

Overview

Utah's defense industry continued to rebound in 2001, as base closures and realignments in other states shifted jobs and military spending to Utah. Hill Air Force Base has become the Air Force's new "center of excellence" for low-observable technology. This new classification, the result of a prime military contractor relocating to Hill, will help ensure the viability of this large Utah employer. Although the defense industry in Utah and in the US as a whole has decreased significantly since the end of the Cold War, in the past few years this trend has shown signs of reversing. Defense spending in Utah in 2000 totaled \$1.91 billion, rising nearly 34% from the previous year. Increased activity is expected to continue in 2002 as a result of the Sept. 11 terrorist attacks.

Trends

Nationwide, as a percent of gross domestic product (GDP), defense spending was 2.6% in 1998, 2.5% in 1999, and 2.4% in 2000. In Utah, total defense spending currently stands at \$1.91 billion—which is a 34.2% growth from 1999. As a percent of the Gross State Product (GSP), defense outlays have diminished significantly from the 1980's, with a high of over 8.3% in 1987, to a low of 2.2% in 1998. Lately, however, this trend shows signs of reversing, with a rate of 2.9% in 2000.

Contracting Activity

During the cold war build-up of the mid- 1980s, a number of defense contractors in Utah routinely received contracts in the \$50 million range on an annual basis. Both Thiokol and Hercules, for example, received contracts in the \$200 million range for several years during the 1980s. Defense contracts to private firms decreased considerably at both the state and national level throughout the 1990s. Since 1993, 40 major defense companies have merged into five. Total procurement contracts to Utah firms have fallen over 40% since the 1980s.

Former defense giant Hercules, once the recipient of \$353 million in contracts (1986), sold its aerospace division to Minnesota-based Alliant Techsystems in March 1995, and its Composite Products division to California-based Hexcel in 1996. Thiokol remains the state's top contract recipient, however, awards have declined significantly from a peak of \$587 million in 1987. Other major defense contractors include Litton Industries, Evans and Sutherland, L-3 Communications, and Utah State University. The contraction in procurement contract spending in Utah appears to have subsided, having increased 73.1% in 2000, from 17.9% in 1999. Defense contracting in Utah is now at levels not seen since the late 1980s.

Geographic Distribution

Federal defense spending in Utah is concentrated in Davis, Salt Lake, Tooele, and Weber counties, though significant spending occurs in Utah, Cache, Washington, and Box Elder counties. Contracting activity associated with a variety of weapons systems and other projects accounts for most of the defense spending in Salt Lake County. Payroll and procurement contracts at Tooele Army Depot and Dugway Proving Grounds account for spending in Tooele County.

Military Facilities

Hill Air Force Base, one of the state's largest basic employers and center of Utah's defense industry, has for years had the looming possibility of base closures as threat to its survival. Developments over the past three years may serve to ease that possibility. In 1999, Hill was selected

as headquarters for one of 10 new "expeditionary" forces that will be used for quick deployment to trouble areas around the world. This selection will bring the 388th fighter wing up to full strength for the first time since military downsizing began about a decade ago.

Additionally, because of military downsizing in other parts of the country, Hill has become the home of Northrup Grumman Corp., the prime contractor for the military's B-2 stealth bomber. The move helped make Hill the Air Force's new "center of excellence" for low-observable technology. The future of Utah's defense industry is much more certain than in years past, and the increase in operations at Hill Air Force Base should prove to be a buffer against future base closures.

Defense Depot Ogden (DDO) was designated for closure by the Defense Base Closure and Realignment Commission (BRAC) in 1995, and was officially closed in September 1997 after 56 years of operation. Most of the property is being obtained by Ogden City, and in December 1999 the city approved a 70-year redevelopment project for DDO. Under the terms of the agreement, the city will lease the 1,100 acres to the Boyer Company, who will in turn redevelop the property into a major regional business and industrial park. The lease is for 40 years, with three 10-year renewal options and a long-term buyout option of \$22 million. The property will be developed over the next 15 to 20 years and is expected to create more than 7,000 jobs in Northern Utah.

Workforce reductions at Tooele Army Depot (TAD) have brought the total number of jobs lost to reductions in force and realignment since 1988 to roughly 2,500. The current workforce at TAD stands at 513 employees. While the loss of jobs at TAD has been difficult, this is another example of how redevelopment of former military bases can actually help an area's economy. The 1,700 acres that were formerly owned and occupied by TAD have been transformed to a private developer, who has renamed the area the Utah Industrial Depot (UID). More than 40 businesses or organizations have taken up residency at the depot, which has 2.5 million square feet of existing space. New job projections total more than 3,800 as a result of the redevelopment of this property. UID currently employs over 1,200 people.

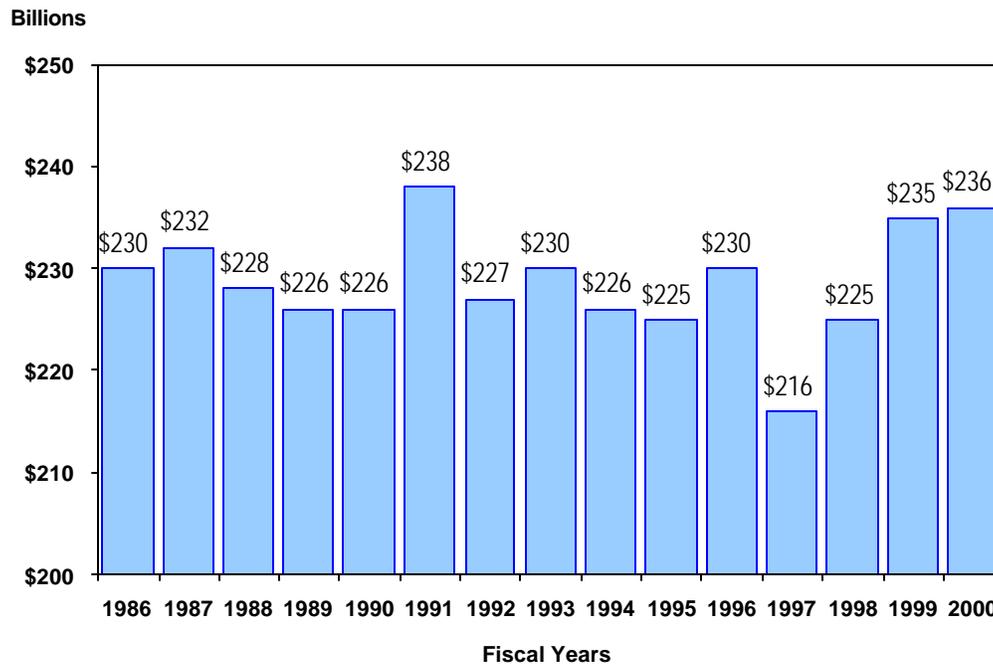
Outlook

In recent years, the United States has spent less than 3% of its GDP on defense. Prior to the Sept. 11 terrorist attacks, Defense Secretary Donald H. Rumsfeld requested an increase in funding for the transformation of the military to accommodate modern needs. This request will be granted for the year 2002. In order to transform the military, future closures of unneeded bases will continue thereby redirecting those costs more efficiently.

Conclusion

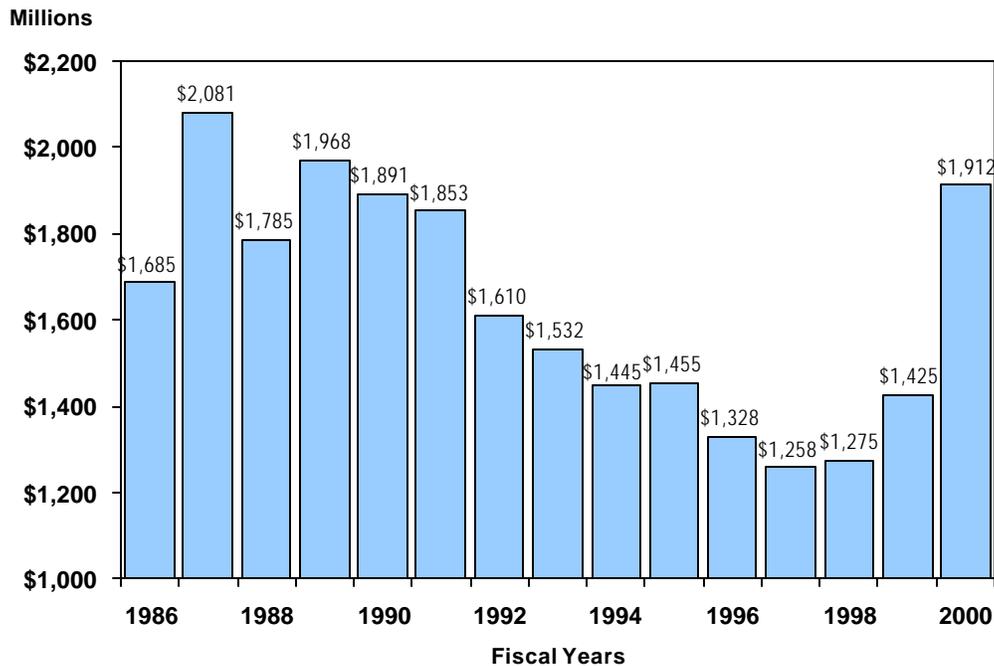
The importance of defense to Utah's economy is slowly increasing as workload transfers from base closures in other states produce more jobs locally. The rapid conversion of military facilities at DDO and TAD to commercial use illustrates the strength of the state's economy, as well as its ability to absorb jobs lost from federal cutbacks. Expectations of commercial success are strong for both new facilities. In addition, new operations beginning at Hill Air Force Base should prove to be a strengthening influence on the remainder of Utah's defense industry.

Figure 52
 Primary Federal Defense-Related Spending in U.S.



Sources: U.S. Department of Commerce, Bureau of the Census; Department of Defense

Figure 53
 Federal Defense-Related Spending in Utah



Sources: U.S. Department of Commerce, Bureau of the Census; Department of Defense

Table 71

Primary U.S. Federal Defense-Related Spending (Selected Categories): All States and Territories (Thousands of Dollars)

Fiscal Year	Wages and Salaries*	Procurement Contract Awards	Military Retirement	State/Local Grants	Total	Gross Domestic Product (Current Dollars)	Defense Spending as Percent of GDP
1986	\$61,900,746	\$150,055,345	\$17,769,127	\$111,366	\$229,836,584	\$4,452,900,000	5.2%
1987	65,097,948	147,616,385	18,732,723	127,430	231,574,486	4,742,500,000	4.9%
1988	67,270,619	142,175,108	18,640,881	113,637	228,200,245	5,108,300,000	4.5%
1989	72,771,040	132,259,473	20,669,532	172,125	225,872,170	5,489,100,000	4.1%
1990	69,103,253	135,259,039	21,235,041	175,978	225,773,311	5,803,200,000	3.9%
1991	75,254,721	139,570,721	22,669,073	111,454	237,605,969	5,986,200,000	4.0%
1992	73,851,077	129,124,509	24,024,591	223,899	227,224,076	6,318,900,000	3.6%
1993	73,947,670	129,996,047	25,752,104	241,816	229,937,637	6,642,300,000	3.5%
1994	73,470,136	125,982,520	26,478,356	212,466	226,143,478	7,054,300,000	3.2%
1995	71,192,209	126,003,863	27,695,928	244,824	225,136,824	7,400,500,000	3.0%
1996	72,955,074	128,628,822	27,922,897	247,408	229,754,201	7,813,200,000	2.9%
1997	66,719,191	119,858,710	29,595,559	191,715	216,365,175	8,318,400,000	2.6%
1998	67,178,127	126,726,012	30,457,015	171,324	224,532,478	8,781,500,000	2.6%
1999	70,412,959	133,775,555	31,078,737	159,370	235,426,621	9,268,600,000	2.5%
2000	70,009,814	133,830,978	32,110,614	114,372	236,065,778	9,872,900,000	2.4%

Percent Change

1999 to 2000	-0.6%	0.0%	3.3%	-28.2%	0.3%
1986 to 2000	13.1%	-10.8%	80.7%	2.7%	2.7%

Absolute Change

1999 to 2000	(\$403,145)	\$55,423	\$1,031,877	(\$44,998)	\$639,157
1986 to 2000	\$8,109,068	(\$16,224,367)	\$14,341,487	\$3,006	\$6,229,194

* Does not include fringe benefits.

Sources: Federal Expenditures: U.S. Department of Commerce, Bureau of the Census
Gross Domestic Product: U.S. Department of Commerce, Bureau of Economic Analysis

Table 72
Federal Defense-Related Spending: Utah Total (Thousands of Dollars)

Fiscal Year	Wages and Salaries*	Procurement Contract Awards	Military Retirement	State/ Local Grants	Total**	Gross State Product (Current Dollars)	Defense Spending as Percent of GSP
1986	\$784,567	\$805,747	\$94,612	\$301	\$1,685,227	\$24,473,000	6.9%
1987	794,294	1,182,097	98,743	5,766	2,080,900	25,202,000	8.3%
1988	817,787	866,782	98,876	1,318	1,784,763	27,244,000	6.6%
1989	870,295	979,116	108,005	10,186	1,967,602	28,713,000	6.9%
1990	890,892	883,014	115,442	1,232	1,890,580	31,359,000	6.0%
1991	922,035	804,404	125,526	598	1,852,563	33,658,000	5.5%
1992	852,772	614,286	134,844	8,431	1,610,333	35,671,000	4.5%
1993	847,053	532,269	146,743	5,932	1,531,997	38,395,000	4.0%
1994	763,608	524,001	152,426	4,514	1,444,549	42,236,000	3.4%
1995	794,333	495,771	161,964	2,845	1,454,913	46,290,000	3.1%
1996	760,514	393,157	171,978	2,849	1,328,498	51,523,000	2.6%
1997	642,492	433,428	180,862	1,212	1,257,994	55,070,000	2.3%
1998	620,622	464,739	189,130	171	1,274,662	58,997,000	2.2%
1999	678,173	548,103	193,157	5,445	1,424,878	62,641,000	2.3%
2000	762,281	948,877	200,412	155	1,911,725	66,775,306	2.9%

Percent Change

1999 to 2000	12.4%	73.1%	3.8%	-97.2%	34.2%
1986 to 2000	-2.8%	17.8%	111.8%	-48.5%	13.4%

Absolute Change

1999 to 2000	\$84,108	\$400,774	\$7,255	(\$5,290)	\$486,847
1986 to 2000	(\$22,286)	\$143,130	\$105,800	(\$146)	\$226,498

* Does not include fringe benefits.

** These totals do not match those in the following table because the data sources and concepts are slightly different.

Sources: Federal Expenditures: U.S. Department of Commerce, Bureau of the Census
Gross State Product: 1986-99, U.S. Department of Commerce, Bureau of Economic Analysis;
2000, Regional Financial Associates

Table 73
Federal Defense-Related Spending in Utah by County (Thousands of Dollars)

County	2000			Total**	1999	Change in Total Spending from 1999 to 2000	
	Wages*	Procurement	Other		Total**	Absolute	Percent
Beaver	\$455	\$0	\$406	\$861	\$882	(\$21)	-2.4%
Box Elder	3,265	26,043	3,408	32,716	28,952	3,764	13.0%
Cache	1,835	25,011	9,921	36,767	32,601	4,166	12.8%
Carbon	167	0	1,119	1,286	1,320	(34)	-2.6%
Daggett	0	0	62	62	59	3	5.1%
Davis	562,203	484,246	52,911	1,099,360	693,805	405,555	58.5%
Duchesne	0	107	640	747	637	110	17.3%
Emery	0	344	389	733	343	390	113.7%
Garfield	0	0	315	315	309	6	1.9%
Grand	0	90	369	459	303	156	51.5%
Iron	720	356	2,444	3,520	3,057	463	15.1%
Juab	0	0	397	397	360	37	10.3%
Kane	0	0	668	668	635	33	5.2%
Millard	708	347	593	1,648	30,195	(28,547)	-94.5%
Morgan	0	60	1,105	1,165	1,095	70	6.4%
Piute	0	0	147	147	153	(6)	-3.9%
Rich	0	0	151	151	149	2	1.3%
Salt Lake	95,978	295,002	71,485	462,465	428,042	34,423	8.0%
San Juan	181	0	286	467	454	13	2.9%
Sanpete	756	0	1,140	1,896	1,901	(5)	-0.3%
Sevier	670	0	1,380	2,050	2,164	(114)	-5.3%
Summit	2,902	19,037	3,091	25,030	9,619	15,411	160.2%
Tooele	58,608	57,140	3,468	119,216	100,757	18,459	18.3%
Uintah	248	75	1,082	1,405	1,308	97	7.4%
Utah	5,963	18,466	21,403	45,832	36,933	8,899	24.1%
Wasatch	0	0	603	603	545	58	10.6%
Washington	16,271	260	10,255	26,786	26,501	285	1.1%
Wayne	0	0	198	198	155	43	27.7%
Weber	11,351	22,293	33,242	66,886	71,574	(4,688)	-6.5%
Undistributed	0	0	0	0	0	0	0.0%
State Total	\$762,281	\$948,877	\$222,678	\$1,933,836	\$1,447,632	\$486,204	33.6%

* Does not include fringe benefits.

** The totals here will not match Table 2 because the data sources and concepts are slightly different.

Source: U.S. Department of Commerce, Bureau of the Census