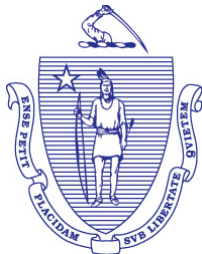


COMMONWEALTH OF MASSACHUSETTS

STATE HOUSE ▪ BOSTON, MA 02133

(617) 727-2040



MAURA T. HEALEY
GOVERNOR

**MATTHEW J.
GORZKOWICZ**
SECRETARY

KIMBERLEY DRISCOLL
LIEUTENANT GOVERNOR

December 15, 2023

The Honorable Maura T. Healey, Governor
State House, Room 360
Boston, MA 02133

Michael D. Hurley, 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 Governor and Sirs:

Pursuant to Section 60B(f) of Chapter 29 of the General Laws, as amended, 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 prudently may be authorized for the next fiscal year.

The Committee has determined that \$3.117 billion of general obligation debt may prudently be issued by the Commonwealth for fiscal year 2025. The attached presentation (the “Committee Report”) includes an overview of the Committee’s recommendation and the data and analysis that was performed to help inform its recommendation. From this analysis, the Committee concluded that the Commonwealth could afford to increase the bond cap in fiscal year 2025 by \$212.2 million – which includes a \$125 million bond cap increase, plus an additional \$87.2 million adjustment to account for recent construction cost escalation. The fiscal year 2025 recommendation supports targeted investments in Commonwealth infrastructure while keeping growth in debt service and outstanding principal within long-term targets.

In determining its bond cap recommendation, 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, Commonwealth

bond credit ratings, pertinent debt ratios, comparisons to other states, and the outlook for interest rates and state revenue growth.

Additionally, the Committee spent time reviewing inflation and construction escalation market trends and data. Through its analysis the Committee determined that high levels of construction cost escalation in the past two years have significantly eroded the Commonwealth Capital Investment Plan's (CIP) purchasing power. Committee analysis of the data indicates that CIP growth has notably lagged that of construction cost escalation, particularly in the last two fiscal years. Further, public agencies across the Commonwealth have reported significant budget gaps in many of their projects on account of cost escalation far surpassing original estimates. Examples of such projects include major higher education capital projects, library reconstruction projects, school building projects, water and sewer infrastructure upgrades, and state facility repairs and improvements. The Committee recognizes the vital importance of the Commonwealth's ability to keep pace with its capital needs. As a result, the Committee is recommending including a conservative \$87.2 million adjustment to the bond cap which it has determined is appropriate and affordable through its evaluation process.

To assess the affordability of debt to be issued by the Commonwealth, the Committee has adopted a three-part test, each part of which must be met for the Committee to consider the debt affordable. First, new debt issuance subject to the debt limit imposed by Section 60A of said Chapter 29 must be within that limit, which is equal to \$32.188 billion for fiscal year 2025. Second, over the next ten years the maximum annual projected debt service, including projected additional debt, as a percent of projected budgetary revenue should be targeted at 7 percent as a benchmark debt ratio. In addition to the benchmark, debt service as a percent of budgetary revenue should not exceed 8 percent as a debt ratio cap. 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. The Committee's analysis is based on the best available data at the time of analysis. Changing conditions or events during the fiscal year, such as increases or decreases in budgetary revenue, changing interest rates, or specific emerging capital needs, may warrant borrowing more or less during the year than is initially recommended by the Committee. Any such potential change would be subject to the limit on outstanding qualifying debt of \$32.188 billion for fiscal year 2025.

Sincerely,



Kaitlyn Connors
Assistant Secretary
Executive Office for Administration and Finance
Designee of Secretary Matthew J. Gorzkowicz, Chair

Voting Committee Members

Kaitlyn Connors	Designee of the Secretary of Administration & Finance, Matthew J. Gorzkowicz
Sue Perez	Designee of the Treasurer and Receiver-General, Deborah Goldberg
Pauline Lieu	Designee of the Comptroller, William McNamara
Michelle Scott	Designee of the Secretary of Transportation, Monica Tibbits-Nutt
Catherine Walsh	Appointee of Former Governor Charles D. Baker
Navjeet Bal	Appointee of Treasurer and Receiver-General, Deborah Goldberg
Marty Benison	Appointee of Treasurer and Receiver-General, Deborah Goldberg

Non-voting Committee Members

Michael J. Rodrigues	Chair, Senate Committee on Ways and Means
Patrick M. O'Connor	Ranking Member, Senate Committee on Ways and Means
Aaron Michlewitz	Chair, House Committee on Ways and Means
Todd M. Smola	Ranking Member, House Committee on Ways and Means
Edward J. Kennedy	Chair, Senate Committee on Bonding, Capital Expenditures and State Assets
Ryan C. Fattman	Ranking Member, Senate Committee on Bonding, Capital Expenditures and State Assets
Michael J. Finn	Chair, House Committee on Bonding, Capital Expenditures and State Assets
David T. Vieira	Ranking Member, House Committee on Bonding, Capital Expenditures and State Assets