

Report Two:

DEFENSE INDUSTRY GROWTH STRATEGY

"Funded, in part, by a grant from the Nevada Commission on Economic Development."



Presented to:

CHURCHILL COUNTY ECONOMIC DEVELOPMENT AUTHORITY

AND

MINERAL COUNTY ECONOMIC DEVELOPMENT AUTHORITY

REPORT 2: Defense Industry Growth Strategy

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Report Two
October 2007

Delivered to:

Churchill County Economic Development Authority

and

Mineral County Economic Development Authority

Prepared by:



Introduction

Communities that succeed in creating positive economic development are those that can effectively leverage their existing public sector assets to attract private sector investment and thus stimulate wealth generation.

It is at this intersection - where the public sector and private sector meet - that policy makers, economic developers and local government leaders can have the highest impact in helping to boost their community's economic prosperity. Progressive policies, quasi-governmental liaison organizations, even vocal government advocacy can be used to encourage private sector business leaders and entrepreneurs to seek out opportunities that exist with public sector institutions and make the interactions between these entities seamless and efficient.

Understanding where the public assets lie in a community is the first and often most difficult step. Some obvious areas most recognizable are university campuses and associated labs, public research institutions and community colleges. It is easy to envision direct public/private interaction such as an entrepreneurial start-up company commercializing a research institution's technology patent, or a large corporation sponsoring a curriculum tract at a university business school that prepares students with the skills necessary to be future employees of that firm.

Other areas in which public assets can spur private sector investment may be not as easy to identify. For example, the presence of natural resources such as solar, wind and geothermal activity (which is abundant in Northern Nevada) can be the foundation of developing a robust clean energy industry. Or, an attractive community environment with strong quality of life aspects that acts as an effective lure for new or expanding businesses and their families. The presence of these assets can be as important, if not more so, in furthering economic development and private sector wealth generation.

The Opportunity

It is with this premise that this Military Gap Analysis project for the 7-County Northern Nevada region was conceptualized and initiated by the Churchill County Economic Development Authority and the Mineral County Economic Development Authority under the direct guidance of the State of Nevada through the Nevada Commission on Economic Development (NCED). Similar to the examples provided above, the leadership and vision of these three entities identified local military installations as potentially underutilized public sector assets in the rural Northern Nevada region.

The 7-County region is home to two impressive military installations: the Naval Air Station (NAS) Fallon in Churchill County and the Hawthorne Army Depot in Mineral County. The presence of these bases represents an opportunity for increased private sector driven economic development. The economic development that can be created in the community from these installations cannot and should not be confined only within the boundaries of the two counties where these bases are located. Rather, as the private defense sector develops, the economic gains related to the growth of this industry will be realized throughout the rural 7-County region.

AngelouEconomics believes that there is a tremendous opportunity for Northern Nevada to view the **private defense sector as a primary target industry for economic development efforts**. There is the additional opportunity to target other primary industries that can directly benefit from being near Northern Nevada's military installations such as logistics and distribution companies that can leverage the warehousing and secure storage assets at Hawthorne Army Depot.

The goal of a stronger defense industry presence is clear: to bring more jobs and revenue to Northern Nevada tied to the Defense Industry. The economic impact of successfully implementing this Plan is clear: **more jobs, more income, and more tax revenue**. Success will be measured by the expansion of Department of Defense procurement from companies located in Northern Nevada and by recruitment of new defense businesses to the State.

In addition to the opportunity that the defense sector holds for the region, AngelouEconomics believes there is an **equally strong opportunity to develop this industry throughout the state**. While our analysis has focused on the 7-County Northern Nevada region, we have attempted to identify critical strategies that can be enacted at the state level to help to propel the development of the private sector defense industry throughout Nevada.

In fact, if the State of Nevada could increase its share of Department of Defense contracting to match the state's share of national GDP, this would result in an **additional \$1.6 Billion dollars in defense contracts flowing into the Nevada economy each year**. AngelouEconomics estimates that these new contracts would support the permanent creation of **over 15,000 new (high paying) jobs for the state**.

Advantages for Northern Nevada Companies

The existence and location of the two military bases in the region provides a direct opportunity for local procurement of supplies, materials, and other activities from local Nevada companies. However, the real purpose of this project is the opportunity for Nevada companies to leverage their proximity to these bases to tap into the federal Department of Defense budget on a national scale. Being close to these bases provides numerous advantages for private defense sector companies, such as:

1. **Access to highly trained and skilled exiting military.** In the case of NAS Fallon, this includes some of the most expert fighter jet aviators and technicians in the world. Additionally, many senior officers and personnel that have served at these installations will choose and have chosen to stay in the region after they retire from service.
2. **Strong public infrastructure.** Military bases demand and invest in strong infrastructure including robust utilities, fiber optic communication lines and serviceable transportation networks. The level and quality of infrastructure in Northern Nevada is stronger than would be typically found in rural areas without this military base presence.
3. **Access to military base infrastructure and assets.** In the case of the Hawthorne Army Depot, companies have the ability to enter into potential agreements in support of their operations to utilize existing base assets such as secure storage, logistics and distribution, and light/flex manufacturing. This presents a rare, but tremendous opportunity for private sector industry development with potentially large cost savings.

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4. **Location in a pro-military, patriotic community.** Communities that have military bases tend to be very patriotic and pro-military, which is a benefit for private defense-related businesses. Defense contractor companies like to be in locations in which they feel wanted and supported by the local community. Hawthorne and Fallon, as well as others in Northern Nevada, are communities that are highly patriotic and have shown a strong desire to embrace their local defense companies.

Clearly, the stakes are high in today's defense sector, and Northern Nevada's success will be dependent on the state and local partnerships that are created to implement this strategy. However, having built-in, inherent advantages such as those above, will give the region an edge when competing against other communities

Review of the Process

This report is part of a broader study, the *Northern Nevada Military Business & Resource Gap Analysis*. The goal of this study is **to leverage military business opportunities to promote economic development and quality of life in Northern Nevada.**

Specifically, the study is designed to result in the:

1. Identification of specific sectors of the defense industry that are expected to experience the highest demand and business growth in the next 5-10 years.
2. Assessment of Northern Nevada's capacity to support new military-related businesses and future product demands.
3. Identification of specific industry niche sectors that should be targeted for recruitment and expansion to Northern Nevada to fill "gaps" or take advantage of current procurement opportunities.
4. Creation of an action plan containing strategic priorities and marketing strategies aimed at increasing the expansion of companies that could supply the region's military installations and the national Department of Defense (now or in the future).

Two reports were prepared for this project:

1. **Defense Industry Demand Analysis**
2. **Defense Industry Growth Strategy**

Study Process:

**TASK ONE:
Project Set Up**

**TASK TWO:
Analyze national and regional
defense industry**

Report 1: Defense Industry Demand Analysis

**TASK THREE:
Identify target audiences for
marketing**

**TASK FOUR:
Create a defense industry growth
strategy**

Report 2: Defense Industry Growth Strategy

A clear distinction was made in this study between the “Military” (base assets) and the “Defense Industry” (private companies). Northern Nevada is strong in its military assets, but few companies are large suppliers to the U.S. Department of Defense. For the purpose of this study, we define the “Defense Industry” as the *private sector companies or research organizations that sell goods to or perform a service for the U.S. military.*

Structure of this Report

This report, *Defense Industry Growth Strategy*, provides stakeholder organizations in Northern Nevada and the State of Nevada with a set of priority actions for developing its defense industry. As the final report of the study, this is the culmination of significant research, public input, and strategic meetings. The strategic recommendations aim to bridge the gap between Northern Nevada’s strong military assets and its moderate, but growing, private sector defense industry.

The report is structured in two chapters. The first chapter, **Target Industry Recommendations**, provides the analysis of numerous industry sectors and the ultimate selection of a group of target industries to serve as the basis for the Defense Industry’s growth in Northern Nevada.

In Chapter Two, **Defense Industry Growth Recommendations**, we outline the necessary steps needed to help to spur the growth of these industries and the overall development of the Defense Industry in Northern Nevada and the State of Nevada. This chapter is divided into two sections: Strategic Priority Recommendations and Marketing Recommendations.

The Strategic Priority Recommendations section focuses on elements that will enable the region and state to be aligned in their development and support of the Defense Industry. Our goal is to identify strategies that will increase information flow and knowledge of the defense industry, provide guidance to build enhanced support structures, and outline a cohesive and broad-based approach to building the local Defense Industry.

In the Marketing Recommendations section, the focus is placed on identifying both internal and external marketing and communications efforts to support the growth of the local Defense Industry. The purpose of these recommendations is two-fold: (1) to build a local base of community supporters and advocates and (2) to begin to promote the region and state externally to target defense companies.

Together, this report presents a strategic roadmap for local leaders and stakeholder groups to follow in the development of a local Defense Industry in Northern Nevada.

Process

AngelouEconomics' selection of target defense industries for Northern Nevada is the culmination of research on the U.S. defense sector and an inventory and assessment of how Northern Nevada and the State of Nevada stack up in military assets and procurement dollars from the DoD (*Report 1: Defense Industry Demand Analysis*). In this chapter of the report, *Report 2: Defense Industry Growth Strategy*, AngelouEconomics summarizes the analysis of the factors that will most influence the successful expansion of defense companies in Northern Nevada and concludes with the selection of key target industries that should be the focus of future efforts.

While the primary goal of this study is to determine defense targets for development in Northern Nevada, we segment these targets into both recruitment and expansion targets:

1. **Recruitment targets:** Companies or industries that should be the focus of a marketing recruitment effort to Northern Nevada and the State
2. **Expansion targets:** Industries currently found in Northern Nevada and the State that can sell more goods and services to the Department of Defense or large defense contractors

The distinction between a recruitment target and an expansion target is often less than precise: some industry targets will be both, and the expansion of an industry from within Nevada will naturally increase the state's attractiveness for relocations.

Issues analyzed in this document are the most important that arose during our research. The basic question for each is, "How does this issue help or hinder the development of defense suppliers in Nevada?" The end result of this study is the selection of specific industries and niche sectors to target for growth, with recommendations on how to realize these new opportunities in subsequent and final chapter of this report (*Ch. 2: Defense Industry Growth Recommendations*).

Issues unique to the defense industry are keenly important to understand, from privatization and outsourcing to competition among today's military suppliers, not only for determining a target, but also in determining whether to pursue internal growth or external recruitment. An excellent example is the current competitiveness that exists in military procurement. Many established industries and suppliers are no longer subject to competitive bids due to a number of factors: a dearth of companies able to supply the good or service, industry consolidation, or existing relationships with the Department of Defense. Many of these non-competitive contracts are in high growth industries, so Northern Nevada will need to focus on recruitment of these companies rather than internal expansion.

By educating state and local leaders on the future opportunities in defense, this study aims to support a collaborative environment where companies, elected officials, and economic development leadership work together to expand military contracts for Nevada businesses while pursuing specific target companies to recruit to the region and the state.

Methodology

AngelouEconomics employed a combination of quantitative and qualitative analysis in selecting the best target industries for the Northern Nevada region. In determining the best defense targets for Northern Nevada, AngelouEconomics focused on the following four questions:

1. Which industries will benefit most from the Defense Department's transformation?

Immediate and obvious target candidates are those experiencing growth nationally in the near-term. Development of new defense systems are a long-term opportunity and large scale transformation programs, such as the Army's Future Combat Systems, should be closely monitored.

2. Which industries are most "open" to new suppliers, or most interested in relocation for strategic or cost reasons?

Many sectors of DoD contracting are no longer competitive, with some areas having less than 25% of contracting opportunities bid out competitively. Many companies in these industries produce a proprietary good or service that the military considers unique to the company. As such, the industry is an unlikely candidate for expansion or development in Northern Nevada. However, some of these industries will be identified as recruitment targets where appropriate.

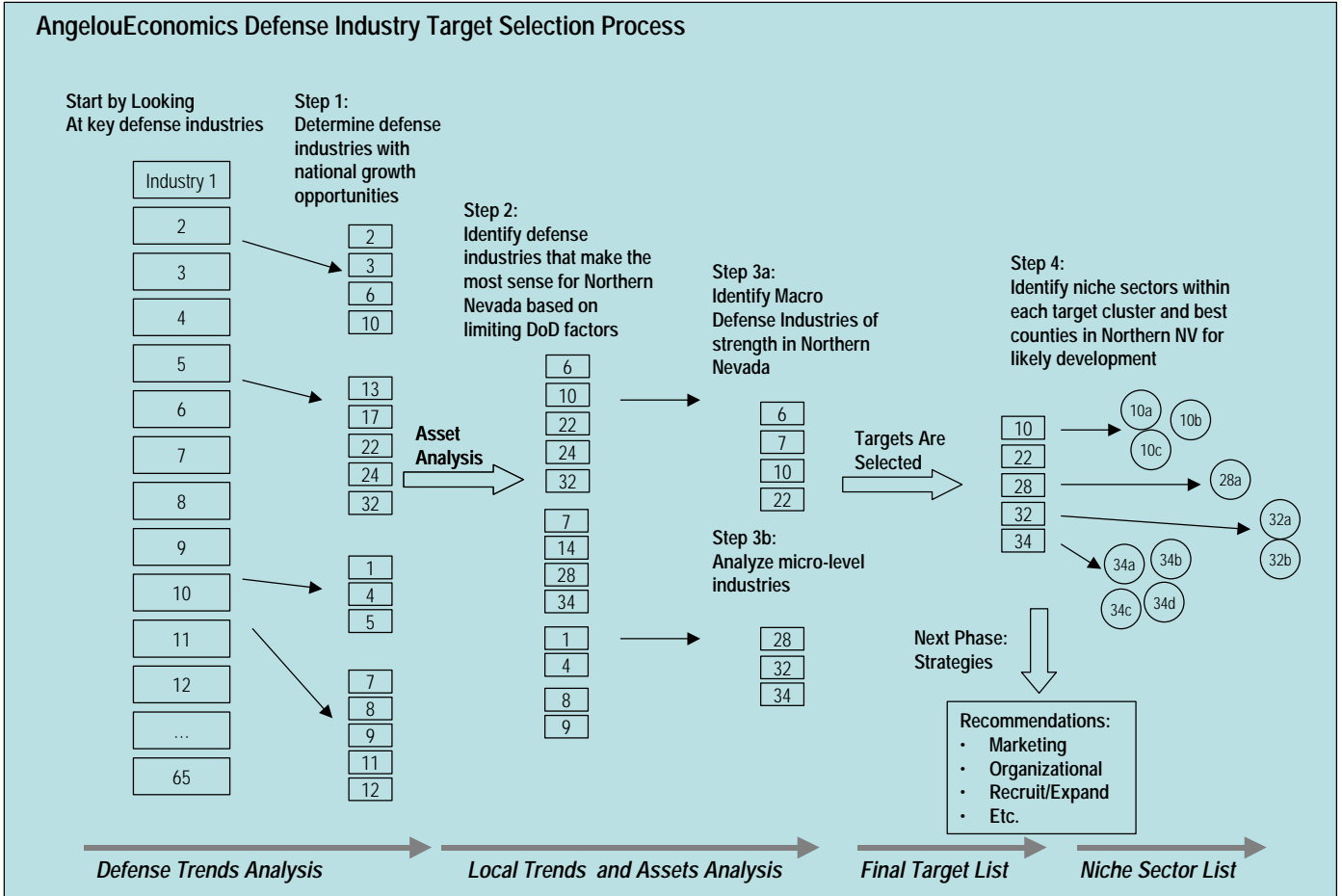
3. What are the current industry sectors that have particular procurement strength in Northern Nevada?

In several instances, Northern Nevada already has particular strengths in supplying the Department of Defense. Our analysis looks at the region's current DoD contracting and segments it based on 2-digit macro-level industries. We then drill down further using 3-digit NAICS codes to identify particular niche sectors of strength. Understanding where current strengths exist is critical in identifying the final list of target industries for the region's focus.

4. What are the niche sectors in each industry that are best suited for development in the Northern Nevada region?

Our final step is to identify a core set of niche target industry sectors that should be the focus of future targeting efforts. We not only identify these niche industries, but we identify the individual counties within the region in which development is likely to occur. Finally, we categorize the niche sectors into a smaller (more manageable) list of four target defense categories.

In many ways, target industry selection is better described as target industry “elimination.” The chart below illustrates AngelouEconomics’ systematic process by which a defense sector was selected as a target.

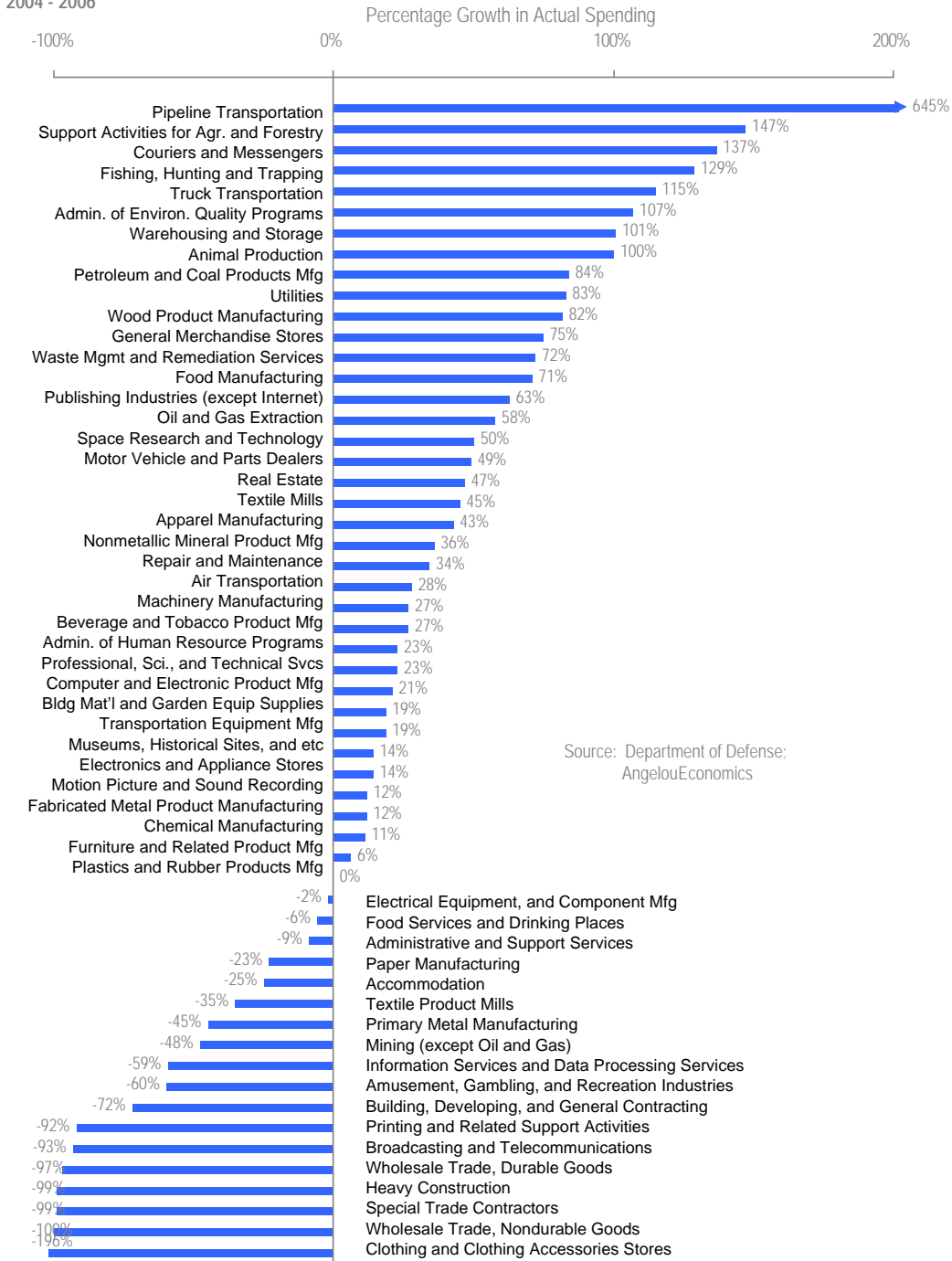


In the following pages, we will systematically move through our process, demonstrating the detailed analysis behind the selection of the ultimate target defense sectors for Northern Nevada.

1.1: Current National Growth by Industry Sector

In general, communities should target industries that have a history of growth, although in certain cases targets can also include low growth or negative growth industries. The following shows recent growth trends for specific industries selling to DoD:

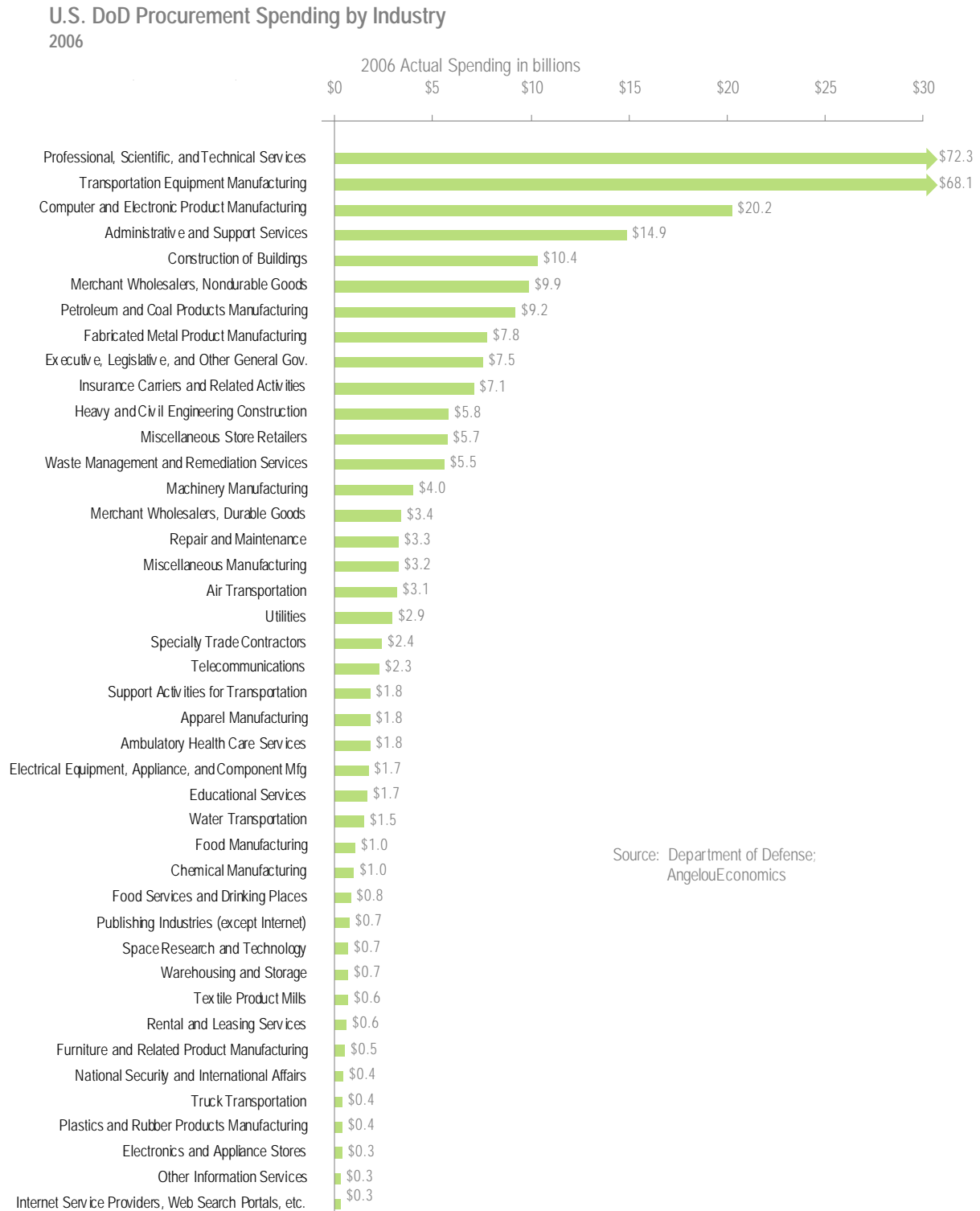
U.S. DoD Procurement Growth by Industry
2004 - 2006



Source: Department of Defense; AngelouEconomics

1.2: Overall Size of Procurement by Industry

The following chart displays specific industries selling to DoD based on their overall procurement size:



2.1: Factors that limit or enhance defense procurement potential

Before identifying future growth opportunities in defense for Northern Nevada, it is important to break down each macro defense industry by category to determine its future procurement potential. Due to the nature of DoD contracting, there are certain DoD procurement industries that are nearly impossible to capture if the region or State does not already have a significant presence. In this section of the target selection process, we will review these criteria to eliminate certain sectors and begin to hone in on those that have the most likelihood of growth in Northern Nevada.

In Report 1, *Defense Industry Demand Analysis*, we presented several factors that impact the procurement process. We review those criteria here in order to ensure that future efforts are focused on industry sectors that have a real plausibility for growth in Northern Nevada.

To recap, AngelouEconomics examined thousands of Department of Defense contracts, which totaled \$292 billion in total spending in 2006 alone. **The military is now choosing increasingly to outsource non-core functions to private sector firms.** The value of goods and services procured by the Pentagon is growing at twice the rate of internal spending growth. In 2006, the DoD contracted for \$293 billion in goods and services to outside firms compared to \$127 billion in internal spending.

Despite these positive outsourcing procurement trends, there are certain issues that Northern Nevada stakeholders should be aware of which can limit the size of the procurement budget that can actually be captured.

1. Competitive Bidding

A significant factor in pursuing new DoD contracts is whether or not the industry is subject to adequate competition. "Set-asides" (contracts earmarked for a specific performer) and negotiated sole sourcing may limit Northern Nevada firms from getting new contracts.

From Report 1, it was determined that 64% of all dollars awarded by the DoD came as the result of a full and open competition process. This equates to over \$184 billion in 2006. However, this still means that one-third of Pentagon contracting, over \$110 billion in 2006, was not competitively awarded. Understanding the industries and companies that operate without competitive pressures is important in determining which industries Northern Nevada can effectively develop internally, and which should be recruited from outside the state.

Types of Contracts that are Not Competitively Bid:

- ✓ Manufactured goods account for the largest majority of the non-competitive contracts awarded, even though services now account for a majority of Defense Department procurement. The more advanced the good or service procured, the greater the chance it will be awarded without competition. The majority of large-scale weapons platforms, aircraft manufacturing, missile systems, and space vehicle manufacturing are all non-competitive industries with more than three-quarters of Defense Department procurement awarded without competition.
- ✓ Military-specific products are less likely to face competition due to a lack of commercial products and consolidation in the defense industry.

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- ✓ The Pentagon's largest contractors face much less competition than small businesses or commercial product producers. Among contracts awarded to small businesses, 74% resulted from full and open competition versus just 56% for large businesses.

Types of Contracts that Are Competitively Bid:

- ✓ Despite the non-competitive nature of some contracts, the overwhelming majority of products or services classified as commercially available are bid competitively, 100% in most cases. Commercially available items are those goods and services that are available for purchase by any individual and/or entity on the open market.
- ✓ Products and services commercially available are almost always competitively bid. The majority of instances in which contracts are not competitively bid are when a company becomes a preferred supplier to the Pentagon. Computer manufacturer Dell is an excellent example. Dell provides a competitively priced and reliable product, and Pentagon contracting officers can purchase goods from Dell without a competitive bid process.
- ✓ Opportunities exist in many non-commercial areas as well, particularly when multiple private competitors are available. For example, the Defense Department is one of the largest purchasers of IT services in the world and these services are competitively bid.

2. "Best Value" Contracting

DoD purchasing officers are no longer required to award contracts to the lowest cost bid. The department's stated goal is to award the contract to the firm that provides the "best value." The best value process is confusing as the factors used to determine the best value can change with every contract. Best value contracting may take the following into consideration:

- o Cost
- o Past performance
- o Special feature of the good or service required for effective program performance
- o Trade-in considerations
- o Probable life of the item
- o Warranty considerations
- o Maintenance availability
- o Environmental and energy efficiency considerations
- o Delivery terms

Confusion is derived from the ambiguous nature of the above criteria and lack of a uniform scoring methodology. The Federal Acquisition Regulations (FAR) defines "best value" as the acquisition that provides the greatest overall benefit in relation to the government's requirement. Different agencies and purchasing officers can define best value as they see fit as long as the higher priced proposal would provide a greater value to the government and that this greater value is worth the extra cost. Evaluation criteria and importance must be clearly stated in the Request for Proposal (RFP), but the criteria can be different for each RFP.

3. Small Business Opportunities

Small business contracting and subcontracting is growing faster than the overall DoD market.

Small businesses were awarded \$50 billion in prime contracts from the Defense Department in 2006. Small businesses win an equal percentage of awards in the goods producing and service industries, and have success in both technology-intensive and labor-intensive industries.

For decades the federal government has given preferential treatment to small businesses attempting to sell goods and services into the vast federal purchasing market. Under an informal quota system set by Congress, federal agencies are encouraged, though not legally required, to direct 23% of procurement spending to small businesses.

DoD has made a strong push to involve small businesses as well as other disadvantaged businesses in the contracting process. A strong opportunity exists for small businesses, disadvantaged businesses and woman owned businesses. Together these groups accounted for 15% of all DoD contract awards, \$43.4 billion in 2006.

4. Outsource Opportunities

The DoD is aggressively pushing forward with outsourcing non-core functions, contributing to the growth in services procurement. The executive branch encourages federal agencies to obtain commercially available goods and services from the private sector when possible. Viewed by the government as a competition-based program to reduce costs, outsourcing only happens when the private sector successfully outbids the competing government entity for the job.

According to the Office of Management and Budget (OMB), nearly half of all federal employees perform tasks that are readily available in the commercial marketplace. Costs are typically reduced 20% to 50% when competitive bidding on jobs is allowed.

Only non-core functions are subject to competition, and defining tasks as core or non-core remains broad and subjective. DoD designates all military and civilian essential positions required for military and national security reasons as core. According to the Quadrennial Defense Review, the test to determine core functions is whether a function is directly necessary in fighting warfare.

Implications for Northern Nevada

These four factors: Competitive Bidding, "Best Value" Contracting, Small Business Opportunities, and Outsource Opportunities are critical when evaluating the specific procurement opportunities that local stakeholders should pursue. Often, the DoD procurement process is won by those that are savvy enough to wade through the bureaucratic rules and regulations to identify hidden opportunities. The analysis here will help to rule out some procurement contracts immediately, while enabling more focus and resources to be devoted to other areas. For example:

- ✓ Little attention or resources should be paid to competing for sole-source or "set aside" contracts. Some very quick research will identify whether a contract is sole sourced or earmarked as a "set-aside." This easy upfront research can save time and resources in the long run.

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- ✓ The adoption of “Best Value” contracting now means that contracts are not awarded solely based on price. This has implications for local contractors that wish to serve DoD. Local officials can help the contractor identify the key criteria that will win the contract and focus on delivering that added value rather than focusing on providing the lowest price.

This is also an area where improved communication can be fostered among local companies that have the ability to tap into the DoD procurement system, but lack the desire. There is a current perception among many local businesses that selling to the military requires setting prices so low that it negatively impacts profitability, which, due to the shift toward “Best Value” contracting, is an incorrect premise.

- ✓ Small and disadvantaged businesses hold the best potential for increased contracting with the DoD. This should be an area of focus in Northern Nevada, which has a high concentration of small businesses. Mobilizing these business owners and helping them connect with procurement opportunities is the best way for the Northern Nevada region to grow its private sector defense industry presence.
- ✓ Being aware of the growing push toward outsourcing non-core functions and investing in building a knowledge base to identify future functions that will be outsourced will reap strong benefits. Maintaining a close connection with procurement representatives at the local base can be instrumental in positioning local businesses for impending opportunities.

AngelouEconomics has weighed these factors and has rated each industry sector based on its performance in these four criteria. We use this information to eliminate certain industry sectors that are deemed to not provide an ample level of contracting “openness”.

3.1: Northern Nevada Macro-Level Defense Industry Analysis and Selection

Northern Nevada military contracting has generally grown with the overall increase in spending by the Defense Department, but at a slightly slower pace. Contracting in the 7-County Northern Nevada region expanded from \$133.5 million in 2001 to \$201.9 million in 2006, for an overall increase of 51%. During this time period, national procurement expanded by 76%. So, while positive, the rural 7-County region is trailing overall DoD procurement growth.

When compared to the State of Nevada, the rural 7-County region's procurement growth rate trailed further. From 2001-2006, Nevada experienced 132% growth in DoD procurement, increasing from \$323.6 million in 2001 to \$750.4 million in 2006.

This overall gap in military procurement can partly be tied to the industries in which Northern Nevada has had recent strong local growth, which do not sell much to the military. These industries, such as housing construction, retail, and distribution have supported strong population growth in the region but are not as focused on providing goods and services to the military. As growth rates in the Northern Nevada region begin to inevitably slow, many of the businesses in these sectors (and others) should view the DoD as a viable target for increased activity. This trend should help the region begin to garner a larger DoD procurement capture rate.

Macro Industry Analysis and Selection:

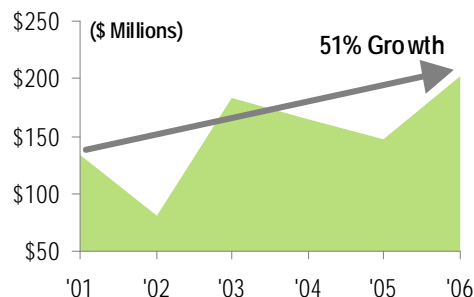
AngelouEconomics examined over 100 industries in the Northern Nevada region (at the 2-digit and 3-digit NAICS level) to determine which industries currently suffer a gap in procurement, but have strength in employment. Large gaps in procurement exist in Northern Nevada in several 2-digit industries and dozens of 3-digit industries. These gaps provide near-term opportunities for Northern Nevada companies to begin supplying goods and services to the DoD.

For our analysis, we will begin by looking at the macro 2-digit NAICS level to identify where gaps exist. Once identified, we will hone in on more discreet industry sectors by examining the 3-digit NAICS level. This will provide us with a final group of industries and niche sectors that should be the focus of the region's targeted defense industry growth.

The table below shows procurement across all major (2-Digit Super-sector) industries for the entire 7-County Northern Nevada region as well as overall national procurement. Using this information, AE calculated the relative procurement strength that Northern Nevada holds for each industry. A value equal to 1.00 indicates that Northern Nevada is roughly on par with national averages. Values greater than 1.00 indicate where Northern Nevada has a particular strength.

The table also shows the region's overall employment cluster ratio in these industries. A cluster ratio above 1.00 means that the region has above average employment concentration in that industry. Finally, we provide annual

**DOD PROCUREMENT:
7-COUNTY* NORTHERN NEVADA REGION**



Source: AngelouEconomics; DoD
*7-County region includes: Carson City, Churchill, Douglas, Lyon, Mineral, Pershing, and Storey Counties

wages for each industry and offer a wage differential, which compares the average wages found in Northern Nevada with those found on average throughout the U.S. for that industry.

By examining where the region has employment strength and comparing this to its procurement strength in those industries, we can identify where possible opportunities lie.

We label the sector an opportunity if the region has employment cluster strength yet not a strong amount of DoD procurement (these are potential growth opportunities for existing companies to sell more into the DoD supply chain) or if the sector is one in which the region already excels in attracting procurement dollars (these are areas in which the region should focus on maintaining and expanding its current position). In total, seven (7) industries were identified as being potential targets based on a procurement gap (see industries **in bold** below).

NAICS	Industry Description	US Total Procurement	Northern NV Total Procurement	Relative Procurement Strength	Employment Cluster	Annual Average Wage	Wage differential	Opportunities for Additional Contracting ?
11	Ag., Forestry, Fishing and Hunting	\$81,309,156	\$0	0.0	1.1	\$24,359	103%	
21	Mining	\$201,811,735	\$0	0.0	1.9	\$51,992	73%	
22	Utilities	\$2,943,822,917	\$0	0.0	0.6	\$59,618	82%	
23	Construction	\$18,943,017,324	\$12,292,462	0.9	1.0	\$36,672	85%	Yes
31-33	Manufacturing	\$120,808,372,700	\$23,138,415	0.3	1.1	\$44,920	87%	Yes
42	Wholesale Trade	\$13,387,773,422	\$300,809	0.0	0.5	\$44,101	80%	
48-49	Transportation	\$7,627,743,313	\$21,333,061	4.1	0.6	\$37,228	91%	Yes
51	Information	\$4,026,678,555	\$744,392	0.3	0.4	\$39,605	63%	
52	Finance and Insurance	\$7,126,750,229	\$0	0.0	0.5	\$43,377	66%	
53	Real Estate and Rental and Leasing	\$762,993,019	\$62,380	0.1	1.0	\$31,414	80%	
54	Prof., Scientific, and Tech. Svcs	\$72,326,682,297	\$69,191,087	1.4	0.5	\$49,675	77%	Yes
55	Mgmt of Companies and Enterprises	\$826,941	\$0	0.0	0.3	\$109,506	139%	
56	Admin., Support and Waste Mgmt.	\$20,386,545,548	\$71,825,184	5.1	0.7	\$29,434	103%	Yes
61	Educational Services	\$1,654,165,105	\$114,420	0.1	0.1	\$23,429	59%	
62	Health Care and Social Assistance	\$2,158,947,576	\$163,566	0.1	0.5	\$39,550	102%	
71	Arts, Entertain., and Recreation	\$35,562,448	-\$11,306	-0.5	3.2	\$21,721	81%	Yes
72	Accommodation and Food Svcs	\$981,400,816	\$2,428,660	3.6	1.9	\$21,637	138%	Yes
81	Other Services	\$3,412,754,297	\$297,846	0.1	0.8	\$27,587	104%	

3.2: Detailed Industry Assessment

The analysis on the preceding page identified seven (7) industries in the Northern Nevada region that are particularly strong in the DoD procurement value chain or that the region has a strong employment cluster. These macro-level industries are:

1. Construction
2. Manufacturing
3. Transportation
4. Professional, Scientific, and Technical Services
5. Administration and Support Services
6. Arts, Entertainment, and Recreation
7. Accommodation and Food Services

We will now drill down further into these industries using 3-digit NAICS codes to identify the specific niche sectors of strength in Northern Nevada. The table on the following page provides a greater level of detail on the industries in Northern Nevada that currently serve the DoD. This list will provide us with the set of candidates to be considered for final target industry selection.

NAICS	NAICS Description	US Total Procurement	Value of Northern NV Contracting	Relative Procurement Strength	% of Total Northern NV Procurement
561	Administrative and Support Services	\$14,846,307,136	\$71,011,401	6.93	35.17%
541	Prof., Sci., and Technical Svcs	\$72,326,682,297	\$69,191,087	1.39	34.26%
488	Support Activities for Transportation	\$1,808,290,959	\$19,994,822	16.02	9.90%
336	Transportation Equipment Mfg	\$68,103,721,273	\$15,003,779	0.32	7.43%
237	Heavy and Civil Engineering Construct.	\$5,796,035,489	\$7,355,294	1.84	3.64%
238	Specialty Trade Contractors	\$2,433,004,839	\$4,190,107	2.49	2.08%
332	Fabricated Metal Product Mfg	\$7,779,322,686	\$3,606,077	0.67	1.79%
722	Food Services and Drinking Places	\$820,388,020	\$2,428,660	4.29	1.20%
335	Elec. Equip., App., and Component Mfg	\$1,711,836,878	\$2,402,603	2.03	1.19%
493	Warehousing and Storage	\$678,747,552	\$1,269,933	2.71	0.63%
334	Computer and Electronic Product Mfg	\$20,208,289,305	\$851,662	0.06	0.42%
333	Machinery Mfg	\$4,023,131,281	\$844,784	0.30	0.42%
562	Waste Mgmt and Remediation Services	\$5,540,238,412	\$813,783	0.21	0.40%
236	Construction of Buildings	\$10,370,242,534	\$747,061	0.10	0.37%
511	Publishing Industries (except Internet)	\$724,477,969	\$707,430	1.41	0.35%
811	Repair and Maintenance	\$3,272,970,236	\$291,846	0.13	0.14%
339	Miscellaneous Mfg	\$3,237,264,298	\$209,272	0.09	0.10%
424	Wholesalers, Nondurable Goods	\$9,908,681,851	\$198,578	0.03	0.10%
621	Ambulatory Health Care Services	\$1,768,707,635	\$121,566	0.10	0.06%
611	Educational Services	\$1,654,165,105	\$114,420	0.10	0.06%
423	Wholesalers, Durable Goods	\$3,407,659,097	\$102,231	0.04	0.05%
314	Textile Product Mills	\$629,410,716	\$89,043	0.20	0.04%
532	Rental and Leasing Services	\$608,495,623	\$62,380	0.15	0.03%
325	Chemical Mfg	\$992,871,710	\$57,595	0.08	0.03%
624	Social Assistance	\$159,142,491	\$42,000	0.38	0.02%
517	Telecommunications	\$2,259,293,080	\$36,962	0.02	0.02%
484	Truck Transportation	\$378,937,286	\$35,700	0.14	0.02%
481	Air Transportation	\$3,136,235,223	\$32,606	0.02	0.02%
454	Nonstore Retailers	\$116,040,227	\$29,646	0.37	0.01%
337	Furniture and Related Product Mfg	\$521,618,679	\$29,201	0.08	0.01%
327	Nonmetallic Mineral Product Mfg	\$242,418,647	\$14,758	0.09	0.01%
443	Electronics and Appliance Stores	\$342,775,891	\$12,145	0.05	0.01%
315	Apparel Mfg	\$1,782,540,722	\$12,123	0.01	0.01%
321	Wood Product Mfg	\$189,579,888	\$10,203	0.08	0.01%
326	Plastics and Rubber Products Mfg	\$363,727,411	\$7,315	0.03	0.00%
453	Miscellaneous Store Retailers	\$5,735,430,848	\$6,834	0.00	0.00%
813	Religious, Grantmaking, Civic, etc.	\$52,325,330	\$6,000	0.17	0.00%
711	Performing Arts, Spectator Sports, etc.	\$21,612,718	-\$11,306	-0.76	0.00%

4.1: Target Industry Analysis Summary Table

AngelouEconomics provides a summary of the preceding analysis for the industries identified as the most appropriate targets for Northern Nevada. In performing the analysis and selection of the final niche industries to serve as targets, AE reviewed a variety of factors:

- ✓ Current size of the industry in Northern Nevada and future defense growth prospects
- ✓ Level of industry "Openness" including subcontracting potential, contract competitiveness, prevalence of small business contracting, and outsource potential
- ✓ The region's ability to support the industry based on its current strength in employment and existing procurement

Northern Nevada Final Target Defense Sectors											
An overview of the factors influencing AE's target selection process											
<i>for each factor, "x" indicates the relative strength of each indicator in Northern Nevada</i>											
Industry		GROWTH		OPENNESS				REGIONAL OPPORTUNITY		TARGET FOR:	
NAICS	Description	Value 2006	'04 - '06 Growth	Subcontracting Opportunity	Competitive Industry	% to Small Business	Outsource Opportunity	Northern Nevada Job Cluster	Northern NV Procurement Strength	Recruitment	Expansion
236	Construction of Buildings	x		xx	xxx	xxx	Yes	xx	xxx	Yes	
237	Heavy and Civil Engineering Construct.	xx		xx	xxx	xxx	Yes	xx	xxx	Yes	Yes
238	Specialty Trade Contractors	xx		x	xx	xxx	Yes	xx	xxx		Yes
332	Fabricated Metal Product Mfg	xx	x	xx	xx	xx	No	xx		Yes	Yes
333	Machinery Mfg	x	xx	x	xx	xxx	No	xxx	x	Yes	Yes
334	Computer and Electronic Product Mfg	x	xx	xxx	x	x	No	xxx	xxx		Yes
335	Elec. Equip., App., and Component Mfg	xx		xxx	x	x	No	xxx	xxx		Yes
336	Transportation Equipment Mfg	xx	xx	xxx			No	xxx	xxx		Yes
488	Support Activities for Transportation	xx		xx	xx	xx	Yes	xx			Yes
493	Warehousing and Storage	xx	xxx	x	xx	xx	Yes	xx	xxx	Yes	Yes
511	Publishing Industries (except Internet)	x	xxx	xxx	xxx	xxx	Yes	xx	xxx	Yes	
541	Prof., Sci., and Technical Svcs	xxx	xx	xx	xx	xx	Yes	xx	x	Yes	Yes
561	Administrative and Support Services	xxx			xxx	xxx	Yes	x	x	Yes	
562	Waste Mgmt and Remediation Svcs	x	xxx	x	xxx	xxx	Yes	xx	x	Yes	
711	Performing Arts, Spectator Sports			xx	xx	xxx	Yes	xx	x	Yes	
722	Food Services and Drinking Places	xx		x	xx	xx	Yes	xx	xxx	Yes	

4.2: Target Recommendations

Utilizing the full analysis described in the previous pages, AngelouEconomics grouped the identified sixteen (16) target industry niche sectors into four (4) major target categories:

1. **Defense Technologies (Manufacturing, Research, and Technology Services)**
2. **Defense Consumables (Food, Printing, & Distribution)**
3. **Base Construction**
4. **Base Support Services**

Each of these target groups contains many industries that are currently strong in Northern Nevada or have the potential for expansion. Grouping the list of niche industries into four (4) categories will simplify the targeting activities and organizational support provided by local officials and stakeholder groups.

Defense Target	Niche Sectors	Defense Target	Niche Sectors
Defense Technologies (Manufacturing, Research, and Tech Services)	332 Fabricated Metal Product Manufacturing	Defense Consumables (Food, Printing, & Distribution)	488 Support Activities for Transportation
	333 Machinery Mfg		493 Warehousing and Storage
	334 Computer and Electronic Product Mfg		511 Publishing Industries (except Internet)
	335 Elec. Equip., App., and Component Mfg		722 Food Services and Drinking Places
	336 Transportation Equipment Manufacturing		
	541 Professional, Scientific, and Technical Svcs		
Base Construction	236 Construction of Buildings	Base Support Services	561 Administrative and Support Services
	237 Heavy and Civil Engineering Construct.		562 Waste Mgmt and Remediation Services
	238 Specialty Trade Contractors		711 Performing Arts, Spectator Sports, etc.

4.3: Defense Target Recommendations by County

AngelouEconomics also performed a target selection process by county in the region so that each county can select which targets are most appropriate for it to support and promote. For each county, we recommended the target strength based on that county's share of relative procurement dollars and employment strength.

Target Recommendations by County								
A Look at Specific Opportunities in each of the Seven Counties								
"✓" indicates relative strength of target opportunity								
Industry		Carson City	Churchill	Douglas	Lyon	Mineral	Pershing	Storey
NAICS	Description	Target	Target	Target	Target	Target	Target	Target
236	Construction of Buildings		✓✓✓		✓			✓✓
237	Heavy and Civil Engineering Construct.		✓✓✓		✓			✓✓
238	Specialty Trade Contractors		✓✓✓		✓		✓✓	✓✓
332	Fabricated Metal Product Mfg	✓		✓✓		✓✓✓	✓✓	✓✓
333	Machinery Mfg	✓		✓✓	✓✓		✓✓	✓✓
334	Computer and Electronic Product Mfg	✓	✓	✓✓				
335	Elec. Equip., App., and Component Mfg	✓		✓✓	✓✓✓			
336	Transportation Equipment Mfg	✓✓✓	✓✓✓	✓✓	✓✓✓			
488	Support Activities for Transportation		✓✓✓					
493	Warehousing and Storage					✓✓✓	✓✓	✓✓
511	Publishing Industries (except Internet)							
541	Prof., Sci., and Technical Svcs	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓		
561	Administrative and Support Services		✓✓✓			✓✓✓		
562	Waste Mgmt and Remediation Services					✓✓		✓✓
711	Performing Arts, Spectator Sports, etc.		✓✓					
722	Food Services and Drinking Places		✓✓✓			✓✓		

Source: AngelouEconomics

In the next chapter of this report we offer a strategic approach to be employed in growing these industries and the Defense Industry in Northern Nevada.

Chapter Two of this report, *Defense Industry Growth Recommendations*, provides a set of priority actions for developing the defense industry in the Northern Nevada region. These strategic recommendations aim to bridge the gap between the region's strong military assets and its moderate, but growing, private sector defense industry.

As a recap, a clear distinction was made in this study between the "Military" (base assets) and the "Defense Industry" (private companies). For the purpose of this study, we have defined the "Defense Industry" as the *private sector companies or research organizations that sell goods to or perform a service for the U.S. military.*

Methodology

Chapter One of this report identified 16 key defense sector niches in four (4) major defense target categories. Now that these target defense sectors have been identified, the next step is to outline a strategy for furthering their development in the Northern Nevada region. The goal of this section of the report is to present a compilation of recommended action items that together represent a cohesive roadmap for developing the Defense Industry into a strong primary cluster for the Northern Nevada region and the entire State of Nevada.

While the location of the two military installations (NAS Fallon and Hawthorne Army Depot) in Northern Nevada lie in Churchill and Mineral counties, the development and ultimate location of a robust private sector Defense Industry cannot and should not be limited to these two counties alone. As is the case now, the presence of these two military assets will allow the development of a private sector defense cluster to exist throughout the region with companies that comprise the cluster locating in each of the seven rural counties in the region as well as urban Washoe County.

In fact, due to the broad and federal nature of DoD contracting, in order to truly have success, there will need to be an increased emphasis placed on the defense industry at the State of Nevada level as well.

The recommendations and strategy items reflect this broad-based approach toward building the defense sector. Many of our recommendations will require commitment and resources at the state, regional, and local levels.

While the sponsors and champions of this project are the Churchill Economic Development Authority and the Mineral County Economic Development Authority, these two entities cannot implement this strategy alone. The exciting aspect of this initiative exists in the promise it holds to capture a tremendous economic development opportunity and to do so by fostering a broad-based, regionally cooperative approach with the state providing an overarching leadership role.

The recommendations in this section of the report are divided into two sections:

- ✓ **Strategic Priority Recommendations.** The first set of recommendations focus on elements that will enable the region and state to be aligned in their development and support of the Defense Industry. Our goal is to identify strategies that will increase information flow and knowledge of the defense industry, provide enhanced support structures, and outline a cohesive approach to building the local Defense Industry.

These recommendations contain action items that will drive better organizational structure, business climate, existing business retention and expansion, lobbying, and entrepreneurship and research efforts as they pertain to the needs of the Defense Industry.

- ✓ **Marketing Recommendations.** The second set of recommendations focus on both internal and external marketing and communications efforts to support the Defense Industry. The purpose of these recommendations is two-fold: (1) to build a local base of community supporters and advocates and (2) to begin to promote the region and state externally to target defense companies.

Implementation Process

AngelouEconomics' understands that not all of these recommendation can or will be implemented in the short run. But, the inability (due to limited resources, etc.) to begin implementation on all of these items in the near term should not be cause to abandon this strategy in whole.

The purpose of these action items are to provide direction to local economic developers and state leaders in charting a clear roadmap for developing the private defense industry into a strong standalone industry for the region and the State of Nevada over a long term horizon. **Success will take time, a patient and sustained effort from a broad group of constituents, and unwavering determination.**

The strategic priority items below represent a comprehensive program that should serve local and state stakeholders well in their future efforts. In order to further this process, AE recommends the creation of a task force that will be the guardians and overseers of this plan and resulting implementation process. This task force should be comprised of leaders from the following entities (at a minimum):

- ✓ Churchill and Mineral County EDAs
- ✓ Nevada Commission on Economic Development (NCED)
- ✓ Nevada Procurement Outreach Program (PoP)
- ✓ Regional economic development authorities (NNDA and EDawn)
- ✓ Private sector defense companies

These organizations and entities are leading experts in economic development and/or the defense industry. They will benefit most from a strong defense industry in Nevada and should work to support its development.

The formation of this task force can act as the precursor to the formation of the Defense Industry Council (see recommendation 1.3 below). Many of the individuals on this task force will ultimately comprise the Defense Industry Council. Apparent in the recommendations below, **the creation of the Defense Industry Council is one of the most critical elements of this plan and will be most instrumental in propelling the growth of the local Defense Industry.**

This task force should also develop a good working relationship with key individuals at both NAS Fallon and the Hawthorne Army Depot to ensure that any strategic actions that are implemented help to further the missions and operations of the two bases and in no way undermine the operations at either base. Maintaining a strong relationship with the bases will also ensure that no potential procurement opportunities are missed. During the course of this planning process, the team met with both Commanding Officers at both NAS Fallon and the

Hawthorne Army Depot and they expressed strong support for this planning initiative and the related implementation activities to develop a strong local defense cluster.

The task force should also be prepared to reach out to other regional organizations that will be vital to the enhanced development of the defense industry in Nevada. Some of these entities will include: small business development centers, community college (WNCC), university (UNR), city and county governments, and others.

As is apparent in many of the recommendation provided on the following pages, it will take a team effort and a broad-based group of constituents to implement the action items provided in this strategic plan and to attain desired outcomes. It is our hope that the Northern Nevada community can come together in support of the Defense Industry.

If a broad-based effort is supported, than there is no question that the region and the State will reap ample rewards and this planning process will be a success.

1.1: Designate “Defense” as a Target Industry for the Northern Nevada region and the State

The State should identify and adopt the “Defense Industry” as a target industry for promotion by state and local economic development agencies.

The selection of target industries is a necessary action by state and local economic development agencies so that all marketing, workforce, and incentive policies are focused on areas with a high chance of success. Target industry selection helps to coordinate partner organizations that seek to support economic development: community colleges, universities, small business centers, local governments, and planning organizations.

AngelouEconomics recommends that both Churchill and Mineral County make Defense one of its primary target industries. In addition, AngelouEconomics recommends that the State also make Defense one of its primary target sectors.

Designating the Defense Industry as a primary target sends a clear signal to outside audiences and potential relocating companies that the region and state are committed to their growth and prosperity. It also provides a clarity and direction to local and state economic development leaders. In the increasingly complex and ambiguous world of economic development, it is important that efforts be very targeted and precise (i.e. It is much more effective to choose a small selective group of target industries to promote rather than to try to be “everything to everyone”, which will inevitably dilute the message). Finally, very few states actively target the Defense Industry, which should give the region and state a clear first mover advantage.

Implementation:

Primary Responsibility:	Local and regional Economic Development Authorities, NCED
Timing:	3-6 months
Priority:	High

1.2: Integrate the findings in this Strategy into local and State Economic Development Initiatives

The local economic development authorities and NCED should adopt this plan and prioritize the recommendations.

This plan depends on the support and implementation efforts of numerous organizations, both state and local. By formally adopting this plan, these economic development entities will send a clear message to partner organizations to prioritize the defense sector in their programming.

Adoption of this plan does not mean that all recommendations will be funded and implemented. The plan is a guiding document for policy decisions, as well as an educational tool for state and local officials.

Implementation:

Primary Responsibility: Local and regional Economic Development Authorities (EDAs), NCED
Timing: 6-12 months
Priority: Medium

1.3: Form a Defense Industry Council

Create and support a Defense Industry Council to serve as the primary overseer and champion of this effort.

Create a Defense Industry Council under the supervision of the Nevada Commission on Economic Development. Advisory Councils devoted to specific industry growth have had success in many states and regions and this model is considered by AngelouEconomics to be an excellent tool to spur specific industry growth.

The Council should focus on market development rather than on broad economic development assistance efforts such as manufacturing assistance or workforce development. A combination of public sector economic development experts, private sector defense companies, county/regional economic development representatives and staff from NCED and the Nevada Procurement Outreach Program should be included in the Defense Industry Council.

This Council will serve as the primary group to advance the private sector military industry in Northern Nevada. Nearly all the initiatives that result from this strategy should flow through this group.

The Churchill and Mineral County Economic Development Authorities should lead the formation of the Council. However, it will require the partnership and commitment of individuals from the public sector groups identified above if the Council is to function properly. To help catalyze the involvement of the state on this team, AE also recommends that a "Defense Cluster Specialist" be created at the state level. See recommendation 1.5 for more information.

To assist in this initiative, AngelouEconomics has provided a list of private sector defense contractors that are currently conducting business in the Northern Nevada region. This list will provide assistance to conveners in identifying appropriate private sector companies to identify and include on the Council.

Detailed Activities of the Defense Council:

Ongoing Defense Industry Analysis. The Defense Industry Council will assist in information gathering by following industry trends, providing marketing information, and tracking opportunities identified in this study. Many of the opportunities identified by AE are long-term and require the Council to revisit the opportunities over time. Companies that are in the early research stage of a new technology may begin manufacturing in

2-4 years, suggesting that relationships should be formed in the short-term to ensure Northern Nevada is considered as a manufacturing location.

Defense marketing. The Defense Council will assist in developing additions to county/regional and state economic development websites, and other marketing collateral such as the defense industry brochures. It is expected that the Council will review and add to the state's inventory of defense assets. Council members should take an active role in the Nevada defense industry newsletter, which is described further in Recommendation 2.1.

Policy Analysis. The Council will also function as an advisor to NCED, regional economic development authorities and executive and legislature branches in Nevada on an ongoing basis. The Council should support appropriate state level agencies in the analysis of state legislation that could affect the defense industry. The Council will also provide policy input to federal lawmakers to support a stronger federal lobbying program in Washington (see recommendation 1.8).

Implementation:

Primary Responsibility: Churchill and Mineral County EDA, NCED and commitment from various groups
Timing: 3-6 months
Priority: High

1.4: Integrate Local Economic Development Efforts into this Plan

Local economic developers will play an important role in expanding the state's defense sector.

The Defense Industry Council should designate an individual as "Local Communication Partner" with the specific role of serving as a community economic development liaison. This individual will be the "voice of the defense cluster" to maintain communication with local city, county, and regional economic development staff. Regular flows of information regarding military affairs and the local defense industry to state and local organizations should be managed by the "Local Communication Partner" on behalf of the Defense Industry Council.

This individual should be a strong communicator with the ability to bridge the gap between many constituent organizations in Northern Nevada. The individual will be part of the Defense Council and will be appointed by the group to serve in this volunteer role for a timeframe to be determined by the Council (i.e. 12 months, 18 months, etc.). In addition to communicating with local groups, this individual should be included (to the greatest extent possible) on any delegate trips to defense conferences and/or hosting of defense contractor visits (see Marketing recommendations below).

Designating a "Local Communication Partner" will serve a critical role of communicating and promoting the defense industry to local stakeholders. In addition to this, consider the creation of a collaboration portal that will allow

economic development partners throughout the region to visit a password-protected website to view internal intelligence on Nevada's defense sector (see recommendation 2.2):

- New procurement opportunities
- Federal legislation that would affect the state
- News on large defense contractors applicable to Nevada companies
- Activity relating to procurement bids
- Information coming out of visits/meetings with Nevada defense companies

AngelouEconomics believes that the successful promotion of the defense sector in Northern Nevada will require strong participation from the local counties. The Defense Industry Council (with a designated "Local Communication Partner") combined with a collaboration portal will do much to coordinate local economic development efforts.

Implementation:

Primary Responsibility: Local and regional EDAs, Defense Industry Council
Timing: 6 months
Priority: High

1.5: Designate a Defense Cluster Specialist

The State should designate a specific Defense Cluster Specialist inside NCED or NV PoP to drive the strategic elements of this plan from the state level.

A cluster specialist would be entirely focused on the defense industry: procurement trends, company intelligence, legislative issues, and global defense trends. A specialist would serve as the information manager to State officials and organizations that are participating in defense industry promotion. The specialist will also serve on the newly created Defense Industry Council and can be housed at NCED.

This recommendation does not necessarily have to result in the creation of a new position. Rather, an individual at NCED or Nevada PoP may be able to take on this additional responsibility. As the industry grows and the sector reaches more prevalence in Nevada, a new position may be needed to be developed and budgets should be earmarked accordingly.

The use of target industry specialists inside state economic development agencies has been gaining ground over the past 10 years. Today's growth industries in the U.S. are facing an increasingly complex environment: global competition, outsourcing, a new array of incentives from state and federal governments, and a web of supplier/partner relationships. Companies view "clusters" not as a collection of similar companies, but of "like-minded" private and public sector peers.

A Cluster Specialist can now serve as the focal point within a local cluster. Companies seek personal attention from their public officials and gravitate toward those regions that provide it. A Cluster Specialist will ensure that the social, political, and economic assets in support of the defense industry will all be known, coordinated, and effective.

Implementation:

Primary Responsibility: NCED and NV PoP, with assistance from the Defense Industry Council
Timing: 6-12 months
Priority: Medium

1.6: Conduct Annual Visits to Existing Defense Contractors

Local economic developers should commit to visit with each Defense contractor in their county each year.

Local economic developers are considered to be county and regional economic development authorities (such as NNDA, EDAWN, and Mineral and Churchill County EDAs) under this recommendation. Visits to Northern Nevada's defense contractors and suppliers should occur each year. Local officials (including not just economic development officials, but local elected leaders as well) are best positioned to do this as most of the regional and county economic development authorities currently conduct ongoing existing business visitation programs (through Business Builders and other efforts). In addition to local individuals, the NV PoP should be a central participant in this initiative.

Visits will accomplish many important goals:

- Identifying current DOD proposals that could benefit from local assistance
- Identifying expiring DOD proposals that are at risk of non-renewal (and job losses)
- Disseminating information about the Defense Industry Council, its resources, and educational events
- Delivering specific RFP information to companies for consideration (accomplished with direct assistance from NV PoP)
- Identifying company partners (suppliers and prime contractors) that can be targeted for recruitment to the state (accomplished with direct assistance from NV PoP)
- Maintaining goodwill with the state's defense contractors

The Defense Industry Council should create an **electronic Northern Nevada defense contractor database** that will allow local economic developers to log the results of their meeting into a central location for monitor and oversight.

AE has provided a starting point for the development of this database of local defense contractors. As part of this initiative, AE has developed a comprehensive list of all defense contractors currently conducting businesses with either NAS Fallon or the Hawthorne Army Depot.

Implementation:

Primary Responsibility: Local economic developers (the Defense Industry Council should serve as organizer and overseer of this initiative)
Timing: 6-12 months
Priority: Medium

1.7: Consider the creation of a separate non-profit 501c3 to fund Marketing Initiatives for the Defense Industry Council

Economic development efforts such as those proposed in this plan to be directed by the Defense Industry Council can be positioned to receive some private sector assistance for marketing.

By creating a separate non-profit, the Defense Industry Council will be able to commit to its new “investors” that donations or sponsor monies will be used for marketing purposes, including funding internal and external communication programs identified in this plan.

The goals and tactics outlined in this plan can be expected to get approval from the private sector and with approval, some level of revenue or sponsorship money. Proof of ROI (return on investment) by Council efforts will naturally attract more investors, and a separate fundraising non-profit will support future growth while maintaining a marketing focus.

Use of funds by the 501c3 will need to be outlined in its bylaws. These could include:

- Marketing collateral
- Web marketing (emails)
- Sales trips
- Conference booths or expenses
- Lobbying efforts in Washington, D.C.

This recommendation is meant to have a longer-term time horizon. It is envisioned that for the first 12-18 months, the Defense Industry Council will form and begin smaller, local grass-roots efforts. But, as the Council establishes itself, becomes better known in the community and builds a base of private sector supporters, it will then be able to consider tapping into external funding sources for ongoing marketing implementation.

Implementation:

Primary Responsibility: Defense Industry Council, Private sector “investors” for “supporting responsibility”
Timing: 18 months
Priority: Low near term, higher priority longer term

1.8: Increase Federal Lobbying efforts

The State should coordinate with its Washington delegation for an expanded lobbying effort.

Much of the defense industry has been driven by political lobbying and deal-making in Washington, D.C. From the selection of states for military bases to specific identification of companies for federal contracts, politics have been a major “site selection factor” of the defense industry’s clustering around the country. Many states understand this and the states that are most successful in attracting DoD dollars typically already pursue a concerted lobbying effort in Washington.

Future changes in the defense sector will be similarly influenced by politics. Nevada’s delegation to the U.S. House of Representatives and Senate will be needed for support of a stronger defense sector in the state. Private sector assistance through lobbying should be a part of this effort.

The Defense Industry Council should coordinate and direct this effort. The Council will reflect the views and desires of the local private defense contractor community and should provide this information in a direct line to the State’s elected officials in Washington. Given the seniority position of Senator Reid in Washington, an enhanced lobbying push from Nevada stakeholders should meet with positive results.

Implementation:

Primary Responsibility: State elected officials with advice and counsel of the Defense Industry Council
Timing: 6-12 months
Priority: High

1.9: Consider the Creation of Incentives Targeted specifically for Defense Contractors

As a primary target of the state for recruitment and expansions, defense contractors should benefit from their own set of tax incentives.

Few industries can claim to be a 100% export industry (out-of-state). Even manufacturing industries do not typically ship 100% of their goods out-of-state. The defense sector represents federal money flowing into the state of Nevada, whether the money is for military base construction or high tech weapons.

AngelouEconomics recommends that the state recognize the high value that federal defense dollars deliver to the economy. While no new types of incentives are recommended, AngelouEconomics suggests that defense companies receive a 10% premium on existing incentives. For example, if a defense company in Nevada receives a DoD contract that results in the creation of new jobs or new investment, this company should receive its normal tax incentives, plus a 10% premium.

This form of incentive will not require a new system or definition of a “defense” company and, therefore, should be easier to adopt than other new forms of incentives.

This small addition will send a clear message to companies that the defense sector receives special attention from the State of Nevada and will help to bolster the fact that private sector Defense Industry is a high value target for the state.

Implementation:

Primary Responsibility: Nevada Legislature (General Assembly) with policy support from NCED and the Lieutenant Governor’s office
Timing: 12-24 months
Priority: Low

1.10: Support an effort to bolster SBIR and STTR funds to Nevada companies

Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) grants provide much needed funding to small technology companies serving the Department of Defense. AE recommends an enhanced and coordinated effort to increase SBIR and STTR funding to Northern Nevada recipients.

The Department of Defense (DoD) SBIR and STTR programs fund a billion dollars each year in early-stage R&D projects at small technology companies. These are projects that serve a DoD need and have commercial applications that will benefit the company often in various related applications. The SBIR Program provides up to \$850,000 in early-stage R&D funding directly to small technology companies (or individual entrepreneurs who form a company). The STTR Program provides up to \$850,000 in early-stage R&D funding directly to small companies working cooperatively with researchers at universities and other research institutions.

Due to the size and scope of this program and the tremendous opportunities it represents for small Nevada technology companies, AE recommends a broad-based program to increase the amount of funding captured in the state. Below, we detail a number of action items that could be implemented in the state.

The Nevada Commission on Economic Development should take a leadership role in this initiative with partnership and support from a variety of organizations including: regional and county economic development authorities, Nevada's Center for Entrepreneurship and Technology (NCET), and the Defense Industry Council.

Detail:

Enhance Networking. Launch an annual Nevada SBIR / STTR Conference. The conference will provide small businesses focused on research from across the state with networking opportunities to discuss the SBIR/STTR award and approval process. This conference could be included as part of the Annual Defense Contracting Conference proposed as a recommendation below (see Recommendation 2.4).

Maintain information overview and “grant winning” strategies on SBIR/STTRs. NCED and partners should develop and maintain an information repository on the DoD's SBIR and STTR programs including information on overall funding, grant size, technology focus, and federal agency funding breakdown of the SBIR and STTR programs. In addition, best practices for winning SBIR/STTR grants should be developed and maintained. This will provide “would-be” recipients more details on winning awards including overviews of the proposal process, deadlines, SBTDC resources, and specific programmatic information.

Commercialization and Recognition. Commercialization strategies, success stories, and funding opportunities that were successfully won by Nevada recipients need to be highlighted at the state's annual SBIR/STTR Conference. In addition, awards should be developed that recognize Nevada small businesses for achievements in winning awards and in commercializing technology developed under the federal SBIR and STTR programs.

Develop an SBIR/STTR Matching Fund and/or grants for proposal preparation. The state should consider developing a program to provide matching grant funds to those companies that successfully win SBIR/STTR grants.

Creating a matching fund program would help to sustain small businesses through the funding gap, which can occur between completion of the SBIR Phase I and II grants and the transition to private sector funding for commercial market development. As a preliminary recommendation, the Matching Fund set up through legislation could provide funds for matching grants up to \$100,000. The grants would match the funds received by a business through a SBIR/STTR Phase I proposal (at a minimum).

This program could also provide funding for small businesses to help defray the costs of preparing and submitting a SBIR/STTR Phase I proposal. Costs that may be reimbursed include costs incurred directly related to preparation and submission of the grant such as word processing services, proposal consulting fees, project-related supplies, literature searches, rental of space or equipment related to the proposal preparation, and salaries of individuals involved with the preparation of the proposals.

Implementation:

Primary Responsibility: NCED, NCET, regional/county EDAs, the Defense Industry Council, State of Nevada Legislature

Timing: 18-24 months
Priority: Low

2.1: External Marketing Campaigns

Conduct a campaign to enhance external perceptions of Northern Nevada (and the State of Nevada) and to persuade defense industry executives to consider the region for expansion and relocation.

Northern Nevada and the State of Nevada have incredible and diverse assets: strong research universities and community colleges, a cost effective business climate, a productive, cost-competitive manufacturing workforce, and a reasonable regulatory environment. Many of these assets could be better promoted to defense companies outside of the state. An external marketing campaign will deliver a unified communication message for the state tailored specifically to the needs of the private Defense Industry. The overarching goal is to build awareness and attract business investment.

In economic development, targeted marketing is often the most successful and cost effective means to distribute information. With the availability of Internet marketing options and the falling cost of printed materials, targeted marketing is now easier than ever.

The recommendations provided here should be implemented either at the State level or by the Defense Industry Council, which will represent the Northern Nevada region (and the state indirectly) in its external communications efforts.

Detailed Elements:

Create a brochure (State-level). Hire a design firm to develop a 4-page marketing brochure highlighting Nevada's defense assets. *Funding requirement: \$10,000 for design and \$15,000 for small-batch printing on demand throughout the year.*

Email newsletter. An email newsletter is an effective method for long-term image development. Hire a web design firm to create a unique format for the newsletter. The Defense Industry Council as well as marketing staff members at NCED can help create content with assistance from other interested parties such as local economic developers and Nevada defense contractors. The newsletter should be delivered quarterly. *Funding requirement: \$5,000 for newsletter design. Staff time for article generation.*

Market Nevada. Hire a national PR firm to market Nevada to defense contractors. *Funding requirement: \$10,000 per month.*

Website improvements. A website presence devoted to the Defense Industry needs to be developed at the state, regional and local levels. The web presence can be achieved through the creation of new pages connected to existing websites of NCED, the local/regional EDAs, and NV PoP. Alternatively, a new, standalone website can be developed specifically devoted to the Defense Industry and managed by the Defense Industry Council. See Recommendation 2.2 for details.

Implementation:

Primary Responsibility: NCED, Local economic development authorities, the Defense Industry Council
Timing: 12-18 months
Priority: Medium

2.2: Enhanced Marketing Website Presence devoted to the Defense Industry

AngelouEconomics recommends that enhancements be made to economic development websites to include a new defense industry section and/or the creation of a standalone Defense Industry Portal.

Website Enhancement - Option One:

Community research is often done independently through the Internet and having a strong website is an important marketing tool for any industry. The defense industry should have its own target section on the NCED, NV PoP and Churchill and Mineral County EDA websites. These website pages could be developed within the NCED umbrella website with each organization linking to this page from their own websites.

Elements of the Defense Industry section should include: information on the state's military bases and procurement budgets, contact information for defense experts in state government, a list of incentives for defense contractors, information on university research programs with defense applications, and state support programs.

Information gathered through the course of this planning initiative that pertain to the region's defense asset inventory will be useful in populating the defense section of the website and should be constantly updated. There is a need to educate the defense industry establishment on the state's desire to develop and support the defense industry and to make the argument for Nevada as a business location.

Website Enhancement - Option Two:

Alternatively, a standalone website or Web Portal could be developed that would be overseen by the Defense Industry Council. This website would serve as the central repository for Council activities as well as general military and private sector defense activities occurring throughout the state.

The standalone website should include the information above as well as additional detail on the procurement process, future budget trends, a searchable database on past procurement contracts, and subcontracting opportunities. Additional strategic information on long-term bid opportunities and prime contractor trends will do much to prepare companies that are serious about making the defense market a top target for revenue growth. This information should be made available only to Nevada companies that register on the Portal.

Additional Elements to be included in a standalone Defense Industry Web Portal:

Maintain a “Guide to Doing Business with the Military.” Many businesses, both large and small, do not understand the military procurement process; nor are they prepared to submit a proposal with all qualifications and documentation prepared. A map of the procurement process would also be helpful, as well as information on organizations that are available for assistance during the process such as the Nevada Procurement Outreach Program and the region’s small business development centers.

Maintain DoD line-item budget information. Spreadsheets should be kept on procurement, research and development, operations and maintenance, and construction budgets for future years, with growth trends for detailed product/service codes.

Maintain a database on large defense contractors that are driving subcontracting on new weapons and communications platforms. Provide a list of primary contractors’ contact information and a list of subcontracting opportunities when available. Information about providing unsolicited proposals to these large contractors should also be available on the site.

Provide a networking feature for Nevada defense contractors. Create news boards that allow contractors from different industries to network, share opportunities, and discuss issues related to military procurement. This will allow a somewhat disparate group of military contractors to maintain ties throughout the year.

Implementation:

Primary Responsibility: NCED, Local economic development authorities, the Defense Industry Council, NV PoP
Timing: 6-12 months
Priority: High

2.3: Attend National Defense Conferences

Attend trade shows and conferences featuring target defense sectors identified in this plan.

Representatives of the Defense Industry Council, relevant individuals from NCED and NV PoP, local and regional EDAs, and relevant private sector groups should attend defense industry trade shows and conferences. They should attend not only to learn about what near-term opportunities exist, but also to make crucial contacts with industry representatives. There are numerous defense trade shows held each year which represent nearly all specific defense industries identified as targets for the state and region.

Defense Council members and/or NCED officials should participate in conferences and facilitate meetings between Nevada companies and defense contractors. Conferences should be packaged to include participation from the private sector and allow Defense Industry Council members to be paid or reimbursed by local private companies (for conference and travel expenses) for their business development assistance during the trip.

Below is a list of trade shows and industry conferences to help stakeholders in identifying key events to attend. AE recommends that the Defense Industry Council maintain and prioritize a list of annual conferences to be attended on an ongoing basis. In addition, the Council should rate each conference after attending to determine its effectiveness in meeting the long-range goals of the state and region.

The following is provided as a reference for stakeholders in choosing annual Defense Industry conferences and trade shows to attend:

The following provides a comprehensive list of many Military related annual conferences:

<http://www.allconferences.com/Government/Military/>

Space and Missile Defense conference: <http://www.smdconf.org/>

Air Force Technology – Exhibitions and Conferences: <http://www.airforce-technology.com/exhibitions/>

Army Technology – Exhibitions and Conferences: <http://www.army-technology.com/exhibitions/>

Navy Technology – Exhibitions and Conferences: <http://www.navy-technology.com/exhibitions/>

North America Defense Logistics Conference: <http://www.wbresearch.com/defenselogisticsusa/>

Implementation:

Primary Responsibility: Defense Industry Council, Local economic development authorities, NCED, NV PoP
Timing: 6 months
Priority: Medium

2.4: Sponsor an Annual Defense Contracting Conference

The State should hold an annual conference on the Defense Industry.

The annual conference should be scheduled to coincide with the release of the President's defense budget, which takes place typically in March. The conference should be sponsored by NCED, with close partnership from the Defense Industry Council, local/regional EDAs, and the Nevada Procurement Outreach Program.

Detail:

Networking. The conference will give defense contractors from across the state a networking opportunity that crosses industry lines.

Industry Trends. An update to AE's national and local defense industry analysis report should be presented. Speakers should highlight major trends and overall defense contracting growth for the U.S. and

Nevada. Break out sessions should be scheduled for specific military technologies, procurement programs, and other specific opportunities.

Potential Speaker: DoD Weapons Development Official

Potential Speaker: Defense Specialist from the Defense Industry Council or NV PoP

Opportunities. Opportunities for Nevada companies from the new DoD budget should be presented. This could include a discussion of construction projects for Nevada military bases and updates on national research and weapons programs funding for the current fiscal year.

Potential Speaker – Subcontracting: DoD Procurement/Contracting Official to speak about general DoD budget trends and subcontracting opportunities

Potential Speaker – Research: ARO Staff Member to speak about research opportunities

Potential Speaker – Small Business: DoD Small Business Liaison

Recognition. The conference should be utilized as an opportunity to promote defense contracting success stories in Nevada. Awards should be developed to recognize successful defense contractors. Creating “Best of” awards for companies will drive attendance to the conference and increase participation with the Defense Industry Council and NCED.

Nevada’s federal delegation should assist in securing speakers from DoD if necessary. Local economic developers should assist in promoting the event.

Implementation:

Primary Responsibility: NCED, Defense Industry Council, Local economic development authorities, NV PoP

Timing: Annual event; first scheduled for Spring ‘08

Priority: High

2.5: Take Market Development Trips to Defense Contractors

A delegation of defense industry representatives from Northern Nevada and the state should coordinate marketing trips to specific defense regions to visit with large defense contractors.

Representatives of the Defense Industry Council, Churchill and Mineral County EDAs, NCED, NV PoP, and other regional partner organizations should visit defense contractors in large defense cluster communities to develop subcontracting opportunities for Nevada companies. The visit would be used for on-site introductions, calls for specific proposal opportunities, as well as recruitment opportunities.

Private sector companies that are committed to the defense industry will have a budget for business development trips, and could include the “Nevada delegation” on these “sales calls” to increase the likelihood of getting meetings with management.

Most new procurement programs are run through Lead Systems Integrators (LSI) rather than the DoD procurement office. DoD acts as a regulator and client rather than managing the process. A LSI is able to secure subcontractors and partners without implicit oversight or input from DoD officials, a major break from the past. This process allows for an easier transition for companies new to military procurement. Contracting is performed through the LSI rather than DoD, and LSI firms provide an easy avenue for businesses interested in subcontracting opportunities.

The Defense Industry Council, with assistance from the NV PoP should identify major LSIs and subcontracting opportunities that fit with the mission of the bases in Northern Nevada (Note: AE is available to assist with this research if needed). The Council should take this information to Northern Nevada companies that match the opportunities and plan joint market development trips.

Most major LSIs indicate a need for reliable subcontractors at the local level, particularly small businesses and disadvantaged businesses. LSIs are very strongly encouraged to source 23% of each project to these firms.

Out of necessity, LSI firms frequently are forced to subcontract to companies that are not ready for military contracting and are forced to find replacement suppliers. A trip with a state delegation including NCED and NV PoP would be helpful in indicating that Northern Nevada suppliers have state support, including workforce training, and are able to meet the task.

Implementation:

Primary Responsibility: Defense Industry Council, Churchill and Mineral County EDAs, NCED, NV PoP, private companies interested in supplying the DoD
Timing: 12-18 months
Priority: Low

CONCLUSION

Throughout the course of this project, we have presented a compelling case for viewing the U.S. military as a high growth industry, one that would bring new opportunities to the State of Nevada and particular opportunities for the 7-County rural Northern Nevada region. While the state's comparative DoD contracting lags slightly behind when comparing its total population and gross state product to the U.S., the good news is that Nevada and the rural 7-County region has successfully expanded its defense sector over the last five years.

The priority recommendations and marketing strategy presented in this report provide a solid roadmap for local stakeholders to follow in developing the Defense Industry into a robust growth engine for the region and the State. In order to capture these new opportunities, it will require well-planned collaboration among not only the local economic developers represented in the rural 7-County region, but also involvement from the state's many economic development stakeholders:

- Nevada Commission on Economic Development
- Regional Economic Development groups (NNDA, EDawn, NDA)
- Rural Economic Development Authorities (like the Churchill County Economic Development Authority and the Mineral County Economic Development Authority that have sponsored this study)
- Nevada Community College System
- Nevada Universities (UNR and UNLV)
- Industry Associations
- Chambers of Commerce
- Small Business Technology Development Centers
- Utilities

These stakeholders must engage Nevada's business community and direct a new attention toward the U.S. defense industry. Success will yield real results: thousands of new jobs for Nevada workers.

To highlight the scope of the opportunity, we will recap the facts presented in the introduction of this report. If the State of Nevada sets it as a goal to increase its DoD contracting just to a level so that its representative share were on par with its share of U.S. GDP, this would mean **\$1.6 billion additional dollars flowing to the Nevada economy every year and an additional 15,000 jobs created throughout the State.**

Achieving this growth will require new thinking, new partnerships, and new initiatives. AngelouEconomics has no doubt that if the Northern Nevada community and the State commit to this effort, success will be achieved.