

RatingsDirect®

Summary:

Andover, Massachusetts; General Obligation; Note

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Credit Profile

US\$7.191 mil GO mun purp loan bnds ser 2015 due 06/15/2035		
<i>Long Term Rating</i>	AAA/Stable	New
US\$1.0 mil GO BANs dtd 06/19/2015 due 06/17/2016		
<i>Short Term Rating</i>	SP-1+	New
Andover GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Andover, Mass.' series 2015 general obligation (GO) bond anticipation notes (BANs), scheduled to mature on June 17, 2016. Standard & Poor's also assigned its 'AAA' long-term rating to the town's GO municipal purpose loan of 2015 bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating on the town's outstanding debt. The outlook on all ratings is stable.

The short-term rating reflects our assessment of the application of 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 has a low market risk profile since it maintains what we regard as strong legal authority to issue long-term debt to take out the notes and it is a frequent debt issuer that regularly provides ongoing disclosure to market participants.

The town's full faith and credit pledge secures the bonds. Andover is issuing the debt to finance various capital and school-related projects.

The long-term rating reflects our assessment of the following factors for Andover, specifically its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology; Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level; Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 10.2% of operating expenditures;
- Very strong liquidity, with total government available cash of 19.8% of total governmental fund expenditures and 3.6x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges of 5.4% of expenditures and net direct debt that is 48.2% of total governmental fund revenue, and low overall net debt at less than 3% of market value and rapid amortization with 74.4% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) liability; and
- Strong institutional framework score.

Very strong economy

We consider Andover's economy very strong. The town, with an estimated population of 35,085, is located in Essex County in the Boston-Cambridge-Newton, MA-NH MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 196% of the national level and per capita market value of \$206,069. Overall, the town's market value grew by 5.7% over the past year to \$7.2 billion in 2015. The county unemployment rate was 6.0% in 2014.

Andover is about 22 miles north of Boston and is well situated at the crossroads of Interstates 93 and 495, providing residents with access to a broad range of employment opportunities across the deep and diverse MSA economy. Area commuter rail stations enable easy travel to downtown Boston.

Very strong management

We view the town's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The town uses identified trends and commonwealth estimates to develop annual revenue and expenditure assumptions, which it then uses to update its five-year budget forecast for complementing 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. It 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. The town has a formal reserve policy of maintaining reserves between 3% and 7% of expenditures which it has exceeded recently.

Strong budgetary performance

Andover's budgetary performance is strong in our opinion. The town had operating surpluses of 2.0% in the general fund and 4.2% across all governmental funds in fiscal 2014. General fund operating results of the town have been stable over the last three years, with a result of 0.3% in 2013 and a result of 2.7% in 2012.

Management attributes fiscal 2014's positive variances to budget to revenue surplus totaling \$2.6 million, reflecting higher-than-anticipated motor vehicle excise taxes. Officials also indicate that appropriations came in about \$1.9 million under budget, even after accounting for a snow and ice deficit of roughly \$600,000. With one month left in the current fiscal year, the town's management expects to finish the year with another operating surplus as the motor vehicle excise tax is again outperforming the budget while expenditures--with the exception of snow and ice removal, for which the town is expecting roughly \$400,000 in FEMA funds--which would most likely be recorded in fiscal 2016, are in line with the budget.

Currently, we expect operating performance to remain strong and in line with performance in years past. We also believe Andover maintains a stable and predictable revenue profile that is largely independent from state or federal funds. A balanced 2016 budget is anticipated.

Strong budgetary flexibility

Andover's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 10.2% of operating expenditures, or \$15.7 million.

With less than one month in the current fiscal year, officials indicate the town expects to continue building on available reserves.

Strong liquidity

In our opinion, Andover's liquidity is very strong, with total government available cash of 19.8% of total governmental fund expenditures and 3.6x governmental debt service in 2014. In our view, the town has strong access to external liquidity if necessary as it has frequently issued GO debt and BANs in the past.

Our opinion is that liquidity will remain very strong as there is no significant deterioration of cash balances planned or anticipated. Further, we note the town does not have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events.

Strong debt and contingent liability profile

In our view, Andover's debt and contingent liability profile is strong. Total governmental fund debt service is 5.4% of total governmental fund expenditures, and net direct debt is 48.2% of total governmental fund revenue. Overall net debt is low at 1.2% of market value and approximately 74.4% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

In our opinion, a credit weakness is Andover's large pension and OPEB liability. Its combined pension and OPEB contributions totaled 6.9% of total governmental fund expenditures in 2015. Of that amount, 3.7% represented contributions to pension obligations and 3.2% represented OPEB payments. The town made 100% of its annual required pension contribution in 2014.

The town contributes to the Andover Contributory Retirement Board. The pension system, a defined-benefit pension plan, is only 48% funded. While pension costs are currently manageable, due to the retirement system's below-average funded ratio, we believe this will likely remain a growing cost over the next few years. Additional long-term credit considerations include the town's long-term OPEB liabilities. As of June 30, 2013, the latest actuarial valuation date, the town's OPEB unfunded actuarial accrued liability was \$145 million.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our view of Andover's continued consistent financial performance with very strong management conditions contributing to strong flexibility. The town's very strong underlying economy and liquidity, in addition to its strong debt profile, provide rating stability.

We do not expect to lower the rating in our two-year outlook horizon due to our expectation that the town will maintain strong budget flexibility and financial performance. Although unlikely, should budgetary performance and

flexibility deteriorate significantly, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- . USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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

Ratings Detail (As Of June 10, 2015)

Andover GO mun purp ln		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Andover GO BANs dtd 06/19/2015 due 06/17/2016		
<i>Short Term Rating</i>	SP-1+	Affirmed

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