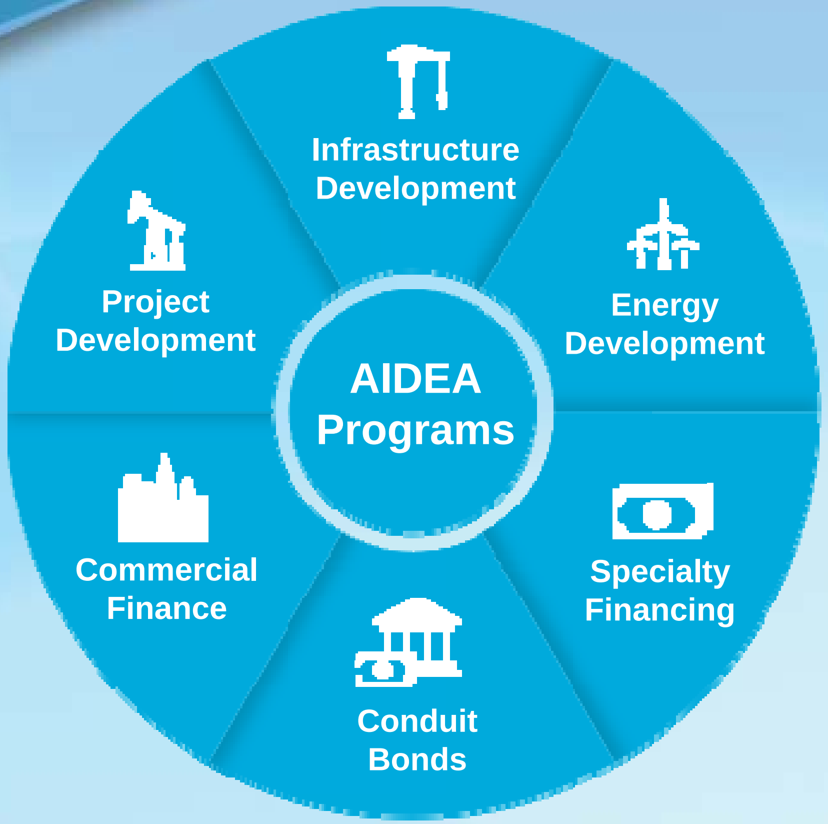


ALASKA'S DEVELOPMENT FINANCE AUTHORITY

Proposed Changes to AIDEA Dividend Statutes HB 268 / SB 149

Investing in Alaskans

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**

Dividend Calculation Stack Visual

Dividend to the State

From the statutorily defined ***"Net Income"*** results, the Board declares a dividend > 25% but < 50% of ***"Net Income".***

Based on Statutorily Defined ***"Net Income"***

HB 268 / SB 149 is simply modifying what is currently "excluded" 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.

Calculated from the ***Board accepted G.A.A.P. based audited*** "Statements of Revenues, Expenses, and Changes in Net Position" per statutory requirements

The 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***:***

G.A.A.P. requires that all applicable Governmental Accounting Standards Board ***(G.A.S.B.)*** Statements are implemented

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.)*

Form 1040 Analogy – Add GASB Impacts

(Now adjust <u>your</u> ***1040 total income*** as if "GASB Type" adjustments were required at year-end)

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
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	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	
If you did not get a W-2, see instructions.	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.)

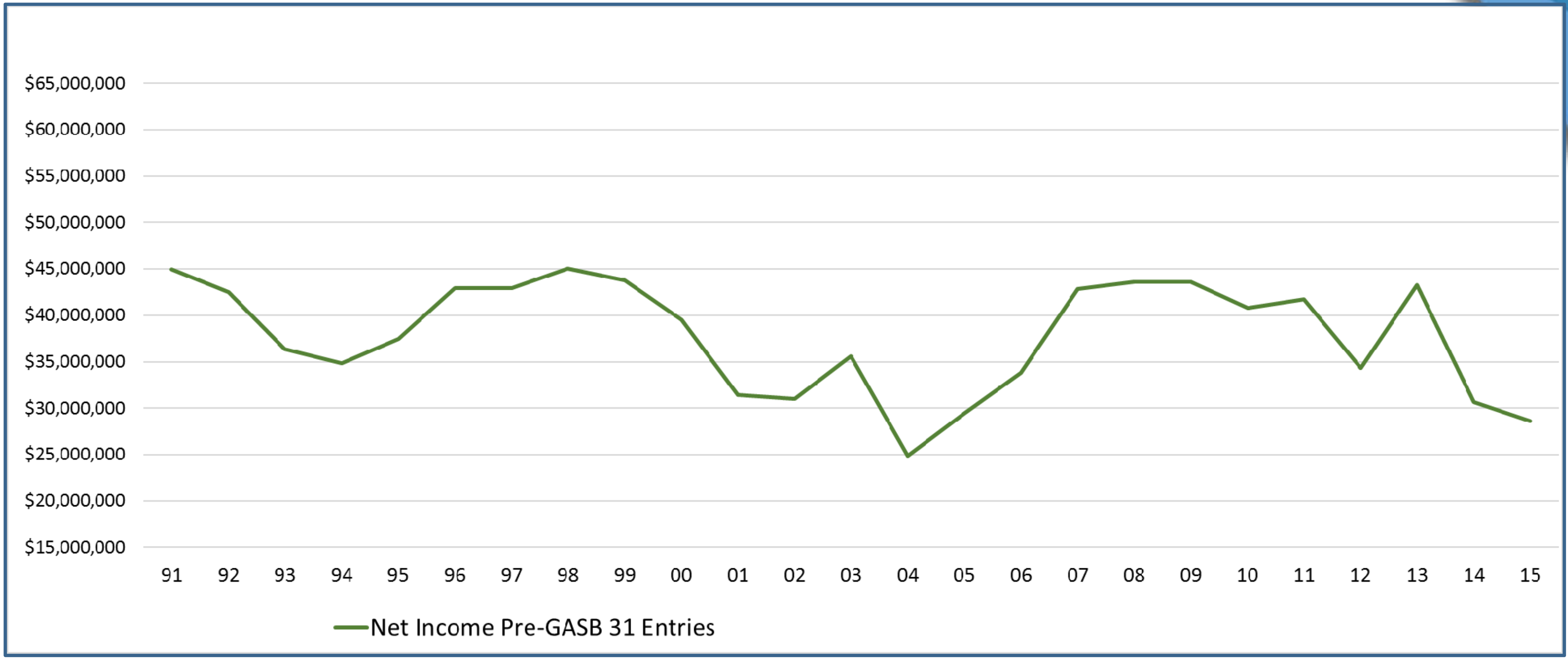
HB 268's / SB 149's Impact To 1040 Analogy

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

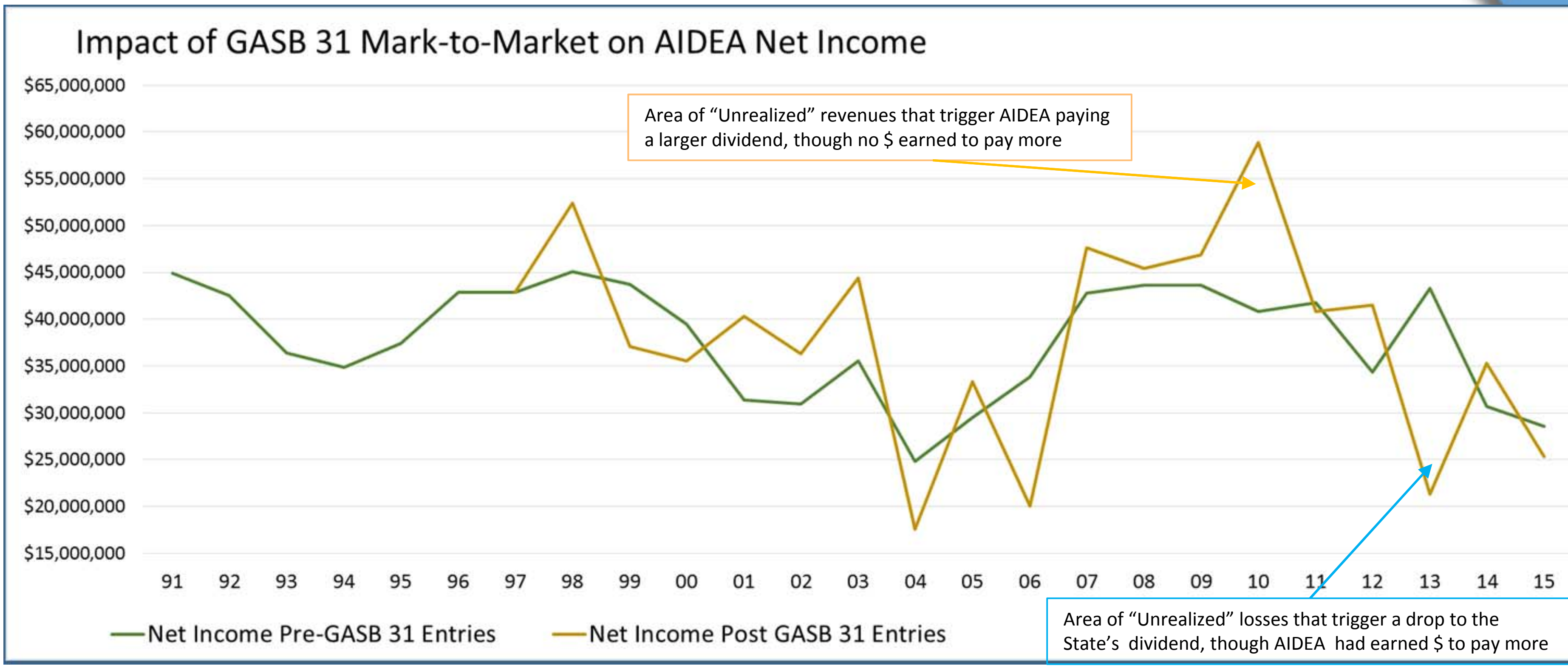
Income	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	100,000
	8a	Taxable interest. Attach Schedule B if required	8a	1,500
	b	Tax-exempt interest. Do not include on line 8a — 8b		
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	9a	Ordinary dividends. Attach Schedule B if required	9a	6,000
	b	Qualified dividends — 9b		HB 268 / SB 149 removes these impacts
	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	
If you did not get a W-2, see instructions.	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~~

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



GASB 31 Impact to *Net Income*



Dividend Problem #2:
"Dividend-Penalty" Effect Adjusting Entries

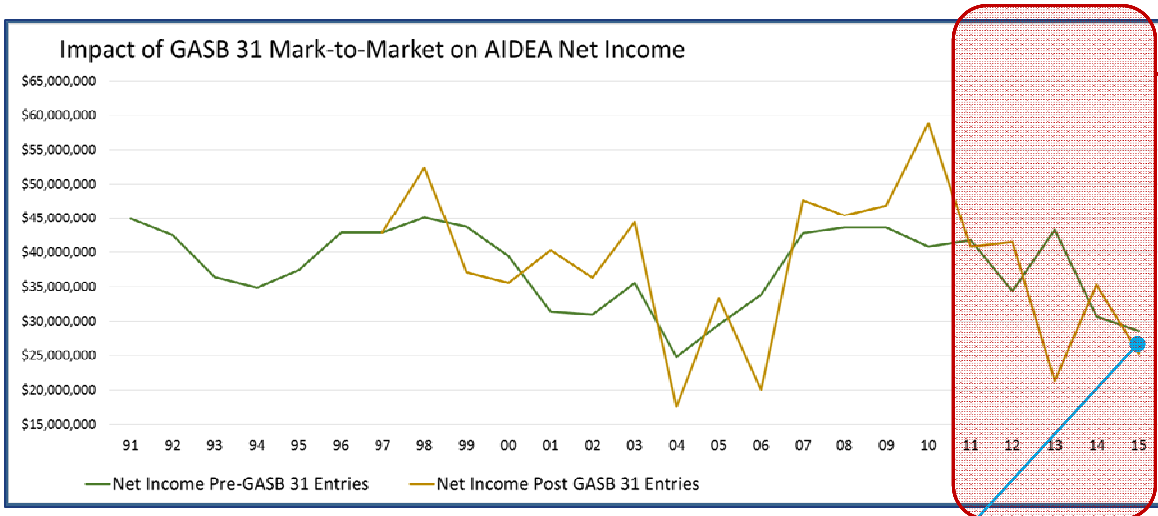
Problem #2:

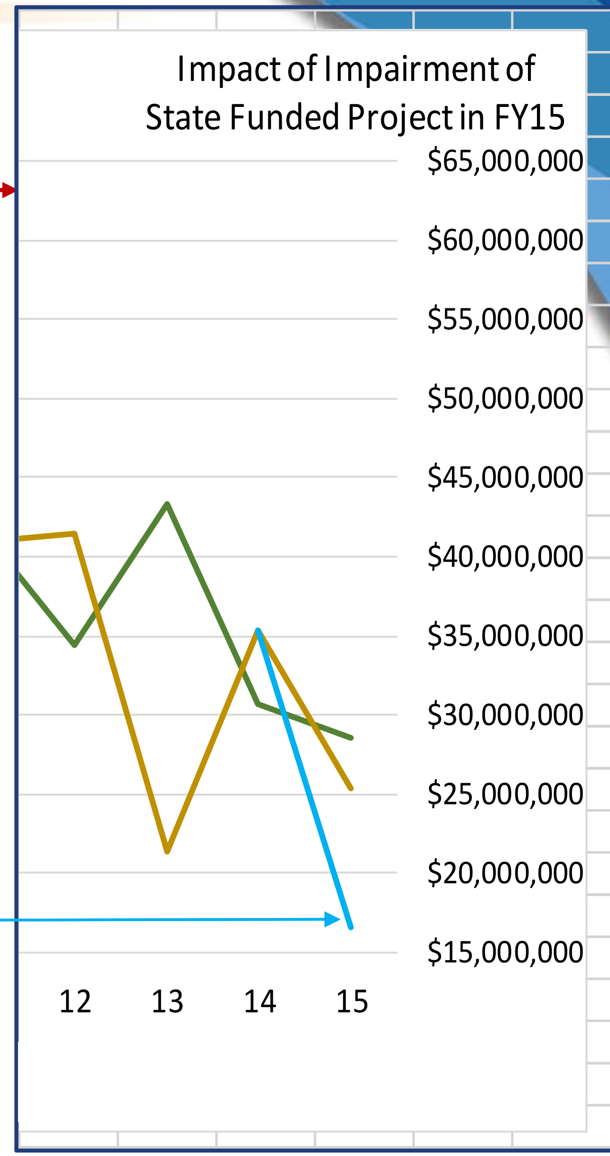
1. When the **value** of a project has been determined to have been **permanently reduced,** for some reason, G.A.A.P. requires booking/recording an adjusting entry between the Balance Sheet and the Income Statement to *reduce and/or remove some or all of the value of an asset or a project from AIDEA's 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*.

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

Loss Impact: Net Income Becomes $8.8M Lower

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

Summary

<u>The proposed statutory change of HB 268 / SB 149:</u>

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).*