



THE COMMONWEALTH OF MASSACHUSETTS

EXECUTIVE OFFICE FOR ADMINISTRATION AND FINANCE

STATE HOUSE ■ ROOM 373 BOSTON, MA 02133

Friday, October 25, 2024

1:00 p.m.

A meeting of the Debt Affordability Committee was held on October 11, 2023. 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 1:00pm

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
Susan Perez, Office of the Treasurer and Receiver-General
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
Chris Czepiel, Senate Committee on Ways and Means
Josh Tavares, Massachusetts State Senate
Cory Bannon, Office of the Treasurer and Receiver-General
Daniel Eldridge, Office of the Treasurer and Receiver-General
Fushang Liu, Department of Revenue
Timur Kaya Yontar, Executive Office for Administration and Finance

Minutes:

Ms. Connors called the meeting to order and conducted the roll call for the meeting. She immediately moved into the agenda. After introductions, the first item of business was approval of the minutes from the prior meeting on December 15, 2023, which upon a motion by Ms. Perez, and duly seconded were approved unanimously.

Ms. Connors then moved on to the next item on the agenda, where she provided an overview of Committee roles and responsibilities and reviewed the draft workplan for the upcoming Committee cycle. She noted the Capital Debt Affordability Committee was established by Chapter 163 of the Acts of 2012 for the purpose of reviewing the amount and condition of the Commonwealth's tax-supported debt, as well as the debt of certain authorities.

She also noted that the Committee is responsible for providing an estimate of the total amount of new Commonwealth debt that can prudently be authorized for the next fiscal year, considering certain criteria, to the Governor and Legislature on or before December 15 each year, recognizing that the Committee's recommendation is advisory.

She then provided a recap of highlights from the prior year, including an overview of the historical recommendations the Committee has made over the last decade, as well as a summary of the major capital and debt related accomplishments that the Commonwealth has achieved over the past calendar year – including the publication of the state's FY25 Capital Investment Plan (CIP) in June 2024, the progress made on a number of bond bills and the execution of five bond transactions.

Lastly, Ms. Connors walked the Committee through the policies and credit considerations the committee considers when developing its recommendation and laid out the scheduling for discussing these factors over the coming months.

At the conclusion of Ms. Connors presentation, staff from the Office of the State Treasurer provided an overview of the Commonwealth's existing debt portfolio and then walked through key Commonwealth credit factors. Mr. Bannon provided an overview of the Commonwealth's current outstanding debt, consisting of approximately \$28 billion of general obligation (GO) debt, \$6.0 billion of special obligation debt, and \$256 million in federal grant anticipate notes (GANs), noting that nearly all (99%) outstanding debt was fixed rate debt.

Mr. Bannon also reported on other related liabilities including Commonwealth contract assistance and other contingent liabilities. Ms. Perez noted that contract assistance payments refer to liabilities that arise from statutory requirements for certain payments by the Commonwealth to other entities that are used to pay a portion of the debt service on certain outstanding bonds, and which constitutes a pledge of the Commonwealth's credit. Ms. Perez also noted that contingent liabilities relate to debt obligations of certain independent Commonwealth authorities and agencies that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has liability if expected payment sources do not materialize.

Before turning the presentation over to his colleague, Mr. Bannon noted that nearly 41% of outstanding debt is set to amortize over the next ten years.

Mr. Aldridge then walked the Committee through various credit factors that it uses to help inform its final recommendation. He reported the Commonwealth's long-term ratings from all three ratings agencies have remained the same since last year at Aa1/AA+/AA+ - at the high investment grade level, and then walked the Committee through the Commonwealth's credit profile, noting that the rating agencies have consistently given the Commonwealth high marks across all credit factors, except for exiting long-term liabilities which include debt and pension/OPEB.

Mr. Aldridge spend some time discussing the Commonwealth's socio-economic credit factors which the credit agencies view as strong. He noted that the Commonwealth has a robust and diverse economy that is rooted in relatively high-paying, stable industries, calling out the significant presence of professional,

business, and healthcare services within the state. He then discussed how the economy has helped drive relatively high income levels, with the Commonwealth having the highest per capita income rates in the country. He also noted that the Commonwealth has generally outperformed the nation as a whole, in unemployment rates. He then spent some time discussing Commonwealth governance and how certain features of the framework help support the Commonwealth's strong credit rating – including the state's approach to growing and managing the budget stabilization fund - before turning to an overview of key debt ratios.

Mr. Aldridge reiterated that elevated debt levels is a major credit offset for the Commonwealth. He reported that the Commonwealth has the second highest debt levels compared to all other states, and used charts to illustrate how the state's debt levels far exceed those of its Aa1 peer states. He noted that the state's relatively high levels are in part driven by the fact that the state uses debt to support investments that are funded at the local level in other states.

Mr. Aldridge then discussed overall long-term liabilities – which include debt, as well as pension and OBEB. He reported overall levels have remained relatively flat in recent years. Ms. Perez noted that the state's pension liabilities include teacher's pensions liabilities, however many other states do not and noted that Moody's does not include unrecognized teacher's liability. Mr. Benison asked for some clarification. Ms. Perez responded that other states are not addressing the unfunded liability the same way the Commonwealth is and therefore their unfunded liability is not being factored into long term liabilities in the same manner. Mr. Aldridge concluded his presentation.

Ms. Connors asked the committee if there were any questions or items they wished to discuss, reminding the committee that a version of these slides would be included in the final deck.

Mr. Benison suggested that the materials on long-term debt and liabilities be included upfront in the final deck.

Ms. Scott asked whether we anticipate any changes to the ratings. Ms. Perez responded that she did not expect the ratings to change, pointing out that the rating agencies just reviewed and affirmed their ratings in September. She noted that ratings reports from each of the credit rating agencies could be found on the Treasurer's Office Mass Bondholders web page.

Mr. Benison asked whether the rating was stable. Ms. Perez confirmed it was.

On a motion made by Mr. Benison and seconded by Ms. Perez, the meeting was adjourned at 1:49 p.m.