The hearing was called to order at 8:00 a.m. Senator Close was in the Chair.

PRESENT:	Senator Close	PRESENT:	Mrs. Hayes, Co-Chairman
	Senator Hernstadt		Mr. Stewart
	Senator Don Ashworth		Mr. Banner
	Senator Dodge		Mr. Coulter
	Senator Ford		Mr. Fielding
	Senator Raggio		Mr. Horn
	Senator Sloan		Mr. Polish
			Mr. Sena
			Mr. Brady
			Mr. Prengaman
			Mr. Malone
ABSENT:	None	ABSENT:	None

SB 420 Provides for gaming licenses for limited partnerships.

Roger Trounday, Gaming Control Board, informed the Committees that this measure will close a loophole in the law and will also encourage investment in this area. He stated that there is presently no legislation which addresses itself to limited partnerships.
He felt that this bill would establish guidelines for applications for limited partnerships.
He stated that they had some amendments they wished to present (see attached Exhibit A) and that they would be discussed by Mr. Jeff Silver, Deputy Attorney General.
For Mr. Silver's general comments, see attached Exhibit B.

Senator Close suggested that Mr. Silver review each section of the measure and discuss the proposed amendments.

SECTIONS 2 through 5: Mr. Silver stated that these were the definitional sections addressing the general partner, a limited partner, the limited partnership, and a limited partnership interest.

Mr. Stewart asked if it would be possible to form a limited partnership under the laws of California but do business in Nevada.

Mr. Silver replied that one of the requirements of the limited partnership is that it must be formed in Nevada.

SECTION 6: Mr. Silver stated that this follows the State's policy in NRS 463.489 which deals with corporations. It indicates that the purpose of these laws is to promote investment, etc.

Senator Hernstadt asked the meaning of lines 1 and 2 on page 2.

Mr. Silver responded that control over limited partnerships is such that any solicitation relative to a limited partnership interest has to be regulated by the Nevada Gaming Commission. If there is misrepresentation made relative to the offering or the evolvement of the business organization, the Commission has the authority to deny that particular application.

SECTION 7: Mr. Silver stated that this is the qualifying section for corporations (NRS 463.490). The only change is the inclusion of limited partnerships.

Senator Ashworth asked if a corporation from another state could qualify by filing the necessary requirements to do business as a foreign corporation.

Mr. Silver replied that the limited partnership must be formed in Nevada. The limited partnership in this instance, is seeking a special, privileged license and as such, in order to be found suitable, must comply with these extra requirements under the law.

SECTION 8: This states that no limited partnership is eligible to receive a gaming license unless the conduct of gaming is included in the purposes of the certificate of partnership.

Senator Close asked if the partnership was found suitable or if the partners themselves were.

Mr. Silver stated that in the case of the standard limited partnership, the partnership itself is the gaming entity, as a corporation would be the gaming entity. All individuals in the limited partnership must be licensed; not found suitable.
The only exception would be if the sole limited partner is a public company and then it must comply with NRS 463.635 and .645.

Senator Close asked what happens with regard to the general partner.

Mr. Silver stated that if the general partner were shown to have an active and direct involvement in the operation of the gaming entity, he would have to be licensed. However, a general partner may have nothing whatsoever to do with the day-to-day affairs of the casino operation.

Senator Close stated that the general partner has the obligation of managing the partnership. If the limited partnership is a publicly traded corporation, then you need not go through part of the Act. However, the general partner must still be the person who has the management and control of the partnership.

Mr. Silver felt that the confusion was arising because there are two types of limited partners.
There is a partnership which is publicly registered and which has a general and limited partner.
Then there is a publicly traded corporation, which has officers and directors involved. That is the limited side of the limited partnership. Additionally, there is the general partner's side of the limited partnership entity and those individuals must be licensed. All general partners must be licensed.

Section 8 further requires that since partnerships are not required to file with the office of the Secretary of State, the articles or certificate of limited partnership must be filed with the County Recorder. The County Recorder must establish that the gaming language has been approved by the Commission before the articles can be accepted.

Senator Close questioned the feasibility of this. He felt this would put an intolerable burden on the Recorder if he is required to go through the application, word for word, to see if there is any language pertaining to gaming.

Senator Raggio concurred with Senator Close, adding that an additional problem is the present procedure for amending the certificate. In a limited partnership, there can be as many as 60 partners. To require that an amendment to the partnership be signed by all partners would be an onorous responsibility.
He suggested that you could put in the purpose provision initially, that you intend to conduct gaming, subject to the approval of the Gaming Commission, and then later have some requirement that you file evidence of that authority.

Mr. Silver agreed that that could be done by deleting paragraph 2 of Section 8 and handle through regulation of the Commission, requiring that the appropriate language be contained in the articles of partnership.

SECTION 9: Subsection 1 requires prior approval before any transfer of any interest in a limited partnership is effected. In subsection 2, an amendment is being requested as there is some question as to whether or not the correct language is being used in the definitional terms in returning the interest to a denied or withdrawn limited partner. The proposed language more clearly reflects what the Control authorities want to do relative to the return of investment to an unsuitable or withdrawn partner.

Senator Raggio stated that subsection 1 indicates that any transfer of any interest in a limited partner is ineffective unless approved by the Commission. He asked if that would apply to the limited partner interests which were previously determined not to require findings of suitablity.

Mr. Silver responded that if you are referring to licensees, any transfer of interest of that licensee must be approved. If you are referring to those who are registered or merely found suitable, then there is no such requirement.

Subsection 3 follows the corporate requirements as far as the operative effect of a withdrawn or denied member of the organization.

With regard to "included within the amount of his capital account as reflected on the partnership books", Senator Sloan asked if that were broader than the original contribution to capital, and, if so, would that reflect the entire partnership interest and whatever growth there has been.

Mr. Silver replied that it would reflect the additions and subtractions relative to the course of operation. It is a question of severity in recognizing what an interest is worth at the time of denial. In the case of a corporation, if there is no market, then other methods of appraisal must be used to make that determination. In a limited partnership, it is the initial investment plus any additions or subtractions that may occur as a result of the operations.

Senator Close asked what would happen if a partner were found unsuitable and there is a deficit. Would we then be put in the position of requiring a person who has been found unsuitable, to make a capital contribution to the partnership?

Albert Praws, an attorney from Los Angeles, California, who specializes in securities work, responded that that would not be possible.

Under the Partnership Act, the limited partner's contribution to capital is the sole extent of his liability to the partnership. Whereas you might go below your capital account for tax purposes, for partnership law purposes, you cannot go below zero.

Subsection 4, the term "certificate of limited partnership" refers to the certificate that is filed in lieu of filing the limited partnership agreement.
Senator Raggio asked if this was intended to refer to some indication of ownership of the particular limited partner rather than the certificate of limited partnership that is filed at the time the entity is formed.

Mr. Silver responded that this was an attempt to assure that the articles of the limited partnership contained the informational restrictions so that all limited partners who signed the document would be apprised and put on notice that certain requirements of law would inure.

Senator Raggio stated that there are two different documents. There is the articles of limited partnership, and, in lieu of that, the law allows you to file a certificate of limited partnership.

Senator Dodge asked if the certificate was the public document. If it was, it was his opinion that that should contain the restrictions.

Mr. Silver stated that it was his understanding that the terms "article" and "certificate" were interchangeable. If they are not, he agreed with Senators Dodge and Raggio that the certificate should contain the restrictions.

SECTION 10: Senator Hernstadt felt that the term "option" was a misnomer. He stated that in a general partnership, at the end of the year there is a certain payout to the limited partners; determined in accordance with the agreement or with any kind of bonuses that the individual partners deserve.

Mr. Silver stated that in the situation where a limited partner had granted his option to someone else, the Control authorities would be interested to know who that option holder was so that if there were any associational problems, they could investigate.

SECTION 11: Mr. Silver stated that there was a proposed amendment to page 3, line 22. This is to clarify that the sole public company limited partner of a limited partnership should and must comply with NRS 463.635 and .646, which regulates public companies.
He felt it was necessary to underscore the fact that there is control over the public company limited partner.

SECTION 12: Pertains to updating an application for purposes of investigation.

SECTION 13: Stipulates what happens if an individual is found unsuitable.

SECTIONS 14 and 15: Housekeeping measures which add the term "limited partnership".

SECTION 16: This adds the limited partnership to the eligibility list to receive a gaming license and indicates that all persons who hold a direct or indirect interest must be licensed. It provides the ability of a limited partnership, that has as its sole limited partner, a public company, to be found suitable as opposed to being licensed.

SECTION 17: This deals with the transferability of taxes previously paid, in the event of a reorganization or merger. This would allow state gaming taxes to be credited to the new operation where that operation would do business within 30 days, at the same location.

Senator Close asked what would happen if a limited partnership were reorganized and the surviving entity was a corporation.

Mr. Silver stated that they had not contemplated that possibility but that he would submit an amendment to that effect.

SECTION 18: Definitional section that aids in the understanding of the entire amendment.

SECTIONS 19 through 23: Housekeeping measures which add the term "limited partnership".

There being no further business, the hearing was adjourned.

Respectfully submitted,

Cheri Kinsley, Senate Attache

APPROVED:

Senator Melvin D. Close, Jr., Chairman

Assemblywoman Karen Hayes, Chairwoman

S.B. 420

Page 2, Section 9, paragraph 2, lines 36-37: This should be amended as follows: the words "contribution to capital" should be deleted, and replaced with the language "the amount of his capital account as reflected on the partnership books." Lines 36-37 would then read: "... from the commission, return to the unsuitable owner, in cash, the amount of his capital account as reflected on the partnership books."

Page 3, Section 11, line 42: Add a new sentence to be inserted after the phrase "... effect at the time the commission requires the license." This new sentence should be as follows: "Publicly traded corporations which are limited partners of limited partnerships shall not be required to be licensed, but shall be required to comply with NRS 463.635 to 463.645, inclusive."

Page 9, Section 17, paragraph 5, lines 12-21: This section should be re-written to read as follows:

"5. If a corporate gaming licensee is reorganized pursuant to a plan of reorganization and a limited partnership is the surviving entity of such reorganization and is licensed at the same location within 30 days following the effective date of the plan, then for the purposes of NRS 463.370, 463.373, 463,375, 463.380, 463.383 and 463.385, and for those purposes only, the gaming

license of the former corporate licensee is deemed to have been transferred to the limited partnership and the previously licensed operation is deemed to be a continuing operation under the limited partnership."

Note that lines 18-22 have not been changed; only the first lines have been re-written.

LIMITED PARTNERSHIPS AS GAMING ENTITIES

The essence of the proposed additions and amendments which follow is to give recognition to entities known as limited partnerships by allowing that form of business organization to qualify for a gaming license upon meeting the appropriate requirements.

While partnerships or limited partnerships could now apply for licensure under existing statutes, the current Acts' failure to specifically address these business forms may lead to the creation of loopholes, litigation and confusion.

Thus, this proposed amendment serves to clarify and strengthen existing laws while encouraging investment in Nevada casinos through this heretofore seldom-used business vehicle.

A limited partnership means a partnership formed by two or more persons pursuant to the terms of Chapter 88 of NRS, and which have as members one or more general partners and one or more limited partners. Usually, general partners are responsible for the management of the day-to-day affairs of the entity, while limited partners provide the capital necessary for the existence of the organization.

There is no sacrifice of regulatory control with the proposed amendment, as each general partner and each limited partner must be licensed or found suitable prior to receiving that position or interest.

Additionally, no changes in ownership, assignments or transfers would be permitted without the prior approval of the Commission.

The proposed amendments generally follow the Acts' requirements imposed upon corporations which seek to hold a state gaming license. The essential points of control over officers, directors, shareholders, holders of an evidence of indebtedness and key executives will remain.

Large limited partnerships which could monopolize investigative manpower may still be restricted by regulation. The attractiveness of the limited partnership as a viable source of financing is enumerated in the provision which permits a publicly traded corporation, which becomes the sole limited partner, to qualify for registration so long as the usual requirements for public companies are satisfied. Again there is no sacrifice of control in that any officer or director of the public company who is or is to become actively engaged in the administration of affairs of the licensed operation must be found suitable by the Commission. This would not normally occur inasmuch as limited partners by their very nature do not play an active role in management affairs.

Additionally, any shareholder of the public company may also be found suitable as the Commission may require. The same reporting requirements which apply to any registered public company would also be applicable to the limited partner public corporation.

In summary, the goal of the proposed amendment is to encourage the growth of the Nevada gaming industry by providing exciting new avenues for financing while retaining the state's current posture of strict regulation, control and reporting.

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