THE STATE of ALASKA
GOVERNOR MIKE DUNLEAVY

Department of Revenue

COMMISSIONER'S OFFICE

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The Honorable Click Bishop
Senate Resources Committee, Co-Chair
Alaska State Legislature
State Capitol, Room 504
Juneau, AK 99801

The Honorable Cathy Giessel
Senate Resources Committee, Co-Chair
Alaska State Legislature
State Capitol, Room 457
Juneau, AK 99801

Dear Co-Chairs Bishop and Giessel,

Thank you for the opportunity to respond to the questions asked during the Department of Revenue's Cook Inlet Update presentation to Senate Resources Committee on March 31, 2023. Please find below the questions and corresponding responses.

1. **Provide additional detail around the royalty rates that average around 10 percent in Cook Inlet, as mentioned in the presentation. Are any of the leases pre-statehood?**

Royalty rates in Cook Inlet vary from unit to unit and lease to lease. The 10 percent figure provided in the presentation is an approximate weighted average of existing state royalty rates based on current production. Royalty rates for producing state leases in Cook Inlet range from 5 percent to 12.5 percent for oil leases and from 7.5 percent to 25 percent for gas leases. The Department of Natural Resources (DNR) publishes monthly Royalty Value Reports summarizing this information. Attachments 1 and 2 are DNR's most recent Monthly Weighted Average - Royalty Value Reports for oil and gas.

According to DNR, there are a handful of leases in Cook Inlet which predate statehood, all of which were transferred to the state from the federal government. The first state lease sale occurred in 1959 and the lease form specified the royalty rate. The typical royalty rate in Cook Inlet was 12.5 percent, and many of these leases are now under Royalty Settlement Agreements.

2. How many producers are there in Cook Inlet that might be subject to corporate income tax if the tax were expanded to non-C-corporations?

If the corporate income tax for oil and gas were expanded to include all entity types—not just C-corporations—then it could potentially affect between five to ten producers currently doing business in Cook Inlet. It is noteworthy to mention, we do not know how many of these producers would have a tax liability after applying a bracketed rate structure.

3. If a municipality were to tax higher than the 20 mills how would that work for the state property tax?

Under AS 43.56.010(a), the State assesses the full and true value of oil and gas property and levies a tax of 20 mills (2%) on that property. Under AS 43.56.060(b) and AS 29.45.080, a municipality may also levy a tax on the State assessed full and true value of oil and gas property. Under these provisions, a municipality must tax the state assessed oil and gas property at the same property tax rate the municipality applies to all other non-oil and gas property taxed by the municipality.

For municipal tax property payments on just the State assessed oil and gas property, the oil and gas taxpayer can apply the property tax paid to a municipality as a credit against the State property tax. Under AS 43.56.060(d), this credit cannot exceed the total amount of tax levied by the State upon the taxpayer for the tax year. If a municipality were to levy a property tax rate higher than the 20 mill State rate, there would be no State credit to the oil and gas taxpayer for the oil and gas property tax paid to a municipality above the 20 mills.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

Adam Crum
Commissioner-Designee

Attachments:

- Attachment 1 – Cook Inlet Oil Monthly Weighted Average Royalty Report
- Attachment 2 – Cook Inlet Gas Monthly Weighted Average Royalty Report