



Executive Office for Administration & Finance

**COMMONWEALTH OF MASSACHUSETTS**

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**CHARLES D. BAKER**  
GOVERNOR

**MICHAEL HEFFERNAN**  
SECRETARY

**KARYN E. POLITO**  
LIEUTENANT GOVERNOR

December 14, 2018

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 \$2.43 billion of general obligation debt may prudently be issued by the Commonwealth for fiscal year 2020.

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, comparisons to other states, and the outlook for interest rates.

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% as a benchmark debt ratio. In addition to the benchmark, debt service as a percent of budgetary

revenue should not exceed 7.5% 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 \$25.2 billion for fiscal year 2020. 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 has concluded that the amount of general obligations bonds that the Commonwealth may prudently issue for fiscal year 2020 is \$2.43 billion. This represents an increase of 3.8% or \$90 million in the bond cap over fiscal year 2019, which allows for investments in the Commonwealth's infrastructure while keeping growth in debt service and outstanding principal within long-term revenue growth projections.

Changing conditions or events during the fiscal year, such as increases or decreases in budgetary revenue, changing interest rates, or specific emerging capital needs, may warrant borrowing more or less during the year than is initially recommended by the Committee. Any such potential change would be subject to the limit on outstanding qualifying debt of \$25.2 billion for fiscal year 2020.

Sincerely,



William McNamara  
Assistant Secretary  
Executive Office for Administration and Finance  
Designee of Secretary Michael J. Heffernan, Chair

## **Committee Members**

|                        |   |
|------------------------|---|
| William McNamara       | Designee of the Secretary of Administration & Finance, Michael Heffernan                        |
| Sue Perez              | Designee of the Treasurer and Receiver-General, Deborah Goldberg                                |
| Howard Merkowitz       | Designee of the Comptroller, Thomas Shack   |
| Michelle Ho            | Designee of the Secretary of Transportation, Stephanie Pollack                                  |
| Catherine Walsh        | Appointee of Governor Charles D. Baker  |
| Michael Butler         | Appointee of Treasurer and Receiver-General, Deborah Goldberg                                   |
| Jeffrey Sánchez        | Chair, House Committee on Ways and Means (non-voting)   |
| Todd M. Smola          | Ranking Member, House Committee on Ways and Means (non-voting)                                  |
| Joan B. Lovely         | Vice Chair, Senate Committee on Ways and Means (non-voting)                                     |
| Viriato M. deMacedo    | Ranking Member, 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) |