

RatingsDirect®

Summary:

Andover, Massachusetts; General Obligation

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Credit Profile

US\$27.874 mil GO mun purp loan bnds ser 2014 due 03/01/2034

Long Term Rating AAA/Stable New

Andover GO

Long Term Rating AAA/Stable Affirmed

Andover GO mun purp ln

Long Term Rating AAA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Andover, Mass.' series 2014 general obligation (GO) municipal purpose loan bonds. At the same time, Standard & Poor's affirmed its 'AAA' rating on Andover's existing GO debt. The outlook is stable.

The town's full faith and credit pledge supports the bonds. Principal and interest on the bonds will be payable from taxes levied on all taxable property within the town.

The rating reflects our view of the town's:

- Very strong economy,
- Very strong management,
- Strong budgetary flexibility,
- Very strong liquidity, and
- Very strong debt and contingent liabilities profile.

Very strong economy

Located in Essex County, Mass., we view Andover's local economy as very strong, with projected per capita effective buying income at 190% of the national average, and per capita market value at roughly \$206,000. Total market value has risen in each of the last two fiscal years after a downward trend due to the recession. Fiscal 2013 market value is \$6.80 billion, or 95% of the town's pre-recessionary high. For 2014, management projects AV to reach 6.84 billion. Taxable value is primarily residential (80.0%), with industrial being the next largest component (8.4%).

The town's income has been strong, in our opinion, even during the recession. According to the U.S. Census Bureau, per capita personal income grew every year from fiscals 2004 through 2013. In particular, the \$53,210 in income for 2013 is almost 20% higher than the corresponding 2004 figure. According to the U.S. Census Bureau, Andover's median family income was \$139,043 in 2013, comparing favorably to that of the commonwealth (\$81,165) and nation (\$51,144) during the same period.

According to U.S. Bureau of Labor Statistics (BLS), Essex County's 2012 unemployment rate was 7.1%. We believe

residents benefit from Andover's participation in the broad and diverse Boston-Cambridge-Newton metropolitan statistical area, and that this will provide rating stability. Andover's unemployment rate continues to be a positive factor, as it has remained below those of the commonwealth and nation for every year since 2008. During the recession, Andover's unemployment rate peaked at 7.1%, which is comparatively low, in our view. As of December 2013, the BLS and Massachusetts Department of Revenue -- Division of Local Services report unemployment rates for Andover, the commonwealth, and nation of 4.9%, 6.7%, and 7.3% respectively.

Very strong management conditions

We view the town's management conditions as very strong, with strong financial practices under our Financial Management Assessment methodology, indicating practices are, in our opinion, strong, well-embedded, and likely sustainable. The town uses identified trends and commonwealth estimates to develop annual revenue and expenditure assumptions; it then uses these assumptions to update the town's five-year budget forecast that it uses to complement capital and budgetary planning. Management regularly monitors its budget, tracks revenue and expenditures, and reports budget-to-actual results to the finance committee at minimum on a monthly basis. The town performs midyear budget adjustments, if needed, during special town meetings. The town also has a five-year capital plan and a capital budget that management approves and reprioritizes annually. The town adheres to a formal debt management policy when planning and addressing capital needs, including a policy that limits debt service in any one year to 10% of budgeted general expenditures, and targets principal amortization at 20 years. Although the town has a formal reserve policy, management adheres to an historical goal of maintaining reserves between 3% and 7% of expenditures.

Strong budgetary flexibility

In our opinion, Andover's budgetary flexibility is strong, with available reserves at \$14 million, or 9.5% of operating expenditures, in fiscal 2013, up slightly from corresponding figures of \$13 million, or 9.3%, one year prior. Total fund balances, which also include restricted funds, have grown from \$5.1 million in fiscal 2008, to \$15.1 million as of fiscal 2013. However, we attribute \$4.5 million of this growth to the implementation of Governmental Accounting Standards Board Statement #54 in 2011. Management indicates they do not expect reserves to decrease for fiscal 2014.

Very strong liquidity

What we consider very strong liquidity supports Andover's finances, with total government available cash to government fund expenditures and cash to debt service at 24% and 5.8x, respectively. Based on past debt issuance, we believe the issuer has strong access to capital markets to provide for liquidity needs, if necessary.

Strong budgetary performance

Andover's overall budgetary performance is, in our opinion, adequate, with fiscal 2013 general and total governmental funds surpluses of 0.3% and 6.3%, respectively. For fiscal 2014, the town has adopted a balanced budget totaling \$147.5 million, without appropriating any reserves. Property taxes comprise the majority of total governmental revenues at 65%, followed by intergovernmental aid at 22%.

Very strong debt and contingent liabilities profile

Andover's debt and contingent liabilities profile is, in our opinion, very strong. Net direct debt is 57% of total governmental funds revenue, and total governmental funds debt service is 4% of total governmental funds expenditures. Approximately 69% of debt is scheduled to be repaid over 10 years, which we consider a credit strength. Net debt to market value is low and another positive rating factor, in our view, at 1.4%. Last year, Andover made 100%

of its annual required pension contribution. Annual pension and other post-employment benefit costs accounted for 6.9% of total government expenditures in fiscal 2013.

Strong institutional framework

We consider the institutional framework score for Massachusetts towns to be strong.

Outlook

The stable outlook reflects our view of Andover's continued consistent financial performance and underlying broad and diverse economy supported by strong management. We do not expect to change the rating within the two-year outlook horizon, due to our expectation that the town will maintain very strong budget flexibility and strong financial performance. We also expect the underlying economy to remain very strong.

Related Criteria And Research

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

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