FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: CSHB 16(O&G)
(H) Publish Date: 2/28/03

Revision Date/Time (Note if correction):
Dept. Affected: DCED
Title: Stranded Oil & Gas Development Act Amendments
BRU: Regulatory Commission of Alaska (399)
Component: Regulatory Commission of Alaska
Sponsor: Representative Fate
Requester: House Oil & Gas
Component No.: 2417

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						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (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)*

This bill has no fiscal impact on this agency.

Prepared by: G. Nanette Thompson, Chair
Phone: 907-276-6222
Division: Regulatory Commission of Alaska
Date/Time: 2/5/03 6:00 PM
Approved by: Edgar Blatchford, Commissioner
Date: 2/5/2003
Agency: Department of Community & Economic Develoment

(Revised 9/2002 OMB)

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SENATE FINANCE COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 4
Bill Version: CSHB 16(FIN)
(H) Publish Date: 3/19/03

Revision Date/Time (Note if correction): March 10, 2003
Dept. Affected: Revenue

Title: Stranded Gas Development Act Amendments
BRU: Administration and Support
Component: Commissioner's Office

Sponsor: Representatives Fate and Whitaker
Requester: House Oil and Gas Committee
Component No.: 123

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	89.5	89.5				
Travel	25.0	25.0				
Contractual	750.0	750.0				
Supplies	2.0	2.0				
Equipment	5.0	1.0				
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	871.5	867.5	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	121.5	117.5				
1005 GF/Program Receipts						
1037 GF/Mental Health						
1108 Statutorily Designated Receipts	750.0	750.0				
TOTAL	871.5	867.5	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

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

POSITIONS

Full-time	1	1				
Part-time						
Temporary						

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

See attached analysis.

Prepared by: Larry Persily, Deputy Commissioner
Phone 465-5469
Division: Department of Revenue
Date/Time 3/10/03 4:32 PM

Approved by: Larry Persily, Deputy Commissioner
Date 3/10/2003
Agency: Department of Revenue

(Revised 9/2002 OMB)

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STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. CSHB 16(FIN)

ANALYSIS CONTINUATION

The intent of the Stranded Gas Development Act, AS 43.82, is to provide a mechanism for achieving the fiscal certainty that potential project sponsors say they need before proceeding with the large investment needed to bring Alaska North Slope natural gas to market. The Act allows the state to negotiate a contract for payments in lieu of taxes with a project sponsor. This contract could cover all state and municipal taxes on a project, including state corporate income taxes, production taxes, state and municipal property taxes, and any special municipal assessments. The Act also allows for negotiation of gas valuation methods for use in determining state royalties.

This bil, CS HB16 (RES), would amend the 1998 Stranded Gas Development Act to:

- Expand the Act to include a natural gas pipeline to serve mid-America and gas-to-liquid (GTL) projects as eligible projects under the law. The existing statute limits the application of the Act to only liquefied natural gas projects. This change would allow sponsors of either an LNG project and/or a natural gas pipeline to mid-America and/or a GTL project to apply to the state under the provisions of the Act to negotiate a contract for payments in lieu of taxes.

- Replace the June 30, 2001 deadline in statute for applications with a new deadline of March 31, 2005.

- Impose a $1.5 million limit on the reimburseable expenses the state may require the project applicant(s) to repay the state for independent contractors used in evaluating the application or in the development of the contract terms. The Act allows the state to obtain reimbursement from the project applicant(s) for these expenses, and this bill would impose a $1.5 million on the reimbursement. The Act also is amended to require that the expenses be "reasonable and nonreduntant."

- It is the intent of this legislation, and the administration, that the $1.5 million limit would be shared between all state agencies involved with the project application. The Department of Revenue, under the Act, is the lead agency in this effort, and would share the reimburseable agreement funding with the Department of Law and Department of Natural Resources.

OPERATING EXPENSES

The Act allows the Department of Revenue under AS 43.82.240 to recover from a project applicant the costs of contracting with an independent consultant to assist the state in evaluating applications submitted under the Act and in developing contract terms. Those statutorily designated program receipts are shown above as the authority to receive and expend those funds.

The Act does not allow the state to seek reimbursement from a project applicant for any other costs. The Department of Revenue would hire a project manager for the estimated two years of contract development, negotiations and approval, and the personnel services, travel and equipment expenses for that position and other commissioner's office expenses are shown as General Fund money.

The above costs are essentially the same as the Legislature approved for the Department of Revenue in passing the 1998 Stranded Gas Act.

The Stranded Gas Development Act

The Stranded Gas Development Act, AS 43.82, was passed into law by the Alaska Legislature in 1998. During the session it was House Bill 393. The application deadline for a project application under the Act was June 30, 2001. There were no applications by that date. Legislative action is required to reopen the option for a gas project developer. Such a reopener failed to win legislative approval last session, and has been introduced again this year as HB 16, sponsored by Representatives Fate and Whitaker.

The Act's genesis was in HB 250, which in 1997 established a North Slope Gas Commercialization Team in the administration to research and recommend changes to state law to encourage commercialization of North Slope gas. The team issued a report to the Governor in February 1998. The team's conclusions were that the project faced considerable risk, namely construction cost risk and gas price risk, and the state's fiscal system exacerbated those risks. Three of the risks of particular concern were fiscal uncertainty, the state's regressive tax system, and the front-end aspects of the fiscal system. We will discuss these in turn.

Given the high cost of the project, coupled with the volatility of gas prices, the project is financially risky. Given that the project is marginal under the current fiscal system, there is concern among potential project sponsors that if a project is started, the state could later modify the fiscal terms after the project had been built, changing its overall attractiveness to investors after they had invested. This is the fiscal uncertainty risk.

Second, there are two significant elements of the state's fiscal system that make it regressive. Regressivity means that the state's take in terms of share of the profits is high at low prices and low at high prices. Regressive systems exacerbate the risk of low prices to the project developers. First, the property tax is based on cost of the asset. The higher the cost, the higher the tax. Second, the basis of value for the severance tax and royalty is at the wellhead and does not consider capital and operating costs. Thus when capital and operating costs are high, and prices are low, the state's take is a high percentage of the low profits. (Regressive systems also reduce what the state's take could be at high prices, which means the state loses out on a greater slice of revenues during high prices and high profits.)

Third, the property tax makes for a front-end loaded system. The property tax is payable when construction begins, which could be several years before revenues start accruing. On a time value of money basis, this diminishes the rate of return on the project and exacerbates the risk of not recovering the investment.

After the team issued its report to the Governor, it worked with the major Prudhoe Bay producers to develop legislation to deal with these risks. The producers at the time had been studying commercializing gas through an LNG project to tidewater. The result was HB 393.

The law provided a mechanism for converting the state's fiscal system from a statutory basis to a contractual basis. This would provide for greater fiscal certainty. The fiscal system would be negotiated between the administration and the project sponsors and approved by the Legislature. And per the Act the contract terms could provide for a more progressive (less regressive) system.

The process for developing the contract was as follows: A sponsor would submit a project plan and application to the administration for contract negotiation. The project had to produce 500 billion cubic feet within 20 years and be an LNG export project. (The original bill called for any project. It was changed to only LNG during the legislative process.)

The sponsor group would negotiate fiscal terms with the state. Payments to the state would be made in-lieu of taxes. Fiscal terms would be customized to the specific project structure. The term of the contract could not exceed 35 years.

The Revenue Commissioner would be the main agent for negotiating and implementing the contract. However, the Natural Resources Commissioner is also responsible for reviewing the project plan for acceptability, and for negotiating any changes in royalty issues. The only royalty provisions subject to negotiation under the Act are the gas valuation method and the timing of royalty in-kind and royalty in-value notices.

The law allowed the commissioner of Revenue to use independent contractors to assist in the evaluation of any project application, and to condition the contract on an agreement with the project applicant that it would fully reimburse the state for the cost of the contractors retained for the state's analysis. The fiscal note for the legislation authorized the Department of Revenue to collect and expend those application fees to cover its contractor costs. The Legislature in 1998 also approved General Fund money for the Department of Revenue to hire a full-time project coordinator for two years to help manage the application review and negotiations. That position was never filled because there was no project application.

(Note: It is the intent this year of CSHB16(Resources) that the Department of Revenue would share those reimbursable agreement funds with the Department of Law and Department of Natural Resources as necessary for those agencies to fulfill their work assignments in this effort.)

In addition to replacing state oil and gas production taxes and corporate income taxes with a contract for payments, the Act also allowed the Revenue commissioner to include municipal sales taxes, municipal special assessments, state and municipal property taxes and any other state or municipal taxes in the negotiations. The intent was to wrap up as much as possible into the contract for payments in lieu of taxes.

Once a contract was developed, preliminary findings would be submitted to the governor. If the governor chose to proceed the preliminary findings would be given to the Legislature and the public. There would be a 30-day public review period.

After the review, the commissioner of Revenue would modify the contractual terms as appropriate and if acceptable to the sponsors. The final contract would be submitted to the governor. The governor would transmit the contract to the legislature with a request for authorization to execute the contract. Finally, the legislature would vote on it.

There was great concern by local municipalities that a contract could compromise the property tax revenues they might receive, especially given the concerns about the property tax discussed above. Accordingly, the Act requires that a portion of the payments due under the contract is paid to affected municipalities. Also, the law created a municipal advisory group to participate in developing contract terms.

The law also has provisions intended to help make gas available to communities, to promote local hire, and to deal with confidential information provided by the sponsors.

SENATE FINANCE COMMITTEE

4 / 3/ 2003 COMMITTEE ACTION

Bill Number	CSHB 160 (FIN) Am			
Amendment				
Motion	Move from Committee			
Motion by	Bunde			
Objection by	Taylor			
Removed				
Second Objection by				
Committee Member	**Y**	***Vote***	**N**	
Senator Olson	✓			
Senator Stevens	✓			
Senator Taylor			✓	
Senator Bunde	✓			
Senator Hoffman	—		—	
Co-Chair Green	✓			
Co-Chair Wilken	✓			
Tally				
Yea	5			
Nay	1			
Absent	1			
MOTION	PASSED			

CS FOR HOUSE BILL NO. 16(FIN) am

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Amended: 3/26/03
Offered: 3/19/03

Sponsor(s): REPRESENTATIVES FATE, Whitaker, Chenault, Holm, Kohring, Heinze, Crawford, Guttenberg, Lynn

A BILL

FOR AN ACT ENTITLED

"An Act amending, for purposes of the Alaska Stranded Gas Development Act, the standards applicable to determining whether a proposed new investment constitutes a qualified project, the standards used to determine whether a person or group qualifies as a project sponsor or project sponsor group, and the deadline for applications relating to the development of contracts for payments in lieu of taxes and for royalty adjustments that may be submitted for consideration, and modifying the conditions bearing on the use of independent contractors to evaluate applications or to develop contract terms; providing statements of intent for the Act relating to use of project labor agreements and to reopening of contracts; and providing for an effective date."

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

*** Section 1.** The uncodified law of the State of Alaska is amended by adding a new section to read:

Amendment #1
(failed)

LEGISLATIVE INTENT. It is the intent of the legislature that

(1) in awarding contracts under the Alaska Stranded Gas Development Act, a qualified sponsor or qualified sponsor group and contractors of the qualified sponsor or qualified sponsor group may develop and enter into project labor agreements with appropriate collective bargaining organizations for each project for which a contract is entered into; and

(2) each contract for payments in lieu of taxes and for royalty adjustments entered into under the Alaska Stranded Gas Development Act contain a provision by which the contract may be reopened by any party to the contract; the subject matter of the reopening may be dealt with through the use of arbitration proceedings agreed on by the parties.

* **Sec. 2.** AS 43.82.100 is amended to read:

Sec. 43.82.100. Qualified project. Based on information available to the commissioner, the commissioner may determine that a proposal for new investment is a qualified project under this chapter [ONLY] if the project

(1) **principally involves**

(A) the transportation of natural gas by pipeline to one or more markets, together with any associated processing or treatment;

(B) [IS A PROJECT FOR] the export of liquefied natural gas **from the state to one or more other states or countries; or**

(C) any other technology that commercializes the shipment of natural gas within the state or from the state to one or more other states or countries;

(2) would produce at least 500,000,000,000 cubic feet of stranded gas within 20 years from the commencement of commercial operations; and

(3) is capable, subject to applicable commercial regulation and technical and economic considerations, of making gas available to meet the reasonably foreseeable demand in this state for gas within the economic proximity of the project.

* **Sec. 3.** AS 43.82.110 is amended to read:

Sec. 43.82.110. Qualified sponsor or qualified sponsor group. The commissioner may determine that a person or group is a qualified sponsor [OR qualified sponsor group if the person or a member of the group

(1) intends to own an equity interest in a qualified project, intends to] delete

continued →

commit gas that it owns to a qualified project, or holds the permits that the department determines are essential to construct and operate a qualified project; and

(2) meets one or more of the following criteria:

(A) owns a working interest in at least 10 percent of the stranded gas proposed to be developed by a qualified project;

(B) has the right to purchase at least 10 percent of the stranded gas proposed to be developed by a qualified project;

(C) has the right to acquire, control, or market at least 10 percent of the stranded gas proposed to be developed by a qualified project;

(D) has a net worth equal to at least **10** [33] percent of the estimated cost of constructing a qualified project;

(E) has an unused line of credit equal to at least **15** [25] percent of the estimated cost of constructing a qualified project.

delete

* **Sec. 4.** AS 43.82.170 is amended to read:

Sec. 43.82.170. Application deadline. The commissioner of revenue or the commissioner of natural resources may not act on an application for a contract submitted under AS 43.82.120 unless the application is received by the Department of Revenue no later than **March 31, 2005** [JUNE 30, 2001].

* **Sec. 5.** AS 43.82.240(a) is amended to read:

(a) The commissioner may use **independent contractors** [AN INDEPENDENT CONTRACTOR] to assist in the evaluation of an application or in the development of contract terms under AS 43.82.200. The commissioner may condition the development of a contract under AS 43.82.020 on an agreement by the applicant to reimburse the state for the **reasonable** expenses of **independent contractors** [AN INDEPENDENT CONTRACTOR] under this section. **A reimbursement of expenses that is required in an agreement authorized by this subsection may not exceed $1,500,000 for each application.**

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

SENATE FINANCE COMMITTEE

4/3/2003 COMMITTEE ACTION

Bill Number	HB 16			
Amendment	#			
Motion	Delete language			
Motion by	Taylor			
Objection by	Green			
Removed				
Second Objection by				
Committee Member	Y	***Vote***	N	
Senator Hoffman	—		—	
Senator Olson			✓	
Senator Stevens			✓	
Senator Taylor	✓			
Senator Bunde			✓	
Co-Chair Green			✓	
Co-Chair Wilken			✓	
Tally				
Yea	1			
Nay	5			
Absent	1			
MOTION	FAILED			

ALASKA STATE LEGISLATURE

House of Representatives

Representative Hugh (Bud) Fate

State Capitol, Room 128
Juneau, AK 99801
Phone: (907) 465-4976
Fax: (907) 465-3883
Toll Free: (866) 465-4976

Chair Resources
Member:
Military & Veterans Affairs
Oil & Gas
Transportation

Sponsor Statement

CS for House Bill 16

"An Act amending, for purposes of the Alaska Stranded Gas Development Act, the standards applicable to determining whether a proposed new investment constitutes a qualified project, the standards used to determine whether a person or group qualifies as a project sponsor or project sponsor group, and the deadline for applications relating to the development of contracts for payments in lieu of taxes and for royalty adjustments that may be submitted for consideration, and modifying the conditions bearing on the use of independent contractors to evaluate applications or to develop contract terms; providing statements of intent for the Act relating to use of project labor agreements and to reopening of contracts; and providing for an effective date."

House Bill 16 is cleanup language for the qualification and application procedures the Commissioners of Natural Resources, Revenue, or Labor and Workforce Development may use when considering a project involving natural gas. The changes update the language in order to allow continued interest in the development of the resource. By expanding the areas of potential gas exploration and development that fall under the Act.

Presently, statute only allows for natural gas projects if the product is to be exported in a liquefied form. HB 16 resolves this limitation, by expanding gas development and transportation in any form. With a lowering of the bar in capitol net assets and lines of credit, it expands the potential for a number of companies including those in Alaska, to become a part of the pipeline project.

When the Alaska Stranded Gas Development Act was passed, the language included an application deadline of June 30, 2001. HB 16 extends that deadline so the state and producers can resume contract negotiations with a clear understanding that the goal is the development of Alaska's natural gas for in-state, foreign and domestic markets.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

)07) 465-3867 or 465-2450
AX (907) 465-2029
'all Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM April 2, 2003

SUBJECT: Re draft SCS CSHB 16 (Resources), proposing amendments to the Alaska Stranded Gas Development Act (AS 43.82): would inclusion in an amendment proposed to AS 43.82.100, specifying the conditions of a qualified project, that set out a requirement that the project "principally involves the transportation of North Slope natural gas" prevent the project's transporting natural gas from other sources? (Work Order No. 23-LS0101\V)

TO: Senator Scott Ogan
Senate Resources Committee Chair

FROM: Jack Chenoweth
Assistant Revisor of Statutes

Linda Hay has asked me to address the above-captioned question.

In my judgment, so long as the proposed project "principally involves" the movement of North Slope natural gas to market, the pipeline contemplated could be used also to transport natural gas from other sources.

The reference to "principally involves" was sought by the bill sponsor in the measure as introduced in the House. The original source of "principally involves" is House Bill 519 of the 22nd (preceding) Legislature, and it appears in the bill as introduced. I have no notes that would indicate the purpose to be addressed by that language, only a direction that the insertion (and others) be incorporated into the bill without change.

With no written legislative history to guide, I can only guess that, in last session's HB 519, a principal reason for insertion of "principally involves" in place of "for" was to allow a measure of latitude for transportation in a proposed stranded gas pipeline project of natural gas not destined for out-of-Alaska sale -- perhaps for in-state royalty gas or non-royalty gas sold for in-state purposes. The context in which "principally involves" is used differs in SCS CSHB 16 from the context in which it was used in HB 519, but the intent appears similar. A proposed project is not expected to serve exclusively as the means to move North Slope stranded gas, and should have some latitude as to the sources of natural gas that may eventually be transported.

JBC:lmb
03-131.lmb

Chapter 43.82. ALASKA STRANDED GAS DEVELOPMENT ACT

Sec. 43.82.010. Purpose.

The purpose of this chapter is to

(1) encourage new investment to develop the state's stranded gas resources by authorizing establishment of fiscal terms related to that new investment without significantly altering tax and royalty methodologies and rates on existing oil and gas infrastructure and production;

(2) allow the fiscal terms applicable to a qualified sponsor or the members of a qualified sponsor group, with respect to a qualified project, to be tailored to the particular economic conditions of the project and to establish those fiscal terms in advance with as much certainty as the Constitution of the State of Alaska allows; and

(3) maximize the benefit to the people of the state of the development of the state's stranded gas resources.

Sec. 43.82.020. Contracts for payments in lieu of other taxes and for royalty adjustments.

The commissioner may, under this chapter, negotiate terms for inclusion in a proposed contract with a qualified sponsor or qualified sponsor group providing for

(1) periodic payment in lieu of one or more taxes that otherwise would be imposed by the state or a municipality on the qualified sponsor or members of the qualified sponsor group as a consequence of the sponsor's or group's participation in an approved qualified project under this chapter; and

(2) certain adjustments regarding royalty under AS 43.82.220 .

Sec. 43.82.100. Qualified project.

Based on information available to the commissioner, the commissioner may determine that a proposal for new investment is a qualified project under this chapter only if the project

(1) is a project for the export of liquefied natural gas;

(2) would produce at least 500,000,000,000 cubic feet of stranded gas within 20 years from the commencement of commercial operations; and

(3) is capable, subject to applicable commercial regulation and technical and economic considerations, of making gas available to meet the reasonably foreseeable demand in this state for gas within the economic proximity of the project.

Sec. 43.82.110. Qualified sponsor or qualified sponsor group.

The commissioner may determine that a person or group is a qualified sponsor or qualified sponsor group if the person or a member of the group

Provided by Rep. Fate

(1) intends to own an equity interest in a qualified project, intends to commit gas that it owns to a qualified project, or holds the permits that the department determines are essential to construct and operate a qualified project; and

(2) meets one or more of the following criteria:

(A) owns a working interest in at least 10 percent of the stranded gas proposed to be developed by a qualified project:

(B) has the right to purchase at least 10 percent of the stranded gas proposed to be developed by a qualified project;

(C) has the right to acquire, control, or market at least 10 percent of the stranded gas proposed to be developed by a qualified project;

(D) has a net worth equal to at least 33 percent of the estimated cost of constructing a qualified project;

(E) has an unused line of credit equal to at least 25 percent of the estimated cost of constructing a qualified project.

Sec. 43.82.120. Applications.

(a) A qualified sponsor or qualified sponsor group may submit to the department an application for development of a contract under AS 43.82.020 evidencing that the requirements of AS 43.82.100 and 43.82.110 are met. The application must be submitted in the manner and form and contain the information required by the department.

(b) Along with an application submitted under (a) of this section, an applicant shall submit a proposed project plan for a qualified project that contains the following information based on the information known to the applicant at the time of application:

(1) a description of the work accomplished as of the date of the application to further the project;

(2) a schedule of proposed development activity leading to the projected commencement of commercial operations of the project;

(3) a description of the development activity proposed to be accomplished under the proposed project plan;

(4) a description of each lease or property that the applicant believes to contain the stranded gas that would be developed if the project was built;

(5) a description of the methods and terms under which the applicant is prepared to make gas available to meet the reasonably foreseeable demand in this state for gas within the economic

proximity of the project during the term of the proposed contract, including proposed pipeline transportation and expansion rules if pipeline transportation is a part of the proposed project;

(6) a detailed description of options to mitigate the increased demand for public services and other negative effects caused by the project;

(7) a detailed description of options for the safe management and operation of the proje once it is constructed;

(8) other information that the commissioner of revenue, in consultation with the commissioner of natural resources, considers necessary to make a determination that

(A) the work accomplished as of the date of application, the schedule of proposed development activity, and the development activity proposed to be accomplished under the proposed project plan reflect a proposal for diligent development on the part of the applicant;

(B) the proposed project plan does not materially conflict with the obligations of a lessee to the state under a lease or under a pool, unit, or other agreement with the state; and

(C) the proposed project plan describes satisfactory methods and terms for accommodating reasonably foreseeable demand for gas in this state within the economic proximity of the project during the term of the proposed contract.

(c) The requirements of (b) of this section do not diminish the obligations of a qualified sponsor or member of a qualified sponsor group to the state or restrict the authority of the commissioner of revenue or the commissioner of natural resources under any other law or agreement relating to a plan of development for a lease, pool, or unit.

Sec. 43.82.130. Qualified project plan.

A proposed project plan submitted under AS 43.82.120 may be approved as a qualified project plan under AS 43.82.140 if the proposed project plan

(1) reflects a proposal for diligent development of the project on the part of the applicant;

(2) does not materially conflict with the obligations of a lessee to the state under a lease or under a pool, unit, or other agreement with the state; and

(3) describes satisfactory methods and terms for making gas available to meet the reasonably foreseeable demand in this state for gas within the economic proximity of the project during the term of the proposed contract.

Sec. 43.82.140. Review of applications and determination of qualifications.

(a) The commissioner shall review an application submitted under AS 43.82.120 to determine whether the provisions of AS 43.82.100 concerning a qualified project and AS 43.82.110 concerning a qualified sponsor or qualified sponsor group have been met. The commissioner may approve an application only if those provisions have been met.

(b) If the commissioner approves an application under (a) of this section, the commissioner and the commissioner of natural resources shall review the proposed project plan submitted with the application to determine whether the provisions of AS 43.82.130 have been met. The commissioner may approve the proposed project plan as a qualified project plan only if the commissioner of natural resources concurs in the approval.

(c) The commissioner shall send to the applicant written notice of and the reasons for the determinations made under (a) and (b) of this section.

Sec. 43.82.150. Actions challenging determinations on applications.

(a) Only an applicant under AS 43.82.120 who is aggrieved by a determination of the commissioner of revenue or the commissioner of natural resources under AS 43.82.140 may seek judicial review of the determination.

(b) The only grounds for judicial review of a determination made under AS 43.82.140 are

(1) failure to follow the qualification and application procedures set out in AS 43.82.100 - 43.82.180; or

(2) abuse of discretion that is so capricious, arbitrary, or confiscatory as to constitute a denial of due process.

Sec. 43.82.160. Multiple applications for similar or competing qualified projects.

Nothing in this chapter prohibits different qualified sponsors or different qualified sponsor groups from submitting applications under AS 43.82.120 relating to similar or competing qualified projects or prohibits the commissioner of revenue or the commissioner of natural resources from reviewing and approving applications and proposed project plans under AS 43.82.140 relating to similar or competing qualified projects.

Sec. 43.82.170. Application deadline.

The commissioner of revenue or the commissioner of natural resources may not act on an application for a contract submitted under AS 43.82.120 unless the application is received by the Department of Revenue no later than June 30, 2001.

Sec. 43.82.180. Withdrawal of applications.

Subject to the terms of a reimbursement agreement under AS 43.82.240 or other agreement with the Department of Revenue, the Department of Natural Resources, the commissioner of revenue, or the commissioner of natural resources affecting the withdrawal of an application, a qualified sponsor or qualified sponsor group may withdraw an application submitted under AS 43.82.120 at any time before the date that the commissioner of revenue submits a contract to the governor under AS 43.82.430 without further obligation under this chapter.

Sec. 43.82.200. Contract development.

If the commissioner approves an application and proposed project plan under AS 43.82.140 , the commissioner may develop a contract that may include

(1) terms concerning periodic payment in lieu of one or more taxes as provided in AS 43.82.210 ;

(2) terms developed under AS 43.82.220 relating to

(A) timing and notice of the state's right to take royalty in kind or in value; and

(B) royalty value;

(3) terms regarding the hiring of Alaska residents and contracting with Alaska businesses under AS 43.82.230 ;

(4) terms regarding periodic payment to, or an equity or other interest in a project for, municipalities under AS 43.82.500 ;

(5) terms regarding arbitration or alternative dispute resolution procedures;

(6) terms and conditions for administrative termination of a contract under AS 43.82.445 ; and

(7) other terms or conditions that are

(A) necessary to further the purposes of this chapter; or

(B) in the best interests of the state.

Sec. 43.82.210. Contract terms relating to payment in lieu of one or more taxes.

(a) If the commissioner approves an application and proposed project plan under AS 43.82.140 , the commissioner may develop proposed terms for inclusion in a contract under AS 43.82.020 for periodic payment in lieu of one or more of the following taxes that otherwise would be imposed by the state or a municipality on the qualified sponsor or member of a qualified sponsor group as a consequence of participating in an approved qualified project:

(1) oil and gas production taxes and oil surcharges under AS 43.55;

(2) oil and gas exploration, production, and pipeline transportation property taxes under AS 43.56;

(3) [Repealed, Sec. 6 ch 34 SLA 1999].

(4) Alaska net income tax under AS 43.20;

(5) municipal sales and use tax under AS 29.45.650 - 29.45.710;

(6) municipal property tax under AS 29.45.010 - 29.45.250 or 29.45.550 - 29.45.600;

(7) municipal special assessments under AS 29.46;

(8) a comparable tax or levy imposed by the state or a municipality after June 18, 1998;

(9) other state or municipal taxes or categories of taxes identified by the commissioner.

(b) If the commissioner chooses to develop proposed terms under (a) of this section, the commissioner shall, if practicable and consistent with the long-term fiscal interests of the state, develop the terms in a manner that attempts to balance the following principles:

(1) the terms should, in conjunction with other factors such as cost reduction of the project, cost overrun risk reduction of the project, increased fiscal certainty, and successful marketing, improve the competitiveness of the approved qualified project in relation to other development efforts aimed at supplying the same market;

(2) the terms should accommodate the interests of the state, affected municipalities, and the project sponsors under a wide range of economic conditions, potential project structures, and marketing arrangements;

(3) the state's and affected municipalities' combined share of the economic rent of the approved qualified project under the contract should be relatively progressive; that is, the state's and affected municipalities' combined annual share of the economic rent of the approved qualified project generally should not increase when there are decreases in project profitability, or decrease when there are increases in project profitability;

(4) the state's and affected municipalities' combined share of the economic rent of the approved qualified project under the contract should be relatively lower in the earlier years than in the later years of the approved qualified project;

(5) the terms should allow the project sponsors to retain a share of the economic rent of the approved qualified project that is sufficient to compensate the sponsors for risks under a range of economic circumstances;

(6) the terms should provide the state and affected municipalities with a significant share of the economic rent of the approved qualified project, when discounted to present value, under favorable price and cost conditions;

(7) the method for calculating the periodic payment in lieu of certain taxes under the contract should be clear and unambiguous; and

(8) while cost calculations for the approved qualified project under the contract should be based on amounts that closely approximate actual costs, agreed-upon formulas reflecting reasonable economic assumptions should be used if possible to promote administrative certainty and efficiency.

(c) Except as provided in (b) of this section, the commissioner's discretion under this section in developing proposed terms for a contract under AS 43.82.020 is not limited to consideration of the economic rent of the approved qualified project.

Sec. 43.82.220. Contract terms relating to royalty.

(a) Notwithstanding any contrary provisions of AS 38, the commissioner of natural resources, with the concurrence of the commissioner of revenue and the affected parties holding a state lease or unit agreement, may develop proposed terms for inclusion in a contract under AS 43.82.020 that modify the timing and notice provisions of the applicable oil and gas leases and unit agreements pertaining to the state's rights to receive its royalty on gas in kind or in value if

(1) the viability of the approved qualified project depends on long-term gas purchase and sale agreements;

(2) certainty over time regarding the quantity of royalty gas that the state may be taking in kind is needed to secure the long-term purchase and sale agreements;

(3) the specified period of the state's commitment to take its royalty share in value or in kind does not exceed the term of the purchase and sale agreements; and

(4) the modification does not impair the ability of the approved qualified project or the state to meet the reasonably foreseeable demand in this state for gas within economic proximity of the project during the term of the contract developed under AS 43.82.020 .

(b) Notwithstanding any contrary provisions of AS 38, the commissioner of natural resources, with the concurrence of the commissioner of revenue and the affected parties holding a state lease or unit agreement, may develop proposed terms for inclusion in a contract under AS 43 82.020 that establish a valuation method for the state's royalty share of the gas production from an approved qualified project.

(c) The commissioner of revenue shall include any proposed terms relating to royalty developed in accordance with this section in the proposed contract under AS 43.82.400 .

(d) Nothing in this chapter permits modification of the state's rights that relate to timing, notice, and rights to receive oil royalty in kind or in value under oil and gas leases or unit agreements.

Sec. 43.82.230. Contract terms relating to hiring of Alaska residents and contracting with Alaska businesses.

(a) The commissioner shall include in a contract under AS 43.82.020 a term requiring the qualified sponsor or qualified sponsor group and contractors of the qualified sponsor or qualified sponsor group to comply with all valid federal, state, and municipal laws relating to hiring Alaska residents and contracting with Alaska businesses to work in the state on the approved qualified project and not to discriminate against Alaska residents or Alaska businesses. Within the constraints of law, the commissioner shall also include in a contract under AS 43.82.020 a term that requires the qualified sponsor or qualified sponsor group and contractors of the

qualified sponsor or qualified sponsor group to employ Alaska residents and to contract with Alaska businesses to work in the state on the approved qualified project to the extent the residents and businesses are available, competitively priced, and qualified.

(b) The commissioner shall include in a contract under AS 43.82.020 a term requiring the qualified sponsor or qualified sponsor group and contractors of the qualified sponsor or qualified sponsor group to

(1) advertise for available positions in newspapers in the location where the work is to be performed and in other publications distributed throughout the state, including in rural areas; and

(2) use Alaska job service organizations located throughout the state and not just in the location where the work is to be performed in order to notify Alaskans of work opportunities on the approved qualified project.

(c) Subject to the voluntary agreement of the qualified sponsor, the commissioner may include a term in the contract providing for incentives to encourage training and hiring of Alaska residents.

(d) This section does not create or abridge individual rights and does not create a private right of action for any person.

(e) For purposes of this section,

(1) "Alaska business" means a firm or contractor that

(A) has held an Alaska business license for the preceding 12 months;

(B) maintains, and has maintained for the preceding 12 months, a place of business in the state that competently and professionally deals in supplies, services, or construction of the nature required for the approved qualified project; and

(C) is

(i) a sole proprietorship and the proprietor is an Alaska resident;

(ii) a partnership and more than 50 percent of the partnership interest is held by Alaska residents;

(iii) a limited liability company and more than 50 percent of the membership interest is held by Alaska residents;

(iv) a corporation that has been incorporated in the state or is authorized to do business in the state; or

(v) a joint venture and a majority of the venturers qualify as Alaska businesses under this paragraph;

(2) "Alaska job service organizations" means those offices maintained by the state and recommended by the Department of Labor and Workforce Development whose functions are to aid the unemployed or underemployed in finding employment;

(3) "Alaska resident" means a natural person who

(A) receives a permanent fund dividend under AS 43.23; or

(B) is registered to vote under AS 15 and qualifies for a resident fishing, hunting, or trapping license under AS 16;

(4) "available," as applied to an Alaska resident or Alaska business, means that the resident or business is available for employment at the time required and is located anywhere in the state, not just in the area of the state where the work is to be performed;

(5) "qualified," as applied to an Alaska resident or Alaska business, means that the resident or business possesses the requisite education, training, skills, certification, or experience to perform the work necessary for a particular position or to perform a particular service.

Sec. 43.82.240. Use of an independent contractor.

(a) The commissioner may use an independent contractor to assist in the evaluation of an application or in the development of contract terms under AS 43.82.200 . The commissioner may condition the development of a contract under AS 43.82.020 on an agreement by the applicant to reimburse the state for the expenses of an independent contractor under this section.

(b) An independent contractor selected under this section must sign an agreement regarding confidentiality and disclosures consistent with the determinations made under AS 43.82.310 before the contractor may review information that is determined confidential under AS 43.82.310

(c) Selection of an independent contractor under this section is not subject to AS 36.30 (State Procurement Code).

Sec. 43.82.250. Term of contract; effective date.

The term of a contract developed under AS 43.82.020 may be for no longer than is necessary to develop the stranded gas that is subject to the contract; however, the term of the contract may not exceed 35 years from the commencement of commercial operations of the approved qualified project.

Sec. 43.82.260. Change of parties to an application or a contract; assignment of interests.

(a) A qualified sponsor or member of a qualified sponsor group may assign an interest in or add or withdraw a party to an application under AS 43.82.120 only if the commissioner has

(1) made a finding that the assignment, addition, or withdrawal is consistent with the requirements of AS 43.82.110 ; and

(2) given prior written approval for the assignment, addition, or withdrawal.

(b) A contract developed under this chapter may provide for the assignment to or withdrawal of a qualified sponsor or member of a qualified sponsor group.

(c) Upon being added to an application under this section, a party becomes a qualified sponsor or a member of a qualified sponsor group, as appropriate, for the relevant project.

(d) The commissioner may not unreasonably withhold approval under (a) of this section, but may condition the approval in any way reasonably necessary to protect the fiscal interests of the state and to further the purposes of this chapter.

(e) For purposes of this section, an assignment includes a transfer of stock or a partnership interest in a manner that changes control of a qualified sponsor or member of a qualified sponsor group.

Sec. 43.82.270. Project plans and work commitments.

A contract under AS 43.82.020 must include the qualified project plan approved under AS 43.82.140 and provisions for updating the plan at reasonable intervals until the commencement of commercial operations of the approved qualified project. The commissioner of revenue, in consultation with the commissioner of natural resources, may, as a term in a contract under AS 43.82.020 , include work commitments or other obligations in the contract to be accomplished before the commencement of commercial operations of the approved qualified project.

Sec. 43.82.300. Requests for information.

The commissioner of revenue or the commissioner of natural resources may request from an applicant information that the respective commissioner determines is necessary to perform the respective commissioner's responsibilities under AS 43.82.140 . If the application is approved under AS 43.82.140 , the respective commissioner shall require the successful applicant to provide financial, technical, and market information regarding the qualified project that the respective commissioner determines is necessary for the purpose of developing contract terms for the qualified project under AS 43.82.200 . If requested information is not provided, the commissioner of revenue may not continue to review the application under AS 43.82.140 or develop the contract under AS 43.82.200 - 43.82.270, as applicable.

Sec. 43.82.310. Disclosure of information; confidentiality.

(a) An applicant may request confidential treatment of information that the applicant provides under AS 43.82.300 by clearly identifying the information and the reasons supporting the request for confidential treatment. The commissioner of revenue or the commissioner of natural resources, as appropriate, shall keep the information confidential until the commissioner determines whether the requirements of (b) of this section are met. If the commissioner of revenue or the commissioner of natural resources has not made a determination under (b) of this section within 14 days after receiving a request for confidential treatment, the request is considered denied. If the appropriate commissioner determines that the information does not

meet the requirements of (b) of this section or if the commissioner fails to make a determination within 14 days, the commissioner shall return the information and any copies of it at the request of the applicant. If the commissioner of revenue or the commissioner of natural resources, as appropriate, returns information under this subsection, the commissioner shall cease review of the application or cease contract development under AS 43.82.200 - 43.82.270, as appropriate, unless the commissioner determines that the returned information is unnecessary to make a determination on the application or to develop contract terms under AS 43.82.200 - 43.82.270.

(b) If requested by the applicant, information provided to the commissioner of revenue or the commissioner of natural resources under AS 43.82.300 shall be kept confidential if the commissioner receiving the information determines, upon an adequate showing by the applicant, that the information

(1) is a trade secret or other proprietary research, development, or commercial information that the applicant treats as confidential;

(2) affects the applicant's competitive position; and

(3) has commercial value that may be significantly diminished by public disclosure or that public disclosure is not in the long-term fiscal interests of the state.

(c) Information determined to be confidential under (b) of this section is confidential under that subsection only so long as is necessary to protect the competitive position of the applicant, to prevent the significant diminution of the commercial value of the information, or to protect the long-term fiscal interests of the state. The commissioner of revenue or the commissioner of natural resources, as appropriate, may not release information that the commissioner has previously determined to be confidential under (b) of this section without providing the applicant notice and an opportunity to be heard.

(d) Notwithstanding the limitation in (c) of this section, the Department of Revenue and the Department of Natural Resources may provide to one another, to the Department of Law, to the legislature, and to the Office of the Governor any information provided under AS 43.82.300 relevant to the implementation of this chapter or to the enforcement of state or federal laws. Information that is exchanged under this subsection that was determined to be confidential under (b) of this section remains confidential except as provided in (c) of this section. The portions of the records and files of the Department of Revenue, the Department of Natural Resources, the Department of Law, the legislature, and the Office of the Governor that reflect, incorporate, or analyze information that is determined to be confidential under (b) of this section are not public records except as provided in (c) of this section.

(e) Notwithstanding the limitation in (c) of this section, information that is determined to be confidential under (b) of this section shall be disclosed on request by the commissioner of revenue, the commissioner of natural resources, or the attorney general to a legislator; to the legislative auditor; and, as directed by the chair or vice-chair of the Legislative Budget and Audit Committee, to the director of legislative finance, to the permanent employees of those divisions who are responsible for evaluating a contract under AS 43.82.020, and to agents or contractors of the legislative auditor or the director of legislative finance who are engaged to evaluate a contract under AS 43.82.020 . Information that is determined to be confidential under (b) of this

section may also be disclosed by the commissioner of revenue or the commissioner of natural resources to an independent contractor under AS 43.82.240 or to a municipal advisory group established under AS 43.82.510 . Before confidential information is disclosed under this subsection, the person receiving the information must sign an appropriate confidentiality agreement.

(f) If the commissioner of revenue chooses to develop a contract under AS 43.82.020 , the portions of the records and files of the Department of Revenue, the Department of Natural Resources, the Department of Law, and a municipal advisory group established under AS 43.82.510 that reflect, incorporate, or analyze information that is relevant to the development of the position or strategy of the commissioner of revenue, the commissioner of natural resources, or the attorney general with respect to a particular provision that may be incorporated into the contract are not public records until the commissioner of revenue gives public notice under AS 43.82.410 of the commissioner's preliminary findings and determination under AS 43.82.400 . Nothing in this subsection

(1) makes a record or file of the Department of Revenue, the Department of Natural Resources, or the Department of Law a public record that otherwise would not be a public record under AS 40.25.100 - 40.25.220;

(2) affects the confidentiality provisions of (a) - (e) of this section; or

(3) abridges a privilege recognized under the laws of this state, whether at common law or by statute or by court rule.

Sec. 43.82.400. Preliminary findings and determination regarding the contract.

(a) If the commissioner develops a proposed contract under AS 43.82.200 - 43.82.270, the commissioner shall

(1) make preliminary findings and a determination that the proposed contract terms are in the long-term fiscal interests of the state and further the purposes of this chapter; and

(2) prepare a proposed contract that includes those terms and shall submit the contract to the governor.

(b) To make the preliminary findings and determination required by (a)(1) of this section, the commissioner shall compare the projected public revenue anticipated from the approved qualified project with the estimated operating and capital costs of the additional state and municipal services anticipated to arise from the construction and operation of the approved qualified project. The commissioner shall address the reasonably foreseeable effects of the proposed contract on the public revenue.

(c) In conjunction with the making of preliminary findings and determination required by (a)(1) of this section, the commissioner shall describe the principal factors, including the projected price of gas, projected production rate or volume of gas, and projected recovery, development, construction, and operating costs, upon which the determination made under (a)(1) of this section is based. If the commissioner has previously submitted a proposed contract to the

governor, the commissioner shall describe any material differences between the terms of the currently proposed contract and the previously proposed contract.

Sec. 43.82.410. Notice and comment regarding the contract.

The commissioner shall

(1) give reasonable public notice of the preliminary findings and determination made under AS 43.82.400 ;

(2) make copies of the proposed contract, the commissioner's preliminary findings and determination, and, to the extent the information is not required to be kept confidential under AS 43.82.310 , the supporting financial, technical, and market data, including the work papers, analyses, and recommendations of any independent contractors used under AS 43.82.240 available to the public and to

(A) the presiding officer of each house of the legislature;

(B) the chairs of the finance and resources committees of the legislature; and

(C) the chairs of the special committees on oil and gas, if any, of the legislature;

(3) offer to appear before the Legislative Budget and Audit Committee to provide the committee a review of the commissioner's preliminary findings and determination, the proposed contract, and the supporting financial, technical, and market data; if the Legislative Budget and Audit Committee accepts the commissioner's offer, the committee shall give notice of the committee's meeting to the public and all members of the legislature; if the financial, technical, and market data that is to be provided must be kept confidential under AS 43.82.310 , the commissioner may not release the confidential information during a public portion of a committee meeting; and

(4) establish a period of at least 30 days for the public and members of the legislature to comment on the proposed contract and the preliminary findings and determination made under AS 43.82.400 .

Sec. 43.82.420. Coordination of public and legislative review.

To the extent practicable, the commissioner shall coordinate the public comment opportunity provided under AS 43.82.410 (4) with a review by the Legislative Budget and Audit Committee under AS 43.82.410 (3).

Sec. 43.82.430. Final findings, determination, and proposed amendments; execution of the contract.

(a) Within 30 days after the close of the public comment period under AS 43.82.410 (4), the commissioner of revenue shall

(1) prepare a summary of the public comments received in response to the proposed contract and the preliminary findings and determination;

(2) after consultation with the commissioner of natural resources, if appropriate, and with the pertinent municipal advisory group established under AS 43.82.510, prepare a list of proposed amendments, if any, to the proposed contract that the commissioner of revenue determines are necessary to respond to public comments;

(3) make final findings and a determination as to whether the proposed contract and any proposed amendments prepared under (2) of this subsection meet the requirements and purposes of this chapter.

(b) After considering the materia[illegible] bed in (a) of this section and securing the agreement of the other parties to the propos[illegible]ontrac[illegible] regarding any proposed amendments prepared under (a) of this section, if the commissioner determines that the contract is in the long-term fiscal interests of the state, the commissioner shall submit the contract to the governor.

(c) The commissioner's final findings and determination under (a) of this section are final agency decisions under this chapter.

Sec. 43.82.435. Legislative authorization.

The governor may transmit a contract developed under this chapter to the legislature together with a request for authorization to execute the contract. A contract developed under this chapter is not binding upon or enforceable against the state or other parties to the contract unless the governor is authorized to execute the contract by law. The state and the other parties to the contract may execute the contract within 60 days after the effective date of the law authorizing the contract.

Sec. 43.82.440. Judicial review.

A person may not bring an action challenging the constitutionality of a law authorizing a contract enacted under AS 43.82.435 or the enforceability of a contract executed under a law authorizing a contract enacted under AS 43.82.435 unless the action is commenced within 120 days after the date that the contract was executed by the state and the other parties to the contract.

Sec. 43.82.445. Administrative termination of a contract.

(a) The commissioner shall include terms in a contract developed under AS 43.82.020 that provide for administrative termination of a party's rights under the procedures and conditions set out in this section if the party has

(1) ceased to meet the requirements of AS 43.82.110 as a qualified sponsor or qualified sponsor group;

(2) intentionally or fraudulently misrepresented, in whole or in part, material facts or circumstances upon which the contract was made;

(3) failed to comply with a condition or material term of the contract or a provision of this chapter; or

(4) failed to comply with the approved qualified project plan or any updated project plan.

(b) Before administrative termination of a contract under this section, the commissioner shall give notice to the parties of the commissioner's intent to terminate the contract and an opportunity to be heard. The commissioner may also provide the parties an opportunity to cure any deficiency that is the basis for the termination if the commissioner determines that curing the deficiency is appropriate under the circumstances.

(c) Notwithstanding (a) and (b) of this section, the commissioner may not administratively terminate a contract after the party has committed full project funding except as provided in (e) of this section.

(d) A party to a contract who is affected by the commissioner's action to terminate under (a) of this section may file an appeal with the superior court under the Alaska Rules of Appellate Procedure.

(e) The commissioner may provide terms and conditions in a contract developed under AS 43.82.020 upon which a party's rights under the contract may be administratively terminated after the party commits full project funding.

Sec. 43.82.500. Obligation to share payments with municipalities.

If the commissioner develops a contract under AS 43.82.020 that includes terms that exempt a party to the contract, and the property, gas, products, and activities associated with the approved qualified project that is subject to the contract, from a municipal tax or assessment in accordance with AS 29.45.810 or AS 29.46.010 (b), or AS 43.82.200 and 43.82.210, the commissioner shall include a term in the contract that the party pay a portion of the periodic payments due under the contract to the revenue-affected municipality.

Sec. 43.82.505. Payments to economically affected municipalities.

If the commissioner executes a contract under AS 43.82.020 that will produce one or more economically affected municipalities, the commissioner shall include a term in the contract that provides for a portion of the periodic payments to the economically affected municipalities under the principles in AS 43.82.520 .

Sec. 43.82.510. Municipal advisory group.

(a) If the commissioner approves an application and proposed project plan under AS 43.82.140 and decides to develop a contract under AS 43.82 020 and 43.82.200, the commissioner shall notify each revenue-affected municipality and economically affected municipality.

(b) The mayor of a municipality notified by the commissioner under (a) of this section may appoint one representative to a municipal advisory group in relation to the application.

(c) Each municipal advisory group serves until a final action is taken on the application for which the group was appointed.

(d) Each municipal advisory group shall elect a chair.

Sec. 43.82.520. Duties of the commissioner of revenue in relation to municipal participation.

(a) The commissioner shall meet with each municipal advisory group periodically to report on the development of the contract provisions that affect the municipalities.

(b) In developing a contract under AS 43.82.200 - 43.82.270, the commissioner shall ensure that each revenue-affected municipality and economically affected municipality receives a fair and reasonable share of the payments provided under AS 43.82.210 in accordance with the following principles:

(1) the share of the payments to revenue-affected municipalities should be given priority over payments to economically affected municipalities with due regard to the anticipated size of the tax base that the contract would exempt from municipal taxation by revenue-affected municipalities;

(2) the share of the payments to municipalities should be determined with due regard to the anticipated economic and social burdens that would be imposed on the municipality by construction and operation of the project;

(3) the respective shares of the total payments to the state and to municipalities should be fixed in a manner to ensure that their respective interests are aligned;

(4) to the extent practicable, the periodic amounts paid to each of the municipalities should be stable and predictable; and

(5) to the extent practicable, the provisions for sharing payments with municipalities should be consistent with the principles established in AS 43.82.210 (b).

(c) In establishing the municipal shares under (b) of this section, the commissioner shall consult with the pertinent municipal advisory group.

Sec. 43.82.600. Governing law.

If a provision of this chapter conflicts with another provision of state or municipal law, the provision of this chapter governs.

Sec. 43.82.610. Regulations.

The commissioner of revenue, the commissioner of natural resources, and the commissioner of labor and workforce development may adopt regulations to carry out their respective duties under this chapter.

Sec. 43.82.620. Procedures for collection of amounts due; security.

(a) The commissioner may adopt procedures for the collection of amounts due the state under a contract developed under AS 43.82.020 , including the collection of interest and penalties.

(b) The commissioner may require a party to a contract developed under AS 43.82.020 to provide security sufficient to guarantee amounts due under the contract.

Sec. 43.82.630. Reports and audits.

The commissioner may require periodic reports from and may at reasonable intervals conduct audits and inspect the books of a party that has entered into a contract developed under AS 43.82.020 to ensure compliance with the provisions of this chapter and the regulations adopted under this chapter and of the terms of the contract.

Sec. 43.82.640. Annual report of the commissioner of labor and workforce development.

On an annual basis, the commissioner of labor and workforce development shall prepare and present to the legislature a comprehensive report on each party to a contract with the state developed under AS 43.82.020 , and its contractors, regarding the state residency of the employees working in this state on the approved qualified project that is subject to the contract. The commissioner of labor and workforce development shall use state data bases, including data from the quarterly reports by a party to the contract developed under AS 43.82.020 and its contractors for unemployment insurance purposes, to determine state residency of employees regarding compliance with AS 43.82.230 .

Sec. 43.82.900. Definitions.

In this chapter, unless the context requires otherwise,

(1) "affected municipality" means an economically affected municipality or a revenue-affected municipality;

(2) "commencement of commercial operations" means the start of regular deliveries of marketable products from an approved qualified project;

(3) "cubic foot of gas" means the quantity of gas contained in a volume of one cubic foot at a standard temperature of 60 degrees Fahrenheit and a standard absolute pressure of 14.65 pounds per square inch;

(4) "economically affected municipality" means a municipality the commissioner of revenue determines will be reasonably required to provide additional public services under the terms proposed in an application approved under AS 43.82.140 (a); the commissioner may consider historical data from construction of the Trans Alaska Pipeline System, and information submitted by a municipality in making the determination;

(5) "economic proximity" means the distance within which a person may be willing to design, construct, and operate a gas line to provide service to a local consumer;

(6) "economic rent" means the estimated total gross revenue less estimated total costs for a qualified project over the term of a contract under AS 43.82.020 , measured in undiscounted nominal dollars; for purposes of this paragraph, total costs do not include a rate of return on capital, financing costs, or any payments to governments;

(7) "full project funding" means full approval by a party to a contract under AS 43.82.020 for the expenditure of the capital necessary for construction and operation of the approved qualified project that is subject to the contract;

(8) "gas" has the meaning given in AS 43.55.900 ;

(9) "group" means two or more persons;

(10) "lease or property" has the meaning given in AS 43.55.900 ;

(11) "periodic payment" means payment made in lieu of one or more other taxes under a contract under AS 43.82.020 ;

(12) "revenue-affected municipality" means a municipality that the commissioner of revenue reliably expects will be restricted from imposing a tax, or a portion of a tax, as a result of implementation of a contract developed under this chapter;

(13) "stranded gas" means gas that is not being marketed due to prevailing costs or price conditions as determined by an economic analysis by the commissioner for a particular project.

Sec. 43.82.990. Short title.

This chapter may be cited as the Alaska Stranded Gas Development Act.

Overview of HB 16
Presentation to Senate Finance
Roger Marks
Alaska Department of Revenue
April 3, 2003

Good morning, co-chairs Wilken and Green, and members of the committee. My name is Roger Marks. I am a petroleum economist with the Tax Division of the Department of Revenue. I worked on the original Stranded Gas Act in 1998 and am familiar with its history, intent, and mechanics. I would like to provide a very brief overview of the Act at AS 43.82. A more detailed synopsis is with the fiscal note.

The Act originated in HB 250 in 1997 which established a North Slope Gas Commercialization team in the Administration to research and recommend changes to state law to encourage commercialization of North Slope gas. The team concluded that the project faced considerable risk, namely gas price risk and cost overrun risk, and that the state's fiscal system actually exacerbated those risks. Two of the risks of particular concern were fiscal uncertainty and the state's regressive tax system.

(A brief comment on the price risk: The cost of the project is very large: $20 billion. That is a lot of money to any corporation, even ones the size of Exxon, BP, or ConocoPhillips. If this project is built and something goes wrong, such as low prices, the sponsors face very large losses. And even if these are relatively low probability events, the project may not be built if a company cannot tolerate a loss of that size. That is why the risk reduction mechanism proposed in Congress, which is currently in place for non-conventional gas in the lower 48, may be a very necessary linchpin in making this project a reality.)

By fiscal uncertainty we mean the threat of changes in fiscal provisions after a project is built, that may change the project's viability after it is too late to do anything about it. A project may be feasible under one tax system. If it is built under the assumption that the tax system in place will stay in place, but the tax system changes, the changes could cause heavy financial losses.

Second, there are two significant elements of the state's fiscal system that make it regressive. By regressive we mean that the state's take is a high percentage of income at low prices, and a low percentage at high prices. First, the property tax is based on cost. The higher the cost the higher the tax. This is a double whammy to an investor who incurs a cost overrun. Moreover, the property tax is payable when construction begins, years before revenues start accruing. On a time value of money basis this diminishes the rate of return, and increases the risk of not recovering the investment.

The second regressive elements are the severance tax and royalty. They are based on the value at the point where the gas comes out of the ground, and ignore upstream costs such as capital and operating costs. Thus when costs are high and prices are low, the state's take is a high percentage of low income. Again, this intensifies the danger of low prices.

I might add that a regressive system also limits the state's take at high prices. Fixing that could be very important to the state for securing more revenue when prices are high, without threatening the viability of the project.

The Stranded Gas Act was the result of trying to fix these shortcomings. The law provided a mechanism for converting the state's fiscal system from a statutory basis to a contractual basis. This would provide for greater fiscal certainty. The fiscal system would be negotiated between the state and the project sponsors, and approved by the legislature, after a public review period. Payments to the state would be made in-lieu of taxes. And per the Act the contract terms would provide for a more progressive (less regressive) system.

Most of the provisions subject to negotiation are the tax provisions. Given that the royalty represents the state's ownership share, there was not interest in making the royalty rate subject to change. The only royalty provisions subject to negotiation would be the gas valuation method, and the timing of royalty in-kind and in-value notices.

The Commissioner of Revenue would be the primary agent for negotiating and implementing the contact. However, the Commissioner of Natural Resources is also responsible for reviewing the project plan for acceptability, and for negotiating any changes in those royalty issues.

There was concern by municipalities that a contract could compromise their property tax revenues. Accordingly, the Act created a municipal advisory group to participate in developing contract terms, and the Act requires that a fair and reasonable share of the payments due under the contract be paid to affected municipalities with due regard to the size of the tax base that may be exempted, and the economic and social burdens imposed by construction and operation.

The Act also has provisions for sponsors to help make gas available to communities, to promote local hire, to deal with confidential information provided by the sponsors, and to reimburse the state for contractors it may use to assist in the negotiation process.

Finally, there were some questions raised as to whether this would surrender or contract away the power to tax, which is forbidden by our constitution. It was the administration's judgement that this would not preclude future legislatures from imposing other taxes, but this contract would represent a solemn pledge, a moral commitment by the state, and a message to future legislatures that once it agrees to the terms it will not change them.

Pacific Star energy

Re: Testimony Before House Finance Committee, March 17, 2003
In Support of HB 16

Dear Representative Williams and Representative Harris:

For the record, my name is Ken Thompson. I am the past President of ARCO Alaska, Inc. Currently I am the President and CEO of a new Alaska company called Pacific Star Energy LLC.

This letter is written in support of HB 16 being reviewed by the House Finance Committee. The timing is right to support this bill that will grant the Administration authority to negotiate fiscal terms with North Slope gas project sponsors so that a project can be expedited. It is my opinion that within the next 10 years, Alaska's natural gas will be needed in the Lower 48 where natural gas supply is declining more steeply than forecast and demand is continuing to climb.

Pacific Star Energy is a consortium of various Alaska companies across the State that are interested in having an equity investment ownership in any North Slope natural gas project. In the Alaska oil industry, not one Alaska company owns a sizeable equity ownership in North Slope oil production nor in the TAPS oil pipeline. Rather, in the oil industry, Alaska companies play the important role of service and support. However, when the North Slope natural gas industry evolves, several Alaska companies desire an equity ownership stake in the gas pipeline and ancillary natural gas businesses within the State. Pacific Star Energy has been formed to pool together these interested companies under one "umbrella" company that is financially strong and capable to own an equity interest in the gas pipeline.

If Pacific Star Energy has cash flow from a natural gas pipeline project, we will then play a vital role in building natural gas infrastructure within the State. Pacific Star Energy is interested in constructing "hub" distribution centers in Alaska, natural gas processing facilities for distribution of natural gas liquids such as propane and butane to interior communities, and interested in constructing spur pipelines to Fairbanks, Anchorage, and potentially Valdez.

To date, several companies have either approved or are obtaining final approval for initial investment in Pacific Star Energy. Five Alaska companies – Arctic Slope Regional Corporation; Cook Inlet Region, Inc.; Koniag, Inc.; Pacific Rim Leadership Development; and Jim Jansen of Lynden, Inc. – have approved startup funding for this new consortium company. Several other companies in February and March have expressed interest in investing and plan to review investment in this consortium company with their Board of Directors in April: Ahtna, Inc.; Chugach Alaska; Doyon Ltd.; Nana, Inc.; Sealaska Corporation; and Enstar Natural Gas. We are hopeful some if not all of these companies approve investment in Pacific Star Energy. Discussions are also planned with 5-10 other Alaska companies and institutions to continue building a financially strong and broad coalition of Alaska companies to invest in the North Slope natural gas project.

Pacific Star Energy will be working cooperatively with the major producers over the next years to show that our consortium of Alaska companies can participate alongside them and add positive value to any North Slope natural gas project. Pacific Star Energy can provide assistance in: 1) obtaining pipeline permitting across Native and other lands, 2) assist in government relationships, 3) foster investments in in-state natural gas use and value added processing, 4) assist in transportation arrangements of gas owned by smaller producers and the State in-kind royalty gas, and 5) keep more profits within the State to help the State economy.

Our coalition of Alaska companies – Pacific Star Energy – supports approval of HB 16.

3601 C Street, Suite 1400, Anchorage AK 99503
phone 907.770.1600 • fax 907.770.1626 • email ken@pacificstarenergy.com

SENATE COMMITTEE REPORT

DATE: 3/28/03

FURTHER: Finance

DATE TURNED IN TO OFFICE: 4/2/03

Resources Committee considered CS FOR HOUSE BILL NO. 16(FIN) am

HB 16 STRANDED GAS DEVELOPMENT ACT AMENDMENTS

"An Act amending, for purposes of the Alaska Stranded Gas Development Act, the standards applicable to determining whether a proposed new investment constitutes a qualified project, the standards used to determine whether a person or group qualifies as a project sponsor or project sponsor group, and the deadline for applications relating to the development of contracts for payments in lieu of taxes and for royalty adjustments that may be submitted for consideration, and modifying the conditions bearing on the use of independent contractors to evaluate applications or to develop contract terms; providing statements of intent for the Act relating to use of project labor agreements and to reopening of contracts; and providing for an effective date."

and recommends:

Senate Bill:
[ ] same title
[ ] new title

House Bill:
[X] same title
[ ] technical title
[ ] new: SCR #_____

[✓] be **replaced** with S CS CSHB 16 (RES)

[ ] adopt **previous** _____ CS _____ (_____)

[ ] attached amendment(s)

[ ] adopt Letter of Intent by _____ Committee

[ ] further referral to _____ Committee

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

PREVIOUS HOUSE FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#
REV	3/10/03	✓		4
DCED	2/5/03		✓	1

[ ] **APPROPRIATION - no fiscal note**

	SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
Seekins				X	
B. Stevens				✓	
Wagoner				✓	
Elton		✓			
Lincoln				✓	
Ogan	CHAIR:	✓			

SENATE FINANCE COMMITTEE

S I G N - I N

HB 16-STRANDED GAS DEVELOPMENT ACT AMENDMENTS

NAME: Vic Lohring Subject/Bill No: HB16

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? X Yes ___No ___Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? ___Yes ___No ___Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? ___Yes ___No ___Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? ___Yes ___No ___Respond To Questions

SITE: ANCHORAGE LIO	SUBJECT OF MEETING: HB 16/SB 86
COMMITTEE: SFIN	
DATE: 4-3-03	UPDATE #:

PRINT YOUR NAME	ADDRESS (MAILING & ZIP)	REPRESENTING	DO YOU WANT TO TESTIFY? Y or N
Wendy King		ConocoPhillips	Y-HB 16
Email address:			
Email address:			
Email address:			
Email address:			
Email address:			
Email address:			
Email address:			
Email address:			

SITE: OFFNETS	SUBJECT OF MEETING:
COMMITTEE:	UPDATE #:
DATE:	

PLEASE SIGN IN

PRINT YOUR NAME	ADDRESS (MAILING & ZIP)	REPRESENTING	DO YOU WANT TO TESTIFY? Y or N
Roger Marks			HB16-Y
Mark Meyers			HB16-Y

HB

20

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: February 19, 2003 **FURTHER REFERRALS:**

Date of Committee Action: 3-6-03

The FINANCE Committee considered: **HB 20**

HOUSE BILL NO. 20 **REEMPLOYMENT OF RETIRED TEACHERS**

"An Act relating to reemployment of and benefits for retired teachers and principals, including those who participated in retirement incentive programs, and to the employment as teachers of members of the public employees' retirement system who participated in a retirement incentive program; and providing for an effective date."

Recommends it be replaced with [ ] HCS *or* [ ] CS *for* CS HB 20 (STA)

For Senate Bills with new title: [ ] Technical Title [ ] New Title: HCR_____ **[ ] Same Title [X] New Title**

[ ] attach amendments
[ ] add new referral to _____Committee
[ ] Letter of Intent_____Committee

List of Abbrev for Depts.:
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

NEW FISCAL NOTES *Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero

PREVIOUS FISCAL NOTES				
List by Dept(s):	FN#	Fiscal	Indet.	Zero
DOA	H 1			✓

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
	Meyer	✓			
	Hawker				✓
	Stoffle				✓
	Jaggi	✓			
	Hayes	✓			
	FOSTER	X			
	Chenault	X			
Chair:	Harris	✓			
Chair:	Williams	✓			

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSHB 20(STA)
(H) Publish Date: 2/19/03

Revision Date/Time (Note if correction):
Dept. Affected: Administration

Title: An Act relating to reemployment of and benefits for retired teachers.....
BRU: Centralized Admin Services
Component: Retirement & Benefits

Sponsor: Rep Stevens
Requester: House State Affairs
Component No.: 64

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	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

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

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)*

This bill amends the Teachers' Retirement System (TRS) statutes to:

* expand the provision allowing school districts to hire retired teachers to include those teachers who previously elected to retire under a Retirement Incentive Program (RIP);
* grant authority to the Department of Education and Early Development to hire retired teachers; and
* remove the RIP penalties for Public Employees' Retirement System (PERS) retirees who are hired under the provisions of AS 14.20.135(a).

Prepared by: Guy Bell
Phone
Division: Retirement & Benefits
Date/Time: 2/6/03 7:17 AM

Approved by: Mike Miller
Date: 2/6/2003
Agency: Department of Administration

(Revised 9/2002 OMB)

ALASKA STATE LEGISLATURE

SESSION ADDRESS
Alaska State Capitol
Juneau, AK 99801-1182
(907) 465-4925
Fax (907) 465-3517

INTERIM ADDRESS
112 Mill Bay Road
Kodiak, AK 99615
(907) 486-4925
Fax (907) 465-2819

Senator Gary Stevens

SPONSOR STATEMENT-HB 20

HB 20, "An Act relating to reemployment of and benefits for retired teachers and principals who participated in retirement incentive programs and to the employment as teachers of members of the public employees' retirement system who participated in a retirement incentive program; and providing for an effective date."

Alaska, like the rest of the nation, is experiencing a severe shortage of qualified teachers and principals. Research has shown that a qualified teacher in the classroom is the single most important school-based factor in a student's success. It is incumbent upon the Legislature to provide additional tools to Alaskan school districts to ameliorate the current teacher shortage and thus continue to assist school districts in their efforts to improve student learning.

HB 20 would allow schools experiencing a shortage of education professionals to reemploy teachers and principals who had retired under a Retirement Incentive Program (RIP). This bill would not require any school district to reemploy any particular retired individual; it would only give them the option to do so.

School districts would be required to certify that they are experiencing a shortage in order to reemploy a RIP-retired teacher or principal. Those reemployed under this provision would not be required to pay back their retirement incentive and could elect to either continue receiving their retirement benefits or to accrue new Teacher Retirement System (TRS) credited service during the re-hire period. The Department of Education would also be able to hire RIP-retired teachers and principals for Alyeska Central School, Mt. Edgecumbe, the Alaska State School for the Deaf and Hard of Hearing, and the Alaska Vocational Technical Center.

Statute allowing school districts to hire any retired personnel without penalty sunsets on July 1, 2005; school districts would not be able to reemploy any additional retirees after that date.

Hb-20 would provide one more tool to school districts suffering from the shortage of education professionals, and I hope that you will give it your support.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: House Bill 416
() Publish Date:

Revision Date/Time (Note if correction):
Dept. Affected: Administration
Title Reemployment of and benefits for TRS retirement incentive program participants
BRU Centralized Administrative Services
Component Retirement and Benefits
Sponsor House Special Committee on Educatic
Requester House Special Committee on Educatic
Component No. 64

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

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

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

POSITIONS

Full-time						
Part-time						
Temporary						

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

This legislation allows Teachers' Retirement System retirees who participated in a system sponsored retirement incentive program (RIP) to be reemployed under the provisions of AS 14.25.043(b), which was enacted by the legislature in 2001. This will allow RIP retirees to return to teaching and continue receiving their retirement benefits. In exchange, no additional TRS credit will accrue during the period of reemployment.

Enactment of this legislation will have no actuarial impact and, therefore, no impact on the TRS contribution rate. The full actuarial cost of the RIP has already been covered by participating employers and employees. Therefore, the division has prepared a zero fiscal note.

Prepared by: Guy Bell, Director
Phone 465-4471
Division Retirement and Benefits
Date/Time February 14, 2002
Approved by: Jim Duncan, Commissioner
Date February 14, 2002
Agency Department of Administration

(Revised 9/2001 OMB)

LEGAL SERVICES

JAN 2 7 2002

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM January 27, 2003

SUBJECT: Reemployment of retired teachers (Work Order No. 23-LS0130\A)

TO: Representative Gary Stevens
Attn: Doug

FROM: Barbara R. Craver BRC
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1: Adds the Department of Education and Early Development to this subsection. The department may pass a resolution if it finds teacher shortages in particular specialties, and rehire qualified retired teachers. The department is required to notify the TRS administrator if it rehires retired teachers.

Section 2. Adds the Department of Education and Early Development to this subsection which allows retired teachers to elect to continue receiving retirement benefits while reemployed. The prohibition on rehiring teachers who participated in a retirement incentive program (RIP) is deleted to allow the rehiring of RIP members.

Section 3. Provides that if a person is hired as a teacher under AS 14.20.135 and if that person had retired from a PERS employer under a RIP they will not lose the incentive credit they received under the RIP and will not be subject to the reemployment indebtedness otherwise imposed by the RIP.

Section 4. Amends the 2001 uncodified law which repeals the sections involving rehiring retired teachers because of shortages to include the changes above in the repeal on July 1, 2005.

Section 5. Repeals AS 14.20.135(c) which prohibited districts from hiring RIP teachers.

Section 6. Establishes an immediate effective date for the act.

BRC:med
03-055.med

ASSOCIATION OF ALASKA SCHOOL BOARDS

Advocates for Alaska's Youth

AASB Position
HB 20 – Reemployment of Retired Teachers

The Association of Alaska School Boards (AASB) is supportive of maintaining broad latitude for school districts to rehire teachers, administrators, and members of the public employee's retirement system retired under incentive programs. This position is based on the following perspectives:

- School districts participated in the retirement incentive programs primarily due to the saving afforded them during times of challenging budgets. Districts achieved the economies envisioned by the legislature through the retirement of more costly employees in exchange for employees costing less.
- The current challenge of attracting and retaining teachers in Alaska is compounded by the growing shortage of teachers nationwide. By permitting high quality retired teachers and administrators back into the Alaska educational system while allowing these individuals to retain their retirement benefit is good for the children of Alaska. These individuals have already demonstrated their commitment to Alaska and because districts retain control as the hiring authority, individuals of less than the highest skill level or those experiencing "burnout" are avoided.
- School districts realize much needed economies of scale even if the teacher/administrator retains the same salary as the benefit (health insurance, TRS district contribution, life insurance, etc.). The cost saving could easily be in the 20-30% range. Given the substantial savings, even as outline in the aforementioned situation, districts are in the best position to determine salary levels for returning retired teachers.
- A bonus to retirement incentive returnees, many of whom have "bottomed out" on the salary schedule, is their retirement stipend plus their ongoing salary to encourage their continued work on behalf of a district's children.
- Employment of individuals as teachers who retired under a retirement incentive program offered by the public employee's retirement system (PERS) is also a significant benefit to education in Alaska. Some PERS retirees undoubtedly return to higher education to secure a teaching or administrative credential and will be lost to other states if prohibited from joining districts in Alaska.

In summary, Alaska will lose the majority of these retirement incentive professionals to other states who are eager to develop attractive incentive packages to gain their employment. These states are unconcerned about whether the potential employee has a retirement benefit from another state. Let's keep the opportunity for the rehire of retired teachers, administrators, and members of the public employee's retirement system as open as possible and let local districts and negotiated agreements determine entry status. Allowing retirees to return to the profession in Alaska is mutually beneficial -- good for the professional who retains retirement benefits and continues the work he/she enjoys, and good for the district that secures or maintains a quality professional at an overall cost savings to the district. Thank you.

AARP Alaska

Honorable Bruce Weyhrauch, Chair
House State Affairs Committee
Alaska Capital, Room 102
Juneau, AK 99801-1182

Corrected letter for HB 20, originally identified as HB 15. Please excuse the error.

February 15, 2003

RE: HB 20 (Stevens) - Support

Dear Chair Weyhrauch:

On behalf of the AARP members in Alaska, we encourage you and your colleagues on the House State Affairs Committee to support HB 20, authored by Representative Gary Stevens and co-sponsored by Representative Carl Gatto.

At this time when we have a variety of shortages among skilled educators, HB 20 will offer flexibility to educational institutions and school districts to re-employ their retirees without causing financial penalties for the retiree. Later life should offer many options. Returning to work and employment ought to be one of them.

HB 20 is a "win, win, win" bill. Educational entities will have another source of skilled, able and willing educators to fill vacant positions. Educators who miss working and the classroom will have an opportunity to return to their chosen career. Students who want to learn from experience, dedicated, lifelong "seasoned" teachers will have that door opened to them.

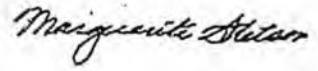
Representatives Stevens and Gatto have a good bill that deserves your support. AARP recommends an "AYE" vote on HB 20.

Should you have any questions about our position, please feel free to contact Marie Darlin (907.586.3637), Coordinator of the AARP Capital City Task Force; Patrick Luby (907.762.3314), AARP Legislative Representative; or me (907.245.5259).

3601 C Street, Suite 1420 | Anchorage, AK 99503 | 907-341-2277 | 907-341-2270 fax | 1-877-434-7598 TTY
James G. Parkel, President | William D. Novelli, Executive Director and CEO | www.aarp.org

Thank you for your consideration.

Sincerely,



Marguerite Stetson
AARP Alaska
Executive Council Member for Advocacy
3009 Northwood Street
Anchorage, AK 99517-1871
907.245.5259 voice
907.245.5279 fax
ffmas@aurora.uaf.edu

cc: Vice-Chair Jim Holm
Representative Nancy Dahlstrom
Representative Bob Lynn
Representative Paul Seaton
Representative Ethan Berkowitz
Representative Max Gruenberg
Representative Gary Stevens
Representative Carl Gatto
Marie Darlin
Patrick Luby

3-6-03

RETAINING QUALITY TEACHERS FOR ALASKA

UNIVERSITY OF ALASKA ANCHORAGE

INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH

RETAINING QUALITY TEACHERS FOR ALASKA

Prepared by
G. Williamson McDiarmid
Boeing Professor of Teacher Education
University of Washington
and
Eric Larson
Alexandra Hill
Institute of Social and Economic Research
University of Alaska Anchorage

Prepared for
University of Alaska
and
Alaska Department of Education and Early Development

December 2002

ACKNOWLEDGEMENTS

The authors thank Mark Hamilton, President of the University of Alaska, and Shirley Holloway, Alaska Commissioner of Education, for funding this study.
We also thank staff members at ISER who helped design the survey questionnaires, conduct the surveys, do follow-ups, and enter and analyze data. We especially thank Patricia DeRoche, interviewer supervisor; Stephanie Martin, research associate; Darla Siver, database manager; and Virgene Hanna, survey research director.

Jerry Covey, a former commissioner of education, provided data on numbers of education graduates from Alaska's colleges and universities. Melissa Hill, former director of the Alaska Teacher Placement Office at the University of Alaska Fairbanks, and Karen Lipson, a research analyst with the Alaska Department of Education and Early Development, provided a wide range of information on Alaska's teachers and students—including teacher turnover, new hires, and other teacher and student characteristics. Claudia Dybdahl, director of UAA's Teacher Education Program, provided information on graduates certified to teach special education.

We also thank those who provided valuable comments on earlier drafts: Gary Baldwin, Lower Kuskokwim School District; Lee Gorsuch, UAA; Rich Kronberg, NEA-Alaska; and Paul Ongtooguk, ISER.

CONTENTS: RETAINING QUALITY TEACHERS FOR ALASKA

CHARTS, TABLES, MAP

EXECUTIVE SUMMARY

RETAINING QUALITY TEACHERS FOR ALASKA

Prepared By
G. Williamson McDiarmid, Boeing Professor of Teacher Education, University of Washington
Eric Larson and Alexandra Hill
Institute of Social and Economic Research, University of Alaska Anchorage

Prepared for
University of Alaska • Alaska Department of Education and Early Development

December 2002

Alaska does not have a general shortage of teachers, despite what many Alaskans believe. But the state's 53 school districts do face shortages of special education teachers and to a lesser extent secondary math and science teachers. Shortages in these specializations are not confined to Alaska but are national.

And about a third of Alaska's school districts—almost entirely remote rural districts—face chronic teacher shortages. These remote districts have historically been hard to staff, and somescramble to fill as many as half their teaching jobs every year.

These are among the findings of the Institute of Social and Economic Research's assessment of the supply of and demand for teachers in Alaska (see page 12). The president of the University of Alaska and the commissioner of the Alaska Department of Education and Early Development asked ISER to examine whether Alaska has a shortage of teachers and, if so, to provide information that could help policymakers deal with the problem.

We collected and analyzed data from many sources, including the Alaska Department of Education and Early Development, the University of Alaska, and the Alaska Teacher Placement office at the University of Alaska Fairbanks. We also collected new data through interviews and surveys, including a survey of teachers who left their jobs at the end of the 2000-2001 school year and a survey of instructional aides working in urban and rural schools during the 2001-2002 school year.

In this executive summary we first briefly discuss why recruiting and retaining quality teachers for all Alaska schools will be difficult but is crucial. Then we summarize our findings about (1) the variation in teacher turnover across Alaska's school districts; (2) why Alaska teachers leave their jobs; (3) job satisfaction among teachers who leave their jobs; (4) how many teachers graduate in Alaska; and (5) the potential for Alaska instructional aides to become teachers. We conclude with some recommendations about how policymakers might help recruit and keep quality teachers for all Alaska schools.

Reducing Turnover: Difficult but Crucial

Attempts to reduce the shortages we identified in certain specializations and in certain districts will be complicated by Alaska's heavy dependence on teachers from outside the state. Alaska recruits about 70 percent of its teachers from outside Alaska—which means it competes with other states, especially western states, for teachers with specializations that are in short supply.

National data show that the overall supply of teachers is more than adequate, but that shortages exist in certain specialties—particularly special education and secondary math and science. For example, when the Washington Education Association recently surveyed special education teachers in Washington state, it found that at least one in three special education teachers planned to leave the field within the next five years.[1]

Accomplished teachers with specialties that are in short supply can usually decide for themselves where they will teach. Alaska's school districts are not in a strong competitive position to attract such teachers. Alaska teachers' salaries are comparatively modest, when you consider the state's higher living costs—especially in rural communities, where living costs are higher than in urban Alaska and much higher than in most of the U.S.

And *attracting* teachers to Alaska's schools is only one step: the second step is *keeping* them once we hire them. National data, as well as our own survey data, show that working conditions—everything from class size to school security to professional development opportunities—play a major part in teachers' decisions to stay or go. Personal and family reasons, apart from working conditions or salary, also strongly influence whether teachers stay in their jobs. Not all the factors that affect teacher retention can be influenced by policy changes—but some clearly could.

The implications of high turnover in some rural Alaska districts also go far beyond the costs, administrative difficulties, and lack of continuity districts face when they have to replace so many teachers every year. Recent research shows a strong relationship between low teacher turnover and higher-than-average student achievement.[2] Results from Alaska's High School Graduation Qualifying Examination confirm that many of the remote rural districts where

students have fared poorly on the test are precisely those that have experienced the highest rates of teacher turnover. Addressing the turnover problem will not likely be sufficient, by itself, to improve student achievement in these districts—but it may well be a necessary condition.

The recent federal No Child Left Behind legislation also underlines the importance of reducing teacher turnover, if we assume lower turnover would help improve student achievement. The new federal law requires accountability among states "to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education and reach, at a minimum, proficiency on challenging statea cademic achievement standards and state academic assessments."

If a state fails to improve achievement among disadvantaged students, the U.S. Department of Education can reduce the amount of federal money the state may use for administration of Elementary and Secondary Education Act (ESEA) programs. Therefore, failing to improve student achievement at schools that don't meet academic standards will have profound consequences not only for the communities and the districts in which these schools are located, but for the state as a whole.

Teacher Turnover: Higher in Most But Not All Rural Districts

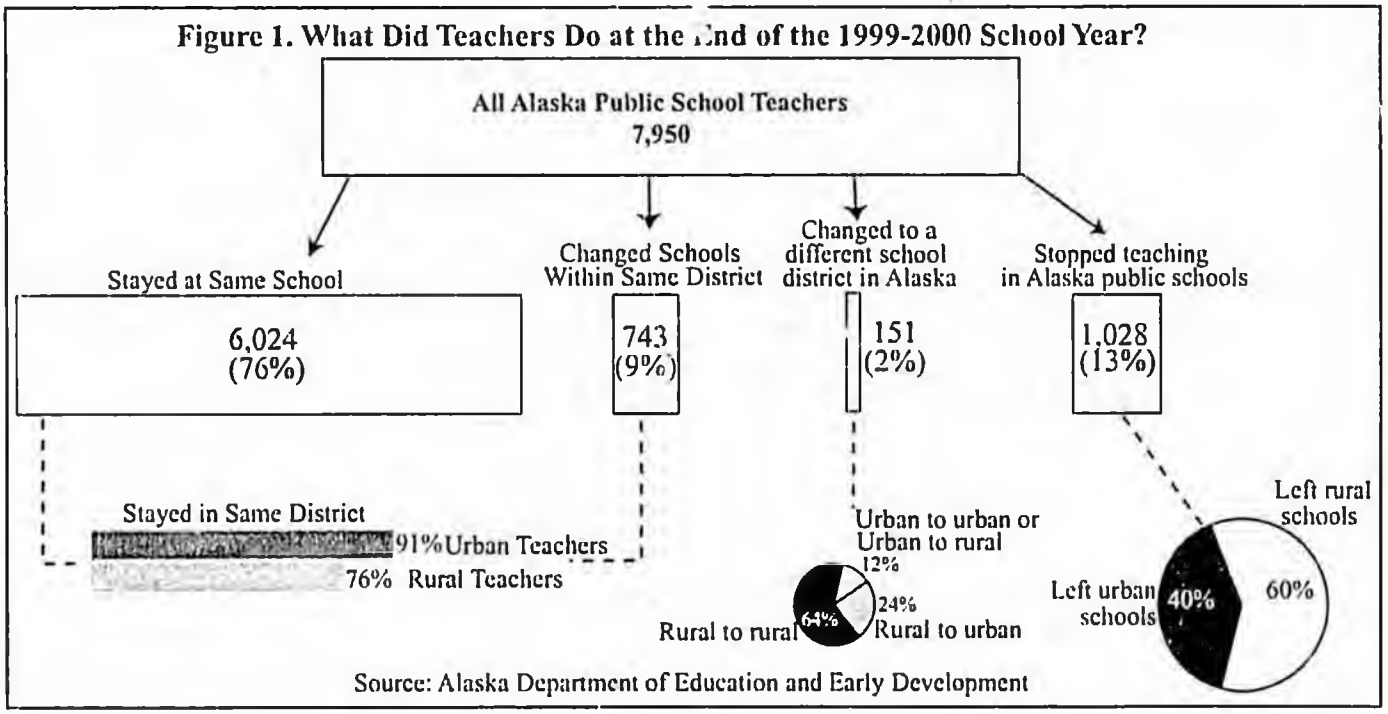
Of Alaska's 53 school districts, we classified the four largest—Anchorage School District, Fairbanks North Star Schools, Juneau Borough Schools, and Mat-Su Schools— as urban. Two thirds of Alaska's teachers work in those districts.

The other 49 districts we classified as rural. Only about a third of Alaska's teachers work in rural districts—but in recent years those districts have hired more than half of all new teachers. The next several figures make it plain why rural districts hire a disproportionate share of new teachers: many—but not all—rural districts lose more teachers every year than urban districts do.

Figure 1 paints the broad picture of mobility among Alaska's public school teachers, and it offers the first evidence that teacher turnover is much more of a problem for rural than for urban schools. At the end of the 1999-2000 school year:

- *Most teachers stayed put*—85 percent stayed either in the same school or the same district to teach the coming year. But only 76 percent of rural teachers stayed in the same district, compared with 91 percent of urban teachers.
- *Relatively few teachers changed districts within Alaska*, but those who did were mostly rural teachers who moved to other rural districts.
- *About 60 percent of those who quit teaching in Alaska public schools were from rural districts.* Keep in mind that these are teachers who quit teaching in Alaska public schools; some are now teaching elsewhere.

Figure 1. What Did Teachers Do at the End of the 1999-2000 School Year?



Source: Alaska Department of Education and Early Development

Map 1 adds to the picture of teacher turnover, showing that not all Alaska districts and not even all rural districts have high turnover. To clarify which rural districts have higher or lower turnover, we divided them into three groups: (1) those with average annual turnover of 15 percent or less; (2) those with annual turnover between 16 and 29 percent; and (3) those with annual turnover of 30 percent or more. Turnover rates in districts with few teachers can change sharply from year to year, if just a few more teachers stay or leave; we attempted to compensate for such chance variation by using 5-year average turnover rates. The map on page 4 shows:

• *Urban districts have annual turnover rates between 8 and 14 percent*, around national averages.

• *About a third of rural districts have turnover rates as low or lower than those in urban districts.* Some of those districts are on the road system, but a number are coastal communities off the road system in southcentral and southeast Alaska.

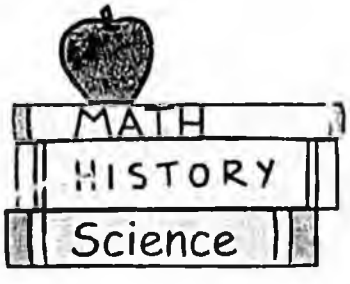
• *Most districts with the highest turnover rates—from 30 to 50 percent annually*—are clustered in remote areas of the interior. Many districts in western and northern Alaska have somewhat lower but still high teacher turnover rates.

• *Not all districts fit the pattern.* For example, while many districts in southeast Alaska have relatively low rates, Skagway's rate falls among the highest. And conversely, the Bristol Bay district in southwest Alaska has lower turnover than Juneau.

Figure 2 on page 5 shows some measures of difference among districts with higher and lower teacher turnover.

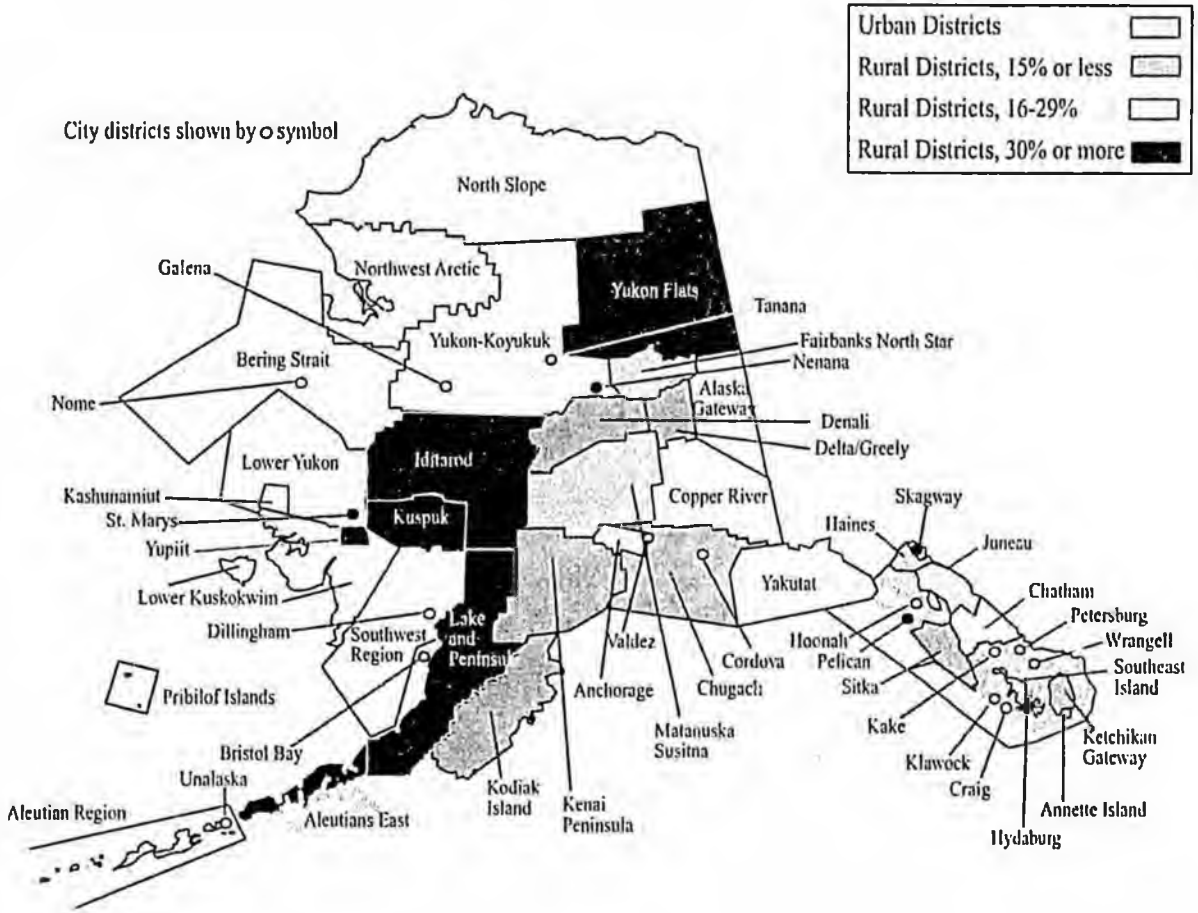
• *Urban districts and rural districts with low turnover have lower costs per student, higher household incomes*, more experienced teachers, and smaller Alaska Native populations.

• *Districts with the highest turnover have the highest costs per student, the lowest household incomes*, the least experienced teachers, and the largest Native populations.



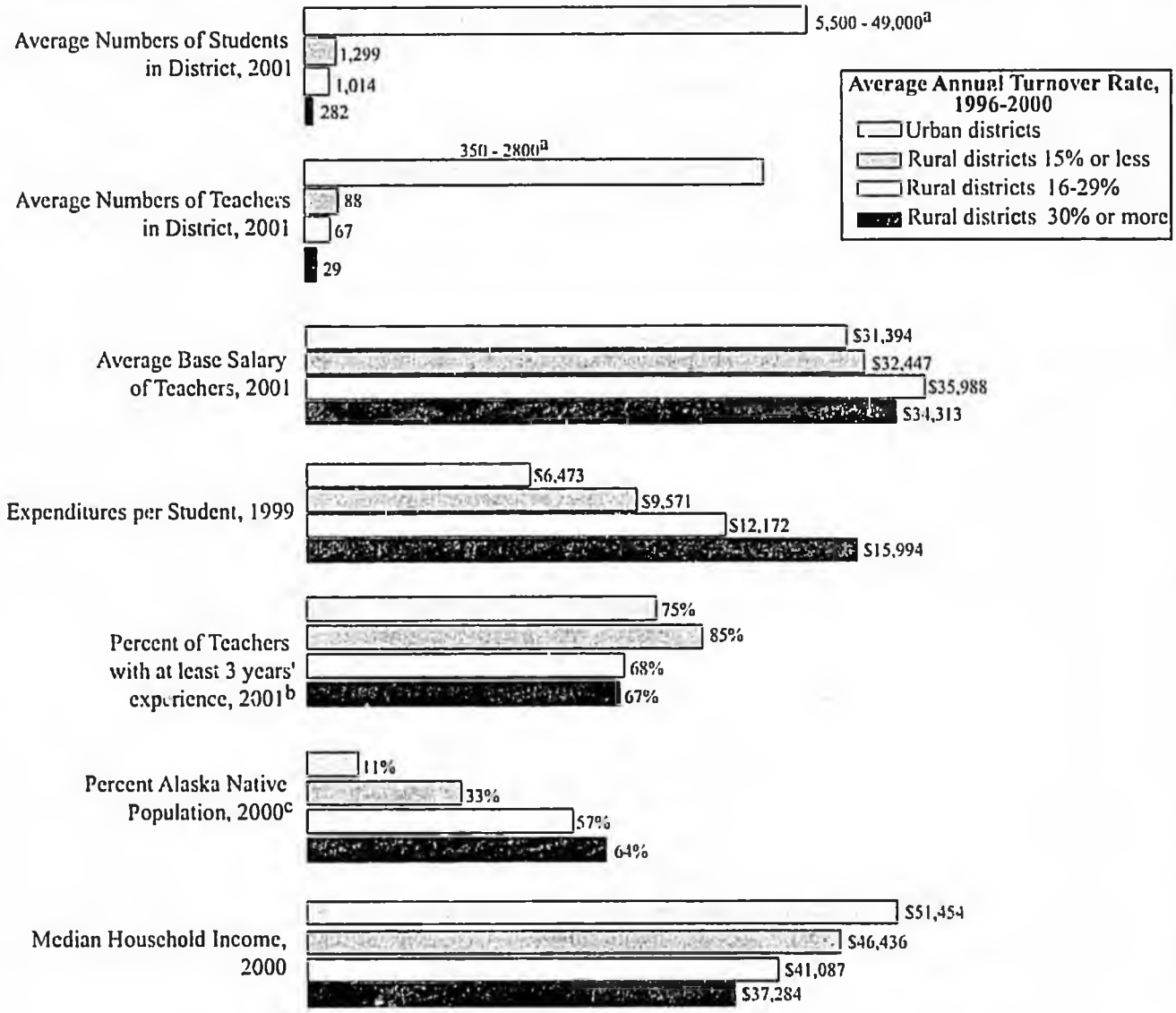
Map 1. Alaska School Districts, By Average Annual Teacher Turnover Rate, 1996-2000

	Average Turnover Rate, 1996-2000
Urban Districts	
Fairbanks North Star Schools	6%
Matanuska-Susitna Schools	8%
Anchorage School District	10%
Juneau Borough Schools	14%
Rural Districts, 15% or less	
Delta/Greely Schools	3%
Klawock City Schools	3%
Hoonah City Schools	7%
Kenai Peninsula Schools	8%
Sitka Borough Schools	9%
Bristol Bay Borough Schools	9%
Valdez City Schools	9%
Kodiak Island Borough Schools	9%
Petersburg City Schools	9%
Ketchikan Gateway Schools	10%
Wrangell City Schools	11%
Haines Borough School District	12%
Chugach Schools	13%
Cordova City Schools	14%
Annette Island Schools	14%
Tanana City Schools	14%
Denali Borough Schools	15%
Rural Districts, 16-29%	
Kake City Schools	17%
Copper River Schools	17%
Alaska Gateway Schools	18%
Lower Kuskokwim Schools	18%
Nome City Schools	19%
Craig City Schools	21%
Dillingham City Schools	22%
Southwest Region Schools	22%
Lower Yukon Schools	22%
Unalaska City School District	23%
Southeast Island Schools	23%
North Slope Borough Schools	25%
Northwest Arctic Schools	26%
Yukon/Koyukuk Schools	26%
Aleutian Region Schools	27%
Kashunamiut School District	28%
Galena City Schools	28%
Chatham Schools	29%
Yakutat School District	29%
Bering Straits Schools	29%
Rural Districts, 30% or more	
Nenana City Schools	30%
Kuspuk Schools	30%
Pribilof School District	30%
Skagway City Schools	31%
Yukon Flats Schools	31%
Iditarod Area Schools	33%
Lake and Peninsula Schools	36%
Pelican City Schools	37%
Aleutians East School District	37%
Yupiit School District	39%
Hydaburg City Schools	40%
Saint Marys School District	50%



Source: ISER calculations from Alaska Teacher Placement data

Figure 2. Comparing Characteristics of Districts, By Average Annual Turnover Rate, 1996-2000



[a]For urban districts, we show the range rather than the average, which is misleading because Anchorage has many times more teachers and students than any other district.

[b]The proportion of experienced teachers in the low-turnover rural districts is significantly higher than in the other districts.

[c]We calculated the proportion of Alaska Natives within district groups by giving equal weight to each community within the district, regardless of total population, and then averaging across districts. This method reveals the average Native population at the *community* level–which is the measure most relevant to this study.

Sources: Alaska Teacher Placement; Alaska Department of Education and Early Development; Alaska Department of Community and Economic Development; U.S. Bureau of the Census

Why Teachers Leave Jobs: Personal and Professional Reasons

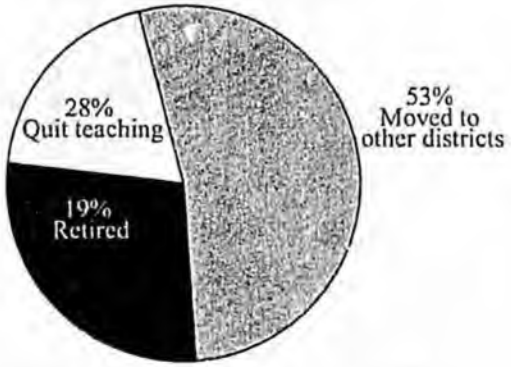
Having looked at how many teachers leave their jobs, we then looked at why they leave. We surveyed a sample of 239 teachers who left their jobs in Alaska schools at the end of the 2000-2001 school year. We had a 51 percent response rate from the urban surveys and a 59 percent response rate from the rural surveys. Figures 3 through 7 summarize what we they told us.

- *More than half the teachers who left their jobs after the 2000-2001 school year moved to new districts*—either in Alaska or elsewhere—while about 28 percent quit teaching and the remaining 19 percent retired (Figure 3).

- *Rural teachers were more likely to leave their jobs to teach elsewhere, while urban teachers were more likely to retire.* Roughly equal shares of urban and rural teachers also said they left their jobs to work outside education or to care for family members (Figure 4).

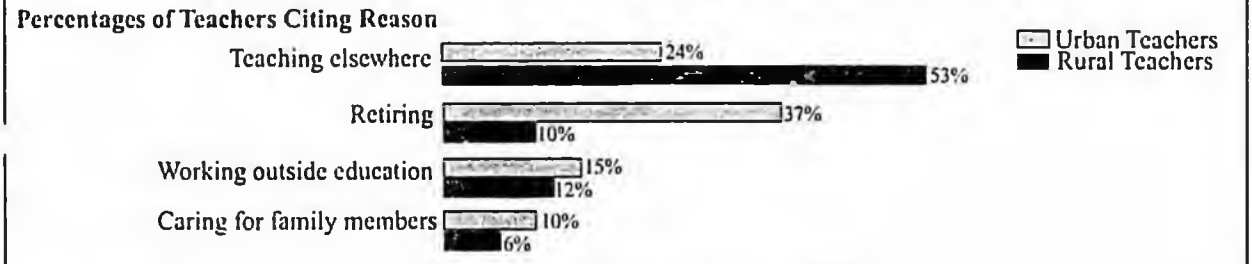
- *Most teachers who retired said they did so because they became eligible for pensions.* But more than half also said they were unhappy with some aspect of their jobs (Figure 5). Our sample of retiring teachers was so small that we didn't look separately at responses of urban and rural teachers.

Figure 3. Composition of Alaska Teacher Turnover
(Urban and Rural Teachers)



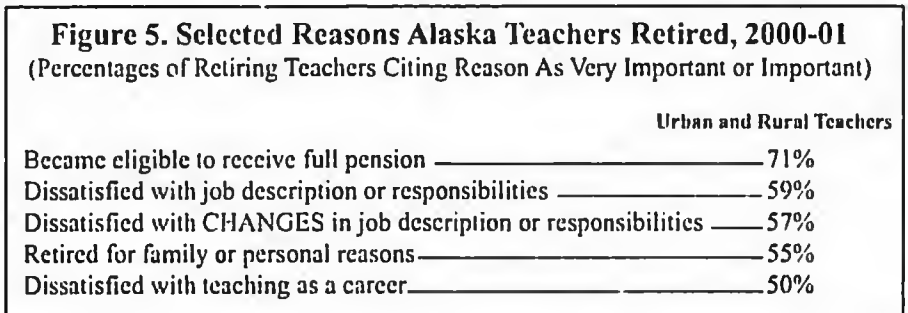
Source: ISER survey of exiting Alaska teachers, 2001-02

Figure 4. Top Reasons Why Alaska Teachers Left Jobs, 2000-01
(Includes all Teachers Who Moved to Other Districts, Retired, or Quit Teaching)



Source: ISER survey of exiting teachers, 2001-02 N=112

Figure 5. Selected Reasons Alaska Teachers Retired, 2000-01
(Percentages of Retiring Teachers Citing Reason As Very Important or Important)



Source: ISER survey of exiting teachers, 2001-02 N=21

• *More than half those who quit teaching—including both urban and rural teachers*—cited family and personal reasons or pursuing another career (Figure 6). Nearly half were also dissatisfied with their jobs. But less than one-quarter were unhappy with their pay or benefits.

• *Urban and rural teachers changed districts for significantly different reasons* (Figure 7). All urban teachers cited family or personal reasons, while only about three-quarters of rural teachers did. A third of rural movers were looking for better medical care, while virtually no urban movers were. And half of urban movers wanted better pay or benefits, while only about 15 percent of rural movers did.

Figure 6. Selected Reasons Why Alaska Teachers Quit Teaching, 2000-2001

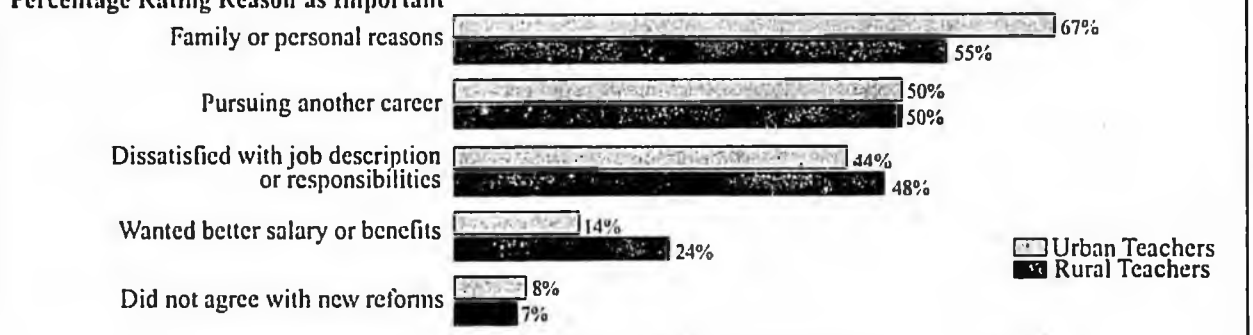
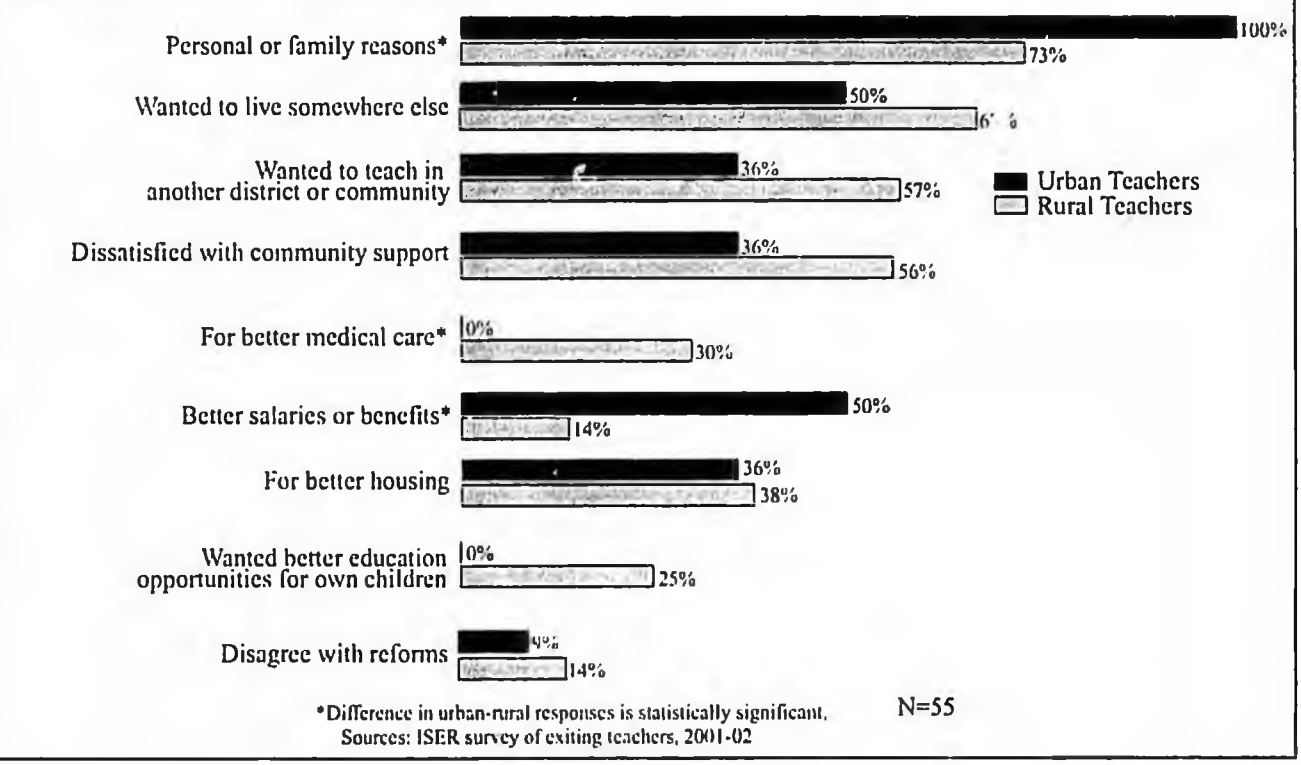


Figure 7. Selected Reasons Why Teachers Changed Districts

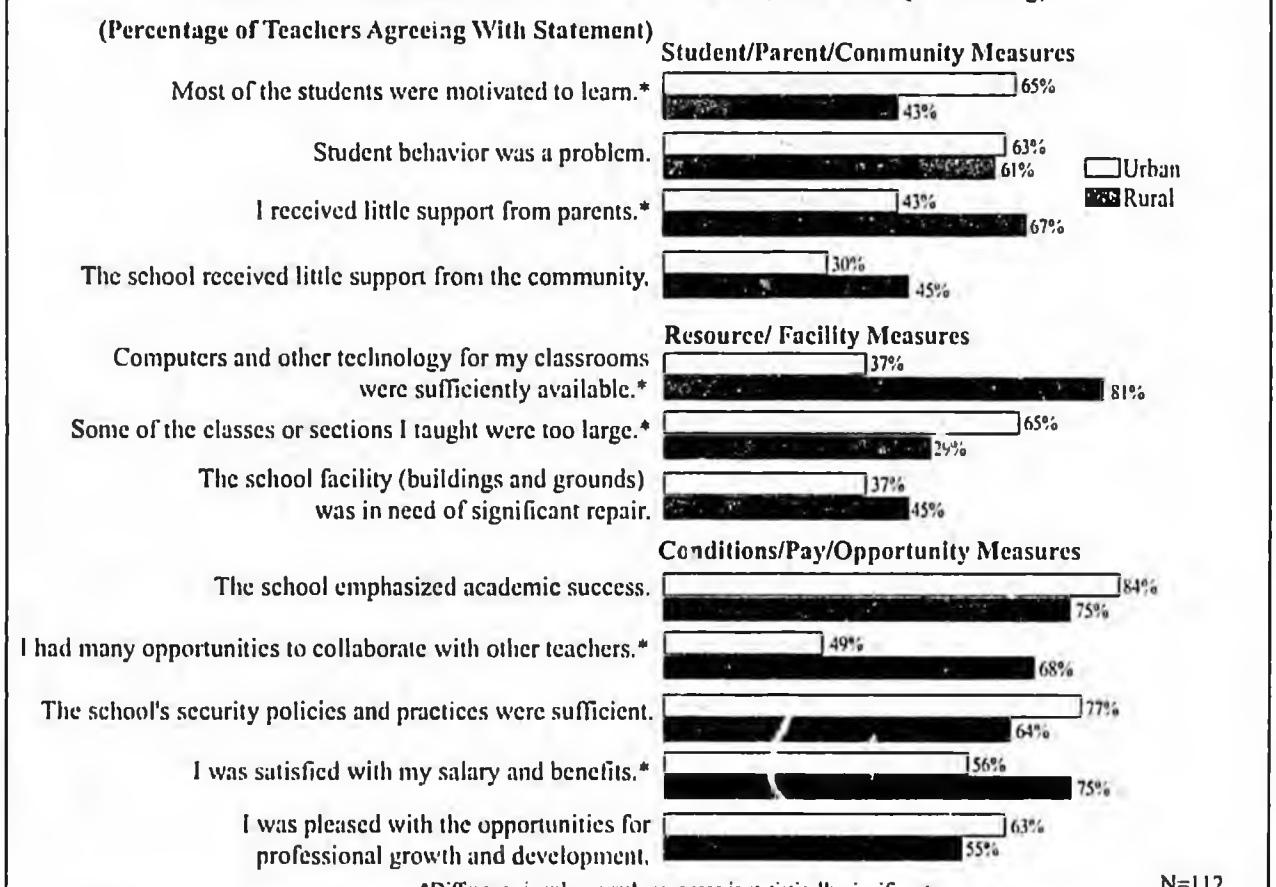


Job Satisfaction: Teachers Who Left Happy With Some Aspects of Job

We also wondered how large a part job dissatisfaction played in teachers' decisions to leave. So in our survey we asked teachers who left their jobs—including all those who changed districts, quit teaching, or retired—how satisfied or dissatisfied they were with a wide range of their job conditions (Figure 8). Many teachers from both urban and rural schools were surprisingly positive about a number of aspects of the school they were leaving.

- *More than half of both urban and rural teachers were satisfied with their school's emphasis on academic success*, as well as with opportunities for professional development and pay and benefits. However, rural teachers were significantly more likely than urban teachers to be satisfied with their pay and benefits.
- *Given the recent school security issues in some rural districts, it is noteworthy that more than 60 percent of rural teachers said they were satisfied* with their schools' security policies and more than eight in ten reported feeling safe in their schools. These responses were similar to those of urban teachers.
- *Student behavior made both urban and rural teachers unhappy*: nearly two-thirds said student behavior was a problem at their schools.
- *Rural teachers were more likely to be dissatisfied with the motivation of students* to learn, the support they received from parents and the community, and the opportunities to collaborate with other teachers.
- *Urban teachers were more likely to say their classes were too large* and that they didn't have enough computers and other instructional resources for their classrooms.
- *These results support findings of national studies that emphasize the role working conditions*—rather than primarily salary and benefits—play in teachers' decisions about staying or leaving.[3]

Figure 8. Job Satisfaction Among Teachers Who Left Their Jobs, 2000-2001
(Includes all Teachers Who Moved to Other Districts, Retired, or Quit Teaching)



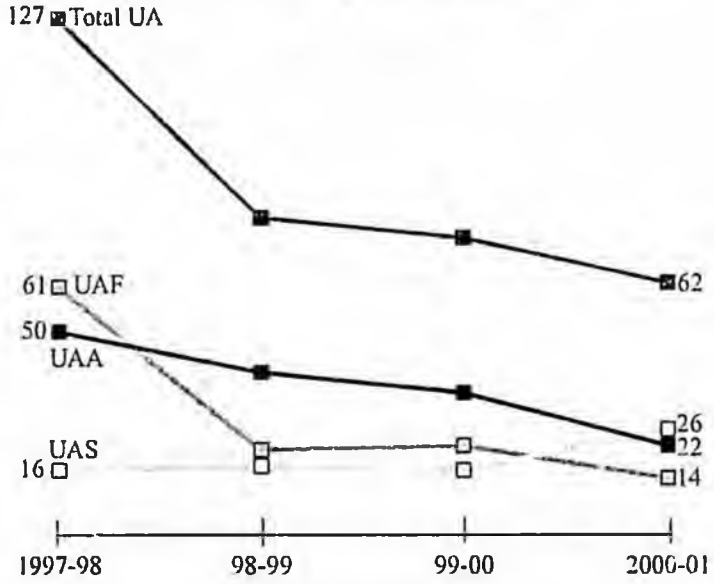
*Difference in urban-rural responses is statistically significant.
Source: ISER survey of exiting teachers, 2001-2002

Teacher Production: Fewer Teachers Graduating in Alaska

Some policymakers hope that Alaska can alleviate the shortages of teachers in some schools and some specialties by producing more teachers in Alaska. We examined data on numbers of elementary and secondary teachers graduating from Alaska's colleges and universities in recent years. Most elementary and all secondary teacher graduates come from University of Alaska programs; Alaska Pacific University and Sheldon Jackson College graduate a few elementary teachers each year.

- *Numbers of both elementary and secondary teachers graduating from Alaska institutions dropped sharply in recent years.* Still, with the exception of some remote rural districts, Alaska schools typically have adequate numbers of elementary teachers.
- *The large drop in numbers of secondary teachers graduating in Alaska—down from 127 in 1997-98 to 62 in 2000-01—is more worrisome,* because shortages of secondary teachers are greater (Figure 9.) We don't have the data to explain this decline in secondary graduates.
- *Alaska certifies less than a third of the new special education teachers school districts need every year.* All Alaska districts combined hired, on average, 52 special education teachers annually from 1996 to 2000. The University of Alaska Anchorage (the only certification program in Alaska) averaged about 15 special education graduates annually over the same period.

Figure 9. Secondary Teachers Graduating From University of Alaska, 1997-2001



Source: *J. Covey,* Alaska Educator Supply, *December 2001*

Instructional Aides: A Possible Source of Teachers, but Many Obstacles

With Alaska facing a shortage of teachers in remote districts, some policymakers are considering another pool of potential teachers: instructional aides. For remote rural districts that often suffer turnover rates of 25 percent or more a year, supporting resident instructional aides who want to become teachers seems an obvious strategy.

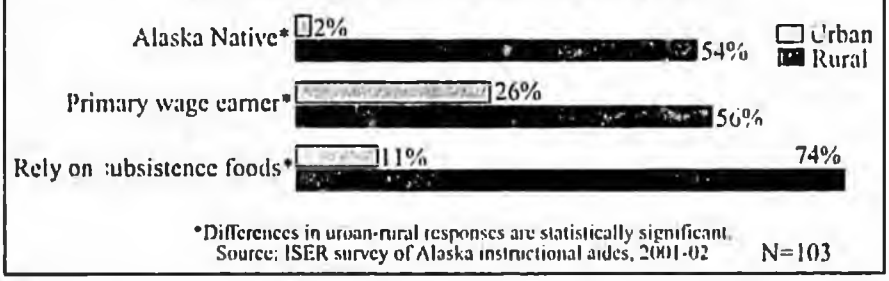
To learn about instructional aides working in Alaska classrooms, ISER surveyed a sample of urban and rural aides in the 2001-2002 school year. We asked them about educational levels and demographic characteristics and whether they were interested in becoming teachers—and if so, what impediments they saw to becoming certified.

We mailed out 249 surveys and received 103 responses. Among aides in urban schools, the response rate was 45 percent and among aides in rural schools 35 percent. We tried unsuccessfully to increase that response rate. Still, we think enough aides responded to provide useful information.

Figures 10 and 11 summarize aides' demographic and educational characteristics:

- *Almost all instructional aides in both urban and rural schools are women,* and three quarters are married.
- *Rural aides have on average nine years' experience,* compared with about six years among urban aides.
- *Rural aides are far more likely to be Alaska Native, to be the primary wage earners* in their families, and to rely on subsistence foods (Figure 10).
- *Nearly 4 in 10 rural aides have only a high-school education,* compared with about 1 in 10 urban aides (Figure 11).
- *Only about 20 percent of rural aides and less than half of urban aides have the level of education required by the new No Child Left Behind law.* Within the next few years, all aides paid with federal Title I money (which is money for economically disadvantaged students) will be required to have either two years of college education or to demonstrate requisite skills on a "formal state or local academic assessment."

Figure 10. Selected Characteristics of Alaska Instructional Aides, 2001-2002

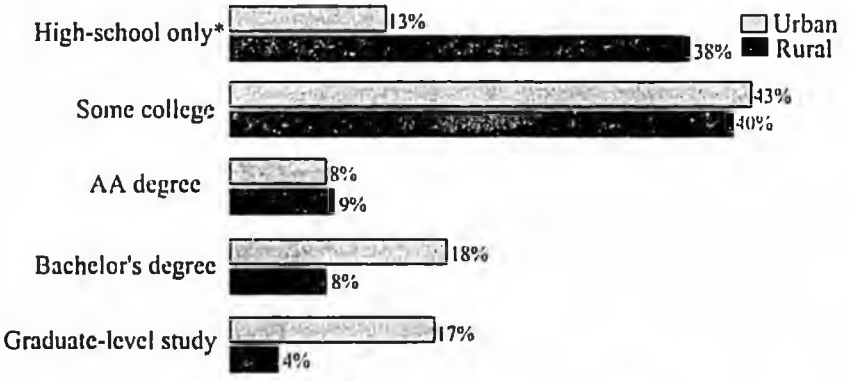


*Differences in urban-rural responses are statistically significant.
Source: ISER survey of Alaska instructional aides, 2001-02 N=103

We asked aides whether they were working toward or interested in earning degrees—and if so, what impediments they saw. Those impediments are numerous, and many are different for rural than for urban aides (Figure 12). Aides reported:

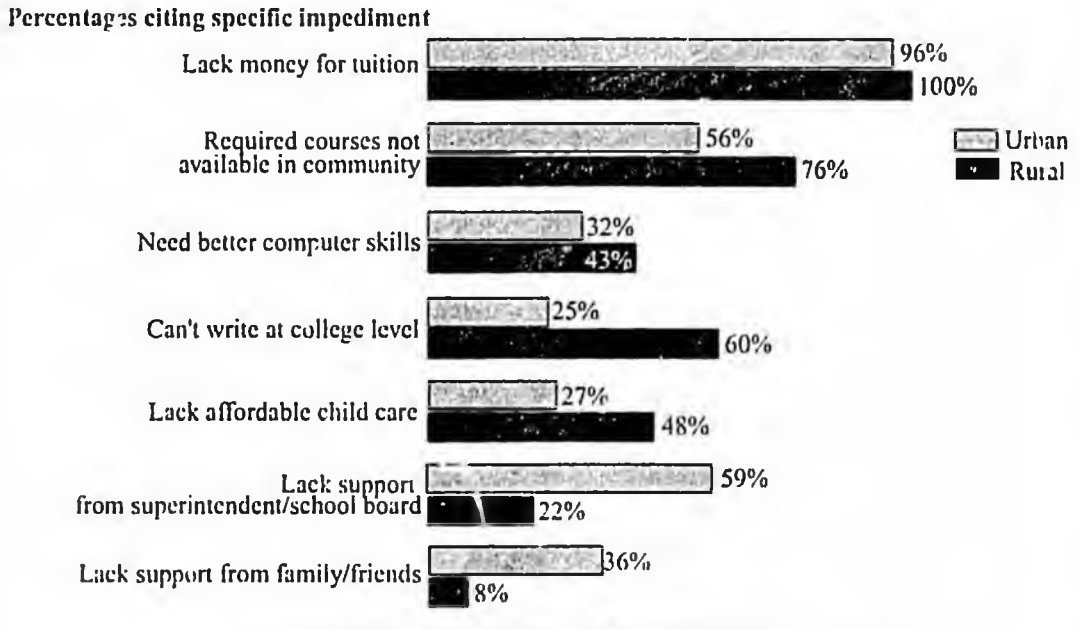
- *Money for tuition is a problem* for virtually everyone.
- *Availability of courses in their communities is a problem for more than three quarters of rural aides* and just over half of urban aides.
- *Many rural aides lack college-level reading and writing skills*: nearly two-thirds of rural aides said they could not write at the college level and about a third said they could not read at the college level.
- *Nearly two thirds of urban aides said school superintendents* and school boards would not support aides' efforts to get degrees.
- *Finding affordable child care would be another hurdle*, according to more than a quarter of urban aides and nearly half of rural aides.

Figure 11. Education Levels Among Alaska Instructional Aides' 2001-02
(Highest Level Completed)



*Urban-rural difference is statistically significant.
Source: ISER survey of Alaska instructional aides, 2001-02 N=100

Figure 12. Selected Impediments To Alaska Instructional Aides' Obtaining Degrees



Source: ISER survey of Alaska instructional aides, 2001-02 N=54

Conclusions and Recommendations

What do our findings tell us about possible ways of easing the shortages that exist in some specializations and in some rural districts? State and university policymakers may want to consider a number of options.

Could Alaska Ease Teacher Shortages By Producing More Teachers?

• *Developing targeted programs could address specific shortages.* Given the specific nature of Alaska's teacher shortages, the university and the state may need to collaborate on programs designed to recruit and prepare teachers in the specializations where they are most needed. This would suggest collaboration with the historically difficult-to-staff districts to identify the specializations they need.

But such programs would have to be adapted as circumstances changed, and predicting future shortages is always risky. However, most shortage areas—especially secondary science and math; special education; and difficult-to-staff remote rural districts—have proven persistent over the past decade. Developing programs to address those shortages is probably a safe bet.

• *Developing programs specifically to prepare teachers for rural schools could address shortages in hard-to-staff rural districts.* The university and the state need to develop programs to graduate more teachers who are permanent residents of rural communities. For more than a decade, the state has not funded any programs that specifically target the development of teachers in remote rural communities.

• *Developing career ladders for and providing support to instructional aides could produce more teachers in remote districts.* But these potential candidates face a legion of obstacles: affordable, quality day care; funds for tuition; maintaining their incomes as the primary breadwinners in their families; and the demands of subsistence activities in summer months, when they would otherwise be available for classes.

Equally challenging is the inadequacy of their basic academic skills, with nearly 40 percent having no more than a high school education, almost two thirds lacking adequate writing skills, and a third lacking college-level reading skills. Recent changes in federal law make the availability of additional educational opportunities even more important for rural aides. Soon, school districts will be unable to use their Title I funds to pay aides whose educational levels don't meet federal requirements.

These challenges might seem insurmountable, the costs far greater than the current political will to address the obstacles. Yet, they must be viewed against what we know of the situation in many remote rural districts: persistent, debilitating levels of teacher turnover; the high costs of recruiting and training new teachers every year or two; persistent low student achievement; and mounting concerns about student behavior and motivation. Developing a core of teachers who are permanent residents of these communities could be the cornerstone of policies and programs to reverse these trends in remote rural districts.

How Can We Improve Alaska's Competitiveness?

Data from the American Federation of Teachers indicate that Alaska teacher salaries—once the highest in the nation—have been declining for a decade and are now 40th among the states, when adjusted for Alaska's higher living costs. And because Alaska depends so much on teachers recruited from outside the state, school districts here are particularly vulnerable to changes in the state's competitive position.

• *Raising salaries to keep up with those in other states is critical.* Allocating more money to education at a time of declining state revenues and growing budgetary shortfalls seems unlikely. But if salaries continue to fall, hard-to-staff districts—as well as those that have not typically had to struggle to staff their schools—will find it increasingly difficult to compete for well-qualified teachers in areas where shortages are national. Schools in which students are already performing poorly on the state assessments will have to rely on unqualified or under-qualified teachers and will continue to suffer high teacher turnover rates.

How Can We Reduce Turnover and Increase Recruitment?

We've seen that while teacher turnover in Alaska's urban districts is near national averages, some rural districts have annual turnover above 30 percent. When we asked rural teachers why they left their positions, half said that at least part of the reason was that they were dissatisfied with their jobs. Specifically, they were most dissatisfied with student motivation and behavior; community and parental support; the ability of their school leaders to communicate with parents; and with the relevance of required professional development activities. Thus, while comparatively modest salaries may be hindering recruitment for hard-to-staff districts, it is working conditions rather than pay that is the primary issue for teachers leaving rural schools.

• *School improvement efforts should include conversations between educators and the community on goals for the school and academic and behavioral expectations for students.* Dealing with student motivation and behavior will require a concerted, collaborative effort by educators, on the one hand, and parents and community members, on the other. Problems with behavior and motivation can often be traced to inconsistent messages coming from home and school.

• *Professional development for principals could help them broker the conversation between the school and the community about goals and expectations for student performance and behavior.* The conversation required to develop common expecta-

tions for student behavior and school performance should be at the core of communications between the school and the community. Each must listen to the other. Educators who do not plan to stay in the community need to make a special effort to hear what parents want from the school. The school principal is obviously the person to broker these conversations.

• *District-and school-level professional development must include teachers in identifying their needs and planning activities.* Districts and school administrators need to address teachers' perception that much of their professional development is irrelevant to the issues and problems they face. A mounting body of evidence clearly demonstrates the importance of teachers' involvement in planning their professional development.

• *Induction programs that support teachers through the difficulties of the first year of teaching help keep them in the classroom.* A major problem all states face is that a high number of new teachers—between 30 and 50 percent, depending on location—leave the profession within the first five years. Much of that attrition can be traced to the frustrations and sense of failure that new teachers feel.

Research from California has shown that induction programs for new teachers can dramatically reduce the number leaving the profession in their first few years.[4] The State of Alaska should fund induction programs in all districts, especially those with high rates of teacher turnover. Districts can work in collaboration with the University of Alaska and NEA-Alaska to prepare teachers as mentors. The costs of such a program need to be weighed against the costs of recruiting and training new teachers.

In conclusion, the shortages that some Alaska districts face are unlikely to disappear in either the short- or long-term, without major policy changes at the state and district levels and at the University of Alaska. Although graduating more teachers should clearly remain a goal, the evidence suggests that we cannot simply "produce" our way out of our current shortages. Policymakers must address the conditions that cause high rates of turnover and difficulties in recruiting in some districts, if all students in all Alaska's schools are to have the opportunities to learn that they need and deserve.

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[1] Washington Education Association. (2002). *Special Education Task Force, 2002 Special Education Survey Report*. Online at:http://www.wa.nea.org/lumps/2002_2/workload.htm

[2] Grissmer, D., Flanagan, A. Kawata, J., and Williamson, S. (2002). *Improving Student Achievement: What State NAEP Test Scores Tell Us*. Santa Monica, CA: RAND.

[3] Ingersoll, R. (2001). *Teacher Turnover, Teacher Shortages, and the Organization of Schools*. Seattle, WA: Center for Policy and Teaching, University of Washington and Kardos, S., Johnson, S., Peske, H., Kauffman, D., and Liu, E. (2001). Counting on Colleagues: New Teachers Encounter the Professional Culture of Their Schools. *Educational Administration Quarterly*, 37(2), 250-290.

[4] Bullard, C. (1998). *Qualified Teachers for All California Students: Current Issues in Recruitment, Retention, Preparation and Professional Development*. Sacramento: California Research

The full report and the survey instruments we used to collect data are available on ISER's Web site: www.iser.uaa.alaska.edu/

You can also get a copy of the report from ISER for $6.50 plus postage if you order by mail. Call 907-786-7710 or send an e-mail message to: ayiser@uaa.alaska.edu

Retaining Quality Teachers for Alaska

I. The National and Regional Picture

Historically, Alaska has depended heavily on teachers educated outside the state. Over time, Alaska has imported roughly 70 percent of its teachers. As a consequence, national trends—in certification of new teachers, teacher shortages, retirements, and salaries—are of immediate relevance to teacher supply and demand in Alaska.

Before we delve into data on Alaska educators, therefore, we will look at the wider national picture. Specifically, projections of student enrollment, teacher retirement, turnover, and new entrants to the teaching field seem critical to the issue.

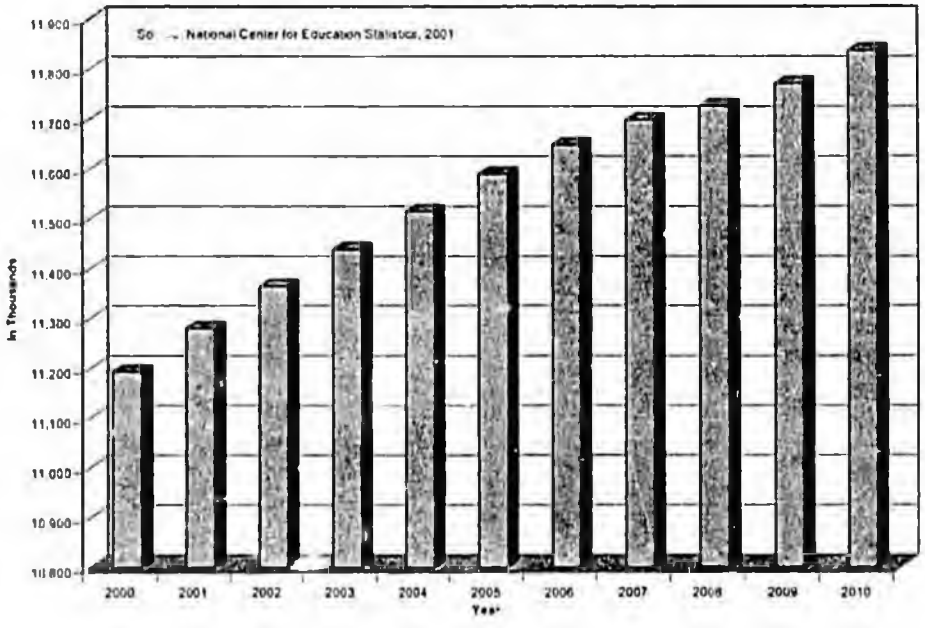
Nationwide Enrollment

Nationwide, student enrollment is beginning to level off, after increasing for a number of years. Projected enrollments for the year 2010 are almost identical to those for 2000. Secondary enrollment grew slightly between 1999 and 2000, while elementary enrollment decreased slightly from the previous year (NCES, 2002).

The bigger issue is which states are experiencing growth. Six states are witnessing a surge in enrollment: California, Nevada, Arizona, North Carolina, Massachusetts, and Rhode Island. The three Western states experiencing enrollment growth compete with Alaska for teachers. Student enrollment in the Western region, projected to grow about 6 percent between 2000 and 2010 (Chart 1), will outstrip the national growth rate in the period 2000-2010.

Although this growth is not dramatic—roughly half a percent annually—it nonetheless suggests a slow, steady increase in demand for teachers. And when growing enrollment is coupled with policy initiatives such as class-size reduction in California, the demand for teachers increases dramatically—as we have seen in Los Angeles.

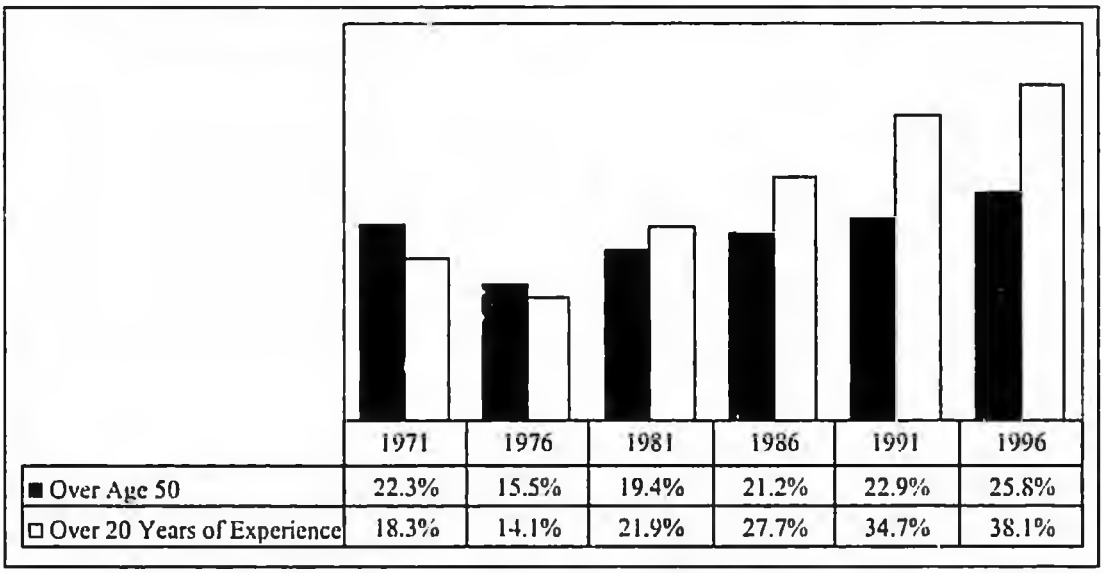
Chart 1. U.S. Western Region, K-12 Enrollment Projections, 2000-2010



National Teacher Retirement and Turnover

What has received the most public attention nationwide is the rise in the number of teachers reaching retirement age. From 1986 to 1996, the median age of teachers increased from 41 to 44 (NCES, 1998). As Chart 2 indicates, the proportion of teachers over 50 has been increasing since 1976. However, after increasing 5 percent a decade from 1976 to 1996, the share of teachers over 50 is projected to level off, like student enrollments.

Chart 2. Nationwide Teacher Experience and Age Trends



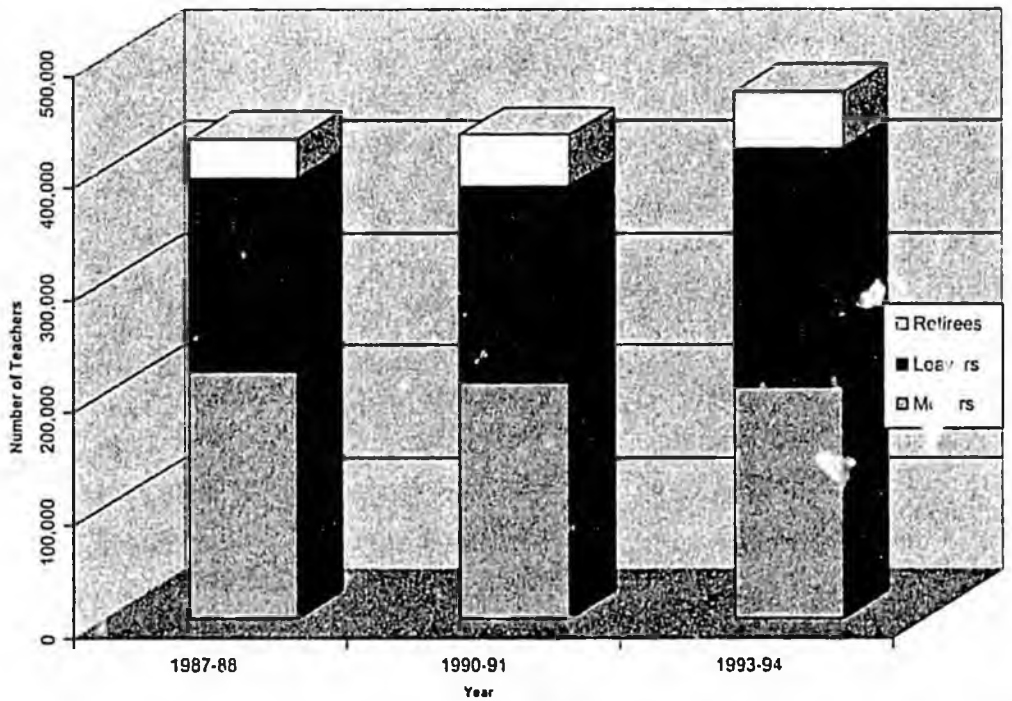
	1971	1976	1981	1986	1991	1996
■ Over Age 50	22.3%	15.5%	19.4%	21.2%	22.9%	25.8%
□ Over 20 Years of Experience	18.3%	14.1%	21.9%	27.7%	34.7%	38.1%

Source: American Federation of Teachers, Survey and Analysis of Teacher Salary Trends 1998, p. 37

Some analysts have concluded that retirements are strongly influencing the demand for teachers. One analysis, based on 1999 surveys of teacher preparation institutions nationally, identified early retirement—intended to save districts money—as the primary factor determining demand, followed by routine retirement (American Association for Employment in Education, 2001).

Yet, retirements account for only small—although growing—proportions both of teachers who leave their positions and those who leave the profession. Of the more than 400,000 teachers who left their jobs in 1993-94—to teach elsewhere, to quit teaching, or to retire—only about 50,242 retired (Ingersoll, 2001). Those retirements accounted for only about 12 percent of teacher turnover that school year. As Chart 3 indicates, these data are consistent over time, rising slightly in the 1990s.

Chart 3. Total Turnover in the U.S.: Movers, Leavers, and Retirees, 1987-88 to 1993-94

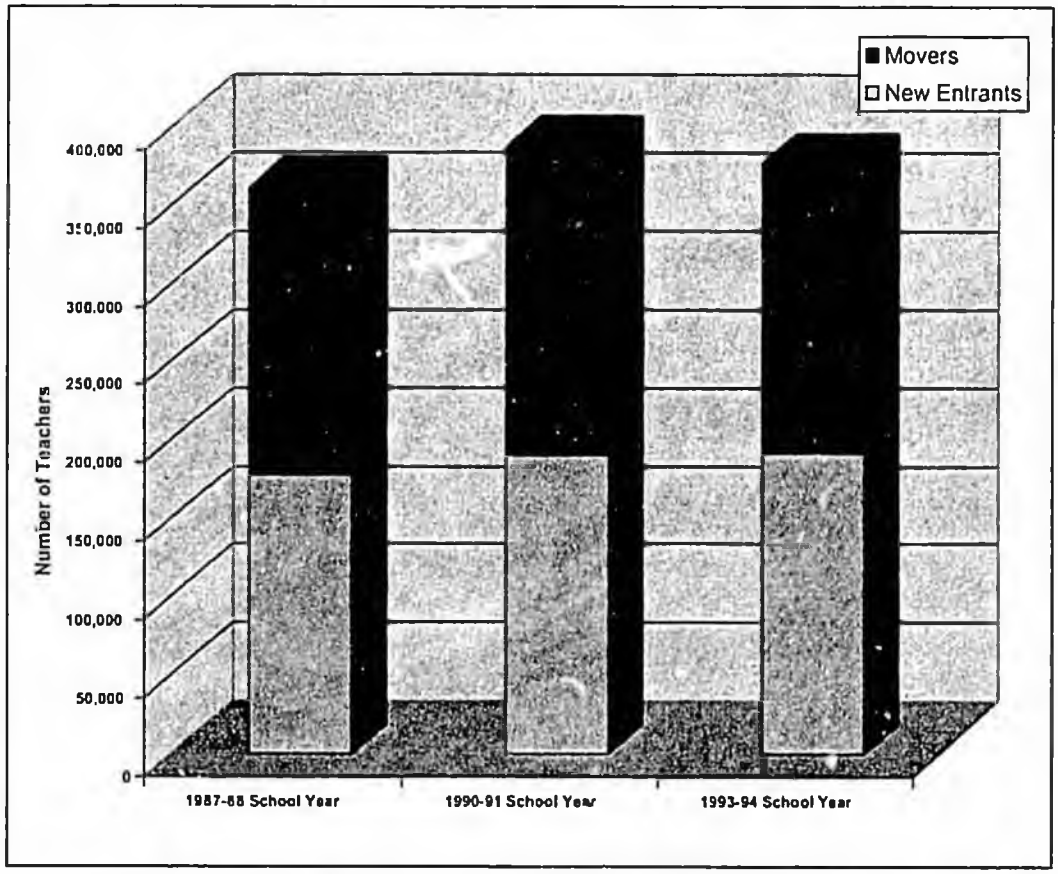


Source: National Center for Educational Statistics, School Staffing Survey, *1994, cited in Ingersoll, 2001*

As Ingersoll (2001) has argued, it is those who leave the profession ("leavers"), even if temporarily, and those who move from one teaching position to another position elsewhere ("movers"), that constitute the bulk of what is called teacher turnover.

As Chart 4 shows, movers also make up almost half of the new hires each year. In 1993-94—the most recent year for which we have NCES statistics—49 percent of new hires were actually movers, while only 51 percent were new entrants to the profession. This illustrates what Ingersoll calls the "revolving door" of teaching.

Chart 4. Total Hires in U.S. Schools: New Entrants And Movers, 1987-88 to 1993-94



Source: National Center for Education Statistics, School Staffing Survey, 1994, *cited in Ingersoll, 2001*

Is the U.S. Facing an Inadequate Supply of Teachers?

Another common assumption is that the U.S. supply of teachers is inadequate and that teacher preparation programs need to produce more teachers. Although that may be true for certain specialties—for instance, math, science, and special education—it may not be generally true. Enrollment in teacher education programs increased 49 percent in the 15 years between 1983 and 1998 (Feistritzer, 1999). Over the past decade, 67 new teacher education programs have come on line. Recent federal policy initiatives such as the Transition to Teaching program—designed to foster alternate ways for teachers to become licensed and shorten the preparation time—will further increase the labor pool.

Depending on which estimate you choose, the nation has a surplus supply of several million teachers who are certified but not teaching. Census data from 1993 indicated that six million people held at least a bachelor's degree in education in the U.S. (Feistritzer, 1998), while fewer than four million were teaching that year (NCES, 2001). We know relatively little about these potential teachers—for instance, we do not know what incentives would draw some of them into teaching.

Thus, while the demand for teachers has increased nationwide, so has the supply—and it continues to increase.

If Inadequate Supply Isn't the Problem, What Is?

The data we just discussed suggest that a significant number of people do not teach after earning their certificates—perhaps as many as 40 percent of the graduates of teacher education programs nationwide. And the attrition rate for teachers in the first five years of teaching is also high—between 30 and 50 percent, depending on location (Darling-Hammond, 2000; NCES, 1997). Consequently, a graduating class of 100 teachers might yield, five years later, between 30 and 42 teachers in the classroom.

In addition to high attrition rates, the supply of teachers is uneven. For some specialties—such as elementary, English, and social studies—surpluses exist in some areas of the country (NCREL, 2000; Oregon University System, 1999). Yet for other specialties—such as special education, math, and science—shortages are rampant in many districts.

Consequently, to speak of a generic teacher "shortage" is misleading. Rather, we are experiencing *shortages* that are localized and specific to specialties. As we noted above, much of teacher turnover—roughly 50 percent—is actually teachers moving from one district to another (Chart 3). Among all teachers in the U.S., 14 to 15 percent actually leave the profession annually.

Which Schools and Districts are Experiencing Shortages and in Which Fields?

Shortages are localized to a small number of schools. Unfortunately but predictably, high-need schools in rural and urban districts are much more likely than suburban schools to experience shortages (Darling-Hammond, 2000). Students in these high-need schools are also less likely to be taught by teachers with majors or minors in the subjects they are teaching (Education Trust, 2002). Among high-poverty districts, 65 percent hire non-certified or long-term subs (Darling-Hammond, 2000). A student in a high-need math classroom has less than a 50-50 chance of being taught by a teacher with a major or minor in mathematics (Oakes, 1990).

The problem is exemplified by data on shortages by specialty. Most of the areas of shortage are well known—math, science, special education, English as a second language, bilingual education. However, some schools actually experience shortages in specialties for which a surplus of licensed teachers exists. In 1993-94, for instance, 16 percent of schools reported difficulty staffing math positions and 15 percent had trouble filling special education positions—but 9 percent also reported difficulty finding qualified English teachers, despite evidence that teacher preparation programs are producing a surplus of English teachers. This indicates that hard-to-staff schools—which too often are also the schools where students have the greatest educational needs—may have difficulty attracting teachers even in specialties with a surplus of qualified teachers.

This supply problem suggests a parallel to the world food situation. Although sufficient food is produced worldwide to feed everyone, the food often fails to reach the people in greatest need. Thus the issue is less one of *production* and more one of *distribution*. Teachers—especially accomplished teachers who teach in specialties that are experiencing shortages—can usually decide for themselves where they will teach. Many teachers avoid high-turnover districts precisely because they tend to be in impoverished neighborhoods and to enroll students who lack many of the resources that lead to success in school.

This is not to deny that critical supply problems do exist in some specialties. For instance, the Washington Education Association sent current and former special education teachers a survey asking what they would be doing in five years (Washington Education Association, 2002). About two-thirds of those who received surveys responded. Among the respondents, only 36 percent reported they planned to continue working in the field. Another 22 percent were unsure, 13 percent planned to retire, 9 percent planned to leave education altogether, and 20 percent planned to remain in education but not in special education. Even if all those who didn't respond to the survey plan to stay in special education—which seems unlikely, given the answers of those who did respond—at least one in three special education teachers plan on leaving the field within five years. This survey indicates the depth of the problem in special education. Washington is one of the states with which Alaska competes for teachers.

National and Regional Context: Conclusion

The national and regional picture suggests that the primary problem is getting teachers to the schools where they are needed. Most schools in the country and in the Western region are not facing shortages. But schools where students have traditionally been underserved—rural and urban schools in communities with high poverty—are suffering severe shortages. These schools have little choice but to turn to unlicensed and under-prepared people who, facing the greatest instructional challenges, are often overwhelmed and consequently abandon the classroom in short order. As we will see later, one factor associated with students' failure to learn is high teacher-turnover.

Increasing the supply of teachers, especially in high-need areas such as math, science, and special education, may help. Newly minted teachers may find their way to the schools that most need them. History, however, suggests otherwise.

Consequently, we need incentives that will attract well-qualified teachers to the schools where they are most needed.

The Relationship Between Teacher Turnover and Student Achievement

A primary reason to be concerned about high rates of turnover among teachers is the relationship that has been established between teacher turnover and student achievement. David Grissmer and his colleagues at RAND analyzed math and reading scores from over 2,500 fourth and eighth graders in 44 states on the 1990-1996 National Assessment of Educational Progress (Grissmer et al., 2000). The researchers were particularly interested in the relationship between certain school and teacher characteristics and student achievement. They used both U.S. census data and parent self-reported data from the National Educational Longitudinal Study to ensure that they were comparing students from similar socio-economic backgrounds. Among the variables that correlated with higher-than-average student scores over time was low teacher turnover.

The findings of Grissmer and his colleagues are particularly important because they (1) used a national sample of students and their families; (2) examined NAEP results over time, rather than just a "snapshot" of scores; and (3) controlled for the effects socio-economic factors have on student achievement. Still, these results only allow us to say that low teacher turnover is *associated* with higher student achievement, not that low turnover *causes* higher student achievement. Nonetheless, the results are suggestive and make the point that turnover is not merely disruptive and a headache for administrators but that it may also affect student achievement. This finding is particularly relevant to

Alaska at this time, because students will soon be required to pass a High School Graduation Qualifying Examination before they can receive diplomas and because both the federal and state governments have established school accountability systems.

The recent federal No Child Left Behind (NCLB) legislation underlines the importance of addressing the turnover issue. NCLB requires accountability "to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education and reach, at a minimum, proficiency on challenging state academic achievement standards and state academic assessments." If a state fails to improve achievement among disadvantaged students, the U.S. Department of Education could reduce the amount the state may use for administration of ESEA programs. Persistent low performance on the state assessment among students at a given Alaska school is not merely a problem for the community and district in which the school is located—it is a challenge for Alaska as a whole. Addressing chronically high turnover rates—arguably a major factor in persistent low performance—is thus a key to overall state success in meeting the NCLB performance objectives.

II. The Alaskan Context

Population and Enrollment Growth

Alaska's population is expected to grow at a rate of about 1.5 percent annually over the next 25 years (Goldsmith, 2001). This aggregate figure hides unevenness in growth among different groups and in different regions. In 2000, for instance, 39 percent of Alaska Natives were under the age of 18, compared with 30 percent of all Alaskans; Alaska Natives made up 20 percent of school-age children, but just 16 percent of the total population (U.S. Census, 2000). Some areas of the state also grew faster than others in recent years—particularly the Mat-Su Borough, but also the Kenai Peninsula, the North Slope, and the Yukon-Kuskokwim Delta. These data suggest that the demand for teachers is likely to increase more in specific areas and in school districts with large numbers of Alaska Native students.

Alaska's Competitiveness

As noted above, Alaska has relied on teachers from outside the state since the establishment of formal schools in the nineteenth century. In recent years, roughly 70 percent of the teachers in Alaska's schools have been educated outside the state.

The demand for teachers in Alaska increased dramatically during the mid-1970s, when construction of the trans-Alaska oil pipeline attracted new residents, and in the late 1970s and early 1980s, as the state government built and staffed village high schools. At that time, North Slope oil production was generating very high revenues for the state government, and the state was able to offer the highest teacher salaries in the country. As a consequence, most Alaska school districts received far more applications than they had positions and could pick and choose whom they wanted.

However, as the 1980s unfolded, oil revenues began to decline and so did Alaska teachers' salaries, when adjusted for Alaska's higher cost-of-living (COL). The American Federation of Teachers reports that during the 1990s, average COL-adjusted salaries in Alaska plummeted from 8th to 40th among the states (Table 1).

Table 1. Average Salary, Cost-of-Living Adjusted Salary, and Relative National Ranking for Alaska Teachers, 1989-90 to 1999-2000

Year	Average Salary	COL Adj. Salary	National Ranking
1989-90	$43,097	$35,152	8
1992-93	$46,799	$35,214	18
1995-96	$47,349	$36,422	24
1997-98	$48,275	$38,620	23
1999-00	$46,481	$37,185	40

Source: American Federation of Teachers, 2001

To adjust average teachers' salaries to reflect cost-of-living differentials across states, the federation uses the cost-of-living index published by the American Chamber of Commerce Researchers Association (ACCRA; see www.coli.org/). ACCRA uses the COL-adjustment for Anchorage to reflect the cost-of-living differential for the entire state. ACCRA's adjustment for Anchorage is about 23 to 25 percent above the U.S. average, according to Goldsmith (2002). Goldsmith, based on his own research into cost-

of-living differences between Alaska and other states, argues that ACCRA overestimates the cost-of-living difference between Anchorage and the U.S. average but may underestimate the difference for rural areas, where costs can be significantly higher.

Potential sources of error include methods of data collection; the contents of the ACCRA "market basket" used to measure living costs; and the exclusion of sales taxes from the cost of items. Also, the Permanent Fund dividend the state pays Alaska residents effectively reduces the cost-of-living differential —by increasing buying power of Alaskans—but the ACCRA index doesn't account for that.

Goldsmith estimates that the Alaska differential is about 20 percent above the U.S. average (Goldsmith, 2002). This represents the average cost of living across the state, based on weights for particular places using the number of state and local employees in each place. This state average tends to overestimate the differential for Anchorage and underestimate the differential for rural Alaska.

Overall, Goldsmith estimates that the ACCRA index is likely inaccurate for Anchorage and for the state as a whole—and may actually underestimate the cost-of-living differential for rural Alaska. As we will discuss below, of greatest concern in Alaska is the high turnover rate in hard-to-staff schools. These schools are almost exclusively in the remote rural areas of the state, where the cost-of-living differential is the highest. Thus, while the rankings in Table 1 may place Alaska lower than real living costs statewide would justify, they may—by underestimating rural costs—overstate the competitive position of remote rural Alaska districts.

Snapshot of Alaska Teacher Mobility

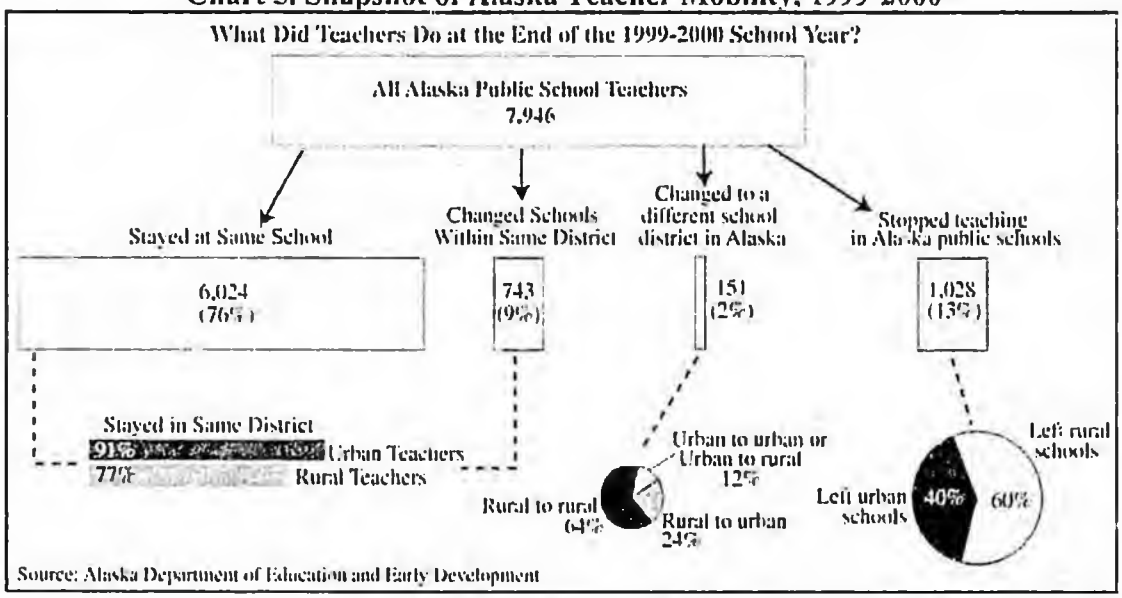
To put our descriptions of teacher turnover and demand in perspective, we first present a snapshot of mobility among Alaska's teachers at the end of the 1999-2000 year. Chart 5 shows that about three quarters of teachers stayed at the same schools to teach the following year. Another 9 percent changed schools but stayed in the same districts. Two percent moved to other Alaska school districts. The final 13 percent decided, for various reasons, to leave their jobs in Alaska's public schools. This turnover— defined as "movers" plus "leavers"—of 15 percent was similar to the national turnover rate of 13.7 percent in 1995 (NCES, 1997).

Within that broad pattern among all teachers, there were substantial differences in movements of urban and rural teachers, as the bottom half of Chart 5 shows. While more than 90 percent of teachers in urban schools stayed in the same districts (either in the same school or a new school) to teach the following year, only 76 percent of rural teachers stayed in the same districts. Among the teachers who left the public schools, nearly 60 percent left rural schools, as compared with 40 percent leaving urban schools.

Of special interest in Alaska is the question of whether significant numbers of rural teachers move to urban districts. Anecdotal evidence suggests that some of the teachers who move to the state initially take jobs in remote districts until they can find openings in districts on the road system. Rural educators point out that if this is true, rural districts shoulder a disproportionate burden of inducting and training new teachers who then move on to urban schools. Because such induction and training may cost $8,000 or more per teacher, this would represent a subsidy rural schools pay urban schools (Texas Center for Educational Research, 2000).

Chart 5 shows that of the small number of teachers who moved from one Alaska district to another in 2000, most were in fact rural teachers. But they moved mostly to other rural districts. Of the roughly 150 teachers who moved from one Alaska school district to another after the 1999-00 school year, about two-thirds moved from rural districts to other rural districts. Another 20 percent—36 teachers—moved from rural to urban schools. A handful moved from urban to rural schools, and a few moved from one urban district to another. Thus, the number of teachers who move from rural to urban districts appears small—yet the acute teacher shortages that rural districts experience suggest that even these relatively small numbers are significant.

Chart 5. Snapshot of Alaska Teacher Mobility, 1999-2000



Source: ISER calculations from Alaska Department of Education and Early Development data

Alaska Teacher Turnover

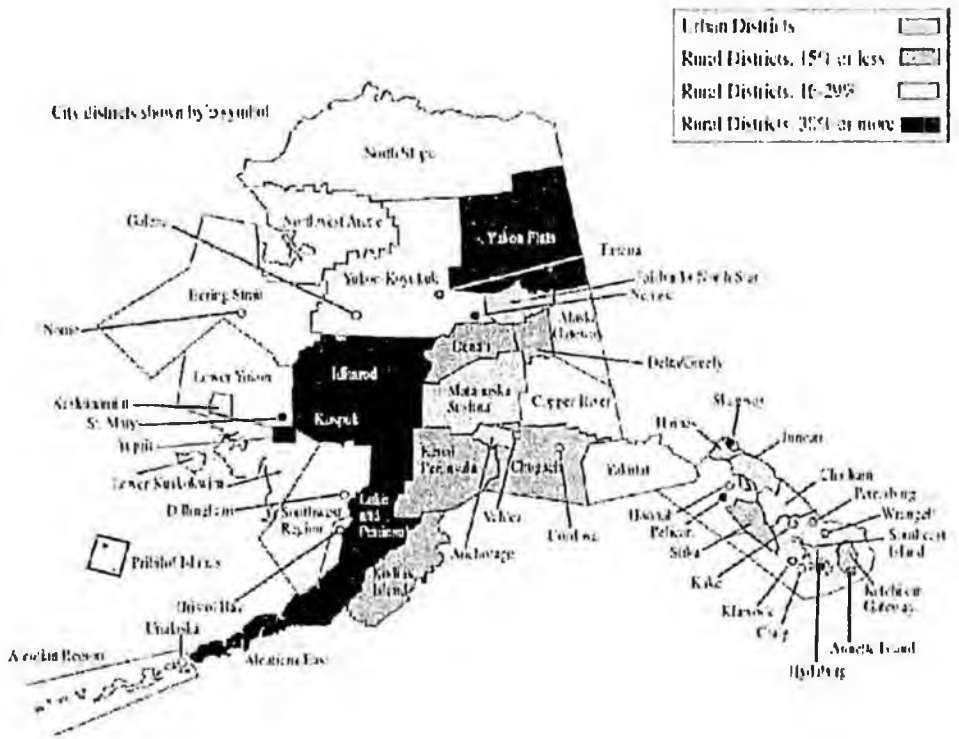
Now we describe teacher turnover among Alaska's 53 public school districts in recent years. As Map 1 shows, the average annual turnover rate from 1996 through 2000 differed sharply across school districts, from a low of 3 percent to a high of 50 percent. We calculated a five-year average, to compensate for year-to-year fluctuations. Some of the smaller, remote rural districts have experienced rates near 100 percent in some years. The state's urban districts—Anchorage, Fairbanks, Juneau, Mat-Su—have historic annual turnover rates between 6 and 14 percent—comparable to the national average. All the districts with annual turnover rates of 30 percent or more are rural districts far from the main road system. But at the same time, some remote districts —notably Klawock (3 percent), Hoonah (7 percent), and Bristol Bay Borough (9 percent)—have annual turnover rates comparable to those of their more accessible counterparts. These districts deserve closer study, so we can learn more about how they manage to retain their teachers.

District and Community Characteristics and Teacher Turnover Rates

Table 2 compares district, community, and teacher characteristics in urban districts—which have low turnover—and several categories of rural districts: those with turnover rates below 15 percent, between 16 and 29 percent, and above 30 percent.

Map 1. Alaska School Districts, By Average Annual Teacher Turnover Rate, 1996-2000

	Average Turnover Rate, 1996-2000
Urban Districts	
Fairbanks North Star Schools	16%
Mat-Su Valley Schools	18%
Anchorage School District	18%
Juneau Borough Schools	14%
Rural Districts, 15% or less	
Delta/Greely Schools	13%
Kluti-Kaa City Schools	13%
Cordova City Schools	13%
Kenai Peninsula Schools	14%
Sitka Borough Schools	14%
Bristol Bay Borough Schools	9%
Valdez City Schools	9%
Nenana/Yukon Borough Schools	9%
Petersburg City Schools	9%
Ketchikan Gateway Schools	10%
Wrangell City Schools	11%
Haines Borough School District	13%
Chugach Schools	13%
Cordova City Schools	14%
Aleutian Islands Schools	14%
Juneau City Schools	14%
Denali Borough Schools	15%
Rural Districts, 16-29%	
Kake City Schools	17%
Cooper River Schools	17%
Alaska Gateway Schools	18%
Lower Kuskokwim Schools	18%
Nome City Schools	19%
Craig City Schools	21%
Dillingham City Schools	22%
Southwest Region Schools	22%
Lower Yukon Schools	22%
Hydaburg City School District	23%
Southeast Island Schools	23%
North Slope Borough Schools	25%
Northwest Arctic Schools	26%
Yukon/Koyukuk Schools	26%
Aleutian Region Schools	27%
Kashunamiut School District	28%
Tanana City Schools	28%
Chatham Schools	29%
Yakutat School District	29%
Bering Strait Schools	29%
Rural Districts, 30% or more	
Nenana City Schools	30%
Wrangell Schools	30%
Pribilof School District	30%
Skagway City Schools	31%
Yukon Flats Schools	31%
Iditarod Area Schools	33%
Lake and Peninsula Schools	36%
Petersburg Schools	42%
Aleutian East School District	55%
Yupiit School District	60%
Hydaburg City Schools	80%
Saint Marys School District	90%



Source: DEED calculations from Alaska Teacher Placement data

Table 2. District, Community, and Teacher Characteristics, by Teacher Turnover Group

Indicator		Year	Turnover Groups, Based on Annual Average Turnover, 1996-2000			
			Urban Districts	Rural Districts Turnover Below 15%	Rural Districts Turnover Between 16% and 29%	Rural Districts Turnover 30% or more
District Indicators	District Teacher Turnover Rate	Average 1996-2000	9%	10%	24%	37%
	Average Daily Membership	2001	20,669	1,299	1,014	282
	Average Number of Teachers	2001	350-2,800*	88	67	29
	Average Base Salary of Teachers	2001	$31,394	$32,447	$35,988	$34,313
	Expenditures per Student (ADM)	1999	$6,473	$9,571	$12,172	$15,994
Community Indicators (Average across communities)	Aver. Number of Communities in District	2001	8	5	8	6
	Average Population per Community	2000	92,667	5,390	3,033	1,164
	Percent Alaska Native Population	2000	11%	33%	57%	64%
	Median Household Income	2000	$51,454	$46,436	$41,087	$37,284
	Median Value, Owner-Occupied Housing	2000	$123,131	$126,558	$88,733	$92,522
	Unemployment Rate	2000	8%	13%	15%	18%
	Percent Families below Poverty Line	2000	8%	10%	16%	19%
Teacher Indicators (For entire district)	Percent Teachers with 1 Year Experience	2001	7%	7%	9%	13%
	Average Years of Experience	2001	10.1	11.8	8.8	7.5
	Percent Female	2001	73%	61%	62%	60%
	Percent Alaska Native	2001	3%	8%	14%	12%

** This is the range rather than the average among urban districts; the average is misleading, because Anchorage has nearly three times the teachers as the next largest district.*
ISER tabulations with data from Alaska Teacher Placement; Alaska Departments of Education and Early Development and Community and Regional Affairs; U.S. Census
Note: District indicators and teacher indicators are averages across districts in each group. Community indicators are averages across communities in each group.

Table 2 makes clear the patterns of difference between, on the one hand, urban districts and rural districts that have little difficulty in staffing their schools, and on the other, rural districts that are chronically difficult to staff.

High-turnover districts have significantly smaller populations and likewise far fewer teachers and students. The districts with the highest turnover had on average 29 teachers in 2001, compared with an average of 88 in rural districts with low turnover and between 350 and 2,800 in urban districts. Alaska Natives make up a substantial share of the small populations in high-turnover districts. In 2000, Alaska Natives made up between 57 and 64 percent of the community populations, compared with just 11 percent in urban districts and 33 percent in rural districts with lower turnover.

Base salaries of teachers in high-turnover districts are just modestly higher than salaries in urban districts, despite significantly higher living costs. The base salary is the bottom of the pay scale—what a district offers its newest, least experienced teachers — and it does not reflect *average* salaries. However, it is a reasonable indication of the salary differential among districts. In 2001, base salaries of teachers in high-turnover districts were in the range of 10 percent more than in districts with lower turnover. Salary levels may be critical in efforts to attract teachers to remote, high-turnover districts.

Districts with the highest turnover also have the highest per-pupil expenditures — reflecting the higher costs of living and doing business at remote rural sites; small schools in general also face higher costs because they can't take advantage of economies of scale. In 1999, per-student costs in high-turnover districts were more than twice as high as in urban districts. These high per-pupil costs make rural districts vulnerable to critics who want to reduce state education spending at the expense of small, remote communities.

Substantial income differences also exist between districts with lower turnover and districts with higher turnover. In 2000, median household income in urban districts was $51,454—nearly 40 percent higher than the $37, 284 income in rural districts with the highest turnover.

The districts with high turnover also have higher unemployment and more poverty. The 2000 unemployment rate in urban areas was 8 percent, while the rate in districts with higher turnover was 15 to 18 percent. And because of the way unemployment is defined and recorded, these data significantly underestimate real unemployment in rural Alaska (for a discussion, see McDiarmid and Goldsmith, 1998). Also, as we might expect with higher unemployment, poverty was more widespread in high-turnover districts. While 8 percent of families in urban districts—and 10 percent in rural districts with low turnover—had incomes below the federal poverty level in 2000, between 16 and 19 percent of families in high-turnover districts had incomes below the federal poverty level.

Clearly, districts that have the highest turnover rates also have smaller populations that tend to include more Alaska Natives and are economically poorer by several measures. The finding that districts with higher poverty also have higher teacher turnover rates is consistent with national data (Darling-Hammond, 2000; Hanushek, Kain, and Rivkin, 2001).

Looking at teacher characteristics in Table 2, we again find noticeable differences between districts with higher and lower rates of turnover. Districts with the highest turnover rates employ more first-year teachers (13 percent) than do urban and low-turnover rural districts (7 percent each). Grissmer and his colleagues found a strong

positive correlation between the proportion of teachers with two or more years of experience and student achievement (Grissmer et al., 2000). Correspondingly, urban and low-turnover rural districts employ teachers who have on average been teaching longer. In 2001, teachers in urban districts had been on the job an average of 10.1 years, and teacher in rural districts with low turnover had been working on average 11.8 years. By comparison, teachers in districts with the highest turnover had been working on average 7.5 years.

Table 2 also shows some differences by gender and race among teachers in high- and low-turnover districts. The percentage of women teaching in urban and low-turnover rural districts is larger than in the higher turnover districts—but the difference is not statistically significant. There are substantially more Alaska Native teachers —between 12 and 14 percent—in the high-turnover districts (which are also the districts with larger overall Alaska Native populations); in urban districts only 3 percent of teachers are Alaska Native and in low-turnover rural districts 8 percent.

In sum, teachers in districts with low turnover rates tend to be more experienced and are far less likely to be Alaska Native than teachers in high-turnover districts.

Demand for Teachers In Alaska

The best proxy we have for teacher demand is the number of teachers hired. Chart 6 shows the number of annual hires over the six years from 1995 through 2000.

Annual new hires statewide increased dramatically between 1995 and 1998—from 817 to 1,386. Numbers of school-age children peaked during those years, which explains some of the new hires. But the need to hire more teachers may also reflect increased turnover due to a number of factors we've already discussed, including the relative decline of COL-adjusted Alaska teacher salaries and a rise in retirements. Another factor may have been the early retirement programs urban districts offered in an effort to reduce their operating expenses. The impact of these programs was less pronounced in 1999 and 2000. However, as Chart 6 shows, the trend has been toward fewer hires in recent years.