

Overview

Utah's defense industry continued to expand in 2004, due to sustained geopolitical activity. Hill Air Force Base, while threatened by the current round of base closures, has many competitive advantages that bode well for the future. Hill has recently started several programs that will help the long-term future of one of Utah's largest employers. Although the defense industry experienced reductions during most of the 1990s, this trend reversed in the latter end of the decade. Defense spending in Utah in 2003 totaled \$3.1 billion, rising 24.7% from the previous year. Increased defense activity is expected to continue in 2005, as a result of military involvement overseas.

Trends

Nationwide defense spending, as a percent of U.S. personal income, was 6.2% in 1986; it dropped to 2.9% in 2000, but has since risen to 3.5% in 2003. Conversely, total defense spending in Utah equaled \$3.1 billion in 2003, a 24.7% growth from 2002 and a 144.9% growth from 1997 when defense spending was the lowest in recent history. As a percent of Utah personal income, defense outlays, while higher than the lows of the late 1990s, are still below the spending of the 1980s, from a high of 9.7% in 1987, to a low of 2.7% in 1998. Lately, however, this has reversed, with a rate of 4.2% in 2001, 4.3% in 2002, and 5.2% in 2003. This represents the highest defense spending in Utah since 1992.

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. Throughout the 1990s, defense contracts to private firms decreased considerably at both the state and national level. In recent years, however, defense contracting in Utah has increased significantly. Procurement contract awards increased 73.1% in 2000, 34.4% in 2001, and an additional 1.8% in 2002. Surprisingly, at 44.2% growth, defense contracting in Utah showed a very robust increase in 2003. Procurement contract awards now total nearly \$1.9 billion, a new record for Utah.

Much of the large increase in contracting in recent years can be attributed to Northrop Grumman Corporation. Northrop was the state's top prime contract recipient with \$966.5 million in fiscal year 2003. Northrop is not only the largest prime contractor in the State of Utah, but it is also one of the top defense contractors in the nation. Other top prime contractors in Utah include L-3 Communications, Chevron Corp., Wasatch Energy LLC., Utah State University, URS Corp., Alcoa Inc., Lockheed Martin Corp., Veritas Capital Management LLC, and Kitco Inc. ATK Corporation, while not a top prime contractor in Utah, remains a large defense contractor in the state. ATK and Northrop are currently working together on a 15-year defense contract charged with sustaining and modernizing the silo-based Inter-Continental Ballistic Missile fleet.

Geographic Distribution

Federal defense spending in Utah is concentrated in Davis (61.0% of the state's defense spending in 2002), Salt Lake (22.7%), Tooele (5.4%), and Weber (2.9%) Counties. However, significant spending occurs in Utah (2.4%), Cache (1.7%), Washington (1.3%), and Box Elder (1.2%) Counties as well.

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 a threat to its survival. Developments over the past several years may serve to ease that possibility. In 2004 Hill began its Falcon STAR (Structural Augmentation Roadmap) program. The purpose of this \$1 billion program is to ensure that F-16s meet their original expectations and serve beyond the year 2020. Aircraft modifications will continue through 2014, with most of the work being performed at Hill. In the end, more than 1,200 F-16s will be modified, including those flown by the active duty Air Force, the Air National Guard, and the Air Force Reserve.

Additionally, because of military downsizing in other parts of the country, Hill has become the home of the prime contractor for the military's B-2 stealth bomber. The move helped make Hill the Air Force's "center of excellence" for low-observable and stealth technology.

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 has been converted to private use and is now referred to as the Business Depot Ogden (BDO). In December 1999 the city approved a 70-year redevelopment project for BDO. Under the terms of the agreement, the city is leasing the 1,128 acres to the Boyer Company, which is in turn redeveloping 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 approximately 7,000 to 10,000 jobs. Currently, BDO contains 6.6 million square feet of space, is 84% leased by 61 different companies, and has employment of around 2,500 workers.

Workforce reductions at Tooele Army Depot (TEAD) have brought the total number of jobs lost to reductions in force and realignment since 1988 to roughly 2,500. The current workforce at TEAD roughly numbers 521 employees. The 1,700 acres that were formerly owned and occupied by TEAD have been transferred to a private developer, who has renamed the area the Utah Industrial Depot (UID). More than 46 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 around 840 workers.

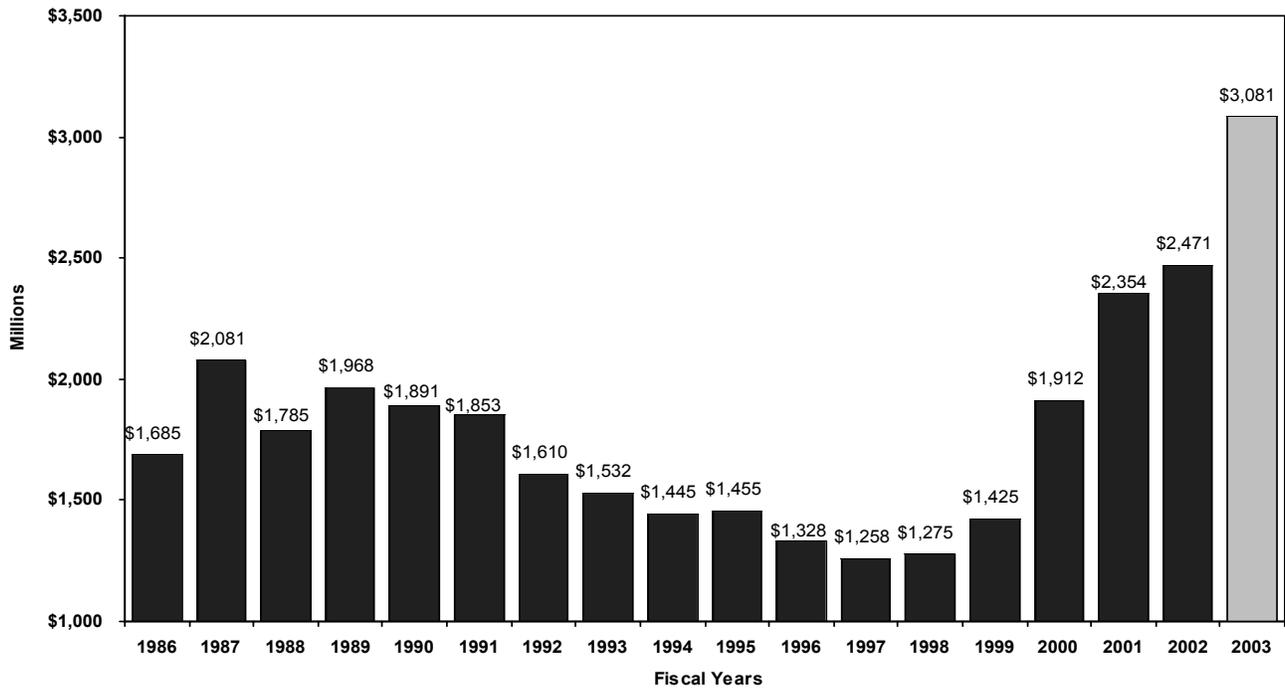
Outlook

As recently as 2000, the United States spent as little as 2.9% of U.S. personal income on defense. Within the past few years, however, this trend has reversed. Homeland security and the war on terror warranted increased defense spending during the 2000s and defense spending in fiscal year 2003 had risen to 3.5% of U.S. personal income. In Utah, Defense spending has also recently increased. As a share of Utah personal income, defense spending has risen from 2.7% in 1998 to 5.2% in 2003.

In order to transform the military to accommodate modern needs, future closures of unneeded bases will continue, thereby improving military efficiency. During the next round of closures scheduled for 2005, it is anticipated that about 100 of the nation's 425 military bases will be closed or realigned. The list of the military installations recommended for closure or realignment is due May 16, 2005. The Defense Base Closure and Realignment Commission will then review the list and add or delete any bases that it deems necessary. The commission will then

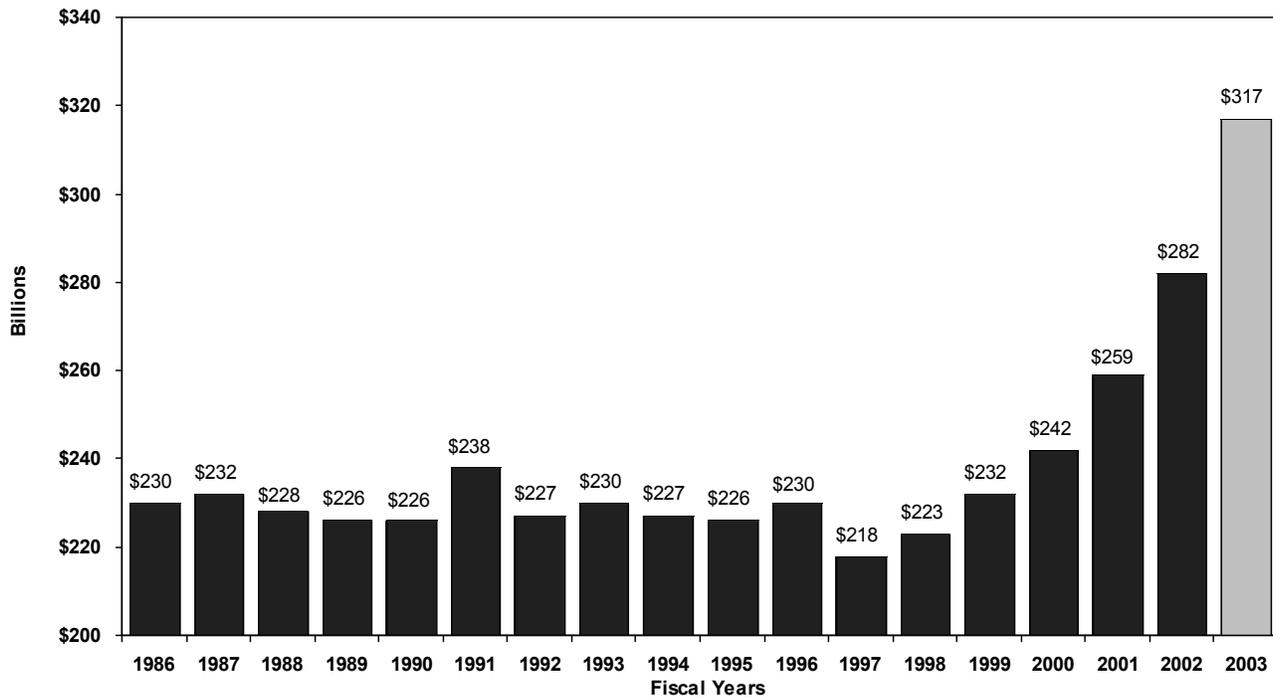
send its final list to the President by September 8, 2005. The President may either accept or reject the entire list, but he may not amend it. If he accepts the list, he will then submit the report to Congress by September 23, 2005. Congress also has the opportunity to reject, but not amend, the list within 45 days before it becomes final.

Figure 57
Federal Defense Spending in Utah



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

Figure 58
Primary Federal Defense Spending



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

Table 66
Federal Defense-Related Spending: Utah Total (Thousands of Dollars)

Fiscal Year	Wages and Salaries*	Procurement Contract Awards	Military Retirement	State/Local Grants	Total**	Utah Personal Income	Defense Spending as a Percent of Personal Income
1986	\$784,567	\$805,747	\$94,612	\$301	\$1,685,227	\$20,662,998	8.2%
1987	794,294	1,182,097	98,743	5,766	2,080,900	21,360,531	9.7%
1988	817,787	866,782	98,876	1,318	1,784,763	22,286,927	8.0%
1989	870,295	979,116	108,005	10,186	1,967,602	23,891,207	8.2%
1990	890,892	883,014	115,442	1,232	1,890,580	25,817,262	7.3%
1991	922,035	804,404	125,526	598	1,852,563	27,572,684	6.7%
1992	852,772	614,286	134,844	8,431	1,610,333	29,600,697	5.4%
1993	847,053	532,269	146,743	5,932	1,531,997	31,810,422	4.8%
1994	763,608	524,001	152,426	4,514	1,444,549	34,437,445	4.2%
1995	794,333	495,771	161,964	2,845	1,454,913	37,218,302	3.9%
1996	760,514	393,157	171,978	2,849	1,328,498	40,386,432	3.3%
1997	642,492	433,428	180,862	1,212	1,257,994	43,667,135	2.9%
1998	620,622	464,739	189,130	171	1,274,662	47,018,856	2.7%
1999	678,173	548,103	193,157	5,445	1,424,878	49,342,572	2.9%
2000	762,281	948,877	200,412	155	1,911,725	53,561,211	3.6%
2001	867,407	1,275,131	210,903	120	2,353,561	56,331,697	4.2%
2002	957,041	1,297,489	216,120	18	2,470,668	57,732,107	4.3%
2003	992,538	1,871,074	217,129	0	3,080,741	59,326,749	5.2%

Percent Change

2002 to 2003	3.7%	44.2%	0.5%	-100.0%	24.7%
1986 to 2003	26.5%	132.2%	129.5%	-100.0%	82.8%

Absolute Change

2002 to 2003	\$35,497	\$573,585	\$1,009	-\$18	\$610,073
1986 to 2003	\$207,971	\$1,065,327	\$122,517	-\$301	\$1,395,514

Notes: Numbers in the "State/Local Grants" column are taken from the Census Bureau's *Federal Aid to States for FY 2003*.

* Does not include fringe benefits. ** These totals do not match those in the Federal Defense-Related Spending in Utah by County table because the data sources and concepts are slightly different.

Sources: *Federal Aid to States for FY 2003*; U.S. Department of Commerce, Bureau of the Census. *Consolidated Federal Funds Report FY 2003*; U.S. Department of Commerce, Bureau of the Census. Personal Income, U.S. Department of Commerce, Bureau of Economic Analysis.

Table 67

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	Defense Spending as a Percent of U.S. Personal Income	
						Personal Income	Personal Income
1986	\$61,900,746	\$150,055,345	\$17,769,127	\$111,366	\$229,836,584	\$3,708,199,000	6.2%
1987	65,097,948	147,616,385	18,732,723	127,430	231,574,486	3,934,655,000	5.9%
1988	67,270,619	142,175,108	18,640,881	113,637	228,200,245	4,237,460,000	5.4%
1989	72,771,040	132,259,473	20,669,532	172,125	225,872,170	4,571,133,000	4.9%
1990	69,103,253	135,259,039	21,235,041	175,978	225,773,311	4,861,936,000	4.6%
1991	75,254,721	139,570,721	22,669,073	111,454	237,605,969	5,032,196,000	4.7%
1992	73,851,077	129,124,509	24,024,591	223,899	227,224,076	5,349,384,000	4.2%
1993	73,947,670	130,228,557	25,752,104	241,816	230,170,147	5,548,121,000	4.1%
1994	73,470,136	126,352,532	26,478,356	212,466	226,513,490	5,833,906,000	3.9%
1995	71,192,209	126,799,470	27,695,928	244,824	225,932,431	6,144,741,000	3.7%
1996	72,955,074	128,495,652	27,922,897	247,408	229,621,031	6,512,485,000	3.5%
1997	66,719,191	121,979,960	29,595,559	191,715	218,486,425	6,907,332,000	3.2%
1998	67,178,127	124,820,849	30,457,015	171,324	222,627,315	7,415,709,000	3.0%
1999	70,412,959	130,769,078	31,078,737	159,370	232,420,144	7,796,137,000	3.0%
2000	70,009,814	139,297,304	32,110,614	114,372	241,532,104	8,422,074,000	2.9%
2001	70,273,656	155,435,133	33,321,020	163,250	259,193,059	8,718,165,000	3.0%
2002	76,100,377	172,335,745	33,803,849	224,076	282,464,047	8,868,261,000	3.2%
2003	81,690,144	201,229,510	33,428,532	281,448	316,629,634	9,148,680,000	3.5%

Percent Change

2002 to 2003	7.3%	16.8%	-1.1%	25.6%	12.1%
1986 to 2003	32.0%	34.1%	88.1%	152.7%	37.8%

Absolute Change

2002 to 2003	\$5,589,767	\$28,893,765	-\$375,317	\$57,372	\$34,165,587
1986 to 2003	\$19,789,398	\$51,174,165	\$15,659,405	\$170,082	\$86,793,050

Note: Numbers in the "State/Local Grants" column are taken from the Census Bureau's *Federal Aid to States for FY 2003*.

* Does not include fringe benefits.

Sources: *Federal Aid to States for FY 2003*; U.S. Department of Commerce, Bureau of the Census. *Consolidated Federal Funds Report FY 2003*; U.S. Department of Commerce, Bureau of the Census. Personal Income, U.S. Department of Commerce, Bureau of Economic Analysis.

Table 68
Federal Defense-Related Spending in Utah by County (Thousands of Dollars)

County	2003			2002		Change in Total Spending from 2002 to 2003		
	Wages*	Procurement	Other	Total**	% of State	Total**	Absolute	Percentage
Beaver	\$722	\$4	\$373	\$1,099	0.0%	\$1,116	-\$17	-1.5%
Box Elder	5,473	27,090	3,788	36,351	1.2%	29,484	6,867	23.3%
Cache	2,741	40,497	8,065	51,302	1.7%	38,849	12,453	32.1%
Carbon	309	0	1,126	1,435	0.0%	1,464	-29	-2.0%
Daggett	0	0	74	74	0.0%	74	0	0.0%
Davis	730,444	1,104,471	56,633	1,891,548	61.0%	1,498,332	393,216	26.2%
Duchesne	0	365	628	993	0.0%	2,114	-1,121	-53.0%
Emery	0	25	404	429	0.0%	395	34	8.6%
Garfield	0	1	256	257	0.0%	334	-77	-23.0%
Grand	0	0	348	348	0.0%	338	10	3.0%
Iron	1,235	1,136	2,723	5,094	0.2%	4,147	947	22.8%
Juab	0	2,458	335	2,793	0.1%	612	2,181	356.3%
Kane	2	255	747	1,004	0.0%	688	316	45.9%
Millard	789	1,881	617	3,287	0.1%	2,231	1,056	47.4%
Morgan	0	43	1,363	1,406	0.0%	1,524	-118	-7.7%
Piute	0	19	134	153	0.0%	137	16	11.5%
Rich	0	45	181	226	0.0%	182	44	24.2%
Salt Lake	143,218	485,249	74,635	703,103	22.7%	607,082	96,021	15.8%
San Juan	345	2	374	721	0.0%	1,741	-1,020	-58.6%
Sanpete	1,737	0	1,276	3,013	0.1%	3,042	-29	-1.0%
Sevier	1,083	25	1,437	2,545	0.1%	2,558	-13	-0.5%
Summit	3,904	12,237	3,391	19,532	0.6%	17,728	1,804	10.2%
Tooele	51,016	111,982	3,966	166,964	5.4%	123,215	43,749	35.5%
Uintah	464	24	1,146	1,634	0.1%	1,564	70	4.5%
Utah	9,308	40,298	24,752	74,358	2.4%	46,213	28,145	60.9%
Wasatch	0	454	681	1,135	0.0%	769	366	47.6%
Washington	26,497	1,325	12,399	40,221	1.3%	38,922	1,299	3.3%
Wayne	0	0	207	207	0.0%	210	-3	-1.4%
Weber	13,251	41,190	36,317	90,758	2.9%	82,868	7,890	9.5%
Undistributed	0	0	0	0	0.0%	0	0	0.0%
State Total	\$992,538	\$1,871,074	\$238,376	\$3,101,988	100.0%	\$2,507,933	\$594,055	23.7%

Notes: * Does not include fringe benefits. ** The totals here will not match the previous Utah table because the data sources and concepts are slightly different.

Source: *Consolidated Federal Funds Report for Fiscal Year 2003*: U.S. Department of Commerce, Bureau of the Census.

Table 69
Federal Defense-Related Spending in Utah (Thousands of Dollars)

UTAH - TOTAL (Dollars in Thousands)					
Fiscal Year 2003					
PERSONNEL/EXPENDITURES	Total	Army	Navy & Marine Corps	Air Force	Other Defense Activities
I. Personnel - Total	33,860	11,314	1,653	20,074	819
Active Duty Military	5,613	304	206	5,103	0
Civilian	14,608	2,343	24	11,422	819
Reserve and National Guard	13,639	8,667	1,423	3,549	0
II. Expenditures - Total	3,264,838	576,614	231,781	2,223,127	233,316
A. Payroll Outlays - Total	1,343,031	285,713	51,310	951,371	54,637
Active Duty Military Pay	219,790	11,552	9,356	198,882	0
Civilian Pay	769,962	113,526	1,569	600,230	54,637
Reserve and National Guard Pay	136,150	101,987	3,066	31,097	0
Retired Military Pay	217,129	58,648	37,319	121,162	0
B. Contracts - Total	1,898,545	271,992	177,544	1,270,365	178,644
Supply and Equipment Contracts	493,759	100,660	138,982	138,494	115,623
RDT&E Contracts	124,664	46,542	18,005	27,216	32,901
Service Contracts	1,235,460	88,881	20,560	1,095,899	30,120
Construction Contracts	38,976	30,223	-3	8,756	0
Civil Function Contracts	5,686	5,686	0	0	0
C. Grants	23,262	18,909	2,927	1,391	35

EXPENDITURES (\$000)				MILITARY & CIVILIAN PERSONNEL			
Major Locations	Total	Payroll Outlays	Grants/Contracts	Major Locations	Total	Active Duty Military	Civilian
Hill AFB	997,601	814,587	183,014	Hill AFB	16,641	5,062	11,579
Clearfield	888,327	14,699	873,628	Salt Lake City	888	367	521
Salt Lake City	578,682	109,697	468,985	Dugway	583	0	583
Ogden	77,504	38,102	39,402	Tooele	540	0	540
Dugway Proving Grd	62,174	1,670	60,504	Tooele Army Depot	521	0	521
Draper	48,777	30,565	18,212	Draper	255	12	243
Tooele	46,920	28,917	18,003	Ogden	168	4	164
Dugway	45,003	32,831	12,172	West Jordan	133	18	115
Farmington	44,344	1,954	42,390	Park City	80	77	3
Tooele Army Depot	43,107	27,285	15,822	Brigham City	78	2	76

PRIME CONTRACT AWARDS (\$000)						
Prior 7 Fiscal Years	Total	Army	Navy & Marine Corps	Air Force	Other Defense Activities	
2002	1,509,355	158,032	126,908	1,112,107	112,308	
2001	1,250,523	171,938	81,979	836,374	160,231	
2000	949,993	122,195	143,204	592,796	91,798	
1999	532,907	104,705	80,850	284,789	62,563	
1998	470,140	117,115	84,675	203,773	64,576	
1997	442,443	94,060	111,371	157,009	80,003	
1996	394,677	96,900	48,194	200,486	49,097	

Top 10 Contractors Receiving the Largest Dollar Volume of Prime Contract Awards in Utah	Total Amount (\$000)
NORTHROP GRUMMAN CORPORATION	966,492
L-3 COMMUNICATIONS HOLDING, INC	223,849
CHEVRON CORPORATION	55,777
WASATCH ENERGY LLC	41,213
UTAH STATE UNIVERSITY RESEARCH	36,876
URS CORPORATION	32,150
ALCOA EXTRUSIONS, INC	26,487
LOCKHEED MARTIN CORPORATION	21,422
VERITAS CAPITAL MANAGEMENT LLC	20,791
KITCO INC	18,756

Note: Accounting conventions used by DIOR differ from those used by the Census Bureau and therefore numbers may not match.

Source: "Atlas/Data Abstract for the US and Selected Areas," by the Statistical Information Analysis Division of the Directorate of Information Operations and Reports (DIOR).

Table 70
Federal Defense-Related Spending in the United States (Thousands of Dollars)

UNITED STATES - TOTAL					
(Dollars in Thousands)					
Fiscal Year 2003					
PERSONNEL/EXPENDITURES	Total	Army	Marine Corps	Force	Activities
I. Personnel - Total	2,805,747	1,269,353	779,588	672,996	83,810
Active Duty Military	1,070,511	394,550	364,990	310,971	0
Civilian	630,567	216,642	177,008	153,107	83,810
Reserve and National Guard	1,104,669	658,161	237,590	208,918	0
II. Expenditures - Total	316,647,887	94,746,147	95,871,534	89,104,597	36,925,611
A. Payroll Outlays - Total	122,270,018	41,020,198	41,136,013	35,510,958	4,602,489
Active Duty Military Pay	46,613,658	14,840,900	18,524,551	13,248,207	0
Civilian Pay	35,041,005	11,122,308	11,632,223	7,683,625	4,602,849
Reserve and National Guard Pay	7,306,204	4,623,346	579,721	2,103,137	0
Retired Military Pay	33,309,151	10,433,644	10,399,518	12,475,989	0
B. Contracts - Total	191,221,965	51,633,632	54,147,244	53,286,398	32,154,691
Supply and Equipment Contracts	84,702,535	20,331,763	23,146,805	25,389,910	15,834,057
RDT&E Contracts	31,503,792	8,165,672	10,491,364	9,414,710	3,432,046
Service Contracts	65,627,835	16,169,676	18,657,062	18,104,783	12,696,314
Construction Contracts	5,789,950	3,368,668	1,852,013	376,995	192,274
Civil Function Contracts	3,597,853	3,597,853	0	0	0
C. Grants	3,155,904	2,092,317	588,277	307,241	168,071

EXPENDITURES (\$000)			MILITARY & CIVILIAN PERSONNEL				
Major Locations	Total	Payroll Outlays	Grants/Contracts	Major Locations	Total	Active Duty Military	Civilian
Fort Worth, TX	11,135,714	215,107	10,920,607	Fort Bragg, NC	48,206	42,634	5,572
San Diego, CA	7,340,029	3,180,150	4,159,879	Fort Hood, TX	47,163	43,522	3,641
St. Louis, MO	5,485,952	192,232	5,293,720	Camp Pendleton, CA	37,262	35,043	2,219
Norfolk, VA	4,922,561	3,060,366	1,862,195	San Diego, CA	34,318	22,263	12,055
Long Beach, CA	4,229,385	55,972	4,173,413	Camp Lejeune, NC	33,628	30,845	2,783
Huntsville, AL	4,166,884	241,170	3,925,714	Fort Campbell, KY	28,131	25,760	2,371
Arlington, VA	3,953,990	1,908,465	2,045,525	Norfolk, VA	26,217	16,989	9,228
Sunnydale, CA	3,953,060	44,412	3,908,648	Arlington, VA	25,309	10,916	14,393
Washington, DC	3,281,861	1,403,730	1,878,131	Fort Benning, GA	22,954	19,881	3,073
Groton, CT	2,994,267	285,625	2,708,642	Washington, DC	22,918	8,979	13,939

PRIME CONTRACT AWARDS (\$000)					
Prior 7 Fiscal Years	Total	Army	Navy & Marine Corps	Air Force	Other Defense Activities
2002	158,737,107	42,326,057	45,610,812	44,572,156	26,228,083
2001	135,224,752	36,515,221	40,497,012	38,023,684	20,188,835
2000	123,294,978	32,614,979	38,963,003	35,368,606	16,348,400
1999	114,875,127	30,049,383	37,451,740	32,438,343	14,935,661
1998	109,385,850	28,471,955	36,652,133	30,138,618	14,123,145
1997	106,561,099	28,249,679	34,522,055	30,971,306	12,818,059
1996	109,407,896	28,829,374	33,855,101	34,886,724	11,836,698

Top 10 Contractors Receiving the Largest Dollar Volume of Prime Contract Awards in the US Only	Total Amount (\$000)
LOCKHEED MARTIN CORPORATION	21,810,091
THE BOEING COMPANY	17,365,241
NORTHROP GRUMMAN CORPORATION	10,831,216
GENERAL DYNAMICS CORPORATION	8,187,200
RAYTHEON COMPANY	7,692,453
UNITED TECHNOLOGIES CORP	4,540,163
GENERAL ELECTRIC COMPANY INC	2,833,235
SCIENCE APPLICATION INT CORP	2,531,775
HUMANA INC	2,362,112
COMPUTER SCIENCES CORPORATION	2,349,147

Note: Accounting conventions used by DIOR differ from those used by the Census Bureau and therefore numbers may not match.

Source: "Atlas/Data Abstract for the US and Selected Areas," by the Statistical Information Analysis Division of the Directorate of Information Operations and Reports (DIOR).