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Meeting Minutes

Debt Affordability Committee
November 20, 2020
1:30 pm
Executive Office for Administration and Finance
WebEx: URL: https://www.webex.com; Meeting ID: 173 908 0308; Password: DAC112020
Teleconference: Conference line: 1-617-315-0704; Access code: 173 908 0308

A meeting of the Debt Affordability Committee was held on November 20, 2020, 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.

The meeting was called to order at 1:32 pm.

Board members comprising a quorum:

Kaitlyn Connors, Executive Office for Administration & Finance
Sue Perez, Office of the Treasurer and Receiver-General
Catherine Walsh, Governor's Appointee, Northeastern University
Michael Butler, Treasurer's Appointee
Michelle Ho, Massachusetts Department of Transportation
Howard Merkowitz, Office of the Comptroller

Others in attendance:

Senator Michael Moore
Jamie Howell-Walton, House Committee on Bonding, Capital Expenditures and State Assets
Dana DeBari, Housing Committee on Bonding, Capital Expenditures and State Assets
William Archibald, Executive Office for Administration & Finance

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 October 16, 2020 meeting.

Ms. Connors began with an overview of the draft work plan for the Committee and recapped the statutory and administrative limits on the Commonwealth's direct debt: the statutory limit caps outstanding debt at 105% of the previous fiscal year's limit, while the annual debt service payments are administratively capped at 8% of budgeted revenues. Additionally, bond cap annual growth cannot exceed $125M. Ms. Connors explained the long-term debt service ratio is approximately 5.1% of budgeted net revenues for FY20, and the current outstanding debt is roughly 86% of the statutory limit.

Moving on, Ms. Connors reviewed the Committee's modeling scenarios—while the first four inputs are held constant across all scenarios, interest rates for new debt and assumed revenue growth will be adjusted across scenarios to build a Debt Affordability Committee recommendation for an FY22 projected bond cap.

There were no questions on the Debt Affordability Model inputs.

Ms. Connors then walked through the preliminary working assumptions:

1. Two scenarios where the bond cap increases: a high scenario—the maximum bond cap of $125M, and a low scenario—$100M.
2. Four sub-scenarios where interest rate assumptions vary. Three of the four sub-scenarios assume FY21 interest rates that were informed by the Committee's earlier discussions, ranging from 3.1-3.75% (these were borrowed from last year's model's interest rate assumptions). Ms. Connors admitted that these would be relatively conservative for modeling purposes and stated that all of the interest rate assumptions assume the range will increase 0.3% annually from 2021 to 2026 and be held constant thereafter. The fourth sub-scenario assumes lower interest rates, or 2.5-3.5%, and are based on IHS and Moody's projections.
3. Within the above four sub-scenarios, Ms. Connors also varied revenue growth numbers, which were informed by the average annual growth rate from 2015-2020 (4.0%), the lowest 20-year tax CAGR (3.2%), and the lowest 10-year tax CAGR (1.6%) for a stress test scenario.

Ms. Connors walked the Committee through the $125M bond cap across all four sub-scenarios and explained the graph of the model and each input. Across each sub-scenario, Ms. Connors reminded the Committee that this model assumes no advanced refundings in the out years.

Ms. Ho and Ms. Perez asked clarifying questions on the modeling assumption that read "Bond cap continues to increase annually," and whether or not that meant that a constant growth of $125M per year—Ms. Connors said she would follow up to confirm.

Ms. Connors noted that the stress test sub-scenario with a $125M bond cap shows that within 10 years, the Commonwealth's debt service would exceed 7% of revenues, and after 12 years, would exceed the 8% threshold as well.

Ms. Connors then went through the same sub-scenarios, but with a $100M bond cap instead.

Ms. Connors opened the meeting up for feedback from the Committee regarding the modeling inputs, assumptions, and scenarios. Senator Moore asked how COVID-19 was being factored into the analysis, given that there are many unknowns with the path of the virus and further potential shutdowns. Ms. Connors responded that this model uses the revised FY21 forecast for revenues, and that the underlying assumptions in the revised revenue numbers factor in a resurgence of the virus.

Ms. Ho stated her approval of the assumptions and conservative approach, but did not believe that we would gather any new information with running any new models.

Ms. Connors asked if the Committee had any feedback on the average annual revenue growth from 2015-2020 (4.0%), as there was not much discussion on it previously. No Committee members responded.

Mr. Merkowitz remarked that he thought the 3.2% revenue growth number was good and relatively conservative.

Mr. Butler vocalized his approval for the Moody's and IHS projections, but had a question about the first sub-scenario under a $125M bond cap, as the slope for annual debt service expenditures is pretty shallow, even with a $125M increase in the bond cap each year. Ms. Perez responded that the Commonwealth tends to avoid issuing bonds with maturities within 10 years, thus the debt structures are mostly for capital expenditures with longer useful lives. Ms. Perez further stated that over the past five years, the Commonwealth has been able to maintain stable debt service numbers.

Ms. Ho also responded that the projects Ms. Perez spoke of typically have a longer life (20-30 year category), especially at MassDOT, and how that partially explained why an increase in bond cap would result in the maturities being further out than the next 12 years (with the exception of certain IT projects).

Mr. Butler noted that for the second sub-scenario, with a $125M bond cap, it appeared that the debt service level would reach approximately 6% of revenues in FY22. Ms. Connors confirmed she would check on the numbers.

Ms. Ho stated her approval of using third-party projections for the model's assumptions.

Mr. Butler stated he was leaning toward the lower CAGR number (1.6%) for a revenue growth projection.

Ms. Connors summarized her follow-up items and announced that the next meeting is scheduled for December 4, 2020, at 1:30pm.

There were no further questions/matters.

Meeting adjourned at 2:10pm.