May 18, 2022

TRANSMITTED VIA U.S. MAIL AND EMAIL

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Re: ESG Credit Indicators – State of Idaho

Dear Mr. Peterson and Ms. Cheung:

On behalf of the State of Idaho, we object to S&P Global Ratings' ("S&P") publishing ESG credit indicators as part of its credit ratings for states and state subdivisions. To this end, we join with our sister states, especially Utah's thorough letter in objection, in opposing S&P's use of ESG credit indicators and object to any attempts at subjective quantification beyond the conservative and careful management of a state's finances, repayment of debt, and a State's ongoing creditworthiness.

Idaho has consistently maintained a solid credit rating, weathered recessions, corrections, and market volatility without deviation. The state balances its budget each and every year, and carefully manages its debt load, which currently includes being on track to pay thirteen (13) bonds off early. Idaho has full and robust reserve and rainy days funds which are currently at their statutory maximum. In short, Idaho is solvent and should not be penalized by you or any other entity for its sovereign

P. O. Box 83720, Boise, Idaho 83720

decisions. We, the undersigned officers of the State of Idaho object to S&P's attempts to overlook Idaho's sound financial management in favor of evaluating its political priorities. This is inconsistent with the fundamentals of sound financial planning and evaluation.

Most concerning is S&P's adoption of these tools with a blind eye towards its own past. In 2015, S&P admitted to falsely representing that its ratings were objective, independent and uninfluenced by S&P's business relationship with the investment banks that issued securities covered by S&P. S&P also paid $1.375 billion to settle these claims, including millions of dollars to Idaho. Paramount among these allegations was that S&P refused to use sound objective financial information and instead chose to rely upon business relationships. We are very concerned that S&P does not appear to be learning the lessons of its own past, and instead is again embarking on a political course designed to curry favor with specific customers through the creation of a subjective ratings system. This is not how the State of Idaho manages its finances, nor is it how S&P should evaluate Idaho's careful stewardship of its monies.

Equally baffling is the means by which S&P creates these "scores." For example, in reviewing the scores no state has a score of positive for Governance (G-1). But every state in the nation is governed by an elected governor and legislature. Virtually all political subdivisions are governed by elected officials. Within your explanation, S&P suggests that:

> Through the lens of this governance factor, we consider a state or territory's forward-looking plan governance decisions, risk mitigation planning, its legal flexibility and practical ability to implement of assumption changes and plan reforms, and prioritization of plan contributions in our credit rating analysis.

But there is no means to measure any of that. For example, Idaho balances its budget every year, it pays all of its debt on time (or ahead of time), it has a robust and filled collection of "rainy-day" accounts, and has looked forward to accurately balance growth and tax policy. The ratings criteria make passing reference to some influence of the State's pension fund, but that does not appear to have been taken into account either because Idaho's Public Employees Retirement System (PERSI) is fully funded. By any objective means, there is no basis for Idaho to receive a Governance rating of anything other than positive. This can only mean that either the ratings are political, or S&P is not actually making any inquiry and simply publishing generic ratings. Neither scenario is acceptable to Idaho. We respectfully request that S&P immediately take down these ratings and cease from engaging in any non-objective ratings criteria.

It is impossible for the State of Idaho not to conclude that S&P has adopted a politicized ratings system. As Utah tellingly pointed out within their objection, S&P bequeathed higher ESG ratings on Russian and Chinese energy companies than on American ones. Objectively this would appear impossible because Russian energy is state-controlled. This is even more perplexing knowing the corrupt and sanctions filled past of these Russian controlled companies, while law abiding American companies who are answerable within the American and international system are scored lower. Similarly, China's state-owned energy company has a higher score as well, even though China has an ongoing and well documented pattern of human rights abuses. As Utah noted S&P has removed these scores from its website, which simply fuels the concerns that Idaho has over the political and opaque nature of S&P's ESG ratings system.

Review of the ESG credit indicators and their methodology reveals an opaque process that is impossible for any government or political subdivision to objectively evaluate. If the goal of the system is to allow for enhanced risk management and transparency, an opaque evaluation system is completely counter-productive. Although S&P identifies factors and creates an evaluation system, there are no objective criteria upon which a state or political subdivision can evaluate itself. The absence of any transparent and objective criteria only serves to further our conclusion that these ratings are a means to politically evaluate the decisions of states and their subdivisions. In the future if S&P contemplates any changes to its ratings structure, the State of Idaho and its political subdivisions must be included within the process by which S&P makes any adjustments or additions to its ratings structure.

Finally, S&P is a nationally recognized statistical rating organization under Federal Law. With this designation, S&P is "prohibited from having a conflict of interest related to the issuance or maintenance of a credit rating." 17 C.F.R. § 240.17g-5(a). Idaho is concerned that through S&P's memberships, such as the Net Zero Financial Service Providers Alliance, it may be in violation of the law prohibiting specific conflicts of interest by a nationally recognized statistical rating organization.

Based upon the above as well as the concerns and questions outlined within the letter from Utah, Idaho objects entirely to S&P's creation, use, and publication of Idaho and Idaho political subdivision public finance ESG credit indicators. Idaho will not participate in the S&P's abandonment of its statutorily assigned responsibility for evaluating material factors in favor of S&P's expansion into politically biased ESG credit indicators. In the future if S&P contemplates any changes to its ratings structure, the State of Idaho and its political subdivisions must be included within the process by which S&P makes any adjustments or additions to its ratings structure. Based upon Idaho's strong objection to S&P's creation and publication of the ESG credit indicator system, Idaho reserves all of its rights, and maintains the right under federal and state law to make further inquiry into S&P.

Sincerely,

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SCOTT BEDKE
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Idaho House of Representatives