

# RatingsDirect®

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## Summary:

# Andover, Massachusetts; General Obligation; Note

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### Credit Profile

US\$12.0 mil GO BANs dtd 10/25/2013 due 03/07/2014

<i>Short Term Rating</i>	SP-1+	New
Andover GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Andover GO mun purp In		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' rating to the Town of Andover, Mass.' series 2013 general obligation (GO) bond anticipation notes (BANs). At the same time, Standard & Poor's affirmed its 'AAA' GO rating, with a stable outlook, on the town's outstanding bonds based on the application of our new GO criteria.

The short-term note rating reflects our criteria for evaluating and rating BANs. In our view, Andover maintains a very strong capacity to pay principal and interest when the notes come due. The town maintains what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

The town's full faith and credit GO pledge secures the bonds.

The rating reflects our assessment of the following factors for the town.

- Very strong economy, which benefits from participation in the broad and diverse economy of greater Boston;
- Strong budgetary flexibility with 2012 audited reserves at 9% of general fund expenditures;
- Strong budgetary performance, with consistent results in the total governmental and general fund;
- Very strong liquidity providing more than sufficient cash levels to cover both debt service and expenditures;
- Very strong management with sustainable formalized financial policies and a consistent ability to maintain balanced budgets; and
- Very strong debt and contingent liabilities position, driven mostly by the town's low net direct debt, albeit growing pressure from other postemployment benefit (OPEB) costs.

### Very strong economy

We consider Andover's economy to be very strong with access to the broad and diverse economy of Boston.

Traditionally, county unemployment has tracked lower than that of the state and the nation and was at 7.1% in 2012.

The town has per capita incomes we consider very strong; projected per capita effective buying income is 193% of the U.S. Per capita market value for the town was \$205,000 for fiscal 2013. Assessed value (AV) had experienced a cumulative 8% decline from 2008 to 2011. However, AV increased by about 3% in the past three years to \$6.8 billion.

### **Strong budget flexibility**

In our opinion, the town's budgetary flexibility remains very strong, with reserves above 8% of expenditures for the past several years and no plans to significantly spend them down. The town projects reserves for 2013 will increase by \$2.1 million. For audited fiscal 2012, available reserves were \$13 million or 9% of expenditures. The town maintains a policy of a minimum balance at 3% to 7% of expenditures.

### **Strong budgetary performance**

The town's budgetary performance has been strong overall, in our view, with a surplus of close to 3% for the general fund and total governmental funds in fiscal 2012 after excluding some expenditures related to nonrecurring capital improvements. Unaudited results for fiscal 2013 indicate an operating surplus in its general fund as a result of conservative budgeting. For fiscal 2014, the town adopted a balanced budget totalling \$147.5 million without appropriating any fund balance. Property taxes made up the majority of total governmental revenues at 65%, followed by intergovernmental aid at 22%.

### **Very strong liquidity**

Supporting the town's finances is liquidity we consider very strong, with total government available cash as a percent of total governmental fund expenditures and as a percent of debt service both above 100%. We believe the town has strong access to external liquidity. The town has issued GO bonds frequently during the past 15 years.

### **Very strong management conditions**

We view the town's management conditions as strong, with formal financial practices and policies. The town uses identified trends and commonwealth estimates to develop its revenue and expenditure assumptions annually; it then uses these assumptions to update the town's five-year budget forecast that it uses to compliment its capital and budget planning. Management performs budget monitoring regularly, and it tracks revenues and expenditures and makes at least monthly reports on the results to the finance committee. The town performs midyear budget adjustments, when needed, at special town meetings. The town has a five-year capital plan and a capital budget that management approves and reprioritizes annually. The town has a formal debt management policy that it adheres to when planning and addressing its capital needs, including a policy that limits the debt service in any one year to 10% of budgeted general expenditures and targets principal amortization at 20 years. The town maintains a formal reserve policy, but management adheres to the historical goal of maintaining reserves between 3% and 7% of expenditures.

### **Very strong debt and contingent liability profile**

In our opinion, the town's debt and contingent liability profile is very strong with total governmental fund debt service at 5% of total governmental fund expenditures and with net direct debt at 48% of total governmental fund revenue and slated to rise. We expect debt issuance within the next two years will bring the net direct debt, including the new issuance, to roughly 51% of total governmental fund revenue.

The town participates in a cost-sharing, multiple-employer, defined-benefit pension plan administered by the Andover Contributory Retirement Board (the system). Nearly all employees of the town are members of the system, with the exception of the public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the town does not contribute. The town contributed \$5.1 million to the system in fiscal 2012, or 3.5% of total governmental expenditures. A long-term credit consideration is Andover's OPEB liability. The town's OPEB unfunded actuarial accrued liability was \$215 million, or 133% of total governmental expenditures, as of

June 30, 2011. The OPEB annual required contribution (ARC) was \$16.9 million (about 10% of total governmental expenditures), and the town's actual pay-as-you-go contribution was \$6.1 million, or 37% of the ARC. The town has established an OPEB trust in 2010, and it projects the year-to-date assets to be \$1.5 million. Management is proposing to make an annual OPEB contribution of \$1.5 million to the trust on top of its pay-as-you-go contributions in an effort to decrease its long-term liabilities.

### **Strong institutional framework**

We consider the Institutional Framework score for Massachusetts municipalities as strong. See the Institutional Framework score for Massachusetts.

## **Outlook**

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

## **Related Criteria And Research**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011
- Institutional Framework Overview: Massachusetts Local Governments

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