

## Senate

## COMMERCE AND LABOR COMMITTEE

March 4, 1975

The meeting was called to order in Room #213 at 6:40 p.m. on Tuesday, March 4, 1975. Senator Gene Echols was in the chair.

PRESENT: Senator Gene Echols  
 Senator Margie Foote  
 Senator William Raggio  
 Senator Warren Monroe  
 Senator Richard Blakemore  
 Senator Richard Bryan  
 Senator Gary Sheerin

OTHERS PRESENT: Ernest Newton, Nevada Taxpayers Association  
 Fran Breen, Nevada Bankers Association  
 Bill Adams  
 Earl Cornforth, Nevada National Bank  
 Pete Hopkins, First National Bank  
 Albert Larsen, Pioneer Citizens Bank  
 Preston Tidball, Superintendent of Banks, State of Nevada  
 Pete Kelley, Nevada Retailers Association  
 John Garvin, Attorney, Montgomery Ward  
 Renny Ashleman  
 Clint Wooster

There was no one present to speak on S.B. 20, so the committee moved on to S.B. 31.

S.B. 31: Adjusts industrial insurance benefits to counteract rise in inflation. Fiscal Note: Yes. (BDR 53-388).

<sup>LAMB</sup>  
~~Brown~~ Senator introduced this bill and when Senator Echols told him about the committee hearing, he said this bill is one the committee should address themselves to and be aware of. He thought the committee should address themselves to the inflation. Senator Raggio asked what the fiscal note was. Senator Echols said Senator Brown thought about \$14,000,000. Senator Blakemore asked Mr. Newton, who came forward to testify, if he knew what the fiscal note would be. Mr. Newton said he didn't know, but had hear \$14,000,000 here tonight and \$21,000,000 that afternoon.

Ernest Newton, Nevada Taxpayers Association, testified in opposition to the bill. S.B. 31 proposes a substantial increase in payments to claimants under the Nevada Industrial Insurance Act, which increases are to be paid out of the general fund in the first part of the bill. He said he didn't understand why the bill did not carry an appropriation. He said he thought Senator Lamb might be right in his joking amount of \$14,000,000; however, beginning with Section 7, there are various increases provided which are to be paid out of the State Insurance Fund. He said the premiums on industrial insurance have been increased annually over the last four years until now the employers are paying around 146 percent increase over what they were paying five years ago. These increases were necessary to maintain the solvency of industrial insurance. This provisions of this bill would add another \$7,000,000 or \$8,000,000 to the premium requirements, which are now almost exactly in balance between claims and premium income. Senator Raggio asked if he was talking about Section 7 and Mr. Newton said yes, section 7 and following, and that Section 7 and 9 were to be paid out of the insurance fund. Senator Monroe read from Section 9 that it would be paid out of the general fund. The only increase to be paid out of the insurance fund is for funeral expenses. Mr. Newton said he sincerely doubted whether the increase could be justified if they are going to be paid by the rate payers or the tax payers.

Senator Monroe said if this bill is passed, it will have to be re-referred to Finance.

Mr. Bob Alkire, Nevada Mining Association, Kennecott Copper, testified next. He said that two years ago they were assured that the NIC package at that time would cost about 18 percent increase and their actual historical cost has been 113 percent. He also asked their employment compensation specialist what this package would cost and the range given was \$23,000,000. He said he understood there was a companion measure being held in the Assembly until the NIC package was introduced and he hoped the committee would see fit to do the same.

Senator Monroe moved that the bill be held for introduction of the entire NIC package. Senator Blakemore seconded the motion.

The vote was unanimous with all members present and voting.

S.B. 51: Provides that deductions from employee's wages may be authorized by labor contract. Fiscal Note: No. (BDR 53-390).

This bill was proposed by Senator Hilbrecht. It evolved from the taxi cab authority in Clark County where they made agreement with their drivers to get air conditioning and they would pay \$1 a month. They later became involved in a lawsuit over this. Senator Hilbrecht felt there should be a bill drafted. Mr. Bob Alkire said their only concern with this was this measure might make employee deductions subject to collective bargaining, and if so, it could be a position where you could bargain to an impasse. He said they would not want to be put in a position where they would have to make deductions. Senator Bryan said the way he read the bill it simply provides for the deduction of the labor contract so defines. Mr. Alkire said if the labor contract already permits that, why build it in the law. He said he didn't know of any statute that prevents you from doing this anyway. He said if you put it in the law it becomes a bargainable issue and therefore, a strike issue.

The bill will be held until Senator Hilbrecht can appear to testify.

S.B. 246: Reduces maximum interest rate for retail charge agreements. Fiscal Note: No. (BDR 8-949).

Fran Breen, Nevada State Bankers Association, said he wanted to let the committee know that his bankers were against the bill. He introduced the bankers that would speak.

Earl Cornforth, Assistant Vice-President and Manager of Nevada National Bank, testified next. They have two types of income which is generated: 1) card holder interest; and 2) merchant discount. The proposed legislation would reduce the annual percentage rate from 1.8 percent to 1.00 percent. He said they have never assessed the 1.8 percent allowable. They have only charged 1.5 percent. On the merchant discount if it is a Nevada cardholder, they are able to retain the 3 percent, if it is an out of state cardholder, they have to forward 1.95 percent to the card issuer. With the tourists Nevada has, this interest is immediately sent out of state. 1.05 percent is all they retain, and with this they provide a 24-hour a day authorization service. They are assessed for the telephone calls. The average sign up per merchant is \$75, which includes the imprint machine (\$28); and outdoor sign (\$10); signing the merchant up (\$25). The problem they are faced with now is that they cannot raise their prices, and they don't feel it is necessary to raise them. If the rates go down to 1.2 percent a-year, they will have losses. He outlined some of the ways they could compensate for the losses. Senator Blakemore asked what their loss ratio was and if it was changing. Mr. Cornforth said the loss ratio was changing, but he did not have statistics with him. Senator Blakemore asked if their merchants were remaining in the program due to the three percent increase. Mr. Cornforth said they had lost a few, such as service stations. Senator Bryan asked about the legislation that would allow cash discount of three percent. He said people paying cash are subsidizing the program. The three percent is the cost of doing business which is figured into the overall business. Mr. Cornforth said his own opinion was why should a cardholder be

penalized for carrying a credit card and paying his account in full every month. No finance charge is assessed then. Senator Blakemore asked if their losses increase do they anticipate using the 1.8 percent authorized. Mr. Cornforth said speaking for himself, no. They had considered doing this, but there is no indication of an increase. Senator Blakemore asked how their rates compared to the others. Mr. Cornforth said the 1.5 percent is the competitive and standard rate. Senator Blakemore asked if there is more competition or less. Mr. Cornforth said competition is greater according to the public's needs.

Pete Hopkins, First National Bank, testified next. He spoke about the master charge program. He said the big problem they run into is the unbelievable amount of items they have to process. He said although the percentage rate may look like a lucrative thing, they have to cover costs before it becomes lucrative. He said they feel that to reduce this rate down to the one percent, it would cause them to try to cover this in some other way. Some of the ways would be to charge for the use of the card which they do not do now. Another way would be to charge \$1, which they do not do now, for the usage of the cards. Senator Raggio asked how their rates compared with the others, such as Bank Americard. Mr. Hopkins said their rates were identical, 1.5 percent. Senator Raggio asked how he felt about this being reduced to 1.5 percent. Mr. Hopkins said it wouldn't affect them at the present time because they are only charging 1.5 percent, and they don't anticipate raising it. Senator Monroe asked if this would apply only to credit cards. Mr. Hopkins said it would apply to revolving charge cards, such as the bank cards, Wards, Sears, Penney's, etc. Senator Monroe asked if it would involve retail credit. Mr. Hopkins said no. Senator Blakemore asked if their losses appeared to be rising. Mr. Hopkins said their losses are now around two percent and by the end of the year they will be in excess of that. Senator Echols asked if they had any breakdown on the comparison between master charge portfolio and personal loans. Mr. Hopkins said he did not have it with him, but thought it would be somewhere in the neighborhood of installment loans.

Albert Larsen, Pioneer Citizens Bank of Nevada, testified next. He said they got into the credit card business for the convenience of the customers, not to make money. He said their loss ratio was also about two percent. He said most of their customers pay their bills at the end of the month, so there is no charge. They are part of mastercharge. He said actually they are running a credit department for the small businesses.

Preston Tidball, Superintendent of Banks, State of Nevada, testified next. He said he knew from his examination of the banks, that they are having great losses. He feels the 18 percent rate is fair, because the higher the risk, the higher the interest rate. He said if the banks find themselves in a position where they cannot make money on their credit cards accounts, they could conceivably discontinue them. Senator Bryan asked if there were any other alternative accounting system. Mr. Tidball said not to his knowledge, but said he was not familiar with this in the banks. He said the banks subtract out the payment and charge the interest on the remaining balance. There was some discussion among the Senators and the audience about how the interest is charged.

Mr. Pete Kelley introduced Mr. John Garvin, attorney for Montgomery Ward. His written testimony is attached. Senator Blakemore asked if their loss ratio was rising. Mr. Garvin said it has risen substantially. Senator Blakemore asked if the amount of float was increasing. Mr. Garvin said all he could say was that the cost of extending credit exceeds one and a half percent per month.

The bill will be held until Senator Neal can testify.

S.B. 20 will also be held until March 18, when the NIC legislative package will be held.

At this time Mr. Wooster and Mr. Ashleman came forward and explained the amendments they were proposing to S.B. 283. They had reached a compromise and were ready to proceed to the bill drafter. They were given the permission of the committee to do.

There being no further business, the meeting adjourned at 8:00 p.m.

Respectfully submitted:

Kristine Johnson  
Secretary

APPROVED BY

Gene Echols  
Senator Gene Echols, Chairman

STATEMENT OF  
JOHN H. GARVIN, ATTORNEY  
MONTGOMERY WARD AND CO., INCORPORATED

SENATE BILL 246

SENATE BILL 246 WOULD AMEND THE NEVADA RETAIL INSTALLMENT SALES ACT BY IMPOSING A 1% PER MONTH FINANCE CHARGE LIMITATION ON ALL RETAIL INSTALLMENT SALES. WE ARE OPPOSED TO SB 246 FOR TWO PRIMARY AND INTER-RELATED REASONS.

FIRST, AS A DEVICE TO EFFECTIVELY LEGISLATE THE PRICE OF CREDIT IN AN AREA WHERE OTHER GOODS AND SERVICES ARE SOLD, IT IS ILLUSORY AT BEST. UNLESS THE LEGISLATURE WANTS TO EMBARK ON A COMPREHENSIVE PROGRAM OF SETTING PRICES ON ALL OF THE MERCHANT'S GOODS AND SERVICES, ANY RATE CEILING BELOW THE EXISTING COST OF EXTENDING RETAIL CREDIT WOULD SIMPLY RESULT IN AN EQUIVALENT INCREASE IN THE PRICE OF OTHER, UNREGULATED, GOODS AND SERVICES. THE PREVALENT RETAIL RATE ESTABLISHED IN THE COMPETITIVE MARKET IN NEVADA AND MOST STATES IS 1-1/2% PER MONTH. THIS IS TRUE EVEN THOUGH NEVADA, AS WELL AS THE STATES OF OREGON, UTAH, ILLINOIS, KENTUCKY, OKLAHOMA AND MAINE, EITHER ALLOW A HIGHER CEILING THAN 1-1/2% OR IMPOSE NONE AT ALL. COMPETITION IN THIS AREA HAS WORKED AS AN EFFECTIVE DETERMINANT OF RATE FOR THE ULTIMATE BENEFIT OF THE CONSUMER.

FUNDAMENTALLY, YOU CANNOT SET THE PRICE OF SUCH CREDIT EFFECTIVELY WITHOUT A CORRESPONDING INFLUENCE UPON THE PRICE OF OTHER GOODS AND SERVICES OFFERED BY THE RETAILER.

SECONDLY, WE FEEL YOU SHOULD BE INFORMED THAT MOST RETAILERS ARE NOT MAKING A PROFIT ON THEIR FINANCE CHARGE REVENUES. CREDIT IS EXTENDED



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AS A MEANS OF INCREASING SALES VOLUME AND TO MEET COMPETITION.

HOWEVER, CONTRARY TO POPULAR IMPRESSION, REVENUE GENERATED BY FINANCE CHARGES IS NOT A "BOTTOM LINE" NET PROFIT FIGURE. SUCH REVENUE IS A GROSS RECEIPT ITEM AGAINST WHICH RETAILERS MUST DEDUCT SUCH CREDIT RELATED COST ITEMS AS (A) THE COST OF BORROWING MONEY FROM FINANCIAL INSTITUTIONS; (B) NEW ACCOUNT DEVELOPMENT AND CREDIT INVESTIGATIONS; (C) PAYROLL; (D) RENT; (E) SUPPLIES; (F) COMPUTERS AND (G) COLLECTION COSTS AND WRITE OFF ON UNCOLLECTIBLE ACCOUNTS. NUMEROUS ECONOMIC STUDIES (SOME OF WHICH CAN BE MADE AVAILABLE TO YOU) CLEARLY SHOW THAT FOR MOST RETAILERS SUCH COSTS EXCEED THEIR FINANCE CHARGE REVENUES. THOSE FEW MERCHANTS WHO FEEL THEY MAKE A SUBSTANTIAL PROFIT ON FINANCE CHARGE REVENUES, APART FROM THE SALE OF MERCHANDISE, SIMPLY DO NOT HAVE A HANDLE ON WHAT IT COSTS THEM TO EXTEND CREDIT. SB 246 WOULD FURTHER REDUCE SUCH REVENUES SUBSTANTIALLY BELOW THE EXISTING COST STRUCTURE.

THE STATE OF WASHINGTON OFFERS A FAIR EXAMPLE OF THE ADVERSE ECONOMIC CONSEQUENCES THAT FOLLOW AN ARTIFICIALLY IMPOSED LOW RATE CEILING. IN THE GENERAL ELECTION OF NOVEMBER 1968, WASHINGTON VOTERS APPROVED A MEASURE SIMILAR TO THAT SET FORTH BY SB 246. THEREAFTER, IN 1970, THE GRADUATE SCHOOL OF BUSINESS OF THE UNIVERSITY OF WASHINGTON PUBLISHED A REPORT ON THE IMPACT OF THIS INITIATIVE UPON WASHINGTON'S ECONOMY. THIS REPORT SERVES AS EVIDENCE THAT THE VOTER'S PREFERENCE FOR A LOW RATE (WHICH SOUNDS AWFULLY APPEALING ON ITS FACE) DID NOT GIVE HIM THE BENEFIT DESIRED, E.G. A LOW COST OF CREDIT. ALTHOUGH RETAILERS' RESPONSES VARIED SOMEWHAT, IT WAS CLEAR THAT THE MAJORITY OF THEM REACTED BY RAISING PRICES ACROSS THE BOARD OR ON CREDIT-

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SENSITIVE ITEMS. THE REPORT STATES ON PAGE 24-25 THAT:

".... THE MAJORITY (56%) OF RETAILERS SAID THAT THEY RAISED PRICES ON ALL MERCHANDISE ON THE AVERAGE OF 5% IN RESPONSE TO THE PASSAGE OF THE INITIATIVE 245."

FURTHER:

"...SIXTY-FOUR PERCENT OF FURNITURE AND APPLIANCE DEALERS SAID THAT THEY RAISED PRICES ON 'CREDIT-SENSITIVE' ITEMS. THIRTY-ONE PERCENT OF DEPARTMENT STORES SAID THAT THEY DID THE SAME."

IT WAS ALSO SIGNIFICANT FROM THIS REPORT THAT THERE WAS A TIGHTENING OF CREDIT ON THE LOWER END OF THE ECONOMIC SCALE WHICH DURING THESE TIMES WOULD IMPOSE SUBSTANTIAL PROBLEMS FOR LOW INCOME CONSUMERS. I UNDERSTAND THAT OTHER ECONOMIC STUDIES SUBSTANTIATE THE UNIVERSITY OF WASHINGTON'S REPORT. NOTEWORTHY AMONG THESE IS A CONGRESSIONALLY FUNDED STUDY BY THE NATIONAL COMMISSION ON CONSUMER FINANCE ENTITLED "CONSUMER CREDIT IN THE UNITED STATES".

THIS STUDY, WHICH DEALT WITH THE ENTIRE AREA OF CONSUMER FINANCE, HAD THIS TO STATE AS TO THE WISDOM OF LOWERING CREDIT RATE CEILINGS BELOW 1-1/2% PER MONTH:

"THERE IS NO LOGICAL REASON TO SELECT ANY TYPE OF PRODUCT OR SERVICE SOLD BY A RETAILER AND LEGALLY REQUIRE IT TO BE SOLD AT A LOSS. WHEN CREDIT IS SELECTED AS THE REQUIRED LOSS LEADER, THE BURDEN OF SUBSIDY FALLS PRIMARILY ON CASH BUYERS, SOME OF WHOM MAY HAVE BEEN UNABLE TO OBTAIN CREDIT. THUS STATE LAWS THAT PUT THE PRICE OF CREDIT BELOW COMPETITIVE RATES ARE FORCING BOTH THE

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WEALTHY AND THE LESS AFFLUENT, WHO DO NOT USE OR CANNOT OBTAIN CREDIT, TO SUBSIDIZE THE USE OF CREDIT BY OTHERS. SUCH LAWS ALSO TEND TO DISCOURAGE THOSE WHO CAN OBTAIN CREDIT FROM USING CASH TO BUY GOODS. IN THE COMMISSION'S VIEW, LOWERING RATE CEILINGS ON REVOLVING CREDIT BELOW 1-1/2 PERCENT PER MONTH HAS ON BALANCE BEEN CONTRARY TO THE BEST INTERESTS OF CONSUMERS."

THE CENTRAL POLICY ISSUE THEREFORE IS WHO SHOULD PAY FOR THE COST OF EXTENDING CREDIT. WE BELIEVE THAT THOSE WHO UTILIZE THE SERVICE OF CREDIT SHOULD BEAR THE COST BURDEN. THIS OBJECTIVE HAS BEEN LARGELY REALIZED TODAY IN NEVADA. SB 246 COULD, IN LIGHT OF NUMEROUS ECONOMIC STUDIES, SHIFT THAT COST BURDEN TO THOSE WHO DO NOT WISH TO PURCHASE ON CREDIT.

CREDIT BUYING TODAY IS AN ESTABLISHED FACT OF ECONOMIC LIFE. IT HAS BEEN A MAJOR FACTOR BY WHICH SUBSTANTIAL ECONOMIC GROWTH HAS BEEN ACHIEVED IN THIS COUNTRY. THE SYSTEM CERTAINLY HAS ITS CRITICS AND INDIVIDUAL EXAMPLES OF CREDIT-ABUSE CAN BE CITED. HOWEVER, WE BELIEVE THAT BEFORE THIS COMMITTEE SUCCEDES TO THE LURE OF ESTABLISHING A LOW PRICE CEILING FOR CREDIT, WITH ITS ATTENDANT ADVERSE CONSEQUENCES, IT OUGHT TO BE AWARE OF THE SUBSTANTIAL BODY OF ECONOMIC OPINION DEALING WITH THE ADVERSE RESULTS GENERATED BY LOW RATE CEILINGS.



**S. B. 31****SENATE BILL NO. 31—SENATOR LAMB**

JANUARY 27, 1975

Referred to Committee on Commerce and Labor

SUMMARY—Adjusts industrial insurance benefits to counteract rise in inflation.  
 Fiscal Note: Yes. (BDR 53-388)



EXPLANATION—Matter in *italics* is new; matter in brackets [ ] is  
 material to be omitted.

AN ACT relating to workmen's compensation; increasing certain benefits under industrial insurance and for occupational diseases; and providing other matters properly relating thereto.

*The People of the State of Nevada, represented in Senate and Assembly, do enact as follows:*

1 SECTION 1. Chapter 616 of NRS is hereby amended by adding  
 2 thereto the provisions set forth as sections 2 to 5, inclusive, of this act.

3 SEC. 2. *Any claimant or his dependents residing in this state who*  
 4 *receive compensation for permanent total disability on account of an*  
 5 *industrial injury, or disablement due to occupational disease, occurring*  
 6 *after April 9, 1971, and prior to July 1, 1975, are entitled to a 20-per-*  
 7 *cent increase in such compensation without regard to any wage limitation*  
 8 *imposed by this chapter on the amount of such compensation. The*  
 9 *increase shall be paid from the state general fund.*

10 SEC. 3. *Any claimant or his dependents residing in this state who*  
 11 *receive compensation for a temporary total disability on account of an*  
 12 *industrial injury, or disablement due to an occupational disease, occurring*  
 13 *after April 9, 1971, and prior to July 1, 1975, are entitled to a 20-per-*  
 14 *cent increase in such compensation without regard to any wage limita-*  
 15 *tion imposed by this chapter on the amount of such compensation. The*  
 16 *increase shall be paid from the state general fund.*

17 SEC. 4. *Any claimant who receives compensation for permanent*  
 18 *partial disability on account of an industrial injury, or disablement due to*  
 19 *occupational disease, occurring prior to April 9, 1971, is entitled to a*  
 20 *35-percent increase in such compensation without regard to any wage*  
 21 *limitation imposed by this chapter on the amount of such compensation.*  
 22 *The increase shall be paid from the state general fund.*

23 SEC. 5. *Any claimant who receives compensation for permanent*  
 24 *partial disability on account of an industrial injury, or disablement due to*