

Sectional Analysis for HB 471

AIDEA Programs

An Act relating to the definitions of 'net income' and 'unrestricted net income' for purposes of determining the amount of the Alaska Industrial Development and Export Authority's dividend to the state; relating to communities within which rural development loans may be made by the authority; and providing for an effective date.

Released: March 1, 2002
Contact: Representative Joe Green's office at (907) 465-4931

Section 1&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 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 the 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 must comply with standards adopted by Governmental Accounting Standards Board (GASB). Two recent changes to these governmental accounting standards alter or create ambiguity regarding how the statutory guidelines for AIDEA's dividend program would be implemented.

MORE

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 intergovernmental transfers be included as either revenue or expense of the governmental entity. This accounting modification will alter the calculation of AIDEA’s dividends. For example, the amount appropriated from any AIDEA dividend would be an intergovernmental transfer expense item that would reduce “net income” for that fiscal year. This reduction of “net income” would 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 would 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 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 not 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.

MORE

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 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.