Andover, Massachusetts

Credit Overview

Peter Frazier, Senior Vice President

First Southwest Company

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Investment Bankers Since 1946

Bond Ratings

Moody's	Standard & Poor's
Aaa	AAA
Aa1	AA+
Aa2	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-

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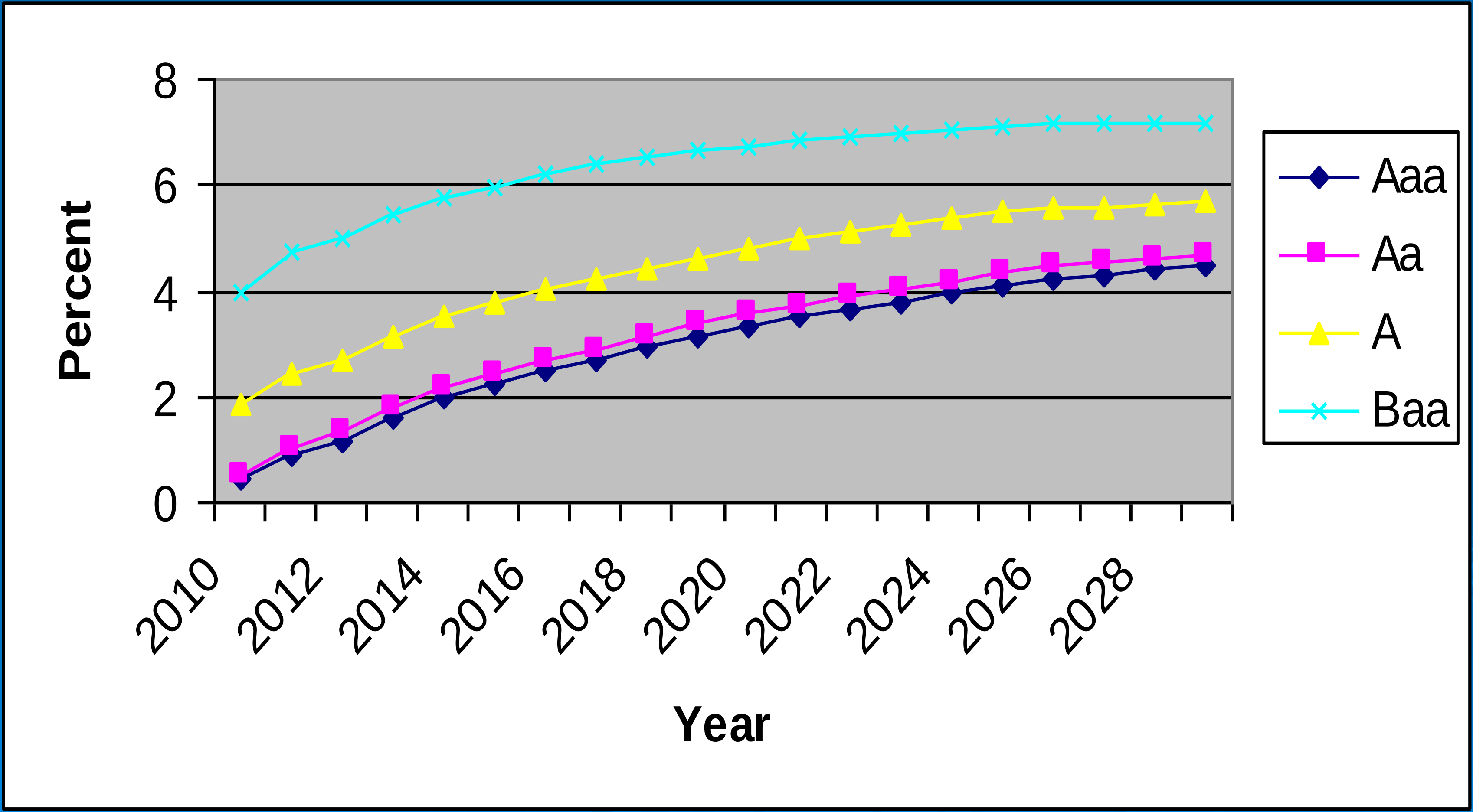
Yield Curves By Rating



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Value of Credit Rating

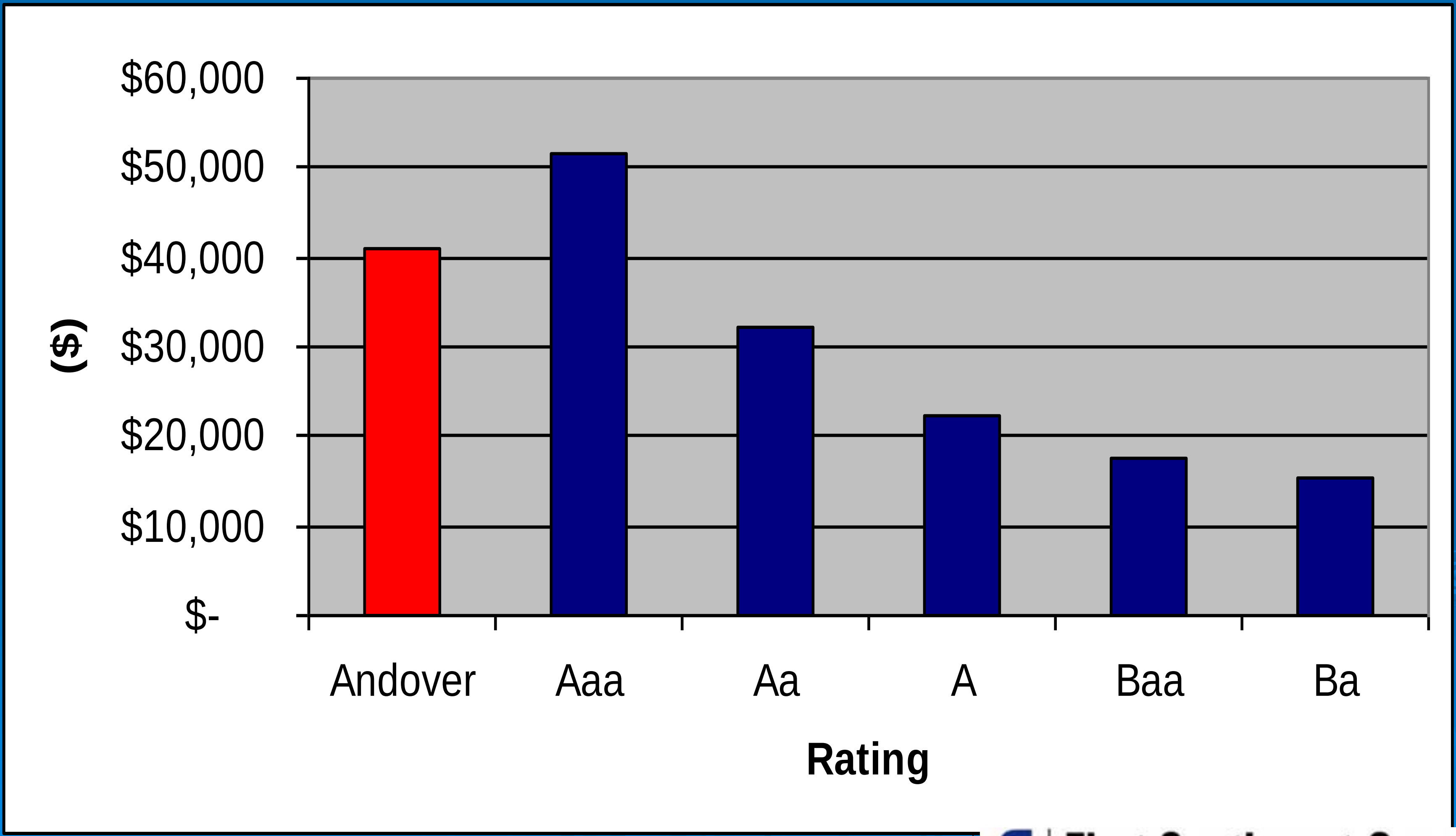
- Higher Ratings = Lower Borrowing Costs
  - Greater market access
  - Quality spreads - $ impact of downgrades
    Hypothetical $10 million, 20 year Issue
    - $228,000 additional cost - Aaa to Aa
    - $1,470,000 additional cost - Aaa to A
    - $3,342,000 additional cost - Aaa to Baa
- Unbiased, Expert Assessment of the Town's Wellbeing

Major Credit Factors

- Economy
- Management
- Debt
- Finances

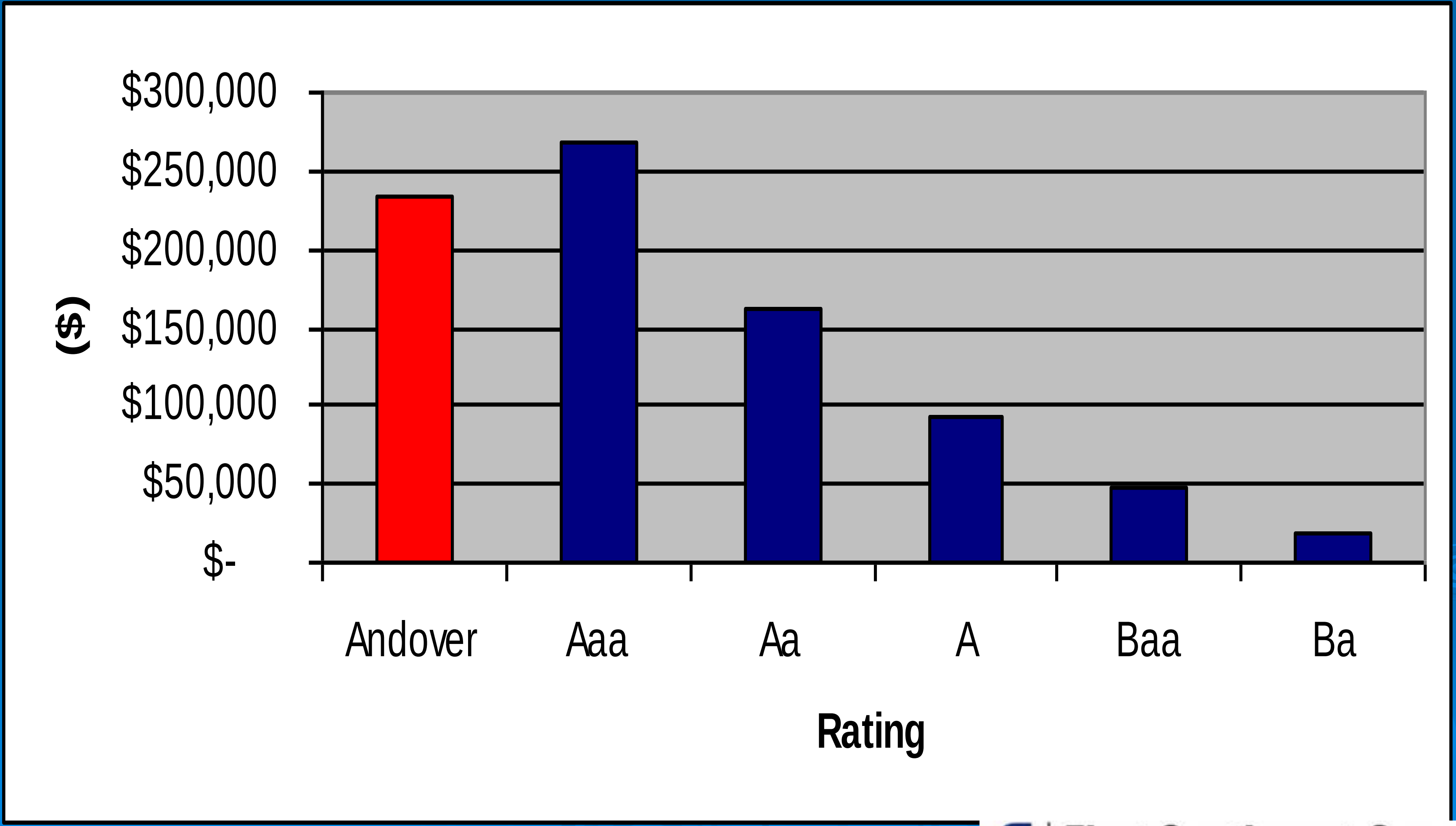
Per Capita Income

Moody's 2008 Medians – Population < 50,000



Full Value Per Capita

Moody's 2008 Medians – Population < 50,000



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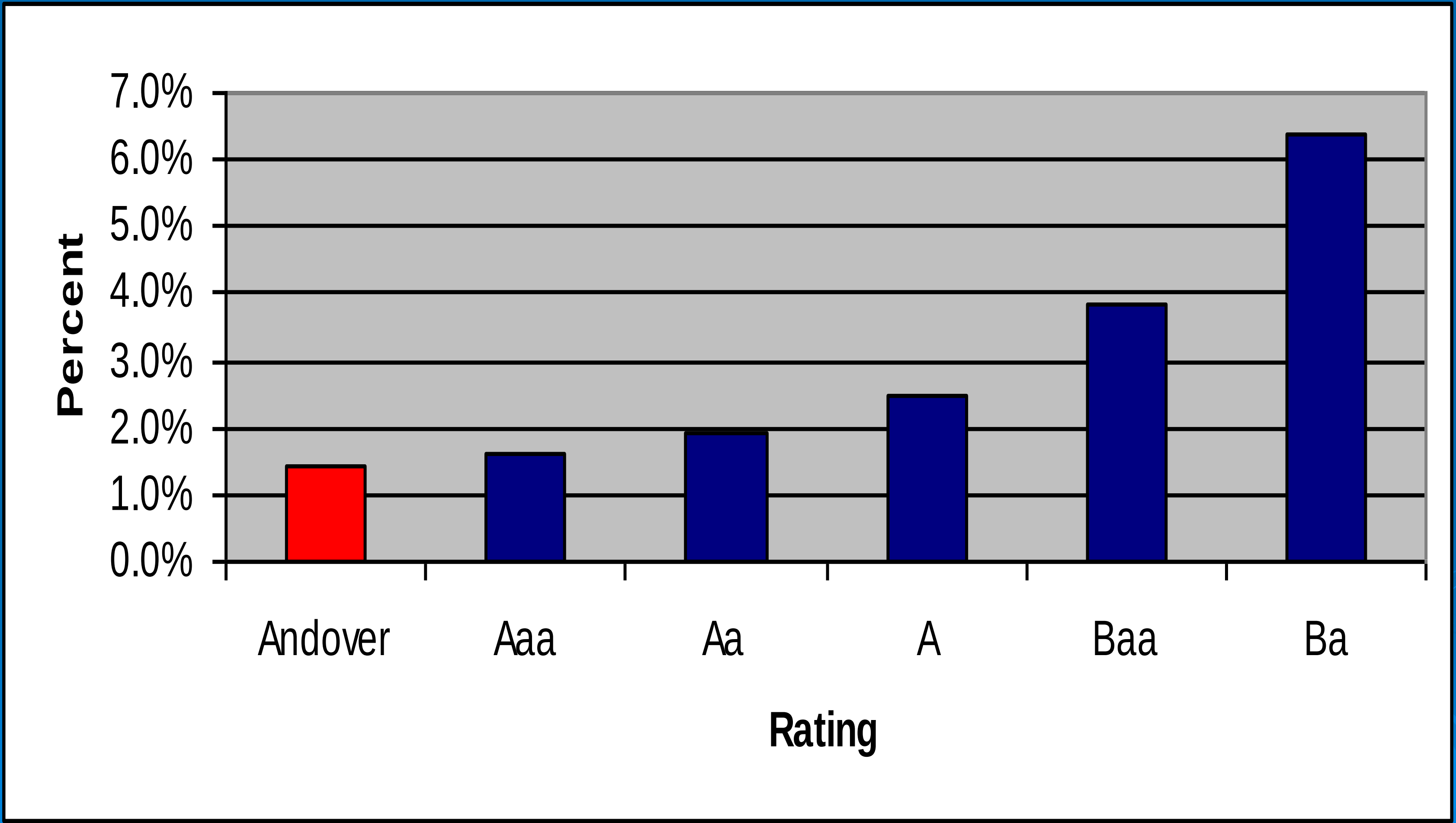
Debt Burden (Overall Net Debt as a % Full Value)

Moody's 2008 Medians – Population < 50,000



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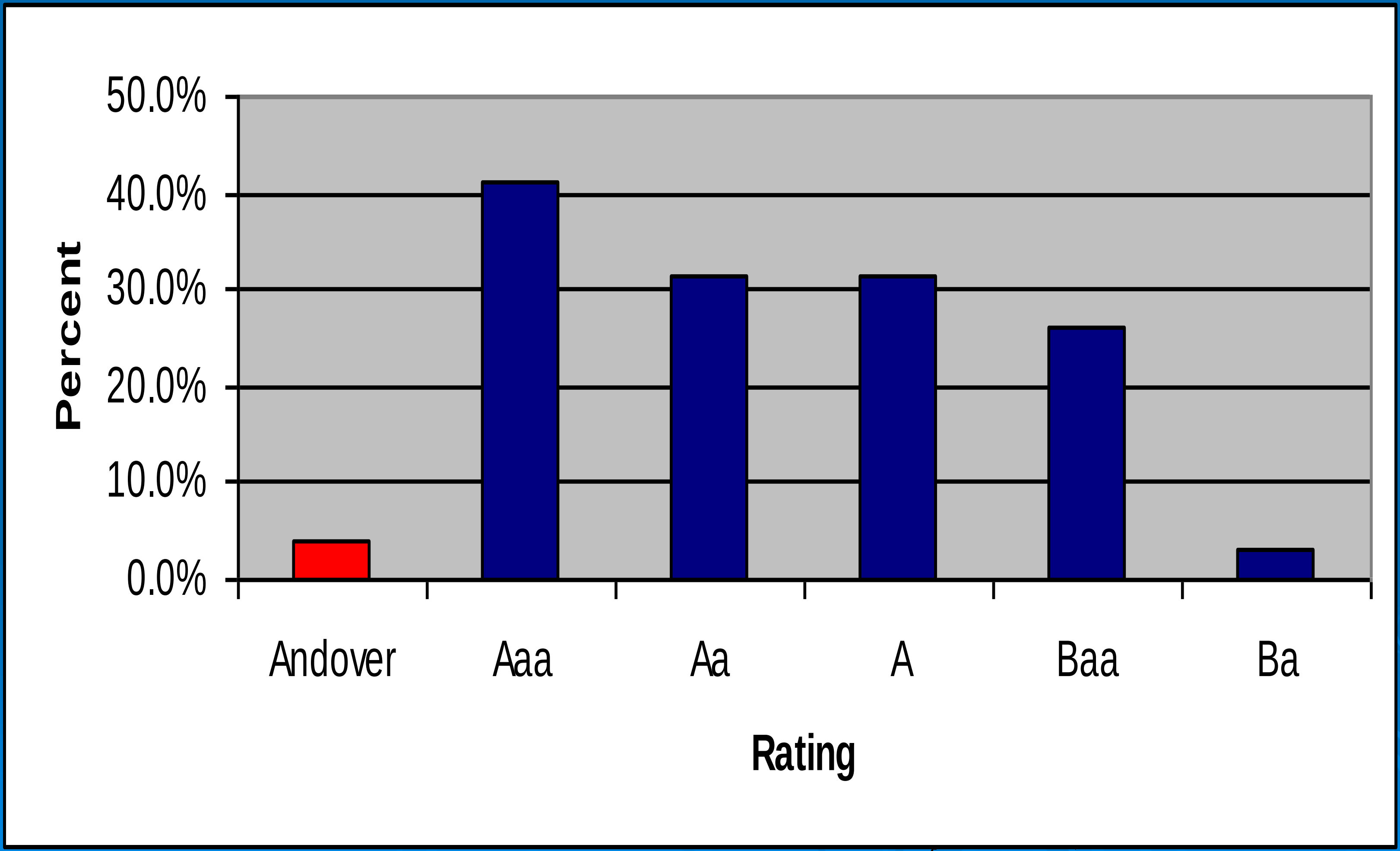
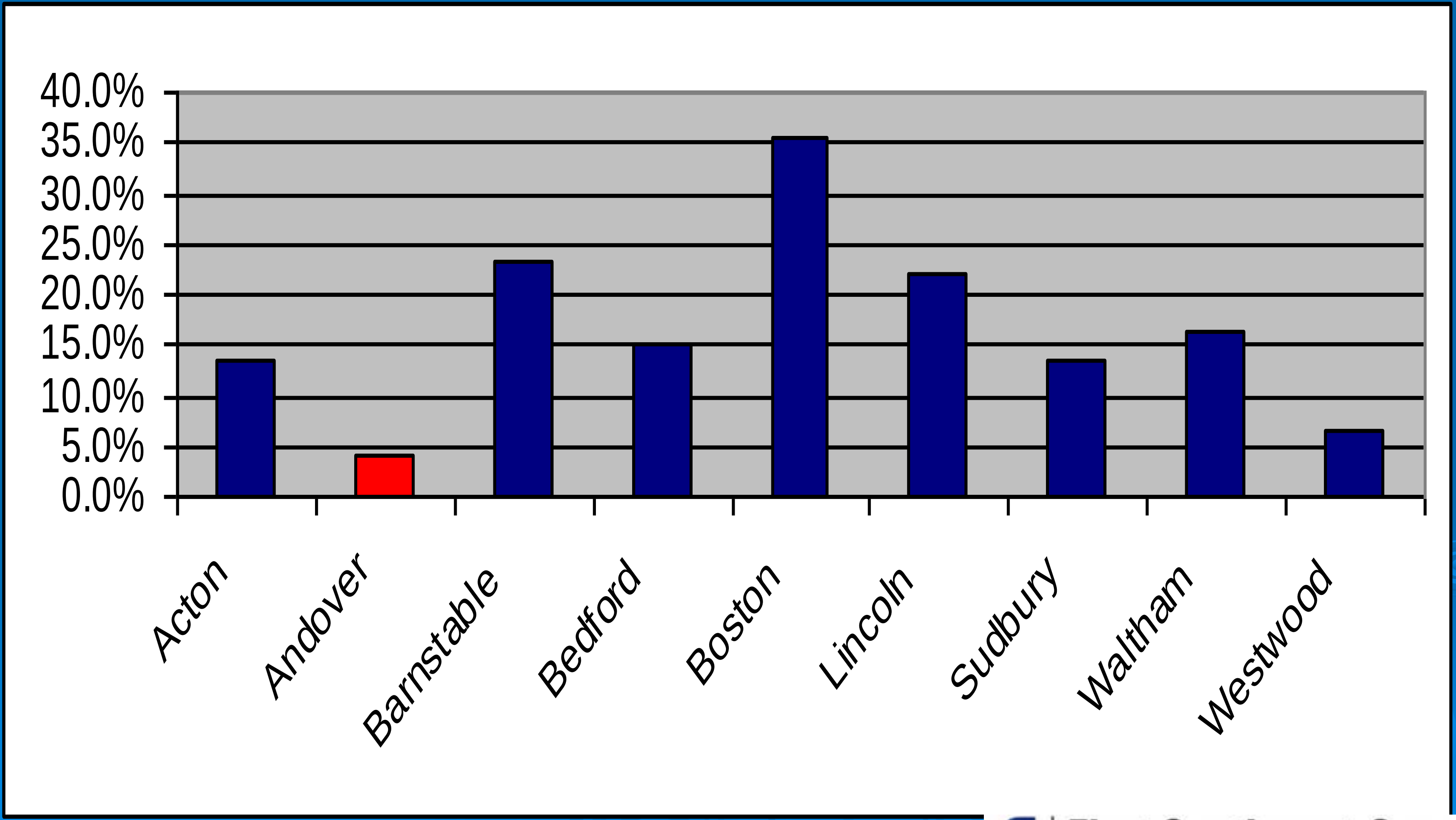
General Fund Balance as a % Revenues

Moody's 2008 Medians – Population < 50,000



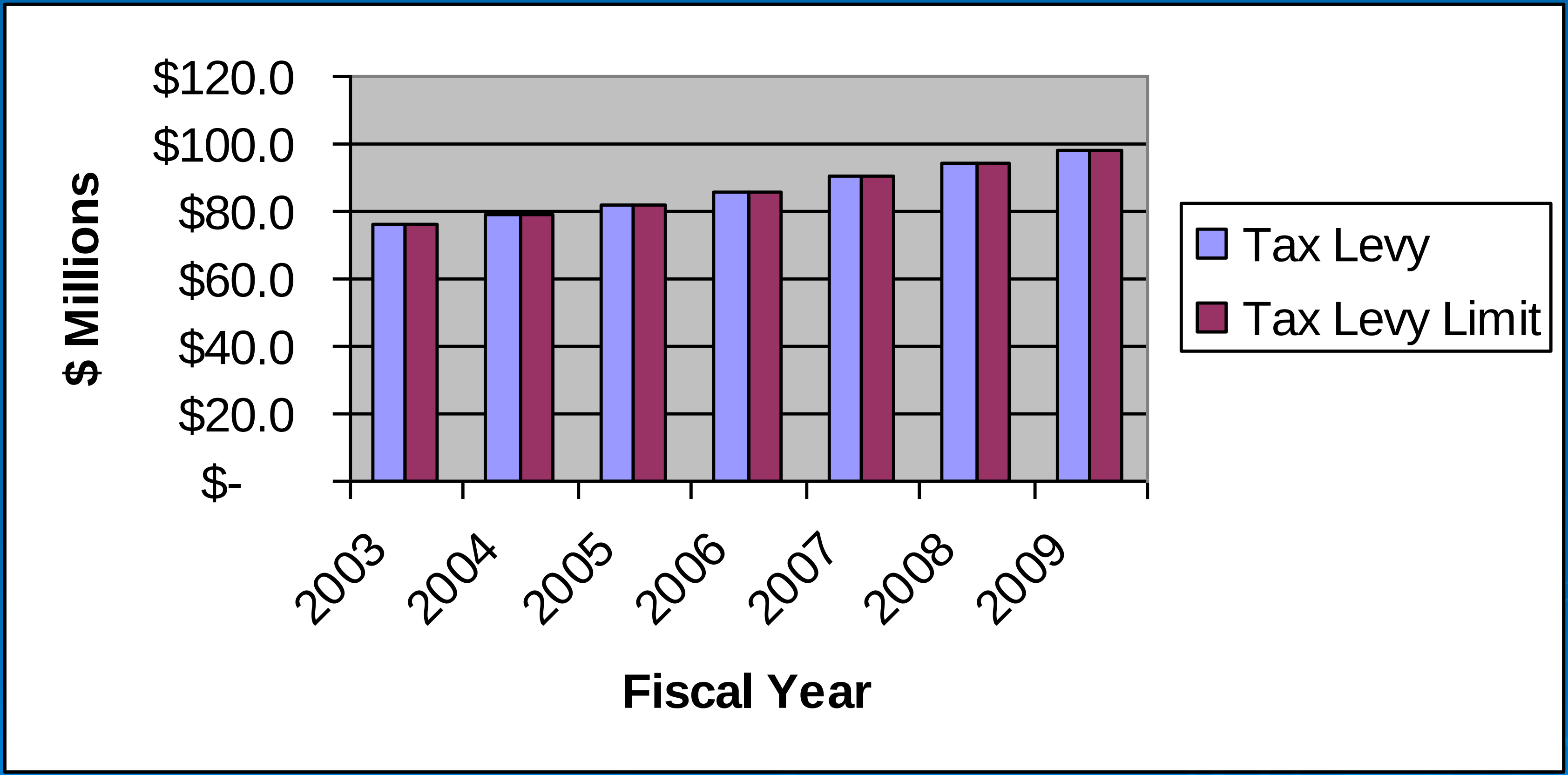
Massachusetts Aa1 Rated Municipalities
General Fund Balance as a % of Revenues



Proposition 2 ½ and Debt Capacity

- Statutory Debt Limit – 5% of EQV - $387,862,349 ($92.6 million outstanding)
- Andover Debt Burden vs. Moody's Medians – "Affordable Debt Burden"
- Debt payable within the levy limit – A zero sum game.
- Exempt Debt – Indicates capacity and <u>willingness</u> to pay debt service

Tax Levy vs. Tax Levy Limit



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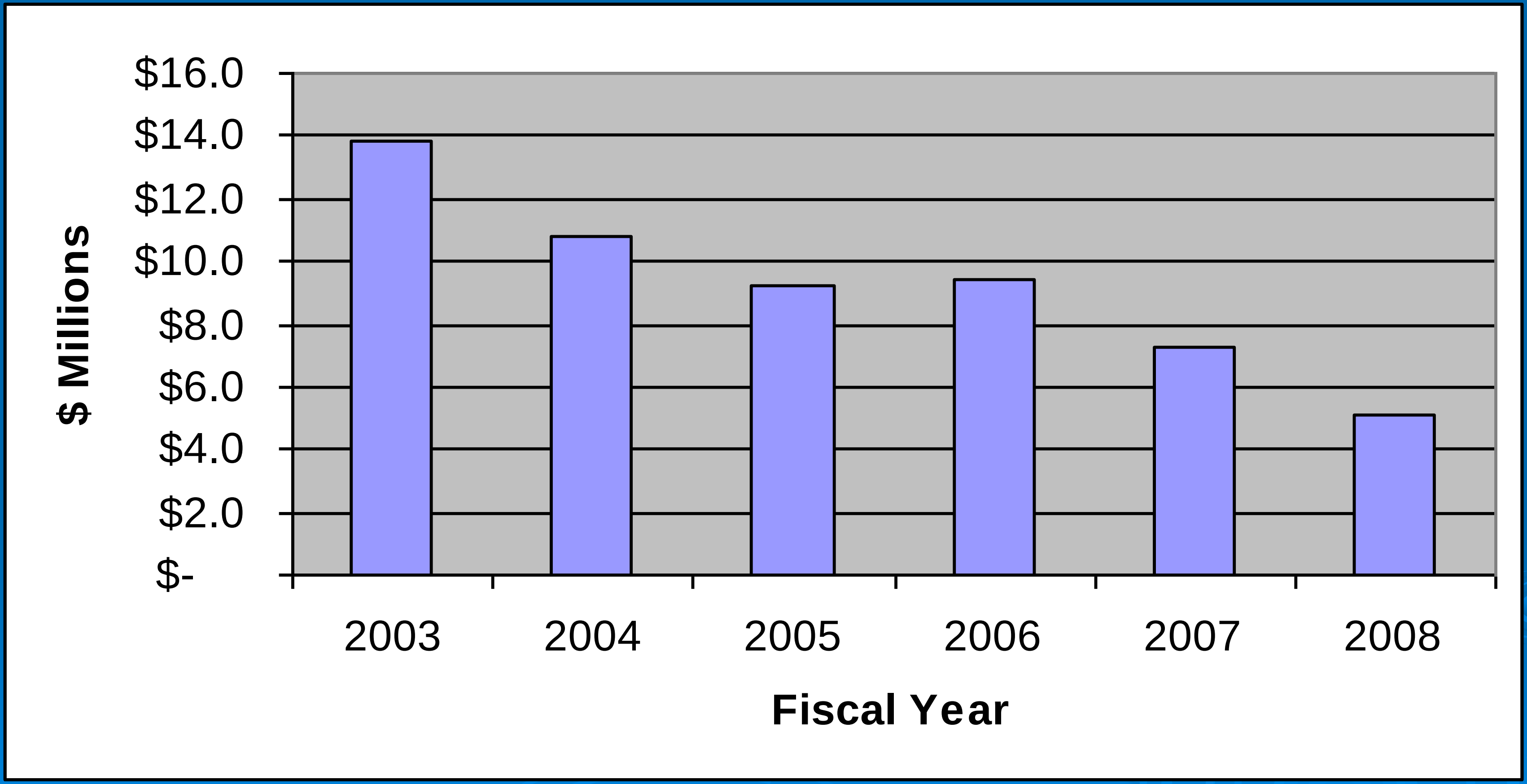
General Fund Balance Trend



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Stressors – The Perfect Storm

- Weak national, regional and local economies – Revenue Impacts
  - Unemployment increases
  - New growth declines
  - Local receipts declines
  - State aid cuts
  - Interest income declines
  - Wealth effect - Taxpayer fatigue
- Expenditure Impacts
  - Pension and Health care cost increases

Operating Trends

- Funding the operating budget with non-recurring revenue is unsustainable
  - Necessitates eventual major service disruptions or substantial revenue increases (or both)
  - Threatens market access and increases borrowing costs

- Reasonable reserves should be maintained for unforeseen adverse events not to fund recurring expenditures

Structural Balance & Sustainability

- Demand for resources always exceeds available supply (compounded by the limitations of Proposition 2 ½)
- Budget operating expenses to recurring revenues
- Decrease expenses, Increase revenues (or both)

Moody's vs. Standard & Poor's

- Value of two ratings
- Should the Town switch rating agencies?
- Differences in emphasis

- Does not address the underlying issues

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What could move the rating DOWN:

- Weaker than expected financial flexibility
- Additional declines in GF Balance and reserves
- Sustained declines in tax base and new growth
- Continued reliance on Free Cash that is not fully replenished

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What could move the rating UP:

- Significant replenishment of reserves
- Restoration of Structural Balance
- Significant new streams of recurring revenues