

ALASKA'S DEVELOPMENT FINANCE AUTHORITY

*Proposed Language Changes to Modernize
AIDEA's Dividend Statute Using HB 268 / SB 149*

Investing in Alaskans



AIDEA's Dividend: History, Goal, Statutory Language, and Two Accounting 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**

AIDEA's Dividend & *Language Change* Goal



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.

Dividend Statute Language Needs Modernizing, As Accounting Rules Have Evolved Over Time



3 Accounting Transaction Types, #3 Causes Dividend Problems:

1. Entries from “**real transactions**” that actually occurred, they are historic in nature. *(These are okay.) 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**”. *(These are okay.) 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, AIDEA must record them for the audit as though they did happen to comply with G.A.S.B. and have a G.A.A.P. audit. *(We want to modernize the existing “excluding...” statutory language and remove G.A.S.B. “market value” impacts on the dividend through HB 268 and SB 149 proposed language changes.) 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).*

Sec. 44.88.088. Payment of dividend to state.



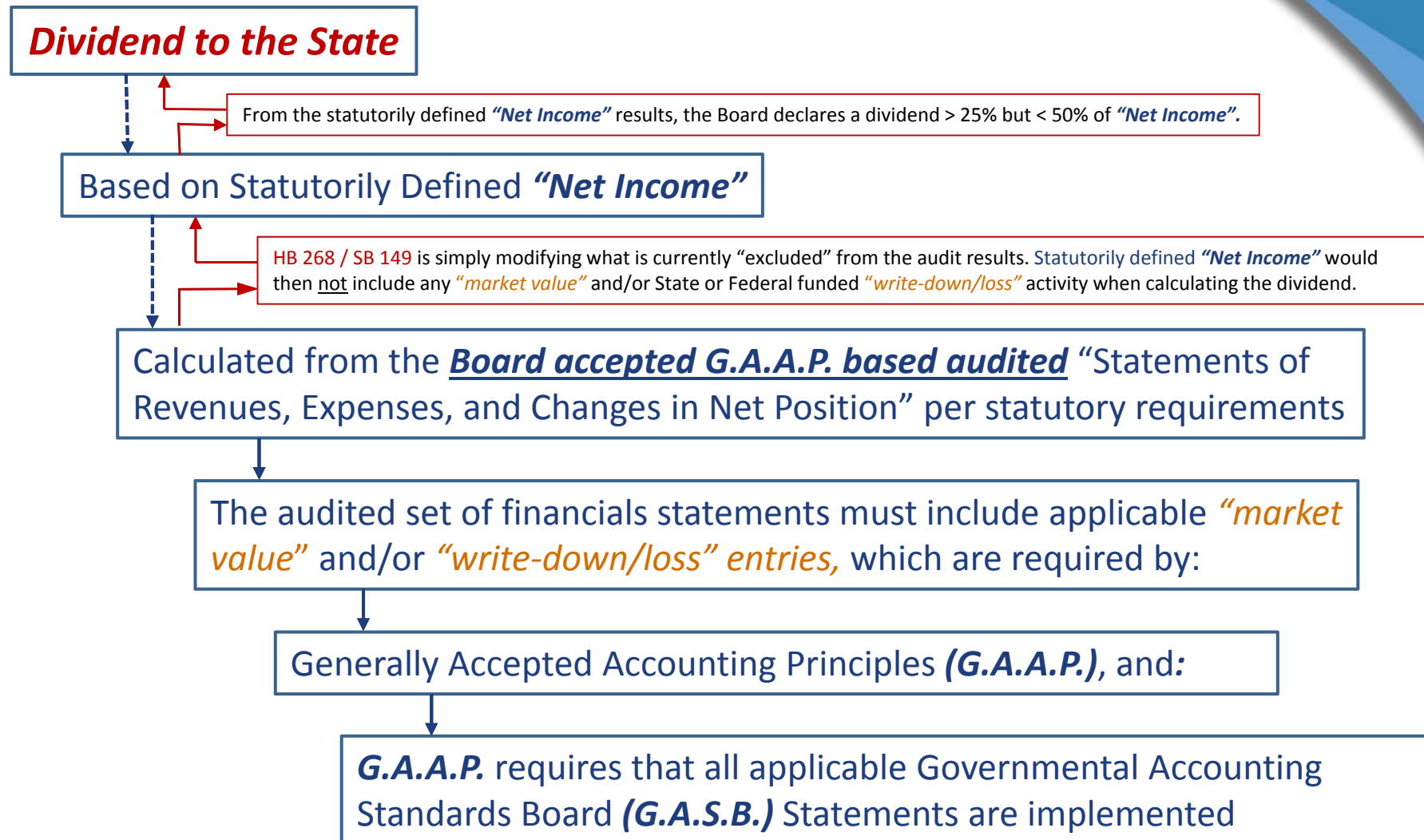
The Pertinent Language:

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 Problem #1:

“Market Value” Adjusting Entries



Problem #1:

1. **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...
2. 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.*
3. And in the end, ultimately, the **dividend payment is 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.*)

Problem #1 Analogy of



“Market Value”
Entries Impacts

\$ 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																														
U.S. Individual Income Tax Return																																			
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																															
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).				Spouse's social security number																															
Foreign country name				Foreign province/state/county																															
Foreign postal code				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: 60%;"> 6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. 6b <input type="checkbox"/> Spouse </div> <div style="width: 35%;"> 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>																																			
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">(1) First name</th> <th style="width: 20%;">Last name</th> <th style="width: 20%;">(2) Dependent's social security number</th> <th style="width: 20%;">(3) Dependent's relationship to you</th> <th style="width: 10%;">(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> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td></tr> </tbody> </table>						(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)																									
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<div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> If more than four dependents, see instructions and check here ▶ <input type="checkbox"/> </div> <div style="width: 35%;"> Total number of exemptions claimed </div> </div>																																			
Income																																			
<div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> 7 Wages, salaries, tips, etc. Attach Form(s) W-2 8a Taxable interest. Attach Schedule B if required 8b Tax-exempt interest. Do not include on line 8a 9a Ordinary dividends. Attach Schedule B if required 9b Qualified dividends 10 Taxable refunds, credits, or offsets of state and local income taxes 11 Alimony received 12 Business income or (loss). Attach Schedule C or C-EZ 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/> 14 Other gains or (losses). Attach Form 4797 15a IRA distributions 15b Taxable amount 16a Pensions and annuities 16b Taxable amount 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 18 Farm income or (loss). Attach Schedule F 19 Unemployment compensation 20a Social security benefits 20b Taxable amount 21 Other income. List type and amount 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶ </div> <div style="width: 35%;"> 7 8a 8b 9a 9b 10 11 12 13 14 15b 16b 17 18 19 20b 21 22 </div> </div>																																			
Adjusted Gross Income																																			
<div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> 23 Educator expenses 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 25 Health savings account deduction. Attach Form 8889 26 Moving expenses. Attach Form 3903 27 Deductible part of self-employment tax. Attach Schedule SE 28 Self-employed SEP, SIMPLE, and qualified plans 29 Self-employed health insurance deduction 30 Penalty on early withdrawal of savings 31a Alimony paid b Recipient's SSN ▶ 32 IRA deduction 33 Student loan interest deduction 34 Tuition and fees. Attach Form 8917 35 Domestic production activities deduction. Attach Form 8803 36 Add lines 23 through 35 37 Subtract line 36 from line 22. This is your adjusted gross income ▶ </div> <div style="width: 35%;"> 23 24 25 26 27 28 29 30 31a 32 33 34 35 36 37 </div> </div>																																			

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

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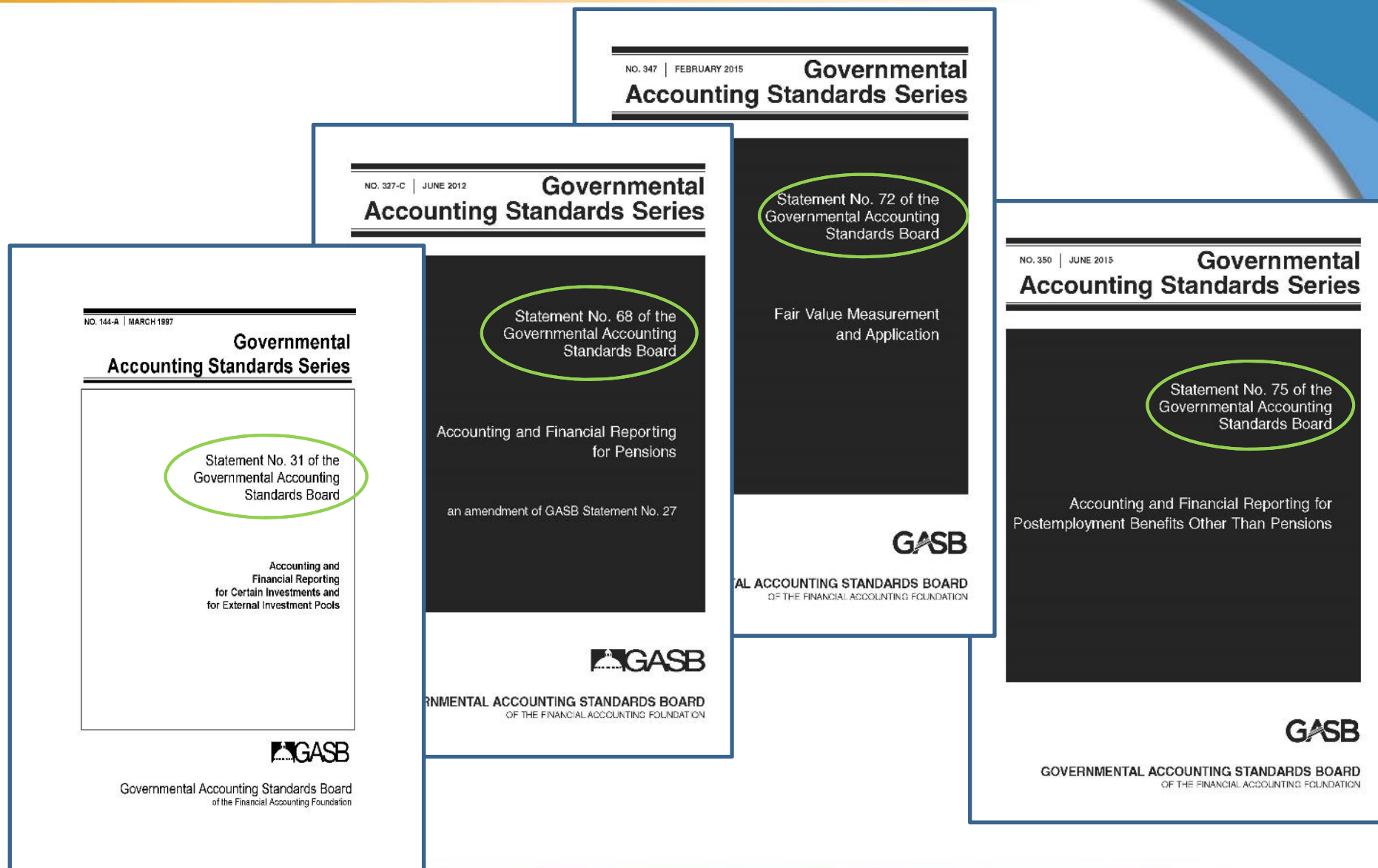
Form 1040 (2015)

Form 1040 Impact Analogy



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	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

GASB Statements 31, 68, 72, & 75



Form 1040 Analogy – Add GASB Impacts

(Now adjust your 1040 total income as if “GASB Type” adjustments were required at year-end)

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	169,000

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.)

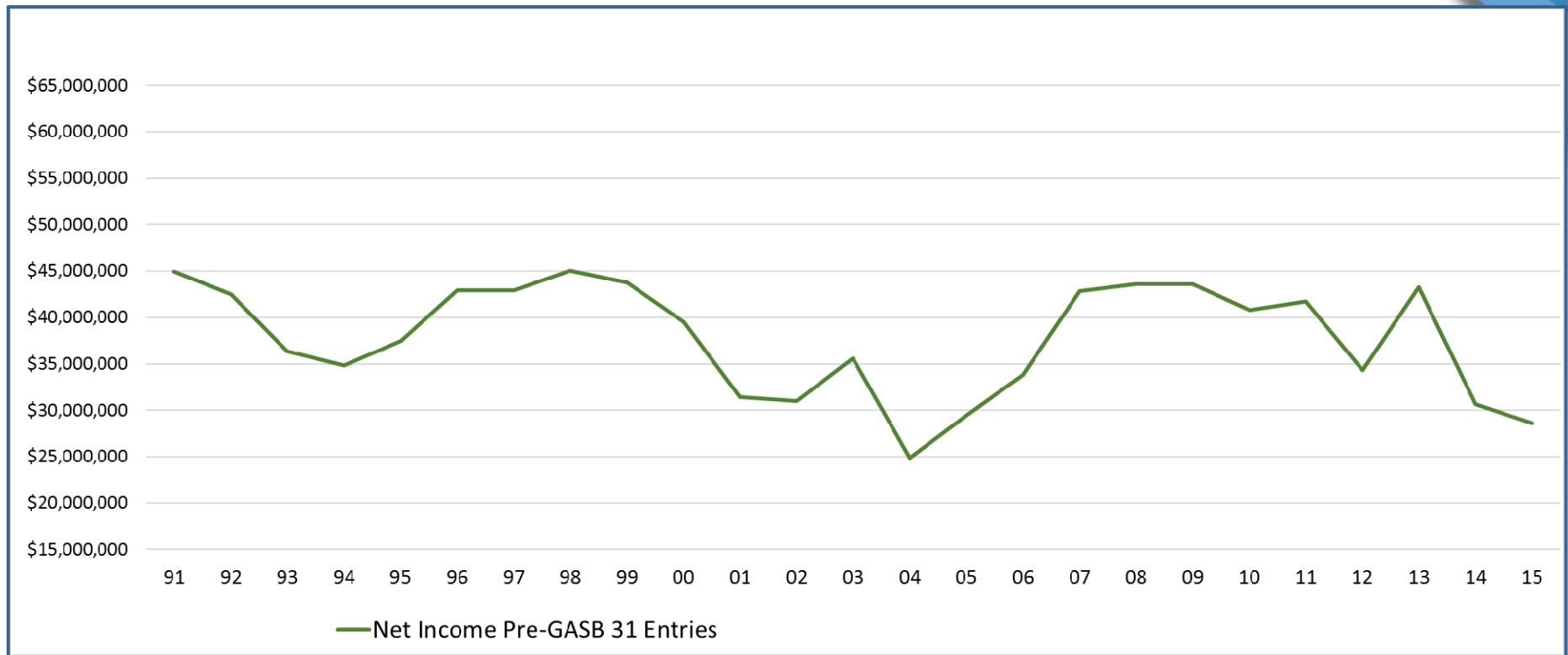
HB 268's / SB 149's Impact To 1040 Analogy

The “market value” unrealized adjustments would be excluded from “**Net Income.**”

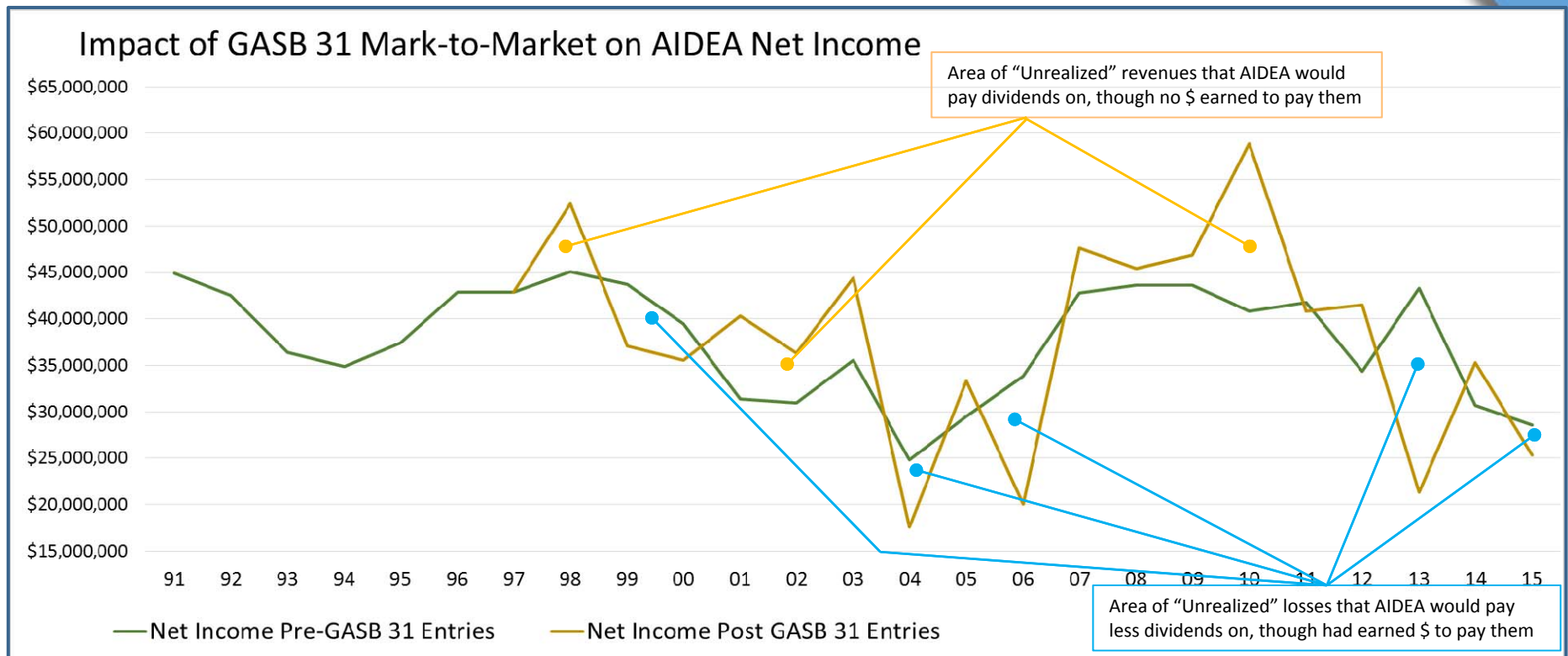
Income Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a W-2, see instructions.	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	100,000	
	8a	Taxable interest. Attach Schedule B if required	8a	1,500	
	b	Tax-exempt interest. Do not include on line 8a	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

AIDEA's *Net Income*, Pre-G.A.S.B. 31 *"Market Value"* Adjusting Entries



GASB 31 “Market Value” Impact to Net Income





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. Thus, **there could be** up to a 25% to 50% **“dividend penalty”** from an adjusting entry, *we want to fix this too*.

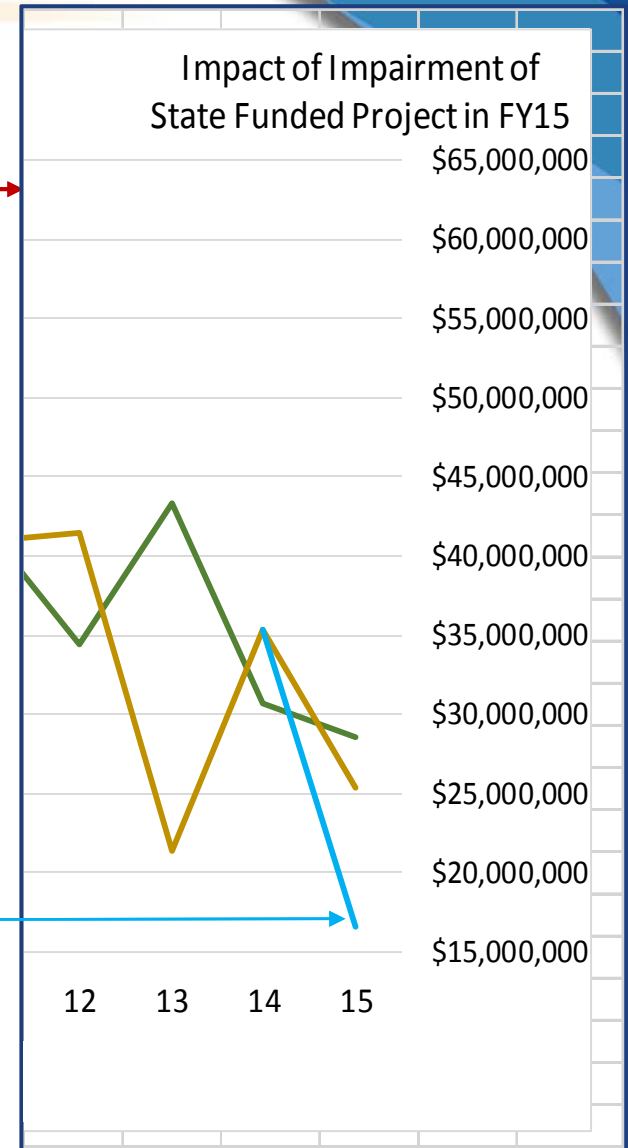
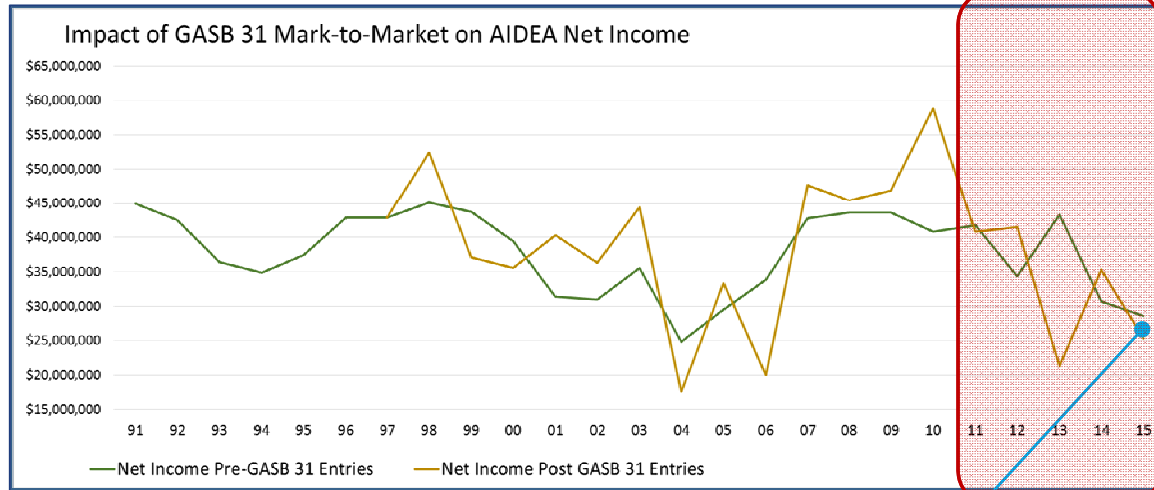
Potential Effect of an Adjustment to State Funded Investment (Project X Hypothetical)



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>State's Dividend Penalty Impact</u>
Revised FY15 Statutory "net income" for dividend calculations	<u>\$ 16,508</u>	<u>\$ (4,400)</u>

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



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



Proposed Statutory Language Explanation

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];

Summary



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) Removes the “**dividend-penalty**” result on the financier of an investment project that did not materialize as originally planned.
- 3) Modernizes and aligns statutory language to the fact that the dividend is a check to the State, and thus, is a cash based transaction. Language changes better connect the payment to the actual realized results of operations. *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).*



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#AIDEA



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