Wisconsin's Share of Federal Contract Dollars, 2021–23*

Jonathan Pulley,† Alexander Fos,‡ and Sanghyun Cho§
Center for Research on the Wisconsin Economy
University of Wisconsin – Madison
August 29, 2024

Executive Summary

We use publicly available federal data to compare the distribution of federal contract dollars to Wisconsin and the broader Midwest.

Wisconsin accounts for 11 percent of new federal obligations within the Midwest in 2021–23. The majority of Midwest federal contract obligations (35 percent, 2021–23) are received by Illinois.

- Manufacturing is the largest sector receiving federal contract obligations, representing 66 percent of Wisconsin's obligations and 63 percent of the broader Midwest's obligations (excluding Wisconsin);
- The Department of Defense (DoD) is the largest awarding agency, representing 64 percent of awarded contract dollars in Wisconsin and 77 percent of awarded contract dollars in the broader Midwest (excluding Wisconsin);
- In Wisconsin, Oshkosh Defense Corporation represents 33 percent of federal new obligations. UnitedHealth Group has the second-highest concentration (9 percent);
- In the broader Midwest (excluding Wisconsin), General Dynamics is the largest single recipient, accounting for 8 percent of obligations.

** The views expressed herein are those of the authors and not necessarily those of the Center for Research on the Wisconsin Economy, the Department of Economics, or the University of Wisconsin – Madison.*

† Graduate Research Assistant
‡ Graduate Research Assistant
§ Graduate Research Assistant

1 Introduction

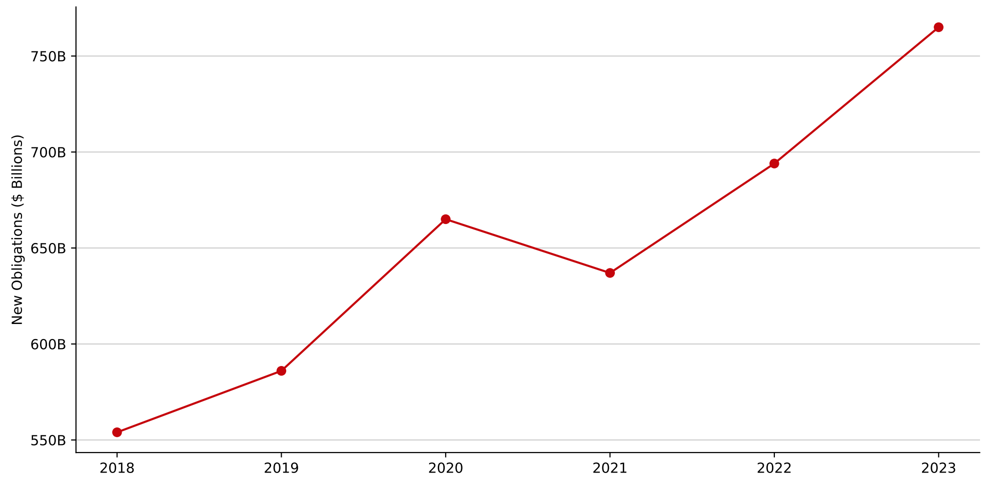

Figure 1: U.S. Federal Contract Obligations ($ Billions)

In fiscal year 2022, the US federal government spent $6.13 trillion. Of that amount, $694 billion went towards private contractors that generate products or services on behalf of the federal government (Figure 1) [1]. This means roughly 11 percent of the federal budget was allocated directly to private firms that are operating in the economies in which they reside. Given these magnitudes, states have an interest in understanding their relative receipt of these dollars. Hence, we compare the share of federal contract dollars allocated towards Wisconsin to the broader trends in the Midwest (IL, MI, IN, IA, MN) by looking at the award sector, granting agencies, and receiving firms.

Federal contract spending is measured in two ways: obligations and outlays. Obligations are the total amount promised to a firm over a given time horizon, which can range from a few months to several years. Outlays are the amount paid out in a given time frame (typically a fiscal year). Due to the lack of robust outlay data before 2022, we focus on federal contract obligations.

One problem with tracking federal contract obligations is their long time span, which hinders tracking the cumulative value of the fulfilled obligations. Therefore, this analysis studies new obligations beginning in the fiscal year of interest. This measure should be interpreted as the total value of new obligations promised in that fiscal year, not the spending associated with the contract in that fiscal year.

The data for this analysis come directly from the USASpending data repository [2]. The data includes a contract's primary place of performance—the geographical location where the bulk of the contract money is slated to be spent. For firms with operations across states, contracts may be identified as awarded to a state where that firm is not headquartered.

2 Federal Contract Dollars Across the Midwest

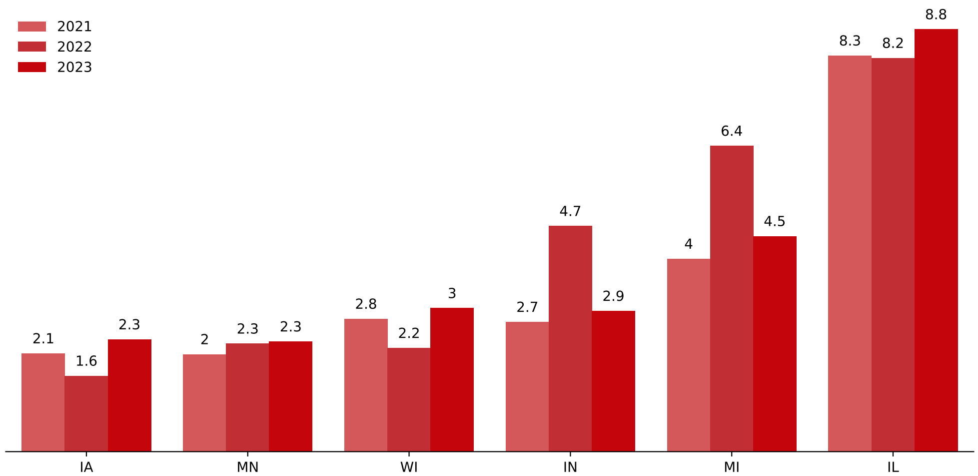

Figure 2: New Federal Contract Obligations ($ Billions)

Figure 2 shows that Illinois leads the upper Midwest in new federal obligations, with an average around $10 billion in new federal contract obligations in the last four years. On a per-capita basis (Figure 3), the heterogeneity across the states largely disappears, while the variance across the years remains.

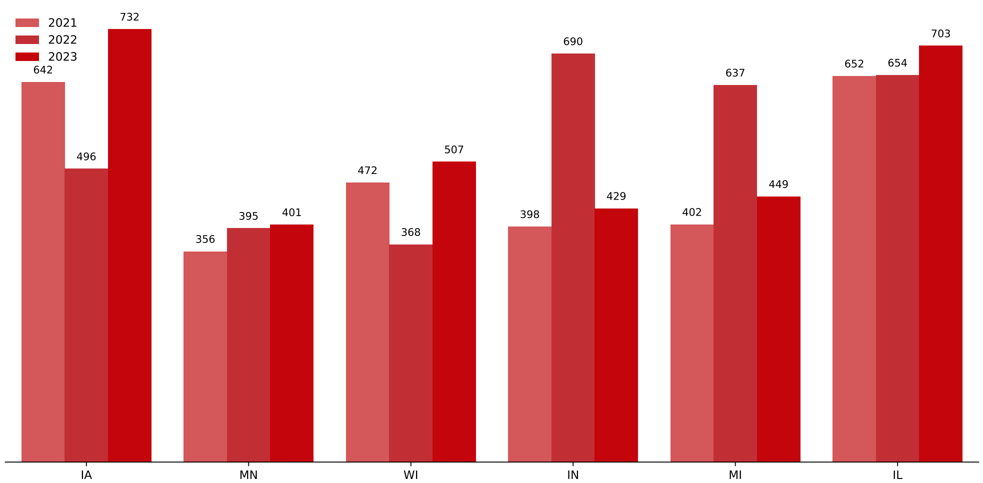

Figure 3: New Federal Contract Obligations per Capita ($ Level)

3 Breakdown of the Midwest: New Federal Obligations by Sector

Since Wisconsin is the primary concern of this analysis, it is important to understand the underlying economy of the state. Figure 4 plots the distribution of Wisconsin's GDP by sector.

The top four sectors, Manufacturing, Real Estate, Healthcare, and Finance, account for more than 50 percent of the entire economy. Of particular importance, Manufacturing includes the production of military equipment and vehicles.

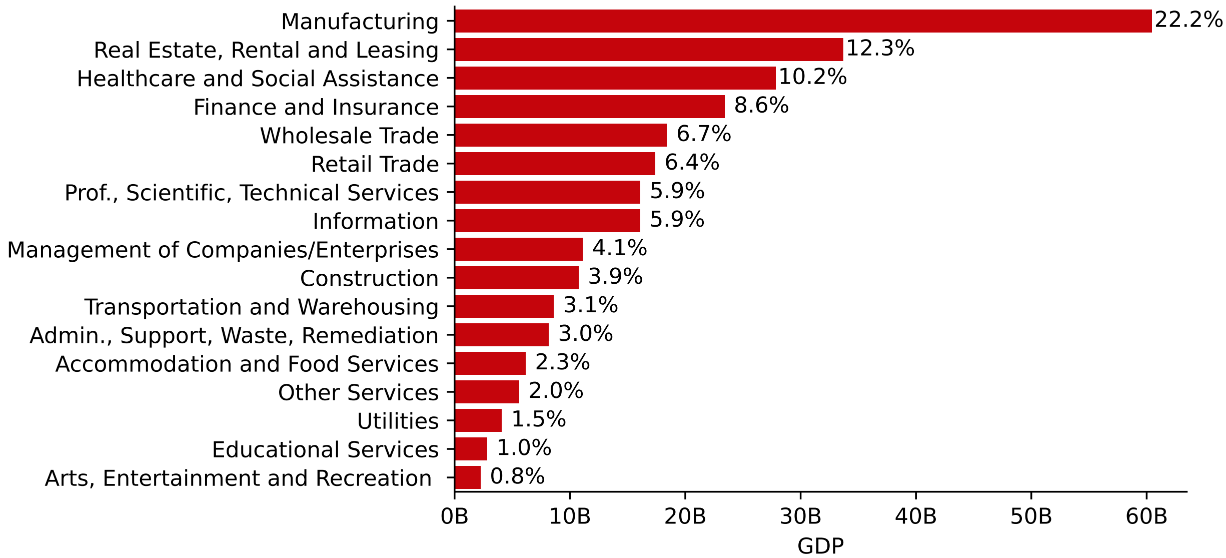

Figure 4: Wisconsin GDP by Sector (2022)

In Figures 5 and 6, we plot the distribution of new obligations, by sector, in Wisconsin and the rest of the Midwest states. Each contract in the data has a North American Industrial Classification System (NAICS) code that allows it to be matched to an appropriate sector. This allows us to study the industries and jobs that are likely affected or created by these federal contracts.

The distribution of new federal contracts in Wisconsin (Figure 5) is qualitatively similar to the distribution of the broader Wisconsin economy in Figure 4, but more concentrated. Figure 4 shows that manufacturing is the top recipient of federal obligations, accounting for 66 percent on average. This is three times larger than the sector's share of total GDP (22 percent). The outsized role manufacturing plays is largely explained by Wisconsin's capacity to produce military equipment for federal and state entities. Healthcare, Construction, and Professional Services represent much smaller destinations for federal obligations.

Overall, the top five sectors make up 93 percent (on average) of all new obligations in Wisconsin. The concentration of new federal obligations in a few sectors exceeds the comparable concentration of GDP in the broader Wisconsin economy. This disparity means that federal contract dollars have an outsized role in the manufacturing sector in Wisconsin. This overrepresentation could be a risk to the Wisconsin economy should these contracts diminish or disappear entirely.

Figure 6 shows the sectors with the largest obligations in the Midwest. The broader Midwest has a similar concentration and faces similar risks to Wisconsin. The primary sector driving new federal contract obligations in non-Wisconsin Midwestern states is Manufacturing. Construction and Professional Services follow closely with Administrative Support and Healthcare having a much smaller impact. Again, this figure demonstrates the overall concentration of new federal contracts, representing 88 percent of obligations in the region.

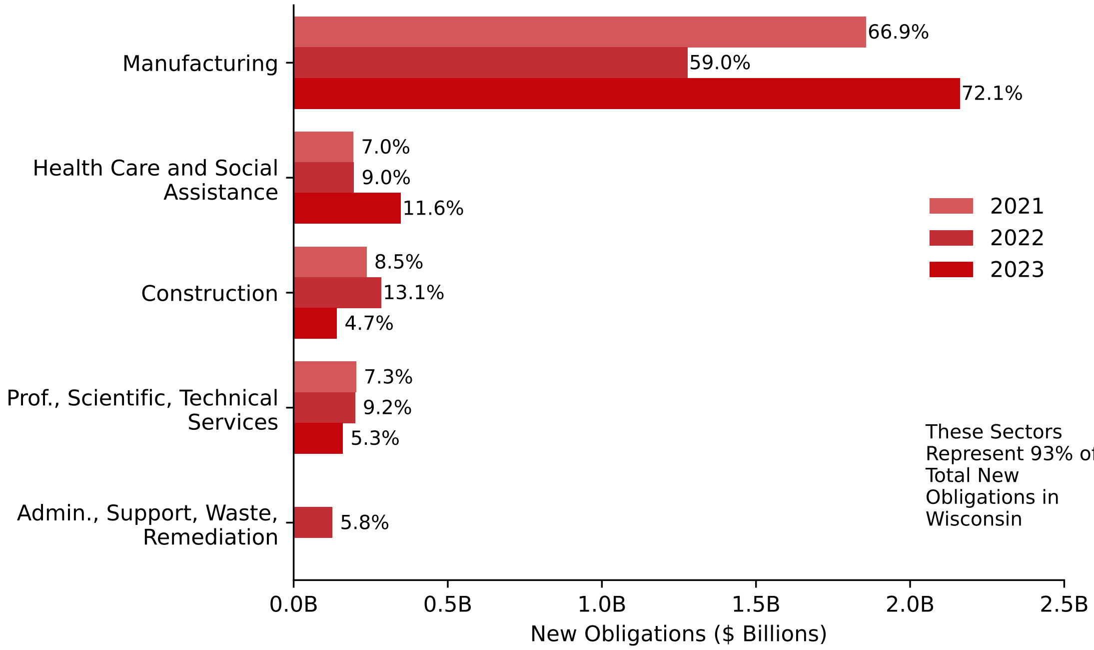

Figure 5: New Federal Contracts by Sector: Wisconsin

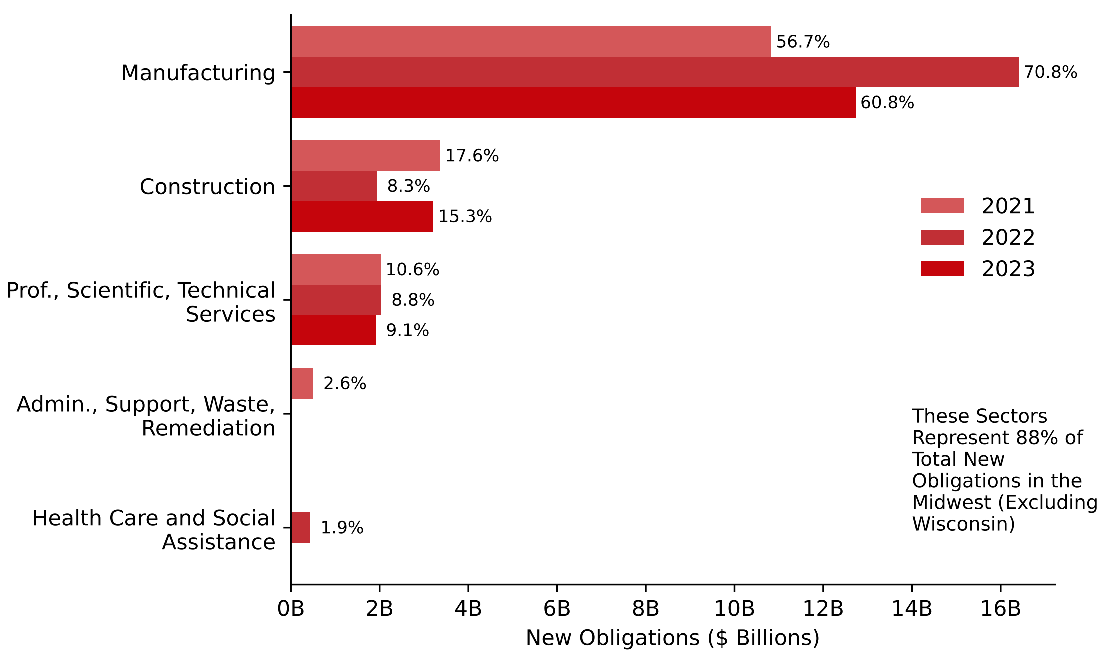

Figure 6: New Federal Contracts by Sector: Midwest (without Wisconsin)

4 Top Contributing Federal Agencies

The impact of federal contracts can be further broken down by the federal agencies awarding the contract. We illustrate this breakdown in Figures 7 and 8. Once again, we break the results into Wisconsin and non-Wisconsin Midwestern states.

4.1 Top Agencies Contributing to Wisconsin

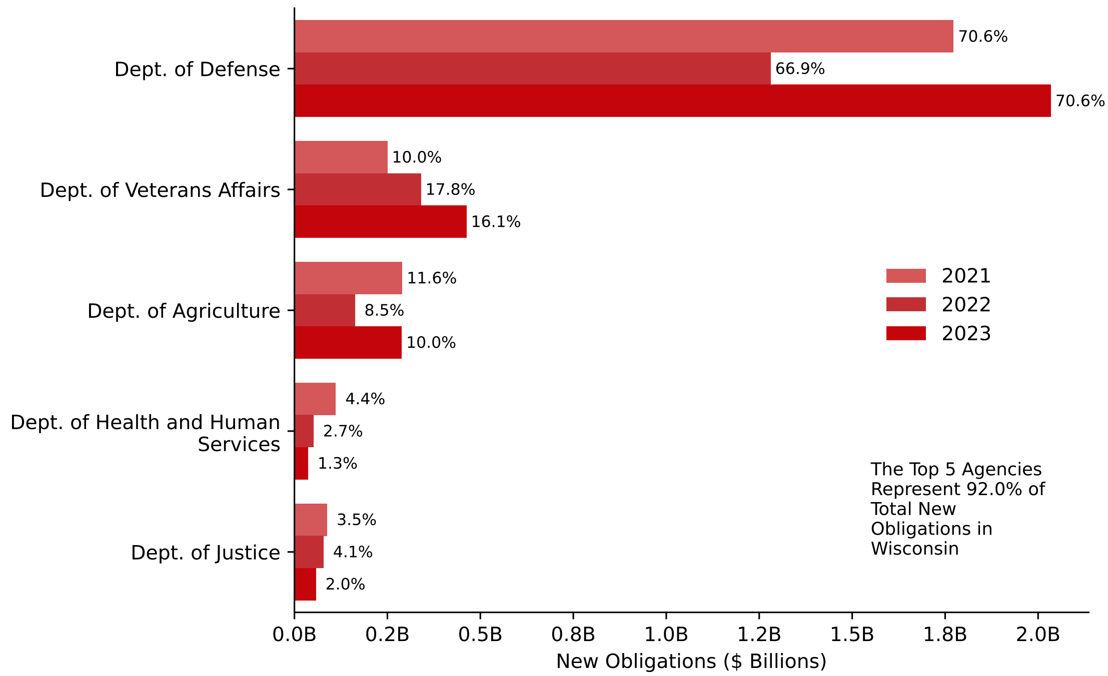

Figure 7: Federal Contract Obligations by Awarding Agency: Wisconsin

Figure 7 shows the important role played by the Department of Defense in Wisconsin. The share of new federal obligations derived from the DoD is commensurate with the share going into the manufacturing sector within the Wisconsin economy. This is due in no small part to Wisconsin's production of military equipment.

The Department of Veterans Affairs (VA) and Department of Agriculture (USDA) are the next largest awarding agencies, with the Department of Health and Human Services (HHS) and Department of Justice (DoJ) following. These five awarding agencies represent 92 percent of all new federal obligations awarded to Wisconsin.

As the figures demonstrate, there is a significant concentration in the awarding agencies in Wisconsin. Further, this concentration is not necessarily commensurate with the underlying breakdown of the Wisconsin economy. The rest of the Midwest is similarly concentrated.

4.2 Top Agencies Contributing to non-Wisconsin Midwestern States

In Figure 8, non-Wisconsin Midwestern states display a similar pattern. Once again, the DoD represents the largest single awarding agency with the VA and USDA having similarly large impacts.

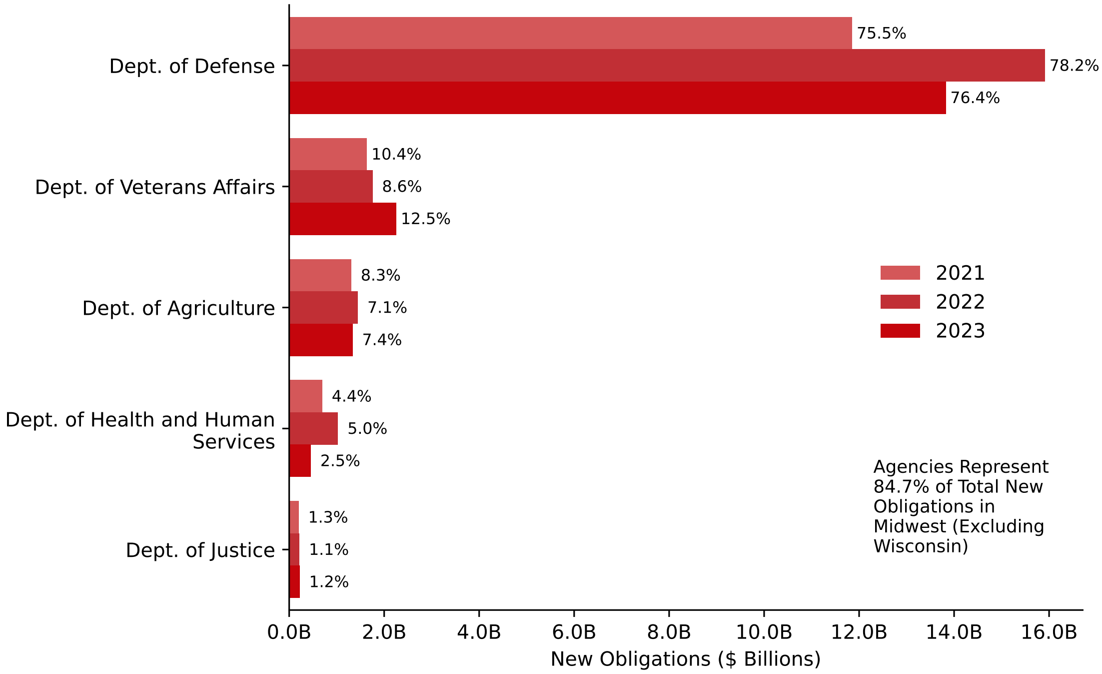

Figure 8: Federal Contract Obligations by Awarding Agency: Midwest (without Wisconsin)

However, unlike Wisconsin, these agencies only represent 85 percent of new federal contract obligations. While the difference is marginal, it demonstrates a greater diversity in contract origination across the broader Midwest than within Wisconsin.

5 Top Recipient Firms

Thus far, our analysis has focused on broad categorizations to understand the breakdown of federal obligations. This section aims to address the concentration among a few recipient firms in Wisconsin and the broader Midwest. By examining the impact of individual firms, the importance of individual firms over time will become apparent. Further, the impact of these firms on the Wisconsin economy will become clear.

5.1 Top Wisconsin Recipient Firms

To begin, we examine the eight largest recipient firms in Wisconsin.

Figure 9 demonstrates that Wisconsin is dominated by eight major recipient firms. These firms make up 58 percent of new federal obligations throughout Wisconsin. One-third of all new federal obligations in Wisconsin go to Oshkosh Defense Corporation. This firm is a defense contractor responsible for the manufacturing of several U.S. Military vehicles including MRAPs and HUMVEEs. The concentration of federal contract obligations in Wisconsin is primarily with Oshkosh Defense Corp., with little variance in the amounts distributed among other firms in the state.

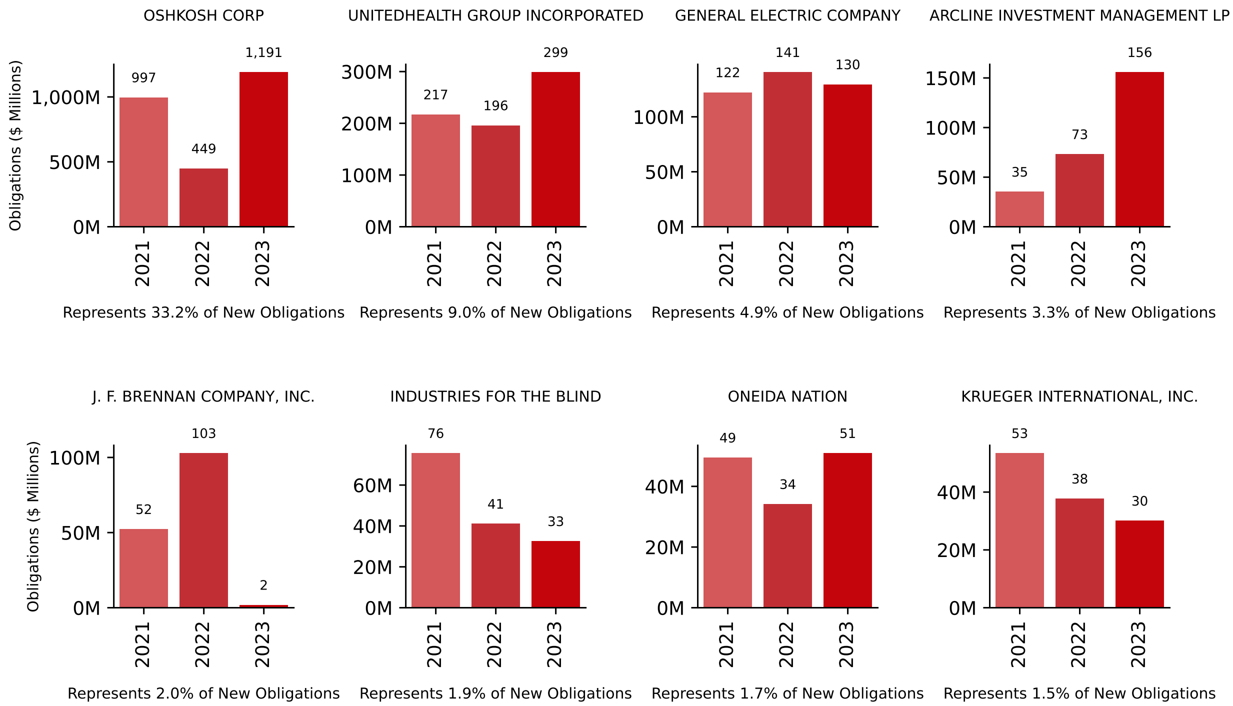

Figure 9: Federal Contract Obligations of Top 8 Recipients in Wisconsin

5.2 Top non-Wisconsin Recipient Firms

Figure 10 shows that, across the broader Midwest (excluding Wisconsin), the relative concentration of the top eight recipient firms decreases dramatically (we are considering a broader economy). However, it still comprises roughly one-third of all new federal contract obligations. Unlike Wisconsin, no one firm is awarded the overwhelming plurality of the new federal contract obligations. Firms like General Dynamics, RTX (formerly Raytheon), and BP demand a similar proportion of the new obligations. This decrease in concentration indicates the variation in the Midwest (excluding Wisconsin) is much greater than within Wisconsin.

Within the Midwest region, excluding Wisconsin, the concentration of the top eight recipient firms in federal contract obligations displays significant variability: 75 percent in Iowa, 53 percent in Indiana, 49 percent in Michigan, 45 percent in Illinois, and 35 percent in Minnesota. These figures indicate a heterogeneous federal contract market across these states. Iowa, for example, has a few firms accounting for most obligations, whereas Minnesota is characterized by a wider dispersion of contracts among the firms.

6 The Preference of Federal Education Dollars in the Midwest

6.1 Top Grant Receiving Institutions

To this point, the discussion has focused on federal contract dollars. However, another relevant avenue for the United States Government to award money is through the grant process. Unlike

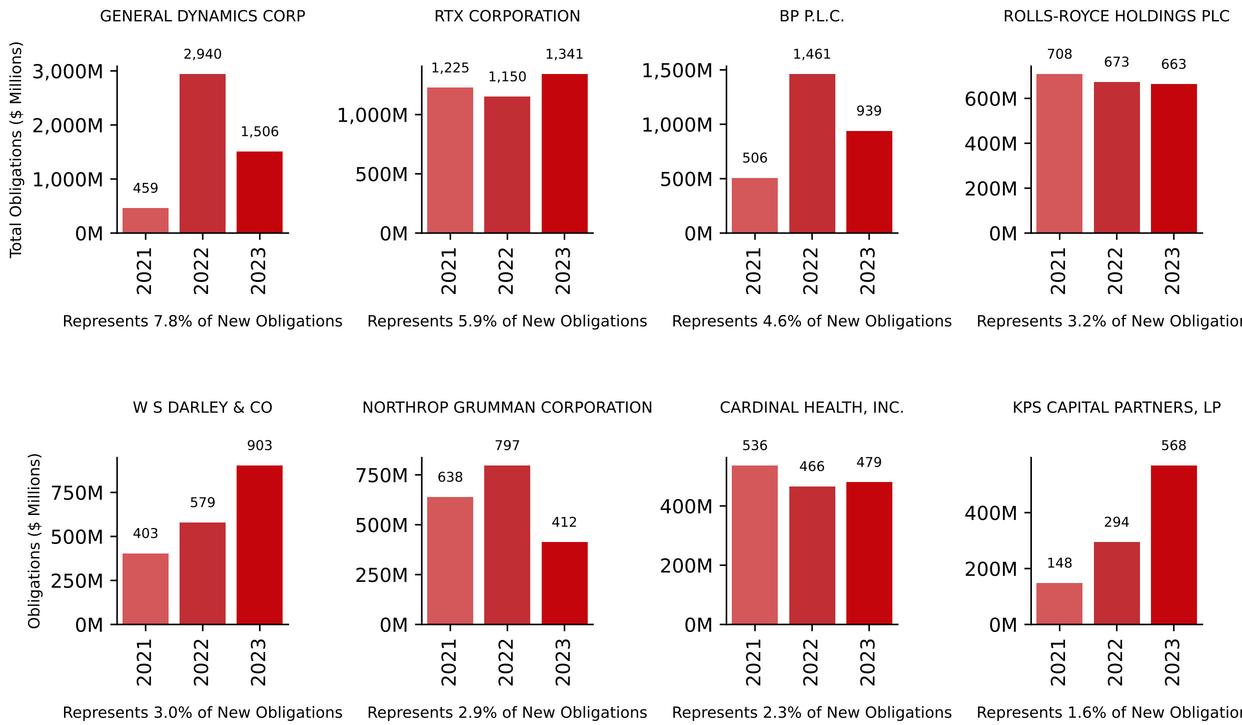

Figure 10: Federal Contract Obligations of Top 8 Recipients in the Midwest (without Wisconsin)

contracts, these are not bid on by private firms for procurement of goods and services but are financial support awarded to institutions. Across the Midwest, there are dozens of colleges and research institutions, but to see how Wisconsin stacks up, this report examines the top five recipients of new grants awarded in a fiscal year.

In terms of grant value received (Figure 11), it is clear that the University of Wisconsin System is the second largest system, beaten out only by the University of Michigan System. Hundreds of millions of dollars are pouring into Wisconsin to fund research projects that employ and train Wisconsin students, faculty, and staff.

Though the University of Wisconsin System ranks second in absolute terms, when we consider grant value received by Full-Time Equivalent (FTE) students, Wisconsin drops to the last position.

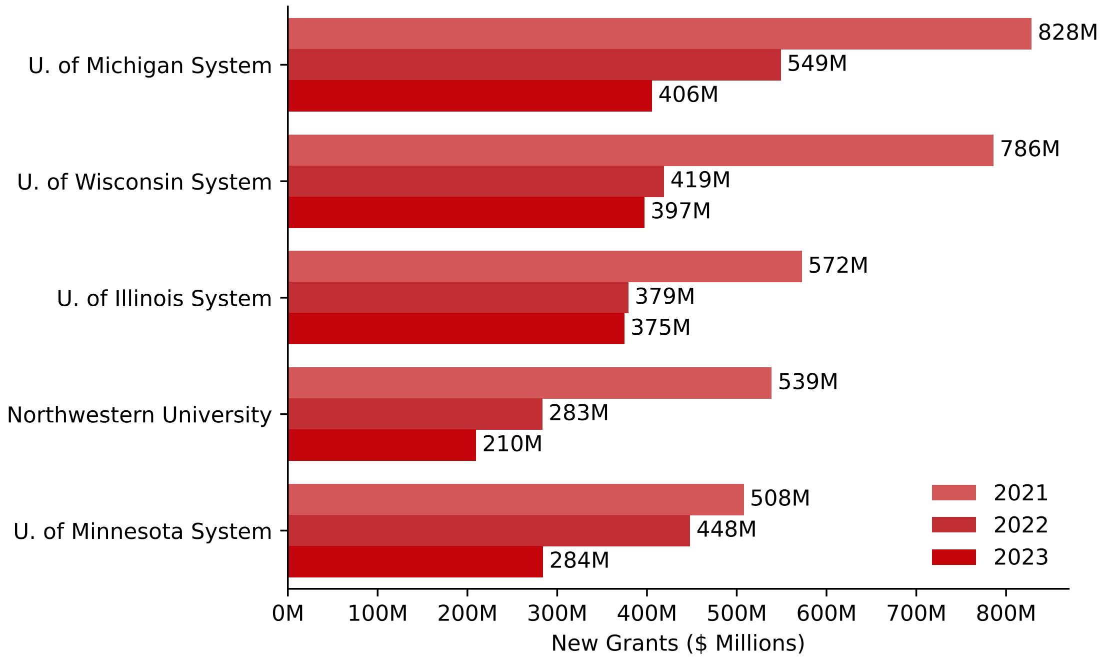

Figure 11: Top 5 Federal Grant Recipients

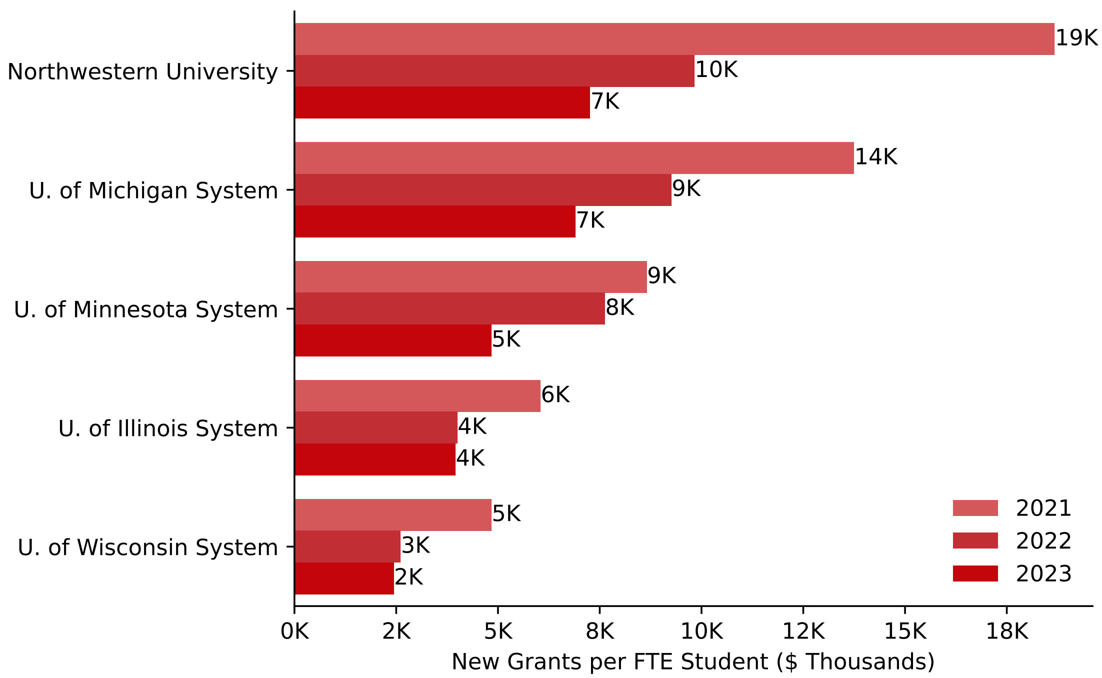

Figure 12: Top 5 Federal Grant Recipients Per FTE student

While the per-FTE grant value is less than Wisconsin's contemporaries, this is due to the stark contrast in FTE students. Wisconsin was the largest system by FTE students in 2023 with nearly double its closest rival, the University of Illinois System (163,000 v. 95,000).

References

[1] *Government Accountability Office*. Accessed: 2024-06-05. 2024. URL: https://www.gao.gov/blog/snapshot-government-wide-contracting-fy-2022.

[2] *USASpending*. Accessed: 2024-05-18. 2024. URL: https://www.usaspending.gov.

A Tables

Table 1: Variables and Definition Sources for Midwest

Variable	Data source	End period
	Wisconsin	
Wisconsin GDP Data (2022)	Statista	2024Q2
NAICS Definitions	Census Bureau	N/A
New Federal Obligations	USASpending	FY2023
Awarding Agency Name	USASpending	FY2023
Recipient Firm Name	USASpending	FY2023
	Midwest (Excluding Wisconsin)	
NAICS Definitions	Census Bureau	N/A
New Federal Obligations	USASpending	FY2023
Awarding Agency Name	USASpending	FY2023
Recipient Firm Name	USASpending	FY2023