

Statement of Steven D. Hill

Director, Nevada Governor's Office of Economic Development

Subcommittee on Economic Policy

Senate Committee on Banking, Housing, and urban Affairs

Hearing on "State of the American Dream: Economic Policy and the Future of the Middle Class"

June 6, 2013

Chairman Merkley, Ranking Member Heller, and Members of the Committee,

After nearly two decades of nation-leading growth and prosperity, followed by a recession of equal or greater magnitude, Nevada and its people are recovering.

Nevada's focus is on an economy that is both vibrant and sustainable, anchored by our world-class tourism, gaming, and mining industries, but supported by emerging economic clusters offering good jobs across a diversified and forward-looking set of industries. Nevada was hit particularly hard when the housing bubble burst, and had to think differently in order to recover. With the leadership of our Governor and the legislature, and in partnership with the private sector, education, and other partners we have done so, and the results have started to show.

Nevada has historically been a state in which the middle class not only could find a job, but could also "get ahead". The state's major industries were growing and offered employment across a wide spectrum of professions. Many good-paying jobs, and a growing number of jobs, were available for candidates with modest education requirements. Job growth from 1990 through 2006 averaged nearly 5%, primarily driven by the gaming and construction industries. Unemployment was low, and demand for workers drove inflation adjusted wages up nearly 14% between 2000 and 2006.

But by 2007, Nevada was at the center of the housing crisis – a crisis not only for homeowners throughout the state, but also for the 100,000 people in the construction industry who lost their jobs. While the state has turned the corner, again leading the nation in home price appreciation over the past 12 months, and leading the nation in unemployment reduction, per capita foreclosures remain the country's highest, more than 50% of middle class families remain under water in their mortgages, and unemployment is 9.6%. Real progress has been made, but much work remains.

Moving forward, Nevada's economy will be different. While tourism and gaming is recovering, major expansion in that industry will not, in and of itself, drive growth in the state. Construction will achieve equilibrium, but many of the jobs lost in that industry will not return. In order to offer our middle class that same opportunity to "get ahead", Nevada is intentionally embarking on a different economic trajectory. Emphasis is being placed on emerging sectors that can provide diverse, sustainable, and high-paying jobs – jobs in technology, advanced manufacturing and healthcare, jobs that innovate, jobs that export.

The middle class needs resolution to the housing crisis that continues to affect so many, and they need opportunity for a good job. Much is left to do, but Nevada is on a positive trajectory.

1993 – 2007

From 1993 through 2007, Nevada led the nation in job growth, with the number of jobs in the state growing from 650,000 in 1993 to 1,300,000 at its peak at the end of 2007, a nearly 5% compounded annual growth rate.

Some key statistics:

- Median home price rose from \$125,000 in 1995 to \$320,000 in 2006
- Residential raw land cost rose from \$40,000 in 1995 to \$560,000 in 2006
- Residential building permits rose from 20,000 in 1993 to 46,000 in 2006
- Household earnings rose from \$37,000 in 1993 to \$62,000 in 2007

During this same period, construction employment grew from 45,000 to 146,000, moving from approximately 6.5% of total employment to 11.5% at its peak in mid-2006, compared with a relatively stable national average of 5%. In other words, Nevada had 85,000 more construction workers employed than the national average would predict.

While in retrospect, the bubble was obviously building, Nevada's most reliable historical leading indicator – new hotel room construction – was pointing to even more growth. With 40,000 new rooms to be built, demand for an additional 130,000 jobs, 100,000 homes, and all of the required infrastructure such as schools, streets, and utilities, as well as the follow-on commercial space would be needed. With good reason, Nevada's focus in 2005 was how to deal with an accelerating rate of growth.

2008 – 2010

But growth and prosperity – even a sense of security – came to an abrupt halt as 2007 ended and 2008 began. The housing bubble burst, construction fell precipitously, the recession hit the gaming and tourism industry, and Nevadans lost jobs in record numbers.

Key statistics for the period:

- Median home prices fell from \$320,000 to \$125,000
- Residential building permits fell from 46,000 to 5,000
- Construction employment fell from 146,000 to 50,000 – a loss of 96,000 jobs
- Total employment fell from a high of 1,286,000 to 1,111,000 – a loss of 175,000 jobs
- Unemployment rose from a low of 4.2% in December of 2006 to a high of 14.0% in September 2010

Throughout this period, Nevada led the nation in both unemployment and foreclosures – a 1 – 2 punch that put the middle class on the mat. The lack of job opportunities, while being anchored to underwater mortgages, caused many to seek work where they could find it – often at lower pay and with fewer hours. The uncertain national and global economic outlook only served to exacerbate the situation.

A Focus on Economic Development

Entering 2011, there was urgency throughout Nevada to bring jobs to the state, help existing industries recover and grow a more diverse economy. Following his election in 2010, Governor Sandoval worked with the 2011 Legislature to restructure, refocus, and reenergize the state's economic development effort.

Following the direction laid out by the Governor and the legislature, Nevada has embarked on a parallel path- doing everything possible to get Nevadans back to work quickly while working to build on its strengths to grow future economic sectors that provide good-paying, stable jobs.

To create the best job-creation environment possible, the Governor's first action in office was an executive order freezing regulations and ordering all state agencies to review existing regulations to determine which could be eliminated or streamlined. This effort resulted in over 600 regulations being eliminated and the reform of over 1000. But regulatory reform is not just about eliminating regulations. Clarity, consistency, and response speed are equally important. Nevada's focus on assisting job creation includes a focus on finding a way to say "yes" and doing so quickly, while upholding standards necessary for the safety and health of our workers and citizens.

Immediate attention was also directed to the nearly 100,000 construction workers and 50,000 hospitality and gaming employees who were out of work. Many of these would need to

find employment in different industries and could not wait years to be retrained in order to do so. Manufacturing, logistics and distribution, mining, and back office services were all identified as areas where the skills of out of work Nevadans could be utilized. Expanding companies have recognized this and are moving to the state.

Shorter-term training programs, aligned with near-term employment opportunities, were also given high priority. Certificate programs in information technology, healthcare, and manufacturing have been emphasized. Community colleges have become adept at designing short-term programs for businesses that need workforce training to meet a particular need – training that can be done on campus or at the business.

Over the coming three to five years, Nevada looks to develop and grow regional industry clusters, capitalizing on the state's strengths, and focusing on exporting, innovation and the commercialization of research, and advanced manufacturing. Some of the key initiatives include:

- The only statewide response to the Federal Aviation Administration's Screening Information Request to be designated at one of six test sites for unmanned aircraft systems. Nevada offers the nation's best airspace for safe and private testing, vast experience in the field, and a welcoming environment evidenced by letters of support from our entire congressional delegation, the Governor and legislature, and a host of counties and cities across the state. The industry has very high growth potential and can bring thousands of good-paying jobs to Nevada.
- Early this year, partnering with IBM, Nevada launched a water Center of Excellence. The COE aims to combine expertise from higher education, including the Desert Research Institute, globally recognized for its work in the water and energy field, and the Southern Nevada Water Authority, with data analytics to develop cutting-edge products, services, and methods to address water needs in the state and around the world.
- The 2013 legislature passed the nation's first online gaming legislation, allowing intrastate play to be governed by the world's most respected regulatory framework. The legislation also permitted compacts to be developed with other states. Building on Nevada's position as the global leader in gaming, the new industry can bring large numbers of jobs to the state in a broad variety of fields including digital media, information technology and cyber security, and professional services.
- The 2013 legislature provided funding for the Knowledge Fund, a joint effort between the Governor's Office of Economic Development and the research institutions within the Nevada System of Higher Education. The Knowledge Fund is designed to fund specific projects to advance the highest opportunity research and

commercialization projects within the university system, with a focus on product, service, and job creation, and company spin-offs.

- In addition to water technology and efficiency, Nevada is advancing its sustainability position in both energy and agriculture. Recently passed legislation will replace coal with cleaner energy sources including an additional commitment to renewable energy. Nevada possesses abundant geothermal and solar resources, offering not only the opportunity for clean energy and energy security to the state and the region, but also a host of good jobs. The state sponsored an Indoor Agriculture conference, drawing attendance from around the state and the world.
- Nevada also looks to further capitalize on its connection to the world and its proximity to the nearly 60 million potential customers in the western US. The state's geographic position, Las Vegas' attraction around the globe, and the state's business environment make Nevada an ideal location for manufacturing, assembly, and distribution, an industry that is already an important sector in the state. Construction of I-11 connecting Las Vegas and Phoenix, the two largest cities in the country without an interstate highway connection, and an important component in the CANAMEX Corridor, will be key to expanding this industry.
- Nevada also has strong and growing Hispanic and Asian populations with established businesses connections in Latin America and Asia, providing a platform for growth. The Governor recently led trade missions to China and Korea, and will lead a mission to Mexico in July. Companies that export are typically more stable and pay higher wages, and these trade missions facilitate new business relationships and strengthen existing ones.
- Sector Councils in each of 9 industries have been formed, bringing together leaders in business, education, labor, and government to determine current and future workforce needs. These Councils identify both labor and skill gaps, help direct resources, and bring alignment to the process of training for real, available jobs.

Recovery: 2011 – 2013

Beginning in late 2010, Nevada started to recover. The pace of recovery was somewhat slow and uneven in 2011 and led primarily by the tourism and gaming industry, but began to accelerate in 2012 and into 2013. During the last 12 months companies such as Apple, Solar City, Take Two Interactive, and IBM have invested in the state. Just last week Berkshire Hathaway's MidAmerican Energy agreed to purchase the state's largest electric utility, NV

Energy. Nevada now leads the nation in both the rate of unemployment decline and home price appreciation.

Key statistics for the period:

- Median home price has increased from \$125,000 to \$150,000
- Land for new home construction is now \$400,000 per acre
- 51,000 jobs have been added from the September 2010 low, 30,000 jobs in 2012 alone
- Construction employment has increased slightly but is just 4.5% of total employment
- Unemployment has decreased from 14.0% to 9.6%, and the size of the workforce has started to increase

Additional signs of growth can be seen. The gaming industry, which led the state out of the recession by adding 20,000 employees during 2011 and 2012, is strengthening. Projects totaling nearly \$10 billion have been announced with the last three months along the Las Vegas Strip, including an expansion of the Las Vegas Convention Center, a major new hotel casino, the reopening of the Sahara Hotel, and an arena. A number of exciting projects across a broad spectrum of industries are on the horizon.

During the coming three to five years. And with continued focus on innovation, advanced manufacturing, exporting, and improved workforce development, job opportunities in the state will not only grow in number, but the diversity and quality of jobs will improve, allowing the middle class to grow in number and once again, get ahead.