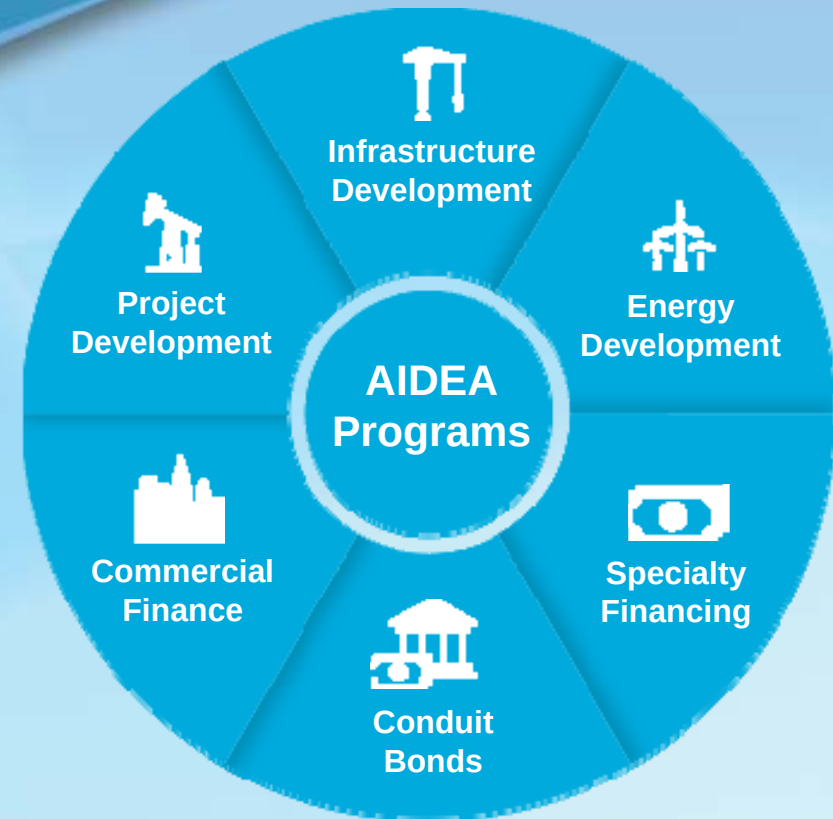




ALASKA'S DEVELOPMENT FINANCE AUTHORITY

*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.



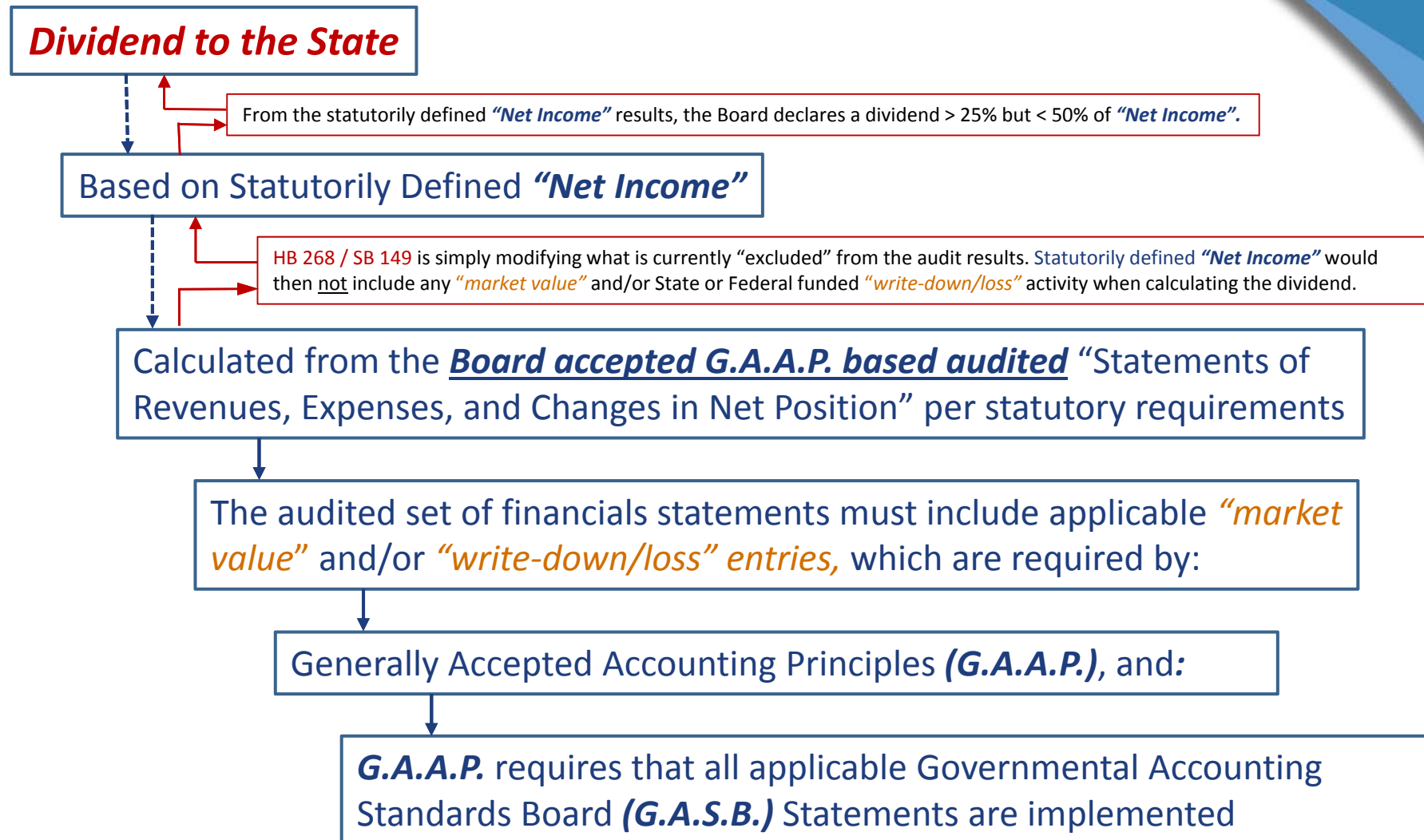
The Pertinent Language:

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

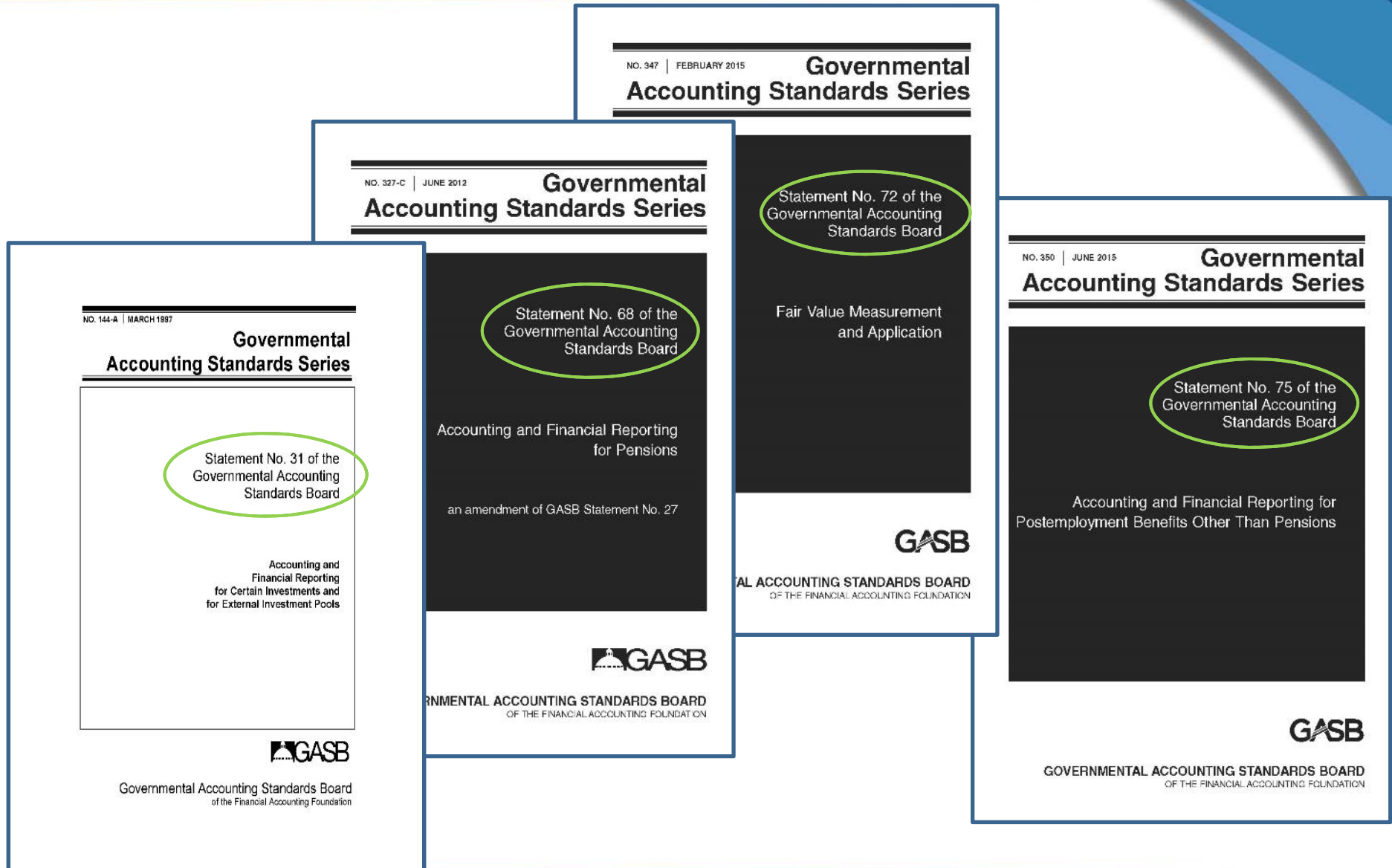
Form 1040 Department of the Treasury—Internal Revenue Service (99)		2015 U.S. Individual Income Tax Return		OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2015, or other tax year beginning , 2015, ending , 20				See separate instructions.	
Your first name and initial		Last name		Your social security number	
If a joint return, spouse's first name and initial		Last name		Spouse's social security number	
Home address (number and street). If you have a P.O. box, see instructions.				Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
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. ☐ You ☐ Spouse	
Foreign country name		Foreign province/state/country		Foreign postal code	
Filing Status Check only one box.					
1 ☐ Single 2 ☐ Married filing jointly (even if only one had income) 3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 ☐ 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 ☐ Qualifying widow(er) with dependent child					
Exemptions 6a ☐ Yourself. If someone can claim you as a dependent, do not check box 6a. b ☐ Spouse c Dependents:					
(f) First name		Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ☐ If child under age 17 qualifying for child tax credit (see instructions)
If more than four dependents, see instructions and check here ▶ ☐					
d Total number of exemptions claimed					
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 8a Taxable interest. Attach Schedule B if required b Tax-exempt interest. Do not include on line 8a 8b 9a Ordinary dividends. Attach Schedule B if required b Qualified dividends 9b 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 ▶ ☐ 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 ▶					
Adjusted Gross Income 23 Educator expenses 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2100 or 2100-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 ▶ 31b 32 IRA deduction 33 Student loan interest deduction 34 Tuition and fees. Attach Form 8917 35 Domestic production activities deduction. Attach Form 8903 36 Add lines 23 through 35 37 Subtract line 36 from line 22. This is your adjusted gross income ▶					
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B 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 ☐	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 ☐	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

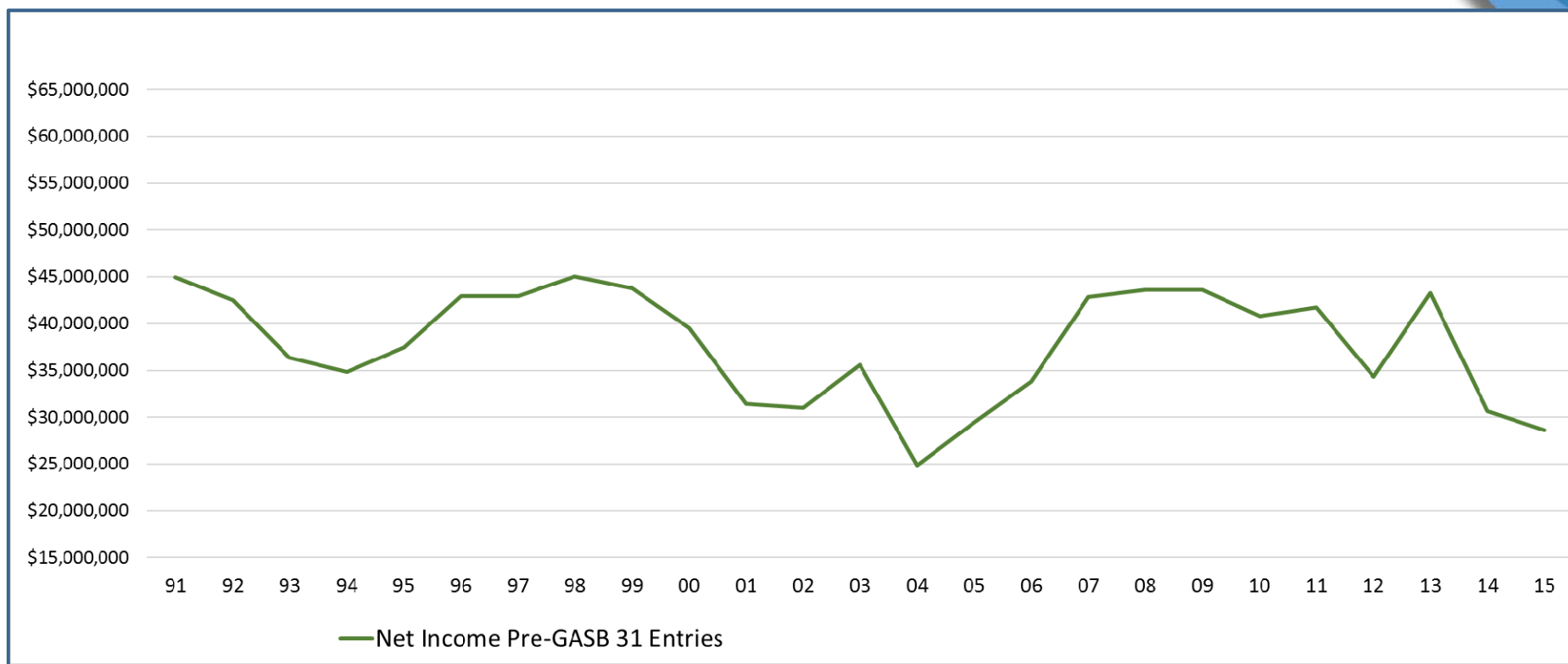
Under this analogy you'd have \$60,000 more income that you'd have to pay taxes on if you had to recognize “market value” adjustments on your personal tax return, without having earned the \$ to pay the taxes... (Note: any of these adjustments could go in either direction.)

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

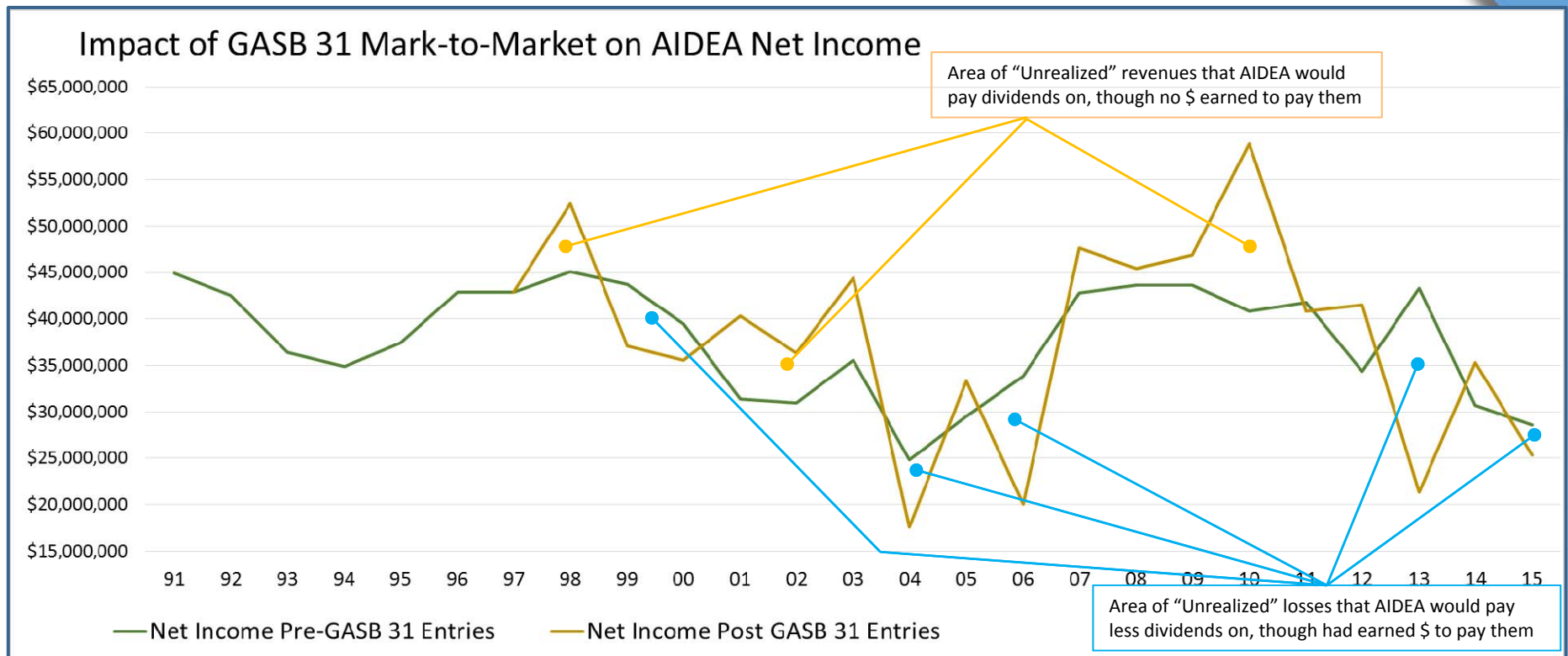
The “market value” unrealized adjustments would be excluded from “**Net Income.**”

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	HB 268 / SB 149 removes these impacts
	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 ☐	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	HB 268 / SB 149 removes these impacts
	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	HB 268 / SB 149 removes these impacts
	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

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*.

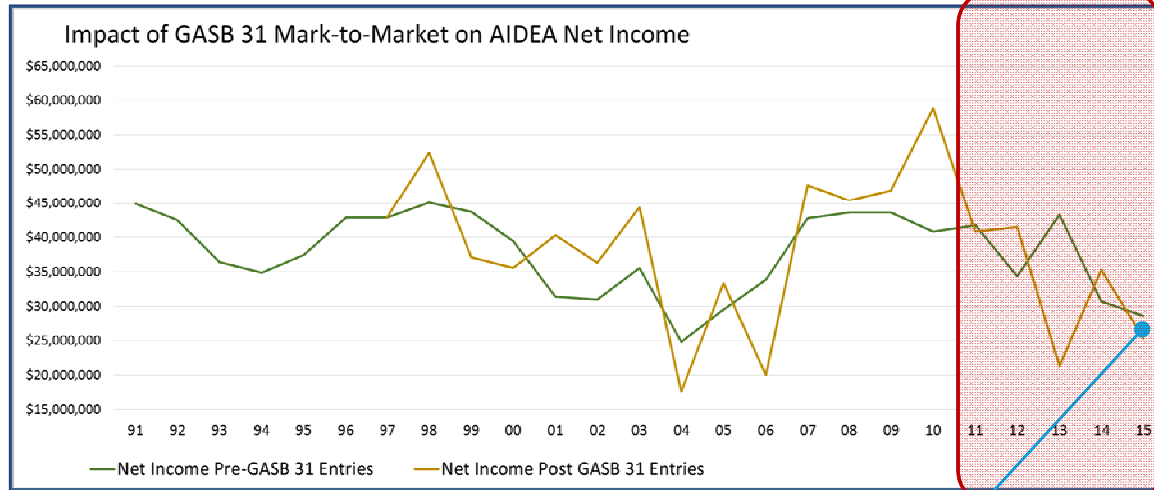
Potential Effect of an Adjustment to State Funded Investment (Project X Hypothetical)



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).*



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

AIDEA “Market Value” Adjustments



For G.A.A.P. compliance, AIDEA’s actual financial activities are adjusted for:

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

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

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.

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								