Allison Ball, State Treasurer
Michael G. Adams, Secretary of State
Daniel Cameron, Attorney General

Mike Harmon, Auditor of Public Accounts
Ryan Quarles, Commissioner of Agriculture

June 29, 2022

Douglas L. Peterson
President and CEO
S&P Global Ratings
55 Water Street
New York, NY 10041

Martina L. Cheung
President
S&P Global Ratings
55 Water Street
New York, NY 10041

Re: ESG Credit Indicators—Commonwealth of Kentucky

Dear Mr. Peterson and Ms. Cheung:

On behalf of the Commonwealth of Kentucky and those we serve, we firmly and collectively object to S&P Global Ratings' (S&P) new plan to include ESG credit indicators in its credit ratings for states and state subdivisions. We also object to the E-2, S-3, and G-2 ratings assigned to Kentucky by S&P.

These ESG credit indicators inject unnecessarily subjective and political judgments into a rating system that should be solely pecuniary in nature. Earlier this year, S&P wrote, "having a social mission and strong ESG characteristics does not necessarily correlate with strong credit worthiness and vice versa," making it abundantly clear these factors are not relevant for determining state credit calculations.[1] We thus agree with our friends in Utah who admonished these new scoring standards and exposed them as an exercise in political subjugation when they noted the following in a recent letter signed by every Utah statewide official and their entire federal delegation:

> [there are] two layers of indeterminacy that make ESG an exercise in servitude: 1) which "ESG factors" are chosen, and 2) the "correct" answer to any given factor. Whoever answers those questions has all the power in achieving a desired outcome.[2]

Blinded by the desire to achieve politically-motivated outcomes, S&P also fails to complete a cost-benefit analysis for how this new plan will impact both individual states and the country at large. The core purpose of S&P is to provide objective insights into the financial competencies of each state. However, this new plan looks more like China's social credit system and purposefully muddies the waters between objective financial concerns and normative political issues. It creates a dangerous framework for state borrowing mechanisms, whereby state creditworthiness will fluctuate wildly based on ever-changing political tides.

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[1] S&P Global Ratings, Through the ESG Lens 3.0: The Intersection of ESG Credit Factors And U.S. Public Finance Credit Factors (Mar. 2, 2022), at 2.
[2] Marlo Oaks, "S&P Hits U.S. States With Politicized Credit Scores" WALL STREET JOURNAL, https://www.wsj.com/articles/s-and-p-states-politicized-credit-scores-esg-rating-utah-oaks-carbon-environmental-energy-crisis-price-fracking-ukraine-russia-11652037089.

It is easy to discern the significant harm caused by placing subjective and environmental factors ahead of objective financial factors. For example, lessening American production of fossil fuels before our country has the infrastructure to support widespread reliance on green energy will only lead to a dependence on the fossil fuels produced by hostile nations and create significant national security risks.

S&P has yet to engage in a cost-benefit-analysis that weighs national security risks and the health of state economies against the need to introduce these ESG factors into its credit ratings. S&P should be forced to grapple with these realities, as subjective, leftist ESG scoring will unquestionably hurt states like Kentucky—where a reduction in coal, oil, and gas production would cause increased unemployment, higher fuel costs, and a decrease in overall tax revenue, thereby negatively impacting Kentucky's overall creditworthiness and causing undue hardship and suffering for the people of this state. The fossil fuel industry is one of Kentucky's signature industries, and stifling it will be harmful and costly for Kentuckians and our economy. Simply put, the emergence of these factors creates a no-win situation for our country and states like Kentucky. S&P should be forced to explain how it has weighed these factors against its decision to implement its new plan. We believe, S&P has not produced such a document because it is unable to perform a true cost-benefit-analysis without exposing itself as a political devotee instead of a leading provider of objective credit ratings.

Accordingly, we object to S&P's new ESG credit indicators and urge S&P to only evaluate the creditworthiness of states and state subdivisions based on objective and financial factors. These ratings should not be politicized.

Sincerely,

Allison Ball

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Mike Harmon, Auditor of Public Accounts

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