



THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE FOR
ADMINISTRATION AND FINANCE
STATE HOUSE ■ ROOM 373 BOSTON, MA 02133

Meeting Minutes

**Debt Affordability Committee
December 3, 2021**

1:00 pm

Executive Office for Administration and Finance

Zoom URL: [https://mass-gov-](https://mass-gov-anf.zoom.us/j/81658386840?pwd=N2dKVllrMy9oWDdhVXZUdXRLT0FJdz09)

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Password: DAC120321 Teleconference line: 713-353-7024; Conference code: 319738

A meeting of the Debt Affordability Committee was held on December 3, 2021, 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.

Minutes:

The meeting was called to order at 1:01PM

Board members comprising a quorum:

Kaitlyn Connors, Executive Office for Administration & Finance

Sue Perez, Office of the Treasurer and Receiver-General

Michael Butler, Treasurer's Appointee

Michelle Ho, Massachusetts Department of Transportation

Pauline Lieu, Comptroller's Appointee, Office of the Comptroller

Others in attendance:

Kelly Govoni, Executive Office for Administration and Finance

State Representative Danielle Gregoire

Patrick Walsh, Office of State Representative Danielle Gregoire

Joshua Tavares, Office of State Senator Ryan Fattman

Corrine Corcoran, Office of State Senator Feeney

Rachel Corey, Massachusetts Budget and Policy Center

Minutes:

Ms. Connors called the meeting to order. Upon a motion by Ms. Ho, and duly seconded, the Committee unanimously voted to adopt the minutes from the November 19, 2021, meeting.

Ms. Connors recapped slides from last meeting regarding the Commonwealth's outstanding debt limit and annual borrowing debt limit. The limits for FY20- FY22 are provided below:

- FY20 Limit: \$25.2 billion
- FY21 Limit: \$26.5 billion

- FY 22 Limit: \$27.8 billion

. The FY20- FY22 borrowing limits are provided below:

- FY 20 Limit: \$3.8 billion
- FY21 Limit: \$4.2 billion
- FY22 Limit: \$4.3 billion

Ms. Connors noted that the outstanding direct debt chart was updated since last meeting and shows that the Commonwealth is at 84% of its statutory limit. Ms. Connors also noted that the Commonwealth's debt service has been less than 6% of net revenues and in FY2021 the Commonwealth was at about 4.5% for debt service to total revenue.

Ms. Connors then recapped the DAC'S debt affordability model inputs and noted that the Committee is focused on the FY23 projected bond cap recommendation. Ms. Connors went over the takeaways from the last meeting, noting that the Committee was comfortable with interest rate and revenue growth assumptions, the Committee requested a detailed chart on rate growth in various scenarios, and requested to review modeling assumptions annual bond cap growth at the max in all years. Ms. Connors also noted that in general, scenario 1 seemed the most realistic to Committee members.

Ms. Connors then moved on to Slide 8, which shows the requested information from last meeting as mentioned above. Ms. Connors noted that the Committee is reviewing three scenarios, the moderate, conservative and stress test. Ms. Connors explained that the Commonwealth issues bonds with 10-year, 10-20 year and 20-30-year maturities. Ms. Connors noted that for the moderate and conservative scenarios, the interest rates are based on Moody's and for the stress test, the interest rate increased Moody's 2022 projection by 1.1%.

Since the Committee requested to review modeling assuming annual bond cap growth at the max in all years, Ms. Connors explained that in all the scenarios, assume that the bond cap grows annually by \$125M over the next 30 years. Ms. Connors noted that the modeling shows that there is not a significant change with the bond cap growth.

Ms. Connors then moved on to discuss other changes in the scenarios from last meeting, noting that the low scenario presented to the Committee last meeting was \$90M and has been increased to \$110M. Ms. Connors noted that based on conversations from last meeting, it seemed that Committee members were comfortable with the moderate scenario. Ms. Connors explained that both the moderate and conservative scenarios assume lower interest rates, which were based on Moody's AA. Ms. Connors explained that the difference between the moderate and conservative scenarios has to do with revenue growth. In the moderate scenario we assume 2.3% revenue, whereas in the conservative scenario we assume 1.6% for revenue growth. Ms. Connors noted that revenue growth is the driver and when you change the interest rates it does not change the slope of the curve in the out year. Ms. Connors noted that the stress test scenario has more conservative interest rates with conservative revenue growth.

Ms. Connors proceeded to go over the different scenarios, which are summarized below:

- In all the scenarios, debt service <7% of revenues within the first 10 years
- In the moderate scenarios, debt service <7% of revenues over 30 years
- In the conservative and stress test scenarios, debt service > 8% around 2038
- The revenue growth is driver of whether debt service exceeds 7% of revenue

Ms. Connors then asked Committee members for their thoughts and if they had enough information to make a recommendation.

All Committee members thanked Ms. Connors for her work and concluded that they did not need any further information in order to make a recommendation.

Ms. Connors thanked everyone for their feedback and proceeded to move on. Ms. Connors provided her recommendation, which is the higher amount of \$125M. Ms. Connors noted that the Commonwealth can afford it and it is within the 8% limit for the first 10 years. Ms. Connors noted that in modeling, there is no active management in our debt portfolio and there are tools that can be used to control debt service and thus \$125M is her recommendation. Ms. Connors asked if others wanted to provide their thoughts and recommendations.

Ms. Perez stated that she agrees with Ms. Connors and is in favor of \$125M. Ms. Perez noted that we have the management tools in place to control it and focusing on ten years is prudent.

Ms. Lieu also agreed and noted that she is in favor of \$125M.

Mr. Butler noted that he supports \$125M not only for the reasons already mentioned but because inflation continues to erode the purchasing power in money, so it's best to invest in infrastructure and because of that he tends to lean with borrowing more in order to keep purchasing power.

Ms. Ho also agreed and noted that through prudent debt management that Ms. Perez manages we will manage to keep within our limit and looking at a ten-year range is reasonable and thus she supports the \$125M amount.

Ms. Connors asked if Committee members were ready to vote on a recommendation and Committee members agreed to vote on a recommendation.

Ms. Connors asked Committee members if all were in favor to make an advisory recommendation to the Governor to increase the bond cap to \$125M for FY23 and to make the model and slide deck publicly available online.

On a motion from Ms. Perez, and duly seconded from Ms. Ho, the Committee voted to recommend to the Governor that the bond cap increase to \$125M for FY23.

Mr. Butler thanked Ms. Connors for her terrific work over the past few months and thanked Ms. Govoni for her work on the minutes. Mr. Butler noted that for the next year or two, it's important to consider that the statute is more than ten years old now and the administrative policy for the revenues might be worth looking at.

Ms. Connors thanked everyone for their recommendation and explained that she would put together a final deck to be submitted with the recommendation letter. The deck will include all the slides from prior meetings so that folks can review and understand how the Committee reached its decision. Ms. Connors noted that the Committee will have the chance to review the recommendation letter prior to it being submitted.

There were no further questions/matters. Meeting adjourned at 1:34PM.

