Executive Office for Administration & Finance

COMMONWEALTH OF MASSACHUSETTS

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MATTHEW J. GORZKOWICZ
SECRETARY

December 15, 2025

Her Excellency Maura T. Healey, Governor
State House, Room 360
Boston, MA 02133

Michael D. Hurley, Clerk of the Senate
State House, Room 335
Boston, MA 02133

Timothy Carroll, Clerk of the House
State House, Room 145
Boston, MA 02133

Dear Governor and 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 utilized for capital spending for the next fiscal year.

The Committee has determined that $3.3372 billion of general obligation (GO) debt, commonly referred to as "bond cap", may prudently be utilized by the Commonwealth in fiscal year 2027. The attached presentation (the "Committee Report") includes an overview of the Committee's recommendation and the data and analysis that was performed to help inform its recommendation. From this analysis, the Committee concluded that the Commonwealth could afford to increase the bond cap in fiscal year 2027 by $110 million or 3.41% over the fiscal year 2026 amount.

Committee Approach

The Committee uses a custom affordability modeling tool to forecast future debt metrics under various market scenarios comprising a range of economic and debt structuring assumptions.

While the committee's recommendation is for the upcoming fiscal year only (fiscal year 2027), to arrive at that recommendation the committee models future debt issuances over a 30-year time horizon using assumptions that generally align with moderate, conservative, and stress test scenarios. While the Committee looks at the projected impact of its recommendation for 30 years, due to the uncertainty of long-term assumptions regarding tax revenues and interest rates in the municipal bond market the Committee's focus is largely on the next 10 years.

To assess the affordability of this year's recommendation the Committee was guided by a series of targets for annual debt service and outstanding direct debt. First, over the next 10 years the maximum annual projected debt service, including projected additional debt, as a percentage of projected budgetary revenue should be targeted at no more than 7% as a benchmark debt ratio. In addition to that benchmark, debt service as a percentage of budgetary revenue should not exceed 8% over 30 years. Second, new debt issuance subject to the debt limit imposed by Section 60A of Chapter 29 of the General Laws must be within that limit, which is equal to $35.487 billion for fiscal year 2027; further, direct debt should remain within the limit over the next 10 years assuming reasonable future bond cap growth. Per statute, the direct debt limit grows by 5% annually.

Affordability Modeling & Analysis

The Committee's recommendation considers results from a series of modeling runs that incorporate many assumptions related to future economic and financial market conditions. Key inputs considered by the Committee include tax revenue projections, interest rate trends, municipal (muni) bond market performance, current and future bond cap growth, and bond issuance timing, among others. The Committee also considers future debt structuring and strives to align related assumptions with actual Commonwealth practices.

All input assumptions are based on the best available data the Committee had at the time of modeling and are subject to change. Notably, current modeling does not consider any future federal policy shifts that may impact market conditions and overall debt affordability. Additionally, the Committee recognizes that future geopolitical events and related uncertainty could also impact future affordability.

The Committee was mindful of these potential risks and generally maintained a conservative modeling approach. Below is an overview of key input assumptions that the Committee used in this year's analysis.

Revenue Growth Rate Assumptions: Revenue growth assumptions were derived using Compound Annual Growth Rate (CAGR) methodology – the same methodology utilized by the Department of Revenue (DOR) and which is generally considered a standard industry approach. Fair Share surtax revenue is excluded from the base calculation. The Committee also considers market updates and outlooks provided by DOR, as well as other economic vendors when determining revenue growth assumptions. Revenue year-over-year (YoY) growth scenarios used this year include:

- Moderate: 4.6% average annual YoY growth
- Conservative: 3.2% annual growth rate (20-year CAGR low)
- Stress Test: 1.6% annual growth rate (10-year CAGR low)

Interest Rate Assumptions: A recent enhancement to the modeling tool allows the Committee to set the interest rate at the actual coupon amount at which bonds are issued, and to make assumptions about the amount of bond premium that the Commonwealth expects to receive at bond sales. This more closely matches the actual practice and experience of the Treasurer's office. Assumptions used this year include:

- Interest rates (coupon): the Treasurer's office has set coupon at 5% in recent years. They report that some states have been shifting to a slightly higher coupon. Model inputs are:
    - Year 1: 5%
    - Years 2–6: increase by 0.1 percentage points (10 basis points) per year
    - Years 6+: 5.5%

Premium Assumptions: Commonwealth tax-exempt bond transactions typically include a bond premium which refers to the excess price paid for a bond over and above its face value. Premium is an especially important for modeling direct debt scenarios because bond premium proceeds do not count towards the direct debt limit. The amount of bond premium received is determined by the difference between the coupon rate on the bonds offered and the AAA Municipal Market Data (MMD) yield curve that serves as a key reference in the muni bond market. The MMD curve is based on muni AAA valuations and market activity and is used as a benchmark for pricing and evaluating newly issued muni bonds. Because premium can be volatile, the Committee used the following premium assumptions based on Commonwealth actuals dating back to 2022:

- 10.0% – median value since 2022; current Treasurer's office assumption for budgeting
- 8.5% – mean value (rounded down) since 2022

Debt Structuring Assumptions: The Committee used debt structuring assumptions that align with typical Commonwealth bond issuances. Key assumptions include a three-year interest period and level debt service, among others.

Future Bond Cap Growth: Future Bond cap growth refers to the rate at which the bond cap will grow. For modeling purposes, the Committee assumes the bond cap will continue to grow by the recommended fiscal 2027 amount over the next 30 years, even though the recommendation is not intended to make any commitment beyond fiscal 2027.

In addition to robust modeling, the Committee examines other factors as part of its analysis, such as the Commonwealth's existing overall debt portfolio, including special obligation debt, which is debt that is secured by a specific pledged revenue stream, unlike GO bonds which are secured by the Commonwealth's full faith and credit and whose debt service is paid with general fund revenues. Additionally, the Committee considers contingent requirements, which relate to debt of certain independent authorities for which the Commonwealth acts as a backstop. The Committee also considers the Commonwealth's capital investment plan (CIP), other fixed long-term liabilities, credit ratings, pertinent debt ratios, Gross Domestic Product (GDP) and income levels, and comparisons to other states. Recognizing the importance of the Commonwealth's ability to keep pace with its capital needs, the Committee also considers inflation and construction cost escalation trends.

Committee Analysis Highlights

Below is an overview of highlights from this year's analysis. More details on the Committee's analysis can be found in the attached slide deck report.

- The Commonwealth's general obligation (GO) credit rating is strong (Aa1/AA+/AA+), supported by a robust and diverse economy, high income levels and a history of strong financial management. Relatively high debt levels compared to other states is the biggest credit offset, however state investment in local communities is a core driver of these relatively elevated levels. Unlike many other state GO credits, the Commonwealth issues debt for both state and local level purposes. As a result, Massachusetts is estimated to have one of the lowest levels in the nation for local debt as a percentage of personal income. When factoring in other long-term liabilities such as pension and other post-employment benefit (OPEB) contributions, MA's fixed costs as a percentage of revenues is somewhat moderated relative to peers.

- Debt service as a percentage of revenues is approximately 4.5%, well below the Committee's targeted affordability limits. The Committee found that debt service as a percentage of revenues remain within policy limits in all modeling scenarios except the revenue "stress test" scenario, which shows debt service exceeding the revenue limit around 2040. However, this is well outside the 10-year time horizon that the DAC tends to focus on.

- The Committee views the statutory direct debt limit as the most constraining factor in its affordability analysis. At the end of fiscal year 2025, current outstanding direct debt was 94% of the direct debt limit, however this buffer is expected to decrease in the coming years as the bond cap continues to grow. The Committee's analysis, which focuses on anticipated impacts over the next 10 years, suggests a $110 million year-over-year annual bond cap increase would result in Commonwealth outstanding direct debt reaching 99% of the direct debt ceiling around 2030, where it will stay until 2037, after which the buffer between projected actual outstanding direct debt and the limit begins to increase.

  Because this growth trajectory brings outstanding direct debt close to the statutory limit, the Committee will continue to monitor that ratio closely. If necessary, the Committee may recommend a lower level of bond cap growth in the future.

- Construction cost escalation, which recently had been historically high, is something the Committee continues to monitor. The Committee notes that construction escalation outpaced CIP growth in the early part of the 2020s, and while construction escalation has somewhat cooled, it remains a capital challenge and will likely continue to erode the CIP's purchasing power. We note that this erosion is likely to be further compounded given that bond cap growth will be constrained by the direct debt limit.

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Committee Recommendation Summary

While the Committee's formal bond cap recommendation is for fiscal year 2027 only, the Committee's recommendation is based on prudent economic assumptions, as well as future bond cap growth. Overall, the Committee's analysis suggests an annual year-over-year bond cap growth of $110 million in fiscal years 2027 through 2056 is affordable and sustainable assuming modeling input assumptions remain relatively in line with actuals. The table below provides the resultant 10-year forecast for this scenario, which also assumes 3.2% annual revenue growth, bond coupon of 5% increasing to 5.5% over 5 years and then remaining constant, and 10% bond premium.

DAC Modeling Projections	**FY27 Rec**	*Projected*								
	FY27	***FY28***	***FY29***	***FY30***	***FY31***	***FY32***	***FY33***	***FY34***	***FY35***	***FY36***
Bond Cap Amount ($ M)	**$ 3,337**	$3,447	$3,557	$3,667	$3,777	$3,887	$3,997	$4,107	$4,217	$4,327
Bond Cap Annual $ Growth ($ M)	**$ 110**	$ 110	$ 110	$ 110	$ 110	$ 110	$ 110	$ 110	$ 110	$ 110
Bond Cap Annual % Growth	**3.4%**	3.3%	3.2%	3.1%	3.0%	2.9%	2.8%	2.8%	2.7%	2.6%
Debt Service as % of Revenue	**4.54%**	4.75%	4.78%	4.78%	4.88%	5.02%	4.93%	5.07%	5.03%	5.11%
Outstanding Debt as % of Direct Debt Limit	**96.4%**	97.4%	98.3%	98.9%	99.4%	99.8%	99.7%	99.8%	99.6%	99.3%
Revenue Growth (CAGR)	3.2% all years									
Bond Coupon	5.0%	5.1%	5.2%	5.3%	5.4%	5.5%	5.5%	5.5%	5.5%	5.5%
Bond Premium	10.0% all years									

To arrive at its conclusion, the Committee performed a wide range of modeling that considered a variety of assumptions and scenarios ranging from moderate to stress test levels. While the Committee looks at debt affordability impacts over a 30-year horizon, it recognizes that modeling uncertainty increases the further out in time it spans. Therefore, the Committee is particularly focused on the upcoming 10-year horizon where there is more certainty, especially in the early years.

Overall, the fiscal year 2027 recommendation supports CIP growth while keeping debt service and outstanding principal within long-term targets. The Committee's analysis is based on the best available data at the time of analysis and reasonable assumptions around future bond cap growth. Changing conditions or events during the fiscal year, such as increases or decreases in budgetary revenue, changing interest rates and other market conditions, 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 direct debt limit.

Sincerely,

Timur Kaya Yontar
Capital Budget Director
Executive Office for Administration and Finance
Designee of Secretary Matthew J. Gorzkowicz, Chair

Voting Committee Members

Kaitlyn Connors	Chair and Designee of the Secretary of Administration & Finance, Matthew J. Gorzkowicz (*until November 30, 2025*)
Timur K. Yontar	Chair and Interim Designee of the Secretary of Administration & Finance, Matthew J. Gorzkowicz (*beginning December 1, 2025*)
Martin Benison	Appointee of Treasurer and Receiver-General, Deborah Goldberg
Pauline Lieu	Designee of the Comptroller, William McNamara
Sue Perez	Designee of the Treasurer and Receiver-General, Deborah Goldberg
Michelle Scott	Designee of the Interim Secretary of Transportation, Phillip Eng
Catherine Walsh	Appointee of Former Governor Charles D. Baker

Non-voting Committee Members

Ryan C. Fattman	Ranking Member, Senate Committee on Bonding, Capital Expenditures and State Assets
Michael J. Finn	Chair, House Committee on Bonding, Capital Expenditures and State Assets
Paul W. Mark	Vice-Chair, Senate Committee on Bonding, Capital Expenditures and State Assets
Aaron Michlewitz	Chair, House Committee on Ways and Means
Patrick M. O'Connor	Ranking Member, Senate Committee on Ways and Means
Norman J. Orrall	Ranking Member, House Committee on Bonding, Capital Expenditures and State Assets
Michael J. Rodrigues	Chair, Senate Committee on Ways and Means
Todd M. Smola	Ranking Member, House Committee on Ways and Means