

# S&P drops Alaska's bond rating

[Jeannette Lee Falsey](#): Alaska Dispatch News: August 18, 2015

Another one of the three major credit rating agencies lowered its outlook for Alaska to “negative,” citing the high likelihood of sustained low oil prices and lawmakers’ aversion to opening up the state’s most promising sources of revenue.

In a report released Tuesday, Standard & Poor’s Ratings Services warned that if left unchecked, Alaska’s fiscal problems could lead to a future credit downgrade. A credit downgrade often serves as a red flag that an investment opportunity carries higher risk and therefore could raise the state’s cost of borrowing.

Standard & Poor’s believes budget cuts alone cannot fix Alaska’s fiscal problems and suggested that Alaska’s politicians could avoid a downgrade by raising revenue.

“Relying solely on spending cuts to close the fiscal deficit would necessitate that lawmakers oversee a dramatic downsizing of the scope of state government in Alaska,” the report said. “It’s more likely, in our view, that policymakers will need to pursue a mix of sustained spending restraint and some form of revenue enhancement.”

Aside from introducing state sales and personal income taxes and tapping the portion of the Permanent Fund not protected by the state constitution, Standard & Poor’s floated the ideas of capping annual dividend payouts from the Permanent Fund or eliminating tax credits intended to spur oil exploration or development.

The agency recognized that its proposals, which have been fixtures of public dialogue since oil prices

began falling last year, are contentious.

“It would be a significant political achievement for the state’s lawmakers to reach agreement on any one of the fiscal reforms mentioned above,” the report said.

Standard & Poor’s pointed out that the state’s “extraordinarily large budget reserves,” which have thus far covered the state’s spending deficits, won’t last forever. If lawmakers do not start correcting the state’s fiscal imbalance within the next year, a lower rating would be likely, it said.

Moody’s, another credit ratings agency, [revised its outlook](#) [2] for Alaska to negative in December 2014.