December 12, 2017

The Honorable Charles D. Baker, Governor
State House, Room 360
Boston, MA 02133

William F. Welch, Clerk of the Senate
State House, Room 335
Boston, MA 02133

Steven T. James, Clerk of the House
State House, Room 145
Boston, MA 02133

Dear Sirs:

Pursuant to Section 60B(f) of Chapter 29 of the General Laws, as amended, the Capital Debt Affordability Committee (the "Committee"), shall by December 15 of each year submit to the Governor and the General Court the Committee’s estimate of the total amount of new Commonwealth debt that prudently may be authorized for the next fiscal year. The Committee has determined that $2.34 billion of general obligation debt may prudently be issued by the Commonwealth for fiscal year 2019.

In making this determination, the Committee examined the factors required by statute, including the amount of bonds that are and will be outstanding, the Commonwealth’s capital program, projections of debt service requirements during the next 10 years, the Commonwealth’s bond ratings, pertinent debt ratios, and comparisons to other states. In addition, the Committee reviewed policy and analysis used by the Administration in its preparation of the annual five-year capital investment plan.

For its deliberations, the Committee adopted a working definition of debt affordability as: "the ability to sustainably meet projected debt service within the budget without raising taxes to uncompetitive levels or negatively impacting critical public services."

To assess the affordability of debt to be issued by the Commonwealth, the Committee has adopted a three-part test, each part of which must be met for the Committee to consider the debt affordable. First, over the next ten years the maximum annual projected debt service, including
projected additional debt, as a percent of projected budgetary revenue should be targeted at 7 percent as a benchmark debt ratio. In addition to the benchmark, debt service as a percent of budgetary revenue should not exceed 7.5 percent as a debt ratio cap. Second, new debt issuance subject to the debt limit imposed by Section 60A of said Chapter 29 must be within that limit, which is equal to $24.0 billion for fiscal year 2019. Third, the amount of additional general obligation borrowing undertaken by the Commonwealth on a fiscal year-over-fiscal year basis should not exceed $125 million per year.

The Committee analyzed the Commonwealth’s proposed general obligation issuance and applied the three-part test described above. From this analysis, the Committee concluded that the Commonwealth may prudently issue the amount of general obligation bonds proposed for fiscal year 2019: $2.34 billion. This represents a 3.5 percent increase in the bond cap over fiscal 2018, which allows for targeted investments in the Commonwealth’s infrastructure while keeping growth in debt service and outstanding principal within long-term revenue growth projections.

Certain factors, such as increases or decreases in budgetary revenue or interest rates or specific emergent capital needs, may warrant more or less borrowing during the year than is initially recommended by the Committee. In addition, the statutory debt limit places a strict limit on outstanding qualifying debt of $24.0 billion for fiscal year 2019.

Sincerely,

Jennifer Sullivan
Assistant Secretary
Executive Office for Administration and Finance
Designee of Secretary Michael J. Heffernan, Chair
Committee Members:

Sue Perez, Designee of State Treasurer and Receiver-General, Deborah Goldberg
Howard Merkowitz, Designee of Comptroller, Thomas Shack
Michelle Ho, Designee of Secretary of Transportation, Stephanie Pollack
Catherine Walsh
Michael Butler
Jeffrey Sánchez, Chair, House Committee on Ways and Means (non-voting)
Karen E. Spilka, Chair, Senate Committee on Ways and Means (non-voting)
Antonio F. D. Cabral, Chair, House Committee on Bonding, Capital Expenditures and State Assets (non-voting)
John F. Keenan, Chair, Senate Committee on Bonding, Capital Expenditures and State Assets (non-voting)
David T. Vieira, Ranking Member, House Committee on Bonding, Capital Expenditures and State Assets (non-voting)
Donald F. Humason, Jr., Ranking Member, Senate Committee on Bonding, Capital Expenditures and State Assets (non-voting)