

Andover High School Building Project: Financial Considerations



May 31, 2023

ANDOVERMA.GOV

Agenda

- Update on the Debt Limit
- Potential Impacts to Bond Rating
 - Current Debt Profile
 - Comparative Analysis
- Overview of Cost Variables

Debt Limit Overview

- MGL Chapter 44, section 10 limits a town's authorized indebtedness to 5% of the full and fair cash value of property in a community.
- Andover's current debt limit is \$510M – with \$101 in qualified debt outstanding, for a balance of \$409M in debt capacity.
- Certain debt is considered outside the debt limit (MGL Ch. 44, sec. 8)
 - Water and sewer projects/construction
 - Landfill capping
 - School building projects in partnership with the MSBA
 - Debt as otherwise specified by legislation to be outside the debt limit (pension obligation bonds)
- The relationship between a municipality's total debt service and its debt limit is not a factor considered by the rating agencies.

Debt Limit – The Issue

- School building projects that are funded outside of the MSBA program are not exempt from a city or town’s debt limit.
- The estimated cost for a potential AHS building project exceeds the Town’s available “debt capacity” (\$409M), and as a result, would exceed Andover’s statutory debt limit.

Debt Limit – Update

- The House of Representatives did not include an amendment to the budget that would exempt school building projects funded without MSBA partnership from a city or town's debt limit.
- The Senate budget included an amendment that would exempt school building projects funded without MSBA partnership from a city or town's debt limit.
- The amendment will be considered by the Conference Committee and may be included in the final budget.
- The Governor would have final approval should the amendment be included in the Legislature's final budget.

Potential Impacts to Bond Rating

- The Town's current debt profile is considered weak.
- A municipality's debt profile consist of its outstanding debt service plus the total of its unfunded liabilities.
- Andover's debt profile is not weak solely based on approved spending, but a combination of major capital projects and an historical lack of investment in unfunded liabilities.
- The Town's General Fund "non-exempt" Capital Improvement Program is seen as a positive and should not have an impact on the rating as long as the Town continues to adhere to an annual target for investment.

Potential Impacts to Bond Rating

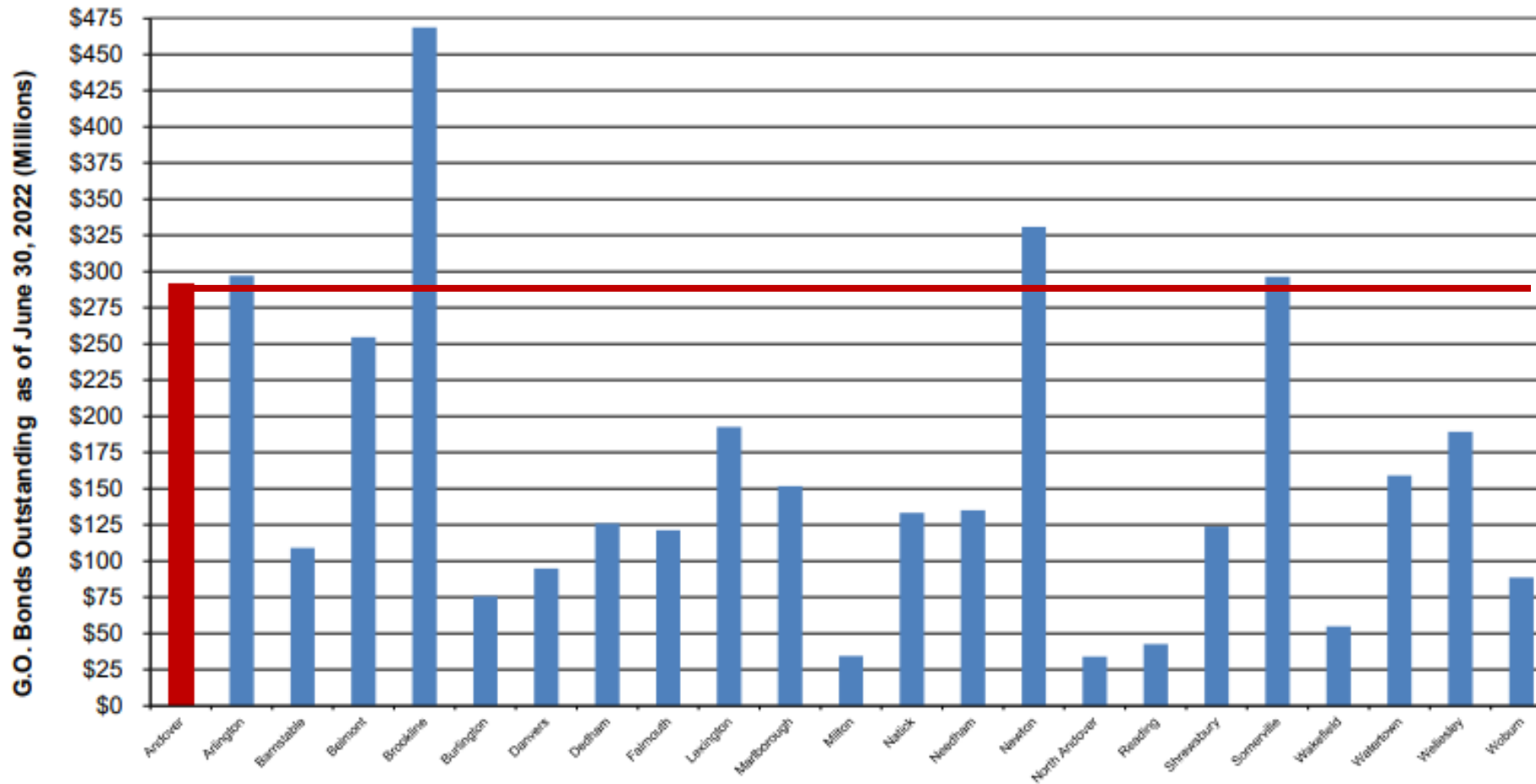
S&P Global
Ratings

Standard & Poor's Summary of Andover's Debt Profile:

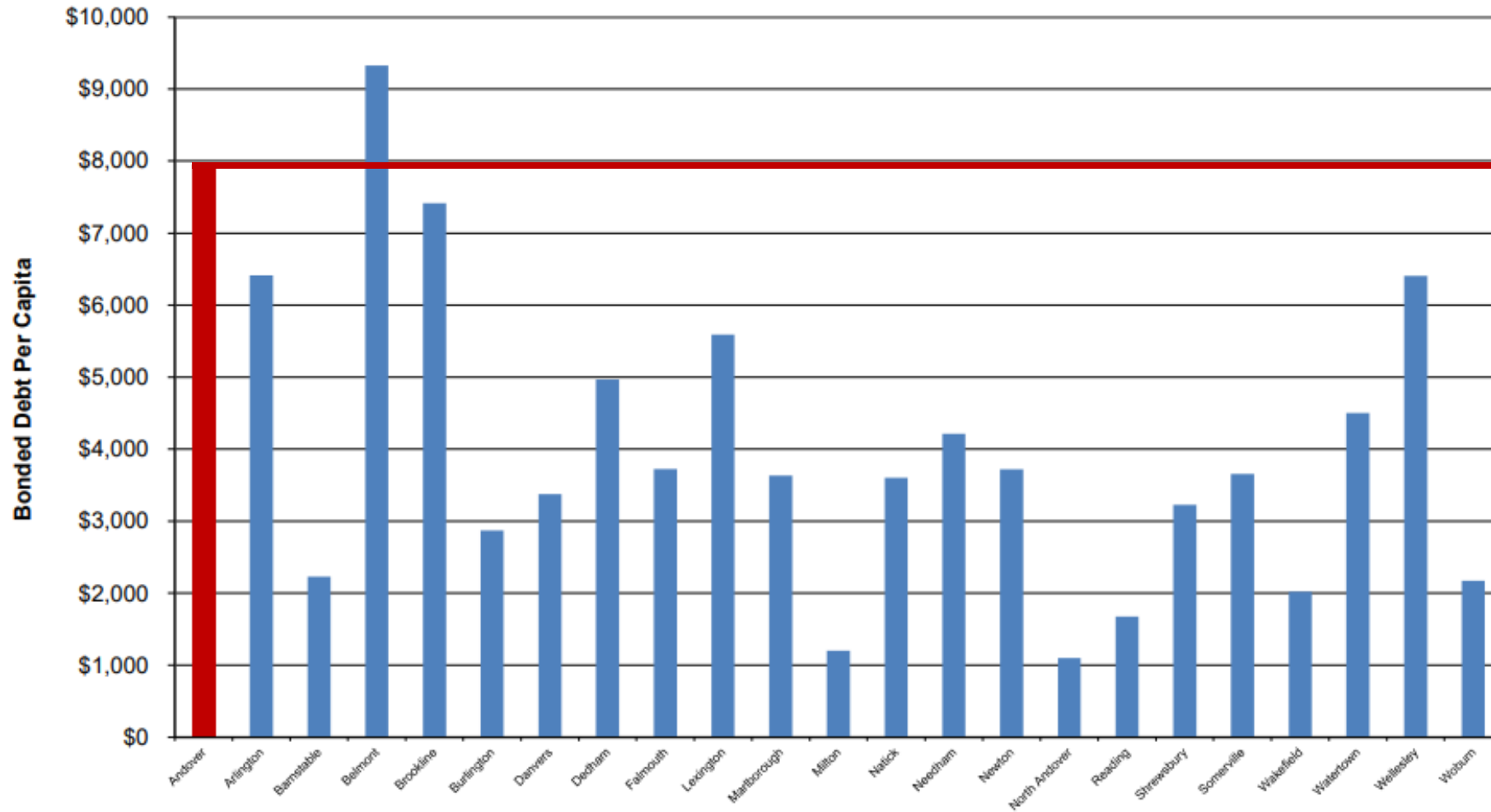
“Weak debt profile, though a low discount rate (5.75%) and increased taxing capacity somewhat mitigates the risk.” – May 2023

“While we view the town's debt as weak, we believe the town currently has sufficient financial flexibility to leverage should the budget be pressured. However, the town's rating could be pressured should our view of its debt metrics deteriorate to what we view as very weak as a result of material new money debt issuances.” – December 2022

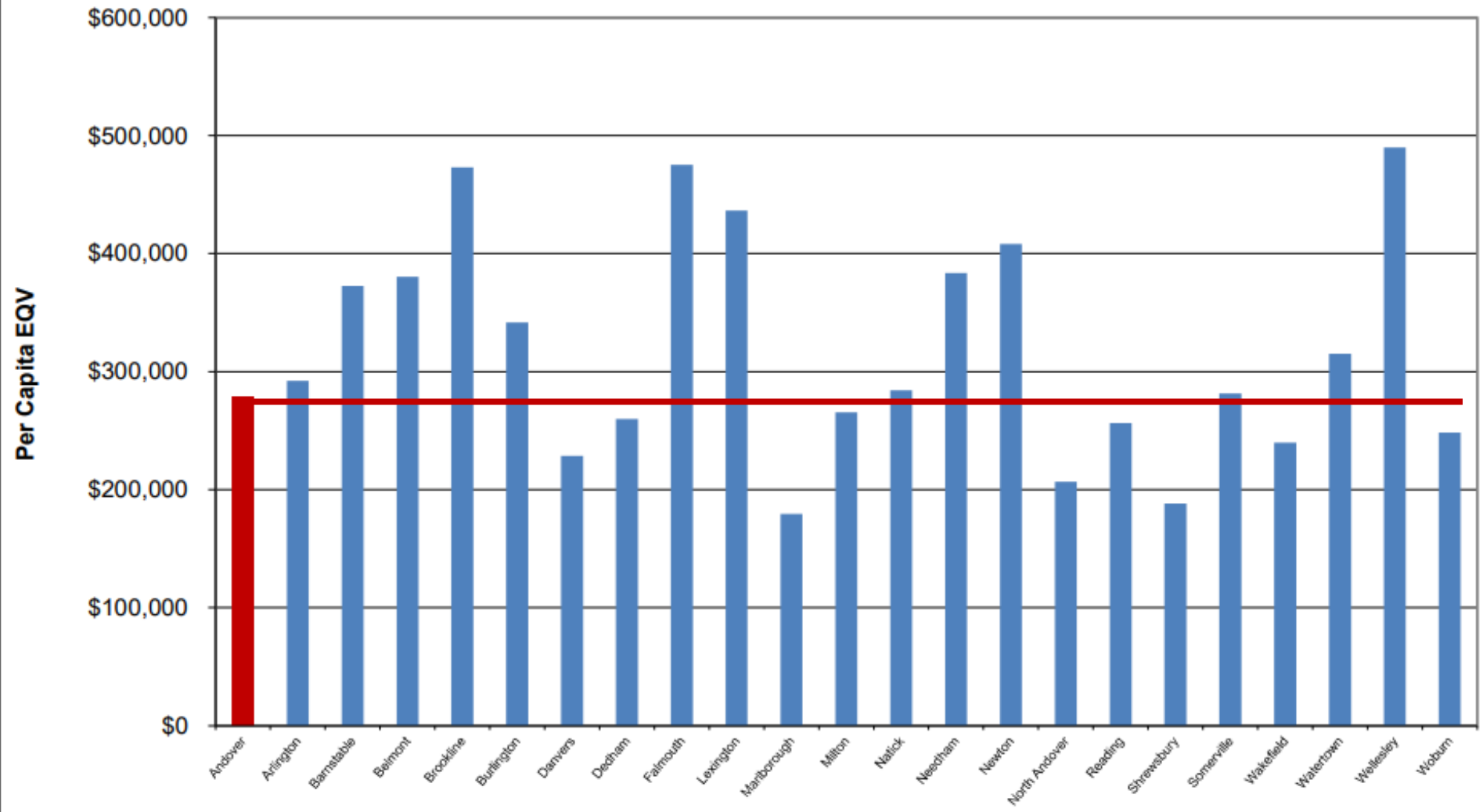
Andover vs. Massachusetts AAA Rated Communities General Obligation Bonded Debt Outstanding as of June 30, 2022



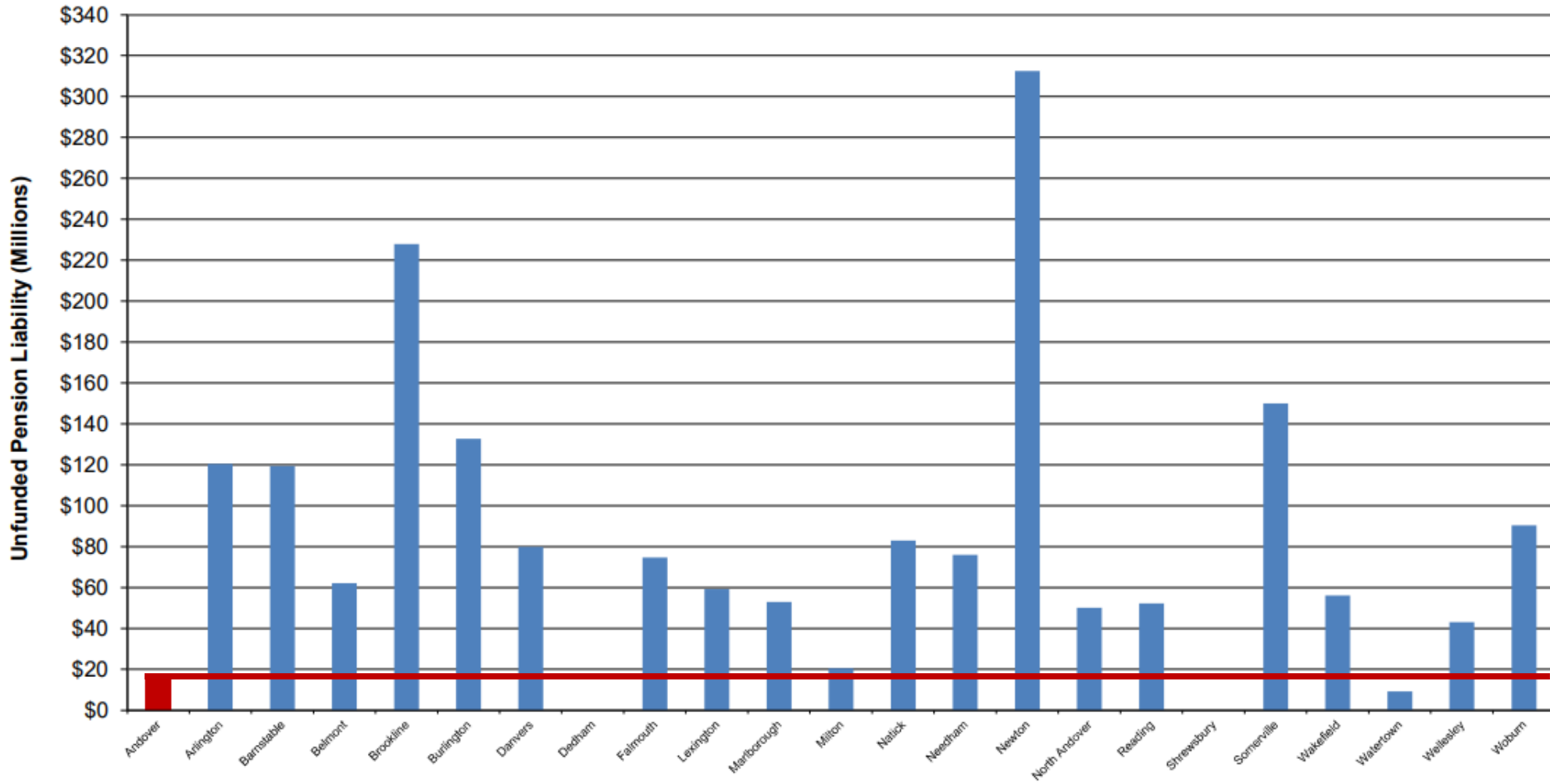
Andover vs. Massachusetts AAA Rated Communities Bonded Debt Per Capita



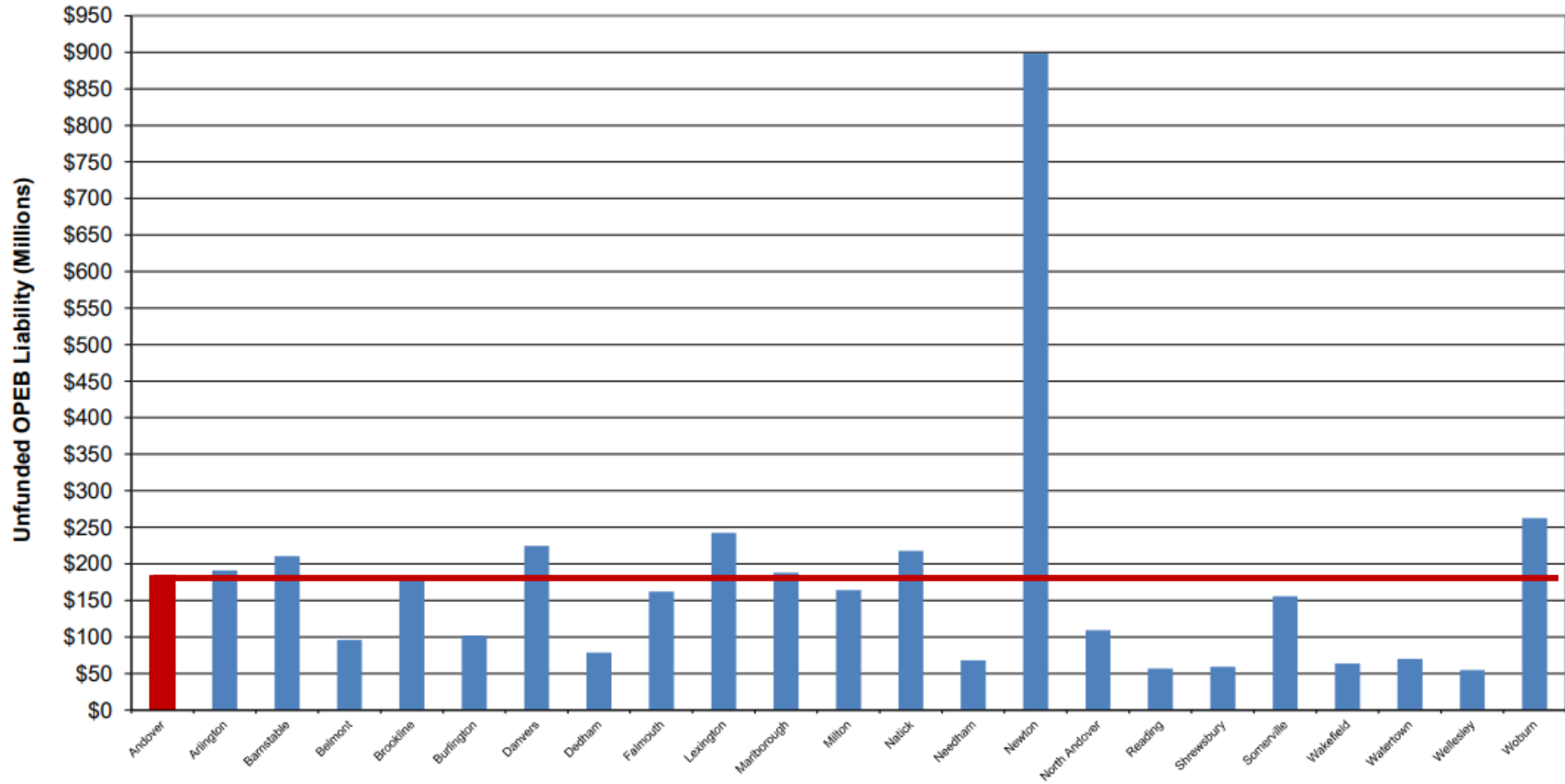
Andover vs. Massachusetts AAA Rated Communities Per Capita EQV



Andover vs. Massachusetts AAA Rated Communities Unfunded Pension Liability



Andover vs. Massachusetts AAA Rated Communities Unfunded OPEB Liability





General Override Funding – Comparable Communities

Town/City	Cumulative General Override Total
Arlington	\$335,911,256
Barnstable	\$81,855,472
Belmont	\$268,865,217
Brookline	\$280,456,472
Falmouth	\$38,488,808
Lexington	\$551,392,055
Milton	\$369,408,615
Natick	\$70,654,981
Needham	\$238,705,610
Newton	\$406,716,058
North Andover	\$208,284,311
Reading	\$230,465,900
Shrewsbury	\$73,987,353
Wakefield	\$36,594,211
Wellesley	\$391,461,842

- Andover has never increased its levy limit more than the allowable 2 ½ annual increase
- Each of these communities has raised additional revenue by increasing its levy limit through general operating overrides
- This is a relevant factor because they have managed their unfunded liabilities through cash appropriations over time.
 - No reliance on debt service to fund pension obligations
 - In many cases, avoided major accrued unfunded liabilities



Potential Impacts to Bond Rating

	6/30/22 General Obligation Bonded Debt Outstanding	Bonded Debt Per Capita	Cululative % of Principal Retired in 10 Years
Andover	\$290,902,031	7,955	56.2%
Arlington	\$297,079,725	6,073	37.9%
Barnstable	\$109,163,877	3,999	72.6%
Belmont	\$254,616,664	4,029	38.3%
Brookline	\$468,638,070	17,767	44.3%
Burlington	\$75,724,031	2,696	46.0%
Danvers	\$84,842,280	3,739	66.2%
Dedham	\$126,072,775	3,877	53.9%
Falmouth	\$121,214,094	3,518	68.8%
Lexington	\$192,588,445	4,608	63.3%
Marlborough	\$151,738,924	5,300	62.2%
Milton	\$34,428,727	930	88.8%
Natrick	\$133,263,432	4,153	68.5%
Needham	\$135,198,749	1,520	67.7%
Newton	\$330,823,683	10,701	52.3%
North Andover	\$34,085,390	1,336	82.3%
Reading	\$42,710,500	1,114	92.3%
Shrewsbury	\$123,825,051	4,571	61.2%
Somerville	\$296,392,689	8,390	43.2%
Wakefield	\$54,777,324	1,550	57.3%
Watertown	\$159,064,440	5,383	64.0%
Wellesley	\$189,231,189	4,629	60.4%
Woburn	\$88,682,956	2,170	66.1%
Andover's Rank out of 23	19	22	8

- Andover’s current debt metrics compared to similar AAA rated communities with a population greater than 25,000.
- Reflects a “weak debt profile”
 - **Outstanding Debt:** 19 of 23
 - **Bonded Debt Per Capita:** 20 out of 23
 - **Principal to be Retired in 10 Years:** 8 out of 20

Potential Impacts to Bond Rating – \$460M AHS Building Project



	6/30/22 General Obligation Bonded Debt Outstanding	Bonded Debt Per Capita	Cululative % of Principal Retired in 10 Years
Andover	\$750,902,031	20,534	21.8%
Arlington	\$297,079,725	6,073	37.9%
Barnstable	\$109,163,877	3,999	72.6%
Belmont	\$254,616,664	4,029	38.3%
Brookline	\$468,638,070	17,767	44.3%
Burlington	\$75,724,031	2,696	46.0%
Danvers	\$84,842,280	3,739	66.2%
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Wellesley	\$189,231,189	4,629	60.4%
Woburn	\$88,682,956	2,170	66.1%
Andover's Rank out of 23	23	23	23

- Projected debt metrics based on potential \$460M AHS building project.
- Actual impact to debt profile unknown
- 23 out of 23 in all categories
- Differential between Andover and 22nd ranked community:
 - Outstanding Debt: +\$282.2M (Brookline)
 - Bonded Debt Per Capita: +2,767 (Brookline)
 - Principal to be Retired in 10 Years: -16.1% (Arlington)
- Likelihood of downgrade: High
- Final Rating: Unknown

Potential Impacts to Bond Rating

Total Debt Service	% Increase in Borrowing Rate				Term
	0.25%	0.50%	0.75%	1%	
\$5,000,000	\$69,007	\$138,529	\$208,561	\$279,104	10 Year Term
\$25,000,000	\$980,440	\$1,984,189	\$3,011,121	\$4,061,085	30 Year Term
\$50,000,000	\$1,960,880	\$3,968,378	\$6,022,242	\$8,122,170	30 Year Term
\$100,000,000	\$3,921,760	\$7,936,756	\$12,044,484	\$16,244,340	30 Year Term
\$200,000,000	\$7,843,520	\$15,873,512	\$24,088,968	\$32,488,680	30 Year Term
\$400,000,000	\$15,687,040	\$31,747,024	\$48,177,936	\$64,977,360	30 Year Term
\$500,000,000	\$19,608,801	\$39,683,776	\$60,222,411	\$81,221,698	30 Year Term

- Potential downgrade would increase borrowing costs for AHS building project and all other projects and/or purchase of land or equipment funded by the CIP.
- Potential downgrade likely would not incur until the initial borrowing for a potential AHS building project.
- There is a potential for multiple downgrades depending on the metrics.

Overview of Cost Variables

- **Project Cost Escalation:** 20 year average is approx. 5.5% annually
- **Impact to Bond Rating & Borrowing Costs:** Potential increase borrowing costs resulting from a downgrade
- **Economic Conditions & Borrowing Costs:** Fluctuations in base borrowing costs resulting from economic factors
- **MSBA Reimbursement:** Potential future reimbursement from MSBA
- **Maintaining the current Andover High School:** It is anticipated that significant capital investment will be necessary in order to keep AHS operating into the future

**Other non-cost variables include potential impacts to educational program and actual project completion date*