THE COMMONWEALTH OF MASSACHUSETTS

EXECUTIVE OFFICE FOR

ADMINISTRATION AND FINANCE

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Meeting Minutes

Debt Affordability Committee
August 21, 2020
1:30 pm
Executive Office for Administration and Finance
WebEx: URL: https://www.webex.com; Meeting ID: 129 740 3591; Password: DAC082120
Teleconference: Conference line: 1-617-315-0704; Access code: 129 740 3591

A meeting of the Debt Affordability Committee was held on Friday, July 17, 2020, pursuant to notice duly given, and in accordance with the Governor's Executive Order Suspending Certain Provisions of the Open Meeting Law, G.L. c. 30A, § 20, signed and dated March 12, 2020, was held via WebEx and teleconference.

The meeting was called to order at 1:33 pm.

Board members comprising a quorum:

Kaitlyn Connors, Executive Office for Administration & Finance
Sue Perez, Office of the Treasurer and Receiver-General
Catherine Walsh, Governor's Appointee, Northeastern University
Michael Butler, Treasurer's Appointee
Michelle Ho, Massachusetts Department of Transportation
Howard Merkowitz, Office of the Comptroller

Others in attendance:

William Archibald, Executive Office for Administration & Finance
KC Fussell, House Committee on Ways and Means
Julia Constantelos, Senate Committee on Ways and Means
Aaron Carty, Senate Committee on Ways and Means

Minutes:

Ms. Connors called the meeting to order. Upon a motion by Ms. Ho, and duly seconded by Mr. Merkowitz, the Committee voted to adopt the minutes from the July 17, 2020 meeting.

Ms. Connors then began with an overview of the Committee's revised draft work plan. Ms. Connors stipulated that if there is new revenue or expenditure information in September, we can take it into account, but otherwise September will largely be dedicated to focusing on the Capital Plan.

Ms. Connors continued with an overview of the Commonwealth's credit factors. A new addition since the previous year's slide deck was Kroll's rating on the Commonwealth Transportation Fund (the "CTF") Bonds. Ms. Connors stated that the current ratings are based on the principal outstanding as of March 31, 2020.

Ms. Ho stated that she thought that S&P rated the CTF Bonds a notch below the General Obligation (the "GO") Bonds, as she recalled that this affected borrowing capacity on the CTF side. Ms. Perez followed up to confirm that S&P had indeed rated the CTF Bonds at AA+, or one notch above the GO Bonds.

Ms. Connors stated that all three major ratings agencies are mostly aligned on determining the Commonwealth's strengths and offsets, most notably that the Commonwealth's Other Post-Employment Benefit liabilities have a large downward pressure on the ratings. The big three credit ratings agencies all recently reviewed the Commonwealth and affirmed their ratings in June 2020 in the midst of the COVID-19 pandemic. Ms. Connors described a few key takeaways: Massachusetts is in a good position to manage uncertainty given traditionally strong economic fundamentals, access to alternative liquidity facilities and reserves, and a history of actively managing its finances to maintain structural budget integrity. Ms. Connors believes rating agency commentary may provide helpful context for the Committee's recommendation this year.

Some of the key data points and economic fundamentals that rating agencies look at (and are important in figuring out prudent debt levels) include personal income per capita and state GDP. Within Ms. Connors' presentation for the meeting, Mr. Merkowitz recommended keeping the grouping (highest to lowest) consistent within the various categories on slides 11, 14 and 16. With respect to debt per capita, while high OPEB liabilities translate to Massachusetts' ranking as second highest, Ms. Connors clarified that these large levels of debt are driven partially due to the state financing infrastructure that local municipalities mostly handle in other states (e.g. the Commonwealth's school district capital bonding program and MBTA infrastructure debt). When factoring in local government funding by state, Massachusetts ranks more in line with its peers (23rd in the nation) as far as its debt burden. Ms. Connors added that the high tech sector is also a large proportion of state employment, which Moody's has attributed to much of the Commonwealth's economic growth.

Ms. Connors continued, Massachusetts is among the states with the highest percentage of municipalities with AAA credit ratings. S&P has also cited broad municipal participation in Metropolitan Statistical Area economic activities, which helps provide economic resiliency through changing economic and business cycles.

Mr. Merkowitz advised that in a few weeks, the Commonwealth will be able to provide the FY20 numbers on long term debt service (specifically the net revenue number) that are included in slide 19 of the presentation. Ms. Connors stated that all items in the slide deck will be updated to reflect this accordingly. Mr. Merkowitz further advised that the yellow line in the graph (representing total debt service) might be unnecessary, since it's so small and doesn't really show any trends, and that an additional clarification would be needed to state that these are budgetary numbers only.

Ms. Connors continued with a discussion on the Committee's model and provided several modeling scenarios for the Committee to consider. Ms. Connors added that she realized that making the model easier to understand was a priority of the Committee, but still wanted to solicit feedback on modeling assumptions, scenarios, and different inputs that the Committee could consider.

Ms. Walsh thought last year's model was a good approach. Ms. Ho concurred that the Compounded Annual Growth Rate ("CAGR") Method from last year was comprehensive, but we can reassess once further revenue clarity was available.

Mr. Butler mentioned hearing from his colleagues in local government that FY22 will likely be more difficult than FY21, given the revenue uncertainties and economic recovery (or lack thereof). Mr. Butler added that the interest rate assumptions were relatively conservative last year, and asked if any Committee members had any input on these assumptions going forward. Ms. Perez advised that the outstanding bonds still have 5% coupon rates (since many are not variable rate), which allow the Commonwealth to produce more proceeds as a result. However, Ms. Perez did not anticipate a huge adjustment on interest rates.

Ms. Connors commented on Mr. Butler's comment: anecdotally, municipalities may have reserves or other one-time funds (e.g. federal relief funds) to help plug FY 2020-21 budgetary gaps, but the ability to utilize those tools may diminish over time. Ms. Perez agreed with Mr. Butler's comment—with dips in FY21, FY22, potentially even going forward, the Committee will need to figure out how to best approach these assumptions. In the past, the Committee had assumed zero revenue growth was a conservative assumption.

Ms. Connors commented that debt issuance typically does not hit the operating budget right away. Ms. Perez agreed, and apart from annual interest, the Commonwealth typically does not issue short-term debt (that is, within 5 years).

Ms. Ho advised that MassDOT has been looking at how toll revenues have been affected and has discussed estimated recoveries with other toll authorities nationwide. Ms. Ho was interested in seeing how the Committee could factor in the dip and recovery going forward, but agreed that the Commonwealth Stabilization Fund and federal assistance have benefited the Commonwealth, and the Committee would need to monitor these going forward.

Ms. Connors confirmed that the Committee was in agreement on the work plan and considerations for September's meeting. Ms. Ho stated that she was interested in hearing from the Department of Revenue ("DOR"), maybe not for September, but sometime in the future. Ms. Connors agreed to ask DOR when an update might make most sense.

Ms. Connors announced that the next meeting is scheduled for September 18, 2020, at 1:30pm.

There were no further questions/matters.

Meeting adjourned at 2:20pm.