



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 25, 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 1:00pm

Board members comprising a quorum:

Kaitlyn Connors, Chair, Executive Office for Administration & Finance
Navjeet Bal, Appointee of the Treasurer
Martin Benison, Appointee of the Treasurer
Michelle Scott, Massachusetts Department of Transportation
Susan Perez, Office of the Treasurer and Receiver-General
Catherine Walsh, Appointee of the Governor

Others in attendance:

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, Massachusetts State Senate
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
Kazim Ozyurt, Department of Revenue
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 to establish quorum. She immediately moved into the agenda and called the first item of business which was approval of the minutes from the October 11, 2024 committee meeting. Upon a motion made by Mr. Benison, and duly seconded by Ms. Perez, the minutes were approved unanimously.

Ms. Connors then moved on to the next item on the agenda, an update on the Department of Revenue.

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 through September 2024.

Dr. Ozyurt reminded the Committee that taxes in recent history have generally been in the positive growth territory, with a few exceptions. Some of these exceptions include the pandemic, filing deadline extensions, tax law changes, etc.

Dr. Ozyurt then provided a recap of revenue performance in fiscal year (FY) 2024. He explained that total revenue came in at \$40.8B, which was a 4.2% increase over FY 2023 revenue and a 2.4% above benchmark. He noted that in FY 2024 the Commonwealth saw increases in withholding and non-withheld income tax, which were partially offset by decreases in sales and use tax, corporate & business tax, and “all other” tax. In terms of the major tax categories, Dr. Ozyurt reported that non-withheld income tax, withholding, and “all other tax” performed above benchmark, while corporate tax and sales tax fell below benchmark.

He reported that capital gains tax collections decreased relative to FY 2023, but came in above benchmark, noting that the excess amount was transferred to Commonwealth Stabilization Fund, State Retiree Benefits trust Fund, and Commonwealth Pension Liability Fund

Dr. Ozyurt then went over the FY25 year to date tax collections, noting that current year to date collections are about \$9.8 billion, which is a 5.8% increase over prior year collections, but is slightly below benchmark (-0.4%). Dr. Ozyurt noted that the negative performance verses benchmarks is attributable to withholding tax, sales tax, corporate & business tax, and “all other” taxes; and that these negative performances were partially offset by a positive performance versus benchmark in non-withholding income tax. He cautioned that it is still relatively early in the year.

Dr. Ozyurt ended his presentation with a discussion on the near-term economic outlook. He walked the Committee through charts that outline economic projections and forecasts from economic vendors Moody’s and IHS. He noted that in general, economists are not expecting a recession and are cautiously optimistic about growth, anticipating the Massachusetts economy to grow somewhere in the 1.8% - 2.3% range this year. He noted that economists are assuming the SALT cap, which is set to expire in December 2025, is extended and that the easing of interest rates will continue. He also noted that uncertainties related to geopolitical issues, like events in Israel and Ukraine, and the impacts of the upcoming election could impact actual economic growth.

Dr. Ozyurt concluded his presentation and Ms. Connors then asked if Committee members had any questions.

Mr. Benison asked Mr. Ozyurt how the SALT cap impacts state revenues. Dr. Ozyurt explained that if the cap is extended there will not be an impact to the state. If it is not extended, there may be some residual outstanding liability related to credit claimers, so the impact would be on the credit side (not the payment side).

Ms. Connors asked when will we know whether the cap is extended? Dr. Ozyurt indicated it would be some time after the upcoming election, noting that the impact would be felt in FY 2026 and perhaps FY 2027.

Ms. Bal asked if any insight into future revenues could be gleaned from this quarter’s collections and referencing the fact that revenue YOY growth is positive, but there is a current shortfall with respect to

benchmarks. Dr. Ozyurt stated that it is still early and noted that most revenues come in the second half of the year. He believes revenues collections in December and January, especially, will give DOR a better sense of how revenues may land.

Ms. Connors asked whether Dr. Ozyurt could speak a little bit about inflation. Dr. Ozyurt noted that economists seem to believe that inflation is under control. He reiterated that there are a number of factors that could impact inflation, as well as interest rates, including geopolitical uncertainties, elections and fiscal policies, and federal deficit policies.

Ms. Connors asked how economists' forecasts have compared to actual results in recent times. Dr. Ozyurt replied that during COVID, there were big swings and projections ended up being a bit off, however today things are normalizing, and forecasts are more reliable.

Mr. Benison asked why forecasts for the S&P showed a large variance. Dr. Ozyurt replied he could not explain the variance but believes it might relate to assumption around overpriced assets and/or global factors.

Ms. Connors asked the last question which related to the Committee's use of the CAGR method for projecting revenues for modeling purposes. Mr. Ozyurt confirmed that the approach the Committee was taking still made sense, noting that it is a generally accepted method for those who model, and that DOR often uses that approach.

The Committee moved on to the next agenda item which was an overview of the FY 2025 Capital Investment Plan (CIP). Mr. Yontar, from the Executive Office for Administration & Finance, provided an overview of the second Healey-Driscoll CIP, which was published in June 2024.

Mr. Yontar noted that this year's CIP focused on targeted investments in housing, economic development, and preservation of key state assets and that the FY 2024 bond cap budget aligned with the DAC's recommendation of \$3.1 billion.

Mr. Yontar then walked the committee through a high-level overview of the CIP, focusing largely on the FY 2025 bond cap budget. His presentation included a breakout of the bond cap budget by agency, as well as a description of the different types of capital projects that are funded under each agency. He noted that the largest CIP agency is MassDOT (35%), followed by DCAMM (23%), HLC (13%), EEA/DCR (10%), and EOED (9%). The remaining agencies' portion ranges from 1% – 5% of the total. He also reviewed the distinction between bond authorization and actual capital spending, noting that bond bills provide the legal authorization to spend bond proceeds but do not require actual borrowing.

Lastly, Mr. Yontar reviewed construction cost escalation. He provided a recap of recent construction cost escalation trends and reminded the Committee that in recent years construction cost escalation had been very high, outpacing CIP growth in recent years. He also mentioned that statewide construction escalation has consistently been above the national average, and public projects in particular have seen marked increases in construction costs. However, Mr. Yontar recognized that escalation seems to be cooling off. Nationally, it has been in the 2 -3% range, and the most recent estimate of MA's escalation suggests a 7% – 8% (below the 18 – 20% that had been seen in recent years). Mr. Yontar ended his presentation by noting that if the Committee followed the same methodology for adjusting for escalation it used last year, the adjustment would be about \$62 M.

Ms. Connors asked the Committee if there were any questions.

Ms. Perez stated that the debt limit will be something this Committee will need to focus on. She

mentioned that the Committee had discussed looking into whether the \$125 million growth cap still made sense and requested that time be given to further discuss. She stated that the \$125 million cap was a tool to help pace spending, so pacing needs to be considered.

Ms. Scott asked if there had been studies on the impact natural disasters had on inflation. Mr. Yontar replied that he had not come across any reports or data on the topic.

With no further business, Ms. Connors asked for a motion to adjourn. On a motion made by Ms. Perez and seconded by Ms. Walsh, the meeting was adjourned at 1:50 p.m.