



THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE FOR
ADMINISTRATION AND FINANCE

STATE HOUSE ■ ROOM 373 BOSTON, MA 02133

Meeting Minutes

Debt Affordability Committee

September 16, 2022

1:00 pm

Executive Office for Administration and Finance

Zoom URL: [https://mass-gov-](https://mass-gov-anf.zoom.us/j/81417700135?pwd=K09LUnZsSk5ZUzEyNTNERIVVOHQ5UT09)

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Password: DAC091622 Teleconference line: 713-353-7024; Conference code: 319738

A meeting of the Debt Affordability Committee was held on September 16, 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 1:03PM

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
Patrick Walsh, Representative Gregoire's Office
Jennifer Mercadante, Representative Gregoire's Office
State Representative Danielle Gregoire

Minutes:

Ms. Connors called the meeting to order and conducted the roll call for the meeting. Upon a motion by Ms. Ho, and duly seconded, the Committee unanimously voted to adopt the minutes from the December 3, 2021, meeting.

Ms. Connors then moved on to the next item on the agenda. Ms. Connors recapped that the Capital Debt Affordability Committee was established by Chapter 163 of the Acts of 2012, Section 60B for the purpose of reviewing on a continuing basis the amount and condition of the Commonwealth's tax-supported debt, as well as the debt of certain authorities. Ms. Connors 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, taking into account certain criteria, to the Governor and Legislature on or before December 15 each year.

Ms. Connors noted that estimates are advisory and not binding on the Governor or Legislature, the Legislature is responsible for authorizing Commonwealth debt and the Governor determines the amount of capital spending for each fiscal year and the amount of new Commonwealth debt that he considers advisable to finance such spending.

Ms. Connors reminded folks that the slides being presented will also serve as the Committees final report that is submitted to the Legislature in December. She noted if there is any feedback on the slides to please raise that during the meeting.

Ms. Connors highlighted that there is a new DAC requirement per recent legislation, Chapter 140 of the acts of 2022 “An Act Financing the General Governmental Infrastructure of the Commonwealth”, section 14 tasked the committee to produce a new report by July 15, 2023, on measures to:

1. Reduce overall debt service paid by the Commonwealth and
2. Increase bond ratings

Ms. Connors noted that her proposed approach is to incorporate these new requirements into the final report that the Committee submits in December. Ms. Connors then presented a draft work plan for the Committee to consider. Ms. Perez noted that she thinks it is doable but wants to be clear that it's a report that could explain choices that need to be made in order to accomplish the two, because some of it is in contradiction to what the Committee is doing, which is determining how much is affordable and not how much will reduce debt service. Ms. Perez highlighted that debt service is created because they fund the capital plan each year and so there will be different measures such as reducing the capital plan, which is much different from what they have been doing in the past. Ms. Perez emphasized that she sees the report as different choices that could accomplish different goals. Ms. Ho agreed with the approach and with Ms. Perez noting that this will be a balancing act since it deals with differing goals. Representative Gregoire apologized for this provision in the bill and noted that it was added at the last minute and they tried to make it as innocuous as possible but realizes it creates a lot more work for the Committee. She noted that the vast majority of members in the Legislature understand the general gist of the Committee and appreciate the work that it does.

Ms. Connors then went over the factors that the DAC considers when forming its estimate, which include:

- The amount of state bonds that, during the next fiscal year will be 1.) outstanding and 2) authorized but unissued
- The Commonwealth's Capital Investment Plan (CIP) prepared by the Secretary of Administration and Finance
- Projections of debt service requirements during the next 10 fiscal years
- The criteria that bond rating agencies use to judge the quality of issuers of state bonds
- The effect of authorizations of new state debt on each of the factors in this subsection
- Identification of pertinent debt ratios, such as debt service to General Fund reserves, debt to personal income, debt to estimated full-value of property, and debt per-capita
- A comparison of debt ratios for the 5 other states in New England, New York and 5 other states the committee determines to offer a fair comparison to the Commonwealth
- A description of the percentage of the state's outstanding general obligation bonds constituting fixed rate bonds, variable rate bonds, and bonds that have effective rates through a hedging contract
- The amount of issuances, debt outstanding, and debt service requirement of other classes of Commonwealth tax-supported debt as well as other debt of Commonwealth units.

As a reminder, Ms. Connors noted that there are a few different limits the Committee considers. The first is the statutory debt limit which requires that the amount of outstanding principal of Commonwealth “direct” debt is capped at 105% of the previous fiscal year limit. The previous fiscal year limits are:

- FY20 Limit: \$25.2 billion
- FY21 Limit: \$26.5 billion
- FY22 Limit: \$27.8 billion
- FY23 Limit: \$29.2 billion

Ms. Connors noted that the Committee also has some policies that it has been adhering to for a number of years now. The first is that the Committee tries to make sure that annual debt service payments stay below 8% of budgeted revenues within the next 10 years. The second is that annual growth in the bond cap can't grow by more than \$125 million compared to prior years cap. Mr. Yontar, the Capital Director at ANF then provided an overview of what is included in the calculation of debt service payments. Mr. Yontar noted that, for the purposes of the debt affordability analysis, debt service includes programs expected to be funded both within and outside of the bond cap, including:

- Principal and interest payments on all general obligation debt;
- Special obligation bonds secured by a specified portion of the motor fuels excise tax;
- Special obligation bonds issued to fund the Accelerated Bridge Program and Rail Enhancement Program;
- Special obligation bonds secured by the Convention Center Fund;
- General obligation contract assistance payment obligations; and
- Budgetary contract assistance payment obligations on certain capital lease financings

Mr. Yontar noted that budgeted revenue includes all Commonwealth taxes and other revenues available to pay Commonwealth operating expenses, including debt service, pensions, and other budgetary obligations. It does not include off-budget revenues dedicated to the MBTA, the MSBA, and the Massachusetts Convention Center Authority.

Mr. Yontar then illustrated the historic bond cap increases through FY15-FY23. Mr. Yontar noted that in FY22 the limit was \$2.78 billion, and this is in general obligation bonds. Mr. Yontar explained that it's the amount of general obligation bonds the state would be issuing to finance capital spending. Capital spending is a larger number than that in total, and there are other sources for capital spending as well but those are dedicated for particular uses whereas the general obligation debts is very flexible given the broad authorization given in the bond bills. Mr. Yontar noted that for the last two years, the state increased the bond cap by \$125 million dollars and even so the year over year increase as a percentage is less than 5%. Mr. Yontar showed the states debt limit, which is currently at \$27.8 billion dollars. He explained that the amount of outstanding direct debt is 23.9 billion as of 2022 and there is about 4 billion dollars of cushion between where we are currently at and the limit.

Mr. Yontar then provided an overview of the Commonwealths debt and what is included in the Debt Limit Calculation and the DAC Affordability Analyses. Mr. Yontar then went on to the FY22 levels of outstanding debt and the FY23 projected debt service. The FY22 outstanding debt is \$24.9 billion, the fixed rate debt is \$23.9 billion, and the variable rate debt is \$1.0 billion. Mr. Yontar then provided an overview of the Commonwealth's debt related obligations, which includes debt-related payments to the MA Clean Water Trust, MassDOT, MassDevelopment, Social Innovation, and Financing Trust Fund. Mr. Yontar also highlighted the Commonwealth's contingent liabilities which include the MBTA, UMass Building Authority, Regional Transit Authorities, the Steamship Authority, and MassDevelopment. Mr. Yontar noted that in future meetings, they will go through the model and look at several different assumptions to determine what the appropriate level will be for the next year bond cap recommendation.

The next DAC meeting is scheduled for September 30th, 2022, at 1:00PM. The meeting was formally adjourned at 1:44PM.

