

**Nevada's Gaming State**  
**Gaming Control System**  
 Resort Hotel Casino Law

Greg Gemignani

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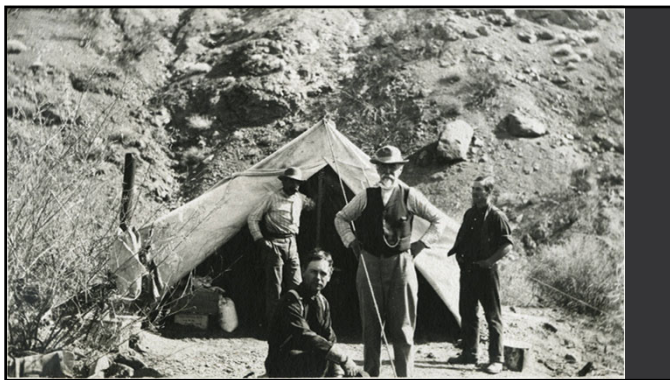
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**Origins**

Gaming was common at the inception of our great state. The discovery of the Comstock Lode of 1859 near Virginia City brought miners from everywhere to Nevada.

Mining camps were generally lawless and wild places where gambling was frequently conducted.

Samuel Clemens in his book "Roughing It" remarked how gamblers occupied the highest status in Nevada society in 1870.

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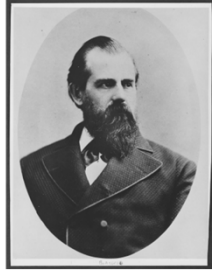
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### Origins

- In 1869, just five years after becoming a state, the Nevada Legislature overrode veto by Governor Blasdel to enact the state's first statutes legalizing gambling.
- The only regulations were that professional gamblers could not operate a game without a license from a county sheriff and gambling could not be conducted in the front room of buildings.




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### Origins

- For the next 40 years, the Nevada Legislature adjusted tax rates and splits with local governments, restricted gambling on Sundays, and limited gambling to second stories of buildings in large cities.
- In 1909, the Nevada Legislature closed the first era of legalized gambling in Nevada, and gambling was to be a legal activity on September 30, 1910.

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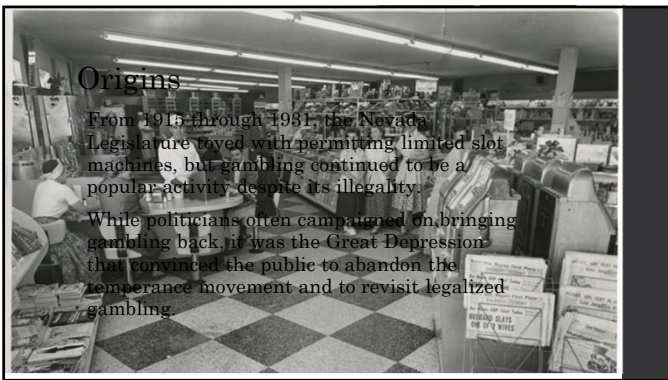
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### Origins

From 1915 through 1931, the Nevada Legislature toyed with permitting limited slot machines, but gambling continued to be a popular activity despite its illegality.

While politicians often campaigned on bringing gambling back, it was the Great Depression that convinced the public to abandon the temperance movement and to revisit legalized gambling.

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### Early Modern Gambling

- In the 1931 legislative session, Humboldt County Assemblyman Phil Tobin introduced legislation to permit "wide open" gambling in Nevada.
- Despite strong opposition from the Public Morals Committee, the bill passed the Assembly 24-11 and the Senate 13-3
- Governor Balzar signed the bill into law on March 19, 1931.



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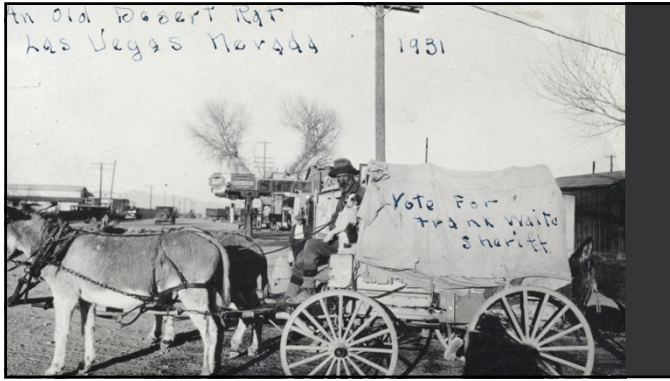
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**Early Modern Gambling**

- In its original form, the 1931 Act did not regulate gaming.
- The only qualification for licensing was that applicants be American citizens.

Eight days after Balzar signed the bill into law, the Legislature rectified the oversight by granting local authorities the power to regulate or prohibit gaming.

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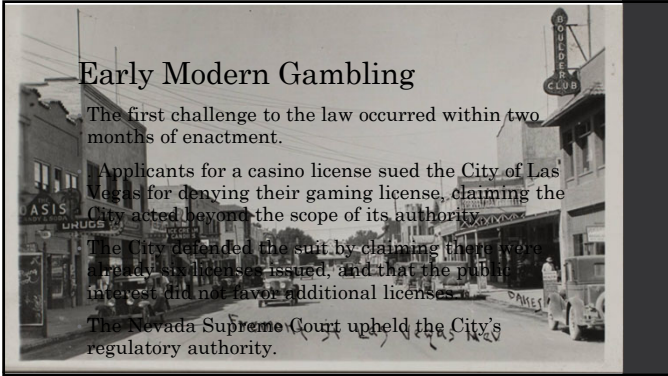
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### Early Modern Gambling

The first challenge to the law occurred within two months of enactment.

Applicants for a casino license sued the City of Las Vegas for denying their gaming license, claiming the City acted beyond the scope of its authority.

The City defended the suit by claiming there were already six licenses issued, and that the public interest did not favor additional licenses.

The Nevada Supreme Court upheld the City's regulatory authority.

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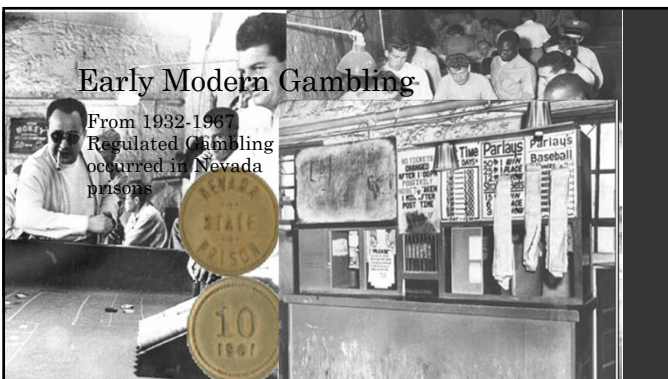
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### Early Modern Gambling

From 1932-1967 Regulated Gambling occurred in Nevada prisons

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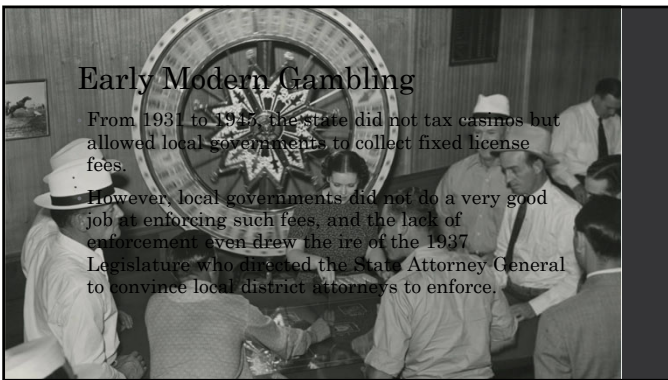
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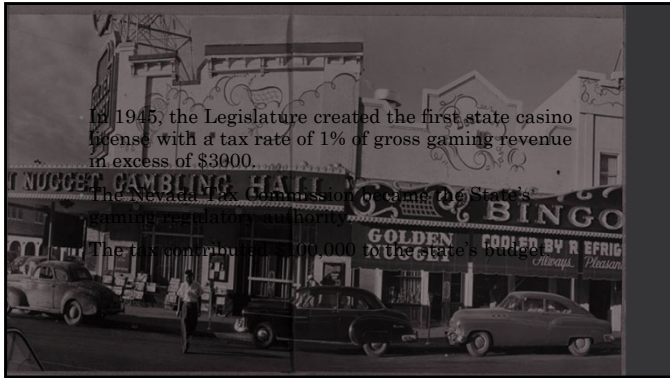
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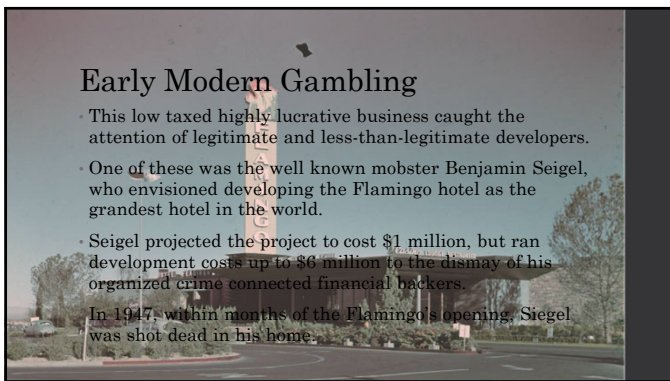
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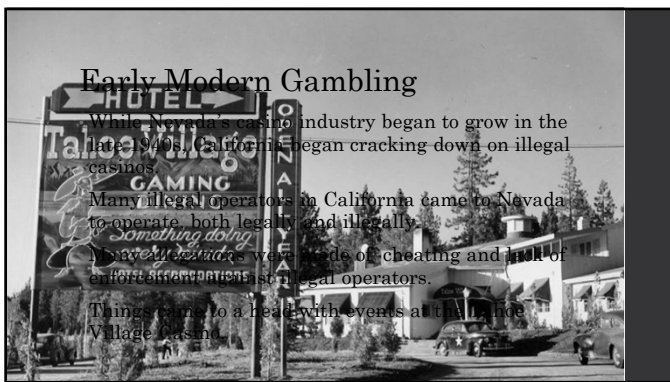
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**Early Modern Gambling**

**Nevada Police Hold Gamblers**

RENO, Nev., Sept. 15 (AP)—Two more gambling figures who have been operating of late in the Reno-Lake Tahoe area were arrested today in connection with the shooting of Harry Sherwood, operator of a plush gambling casino. Both were released on \$5,000 cash bail.

They are Abe (Trigger) Chapman, 41, described by Reno Police Chief Clayton Phillips as an ex-convict with a long record, and George Koniff, Reno gambling club operator. Warrants charged them with aiding Lou Straus in an assault with a deadly weapon with intent to kill Harry Sherwood.

Straus, known here as "Russian Louie," was associated with Sherwood in the operation of Tahoe Village casino on the Nevada side of Lake Tahoe. He was arrested Saturday after the shooting, which occurred in the lobby of the club and is held on an open charge pending the outcome of Sherwood's trial.

Straus, who identified himself as a gambler with interests in many states, will be arraigned in hospital with charges against him lodged against company with Chapman tomorrow morning at Minden, Nev. Sherwood lay near death in a gambling house parently was shot in what was a gambling house.

Tues. Sept. 16, 1947

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### Early Gambling Regulation

- Following Seigel's death in 1947, Attorney General Alan Bible issued an opinion that the Tax Commission could adopt regulations requiring "inquiry into the antecedents, habits, and character of applicants in order to satisfy the Commission that they will not violate the gambling law ... prohibiting thieving and cheating games"
- The opinion also asserted the Tax Commission had the power to refuse a gaming license if in the public interest.




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### Early Gambling Regulation

- The Bible Opinion of 1947 was a surprise to the Governor Pittman and the Chairman of the Tax Commission.
- The Tax Commission exercised its new found authority in denying licenses to five applicants in January 1948 (while approving about a thousand others).
- In 1948, the Tax Commission had one inspector and one accountant to collect and enforce gaming taxes.




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### Early Gambling Regulation

- In 1949, the Nevada Legislature shifted licensing authority from local to state government, and gave the Tax Commission statutory authority to regulate gaming and adopt regulations.
- The 1949 amendments also allowed the Tax Commission to require fingerprints of applicants and allowed them to obtain information concerning the applicant's history, habits and character.
- The 1949 amendments are significant in its emphasis on the application process and the grant of regulatory authority.

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**Early Gambling Regulation**

- The 1950's brought a new threat to gaming in Nevada, the threat of federal intervention.
- Senator Kefauver of Tennessee chaired a committee that held televised hearings on organized crime.
- In committee testimony, both Nevada's Lieutenant Governor and its Tax Commissioner admitted that the state made little or no effort before 1949 to screen gaming license applicants.
- The Kefauver Committee report was critical of Nevada's regulatory apparatus as ineffective in keeping undesirables out of gaming.

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**Early Gambling Regulation**

- The 1950's the U.S. Congress entertained legislation to impose a crippling excise tax of 10% on the casino industry in Nevada.
- Pat McCarran was a powerful member of the U.S. Senate and was able to exempt all casino gaming, other than sports wagering from this tax, thus saving the legal industry in Nevada from extinction.




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### Early Gambling Regulation

- In 1955, a full time administrative board called the Gaming Control Board was created as the investigative and enforcement arm of the Nevada Tax Commission.
- In 1955, several underfunded casinos went bankrupt.
- In response, the new Nevada Gaming Control Board required gaming license applicants to complete financial questionnaires.

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### Early Gambling Regulation

- The inadequacies of existing laws and regulations were exposed in the development of the Stardust.
- The Stardust was developed by Tony Cornero, an infamous illegal casino operator in California.
- Cornero ran into financial difficulty and criminal law difficulty in the development and was denied a gaming license.
- Cornero realized the gaming regulatory laws were limited to casino operators not landlords, so he leased the Stardust for \$6 million a year in 1959.

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### Modern Gambling Regulation

- By 1958 it was clear that Nevada's gaming regulatory system was in need of restructuring.
- A little known candidate from Elko County named Grant Sawyer launched his bid to become Governor in Nevada in 1958 using the slogan "Nevada is not for sale"
- Sawyer surprisingly won the primary and general election championing gaming regulatory reform.

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### Modern Gambling Regulation

- Governor Sawyer's policy goals were expressed in the Gaming Control Act
  - Recognize gaming as vital to the state's economy
  - Recognize growth is based on legitimacy and honesty of the activity
  - Recognize public trust is dependent upon strict regulation
  - Require operators and manufacturers to hold licenses
  - Require licensees be suitable and of good character to conduct gaming

NRS 463.1029

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### Modern Gambling Regulation

- Governor Sawyer's first act was to sign a bill from the 1959 legislative session that took control of gaming from the Tax Commission and giving it to a new independent agency, the Nevada Gaming Commission.
- The same bill made the Nevada Gaming Control board an independent agency.
- It was vitally important for Governor Sawyer to get gaming regulation right, as gaming taxes accounted for almost 22% of the state's tax revenue.

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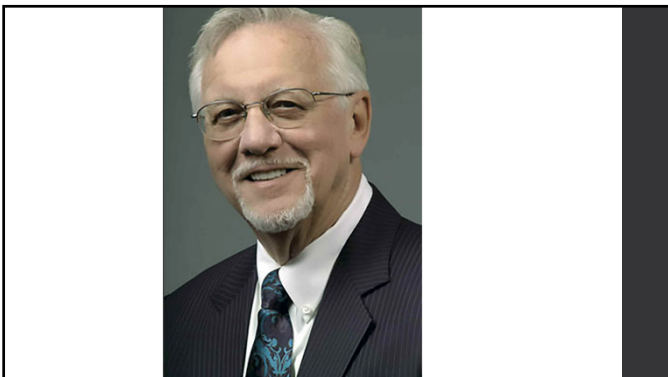
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### Modern Gambling Regulation

- Governor Sawyer appointed two former FBI agents and a former U.S. Attorney to the new Nevada Gaming Commission.
- Governor Sawyer also appointed a former assistant to FBI Director J. Edgar Hoover as the new Nevada Gaming Control Board Chairman.
- Governor Sawyer then appointed Bob Faiss as the Executive Secretary to both the Board and Commission, the only position serving both independent agencies.




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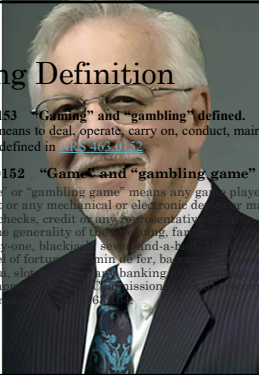
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### Gaming Definition

- **NRS 463.0153 "Gaming" and "gambling" defined.** "Gaming" or "gambling" means to deal, operate, carry on, conduct, maintain or expose for play any game as defined in [NRS 463.0152](#).
- **NRS 463.0152 "Game" and "gambling game" defined.**
  1. "Game" or "gambling game" means any game played with cards, dice, equipment or any mechanical or electronic device or machine for money, property, checks, credit or any benefit, including, without limiting the generality of the foregoing, fan-tan, roulette, keno, bingo, fan-tan, twenty-one, blackjack, seven-and-a-half, craps, poker, chuck-a-luck, wheel of fortune, min-a-fer, baccarat, beat the banker, panguingui, slot machines, banking game or any other game or device approved by the Commission on the recommendation of the Board, pursuant to the provisions of this chapter.




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### Modern Gambling Regulation

While the new Nevada Gaming Commission was independent Nevada Gaming Commission was getting the footing, the federal government's threat became imminent.

In 1951 Attorney General Robert H. Taft announced that the Teamsters Pension Fund was controlled by Jimmy Hoffa, who had financed several Nevada casinos.

In May of 1951, Attorney General Taft announced that federal agents would raid and close all Nevada casinos.

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### Modern Gambling Regulation

- Governor Sawyer met with President John Kennedy and his brother Robert to allow the new regulatory structure more time to work.
- Governor Sawyer was successful, and the raids never occurred.
- The modern gaming regulatory system was ultimately successful in meeting Governor Sawyer's goals to simultaneously clean up and protect the gaming industry.

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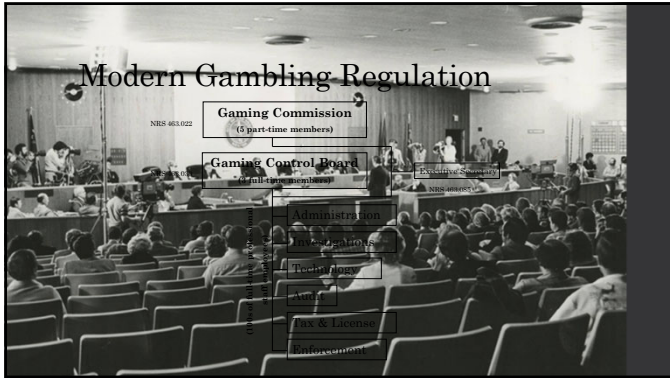
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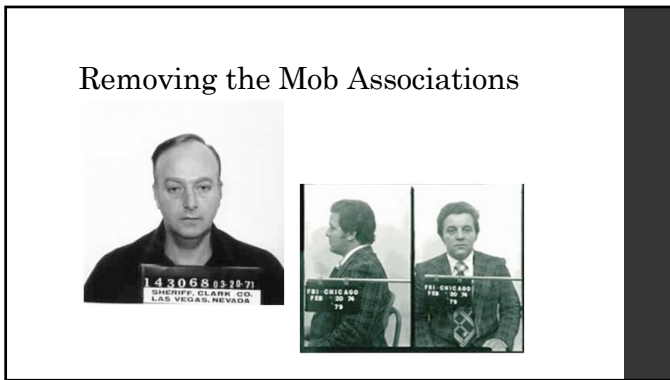
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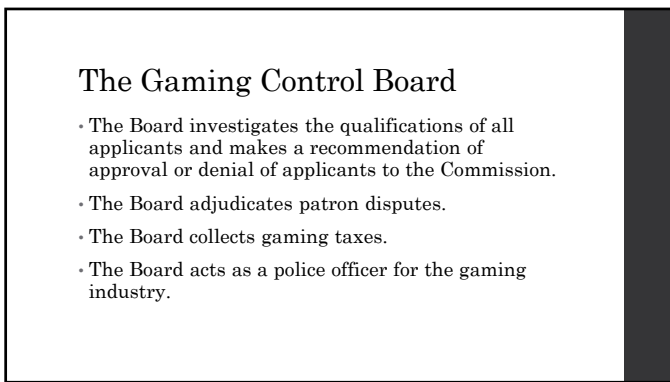
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### The Gaming Control Board

- The Board is operationally divided into six divisions:
- Administration
- Audit
- Technology
- Enforcement
- Investigations
- Tax and Licensing

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### The Gaming Control Board

- Administration Division
- The Administration Division provides financial, personnel and other administrative services as well as information technology support to fulfill the missions of the Board and Commission and to support the operating divisions.

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### The Gaming Control Board

- Audit Division
- The Audit Division conducts periodic audits of casinos to assure they have made proper accounting of taxes and fees owed to the state. The Division also reviews compliance with procedures mandated by law, regulation, or by the casino's own system of internal controls. The reviews assure the casinos are following proper procedures in counting and reporting transactions, handling cash and cash items; conducting credit transactions, and other administrative, accounting, operating, and physical controls.
- Audit Division agents verify casino bankrolls, monitor financially-troubled operations, and inspect accounting equipment. They also assist investigations into allegations of skimming and hidden interests.

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## The Gaming Control Board

### • Enforcement Division

- The Enforcement Division is the law enforcement arm of the Gaming Control Board.
- Primary responsibilities are to conduct criminal and regulatory investigations, arbitrate disputes between patrons and licensees, gather intelligence on organized criminal groups involved in gaming related activities, conducting background investigations on work card applicants, and inspect and approve new games, surveillance systems, chips and tokens, charitable lotteries and bingo

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## The Gaming Control Board

### • Investigations Division

- The Investigations Division investigates individuals, privately-held businesses, and other applicants that file applications with the Board
- The Board generally has two types of investigative agents: financial and background. In the early 1970's, the Board transferred the responsibility for financial investigations from the Audit Division to the Investigations Division. This shift of responsibility created the need for agents with accounting skills. Financial agents usually have accounting backgrounds and are primarily responsible for investigating an applicant's finances, source of funds, and similar matters.

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## The Gaming Control Board

### • Tax and License Division

- The Tax and License Division collects, deposits, distributes and dedicates all gaming taxes, fees, penalties, interest and fines. The division forecasts gaming taxes and fees and presents these forecasts to the economic forum as part of the State's General Fund Revenue forecasting process. The Division also issues all gaming licenses approved by the Nevada Gaming Commission and performs compliance reviews of all Group II nonrestricted gaming licensees, as defined by Regulation 6.010(6). The division is also responsible for performing compliance reviews of manufacturers, distributors, operators of a slot route and operators of inter-casino linked system. Finally, the Division monitors Indian gaming in Nevada.

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## The Gaming Control Board

### • Technology Division

• The Technology Division examines, tests and recommends gaming devices for approval or denial by the Board and Commission. The Division inspects gaming devices in its laboratory and in the field to ensure continued integrity, and assists in resolving gaming patron disputes through analysis of device electronics and software. The Division is charged with reviewing and approving computerized gaming systems ("Associated Equipment").

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## The Gaming Commission

• The Commission consists of five members appointed by the Governor to four-year terms, with one member acting as Chairman. The Commission members serve in a part-time capacity.

• The primary responsibilities of the Commission include acting on the recommendations of the Board in licensing matters and ruling upon work permit appeal cases. The Commission is the final authority on licensing matters, having the ability to approve, restrict, limit, condition, deny, revoke or suspend any gaming license.

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### The Gaming Commission

- The primary responsibilities of the Commission include acting on the recommendations of the Board in licensing matters and ruling upon work permit appeal cases. The Commission is the final authority on licensing matters, having the ability to approve, restrict, limit, condition, deny, reject, revoke or suspend any gaming license.
- The Commission is also charged with the responsibility of adopting regulations to implement and enforce the State laws governing gaming.

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### The Gaming Policy Committee

- Chaired by Governor
  - Member of Board
  - Member of Commission
  - Member of Senate
  - Member of Assembly
  - One enrolled member of Nevada Indian Tribe
  - Two members from general public
  - Two nonrestricted gaming licensees
  - One restricted gaming licensee
  - One member of academia with knowledge of gaming
- Hadn't met for 25 years until Internet gaming
- Recently: esports, daily fantasy sports, marijuana in the gaming industry

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### Two Primary License Categories

- Restricted – 15 or fewer slot machines
- Non-restricted – More than 15 slots machines, table games, sports betting, anything else that is not restricted gaming.

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### Regulatory Application Process

- The Nevada gaming regulatory system is heavily front loaded, this means a significant portion of regulatory resources is expended in investigating applicants before they are licensed.
- Pursuant to Nevada statutes, applicants for a license must prove their suitability, the burden lies solely on the applicant.

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### Regulatory Application Process

- The process begins with the applicant filing all relevant forms and an application fee with the Gaming Control Board.
- Forms generally include detailed information about the applicant and include a set of waivers.
- Once an application is filed it cannot be withdrawn without regulatory approval.

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### Regulatory Application Process

- If the application appears to be generally complete, an investigative team will be assigned to the application and they will determine an estimated cost for an initial deposit of investigative fees.
- The investigation will generally not commence until the initial deposit is made.
- A document request letter is also generally sent to applicants requesting significant documentation relevant to the applications.

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### Regulatory Application Process

- The investigation will include a detailed review of the applicant's current and past finances, current and past business, and current and past associations.
- Investigators will often visit the applicants business, homes, and offices.
- A copy may be made of all of the applicant's electronic records, e-mails, cloud computing account information and more.
- The investigation will also include interviews to review all application materials and forms.

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### Regulatory Application Process

- Again, it is incumbent upon the applicant to prove their suitability; therefore, cooperation of, and full disclosure by, the applicant is essential.
- The investigation process is often iterative and may involve multiple document requests and interviews.

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### Regulatory Application Process

- Upon completion of the investigation, the investigators will prepare a written summary for the Board.
- This summary is private and nobody outside the Board is permitted to see the summary.
- Investigators will generally conduct a closing conference with the applicant or their counsel regarding any outstanding issues.

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### Application Hearings

- Applicants will be scheduled for a hearing before the Nevada Gaming Control Board regarding their application.
- The day before the hearing, the Board members will meet with investigators in a "rump session" to go over the investigative summaries.
- Applicants generally appear before the Board in a public hearing and the Board will generally make a recommendation to approve (with conditions), deny, or refer the application back to staff for more investigation.

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### Application Hearings

- A few weeks later the applicant will appear at another hearing before the Nevada Gaming Commission.
- The Commission will review the information from the Gaming Control Board Meeting, ask questions, put information on the record, then vote to determine the disposition of the application.
- The disposition of applications by the Commission is not subject to judicial review.

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### Summary

- The modern gaming regulatory system was put in place to protect an industry vital to the economic well being of the state.
- The system works to ensure only suitable applicants become licensees, that taxes are properly paid, that gaming is conducted fairly and honestly, and that the risk of federal intervention is minimized.

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THANK YOU

Special Acknowledgements:

UNLV University Libraries as the source of the historical photos  
David Calvert for The Nevada Independent for the Gaming Control Board Photo  
Bob Faiss for source material regarding historical developments

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