

SENATE JUDICIARY COMMITTEE

PUBLIC HEARING ON S.B. #262

March 2, 1971

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

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

Others Present: Phil Hannafin, Director of Nevada Gaming Comm.
Les Kofed; Gaming Industry Assoc. of Nevada
Press

S. B. #262 - Prohibits licensees from having gaming interests
outside State of Nevada.

Chairman Monroe announced that former Governor Paul Laxalt sent a statement on his position of S.B. #262, which is included in the minutes as Attachment 1.

Chairman Monroe: Mr. Hannafin, would you like to speak first.

Phil Hannafin: It is our feeling that if this is enacted in the statute, it could create some real problems in that the statute is not as flexible as the current regulation is. I think somewhere, sometime, you have to trust someone, and you do have some mechanism within the gaming commission, the gaming policy board, to provide for this kind of decision if its forthcoming in the best interest of the state. I would remind you that the governor is the chairman of the gaming policy board. He is elected statewide and is responsible and responsive, I hope, to the people in the state. I don't think this thing can get too far out of hand in that context.

I appreciate some of the fears that are expressed in the argument for a statute. I think, however, it is better government by and large, if you let this thing remain within the realm of regulations. In the complex economy we have, and the fast moving world situation, I just don't think you can plan far enough ahead to put this in a statute. I think we have to have the capability to respond to changing circumstances within this economy and within this industry.

I don't think the state wants to get into position where we discourage good outside investors from coming in here for fear that they are going to have to divest themselves of interest in other parts of the world or other parts of the nation. And I don't think either do we want to face the possible catastrophic consequences if we face up to a situation similiar to what Mr. Hughes has. If

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he decides on whim or fancy to get involved somewhere else, it would appear to me to be rather silly for us to say he is going to have to divest his holdings in Nevada as a result of such legislation, and overnight put 8,000 people out of work. I just don't think the state can stand it. I think the whole thing argues for an impossible situation if you don't give the state the flexibility to respond properly if the need presents itself. That's all I have to say.

Senator Foley: As we all are aware, you are new in your position, but as I recall last year there was an attempt to change this regulation. I'd like to know about the proposed change that took place last year and was suddenly dropped, as I understand it they were going to open it up. As I recall, the regulation that was proposed was never acted upon, but was approved by the Control Board and the Commission. It was directed primarily at the International Hotel transaction.

Phil Hannafin: I think you might ask Mr. Deal who was Chairman of the Gaming Commission at the time that took place to testify. Since he would certainly have first hand knowledge. I'm only vaguely aware of that but I can give you some information on it. The regulation was at that time considering a change to accomodate the Hilton group and then it turned out the corporate structure at the Hilton is such that the entity that came in there 2% of its stock was held by Conrad Hilton and Hilton International which has some landlord relationships to gaming. So an opinion was sought from the Attorney General's office, and the Attorney General's office provided opinion that approved licensing of the Hilton Corporation in as much Conrad Hilton only owned 2% of the Hilton Internationals stock and that's how it was approved without a change in regulation. The Attorney General attested that it wasn't necessary.

Senator Dodge: What are the conditions under which you conceive that it would become necessary to change that regulation?

Mr. Phil Hannafin: Well, for example, if we had a large investor to come in here with a large hotel chain, which has been rumored at times, and this chain does have some landlord relationships with gaming operations in foreign countries. Of course, we also face the specter of casino-type gambling in other states in this nation. So if one of these larger corporations is engaged in gaming somewhere else, but desires to come to Nevada to partake in the tourist economy with a sizable investment, it would seem to us that we had better be able to react in a positive way if the economic factors are favorable to their inclusion in our states activity.

Senator Dodge: For some of the same reasons, I'm not so sure it shouldn't be in the statute. I think that sometimes in the past we have been unduly influenced by what seems to be short range aspects. We think somebody looks attractive so we manufacture a rule to let them come in and then we have a hard time defending consistent policy when other people may come along. What you are saying is that you just get down to individual cases. I'm a little sympathetic with this bill at this point in time because I don't think you ought to be considering those things in the immediate future. I think we have enough problems in trying to develop confidence in the corporate concept without getting this other thing involved for a few years. We can't make an individual decision without regard to general policy.

Phil Hannafin: I am saying there is a mechanism in the gaming policy board and gaming commission, and the governor of the state is elected statewide and responsive to the people, control exists through them.

I'm not here to defend corporate gaming as it was brought into the state. I can't comment on it. It is here, and we should try to make the best of it. I think in general, a good example of the benefits is the recent indictment of a group of men in the East who had hidden ownership in the Frontier Hotel. I think we are very fortunate that a group came in and bought them out. It relieved us of a nasty problem. I say thank god for corporate gaming in that instance.

Senator Dodge: I'm not adverse to corporate gaming, but I'm saying in retrospect, some of the value judgements made by the commission and maybe the gaming policy board, while they were in good faith, were temptations at the time that were proved not to be very valid.

Senator Close: I would have to go on record as opposing this bill. I recall a couple of years ago it was this very body that permitted corporate gaming. If there are any problems with corporate gaming, it is our fault because the legislature permitted it.

I feel there should be some flexibility for this board to do what they want to do. The governor is the Chairman and he is only responsible for whatever happens when he's elected. I think the control board does a good job, its made up of qualified people who are aware of the peculiar position in Nevada relating to gambling. I would rather see them have the power to use their discretion than have the legislature be required to be called back into special session.

Senator Foley: Wasn't there a corporation that tried to get the concessions in the Reno airport? Did they have gaming interests outside the state.

Phil Hannafin: No, they were only interested in taking over the bar and restaurant, parking lots, and newsstand operation. They came in and investigated the possibilities of leasing those facilities, and when they became aware of the problems involved in corporate gaming licensing, because of the 40 or so slot machines up there, they immediately withdrew. This was a subsidiary of one of our largest national corporations, and the kind of corporation Nevada is looking for. Why should we keep investors of that nature out of Nevada.

But there are a number of companies that have attachments to gaming operations in other parts of the world. Several other corporations currently in Nevada have some intent or some desire to get into hotel operations in other parts of the world where, for competitive purposes, they would have to have gaming. We also then have the imminent possibility in New Jersey, for example, where casino gaming is likely to be licensed or legalized. If at that time we have people here who want to invest there, or people there who want to invest here, I think we have a whole new set of rules for consideration before us. But, if we have an investor here and he goes there, do we close him down in Nevada and cause an economic shock. I don't think anyone will disagree that we could not have withstood such a shock this past year.

Chairman Monroe: Are there any other questions?

Senator Foley: Well, is there any likelihood at all that New Jersey is going to pass the bill to legalize gaming?

Phil Hannafin: Its very seriously under consideration, so seriously that New Jersey has recently sent eight gentlemen out here to the State to take a long hard look.

Senator Foley: Well, is it the interest of the State of Nevada to have our licensees go out of state and export what we built up in this state, after say 30 or 40 years, to other areas and making those areas attractive so people will go there to gamble rather than come to the State of Nevada?

Phil Hannafin: Well, first of all we're not going to be able to stop that. If they legalize gaming in New Jersey or New York, its going to exist. Where will they get the people to staff it? Well, we got them in years gone by. We didn't get them necessarily from the best stratas of society. They'll get them from one place or another. They'll get people from here because they'll offer better salaries to go there; they have to. By preventing our licensees from being involved does not mean that we are preventing our expertise from being exported.

Of course, how badly we are hurt economically depends on where the location is. I think this is why in the regulations you have to examine some of these things. I personally believe that if gaming were legalized in Hawaii, and there is a bill in their legislature, that it would hurt this state. But I don't believe legalized gaming in New Jersey would have any great economic impact on the State of Nevada, its possible it might even enhance it by introducing more people to the joys of gambling.

Senator Young: What are the major arguments against a Nevada licensee having interests abroad or in another state?

Phil Hannafin: Originally the regulation we currently have which prohibits foreign gaming interests came about during the Cuban situation where we had a great many of our licensees going to Cuba to engage in gaming there. This became a concern because of the kinds of people they were becoming associated with in Cuba. They didn't want that association because it tended to reflect back on the State of Nevada's image. That's why that regulation was enacted. To cut this thing back the other way, if we would have had to wait for the legislature to convene to get action, it would have been far more time consuming and may have caused us back in those times some real problems. By regulation, we were able to step in and put a spike in that problem to some degree. That is an argument for flexibility and for some controls which are in those regulations.

Senator Young: Would the same argument be as effective if gaming were legalized in other states? Do you think the other states would be as concerned about the type of individuals as we are in Nevada?

Phil Hannafin: Oh, definitely.

Senator Wilson: One thing I'm concerned about is I don't think administrative policy on licensing as applies to out of state gaming interest ought to at all suggest a kind of reciprocal dependence upon its legalization someplace else. I think it would be a mistake if the contours of our policy were suggested to be

at all responsive to or dependent upon what may happen in some other part of the country with respect to legalizing gaming there. The danger of this dialogue is that it invites the inference that perhaps there would be a dependence, for that reason the policy might be more flexible than you think it might be or ought to be. This is a caveat to this hearing.

Senator Dodge: I think that Phil has voiced what was really the major concern of the subcommittee at least and in the testimony we heard, is mostly the foreign country situation where it may be a second story operation. You will never have a good image of gambling, but you can have a better or a poorer image. We have had a better image by virtue of pretty clean policing. If some other states were to legalize gaming, they would set out as we did to have a rigidly policed industry.

How long do you think it will take us to get completely over the hump as far as knowing what we are doing about corporate licensing.

Phil Hannafin: I hope I know what I'm doing about corporate licensing by the time you convene again. I'm hopeful that the whole agency is far more expert in this area. We have taken some steps to try to assure we have this capability. We provided two years ago for a position of a securities officer and are building on this to get it to a position where he will really understand and know what corporate gaming is all about. An important part of your consideration has been that the state can go outside and hire experts occasionally. There aren't very many lawyers in this state that deal that extensively in the security law. We have to go outside the state to get people who have practiced before the SEC and to get CPA firms who deal extensively with the SEC. We do need to build our expertise. When we finally get our feet on the ground and know what the problems are we can define them a little bit better and articulate them to you, then I do think we have to come in and ask for some sweeping revisions, not to throw corporate gaming out, but to make it more workable.

Les Kofed: I didn't plan on saying anything but would be happy to. I think we have feeling in the industry that it might be very wise, as long as it is controlled by regulation, to leave it that way and control the flexibility of the regulation rather than going to the rigidity of the state law. I'm not saying the thinking is right but that is the feeling.

There is also some feeling that maybe we're working this thing exactly the wrong way. Maybe we should open it up and permit our people to go outside and permit outsiders to come in on the theory that the people who are here, who have qualified for a license, and are conducting their business properly, should not be prevented from going out, if other states, particularly states of the union, adopt legalized gaming. It might not be fair to our people to keep them from going outside if other states open up. And I'm sure it would have to cut both ways. If we do that, then we must permit others to come in here.

Senator Wilson: I'm not commenting on the bill one way or another, but I want to comment Mr. Kofed's inference of reciprocity. I don't think its a necessary consequence of a bill like this. We should retain jurisdiction to pass a licensee on a case by case basis whether or not our licensees may gamble in another state.

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Senator Foley: How do you feel that the state would be benefited by our licensees going to a foreign country?

Les Kofed: I think the same way I felt about them going into other states. If they're the type of people that we not only condone and welcome, but we appreciate the way they operate here, maybe in the interest of the overall image of legalized gaming no matter where it is, it might be to our advantage to have our good substantial well-rounded operators in foreign countries too. They are not going to operate differently in foreign countries than they do here.

Senator Foley: How does that help the people of this state?

Les Kofed: Probably only helps the individuals who are making the foreign investment. But here again you have people who have risked everything; they have come in here and built up a sizable fortune and estate, have been successful and done a lot for the state, and I don't think its fair to tie their hands and tell them they can't go someplace else. It may not be good economically for the state, but certainly you have to be fair with the individual too.


The foreign interest angle I don't think is ever going to have a great deal of effect on Nevada gaming. I would venture that 90% of our customers come from within 1500 miles.

If we had been blessed in the past with poor representation on the gaming commission, it would make some difference in the consideration of this bill, but with the caliber of people we've had on that commission, and the caliber of people we have right now, we're in no danger for trusting this type of thing to the commission.

Chairman Monroe: Let's hold this bill open until we get a statement from Grant Sawyer.

The hearing adjourned at 10:15 a.m.

Respectfully submitted,


Eileen Wynkoop, Secretary

Approved: _____

STATEMENT OF FORMER GOVERNOR PAUL LAXALT

DATE: March 1, 1971

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TO: The Honorable Warren Monroe, Chairman,
Judiciary Committee, Nevada Senate

Mr. Chairman and members of the Committee:

I have been asked to comment on the proposed legislation pertaining to the holding of out of state gambling interests by Nevada licensees. I appreciate the opportunity.

SB 262 and AB 251 propose to make law the ban against Nevada Licensees holding gambling interests outside the state. The same ban is now state policy and a Gaming Commission rule.

From the historic standpoint, you will recall that the initial ban against holding interests in gambling outside Nevada came as an emergency measure in the late 1950s and was designed to meet an international situation being created by Castro's march on Havana. The same conditions no longer apply but we have maintained the policy.

In addition, as I observed to some members of this committee earlier in the Session, we have had, in the meanwhile, another development in Nevada. This is corporate gambling.

I pointed out in that statement that we had all been witness to the development of casino operations from the back rooms of the Hoover Dam days, to the complex, comprehensive recreation resorts of today. I added that corporate gaming became inevitable if we were to enable the financing of the large multi-million dollar complexes we now have. I should note, too, that as essential as the financing was the assurance we had corporate men of substantial character involved.

I think, as I said, that we have been through the shock waves of corporate gaming and find, basically, the concept is stabilized and Nevada is successfully charting a course through unique fields and in areas peculiar only to us.

These circumstances raise the relationship between corporate gambling and the two proposed bills.

The apparent justification for SB 262 and AB 251, apart from any existing situation to which they might be pertinent, is the apprehension that under pressure, the regulatory policy against outside gaming interests might be relaxed. Statutory prohibition, it seems to be thought, will prevent this.

STATEMENT OF FORMER GOVERNOR PAUL LAXALT (con't)

But this might be the best argument against passing the bills.

Generally speaking, outside gaming interests probably should be prohibited which is the effect of the existing policy. But making the prohibition statutory eliminates the flexibility that should be maintained in the event of a special situation arising where the best interests of the State dictate that an exception is clearly warranted.

This flexibility appears beneficial and, in the dynamic and rapidly changing conditions prevalent in all fields today, as much as in the casino industry, should be preserved.

Thank you.

PL/sjp