THE COMMONWEALTH OF MASSACHUSETTS

EXECUTIVE OFFICE FOR

ADMINISTRATION AND FINANCE

 STATE HOUSE **▪** ROOM 373 BOSTON, MA 02133

**Friday, December 13, 2024**

**1:00 p.m.**

A meeting of the Debt Affordability Committee was held on December 13, 2024. In accordance with Section 20 of Chapter 20 of the Acts of 2021, as extended by Chapter 107 of the Acts of 2022, this meeting will be conducted, and open to the public, via Zoom and Teleconference.

**Zoom URL**: <https://us02web.zoom.us/j/83935411857?pwd=o0ViLM1tc6nFZpMbxuM9gNySafQYhm.1> **Meeting ID**: 839 3541 1857; **Passcode**: 040354

**Teleconference line**: 1-646-558-8656; **Passcode:** 040354#

**Minutes:**

The meeting was called to order at 1:00 pm

**Board members comprising a quorum:**

Kaitlyn Connors, Chair, Executive Office for Administration & Finance

Martin Benison, Appointee of the Treasurer

Pauline Lieu, Office of the Comptroller

Sue Perez, Office of the Treasurer and Receiver-General

Michelle Scott, Massachusetts Department of Transportation

Catherine Walsh, Appointee of the Governor

**Others in attendance**:

Senator Edward J. Kennedy, Chair of Bonding, Capital Expenditures, and State Assets Committee

Aidan Bettencourt, Office of State Representative Michael Finn

Chris Czepiel, Senate Committee on Ways and Means

Thomas Skehill, Office of Senator Patrick O’Connor

Cory Bannon, Office of the Treasurer and Receiver-General

Daniel Aldridge, Office of the Treasurer and Receiver-General

Christina Marin, Office of the Treasurer and Receiver-General

Timur Kaya Yontar, Executive Office for Administration and Finance

Colin Young, State House News Service

Greg Mennis, Pew Charitable Trust

**Minutes:**

Ms. Connors called the meeting to order and conducted the roll to establish quorum. She then moved to the first item of business which was approval of the minutes from December 6, 2024 committee meeting. Upon a motion that was duly seconded, the minutes were approved unanimously.

Ms. Connors then moved on to the next item on the agenda: debt affordability modeling, which was a continuation of the discussions the Committee had been having in prior meetings. She noted that the Committee had been reviewing various modeling scenarios over the past month and was slated to vote on its recommendation today, ahead of the December 15th deadline. She also noted that today’s presentation was a draft of the final report and that this deck would be updated to reflect the Committee’s final recommendation and any feedback that was relayed. Lastly, she noted that Committee members had received a draft of the recommendation letter that incorporated their feedback from the December 6, 2024 meeting.

Ms. Connors then proceeded to recap key modeling scenarios and summarize the issues and questions the Committee had been discussing. She provided an overview of Committee findings which she summarized into four key takeaways:

* The Commonwealth’s general obligation (GO) credit rating is strong (Aa1/AA+/AA+), supported by a robust and diverse economy, high income levels and a history of strong financial management. Relatively high debt levels compared to other states is the biggest credit offset.
* Debt service as a percentage of revenues is approximately 4% - well below the Committee’s targeted affordability limits and that debt service as a percentage of revenues remains within policy limits in all modeling scenarios except the revenue “stress test” scenario, which shows debt service exceeding the revenue limit sometime within in the 2047–2049 timeframe.

* The Committee views the statutory direct debt limit as the most constraining factor in its affordability analysis. At the end of fiscal year 2024 current outstanding direct debt was 89% of the current statutory direct debt limit, however this buffer is expected to decrease in the coming years as the bond cap continues to grow.
* Construction cost escalation, which has been historically high, is something the Committee continues to monitor. The Committee notes that construction escalation has outpaced CIP growth in recent years, and while construction escalation has somewhat cooled, it still remains a capital challenge and will likely continue to erode the CIP’s purchasing power.

Ms. Connors then provided an overview of modeling scenarios and outcomes that the Committee had reviewed and flagged that premium assumptions had been the focus of recent Committee discussions.

Ms. Connors then reviewed the modeling results of four scenarios that focused on premium. She noted the model provided estimates for the maximum amount of bond cap growth that could be afforded while remaining under the DAC’s affordability targets assuming 11%, 10% , 7.8% and 3.1% bond premium going forward. Annual revenue growth was set at the conservative 3.2% growth rate in all scenarios. Ms. Connors reiterated that the modeling focused on premium because preliminary modeling suggested the statutory Direct Debt Limit was the constraining factor of this year’s analysis, and the premium assumptions most directly impacted direct debt.

The Committee then discussed finalizing their recommendation. Modeling suggested that the Commonwealth could afford an annual bond cap increase in the $107 million to $114 million range based on reasonable premium assumptions and discussions the Committee has had to date.

Mr. Benison noted there was not a material difference between most scenarios, but recommended the Committee base its recommendation on the assumptions the Treasurer’s Office used for premium. Ms. Perez reiterated that premium can be difficult to predict as it is tied to the market, which can be volatile; she suggested the Committee consider going with $110 million which fell midway within the range they were considering and was in line with what the Treasurer’s Office has seen in the past.

Ms. Walsh noted that while construction escalation was likely to continue to put pressure on the CIP and having additional bond cap capacity would be helpful for keeping up with capital needs, she believed $110 million in bond cap growth made sense given future economic uncertainty. Ms. Scott agreed.

Ms. Connors asked if the Committee was ready to take a vote. Noting general concurrence from members she read the proposed vote to “recommend to the Governor a bond cap increase of $110 million for fiscal year 2026, resulting in a recommended bond cap amount of $3,227,200,000 for fiscal year 2026, and to make the slide deck report with modeling publicly available online” into the record.

On a motion made by Mr. Benison and duly seconded by Ms. Perez, the motion passed unanimously.

The Committee then picked up discussions it had been having on how best to incorporate this year’s modeling and forecasting into its final recommendation and report. Ms. Connors referenced prior discussions the Committee had around incorporating a soft two-year recommendation and reemphasized the importance of including the Committee’s 10-year forecast of affordable and sustainable bond cap growth given current assumptions. She reiterated that having an estimate of future bond growth – especially in the second year of the upcoming CIP cycle - better aligns with the current CIP update approach that entails the Administration taking a “light touch” to CIP updates every other year, with a goal of limiting changes to technical adjustments in odd fiscal years.

The Committee agreed that the final report should include tables that show its 10-year forecast for affordable bond cap growth and the impact that growth has on key metrics the Committee uses to assess affordability. Ms. Connors said she would update the deck and the final recommendation letter to incorporate the feedback she received today and would circulate the updated documents to the Committee for final review before it was submitted to the Governor and the Legislature.

Ms. Connors then thanked the Committee for their dedication to developing this year’s recommendation, which entailed many big lifts – including a revamping of the debt affordability model. She asked if there was any other business the Committee wished to discuss, before calling for a motion to adjourn.

On a motion made by Ms. Scott and duly seconded by Ms. Perez, the meeting was adjourned at approximately 1:30 pm.