

FEDERAL SPENDING IN HAWAII

June 5, 2009

The recent announcement by the FBI that Kapolei will be the site of one of the largest law enforcement complexes in the Asia-Pacific regions is heartening news for a state with a troubled economy. While the new FBI complex is expected to house 230 staff, area businesses will benefit by providing goods and services to that staff, such as gas, food, office supplies, and other items.

The federal government, as we have long known, is the second largest industry in Hawaii after tourism, by one account, spending over \$14 billion in 2007 and accounting for over 86,000 or one eighth of all jobs in Hawaii. Of the more than 86,000 federal jobs, more than 54,000 were military jobs, with close to 35,000 of those being active duty personnel, making the Department of Defense (DOD) the largest federal employer in our state. The next largest federal employers are the Departments of Homeland Security, Agriculture, and Veterans Affairs.

While tourism constitutes about 30% of the total Oahu economy, according to one university economist, military spending accounts for another 23%. In the game of dollar dominoes, this is crucial to our economic health. The Department of Business, Economic Development and Tourism's (DBEDT's) found, in a 2002 study, that for every \$1 in military spending, more than \$1.50 is created in new business. The approximately \$6 billion in DOD expenditures last year in Hawaii circulates throughout the state, in the form of wages that the military can spend locally, or as services and goods provided to the military by local vendors in procurement contracts, or in research grants. While the military can perform some of its needs in-house, other work has to be farmed out to local businesses, such as military construction projects.

Environmental Science International, Inc., (ESI) for example, derives nearly half of its \$5.5 million annual revenue from military contracts. A full-service environmental consulting and remediation firm, ESI performs assessments for new military housing, which the DOD then transfers to private developers. Thanks to the Military Privatization Act, private developers finance, build, maintain, and manage military housing projects on military bases. The 50-year period for these housing projects provides a steady, predictable source of income for local subcontractors. Army Hawaii Family Housing (AHFH) last year signed more than \$550 million in contracts, 95% of which went to local companies, with 65% awarded to small businesses. Over the 50-year period, which ends in 2054, the entire AHFH project is valued at more than \$5.35 billion. Other military construction projects include work such as renovation and modernization of dry docks at Pearl Harbor to accommodate new submarines, and construction work relating to Stryker training and new fighter jets.

The list of businesses supported by military expenditures goes beyond construction. Last fall, the House approved Congressman Abercrombie's \$800 million in the 2009 Defense Authorization Bill for the Hawaii National Guard and Reserves. Included in the funding were projects such as high tech military research by Hawaii companies; continued construction on Saddle Road near the Army's training area on the Big Island; continued development of airborne detection systems to alert Navy ships to the presence of marine mammals; continued research at the University of Hawaii into the impact of the Navy's submarine detection equipment on whales and dolphins; and continued mapping of clean-up of military munitions dumped into Oahu's ocean at the end of WWII.

Basic items such as food also comprise a respectable portion of military spending circulated into our local economy. For Y. Hata & Co., a local restaurant food supplier, for example, military contracts account for \$10 million annually. Oahu's five commissaries, where military families buy food, brought in \$235 million in sales. Oil constitutes another big consumption item. Tesoro Petroleum Corp. was the biggest winner, with a military contract in the \$255 million range, representing 13% of the total dollar amount of all DOD contracts in Hawaii.

The next largest military contractor in the state, with an \$83.5 million contract, is BAE Systems, a defense and aerospace company, which opened its new Pacific Innovation Center in January this year. The Pacific Innovation Center's purpose is the demonstration of systems and software BAE develops in Hawaii. Other top 10 contractors include Weeks Marine Inc. (\$53 million) which provides marine construction work; Nan Inc. (\$50.5 million) which renovates soldiers' barracks, and Hawaiian Electric (\$49 million).

Military spending reaches even further than combat readiness through situating and supporting defense systems and soldiers and their families here. High tech research and development projects are funded as well. Oceanit, a dual-use technology company, for example, has a DOD research contract for Sense-Through-The-Wall (STTW) technology. Using a hand-held device, soldiers would be able to detect enemy presence before entering a room. When the technology becomes fully developed, firefighters, first responders, and the victims they save could benefit the most. Firefighters currently have to guess at how many people are trapped in a room. With STTW technology, they will be able to enter burning buildings and know just where to go, saving more lives in the process.

Federal funding is vital to Hawaii's economy because the tax base to fund public projects is limited because of our small population. In addition to military spending, federal dollars go to research funds for the University of Hawaii (more than \$156 million for FY 2008), observatories, parks, energy production, agriculture, and transportation. This diverse allocation of federal dollars results in a stronger web of industry, albeit on smaller scales than tourism, but giving an array of job opportunities for workers of differing skills and interests. This is key to a healthy economy, even in hard times.

Securing defense appropriations in Hawaii is largely credited to the seniority of our congressional delegation. Neil Abercrombie, a Congressman for 18 years, is a member of the House Armed Services Committee and Military Readiness Subcommittee, and chairs the House Armed Services Subcommittee on Air and Land Forces. The chairmanship has critical oversight responsibilities for U.S. Army and Air Force operations, budget, and equipment and weapons systems procurement. Senator Daniel Akaka has been in Congress since 1976, first as a Representative, then as a Senator. He chairs the Veterans' Affairs Committee and the Homeland Security and Government Affairs Subcommittee, as well as being a member of the Senate Armed Services Committee. Senator Daniel Inouye is Chair of the Committee on Appropriations and Chair of the Subcommittee on Defense, as well as member of the Subcommittee on Homeland Security and Subcommittee on Military Construction and Veterans' Affairs. He has been in Congress since 1959, as Hawaii's first Congressman, then since 1962 in the U.S. Senate.

Even beyond defense spending, though, Congresswoman Mazie Hirono is a member of the House Transportation and Infrastructure Committee, meaning she plays a role in procuring federal funding for transportation projects in Hawaii, including Honolulu's rail transit system which will be the largest public works project in our state.

As the Chamber of Commerce of Hawaii puts it, in Hawaii, the bottom line is, we need the military and the military needs us. From June 6 – 13, I will be in Washington D.C. with the Chamber of Commerce Military Affairs Council to meet with our Congressional delegation, Pentagon personnel, and other government officials. A consistent advocacy and lobbying effort by Hawaii residents helps ensure a steady stream of funds for our state. Networking with and maintaining strong ties with the D.C. establishment is critical for Hawaii.