RESEARCH/1971INTERIMREPORTS/BULLETIN093.PDF](http://www.leg.state.nv.us/lcb/research/1971interimreports/bulletin093.pdf)

NEVADA RESORT ASSOCIATION

The members of the Nevada Resort Association have unanimously approved the adoption by the Association of the following positions with respect to certain of the amendments to the gaming control laws proposed under Senate Bill No. 90.

1. Disclosure of Information.

It is recommended that the provision set out in lines 25 - 33 of the bill be amended as follows:

(a) Insert "by the board or commission" after the word "disclosure" in line 25. This addition would make it clear that the provision is intended to cover only disclosures by the board or commission, and not disclosures by licensees.

(b) Add language conveying the substance of the following sentence:

"Every request for such disclosure shall be separately considered by said committee."

It is the view of the Association that all such disclosures should be considered on a case-by-case basis. The purpose of this amendment is to ensure against authorizations of disclosure on a blanket basis under the committee's rules and regulations.

(c) Add further language conveying the substance of the following sentence:

"Upon the making of any such disclosure, the person, firm or corporation which filed the disclosed document shall be notified in writing of the full extent of such disclosure and of the identity of the agency or other authority to which such disclosure shall have been made."

The members of the Association believe that the party which has filed a document which is later disclosed is entitled to be made aware of the disclosure.

2. Powers of the Gaming Commission to Waive Statutory Requirements.

The Association is strongly opposed to restrictions upon the powers of the Gaming Commission to waive statutory requirements pursuant to NRS 463.489(2), as proposed by the amendment at lines 27-30 of the bill. ~~Such powers are considered to be absolutely essential to the efficient control of gaming in the best interests of the State.~~

3. Issuance or Transfer of Securities -- Review Period.

The Association recommends against the extension from sixty to ninety days of the period during which the Gaming Commission must approve or deny the issuance or transfer of securities by a corporate licensee (See lines 16 - 32 on page 4 of the bill). We believe sixty days to be an ample period for the review of such matters and that the additional thirty days could be unnecessarily harmful to the financing plans of corporate licensees.

4. Election of Officers and Directors -- Review Period.

We recommend passage of the amendment permitting officers and directors to begin to function immediately upon their election, subject to subsequent approval or disapproval by the Gaming Commission (lines 16 - 23 and 33 - 40 on page 4 of the bill). This amendment would eliminate a problem which has caused difficulty at one time or another for nearly every member of the Association.

5. Filing of Federal Income Tax Returns with the Gaming Control Board.

The Association supports the proposed amendment which would substitute the discretion of the Gaming Commission for the present mandatory requirement that corporate licensees file copies of their federal income tax returns with the Gaming Control Board (lines 47 - 50 on page 4 and 1 - 3 on page 5). We feel that the Commission is in the best position to review the need for such information and to determine whether such filing is necessary.

6. Purchase of Securities From an Unsuitable Person.

The Nevada Resort Association wishes to recommend a further amendment not reflected in this bill. We recommend that NRS 463.585 which is set out in lines 27 - 37 on page 5 of the bill, be amended by revising the last sentence to read substantially as follows:

"The corporation, firm, partnership, trust or other business organization shall purchase the securities or interest so offered, or shall find another purchaser found suitable by the commission to purchase such securities or interest, for cash at fair market value within 60 days after the date of the offer."

This amendment would permit some measure of flexibility when a licensee is faced with disposition of securities by a person found unsuitable by the commission, by permitting the substitution of a suitable person. The organization required under the present text to repurchase the securities or interest may be faced with virtually an impossible situation with regard to the availability of funds and possible violation of the terms of agreements with its lenders. The extension of the 10-day period to 60 days would permit the affected organization a reasonable amount of time to raise the necessary funds and negotiate with its lenders or to propose an alternate purchaser who could be investigated and found suitable by the commission within the 60-day period.

MEMORANDUM:

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THE CHAIRMEN AND THE MEMBERS OF THE
COMMITTEES CONSIDERING SB 90 AND 91

FROM: PAUL LAXALT

DATED: FEBRUARY 21, 1971

I appreciate being given the opportunity to express myself on these two important proposals -- the gambling agency reorganization and the corporate gaming bill revisions.

I am well aware of the many months of time and effort which the interim committee of the legislature devoted to studying the casino industry and I am confident that the bills introduced are a sincere response to the committee's observations. As always, there will be agreement and disagreement, equally as sincere.

To turn our attention first to the so called Reorganization Bill, SB 91, I would ask you to note the provision which designates the Gaming Commission as the authority to appoint the members of the Gaming Control Board (NRS 463.050). In addition, the proposal calls for the Gaming Board to serve at the pleasure of the Commission and the Commission would designate the Gaming Board Chairman.

It is my long time observation and experience that the centralized point of authority -- the Governor -- is essential to the strong control of the industry. The responsibility for gaming control is inseparable from the authority to do so. During changes in Administration chaotic conditions could result if the authority and responsibility are diluted.

The revisions proposed in NRS 463.021, the reconstitution of the Gaming Policy Board -- now to be called the Gaming Policy Committee -- would appear to be beneficial if the intent is to create a more sensitive entity with the added expertise, knowledge and background of participating members of the industry itself.

But this purpose will not be served if the new committee is broadened to the point of unwieldiness and immobility precluding its ability to meet critical problems in the dynamic and rapidly changing business.

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The second bill, SB 90, deals with corporate gaming. We have all been witness to the development of casino operations from the back rooms of Hoover Dam days, to the complex, comprehensive recreation resorts of today. Corporate gaming was inevitable to provide the financing for the large multi-million dollar complexes we find on the Strip and elsewhere in Nevada.

My general observation is that we have passed the shake-down period in this field and we find, basically, corporate gaming is stabilized and that, again, Nevada, charting new courses in fields unexplored anywhere else, is meeting the challenges and finding resolutions for them.

I question whether anyone can find fault with the need for an SEC or corporate expert as your corporate bill authorizes. You will recall that our Administration found it necessary to go outside the State to find experienced and qualified expertise in this highly specialized and complex field. It will probably become necessary to do so again.

I would call your attention to the deletion of the waiver provisions of sub-paragraph 2 of NRS 463.489 and raise the question of whether the blanket denial of the right to waive is really in the public interest. I would ask the committees in their wisdom, to consider whether some degree of flexibility should be retained to meet the special situations with which gaming authorities are constantly confronted.

In the audit section of the bill, in order to give some measure of relief to the State's small operators, it would appear beneficial and harmless to establish the \$1 million limitation below which audits of financial statements of non-restricted licensees are discretionary or when required by ownership change.

Again, thank you for giving me the opportunity to furnish you with this statement.

END OF MEMO.

PL/cw