



February 16, 2017

## MEMORANDUM TO HOUSE FINANCE SUBCOMMITTEE

THRU: DMVA

**SUBJECT:** Proposed HB57/HB59 Amendment Realigning Alaska Aerospace Corporation from Department of Military and Veterans Affairs (DMVA) to the Department of Commerce, Community, and Economic Development (DCCED) - Revised

1. Alaska Aerospace Corporation (AAC) received notice that Representative Kawasaki intends to offer an amendment to move AAC from Title 26 (DMVA), to Title 14 (DCCED).
2. AAC was originally aligned in statute under DCCED for administrative purposes until 2011 when Governor Parnell realigned AAC under DMVA. The reason for the realignment was specifically because the primary customer for AAC was the US Department of Defense.
3. In the original explanation provided by the sponsor to support the amendment to realign AAC to DCCED, it is stated *"The Subcommittee finds that because AAC no longer has direct contracts with the US Department of Defense or public military entities, and is now a self-sustaining corporation with no military mission, AAC should no longer be in the purview of DMVA."* This statement is factually incorrect and without basis.
4. In a revised amendment explanation, provided one hour before the subcommittee meeting on February 16, 2017, the sponsor changed the justification to read, *"The Subcommittee finds that AAC is more closely in line with DCCED mission, which state: Promote a healthy economy, strong, communities, and protect consumers in Alaska."* The sponsor further states that *"AAC works directly with the University of Alaska to continue research and education mission with a separate and independent legal existence."*
5. During DMVA's testimony before the House Finance Subcommittee on February 9, 2017, AAC stated *"While AAC has started to diversify our customer base, signing in 2016 the first truly commercial customers for launch services contracts; the primary customer remains a DOD agency – the Missile Defense Agency (MDA)."*
6. Furthermore, AAC advised the committee that *"With AAC's primary customer still a DOD agency and the fact that the support relationship from DMVA to AAC is excellent, it is recommended that AAC not be realigned to DCCED at this time, as the external perception by our DOD customers may raise questions which result in unintended consequences to future contracting opportunities."*

7. While AAC is a state corporation that is aligned with the economic mission of DCCED, the realignment from DCCED to DMVA was specifically done by the previous administration to improve marketability of AAC services to Department of Defense agencies. The realignment has proven successful, as AAC secured a multi-year, multi-launch Indefinite Delivery/Indefinite Quantity (IDIQ) contract with the Missile Defense Agency (MDA), a Department of Defense agency, to support multiple missions from the Pacific Spaceport Complex – Alaska (PSCA) through 2022 valued at \$80.4 Million.
8. AAC maintains a very solid relationship with the University of Alaska. The current AAC Board of Directors Chair is the Director of the Geophysical Institute and the President of the University sits as a member of the Board. When the realignment from DCCED to DMVA was completed in 2011, the AAC Board supported the realignment because of the ability to market to the US Government for future launches. That wisdom has proven successful, as AAC's most significant customer is MDA. With the multi-year, multi-launch MDA contract, moving AAC from DMVA to DCCED at this time may be misconstrued by MDA and other potential government customers that the State is no longer interested in pursuing US Government mission. That would have a significant negative financial implication on the ability of AAC to remain self-sustaining and could result in AAC no longer being able to operate.
9. **CONCLUSION:** The sponsor's explanation is factually incorrect and does not justify the recommended realignment. **AAC NON-CONCURS with the recommendation** to realign the corporation from Title 26 (DMVA) to Title 14 (DCCED) based on the reasons that justified the original move to DMVA in 2011 remain valid: The primary customer for AAC is a Department of Defense customer (DOD) and any such realignment of AAC by the Legislature may cause unintended negative consequences to our customer – MDA. In other words: "If it isn't broke, don't fix it"