



Executive Office for Administration & Finance

**COMMONWEALTH OF MASSACHUSETTS**

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**CHARLES D. BAKER**  
GOVERNOR

**KRISTEN LEPORE**  
SECRETARY

**KARYN E. POLITO**  
LIEUTENANT GOVERNOR

December 15, 2015

The Honorable Charles D. Baker, Governor  
State House, Room 360  
Boston, MA 02133

William F. Welch, Clerk of the State  
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 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 \$2.19 billion of general obligation capital debt issuance may be prudently authorized to be issued by the Commonwealth for fiscal year 2017.

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 2017, 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 2017 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, \$21.8 billion for fiscal year 2017. 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 Commonwealth's proposed general obligation issuance and applied the three-part test described above. From this analysis, the Committee concluded that the Commonwealth may prudently issue the amount of general obligation bonds proposed for fiscal year 2017- \$2.19 billion. This represents a 3 percent increase in the bond cap, which allows for targeted investments in the State's infrastructure while keeping growth in debt service and outstanding principal within long-term revenue growth projections.

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 2017. Certain factors, such as increases or decreases in budgetary revenue or interest rates or specific emergent capital needs, may warrant more or less borrowing during the year than is initially recommended by the Committee. In addition, the statutory debt limit places a strict limit on outstanding qualifying debt of \$21.8 billion for fiscal year 2017. The debt limit may constrain the affordable capital program without change in law.

Sincerely,

A handwritten signature in black ink, appearing to read "Jennifer Sullivan", written over a horizontal line.

Jennifer Sullivan, Designee of Secretary of Administration and Finance  
Kristen Lepore  
Chair

Members:

Howard Merkowitz, Designee of Comptroller Thomas Shack  
Michelle Ho, Designee of Secretary of Transportation Stephanie Pollack  
Sue Perez, Designee of Treasurer Deborah Goldberg  
Catherine Walsh, Northeastern University