



MEMORANDUM

To: Board Members
Alaska Industrial Development and Export Authority

From: Tom Boutin
Chief Executive Officer/Executive Director

Date: December 4, 2019

Subject: Fiscal Year 2021 Dividend Recommendations

Recommendation

Staff recommends fiscal year 2021 dividends totaling \$14,475,000. Attached to this memo is a recap of historic dividends declared and paid to date.

Introduction

Pursuant to AS 44.88.088 (the “Dividend Statute”), the Alaska Industrial Development and Export Authority (the “Authority” or “AIDEA”) Board is required to determine the amount of dividends to be made available for appropriation by the legislature annually. Under the Dividend Statute, the dividends are to be not less than 25% nor more than 50% of the Authority’s net income for the following AIDEA funds (as set out in the Authority’s audited financial statements and as defined in the Dividend Statute) for the fiscal year two years before the fiscal year in which the dividends are to be made available:

- Revolving Fund;
- Sustainable Energy Transmission and Supply Development (SETS) Fund; and
- Arctic Infrastructure Development Fund.

AIDEA adopted an internal dividend policy to provide additional guidance on the calculation of the dividends starting with the calculation of the dividends to be paid to the State in fiscal year 2019. Bills approved by the 2017 Alaska State Legislature (HB 119 and SB 57) changed the Dividend Statute. These bills aligned the Dividend Statute with the Authority’s internal dividend policy and exclude from the dividend calculations certain losses and adjustments.

In no event may the dividends exceed unrestricted net income of each fund. Once determined by the AIDEA Board, the Authority is to notify the Department of Revenue when the dividend amounts are available for appropriation by the legislature.

The Dividend Statute gives the AIDEA Board broad discretion to determine the amount of the dividends. AIDEA’s internal policy was developed to provide guidance to the Board within the constraints of AS 44.88.088. The Board also has the authority to determine when, during the

fiscal year, dividends should be made available. The Board has approved \$407.879 million of dividends since the program was signed into law on June 27, 1996.

This memo provides a discussion of considerations when determining the dividend amounts. This memo also provides a specific recommendation for the amount of the fiscal year 2021 dividends and recommends a procedure for determining the timing of when, during the fiscal year, the dividends should be made available.

Determining the Amount to be Made Available

One of the missions of a private, for-profit corporation is to increase the value of its shareholders' investment. In that regard, private corporations generally establish dividend policies consistent with the aims of the investors they wish to attract. These policies vary widely; from corporations attempting to increase shareholder value by increasing shareholder equity in the company, to those flowing corporate profits to shareholders in the form of annual dividends.

AIDEA's mission is established by its governing statutes. The Authority was created by the legislature as a "public corporation" to advance the economic prosperity of Alaskans by diversifying the Alaska economy and promoting the creation and retention of Alaskan jobs. (See AS 44.88.070).

The Dividend Statute did not change the Authority's mission. In fact, in establishing the dividend requirement, the legislature stated its intent that: "the financial integrity of the [Authority] remains secure so the Authority can continue to fulfill its vital economic development mission for the State." (*See* sec.1, ch.11 SLA 1996). Thus, the legislature made it clear that although dividends were to be made available, the dividends must be determined in a manner that does not impede the Authority's ability to fulfill its mission.

With this background in mind, 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 Statute, versus
- Ensure the Authority retains the financial capability to achieve its economic development mission for the State.

Recommendation for Fiscal Year 2021 Dividends

The recommended fiscal year 2021 dividends totals \$14,475,000, representing 50% of AIDEA's dividend base as calculated under our internal policy and the Dividend Statute. The recommended dividend is comprised of the following.

- \$13,950,000 from the Revolving Fund, and
- \$525,000 from the SETS Fund.

Staff believes the Authority can sustain financing requirements and still maintain capacity for unanticipated needs while paying \$14,475,000 in dividends.

Staff recommends the Authority make a dividend of \$13,950,000 available to the State in fiscal year 2021 from the Revolving Fund. Staff believes a dividend of this amount fulfills the legislative requirement for a reasonable dividend while, at the same time, fulfilling the legislature's intent that "the financial integrity of the Authority remains secure so the Authority can continue to fulfill its vital economic development mission for the State." The \$13,950,000 dividend represents 50% of base year statutory net income generated by the Revolving Fund.

Additionally, staff recommends the Authority make a dividend of \$525,000 available to the State in fiscal year 2021 from the SETS Fund. Staff believes this amount allows the Authority to fulfill the legislative requirement for a reasonable dividend while maintaining the ability for the fund to be used to "assist in the construction, improvement, rehabilitation, and expansion of qualified energy development" as established under AS 44.88.670. The \$525,000 dividend represents 50% of base year statutory net income generated by the SETS Fund.

The Arctic Infrastructure Development Fund was established in FY15 but was not funded and there was no activity to report; therefore, there is no statutory net income from which a dividend can be paid and no dividend is recommended.

Plan for Making the Dividends Available

The Dividend Statute requires that "the dividend for a fiscal year be made available before the end of that fiscal year." The Authority is to "notify the Commissioner of Revenue when the dividend is available." Beyond those mandates, the AIDEA Board has the discretion and flexibility to determine when, during the fiscal year, the dividend will be made.

In past years, staff has worked with the Department of Revenue to determine when dividends will be made available. This allows both agencies to better anticipate and meet cash-flow needs. Staff again requests that it be granted the authority to work with the Department of Revenue to determine the timing of when dividends will be made available. Historically, the Authority transfers the dividend in quarterly installments at mid-quarter.

Conclusion

The Dividend Statute requires the Board to annually determine dividends. Staff recommends the Board determine and declare dividends totaling \$14,475,000 for fiscal year 2021 with \$13,950,000 declared from the Revolving Fund and \$525,000 declared from the SETS Fund. Staff believes that dividends totaling this amount will provide the State with an economic return from the Authority without prejudicing the Authority's primary mission to "promote, develop and advance economic growth and diversification in Alaska by providing various means of financing and investment."

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G19-23

**RESOLUTION OF THE ALASKA INDUSTRIAL
DEVELOPMENT AND EXPORT AUTHORITY
DETERMINING DIVIDENDS TO BE MADE AVAILABLE
TO THE STATE FOR FISCAL YEAR 2021 AND
PROVIDING A PROCEDURE FOR MAKING DIVIDENDS
AVAILABLE**

WHEREAS, pursuant to AS 44.88.088 (the “Act”), the Alaska Industrial Development and Export Authority (the “Authority”) is required to adopt a policy for the payment of dividends to the State each fiscal year from three of the Authority’s funds;

WHEREAS, pursuant to the Act, the dividend may not be less than 25 percent nor more than 50 percent of the statutorily defined audited net income of the Authority’s Revolving Fund, Sustainable Energy Transmission and Supply Development (SETS) Fund, and Arctic Infrastructure Development Fund for the fiscal year two years prior to the fiscal year in which the dividend is to be made available (the “base fiscal year”); provided, however, that the dividend may not exceed the unrestricted net income for the base fiscal year for each Fund;

WHEREAS, in enacting the Act the legislature expressed its intent that the “financial integrity of the Authority remain secure so that the Authority can continue to fulfill its vital economic development mission for the State;”

WHEREAS, the staff of the Authority has recommended that the sum of \$13,950,000 be made available as a dividend to the State from the Revolving Fund in fiscal year 2021 (the “Revolving Fund Dividend Amount”), which amount is approximately 50% of the Revolving Fund’s net income as defined in the Act;

WHEREAS, the staff of the Authority has recommended that the sum of \$525,000 be made available as a dividend to the State from the SETS Fund in fiscal year 2021 (the “SETS Fund Dividend Amount), which amount is approximately 50% of the SETS fund net income as defined in the Act;

WHEREAS the Arctic Infrastructure Development Fund did not have positive statutorily defined net income for fiscal year 2019, therefore no dividend is recommended from the Fund;

WHEREAS, making the Revolving Fund Dividend Amount available to the State and the appropriation of this amount by the legislature will not cause the Authority to violate any of its covenants to bond holders;

WHEREAS, making of the Revolving Fund and SETS Fund Dividend Amounts available to the State and the appropriation of these amounts by the legislature will not materially impede the Authority’s ability to continue to fulfill its vital economic mission to the State;

WHEREAS, in compliance with the Act it is in the best interests of the Authority that the Revolving Fund and SETS Fund Dividend Amounts be made available to the State; and

WHEREAS, it is in the best interest of the State and the Authority that the Authority’s staff work with the State Department of Revenue to determine the timing of when during the 2021 fiscal year the dividend amount should be made available to the State.

NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:

Section 1. In accordance with AS 44.88.088(a)(1), the Authority shall make the sum of \$13,950,000 available to the State as a dividend from the Revolving Fund for fiscal year 2021.

Section 2. In accordance with AS 44.88.088(a)(2), the Authority shall make the sum of \$525,000 available to the State as a dividend from the SETS Fund for fiscal year 2021.

Section 3. The staff of the Authority is hereby authorized to work with the Department of Revenue to establish the timing of when, during fiscal year 2021, the fiscal year 2021 dividends will be made available to the State.

Section 4. The Executive Director of the Authority is hereby authorized and directed to notify the Commissioner of Revenue, in accordance with AS 44.88.088, of the amount and timing of the dividends made available pursuant to this resolution.

Section 5. The Executive Director is authorized and directed to take such actions as may be necessary to implement this resolution, including, subject to the valid appropriation by the legislature of the dividends made available pursuant to this resolution, such actions as may be necessary to transfer the dividends to the State.

Dated at Anchorage, Alaska this 4th day of December, 2019.



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

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Chair

A handwritten signature in blue ink, appearing to be "Jan H. Bair", written over a horizontal line.

Secretary