



Debt Affordability Committee

Meeting #5

13 December 2018



Agenda for Meeting #5

- 1. Vote on minutes from prior meeting**
- 2. Review model inputs and results**
 - Changes requested in last meeting
 - Resulting baseline input set in context
- 3. Discuss options for debt affordability recommendation**
 - DAC recommendations: five-year history
 - Environmental factors
 - Working toward our recommendation
- 4. Vote on debt affordability recommendation**



Review model inputs and results

- **Change since last meeting**

- Assume indebtedness growing at inflation-linked level of 2% per annum as a baseline

- **Recap of our baseline assumptions (“center of gravity” for scenarios)**

Factor	Baseline scenario	Comments
Growth in bond cap	<ul style="list-style-type: none">• FY20: determined in DAC process• FY21+: inflation-linked baseline of 2% per year	
Overall revenue growth	3.0%	Growth in actual tax revenues has generally exceeded this level in CAGR measures
Interest rates	Based on 3d party forecasts, we assume a material increase in rates of 1.2% (cumulative) in the coming years	Rising rates would increase the state’s cost of borrowing over time Baseline model reflects the resulting negative impact on affordability
Term lengths	Assumption is 10/60/30 for terms of 1-10 year, 11-20 year, and 21-30 year debt	



DAC recommendations: 5-year history

- Analysis of 4 years of actual history (FY16-FY19) and potential FY20 figures

Figures are draft: for discussion only

CAGR OVER 5 YEARS ASSUMING A \$100M INCREASE				
	DAC recommendation	Change \$	Change %	Debt limit
FY16*	\$2.126	\$0.000	0.0%	\$20.700
FY17	\$2.190	\$0.064	3.0%	\$21.800
FY18	\$2.260	\$0.070	3.2%	\$22.900
FY19	\$2.340	\$0.080	3.5%	\$24.000
FY20	\$2.440	\$0.100	4.3%	\$25.200 **
Growth from FY15 to FY20	\$0.314	\$0.314	14.8%	
CAGR over 5 years			2.8%	

CAGR OVER 5 YEARS ASSUMING A \$90M INCREASE				
	DAC recommendation	Change \$	Change %	Debt limit
FY16*	\$2.126	\$0.000	0.0%	\$20.700
FY17	\$2.190	\$0.064	3.0%	\$21.800
FY18	\$2.260	\$0.070	3.2%	\$22.900
FY19	\$2.340	\$0.080	3.5%	\$24.000
FY20	\$2.430	\$0.090	3.8%	\$25.200 **
Growth from FY15 to FY20	\$0.304	\$0.304	14.3%	
CAGR over 5 years			2.7%	

CAGR OVER 5 YEARS ASSUMING A \$85M INCREASE				
	DAC recommendation	Change \$	Change %	Debt limit
FY16*	\$2.126	\$0.000	0.0%	\$21.800
FY17	\$2.190	\$0.064	3.0%	\$21.800
FY18	\$2.260	\$0.070	3.2%	\$22.900
FY19	\$2.340	\$0.080	3.5%	\$24.000
FY20	\$2.425	\$0.085	3.6%	\$25.200 **
Growth from FY15 to FY20	\$0.299	\$0.299	14.1%	
CAGR over 5 years			2.7%	

CAGR OVER 5 YEARS ASSUMING A \$80M INCREASE				
	DAC recommendation	Change \$	Change %	Debt limit
FY16*	\$2.126	\$0.000	0.0%	\$21.800
FY17	\$2.190	\$0.064	3.0%	\$21.800
FY18	\$2.260	\$0.070	3.2%	\$22.900
FY19	\$2.340	\$0.080	3.5%	\$24.000
FY20	\$2.420	\$0.080	3.4%	\$25.200 **
Growth from FY15 to FY20	\$0.294	\$0.294	13.8%	
CAGR over 5 years			2.6%	

Note that the CAGR for the four years FY16-FY19 is 2.4% (not shown in the table). The 5-year CAGR reflects this actual history plus the assumption for FY20.

An increase of \$90M would still place the growth of debt well below the long-term growth in revenue, measured as growth over the five years FY16 to FY20.

The corresponding CAGR on revenue for the same period is 3.5%. (The FY20 figure used is unofficial, using the DOR input to the Consensus Revenue process.)

Notes

* DAC's approved an increase in FY16, but the actual change was held to zero

** Debt limit figure for FY20 is draft only



Environmental factors

During DAC discussions, two environmental factors emerged that may be relevant for the recommendation process

- **Interest rate outlook**

- As noted and reflected in the model, the expert third-party forecasts are for rising interest rates and yields in the coming years. The projected timeline is for increase from 2018 through 2026.
- Note that market projections are inherently unreliable and must be viewed with caution
- Despite the uncertainty, we may want to assume that the cost of borrowing will be higher in 2019 than in 2018, and in 2020 than in 2019

- **Purchasing power**

- In Meeting 4, we reviewed recent Bureau of Economic Analysis data on inflation in the “construction for government” sector. For the year ended October 2018, the one-year price increase is 4.5%. The same figure from one year ago, which was 3.1%.
- This figure is subject to revision and may fluctuate. It is an imperfect but relevant proxy for the cost outlook for portions of the state’s capital programs.
- Increased inflation in this measure may indicate a reduction in the state’s purchasing power over time



Transition to modeling & discussion

Goal: achieving a consensus recommendation