

ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 8672

10919 HOUSE LABOR & COMMERCE

*Alaska Cabaret, Hotel,  
Restaurant & Retailers Association*



1111 East 80th Ave., Suite 3 • Anchorage, Alaska 99518  
(907) 274-8133 • Fax: (907) 274-8640  
Toll Free In Alaska: (800) 478-2427

The Honorable Norman Rokeberg  
House of Representatives  
Alaska State Capitol  
Juneau, Alaska 99801-1182

March 21, 2003

Dear Representative Rokeberg,

On Behalf of the Alaska Cabaret, Hotel, Restaurant and Retailer's Association Board of Directors, our Members and Associates, we respectfully request your assistance in formulating a bill to remove the adjustment clause of the annual consumer price indexing included in last years minimum wage legislation.

During the past few months I have spoken at length with many of our restaurateurs and have received numerous negative comments about the devastating effects the unprecedented dollar and-a-half minimum wage jump has had on their businesses. The repercussions of this legislation have begun in reducing hours, limiting and/or removing benefits, laying off employees and ultimately, closing businesses.

Although removing the CPI clause will not significantly change this situation, it would be a positive starting point.

I will be encouraging our members to provide written back-up documentation to your office.

Thank you for your continued interest in Alaska's second-largest private employer, the hospitality industry.

Best regards,

Kac'e McDowell  
Executive Director, AK CHARR



## Chamber of Commerce

\* P.O. Box 610, Anchor Point, Alaska 99556 \* Mile 156 Sterling Hwy \* (907) 235-2600 \*

March 17, 2003

Representative Norman Rokeberg  
Alaska State Capitol  
Juneau, AK 99801-1182

Re: Minimum Wage, Consumer Price Index (CPI)

Dear Representative Rokeberg:

A major portion of the membership of Anchor Point Chamber of Commerce is the small, family owned businesses. For the most part, these businesses employ a few employees in addition to family members and operate on a small profit margin.

The minimum wage tied to the CPI or having to increase it each year would place an unfair burden on these, and all, businesses by their not knowing what their wage scale would be from one year to the next. How can a business be expected to make plans for the coming year when one of their largest expenses is an unknown?

Anchor Point Chamber of Commerce believes in a fair and equitable minimum wage, one which an employee is able to reap benefits from his hard work; however, that wage must be one that employers can factor into their business plans with some certainty of constancy.

For these reasons, we request you introduce legislation to remove the above provision from the statute.

If you have any questions, please do not hesitate to contact me either at the Chamber Office number or at my business number, 235-2411.

Sincerely,

Kathy Poms  
President

KT/jac

**Subject: Minimum Wage Going up?!?!?**

**Date: Sat, 29 Mar 2003 00:49:45 -0900**

**From: "Valley Center" <valleycenter@mosquitonet.com>**

**To: <Representative\_Norman\_Rokeberg@legis.state.ak.us>**

Greetings,

At this time I would like to say a few things about the minimum wage increase you folks had in mind while you are up there on the government plateau.

I for one cannot in good faith tell you that I will be able to stay in business much longer as a convenience store. Should you raise the wage base again. With more than 7 employees at one time--before the increase, now I am down to three as it is. That includes myself.

I sell gas-(pay @30% State and Federal) now this year. and I sell liquor- (Taxed AGAIN this year-raised by 30%) and groceries-(cost of living increase) this year. I can tell you There isnt enough here to work for the Government ---I have to at some point show a profit even if its a little I am behind the eight ball enough without a wage icrease....my advise is why dont the folks who make over 7.15 an hour take a pay cut in the goverment jobs and then we can get down where most folks really are. I know that most polititians make a good amount of \$\$ just on perdiem. Reach into your pocket. Not mine this time.

SO far this industry I am in has been hit 4 times this year hard.....Once with the gas increase/TAX increase. as of late ....Liquor Tax ....Wage Increase...TAX Increase. When will you burden my checkbook so that I will have to close it. Next month, Next year. I fear so.....Please give us a chance to do what we can with the increase that is in place without another increase again.

Thanks for listening.

Sue Strech  
Valley Center Store.  
7291 Chena Hot Springs Road  
Fairbanks Alaska  
99712  
907-488-9501

**Subject: Minimum Wage impact**

**Date:** Fri, 28 Mar 2003 14:39:27 -0900

**From:** "Bernadette Bradley" <berni@alaskabradleyhouse.com>

**To:** <Representative\_Norman\_Rokeberg@legis.state.ak.us>

Dear Representative Rokeberg:

The Bradley House is a restaurant in South Anchorage with approximately 62 seats. This past year we have been hit with a multiple number of increases that are beyond our control.

In September of 2002 our liability insurance for general & liquor increased from \$9,000 to 19,100!! Then in October the medical insurance rates skyrocketed from \$1,400 per month to \$2,100 per month. We were also tasked with the liquor excise tax increase and decided to raise the minimum wage early to avoid changing menus twice for price increases. I am sure you are aware of the recent utility rate increases the past years and to top it off property taxes are higher again.

In the last few years with competition many restaurants have allowed themselves to be sucked into price wars to get customers through the door. I have priced goods at the Bradley House according to standards within the industry according to what my costs are. Although customers have noted the higher prices with one even calling us "unethical" I have no choice if I expect to get my bills and payroll paid. Unfortunately despite the price increases sales have remained the same to last year yet our higher overhead still needs to be paid.

The war has impacted business greatly due to the public being mesmerized by the News and need for safety at home. I have seen Carlos the restaurant next door to us close down at 8pm because he had no customers.

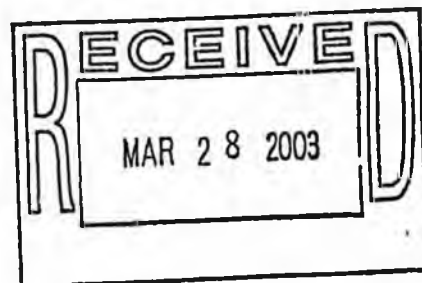
Anything you can do to help, especially by eliminating the CPI on the minimum wage I believe will give many restaurateurs some desperate relief.

Thanks for your consideration.

Sincerely,

Bernadette Bradley

Owner





ALASKA

01937

Date	3/28	# of pages	1	Fax Transmittal Memo	
To	Heather Norberg		From	Thyes	
Co./Dept.			Co./Dept.		
Phone #			Phone #		
Fax #	465-2040		Fax #		

March 6, 2003

Representative Norman Rokeberg  
 State Capitol Room 214  
 Juneau, Alaska 99801-1182

Dear Representative Rokeberg,

As you know, last year the legislature passed a bill to increase the minimum wage from \$5.65 to \$7.15. The legislation also indexed future increases to inflation. NFIB members were opposed to the increase as well as the automatic indexing.

We are now concerned about a third aspect to this issue that wasn't clearly apparent in discussions on minimum wage last year. The increase in the minimum wage not only impacts what employers pay to hourly workers but also increases the minimum amount paid to salaried workers.

The Alaska Wage and Hour Act exempts salaried employees that meet certain criteria. In order for an employee to be exempt from the wage and hour law they must be paid at least two and one-half times the Alaska minimum wage per hour during the first 40 hours of employment each week. Based on the current minimum wage, the minimum salary would be \$715 for the first 40 hours worked each week. That equates to \$37,180 per year.

It is our understanding that you are considering legislation to remedy some or all of these issues. We encourage you to do so and will support your efforts.

The NFIB/Alaska Leadership Council will be meeting March 14 in Juneau and the wage and hour issues will be on our agenda.

You have long been a supporter of small business. We look forward to working with you and greatly appreciate your advocacy for business.

Sincerely,

Thyes Shaub, NFIB Alaska Lobbyist

Headquarters:  
217 2nd Street, Suite 201  
Juneau, Alaska 99801  
(907) 586-2323 FAX 463-5515



April 4, 2003

Representative Norm Rokeberg  
Alaska State Capitol  
Juneau, Alaska

Re: Alaska Wage and Hour Act Revisions

Dear Representative Rokeberg:

The minimum wage bill that was passed into law last session contained provisions that the members of the Alaska State Chamber of Commerce believe to be detrimental to business. We request your support and assistance to amend the current law in the following manner:

1. We urge the elimination of the Consumer Price Index (CPI) provision that increases the minimum wage annually commensurate with cost of living increases. There are many factors that impact the cost of doing business that businesses cannot automatically pass on to the consumer or marketplace. The elected representatives of the people are able to evaluate the economic environment and assess the ability of the economy to sustain mandatory wage increases. Responsibility for adjusting the minimum wage should be returned to the legislature.

2. We urge elimination of the provision that mandates that the Alaska minimum wage be \$1.00 over the federal minimum wage. The cost of doing business is already greater in Alaska than elsewhere in the nation. A mandate of this sort results in employers having fewer employees or reducing the benefits they offer to employees.

3. We urge elimination of the 80/20 statute, which requires that exempt employees performing non-exempt work greater than 20% of the time be paid twice the minimum wage.

We also seek introduction of a training wage consistent with that that is federally allowable. This will result in employers having the ability to afford to hire untrained workers and provide them with on-the-job training. It will mean more jobs for inexperienced workers and development of a stronger workforce for the state.

Sincerely,

A handwritten signature in cursive script that reads "Pamela La Bolle". The signature is written in black ink and is positioned above the printed name and title.

Pamela La Bolle  
President



ALASKA

**National Federation of Independent Business**

**Statement of Support for HB 199**

**Removal of Automatic Inflation Adjustment for Minimum Wage**

**April 21, 2003**

The Alaska Chapter of the National Federation of Independent Business has 2,500 members, making it the largest small-business advocacy group in the state. The legislative agenda of NFIB is determined by ballot. The ballot is a poll of the membership on a series of issues.

Following are the ballot results in response to the following question: Should the minimum wage be indexed for inflation?

17% YES

76% NO

7% Undecided

NFIB members are in strong support of removing the automatic indexing of the minimum wage to inflation as provided in House Bill 199. Some members are struggling as it is with the recent increase in the minimum wage from \$5.65 to \$7.15. Alaska now has the highest minimum wage in the nation.

Future minimum wage increases should be determined by the legislature after careful review of the current economic conditions that exist in Alaska.

**Vote YES on House Bill 199**

Submitted by Thyes Shaub on behalf of NFIB/Alaska.



Brews Brothers, LLC  
 737 West 5<sup>th</sup> Ave., Suite 110  
 Anchorage, AK 99501  
 Phone (907) 792-3761 Fax (907) 792-3740

Date: April 22, 2003  
 To: Representative Norman Rokeburg  
 Subject: H-B 199 Removal of the annual adjustment to the minimum wage

As co-owner of the Brews Bros. L.L.C. (the Glacier BrewHouse, ORSO) I am a strong supporter of this legislation to remove the annual CPI adjustment to minimum wage.

- The Brews Bros. L.L.C. employs 235 full and part time Crewmembers.
- The Federal Government defines *income* as all earnings, to include reported tips and paid wages.
- 65% of our staff has an *income* that includes both tips and wages.
- Service staff (Servers and Bussers) typically earn an average hourly *income* that is 1 1/2 – 3 times the minimum wage on an hourly basis.
- The Federal Government recognizes tips as *income*, thus personal income taxes are paid on all reported tips and wages.
- The business is responsible to accurately report tips and to pay its portion of taxes on that *income*.
- In 2002 the Brews Bros.L.L.C. tipped Crewmembers worked an excess of 135,000 hours.
- The cost of the increase in the minimum wage (\$5.65 to \$7.15) is projected to cost the business \$188,245 in wage increases, including payroll taxes and overtime cost increases.
- These additional wages did not go to any crewmember who had an *income* that was equal to the minimum wage of \$5.65, but rather to crewmembers whose *income* was \$6.65-\$20.00 per hour due to tips they earned. Of these additional wages 70% went to servers whose average *income* was \$19.00.
- Our actual minimum hourly *income* for a tipped Crewmember as legislated in 2002 is now \$8.15 per hour (\$7.15+\$1.00, minimum wage plus minimum reported tips) NOT \$7.15.

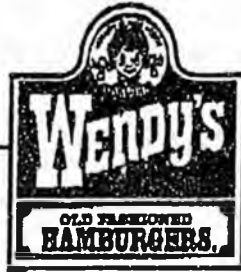
- The Brews Bros. L.L.C. agrees that a minimum *income* of \$7.15 per hour should be paid to all Alaskan Workers. As you can see we have always exceeded that standard.
- After September 11<sup>th</sup> the Alaskan economy along with the National economy was in decline. In 2002 visitor numbers were down, and for the first time since the 1980s industry wide sales throughout the state were also in decline. To further complicate these issues smoking bans were imposed, liquor taxes were raised, statewide tourism marketing dollars were reduced, minimum wage increased, local property and government taxes and fees increased, production caps were implemented on part of my business thus reducing potential sales. The real cost to my business in 2002 was in excess of \$250,000 in new costs to a company that already exceeded all wage and benefit standards. It seems to me that the reward for running a great business in Alaska, one that exceeds in wages, crew benefits, community support and Downtown developments is a quarter million dollar unfair increase in operating expenses.

In summary I support this legislation, however it is time for the state to get it's head out of the sand and recognize total *income* as the minimum *income* level required throughout the state. I am confident that total *income* is what the intension of the legislators was when crafting minimum wage legislation. I support this legislation until we can implement a fair and balanced tip credit that can be supported by the industry, the staff, and labor. Further increases to the minimum wage will only make an unfair situation worse.

Sincerely,



Chris Anderson  
Managing Member



April 23, 2003

SENT BY FAX TO: 907-465-2040

Rep. Tom Anderson  
Chair Labor & Commerce Committee  
State Capitol  
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the Owner/Operator of Wendy's in South-Central Alaska, I can attest first hand to the impacts that recent 27% minimum wage increase has had on my business. In order to accommodate this increase, I have had to lay off workers, increase menu prices and cut employee benefits. We are also looking at new technology to replace employees because the new wage has made this equipment a viable alternative. All these changes hurt the employer, the employee and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in my operation for which I must prepare with plans for further layoffs and cuts.

The CPI increase provision threatens to further erode my bottom line and the quality of service I provide in my business. Alaska is only one of three states that tie the CPI to its minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely

A handwritten signature in black ink, appearing to read "Jay W. Sutherland". The signature is fluid and cursive.

Jay W. Sutherland  
President North-Wend Foods

CC: Rep Crawford  
Rep Guttenberg  
Rep Dahlstrom  
Rep Gatto  
Rep Rokeberg  
Rep Lynn



BY CHOICE HOTELS

SENT BY FAX TO: 907-465-2040

April 23, 2003

Rep. Tom Anderson  
Chair Labor & Commerce Committee  
State Capitol  
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the General Manager of the Comfort Inn in Fairbanks, Alaska, I can attest first hand to the impacts that the recent 27% minimum wage increase has had on my business. In order to accommodate this increase, I have had to lay off workers, cut back on my deluxe continental breakfast and cut employee benefits. All these changes hurt the employer, the employee and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in my operation for which I must prepare with plans for further layoffs and cuts.

The CPI increase provision threatens to further erode my bottom line and the quality of service I provide in my business. Alaska is only one of three states that ties the CPI to it's minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely,

A handwritten signature in cursive script that reads "Donna Harrison".

CC: Rep Crawford  
Rep Guttenberg  
Rep Dahlstrom  
Rep Gatto  
Rep Rokeberg  
Rep Lynn

**Chena River**

1908 Chena Landings Loop  
Fairbanks, Alaska 99701  
Phone: 907.479.8080  
Fax: 907.479.8063



March 17, 2003

**An Open Letter to State of Alaska Legislators,**

It has been in the newspapers and every industry's publications, on radio and television, and people have been talking about it for some time. The cost of conducting business has been going up and up and up. In addition, many industries are suffering a decline in business or, at a minimum, it is not increasing fast enough to keep up with the increase in expenses. The economy in Anchorage and most of the State of Alaska is not doing well, similar to the rest of the US. This past January was the worst for some businesses in Anchorage in almost 20 years. The restaurant industry was hit very hard. The country is concerned about terrorism and the prospect of going to war. The stock market has declined to its lowest levels, eroding the net worth and equity of individuals and companies all across the United States, and Alaska is no exception. Tourism and travel has suffered dramatically and has affected almost all business in Alaska.

With all of this going on, the State of Alaska Legislature has seen fit to increase the minimum wage effective January 1<sup>st</sup> over 26% all at one time. Virtually all of these increases go to servers who are already making a substantial hourly income. In our company, servers typically earn tips in the amount of \$14 to \$22 per hour plus the minimum hourly wage of \$7.16. This brings their hourly income to between \$21 and \$29 per hour. Over 40 other states provide employers with a "Tip Credit" to allow them to offset some of these increases allowing employers to pay other positions more money. The State of Alaska does not see fit to provide for such a Tip Credit to help offset this dramatic increase. We now have the highest minimum wage in the United States not allowing us to provide those increases to other workers.

In October of last year, the State of Alaska Legislature also saw fit to raise the taxes on all alcoholic beverages in the amounts of 128% on spirits, 194% on beer, and 205% on wine, resulting in the highest taxes of its kind in the United States. The insurance on our buildings, our liability coverage, and worker's compensation has gone up over 29% in one year. Virtually every other expense in our business has also gone up as a result of these same circumstances.

We have been absorbing these types of increases for some time, but there is a limit at which it can't be done. We have reached this limit. As a result of the current situation, we have been forced to reduce the number of hours that our employees can work. In our schedules, we have eliminated over 14,000 man-hours per year at two of our restaurants. This amounts to the equivalent of 16 employee's jobs, each working a 35-hour workweek, being eliminated. In addition, with our business not increasing at our Midtown location, we can no longer afford to operate it. So, it has become necessary to close it. We certainly regret that most all of our Team Members will be terminated as a result of this action. This is another loss of 54 jobs. This is the toughest part of all, especially with all of the other layoffs in town.

The K-Marts are closing, Alaska Regional Hospital just announced the layoffs of about 60 people, and there have been numerous other jobs that have been lost as a result of these circumstances. We are sorry that these things are beyond our control. However, some of these things are within the control of the Legislature. We hope and trust that the Legislature considers these types of circumstances in the future when they create increases in the expenses of businesses that provide jobs to Alaskans. Done properly, these measures will allow the economic base to grow reasonably, not be hampered.

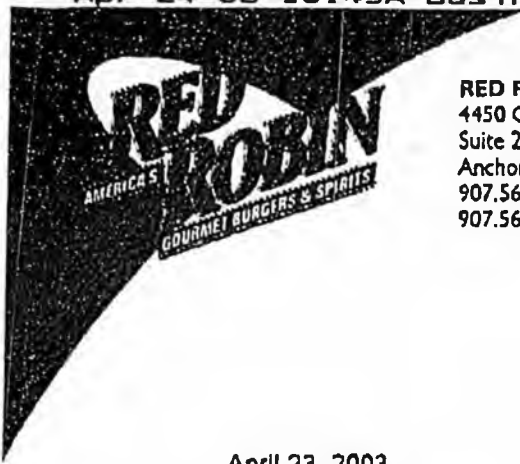
We strongly suggest that the Legislature consider a Tip Credit provision with guidelines similar to the federal standards during this legislative session so that our industry, which provides in excess of 17,000 jobs in the State of Alaska, can offset some of these expenses in a most difficult economic environment. The fate and jobs of many Alaskans rests in your judgment. These are tough times and they call for strong leadership.

Thank you for your time and consideration.

Red Robin Alaska, Inc.

*Fred Rosenberg*

Fred Rosenberg, President



RED ROBIN ALASKA, INC.  
4450 Cordova Street  
Suite 200  
Anchorage, AK 99503  
907.563.7777  
907.561.2525 FAX

April 23, 2003

SENT BY FAX TO: 907-465-2040

Rep. Tom Anderson  
Chair Labor & Commerce Committee  
State Capitol  
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the owner of the Red Robin restaurants in Anchorage, I can attest first hand to the impacts that the recent 27% minimum wage increase has had on my business. In order to accommodate this increase, I have had to lay off workers, have eliminated over 14,000 man-hours per year [equivalent to 16 employees working a 35 hour workweek], increased menu prices and cut employee benefits. I also had to close one of my restaurants. This closure resulted in the loss of over 50 jobs

All these changes hurt our business, the employees and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in my operation for which I must prepare with plans for further layoffs and cuts.

The CPI increase provision threatens to further erode my bottom line and the quality of service I provide in my business. Alaska is only one of three states that ties the CPI to its minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely,

Fred Rosenberg  
President

CC: Rep Crawford  
Rep Dahlstrom  
Rep Gallo  
Rep Guttenberg  
Rep Lynn  
Rep Rokeberg

**NORTHWAY RED ROBIN**  
3401 Penland Parkway  
Anchorage, AK 99508  
907.276.7788  
907.276.4057 FAX

**DIMOND RED ROBIN**  
401 East Dimond Boulevard  
Anchorage, AK 99515  
907.522.4321  
907.522.4324 FAX

**MIDTOWN RED ROBIN**  
4140 B Street  
Anchorage, AK 99503  
907.567.1545  
907.563.1616 FAX

SENT BY FAX TO: 907-465-2040

April 23, 2003

Rep. Tom Anderson  
Chair Labor & Commerce Committee  
State Capitol  
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the food and beverage director at Alyeska Resort I can attest first hand to the impacts that recent 27% minimum wage increase has had on my business. In order to accommodate this increase, I have had to increase menu prices and increase other wages. All these changes hurt the employer, the employee and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in my operation.

The CPI increase provision threatens to further erode my bottom line and the quality of service I provide in my business. Alaska is only one of three states that ties the CPI to it's minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely, Luke J Peroni  
Director of Food & Beverage  
Alyeska Resort  
Gridwood, Alaska.

CC: Rep Crawford  
Rep Guttenberg  
Rep Dahlstrom  
Rep Gatto  
Rep Rokeberg  
Rep Lynn



McKinley Chalez Resort • McKinley Village Resort • Denali National Park Hotel • Wildlife Tours • Cabin Nise Dinner Theater • Rafting • Lynx Creek Pizza

SENT BY FAX TO: 907-465-2040

April 23, 2003

Rep. Tom Anderson  
Chair Labor & Commerce Committee  
State Capitol  
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the Vice President/Operations of Denali Park Resorts in Denali Park, AK, I can attest first hand to the impacts that recent 27% minimum wage increase has had on my business. In order to accommodate this increase, I will have to re-evaluate my scheduling practices, increase menu prices and cut employee benefits. All these changes hurt the employer, the employee and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in my operation for which I must prepare with plans for further layoffs and cuts.

The CPI increase provision threatens to further erode my bottom line and the quality of service I provide in my business. Alaska is only one of three states that ties the CPI to its minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely,

Jack G. Reiss  
Vice President/Operations

CC: Rep Crawford  
Rep Guttenberg  
Rep Dahlstrom  
Rep Gatto  
Rep Rokeberg  
Rep Lynn

# Land's End Resort®

SENT BY FAX TO: 907-465-2040

April 24, 2003

Rep. Tom Anderson  
Chair Labor & Commerce Committee  
State Capitol  
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

How would the Legislature feel if 40% of the State's budget increased automatically every year according to the CPI index? This is precisely what the Legislature has done to restaurants in Alaska.

Establishing minimum wage has always been a prerogative of the Legislature, for good reason, and it should remain so. Simply allowing a major cost component of many businesses to rise automatically is inflationary, contributes to the loss of jobs and economic growth, and is not warranted from the standpoint of helping those at the poverty level.

As the owner and operator of Land's End Resort in Homer, I can attest to the impacts that recent 27% minimum wage increase has had on my business. In order to accommodate this increase, I have had to lay off workers or reduce their hours. Why, you ask? Because every restaurant runs on thin margins, and labor is budgeted as a fixed percentage of revenue. Therefore, as wages increase, the hours and benefits of employees must be cut back in order to meet fixed weekly payroll budgets. Anyone familiar with restaurants knows they are subject to extreme competition, and the profit margins are not there to "absorb" increases such as this from profit.

Approximately 25 – 50% of restaurant revenue is spent directly on labor, for us it depends on the time of year. For such a major cost component to rise with inflation is, by its very definition, inflationary. It will cause prices to increase and demand for our services to go down. More restaurants will fail.

Does annual CPI increases in the minimum wage help poor people struggling to feed their families? Perhaps it helps a few, but it hurts many more than it helps. Why? Restaurants must keep payroll costs at specific levels; for every dollar in hourly rate increases we must cut a dollar from hours or employee benefits.

April 24, 2003  
Rep. Tom Anderson  
Page 2

Of far greater negative impact to those at minimum wage is the fact that most server's real source of income is not wages—its is tips—and restaurant owners are tired of seeing unreported tip income and parsimonious tip-out practices by servers—both of which hurt the business. When restaurants are squeezed by inflation-adjusted wage increases, designed to help those earning, on average, three times the minimum wage, we pay more attention to accurate reporting of tip income and appropriate levels of server "tip-outs" for key personnel within the restaurant. This focused attention will hurt minimum wages earners far more than any gains from CPI increases in minimum wage.

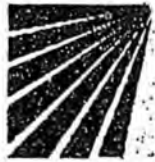
In conclusion, HB 199 will increase jobs among those who need them; it will reduce inflationary pressure, and will benefit, not hurt, minimum wage earners. I urge you to pass HB199 out of committee.

Sincerely,



Jon Faulkner, Owner  
Land's End Resort

CC: Rep Crawford  
Rep Guttenberg  
Rep Dahlstrom  
Rep Gatto  
Rep Rokeberg  
Rep Lynn



**ALM** Alaska Lodging Management, Inc.

P.O. Box 72478

Fairbanks, Alaska 99707-2478

250 Cushman St., Suite 4C

Phone 907-474-8555

Fax 907-474-8557

Email: fwr@alaskalm.com

April 23, 2003

SENT BY FAX TO: 907-465-2040

Rep. Tom Anderson  
Chair Labor & Commerce Committee  
State Capitol  
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the owner of Alaska Lodging Management., Inc. in Fairbanks, I can attest first hand to the impacts that the recent 27% minimum wage increase has had on my business and the seasonal hotel properties that I manage. We are struggling to survive in an environment where occupancies have plummeted over 20% during the last two years; insurance has skyrocketed 40%; and wage expense is at the highest level that I have experienced over the seven years the properties I manage have been in operation. All these cost have increased but our operating season has not expanded—just over 120 days to bring a profit to the bottom line, though many of the expenses continue throughout the year. We are cutting everywhere—consolidating positions, raising menu prices, etc. but it is not enough to compensate for the increased expense in the current economic downturn. The CPI increase provision threatens to further erode my bottom line and the quality of service I provide to my patrons. Alaska is only one of three states that ties the CPI to its minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely,

Frank W. Rose  
President, Alaska Lodging Mgt., Inc.  
General Manager  
Grande Denali Lodge  
Denali Bluffs Hotel

CC: Rep Crawford  
Rep Guttenberg  
Rep Dahlstrom  
Rep Gatto  
Rep Rokeberg  
Rep Lynn



ALYESKA PRINCE HOTEL  
ALYESKA RESORT, ALASKA

SENT BY FAX TO: 907-465-2040

April 25, 2003

Rep. Tom Anderson  
Chair Labor & Commerce Committee  
State Capitol  
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the Director of HR/Risk Mgmt for Alyeska Resort in Girdwood, I can attest first hand to the impacts that the recent 27% minimum wage increase has had on my business. In order to accommodate this increase, we have had to reduce hiring, leave positions unfilled, increase menu prices and cut employee benefits. All these changes hurt the employer, the employee and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in our operation for which I must prepare with plans for further controls and reductions.

The CPI increase provision threatens to further erode our bottom line and the 4-diamond quality of service we provide at the Resort. Alaska is only one of three states that tie the CPI to its minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely,

Richard Dowd  
Director of HR/Risk Mgmt

CC: Rep Crawford  
Rep Guttenberg  
Rep Dahlstrom  
Rep Gatto  
Rep Rokeberg  
Rep Lynn

Sent by Fax To: 907-465-2040

Friday, April 25, 2003

Rep. Tom Anderson  
Chair Labor & Commerce Committee  
State Capitol  
Juneau, AK 99801



Dear Tom,

I am writing in support of HB199, which eliminates the CPI increase provision currently in minimum wage statute.

As the operator of the Millennium Alaskan Hotel in Anchorage I can attest first hand to the impacts that recent 27% minimum wage increase has had on my business. In order to accommodate this increase, I have had to lay off workers, both salaried and hourly, increase menu prices, cut employee benefits and defray capital improvement projects. All of these changes have hurt the employer, the employee and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in my operation for which I must prepare with plans for further layoff and cuts. (SARS-Iraq War)

The net effect on my operating expenses to accommodate the minimum wage increase was in excess of \$180,000 annually. The CPI increase provision threatens to further erode my bottom line and the quality of service I provide in my business. Alaska is only one of three states that ties the CPI to its minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely,

A handwritten signature in cursive script that reads "Max J. Lowe".

Max J. Lowe, CHA  
General Manager

cc: Rep Crawford  
Rep Guttenberg  
Rep Dahlstrom  
Rep Gatto  
Rep Rokeberg  
Rep Lynn

4800 Spenard Road  
Anchorage, Alaska 99517-3236 USA  
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SUBWAY OF ALASKA, INC.  
4228 LAUREL ST.  
ANCHORAGE, AK 99508  
(907) 563-4228  
FAX (907) 563-4288

SENT BY FAX TO: 907-465-2040

April 23, 2003

Rep. Tom Anderson  
Chair Labor & Commerce Committee  
State Capitol  
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the Vice President of Subway of Alaska in Anchorage, in which we locally own and operate 15 locations, I can attest first hand to the impact that the recent 27% minimum wage increase has had on our business. In order to accommodate this increase, I have had to increase menu prices and cut employee benefits. All these changes hurt the employer, the employee and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in our operation, which I must prepare with plans for further cuts. This also compromises future expansion plans we have planned over the next three years.

The CPI increase provision threatens to further erode my bottom line and the quality of service I provide in my business. Alaska is only one of three states that ties the CPI to its minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely,

A handwritten signature in cursive script that reads "Chris Wilson".

CC: Rep Crawford  
Rep Guttenberg  
Rep Dahlstrom  
Rep Gatto  
Rep Rokeberg  
Rep Lynn



ALASKA

**National Federation of Independent Business**

**Statement of Support for HB 199**

**Removal of Automatic Inflation Adjustment for Minimum Wage**

**April 21, 2003**

The Alaska Chapter of the National Federation of Independent Business has 2,500 members, making it the largest small-business advocacy group in the state. The legislative agenda of NFIB is determined by ballot. The ballot is a poll of the membership on a series of issues.

Following are the ballot results in response to the following question: Should the minimum wage be indexed for inflation?

17% YES                      76% NO                      7% Undecided

NFIB members are in strong support of removing the automatic indexing of the minimum wage to inflation as provided in House Bill 199. Some members are struggling as it is with the recent increase in the minimum wage from \$5.65 to \$7.15. Alaska now has the highest minimum wage in the nation.

Future minimum wage increases should be determined by the legislature after careful review of the current economic conditions that exist in Alaska.

**Vote YES on House Bill 199**

Submitted by Thyes Shaub on behalf of NFIB/Alaska.

**HB**

**203**

# FISCAL NOTE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
Bill Version: HB 203  
( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: DCED  
Title AIDEA Dividends to State BRU AIDEA (125)  
Component AIDEA  
Sponsor House Finance Committee  
Requester House L&C Committee Component No. 1234

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES (1004)</b>	<b>**</b>					
----------------------------------	-----------	--	--	--	--	--

**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)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

Accounting standards require AIDEA to treat impairment losses on development projects financed under AS 44.88.172 as expense items. Under the current dividend statute, impairment losses recognized on AIDEA projects in FY2002 preclude AIDEA from declaring a dividend for FY2004.

HB 203 excludes impairment losses from the AIDEA dividend calculation.

\*\* If effective, this bill will require the AIDEA Board of Directors to declare a dividend available for appropriation for FY2004. The potential dividend would range between \$9 million and \$18 million.

Prepared by: Sara Fisher-Goad, Financial Analyst Phone 907-269-4623  
Division Alaska Industrial Development and Export Authority Date/Time 4/2/03 9:58 AM  
Approved by: Edgar Blatchford, Commissioner Date 4/2/2003  
Agency Department of Community & Economic Development

Alaska State Legislature  
House Finance Committee

REPRESENTATIVE  
BILL WILLIAMS

Co-Chair

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## House Bill 203 Sectional Analysis

“An Act relating to the definitions of ‘net income’ and ‘unrestricted net income’ for purposes of calculating the dividends to be paid to the state by the Alaska Industrial Development and Export Authority; and providing for an effective date.”

- Section 1.** Adds impairment losses on financed development projects to the components of accounting net income that are excluded in determining statutory “net income” for the purpose of calculating dividends.
- Section 2.** Adds impairment losses on financed development projects to the components of accounting unrestricted net income that are excluded in determining statutory “unrestricted net income” for the purpose of calculating dividends.
- Section 3.** Makes the changes in sections 1 and 2 applicable to the calculation of dividends for fiscal year 2004.
- Section 4.** Provides for an immediate effective date.

## **Sec. 44.88.172. Economic development account.**

(a) The economic development account is established in the revolving fund. The economic development account consists of money or assets appropriated, loaned, or transferred to the authority for deposit in the account and other money or assets deposited in the account by the authority. While money is on deposit in the economic development account, the money may be used only to finance, acquire, manage, and operate development projects that the authority intends to own and operate. The term "operate" includes operation directly by the authority or by an agent of the authority.

(b) [Repealed, Sec. 23 ch 123 SLA 1990].

(c) [Repealed, Sec. 23 ch 123 SLA 1990].

# AIDEA Dividend Statute

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Alaska Statutes.

Title 44. State Government

Chapter 88. Alaska Industrial Development and Export Authority

Section 88. Payment of Dividend to State.

previous: Section 85. Administrative Procedure.

next: Section 90. Bonds of the Authority.

## **AS 44.88.088. Payment of Dividend to State.**

(a) The authority shall adopt a policy for payment of a dividend to the state each fiscal year. The amount of the dividend for a fiscal year may not be less than 25 percent nor more than 50 percent of the net income of the authority for the base fiscal year. In no event, however, shall the dividend for a fiscal year exceed the total unrestricted net income of the authority for the base fiscal year. The dividend for a fiscal year shall be made available by the authority before the end of that fiscal year. The authority shall notify the commissioner of revenue when the dividend for a fiscal year is available for appropriation.

(b) In this section,

(1) "base fiscal year" means the fiscal year ending two years before the end of the fiscal year in which the payment is made;

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

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

---

Alaska Industrial Development and Export Authority



April 1, 2003

VIA FACSIMILE

The Honorable John Harris  
The Honorable Bill Williams  
Co-Chairmen  
House Finance Committee  
Alaska State Legislature  
Juneau, Alaska

Subject: House Bill 203

Dear Representative Harris and Representative Williams:

I am addressing this letter to you on behalf of the Alaska Industrial Development and Export Authority (AIDEA) Board of Directors. At our meeting on March 24, 2003, the Board voted unanimously to oppose the changes to AIDEA's dividend statute proposed in House Bill 203.

When the dividend statute was enacted there was a great deal of discussion on whether such a program was needed and on the details of implementation. The legislation that was passed struck a balance between providing a return to the State for its investment in AIDEA and recognizing that general fund needs could outstrip AIDEA's capacity to meet its operating requirements. The dividend program was a success until this past year when AIDEA's operating loss did not allow a dividend. This loss came from write-downs of \$91.3 million related to AIDEA's investments in the Healy Clean Coal Project and Alaska Seafood International.

While the current statute does not allow a dividend, the State General Fund still has compelling needs. Our choice is live by the rules without a dividend this year, or change the rules and pay a dividend. This is a straight-forward choice. What is not so straight-forward are the potential consequences of changing the rules. By amending the rules to address ad-hoc situations, we may be sending wrong messages to everyone involved.

The strongest of these messages may be that there are no consequences to making poor judgments regarding investments of AIDEA's funds. I can assure you that it is the primary goal of the new Board that AIDEA never again be in the position of not paying a dividend.

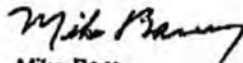
Another of these wrong messages is the implication that the rules will be changed whenever general funds are needed. There is considerable uncertainty regarding the State's fiscal future. AIDEA can, and should be, a meaningful contributor to Alaska's well-being. To the extent that uncertainty is added to its mix, it becomes more difficult for AIDEA to accomplish its goals.

The Honorable John Harris  
The Honorable Bill Williams  
April 1, 2003  
Page 2

The AIDEA Board shares with you the goal of moving Alaska forward. We are aware that you in the Legislature have a difficult time balancing the needs of the State with available funds, but we cannot support HB 202.

The Board is committed to making the necessary decisions to allow AIDEA to continue to foster employment and economic opportunity and to resume paying a dividend to the general fund. We look forward to working with you in this regard.

Sincerely,



Mike Barry  
Chairman

110303 Legislation and Budget FY04 AIDEA Letter to HB202.000

cc: House Finance Committee Members  
AIDEA Board of Directors  
Ron Miller, Executive Director



# Alaska State Legislature

## House Finance Committee

REPRESENTATIVE  
**BILL WILLIAMS**

Co-Chair

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Juneau, AK 99801-1182

### **Sponsor Statement for House Bill 203 – AIDEA Dividends to State**

AS 44.88.088 requires the Alaska Industrial Development and Export Authority (AIDEA) to adopt a policy for payment of a dividend to the State each fiscal year and defines the amount to be between 25 percent and 50 percent of the net income of the authority. The dividend shall not exceed the unrestricted net income of the authority.

The 22<sup>nd</sup> Alaska Legislature modified the definitions of "net income" and "unrestricted net income" to accommodate technical changes that had been made by the accounting profession to the reporting standards AIDEA is required to follow. The legislature defined income to exclude intergovernmental transfers, capital contributions and grants. These are items included by accounting standard, but which are not actually part the authority's operating income. The legislature desired to consider only recurring cash flow in the dividend calculation.

House Bill 203 further clarifies the definition of income to exclude expenses recorded as a result of recognizing impairment losses on development projects owned and operated by the authority. Impairment losses do not require current or future cash expenditure. Impairment losses recognize a write-down of the carrying value of physical assets paid for in the past.

Under current statute there will be no AIDEA income available for a dividend in fiscal 2004 as a result of impairment losses recognized on the Healy Clean Coal Project and Alaska Seafood International. Still, AIDEA has \$789 million in unrestricted net assets and \$356 million of unrestricted cash and investments from which a dividend could be paid. The dividend formula proposed in House Bill 203 would make \$9 to \$18 million of this money available for a dividend to the State in Fiscal 2004.

House Bill 203 results in a comprehensive dividend formula that provides a more consistent, stable and predictable business environment for AIDEA, the financial community and the State of Alaska. The amended AIDEA dividend policy is sound financial practice and good fiscal policy.

# Management's Discussion and Analysis

This discussion and analysis is intended to serve as an introduction to the June 30, 2002 financial statements of the Alaska Industrial Development and Export Authority (AIDEA) Revolving Fund (Authority). All amounts, unless otherwise indicated, are expressed in thousands of dollars.

The Authority's June 30, 2002 financial statements are presented in a different format than historically, due to the implementation of Governmental Accounting Standards Board (GASB) 34 during the year. The June 30, 2001 financial statements are not presented in the accompanying financial statements. The condensed June 30, 2001 financial information presented in this discussion and analysis has been restated to conform to the revised format.

The financial statements include only the activities of the Authority, AIDEA's Revolving Fund, through which AIDEA conducts the majority of its business. Information on AIDEA's two other statutory loan programs, which are administered by the Department of Community and Economic Development, is included in Note 1 to the Financial Statements. AIDEA's Revolving Fund Financial Statements are comprised of four separate components:

- 1) Balance Sheet
- 2) Statement of Revenues, Expenses and Changes in Fund Net Assets
- 3) Statement of Cash Flows
- 4) Notes to Financial Statements

## Financial Highlights

The Authority's Revolving Fund assets exceeded its liabilities at June 30, 2002 by \$792,665. Of the total net assets, \$789,354 was unrestricted and therefore available to meet the Authority's financial obligations.

## Financial Analysis

Total assets, total liabilities and total net assets at June 30, 2002 and 2001 follow:

	June 30, 2002	June 30, 2001	Decrease
Current Assets	\$ 121,973	\$ 222,450	\$ (100,477)
Non-current Assets	1,020,250	1,022,849	(2,599)
Total Assets	1,142,223	1,245,299	(103,076)
Current Liabilities	14,888	16,855	(1,967)
Non-current Liabilities and those Payable from Restricted Assets	334,670	363,273	(28,603)
Total Liabilities	349,558	380,128	(30,570)
Total Net Assets	792,665	865,171	(72,506)
Total Liabilities and Net Assets	1,142,223	1,245,299	(103,076)

The decline in current assets results from a decrease in cash, cash equivalents and investment securities maturing in one year or less. The Authority funded the \$77,100 Four Dam Pool Power Agency Loan on January 31, 2002. At June 30, 2001, funds had been invested to meet this cash requirement, causing short-term investments to be at higher balances than normal. At June 30, 2002, no commitment requiring a large expenditure of funds during the next year existed.

The majority of the decline in total assets resulted from the \$25,600 and \$65,746 impairment losses recognized on the Alaska Seafood International and Healy Clean Coal development projects, respectively, as further described in Notes 7 and 11 to the

Financial Statements. Substantially all of the remaining decrease in total assets resulted from return of principal on development projects accounted for as direct financing leases, loss recognition on an investment and depreciation on development projects. Funding the Four Dam Pool Power Agency Loan resulted in a corresponding decline in cash and investments and produced no net change in total assets on a year to year basis.

Loan balances remained virtually unchanged at June 30, 2002 compared to June 30, 2001 but loan activity during the year was not static. As borrowers took advantage of the lower interest rate environment, the Authority funded approximately \$40 million of loans during the year ended June 30, 2002 compared to only \$10 million of loans funded during the previous year. Borrowers made nearly \$39 million in principal payments on loans during the year, with loan payoffs accounting for in excess of \$23 million of the amount collected.

The decline in total liabilities was substantially caused by the reduction in bonds payable during the year resulting from scheduled maturities (\$11,115) and the early call of bonds (\$16,305, excluding bonds refunded). As further discussed in the Financial Statements, the Authority issued \$20,475 of refunding bonds in June 2002, retiring \$20,540 of higher interest rate bonds.

The \$72,506 decrease in net assets results from the operating loss (\$55,006) and the dividend (\$17,500). The \$25,600 and \$65,746 write-downs of the Alaska Seafood International and Healy Clean Coal development projects, respectively, comprised the single largest operating expense during the year ended June 30, 2002. The \$17,500 dividend was the second largest reduction of net assets incurred during the year.

Components of the Authority's operating revenues, operating expenses and non-operating revenues and expenses for the year ended June 30, 2002 compared to the same period ended June 30, 2001 follows. Certain reclassifications have been made to the June 30, 2001 financial information in order to conform to the 2002 presentation.

	June 30, 2002	June 30, 2001	Increase (Decrease)
<b>Operating Revenues:</b>			
Interest on loans	\$ 17,132	\$ 19,151	\$ (2,019)
Interest on Four Dam Pool Power Agency loan	2,065	—	2,065
Interest on direct financing leases	17,890	17,903	(13)
Investment interest	19,927	24,887	(4,960)
Net increase in fair value of investments	7,397	13,022	(5,625)
Other income	4,033	4,693	(660)
Restricted income	4,832	4,880	(48)
<b>Total Operating Revenues</b>	<b>73,276</b>	<b>84,536</b>	<b>(11,260)</b>
<b>Operating Expenses:</b>			
Interest	16,058	16,738	(680)
General and administrative	7,055	7,962	(907)
Depreciation	3,900	1,053	2,847
Write-down of development projects	91,346	10,419	80,927
Write-downs and net expenses associated with other assets	3,074	2,462	612
Other expenses	2,017	1,382	635
Interest on liabilities payable from restricted assets	4,832	4,880	(48)
<b>Total Operating Expenses</b>	<b>128,282</b>	<b>44,896</b>	<b>83,386</b>
<b>Operating Income (Loss)</b>	<b>(55,006)</b>	<b>39,640</b>	<b>(94,646)</b>
Non-operating Revenue	—	850	(850)
Dividend to State of Alaska	(17,500)	(18,500)	1,000
<b>Change in Net Assets</b>	<b>(72,506)</b>	<b>21,990</b>	<b>(94,496)</b>

# Management's Discussion and Analysis

Operating income declined \$11,260 during the year ended June 30, 2002 compared to 2001. A decrease in investment interest accounted for \$4,960 of the change. The net increase in fair value of investment securities provided \$5,625 less operating income in 2002 than 2001. The decreases in these income categories result from the changing interest rate environment that occurred during the year as well as a change in the maturity mix and decrease in investment securities held by the Authority during the year. The \$77,100 funding of the Four Dam Pool Power Agency Loan required the Authority to hold short term investments prior to the funding, which generally provide less return than longer term investments. As stated earlier, investment securities balances declined during the year (the Authority held approximately \$76,000 less at June 30, 2002 compared to June 30, 2001), providing a smaller base on which to earn.

The \$2,019 decline in interest on loans results from the general decline in interest rates over the past several years. The \$2,065 received from interest on the Four Dam Pool Power Agency Loan represents the earnings on the loan since it was funded on January 31, 2002.

As discussed previously and as more fully described in the Financial Statements, the Authority recorded \$25,600 and \$65,746 of impairment losses on its investments in the Alaska Seafood International (ASI) and Healy Clean Coal (HCCP) development projects, respectively. As the Authority continues to support the ASI project and is hopeful that the facility can become profitable, operations at the facility became virtually dormant subsequent to June 30, 2002. Authority management therefore recognized the need to value the ASI facility at its estimated fair value in the event the value added seafood plant ceases operations. The Authority continues to explore options to operate the HCCP under existing systems. However, Authority management recognized the need to value the HCCP at its estimated fair value. During the year ended June 30, 2001, the Authority recorded a \$10,419 impairment loss on its investment in the Skagway Ore Terminal. Therefore, the 2002 impairment losses exceeded the one recorded in 2001 by \$80,927.

The Authority distributed a dividend of \$17,500 to the State of Alaska (State) during the year ended June 30, 2002, which is accounted for as a transfer. The dividend was the second largest reduction in net assets incurred during the year. In 2001, the Authority transferred a \$18,500 dividend to the State. AIDEA makes available to the State an annual dividend, which by statute is to be determined by AIDEA's Board of Directors. The dividend must be at a level between 25% and 50% of audited "net income" (as defined in the statute) for the "base year." The "base year" is the fiscal year ending two years before the end of the fiscal year in which the dividend payment is made. In no case may the dividend exceed base year unrestricted audited "net income". The actual transfer of the dividend requires a legislative appropriation that may be line item vetoed by the Governor.

# Balance Sheet

June 30, 2002

(Stated in thousands)

## ASSETS

### Current assets:

Cash and cash equivalents (notes 3 and 4)	\$ 14,415
Investment securities (note 4)	82,573
Loans (note 5)	10,225
Four Dam Pool Power Agency Loan (note 8)	1,401
Development projects accounted for as:	
Net investment in direct financing leases (note 7)	2,948
Notes receivable (note 7)	420
Accrued interest receivable	6,923
Other assets	3,068
<b>Total current assets</b>	<b>121,973</b>

### Non-current assets:

Investment securities (note 4)	259,601
Loans (note 5)	205,265
Less allowance for loan losses (note 6)	(12,030)
<b>Net loans</b>	<b>193,235</b>
Four Dam Pool Power Agency Loan (note 8)	75,045
Development projects accounted for as:	
Net investment in direct financing leases (note 7)	301,066
Development projects (note 7)	61,029
Notes receivable (note 7)	5,335
Other assets	11,105
Restricted assets:	
Cash and cash equivalents (notes 3 and 4)	2,234
Investment securities (note 4)	12,721
Snettisham (note 7):	
Cash and cash equivalents (notes 3 and 4)	9,486
Net investment in direct financing leases (note 7)	89,393
<b>Total non-current assets</b>	<b>1,020,250</b>
<b>Total assets</b>	<b>\$ 1,142,223</b>

## LIABILITIES AND NET ASSETS

### Current liabilities:

Bonds payable - current portion (note 9)	\$ 10,415
Accrued interest payable	3,183
Accounts payable	1,290
<b>Total current liabilities</b>	<b>14,888</b>

### Non-current liabilities:

Bonds payable - non-current portion (note 9)	233,165
Other liabilities	2,626
<b>Total non-current liabilities</b>	<b>235,791</b>
Liabilities payable from restricted assets - Snettisham:	
Power revenue bonds payable (note 9)	90,075
Other	8,804
<b>Total liabilities</b>	<b>349,558</b>

### Net assets (note 2):

Restricted for debt service	3,311
Unrestricted	789,354
<b>Total net assets</b>	<b>792,665</b>

### Commitments and contingencies (notes 1, 5, 10 and 11)

<b>Total liabilities and net assets</b>	<b>\$ 1,142,223</b>
---	---------------------

See accompanying notes to basic financial statements.

# Statement of Revenues, Expenses, and Changes in Fund Net Assets

Year ended June 30, 2002 (Stated in thousands)

<b>Operating revenues:</b>	
Interest on loans (note 5)	\$ 17,132
Interest on Four Dam Pool Power Agency Loan (note 8)	2,065
Interest on direct financing leases (note 7)	17,890
Interest on Snettisham restricted direct financing lease (note 7)	4,832
Investment interest	19,927
Net increase in fair value of investments	7,397
Other income	3,555
Other project income	478
<b>Total operating revenues</b>	<b>\$ 73,276</b>
<b>Operating expenses:</b>	
Interest	16,058
Interest on Snettisham liabilities payable from restricted assets (note 9)	4,832
General and administrative	7,055
Write-downs associated with development projects (notes 7 and 11)	91,346
Depreciation	3,900
Other project expenses	2,017
Write-downs and net expenses associated with other assets	3,074
<b>Total operating expenses</b>	<b>128,282</b>
<b>Operating loss</b>	<b>(55,006)</b>
Dividend to State of Alaska	(17,500)
<b>Decrease in net assets</b>	<b>(72,506)</b>
Net assets - beginning of period (note 2)	865,171
Net assets - ending of period	<b>\$ 792,665</b>

See accompanying notes to basic financial statements.

# Statement of Cash Flows

Year ended June 30, 2002

(Stated in thousands)

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Interest received on loans (net)	\$ 16,884
Interest received on Four Dam Pool Power Agency Loan	1,983
Receipts from borrowers	2,109
Principal collected on loans	38,680
Principal collected on Four Dam Pool Power Agency Loan	654
Other operating receipts	1,729
Loans originated	(39,766)
Loan to Four Dam Pool Power Agency	(77,100)
Payments to suppliers and employees for services	(8,283)
Other operating payments	(2,152)
	<hr/>
Net cash used by operating activities	(65,262)
 <b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Dividend paid to the State of Alaska	(17,500)
Interest paid on noncapital debt	(1,127)
Net operating loans to the Alaska Energy Authority	(929)
Principal paid on noncapital debt	(6,020)
	<hr/>
Net cash used by noncapital and related financing activities	(25,576)
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Direct financing lease receipts	20,649
Direct financing lease receipts - Snettisham	5,938
Investment in direct financing leases	(4)
Investment in development projects	(2,935)
Proceeds from capital debt	20,887
Proceeds from capital grants	1,903
Interest paid on capital debt	(15,059)
Principal paid on capital debt	(41,940)
Interest paid on capital debt - Snettisham	(4,857)
Principal paid on capital debt - Snettisham	(1,065)
	<hr/>
Net cash used by capital and related financing activities	(16,483)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Proceeds from sales and maturities of investment securities	508,693
Purchases of investment securities	(439,622)
Receipts from notes receivable	850
Interest collected on investments	20,919
Net proceeds from sales of other real estate owned	1,986
Proceeds from return on equity investment	250
	<hr/>
Net cash provided by investing activities	93,076
	<hr/>
Net decrease in cash and cash equivalents	(14,245)
	<hr/>
Cash and cash equivalents at beginning of year	40,380
	<hr/>
Cash and cash equivalents at end of year	\$ 26,135
	<hr/>

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**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Net operating loss	\$	(55,006)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Principal collected on loans		38,680
Principal collected on Four Dam Pool Power Agency Loan		654
Loans originated		(39,766)
Loan to Four Dam Pool Power Agency		(77,100)
Investment interest income		(19,927)
Amortization of unearned income on direct financing leases		(17,890)
Amortization of unearned income on direct financing lease – Snettisham		(4,832)
Interest income – notes receivable		(445)
Bond interest expense		15,424
Bond interest expense – Snettisham		4,832
Depreciation		3,900
Net appreciation of investment securities		(7,397)
Write-downs and net loss on sale of other assets		2,939
Write-down of development projects		91,346
Increase in accrued interest receivable – Four Dam Pool Power Agency Loan		(82)
Decrease in accrued interest receivable and other assets		346
Decrease in accounts payable and other liabilities		(938)
Net cash used by operating activities	\$	<u>(65,262)</u>

See accompanying notes to basic financial statements.

# Notes to Basic Financial Statements

## (1) ORGANIZATION AND OPERATIONS

The Alaska Industrial Development and Export Authority (AIDEA) is a component unit of the State of Alaska (State). AIDEA is the primary economic development financing agency of the State, financing economic development projects using existing assets, general obligation bonds or debt secured by project revenues. The Authority's mission is to promote, develop and advance the general prosperity of the people of Alaska, to relieve problems of unemployment and to create additional employment by providing various means of financing and facilitating the financing of industrial, manufacturing, export and business enterprises and other facilities within the State. AIDEA has various powers that support its economic development mission, including, but not limited to, the ability to adopt regulations, to acquire ownership interests in projects, to lease projects, to issue bonds and to acquire and manage projects. AIDEA conducts the majority of its business through the AIDEA Revolving Fund (Authority), established pursuant to legislation. The Authority has two main programs under which it transacts its business, as more fully described below under the headings "Enterprise Development Account" and "Economic Development Account". AIDEA has several smaller programs including a small business economic development loan program and a rural development initiative program that are not part of the Authority. The accompanying financial statements include only the activities of the Authority.

### (a) Enterprise Development Account

A summary of programs available under the Enterprise Development Account follows:

- The loan participation program, under which the Authority purchases participations in loans made by financial institutions to their customers. The Authority's participation is limited to the lesser of 80% or \$10,000,000 of the permanent financing for qualifying facilities. The Authority currently has tax-exempt bonds outstanding under this program, which are general obligations of the Authority.
- The business and export assistance program, under which the Authority provides up to an 80% guarantee of the principal balance and a guarantee of interest to the financial institution making a qualifying loan. The maximum guarantee amount of any loan is \$1,000,000.

### (b) Economic Development Account

Through the Economic Development Account, the Authority has the ability to own and operate facilities which will help to accomplish its mission. Current own-and-operate projects undertaken through the Economic Development Account are:

- DeLong Mountain Transportation System (Red Dog Project). This project consists of a road and port to serve regional needs and permit transportation of lead and zinc concentrates and other minerals from the Red Dog deposit, the largest zinc deposit in the world, located in the DeLong Mountains in northwestern Alaska. The Red Dog Project was financed with Authority funds and bond financings, including \$150,000,000 of general obligation bonds issued in May 1997, which refunded outstanding revenue bonds and provided construction funds.
- Skagway Ore Terminal (Skagway Terminal). This project is a public-use ore terminal port facility in Skagway, Alaska. The Skagway Terminal was financed by a \$25,000,000 bond issue completed in December 1990; all remaining outstanding bonds were called in April 2002. The purchase of a petroleum products tank farm and vehicle fueling facility was financed using Authority funds.
- Federal Express Project. This project consists of an aircraft hangar and maintenance facilities at the Anchorage International Airport. The Federal Express Project was partially financed by a \$28,000,000 bond issue completed in September 1992; the issue was refunded in June 2002.
- Healy Clean Coal Project (Healy Project). This project is a coal-fired power plant located near Healy, Alaska. The Authority received a \$25,000,000 state legislative appropriation and \$117,327,000 of funding from the U.S. Department of Energy, Clean Coal Technology III Demonstration Grant Program to assist in financing the Healy Project. In May 1998, \$85,000,000 of bonds were issued to refund \$85,000,000 of Variable Rate Revolving Fund Bonds originally issued in July 1996, the proceeds of which were used to finance a portion of the Healy Project.
- Seward Coal Load-Out Facility. In May 1995, the Authority purchased a 49% interest in a coal load-out facility in Seward, Alaska for approximately \$6,900,000. The purchase was subject to specific conditions and the execution of a demand note and repurchase agreement, and corporate guarantees by project participants. In September 2002, final coal shipments through the facility occurred; no new contract has been negotiated by the operator.
- Ketchikan Shipyard (Shipyard). Ownership of the Shipyard, located in Ketchikan, Alaska, was transferred to the Authority in July 1997, under an agreement between the Authority and the State Department of Transportation and

Public Facilities. In connection with the transfer, the City of Ketchikan and the Ketchikan Gateway Borough agreed to provide relief from real property taxes and favorable electric rates for the facility. The Borough agreed to provide ongoing funds for maintenance and repairs for the Shipyard. The Authority also agreed to provide funds for maintenance and repairs in an amount equal to the amount contributed by the Borough. The Authority is currently in discussions to sell the Shipyard to the City of Ketchikan or the Ketchikan Gateway Borough for the Authority's net cash investment.

- Snettisham Hydroelectric Project (Snettisham). This project was acquired in August 1998 when the Authority issued \$100,000,000 of revenue bonds to purchase the project, located in southeast Alaska near Juneau, from the Alaska Power Administration, a federal agency, and to provide funds for the purchase and installation of a submarine cable system, which has been completed. The Authority has agreements with Alaska Electric Light and Power (AEL&P), the sole Juneau electric utility. These agreements provide for the sale of the project's entire electrical capability to AEL&P, require AEL&P to provide the project's operations and maintenance, and provide an option for the purchase of the project at any time after five years from the issue date.
- Alaska Seafood International (ASI). The Authority initially loaned money for the construction of the ASI facility, which performs secondary processing for various types of seafood. An equity interest was purchased in November 1998. The project was completed in September 1999 and the Authority purchased the facility and underlying and associated real estate for \$48 million. In addition, the Authority acquired additional equity interests under a December 2000 restructuring.

Proposed own-and-operate projects for which the Legislature has authorized the issuance of bonds are:

- The Authority has \$55,000,000 of remaining authorization (from an original \$85,000,000 authorization) to issue bonds to finance the acquisition, design and construction of aircraft maintenance/air cargo/air transport support facilities located at Ted Stevens Anchorage International Airport.
- The Authority has bonding authorization of \$50,000,000 for a bulk commodity loading and shipping terminal to be located within Cook Inlet to be owned by the Authority.
- The Authority has bonding authorization of \$50,000,000 for a facility to be constructed in Anchorage for the offloading, processing, storage and transloading of seafoods. The Authority purchased ASI in September 1999 and no issuance of bonds is anticipated.
- The Authority has bonding authorization of \$20,000,000 to finance the acquisition, design and construction of the Kodiak rocket launch complex and tracking station and the Fairbanks satellite ground station space park. The Authority does not currently anticipate that it will participate in financing the projects.
- The Authority has bonding authorization of \$80,000,000 to finance the expansion, improvement and modification of the existing Red Dog Project port facilities and to finance the construction of new related facilities to be owned by the Authority. The project is currently being reviewed by the U.S. Corps of Engineers for potential federal funding of a portion of the improvements.
- The Authority has bonding authorization of \$30,000,000 to finance the improvement and expansion of the Nome port facilities to be owned by the Authority. The Authority does not currently anticipate that it will participate in financing the project.
- The Authority has bonding authorization of \$28,000,000 to finance development of a railroad right-of-way within a railroad and utility corridor from near Healy to the eastern boundary of Denali National Park.
- The Authority has bonding authorization of \$15,000,000 to finance the construction and improvement of phase 1 of the proposed Hatcher Pass Ski Resort, located in the Matanuska-Susitna Borough.

Pursuant to legislation enacted in 1993, the members of the Board of Directors of the Authority also serve as the Board of Directors of the Alaska Energy Authority (AEA). The staff of the Authority serves as the staff of AEA. The Authority and AEA continue to exist as separate legal entities. Pursuant to legislation effective July 1, 1999, certain programs previously administered by the former Department of Community and Regional Affairs, Division of Energy, were transferred to AEA for administration. There is no commingling of funds, assets or liabilities between the Authority and AEA and there is no responsibility of one for the debts or the obligations of the other. Consequently, the accounts of AEA are not included in the accompanying financial statements.

# Notes to Basic Financial Statements

(c) Other

The Authority has a stand-alone revenue bond program under which the Authority acts as a conduit to facilitate a financing transaction for facilities owned by third parties. Stand-alone revenue bonds issued by the Authority are not general obligations of the Authority. They are payable only out of revenues derived from the financing of projects or the private businesses for which the projects are financed. The Authority is specifically authorized to issue revenue bonds to finance the construction of power transmission interties to be owned by electric utilities in a collective amount not to exceed \$185,000,000; as of June 30, 2002, no bonds under this authorization have been issued. As of June 30, 2002, the Authority had issued revenue bonds for 299 projects (not including bonds issued to refund other bonds). The principal amount payable for revenue bonds issued after July 1, 1995 was \$97,766,000. The aggregate amount outstanding for the remaining revenue bonds, which were issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$616,000,000 (not including bonds issued to refund other bonds).

(d) Small Business Economic Development and Rural Development Initiative Fund Loan Programs

AIDEA's Small Business Economic Development Loan Program provides financing to eligible applicants under the United States Economic Development Administration Long-Term Economic Deterioration program and the Sudden and Severe Economic Dislocation program. The Small Business Economic Development Revolving Loan Fund was created to receive loan fund grants from the United States Economic Development Administration.

AIDEA's Rural Development Initiative Fund Loan Program is designed to create job opportunities in rural Alaska by providing small Alaskan businesses with needed capital that may not be available in conventional markets. Businesses must be Alaskan owned and located in a community of 2,500 or less on the road system or off-road communities of 5,000 or less.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

On July 2001, the Authority adopted three new accounting statements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*;
- Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*; and
- Statement No. 38, *Certain Financial Statement Disclosures*

GASB Statement No. 34 (as amended by GASB Statement No. 37) resulted in modifications in the financial reporting model used by the Authority. Modifications include presentation of management's discussion and analysis (as required supplementary information), cash flow statement using the direct method and reclassification of net assets according to certain criteria. The adoption of GASB Statement No. 34 had no cumulative effect on net assets.

GASB Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of GASB Statement No. 34. While this Statement does not affect amounts reported in the financial statements of the Authority, certain note disclosures have been added and or amended.

(a) Basis of Accounting – Enterprise Fund Accounting

The accounts of the Authority are organized as an Enterprise Fund. Accordingly, the financial activities of the Authority are reported using the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when goods or services are received or the related liability is incurred.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides two options for reporting proprietary fund activities. The Authority has elected to apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

(b) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash, short term commercial paper and repurchase agreements, whether unrestricted or restricted as to their use.

(c) Investments

The Authority's marketable securities are reported at fair value in the financial statements. Unrealized gains and losses are reported as components of the change in fund net assets. Fair values are obtained from independent sources for marketable securities.

- (d) **Loans and Related Interest Income**  
Loans are primarily secured by first deeds of trust on real estate located in Alaska and are generally carried at amounts advanced less principal payments collected. Interest income is accrued as earned. Accrual of interest is discontinued whenever the payment of interest or principal is more than ninety days past due or when the loan terms are restructured. The Authority considers lending activities to be part of its principal ongoing operations and classifies it as operating in the statement of revenues, expenses and changes in fund net assets. Loans are considered program loans for the purposes of cash flow presentation.
- (e) **Net Investment in Direct Financing Leases**  
The Authority leases various projects pursuant to certain agreements (as more fully described in note 7) which are recorded in the accompanying financial statements as direct financing leases. Interest income related to direct financing leases is recognized using the effective interest method which produces a constant periodic rate of return on the outstanding investment in the lease. The Authority considers such activity to be part of its principal ongoing operations and classifies it as operating in the statement of revenues, expenses and changes in fund net assets.
- (f) **Development Projects**  
The Authority's development projects are carried at cost, adjusted for permanent impairments of value. The Authority recognizes impairment losses for long-lived assets whenever events or changes in circumstances result in the carrying amount of the assets exceeding the sum of the expected future cash flows associated with such assets. The Authority considers development project activity, including impairments, if any, to be part of its principal ongoing operations and classifies it as operating in the statement of revenues, expenses and changes in fund net assets.
- (g) **Notes Receivable**  
The Authority owns a partial interest in a facility that is accounted for as a note. Interest income is recognized when it is earned. Interest is calculated using a rate of 7.5%.
- (h) **Allowance for Loan Losses**  
The allowance for loan losses represents management's judgment as to the amount required to absorb potential losses in the loan portfolio. The factors used by management to determine the allowance required include historical loss experience, individual loan delinquencies, collateral values, economic conditions and other factors. Management's opinion is that the allowance is currently adequate to absorb known losses and inherent risks in the portfolio.
- (i) **Allowance for Lease Receivables**  
The allowance for lease receivables represents management's judgment as to the amount required to absorb potential unrealizable direct financing lease receivables. The factors used by management to determine the allowance required include individual lease delinquencies, property values, economic conditions and other factors. Management's opinion is that no allowance for lease receivables is required at June 30, 2002.
- (j) **Environmental Issues**  
The Authority's policy relating to environmental issues is to record a liability when the likelihood of Authority responsibility for clean-up is probable and the costs are reasonably estimable. At June 30, 2002, there were no environmental issues which met both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability which may result.
- (k) **Appropriations and Grants**  
The Authority recognizes grant revenue under the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, whereby, revenue is recognized when all applicable eligibility requirements, including time requirements are met.
- (l) **Income Taxes**  
The Internal Revenue Code provides that gross income for tax purposes does not include income accruing to a state or territory, or any political subdivision thereof, which is derived from the exercise of any essential governmental function or from any public utility. The Authority is a political subdivision of the State performing an essential governmental function and is therefore exempt from Federal and State income taxes.
- (m) **Depreciation**  
Depreciation is charged to operations by use of the straight-line method over the estimated useful lives of depreciable assets, ranging from 10 to 35 years.

# Notes to Basic Financial Statements

(n) **Transfers**

Transfers out to other State agencies are recorded when the liability has been incurred and the amount is reasonably estimable.

(o) **Segment Information**

For purposes of segment reporting, activity related to Snettisham is considered to be a separate segment. The financial statements disclose all information required by the Authority's Snettisham bond resolution.

(p) **Estimates**

In preparing the financial statements, management of the Authority is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ from those estimates.

(3) **ADDITIONAL INFORMATION REGARDING CASH AND CASH EQUIVALENTS**

At June 30, 2002 the Authority's carrying amount of deposits was \$26,135,000 (\$11,720,000 was restricted) and the bank balance was \$26,482,000. All of the bank balance was covered by federal depository insurance or by collateral held by the Authority's agent in the Authority's name.

(4) **INVESTMENT SECURITIES**

Major components of investment securities, the maturity distribution and carrying value at June 30, 2002 follows (stated in thousands):

U.S. Treasury securities maturity:		
Within one year	\$	72,233
After one but within five years		49,875
After five but within ten years		14,507
Thereafter		31,710
		<u>168,325</u>
U.S. Government agencies maturity:		
Within one year		20,280
After one but within five years		40,218
After five but within ten years		28,342
Thereafter		1,598
		<u>90,438</u>
Corporate securities maturity:		
After one but within five years		40,411
After five but within ten years		42,416
Thereafter		13,305
		<u>96,132</u>
	\$	<u>354,895</u>

All cash, investments and collateral for the repurchase agreements are registered in the Authority's name and are held by the Authority or its custodian. This arrangement results in Category 1 safekeeping risk, the lowest safekeeping risk classification as defined by GASB Statement No. 3 and Technical Bulletin No. 87-1.

Certain investment securities, repurchase agreements and cash are restricted by the terms of the Authority's bond resolutions or other agreements. A summary of restricted amounts at June 30, 2002 follows (stated in thousands):

	Allowable usage	
Capital reserve funds	Secure debt service payments – bonds	\$ 2,494
Debt service and loan prepayment accounts	Funds held for future debt service – bonds	817
Red Dog Project		
Sustaining Capital Fund	Project costs	11,644
Snettisham Hydroelectric Project Funds	Various costs relating to the project	9,486
		<u>\$ 24,441</u>

**(5) LOANS**

The Authority participates with regulated financial institutions in secured commercial real estate and other loans to businesses throughout the State. Although the Authority has a diversified loan portfolio, the Authority's ability to collect on loans is generally contingent upon economic conditions in the State.

Loans outstanding at June 30, 2002 are classified as follows (dollar amounts stated in thousands):

	Number	Amount
Appropriated	265	\$ 8,035
Loan participation:		
Bonds outstanding	34	7,994
Bonds retired	48	15,565
Internally funded	159	173,072
OREO sale financing	28	10,346
Other	18	478
	<u>552</u>	<u>215,490</u>
Less current portion		<u>(10,225)</u>
		<u>\$ 205,265</u>

The aging of loans at June 30, 2002 follows (dollar amounts stated in thousands):

	Percent	Amount
Current	97.69%	\$ 210,505
Past due:		
31-60 days	1.92%	4,134
61-90 days	0.24%	521
Over 90 days	0.15%	330
	<u>100.00%</u>	<u>\$ 215,490</u>

Loans which are more than 90 days past due, excluding restructured loans, on which the accrual of interest has been discontinued amounted to \$330,000 at June 30, 2002. Gross interest income which would have been received on these loans amounted to \$32,000 for the year ended June 30, 2002. The amount of interest income collected and included in the change in net assets was \$27,000 for the year ended June 30, 2002.

Loans on which the terms have been restructured amounted to \$3,583,000 at June 30, 2002. Gross interest income which would have been received on these loans amounted to \$306,000 for the year ended June 30, 2002. The amount of interest income collected and included in the change in net assets was \$210,000 for the year ended June 30, 2002.

**(6) ALLOWANCE FOR LOAN LOSSES**

An analysis of changes in the allowance for loan losses for the year ended June 30, 2002 follows (stated in thousands):

Balance at beginning of year	\$ 12,197
Recoveries of loans charged off	40
Loans charged off	(207)
Balance at end of year	<u>\$ 12,030</u>

**(7) NET INVESTMENT IN DIRECT FINANCING LEASES, NOTES AND DEVELOPMENT PROJECTS**

**(a) Direct Financing Leases**

The Authority leases the Federal Express Project under an agreement which is recorded as a direct financing lease, expiring twenty years after the facility was placed in service in March 1995. Minimum lease payments under the agreement will return the cost of the Federal Express Project plus 7.55% interest and are expected to be sufficient to pay the debt service on the \$20,475,000 Revolving Fund Refunding Bonds issued June 20, 2002.

# Notes to Basic Financial Statements

- Minimum annual toll fees for usage of the DeLong Mountain Transportation System return the cost of the Initial Red Dog Project, which went into service in 1990, to the Authority over 50 years at an interest rate of 6.5%. Toll fees for the expansion to the Red Dog Project return the cost of the expansion from the in-service date through the end of the term of the agreement at a rate based on bonds issued to finance the expansion.
- The Authority leases the Alaska Seafood International project under an agreement which is recorded as a direct financing lease with an initial term of 30 years. Monthly minimum lease payments range from \$360,000 to \$370,000 with several larger payments scheduled during the lease term. During an initial operating term, lease payments may be deferred if certain performance benchmarks are not satisfied. Additional information regarding this project is described below.

The components of the Authority's net investment in direct financing leases at June 30, 2002 are (stated in thousands):

Minimum lease payments receivable	\$ 824,645
Less unearned income	(495,031)
Less impairment loss	(25,600)
Net investment in direct financing leases	<u>\$ 304,014</u>

At June 30, 2002, future minimum lease payments receivable for each of the five succeeding fiscal years are (stated in thousands):

<u>Year ending June 30:</u>	<u>Amount</u>
2003	\$ 20,650
2004	22,900
2005	23,650
2006	24,730
2007	25,090

The components of the Authority's net investment in direct financing leases by project at June 30, 2002 are (stated in thousands):

Alaska Seafood International	\$ 22,400
Federal Express Project	24,537
Red Dog Project	257,077
	<u>\$ 304,014</u>

The Authority provided construction financing and, upon substantial completion in 1999, acquired the ASI facility and underlying and associated real estate for \$48 million. The Authority entered into a long-term lease of the facilities, with rent payments scheduled to commence in October 2000. Initially, private U.S. investors and a Taiwan investment company comprised the ownership of the operator of the facility. In February 2000, following a change in political control in Taiwan, the Taiwan investment company was directed to return to Taiwan, and the project encountered financial difficulties. In April 2001, Sunrise Capital Partners of New York (Sunrise) purchased a 51% interest in ASI. Concurrent with the purchase by Sunrise, the Authority, a secured lender, the other owners and ASI signed an agreement to restructure approximately \$25 million of debt, to provide new operating capital and to make the Authority and the secured lender equity owners of ASI. The Authority converted accrued and prospective payments due under the lease agreement and an equity contribution of \$2.5 million for a 29% equity interest in ASI. Operations at the plant resumed in 2001. After the restructuring, Sunrise and other equity owners contributed additional equity, so that the Authority's interest in ASI dropped to approximately 20%.

In the third quarter of 2002, the company again ran into financial difficulties and operations became virtually dormant. Another restructuring by the equity owners was completed subsequent to year end. The Authority's ownership interest decreased to approximately 8% as a result. As part of the restructuring, the Authority purchased from ASI land adjacent to the ASI facility for \$2 million and agreed, under certain conditions, to contribute, for additional equity in ASI, up to

\$500,000 more to be used for facility related expenses. The Authority received land with an estimated market value at least equal to the amount paid for the land. Other participants contributed additional equity of approximately \$1,350,000, and further agreed to other deferrals and concessions which effectively provide ASI additional working capital. The restructuring provided ASI with necessary working capital to continue operations. Certain organizational changes also took place, including the appointment of a new president and CEO of ASI.

The Authority recognized an impairment loss of \$25,600,000 on its investment in the ASI facility during the year ended June 30, 2002 in response to the operating problems incurred by ASI. The facility was valued at its estimated fair value in the event that ASI operations cease (based upon an appraisal).

**(b) Notes Receivable**

The Authority receives user fees in consideration of its interest in the Seward Coal Load-Out facility. The user continues to operate the facility at its sole expense. The Authority accounts for this transaction as a note receivable.

**(c) Development Projects**

- The Skagway Terminal is currently vacant. The Authority is attempting to locate potential new users, however low world base metal prices have precluded new mineral development in the area that the Skagway Terminal services.
- See note 11 for information relating to the Healy Project.
- The Authority entered into an operations and maintenance agreement for the Shipyard with Alaska Ship and Drydock (ASD). Under that agreement, the Authority is paid a minimum \$1,500 per month for certain uses of the facility and is also paid a percentage of net profits resulting from ASD's activities at the Shipyard. The Authority is currently negotiating to sell the Shipyard and has reduced the carrying value of its investment to estimated net realizable value.

The components of the Authority's net investment in development projects at June 30, 2002 are (stated in thousands):

Skagway Terminal	\$ 1,982
Healy Clean Coal Project	56,000
Ketchikan Shipyard	3,047
	<u>\$ 61,029</u>

Capital asset activity for the year ended June 30, 2002 follows (stated in thousands):

	Balance at June 30, 2001	Additions	Losses and Deletions	Balance at June 30, 2002
Capital assets not being depreciated:				
Development projects	\$ 2,128	1,915	1,736	2,307
Land	600	—	—	600
Total capital assets not being depreciated	<u>\$ 2,728</u>	<u>1,915</u>	<u>1,736</u>	<u>2,907</u>
Capital assets being depreciated:				
Development projects	\$ 134,394	4	65,746	68,652
Other capital assets	2,698	—	—	2,698
Total capital assets being depreciated	137,092	4	65,746	71,350
Less accumulated depreciation for:				
Development projects	6,030	3,900	—	9,930
Other capital assets	79	135	—	214
Total accumulated depreciation	<u>6,109</u>	<u>4,035</u>	<u>—</u>	<u>10,144</u>
Capital assets being depreciated, net	<u>\$ 130,983</u>	<u>(4,031)</u>	<u>65,746</u>	<u>61,206</u>

# Notes to Basic Financial Statements

(d) **Restricted Direct Financing Lease**

During 1999, the Authority purchased the Snettisham Hydroelectric Project from the federal government. Under the terms of various agreements, the project is operated by and all power from the project is sold to AEL&P. The project provides the majority of the Juneau-Douglas area electrical energy.

(8) **FOUR DAM POOL POWER AGENCY LOAN**

The Four Dam Pool loan is an up to \$82,100,000 purchase-money financing the Authority provided to the Four Dam Pool Power Agency, a joint action agency (Agency) on January 31, 2002, to acquire the Four Dam Pool Project from AEA.

The project consists of the generation and transmission facilities and other property associated with the Swan Lake Hydroelectric Project (providing power to Ketchikan), the Lake Tyee Hydroelectric Project (providing power to Wrangell and Petersburg), the Solomon Gulch Hydroelectric Project (providing power to Valdez and Glennallen), and the Terror Lake Hydroelectric Project (providing power to Kodiak) (collectively, "the Four Dam Pool Project"). At the present time, none of the individual projects or the communities they serve are interconnected. Since the Four Dam Pool Project's inception, power from the projects has been sold pursuant to a Long Term Power Sales Agreement (PSA) entered into between AEA and the City of Ketchikan dba Ketchikan Public Utilities, the City of Wrangell dba Wrangell Municipal Light and Power, the City of Petersburg dba Petersburg Municipal Power and Light, Copper Valley Electric Association, Inc. and Kodiak Electric Association, Inc. ("Purchasing Utilities"). With certain limited exceptions, the Purchasing Utilities are obligated to purchase their power requirements from the Four Dam Pool Project to the extent the power is available. Power is sold to the Purchasing Utilities at a uniform rate. The Loan Agreement provides that the PSA may not be amended without the Authority's consent.

On January 31, 2002, AEA sold the Four Dam Pool Project to the Agency. The Agency's membership is composed solely of the Purchasing Utilities. Under the terms of the sale, the Agency was assigned all of AEA's interest and assumed all of AEA's obligations in the Four Dam Pool Project and the PSA.

The Authority loaned \$77,100,000 to the Agency for the purchase, closing costs and initial funding of reserves related to the Agency's acquisition of the Four Dam Pool Project. The Authority further agreed to lend to the Agency up to an additional \$5,000,000 no later than April 30, 2010, if the Agency meets certain conditions related to construction of an intertie between the Swan Lake Hydroelectric Project and the Lake Tyee Hydroelectric Project or if the Agency owes a purchase credit to AEA because the Agency fails to make timely progress on the Swan-Tyee Intertie project.

The Four Dam Pool Loan, comprising both the initial and potential loan, with interest at 6.5% per annum, is payable in installments over no more than 25 years from revenues generated by the sale of power pursuant to the PSA. The Authority's interests in the Four Dam Pool Loan are secured under a trust agreement and a deed of trust and security agreement. Under the loan agreement with the Authority, the Agency is required to deposit the entire debt service component of the power rate into a dedicated account which is then available to make the required deposits to the trustee for debt service and required reserve account deposits. The trustee under the trust agreement holds and administers various accounts and assets of the trust estate. Assets that secure the Four Dam Pool Loan include the Four Dam Pool Project, project reserve funds and dedicated accounts, the PSA and other associated tangible and intangible assets.

**(9) BONDS PAYABLE**

The composition of bonds outstanding issued under the Authority's Revolving Fund Bond Resolution (Revolving Fund Bonds) at June 30, 2002 follows (interest rate and maturity date information is as of June 30, 2002. Dollar amounts are stated in thousands):

	Balance at June 30, 2001	Additions	Deletions	Balance at June 30, 2002	Amounts due within one year
<b>Revolving Fund Bonds:</b>					
Series 1990A - issued December 13, 1990, called April 2002	\$ 14,285	—	14,285	—	—
Series 1992A - issued September 30, 1992, defeased June 20, 2002	21,665	—	21,665	—	—
Series 1995A - 5.85% to 6.0%, issued May 17, 1995, maturing through 2005	3,165	—	495	2,670	825
Series 1997A - 5.5% to 6.125%, Issued March 27, 1997, maturing through 2027	136,115	—	3,940	132,175	4,160
<b>Revolving Fund Refunding Bonds:</b>					
Series 1993A - 5.6% to 6.2%, issued June 3, 1993, maturing through 2010	7,605	—	1,720	5,885	605
Series 1994A - 5.6% to 5.9%, issued March 30, 1994, maturing through 2006	3,330	—	970	2,360	525
Series 1995B - 5.7% to 5.85%, issued May 17, 1995, maturing through 2005	5,325	—	2,835	2,490	615
Series 1998A - 4.5% to 5.25%, issued May 14, 1998, maturing through 2023	79,575	—	2,050	77,525	2,140
Series 2002A - 4.0% to 5.5%, issued June 20, 2002, maturing through 2014	—	20,475	—	20,475	1,545
	<u>\$ 271,065</u>	<u>20,475</u>	<u>47,960</u>	<u>243,580</u>	<u>10,415</u>

At June 30, 2002, all Revolving Fund Bonds are secured by the general assets and future revenues of the Authority. Various bonds are further secured by loan proceeds and capital reserve funds established pursuant to terms of the bond resolutions (note 4). Various bonds are further secured by bond insurance.

# Notes to Basic Financial Statements

In June 2002, the Authority issued \$20,475,000 of Revolving Fund Refunding Bonds for purposes of refunding and defeasing \$20,540,000 of Series 1992A Revolving Fund Bonds. The refunded Series 1992A bonds were called in July 2002. The refunding resulted in aggregate debt service payments over the next twelve years in a total amount approximately \$2,500,000 less than the debt service payments which would have been due on the refunded bonds. There was an economic gain of approximately \$1,576,000, which is calculated as the net difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid.

The minimum payments related to all Revolving Fund Bonds for the years subsequent to June 30, 2002 are as follows (stated in thousands):

	Principal	Interest	Total
2003	\$ 10,415	13,410	23,825
2004	10,870	13,094	23,964
2005	11,880	12,510	24,390
2006	10,175	11,856	22,031
2007	10,110	11,286	21,396
2008-2012	57,195	47,416	104,611
2013-2017	64,635	30,511	95,146
2018-2022	41,070	15,216	56,286
2023-2027	27,230	4,390	31,620
	\$ 243,580	159,689	403,269

Revolving Fund Bond resolution covenants effective June 30, 2002 preclude the Authority from incurring any general obligation indebtedness unless future estimated net income (as defined in the Revolving Fund Bond Resolution) equals not less than 150% of the general obligation annual debt service requirement in each year or from taking any action to cause its unrestricted surplus (as defined in the Revolving Fund Bond Resolution) to be less than the lesser of \$200,000,000 or the amount of general obligation indebtedness outstanding, and in no event less than \$100,000,000. At June 30, 2002, the Authority has estimated that projected future coverage for each future year exceeds 150%, giving effect only to existing projects at that date, including the projected effect of completion of all current projects, and excluding the effect of proposed projects. At June 30, 2002, unrestricted surplus was approximately \$738,000,000. The Authority is also required by Revolving Fund Bond covenants to maintain 25% of the unrestricted surplus requirement described above in cash and U.S. Treasury securities maturing within one year. At June 30, 2002, the liquidity requirement was \$50,000,000.

The Authority also issued \$100,000,000 of Power Revenue Bonds to finance the purchase of Snettisham. The bonds bear interest at rates ranging from 4.75% to 6.0%, mature at varying dates through 2034 and are payable solely from project revenues, currently received from AEL&P pursuant to a power sales agreement, and from other project funds. Certain of the bonds are insured by Ambac Assurance Corporation. In December 1999, the Authority defeased \$6,865,000 of the bonds using funds on hand. The minimum payments related to the Power Revenue Bonds for the years subsequent to June 30, 2002 are as follows (stated in thousands):

	Principal	Interest	Total
2003	\$ 1,115	4,806	5,921
2004	1,170	4,753	5,923
2005	1,230	4,692	5,922
2006	1,295	4,627	5,922
2007	1,360	4,559	5,919
2008-2012	7,990	21,629	29,619
2013-2017	10,540	19,056	29,596
2018-2022	13,810	15,792	29,602
2023-2027	17,765	11,834	29,599
2028-2032	22,850	6,756	29,606
2033-2034	10,950	891	11,841
	\$ 90,075	99,395	189,470

**(10) RETIREMENT PLAN****(a) Plan Description**

The Authority contributes to the State of Alaska Public Employees' Retirement System (PERS), a defined benefit, agent multiple-employer public employee retirement system which was established and is administered by the State to provide pension, postemployment healthcare, death and disability benefits to eligible employees. All full-time Authority employees are eligible to participate in PERS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

**(b) Funding Policy and Annual Pension Cost**

Employee contribution rates are 6.75% for employees, as required by State statute. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due.

<b>Contribution rates:</b>	
Employee	6.75%
Employer	7.20%
Annual pension cost	\$402,000
Contributions made	\$402,000
Actuarial valuation date	June 30, 1997
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar, open
Amortization period	Rolling 25 years
Asset valuation method	5-year smoothed market
<b>Actuarial assumptions:</b>	
Inflation rate	4.00%
Investment return	8.25%
<b>Projected salary increase:</b>	
Inflation	4.00%
Productivity and merit	1.50%
Health cost trend	5.50%

In the current year, the Authority determined, in accordance with provisions of GASB Statement No. 27, that no pension liability (asset) existed to PERS and there was no previously reported liability (asset) to PERS.

**(11) COMMITMENTS AND CONTINGENCIES****(a) Commitments**

At June 30, 2002, the Authority held approximately \$147,000 of borrower and participating lender money which had not yet been remitted or applied. Additionally, the Authority held approximately \$87,001,000 of investments in trust for the construction of two intertie projects. The Authority held approximately \$24,410,000 of investments in trust for others under various agreements. The moneys and related liability are not reflected in the accompanying financial statements.

**(b) Healy Clean Coal Project**

A Power Sales Agreement between Colden Valley Electric Association (GVEA) and the Authority for the Healy Project was originally entered into in 1991. In 1998, GVEA initiated litigation alleging that the Authority had breached the Healy Project Power Sales Agreement, among other allegations.

On March 9, 2000, GVEA and the Authority entered into a settlement agreement regarding the Healy Project litigation. The settlement agreement provided for the interim shutdown of the Healy Project, which is now maintained in custodial status by the Authority. The settlement agreement further provided terms of partial financial assistance under which GVEA, if it elected to proceed, could either retrofit the plant to conventional combustor technology or operate the Healy Project under existing systems.

# Notes to Basic Financial Statements

GVEA has declined the financing option provided under the settlement agreement for either retrofit option. GVEA continues to seek federal funding for the retrofit of the Healy Project to conventional combustor technology. To date, no federal participation has been authorized.

The Authority continues to also explore options to operate the Healy Project under existing systems. The Authority has applied for a grant through the U.S. Department of Energy to assist in costs associated with such a start-up. The Authority has also retained Capital Energy, an affiliate of American Electric Power Inc., to provide further technical evaluation of the Healy Project and to assist in negotiation of a Power Sales Agreement.

During 2002, the Authority determined that the carrying value of the project was impaired, and wrote it down by approximately \$66,000,000 to its estimated fair value of \$56,000,000. The estimated fair value was determined based upon a future cash flow analysis discounted at the risk free rate.

**(c) Dividend**

Pursuant to Alaska statute the Authority's Board is required to annually determine the amount of a dividend to be made available for appropriation by the legislature. The dividend made available by the Board is to be not less than 25% and not more than 50% of the Authority's audited "net income", as defined in statute, for the fiscal year two years before the fiscal year in which the dividend is to be made. In no event, however, may the dividend exceed unrestricted "net income". The Authority's Board has authorized a \$20,149,500 dividend to be paid during the year ending June 30, 2003.

**(d) Other Commitments and Contingencies**

The Authority from time to time may be a defendant in legal proceedings and contract disputes related to the conduct of its business. In the normal course of business, it also has various commitments and contingent liabilities, such as commitments for the extension of credit and guarantees, which are not reflected in the accompanying financial statements. At June 30, 2002, the Authority had extended loan commitments for loans of \$29,338,000 and loan guarantees of \$2,015,000. In the opinion of management, the financial position of the Authority will not be affected materially by the final outcome of any present legal proceedings or other contingent liabilities and commitments.

## End of Financial Statements

### Exemption from taxation

The Alaska Industrial Development and Export Authority is a political subdivision of the State of Alaska performing an essential governmental function and as such is not subject to federal or state income taxation. In accordance with AS 44 88.140 (a), the Authority submits the following information describing the nature and extent of the tax exemption of the Authority's property: All furniture, fixtures and equipment utilized by Authority personnel and real property occupied by the Authority offices within the Municipality of Anchorage are exempt from Municipality of Anchorage property taxes. All real and personal property associated with or part of projects developed, originally owned or operated under the Economic Development account located within cities, municipalities and/or boroughs are exempt from any respective real and personal property taxes.



March 13, 2003

The Honorable Mike Hawker  
Alaska State Legislature  
State Capitol, Room 434  
Juneau, Alaska 99801

Dear Representative Hawker:

AIDEA staff has forwarded to me the legislation that you have proposed to introduce to amend the dividend statute. We much appreciate the opportunity you have provided for us to make comments before the bill is introduced. It is my understanding that our staff will be forwarding a few minor changes intended to help the bill accomplish your intent. We do not make these recommendations as supporters or opponents of the legislation as the issue has not yet been brought before the full Board of Directors, and it would be, thus, inappropriate for us to take an official position for, or against.

Our next scheduled Board meeting is Monday, March 24. I ask you to withhold filing the legislation until our Board is given the opportunity to discuss and comment. As only one member of the Board, I am unwilling to attempt to give you any official feedback until the issue has come before the Board. I will be candid, however, and share with you my strong personal reservations that I have toward the proposed changes.

While the changes proposed are not particularly bothersome in their literal effect, I feel that they have the potential to cause harm to the AIDEA program and to the State. When the dividend statute was enacted there was a great deal of legislative discussion regarding whether, and how, such a program should be implemented. There was a perceived need for the State general fund to begin receiving a return on the significant investment made in AIDEA and there were constituents of AIDEA (such as bond investors, the business community, and the financial community) that recognized that general fund needs could outstrip AIDEA's capacity to meet its own operating requirements. The actual legislation that was passed struck a balance and was generally deemed to be successful until this past year when it did not allow a dividend.

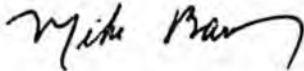
It is not debatable that the current rules in place do not allow a dividend. It is not debatable that the general fund has compelling needs. Our choices are relatively straight-forward. Live by the rules without the dividend, or change the rules and pay a dividend. What is not so straight-forward are the potential consequences of changing the rules. It is my fear that this will be sending the wrong messages to everyone involved. The worst of these messages might be that there are no consequences to

The Honorable Mike Hawker  
March 13, 2003  
Page 2

making poor judgments regarding investment of AIDEA's funds. I can assure you that it is a galvanizing goal of the new Board of AIDEA never to be in the position again of not being able to pay a dividend. Another poor message is the implication that the legislature will change the rules when funds are needed. There is considerable uncertainty regarding the State's fiscal future. AIDEA can (and should) be a meaningful contributor to the State's future economic well-being. To the extent that uncertainty is added to its mix, it becomes more difficult for AIDEA to accomplish its goals.

Please know that all of us share the same goal of moving Alaska forward. I am particularly mindful that you in the Legislature have a difficult time of allocating the State's resources. We are attempting to make the necessary decisions to allow AIDEA to continue to foster employment and economic opportunity, and to begin again to pay an ever-increasing dividend to the general fund. We look forward to working with you and the Administration in this regard.

Sincerely,



Mike Barry  
Chairman

cc: Ron Miller, Executive Director

HB

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# Comparison of Young and Adult Driver Crashes in Alaska

## Using Linked Traffic Crash and Hospital Data

Martha Moore<sup>(1)</sup>

### ABSTRACT

This report describes young driver crashes in Alaska, compares rates and characteristics of young driver crashes with adult driver crashes, and summarizes the medical and financial outcomes of young driver crashes, for the period 1991 through 1995. Using the Mini Crash Outcome Data Evaluation System (MINICODES), trauma registry hospital discharge data were linked with traffic crash records. The data were analyzed to compare drivers aged 16-20 with drivers aged 21-50 who were involved in a crash resulting in the hospitalization or death of a crash victim. The CrashCost Program was used to estimate costs associated with young driver crashes for the five years.

Young drivers were 2.9 times more likely than adult drivers to be involved in crashes that resulted in the hospitalization of a crash victim, and 2.6 times more likely to be involved in a crash involving a fatality. The contributing factors for young driver crashes were listed as human factors 73.4% of the time, compared with 65.6% among adults ( $P=.001$ ). Costs associated with the young driver crashes were estimated to be over \$300 million, which resulted in a cost per young licensed driver that was 3.4 times the cost per adult licensed driver.

### INTRODUCTION

Motor vehicle crashes are the leading cause of death for young people in the United States aged 15 to 20 years. National statistics reveal that teen drivers are disproportionately involved in crashes. In 1995, young drivers aged 15 to 20 years comprised only 6.7% of the driving population, yet they accounted for 14% of the drivers involved in fatal

crashes and 17% of the drivers in police-reported crashes. The losses these crashes represent in terms of human suffering are vast and difficult to quantify. The financial toll has been estimated at \$31 billion annually (1).

There are a number of factors that impact the driving performances of teens including age, inexperience, supervised driving, and night driving. An examination of the effects of the different state laws on 15-17 year old driver fatality rates found that the minimum legal driving age and curfew laws had the greatest impact on driver fatality rates (2). Delayed full licensure age, night driving curfews, and supervised driving have all been shown to be effective in mitigating the high crash rate among 16 year olds. In upstate New York, however, where a combination of these strategies are employed, crash involvement rates remained low through age 24, compared with the other northeastern states included in the study (3).

The National Highway Traffic Safety Administration (NHTSA) recommends that states adopt a graduated licensing system that combines delayed full-privilege licensure, supervised driving, and night driving curfews. An evaluation of the effectiveness of New Zealand's graduated licensing system, in place since 1987, reveals a 23% reduction in crash injuries for the 15 to 19 year old population (4). Eleven states now have some form of graduated licensing. Evaluations of graduated licensing in California, Maryland, and Oregon demonstrated a 5-16% reduction in young driver crashes (5).

Motor vehicle crashes are the leading cause of death for Alaskans aged 16 through 20 and cause almost 50% of the unintentional injury deaths for this age group. Drivers in this age range were involved in 13.1% of police-reported crashes in Alaska during the period 1991 through 1995 while they accounted for only 6.3% of licensed drivers in the state. This constituted a 107.9% over-representation of crashes in the young driving population. The crash rate of drivers aged 16 through 20 from 1991 through 1995

(1) Alaska Department of Health and Social Services, Division of Public Health, Section of Community Health and Emergency Medical Services (CHEMS) P.O. Box 110616, Juneau AK 99811-0616.

was 135.9 crashes per 1,000 drivers, which was 2.4 times the crash rate of drivers aged 21 through 50 (56.9 per 1,000 drivers).

Among 16 through 20 year old drivers, the crash rate in Alaska decreased each year to age 20. The crash rate of 17 year old drivers was 24% lower than that of 16 year old drivers; the 18 year old driver crash rate was 22% lower than that of 17 year old drivers; the 19 year old driver crash rate was 21% lower than that of 18 year old drivers; and, the 20 year old driver crash rate was 12% lower than that of 19 year old drivers.

The purpose of this study is to describe the most severe young driver crashes in Alaska, to compare rates and characteristics of young driver crashes with adult driver crashes, and to summarize the medical and financial outcomes of young driver crashes.

## METHODS

Computerized crash records from the Highway Analysis System (HAS) for 1991 through 1995 were obtained from Alaska's Department of Transportation and Public Facilities. This system contains information on motor vehicle crashes on a trafficway, either recorded by police or self-reported. Alaska law requires that any motor vehicle crash which results in death, injury, or property damage of \$500 or more must be reported to the Alaska Department of Public Safety. Data include passenger demographics, type of vehicle, type of crash, contributing factors, type of injury, and body region injured. There are up to two contributing factors listed per driver involved in a crash, recorded by the enforcement officer. They fall into four main categories: human error, roadway conditions, environmental elements, and vehicle defects.

Hospital discharge data were extracted from the Alaska Trauma Registry, also for 1991 through 1995. The trauma registry is a statewide information system housed in the Alaska Department of Health and Social Services, which includes detailed data on all injury hospitalizations in the state. Alaska's trauma registry is somewhat unique in that trauma data are collected from all acute care hospitals in the state, of which there are 24, and are collected on all patients admitted for 24 hours or more. Data include patient demographics, ambulance service transport and treatment, hospital treatment and length of stay, diagnosis, injury severity, discharge status, charges, and payer billed.

In order to associate circumstances of crashes with corresponding injury outcomes, crash records and trauma registry records were linked using the Mini Crash Outcome Data Evaluation System

(MINICODES), developed by the National Association of Governor's Highway Safety Representatives (NAGHSR) with the support of NHTSA. This software relies on a probabilistic linkage methodology which is particularly useful with data that lack identifiers or may contain incomplete or erroneous information. The methodology has been extensively tested and has demonstrated high precision matching (6).

Trauma registry records were considered for linkage by virtue of an external cause of injury code (E Code) in the range 810.0-816.9 and 819.0-819.9, motor vehicle traffic collision injury. E Codes are a coding system within the International Classification of Diseases, 9th Revision, Clinical Modification (ICD-9-CM), which are routinely entered into the Trauma Registry for each trauma patient. The identifiers used for linkage of the two databases were sex, age, birthdate, geographic region, and probable hospital admission date and time. Additional variables were used to review questionable matches. They consisted of vehicle type, crash type, residence city, crash city, position of injured person in vehicle, anatomical location of injury, and the injury description.

Only the most serious crashes were considered for study, i.e. those involving the hospitalization or death of a crash participant. A **hospital crash** refers to any motor vehicle traffic crash resulting in at least one victim of the crash admitted to a hospital for 24 hours or more. A **fatal crash** refers to any motor vehicle traffic crash resulting in at least one fatality. A **fatality** is defined as a death that occurs as a direct result of a motor vehicle crash within 30 days of the injury or during an acute care hospital stay if the patient was originally hospitalized within 30 days of the injury. Through linkage of traffic crash data with trauma registry data, two populations were identified for study: drivers in crashes and victims of crashes. Drivers were divided into two groups, those aged 16 through 20 which are referred to as **young drivers**, and those aged 21 through 50, referred to as **adult drivers**. These two age groups were used for comparison to avoid the introduction of older drivers who are involved in crash patterns unique to their group. The victims of the crashes were described in terms of outcome, hospital charge payment source, and costs. The victims were also divided into two groups, those who were victims of young driver crashes and those who were victims of adult driver crashes.

**Safety equipment** consists of safety belts, safety belts with harnesses, child safety seats, and helmets. **Alcohol involvement** is recorded as a contributing factor on the police record if alcohol use is confirmed by a test or suspected. **Disability** is defined as the

expectation that the patient will never be able to return to his or her pre-injury level of function in the judgement of the trauma registrar collecting the information from the medical record file.

Cost estimates were derived using the CrashCost Program obtained from NHTSA. Actual hospital charges from the trauma registry were not used because this data element is only about 50% complete. In fact, this information has never been available from the public health service and military hospitals. The CrashCost Program estimates the economic costs of motor vehicle crashes. These costs include direct medical expenses, direct "other" expenses and indirect costs. The CrashCost program also accounts for unreported crashes and adjusts for locality and current economics (7).

The cost estimates were based on Alaska specific data on the number of crash fatalities and the number of patients identified with an Abbreviated Injury Scale (AIS) score of four (severe injury) or five (critical injury). Injuries of an AIS of three or less are not adequately tracked by the trauma registry since only patients admitted to the hospital for one or more days are entered into the database. Therefore, the national ratio based estimates from the CrashCost Program were used to estimate the number of these less severe injuries.

## RESULTS

A total of 3,158 trauma registry records were considered for linkage with traffic records, resulting in 2,183 matches, or a 69.1% matching success rate. The linked trauma registry records were compared with the unlinked records to see if the linked records were representative of the unlinked records. There were no significant differences between the groups in sex and age, however, there were significant differences relating to geographic location of crash

and type of crash. The crashes among the linked trauma registry records occurred more often in the urban areas (Anchorage, Fairbanks, the Kenai Peninsula, Matanuska-Susitna Borough, and Juneau) ( $p < .0001$ ). There was a significantly smaller percentage of Alaska Natives in this group than in the unlinked data group ( $p > .01$ ). The mean injury severity was greater among the linked records than among the unlinked records ( $p < .05$ ). The linked data also included less pedestrian injuries ( $p < .0001$ ) and more driver injuries ( $p < .0001$ ) than the unlinked data.

Linkage of traffic crash data with trauma registry data resulted in 2,508 drivers identified for their involvement in hospital and fatal crashes: 488 young drivers and 2,020 adult drivers. A comparison of crash involvement rates of young and adult drivers, annualized over the five-year period, is shown in Table 1. Young drivers were 2.9 times more likely to be involved in crashes that resulted in the hospitalization of a crash victim, and 2.6 times more likely to be involved in a crash involving a fatality.

The young and adult drivers in hospital and fatal crashes are compared in Table 2. The two groups of drivers were similarly distributed by sex and use of safety equipment. Hospital and fatal crashes occurred most often during the summer months (July and August) among both groups of drivers. The time of day of the crash was also similar between the two groups. Adult driver crashes that resulted in serious injury peaked in late afternoon and early evening (25.6%) and young drivers were most at risk between noon and 4 PM (23.4%).

There are up to two contributing factors recorded in the traffic crash database for a driver in a crash. There were a total of 643 contributing factors listed for the young drivers involved in crashes associated with the hospitalization or fatality of a victim, and a total of 2,439 contributing factors for the adult drivers

Table 1 Annualized Young and Adult Driver Crash Involvement Rates, 1991-1995\*

	Drivers Aged 16-20 Years		Drivers Aged 21-50 Years		Rate Ratio
	Number of Crashes	Rate**	Number of Crashes	Rate**	
Hospital Crash Involvement	408	3.1	1,659	1.1	2.9
Fatal Crash Involvement	80	0.6	361	0.2	2.6

\* Drivers in Hospital and Fatal Crashes, N = 2,508

\*\* Rate per 1,000 licensed drivers

Table 2 Comparison of Young and Adult Drivers in Hospital and Fatal Crashes \*  
Driver Age, Safety Equipment Use, and Crash Time, Alaska, 1991-1995

	Young Drivers (Age 16-20) N=488		Adult Drivers (Age 21-50) N=2,020	
	N	Percent	N	Percent
Sex				
Male	324	66.4%	1444	71.5%
Female	164	33.6%	579	28.7%
Safety Equipment Use				
Recorded	462		1871	
Used	252	54.5%	1053	55.9%
Not Used	210	45.5%	818	44.1%
Unrecorded	26		149	
Crash Time				
Midnight-4am	90	18.4%	304	15.0%
4am-8am	36	7.4%	187	9.3%
8am-noon	48	9.8%	232	11.5%
noon-4pm	114	23.4%	403	20.0%
4pm-8pm	111	22.7%	517	25.6%
8pm-midnight	89	18.2%	377	18.7%

\* Drivers in Hospital and Fatal Crashes, N = 2,508

in similarly serious crashes. As indicated in Table 3, the percentage of contributing factors due to human error among the young drivers, as recorded by the investigating officer, was significantly higher than that of the adult drivers ( $p < .001$ ). Conversely, there was a greater percentage of adult drivers with "no contributing factor" recorded to describe their involvement in the crash ( $p = .01$ ).

The contributing factors of the young and adult driver crashes resulting in a fatality or hospital admission are detailed in Table 4. "Alcohol" was the most frequent contributing factor for adult drivers (20.6%). "Unsafe speed" ranked second at 16.4%. The crash records of young drivers listed "unsafe speed" most often (22.1%), while alcohol involvement among young drivers was noted as a contributing factor 11.8% of the time.

There were 99 fatalities among the young driver crash victims from 1991 through 1995. Of these, 67 died at the scene. A total of 517 victims of the young driver crashes were treated at a hospital. Seventy patients (13.5%) were discharged from the hospital with a disability. The adult driver crashes resulted in 344 deaths, including 228 scene deaths. Adult driver crash victims treated at a hospital numbered 1,666. Of those, 186 (11.2%) were discharged from the hospital with a disability.

The distribution of payers billed for hospital expenses associated with the 2,183 hospitalized victims are presented in Table 5. Of the patients involved in the young driver crashes, the largest percentage billed their hospital expenses to private health insurance (33.1%), followed by those who were uninsured (19.3%), and those covered by automotive insurance (14.7%).

Table 6 presents an estimate of the total costs associated with young and adult driver crashes in Alaska for the five years using the CrashCost Program. Cost per young licensed driver was 3.4 times the cost per adult licensed driver.

## CONCLUSIONS

Alaska is similar to the rest of the nation in that young people are disproportionately involved in motor vehicle crashes, and crash injuries constitute a major health problem among this group. Alaska is, however, distinctive by having the lowest population density of any state, about one person per square mile. There are 13,485 miles of roads but only five of Alaska's urban centers are connected by road. The formidable terrain, isolation, and extreme weather conditions make access to medical care a challenge for residents and visitors alike who are involved in

Table 3 Comparison of Young and Adult Drivers in Hospital and Fatal Crashes  
Total Contributing Factors, Alaska, 1991-1995

Contributing Factors *	Total Contributing Factors Of Young Drivers, N = 643 *		Total Contributing Factors of Adult Drivers, N = 2,439 *		
	N	Percent	N	Percent	
Human	472	73.4%	1600	65.6%	**
Vehicle	22	3.4%	53	2.2%	
Environmental	23	3.6%	76	3.1%	
Roadway	42	6.5%	124	5.1%	
None	78	12.1%	551	22.6%	***
Unknown	6	0.9%	35	1.4%	

\* Up to two contributing factors per driver

\*\* p = .001

\*\*\* p = .01

Table 4 Comparison of Young and Adult Drivers in Hospital or Fatal Crashes  
Total Contributing Factors, Alaska, 1991-1995

	Total Contributing Factors of Young Drivers, N = 643 *		Total Contributing Factors of Adult Drivers, N = 2,439 *		
	N	Percent	N	Percent	
Unsafe Speed	142	22.1%	401	16.4%	***
Alcohol	76	11.8%	502	20.6%	**
Driver Inattention	59	9.2%	142	5.8%	
Failure to Yield	45	7.0%	144	5.9%	
Driver Inexperience	36	5.6%	28	1.1%	
Pavement Slippery	32	5.0%	107	4.4%	
Improper Lane Usage/Passing	27	4.2%	76	3.1%	
Traffic Control Device Disregard	24	3.7%	79	3.2%	
Other Human Factor	19	3.0%	81	3.3%	
Turning Improperly	10	1.6%	35	1.4%	
Fell Asleep	9	1.4%	42	1.7%	
View Obstructed	8	1.2%	36	1.5%	
Other (See below for details)	156	24.3%	766	31.4%	

\* Up to two contributing factors per driver

\*\* p = .03

\*\*\* p = .15

Other: backing unsafely, illicit drugs, following too closely, passenger distraction, pedestrian error, illness, lost consciousness, prescription medication, physical disability, acceleration defective, brakes defective, headlights defective, other lighting defects, oversized vehicle, steering failure, tire failure, tow-hitch defective, windshield inadequate, other vehicular factors, animal's action, glare, lane marking improper, construction debris, pavement deteriorated, shoulders, signs missing, and other roadway factors.

Table 5 Payers Billed for Hospitalization of Victims of Young Driver and Adult Driver Crashes \*  
Alaska, 1991-1995

Payer Billed	Young Driver Crash Victims N=517		Adult Driver Crash Victims N=1,666	
	N	Percent	N	Percent
Private	171	33.1%	472	28.3%
Uninsured	100	19.3%	368	22.1%
Automotive	76	14.7%	225	13.5%
Indian Health Service	50	9.7%	174	10.4%
Medicaid	10	7.7%	110	6.6%
Military	24	4.6%	118	7.1%
Champus	12	2.3%	42	2.5%
Medicare	10	1.9%	48	2.9%
Other/Unknown	34	6.6%	109	6.6%

\* Hospitalized Victims of Crashes, N = 2,183 (295 scene deaths not included)

Table 6 Cost Estimates for Young and Adult Driver Crashes  
Alaska, 1991-1995

	Young Driver Crashes	Adult Driver Crashes
Injury Components:		
Fatalities	99	344
Injuries	7,648	26,569
Property Damage Only	34,333	119,248
Direct Medical Costs	\$36,750,837	\$126,786,020
Direct Other Costs	134,898,306	468,099,927
Indirect Costs	131,086,293	454,729,271
Total	\$302,735,436	\$1,049,615,218
Cost per Licensed Driver	\$2,336	\$697

motor vehicle traffic crashes. Teen drivers demonstrated a greater propensity for involvement in the most severe crashes compared with adults, but the involvement rate did not increase significantly with injury severity.

Among the most serious crashes (those involving the hospitalization or death of a crash participant,) contributing factors recorded for young drivers were more likely to be human factors than those recorded for adult drivers. These data suggest that inexperience and risk-taking behaviors contribute to young driver crashes.

The high percentage of safety belt and helmet nonuse among both of the study populations (44%-46%) is partially explained by the fact that these were the drivers in crashes resulting in the most serious injuries, including injuries to themselves. The Youth Risk Behavior Survey of 1995 reported that about 20% of Alaska high school students surveyed responded that they rarely or never use safety belts. Among those who ride motorcycles, about 40% rarely or never wear helmets (8). In response to the 1995 Alaska Behavioral Risk Factor Survey, 33.1% of adults reported that they did not always use safety

belts (9). These percentages are all higher than comparable national percentages. Lap and shoulder belts are 40-50% effective in reducing deaths and 45-55% effective in preventing moderate-to-critical injuries to passenger vehicle occupants (10). NHTSA estimates that helmets are 29% effective in preventing fatal injuries to motorcyclists and in a recent study showed that motorcycle helmets are 67% effective in preventing brain injuries (11).

Alcohol was not the leading contributing factor in young driver crashes as it was for adult driver crashes. This has been reported by other researchers and can be attributed largely to an alcohol purchase age of 21 in all states and a zero tolerance law for drivers under the age of 21 in 30 states, including Alaska. Zero tolerance means that anyone with a BAC level above 0.02 g/dl is considered legally intoxicated (1,12,13).

Almost 50% of teen crash patients who were hospitalized relied on private or automotive insurance to pay their hospital expenses. One hundred victims, or 19.3%, were uninsured. The hospital charges of an additional 26.3% of the patients were billed to a government program. NHTSA estimates that nationally private insurance companies pay 55% of medical costs for hospitalized patients of motor vehicle crashes and the government pays only 23% (14). Alaska has a large Native American population and several military bases, which contribute to a significant role of the federal government in covering the cost of health care in the state.

The cost estimate for teen driver crashes in Alaska for five years, using the CrashCost Program, was over \$300 million. The financial burden quickly becomes an issue of public policy when such a large percentage of the cost is reimbursed with public funds.

There were several limitations to this study. A driver who is involved in a crash is not necessarily at fault. For the purpose of this study, every driver involved in a crash is charged with the crash under the assumption that in most cases he or she bears some responsibility, and false positives would occur in both groups equally.

Missing and incorrect data is undoubtedly partly responsible for the inability to link all trauma registry records with traffic crash records. The error rate in data linkage due to the linkage process itself has not been quantified. It is believed, however, that the 31% in non-linked data was largely due to unreported traffic crashes. A comparison of hospital discharge files and police road injury data in Australia resulted in a linkage rate of 64%. The researchers found increased linkage with injury severity and varying linkage rates with different types of crashes (29% for

motorcyclists vs. 79% for motor vehicle drivers.) They also noted that the casualties outside the urban area linked less often to a police report than the urban casualties. Their conclusion was that the low linkage rate was largely due to the underreporting of crashes by police (15).

An under reporting of pedestrian injuries was reported by Agran, Castillo and Winn in 1987, in a comparison of police report information with hospital monitoring system information in Orange County, California. It was estimated that police underreported pedestrian injuries by 20%. The researchers also noted that nontraffic incidents were especially underreported, mainly because the police database criteria excludes cases occurring on private property (driveways, sidewalks and parking lots) where a large percentage of pedestrian injuries occur (16). Similarly, Alaska's traffic crash data reporting system excludes incidents on private property, as well as those involving vehicles not customarily used for transport on roads.

Other possible reasons for the under reporting of traffic crashes include lack of police officers in the rural areas, reluctance of crash participants to notify police, and failure of local enforcement personnel to submit investigation forms to the Department of Public Safety.

The mean age of the injured victims of young driver crashes was slightly lower than that of the entire population of injured victims studied (25 vs. 30). Since the CrashCost estimates were based on national averages, the present discounted value of lost productivity for victims of young driver crashes would differ slightly from the value of lost productivity for victims of all crashes. The difference, however, is likely to be minor.

## RECOMMENDATIONS

The factors contributing to Alaska's young driver crashes—youth, inexperience, and risk-taking behavior—are analogous to those seen in other states and countries. Currently there is no graduated licensing system in Alaska; however, legislation has been introduced and is currently under consideration during the 1997-98 legislative session. Alaska is also one of few states that does not require any instructional permit prior to obtaining a full privilege license. Graduated licensing has been shown to successfully reduce young driver crashes. It is recommended that Alaska adopt a graduated licensing system that is appropriate for Alaskans, to include the requirement of supervised driving under an instructional permit, a probational driving period, and raising the minimum age for full licensure to 17. The expected result

would be a reduction in injuries and deaths, mitigation of the impact of crashes on Alaska's stretched emergency medical services, and a significant cost savings.

Alaska has a primary safety belt enforcement law for children under age 16 and secondary enforcement for those aged 16 and over. There is a helmet law for motorcyclists under age 18 and all motorcycle passengers. At the least, the primary safety belt law and the helmet law should be expanded to include young drivers through age 20 to protect those drivers at greatest risk. Even more effective are universal laws, i.e. mandated usage for all persons, which have been shown to increase belt usage 10-15% and helmet usage to 100% (10,11).

In the past three years Alaska has enacted two zero tolerance laws for young people under 21 years of age. A minor caught in possession of or consuming alcohol, regardless of motor vehicle involvement, can have his or her driver's license revoked. A minor also can be cited for "driving while intoxicated," for any level of alcohol registered on a breathalyser test. These laws send an important message to young drivers about drinking and driving in a state that has a major problem with alcohol involvement relative to a great variety of injuries. Full commitment by state and local jurisdictions is needed to enforce these and all other traffic safety laws.

## ACKNOWLEDGMENTS

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**Safety Information**

**National  
Transportation  
Safety Board**

Washington, D.C. 20594

**TESTIMONY OF**  
**KEVIN E. QUINLAN, CHIEF**  
**SAFETY ADVOCACY DIVISION**

**NATIONAL TRANSPORTATION SAFETY BOARD**

**BEFORE THE**  
**COMMITTEE ON LABOR AND COMMERCE**  
**HOUSE OF REPRESENTATIVES**

**STATE OF ALASKA**

**ON**  
**HOUSE BILL 213**  
**GRADUATED DRIVER LICENSING**

**FEBRUARY 11, 2004**

Good afternoon Chairman Anderson and members of the Committee on Labor and Commerce. I want to thank you for allowing me to speak to you today about graduated driver licensing.

The National Transportation Safety Board is pleased to provide you with information about the problem of young drivers in traffic crashes and its recommendations for reducing these crashes. Graduated driver licensing is an important step that will reduce needless deaths and injuries on Alaska highways and help young drivers in Alaska to more safely adjust to their new driving responsibilities.

The National Transportation Safety Board is an independent Federal agency charged by Congress to investigate transportation accidents, determine their probable cause, and make recommendations to prevent their recurrence. The recommendations that arise from our investigations and safety studies are our most important product. The Safety Board has neither regulatory authority nor grant funds. However, in our 36-year history, organizations and government bodies have adopted more than 80 percent of our recommendations.

The National Transportation Safety Board is an independent Federal agency charged by Congress to investigate transportation accidents, determine their probable cause and make recommendations to prevent their recurrence. We are best known for our aviation investigations such as that of the 2001 crash of Alaska Air Flight 261, off the coast of California. But, we investigate accidents in all modes of transportation, including the Exxon Valdez in marine. The Safety Board also conducts special studies on transportation safety problems of national significance.

The recommendations that arise from our investigations and safety studies are our most important product. The Safety Board has neither regulatory authority nor grant funds. More than 80 percent of our recommendations have been adopted by organizations and government bodies in a position to effect improvements in transportation safety.

The Safety Board strongly supports the provisions of House Bill 213 that implement a comprehensive graduated licensing system. This measure is one of the most effective life-saving measures for teens that the legislature could enact.

The Safety Board has recognized for many years that traffic crashes are this nation's most serious transportation safety problem. More than 90 percent of all transportation-related deaths each year result from highway crashes; a disproportionate number of these highway crashes involve teen drivers age 15 through 20, young people who have only recently obtained their licenses to drive.

Traffic crashes account for 40 percent of all deaths among 15-20 year olds, making traffic crashes the leading cause of death for this age group, more than suicides or drugs. Crash rates for young drivers are significantly higher than crash rates for other driving populations. Young drivers age 15-20 years make up about 6.6 percent of the driving population, but compose more than 14 percent of the drivers involved in fatal crashes. Further, 22 percent of all highway fatalities occur in crashes involving teen drivers. Young driver crash data for Alaska are even more compelling. From 1997 through 2001, teens made up a little more than 7 percent of the Alaska driving population, but constituted more than 17 percent of the drivers involved in fatal crashes; more than 26 percent of the deaths on Alaska roads occurred in crashes involving teen drivers.

The model Graduated Driver Licensing (GDL) program requires young novice drivers to proceed through three stages, a learner's permit, an intermediate or provisional license, and a full license. To obtain full licensure, the young driver must complete the first two stages without any moving violations or crashes attributed to the driver.

This statement present three key points about GDL. First, it will explain the problem of young novice drivers. Second, it will describe the elements of the model GDL program. And third, it will highlight a few success stories in other States.

### **THE PROBLEM**

Young drivers have been the focus of U.S. licensing systems primarily because they constitute the largest group of beginners and have the highest crash risk. A number of studies by Federal agencies, the States, private organizations, and others have shown that 16-year-olds are more likely to be involved in single vehicle crashes, be responsible for the crash, be cited for speeding, and carry more passengers in their vehicles than older drivers. Such crashes are most likely to occur from 10 p.m. to midnight on Friday and Saturday nights. Although young

drivers do only 20 percent of their driving at night, over half the fatalities of young drivers occur at night.

Young drivers generally transport more passengers than older drivers, and these passengers are usually from the same age group. Often this results in a deadly combination of inattention, inexperience, and immaturity. A recent study published in the Journal of the American Medical Association concluded that the risk of death increased significantly with each additional teen passenger transported by a teen driver. Two-thirds of teen vehicle deaths occur in vehicles driven by teens.

A frequent contributing factor to crashes, injuries, and fatalities involving teens is the decision by the young novice driver and his or her peers not to use seat belts. Nationally, from 1994 through 2002, over 41 percent of motor vehicle occupants involved in fatal crashes were unrestrained, and 59 percent of fatally injured motor vehicle occupants were unrestrained. As abysmal as these numbers are, seat belt use among the teen population is worse. For the same years, 51 percent of teens age 15 through age 20 who were involved in fatal crashes while riding in motor vehicles were unrestrained. Over 64 percent of fatally injured teens were unrestrained. Alaska's problem is similar. Almost 55 percent of the teens involved in fatal crashes while riding in motor vehicles were unrestrained. Over 57 percent of the fatally injured teens were unrestrained.

Our current driver education system does not teach young people to drive; it teaches them to pass a test. Learning to drive is a long-term process, one that cannot be effectively managed through the traditional driver education program. Once the mechanics are learned, extensive additional training must be "on the job," without unnecessary distractions, and with the assistance of a more mature and experienced driver. As their skills and maturity develop, new drivers can then proceed to full licensure.

### THE SOLUTION

After reviewing crashes involving novice drivers under the age of 21, in 1993, the Safety Board recommended that Alaska and the other States take several specific actions, including implementation of a comprehensive provisional license system for young novice drivers, also known as graduated driver licensing (GDL). GDL consists of a learner's permit, an intermediate or provisional license, and

finally a full license. GDL establishes restrictions so that, until the driver has had an opportunity to gain experience, initial driving occurs in less dangerous circumstances. Restrictions are lifted after successful completion of the learning and intermediate stages.

Based on research by the Safety Board, NHTSA, and others, the Board recommends that the basic elements of a GDL program include:

- A minimum 6-month holding period for the learner's permit, during which the permit holder is supervised by a licensed driver who is at least 21 years old.
- At least 50 hours of supervised driving practice with a licensed driver who is at least 21 years old.
- A minimum period of 6 months without at-fault crashes or traffic violations (and accelerated penalties if the driver has an at-fault crash or traffic violation) before proceeding to the intermediate or provisional license.
- An intermediate phase that includes a nighttime driving restriction, a limitation on the number of passengers, and a prohibition on cell phone use by the young novice driver.
- A minimum 6-month holding period for the intermediate or provisional license.
- The nighttime driving restriction should prohibit the intermediate or provisional license holder from driving unsupervised at night, particularly between the hours of midnight and 6:00 am.
- The passenger restriction should allow no more than one other passenger in the vehicle, unless accompanied by a supervising adult at least 21 years old.
- A minimum period of 6 months without at-fault crashes or traffic violations (and accelerated penalties if the driver has an at-fault crash or traffic violation) before proceeding to the full license.
- Mandatory seat belt use and zero tolerance of alcohol use at each stage.

### **Nighttime Driving Restrictions**

Nighttime driving restrictions are especially important and effective in reducing crashes. Forty-three percent of teen motor vehicle deaths in 2001 occurred between 9:00 pm and 6:00 am. Studies have revealed that nighttime driving restrictions are associated with crash reductions of up to 60 percent during the restricted hours. A 1984 study of nighttime driving restrictions in four States found among 16-year-old drivers that crashes were reduced by 69 percent in

Pennsylvania, 62 percent in New York, 40 percent in Maryland, and 25 percent in Louisiana. Because many of these crashes occur in the evening hours, a greater crash reduction is achieved when the restriction starts earlier in the night. Many States include conditions or exemptions related to work or school, and may limit routes or number of passengers as well.

Many parents and even young drivers support the restriction when they understand the justification for it. A November 1994 survey by the Insurance Institute for Highway Safety (IIHS) found that 74 percent of parents of 17-year-olds favor night driving restrictions for beginning drivers. Of those in favor, 48 percent preferred a restriction beginning at 10 p.m. A telephone survey of 16- to 18-year-olds in four States with such restrictions indicated that 63 percent of the teens surveyed in Illinois, 67 percent in New York, 80 percent in Pennsylvania and 47 percent in Indiana, were in favor of some kind of night driving restrictions for beginning teen drivers.

IIHS conducted follow-up surveys in 1999 of parents in Connecticut and Florida whose children had recently obtained their driver's licenses. These parents were even more supportive than they had been during initial interviews in 1996, before their teens had begun the licensing process. Few parents reported that the laws had inconvenienced them. Many were in favor of additional requirements, such as passenger restrictions, that were not currently part of their States' laws.

### **Passenger Restrictions**

In 2002, the Safety Board revisited the teen driving issue and added a passenger restriction to its original GDL recommendation. The Safety Board investigated several crashes involving young novice drivers that illustrate the tragic consequences of allowing inexperienced young drivers to drive with multiple teen passengers in the vehicle.

The presence of teen passengers can adversely influence the risk-taking behavior of teen drivers, leading to crashes with increased injuries and deaths for both the drivers and their passengers. The relative risk of death among 16- and 17-year-old drivers who have at least one passenger in the car is significantly greater than the relative risk when driving alone. The risk increases with each additional passenger. Carrying at least three teen passengers results in a threefold increase in the probability of a teen in that vehicle being killed.

The National Committee on Uniform Traffic Laws and Ordinances added a passenger restriction to its Model Graduated Licensing Law in 2000, and incorporated it into the Uniform Vehicle Code (UVC). Elements of the UVC model law include the following:

- No more than one passenger under age 20 is allowed unless a supervising driver is present or until the driver receives full licensure.
- Passenger exemptions are granted for family members to ride with an unsupervised provisional licensed driver.

Based on the available research, the UVC model law, and FARS data, the Safety Board concluded that by restricting to zero or one the number of passengers carried by teen drivers during the intermediate stage, States can substantially reduce crashes involving young novice drivers and can reduce fatalities among teen occupants. The Board also concluded that if the passenger restriction lasts only a few months, it is unlikely to have a substantial safety benefit. The Board, therefore, believes that Alaska should restrict young novice drivers with a provisional license from carrying more than one passenger under the age of 20 until they receive an unrestricted license or for at least 6 months (whichever is longer).

### **Cell Phone Restrictions**

In 2003, the Safety Board examined the role that driver distraction plays in motor vehicle crashes, especially when the driver is inexperienced. The Board concluded that current State laws are inadequate to protect young, novice drivers from distractions that can lead to crashes. The Board recommended that States enact legislation to prohibit holders of learner's permits and intermediate licenses from using interactive wireless communication devices while driving. The recommendation is derived from the Board's investigation of the February 1, 2002, Ford Explorer Sport collision with a Ford Windstar minivan and a Jeep Grand Cherokee on Interstate 95/495 near Largo, Maryland.

This crash involved multiple risk factors, some of which are associated with young drivers. The crash driver, who was 20 years old, was unbelted, and had only an estimated 50 hours of driving experience, was operating a short-wheelbase sport utility vehicle, with which she was unfamiliar. She was driving 15-20 miles over the speed limit, while talking on a handheld wireless telephone. The Board also

investigated a fatal crash involving a 16-year old driver in Korona, Florida in which the novice driver was distracted by talking on a wireless telephone.

Learning how to drive and becoming comfortable in traffic requires all the concentration a novice driver can muster. According to a 2001 study, even experienced drivers engaged in wireless telephone conversations were unaware of traffic movements around them. Moreover, the use of wireless communication devices is becoming increasingly prevalent as the use of these devices has more than doubled (from 60 million subscribers in 1998 to more than 144 million in 2003).

In January 2002, New Jersey passed a law prohibiting holders of special learner's permits, driver's examination permits, and provisional driver's licenses from using any interactive wireless communication device while operating a motor vehicle. On May 23, 2003, the Governor of Maine signed a law restricting drivers under age 18, including persons with an instruction permit and holders of restricted licenses, from "operating a motor vehicle while using a mobile phone." The Safety Board recommends that Alaska enact similar legislation and prohibit holders of learner's permits and intermediate licenses from using interactive wireless communication devices while driving.

Beginning drivers should be introduced gradually to the driving experience. They should be provided the maximum time to practice, under the safest possible real-world conditions. They should be given the opportunity to gradually develop the skills needed for full licensure. For our young drivers to have the chance to develop, we need to create a support system that involves parents and guardians. We need to quickly identify young problem drivers before bad habits and behaviors become ingrained, and then take action to correct those problems. GDL has been described as "training wheels for young drivers." This analogy makes good sense; we do not proceed from walking to riding a bicycle in one step. We need training wheels to make the process safer.

### STATE IMPLEMENTATION

There has been a revolution in driver licensing laws in the past 10 years. Virtually every State has strengthened its driver licensing system. But while it is important to include both of the first two stages, only 36 of the 50 States have done so.

In 2003, almost 20 States considered legislation and 4 States (Connecticut, Illinois, Maine, and Rhode Island) enacted legislation that improved their graduated licensing systems. Based on an IIHS report dated July 2003, approximately 72% of the States have now implemented an acceptable or good GDL system. There are now only 4 States that have not enacted at least some core provisions of graduated licensing.

### SUCCESS STORIES

GDL does make a difference. According to the National Safety Council, 16-year-old drivers are involved in 33 percent fewer traffic crashes. And every evaluation of a State's GDL system has identified crash reductions of up to 60 percent.

Individual States that have had great success with GDL include Iowa. In 2001, after Iowa enacted GDL, 16-year drivers were involved in 20-percent-fewer traffic crashes than the same group in 1998, the last year before the system was adopted. In addition, 16-year-old drivers received 38 percent fewer traffic convictions than in 1998. Scott Falb, spokesman for Iowa's Department of Transportation, emphasized, "These are definitely some numbers Iowans can be happy about." We've reduced the number of violations and citations; we've reduce the number of crashes that's our biggest goal."

North Carolina implemented a comprehensive graduated licensing system with a 9:00 p.m. to 5:00 a.m. nighttime driving restriction in December 1997. A recently published review (June 2003) of North Carolina's crash data found a 23-percent reduction in injuries and deaths involving 16-year-old drivers. Nighttime crashes (during the restricted hours) decreased more than those during daytime hours. Both the number of crashes and the rate, based on population, declined dramatically.

Reviews from other States have consistently shown significant crash reductions:

- **California** – A recent review by the Auto Club of Southern California found that for 16-year-old drivers, there was a 20 percent reduction in at-fault fatal

and injury crashes. Injuries and fatalities of teen passengers decreased by 40 percent.

- **Delaware** – For drivers 16 years old, fatal crashes decreased by 43 percent and all crashes decreased by 42 percent. For drivers 17 years old, fatal crashes decreased by 72 percent and all crashes decreased by 21 percent.
- **Florida** – For drivers age 15 through age 17, IIHS found a 9-percent reduction in fatal and injury crashes.
- **Michigan** – For drivers 16 –years old, the risk of being involved in a crash in 1999 was 25 percent lower than the risk in 1996.
- **Pennsylvania** – GDL is credited with a 27-percent reduction in crashes, a 32-percent reduction in injuries, and a 58-percent reduction in fatalities.

### **Nighttime Restriction Effectiveness**

- **New York** – For 16- and 17-year-old drivers, the nighttime driving restriction resulted in a 62-percent crash reduction.
- **Pennsylvania** –For drivers under age 18, there was a 69-percent reduction in crashes during the nighttime driving restriction hours.
- **Louisiana** – For drivers 15 years old, crashes fell by 25 percent during the nighttime driving restriction hours.

### **CONCLUSION**

From 1997 through 2001, across the nation, 47,265 people died in crashes involving teen drivers. In Alaska, 108 people died. During the same years, the nation saw 29,155 teen motor vehicle occupants (73 in Alaska) die in motor vehicle crashes. While the emotional costs are staggering, the financial costs are equally astounding.

The lifetime cost to society for each fatality is over \$977,000, and those not directly involved in crashes pay for nearly three-quarters of all crash costs, primarily through insurance premiums, taxes, and travel delay. Therefore, the 47,265 people who died in crashes involving teen drivers cost society more than \$46 billion, almost \$35 billion of which was paid by those not involved. The teen fatalities alone cost \$28 billion. In Alaska, teen-involved fatal crashes cost society over \$105 million, and teen motor vehicle occupant fatalities cost society over \$71 million.

Highway crashes involving young drivers will remain a serious and persistent problem unless concrete and comprehensive steps are taken. Our young people are this Nation's most valuable resource, one that must be nurtured and protected. Too many of them are being killed and injured unnecessarily.

The Safety Board asks that you enact legislation to adopt GDL system. We urge you to mandate a minimum holding period for learner's permits, require at least 50 hours of supervised driving practice in the learner's permit stage, and add a provisional license stage with nighttime driving, passenger and cell phone restrictions. The Board believes an effective combination of tough, fair laws, vigorous enforcement, and an intensive, targeted educational campaign is needed. We are so convinced of GDL's life saving benefit that we have included GDL on the Board's list of "Most Wanted" recommendations. A comprehensive GDL system is one of the most effective actions that the Alaska legislature can take to save both young lives and the lives of others involved in crashes with young drivers.

Thank you again for providing me the opportunity to testify about this important initiative. I would be happy to answer any questions you may have.

###

## REPORTED EFFECTIVENESS OF GRADUATED LICENSE LAWS IN THE STATES

State	Reduction Achieved	Type of Reduction (fatals, injuries, etc.)	Information source
Florida	9% over all 19% for age 15 11% for age 16 7% for age 17	Fatality & injury crashes involving 15-17 year-old drivers	Study-Preusser Research Group
Michigan - 1 <sup>st</sup> study	25% overall 24% 24%	Risk of crash Non-fatal injury crashes Combined fatal/non-fatal injury crashes	Study-UMTRI
Michigan - 2 <sup>nd</sup> study	25% overall	Crash rates among 16-year-old drivers	Study -UMTRI
North Carolina	25% 57% 28% 43%	Crashes Fatal crashes Injury crashes Nighttime crashes	Study - HSRC
California	20%  40% 27%	At-fault fatal and injury crashes of 16-year-old drivers Teen passenger fatalities/injuries At-fault collisions (16-year-old drivers)	Auto Club of Southern California
Iowa	26.1% 36.8%	Crashes (16-year-old drivers) Traffic Offense Convictions (16-year-old drivers)	Iowa DOT
Ohio	23%  24%  7%	Crash involvement (GDL v. non-GDL) Fatal crash involvement (GDL v. non-GDL) At-fault crash rate (GDL v. non-GDL)	Highway Safety Office
Pennsylvania	27% 32% 58%	Crashes Injuries fatalities	PennDOT
Maryland	600-700 45%	Crashes (16-year-old drivers) Reduction in fatal & disabling crashes (16-year-old drivers)	Study - Princeton Health Data, MD MVA
Oregon	1 <sup>st</sup> yr 25% 2 <sup>nd</sup> yr 32% 3 <sup>rd</sup> yr 36%	Fatal and serious injury crashes involving 16-year-old drivers	Oregon Transportation Safety Division, ODOT

## Actions needed by States/Industry

### HIGHWAY

#### Improve Child Occupant Protection:

- Enact State laws requiring booster seats for young children.
- Make vehicle back seats more child friendly.

#### Enact Primary Seat Belt Enforcement Laws

- Increase the number of people who wear seat belts through stronger enforcement laws.

#### Promote Teen Highway Safety

- Strengthen underage drinking and driving laws.
- Enact graduated driver licensing legislation.
- Prohibit nighttime driving and cell phone use by young novice drivers.
- Restrict the number of teen passengers traveling with young novice drivers.

#### Reduce Hard Core Drinking Driving

- Enact State legislation and take other actions that are proven to reduce crashes involving those who repeatedly drink large amounts of alcohol and drive including:
  - frequent, statewide sobriety checkpoints.
  - legislation to create stricter sanctions for those arrested the first time with a high blood alcohol concentration ( $>$ or = 0.15 BAC).
  - zero blood alcohol requirement for convicted DWI offenders when they get their license back.
  - administrative rather than court-based license revocation for refusing to take or failing the sobriety test.
  - vehicle sanctions for DWI offenders.
  - eliminate plea-bargaining DWI offenses and programs that divert offenders and purge the offense record.
  - retain DWI offense records (to identify and prosecute repeat offenders) for at least 10 years.
  - develop and operate special sanction (court-based) programs for hard core DWI offenders.

### MARINE

#### Enhance Recreational Boating Safety

- Require mandatory education of boat operators.
- Require use of life jackets for children.
- Require safety instruction prior to personal watercraft rental.



National Transportation Safety Board

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December 2003



# NTSB MOST WANTED Transportation Safety Improvements 2004

*Critical changes needed to reduce  
transportation accidents and save lives.*

# NTSB MOST WANTED

## AVIATION

The Federal Aviation Administration should act to:

- Require Restraint Systems for Children Under Age 2**
  - Require restraints for infants and small children during takeoff, landing, and in turbulent conditions to provide them the same level of safety as other passengers.
- Reduce Dangers to Aircraft Flying in Icing Conditions**
  - Use current research on freezing rain and large water droplets to revise the way aircraft are designed and approved for flight in icing conditions.
  - Give flight crews accurate information to quickly recognize dangers of all types of icing and maintain airspeeds to avoid loss of aircraft control.
- Eliminate Flammable Fuel/Air Vapors in Fuel Tanks on Transport Category Aircraft**
  - Modify procedures to reduce the potential for flammable fuel/air vapors in fuel tanks until permanent changes can be implemented.
  - Implement design changes to eliminate the generation of flammable fuel/air vapors in all transport category aircraft.
- Stop Runway Incursions/Ground Collisions of Aircraft**
  - Give immediate warnings of probable collisions/incursions directly to flight crews in the cockpit.
- Improve Audio and Data Recorders/Require Video Recorders**
  - Require cockpit voice recorders to retain at least 2 hours of audio.
  - Require back-up power sources so cockpit voice recorders collect an extra 10 minutes of data when an aircraft's main power fails.
  - Inspect and maintain data recorders yearly to make sure they operate properly.
  - Install video recorders in cockpits to give investigators more information to solve complex accidents.

## RAILROAD

The Federal Railroad Administration should act to:

- Implement Positive Train Control Systems**
  - Prevent train collisions and overspeed accidents by requiring automatic control systems to override mistakes by human operators.
- Require Cab Voice Recorders/Improve Survivability of Recorders**
  - Install audio recorders to give investigators more information to solve complex accidents.
  - Improve event recorder design survivability on new and rebuilt locomotives to protect data from fire and impact forces during train accidents.

## NTSB CLASSIFICATION

- Unacceptable response
- Acceptable response, progressing slowly

## Actions needed by Federal Agencies

### HIGHWAY

The Federal Motor Carrier Safety Administration should act to:

- Improve the Safety of Motor Carrier Operations**
  - Prevent motor carriers from operating if they put vehicles with mechanical problems on the road or unqualified drivers behind the wheel.
- Prevent Medically-Unqualified Drivers from Operating Commercial Vehicles**
  - Establish a comprehensive medical oversight program for interstate commercial drivers.
  - Ensure that examiners are qualified and know what to look for.
  - Track all medical certificate applications.
  - Enhance oversight and enforcement of invalid certificates.
  - Provide mechanisms for reporting medical conditions.

The National Highway Traffic Safety Administration and U.S. DOT should act to:

- Enhance Protection for Bus Passengers**
  - Redesign motor coach window emergency exits so passengers can easily open them.
  - Issue standards for stronger bus roofs and require them in new motor coaches.
  - Devise new standards to protect motor coach passengers from being thrown out of their seats or ejected when a bus sustains a front, side, or rear impact or rolls over.

### MARINE

The U.S. Coast Guard should act to:

- Improve Drug and Alcohol Testing of Crews After Accidents**
  - Strengthen and clarify regulations to require that drug and alcohol testing be conducted quickly after serious marine accidents.
- Require Voyage Data Recorders**
  - Mandate that all large ocean-going vessels be equipped with voyage data recorders to help investigators determine causes of accidents and incidents.

### INTERMODAL

The U.S. Department of Transportation, Federal Aviation Administration, U.S. Coast Guard and Research and Special Programs Administration should act to:

- Update Hours-of-Service Regulations in Aviation, Marine and Pipeline Industries**
  - Set working hour limits for flight crews, aviation mechanics, pipeline controllers, mariners and other transportation operators, and provide predictable work and rest schedules based on current fatigue research: circadian rhythms, sleep and rest requirements.

- Acceptable response, progressing in a timely manner
- Being assessed, classification code to be assigned soon

23-LS0786X  
Luckhaupt  
1/29/04

**CS FOR HOUSE BILL NO. 213( )**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-THIRD LEGISLATURE - SECOND SESSION**

**BY**

**Offered:**

**Referred:**

**Sponsor(s): REPRESENTATIVE WEYHRAUCH**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to a provisional driver's license and to issuance of a driver's license;**  
2 **and providing for an effective date."**

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 **\* Section 1. AS 28.15.055 is amended to read:**

5 **Sec. 28.15.055. Provisional driver's license. Upon application, the**  
6 **department may issue a provisional driver's license to a person who is at least 16 years**  
7 **of age but not yet 18 years of age if the**

8 **(1) person has been licensed under an instruction permit issued under**  
9 **AS 28.15.051 or under the law of another state with substantially similar requirements**  
10 **for at least six months;**

11 **(2) person's parent, legal guardian, or employer provides proof**  
12 **satisfactory to the department that the applicant has at least 40 hours of driving**  
13 **experience, including at least 10 hours of driving in progressively challenging**  
14 **circumstances, such as driving in inclement weather and nighttime driving; and**

1                   **(3) person has not been convicted of a violation of a traffic law**  
2                   **within the six months before the application is filed; in this paragraph, "traffic**  
3                   **law" has the meaning given to "traffic laws" in AS 28.15.261.**

4 \* Sec. 2. AS 28.15.057 is amended to read:

5                   **Sec. 28.15.057. Restrictions on driver's license issued to a person under**  
6                   **18. Except as provided under AS 28.15.051, a person who is at least 16 years of age**  
7                   **but not yet 18 years of age may not be issued a driver's license unless the person has**

8                   **(1) been licensed under an instruction permit issued under**  
9                   **AS 28.15.051 or under the law of another state with substantially similar**  
10                   **requirements** for at least six months;

11                   **(2) [AND HAS] held a valid provisional driver's license issued under**  
12                   **AS 28.15.055 for at least six months; and**

13                   **(3) not been convicted of violating a traffic law, or been convicted**  
14                   **of violating AS 04.16.050(c), during the six months before applying for a driver's**  
15                   **license; in this paragraph, "traffic law" has the meaning given to "traffic laws"**  
16                   **in AS 28.15.261 [ONE YEAR].**

17 \* Sec. 3. AS 28.15.057 is amended by adding new subsections to read:

18                   **(b) A person authorized to drive a motor vehicle under a provisional driver's**  
19                   **license issued under AS 28.15.055 may not**

20                   **(1) for the first six months after receiving a provisional driver's license,**  
21                   **operate a motor vehicle that is carrying any passengers except a passenger who is a**  
22                   **parent, legal guardian, sibling, or a person at least 21 years of age; or**

23                   **(2) operate a motor vehicle between the hours of 1:00 a.m. and 5:00**  
24                   **a.m., except when the person is**

25                   **(A) accompanied by a parent, legal guardian, or a person at**  
26                   **least 21 years of age who is licensed to drive the type or class of vehicle being**  
27                   **used; or**

28                   **(B) driving to or from the person's place of employment or**  
29                   **within the scope of the person's employment and the driving is along the most**  
30                   **direct available route.**

31                   **(c) This section does not apply to restricted licenses issued to persons to**

1           operate motor vehicles in areas of the state off the road system when operating motor  
2           vehicles in those areas.

3                       (d) A person who violates this section is guilty of an infraction.

4           \* Sec. 4. This Act takes effect January 1, 2005.

# ALASKA STATE LEGISLATURE

Representative Bruce Weyhrauch

HOUSE DISTRICT 4



ALASKA  
STATE CAPITOL  
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## Sponsor Statement

### Graduated Driver's License for Teen Drivers

#### HB 213 (TRA)

Car crashes are the leading cause of death for teenagers in Alaska. While there isn't a silver bullet cure to this utter tragedy, recent studies prove that the Graduated Driver's License system (GDL) is a giant step forward.

HB 213 implements GDL by creating a three-tiered system whereby young drivers pursue their full, unrestricted driver's license. Currently, Alaska only requires a driver under 18 to obtain and hold a learner's permit for 6-months before testing for a driver's license.\* Under HB 213, graduated licensing adds several important protections for the novice driver that relate to when they can drive, where they can drive, with whom and how.

- I. At age 16, a person may be eligible for a Provisional License when:
- The youth has held a learner's permit for 6 months,
  - Their parent certifies that the youth of at least 40 hours of driving experience, including 10 of driving under progressively challenging conditions such as nighttime or inclement weather conditions, and
  - The youth has not been convicted for violating a traffic law for at least 6 months before applying.

Once the youth holds a Provisional License, they are subject to several limitations for their first **six months** of driving:

- Driving between 1 am and 5 am is prohibited;
  - No passengers except a parent, a person 21 yrs or older, or two siblings of the novice driver.
- III. 6 months after the issuance of a Provisional License, the youth may apply to the department for an unrestricted license,
- *as long they have not been convicted of a traffic offence for at least six months preceding their application.*

~ More ~