

HB

471

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSHB 471(CRA)
 (H) Publish Date: 3/27/02

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
 Title: AIDEA Programs BRU: AIDEA (125)
 Component: AIDEA
 Sponsor: Representative Green
 Requester: House Community & Regional Affairs Component No. 1234

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type-Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 471 modifies the Alaska Industrial Development and Export Authority dividend policy statutes to reflect recent changes in governmental accounting standards. The bill also clarifies eligibility for the Rural Development Initiative Fund.

HB 471 has no fiscal impact to AIDEA.

Prepared by: Sara Fisher-Goad, Financial Analyst Phone 907-269-4623
 Division: Alaska Industrial Development & Export Authority Date/Time 3/22/02 2:33 PM
 Approved by: Deborah B. Sedwick, Commissioner Date 3/22/2002
 Agency: Department of Community & Economic Development

Alaska State Legislature

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JUNEAU, ALASKA 99801-1182
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BUDGET SUBCOMMITTEES:
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Representative Joe Green
District 10

Sponsor Statement for House Bill 471

House Bill 471 proposes changes to the Alaska Industrial Development and Export Authority (AIDEA) statutes relating to the computation of the AIDEA dividend and the eligibility requirements for AIDEA's Rural Development Initiative Fund (RDIF) program. The House C&RA committee amended House Bill 471 to include a proposal to increase the maximum loan amount for the Alaska Energy Authority's (AEA) Bulk Fuel Revolving Loan Fund.

The change to the dividend statute results in a status quo dividend formula necessitated by accounting and reporting changes. Under current state law, AIDEA pays an annual dividend to the State of Alaska's General Fund, the amount of which is based on the agency's "net income" and "unrestricted net income." Alaska Statutes define these two terms as the "net income" and "unrestricted net income" included in AIDEA's audited financial statement.

New standards adopted by the Governmental Accounting Standards Board (GASB) provide that audited financial statements, such as the one produced by AIDEA, will no longer include the terms for either "net income" or "unrestricted net income." This eliminates the reference used by current statutes to define the two terms.

In addition, the new GASB standards also require that intergovernmental transfers, capital contributions and grants be included as either a revenue or expense of the governmental entity. AIDEA's dividend payments to the state will be included as an expense, causing a further reduction of the agency's "net income," and resulting in an automatic reduction of the potential dividend.

Since its inception, AIDEA has provided \$128 million in dividends, including the dividend that will be paid to the state for fiscal year 2003. In order to preserve this important source of general fund revenue, HB 471 makes the necessary changes in response to the new accounting requirements. The bill addresses both issues by defining "net income" and "unrestricted net income" using the terms to be found in future audited financial and excluding amounts attributable to intergovernmental transfers, capital contributions and grants.

AIDEA's RDIF program was designed to make commercial loans to rural businesses that did not have other financing options because of their location. HB 471 reinserts the definition of "community" and further clarifies the definition to ensure that the loans are going to the intended recipients, those who are in truly rural communities. The amended standards specify that qualifying participants must be in communities of less than 5,000 people if they are not connected to Anchorage or Fairbanks by road, rail or the Marine Highway, and less than 2,000 people if they are connected to Anchorage or Fairbanks by road or rail.



April 29, 2002

The Honorable John Torgerson, Chair
Senate Community and Regional Affairs Committee
State Capitol - Room 427
Juneau, AK 99801-1182

Dear Senator ~~Torgerson~~ ^{JOHN}:

I respectfully request that you schedule Representative Green's House Bill 471 for a hearing in Community and Regional Affairs as soon as possible. HB 471 passed the House of Representatives unanimously on April 24 and was referred to Senate Community & Regional Affairs and Labor & Commerce. HB 471 amends three important programs for AIDEA/AEA: the AIDEA dividend calculation; the Bulk Fuel Revolving Loan Fund; and the Rural Development Initiative Fund. It is crucial to both the Alaska Industrial Development Authority (AIDEA) and the Alaska Energy Authority (AEA) that this bill becomes law this session.

HB 471 does three very important things for our organization. Section 1 increases the maximum amount of loans from the Bulk Fuel Revolving Loan Fund operated by AEA from \$100,000 to \$200,000. In rural Alaska, communities purchase their fuel in bulk quantities both because it is more economical to do so and because the window for transporting fuel is seasonal. If residents of urban Alaska had to pay for their entire winter's electricity, home heating and vehicle fuel in one lump sum, the amount would be staggering and not many of us could afford the pricetag. This is exactly what rural Alaskans face every year. This program is in high demand in rural communities. Petroleum price increases and increases in bulk fuel tank farm capacity in many communities have made the current limit of \$100,000, which was enacted in 1993, too low to accommodate the needs of many borrowers. These larger loans will be funded through a \$5.0 million grant to the Bulk Fuel Revolving Loan Fund recently received from the USDA.

Sections 2 and 3 amend definitions used in the statutory guidelines for the AIDEA dividend program to accommodate recent changes in government accounting and reporting standards. Since its inception, AIDEA has authorized \$129 million in dividends to the state general fund, including \$20,149,500 for fiscal year 2003. AS 44.88.088 provides that AIDEA's dividend is to be between 25% and 50% of net income for the base fiscal year, but may not exceed AIDEA's unrestricted net income. AS 44.88.088(b) defines "net income" and "unrestricted net income" used in the statutory guidelines for our dividend policy to be the amount of net income and unrestricted net income that are set out in our audited financial statements.

However, new Governmental Accounting Standards Board (GASB) directives provides that audited financial statements will no longer report any amount for either net income or unrestricted net income. Without those amounts reported in our audited financial statements, AS 44.88.088 would no longer provide clear instruction to the Board for determining the amount of the dividend. This ambiguity will compel the Board either to attempt to calculate what the net income and unrestricted net income would have been or to declare no dividend, as the audited financial statements will include no amount for "net income."

Further, GASB directives require that intergovernmental transfers be included as components of the Statement of Revenues, Expenses and Changes in Fund Net Assets. These accounting modifications will also alter the calculation of AIDEA's future dividends. For example, the amount appropriated from any AIDEA dividend will be an intergovernmental transfer item that will reduce net income for that fiscal year. This would result in a "double counting" of AIDEA dividends as an expense.

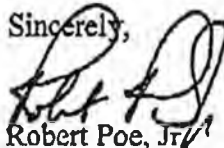
Section 4 of HB 471 modifies AIDEA's Rural Development Initiative Fund (RDIF) to make it available to applicants living in on-road communities of 2,000 or less, or off-road communities of 5,000 or less. The intent of the RDIF program is to provide commercial financing to businesses in the rural areas of Alaska that do not have access to standard commercial financing because of their remote location. This definition more clearly sets forth the intent of the program and will allow users of the program to use established references for determining eligibility.

Finally, Section 5 is a transitional provision that clarifies that the amendments to the statutory guidelines for the dividend program will first be used for the dividend to be calculated from our audited financial statement for fiscal year 2002.

AIDEA/AEA is pleased to be able to contribute to the general fund and provide Alaska with a real return on investment while continuing our mission to serve as an economic tool for future Alaskan businesses. Time is running short this legislative session, and I hope you will look favorably on scheduling this bill for a hearing in Senate C&RA at the earliest possible opportunity.

I would be happy to answer any questions you might have. Thank you in advance for your consideration.

Sincerely,



Robert Poe, Jr.
Executive Director

Alaska State Legislature



Representative Joe Green
District 10

STATE OF ALASKA
LEGISLATURE
ANCHORAGE
1997-2001

LEGISLATIVE COUNCIL
ANCHORAGE
1997-2001

MEMORANDUM

To: Senator John Torgerson
Chair, Senate Community and Regional Affairs
From: Representative Joe Green
Date: April 26, 2002
RE: HB 471

Please schedule House Bill 471 before your committee for a hearing.

Attached are:

1. HB 471
2. Sponsor Statement
3. Fiscal Note
4. Background information and summary

If you have any questions, please do not hesitate to contact my aide Jessica Menendez at ext. 4920

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The change to the dividend statute results in a status quo dividend formula necessitated by accounting and reporting changes. Under current state law, AIDEA pays an annual dividend to the State of Alaska's General Fund, the amount of which is based on the agency's "net income" and "unrestricted net income." Alaska Statutes define these two terms as the "net income" and "unrestricted net income" included in AIDEA's audited financial statement.

New standards adopted by the Governmental Accounting Standards Board (GASB) provide that audited financial statements, such as the one produced by AIDEA, will no longer include the terms for either "net income" or "unrestricted net income." This eliminates the reference used by current statutes to define the two terms.

In addition, the new GASB standards also require that intergovernmental transfers, capital contributions and grants be included as either a revenue or expense of the governmental entity. AIDEA's dividend payments to the state will be included as an expense, causing a further reduction of the agency's "net income," and resulting in an automatic reduction of the potential dividend.

Since its inception, AIDEA has provided \$128 million in dividends, including the dividend that will be paid to the state for fiscal year 2003. In order to preserve this important source of general fund revenue, HB 471 makes the necessary changes in response to the new accounting requirements. The bill addresses both issues by defining "net income" and "unrestricted net income" using the terms to be found in future audited financial and excluding amounts attributable to intergovernmental transfers, capital contributions and grants.

AIDEA's RDIF program was designed to make commercial loans to rural businesses that did not have other financing options because of their location. HB 471 reinserts the definition of "community" and further clarifies the definition to ensure that the loans are going to the intended recipients, those who are in truly rural communities. The amended standards specify that qualifying participants must be in communities of less than 5,000 people if they are not connected to Anchorage or Fairbanks by road, rail or the Marine Highway, and less than 2,000 people if they are connected to Anchorage or Fairbanks by road or rail.

CS FOR HOUSE BILL NO. 471(CRA)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY THE HOUSE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

Offered: 3/27/02

Referred: Labor and Commerce

Sponsor(s): REPRESENTATIVE GREEN

A BILL
FOR AN ACT ENTITLED

1 "An Act increasing the maximum amount of loans from the bulk fuel revolving loan
2 fund operated by the Alaska Energy Authority; relating to the definitions of 'net
3 income' and 'unrestricted net income' for purposes of determining the amount of the
4 Alaska Industrial Development and Export Authority's dividend to the state; relating to
5 communities within which rural development loans may be made by the Alaska
6 Industrial Development and Export Authority; and providing for an effective date."

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 * Section 1. AS 42.45.250(e) is amended to read:

9 (e) Loans made from the bulk fuel revolving loan fund to one borrower in any
10 fiscal year are not subject to AS 42.45.060 and

11 (1) may not exceed \$200,000 [~~\$100,000~~];

12 (2) shall be repaid in one year or less; and

13 (3) may not exceed 90 percent of the wholesale price of the fuel

1 purchased.

2 * Sec. 2. AS 44.88.088(b)(2) is amended to read:

3 (2) "net income" means the authority's change in net assets [NET
4 INCOME] as set out in the audited financial statements of the authority for the base
5 fiscal year, excluding amounts attributable to intergovernmental transfers, capital
6 contributions, or grants;

7 * Sec. 3. AS 44.88.088(b)(3) is amended to read:

8 (3) "unrestricted net income" means the authority's unrestricted change
9 in net assets [NET INCOME] as set out in the audited financial statements of the
10 authority for the base fiscal year, excluding amounts attributable to
11 intergovernmental transfers, capital contributions, or grants.

12 * Sec. 4. AS 44.88.610(a) is amended to read:

13 (a) The authority may use money from the rural development initiative fund to
14 make a loan of up to \$100,000 to a person, or a loan of up to \$200,000 to two or more
15 persons, to be used for working capital, equipment, construction, or other commercial
16 purposes by a business located in a community with a population of 5,000 or less that
17 is not connected by road or rail to Anchorage or Fairbanks, or with a population
18 of 2,000 or less that is connected by road or rail to Anchorage or Fairbanks. A
19 person who has received a loan under this subsection may not be granted another loan
20 until after the original loan is entirely repaid. For purposes of this subsection,

21 (1) "community" means a city as defined in AS 29.71.800 or an
22 unincorporated community as defined in AS 29.60.140; and

23 (2) "connected by road" does not include a connection by the
24 Alaska marine highway system.

25 * Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to
26 read:

27 TRANSITION. AS 44.88.088(b)(2) and (3), as amended in secs. 2 and 3 of this Act,
28 first apply to calculations made for base fiscal year 2002 and apply thereafter.

29 * Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

HB 471
AIDEA Bill
Sectional Analysis

Sections 1 and 2 – AIDEA's Dividend Program. Sections 1 and 2 of the bill amend definitions used in the statutory guidelines for the AIDEA dividend program to accommodate recent changes in governmental accounting and reporting standards. Section 1 amends the definition of "net income" and section 2 amends the definition of "unrestricted net income." Additionally, Section 4 of the bill is a transitional provision that clarifies that the amendments made in section 1 and 2 will become effective for the dividend calculated from AIDEA's audited financial statements for fiscal year 2002 - - the first audited financial statements after these changes in governmental accounting standards become effective.

Background. Since its inception, AIDEA has provided \$128 million in dividends, including the dividend AIDEA in December 2001 declared available to the state for fiscal year 2003. AS 44.88.088 provides statutory guidelines for AIDEA's dividend policy. AIDEA is to provide to the state a dividend of between 25 percent and 50 percent of AIDEA's net income for the base fiscal year, but in no event may the dividend exceed AIDEA's unrestricted net income for the base fiscal year.

AS 44.88.088(b) defines "net income" and "unrestricted net income" used in the statutory guidelines for AIDEA's dividend policy to be the amount of net income and unrestricted net income that are set out in the audited financial statements of AIDEA. AIDEA's audited financial statements comply with standards adopted by the Governmental Accounting Standards Board (GASB). Two recent changes to these governmental accounting and reporting standards alter or create ambiguity regarding how the statutory guidelines for AIDEA's dividend program would be implemented.

First, GASB Statement 34 provides that audited financial statements will no longer report any amount for either "net income" or "unrestricted net income." Without those amounts reported in AIDEA's audited financial statements, AS 44.88.088 will no longer provide clear instruction to the Board for determining the amount of the AIDEA dividend. This ambiguity will compel the Board either to attempt to calculate what

the "net income" and "unrestricted net income" would have been without GASB Statement 34, or to declare no dividend as the audited financial statements will include no amount for "net income."

Second, GASB Statement 33 requires that grants be included as either revenue or expense of the governmental entity. GASB Statement 34 requires that intergovernmental transfers be included as components of the Statement of Revenues, Expenses and Changes in Fund Net Assets. These accounting modifications will alter the calculation of AIDEA's future dividends. For example, the amount appropriated from any AIDEA dividend will be an intergovernmental transfer item that will reduce "net income" for that fiscal year. This reduction of "net income" will simultaneously reduce the amount of the AIDEA dividend that will be calculated from the audited financial statement for that fiscal year. For the first time, the payment of an AIDEA dividend will automatically reduce the amount of a future dividend.

The amendments proposed in sections 1 and 2 neutralize the impact the recent changes to governmental accounting and reporting standards in GASB Statements 33 and 34 would otherwise have on the AIDEA dividend program.

Section 3 – Rural Development Initiative Fund Program. Section 3 of the bill modifies AIDEA's rural development initiative fund program (RDIF) by making RDIF available to businesses located in communities with populations of less than 5,000 if not connected by road or rail to Anchorage or Fairbanks, or to businesses in communities with populations of less than 2,000 if connected by road or rail to Anchorage or Fairbanks. Section 3 of the bill also provides definitions for terms.

Background. The intent of the RDIF program is to provide commercial financing to businesses in the rural areas of Alaska that do have access to standard commercial financing because of their location. While the statutory language refers to businesses located in a community of 5,000 or less, the definition of community was dropped over the years. This definition more clearly sets forth the intent of the program and will allow users of the program to use established references for determining eligibility.

Section 4 – AIDEA's Dividend Program. Section 4 is a transitional provision that clarifies that the amendments to the statutory guidelines for AIDEA's dividend program under sections 1 and 2 of the bill will first be used for the dividend to be calculated from AIDEA's audited financial statement for fiscal year 2002.

Background. Sections 1 and 2 of the bill amend definitions of terms used in the statutory guidelines for the AIDEA dividend program in order to neutralize the impact of changes made in governmental accounting and reporting standards under GASB Statements 33 and 34. These provisions first become effective for the audited financial statements of AIDEA that will be prepared for fiscal year 2002. The transitional provision clarifies that the amendments will be effective for dividend to be calculated from that fiscal year 2002 audited financial statement.

Section 5 – Effective Date. Section 5 of the bill provides for an immediate effective date.