Testimony of Steven D. Hill

Before the Financial Crisis Inquiry Commission

September 8, 2010

Mr. Chairman, Commissioners, I appreciate you taking time to hold this hearing in Las Vegas and the opportunity to testify before you today.

I am currently a Sr. Vice President for CalPortland, responsible for the Materials Division in Nevada and Arizona. CalPortland is a supplier of cement, concrete and sand and gravel to the construction industry and we are the largest supplier of concrete in Nevada. I am also the Immediate Past Chair of the Las Vegas Chamber of Commerce, the country's third largest Chamber, and chair the Chamber's State Policy Task Force. Additionally, within the last month, I was elected Chairman of Service1st Bank of Nevada, a 3-year old community bank here in Las Vegas.

My wife and I are 23-year residents of Las Vegas, having moved here from Ohio to start Silver State Materials, a concrete and sand and gravel company, which was sold to CalPortland in early 2008.

As you know, the people of Las Vegas have been more affected by the financial crisis than any other area of the country. After many years leading the nation in job growth, we now lead the nation in unemployment. After many years leading the nation in new home construction, we now lead the nation in foreclosures.

While in retrospect, the formation and ultimate bursting of the real estate bubble may seem to have been a phenomenon that should have been obvious, it was difficult to discern while going through that process. This may have been particularly true in Las Vegas.

The many consecutive years of growth and economic prosperity generated widely-accepted conventional wisdom that, while that rate of growth would probably slow, the area was destined to see continued, steady expansion. Las Vegas had historically weathered national economic difficulties without significant or long-lasting effects, leading most to assume that Las Vegas was recession-proof.

Several regional factors bolstered this perception. The gaming industry, long the economic engine of Las Vegas, embarked on a path to build 40,000 new hotel rooms over the course of just three years - a 30 percent increase in the number of rooms in the valley. The anticipated impact on employment and housing demand would have been significant – 60,000 additional direct jobs, even more indirect jobs, and the corresponding need for approximately 100,000 new homes. Those projections were seemingly verified when large investment

companies from the world over borrowed and spent vast sums to acquire, or partner with, several of Las Vegas' largest gaming companies.

While land in southern Nevada may seem plentiful when viewed by air flying in to Las Vegas, land for continued growth and development was viewed as in short supply. The Federal Government owns or controls nearly 90 percent of Nevada, including most of the land surrounding the valley. Additionally, the Multiple Species Habitat Conservation Act limited new development in Clark County to 135,000 acres and by 2005 less than half of that allocation of land remained. When the price of an average acre of land rose from $200,000 in mid-2003 to $800,000 in mid-2005, it was perceived by many as a natural result of the law of supply and demand.

As the price of housing moved rapidly higher, the explanation was often that builders needed to charge ever increasing amounts in order to afford new parcels of land on which to build the next subdivision.

With the projections of strong job growth and housing demand coupled with constricted land supply and the resulting rapid rise in land costs, it was not difficult to conclude that rising prices for homes and commercial developments were justified – and solid collateral for loans.

During this same period, the country's financial system continued to inflate the bubble through national policies designed to increase homeownership and very accommodating monetary policy which provided excess liquidity and low interest rates. If policymakers saw this bubble forming, very little was done to diminish it.

What now appears to be abuse of derivative products, coupled with wide-spread mortgage fraud, exacerbated, or perhaps multiplied, what may have simply been mistakes in judgment. Ratings agencies, in which much trust was placed, christened many of these transactions with AAA ratings.

The effect of the collapse has been nothing short of devastating on this community, particularly the 190,000 unemployed workers, those who have lost their homes, and their families. The impact on small businesses across the state is similar in that for so many small business owners their business lives and their personal lives are intertwined.

Most small business owners must pledge their homes or other collateral, or provide personal guarantees, in order to borrow the money necessary to start or grow a business. For nearly all, that small business is not only an investment but also provides them, and maybe family members, with a job. That small business provides a paycheck and becomes the key to paying their mortgage. The failure of that business often results in personal bankruptcy.

The core problem for all businesses, and particularly small businesses, is a lack of demand for their products and services. With virtually everyone in the country spending less, revenue for small businesses falls. Typically, reduced unit sales volume in a market causes heated competition for customers that remain, leading to price reductions. This combined effect has slashed top line revenue for most small businesses.

To compensate, businesses must reduce costs as quickly as revenue is falling – something that is often difficult to accomplish. Virtually all businesses have some fixed costs – debt payments that must be made, lease payments and some level of utility costs, property

taxes and licensing fees, for example – which cannot be cut. Additionally, reducing the number of employees, or the costs of employment, is not a step business owners want to take and they will often postpone those decisions until absolutely necessary.

The result of a cycle in which revenues continue to drop and small businesses struggle to reduce costs as quickly as demand is falling is not simply reduced profit margins, but in many cases significant losses.

No industry in Nevada has been hit harder than the construction industry. According to the Nevada Department of Employment, Training and Rehabilitation (see attached exhibit), employment in this industry peaked in mid-2006 at nearly 150,000 and in the intervening four years has fallen to approximately 60,000, a loss of nearly 90,000 jobs – well over one-half of all jobs lost in Nevada.

New home construction peaked during 2005 and 2006 at nearly 40,000 units, following several years averaging 22,000 new homes per year. New home construction is projected to be approximately 5000 in both 2010 and 2011, an 85% decline from the peak and a 75% decline from what, for quite a few years, was considered "normal".

Commercial construction historically lags residential construction, both in periods of decline as well as during recovery. That has been the case during this recession, as construction in the commercial segment did not experience a significant drop until 2008. However, commercial construction has now experienced declines similar in magnitude to those experienced in the residential segment.

Construction on the Las Vegas Strip peaked at nearly 20% of the construction market during the peak years of 2006 and 2007, but now is virtually non-existent. Most agree that no major development of new hotel-casino properties will occur this decade.

Public works construction has been the one relatively stable market segment. However, with deteriorating tax revenue available for new bond issues, maintaining similar levels of public spending on infrastructure investment will be increasingly difficult.

Significantly less construction has had an impact on more than just the construction industry. Many small businesses were formed to provide everything needed for new homes and their residents – a broad range of interior furnishings, landscaping and maintenance, all the commercial products and services required in a new neighborhood.

Additionally, 150,000 construction workers in Nevada represented 11.5% of the state's workforce (compared to the national average of 5%) and were customers of every business segment in the state. Jeremy Aguero, Principle with Applied Analysis, is quoted as saying that the economy in Nevada was based on building homes for construction workers building homes. While part hyperbole, the magnitude of the economic problems Nevada and small businesses across the state now face are, in large part, due to the exceptional growth and then collapse of residential construction.

Credit availability for small businesses is certainly less than was available three or more years ago.

Credit from traditional banks is granted based on reliable cash flows from a business or from a guarantor of the debt, combined with the value of assets that can be pledged as

collateral to secure loans. Deteriorating financial results of small business, an uncertain job market, and difficulty determining what an asset is actually "worth", lead to less credit availability.

Deteriorating bank balance sheets, particularly community bank balance sheets, and more particularly community bank balance sheets in the areas hardest hit by the recession, cause those banks to become more cautious with respect to extending credit. With declining capital ratios, community banks in distressed areas of the country simply cannot afford to take any risk that new loans will not be paid on time and in full.

Lack of credit availability stems from the impact the recession has had on the income statements, balance sheets, and asset values of small businesses. During the formation of the real estate bubble, too much credit was granted and the resulting deleveraging, while painful, is somewhat inevitable. While banks and major corporations are "sitting on" relatively large cash reserves, they are doing so out of concern regarding the future of the economy and because solid investment opportunities are difficult to find.

Regardless of the rationale, the lack of credit availability makes it even more difficult for small businesses to simply survive, let alone grow and create jobs.

Throughout the formation of the real estate bubble and the associated explosive growth in jobs and construction, small businesses throughout the community responded in an attempt to meet continually growing demand. In order to do so, many used their personal savings or borrowed against the equity they had developed in their personal lives or the businesses they had often worked years to create.

The magnitude of the recession, in terms of depth as well as length, has done great damage to many small businesses, the owners of those businesses, the people who worked for them and the families reliant on the paychecks those businesses provide. To a large extent, many of those businesses, their owners, and their employees are now faced with starting over.

We appreciate the time you have generously given, and the work you have done, in order that we may learn from the mistakes of the past and prevent or diminish this type of financial and economic damage in the future.

The people of Las Vegas and Nevada continue to be hard-working, creative, and determined. While this period has brought much hardship to many, we remain confident that we can emerge a vibrant and stronger state.