

HB

268

<TARGET><BILL>HB 268</BILL><SUBJECT>HB
268</SUBJECT><COMM>HFIN29</COMM></TARGET>

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version:	HB 268
Fiscal Note Number:	1
(H) Publish Date:	1/20/2016

Identifier: DCCED-AIDEA-11-20-15
 Title: AIDEA:DIVIDEND TO
 STATE;INCOME;VALUATION
 Sponsor: RLS BY REQUEST OF THE GOVERNOR
 Requester: Governor

Department: Department of Commerce, Community and
 Economic Development
 Appropriation: Alaska Industrial Development and Export
 Authority
 Allocation: Alaska Industrial Development and Export
 Authority
 OMB Component Number: 1234

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2017 Request	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES	FY 2017	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Personal Services	***	***	***	***	***	***	***
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	***	***	***	***	***	***	***

Fund Source (Operating Only)

None							
Total	***	***	***	***	***	***	***

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2016) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
 If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Not applicable, initial version.

Prepared By:	John Springsteen, Executive Director	Phone:	(907)771-3080
Division:	Alaska Industrial Development and Export Authority	Date:	11/09/2015 03:26 PM
Approved By:	Catherine Reardon, Director	Date:	11/20/15
Agency:	Division of Administrative Services		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

Analysis

AIDEA pays an annual dividend to the State of Alaska (averaging \$18.7MM from FY06 - FY15) based upon its statutorily defined net income for general state government use. Currently that net income includes mark-to-market adjustments (the actual posting of gains or losses that never happened, which increase or decrease the real net income result).

Implementation of Governmental Accounting Standards Board (GASB) Statement 31, by itself, has created volatility in AIDEA's dividend to the State of Alaska. A historical analysis of the past ten years shows that the affect of GASB 31 mark-to-market entries have impacted AIDEA's net income by up to \$22.0MM, with the dividend impact being \$11.0MM.

The future impacts on AIDEA's net income from implementing GASB 68 (pension obligations) in FY15, GASB 72 (fair value measurement) in FY16, and GASB 75 (other post-employment benefits) in FY18 are indeterminate, but can only be expected to add to the GAAP-based net income volatility. The ten year history of booking GASB 31 entries and their impact, by itself, on net income and the dividend is shown below:

Historic GASB 31 Mark-to-Market Net Income and Dividend Impact

Fiscal Year	Net Income Gain/(Loss)	Dividend Impact
2006	(13.8) MM	(6.9) MM
2007	4.8 MM	2.4 MM
2008	1.8 MM	0.9 MM
2009	3.2 MM	1.6 MM
2010	18.1 MM	9.0 MM
2011	(0.9) MM	(0.4) MM
2012	7.1 MM	3.6 MM
2013	(22.0) MM	(11.0) MM
2014	4.7 MM	2.4 MM
2015	(3.3) MM	(1.7) MM

The legislation also includes language to limit the scope of impairment losses (the re-valuation of assets at the end of a fiscal year) to the extent that AIDEA has paid for the asset (excluding any state or federal grants or appropriations).

This legislation seeks to stabilize the dividend by removing these market value entries from the net income calculation. A prediction of future market conditions, future actuarial estimates, or potential impairments, and thereby, their affect on AIDEA's dividend to the State of Alaska , cannot be made.

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Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	***	***	***	***	***	***	***

Fund Source (Operating Only)

None							
Total	***	***	***	***	***	***	***

Positions

Full-time							
Part-time							
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Change in Revenues							
---------------------------	--	--	--	--	--	--	--

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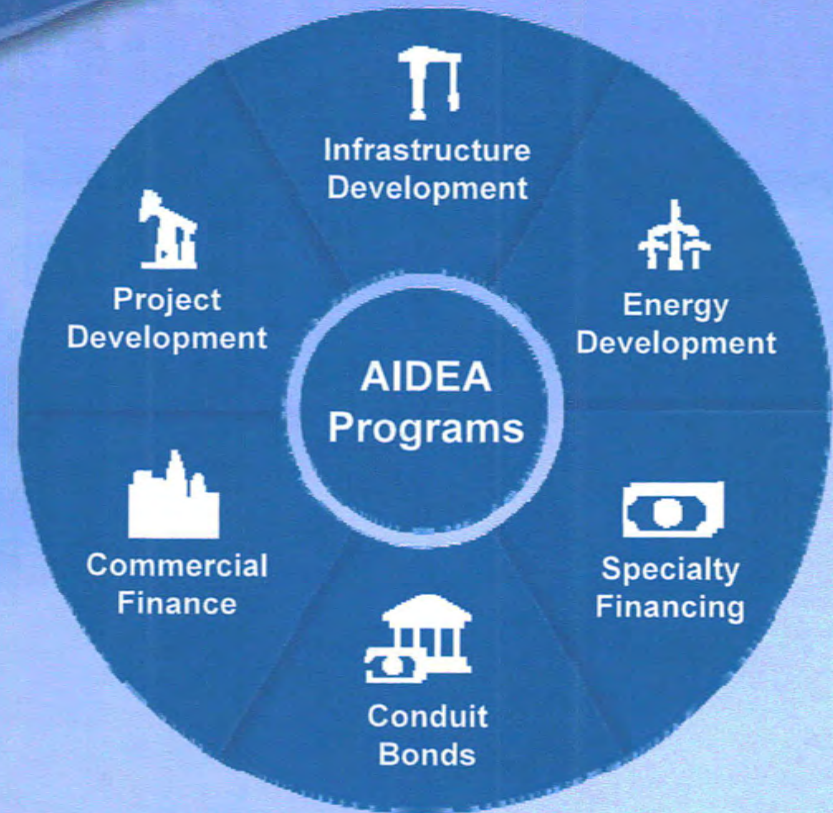
The future impacts on AIDEA's net income from implementing GASB 68 (pension obligations) in FY15, GASB 72 (fair value measurement) in FY16, and GASB 75 (other post-employment benefits) in FY18 are indeterminate, but can only be expected to add to the GAAP-based net income volatility. The ten year history of booking GASB 31 entries and their impact, by itself, on net income and the dividend is shown below:

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This legislation seeks to stabilize the dividend by removing these market value entries from the net income calculation. A prediction of future market conditions, future actuarial estimates, or potential impairments, and thereby, their affect on AIDEA's dividend to the State of Alaska, cannot be made.



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.



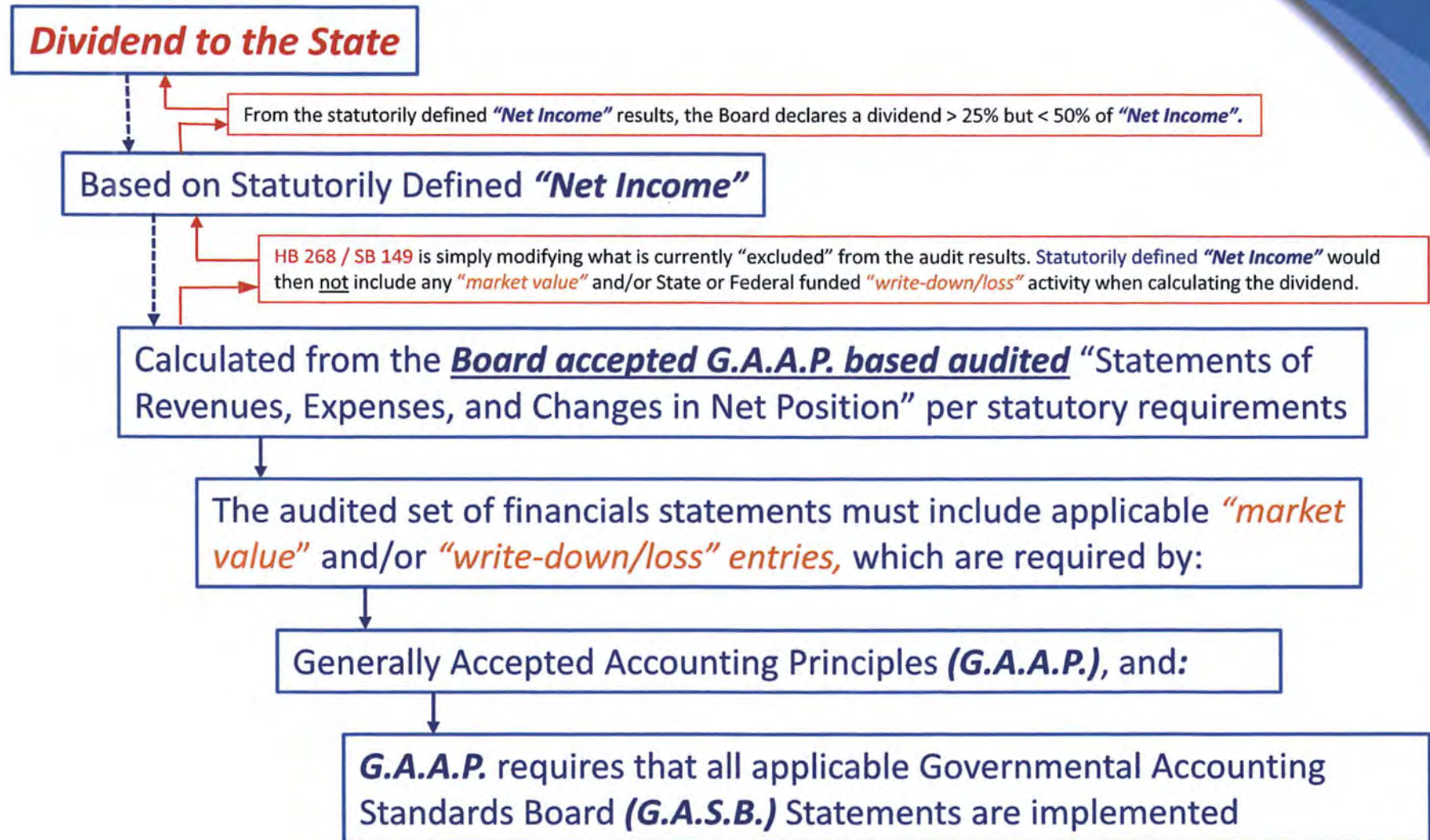
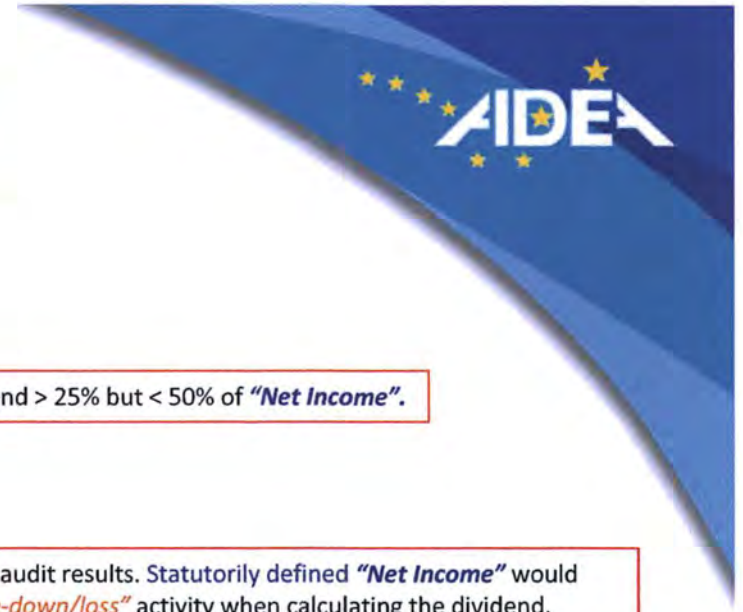
The Pertinent Language:

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. 1545-0047 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

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. _____

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions):

Foreign country name _____ Foreign province/state/county _____ Foreign postal code _____

Filing Status 1 Single 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. ▶
 2 Married filing jointly (even if only one had income)
 3 Married filing separately. Enter spouse's SSN above and full name here. ▶ 5 Qualifying widow(er) with dependent child

Check only one box.

Exemptions 6a Yourself. If someone can claim you as a dependent, do not check box 6a.
 b Spouse
 c Dependents:
 (1) 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

Boxes checked on 6a and 6b _____
 No. of children on 6c who:
 • lived with you _____
 • did not live with you due to divorce or separation (see instructions) _____
 Dependents on 6c not entered above _____
 Add numbers on lines above _____

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2 _____ 7
 8a Taxable interest. Attach Schedule B if required _____ 8a
 b Tax-exempt interest. Do not include on line 8a _____ 8b
 9a Ordinary dividends. Attach Schedule B if required _____ 9a
 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
 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶ _____ 22

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.

Adjusted Gross Income

23 Educator expenses _____ 23
 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2100 or 2100-EZ _____ 24
 25 Health savings account deduction. Attach Form 8889 _____ 25
 26 Moving expenses. Attach Form 3903 _____ 26
 27 Deductible part of self-employment tax. Attach Schedule SE _____ 27
 28 Self-employed SEP, SIMPLE, and qualified plans _____ 28
 29 Self-employed health insurance deduction _____ 29
 30 Penalty on early withdrawal of savings _____ 30
 31a Alimony paid b Recipient's SSN ▶ _____ 31a
 32 IRA deduction _____ 32
 33 Student loan interest deduction _____ 33
 34 Tuition and fees. Attach Form 8917 _____ 34
 35 Domestic production activities deduction. Attach Form 8903 _____ 35
 36 Add lines 23 through 35 _____ 36
 37 Subtract line 36 from line 22. This is your adjusted gross income ▶ _____ 37

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2015)

Form 1040 Impact Analogy



<p>Income</p> <p>Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.</p> <p>If you did not get a W-2, see instructions.</p>	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 <input type="checkbox"/>	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



NO. 347 | FEBRUARY 2015
Governmental Accounting Standards Series

Statement No. 72 of the Governmental Accounting Standards Board

Fair Value Measurement and Application

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

NO. 327-C | JUNE 2012
Governmental Accounting Standards Series

Statement No. 68 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Pensions

an amendment of GASB Statement No. 27

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

NO. 31-A | MARCH 1987

Governmental Accounting Standards Series

Statement No. 31 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Certain Investments and for External Investment Pools

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

NO. 350 | JUNE 2015
Governmental Accounting Standards Series

Statement No. 75 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Form 1040 Analogy – Add GASB Impacts



(Now adjust your 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
	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 <input type="checkbox"/>	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

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.

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	
	9a	Ordinary dividends. Attach Schedule B if required	9a	6,000
	b	Qualified dividends	9b	
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	12	Business income or (loss). Attach Schedule C or C-EZ	12	
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	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

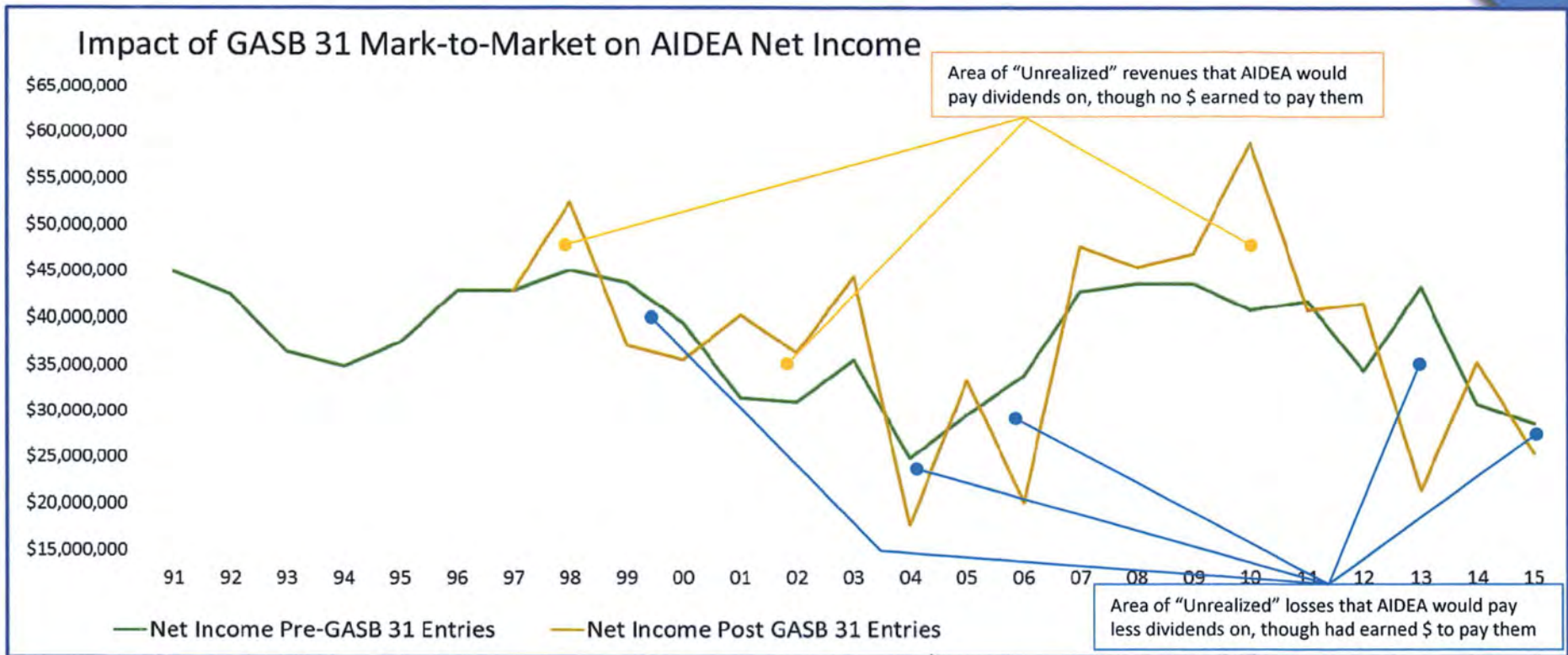
HB 268 / SB 149 removes these impacts

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)

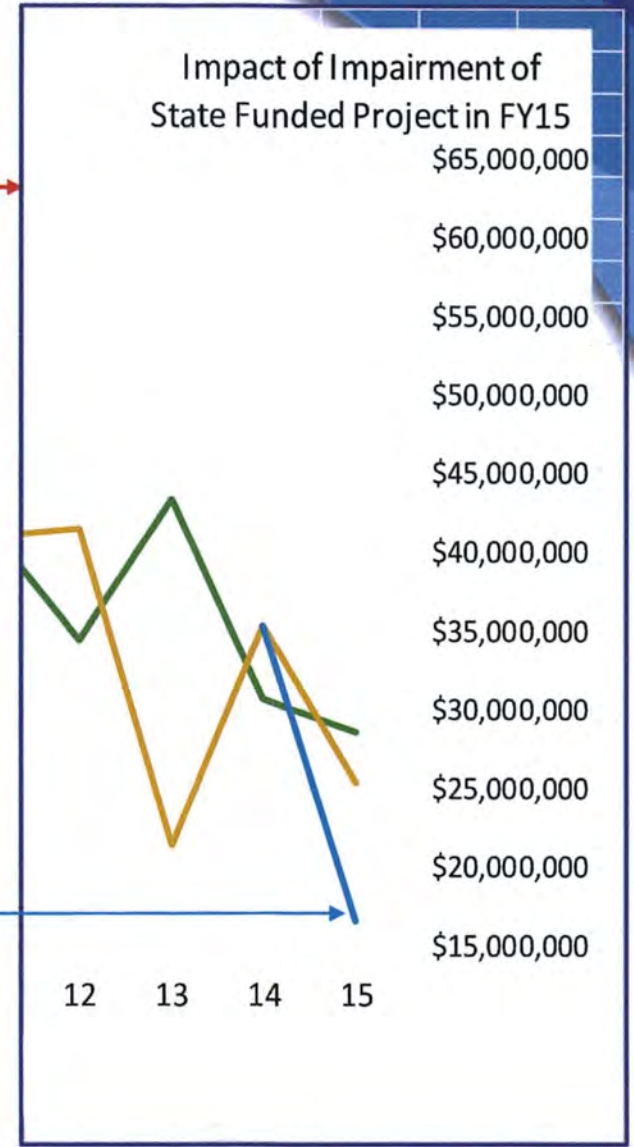
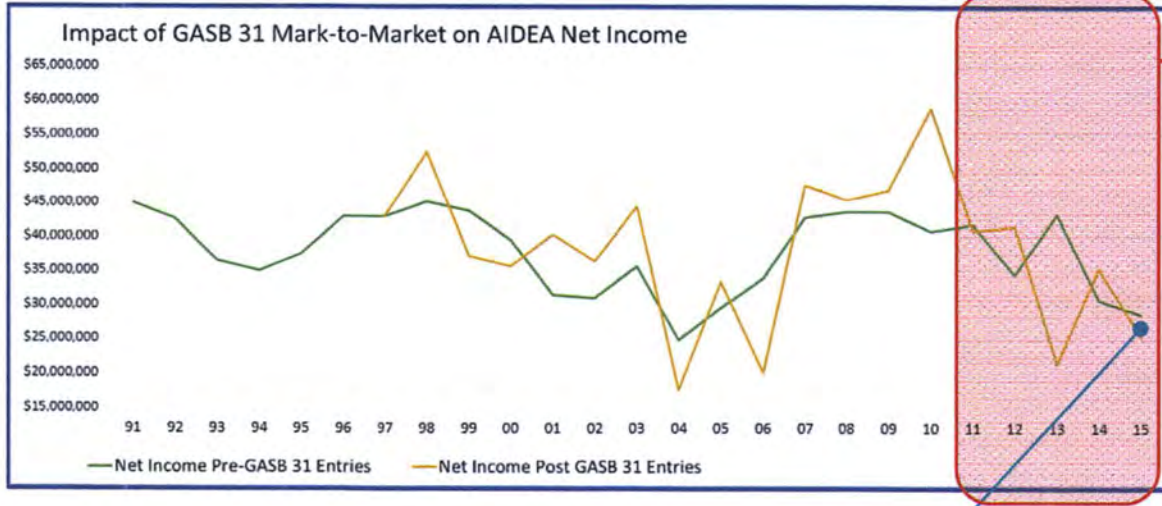


Computation of statutory "net income" for FY17 dividend (in thousands)

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>\$ (4,400)</u>
Revised FY15 Statutory "net income" for dividend calculations	<u>\$ 16,508</u>	

**State's
Dividend
Penalty
Impact**

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



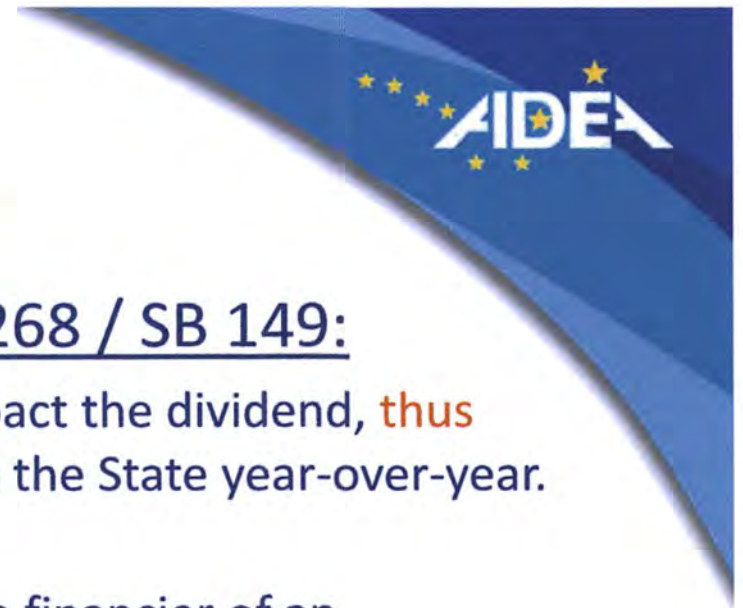
Proposed Statutory Language Explanation

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).*



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#AIDEA



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Governor Bill Walker
STATE OF ALASKA

January 18, 2016

The Honorable Mike Chenault
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Chenault:

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

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

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

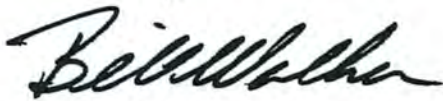
The proposed change in language on losses is meant to remove the restriction that the loss must occur with respect to a development project under AS 44.88.172. Under current law, AIDEA may finance different types of projects and developments, not just development projects under AS 44.88.172. It is not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

not be compounded by having AIDEA's dividend to the State reduced because of it. At the same time, however, a loss on a project or development funded by AIDEA's own cash will be reflected in the calculation of the dividend.

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

I urge your prompt and favorable action on this measure.

Sincerely,



Bill Walker
Governor

Enclosure



House Bill 268

AIDEA: Dividend to State; Income; Valuation

Sectional Analysis

Section 1: Section 1 amends AS 44.88.088(b) to include definitions for the activity affected by the proposed changes in accounting standards. It clarifies the net income calculation for AIDEA's annual dividend to adjust the scope of the impairment losses to reflect operating activity and to exclude non-cash accounting entries for mark-to-market fair value adjustments, pension obligations, and other post-employment benefits.

Section 2: Provides for an immediate effective date.