

ALASKA'S DEVELOPMENT FINANCE AUTHORITY

Proposed Changes to AIDEA
Dividend Statutes HB 268 / SB 149

Investing in Alaskans

AIDEA's Dividend History, Goal, Statutory Language, and 2 Problems Working to Fix

AIDEA Dividends to State of Alaska



Recap of AIDEA Dividends to State of Alaska		
(\$ rounded to nearest thousand)		
Year Ended June 30	Payable in FY	Dividend
1995	1997	15,000,000
1996	1998	16,000,000
1997	1999	16,000,000
1998	2000	26,000,000
1999	2001	18,500,000
2000	2002	17,500,000
2001	2003	20,150,000
2002	2004	18,176,000
2003	2005	22,000,000
2004	2006	8,812,000
2005	2007	16,650,000
2006	2008	10,000,000
2007	2009	23,800,000
2008	2010	22,720,000
2009	2011	23,423,000
2010	2012	29,400,000
2011	2013	20,400,000
2012	2014	20,745,000
2013	2015	10,665,000
2014	2016	17,650,000
Declared thru 2016		373,591,000
2015	2017	6,328,000
Cumulative Total		379,919,000

State's capitalization
of AIDEA:
Early 1980's \$189M +
Mid 1980's \$143.5M
= **\$332.5M**

Goal:

Share with the State, through an annual dividend (*that is stable and more predictable*), the financial benefits of AIDEA's actual results of operations.

Sec. 44.88.088. Payment of dividend to state.

The Pertinent Language:

The authority **shall** adopt a policy for payment of a dividend... to the state each fiscal year.

... The amount of the dividend payable... may not be less than 25 percent nor more than 50 percent of the ***net income*** ...for the base fiscal year...

...***"net income"*** means **the change in net position**, or the equivalent term under generally accepted accounting principles, ... **as set out in the audited financial statements** of the authority for the base fiscal year, **excluding amounts attributable to intergovernmental transfers, capital contributions, grants, or impairment losses on development projects financed under AS 44.88.172;**

Dividend Calculation Stack Visual

Dividend to the State

Based on Statutorily Defined ***“Net Income”***

HB 268 / SB 149 would remove *“market value”* and/or *“write-down/loss”* entries from the audit results. Statutorily defined ***“Net Income”*** would then not include any *“market value”* and/or State or Federal funded *“write-down/loss”* activity when calculating the dividend.

Based on audited **“Statements of Revenues, Expenses, and Changes in Net Position”**

An audited set of financials statements must include applicable *“market value”* and/or *“write-down/loss”* entries, which are required by:

Generally Accepted Accounting Principles (***G.A.A.P.***), and:

To be ***G.A.A.P.***, the books and records must adopt all applicable Governmental Accounting Standards Board (***G.A.S.B.***) Statements

3 Financial Statement Transaction Types



1. Entries from “**real transactions**” that actually occurred, they are historic in nature.

Examples: booking what was paid for an asset, revenue that is generated, payroll that is paid, taxes paid, what was cash received and why, etc.

2. Entries from “**estimates and allocations**”.

Examples: booking depreciation and amortization expenses which recognizes and records that an asset used up some of its estimated useful life over the period of operations.

3. Entries from “**market value adjustments**”. These are entries related to transactions that didn't happen, but, you must record them as though they did to comply with GAAP.

Example: booking the gain or loss that would have been the result of selling your marketable securities at the end of the day of the last day of the year (GASB 31).

Problem #1 Analogy of



“Market Value”
Entries Impacts

Dividend Problem #1:

“Market Value” Adjusting Entries

Problem #1:

1. The dividend payment is, ultimately, a cash based transaction. *(Paying it when cash hasn't been earned is a problem -- for AIDEA, but likewise, not paying it when it has been earned, and is available, is a problem -- for the State.)*
2. G.A.A.P. keeps evolving, requiring booking/recording *“market value”* adjusting entries. Essentially, act like something happened that didn't happen, and book it as though it did...
3. AIDEA's G.A.A.P. based income is derived from results of operations (+) *“market value”* adjusting entries.
4. The result: **AIDEA's “net income” swings**, sometimes materially, which means **the State's dividend swings** sometimes materially year-over-year, we want to fix this.

AIDEA “Market Value” Adjustments



To be GAAP compliant, AIDEA’s actual financial activities are adjusted for:

- ***GASB Statement No. 31: Accounting and Financial Reporting for Certain Investments and for External Investment Pools***
- ***GASB Statement No. 68: Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 (Implemented 6/30/2015)***
- ***GASB Statement No. 72: Fair Value Measurement and Application (To be implemented in fiscal years ending 6/30/2016)***
- ***GASB Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (To be implemented in fiscal years ending 6/30/18)***

\$ Based Tax Payer Analogy

Form	1040	Department of the Treasury—Internal Revenue Service (99)	2015	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.																																																
For the year Jan. 1–Dec. 31, 2015, or other tax year beginning _____, 2015, ending _____, 20																																																					
Your first name and initial _____		Last name _____		See separate instructions.																																																	
If a joint return, spouse's first name and initial _____		Last name _____		Your social security number _____ Spouse's social security number _____																																																	
Home address (number and street). If you have a P.O. box, see instructions.				Apt. no. _____																																																	
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).				Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse																																																	
Foreign country name _____		Foreign province/state/country _____		Foreign postal code _____																																																	
Filing Status <div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> 1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ _____ </div> <div style="width: 45%;"> 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ _____ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child </div> </div>																																																					
Exemptions <div style="display: flex; justify-content: space-between;"> <div style="width: 70%;"> 6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. b <input type="checkbox"/> Spouse c Dependents: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>(1) First name</th> <th>Last name</th> <th>(2) Dependent's social security number</th> <th>(3) Dependent's relationship to you</th> <th>(4) <input type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions)</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> </tbody> </table> </div> <div style="width: 25%;"> Boxes checked on 6a and 6b No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above ▶ </div> </div>						(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions)					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>																							
(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions)																																																	
				<input type="checkbox"/>																																																	
				<input type="checkbox"/>																																																	
				<input type="checkbox"/>																																																	
				<input type="checkbox"/>																																																	
If more than four dependents, see instructions and check here <input type="checkbox"/>																																																					
Income <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">7 Wages, salaries, tips, etc. Attach Form(s) W-2</td> <td style="width: 10%; text-align: center;">7</td> <td style="width: 20%;"></td> </tr> <tr> <td>8a Taxable interest. Attach Schedule B if required</td> <td style="text-align: center;">8a</td> <td></td> </tr> <tr> <td>9a Ordinary dividends. Attach Schedule B if required</td> <td style="text-align: center;">9a</td> <td></td> </tr> <tr> <td>10 Taxable refunds, credits, or offsets of state and local income taxes</td> <td style="text-align: center;">10</td> <td></td> </tr> <tr> <td>11 Alimony received</td> <td style="text-align: center;">11</td> <td></td> </tr> <tr> <td>12 Business income or (loss). Attach Schedule C or C-EZ</td> <td style="text-align: center;">12</td> <td></td> </tr> <tr> <td>13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/></td> <td style="text-align: center;">13</td> <td></td> </tr> <tr> <td>14 Other gains or (losses). Attach Form 4797</td> <td style="text-align: center;">14</td> <td></td> </tr> <tr> <td>15a IRA distributions</td> <td style="text-align: center;">15a</td> <td>b Taxable amount</td> </tr> <tr> <td>16a Pensions and annuities</td> <td style="text-align: center;">16a</td> <td>b Taxable amount</td> </tr> <tr> <td>17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E</td> <td style="text-align: center;">17</td> <td></td> </tr> <tr> <td>18 Farm income or (loss). Attach Schedule F</td> <td style="text-align: center;">18</td> <td></td> </tr> <tr> <td>19 Unemployment compensation</td> <td style="text-align: center;">19</td> <td></td> </tr> <tr> <td>20a Social security benefits</td> <td style="text-align: center;">20a</td> <td>b Taxable amount</td> </tr> <tr> <td>21 Other income. List type and amount</td> <td style="text-align: center;">21</td> <td></td> </tr> <tr> <td>22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶</td> <td style="text-align: center;">22</td> <td></td> </tr> </table>						7 Wages, salaries, tips, etc. Attach Form(s) W-2	7		8a Taxable interest. Attach Schedule B if required	8a		9a Ordinary dividends. Attach Schedule B if required	9a		10 Taxable refunds, credits, or offsets of state and local income taxes	10		11 Alimony received	11		12 Business income or (loss). Attach Schedule C or C-EZ	12		13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13		14 Other gains or (losses). Attach Form 4797	14		15a IRA distributions	15a	b Taxable amount	16a Pensions and annuities	16a	b Taxable amount	17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17		18 Farm income or (loss). Attach Schedule F	18		19 Unemployment compensation	19		20a Social security benefits	20a	b Taxable amount	21 Other income. List type and amount	21		22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶	22	
7 Wages, salaries, tips, etc. Attach Form(s) W-2	7																																																				
8a Taxable interest. Attach Schedule B if required	8a																																																				
9a Ordinary dividends. Attach Schedule B if required	9a																																																				
10 Taxable refunds, credits, or offsets of state and local income taxes	10																																																				
11 Alimony received	11																																																				
12 Business income or (loss). Attach Schedule C or C-EZ	12																																																				
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13																																																				
14 Other gains or (losses). Attach Form 4797	14																																																				
15a IRA distributions	15a	b Taxable amount																																																			
16a Pensions and annuities	16a	b Taxable amount																																																			
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17																																																				
18 Farm income or (loss). Attach Schedule F	18																																																				
19 Unemployment compensation	19																																																				
20a Social security benefits	20a	b Taxable amount																																																			
21 Other income. List type and amount	21																																																				
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶	22																																																				
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a W-2, see instructions.																																																					
Adjusted Gross Income <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">23 Educator expenses</td> <td style="width: 10%; text-align: center;">23</td> <td style="width: 20%;"></td> </tr> <tr> <td>24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ</td> <td style="text-align: center;">24</td> <td></td> </tr> <tr> <td>25 Health savings account deduction. Attach Form 8889</td> <td style="text-align: center;">25</td> <td></td> </tr> <tr> <td>26 Moving expenses. Attach Form 3903</td> <td style="text-align: center;">26</td> <td></td> </tr> <tr> <td>27 Deductible part of self-employment tax. Attach Schedule SE</td> <td style="text-align: center;">27</td> <td></td> </tr> <tr> <td>28 Self-employed SEP, SIMPLE, and qualified plans</td> <td style="text-align: center;">28</td> <td></td> </tr> <tr> <td>29 Self-employed health insurance deduction</td> <td style="text-align: center;">29</td> <td></td> </tr> <tr> <td>30 Penalty on early withdrawal of savings</td> <td style="text-align: center;">30</td> <td></td> </tr> <tr> <td>31a Alimony paid b Recipient's SSN ▶ _____</td> <td style="text-align: center;">31a</td> <td></td> </tr> <tr> <td>32 IRA deduction</td> <td style="text-align: center;">32</td> <td></td> </tr> <tr> <td>33 Student loan interest deduction</td> <td style="text-align: center;">33</td> <td></td> </tr> <tr> <td>34 Tuition and fees. Attach Form 8917</td> <td style="text-align: center;">34</td> <td></td> </tr> <tr> <td>35 Domestic production activities deduction. Attach Form 8903</td> <td style="text-align: center;">35</td> <td></td> </tr> <tr> <td>36 Add lines 23 through 35</td> <td style="text-align: center;">36</td> <td></td> </tr> <tr> <td>37 Subtract line 36 from line 22. This is your adjusted gross income ▶</td> <td style="text-align: center;">37</td> <td></td> </tr> </table>						23 Educator expenses	23		24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24		25 Health savings account deduction. Attach Form 8889	25		26 Moving expenses. Attach Form 3903	26		27 Deductible part of self-employment tax. Attach Schedule SE	27		28 Self-employed SEP, SIMPLE, and qualified plans	28		29 Self-employed health insurance deduction	29		30 Penalty on early withdrawal of savings	30		31a Alimony paid b Recipient's SSN ▶ _____	31a		32 IRA deduction	32		33 Student loan interest deduction	33		34 Tuition and fees. Attach Form 8917	34		35 Domestic production activities deduction. Attach Form 8903	35		36 Add lines 23 through 35	36		37 Subtract line 36 from line 22. This is your adjusted gross income ▶	37				
23 Educator expenses	23																																																				
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24																																																				
25 Health savings account deduction. Attach Form 8889	25																																																				
26 Moving expenses. Attach Form 3903	26																																																				
27 Deductible part of self-employment tax. Attach Schedule SE	27																																																				
28 Self-employed SEP, SIMPLE, and qualified plans	28																																																				
29 Self-employed health insurance deduction	29																																																				
30 Penalty on early withdrawal of savings	30																																																				
31a Alimony paid b Recipient's SSN ▶ _____	31a																																																				
32 IRA deduction	32																																																				
33 Student loan interest deduction	33																																																				
34 Tuition and fees. Attach Form 8917	34																																																				
35 Domestic production activities deduction. Attach Form 8903	35																																																				
36 Add lines 23 through 35	36																																																				
37 Subtract line 36 from line 22. This is your adjusted gross income ▶	37																																																				
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.																																																					

Form 1040 Impact Analogy

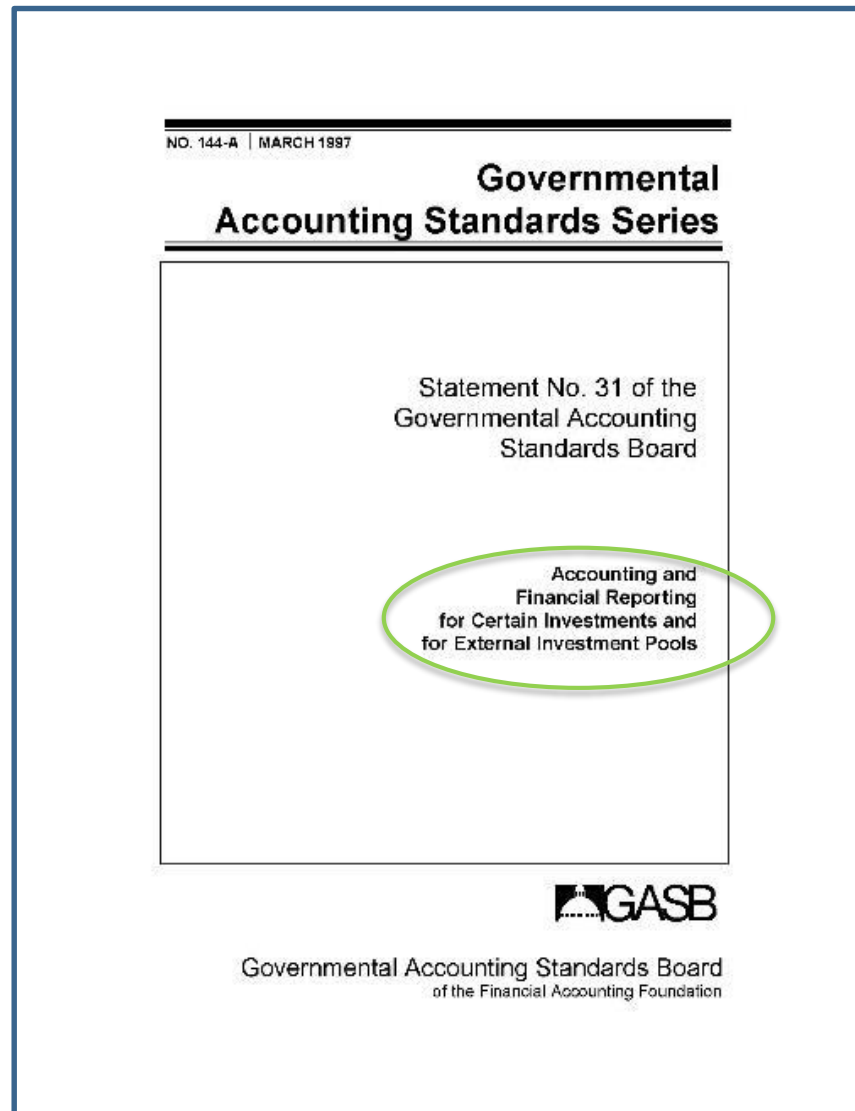


Income								
7	Wages, salaries, tips, etc. Attach Form(s) W-2					7	100,000	
8a	Taxable interest. Attach Schedule B if required					8a	1,500	
b	Tax-exempt interest. Do not include on line 8a	8b						
9a	Ordinary dividends. Attach Schedule B if required					9a	6,000	
b	Qualified dividends	9b						
10	Taxable refunds, credits, or offsets of state and local income taxes					10		
11	Alimony received					11		
12	Business income or (loss). Attach Schedule C or C-EZ					12		
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>					13		
14	Other gains or (losses). Attach Form 4797					14		
15a	IRA distributions	15a			b Taxable amount	15b		
16a	Pensions and annuities	16a			b Taxable amount	16b		
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E					17		
18	Farm income or (loss). Attach Schedule F					18		
19	Unemployment compensation					19		
20a	Social security benefits	20a			b Taxable amount	20b		
21	Other income. List type and amount					21	1,500	
22	Combine the amounts in the far right column for lines 7 through 21. This is your total income					22	109,000	

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

Apply GASB Statement No. 31

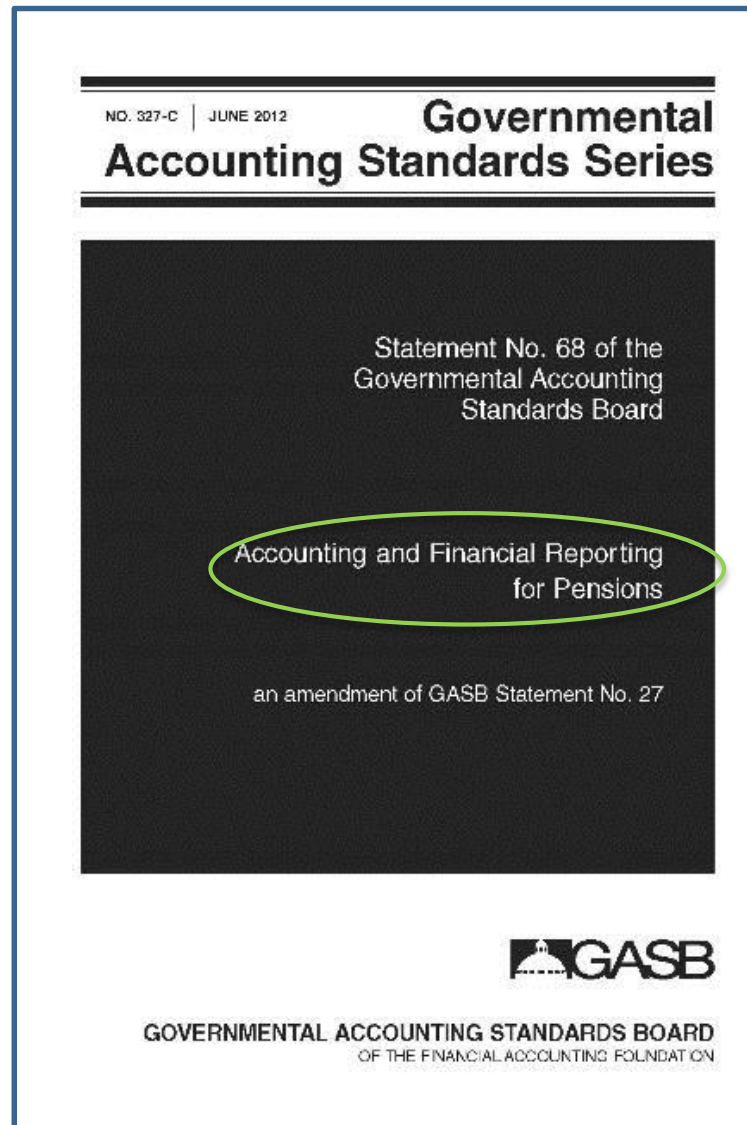


Form 1040 Impact Analogy – Post GASB 31

(Adjust Income for market value of non-retirement stocks and bonds that own at year-end)

Income								
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	7	Wages, salaries, tips, etc. Attach Form(s) W-2		7	100,000			
	8a	Taxable interest. Attach Schedule B if required		8a	1,500			
	b	Tax-exempt interest. Do not include on line 8a	8b					
	9a	Ordinary dividends. Attach Schedule B if required		9a	6,000			
If you did not get a W-2, see instructions.	b	Qualified dividends	9b					
	10	Taxable refunds, credits, or offsets of state and local income taxes		10				
	11	GASB 31 - Unrealized gain or loss on marketable securities (10% on \$250k portfolio)		11	25,000			
	12	Business income or (loss). Attach Schedule C or C-EZ		12				
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>		13				
	14	Other gains or (losses). Attach Form 4797		14				
	15a	IRA distributions	15a		b Taxable amount	15b		
	16a	Pensions and annuities	16a		b Taxable amount	16b		
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17				
	18	Farm income or (loss). Attach Schedule F		18				
	19	Unemployment compensation		19				
	20a	Social security benefits	20a		b Taxable amount	20b		
	21	Other income. List type and amount		21	1,500			
	22	Combine the amounts in the far right column for lines 7 through 21. This is your total income		22	134,000			

Apply GASB Statement No. 68 to analogy

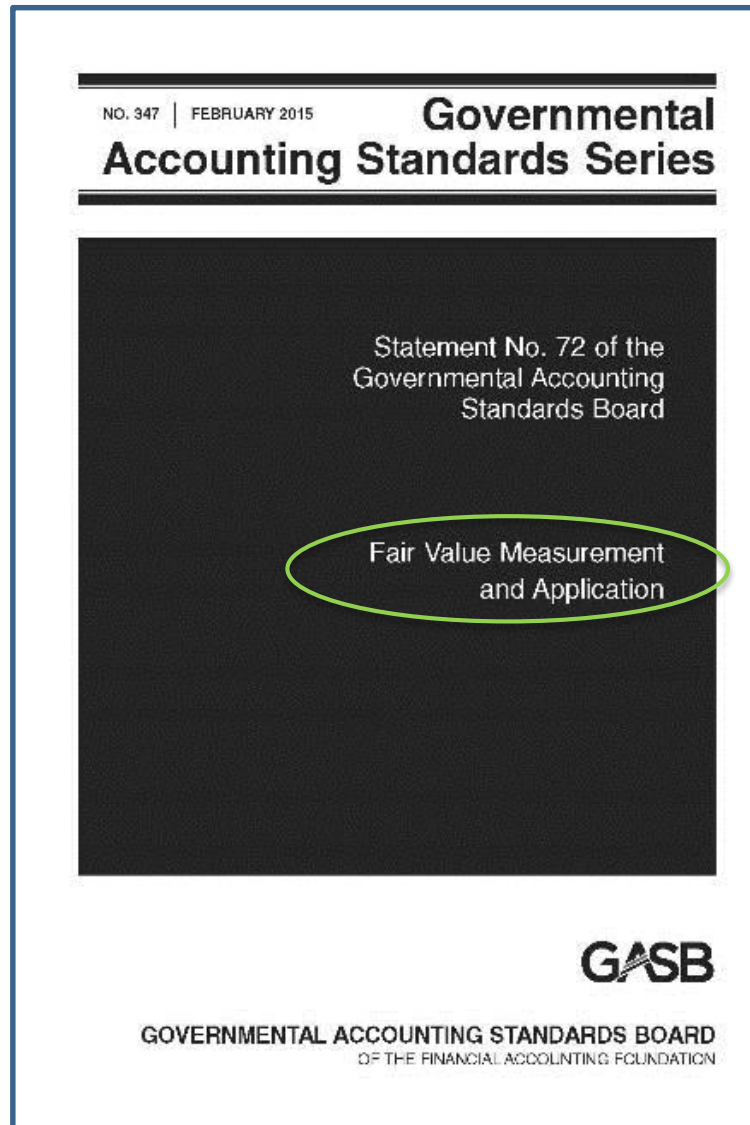


Form 1040 Analogy – Add GASB (Y/E 6/30/15)

(Adjust Income for market value of retirement accounts holdings at year-end)

Income									
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	7	Wages, salaries, tips, etc. Attach Form(s) W-2				7	100,000		
	8a	Taxable interest. Attach Schedule B if required				8a	1,500		
	b	Tax-exempt interest. Do not include on line 8a	8b						
	9a	Ordinary dividends. Attach Schedule B if required				9a	6,000		
If you did not get a W-2, see instructions.	b	Qualified dividends	9b						
	10	Taxable refunds, credits, or offsets of state and local income taxes				10			
	11	GASB 31 - Unrealized gain or loss on marketable securities (10% on \$250k portfolio)				11	25,000		
	12	Business income or (loss). Attach Schedule C or C-EZ				12			
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>				13			
	14	Other gains or (losses). Attach Form 4797				14			
	15a	IRA distributions	15a			b	Taxable amount	15b	
	16a	GASB 68 – Value adjustment from Retirement 401k Account (5% on \$200k growth)				16b	10,000		
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E				17			
	18	Farm income or (loss). Attach Schedule F				18			
	19	Unemployment compensation				19			
	20a	Social security benefits	20a			b	Taxable amount	20b	
	21	Other income. List type and amount				21	1,500		
	22	Combine the amounts in the far right column for lines 7 through 21. This is your total income				22	144,000		

Apply GASB Statement No. 72 to analogy

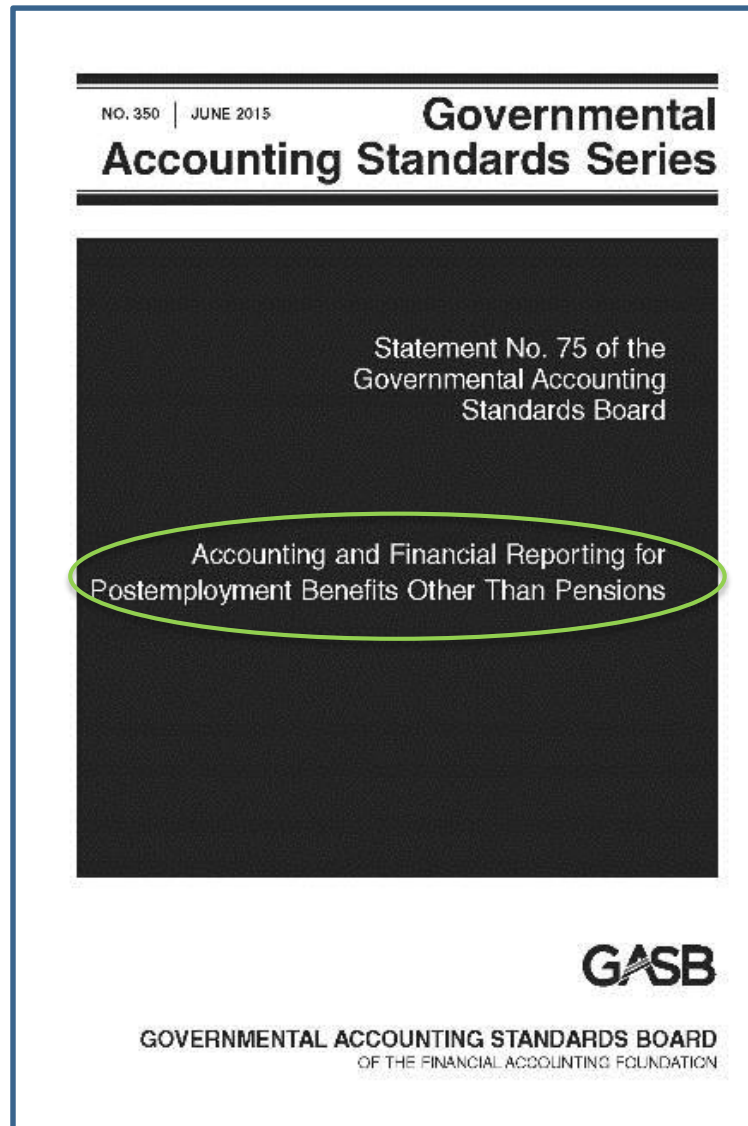


Form 1040 Analogy – Add GASB 72 (Y/E 6/30/16)

(Adjust Income for the market value of the rental property you own at year-end)

Income									
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	7	Wages, salaries, tips, etc. Attach Form(s) W-2				7	100,000		
	8a	Taxable interest. Attach Schedule B if required				8a	1,500		
	b	Tax-exempt interest. Do not include on line 8a	8b						
	9a	Ordinary dividends. Attach Schedule B if required				9a	6,000		
If you did not get a W-2, see instructions.	b	Qualified dividends	9b						
	10	Taxable refunds, credits, or offsets of state and local income taxes				10			
	11	GASB 31 - Unrealized gain or loss on marketable securities (10% on \$250k portfolio)				11	25,000		
	12	Business income or (loss). Attach Schedule C or C-EZ				12			
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>				13			
	14	Other gains or (losses). Attach Form 4797				14			
	15a	IRA distributions	15a			b	Taxable amount	15b	
	16a	GASB 68 – Value adjustment from Retirement 401k Account (5% on \$200k growth)				16b	10,000		
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E				17			
	18	GASB 72 – Fair value adjustment for your rental property (5% on \$400k value)				18	20,000		
	19	Unemployment compensation				19			
	20a	Social security benefits	20a			b	Taxable amount	20b	
	21	Other income. List type and amount				21	1,500		
	22	Combine the amounts in the far right column for lines 7 through 21. This is your total income				22	164,000		

Apply GASB Statement No. 75

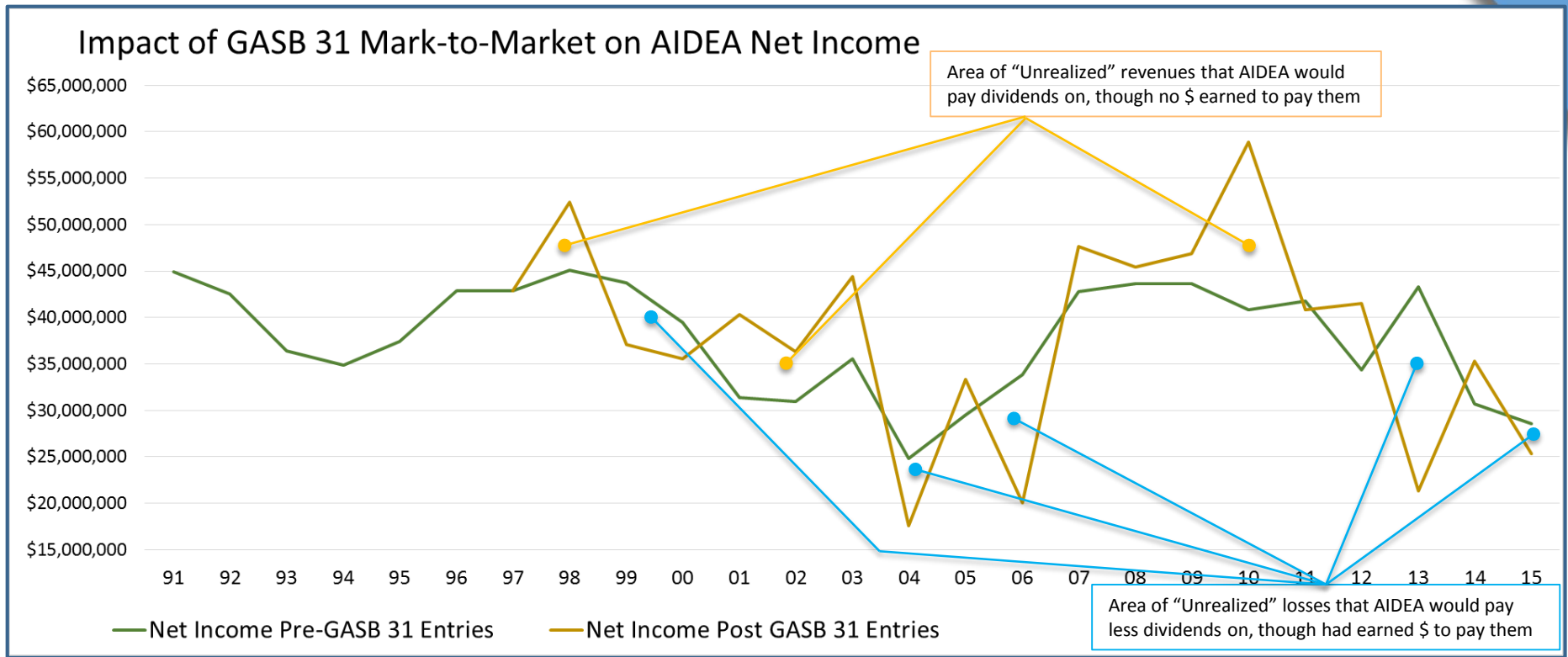


Form 1040 Analogy – Add GASB 75 (Y/E 6/30/18)

(Adjust Income for the market value of your healthcare at year-end)

Income							
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	100,000			
	8a	Taxable interest. Attach Schedule B if required	8a	1,500			
	b	Tax-exempt interest. Do not include on line 8a	8b				
	9a	Ordinary dividends. Attach Schedule B if required	9a	6,000			
If you did not get a W-2, see instructions.	b	Qualified dividends	9b				
	10	Taxable refunds, credits, or offsets of state and local income taxes	10				
	11	GASB 31 - Unrealized gain or loss on marketable securities (10% on \$250k portfolio)	11	25,000			
	12	Business income or (loss). Attach Schedule C or C-EZ	12				
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13				
	14	Other gains or (losses). Attach Form 4797	14				
	15a	IRA distributions	15a				
	b	Taxable amount	15b				
	16a	GASB 68 – Value adjustment from Retirement 401k Account (5% on \$200k growth)	16b	10,000			
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17				
18	GASB 72 – Fair value adjustment for your rental property (5% on \$400k value)	18	20,000				
19	Unemployment compensation	19					
20a	GASB 75 – Fair value adjustment for your other post employment benefits	20b	5,000				
21	Other income. List type and amount	21	1,500				
22	Combine the amounts in the far right column for lines 7 through 21. This is your total income	22	169,000				

GASB 31 Impact to *Net Income*



Dividend Trend Information

Dividend Trend Information								
(In thousands)								
G.A.S.B. 31 "Unrealized gains/(losses)" can swing dramatically year-over-year causing dividend swings.								
	2012	2013	2012/2013 Variance	2014	2013/2014 Variance	2015	2014/2015 Variance	
Realized gains/(losses)	(176)	11,579	11,755	(2,363)	(13,942)	(1,610)	753	
Unrealized gains/(losses)	7,144	(21,915)	(29,059)	4,606	26,521	(3,300)	(7,906)	
Gain on Sale of HCCP	-	-	-	4,188	4,188	-	(4,188)	
Other Operating Revenues	61,883	61,643	(240)	57,937	(3,706)	57,197	(740)	
Total Operating Revenues	68,851	51,307	(17,544)	64,368	13,061	52,287	(12,081)	
Operating Expenses	(27,416)	(30,774)	(3,358)	(28,402)	2,372	(27,290)	1,112	
Non operating activities	55	798	743	(648)	(1,446)	(381)	267	
Expenses attributed to capital approp	-	-	-	-	-	692	692	*
Statutory Net Income	41,490	21,331	(20,159)	35,318	13,987	25,308	(10,010)	
Operating Revenues and Expenses are fairly stable year-over-year, keeping dividend fairly stable.								
			Dividend Impact		Dividend Impact		Dividend Impact	
Dividend declared	20,745	10,665	(10,080)	17,650	6,985	6,328	(11,322)	
% of NI	50.00%	50.00%		49.97%		25.00%		
* new in FY15, not adjusted for in PY								

Form 1040 Analogy – GASB 31, 68, 72, & 75

Income Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a W-2, see instructions.	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	100,000
	8a	Taxable interest. Attach Schedule B if required	8a	1,500
	b	Tax-exempt interest. Do not include on line 8a	8b	
	9a	Ordinary dividends. Attach Schedule B if required	9a	6,000
	b	Qualified dividends	9b	
	10	Taxable refunds, credits, or offsets of state and local income taxes	10	
	11	GASB 31 - Unrealized gain or loss on marketable securities (10% on \$250k portfolio)	11	25,000
	12	Business income or (loss). Attach Schedule C or C-EZ	12	
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13	
	14	Other gains or (losses). Attach Form 4797	14	
	15a	IRA distributions	15a	
	b	Taxable amount	15b	
	16a	GASB 68 – Value adjustment from Retirement 401k Account (5% on \$200k growth)	16b	10,000
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
	18	GASB 72 – Fair value adjustment for your rental property (5% on \$400k value)	18	20,000
	19	Unemployment compensation	19	
	20a	GASB 75 – Fair value adjustment for your other post employment benefits	20b	5,000
	21	Other income. List type and amount	21	1,500
	22	Combine the amounts in the far right column for lines 7 through 21. This is your total income	22	109,000
	Revised line 22 total taxable income post market value if recognized			169,000

HB 268 / SB 149 removes these impacts

Under this analogy you'd have \$60,000 more income that you'd have to pay taxes on if you had to recognize "market value" adjustments on your personal tax return, without having earned the \$ to pay the taxes... (Note: any of these adjustments could go in either direction.)

Problem #2

“Dividend Penalty”

Adjusting Entries

Dividend Problem #2:

“Dividend-Penalty” Effect Adjusting Entries



Problem #2:

1. When the value of a project has been determined to have been permanently reduced for some reason G.A.A.P. requires booking/recording an adjusting entry between the Balance Sheet and the Income Statement to *reduce and/or remove some or all of the value of an asset or a project from AIDEA's Balance Sheet.*
2. The resulting entry reduces net income. The consequence (depending on the facts), could possibly either reduce the State's dividend from a project it funded due to an adjusting entry reducing value, and/or have AIDEA paying a dividend on top of a project it funded due to an adjusting entry reducing value.
3. Basically, there could be up to a 25% to 50% **“dividend penalty”** from an adjusting entry that we'd like to fix.

Potential Effect of an Adjustment to State Funded Investment (Project X Hypothetical)

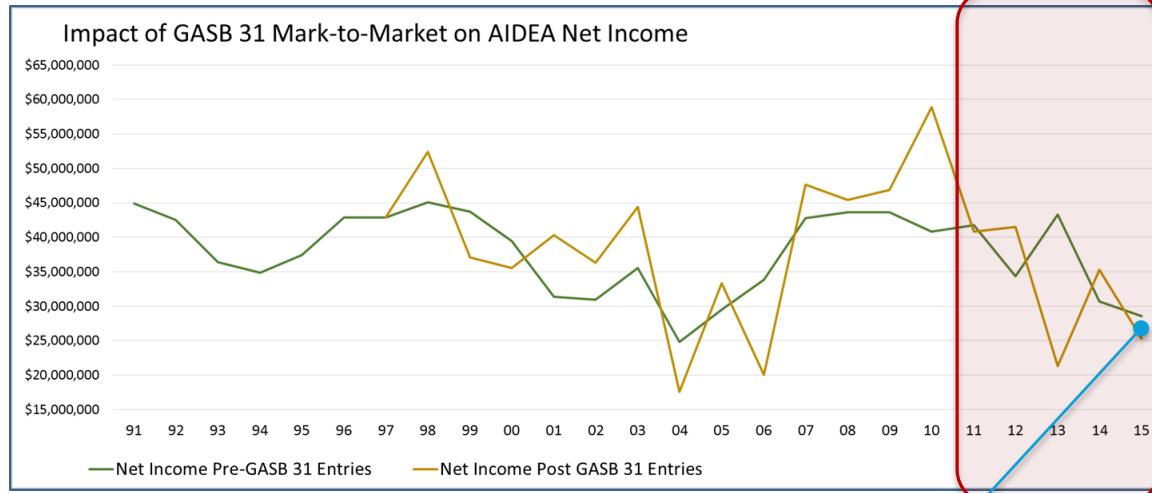


Computation of statutory "net income" for FY17 dividend (in thousands)

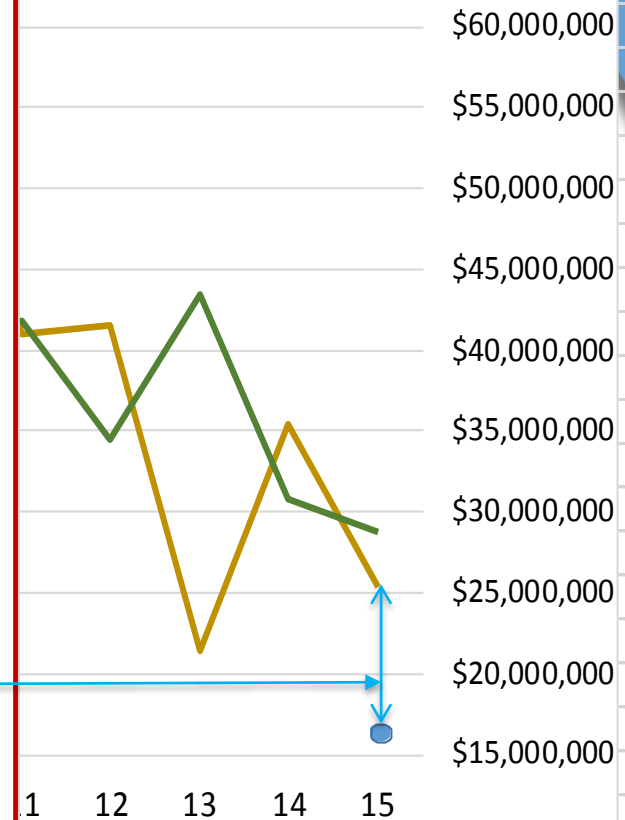
Net position-Revolving Fund	\$ 27,984	
Appropriations and contributions from the State of Alaska	(14,008)	
Capital grant revenue	(25)	
Dividend to State	10,665	
Expenditures attributable to capital contributions	692	
FY15 Statutory "net income"	<u>25,308</u>	
Hypothetical adjustment attributable to a State funded impairment loss	<u>(8,800)</u>	x 50% =
		<u>\$ (4,400)</u>
Revised FY15 Statutory "net income" for dividend calculations	<u>\$ 16,508</u>	

**State's
Dividend
Penalty
Impact**

Hypothetical State Funded Non-172 Project, if Stopped, Impact to “Net Income”



Impact of Impairment of State Funded Project in FY15



Area of “Unrealized” losses that trigger a drop to the State’s dividend, though AIDEA had earned \$ to pay more

Consequence: The “Dividend Penalty” to the State would be a (\$4.4M) smaller dividend (@ 50%)

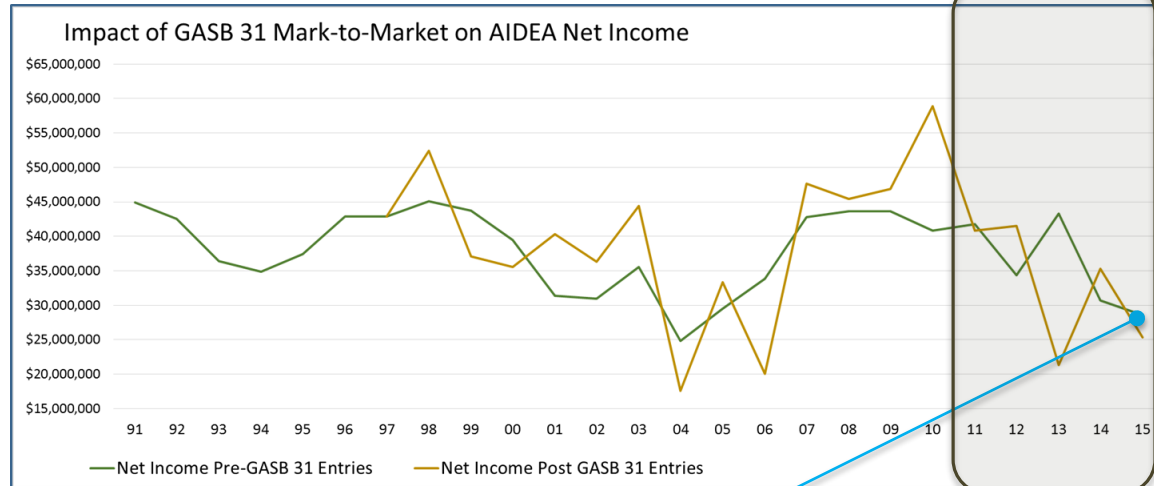
Loss Impact: Net Income Becomes \$8.8M Lower

Potential Effect and Adjustment to AIDEA Funded Investment (Jack-Up Rig Hypothetical)

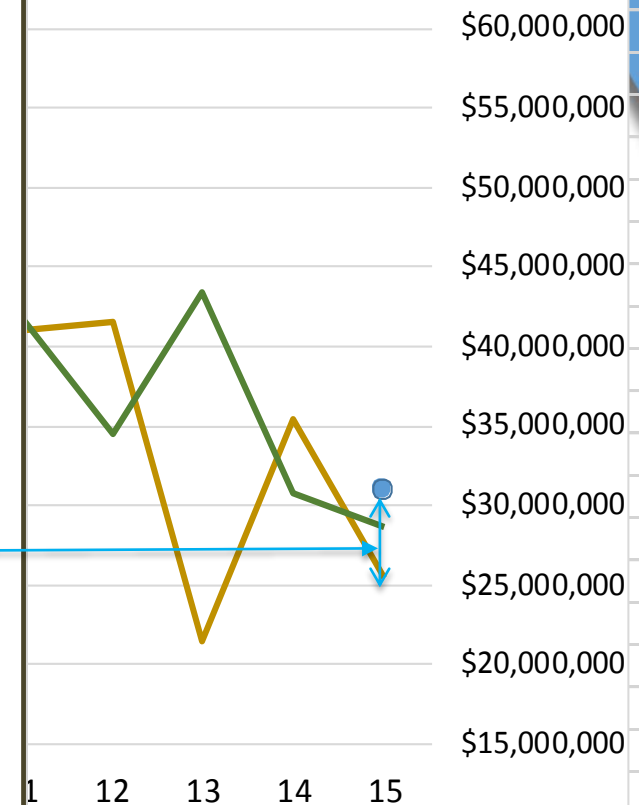
Computation of statutory "net income" for FY17 dividend (in thousands)

Net position-Revolving Fund	\$ 27,984	
Appropriations and contributions from the State of Alaska	(14,008)	
Capital grant revenue	(25)	
Dividend to State	10,665	
Expenditures attributable to capital contributions	692	
FY15 Statutory "net income"	<u>25,308</u>	
Hypothetical adjustment attributable to an AIDEA funded impairment loss	<u>6,000</u> x 50% =	AIDEA's Dividend Penalty Impact
		<u><u>\$ 3,000</u></u>
Revised FY15 Statutory "net income" for dividend calculation	<u><u>\$ 31,308</u></u>	

Hypothetical AIDEA Funded 172 Project, if Stopped & Sold at Loss Impact to “Net Income”



Impact of Impairment for 172 Project in FY15



Go from an area of “Unrealized Loss” to an area of “Unrealized” revenues that would pay dividends on, though no \$ earned to pay them

The “Dividend Penalty” to AIDEA would be a \$3M larger dividend

Net Income \$6M Higher

Proposed Statutory Language Explanation

Language Changes

- **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

- * **Section 1.** AS 44.88.088(b) is amended to read:

- (b) In this section,
- (1) "base fiscal year" means the fiscal year ending two years before the end of the fiscal year in which the payment is made;
- (2) **"mark-to-market fair value" means fixing the value of an investment as its market value as of the financial reporting date;**
- (3) **"net income" means** the change in net position, or the equivalent term under generally accepted accounting principles, of the revolving fund, the change in net position of the Alaska Industrial Development and Export Authority sustainable energy transmission and supply development fund (AS 44.88.660), or the change in net position of the Arctic infrastructure development fund (AS 44.88.810) as set out in the audited financial statements of the authority for the base fiscal year, excluding amounts attributable to intergovernmental transfers, capital contributions, grants, [OR IMPAIRMENT] losses on a **project or development to the extent [DEVELOPMENT PROJECTS] financed with state or federal grants or appropriations, mark-to-market fair value based accounting entries, and noncash accounting entries related to retirement obligations** [UNDER AS 44.88.172];
- (4) **"project or development" means**
 - (A) **an Arctic infrastructure development as defined in AS 44.88.900(2);**
 - (B) **a development project as defined in AS 44.88.900(6);**
 - (C) **a project as defined in AS 44.88.900(13);**
 - (D) **a qualified energy development as defined in AS 44.88.900(16);**
- (5) [(3)] **"unrestricted net income" means** the unrestricted change in net position, or the equivalent term under generally accepted accounting principles, of the revolving fund, the Alaska Industrial Development and Export Authority sustainable energy transmission and supply development fund (AS 44.88.660), or the Arctic infrastructure development fund (AS 44.88.810) as set out in the audited financial statements of the authority for the base fiscal year, excluding amounts attributable to intergovernmental transfers, capital contributions, grants, [OR IMPAIRMENT] losses on **a project or development to the extent [DEVELOPMENT PROJECTS] financed with state or federal grants or appropriations, mark-to-market fair value based accounting entries, and noncash accounting entries related to retirement obligations** [UNDER AS 44.88.172]. 27 * **Sec. 2.** This Act takes effect immediately under AS 01.10.070(c).

(The same language)

Language Changes – Selected Highlighted



- **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**
- * **Section 1.** AS 44.88.088(b) is amended to read:
- (2) **"mark-to-market fair value" means fixing the value of an investment as its market value as of the financial reporting date;**
- **(3) "net income" means the change in net position**, or the equivalent term under generally accepted accounting principles, of the revolving fund, the change in net position of the Alaska Industrial Development and Export Authority sustainable energy transmission and supply development fund (AS 44.88.660), or the change in net position of the Arctic infrastructure development fund (AS 44.88.810) as set out in the audited financial statements of the authority for the base fiscal year, **excluding amounts attributable to intergovernmental transfers, capital contributions, grants, [OR IMPAIRMENT] losses on a project or development to the extent [DEVELOPMENT PROJECTS] financed with state or federal grants or appropriations, mark-to-market fair value based accounting entries, and noncash accounting entries related to retirement obligations [UNDER AS 44.88.172];**

The proposed statutory change of HB 268 / SB 149:

- 1) Removes the “**market value**” entries that impact the dividend, thus better stabilizing the dividend amount paid to the State year-over-year.
- 2) Connects the actual payment of a dividend to the actual cash available from revenues earned, that are real, versus unrealized.
- 3) Removes the “**dividend-penalty**” result on the financier of an investment project that did not materialize as originally planned.
- 4) Aligns statutory language to the fact that the dividend, in the end, is a check to the State and thus is a cash based transaction.
Paying it when cash hasn't been earned is a problem (for AIDEA), and not paying it when it has been earned, and is available, is a problem (for the State).



Alaska Industrial Development and Export Authority

813 West Northern Lights Blvd.
Anchorage, Alaska 99503



(907) 771-3000
(888) 300-8534 (Toll Free in Alaska)



#AIDEA



www.aidea.org



Appendix Slides

Potential Effect of an Adjustment to State Funded Investment (Project X Hypothetical)



Computation of statutory "net income" for FY17 dividend (in thousands)

Net position-Revolving Fund	\$ 27,984	
Appropriations and contributions from the State of Alaska	(14,008)	
Capital grant revenue	(25)	
Dividend to State	10,665	
Expenditures attributable to capital contributions	692	
FY15 Statutory "net income"	<u>25,308</u>	
Hypothetical adjustment attributable to a State funded impairment loss	<u>(8,800)</u>	x 50% = <u><u>\$ (4,400)</u></u>
Revised FY15 Statutory "net income" for dividend calculations	<u><u>\$ 16,508</u></u>	

Hypothetically, as an example, if the State (for whatever reason) had determined in FY 2015 to not move forward with Project X, and Project X were not an AS 44.88.172 project on AIDEA's books, per G.A.A.P., the \$8.8 million invested and shown on AIDEA's balance sheet as construction in progress would need to be reduced to \$0. By an adjusting entry; the \$8.8 million asset value changes to \$0 and an offsetting \$8.8 million expense is recorded in the income statement. Result: "net income" is reduced by \$8.8 million, and at a 50% dividend, the impact to the dividend to the State would be (\$4.4M). Hypothetical final cost to the State for investing in a potential economically beneficial project: \$8.8 + \$4.4 = \$13.2 million (the "dividend-penalty" to the State) without adjusting the statutory language, not fair to the State.

Potential Effect and Adjustment to AIDEA Funded Investment (Jack-Up Rig Hypothetical)

Computation of statutory "net income" for FY17 dividend (in thousands)

Net position-Revolving Fund	\$ 27,984	
Appropriations and contributions from the State of Alaska	(14,008)	
Capital grant revenue	(25)	
Dividend to State	10,665	
Expenditures attributable to capital contributions	692	
FY15 Statutory "net income"	<u>25,308</u>	
Hypothetical adjustment attributable to an AIDEA funded impairment loss	<u>6,000</u> x 50% =	AIDEA's Dividend Penalty Impact
		<u>\$ 3,000</u>
Revised FY15 Statutory "net income" for dividend calculation	<u><u>\$ 31,308</u></u>	

*Hypothetically, if AIDEA were to have purchased and then sold its Jack-Up Rig in FY 2015, and if AIDEA's Revolving Fund had invested \$24 million and then were paid, say \$18 million for the Rig, G.A.A.P. would require AIDEA, as part of its sales entry, to recognize a \$6 million write-down/loss on the sale in the income statement. Result: "net income" is reduced by \$6 million, but **current language would exclude the write-down** in the dividend "net income" calculation, **so the \$6 million would be added back to the bottom-line**. At a 50% dividend, the impact to the dividend to AIDEA would be paying \$3 million more from a \$6 million write-down. Hypothetical final cost to AIDEA for investing in a potential economically beneficial project: \$6 + **\$3** = \$9 million (the **"dividend-penalty"** to AIDEA) without adjusting the statutory language. The risk of investing is higher...*