

DEVAL L. PATRICK
GOVERNOR

THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE FOR
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GLEN SHOR
SECRETARY

The Capital Debt Affordability Committee

December 15, 2014

The Honorable Deval L. Patrick, Governor
State House, Room 360
Boston, MA 02133

William F. Welch, Clerk of the Senate
State House, Room 335
Boston, MA 02133

Steven T. James, Clerk of the House
State House, Room 145
Boston, MA 02133

Dear Sirs:

Pursuant to Section 60B(f) of Chapter 29 of the General Laws, as recently amended by Chapter 118 of the Acts of 2013, the Capital Debt Affordability Committee (the "Committee"), shall by December 15 of each year submit to the Governor and the General Court the Committee's estimate of the total amount of new Commonwealth debt that may be prudently authorized for the next fiscal year.

The Committee has determined that \$2.25 billion of general obligation capital debt issuance may be prudently authorized to be issued by the Governor for fiscal year 2016.

In making this determination, the Committee examined the factors required by statute, including the amount of bonds that are and will be outstanding, the Commonwealth's capital program, projections of debt service requirements during the next 10 years, the Commonwealth's bond rating, pertinent debt ratios, and comparisons to other states. In addition, the Committee reviewed the Debt Affordability Policy and Analysis currently used by the Administration to limit the amount of bonds to be issued in each fiscal year in its preparation of the annual five-year capital investment plan.



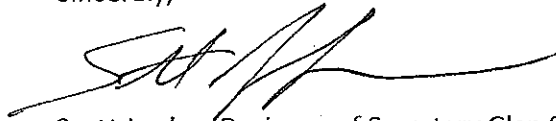
For its deliberations, the Committee adopted a working definition of debt affordability as: "the ability to sustainably meet projected debt service within the budget without raising taxes to uncompetitive levels or negatively impacting critical public services."

To assess the affordability of debt to be issued in fiscal year 2016, the Committee adopted a three-part test, each part of which must be met for the Committee to consider the debt affordable. First, over the next ten years, the average debt service from the expected borrowing to be undertaken in fiscal year 2016 as a percent of total budgetary revenue should be targeted to 7 percent as a benchmark debt ratio. In addition to the benchmark, debt service as a percent of budgetary revenue should not exceed 7.5 percent as a debt ratio cap. Second, new debt issuance subject to the debt limit imposed by Section 60A of Chapter 29 must be within that limit, \$20.7 billion for fiscal year 2016. Third, the amount of additional general obligation borrowing undertaken by the Commonwealth on a fiscal year-over-fiscal year basis should not exceed \$125 million per year.

The Committee analyzed the Administration's proposed general obligation issuance and applied the three-part test described above. From this analysis, the Committee concluded that the Administration may prudently issue the amount of general obligation bonds proposed for fiscal year 2016 – \$2.25 billion.

We encourage the Governor and the Legislature to view this recommendation as a starting point for their own determination as to the prudent amount of debt to be issued in Fiscal Year 2016. Certain factors, such as increases or decreases in budgetary revenue or interest rates, may warrant more or less borrowing during the year than is initially recommended by the Committee. In addition, the Commonwealth should be cognizant that planned issuance is approaching the statutory limit.

Sincerely,



Scott Jordan, Designee of Secretary Glen Shor,
Chair

Members

Martin J. Benison, Comptroller

Colin MacNaught, Designee of Steven Grossman, Treasurer and Receiver-General

Dana Levenson, Designee of Frank DePaola, Acting Secretary of Transportation

Jeita Phillips, Harvard Kennedy School

Philip Shapiro, Simmons College

Akash Deep, PhD., Harvard Kennedy School