

HOUSE FINANCE COMMITTEE  
March 16, 2016  
1:32 p.m.

[1:32:47 PM](#)

CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair  
Representative Steve Thompson, Co-Chair  
Representative Dan Saddler, Vice-Chair  
Representative Bryce Edgmon  
Representative Les Gara  
Representative Lynn Gattis  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Lance Pruitt  
Representative Tammie Wilson

MEMBERS ABSENT

Representative Cathy Munoz

ALSO PRESENT

Senator Cathy Giessel, Sponsor; Gene Therriault, Deputy Director, Statewide Energy Policy Development, Alaska Energy Authority, Department of Commerce, Community and Economic Development; Michael Lamb, Chief Financial Officer, Alaska Industrial Development and Export Authority; Representative Liz Vasquez.

PRESENT VIA TELECONFERENCE

Carrie Doyle, Adult Health Clinical Nurse Specialist, Alaska Clinical Nurse Specialists Associations; Laura Sarcone, Certified Nurse-Midwife and Past Co-Chair, Advanced Practice Registered Nurse Alliance; Gail Bernth, Executive Administrator, Board of Nursing; Tracey Wiese, Family and Psychiatric Nurse Practitioner, and Co-Chair Advanced Practice Registered Nurse Alliance.

SUMMARY

HB 268 AIDEA: DIVIDEND TO STATE; INCOME; VALUATION

HB 268 was HEARD and HELD in committee for further consideration.

SB 53 ADVANCED PRACTICE REGISTERED NURSES

SB 53 was HEARD and HELD in committee for further consideration.

Co-Chair Thompson reviewed the meeting for the day. He reviewed legislative procedure and decorum regarding the committee and legislation process.

#sb53

SENATE BILL NO. 53

"An Act relating to advanced practice registered nursing; relating to certified direct-entry midwifery; and providing for an effective date."

1:35:12 PM

SENATOR CATHY GIESSEL, SPONSOR, thanked the chair for hearing the bill. She explained that the legislation would update the state's 34-year-old statute titles pertaining to nurse practitioners. The existing title was "advanced nurse practitioner (ANP)" and "nurse anesthetist (NA)" The bill would implement the updated term of "advanced practice registered nurse (APRN)." The bill did not change the scope of practice performed by advanced practice registered nurses. She referred to a chart in members' packets illustrating title changes the bill would put in place (copy on file). She detailed she had served on the National Council of State Boards of Nursing in the past; during her time on the council the title for advanced practice registered nurses was standardized in a consensus model document agreed to by all of the states. She elaborated that prior to the change, each state had its own title for advanced practice registered nurses. The top portion of the chart showed ANP and NA, which were the old terms. Three subspecialties fell underneath the ANP umbrella including nurse practitioner, certified nurse-midwife (responsible

for delivering babies), and certified clinical nurse specialist (employed in hospitals).

Senator Giessel continued to address the title chart. The proposed statute change was represented in the lower portion of the chart. The title would change to APRN and four subcategories included certified nurse practitioner, certified nurse-midwife, certified registered nurse anesthetist, and certified clinical nurse specialist.

[1:37:51 PM](#)

Senator Giessel relayed that the bill's only function was to transform state statutes to reflect the updated APRN title change. Part of the reason for the change was due to confusion within insurance companies. She detailed that each state had been using a different title; therefore, sometimes reimbursements were denied because insurance companies (including Medicare and the Veterans' Administration) did not recognize the credential of the person who provided the service. The bill would make Alaska in uniform conformity with other states. Currently there were 1,000 advanced practice registered nurses in Alaska; therefore, the change would impact a large number of clinicians.

Co-Chair Neuman referred to Senator Giessel's testimony there had been reimbursements based on confusion about service providers. He asked for examples and the associated value.

Senator Giessel explained that a primary care provider could bill insurance for services just like a family practice physician. She was personally an APN or NP under the current category. She detailed if an insurance company did not recognize what ANP stood for, it would question what kind of reimbursement she would be entitled to for the care of a patient. The bill would standardize the title.

Co-Chair Neuman asked if Alaska was behind other states in making the changes.

Senator Giessel answered that 13 states had implemented the change in title. Additionally, there were currently about 29 states (including Alaska) working on making the change.

Co-Chair Thompson noted Representative Gara had joined the meeting.

[1:40:05 PM](#)

Representative Gattis asked if the label changes would force any kind of wage change paid by hospitals. She wondered if the bill would make a difference from the hospitals' standpoint. Additionally, she wondered if the change would result in different costs to patients.

Senator Giessel responded that it would make no difference in the reimbursement or wage for any of the categories of APNs. In terms of hospital practice, the certified nurse-midwife and the certified registered nurse anesthetist were the two categories that would be practicing both inside and outside hospital facilities. The nurses had been doing so for numerous years if they had hospital privileges. The clinical nurse specialist practiced almost exclusively in a hospital. She relayed the bill should not change their pay category at all.

Representative Guttenberg wondered if additional credentials would be necessary if a nurse practitioner's title changed to certified nurse practitioner. Senator Giessel answered that the requirements for certification would remain the same. She detailed that since ANPs had been recognized in Alaska (for 34 years), national board certification was required to receive a license in advanced practice. The bill would not change the requirements. The same national certifying boards would still administer the same examinations and certified in the same way.

Representative Guttenberg observed the title chart showed nurse anesthetists as separate under existing law, but it included them under APRNs in the proposed law. He wondered about the bill's impact on nurse anesthetists and asked if they were supportive of the legislation.

Senator Giessel explained that the reason ANPs and NAs were separate on the upper portion of the chart was due to the way the statutes had been originally written. The new title would put everyone under the APRN title. All four of the categories under APRN were part of a coalition, which unanimously supported the legislation.

Representative Guttenberg appreciated the answer. He commented that sometimes alliances did not always speak out.

Co-Chair Thompson called for invited testimony.

1:44:31 PM

CARRIE DOYLE, ADULT HEALTH CLINICAL NURSE SPECIALIST, ALASKA CLINICAL NURSE SPECIALISTS ASSOCIATIONS (via teleconference), read from a prepared statement:

I am Dr. Carrie Doyle, I am an adult health clinical nurse specialist and represent the Alaska Clinical Nurse Specialists Association. I'm also a member of the Alaska APRN Alliance, which is comprised of all four advanced practice registered nurse specialties, AANA, and the University of Anchorage Alaska, as well as the Board of Nursing. I'd like to thank you for allowing me to testify in support of Senate Bill 53, which is an act related to advanced practice registered nursing that will align Alaska statute with the nationwide movement called the consensus model.

Currently, as a clinical nurse specialist I am called a nurse practitioner legally, which is not the role that I perform and can be confusing to patients. So as noted, there are four different specialties. That being the nurse practitioner, the clinical nurse specialist, the nurse-midwife, and the CRNA or nurse anesthetist. The statute will separate these categories. As I mentioned, the consensus model is a nationwide movement that includes all four specialties. It was comprised or built by the National Council of State Boards and Nursing in conjunction with an APRN workgroup that comprised of 48 different national nursing organizations.

The consensus model does seek uniformity in APRN licensure, accreditation, certification, and education. Uniformity will expedite insurance reimbursement as noted by Senator Giessel and by eliminating confusion about service providers, which in turn, eliminates the confusion with our patients. It will also allow APRNs from other states to more easily obtain Alaska licensure. Senate Bill 53 does not change the scope of practice for ANPs and nurse

anesthetists who will still be able to continue to provide that same high-quality, safe, accessible care that they have provided to Alaskans across the state for the last 34 years. It will just have a new name: APRN. I thank you for your time today and ask that you support Senate Bill 53.

[1:47:02 PM](#)

LAURA SARCONI, CERTIFIED NURSE-MIDWIFE AND PAST CO-CHAIR, ADVANCED PRACTICE REGISTERED NURSE ALLIANCE (via teleconference), read from a prepared statement:

Good afternoon. My name is Laura Sarcone. I am a certified nurse-midwife and I am the immediate past co-chair of the APRN Alliance. Thank you for this opportunity to testify in support of SB 53. The four advanced practice nursing groups have been working on this issue for nearly five years.

The APRN Consensus Model is a national "best practice" act. It puts consumers, employers, APRNs, the Board of Nursing, insurance companies, and the legislature on the same page. It standardizes licensing, accreditation, certification, and educational requirements for APRNs. Thirteen states have already fully implemented the Model. Another 29 states plus the District of Columbia are more than fifty percent implemented. Only 8 states are less than 50 percent implemented and 33 states use the title "APRN."

The APRN Alliance has reviewed the fiscal note. We understand that the \$7500 cost will be recovered through licensing fees and not general funds. We would like to thank Senator Giessel for sponsoring this bill, and for championing this issue on behalf of her fellow APRNs. I urge you to vote in favor of SB 53. Thank you.

Representative Gara asked Ms. Sarcone about why it took five years for the various nursing groups to come together on the issue. He wondered what the dispute had been. Ms. Sarcone corrected that the nursing groups had been working on the issue for nearly five years; it had not taken the groups that time to come together. She explained it had taken five years for the groups to work through the Board

of Nursing, getting language together, and requesting the bill through Senator Giessel.

1:49:47 PM

GAIL BERNTH, EXECUTIVE ADMINISTRATOR, BOARD OF NURSING (via teleconference), read from a prepared statement:

Thank you for hearing this bill and for permitting me to address this hearing. The Board of Nursing has requested that I voice their support of this bill to update our regulations. This will help to bring Alaska into compliance with the national consensus model developed by the National Council of State Boards of Nursing. I thank you.

1:50:19 PM

TRACEY WIESE, FAMILY and PSYCIATRIC NURSE PRACTITIONER, and CO-CHAIR, ADVANCED PRACTICE REGISTERED NURSE ALLIANCE (via teleconference), urged support of the bill.

Co-Chair Neuman referred to the bill's sectional analysis (copy on file) and observed that Section 10 deleted vocational nursing and added a paragraph requiring the Department of Commerce, Community and Economic Development to set fees to practice registered nursing. He asked about the reason for the change.

Senator Giessel relayed that the bill would remove the term "vocational" because it was no longer used; it had been removed from most of the state's statutes by legislation approximately five years earlier; the term that would be deleted in the current bill had been missed when the changes had been made in the past.

Co-Chair Neuman asked for verification it was conforming language. Senator Giessel answered in the affirmative.

Representative Neuman remarked that Section 13 would amend statute to add advanced practice registered nurses to the persons authorized to supervise a practical nurse. He did not know what the current qualifications were. He believed the bill seemed to do more than merely change the name. He observed the bill provided for more services or duties nurses could do. He asked for detail on the change in Section 13.

Senator Giessel explained that a practical nursing degree was typically two years. She read from Section 13 of existing statute: "a practical nurse shall work under the supervision of a licensed registered nurse..." She explained that a registered nurse was a higher level licensure that qualified a registered nurse to supervise a licensed practical nurse (LPN). She elaborated that an advanced practice registered nurse was at minimum a master's degree (most of the education was moving towards a doctoral degree). The section added the doctorally prepared nurse who would also supervise the LPN.

1:54:01 PM

Co-Chair Neuman referred to Sections 52 through 54. He stated that the bill would add APRNs to the list of practitioners who may, under statutory provisions concerning mental health commitment, determine if a person may be administered psychotropic medication without a person's consent. He remarked that in other occurrences pertaining to the medical industry, doctors were sensitive to the ability to administer different prescription drugs because of the amount of education they received, particularly with the use of psychotropic drugs. He wondered why the language was needed and believed it advanced a nurse's authority substantially.

Senator Giessel began with Section 52. She clarified that the underlined words in the bill draft represented areas that would change current statute. The existing statute read "as determined by a licensed physician or a registered nurse..." She emphasized a registered nursing degree was either two to four years (a bachelor's degree) and an advanced practice registered nursing degree was a master's or doctorate. Under existing statute an advanced practice registered nurse could administer psychotropic medication. The language simply clarified the statute by inserting "advanced practice registered nurse" as well. She specified that an advanced practice registered nurse was a higher level registered nurse with prescriptive authority; a registered nurse did not have prescriptive authority.

Senator Giessel moved to Section 53 related to the definition of a mental health professional. The existing statute applied to a registered nurse with a master's degree in psychiatric nursing, which was the definition of

an APRN. She stated it was possible for an RN to have a master's degree in psychiatric nursing, but not be an APRN. She detailed it clarified that a nurse with a master's degree or a doctorate could also be categorized as a mental health professional. She referred to testimony by Dr. Tracey Wiese who is a doctorally prepared mental health professional. The definition did not extend or expand the scope of practice.

Senator Giessel moved to Section 54 on page 25 of the legislation. The original language had been "...reviewed by a registered nurse licensed under..." The section pertained to reviewing a residence assisted living plan. She explained that an APRN was also an RN (the individuals held two licenses and paid twice to the State of Alaska). The language had been updated to clarify the inclusion of APRNs.

[1:57:34 PM](#)

Co-Chair Neuman assumed that specific training would be required for an APRN to administer psychotropic medication.

Senator Giessel answered that a nurse practitioner held either a master's or doctoral degree and were currently statutorily authorized to prescribe. She furthered that with drug enforcement authority, nurse practitioners also prescribed controlled substances should they decide to apply for the authorization. She explained that nurse practitioners had full prescriptive authority just like a family practice or other physician.

Co-Chair Neuman remarked that nurses performed some of the clinical work in villages and some health centers without doctors. He believed the bill would provide increased opportunities within the state. He asked if it was part of the reason for the legislation. He spoke to the need to continue to reduce the budget, while ensuring medical services were available throughout the state.

Senator Giessel answered that he was speaking to her heart. She clarified that the bill did not change anything that did not currently exist. She elaborated that many APRNs practice in rural areas where no other healthcare was available (including an Indian Health Service clinic). She detailed that one of the provisions in another bill that would come before the committee related to Medicaid would

allow nurse practitioners (particularly practitioners in mental and behavioral health) to expand their ability to practice. She thanked him for the question. She reiterated SB 53 did not expand work performed by APRNs in rural Alaska or in any other venue.

[2:00:03 PM](#)

Vice-Chair Saddler asked if the bill changed the membership of the Board of Nursing such that it would impact the professional licensing fee.

Senator Giessel replied in the negative. She explained there was currently a seat on the Board of Nursing for an APRN and the bill would make no changes to the area.

Vice-Chair Saddler asked which professional board would regulate APRNs. He wondered if it would change the "universe of license fee payers" and the required rate. Senator Giessel responded that the bill would make no changes to the area. She explained that currently APRNs fell under the Board of Nursing; the board regulated about 12,000 licensees from certified nurse aides up to a doctorally prepared APRN.

Senator Giessel thanked the committee for its time.

SB 53 was HEARD and HELD in committee for further consideration.

[2:01:54 PM](#)

AT EASE

[2:02:51 PM](#)

RECONVENED

#hb268

HOUSE BILL NO. 268

"An Act relating to the dividends from the Alaska Industrial Development and Export Authority; relating to the meaning of 'mark-to-market fair value,' 'net income,' 'project or development,' and 'unrestricted net income' for purposes of the Alaska Industrial Development and Export Authority; and providing for an effective date."

2:03:16 PM

GENE THERRIAULT, DEPUTY DIRECTOR, STATEWIDE ENERGY POLICY DEVELOPMENT, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, directed attention to page 2 of the legislation. He addressed the existing statutory language (implemented in 1996), which required Alaska Industrial Development and Export Authority (AIDEA) to pay a dividend to the State of Alaska. Shortly after the statutory sections had been added, the legislature had realized there were certain things that happened as the enterprise achieved or received their audited financial statement on a yearly basis. He detailed that adjustments were made to net income in order to receive the audited financial statement. He continued there were certain things it made sense to back out, to get closer to a true picture of the net income for the year before the dividend was calculated for the state (in order for the dividend to be calculated on income received by AIDEA). He referred to the inclusion of the word "excluding" on page 3, lines 3 and 21 of existing statute. He explained it was a recognition of the legislature that while certain things needed to be done to receive the audited financial statement, certain accounting adjustments needed to be backed out to get to true net income before calculating the dividend to the state.

Mr. Therriault continued to address page 2 of the legislation. The bill would expand the language (following the word excluding) to include a couple of new accounting rules and address a couple of problems AIDEA had identified that were bringing unnecessary volatility to the calculation of the AIDEA dividend. He elaborated there were two problems the legislation aimed to fix. First, related to mark-to-market adjustments that were required in order to get the financial audited statement. Second, in instances where AIDEA was tasked with looking at a project and given an outside source of money (e.g. an appropriation from the state or receipt of federal funds to look at a specific project), previously the legislature instructed AIDEA to disregard those receipts when they came in. For example, if the legislature gave AIDEA \$1,000 to look at a project, it did not expect AIDEA to give half the money back in the calculation of the dividend. The bill aimed to fix the specific problem when any project had a component that got written off. Additionally, mark-to-market adjustments would be excluded.

Mr. Therriault pointed to the language on page 2, beginning on line 5 and explained that losses on a project or development to the extent it was financed with state or federal grants (money appropriated to AIDEA outside of its revenue stream) were to be disregarded. Line 7 specified the mark-to-market adjustments done for accounting purposes were to be excluded. He referred to a presentation his colleague would provide momentarily and noted he had gone through an abbreviated version with each committee member or their staff. He believed the presentation included some examples that would help committee members understand the impact of the adjustments needing to be made in order for AIDEA to get its audited financial statement and why it made sense to back the items out to get back to true net income in order to calculate the AIDEA dividend.

2:08:26 PM

Co-Chair Thompson referred to page 2, lines 8 and 26 where a reference to AS 44.88.172 (the economic development account) was removed. He wondered how the omission of the account would impact the AIDEA dividend.

MICHAEL LAMB, CHIEF FINANCIAL OFFICER, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, answered that there were two [statutes] "155 and 172"; AS 44.88.172 pertained to projects. To some extent the removal did not really have an effect. Some of the language changes in the bill had gone through Legislative Legal Services for clarification. He explained that the bill included language specifying if there was any financing for a project that came from the state or the federal government "it comes out." He detailed that part of the problem with AS 44.88.172 was it only picked part of the projects that AIDEA actually did. He explained the presentation noted that under the right set of circumstances or an AS 44.88.172 project, it would have an effect under current statute; however, under an AS 44.88.155 the language did not apply. The goal had been to clean up the language by removing AS 44.88.172. Under either case or type of project (even if it was an AS 44.88.155 project) if the money came from the state or the federal government it would not affect the dividend. He believed an example he would provide would clarify the issue.

Co-Chair Thompson remarked there were quite a few projects under AS 44.88.172.

Mr. Therriault believed AS 44.88.172 had existed when the exclusion had first been added to the statute, but the Sustainable Energy Transmission and Supply (SETS) funds and other funds had not existed at that time. It had been very specific that federal or outside grants that came into that fund were to be excluded; by removing the language the exclusion would apply to AS 44.88.172 and the other funds that had been created since that time.

[2:10:56 PM](#)

Vice-Chair Saddler asked Mr. Lamb to explain the term mark-to-market fair value. Mr. Lamb replied that mark meant adjusting to market. For example, if a stock had been purchased for \$1,000 and one year later it was worth \$1,100, the value was marked up to \$1,100.

Vice-Chair Saddler had understood the term to mean "from this to that, from mark to the market." He understood Mr. Lamb's explanation to mean "ascertained it according to, in reference to the market."

Mr. Lamb responded that the mark-to-market would be book value on the financial statements according to what the market deemed something to be worth as of a point in time.

Mr. Therriault relayed that Mr. Lamb would continue with the presentation.

[2:12:46 PM](#)

Mr. Lamb introduced the PowerPoint Presentation, "Alaska's Development Finance Authority" (copy on file). He indicated that the bill was really about accounting. He relayed the legislation was not overly complicated and the concept would be clear to accountants. He had tried to develop analogies in order to explain the cause and effect of the legislation. He asked how much time the committee had.

Co-Chair Thompson indicated that there was about an hour and fifteen minutes.

Mr. Lamb requested to hold questions until the end of the presentation.

Mr. Lamb addressed slide 2 titled "AIDEA's Dividend: History, Goal, Statutory Language, and Two Accounting Problems Working to Fix." He relayed that the existing statutory language was perfectly good; however, accounting authoritative guidance had changed. He elaborated that the impacts of the original language now had different consequences if adjustments were not made. The primary purpose of the bill was to fix the issue.

Mr. Lamb turned to slide 3: "AIDEA Dividends to State of Alaska." He explained that the dividend process covered a three-year period. He pointed to a chart on slide 3 and specified the columns were year, year payable, and dividend amount. The first row began with 1995, which was payable in FY 96. He elaborated the books were closed and the audit process was undertaken. Somewhere around December of each year the staff recommended the dividend be declared by the board based on audited results and then the checks became payable in the third year. He relayed that the first dividend was \$15 million. He stated that ideally the schedule would keep going into the future and more dividends would be paid by AIDEA and received. Approximately \$380 million in dividends had been declared over time. The original capitalization had been about \$332 million. He stated there was time value, but in essence the money that had been made available had been repaid through the dividends, which would ideally persist perpetually into the future.

[2:16:41 PM](#)

Mr. Lamb slide 4 titled "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.

Mr. Lamb discussed the goal of bringing stability and predictability to the dividend. He recalled the first year he had worked at AIDEA there had been a huge swing in the net income (and dividend) and the board had specified an explanation was needed to inform legislators about why the dividend had dropped significantly. He had explained the answer was easy - the unrealized losses had reduced the net

income. He reasoned the concept was easier said than understood. He stated the stability and predictability "in fixing it was partly driven by not having to deal with that question."

Mr. Lamb turned to slide 5 titled "Dividend Statute Language Needs Modernizing, As Accounting Rules Have Evolved over Time." He detailed there were three types of transactions (only the third one was really a problem, which the bill addressed). The first pertained to real transactions that actually occurred - real revenues were earned, checks were written, and equipment was purchased. The second pertained to estimates and allocations (i.e. booking depreciation on purchased equipment, amortizing intangibles, and etcetera). The third transaction type related to entries from market value adjustments. He detailed the entries were related to transactions that did not occur, but were required to book and adjust the records. He furthered that in order for AIDEA to be in compliance with the audit it needed to be GAAP (Generally Accepted Accounting Principles) based, which meant it was necessary to follow the Governmental Accounting Standards Board (GASB) - the highest authoritative body. He explained that AIDEA wanted to modernize the exclusion language [in statute] to do a bit of cleanup, which was the essence of the legislation.

[2:19:31 PM](#)

Mr. Lamb advanced to slide 6: "Payment of dividend to state." He referred to statutory language specifying the authority shall adopt a policy for payment of a dividend, which may not be less than 25 percent of the net income. He pointed to language at the bottom of the slide, which pertained to the reason for the legislation. Net income was statutorily defined and meant the change in net position or the equivalent [term under GAAP]. He noted that in the past net income had also been termed results of operations (the terms were the same label for the difference between revenues and expenses). He explained the statutory net income had to be GAAP based; the net income number was the result of the audited financials, meaning an audit that followed authoritative guidance. He referred to the additional language pertaining to exclusions [see slide 6].

Mr. Lamb continued to slide 7: "Dividend Calculation Stack Visual." He noted the dividend to the state was at the top

of the slide, which was based on statutorily defined net income. He continued that a GAAP based audited financial statement was required and was accepted by the board. He furthered that the financial statements had to include applicable market value and/or write-down or loss entries as required by GAAP, which in turn required GASB. He relayed that HB 268 merely modified "excluding" language from the audit results so that statutorily defined net income would not include any market value and/or state or federally funded write-down activity, when calculating the dividend. Once the statutorily defined net income had been determined the board was given a recommendation by staff pertaining to the dividend amount (between 25 to 50 percent of net income).

[2:22:39 PM](#)

Mr. Lamb read from slide 8: "Dividend Problem No. 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.)

Mr. Lamb advanced to slide 9: "Problem No. 1 Analogy of "Market Value" Entries Impacts" and slide 10: "\$ Based Tax Payer Analogy." Slide 10 showed a copy of the Internal Revenue Service (IRS) 1040 income tax form. He referred to individuals as cash-based tax payers. He discussed that individuals applied their final net income number to the federal government's tax tables, which resulted in the amount owed to the government. Likewise, AIDEA went through a process to come up with a net income number, at which point the board applied a tax or dividend rate of 25 to 50 percent.

Mr. Lamb moved to slide 11 and addressed an extract of the income section 1040 tax form (shown on slide 10). He reviewed the example depicted on the slide, which included \$100,000 net income. The example assumed a brokerage account containing \$250,000 earning 3 percent in the form of interest and dividend, which would be declared under lines 8 and 9 at \$7,500. Line 21 reflected a \$1,000 Permanent Fund Dividend. The total revenue number on the slide was \$109,000.

2:26:03 PM

Mr. Lamb addressed slide 12: "GASB Statements 31, 68, 72, & 75." He continued with the example and asked members to suppose an individual had to apply the mark-to-market fair value adjustment GASB standards. He spoke to volatility brought on by GASB statement 31. He believed it was fair and accurate to anticipate a compounding effect, which would make volatility even greater. He detailed that GASB statement 68 was related to recording the unfunded obligation related to pensions. The pension unfunded obligation had two sides to the balance sheet: assets and liabilities. He furthered that much of the asset side included investments (marketable securities). He elaborated that GASB statement 31 would drive the gain and loss on the retirement funds and the number would end up following through to the income statement of all the local entities (including AIDEA).

Mr. Lamb turned to slide 13: "Form 1040 Analogy - Add GASB Impacts." He continued to address an example where the four GASB statements applied to individual tax payers. He used the IRS 1040 form and spoke to the various GASB statements (31, 68, 72, and 75). He detailed that GASB 31 related to marketable securities. He explained that anyone with a portfolio where no sales or purchases were made within a year, but the stocks were worth \$25,000 more because the market value had increased, the gain would have to be recorded as if it had been sold to recognize an increase in wealth. He elaborated it was an unrealized increase in wealth, but it would have to be recorded. He relayed that GASB 68 related to the pension side of the Public Employees' Retirement System (PERS) component. He spoke to IRAs and 401k retirement plans. He furthered that retirements account were worth about \$200,000 and in the example increased by about 5 percent over one year; the increased adjustment would be claimed on the IRS form. He

relayed GASB 72 was a fair value adjustment and went into effect for AIDEA at the end of the tax year June 30, 2016. He provided an analogy of owning a rental property worth \$400,000 that had increased 5 percent over the year (\$20,000). He specified that GASB 75 was not yet into effect, but began for years ending June 30, 2018 (the item pertained to the fair market value for other post-employment benefits such as healthcare, disability, and other); the example used an amount of \$5,000. He explained that due to the increases the total revenue on the form was \$60,000 higher. He detailed the adjustments could go in any direction.

Mr. Lamb scrolled to slide 14: "HB 268's / SB 149's Impact to 1040 Analogy." He addressed the proposed modification to the excluding language - from AIDEA's perspective the market value adjustments would be removed from its net income. He referred back to the example on slide 13 and explained the net income would be back down to \$109,000 for purposes of determining the dividend.

[2:31:47 PM](#)

Mr. Lamb advanced to slide 15: "AIDEA's Net Income, Pre-G.A.S.B. 31 "Market Value" Adjusting Entries." The chart depicted 25 years of AIDEA's net income from 1991 to 2015. He remarked the income fluctuated - the largest swing had been in 2003 to 2004 from about \$35 million down to \$25 million (each of the points on the chart represented the year-end). He moved to slide 16: "GASB 31 "Market Value" Impact to Net Income" that showed what AIDEA's actual audited financial statement numbers looked like when factoring in GASB 31. He had used audited financial numbers and had backed out GASB 31 unrealized gains and losses to come up with the green line on the chart. The chart indicated GASB 31 had begun in 1997; the yellow line on the chart, which fluctuated substantially, reflected net income post GASB 31 entries. He explained that AIDEA had been required to calculate a dividend based upon the yellow line. He discussed that most individuals were cash-based tax payers; whatever the tax bill was, in theory, the individual had the cash to pay the taxes, which was the reason accrual was not used on personal income taxes. He pointed to 2010 and relayed the net income had been approximately \$41 million; with GASB 31 it had increased to close to \$58 million. He explained it was a substantial chunk to apply a 50 percent dividend to, while the money

had not actually been received in the bank. Blue lines on the slide specified instances where GASB 31 made the statutory net income number and dividend lower. He pointed to 2013 and explained the audited net income prior to the impact of GASB 31 had been about \$44 million, whereas, the mark-to-market effect (acting as though AIDEA had sold all of the investments at June 30) had reduced the net income to just above \$20 million. He emphasized the scope of the impact.

[2:35:23 PM](#)

Mr. Lamb continued to address slide 16. He explained that 2013 was an instance where AIDEA had the ability to write a larger check, but the check was less because of the impact of GASB 31 on the financial statements. He expounded that if GASB 68, 72, and 75 were stacked on top of GASB 31, the line would become even more volatile. He moved to slide 17: "Problem No. 2 "Dividend Penalty" Adjusting Entries" and slide 18: "Dividend Problem No. 2: "Dividend-Penalty" Effect Adjusting Entries." He discussed that when AIDEA was given money from the state or federal government (cash was converted to build an asset), the asset was written off the books (an asset that really did not have the value could not be reported on financial statements). To get the asset off the books the asset was reduced and it had to flow through the income statement as an expense (basically a write down), which resulted in less income. He addressed that the dividend penalty could be 25 to 55 percent, which AIDEA wanted to fix.

[2:37:54 PM](#)

Mr. Lamb turned to slide 19: "Potential Effect of an Adjustment to State Funded Investment (Project X Hypothetical)." Under the current statute the example would be an AS 44.88.155 project; it was part of AIDEA's revolving fund. He explained the computation of statutory net income for the FY 17 dividend came out of the back of the audit (Schedule 7). The total began at about \$28 million; after adjustments (for existing statutory language) the net income was reduced to \$25.3 million. He stressed that the specific issue was not consistent like the annual GASB 31. They had determined the issue should be brought forward for the legislature to rectify if the legislature chose to do so. He continued to address "project x" and discussed a circumstance where the

legislature or federal government chose not to invest any more money and determined there was no future value and that the item required a write-down. All of a sudden the \$25.3 million in net income was reduced to \$16.5 million, which would be the audited net income number. At a 50 percent dividend the net income number would mean a reduction of \$4.4 million to the dividend. He provided an example where the federal government had given the \$8.8 million to AIDEA, which had been eroded off. The state would actually be out \$4.4 million of the dividend due to current statute that did not exclude the specific item.

2:39:56 PM

Mr. Lamb continued that in the example the state was penalized for a project funded with federal dollars. He furthered that AIDEA had received the money, followed GAAP, reported it, determined there was no value, wrote the item down, and the dividend was reduced. He spoke to an alternative scenario where the state provided \$8.8 million to AIDEA for a project, but then determined the project would not move forward and subsequently the dividend was reduced. He explained it had seen like a good idea, but all of a sudden the \$8.8 million project really cost the state \$13.2 million in cash; the dividend penalty occurred solely because of following the reporting criteria. If the language was altered to exclude projects or write downs financed with federal or state money would eliminate the dividend penalty.

Mr. Lamb turned to slide 20: "Hypothetical State Funded Non-172 Project, if Stopped, Impact to "Net Income"." He referred to the green line [pre-net income] for GASB 31 and pointed to an excerpt on the right of the slide. The green line was about \$28 million he had addressed in the Schedule 7. The yellow line in the excerpt represented net income post GASB 31; the net income reduced to \$16.6 million if the \$8.8 million if the loss was reflected. The excerpt provided a visual of how the lines would change if the \$8.8 million was added to the net income number. He noted the unrealized losses changed to include the reduction of \$8.8 million for a net income of around \$16 million. He continued that 50 percent of \$8.8 million meant the dividend would be \$4.4 million smaller. He noted the situation did not happen frequently, but it could happen; therefore, AIDEA believed the problem should be fixed.

[2:42:59 PM](#)

Mr. Lamb moved to slide 21: "Proposed Statutory Language Explanation" and slide 22: "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];

Mr. Lamb explained that the language "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..." would fix problem 2 that he had discussed. The language "mark-to-market fair value based accounting entries, and noncash accounting entries related to retirement obligations" fixed the impact of GASB 31, 68, 72, and 75. He elaborated AIDEA had tried to make the language broad enough that whatever GASB decided it wanted to adjust to (if it was market value), the language should fix the issue. He continued that it would enable AIDEA to pay on the \$109 million, not \$169 million or whatever the number turned out to be.

2:44:43 PM

Mr. Lamb reviewed slide 23: "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).

Mr. Lamb explained the bill simply tried to modernize the old language to the fact that reporting requirements under GAAP had evolved and changed. He believed there would be a compounding effect.

Representative Wilson understood the bill would entail a different accounting method. She asked if the change would impact the state's bond and credit rating.

Mr. Lamb responded in the negative. He explained that the audited financials would still be the audited financials. He detailed in order to get to the statutory defined net income it was necessary to get to the audit. He furthered that rating agencies always looked at the financials. He had previously worked for the [Fairbanks North Star] borough and had been through 12 to 18 bond sales with numerous rating agencies. He stated they were very smart people who understood financials and accounting with the ability to make adjustments for the type of adjustments [the bill would implement]. He concluded the changes in the bill would have no impact [on the state's bond and credit rating] because an audited financial statement would still be required. The statutorily defined net income used for the dividend was post the audited number. To his knowledge, the statutory net income number was not used for anything other than the dividend calculation. He referred to Mr.

Therriault's testimony related to appropriations from the state. He explained if the appropriation was included it would be like the state giving AIDEA money and AIDEA writing a check back to the state for the dividend. He noted the method did not make sense.

2:47:30 PM

Representative Wilson asked for verification that the bill would not impact the state's bond rating in any way.

Mr. Lamb agreed. He noted that AIDEA's AA+ rating had been reaffirmed in a recent update by Standard and Poor's (he had received the update on March 3, 2017).

Vice-Chair Saddler asked if any other state corporations paid dividends based on the same calculation. He wondered if the legislature should expect to see similar legislation come forward for entities such as Alaska Housing Finance Corporation (AHFC), the Alaska Railroad Corporation, and the Alaska Energy Authority (AEA).

Mr. Lamb replied that he had no knowledge of how the other agency's dividends were calculated or what they were based on. He detailed it had taken him a year or two to understand the ramifications of the current statutory language. He expounded AIDEA had to sign a letter of representation annually specifying actions that had been taken. He explained it took time to understand the cause and effect of the accounting records, ordinances, and other. He shared that he was still a licensed CPA and would not compromise his livelihood. He believed the statutory language should be fixed. He elaborated the glaring problem related to the swings in the dividend. He concluded that at least AIDEA was doing what it believed was the right thing, which was identifying the problem that needed to be fixed.

Vice-Chair Saddler asked if there was any correlation between the proposed accounting change and the governor's executive order considering consolidation or efficiencies between AIDEA, AHFC, and AEA.

Mr. Lamb replied that he did not believe so. He detailed the issue had been brought up by AIDEA around July 2015 when it had been going through an audit. He furthered that recommendations for statutory changes were due to the administration around December each year. He stated he had

no idea how the world would unfold in the future. He explained the end of 2016 would come quickly and AIDEA would be in the same circumstance - it would conduct an audit, consider exclusions, and determine the dividend.

[2:51:01 PM](#)

Vice-Chair Saddler asked for the current balances of the SETS, revolving, and Arctic Infrastructure Development Funds.

Mr. Lamb believed no funding had ever been put into the Arctic fund. The balance in the SETS Fund was not substantial; the available money was primarily directed to the IEP [Interior Energy Project], so he did not believe there was anything there. He reported that AIDEA's net assets for the revolving fund were approximately \$1.2 billion.

Co-Chair Thompson asked AIDEA to follow up with the information. Mr. Lamb complied.

Representative Kawasaki asked how many AIDEA development projects currently existed that would be impacted by the change in law proposed under the legislation.

Mr. Lamb responded that the legislation would have zero impact on the issue. He explained that AIDEA had three primary revenue sources: direct loans, return from its eight or so projects, and its own externally managed investments used to stabilize the agency's cash (the investments were also a big deal with rating agencies for general obligation bonds). The bill would have no impact on the projects, but it could have an impact in the other direction. For example, the Coast Guard had been thinking about leaving Anchorage because they did not have a facility, so AIDEA had built a facility on Joint Base Elmendorf-Richardson for 30 years. He explained that if the project was on AIDEA's books for \$13 million and for some reason the project went away and the federal government exercised eminent domain and gave AIDEA \$5 million, there would be \$8 million difference between AIDEA's book value and money it received. The difference would have an effect on net income and subsequently the dividend. He summarized that the bill would have no impact on projects, but the projects could impact the result of the legislation.

2:54:42 PM

Representative Kawasaki asked about writing assets off of the books for a project that was not moving forward. He wondered how the entries were configured.

Mr. Lamb replied it was an accounting term of art. He furthered that AIDEA's balance sheet had to reflect owned and owed amounts. He continued it was wrong to claim owning something worth "x" dollars when it was not worth that amount. The way to change "x" was to do a write down, which essentially credited the asset account (i.e. write down or loss in value) - the debit was shifted from being an asset to an expense "and it's gone." Under the example he had provided, it was exactly what would happen. Auditors worked to determine whether an entity had followed authoritative guidance and whether items on the financial sheet were materially accurate. He referred back to his example where a \$5 million purchase was made by the federal government; the \$5 million would be recorded and a write down would occur. Secondly, the financial statements would recognize depreciation or amortization - the value of the asset was recorded year-over-year (it was basically wearing out over time).

2:57:16 PM

Representative Kawasaki referred to the Ambler mining road project, which had started out as an \$8 million Department of Transportation and Public Facilities project and had shifted to AIDEA for surveys. He asked if the specific project would have a bookable value. He about the ability for a private entity to build a road.

Mr. Lamb replied in the affirmative. He furthered that AIDEA had conversations about whether there was still value in the specific project. He elaborated that the legislature had appropriated money for the project, the governor's office had approved it, and AIDEA was moving forward with the assumption that if a viable route was found, all of the associated permits and work to get from "point A to point B" had value. He explained that the project was considered an asset because they were paying for things that would be necessary to build the road; conduct permitting, engineering, and environmental impact statements (EIS); and other. The reason the cost had been incurred was to end up

with an asset; therefore, it became a part of the basis of the asset until it had been determined there was no asset.

Representative Gattis asked if there was a point in time the cost of the EIS, record of decisions, or other could be backed out because they had expired as the asset depreciated over time.

Mr. Lamb replied in the affirmative. He referred to the Ambler project. He stated that at one point the governor had put Susitna and Ambler projects on halt, partially due to a shelf-life to EIS studies (at some point there was no value). Part of AIDEA and AEA's communications to the governor's office was about the shelf-life and need to finish some of the work in order to avoid losing all of the value. The question became that he and AIDEA's controller, who were responsible for signing the letter of representation related to the asset values, ensured the values were fairly represented. Much of the process was not black and white; there was significant subjectivity about what someone thought or did not think would happen. At the current point the legislature had not stopped the Ambler or Susitna projects; therefore, there was still value. He noted that at some point there may not be value. At some point items with a shelf-life had to be written down at some point when they no longer had value, otherwise the value of the assets were misstated and financials were falsified.

[3:02:04 PM](#)

Representative Kawasaki referred to Mr. Lamb's example of the 1040 IRS form, which essentially included future unrealized losses (not gains). He remarked that there could be unrealized gains or losses. He surmised AIDEA did not anticipate future dividends to be any larger or smaller due to the legislation. He believed the legislation would mean the dividend would be flatter over time.

Mr. Lamb responded that over the 25-year life of the dividend the average was just under 50 percent. He detailed that if the dividend was based on 50 percent of the net income pre-GASB 31 (green line in presentation charts) it swung from year-to-year, but the changes were not as significant as those post-GASB 31 (there was currently no exclusion in statute). He agreed that the dividend would flatten out a bit. He explained AIDEA's goal was to share

its earnings, create jobs, and to provide stability and predictability at the same time. He stated the same dividend amount did not necessarily occur over a period of time if the items were excluded [from net income]. There was still the issue about when the check could be written. He referred to his earlier analogy about cash-based taxpayers - they received the money and if they were not able to write a check they had to explain why. He shared that when he had worked for the Fairbanks North Star Borough, their investments had always been in government, safety, liquidity, and yield. Generally most investments (AIDEA had an investment resolution for internally and externally managed funds) were in safe assets. He stated "then you really look to liquidity of when you go out and buy." For example, if he had \$10 million and needed it back in 60 days, he would specify that for all the things he was authorized to buy, he wanted the \$10 million back. He believed at the borough the amount would ebb and flow over time, but the net number would turn out to be the same in the end. The difference for AIDEA (and probably AHFC or other) was it had two outside entities that externally managed investments, which included buying and selling (the average life was around five years). He could not say the net number would turn out to be the same because the managers were buying and selling, and the timing for what was going on in the market changed things.

[3:05:55 PM](#)

Representative Edgmon summarized his understanding of Mr. Lamb's testimony by referring to slide 23, point 3. He read from the slide: "Language changes better connect the payment to the actual realized results of operations." He asked for verification AIDEA would essentially be paying its dividend off of its audited financial statements if all of the GASB requirements [listed in the bill] were taken out. He asked for confirmation that the issue was that simple.

Mr. Lamb responded that [currently] AIDEA paid off the audited results adjusted for the items.

Representative Edgmon clarified he was referring to what would occur if the bill became law.

Mr. Lamb answered in the affirmative. He referred back to the analogy related to individual tax returns. He explained

that if individuals had to specify how much their wealth increased and included their gain or loss over a year - "you take all that stuff out." He believed what Representative Edgmon was saying was correct.

Co-Chair Thompson clarified that the unrealized gains and losses were taken out. Mr. Lamb answered in the affirmative and that it was the mark-to-market.

Representative Edgmon surmised that essentially the bill would put AIDEA on equal footing as a public/private entity with a private sector corporation. He reasoned that private sector corporations paid their dividends from audited financial statements.

Mr. Lamb agreed that private sector corporations paid their dividends from audited financial statements. However, the Financial Accounting Standards Board (FASB), which pertained to the private sector, had mark-to-market too. There was a reason GASB had the adjustments, but the question for a legislative body was to consider whether it really wanted the items to be a part of the dividend calculation. The money given for a project was part of the audited financial statement. The other large number on the balance sheet was for the dividends paid to the state. He believed the current year operations should not be reduced by the fact AIDEA was paying a dividend that showed up as an expense on AIDEA's books. He concluded that Representative Edgmon was essentially correct.

[3:09:00 PM](#)

Representative Edgmon thought the bill made good sense and wanted to see it move forward.

Vice-Chair Saddler asked how much discretion there was in determining the dividend amount AIDEA paid to the state.

Mr. Lamb answered that per statute AIDEA was required to pay a dividend, which was no less than 25 percent and no more than 50 percent of the statutorily defined net income. Historically, over the 25 years the dividend had been provided, the number was an average of 47 or 48 percent. He was proud of AIDEA's work. The current conversation was only related to the dividend. He spoke to the significant number of jobs created and all of the financing offered by the agency.

3:10:32 PM

Vice-Chair Saddler surmised there was some discretion, but someone had exercised the discretion to be much closer to 50 percent than 25 percent. He asked about the board's criteria used to determine the dividend amount.

Mr. Lamb referred to an extract from a December 19th board resolution, which specified AIDEA's mission was established by statute. He read from the document:

The authority was created by the legislature as a public corporation to advance the economic prosperity of Alaskans by diversifying the Alaska economy, promoting the creation and retention of Alaska jobs. The dividend did not change the authority's mission, in fact, in establishing the dividend requirement, the legislature stated it's intend that the financial integrity of the authority remain secure so the authority can continue to fulfill its vital economic development mission for the state. Thus, the legislature made clear that although a dividend must be made available, the dividend must not be determined in a manner that does not impede the authority's ability to fulfill its mission; and with this background in mind, the staff believes the board must counterbalance two competing interests: provide an adequate financial return to the state in the form of a cash dividend as contemplated by the state versus ensure the authority retains the financial capability to achieve its economic development mission for the state.

Mr. Lamb looked at AIDEA similarly to the federal government. He detailed the federal government had the employment counterbalance against inflation. He acknowledged that sometimes the two things were in competition. He furthered that AIDEA's mission for employment and economic activity balanced against providing financing for development projects. The entity was also expected to be self-sustaining and to pay a dividend. He explained those items were given consideration - "can we pay as large of a dividend as possible without jeopardizing our ability to do our mission and have the cash." His recommendation to the board was based upon future cash projections.

Co-Chair Thompson asked for final comments.

Mr. Lamb was in favor of the bill and appreciated the committee's support.

HB 268 was HEARD and HELD in committee for further consideration.

Co-Chair Thompson reviewed the agenda for the following day.

#

ADJOURNMENT

[3:14:27 PM](#)

The meeting was adjourned at 3:14 p.m.