



CALIFORNIA STATE LIBRARY
CALIFORNIA RESEARCH BUREAU

2026 California Statewide National Security Economic Impacts Study

October 2026



STATE OF CALIFORNIA

GOVERNOR'S MILITARY COUNCIL

VICE ADMIRAL (RET.) JODY BRECKENRIDGE, CHAIR



GAVIN NEWSOM
GOVERNOR

October 5, 2026

California is a crucial component of America's national security infrastructure. Our state is home to the largest concentration of military forces in the nation and possesses a diverse range of enabling capabilities not present elsewhere in the world. The state's strategic location and diverse and expansive terrain host more than 30 irreplaceable military installations alongside highly valuable air, sea, cyber, and land ranges. California's unparalleled ability to innovate and deploy new technologies, support full-spectrum military operations, and enable global power projection is truly unique within an individual state.

The concentration of a skilled workforce and recruiting base, a highly capable and innovative industrial and technological base, a vast network of education and research institutions, and an advanced system of energy, mobility, and communications infrastructure are essential to supporting and enabling a broad range of military and defense capabilities. California fields the tools of modern defense. In turn, the national security presence generates 5% of the state's economy, creates 842,000 full-time jobs, and supports our 1.4 million veterans and their families.

The California Statewide National Security Economic Impact Study provides a detailed look into the state's enabling capabilities as well as the economic impact of military and defense activities back to our communities and institutions. It provides a valuable tool for leaders and interested parties at all levels to understand the impacts and interdependencies involved in this critical ecosystem. The military relies on California's unique capabilities and environment and the state in turn benefits from the economic, labor, education, and innovation impacts that result from this relationship. California should continue to posture itself to remain a premier partner in national defense to secure a safe and prosperous future for our citizens, businesses, environment, service members, veterans, and their families.

Jody Breckenridge
Vice Admiral, US Coast Guard (Ret.)
Chair

Samuel Assefa
Director, Governor's Office of Land Use and
Climate Innovation

Senator Bob Archuleta
Military and Veterans Affairs Committee
Chair

Assemblywoman Pilar Schiavo
Military and Veterans Affairs Committee
Chair

Tactical vehicles traverse the Mojave Desert during a U.S. Army Infantry training exercise at Fort Irwin.



Page intentionally left blank

Authors

Sumeet Bedi
Devin Lavelle
Ethan Nash

Requested by

California State Senator Bob Archuleta
California State Assemblymember Pilar Schiavo
Governor's Office of Land Use and Climate Innovation
Governor's Military Council

Acknowledgements

This report was prepared under contract with the California State Library's California Research Bureau at the request of State Senator Bob Archuleta, State Assemblymember Pilar Schiavo, the Governor's Office of Land Use and Climate Innovation, and the Governor's Military Council. Financial and research support was provided by the Governor's Office of Business and Economic Development.

Recommended Citation:

Bedi, S., Lavelle, D.M., & Nash, E. "California Statewide National Security Economic Impacts, 2026 Update." California Research Bureau, California State Library. October 2026.

ISBN 1-58703-309-7

6 Key Findings

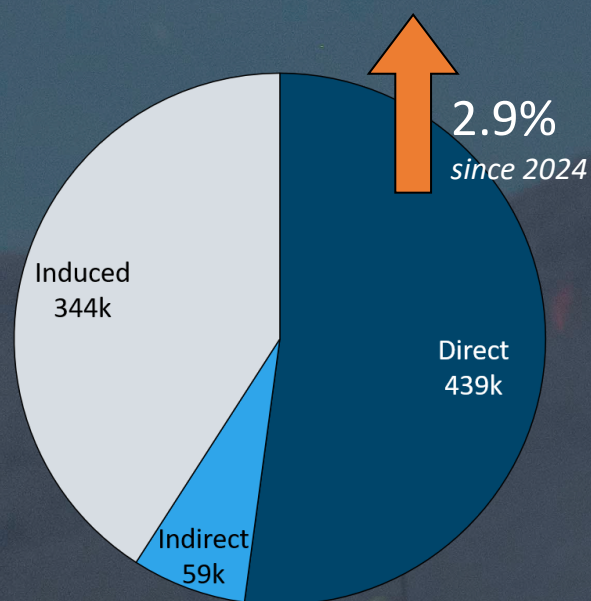
National security agencies are significant employers in California and a major source of business for numerous industries in the state. This is the ninth annual report the California Research Bureau at the California State Library and the Governor's Office of Business and Economic Development have prepared at the request of the Governor's Office of Land Use and Climate Innovation and the Governor's Military Council that explores the economic impact of national security activity within California.

This report uses fiscal year (FY) 2025 public data from the Departments of Defense, Homeland Security, and Veterans Affairs and finds:

1 National security activity generates 842,000 full-time equivalent jobs for residents of California.

842,000 FTEs represent approximately 4.5% of the state's total employment. This includes:

- 439,000 full-time equivalent jobs (FTEs) directly employed by the agencies and their contractors;
- 59,000 FTEs employed indirectly through the supply chain of direct activities; and
- 344,000 FTEs employed as a result of economic activity induced by the additional money in the economy.

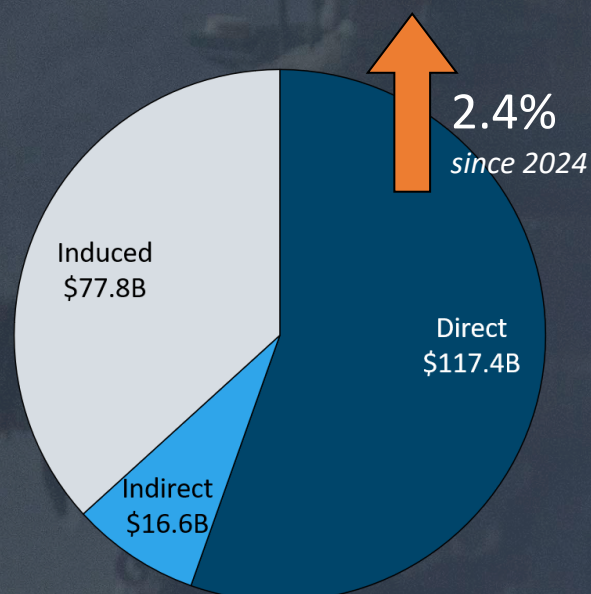


FTE Employment

2 National security activity produces \$211.9 billion in economic impact across California.

The \$211.9 billion represents approximately 5.0% of the state's economy.¹ This includes:

- \$117.4 billion of direct economic activity by the agencies and their contractors;
- \$16.6 billion of indirect economic activity created through the supply chain of direct activities; and
- \$77.8 billion of induced economic activity as a result of additional money in the economy.



Economic Output

¹ May not sum due to rounding.

3 The economic impacts of national security activity were felt across industries.

The state's various manufacturing sectors saw over \$22.3 billion in total economic output and over 41,100 FTE jobs supported by national security activity. The top manufacturing sectors include aerospace (\$7.1 billion in output and 14,000 FTEs) and electronics (\$4.6 billion and 6,600 FTEs). Other top sectors in total output include professional services, with \$20.8 billion in output and 82,600 FTEs (especially scientific research and development: \$6.6 billion and 16,300 FTEs); real estate (\$15.3 billion and 20,400 FTEs); and healthcare (\$11.3 billion and 62,500 FTEs).

4 California has the most national security-related jobs of any state and ranks third in security-related contract spending.

California has the most active-duty service members of any state at 164,000, ahead of Virginia (123,000), Texas (114,000), and North Carolina (96,000), the next highest states. California's 123,000 civilian employees top Texas (118,000) and the D.C. Area (110,000) as well. California had the third largest share of national security-related contracts in 2025 with \$36.8 billion across the three departments, trailing Texas (\$70.4 billion) and Virginia (\$51.2 billion).

5 National security activity generates \$33.0 billion in tax revenue for federal, state and local governments.

Federal tax revenue from national security activity in California totals \$22.0 billion. State and local tax revenue totals \$7.6 and \$3.5 billion, respectively. This includes \$2.9 billion in state income tax revenue, \$2.5 billion in combined state and local sales tax, and \$2.4 billion in combined state and local property tax, as well as other smaller taxes and fees. The \$7.6 billion represents 2.8% of California's total state tax revenue for 2025.

6 Including a portion of the Department of Energy's activities would increase total economic activity in California by approximately \$6.9 billion.

The estimated portion of Department of Energy activity related to national security leads to approximately \$6.9 billion in total output and 23,200 FTEs, which are mostly concentrated in scientific research and development.

The U.S. Navy retrieves NASA's Artemis II crew and spacecraft after splashdown near San Diego.



Contents

Introduction	3
Direct Activity	5
Direct Employment	5
Direct Spending	7
Economic Impacts	10
Total Output	10
Total Employment	12
Government Revenue	14
Industries Impacted	14
Select State Comparisons	18
Direct Employment	18
Direct Spending	21
U.S. Department of Energy	24
Direct Spending	24
Direct Employment	24
Economic Impacts	25
Report Summary	25
Methodology & Data	27
Scope	27
Data	28
Methodology	29



Fleet Readiness Center Southwest
personnel support U.S. Naval Aviation
maintenance and readiness in San Diego.

California Statewide National Security Economic Impacts, 2026 Update

Introduction

California is home to the nation's largest concentration of military personnel and other national security activities. Approximately 164,000 active-duty military personnel and an additional 53,000 reservists and National Guard are stationed at more than 30 military installations across California.¹ About 1.4 million veterans call California home.² National security agencies employ an additional 123,000 civilians in California.³ In fiscal year 2025,⁴ military and other national security activity in the state generated nearly \$211.9 billion in economic activity – approximately 5.0% of California's economy⁵ – and over 842,000 full-time equivalent (FTE) jobs, representing about 4.5% of total jobs in California.⁶



The California Research Bureau at the California State Library produced this report, with support from the California Governor's Office of Business and Economic Development, at the request of State Senator Bob Archuleta, State Assemblymember Pilar Schiavo, the Governor's Office of Land Use and Climate Innovation, and the Governor's Military Council. The California Research

Bureau previously released a report estimating the economic impact of national security activity in California during fiscal years 2016 and 2018 through 2024.⁷ This report uses fiscal year 2025 spending and employment data from the U.S. Departments of Defense, Homeland Security, and Veterans Affairs, and expands existing research to include estimated impacts of national security activity in each of California's 58 counties and 52 congressional districts. The estimates for California counties and congressional districts will be published in late 2026.

¹ Defense Manpower Data Center (Sept. 2025). [Department of Defense Personnel, Workforce Reports & Publications](#).

² U.S. Department of Veterans Affairs. [Veteran Population Projection Model 2023 \(VetPop2023\)](#).

³ Department of Defense, Department of Homeland Security and Department of Veterans Affairs.

⁴ Fiscal year, as mentioned throughout this report, refers to the federal fiscal year.

⁵ California Research Bureau calculation based on the [U.S. Bureau of Economic Analysis estimate](#) of California's state Gross Domestic Product (GDP) amounting to \$4,250,840,800,000 for 2025.

⁶ California Research Bureau calculation based on the [California Employment Development Department estimate](#) of the state's total civilian employment at 18,738,500 for 2025. Please note that this [employment figure](#) counts all California residents with full-time or part-time jobs, and each person is counted only once.

⁷ All prior reports can be found on the [California Governor's Military Council website](#).

Prior to this study, all studies on the impacts of national security activity in California have been limited in geography and/or scope. The Department of Defense provides annual reports on direct spending and employment without conducting economic impact studies.⁸ The San Diego Military Advisory Council has produced an economic analysis annually since 2008.⁹ It provides similar analysis to this report but is limited to San Diego County. In addition, while a number of other analyses have been completed over the years, they are generally limited to the relative impact of a specific base on its local or regional community.

This report focuses on estimated impacts from the U.S. Departments of Defense, Homeland Security, and Veterans Affairs. In addition, U.S. Department of Energy impacts are provided as a supplement and are not included in the overall estimate. Intelligence spending such as the Defense Advanced Research Projects Agency, which is responsible for the development of emerging technologies for national defense, is included if the source of funding is included under the agencies specified above. Other agencies with national security responsibilities either have limited data availability due to security concerns, and/or do not have the data available to disambiguate security and non-security activities within the agency.

⁸ U.S. Department of Defense, Office of Local Defense Community Cooperation. [Defense Spending by State, Fiscal Year 2024](#).

⁹ San Diego Military Advisory Council. [Military Economic Impact Report](#).

Direct Activity

The three federal agencies identified – Defense, Homeland Security, and Veterans Affairs¹⁰ – collectively spent \$61.7 billion in California and directly employed approximately 340,000 civilians and military personnel (including reservists and National Guard) in the state during fiscal year 2025. The largest share of direct spending comes from Department of Defense contracting, totaling \$32.0 billion. Veterans Affairs direct payments amounted to \$16.9 billion, while contracts from Veterans Affairs and Homeland Security added \$4.0 billion and \$768.5 million, respectively, to total direct spending. Across the three agencies, grants totaled \$6.7 billion (primarily from Homeland Security – \$5.8 billion) and SmartPay (the federal government’s charge card program¹¹) totaled \$1.2 billion. Figure 1 depicts this distribution.

Direct Employment

Direct employment is also concentrated in the Department of Defense, which employed 61,000 civilians, 159,000 active-duty personnel, and 53,000 reserve and National Guard personnel in fiscal year 2025.¹² The Departments of Veterans Affairs and Homeland Security combined to employ an additional 63,000 civilians. Homeland Security also employed an additional 5,000 active-duty and 800 reserve Coast Guard personnel who round out the totals in Figure 2.¹³

Figure 1: Direct Spending

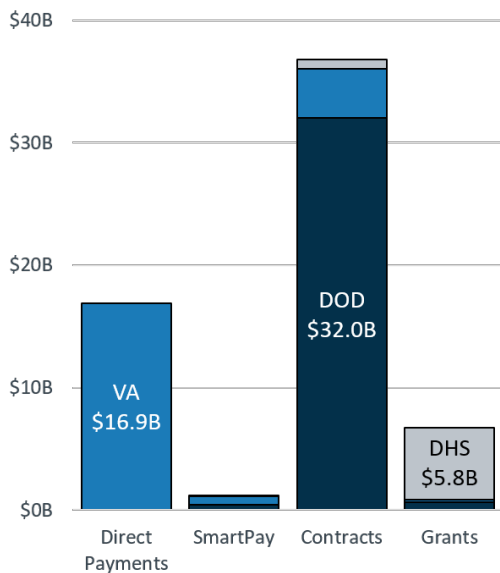
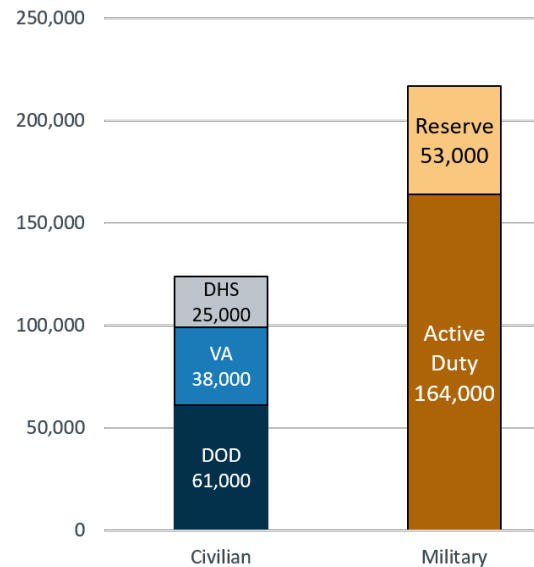


Figure 2: Direct Employment



¹⁰ These agencies were selected in the original report based on having clear national security missions with readily available data. U.S. Department of Energy national security activities are considered in a separate section.

¹¹ Government purchase cards used for very small purchases.

¹² Department of Defense total does not include Coast Guard personnel employed by the Department of Homeland Security.

¹³ Defense Manpower Data Center (Sept. 2025). [Military and Civilian Personnel by Service/Agency by State/Country \(Updated Quarterly\)](#). Numbers may not sum due to rounding.

After dipping modestly due to budget sequestration,¹⁴ civilian employment grew steadily until the COVID-19 pandemic, with an average 2.0% annual increase from 2015 to 2020. Civilian employment levels then cycled from two years of decline to two years of growth, peaking in 2024. As of 2025, civilian employment dropped 1.0% from 2024, as shown in Figure 3.

Military employment recovered from budget sequestration and reached new highs by 2020. After three years of modest decline, overall military employment has increased the past two years. Overall military employment reached 217,000 in 2025, an 1.3% increase from 2024. The number of active-duty personnel in California rose to 164,000, a 0.7% increase from the prior year. Reserves, which had declined every year since 2020, rose to over 53,000 in 2025, a 3.2% increase from 2024. Both are represented in Figure 4.

Figure 3: Civilian Employment by Year

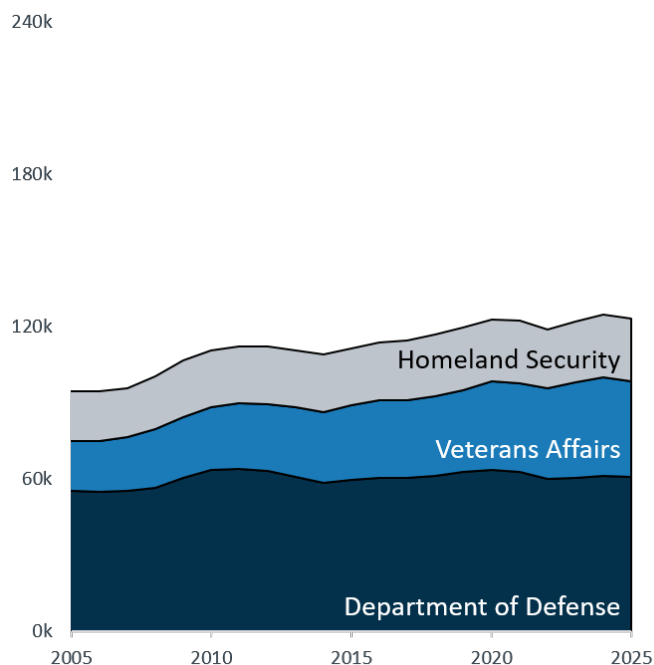
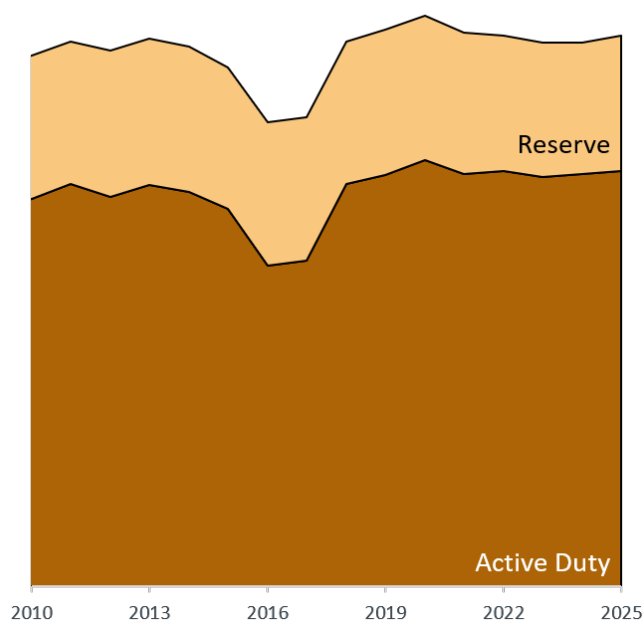


Figure 4: Military Employment by Year



¹⁴ The Budget Control Act of 2011 implemented significant across the board cuts to federal spending, including large cuts to national security agencies, going into effect in 2013.

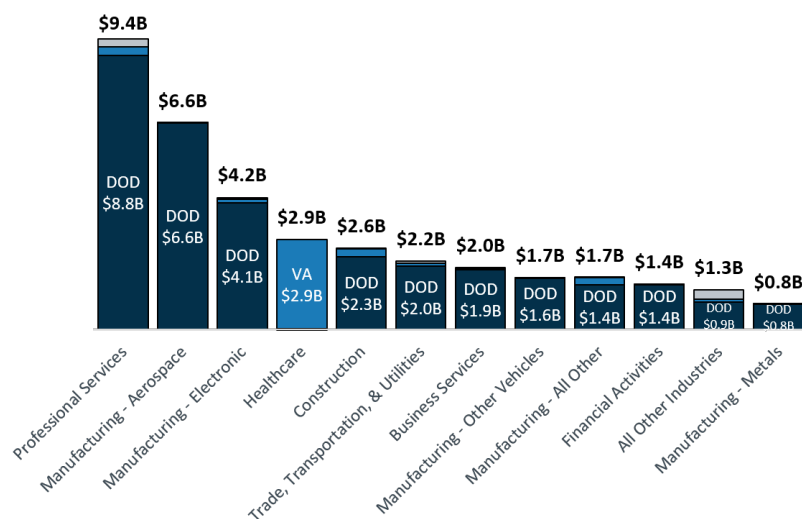
Direct Spending

Direct spending in California increased from \$56.8 billion in 2024 to \$61.7 billion in 2025, an 8.5% nominal increase. Accounting for inflation, this drops to a 5.7% real increase.¹⁵ While substantial, California's growth was below the national trend – direct spending across the United States from 2024 to 2025 had a 14.5% nominal increase, and a real increase of 11.6%.

The largest increase came from Veterans Affairs direct payments (primarily pension payments, which are adjusted annually for cost-of-living), which grew by \$2.7 billion from 2024 (an 18.7% nominal increase). The \$16.9 billion in Veterans Affairs direct payments for 2025 is the highest nominal point since 2011, and more than double its 2011 level after accounting for inflation.

Overall contract spending grew by over \$1.2 billion, a 3.5% nominal increase from 2024. While Veterans Affairs rose by \$1.1 billion (36.9%) and Defense by \$241.2 million (0.8%), Homeland Security declined by \$83.6 million (9.8%). The Department of Defense awarded 17 of the 20 largest national security-related contracts in 2025. The two largest contracts, each over \$600 million, came from the Army to assist in wildfire recovery efforts. In addition, 12 contracts went to contractors for the Navy (including two for Raytheon in Los Angeles, and one each for Northrop Grumman and General Dynamics NASSCO in San Diego), Air Force (two for Boeing in Los Angeles), and Missile Defense Agency (one for Lockheed Martin in Santa Clara). The remaining three went to managed care support services for the TRICARE health care program. The biggest Veterans Affairs contracts provided additional funding for medical disability examinations in relation to the [Veterans' Benefits Improvement Act of 1996](#). The biggest Homeland Security contract came from TSA to a contractor in San Diego. Figure 5 shows the distribution of contract spending by agency and industry in California for 2025.

Figure 5: Contract Spending by Industry and Agency

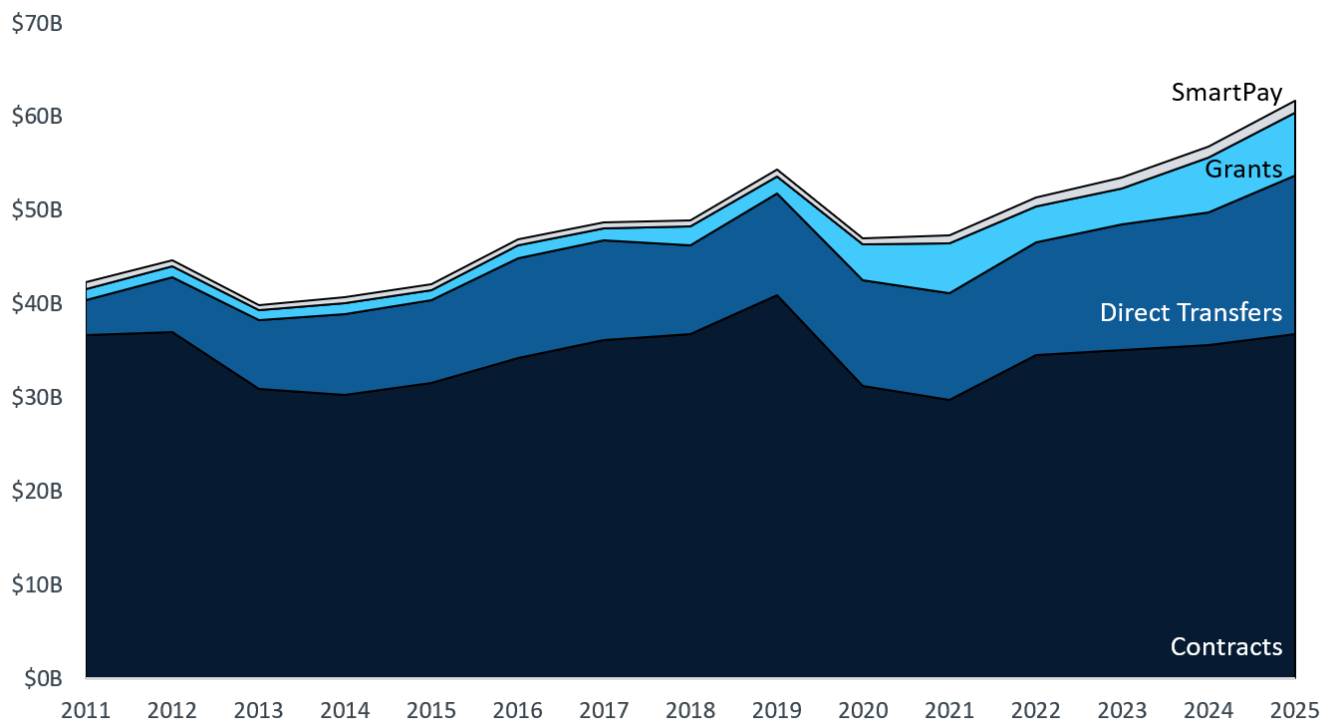


¹⁵ Fiscal year 2025 spending data for the three agencies was retrieved from [USAspending.gov](https://www.usaspending.gov) on July 15, 2026.

Overall grant spending rose by \$900 million in 2025, a 15.7% increase from 2024. Homeland Security grants drove much of this growth, increasing by \$1.0 billion (20.8%). Veterans Affairs grants also increased by \$109.9 million (91.4%), although from a much smaller base. These gains were partially offset by a \$205.7 million (24.1%) decline in Defense grants. Homeland Security increases are primarily due to two grants totaling over \$1.1 billion from the Federal Emergency Management Agency’s (FEMA) [Public Assistance Program](#), which provides supplemental funding after disasters. Other notable grants include \$123 million from the [Homeland Security Grant Program](#) for Sacramento County (down from \$182 million in 2024) and a \$52 million Defense grant awarded to the California Military Department for the California Army National Guard facilities program. The decline in Defense grants is largely attributable to one-time funding provided in 2024 for rebuilding Chesterton Elementary in San Diego and emergency response to the Tustin North Hangar Fire in Orange County. Veterans Affairs saw increased grants (in number and amount) for the [SSVF Program](#).

SmartPay spending in California increased by \$34.0 million (a 2.9% nominal increase) from 2024. This is roughly in line with the 3.5% nominal increase in national SmartPay spending.

Figure 6: Direct Spending by Year



An unarmed Minuteman III missile launches during an operational test at Vandenberg Space Force Base.



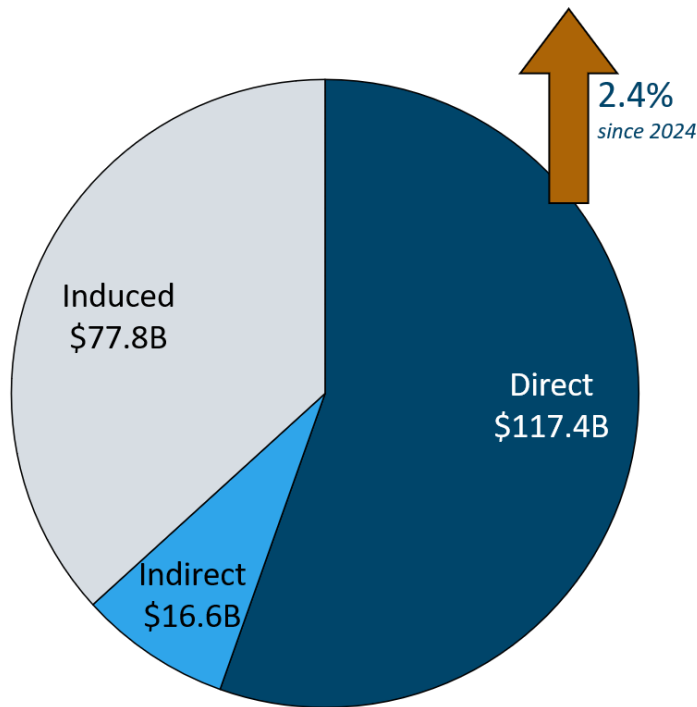
Economic Impacts

Total Output

The spending and employment included in this estimate generated \$211.9 billion in total economic activity output in California during fiscal year 2025.¹⁶ This total output includes:

- \$117.4 billion of direct economic activity by the agencies and their contractors;
- \$16.6 billion of indirect economic activity created through the supply chain of direct activities; and
- \$77.8 billion of induced economic activity created as a result of additional money in the economy.

Figure 7: Total Output

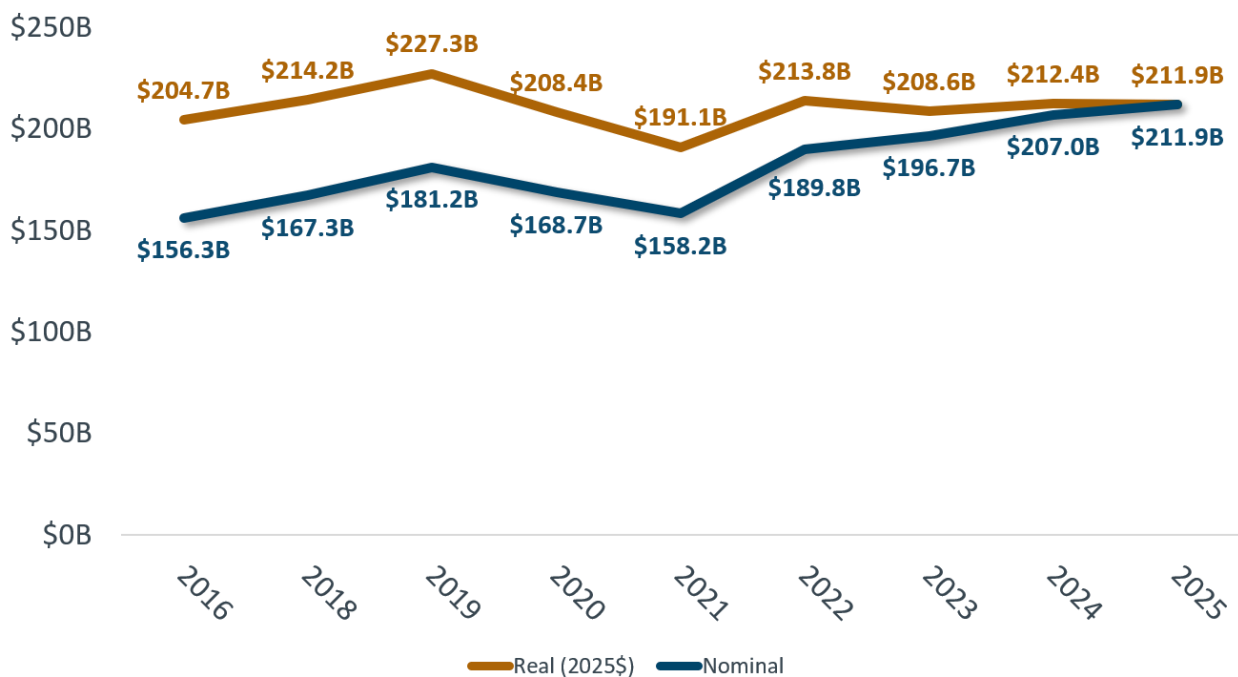


¹⁶ May not sum due to rounding.

Figure 8 shows the estimated total economic output generated by national security activity in California from fiscal years 2016 and 2018 through 2025.¹⁷ Aside from a three-year decline from 2019 to 2021, economic output has had a steady nominal increase every year. Economic output rose from \$156.3 billion in 2016 to \$211.9 billion in 2025. This represents a 35.5% nominal increase from 2016, and a 3.5% real increase when factoring in inflation. Even so, the \$211.9 billion in 2025 remains 6.8% below the peak of \$227.3 billion (in real 2025 dollars) from 2019.

Total output in 2025 rose by \$4.9 billion (a 2.4% nominal increase) from 2024. Accounting for inflation, however, total output had a real decrease of 0.3%.

Figure 8: Total Output Historical Trends



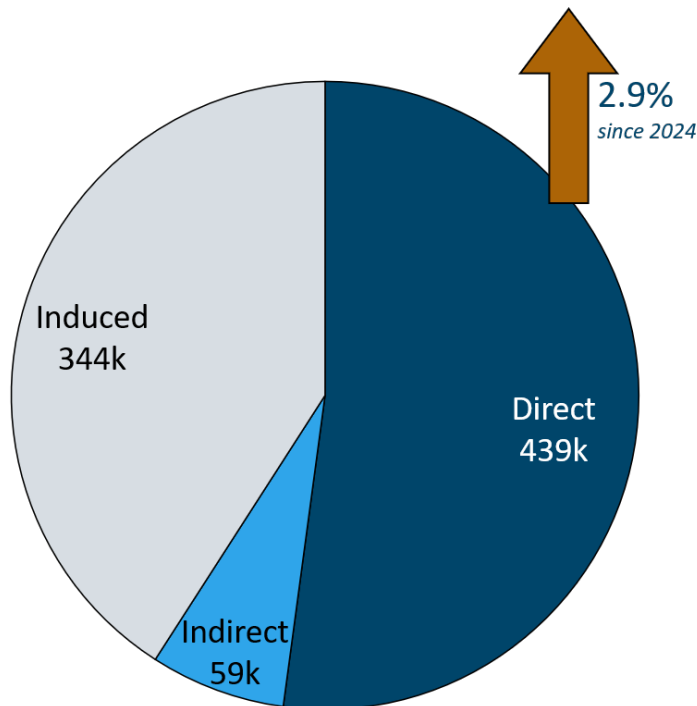
¹⁷ As no prior analysis utilized fiscal year 2017 data, Figure 8 does not include 2017.

Total Employment

The spending and employment included in this estimate generated 842,000 full-time-equivalent (FTE) jobs in California. This total includes:

- 439,000 FTEs directly employed by the agencies and their contractors;¹⁸
- 59,000 FTEs employed indirectly through the supply chain of direct activities; and
- 344,000 FTEs employed because of economic activity induced by the additional money in the economy.

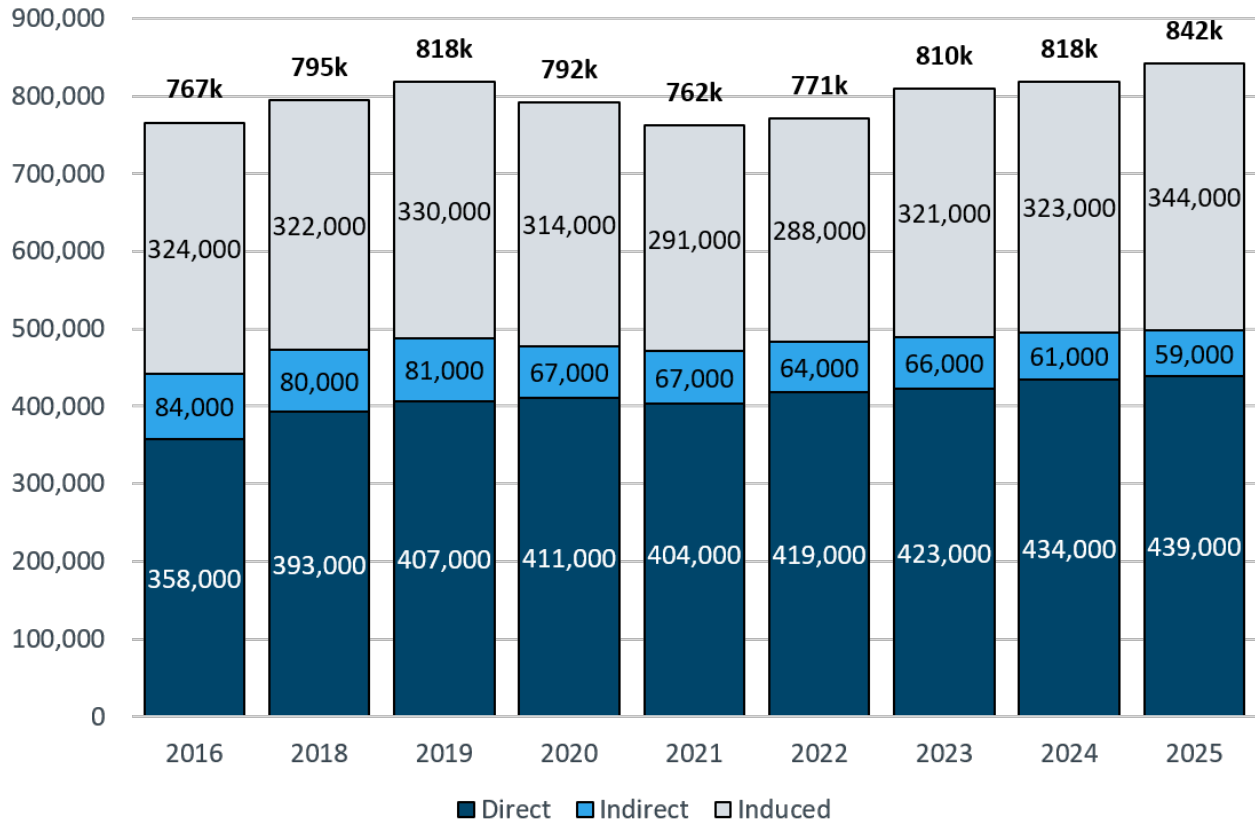
Figure 9: Total Employment



¹⁸ Direct employment includes federal employees as well as the employment of federal contractors and vendors generated by direct government spending.

Figure 10 shows the estimated total FTE jobs supported by national security activity in California from fiscal years 2016 and 2018 through 2025.¹⁹ Employment trends over this period largely mirror total output trends seen in Figure 8. Total employment increased from about 767,000 jobs in 2016 to 842,000 jobs in 2025, a 9.8% increase. Compared to the pre-pandemic peak of 818,000 FTE jobs in 2019, national security-supported FTE jobs grew by 2.9%. Similarly, total employment in 2025 increased by 2.9%, or about 24,000 jobs, from 2024.

Figure 10: Total Employment Historical Trends



¹⁹ As no prior analysis utilized fiscal year 2017 data, Figure 10 does not include 2017.

Government Revenue

Economic activity generates additional tax revenue for governments at all levels, especially through payroll and income taxes generated by hundreds of thousands of FTE employment. The economic software used for this report, described in the [Methodology & Data](#) section below, estimates that the federal government received a total of \$22.0 billion in revenue, with approximately \$8.8 billion in personal income tax and \$9.9 billion in payroll tax as a result of the spending and employment modeled.²⁰

California's state government received \$7.6 billion in revenue, notably from income tax (\$2.9 billion) and sales tax (\$1.8 billion). This represents about 2.8% of total state government tax collections.²¹ Local government revenue totaled \$3.5 billion, primarily from property tax (\$2.3 billion). Combined state and local government revenue came to more than \$11.0 billion.²²

Industries Impacted

Spending and employment modeled in this report impact a wide variety of industries. These generally fall into four broad categories. The first two categories include broad types of direct spending:²³

- **Core Mission:** A large portion of spending and resulting economic activity occur in industries that are central to the work of the three federal agencies involved, including defense contractors (primarily aerospace and research and development) and pharmaceutical manufacturers that supply Veterans Affairs' healthcare facilities.
- **Large Employer:** Some industries benefit because they are related to employment and are similar for any large employer. This includes insurance, driven by the Department of Defense's TRICARE health care program, among the top industries.

The next two categories include indirect and induced spending:

- **Subcontractors:** This category includes the contractors and suppliers of industries in the categories above, including supply chain industries such as manufacturers, transportation, and wholesalers, as well as general business-supporting industries such as janitorial and professional services.

²⁰ May not sum due to rounding.

²¹ California Research Bureau calculation based on the [U.S. Census Bureau estimate \(retrieved from FRED\)](#) of California's total state government tax collection of \$275,041,333,000 in 2025.

²² May not sum due to rounding.

²³ Overlap does exist between these groups. For example, healthcare could be considered to be part of every category. The health industry is a major contractor for Veterans Affairs, as part of its central mission to provide healthcare to veterans. The healthcare industry also serves the Department of Defense as an employer, providing insurance for its workforce, and the insurance industry, as a major subcontractor. It is also an industry that serves the local population.

- **Population-focused:** The remaining industries, such as restaurants, real estate, and education, primarily serve the local population and benefit when any spending occurs because it results in increased local employment and earnings.

Nearly every industry in the state benefits from national security spending. The largest economic impacts come from manufacturing, with the various manufacturing sectors combining for \$22.3 billion in total output and 41,100 FTEs. Top manufacturing sectors include aerospace (\$7.1 billion in output and 14,000 FTEs) and electronics (\$4.6 billion and 6,600 FTEs). Other top sectors in total output include professional services, with \$20.8 billion in output and 82,600 FTEs (especially scientific research and development: \$6.6 billion and 16,300 FTEs); real estate (\$15.3 billion and 20,400 FTEs); and healthcare (\$11.3 billion and 62,500 FTEs).

In addition, the retail (\$6.6 billion and 45,800 FTEs); restaurant (\$5.3 billion and 44,600 FTEs); and transportation & warehousing (\$5.9 billion and 31,600 FTEs) industries saw at least 30,000 FTE jobs generated because of national security activity in California.

Figures 11 and 12 show the industries with the largest total economic output and employment, respectively, resulting from national security spending and employment.

Policymakers may wish to consider other characteristics of the impacted industries that are beyond the scope of this report. These include: 1) economic considerations such as industries that support the generation of exports or innovation that may lead to future economic growth; 2) cultural considerations such as the importance of a particular profession or industry to the state or a local community's identity; and 3) externalities related to the industry such as environmental, health, or educational impacts.

Figure 11: Industry Impacts – Output

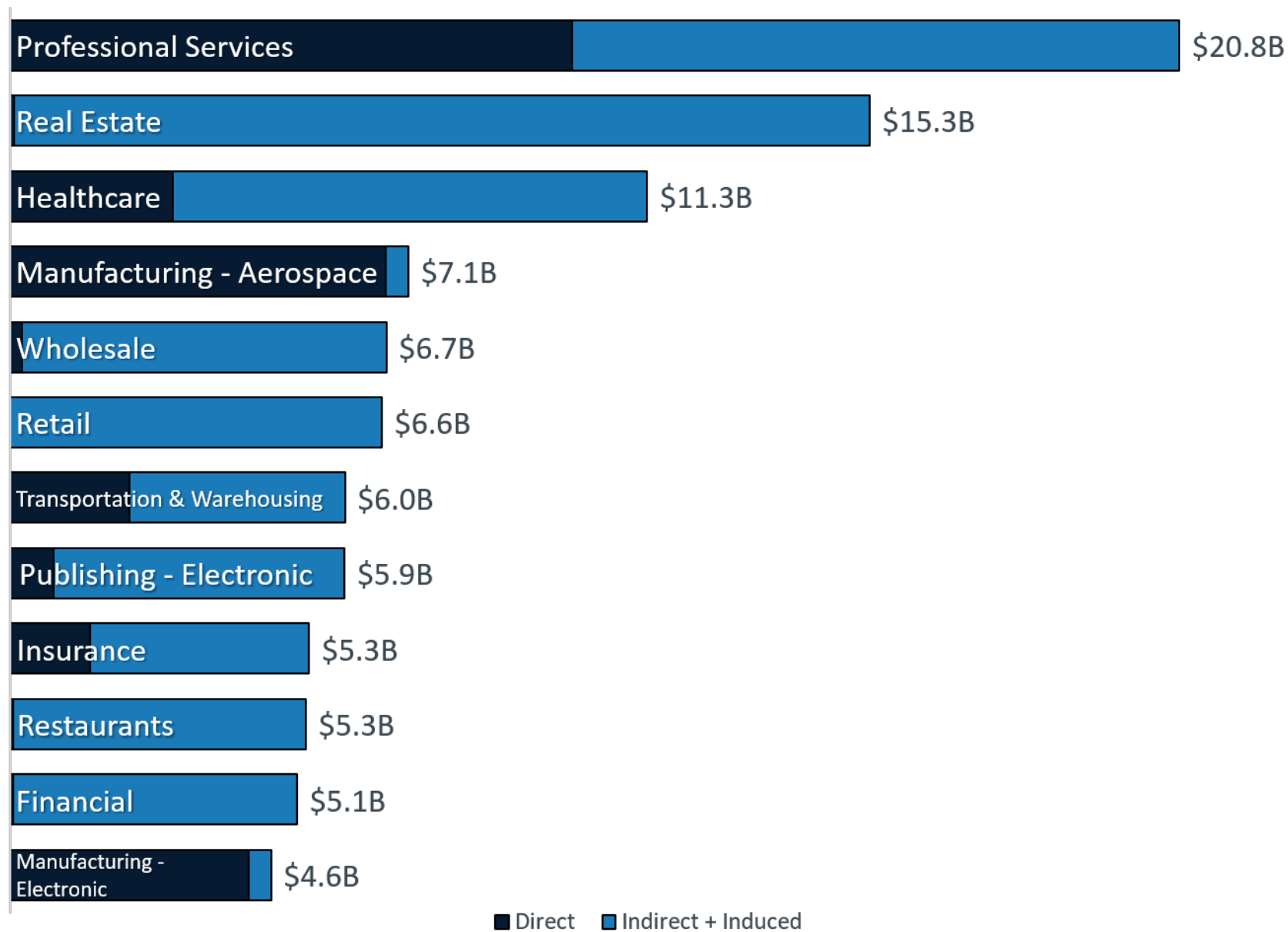
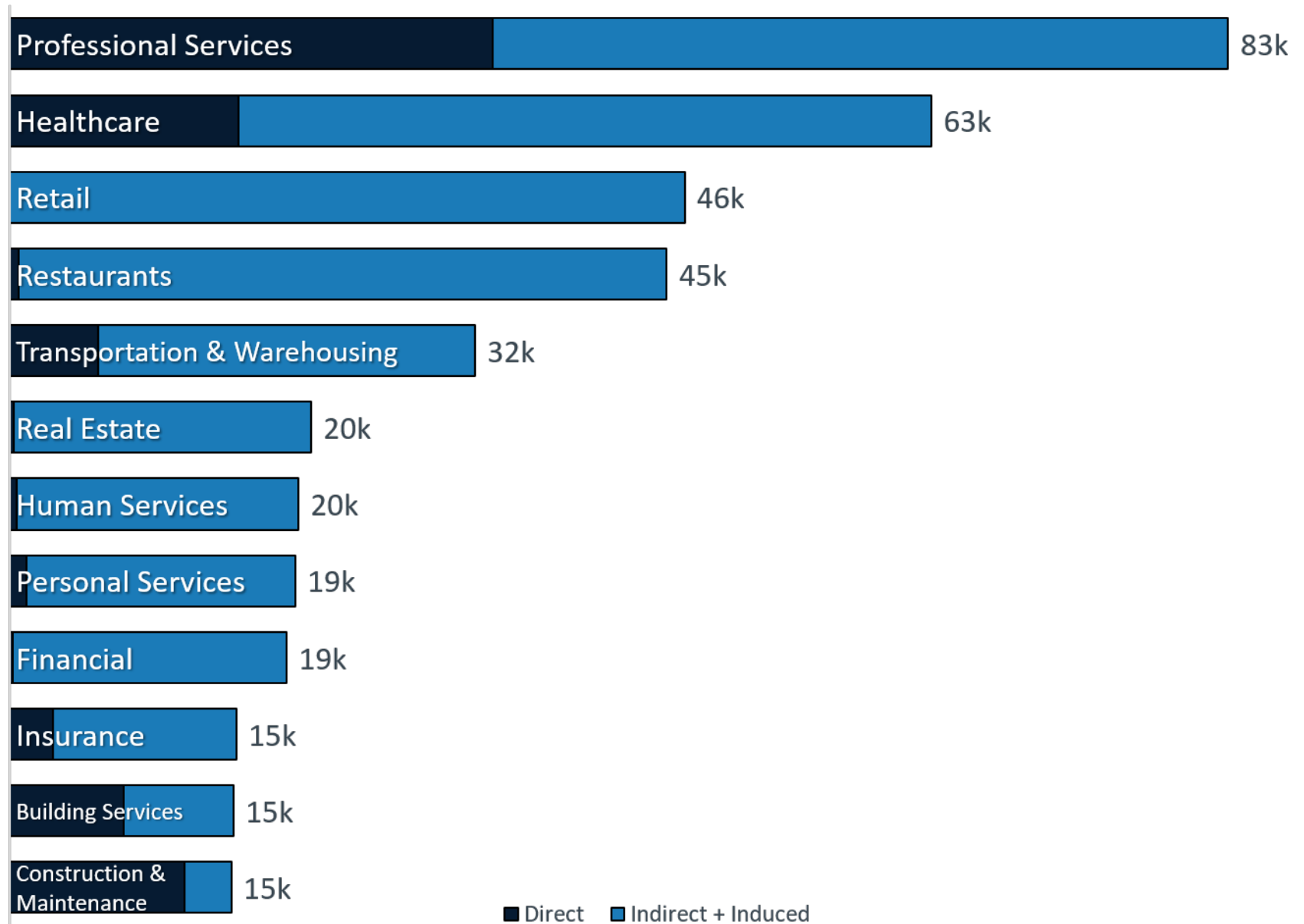


Figure 12: Industry Impacts – Employment

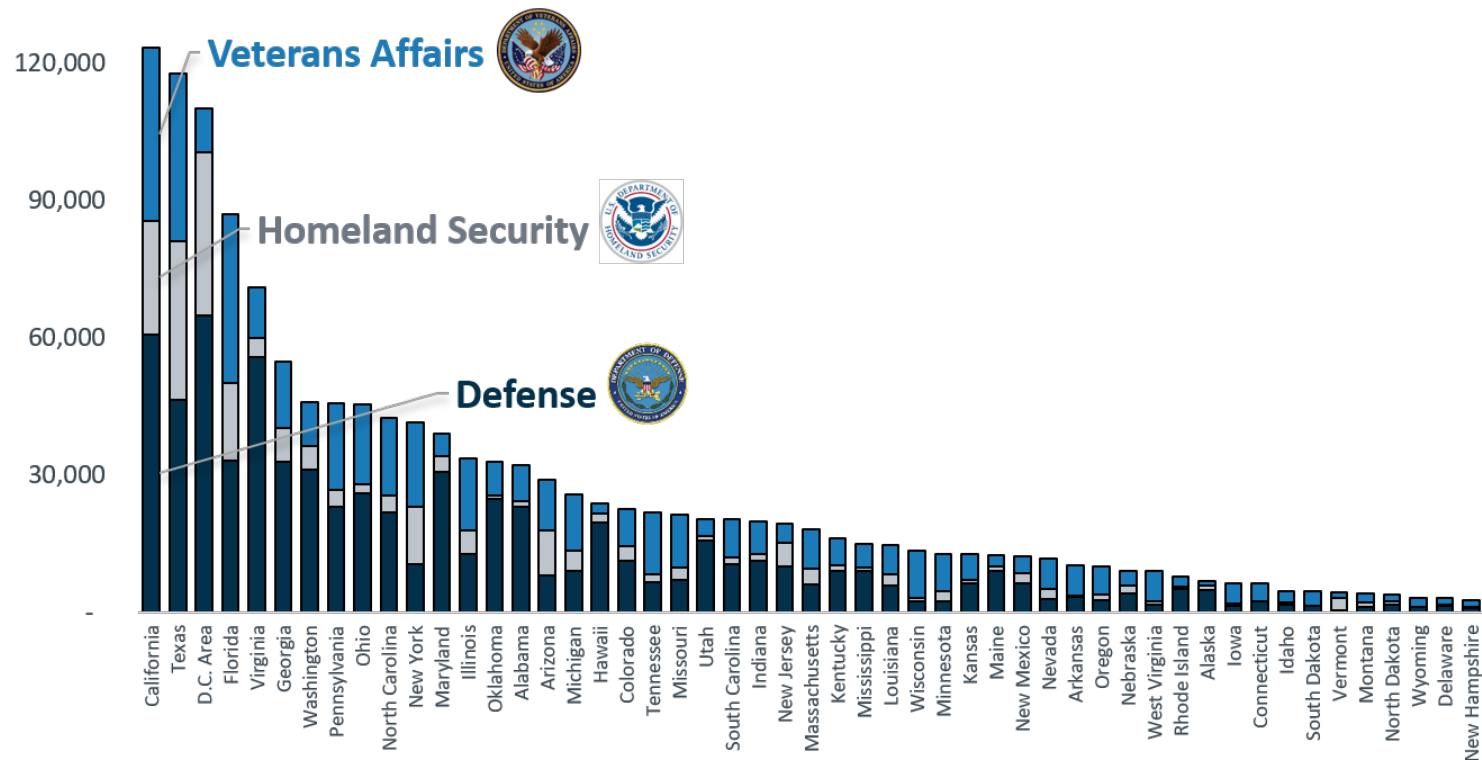


Select State Comparisons

Direct Employment

In 2025, the U.S. Departments of Defense, Homeland Security, and Veterans Affairs collectively employed approximately 1.4 million civilians and stationed about 1.2 million active-duty military members in domestic locations. Of these 2.5 million²⁴ jobs, 287,000 are concentrated in California (11.3% of the national total). Figure 13 displays the breakdown of civilian employment by state.²⁵

Figure 13: Civilian Employment by State

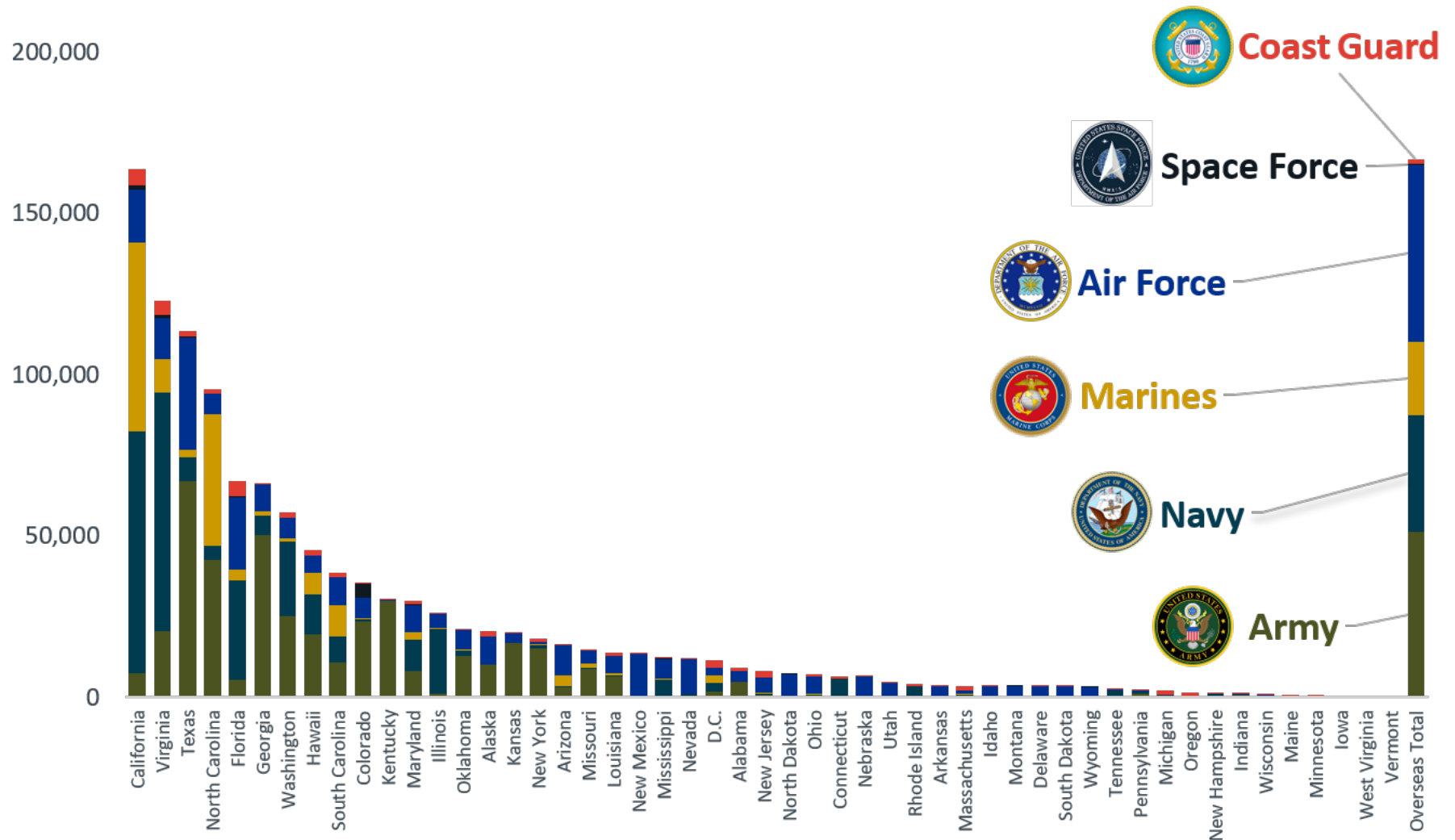


²⁴ May not sum due to rounding.

²⁵ D.C. Area encompasses civilian employment from parts of Virginia, Maryland, and West Virginia. See the [Methodology & Data](#) section for more details.

Figure 14 displays active-duty military employment by state, broken out by branch. In addition to having the largest concentration of active-duty military personnel overall, California has the largest Navy, Marine Corps, and Coast Guard presence, the second-largest Space Force presence, and the third-largest Air Force presence.

Figure 14: Active-Duty Military Employment by State



Historical Trends

This section compares the three regions with the largest share of national security-related employment. For active-duty military employment, those three are California, Texas, and Virginia. While civilian data had typically been presented the same way, currently available data, as noted in Figure 13 and the [Methodology & Data](#) section below, breaks data in the Washington D.C. region into the multi-state D.C. Area, separate from the remaining portions of Virginia, Maryland, and West Virginia. Active-duty military and civilian employment data have been currently available since 2008 and 2016, respectively.

From 2016 through 2024, civilian national security-related employment generally increased across all three regions. California, despite a slight drop in civilian employment in both 2021 and 2022, remained the largest of the three throughout this period, increasing from nearly 115,000 employees in 2016 to a peak of over 126,000 in 2024. Texas experienced the largest overall growth, consistently rising from more than 101,000 employees in 2016 to over 120,000 in 2024. Civilian employment in the D.C. Area rose from over 107,000 in 2016 to around 119,000 in 2024, with a slight drop in 2022.

In 2025, all three regions saw declines in civilian employment from 2024 levels – California by 2.6% (123,000), Texas by 2.2% (118,000), and the D.C. Area by 7.5% (110,000). Combined, the three regions account for nearly 351,000 civilian national security-related employees in 2025, over a quarter of the nation’s total. In 2025, civilian national security-related employment in the U.S. declined by 3.9%.

Figure 15: Civilian Employment by Year

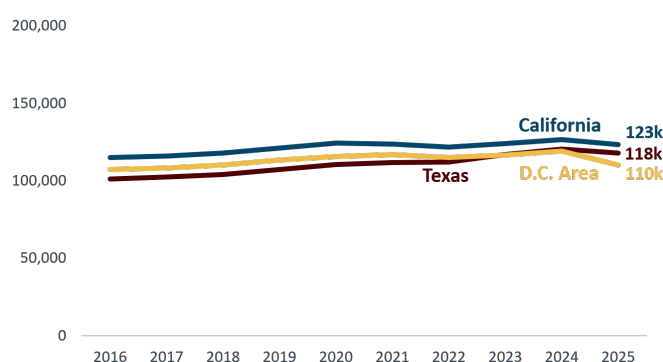
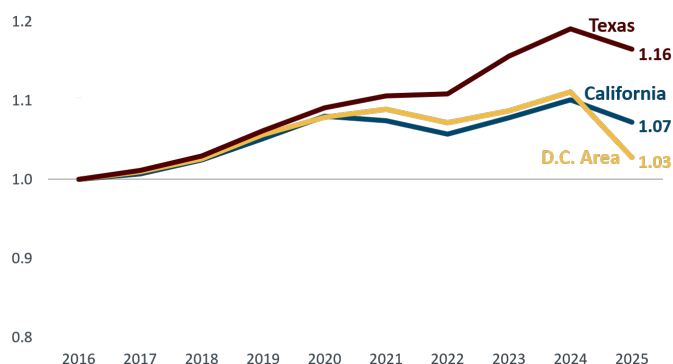


Figure 16: Indexed Civilian Employment



California has consistently been the top state in military employment, while Texas and Virginia exchanged second and third place four times over 14 years. Since 2018, Virginia has held second place.

The states' experiences with budget sequestration varied as well. Virginia initially saw an increase in active-duty employment lasting through 2015 before falling the furthest of the three states in 2016 and 2017, dropping 20% from 2012 and 28% from its 2015 peak. California was initially relatively stable, increasing slightly in 2013 before declining slowly through 2015 and falling rapidly in 2016. This totaled an 18% drop from 2012 and 20% decline from its 2013 peak. Texas, on the other hand, saw a rapid decline in 2013 and then continued to decline slowly through 2017, but yielded the smallest overall decline of the three states at only 13%.

In 2025, all three states saw increases in active-duty employment from 2024 levels – California by 0.7% (164,000), Virginia by 1.1% (123,000), and Texas by 2.4% (114,000). Compared to 2012 levels, Virginia (9.8%) and California (6.6%) continue to show overall growth. Texas, by contrast, remains 10.7% below its 2012 level. California, Texas, and Virginia combine for just over 400,000 active-duty personnel in 2025, accounting for more than one-third of the nation's total. In 2025, active-duty military employment in the U.S. grew by 1.4%.

Figure 17: Active-Duty Employment by Year

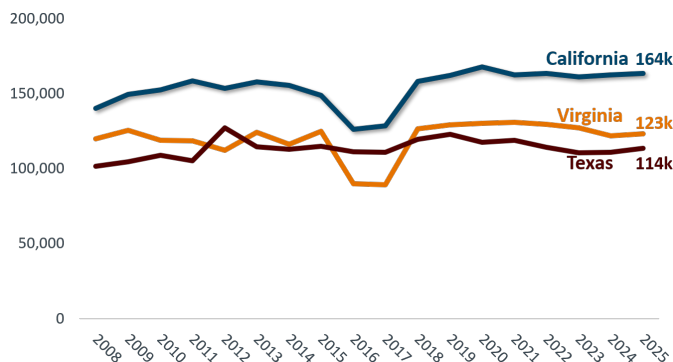
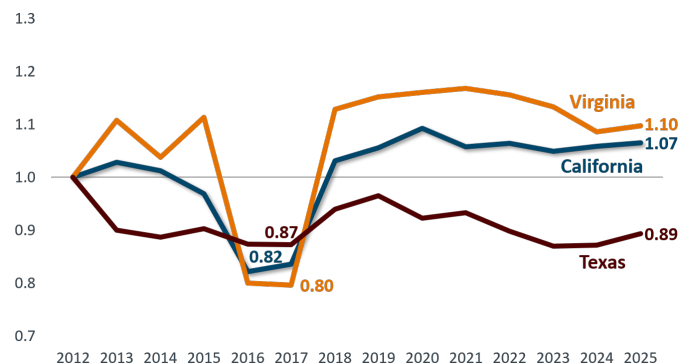


Figure 18: Indexed Active-Duty Employment



Direct Spending

California received \$36.8 billion in national security-related contracts across the three national security agencies in fiscal year 2025, a roughly 3.5% nominal increase from the \$35.6 billion the state received in 2024. Overall, California received the third-most in national security-related contracts among all states, trailing Texas (\$70.4 billion) and Virginia (\$51.2 billion). Connecticut (\$34.3 billion); Florida (\$21.0 billion); Arizona (\$19.2 billion); Pennsylvania (\$18.5 billion); Massachusetts (\$15.8 billion); Maryland (\$12.0 billion); and Missouri (\$10.4 billion) round out the Top 10 states.

Historical Trends

This section details a comparison of the three states with the largest share of national security-related contract spending. [USAspending.gov](https://www.usaspending.gov) data by state is currently available since federal fiscal year 2008. The states have followed different spending trends since that time.

Texas's national security spending has been the most volatile among the Top 3 states. From 2008 to 2009, Texas's national security spending dropped by over 60%. After its 2009 low, Texas began to see gradual increases until slipping again in 2014. Texas saw big spikes in 2017, 2020, 2022, and 2023, which are largely attributable to big contracts with Department of Defense contractors such as Lockheed Martin. In 2024, Texas's national security spending saw another large drop off with a 36% decline. However, spending rebounded sharply in 2025, increasing 61.8% to \$70.4 billion – similar to the spike seen in 2020. Despite the substantial year-to-year volatility, Texas's national security spending in 2025 was 135.3% nominally higher than in 2012.

Virginia showed steady growth from 2008 to 2011, before declining from 2012 to 2014 during budget sequestration. Beginning in 2015, Virginia once again saw steady growth, before a small dip in 2021. Virginia's national security spending in 2025 was 4.0% nominally higher than 2024, and 54.4% more than its 2012 level.

California has followed a similar path to Virginia, with steady growth prior to sequestration, followed by a dip during the early years of sequestration and steady growth for the next several years. California reached a record high in 2019, with nearly \$40.7 billion in national security spending. In 2020 and 2021, the data shows a decrease in California's spending by about 19% since its 2012 level. This is due to McKesson moving its headquarters from California to Texas. As a result, its large Veterans Affairs contract is counted by [USAspending.gov](https://www.usaspending.gov) in Texas instead of California. It is likely that a significant portion of the economic activity remains in California, but it is missed by our current accounting approach. California's national security spending for 2025 represents a 3.5% nominal increase from 2024, but remains 0.4% below its 2012 level.

Figure 19: Direct Spending by Year (in billions)

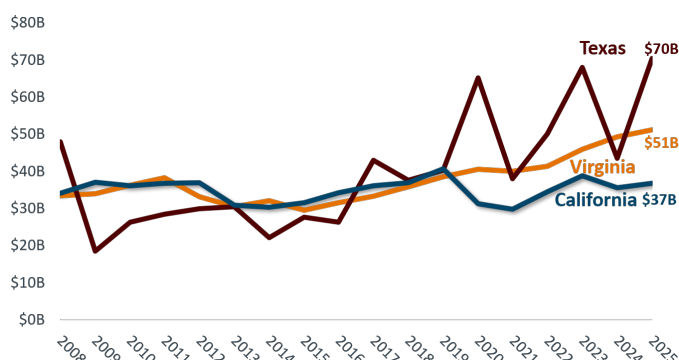


Figure 20: Indexed Direct Spending

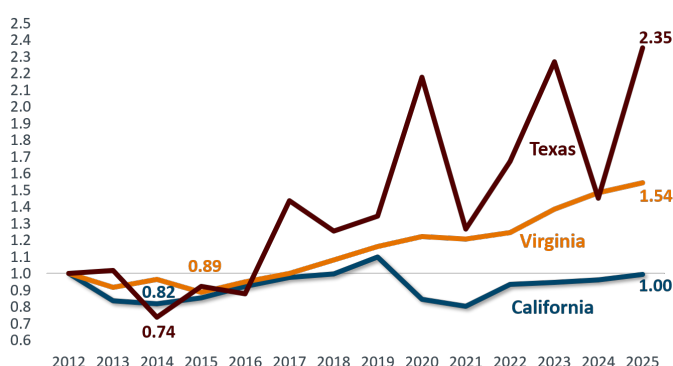
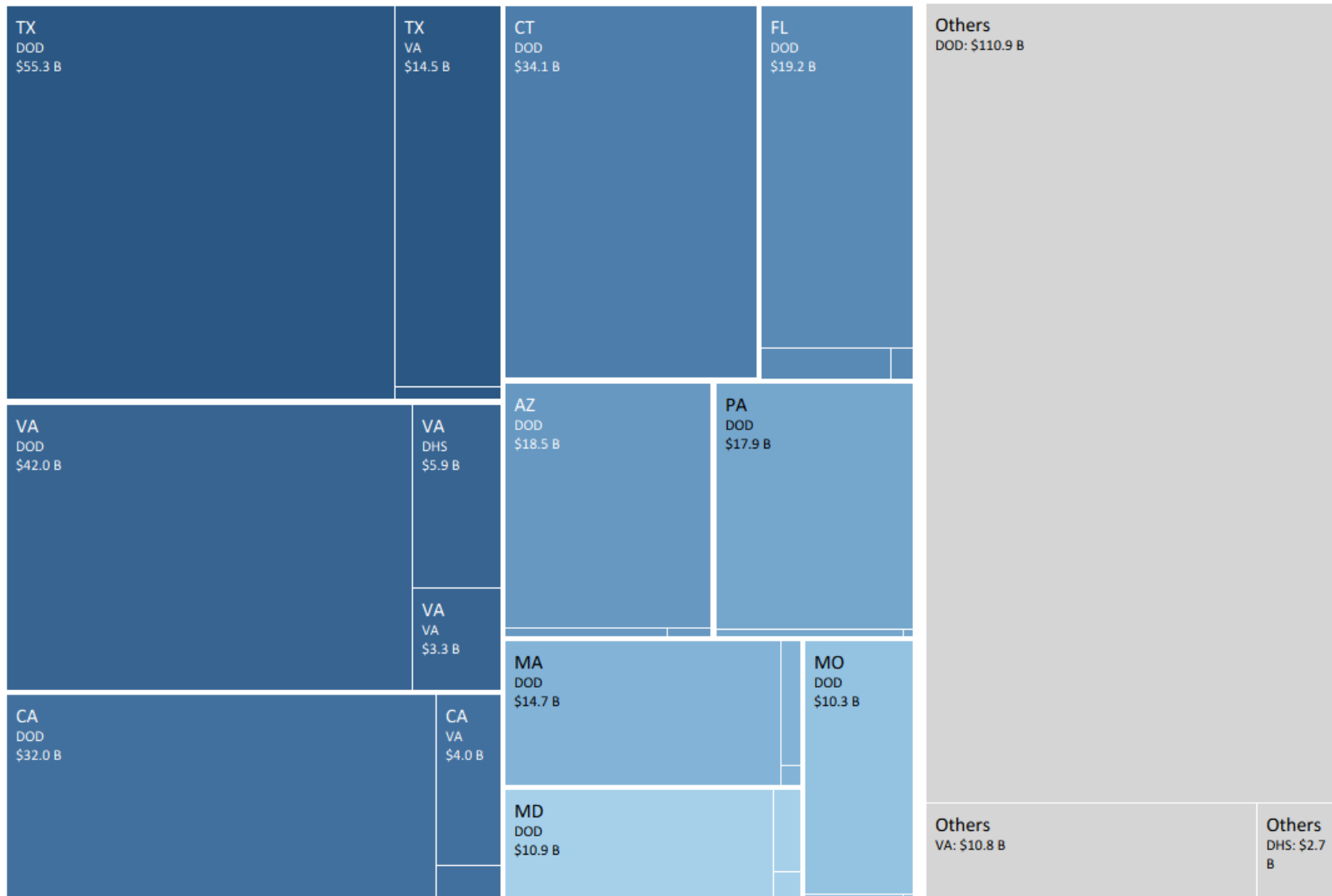


Figure 21: 2025 Contract Spending by State (in billions)



U.S. Department of Energy

The Department of Energy (DOE) conducts a wide variety of work, including some national security-related activities. This report follows the methodology established in previous years to estimate the impact of DOE's national security activity.

Direct Spending

In fiscal year 2025, DOE awarded more than \$5.7 billion to California contractors for projects performed in California, up from \$5.3 billion in 2024 (a 7.5% nominal increase). In addition, DOE issued around \$2.5 billion in grants, an increase from the \$1.3 billion issued in 2024 (a 90.6% nominal increase). Large portions of this spending are for non-specified research funded by the department's Science Office. For example, this included 12 of the 20 largest contracts in fiscal year 2025.²⁶ Since we cannot verify if these funds were spent on national security-related research, contracts such as these were omitted from this analysis.

To ensure conservative results, this analysis only includes spending from sub-agencies that are directly related to national security.²⁷ Contracts and grants from these funding sub-agencies total \$3.4 billion, 41.2% of the DOE's total spending in the state.

Direct Employment

The Department of Energy is among the smaller Cabinet-agency employers, with 16,720 staff nationwide. The largest share is in the D.C. Area (5,572), while the states of Washington (2,272), Oregon (1,354), New Mexico (952), and Colorado (948) round out the Top 5. California ranks eighth (including D.C. Area) with 491 DOE staff.

As discussed in the prior section, part of the work performed by DOE staff is not related to national security. For this analysis, we use the proportion of DOE spending estimated to be national security related (41.2%) to yield an estimate of 202 national security-related staff.

²⁶ This includes eight contracts with the University of California and four with Stanford University.

²⁷ Funding sub-agencies included: Department of Defense Advanced Research Projects Agency (DARPA), Department of the Army, Department of the Air Force, Missile Defense Agency (MDA), Defense Threat Reduction Agency (DTRA), Department of Defense, Department of the Navy and Department of Energy spending with the National Nuclear Security Administration (NNSA) as the funding office.

Economic Impacts

Estimated Output from DOE Activity

Estimated national security-related spending and employment in California from DOE results in approximately \$6.9 billion in economic activity. This includes \$3.4 billion in direct activity, \$1.6 billion in indirect activity, and \$1.9 billion in induced activity. Over 50% (\$3.6 billion) of that activity is concentrated in scientific research and development services within the professional services sector.

Estimated Employment from DOE Activity

Estimated national security-related spending and employment in California from DOE results in approximately 23,200 FTEs. This includes 8,700 in direct employment (including the 202 DOE staff as well as DOE-employed contractors and vendors), 6,100 in indirect employment, and 8,400 in induced employment. About 40% (8,800) of that employment is concentrated in scientific research and development services within the professional services sector.

Report Summary

National security contributes significantly to California's economy. The federal government invested around \$61.7 billion and directly employed approximately 340,000 residents in the state during fiscal year 2025. This resulted in \$211.9 billion in economic output (5.0% of state GDP) and supported over 842,000 full-time equivalent jobs (4.5% of total state employment) in California. Although direct comparisons are challenging, the total impact appears larger than high-profile sectors such as the agriculture²⁸ and film industries.²⁹

²⁸ California Department of Food and Agriculture (2024). [California Agricultural Production Statistics](#).

²⁹ BEA (2023). [Arts and Cultural Production Satellite Account, U.S. and States](#).

A U.S. Marine flies toward the USS
Makin Island amphibious assault
ship off the coast of California.



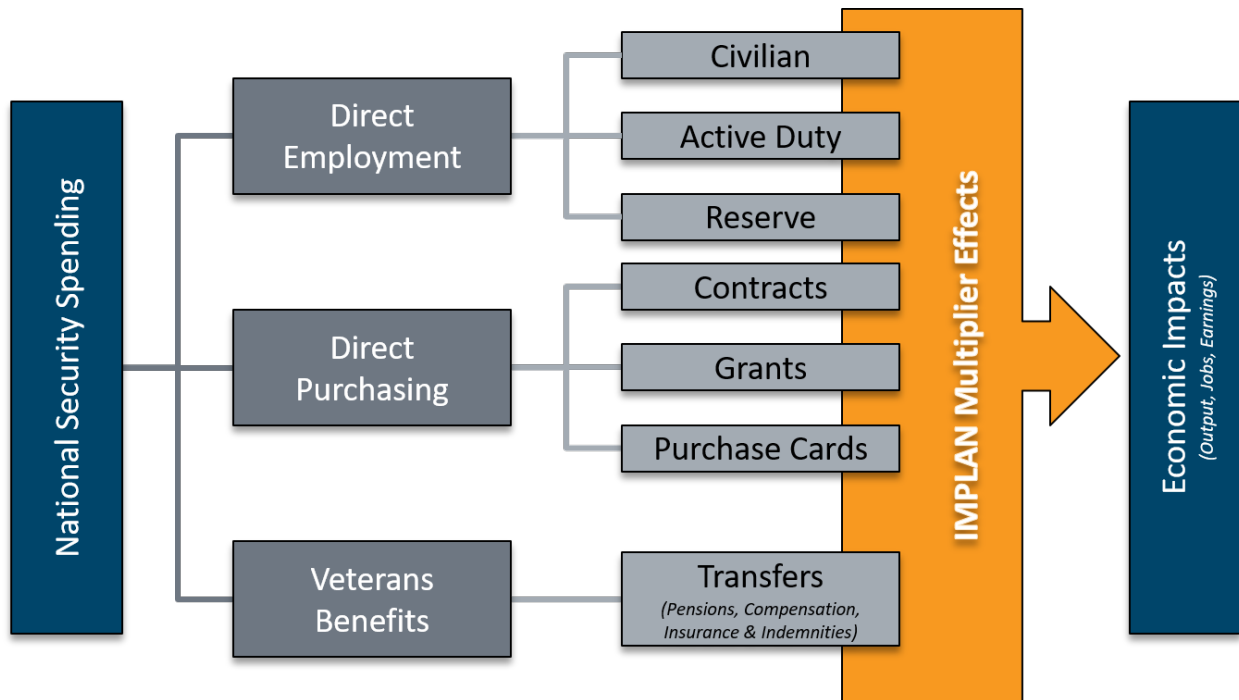
Methodology & Data

Scope

As discussed in the introduction, this report focuses on the U.S. Departments of Defense, Homeland Security, and Veterans Affairs.

Within these three federal agencies, three broad areas of economic activity are examined: direct employment; direct purchasing; and spending on veterans' benefits. Figure 22 details the components of these spending areas.

Figure 22: Scope of Analysis



This report does not include impacts from activities other than direct spending and employment by the Departments of Defense, Homeland Security, and Veterans Affairs. Examples of what is not included in this report:

- Purchasing of military equipment by international governments that is enabled by the infrastructure and research performed to provide this equipment to the U.S. government;
- Tourism related to celebrations, conferences or other gatherings related to military installations; and
- Other partnerships that aerospace and defense companies may have with universities enabled by their security work.

Data

All data was acquired from U.S. government sources. Data is publicly available from the USA Spending database or regularly updated reports.

Spending

[USAspending.gov](https://www.usaspending.gov) remains the primary source for spending data. [USAspending.gov](https://www.usaspending.gov) provides a public database of nearly all federal spending. Although the database has limitations^{30,31} it is a very useful tool that provides comprehensive data. Given these limitations, only spending from California-based prime contractors and their California-based subcontractors for projects completed within California are analyzed.

SmartPay data was acquired from the General Services Administration.³² Data provided by the departments was inconsistent or unavailable. Thus, spending was apportioned to counties and congressional districts based on the share identified in prior reports. Updated SmartPay data from Defense, Homeland Security, and Veterans Affairs was not received at the time of this report's publication.

Employment

Civilian employment was previously acquired from the U.S. Office of Personnel Management's (OPM) FedScope tool, which reports data at the statewide level. In January 2026, OPM shut down FedScope for a new tool: the [Federal Workforce Data](https://www.opm.gov/federal-workforce-data) (FWD).³³ Civilian employment data was collected from FWD's "[Location by agency and state](https://www.opm.gov/federal-workforce-data/location-by-agency-and-state)" dashboard. Per OPM, the FWD tool utilizes the same underlying data source as FedScope but a "different database" and "different logic to retrieve the data." Hence, the FWD data is not directly comparable to prior reports' data which utilized FedScope. The most significant difference is the use of "D.C. Area," which OPM defines based on a [core statistical area](https://www.opm.gov/federal-workforce-data/core-statistical-area) that encompasses parts of Virginia, Maryland, and West Virginia. This has the effect of dramatically increasing the estimated number of civilian employees in Washington D.C., while simultaneously decreasing the numbers for Virginia and Maryland. In addition, FWD appears to consistently report modestly higher state employment amounts (1-2%) likely due to different treatment of employees with suppressed locations. County and congressional district distribution is estimated based on data received from OPM, in response to a Freedom of Information Act request, that details non-suppressed civilian employment for Homeland Security and Veterans Affairs by county.

³⁰ POGO (2013). [USAspending.gov: NOT Your One-Stop Shop for Following Taxpayer Dollars](https://www.pogo.org/2013/04/24/usaspendinggov-not-your-one-stop-shop-for-following-taxpayer-dollars).

³¹ Sunlight Foundation (2017). [A brief history of the DATA Act](https://www.sunlightfoundation.com/2017/01/11/a-brief-history-of-the-data-act/).

³² Available at [About GSA SmartPay](https://www.gsa.gov/SmartPay) under the "Statistics and Reports" and "Sales, Transactions, Card/Account Holder Data" menus.

³³ U.S. Office of Personnel Management (OPM). [Federal Workforce Data](https://www.opm.gov/federal-workforce-data).

Military employment was acquired from the Department of Defense's Defense Manpower Data Center's (DMDC) Location Report. DMDC only provides data by state, however. County and district distribution is estimated based on the distribution drawn from the American Community Survey. In addition, full-time equivalent estimates for reservists and National Guard were made based on relative salaries for reservists and active-duty personnel matched by rank and experience. Reservist salaries range from 17.5% of matched active-duty pay to a high of 21.2%, with an average of 18.25%. As a result, reservists are estimated at 0.1825 FTE (or 5.5 reservists are considered the equivalent of 1 active-duty employee for economic purposes).

Methodology

Input-Output Modeling

This report models economic impacts using IMPLAN software, based on standard input-output methodology. The purpose of the study is to estimate the impacts of existing spending, rather than modeling any policy changes or other counterfactuals. As a result, the analysis estimates gross benefits and does not account for alternate federal spending or other use of resources that might occur in California in the absence of national security spending and employment.

Input-output (I-O) models identify relationships between industries, estimating how changes in one industry flow through into other industries. For example, the purchase of required inputs that result in logistics or business services and changes to household purchasing due to shifts in employment and earnings. Cumulatively, I-O models estimate the number of times the modeled dollar is re-spent within a geographic area before it fully leaks out. The concept was pioneered by Wassily Leontief, who was awarded the Nobel Prize in 1973 "for the development of the I-O method and for its application to important economic problems."³⁴

IMPLAN Economic Model

The IMPLAN (IMPact Analysis for PLANning) I-O economic model was selected for this analysis based on its reputation and the resources available. IMPLAN was developed by the U.S. Department of Agriculture Forest Service in the 1970s to fulfill the requirements of the Rural Development Act of 1972 to estimate the impacts of alternate uses for U.S. public forest resources.

IMPLAN models the economy within a specified region as 528 sectors with unique spending patterns derived from U.S. Bureau of Economic Analysis expenditure patterns.³⁵

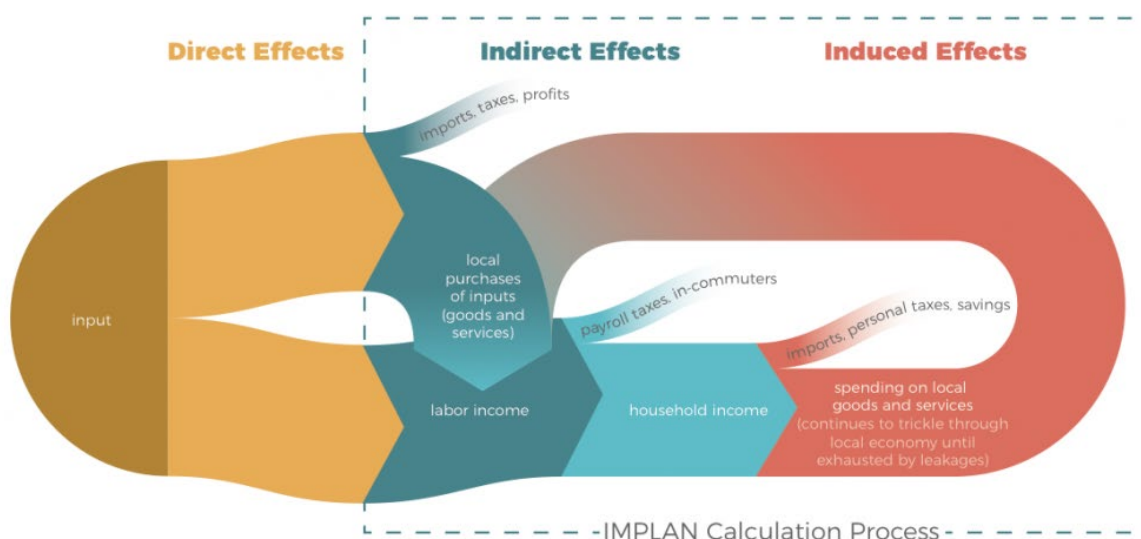
As depicted in Figure 23, the model begins with the direct effects of the modeled economic activity. This includes the employment/wages and output of the sector being analyzed. From here, the model estimates the supply chain impacts for the output of the direct effects. This

³⁴ [NobelPrize.org. Wassily Leontief – Facts.](https://nobelprize.org/wassily-leontief-facts)

³⁵ Prior reports utilized [IMPLAN's 546 sector scheme](#).

includes leakages, such as imported inputs, taxes and profits, and local purchases of inputs toward the final product. These local purchases generate labor income (which includes total compensation of both the employee and the proprietor), which joins the stream with the labor income from the direct effect. This stream then has leakages, including imports, income to employees living beyond the modeled region, taxes and savings. Remaining income – spent on locally purchased goods and services – cycles back around and the cycle begins anew until all remaining funds are exhausted due to leakage.

Figure 23: IMPLAN Model³⁶



MRIO Analysis

IMPLAN's Multi-Regional Input-Output (MRIO) analysis tool offers a simplified path to fully account for localized impacts, without the need to generate 174 models required to complete the custom methodology employed in 2018 and prior reports.

"MRIO expands backward supply linkages beyond the boundaries of a single-region Study Area. MRIO analyses utilize interregional commodity trade and commuting flows to quantify the demand changes across many regions stemming from a change in production and/or income in another region. This powerful analytical method allows analysts to go beyond a single study region, measuring the economic interdependence of regions. In an MRIO analysis, the Direct Effect in one region, Region A, can trigger Indirect and Induced Effects in linked regions, capturing some of what would have been a leakage in a traditional I-O model."³⁷

An approach such as MRIO more fully accounts for the localized impacts within the state but does not impact the statewide estimates. While a single economic model can be run to

³⁶ [IMPLAN Case Study: Assisted Economy.](#)

³⁷ Clouse, C. (2026). [MRIO: Introduction to Multi-Regional Input-Output Analysis. IMPLAN.](#)

estimate the impact of spending within each region, this methodology would understate the total impact, because it would omit spillover effects from spending in other counties. This more basic methodology would have overlooked approximately 10% of total state output in the 2019 regional structure and approximately 17% in the 2018 county structure.³⁸ The number of regions impacts the amount of activity that would be omitted by the simpler methodology. If there are more regions, each region includes less economic activity and, thus, loses more spillover activity to surrounding regions. For example, if one were to consider the greater Sacramento region, as in the 2019 report, it would include the spillover that spending in Sacramento County would provide to nearby Yolo County. However, if it was focused on specific counties, as in the 2018 report, Yolo County would be considered separately from Sacramento County. This would result in the spillover being missed in the simpler methodology and explains why the estimate for 2019 was less than 2018. In either case, these spillover impacts are captured by the methodology used in these reports and are included in the results.

Figure 24: MRIO³⁹



Limitations of the Input-Output Model

Readers should be aware of a number of limitations with the modeling techniques employed, as Leontief himself acknowledged.⁴⁰

I-O models are based on fixed assumptions about the economy being modeled. It assumes that X input leads to Y output. Reality, however, may play out differently. For example, if the scenario led to the need to purchase more widgets, the model would assume the local widget industry would be able to expand as necessary to maintain the level at which it currently fulfills local widget needs. This assumption could be flawed in ways that could over- or understate the impact. The local economy might not have the resources, physical space, capital and/or workforce to support that expansion and the widget industry may not grow at all. Conversely, if it is able to expand to fulfill the modeled needs, expansion may lead to the widget industry

³⁸ Clouse, C. (2026). [MRIO: Introduction to Multi-Regional Input-Output Analysis. IMPLAN.](#)

³⁹ Clouse, C. (2026). [MRIO: Introduction to Multi-Regional Input-Output Analysis. IMPLAN.](#)

⁴⁰ Leontief, W. (1955). [Some Basic Problems of Empirical Input-Output Analysis.](#)

investing the capital to expand sufficiently to fulfill all of the added demand or even supplant demand currently fulfilled by imports. Similarly, the growth will impact the workforce in ways that could further grow the economy by bringing in additional workers or shrink other aspects of the economy by competing for a limited pool of employees. Similarly, it assumes that prices are fixed and that ratios for intermediate inputs (i.e., efficiency) are fixed.

These issues are most pronounced at the largest scales (both relatively and absolutely). For example, if we were to introduce an additional \$10 trillion in spending nationally, it would not double the overall size of the economy, as an I-O model would estimate. Instead, it would largely crowd out other economic activity, since the country's workforce and resources could not absorb the extra demand for goods and services, resulting in significant inflation, but little real economic growth.

Because the purpose of this study is to estimate the existing impacts of current spending levels, these limitations are less significant.

Beyond specific limitations of I-O modeling, as Leontief described it, the "theoretical formulation is designed to protect the investigator from this danger: it does not permit him to draw any special or general conclusions before he or someone else completes the always difficult and seldom glamorous task of ascertaining the necessary facts."⁴¹ In other words, any model is only as good as its data.

The inputs used are entirely U.S. administrative data, which is typically considered among the most reliable sources. There are limitations, however. Several datasets do not perfectly align with the model or the needs of this study. Some spending data is tagged to a specific company but not a specific industry. In these cases, the California Research Bureau made a judgement as to which IMPLAN sector code to assign that spending. In cases where sufficient detail is not available to differentiate between similar sectors, the sector with multipliers closest to the average of the other sectors was assigned. Provision of SmartPay data by the departments has proven unreliable. As a result, national data is apportioned based on the most recent year when more detailed data was available, which varies by department. As discussed above, this analysis does not include data on in-state subcontractors operating under out-of-state prime-contractors, largely because of the condition of the original datasets and concerns about duplicating counts.

These limitations notwithstanding, I-O modeling generally, and the IMPLAN model specifically, are widely accepted tools for estimating impacts for government spending. The estimates provide a reasonable approximation of the impacts.

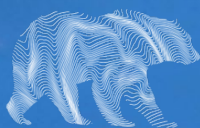
⁴¹ Dietzenbacher, E. & Lahr, M.L. (2004). Wassily Leontief and Input-Output Economics. Cambridge University Press.



An Air Force F-22 Raptor conducts a high angle-of-attack test maneuver over the Mojave Desert.



Produced with support from the



CALIFORNIA
BUSINESS AND ECONOMIC DEVELOPMENT

Governor's Office of Business
and Economic Development