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Governor Bill Walker

STATE OF ALASKA

January 18, 2016

The Honorable Kevin Meyer
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Meyer:

Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill relating to the dividends the Alaska Industrial Development and Export Authority (AIDEA) pays to the State each year. The bill is intended to clarify or modify accounting matters that affect the calculation of AIDEA's dividends. The overall intent of the bill is to have AIDEA's dividends better reflect the cash-based realized net income of the funds from which AIDEA's dividends are paid.

Under AS 44.88.088, AIDEA is required to pay a dividend each year of between 25 and 50 percent of the "net income" of each of its statutorily created funds, but not more than the total "unrestricted net income" of each fund. The terms "net income" and "unrestricted net income" are defined in AS 44.88.088 as meaning the change in net position of each fund as reported in AIDEA's audited financial statements each year, excluding consideration of certain designated items. The bill would modify the excluded items that are not to be considered in determining the change in the net position of each of AIDEA's funds.

Specifically, the bill proposes to eliminate from consideration in calculating AIDEA's dividends (1) impairment losses on a project or development to the extent financed with state or federal grants or appropriations; (2) any current or future mark-to-market fair value based accounting requirements imposed by the Government Accounting Standards Board (GASB) such as those in Statements No. 31 and No. 72; and (3) non-cash accounting entries related to retirement obligations such as those required under GASB Statement No. 68.

The proposed change in language on losses is meant to remove the restriction that the loss must occur with respect to a development project under AS 44.88.172. Under current law, AIDEA may finance different types of projects and developments, not just development projects under AS 44.88.172. It is not logical to restrict the exclusion to just development projects under AS 44.88.172. Instead, the bill's amended language on excluding consideration of losses proposes to tie the losses to the use of State or federal grants or appropriations to finance a project or development. The amended language in the bill means that, when an investment in a project or development is made with State or federal grants or appropriations, a loss as to that investment will not be compounded

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by having AIDEA's dividend to the State reduced because of it. At the same time, however, a loss on a project or development funded by AIDEA's own cash will be reflected in the calculation of the dividend.

The bill's amendments directed at GASB Statements No. 31, No. 72, and No. 68 are meant to exclude unrealized "paper" gains or losses AIDEA must record in its financial statements from impacting AIDEA's dividends. Under GASB Statements No. 31 and No. 72, AIDEA must make accounting entries based on the mark-to-market values of its investments at the close of its fiscal year each year. Given the vagaries of the market, these values can and likely will fluctuate significantly from year to year. Under GASB Statement No. 68, AIDEA must make accounting entries for fluctuating actuarial computations on pension obligations. The accounting entries AIDEA must make to comply with these GASB statements do not reflect the actual results of AIDEA's operations, which should be the basis for its dividend to the State. The accounting required by these GASB statements may cause great fluctuations from year to year in the net income of AIDEA's funds. Removing these accounting adjustments from the dividend calculation would stabilize AIDEA's dividend payment to the state and improve predictability as to the amount of the annual dividends.

Sincerely,



Bill Walker
Governor

Enclosure