



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

Meeting Minutes

**Debt Affordability Committee
September 30, 2022**

1:00 pm

Executive Office for Administration and Finance

Zoom URL: [https://mass-gov-](https://mass-gov-anf.zoom.us/j/84919835285?pwd=Q1Y5NzRmZ2o3ZjV3cnppNno5Q0ZvZz09)

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Password: DAC093022 Teleconference line: 713-353-7024; Conference code: 319738

A meeting of the Debt Affordability Committee was held on September 30, 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 1:02PM

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 September 16, 2022, meeting.

Ms. Connors then went over the draft work plan and noted that today's meeting will focus on credit factors. Ms. Connors noted that at the next meeting, they will discuss ways to improve credit ratings. Ms. Connors explained that we are in the process of preparing for an upcoming GO bond issuance, which entails going to the credit rating agencies and thinks it will be useful to wait for the feedback from the credit rating agencies before the Committee discusses ways to improve the State's credit rating.

Ms. Connors then provided an overview of the rating agencies scale, which includes Moody's, S&P, Fitch and Kroll. Ms. Connors then went over the ratings for the Commonwealth's GO bonds, Transportation Fund Bonds, Gas Tax Bonds, the Grant Anticipation Notes, and Convention Center Bonds. The ratings for each are below:

Security	\$M Principal Outstanding (Aug 31, 2021)	Moody's	S&P	Fitch	Kroll
General Obligation Bonds	\$24, 907	Aa1	AA	AA+	N/A
Commonwealth Transportation Fund Bonds	\$3,496	Aa1	AA+	N/A	AAA
Gas Tax Bonds	0	Aa1	AA+	AA+	N/A
Grant Anticipation Notes	\$478	Aa2	AAA	N/A	N/A
Convention Center Bonds	\$454	A1	BBB+	N/A	N/A

Mr. Yontar then provided an overview of the MA General Obligation Rating Agency Credit Factor Highlights. The credit strength highlights for Massachusetts include a deep and diverse economy, largely focused on knowledge of 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 solid reserve balances and making budget adjustments as needed in response to changing circumstances. Mr. Yontar noted that this is offset by elevated debt, pension, and other post-employment benefit liabilities relative to other states, in addition to an aging demographic profile with overall population growth that lags the nation. Ms. Connors noted that depending on the feedback we receive from the rating agencies in the coming week, this could be updated.

Mr. Yontar then provided highlights from each credit rating agency, which touch upon the strengths mentioned on the last slide. Mr. Yontar then went over a graph that shows Massachusetts as ranking 11th in total personal income by state, and 15th in population. He noted that historically, annual growth has been consistent and generally in line with that of the nation, but slightly lagged during the pandemic. Mr. Yontar then went over another graph that show's Massachusetts as having the highest income per capita. He noted that Massachusetts economy is supported by a well-trained labor pool, with strong wage growth and its per capita wage growth has typically outpaced the national average. Furthermore, these wages supported the Commonwealth's consistently high per capital income, which is now more than 130% of the US average and the highest among states. Mr. Yontar then went over the debt per capita by state according to FY 2021. Mr. Yontar explained that Massachusetts debt per capita ranked third highest among 50 states, and 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 (MSBA) and debt for the Massachusetts Bay Transportation Authority (MBTA). Mr. Yontar then went over the Q1 2022 State Gross Domestic Product (GDP). He noted that Massachusetts ranks 12th in state GDP (Q1'22) and 15th in state population. Mr. Yontar explained that HIS Markit forecasts that real gross state product will increase at a slightly slower rate than that of the nation, at 3.3% in calendar 2022 and 1.9% in 2023, compared with the nation's real GDP growth of 4.3% and 2.6% in those respective years.

Next Mr. Yontar provided an overview of combined state and local government debt. Mr. Yontar noted that the Commonwealth makes substantial payments to cities, towns, and school districts to mitigate the impact of local property tax limits on local programs and services. Mr. Yontar highlighted that when factoring in debt issued by local governments Massachusetts leverage is more moderate. The Commonwealth is 4th lowest in

the nation for local debt as a percentage of personal income and as a result 90% of rated municipalities in the state are rated at least AA. Mr. Yontar then summarized the long-term trends on the Commonwealth's debt service. He noted that the Commonwealth's debt service obligations represent 4.6% of total expenditures in FY 2022. This is an improvement from a high of 6.6% in FY 2013. Mr. Yontar noted that as debt service as a percentage of expenditures decreased, pension funding as a percentage of expenditures increased. Combined, the cost of the management of these long-term liabilities remained relatively flat. Ms. Connors noted that when rating agencies look at our long-term debt, pension is included, and it's a significant portion of our budget and the key takeaway here is that we are managing our long-term obligations in a way that is pretty stable across the years.

Ms. Perez clarified that each rating agency has a score card and as it relates to debt and pensions, it's not subjective, it's really based on certain thresholds. She noted that there are rules and charts that they use to do the calculation of the rating. For instance, your debt per capita is a certain dollar amount and you look it up on their chart and that's how you score. She noted that we try to get credit for some of these other things so that with every score card you get tallied up and you get a certain rating. She explained that mathematically across all three rating agencies we score AA, Fitch and Moody's notch us up for certain things which is why we were AA+ and AA1 for those. Ms. Perez noted she just wants to make sure that everyone understands this nuance. Ms. Connors agreed this is a good point and suggested discussing this at the next meeting when they talk about things to do to improve the credit rating and Ms. Perez agreed with that approach.

Ms. Connors noted that in terms of the income per-capita Massachusetts goes back in forth between first, second, and third and depending on what data source your using Massachusetts could be at second. The rating agencies also do their own analysis so we will see where we land with the data that they use. Ms. Connors asked if folks had any other thoughts or things they would like to see in future meetings. Members had no additional questions or concerns.

The next DAC meeting is scheduled for October 14th, 2022, at 1:00PM. The meeting was formally adjourned at 1:27PM.

