

**The Defense Industry in Rhode Island
Industry Sector Report
December 2008**

Rhode Island's Defense Industry – Summary of Findings

Defense Industry Study Findings

Rhode Island's Defense Industry has Substantial Economic Impact

- The defense industry employs nearly 13,000 people
- Economic impact is in excess of \$1.7 billion
- Nearly 1.69 private sector jobs need to be created to equal the value of 1 defense industry job
- A minimum of \$43 million a year is paid to the state treasury in the form of income and sales taxes

Comments

The Defense Industry is a Major Component of RI's High Tech Sector

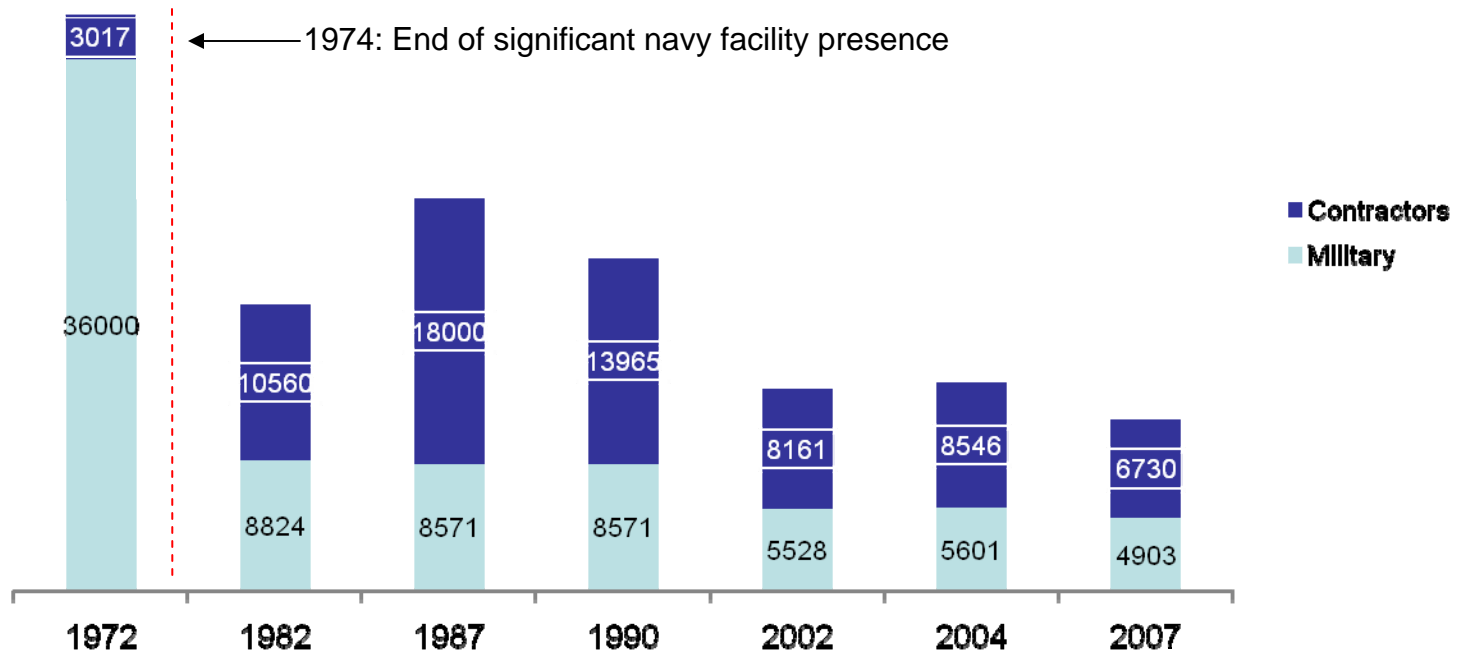
- The defense industry generates more than 20% of the state's patents
- 22% of the state's scientists and engineers work in the defense industry
- Nearly 50% of the state's professional and technical services employment is tied to the defense industry

Measuring the Defense Economy

- Historical trends

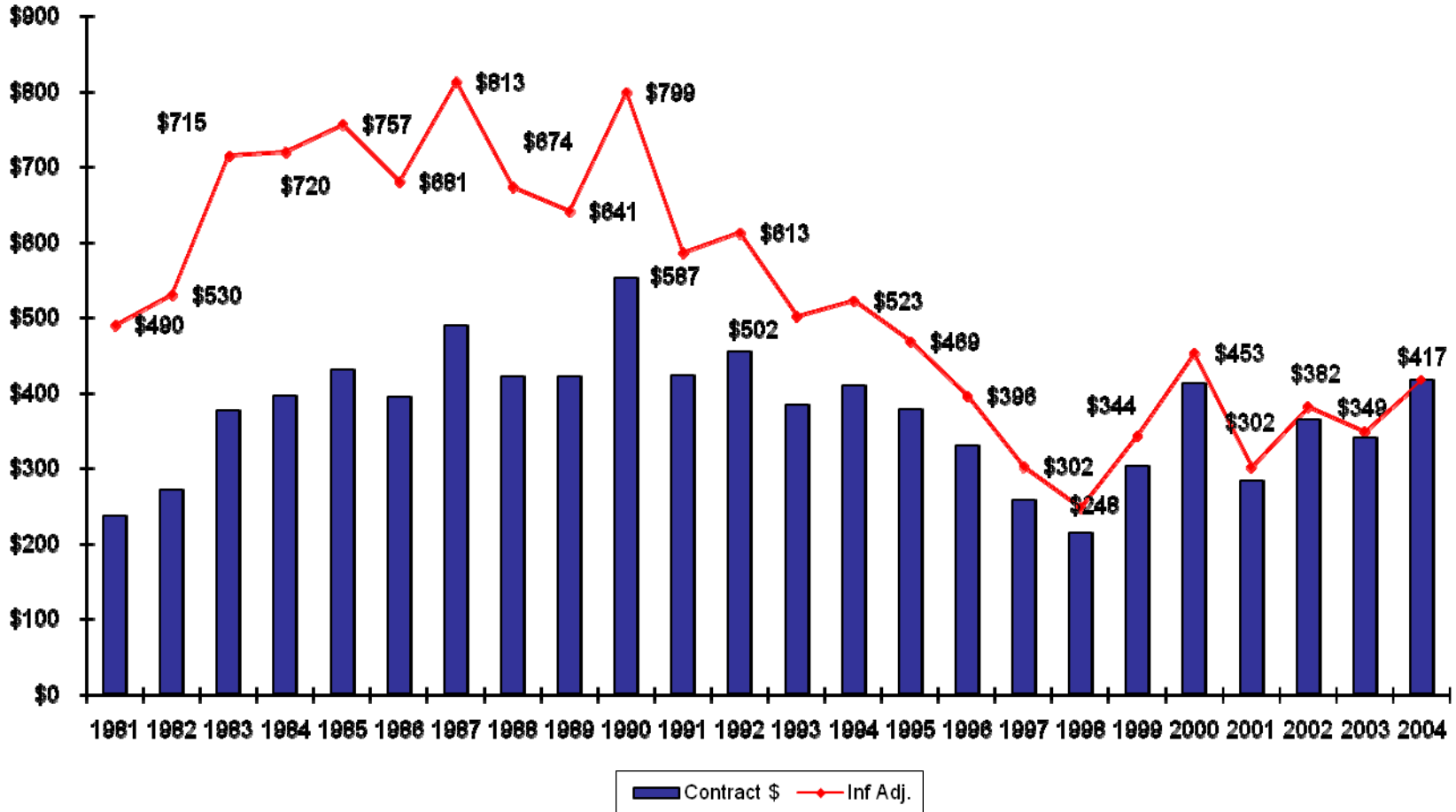
While the employment levels remain significant, the defense industry is still substantially below its 1970s levels and is approximately 1/2 of its size from the 1987 peak

- Defense industry contractors have been the primary driver of employment in this industry over the last 20 years
- Note: excludes students at Naval Training facilities, National Guard and Army Reserve units; and RI workers in Connecticut and Massachusetts and MILCON related activities



Source: Strategic Development Commission, 1982 (GreenHouse Compact); RI Defense Adjustment Project, 1993; SENEDIA, 2003; NAVSTANEWPORT/NUWC reports, NP calculations

Defense industry contract awards in RI peaked in the late 1980s



Constant dollars are 2004

Source: Federal Procurement Data System (FPDS), various years, federal CPI, NP calculations

Measuring the Defense Economy

- Contracts and Programs

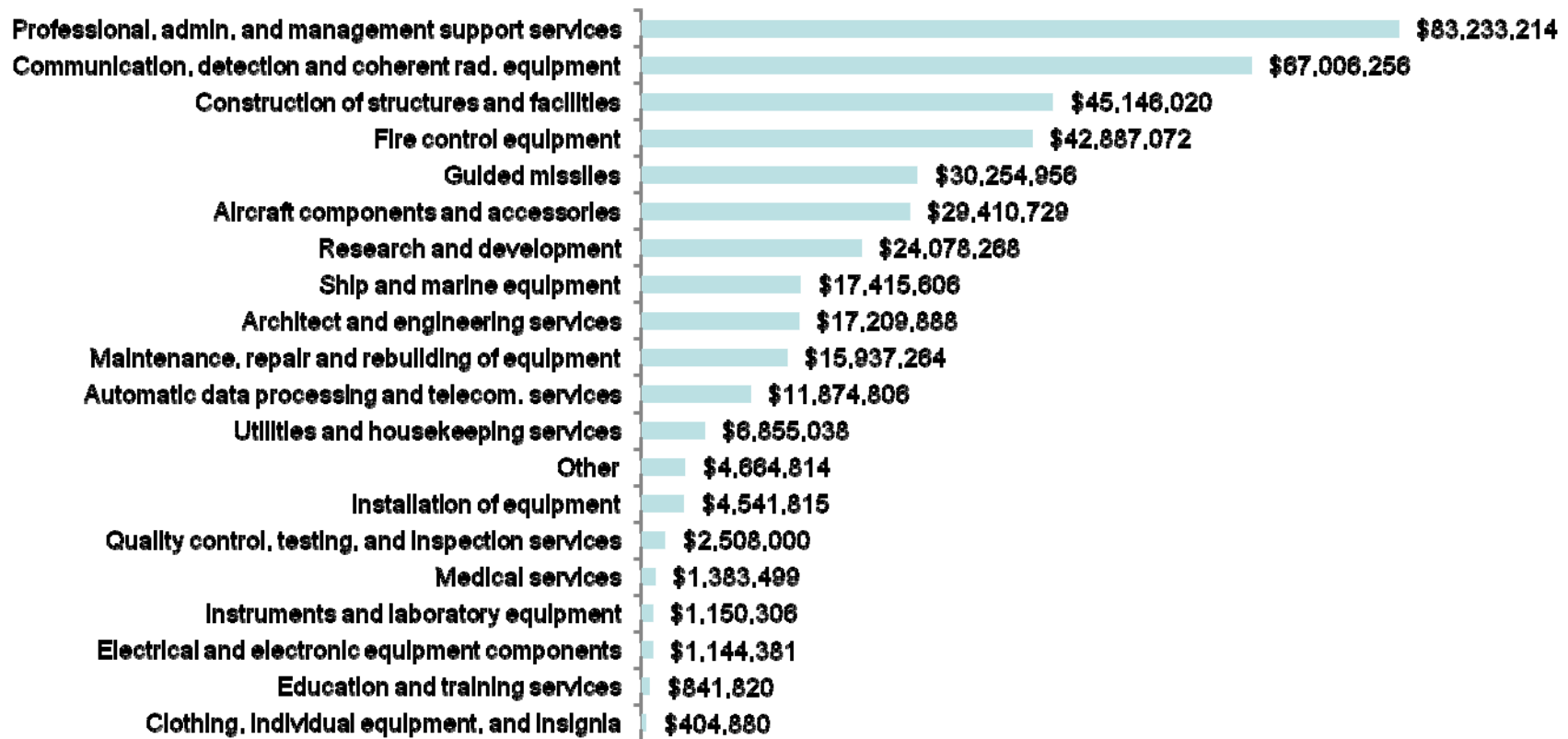
Rhode Island's defense industry ranges across a variety of military and civilian industries

- Research, Development, Testing and Engineering professional services
- Computers systems and software development
- Program management and outsourced services
- Navigation equipment makers
- War game development
- Sonar and acoustics
- Submarine fabrication and outfitting
- Command and control systems development and integration
- Precision tooling
- High performance parts for aerospace applications
- Materials testing services
- Computer aided engineering software
- Language translation tools
- Medals and insignia
- Security services
- Construction services
- Fencing and guardrail
- Ship repairs
- Housekeeping services

This excludes businesses such as health insurance companies, legal and accounting services, public utilities, and other companies that directly or indirectly benefit from defense revenues

Department of Defense contracts totaled \$407 million in Rhode Island and span a wide range of products and services

**Defense Contract Amounts by Product and Service
FY 2007**

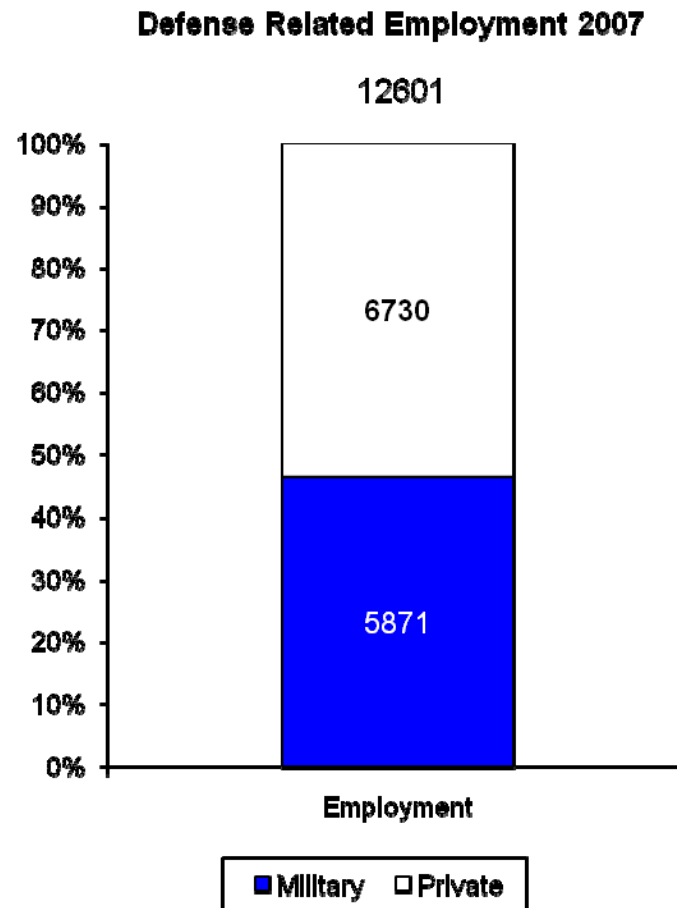
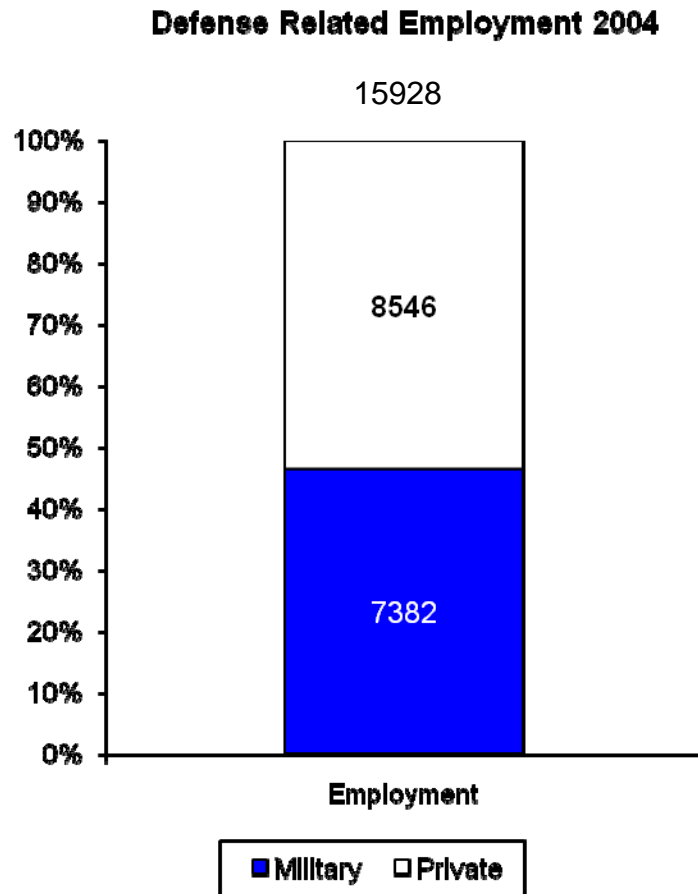


Measuring the Defense Economy

- Employment & Payrolls

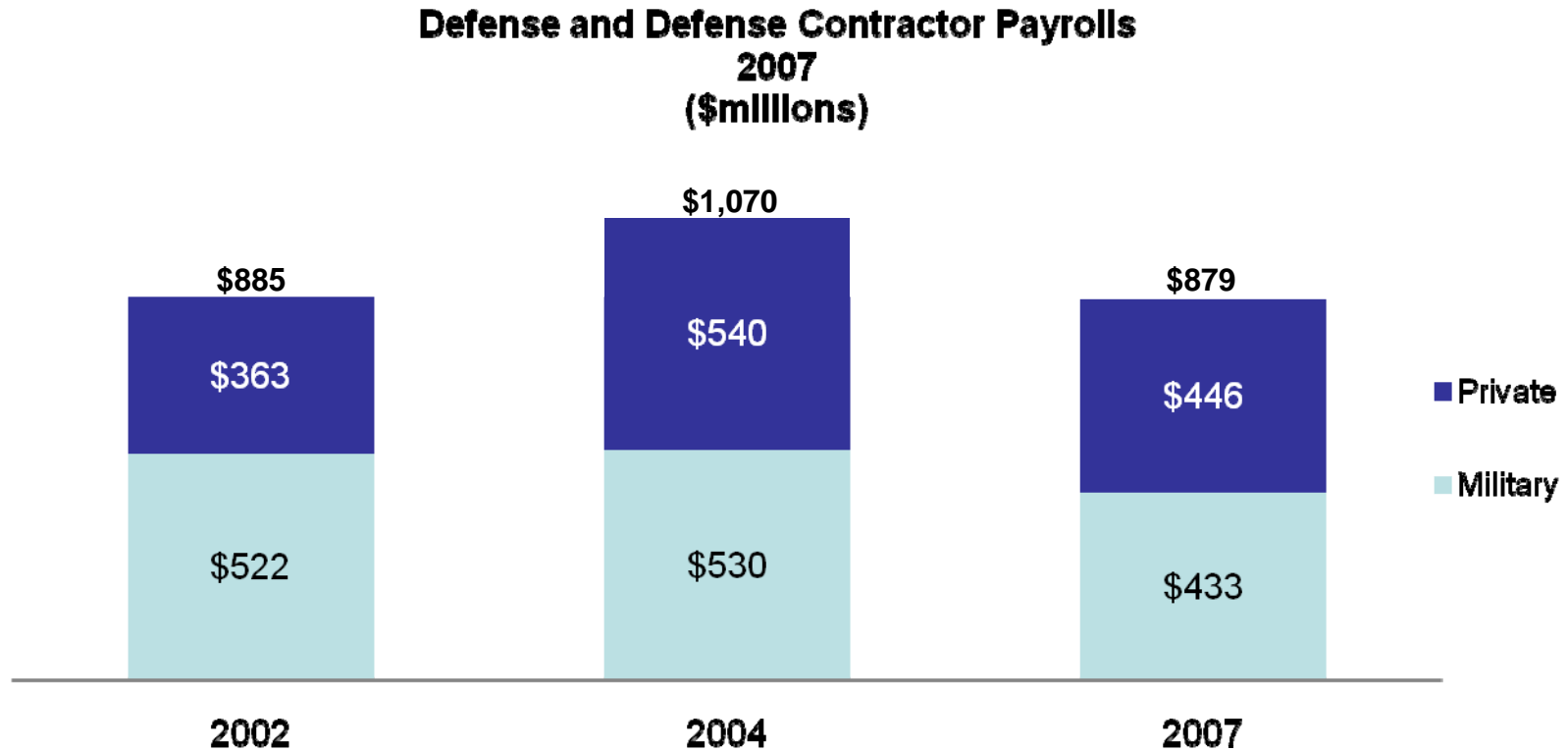
The defense industry represents 3% of the state's employment base...

- The defense industry represents 7% of the state's manufacturing sector



Note: includes students at naval education programs; excludes National Guard and Army Reserve units; and RI workers in Connecticut and Massachusetts
Source: SENEDIA 2002 Impact Statement, NUWC Impact data 2004, ES 202 data 2004/2005, personal communications, Dun & Bradstreet, government filings, NP calculations

... and 4% of Rhode Island's wage base

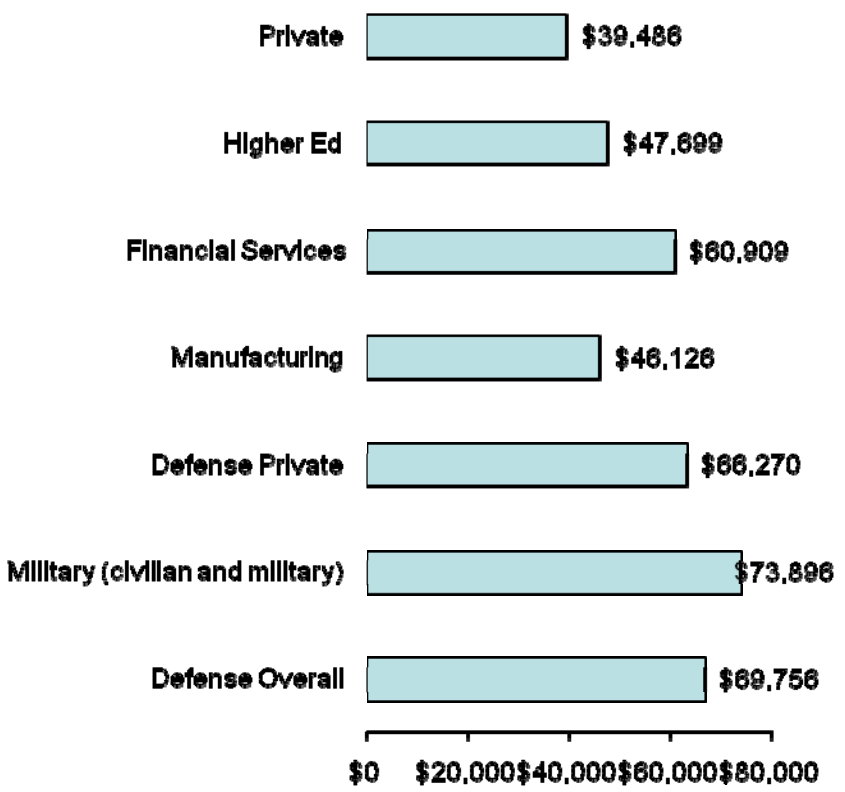


Note: includes students at naval education programs; excludes National Guard and Army Reserve units, and RI workers in Connecticut and Massachusetts

Source: SENEDIA 2002 Impact Statement, NUWC Impact data 2004, Mid Atlantic Region, ES 202 data 2004/2005/2007, personal communications, Dun & Bradstreet, government filings, NP calculations

The high level of engineering and technical skill required in Rhode Island's defense industry leads to higher wage levels than in many other important Rhode Island industries

**Defense Industry Average Wages
2007**



To equal the wage value of 1 defense industry job



- 1.69 “average” private sector jobs
- 1.39 higher education jobs
- 1.45 manufacturing jobs
- 1.09 financial service jobs

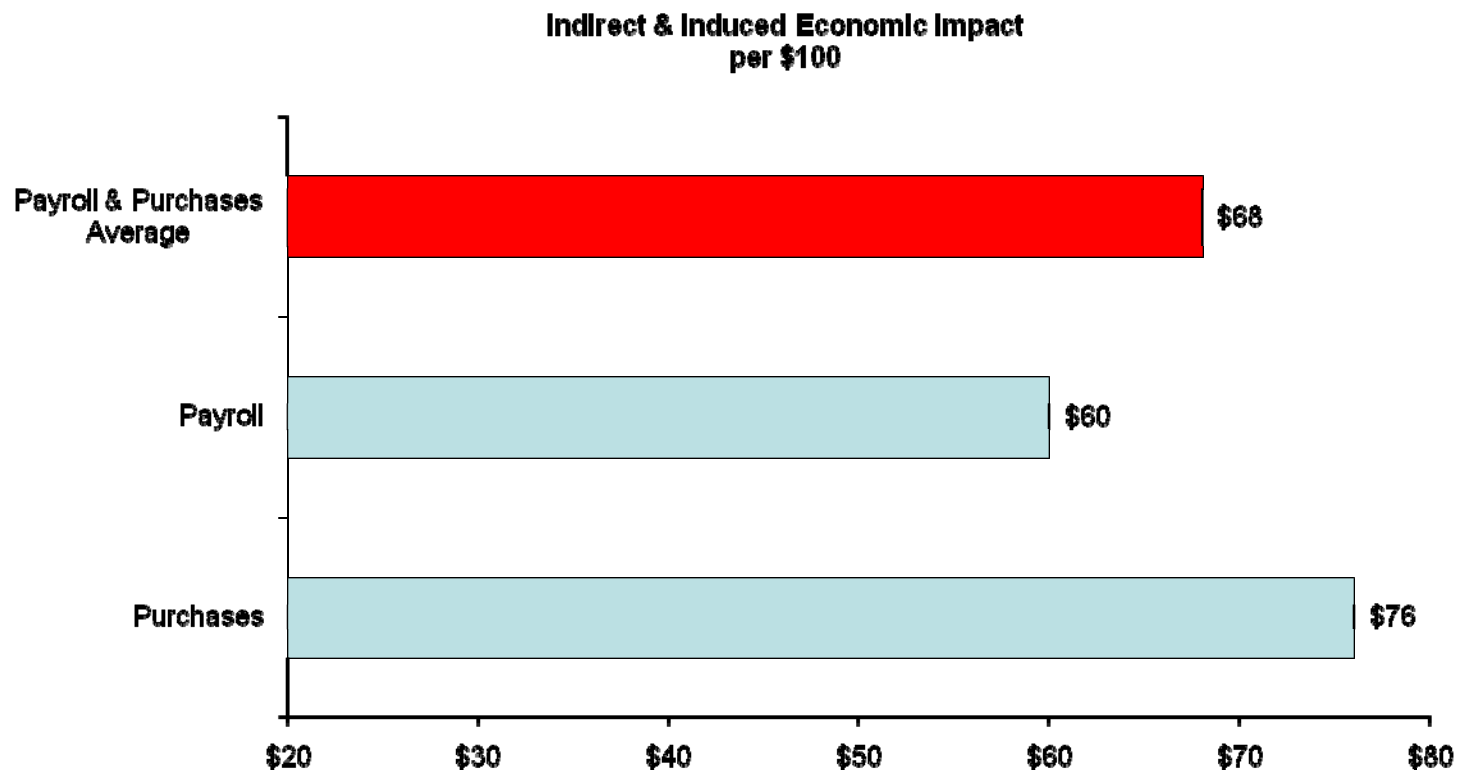
Source: NAVSTANEWPORT, RI Department of Labor and Training, NP calculations

Measuring the Defense Economy

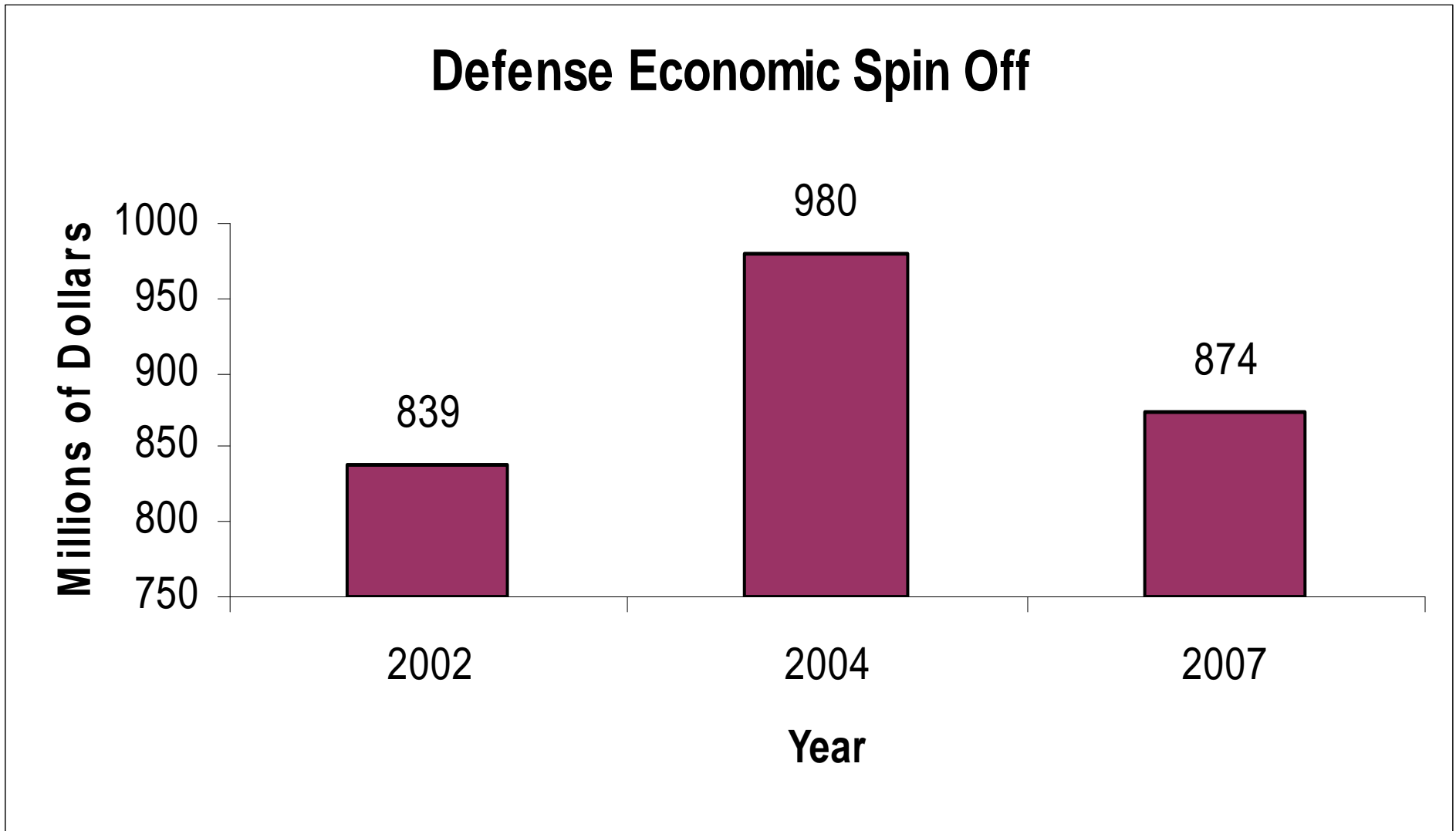
- Economic Impact

The Department of Defense estimates every \$100 of defense spending generates approximately \$68 in “spin off” activity in the state economy

- Indirect economic impact is the “spin off” effects into the economy of each dollar spent directly by the military or prime contractor
- Induced economic impact is the spin off effects of each dollar of wages spent by military or prime contractor employees

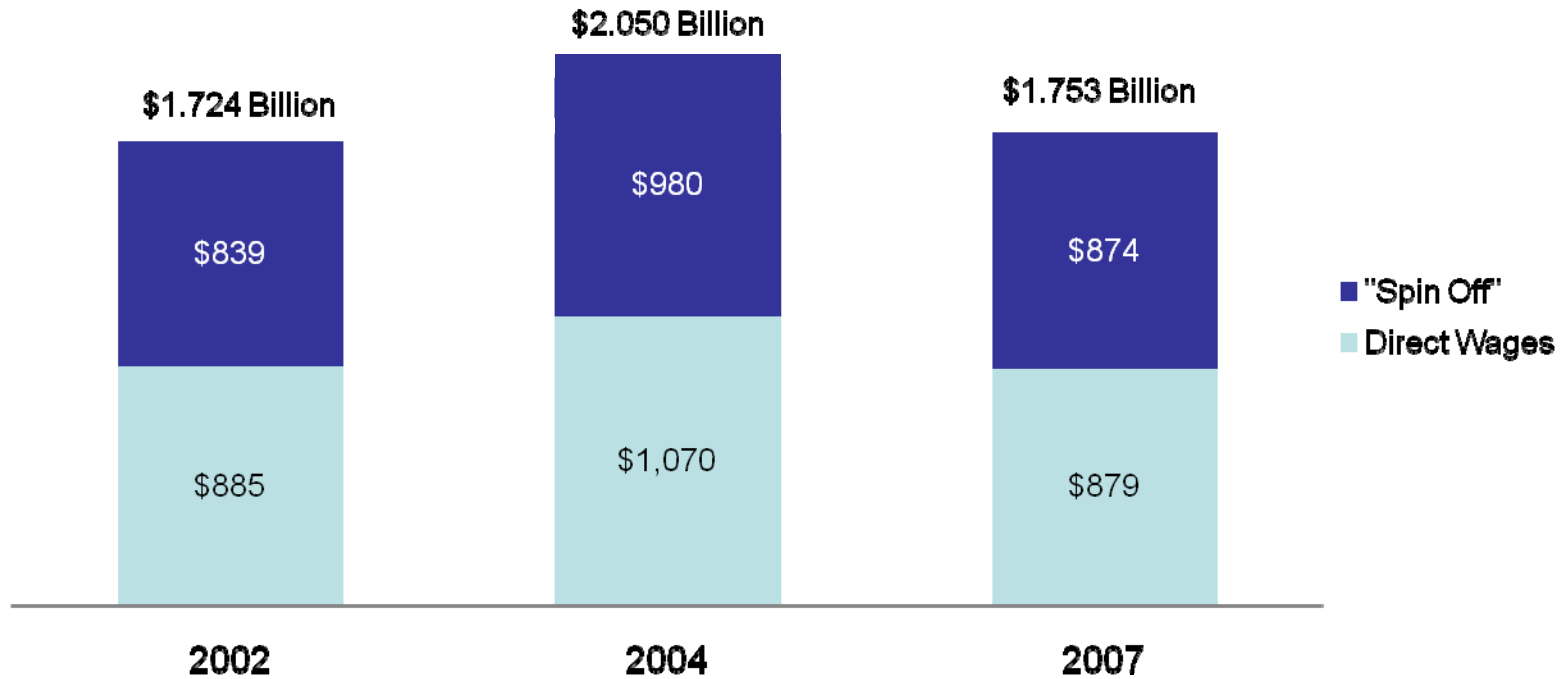


Based on the DEPPS multipliers, \$874 million in economic spin off activity in Rhode Island is generated by the defense industry



The total economic impact of the defense industry in Rhode Island is approximately \$1.7 billion

Total Economic Impact of the Defense Industry (\$millions)



Source: NP calculations

Measuring the Defense Economy

- Additional Benefits of the Defense Industry

Rhode Island continues to be more dependent than its neighbors on military employment

Employment Dependence

- Military employment in Rhode Island as a percentage of private sector employment is 6x greater than in Massachusetts and 3x greater than in Connecticut
- Overall, Rhode Island is 28% more dependent than the nation on military facility employment

Wage Dependence

- Military wage impacts follow the same pattern as employment
- Military wages in Rhode Island (3.9% of private sector wages) play a much greater role than in the US economy (1.7% of private sector wages)

Note: Wage dependence is the ratio of military payroll as a percentage of private payroll and then indexed against the US
Employment dependence is the ratio of active duty and civilian jobs as a percentage of private jobs indexed against the US
Source: DoD Defense Almanac and data abstract various years, Bureau of Labor Statistics various years, Ninigret Partners calculations

Defense contractors play an important role in RI's high tech and technical services industries

- Navy facilities generated 39 patents in 2007 – 22% of the state's total
- NUWC alone represents 14% of the state's engineering and scientific workforce
- Overall the defense industry represents 22% of the state's engineering and scientific workforce
- ...
- ...And 48% of Rhode Island's professional and technical employment

Source: RI LMI, NSF Science and Engineering Indicators, NUWC data, US Patent Office, NP calculations

Rhode Island's defense industry has a substantial fiscal impact on the state

RI's defense industry employment generates at least \$43 million in tax revenue for the state

- Income taxes of approximately \$ 35 million (1)
- Sales taxes of approximately \$18 million
- This excludes taxes generated directly by the businesses:
 - Corporate income taxes
 - Sales taxes on purchases
 - Pass-through taxes such as the public utilities gross receipt taxes

*These businesses
also generate local
property taxes*

(1) Excludes Retiree, Guard and Reserve pay
Source: NP calculations

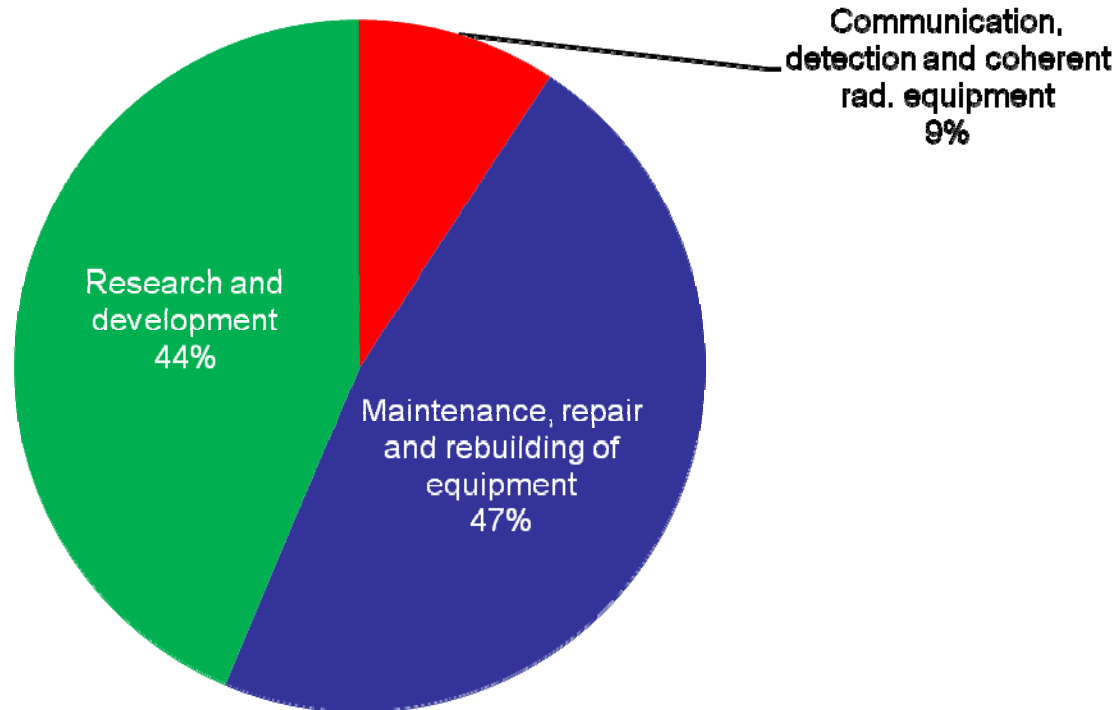
Measuring the Defense Economy

- Estimating a Homeland Security Economic Baseline

The Department of Homeland Security contracted for approximately \$4.024 million in FY2007 with Rhode Island companies

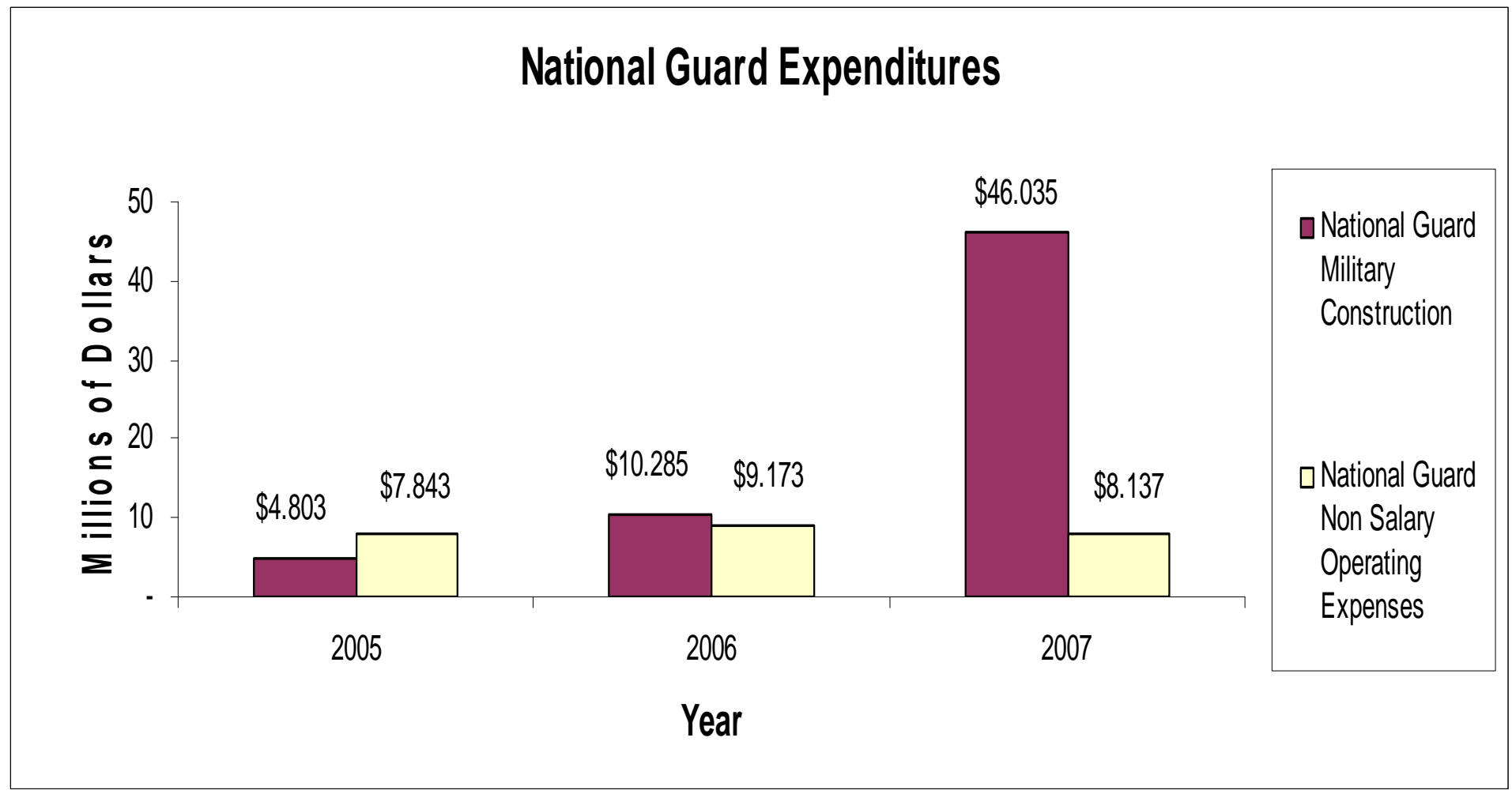
- This is a decline of approximately \$300,000 from FY 04
- This excludes any money that was spent by states under the homeland security grant program

**Department of Homeland Security Spending in RI
FY 2007**



National Guard expenditures also support additional economic activity

□ National Guard estimated annual payrolls total \$83 million



Source: RI National Guard