



THE COMMONWEALTH OF MASSACHUSETTS  
EXECUTIVE OFFICE FOR  
ADMINISTRATION AND FINANCE

STATE HOUSE • ROOM 373 BOSTON, MA 02133

**Friday, November 22, 2024**

**1:00 p.m.**

A meeting of the Debt Affordability Committee was held on November 22, 2024. In accordance with Section 20 of Chapter 20 of the Acts of 2021, as extended by Chapter 107 of the Acts of 2022, this meeting will be conducted, and open to the public, via Zoom and Teleconference.

**Zoom URL:** <https://us02web.zoom.us/j/83935411857?pwd=o0ViLM1tc6nFZpMbxuM9gNySafQYhm.1>

**Meeting ID:** 839 3541 1857; **Passcode:** 040354

**Teleconference line:** 1-646-558-8656; **Passcode:** 040354#

**Minutes:**

The meeting was called to order at 1:04 pm

**Board members comprising a quorum:**

Kaitlyn Connors, Chair, Executive Office for Administration & Finance  
Martin Benison, Appointee of the Treasurer  
Pauline Lieu, Office of the Comptroller  
Michelle Scott, Massachusetts Department of Transportation  
Catherine Walsh, Appointee of the Governor

**Others in attendance:**

Representative Michael J. Finn, Chair of the House Bonding, Capital Expenditures, and State Assets Committee  
Senator Edward J. Kennedy, Chair of Bonding, Capital Expenditures, and State Assets Committee  
Peter DeGrandis, Joint Committee on Bonding, Capital Expenditures and State Assets  
Aidan Bettencourt, Office of State Representative Michael Finn  
Josh Tavares, Office of Senator Ryan Fattman  
Michael LaFlamme, Office of State Representative Michael Finn  
Cory Bannon, Office of the Treasurer and Receiver-General  
Daniel Aldridge, Office of the Treasurer and Receiver-General  
Christina Marin, Office of the Treasurer and Receiver-General  
Emma Staff, Office of the Treasurer and Receiver-General  
Timur Kaya Yontar, Executive Office for Administration and Finance  
Joe DaBreo, PFM  
Andrew Estrada, PFM

**Minutes:**

Ms. Connors called the meeting to order and conducted the roll to establish quorum. She then moved to the first item of business which was approval of the minutes from the November 8, 2024, committee meeting. Upon a motion made by Mr. Benison, and duly seconded, the minutes were approved unanimously.

Ms. Connors then moved on to the next item on the agenda: DAC Modeling. She reviewed the upcoming DAC schedule and stated that the work of the Committee would largely be focused on modeling going forward. She introduced the financial advisors from PFM who had been assisting in updating the current debt model, Mr. Joe DaBreio and Mr. Andrew Estrada and then reviewed the enhanced features of the model. Key updates include, but are not limited to, refinement of future debt issuance projections and the addition of direct debt modeling. Ms. Connors noted that refinements of future debt projections included a refreshed bond maturity distribution across 10, 20, 30-year bonds, the ability to include an interest only period, the ability to choose level debt service vs. level principal, and an option to factor in the bond premium.

Ms. Connors then reviewed the modeling assumptions that were used in the preliminary affordability modeling. She noted that the revenue growth and interest rate assumptions were based on analysis that the Committee had reviewed in prior meetings. Revenue growth assumptions were based on Compound Annual Growth Rate (CAGR) analysis that looked at the 10- and 20-year CAGR lows, as well as the annual average. Interest rate projections were based on Moody's projections. She confirmed that DOR's CAGR analysis excluded the surtax revenue. She also confirmed that Moody's has not released new projections post presidential election.

The Committee then moved on to a discussion around bond premium. Ms. Connors explained that bond premium refers to the excess price paid for a bond over and above its face value. Commonwealth tax-exempt bond transactions typically include a premium which result in actual bond proceeds that exceed the par issuance amount.

Mr. Benison noted that he understood premium to be driven by market demand, specifically the difference between the bond coupon and what investors were willing to pay given market conditions. Mr. DaBreio confirmed that was generally accurate and went into a little more detail on premium. Ms. Connors noted historical premium results which ranged from a high of 13.3% and a low of 3.1%. Mr. Benison asked whether a discount should be considered. Ms. Connors said that she was not aware of any instances where a discount was taken, but suggested the committee further explore this consideration at the next meeting, when Ms. Perez would be present. Ms. Lieu confirmed there had been no instances of a discount in recent history.

Ms. Connors then reviewed preliminary modeling results, which assumed a bond cap increase of \$125 million - the cap based on current administrative policy - as a starting point. She reported that preliminary modeling shows that debt service as a % of tax revenues remains within policy limits in all conservative scenarios except in the revenue "stress test" scenario, which shows debt service exceeding the revenue limit in 2043, well outside the 10-yr window that the DAC tends to focus on.

She then reviewed the direct debt modeling results, noting that preliminary modeling suggests that the direct debt limit is the constraining factor to consider for this year's recommendation. She explained that the Commonwealth's current outstanding debt is 89% of the current limit, however the buffer will decrease if net bond cap growth outpaces direct debt limit. Preliminary modeling using max bond cap growth (+\$125M YoY), and moderate and conservative premium assumptions shows bond cap hitting the direct debt limit in 2029 and 2030.

Ms. Lieu asked for clarification around the outstanding direct debt projection for fiscal year 2025 noting that what was being shown in the model was higher than what the state's financial system was reporting. Ms. Connors noted that the model projection takes into account future issuance in fiscal year 2025 and therefore is higher than what is currently outstanding.

Ms. Marin asked about the bond cap growth assumptions. Ms. Connors confirmed that the fiscal year 2025 bond cap assumption was based on the current CIP bond cap, which was based on the Committee's recommendation last year, and that future bond cap was assumed to grow by \$125 million per year going forward for modeling purposes.

The Committee then moved into a discussion on next steps given preliminary modeling findings. Ms. Connors noted affordability is a priority but has concerns about being overly conservative. She noted that projections assumed the annual bond cap growth maxed out each year going forward for modeling purposes, but in reality, could be adjusted depending on future analysis and resulting recommendations. She also noted that the timing of actual spending (which influences timing of bond transaction) can impact actual results. She also noted that a key CIP objective is to ensure the Commonwealth is able to keep pace with state of good repair needs and address high priority capital needs (like housing).

Ms. Walsh recognized the challenges associated with recent construction escalation and understands the concerns around keeping pace with needs.

Mr. Benison acknowledged the challenges but questioned what role the CIP should factor into the Committee's decision making process. He recognized that the fixed \$125 million cap is somewhat out of date and should be revisited.

Ms. Walsh suggested that it would be good to continue discussions when Ms. Perez was back to get TRE perspective.

Ms. Connors noted that the meeting was at time and suggested adding another committee meeting to the schedule. Committee members agreed.

Mr. Bension moved a motion to adjourn the meeting, which was seconded by Ms. Walsh. The meeting was adjourned at 2:05pm.