February 16, 2017

MEMORANDUM TO HOUSE FINANCE SUBCOMMITTEE

THRU: DMVA

SUBJECT: Proposed HB57/HB59 Amendment to change AS 26.27 to insert statutory authority for Alaska Aerospace Corporation to issue dividends to the State of Alaska

1. Alaska Aerospace Corporation (AAC) received notice that Representative Kawasaki intends to offer an amendment to change Alaska Statute Section 26.27 to insert statutory authority for AAC to issue dividends to the State of Alaska.

2. AAC was established as a public corporation to allow the state to take a lead role in the exploration and development of space, to enhance human and economic development. Primarily, the purpose of AAC was to diversify the Alaska economy, expand the state aerospace industry, and collaborate with the University of Alaska on aerospace subjects. That justification and rational for the establishment of AAC remains valid today.

3. The sponsor's amendment explanation correctly states that the State has invested $58.7 Million UGF in AAC since its inception, plus has brought in an additional $324.0 Million in new outside revenues. Of the State investment, $21.4 Million was for capital improvements to the Pacific Spaceport Complex – Alaska (PSCA), a state owned facility located in Kodiak, with the remaining $37.3 Million used for operations and sustainment.

4. The sponsor of the amendment states "*Given AAC's leadership consideration of dividends to the State in the future, a statutory change is necessary to grant the authority.*" While AAC's leadership has stated in public testimony that it intends to repay the State the $37.3 Million operations and sustainment funds as the corporation becomes profitable, it has never stated that the corporation seeks a legislative change to grant authority to issue dividends to the State. In fact, when the appropriations were made, the appropriation language did not state that the funds would be repaid. Furthermore, it is not the intention of AAC to repay the State the $21.4 Million in infrastructure investments at PSCA since the infrastructure at PSCA is state-owned.

5. In 2014, the Administration eliminated any future state funds for AAC, due to the critical economic forecasts for the State. AAC leadership agreed to this, which eliminated $6.0 Million in projected funding over the next two years. AAC also returned $22.0 Million in capital appropriated funds to the State for re-appropriation. In August 2014, the facilities at PSCA were severely damaged by a launch vehicle failure at the site. This resulted in the loss of a 2015 launch and the inability to provide launch services for the next two years, further reducing revenues to AAC.

6. With reconstruction of the damaged facilities complete, AAC has signed a multi-year, multi-launch Indefinite Delivery/Indefinite Quantity (ID)Q contract with the Missile Defense Agency (MDA) to support missions through 2022. This contract does not guarantee that AAC will receive the full $80.4 Million, as AAC is only compensated for mission support under specific Task Orders.

7. AAC has also aggressively pursued the emerging small and ultra-small commercial launch market and currently has contracts with three companies for launches starting in 2017.

8. Financial assessments for AAC over the next three years project that the company should remain self-sustaining, generating a small profit margin.

9. To accommodate the different launch facility requirements for each of the government and commercial customers from PSCA has required, and will require in the future, investments in infrastructure, both to expand capabilities, as well as to provide preventive maintenance to existing facilities. AAC intends to reinvest profits back into facilities to ensure the Company maintains the necessary facilities to serve current customers and ensure continued profitability by increasing capabilities and expanding the customer base.

10. At the November 12, 2015 Board meeting, Directors passed a resolution recommending to the Administration that AAC pursue a Public-Private Partnership (P3) in which the infrastructure at PSCA would remain state-owned assets and the operating company would become a private sector company, with the State owning the full value of the private company. The concept is similar to the successful Ketchikan Shipyard model.

11. To adopt this amendment at this time could create uncertainty as AAC navigates the dual paths of attracting more customers to the state, while restructuring the Company to make it more competitive in the commercial marketplace. It is very possible that current and potential customers would view this action as a means for the State to remove funds from AAC that are necessary to maintain and enhance the facilities, thereby shifting capital improvement expenses to the customers. If that happened, it would significantly diminish the competitive advantage of AAC and potentially result in fewer customers launching from PSCA.

12. **CONCLUSION:** AAC **NON-CONCURS** with the recommendation to change State statute under Section 26.27 to grant AAC authority to issue dividends to the state, at this time.

Prepared by: Alaska Aerospace Corporation, February 16, 2017