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Meeting Minutes

Debt Affordability Committee
December 2, 2019
1:30 pm
Executive Office for Administration and Finance
State House, Room 373

A meeting of the Debt Affordability Committee was held on Monday, December 2, 2019 in the Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts, pursuant to notice duly given.

Meeting was called to order at 1:33 pm.

Board members comprising a physical quorum:

Mark Attia, Executive Office for Administration & Finance
Sue Perez, Office of the Treasurer and Receiver-General
Howard Merkowitz, Office of the Comptroller
Michael Butler, Treasurer's Appointee, Town of Dedham

Others in attendance:

Michelle Ho, Massachusetts Department of Transportation *(calling in)*
Catherine Walsh, Governor's Appointee, Northeastern University *(calling in)*
William Archibald, Executive Office for Administration & Finance

Minutes:

Mr. Attia called the meeting to order, and began outlining the plan for the Committee's recommendation over the next three weeks. Mr. Attia provided an overview of the meeting's slide deck, including additions recommended by Mr. Butler. Mr. Attia stated that one of the Committee's challenges is to figure out the prudent level of borrowing where the Commonwealth would approach the 8% administrative revenues cap on debt service.

Mr. Attia explained, if the Committee recommended an increase in borrowing of $125M each year (the same recommendation from FY11-15), with an interest rate assumption below 5%, then the Committee would see the administrative cap reached within 10 years. Mr. Attia stated that this estimate could be made more conservative with different interest rate assumptions. Ms. Perez asked if this was illustrated within the slide deck, to which Mr. Attia responded affirmatively, explaining that this administrative cap is consistent with good fiscal practices, though this calculation was likely made to stay within given revenue constraints in 2009.

Committee members posed further questions regarding the slide deck. Mr. Attia suggested that it might be worth it to show a potential economic shock within the Committee's financial model where revenues decrease within 5 years. Ms. Perez noted that a better historical view of borrowing might come on a calendar basis, rather than a fiscal year basis, due to timing variances of debt issuance as the fiscal year ends.

Mr. Attia addressed a point made by Ms. Ho: The Commonwealth does have revenue sources for new debt, but there is a distinction between debt that is programmed or obligated vs. spent, especially if there lacks a plan to spend large bond authorizations. Ms. Perez agreed on this distinction between issuing and spending, and that capital plan spending monthly rates generally gradually increase, rather than spike.

Mr. Attia reminded the Committee that last year, the Committee defined what debt is affordable, and that the Committee could make a recommendation that does not exceed the 8% administrative cap over a 10-year time period, regardless of interest rates or revenue growth.

The Committee then discussed the likelihood of the conservative assumption of low revenue growth. Mr. Merkowitz stated it was unlikely that the Commonwealth would experience 0% revenue growth. Mr. Attia responded that based on historical data, long term revenue growth over the past 18 years has shown a steady increase, and that even through the recession years, there was little reason to believe revenue would decline. Mr. Attia defended the 0% revenue growth assumption as par for the course in the bond world. Mr. Merkowitz responded, however, this would assume no income growth and 0% interest rates. Mr. Butler suggested a compromise in adopting the most historically conservative compound annual growth rate (CAGR) in tax revenues over the past 10 years (1.6%). Committee members agreed.

The Committee also discussed further modeling assumptions, including the impact of inflation on costs of construction. Ms. Ho stated that MassDOT uses an industry average of approximately 2.2-2.6% for construction planning purposes. Ms. Walsh stated that she had observed higher rates, closer to 3.4%, though MassDOT's horizontal construction costs would differ from the vertical construction industry averages observed in the City. Mr. Butler suggested the Committee use a weighted average of inflation in each of the top categories of capital spending in the Commonwealth, e.g. higher education, transportation, etc.

Ms. Ho responded to an earlier question posed regarding the standard inflation assumption for MassHighway construction costs, specifying that the Federal Highway guidance is to escalate costs 4% each year.

Ms. Perez asked what would be the baseline assumption for the Committee's recommendation, and stated that 3% revenue growth would not be unrealistic. Mr. Merkowitz and Mr. Butler agreed. Mr. Butler recommended the Committee assume annual growth of approximately 4%, and requested Mr. Attia model $100M per year increase to the bond cap for fiscal 2021.

Mr. Attia affirmed he would clean up the slide deck and circulate the draft recommendation letter in advance of the Committee's next meeting on December 9th. Mr. Attia also solicited further feedback from Committee members on the slide deck in advance of the following meeting.

Meeting adjourned at 2:38pm.