

# **State of Alaska FY2010 Governor's Operating Budget**

## **Department of Commerce, Community, and Economic Development Alaska Aerospace Development Corporation Results Delivery Unit Budget Summary**

## Alaska Aerospace Development Corporation Results Delivery Unit

### Contribution to Department's Mission

To promote aerospace-related economic growth and development and strengthen Alaska's technological infrastructure.

### Core Services

- Provide rocket launch venue.
- Provide rocket launch support services to customers.

End Result	Strategies to Achieve End Result
<b>A: Maintain or improve launch services operating revenue</b>  <u>Target #1:</u> Increase launch services operating revenue over a five-year average. <u>Status #1:</u> Alaska Aerospace Development Corporation (AADC) achieved target of increasing launch services revenue over a five-year average, with an average growth rate of 18% over the five-year period from 2004 through 2008.	<b>A1: Expand launch services offered</b>  <u>Target #1:</u> Add one new service annually. <u>Status #1:</u> AADC achieved target of adding an additional service by completing installation of fiber optic cable.
End Result	Strategies to Achieve End Result
<b>B: Maintain or improve contribution level to Alaska economy</b>  <u>Target #1:</u> Increase level of operating spending in Alaska economy <u>Status #1:</u> Alaska Aerospace Development Corporation achieved target of increasing its level of operating spending in the Alaska economy over a five-year average, with an average annual increase of 0.07% over the five year period from 2004 through 2008.	<b>B1: Increase spending on Alaska payroll, goods and services</b>  <u>Target #1:</u> Hire and train in Alaska. <u>Status #1:</u> AADC hired seven new personnel in FY08.  <u>Target #2:</u> Purchase Alaska goods and services. <u>Status #2:</u> While this category increased an average of 7% per year from FY03 through FY07, in FY08 total spending decreased and associated Alaska vendor spending decreased.
End Result	Strategies to Achieve End Result
<b>C: Strengthen Alaska's technological infrastructure</b>  <u>Target #1:</u> Continue investment in capital assets <u>Status #1:</u> Alaska Aerospace Development Corporation achieved target of continuing its investment in capital assets, with a cumulative investment being increased by an average of 12% over the five year period 2004 through 2008.	<b>C1: Develop Kodiak Launch Complex (KLC) facilities and services.</b>  <u>Target #1:</u> Secure funding for Launch Pad 3 and Rocket Motor Storage Facility. <u>Status #1:</u> AADC received \$3.5 million of general funds in FY09 for the Launch Pad 3 and the Rocket Motor Storage Facility and has requested an equal amount in FY10. This will match a total of \$28 million in expected federal funding.

### Major Activities to Advance Strategies

- Expand launch services provided.
- Maintain or improve contribution level to Alaska economy.
- Develop infrastructure to enhance capabilities.

### FY2010 Resources Allocated to Achieve Results

**FY2010 Results Delivery Unit Budget: \$28,561,000**

**Personnel:**

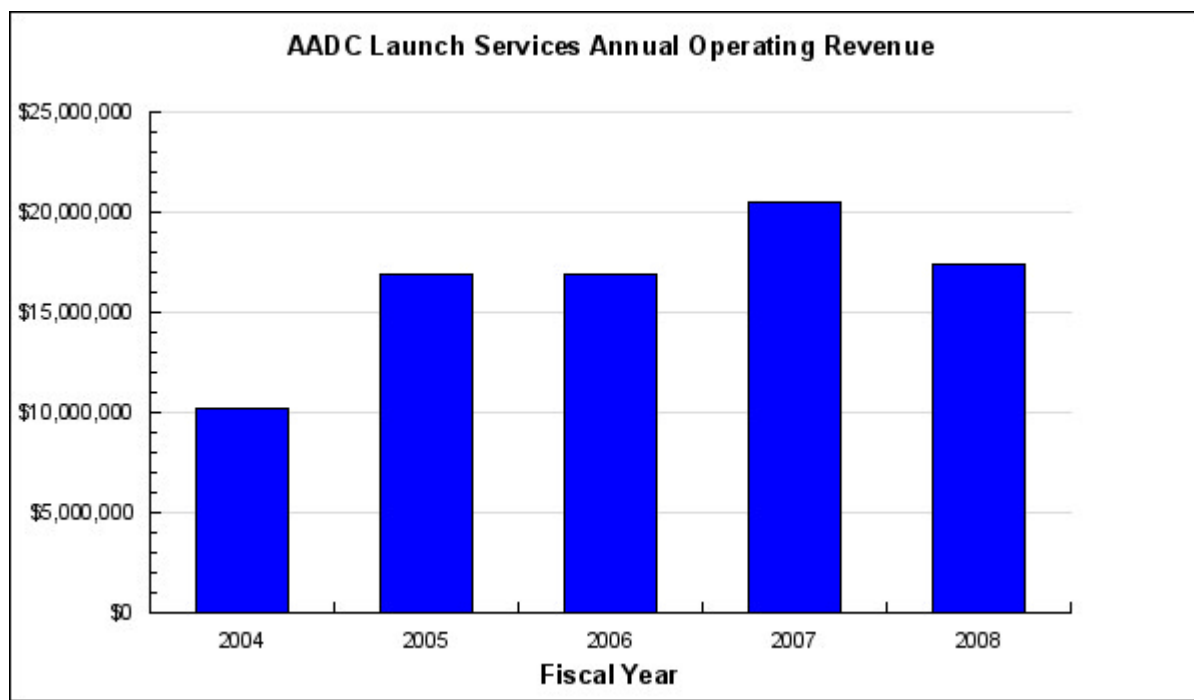
Full time	52
Part time	0
<b>Total</b>	<b>52</b>

## Performance

### A: Result - Maintain or improve launch services operating revenue

**Target #1:** Increase launch services operating revenue over a five-year average.

**Status #1:** Alaska Aerospace Development Corporation (AADC) achieved target of increasing launch services revenue over a five-year average, with an average growth rate of 18% over the five-year period from 2004 through 2008.



Methodology: AADC Financial Statements

**AADC Launch Services Annual Operating Revenue**

Fiscal Year	YTD Total
FY 2008	\$17,358,715
FY 2007	\$20,464,554
FY 2006	\$16,892,115
FY 2005	\$16,914,593
FY 2004	\$10,229,566

**Analysis of results and challenges:** Launch operating revenue for the Kodiak Launch Complex (KLC) decreased from \$20.5 million in FY07 to \$18 million in FY08. The launch schedule for AADC's primary customer, Missile Defense Agency (MDA) was not executed by MDA as projected for FY08. The adjustment to MDA's launch activity directly impacted AADC's gross revenue. AADC is in negotiations as of August 2008 for a three year contract with MDA to continue to provide launch operations. AADC has also secured two launch contracts with the US Air Force. AADC staff is also working in conjunction with the Board of Directors to diversify its business base to increase operations revenue. While operating revenue decreased from FY07 to FY08, operating revenue increased on an average of 18% over the last five years.

**A1: Strategy - Expand launch services offered**

**Target #1:** Add one new service annually.

**Status #1:** AADC achieved target of adding an additional service by completing installation of fiber optic cable.

**New Services Provided Annually**

Fiscal Year	YTD Total
FY 2008	VERIZON
FY 2007	FIBER OPTICS
FY 2006	AMTS
FY 2005	MSF
FY 2004	RSTS

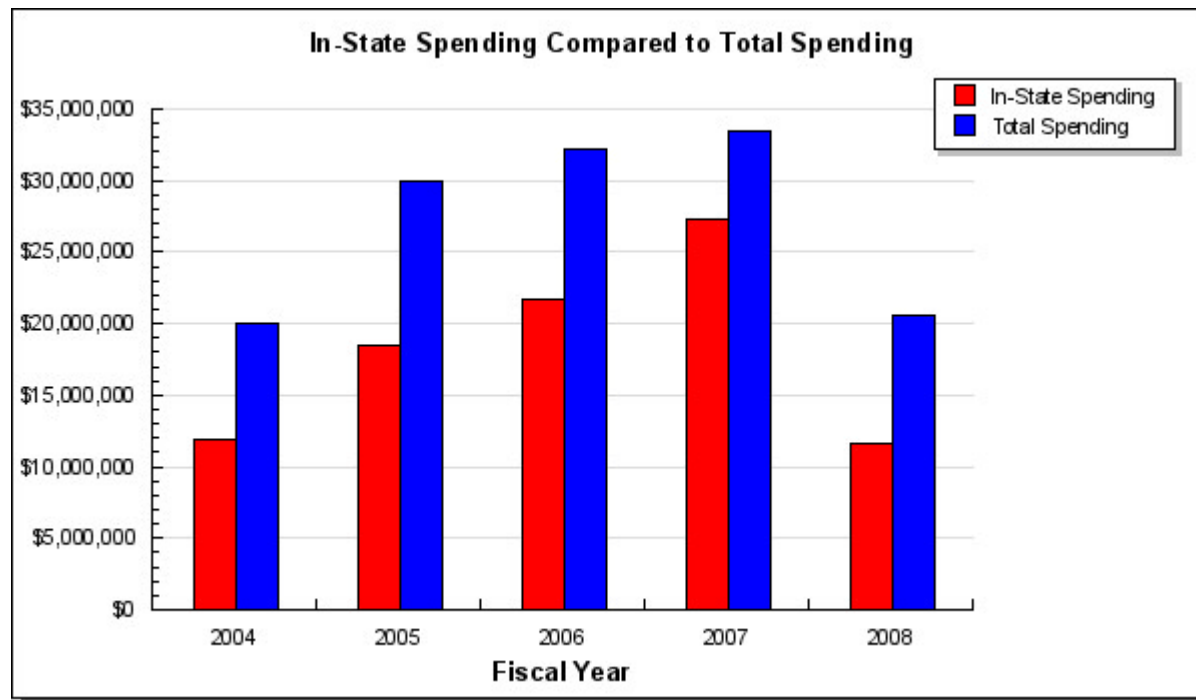
*Methodology: AADC Financial Statements*

**Analysis of results and challenges:** AADC achieved the target of adding an additional service each year. In FY07, AADC spearheaded the development of an extensive submarine fiber optic cable network project designed to bring connectivity to Kodiak and the Kenai Peninsula. In FY08, the completion of the installation of the fiber optic cable provided an opportunity to enter into a contract with Verizon to provide secure and dependable high-speed voice and internet connectivity to AADC's customers. This ensures that AADC will continue to expand necessary communication connectivity to meet customers' launch requirements. This effort contributes to AADC's overall operating revenues and contributes to the economic growth of the state.

**B: Result - Maintain or improve contribution level to Alaska economy**

**Target #1:** Increase level of operating spending in Alaska economy

**Status #1:** Alaska Aerospace Development Corporation achieved target of increasing its level of operating spending in the Alaska economy over a five-year average, with an average annual increase of 0.07% over the five year period from 2004 through 2008.



Methodology: AADC Financial Statements

**In-State Spending Compared to Total Spending**

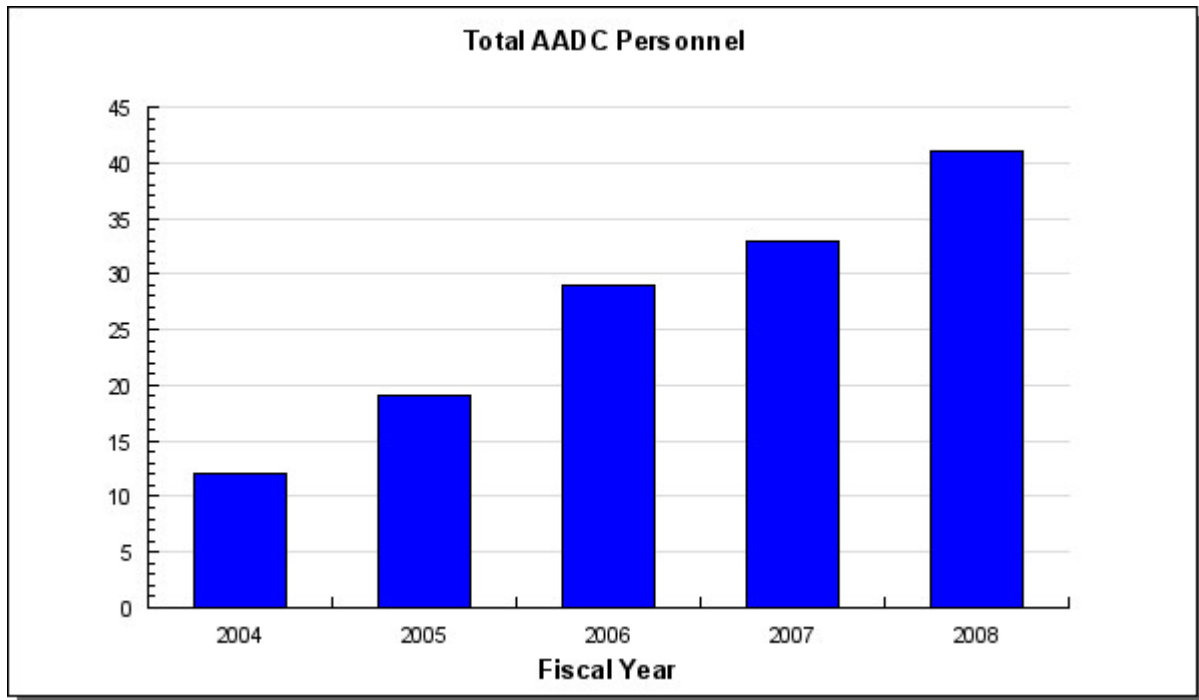
Fiscal Year	In-State Spending	Total Spending
FY 2008	\$11,605,297	\$20,563,131
FY 2007	\$27,307,027	\$33,406,065
FY 2006	\$21,648,646	\$32,185,759
FY 2005	\$18,515,333	\$29,904,903
FY 2004	\$11,873,854	\$19,988,601

**Analysis of results and challenges:** AADC achieved the target of increasing its level of operating spending in the Alaska economy over a five year average, with an average annual increase of .07% over the five year period. This increase in the percentage of in-state spending supports AADC's mission to promote aerospace related economic growth by maintaining or improving contribution levels to Alaska's economy. This in turn has a significant, positive impact on the Alaska economy through local purchases of goods and services and the creation of indirect jobs to support these goods and services.

**B1: Strategy - Increase spending on Alaska payroll, goods and services**

**Target #1:** Hire and train in Alaska.

**Status #1:** AADC hired seven new personnel in FY08.



*Methodology: AADC Personnel Records*

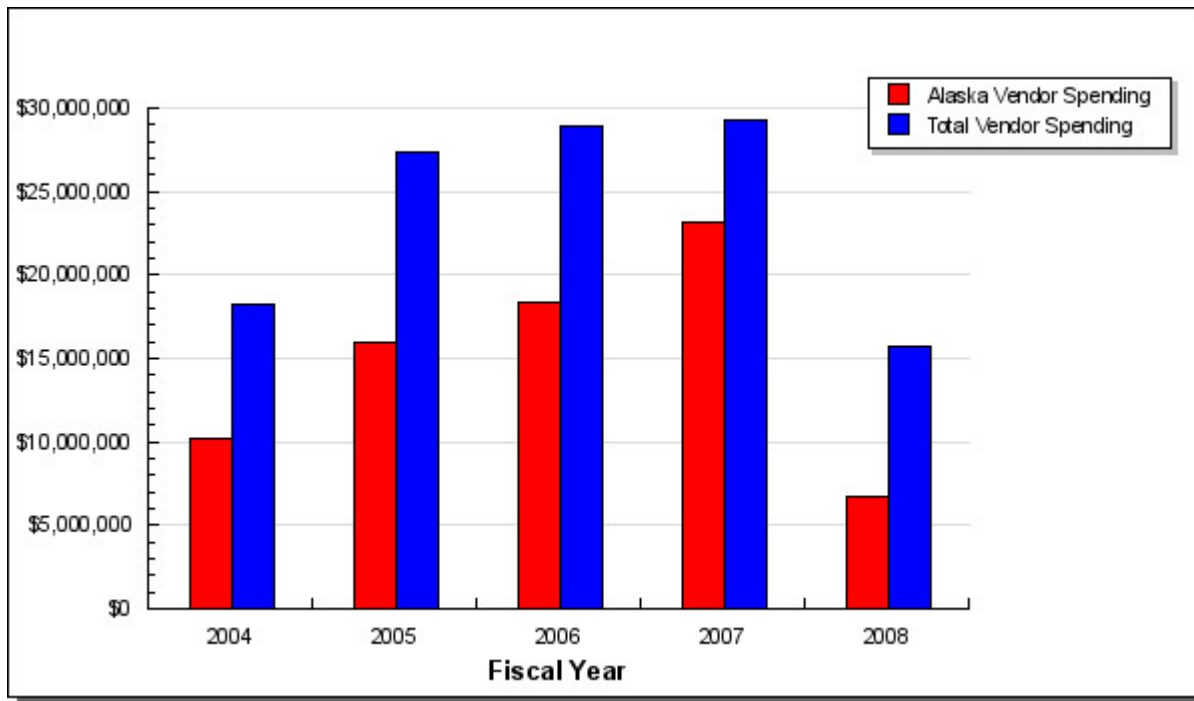
**Total AADC Personnel**

Fiscal Year	Total
FY 2008	41
FY 2007	33
FY 2006	29
FY 2005	19
FY 2004	12

**Analysis of results and challenges:** AADC achieved its target of hiring additional personnel each year by hiring 7 new personnel in FY08. AADC continues to project hiring personnel as AADC secures contracts that would fund the positions. This is a positive impact to the State's economy by adding personnel with wages that are higher than the Alaska average wage. This direct spending on AADC employees has a positive multiplier effect by increased spending in Alaska's economy

**Target #2:** Purchase Alaska goods and services.

**Status #2:** While this category increased an average of 7% per year from FY03 through FY07, in FY08 total spending decreased and associated Alaska vendor spending decreased.



Methodology: AADC Financial Statements

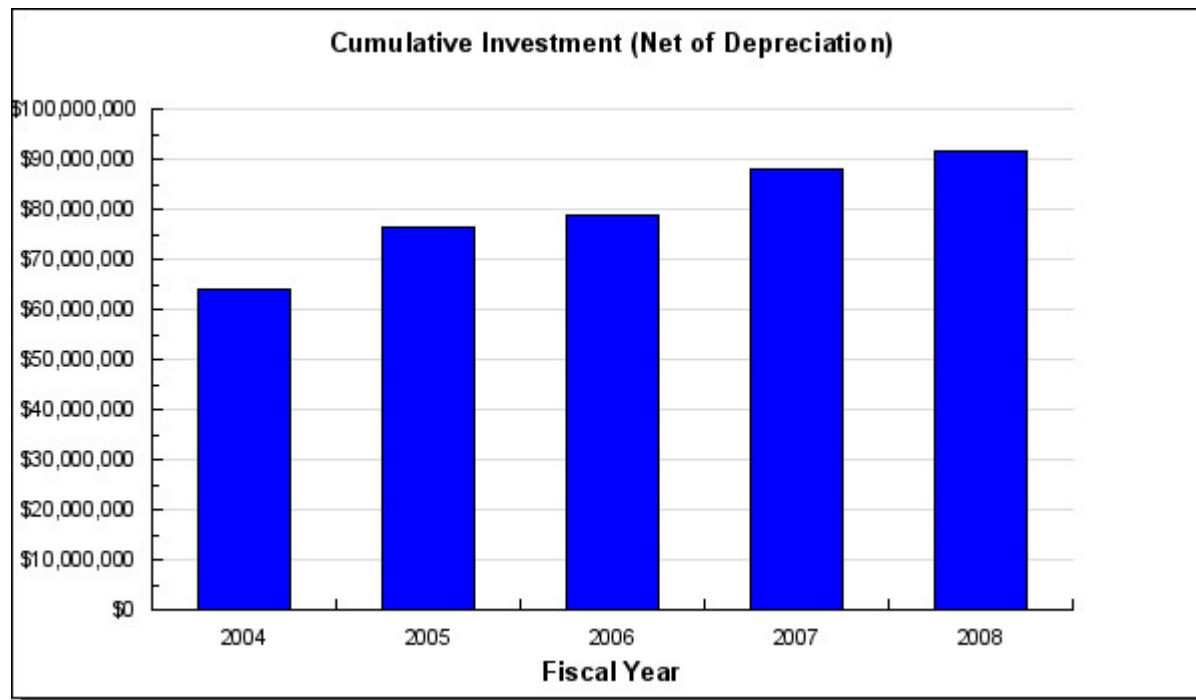
Fiscal Year	Alaska Vendor Spending	Total Vendor Spending
FY 2008	\$6,774,464	\$15,732,298
FY 2007	\$23,125,422	\$29,224,460
FY 2006	\$18,391,668	\$28,928,781
FY 2005	\$16,017,191	\$27,406,761
FY 2004	\$10,167,456	\$18,282,203

**Analysis of results and challenges:** Due to the decrease in launch activity, AADC did not achieve its target of increasing the level of spending on Alaska vendors each year. AADC spent \$6.8 million out of \$15.4 million with Alaska vendors in FY08. While this is a 35% decrease from FY07, AADC has achieved an average increase of 7% per year from FY04 through FY07. AADC plans to continue to focus on utilizing Alaska goods and services. The use of local vendors for purchases of goods and services has a positive impact on the Alaska economy through creating additional jobs to support the delivery of these goods and services.

**C: Result - Strengthen Alaska's technological infrastructure**

**Target #1:** Continue investment in capital assets

**Status #1:** Alaska Aerospace Development Corporation achieved target of continuing its investment in capital assets, with a cumulative investment being increased by an average of 12% over the five year period 2004 through 2008.



Methodology: AADC Financial Statements

**Cumulative Investment (Net of Depreciation)**

Fiscal Year	Totals
FY 2008	\$91,651,558
FY 2007	\$88,131,308
FY 2006	\$78,875,194
FY 2005	\$76,489,000
FY 2004	\$63,848,000

**Analysis of results and challenges:** AADC achieved the target of continuing to invest in capital assets, with cumulative investment (less the cost of depreciation) through FY08 at \$91 million. This is an increase of 3% over FY07. Investment in capital assets for FY08 included funds for the fiber optic system. Investment in capital assets is projected to continue in FY09.

**C1: Strategy - Develop Kodiak Launch Complex (KLC) facilities and services.**

**Target #1:** Secure funding for Launch Pad 3 and Rocket Motor Storage Facility.

**Status #1:** AADC received \$3.5 million of general funds in FY09 for the Launch Pad 3 and the Rocket Motor Storage Facility and has requested an equal amount in FY10. This will match a total of \$28 million in expected federal funding.

**Analysis of results and challenges:** AADC has infrastructure requirements to provide increased launch capability and support customers' future requirements. The two additional facilities needed are the Launch Pad 3 (LP3) and the Rocket Missile Storage Facility (RMSF). It is imperative that AADC expand its infrastructure to remain competitive in the aerospace launch services. LP3 would enable the Kodiak Launch Complex to continue supporting



MDA and concurrently support additional customers. The RMSF would support storage of multiple rockets that are ready for launch. This would allow customers to ship multiple rockets on a single barge, reducing transportation costs.

If AADC does not expand the infrastructure to create an increased customer base, there will be limited economic growth in Alaska's aerospace launch industry. Currently, AADC has two additional launch contracts with the US Air Force, and serious inquiries for more potential customers that are interested in the Spaceport. The economic benefit to the State of Alaska with the additional facilities would ensure future expansion of aerospace industry, increased operating revenue and increased job opportunities from sources outside Alaska.

## **Key RDU Challenges**

The challenge in the coming year is to increase the infrastructure at the Kodiak Launch Complex (KLC) in order to support additional launch customers and to increase the number of launches from the KLC per annum. AADC's anchor tenant, the Missile Defense Agency (MDA), totally utilizes the infrastructure of Launch Pad 1 (LP 1) and/or LP 2 for their launch operations. An additional Launch Pad (LP 3) and a Rocket Missile Storage Facility (RMSF) is needed in order to service additional customers.

Although there are customers who want to launch from KLC, scheduling around the MDA mission is impossible without an additional launch pad and a rocket missile storage facility to reduce the logistics cost associated with shipping single rockets versus shipping five or more at a time. KLC has the other infrastructure (Launch Control Center, the Range Safety System, Payload Processing, etc.) which equates to an airport's air traffic control systems, passenger terminals, and baggage handling, that can support additional customers. Without an additional launch pad (runway) and the rocket motor storage facility, KLC will not expand its customer base and will see minimal to no operational growth, which will prevent revenue and job increases in the community of Kodiak and the State of Alaska.

In January 2008, AADC was awarded two launch service contracts by the U.S. Air Force (USAF) with launches scheduled in September and December of 2009. Although the USAF launches are scheduled for FY10, a significant level of support will be provided by AADC in FY09. With MDA as AADC's tenant customer, AADC anticipates being able to meet the needs of both MDA and the Air Force. However, should any of the launch schedules change or delays occur beyond the customers' or AADC's control, the ability to support only one customer at the range could significantly impact the company's ability to deliver contracted launch services.

## **Significant Changes in Results to be Delivered in FY2010**

AADC is currently performing the fifth year of a five-year support services agreement with the Department of Defense Missile Defense Agency (MDA). MDA continues to request launch feasibility studies and launch services support. AADC is currently in negotiations to enter into a new three-year contract with MDA as the continued anchor tenant.

AADC is actively marketing the Spaceport's capabilities to the space launch community to provide launch feasibility studies and launch support services in the near future.

## **Major RDU Accomplishments in 2008**

AADC successfully executed the fifth year of providing services for its anchor tenant, MDA, under a five-year contract. Kodiak Launch Complex (KLC) continues launching tests of the nation's missile defense system. The seventh Flight Test Ground-Base Midcourse Defense, FTX-03, was launched from KLC on July 18, 2008.

In FY07, AADC spearheaded the development of an extensive submarine fiber optic cable network project designed to bring connectivity to Kodiak and the Kenai Peninsula. In FY08, the completion of the installation of the fiber optic cable provided an opportunity to enter into a contract with Verizon to provide secure and dependable high-speed voice and internet connectivity to AADC's customers. This ensures that AADC will continue to expand necessary communication connectivity to meet customers' launch requirements. This effort contributes to AADC's overall operating revenues and adds to the economic growth of the state.

AADC continues to meet the demands of launch services support, providing to our customer a full array of services and management support. In an effort to meet the customer's requirements, AADC hired seven additional full-time employees during 2008.

AADC continues to support continuing education in the aerospace industry through an agreement with the University of Alaska Scholarship Foundation to provide scholarships to benefit Alaska's youth wishing to pursue an advanced education in Alaska and the aerospace industry. By providing this opportunity, AADC is helping to develop a valuable resource for our state and nurture the growth of a highly technical workforce within the state.

Contact Information
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**Alaska Aerospace Development Corporation  
RDU Financial Summary by Component**

*All dollars shown in thousands*

	<b>FY2008 Actuals</b>				<b>FY2009 Management Plan</b>				<b>FY2010 Governor</b>			
	<b>General Funds</b>	<b>Federal Funds</b>	<b>Other Funds</b>	<b>Total Funds</b>	<b>General Funds</b>	<b>Federal Funds</b>	<b>Other Funds</b>	<b>Total Funds</b>	<b>General Funds</b>	<b>Federal Funds</b>	<b>Other Funds</b>	<b>Total Funds</b>
<b>Formula Expenditures</b> None.												
<b>Non-Formula Expenditures</b>												
AK Aerospace Development Corp	0.0	3,492.0	53.8	3,545.8	0.0	3,168.8	1,166.8	4,335.6	0.0	3,159.0	1,228.3	4,387.3
AADC Facilities Maintenance	0.0	15,481.9	72.0	15,553.9	0.0	23,097.8	1,091.2	24,189.0	0.0	23,086.1	1,087.6	24,173.7
<b>Totals</b>	<b>0.0</b>	<b>18,973.9</b>	<b>125.8</b>	<b>19,099.7</b>	<b>0.0</b>	<b>26,266.6</b>	<b>2,258.0</b>	<b>28,524.6</b>	<b>0.0</b>	<b>26,245.1</b>	<b>2,315.9</b>	<b>28,561.0</b>

**Alaska Aerospace Development Corporation  
Summary of RDU Budget Changes by Component  
From FY2009 Management Plan to FY2010 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2009 Management Plan</b>	<b>0.0</b>	<b>26,266.6</b>	<b>2,258.0</b>	<b>28,524.6</b>
<b>Adjustments which will continue current level of service:</b>				
-AK Aerospace Development Corp	0.0	-9.8	-7.5	-17.3
-AADC Facilities Maintenance	0.0	-11.7	-3.6	-15.3
<b>Proposed budget increases:</b>				
-AK Aerospace Development Corp	0.0	0.0	69.0	69.0
<b>FY2010 Governor</b>	<b>0.0</b>	<b>26,245.1</b>	<b>2,315.9</b>	<b>28,561.0</b>