



Executive Office for Administration & Finance

COMMONWEALTH OF MASSACHUSETTS

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CHARLES D. BAKER
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LIEUTENANT GOVERNOR

MICHAEL J. HEFFERNAN
SECRETARY

December 8, 2020

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

Michael D. Hurley, 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 \$2.655 billion of general obligation debt may prudently be issued by the Commonwealth for fiscal year 2022.

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. In addition, the Committee reviewed policy and analysis used by the Administration in its preparation of the annual capital investment plan.

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 8 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 \$27.8 billion for fiscal year 2022. 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 2022 and recommended a cap of \$2.655 billion. This represents a 4.9% percent increase over the prior year's bond cap recommendation, allowing for targeted investments in Commonwealth infrastructure while keeping growth in debt service and outstanding principal within long-term targets.

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 \$27.8 billion for fiscal year 2022.

Sincerely,



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