THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE FOR
ADMINISTRATION AND FINANCE
STATE HOUSE ▪ ROOM 373 BOSTON, MA 02133

Meeting Minutes

Debt Affordability Committee
October 14, 2022
1:00 pm
Executive Office for Administration and Finance
Zoom URL: : https://mass-gov-anf.zoom.us/j/89260050854?pwd=Tk9Mc3k2Zk01RDJmNlJHbGQ2ckVjUT09
Password: DAC101422 Teleconference line: 713-353-7024; Conference code: 319738

A meeting of the Debt Affordability Committee was held on October 14, 2022. 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.

Minutes:
The meeting was called to order at 1:01PM

Board members comprising a quorum:

Kaitlyn Connors, Chair, Executive Office for Administration & Finance
Sue Perez, Office of the Treasurer and Receiver-General
Michelle Ho, Massachusetts Department of Transportation
Pauline Lieu, Office of the Comptroller
Catherine Walsh, Designee for Governor Baker

Others in attendance:

Kelly Govoni, Executive Office for Administration and Finance
Yontar Yontar, Executive Office for Administration and Finance
Kazim Ozyurt, Department of Revenue
State Representative Danielle Gregoire
Patrick Walsh, Representative Gregoire's Office
Jennifer Mercadante, Representative Gregoire's Office
Haley Dillon, Senator Collins' Office
Meaghan Callahan, Senate Committee on Ways and Means

Minutes:

Ms. Connors called the meeting to order and conducted the roll call for the meeting. Upon a motion by Ms. Perez, and duly seconded, the Committee unanimously voted to adopt the minutes from the September 30, 2022, meeting.

Ms. Connors then moved on to the next item on the agenda, an update on the Capital Investment Plan. Mr. Yontar explained that the FY23 CIP was published on May 5, 2022. The CIP is focused on ensuring that Administration capital priorities were funded and programmed for FY23-FY27. Mr. Yontar noted that this practice was a return to normal vs. the previous CIP, which took a "maintenance" approach adhering to prior baseline investment levels. In FY23 the plan spends a total of $2.78B in bond cap, exactly at the affordable level of spending that the Debt Affordability Committee proposed. Mr. Yontar explained that the core "bond cap" portion of the CIP is finalized by General Obligation bonds, for which borrowing authorization is granted by "bond bills". The 2021-2022 Legislative session passed major bond bills for Transportation & Environment ("MassTRAC"), General Government (~90% DCAMM), and Judiciary IT, which support future spending in the approved CIP. Mr. Yontar outlined the six different goals that the Baker-Polito Administration has been emphasizing throughout its tenure, which are Asset Stewardship, Climate Resiliency, Economic Opportunity, Value Optimization, Customer Orientation, and Supporting Communities.

Mr. Yontar then provided a budget summary. He noted that the bond cap is the core of the capital budget and went over the breakdown, which is:

Source	FY23 ($M)
General Obligation Bonds (bond cap)	$2,780
Federal Funds	$1,052
Special Obligation (REP and ABP) Bonds	$465
Other contributions (match, private, etc.)	$265
Pay-as-you go (PAYGO)	$249
Project / Self-Funded	$50
Capital Investment Plan Total (All Sources)	$4,862

Mr. Yontar then went over Bond Authorization vs. Bond Cap spending. He explained that Bond Bills are the vehicle by which authorization to spend bond cap is granted and requires 2/3rds roll-call vote in formal legislative session. Authorizations allow but do not require borrowing. Mr. Yontar noted that all spending financed by bond bills is at the direction of the Governor per Massachusetts Constitution. The Governor-approved CIP provides the budget for actual bond cap spending and the DAC recommendation plays a crucial role in determining how much bond cap Massachusetts can afford.

Mr. Yontar then provided a breakout summary of Bond Cap authorization in FY22 and FY23 and the year over year change by capital agency. He noted that $125M in total expansion allowed them to increase nearly all agencies' budgets for various administration priorities and purposes, with the two exceptions being EEA and ANF. Mr. Yontar noted for EEA, the decrease in FY23 Bond Cap versus FY22, was driven primarily by the ability of EEA to accelerate some originally programmed FY23 spending into FY22, utilizing available FY22 Capital Reserve. He explained that for A&F, the decrease from FY22 was primarily driven by reduced FY23 Capital Reserve, since over 99% of CIP budget was fully programmed. Mr. Yontar noted that they had about $10M dollars of reserve in FY23, and they keep that to handle the unexpected, which could be increased costs for already programmed items or something brand-new, and its one of ANF's ways to adjust as the year goes on. Mr. Yontar explained that ANF does mid-year course corrections, where they hear from agencies about projects and are able to make adjustments along the way. Mr. Yontar noted if they hear the net costs have gone up, they are able to tap into the reserve to make up the difference.

Mr. Yontar explained that the biggest piece of the Commonwealth's Capital Plan is for Transportation. Together with Facilities (DCAMM), Housing and Economic Development, and Energy & Environmental, these top four categories compose nearly 90% of bond cap spending. Mr. Yontar then showed the dollar growth over the years for each agency but noted it has been pretty constant. Mr Yontar explained next steps for the next CIP:

- December 9, 2022: DAC formally recommends an affordable level of spending
- Winter 2022-2023: Agencies begin their Capital Plan recommendations
- January 5, 2023: New Governor & Lt. Governor sworn in
- Spring 2023: A&F and capital agencies consolidate CIP recommendations, receive Executive approval, and publish FY24-FY28 capital plan

Mr. Yontar noted they need bond bills to be passed in order to authorize the borrowing to support the capital spending and there was a fourth bond bill for Economic Development, also known as "FastFORWARD" that was not passed during the 2021-2022 Legislative session. This means that for a portion of the Capital Plan some authorization is missing and that will start to bite in in FY24 for some of the plan items. ANF plans to work with the new Administration with intent of seeking expedited passage of substantively similar bond bill in Spring 2023 to put authorization in place for FY24.

Ms. Ho then went over MassDOT/MBTA's CIP. She explained that the MassDOT/MBTA portion of the State's CIP does not include the entire MBTA capital plan except where MBTA projects are funded through state sources (Green Line Extension, Red Line/ Orange Line Vehicles & Infrastructure and South Coast Rail). She noted that for FY23-FY27, the MassDOT CIP included only the state-funded investment for the MBTA since they published a standalone five-year CIP. Ms. Ho explained that the FY23-FY27 plan reflects a return to a five-year CIP. The CIP:

- Continues support for major ongoing capital programs (e.g., GLX, SCR)
- Includes some targeted new investments to advance goals and priorities
- Incorporates the new federal funding reflected in the Bipartisan Infrastructure Law enacted in November 2021 including new funding and programs to improve bridges and support climate change mitigation and resiliency
- Development of new statewide long-range plan (SLRTP) for transportation has launched; full revamp of the CIP in future years will align with the SLRTP that is developed

Ms. Ho explained that the FY23-FY27 Plan maintains the priorities and strategies for MassDOT/MBTA to invest first in the reliability and modernization of our system with targeted investments in increasing capacity of the network and providing access to new transportation. She noted that investments in reliability and modernization of the network account for approximately 78% of their programmed spending over the five years. Ms. Ho explained that the plan, including federal, state toll revenues, new Grant Anticipation Notes (Next Gen Bridge), other MBTA funding maintains focus on:

- Roadway assets in need of investment: roads/pavement, bridges, the Metropolitan Highway System and bicycle and pedestrian infrastructure
- Municipal needs addressed through existing reimbursement and grant programs such as Chapter 90, Complete Streets, Municipal Bridge and new programs authorized under 2021 Transportation Bond Bill and MassTRAC - Shared Streets and Spaces, Municipal Pavement, Local Bottleneck Reduction, and Transit Infrastructure Partnership
- MBTA targeted investments in modernization and expansion of its transit infrastructure e.g., Red Line/Orange Infrastructure improvements and new vehicles, Green Line Extension to Somerville and Cambridge and new commuter rail service to the South Coast (Fall River and New Bedford)

Ms. Ho noted that the FY23-FY27 CIP projects $14.9 billion in estimated spending, with $13.4 billion for MassDOT investments, and $1.43 billion for MBTA state-funded investments. Ms. Ho explained that the Bipartisan Infrastructure Law (BIL) reauthorized surface transportation programs for FF7 2022-2016 for highway and transit. She explained that it provides federal formula funding for FHWA and FTA managed under the existing State Transportation Improvement Program (STIP) process in partnership with the 10 Metropolitan Planning Organizations (MPOs) and the 3 Transportation Planning Organizations (TPOs). The funding is provided through two channels (1) federal formula programs (FHWA and FTA) and (2) discretionary or competitive grant programs. Ms. Ho explained that over the five-year period FFY22-26, BIL increased Massachusetts highway transportation formula funding by over 34%:

- $449 million in increased apportionments for existing FHWA programs
- $200 million for two new Highway Trust Fund (HTF) programs – Carbon Reduction and PROTECT*
- $1.2 billion for two new Supplemental Appropriation funded programs – Formula Bridge and Electric Vehicle Infrastructure
- National Electric Vehicle Infrastructure (NEVI) funds could not be programmed until completion of an FHWA-approved NEVI Plan; approval received September 14, 2022

Ms. Connors highlighted that the increased money from BIL came with an increased state-match component, and the states still supposed to match it at the same levels that we always match, and the CIP does include that increased match. Ms. Ho agreed and noted that the real reflection of this increase is reflective of the fact that they got such a significant increase in their federal formula funds and typically those have a 20% state match requirement, so that was a significant increase in their bond cap allocation that they received this year from the Commonwealth. Ms. Ho then provided a breakdown of spending by source.

Ms. Ho explained the CIP and STIP alignment. She explained that the STIP is dedicated to federal highway and transit funding and federally funded transportation projects and is subject to federal approval. It also:

- Comprised almost exclusively of roadway and public transit projects (MassDOT, MBTA, RTAs),
- Includes projects programmed by the 13 Metropolitan Planning Organizations (MPOs)
- The STIP is an "obligation" document of projected FHWA advertisements and FTA awards; the CIP is a cash-flow document that depicts expenditures over time
- STIP makes use of the priorities/programs/projects framework similar to the CIP framework

She explained that the CIP identifies all of the sources and uses of transportation funding available and includes state capital funding for projects advanced by MassDOT and the MBTA, including Rail and Transit, Aeronautics Division, and the Registry of Motor Vehicles.

Ms. Connors thanked Ms. Ho for her presentation and reiterated that the MassDOT portion of the CIP is a huge driver of what they ultimately spend and is a big influence on both the GO debt and the Special Obligation debt, which this Committee does factor in, in terms of affordability and future affordability. Ms. Connors also reiterated that the Special Obligation Bonds are bonds that are secured by revenues that go into the Commonwealth Transportation Fund (CTF) and that's funded with a combination of gas tax revenue, as well as related registry fees and some other funding sources.

Dr. Kazim Ozyurt from the Department of Revenue provided an overview of MA State tax collections year-over-year changes by month from July 2007-September 2022. Mr. Ozyurt pointed out that since October 2009, collections have been mostly on the positive growth territory, with a few exceptions. Some of these exceptions include the pandemic, filing deadline extensions, tax law changes, etc. Mr. Ozyurt then went over FY22 revenues. In FY22 collections were $41.105B. Income Tax and Sales & Use Taxes combined accounted for 81% of tax revenues. Other taxes include Corporate & Business tax, which accounted for 12%, and other taxes which includes estate tax, motor vehicle taxes, etc. and accounted for 7%. Mr. Ozyurt noted that FY22 revenue totaled 41.105 billion dollars, which was $3.438 billion more than the benchmark and 20.5% more than FY21 collections. Mr. Ozyurt noted that FY23 YTD Revenue as of September '22 totaled $9.194 billion, $443 million or 5.1% more than collections in the same period of FY22 and $224 million, or 2.5% above FY23 YTD benchmark. The below slide shows the breakdown:

FY23 Revenue as of September '22

FY23 YTD Revenue as of September '22 totaled $9.194 billion, $443 million or 5.1% more than collections in the same period of FY22 and $224 million, or 2.5% above FY23 YTD benchmark.

Preliminary as of October 5, 2022

	Month of September					FY 23 YTD as of September				
	09/22 Actual Collections	09/22 v. 09/21 $ Fav/(Unfav)	09/22 v. 09/21 % Fav/(Unfav)	09/22 Actual vs Benchmark $ Fav/(Unfav)	09/22 Actual vs Benchmark % Fav/(Unfav)	**09/22 YTD Actual Collections**	09/22 YTD v. 09/21 YTD $ Fav/(Unfav)	09/22 YTD v. 09/21 YTD % Fav/(Unfav)	09/22 YTD Actual vs Benchmark $ Fav/(Unfav)	09/22 YTD Actual vs Benchmark % Fav/(Unfav)
Income										
Income Withholding	1,280	90	+7.6%	36	+2.9%	3,820	186	+5.1%	39	+1.0%
Income Est. Payments	871	65	+8.1%	107	+13.9%	980	87	+9.7%	107	+12.2%
Income Returns/Bills	166	78	+88.0%	(46)	-21.8%	306	107	+53.8%	(49)	-13.7%
Income Refunds Net (outflow)	(122)	(81)	-196.4%	35	+22.3%	(196)	(107)	-121.6%	35	+15.2%
Subtotal Non-withheld Income	915	62	+7.3%	95	+11.6%	1,091	87	+8.6%	93	+9.3%
Subtotal Income	**2,195**	**152**	**+7.4%**	**131**	**+6.4%**	**4,911**	**272**	**+5.9%**	**132**	**+2.8%**
Sales & Use										
Sales - Regular	529	50	+10.5%	55	+11.6%	1,659	136	+8.9%	54	+3.4%
Sales - Meals	131	11	+9.6%	18	+16.4%	398	46	+13.1%	19	+5.1%
Sales - Motor Vehicles	105	8	+7.8%	7	+7.6%	289	18	+6.7%	7	+2.6%
Subtotal Sales & Use	**766**	**70**	**+10.0%**	**81**	**+11.8%**	**2,346**	**200**	**+9.3%**	**81**	**+3.6%**
Corporate & Business - Total	**973**	**(30)**	**-3.0%**	**28**	**+3.0%**	**1,162**	**(64)**	**-5.2%**	**29**	**+2.5%**
All Other	**254**	**2**	**+0.9%**	**(16)**	**-6.1%**	**776**	**35**	**+4.7%**	**(17)**	**-2.2%**
Total Tax Collections	**4,187**	**194**	**+4.9%**	**224**	**+5.7%**	**9,194**	**443**	**+5.1%**	**224**	**+2.5%**

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Ms. Connors noted that given what we are hearing everyday about volatility and a potential recession and what we are seeing as far as growth slowing down a bit, Ms. Connors asked if Mr. Ozyurt could talk about what he is hearing as far as what the global, national, and local economic outlook is for the near term. Mr. Ozyurt responded that the FY23 benchmark estimate projects a decline of 3.6% from FY22, so there is a cushion built into the forecast. Mr. Ozyurt noted that in terms of the economy, we are currently in a situation where inflation is rising, along with interest rates, and the level of recession risks are increasing. Right now, with respect to the economy, DOR works with two vendors that do a lot of economic projections. There is a great deal of uncertainty, especially when trying to predict the turning points in the economy. With respect to one of the vendors, Moody's, they project that the economy's growth will slow down to 1.6% in 2022, and 1.4% in 2023. Based on forecast scenarios, both vendors assume that the federal reserve will raise the rates, which has implications for the whole financial market by the end of this year but at the same time the impact of the pandemic will gradually disappear so things may normalize on that point as well. On the inflation front, they are optimistic and think it will go down in the middle of 2023.

Ms. Connors then went over Massachusetts Credit Ratings and what we can do to improve them. Ms. Connors explained that since the last DAC meeting, all three rating agencies released new ratings report for the Commonwealth's General Obligation Bonds. All ratings were affirmed, S&P: AA, Moody's: Aa1, and Fitch AA+. Ms. Connors pointed out that S&P updated its credit outlook from stable to positive, noting that: "The positive outlook reflects our view that Massachusetts' underlying economy and currently very strong reserves could support a higher rating if sustained. We believe that there is a one-in-three chance that we could raise the rating over the next two years if future budgets show continued commitment to maintaining reserves at very strong levels and a goal of structural balance as it progresses to fully funding its pensions.". Moody's & Fitch affirmed their stable outlooks. Ms. Connors then went over the 3 key takeaways, noting that while the 3 agencies take nuances approaches to assigning ratings, all methodologies align around 5 key credit factors:

- Governance
- Economy
- Financial position
- Budgetary performance
- Long term liabilities

Ms. Connors explained that the Commonwealth scores high in all areas, except long term liabilities, which includes outstanding debt and pensions. Ms. Connors explained that what this means for this group is that, when thinking about the final deck that lays out the things the Commonwealth could do to achieve a higher credit rating, they are pretty much limited because for most of categories (governance, economy, finance), they are at the top. The places where they can look to make some improvement relate to debt profile, and in some cases budget performance. Ms. Connors noted that the remainder of these slides goes through the five credit factors and shows what we have been doing over the past ten years to improve our credit ratings and areas to improve.

Ms. Connors asked if members had any questions but noted the Committee would be talking about this more in upcoming meetings. No one had any further questions or comments.

The next DAC meeting is scheduled for October 28th, 2022, at 1:00PM. The meeting was formally adjourned at 2:02PM.