



Ms Pat Pitney  
Director, Office of Management and Budget  
Court Plaza Building,  
240 Main St. Suite 802  
Juneau, AK 99801

January 5, 2015

Dear Ms. Pitney,

In response to Administrative Order (AO) 271, dated December 26, 2014, Section C, Alaska Aerospace Corporation (AAC) submits the attached spreadsheet to comply with the AO direction.

In our review of AO 271, it was concluded that the purpose of the AO was to restrict the expenditure of discretionary funds appropriated by Sec. 7, Ch. 17, SLA 2012 for discrete capital projects, as is being done by AAC with the New Medium Lift Launch Pad project at the Kodiak Launch Complex. That is the only project currently being conducted by AAC specifically using state appropriated funds for capital project development. As a public corporation, AAC is conducting other aerospace related activities, such as tracking the Dragon capsule, sales of Alaska geospatial imaging data, commercial launches from Launch Pad 1, and other related services. Therefore, it is our conclusion that the restriction of expenditures for KLC only applies to the New Medium Lift Launch Pad project.

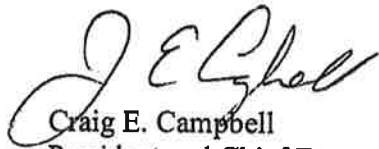
As I mentioned to Governor Walker in our December 19, 2014 meeting, and reiterated at our meeting this past Friday, as a result of the proposal process we initiated last year AAC has issued an "Intent to Award" letter to Lockheed Martin for the purpose of developing medium lift capability at KLC. AAC intends to use no more than \$3.0 million of the \$25.0 million appropriated for medium lift capability at KLC under Sec. 7, Ch. 17, SLA 2012 for this purpose. The remaining \$22.0 million is available to the state for whatever purpose the administration may wish to use it. In compliance with AO 271, AAC is not proceeding with any expenditure for the medium lift project at this moment, but would request that the administration approve the use of the remaining \$2,317,000 of the \$3.0 million to allow AAC to bring medium lift capability to Alaska at the earliest opportunity.

AAC fully recognizes the difficult fiscal issues facing Alaska and believes that diversifying our economy is part of the long term solution. Over the past two years AAC has aggressively marketed our launch service capability and expanded into new market areas in order to reduce the requirement for state funding. We believe it is our fiduciary responsibility to conservatively invest in new business markets that have the potential to bring new jobs and

commercial funding to our state. I appreciated our meeting last Friday, where we were able to share with you many of the new opportunities we are pursuing and show you some of the new business ventures we have started. AAC wants to be part of the solution, not part of the problem. We believe that our innovative approach to bringing medium lift launches to Alaska can result in increased capability at a fraction of the cost that was projected just three years ago.

In conclusion, we ask that AAC be allowed to continue with the medium lift initiative, not to exceed the \$3.0 million appropriated in Sec. 7, Ch. 17, SLA 2012 and that AAC also remain in the governor's budget for \$4.0 million of general funds for operations. This is a 50% reduction from two years ago and keeps us on track to eliminate the requirement for state general funds by FY2018 without jeopardizing market opportunities and current launch contracts. AAC is a different company than in 2012. At that time AAC had become 100% dependent on state funding. Our states financial condition today does not permit that, nor is that the purpose for which AAC was incorporated. The team at AAC has worked hard to expand our business model, attract new launch customers, and diversify our business portfolio to reduce the demand for state funding and make AAC an economic driver for Alaska. We request that we be allowed to complete our transformation with your support.

Respectfully submitted,



Craig E. Campbell  
President and Chief Executive Officer

Attachment: Excel Spreadsheet on KLC Medium Lift Project

cc: DMVA

	Category Types	Sum of Extended Price [F4311]	Sum of Amount Open [F4311]	Description	Fund Type	Terms	Notes
<b>Response C (2)</b>							
Non-Discretionary Obligations							
Professional Services	Term To 30 Jun 2015	Potential Cost 5,935	Consequence Incomplete Environmental Assessment for Medium Lift - No legal exposure				
<b>Response C (3)</b>							
Personnel Costs for FY 2015	Hours	Labor Cost					
Engineer IV	40	4,235					
<b>Response C (4)</b>							
Operating Costs Status to date							
Costs thru 31 December 2014							
Gate #1 Authorization	\$685,000						
Balance of Gate #1 Authorization - unspent	\$3,000,000						
Balance of Gate #2 and #3 Authorization - unspent	\$2,315,000						
	\$22,000,000						AAC intent is to use funds for medium lift at KLC AAC intent is to return funds to state
<b>Response C (1)</b>							
Discretionary Obligations							
None							