**Meeting Minutes**

**Debt Affordability Committee**

**September 17, 2021**

**1:00 pm**

**Executive Office for Administration and Finance**

**Zoom URL:** <https://mass-gov-anf.zoom.us/j/84919526612?pwd=YVJOeFRoSXVrdEFOVFZxemhOTE9LUT09>

**Password: DAC091021**

**Teleconference line: 713-353-7024; Conference code: 319738**

A meeting of the Debt Affordability Committee was held on September 17, 2021, pursuant to notice duly given, and in accordance with the Governor’s Executive Order Suspending Certain Provisions of the Open Meeting Law, G.L. c. 30A, § 20, signed and dated March 12, 2020, was held via Zoom and teleconference.

The meeting was called to order at 1:04

**Board members comprising a quorum:**

Kaitlyn Connors, Executive Office for Administration & Finance

Sue Perez, Office of the Treasurer and Receiver-General

Catherine Walsh, Governor’s Appointee, Northeastern University

Michael Butler, Treasurer’s Appointee

Michelle Ho, Massachusetts Department of Transportation

Pauline Lieu, Comptroller’s Appointee, Office of the Comptroller

**Others in attendance**:

Kelly Govoni, Executive Office for Administration & Finance

Jimmy Cowdell, Executive Office for Administration & Finance

Jeffrey Shapiro, First Deputy Comptroller

Representative Danielle Gregoire

Jennifer Mercadante, from Representative Danielle Gregoire’s Office

Patrick Walsh, from Representative Danielle Gregoire’s Office

Joshua Tavares, from Senator Ryan Fattman’s Office

Daria Afshar, from Senator Patrick O’Connor’s Office

Corrine Corcoran, from Senator Paul Feeney’s Office

Senator Paul Feeney

**Minutes:**

Ms. Connors called the meeting to order. Ms. Connors conducted a roll call, Sue Perez, Catherine Walsh, Michael Butler, Michelle Ho and Pauline Lieu, were all in attendance.

Ms. Connors officially welcomed Ms. Lieu to the Committee and provided an opportunity for Ms. Lieu to introduce herself. Ms. Lieu stated it is her honor to serve on this Committee and thanked Ms. Connors for the introduction.

Ms. Connors moved on to another administrative matter, upon a motion by Ms. Ho, and duly seconded, the Committee unanimously voted to adopt the minutes from the September 10, 2021, meeting. Ms. Connors noted that Ms. Lieu abstained because she was not present for that meeting.

Ms. Connors provided an update on the draft work plan, Ms. Connors noted that the next DAC meeting is scheduled for October 22nd at 1:00PM, and anyone that is unable to attend will receive the materials for that meeting. Ms. Connors noted that the October 22nd meeting will focus on Model Review, DOR revenue update and the Commonwealth’s Capital Investment Plan (CIP).

Ms. Connors proceeded to provide an overview of the ratings that credit rating agencies give. Ms. Connors noted that there are four credit rating agencies the commonwealth follows, which are: Moody’s, S&P, Fitch and Kroll. Ms. Connors proceeded to provide an overview of the commonwealth’s rating overview, which is ranked as Aa1 by Moody’s, AA by S&P, and AA+ by Fitch.

Ms. Connors brought up a question raised my Mr. Butler last week about different figures of debt in the presentation. Ms. Connors explained that she looked into Mr. Butler’s question and the difference was not due to a timing difference, but the lower number related to the direct debt which excludes a portion of some of the outstanding General Obligation Bonds and that is what was driving the difference. Ms. Connors asked if this answered Mr. Butler’s question and Mr. Butler said it did and thanked Ms. Connors. Ms. Connors asked if anyone had any other questions. No one had any questions.

Ms. Connors proceeded to the discuss the strengths that credit agencies have highlighted about Massachusetts which include: deep and diverse economy, largely focused on knowledge sectors that pay above average wages; high income levels, with per capita income being one of the highest in the nation; exceptional fiscal resilience, with strong gap-closing capacity stemming from a practice of building strong reserve balances and making budget adjustments as needed in response to changing circumstances; and strong financial, debt affordability statements, and multiyear capital investment planning. Massachusetts credit offsets include: elevated debt, pension, and other post-employment benefit liabilities relative to other states; and gaining demographic profile with overall population growth that lags the nation. Ms. Connors noted that according to Moody’s, the commonwealth’s Aa1 rating reflects the commonwealth’s robust economic base in good times and its strong management practices to help navigate challenging periods.

Ms. Connors proceeded to discuss and compare the total personal income by state, noting that Massachusetts ranked 12th in total personal income by state, and 16th in population. Furthermore, Ms. Connors noted that historically, annual growth has been generally in line with that of the nation, but slightly lagged during the pandemic probably due to higher unemployment which has since rebounded. Ms. Connors noted that when you look at personal income per capital, for Q1 2021 Massachusetts ranks second, which is what the rating agencies like to see. Ms. Connors pointed out that Massachusetts is not far behind Connecticut, which is the number one state for income per capita. Ms. Connors noted that Massachusetts has typically outpaced the national average when it comes to growth on a per capita basis. Ms. Connors noted that Massachusetts high per capita income is 133% of the US average, the second-highest rate among states.

Ms. Connors asked if anyone had any questions at this time. No one had any questions or feedback.

Ms. Connors noted that Massachusetts debt per capita ranked second-highest among 50 states. Ms. Connors noted that the relatively high levels are driven in part because of the state’s practice of financing local infrastructure- most notably through its school district capital bonding program and debt for the Massachusetts Bay Transportation Authority. Ms. Connors noted that Massachusetts is an outlier in this regard, but the rating agencies do give Massachusetts credit for strong budgetary management and strong economic base in terms of its rating which offsets some of the debt liability.

Ms. Connors proceeded to cover Massachusetts Gross Domestic Product, noting that Massachusetts ranks 12th in state GDP and 16th in state population. Furthermore, Ms. Connors noted that economic growth appears to be in line with national trends. HIS Markit forecasts that real gross state product will increase 6.2% in calendar 2021 and 4.5% in 2022, compared with the nation’s GDP growth of 6.0% and 4.4.% respectively.

Ms. Connors then provided an overview of Massachusetts debt as a percentage of GDP. Ms. Connors noted that Massachusetts’ debt as a percentage of GDP is 7.4%, which ranks 3rd in the nation. To put this in perspective, Ms. Connors highlighted that the 50 state median is 2.0% and the 50 state average is 2.4%. Ms. Connors noted that it is important to consider that when factoring in debt issued by local governments, Massachusetts leverage is moderate and state and local debt represents 11.8% of MA’s GDP, ranking the state 23rd and approximating the sector median of 11.2%.

Ms. Connors proceeded to provide an overview of municipality credits in Massachusetts. Ms. Connors noted that Massachusetts remains among the states with the most AAA rated local governments. Furthermore, Ms. Connors noted that 88% of municipalities are estimated to participate in a broad and diverse Metropolitan Statistical Area which helps improve economic resiliency through changing economic and business cycles. Lastly, Ms. Connors provided an overview of Massachusetts long term debt service, which is less than 6% of net revenues. Ms. Connors noted that the commonwealth has a policy of not letting debt service go beyond 8% and it is well below that threshold. Ms. Connors noted that this is a key ratio that rating agencies look at and shows how much debt Massachusetts can afford.

Ms. Connors concluded the presentation and asked if anyone had any feedback or questions.

,Ms. Walsh noted that the presentation is comprehensive and looks good. Ms. Ho stated that the last slide is great for the Committee to consider because it shows a positive trend of revenues going up, which is surprising given the pandemic. Ms. Connors thanked them for their feedback.

Ms. Lieu asked Ms. Connors what the base for the net revenue was. Ms. Connors stated that she could follow up with the exact details but its tax and federal revenue and other departmental revenue and then we factor out certain transfers and those transfers are the school board fund, transportation fund, and workforce transportation fund. Ms. Lieu thanked Ms. Connors for her answer and commented that the table on one of the slides is truncated and numbers are missing digits. Ms. Connors thanked her and noted she would investigate it.

Ms. Connors stated that the next DAC meeting will be October 22nd at 1:00PM. All Committee members thanked Ms. Connors for her presentation.

There were no further questions/matters.

Meeting adjourned at 1:35pm.