

# Andover, Massachusetts

## Debt Forum Presentation

**November 9, 2011**

**Peter Frazier, Senior Vice President**

**First Southwest Company**

# Bond Ratings

Moody's

Standard & Poor's

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Aaa

AAA

Aa1

AA+

Aa2

AA

Aa3

AA-

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A1

A+

A2

A

A3

A-

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Baa1

BBB+

Baa2

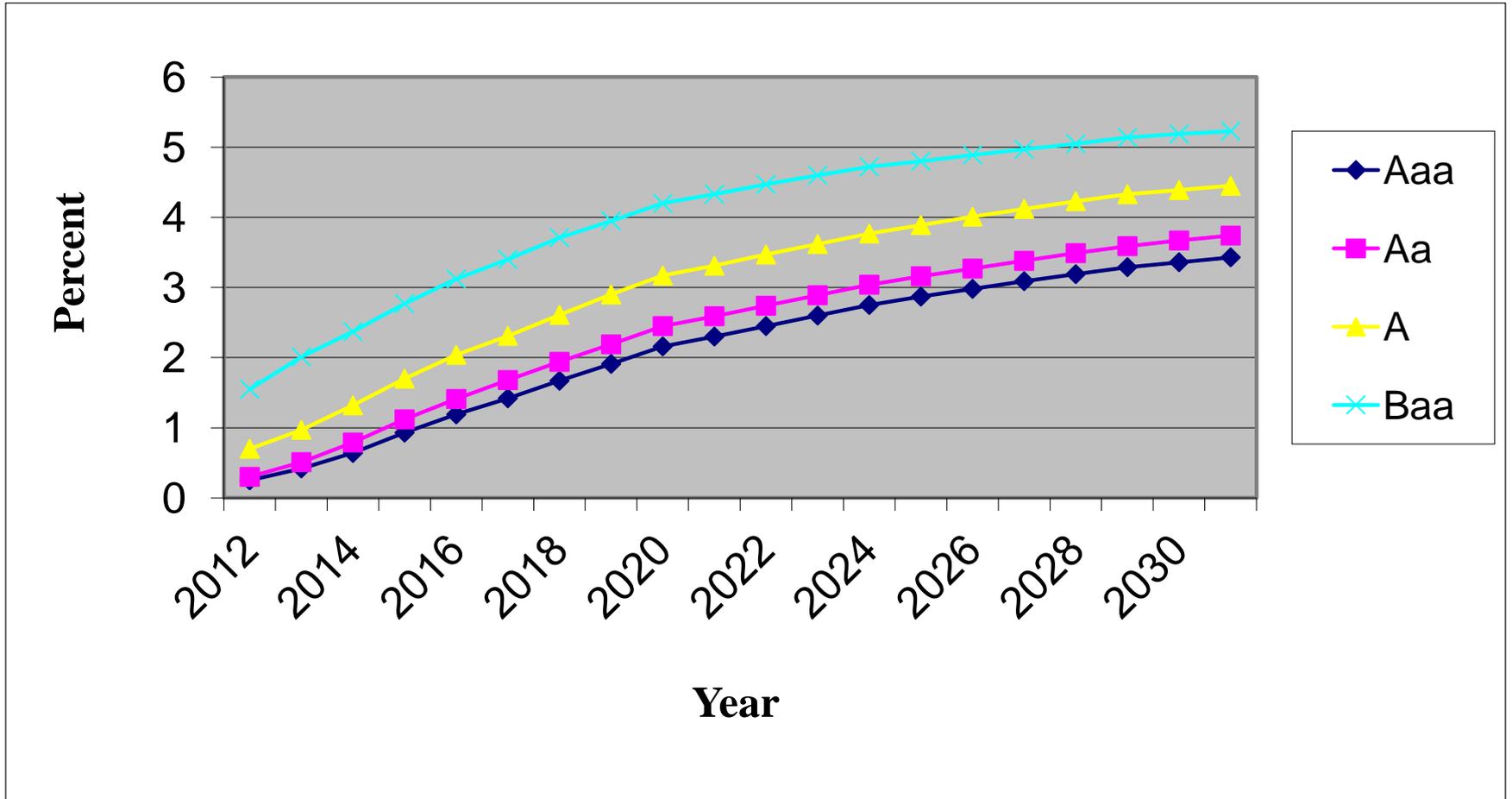
BBB

Baa3

BBB-

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# Yield Curves By Rating



# 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 BBB
- Unbiased, Expert Assessment of the Town's Wellbeing

# Major Credit Factors

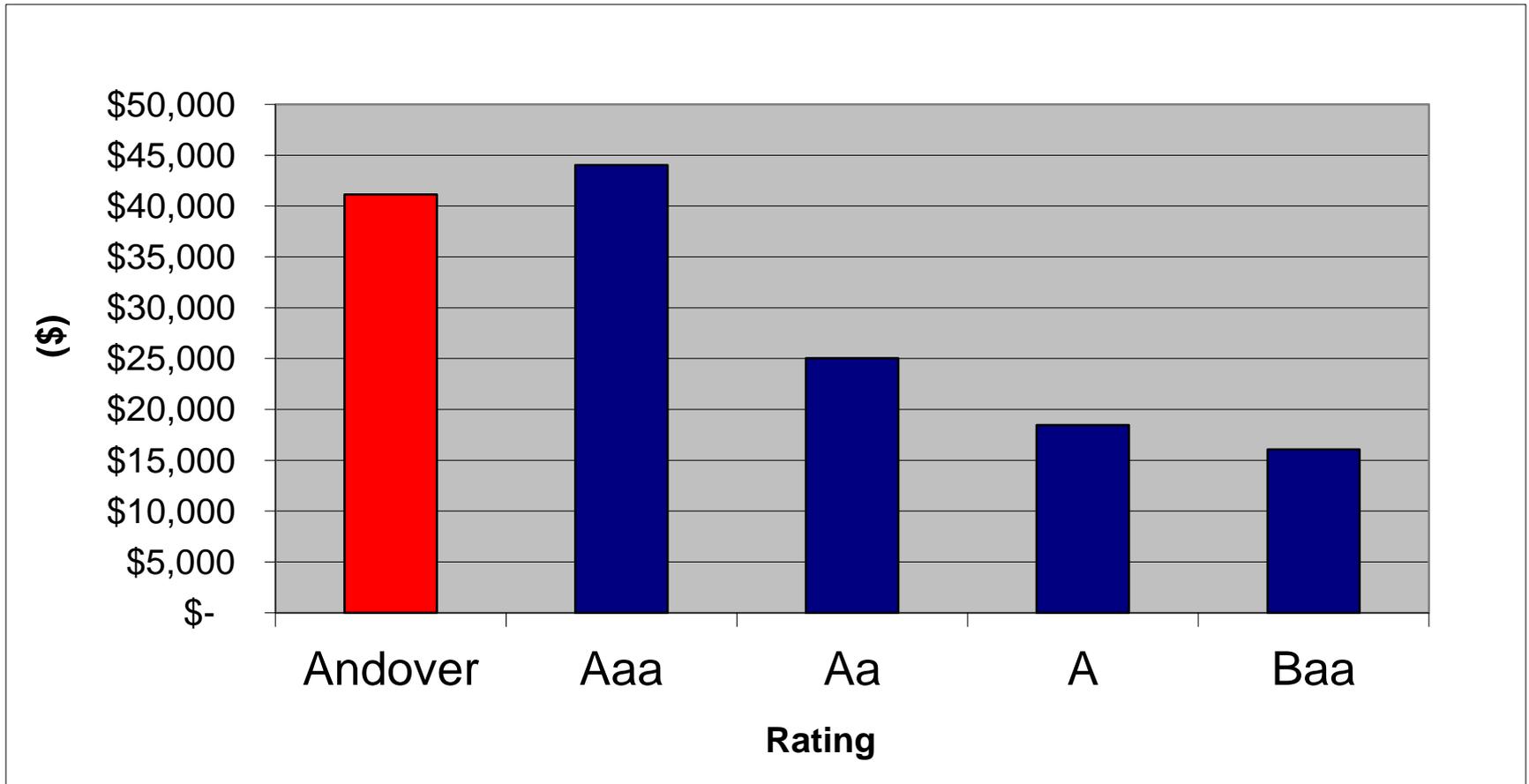
- Economy
- Management
- Finances
- Debt

# Major Credit Factors

- Economy
  - Local, Regional, National & Global
  - Tax Base – size, composition, growth
  - Employment
  - Demographics – Wealth & Income
  - Home Values, Building Permits

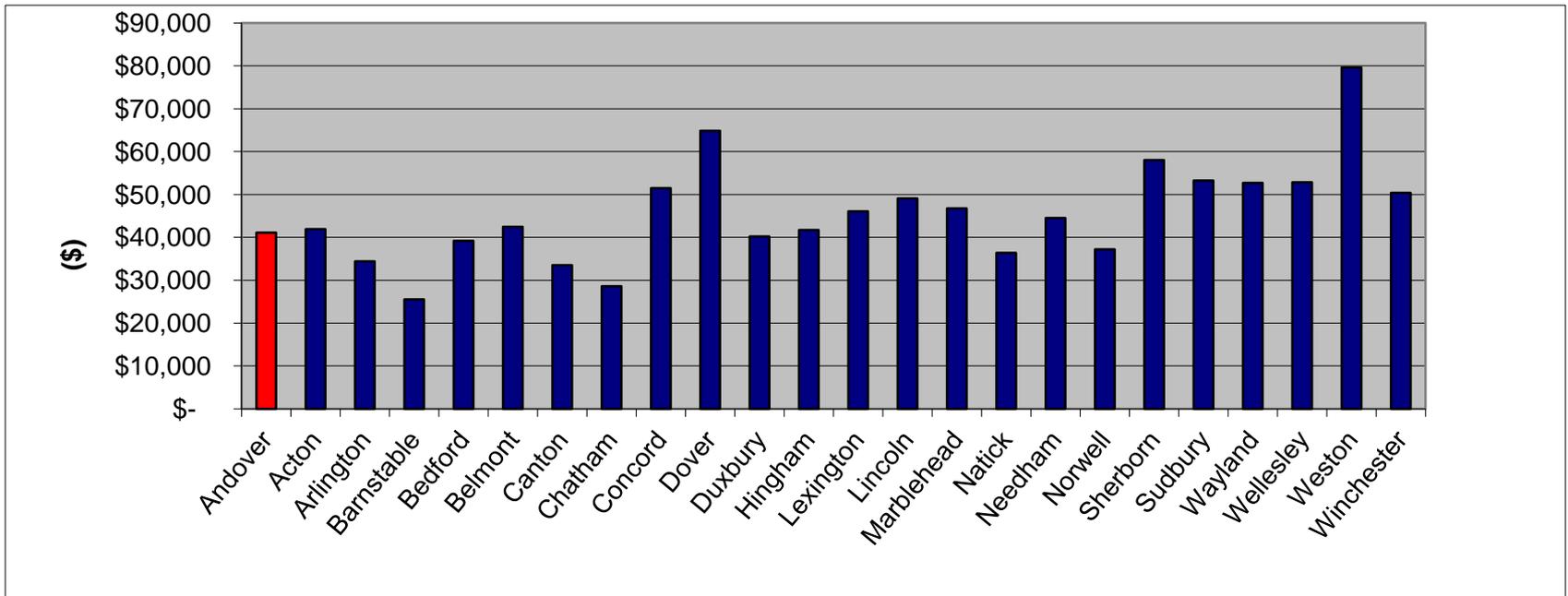
# National Per Capita Income

Moody's 2010 Medians – Population < 50,000



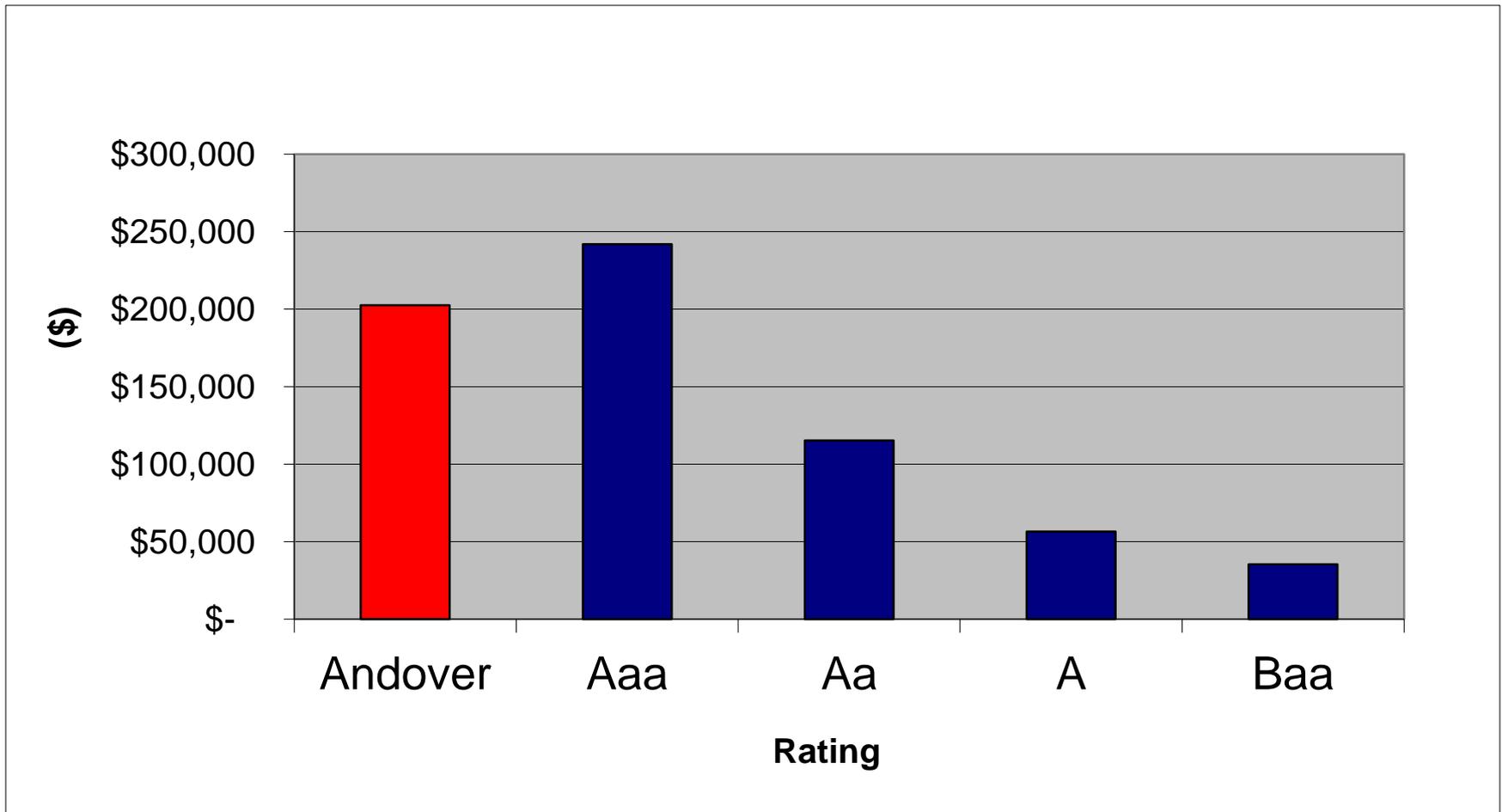
# Local Per Capita Income

Population < 50,000



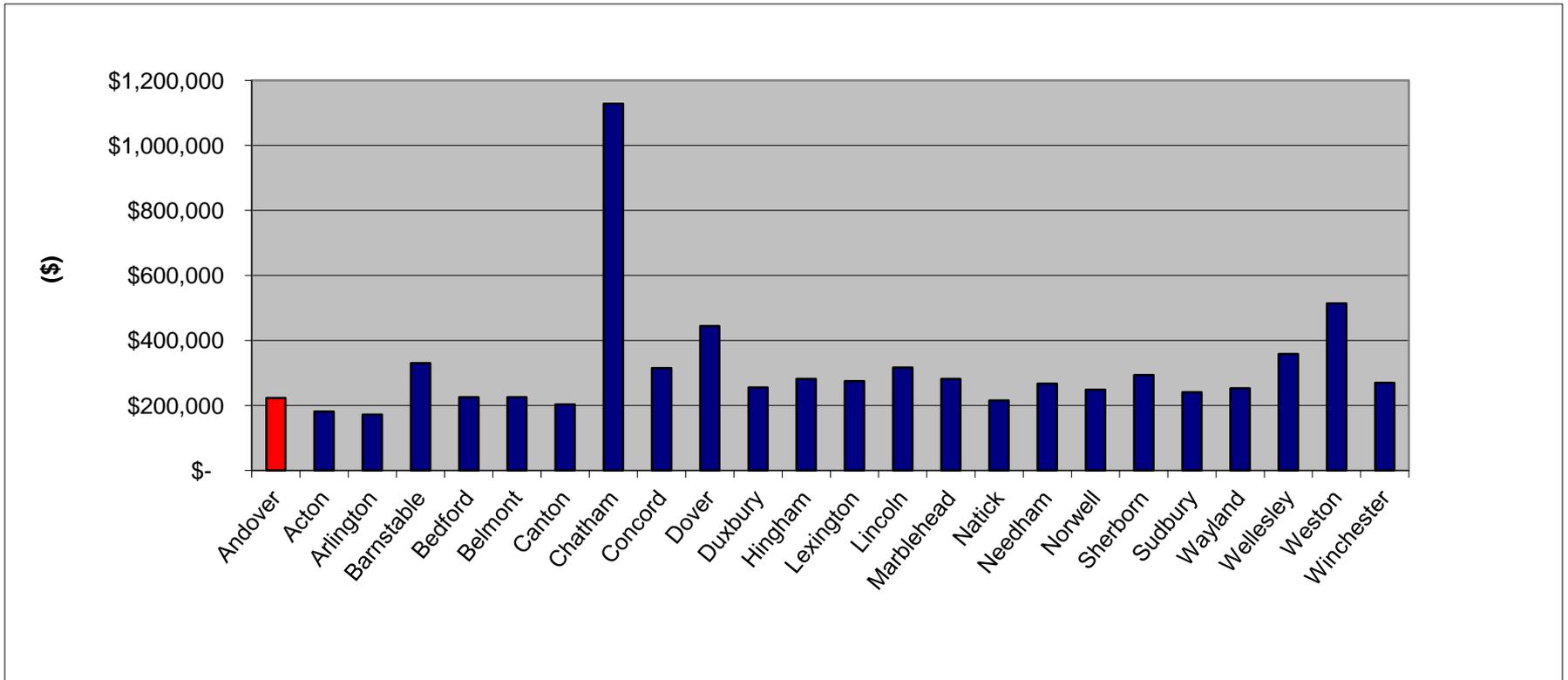
# National Full Value Per Capita

Moody's 2010 Medians – Population < 50,000



# Local Full Value Per Capita

Population < 50,000



# Major Credit Factors

- Management – “Best Practices”
  - Managers’ Qualifications and Experience
  - Procedures and Policies
    - Budgeting
    - Forecasting
    - Capital Planning
    - Policies – Reserves, Debt, Frequency of Performance Monitoring
- Financial Management Assessment (FMA)

# Standard & Poor's Financial Management Assessment

- Strong
- Good
- Standard
- Vulnerable

# Standard & Poor's Financial Management Assessment

- Rating report dated 2/14/11 – S&P considered Andover's financial management practices “strong” – **Highest Possible Rating** – **Only 5% of Massachusetts Municipalities are rated Strong.**
- **Strong**: Practices are strong, well embedded, and likely sustainable. The government maintains most **best practices deemed critical to supporting credit quality** and these are well embedded in the government's daily operations and practices. Formal policies support many of these activities, adding to the likelihood that these practices will be continued into the future and transcend changes in the operating environment or personnel.

# Standard & Poor's

## Top Management Characteristics

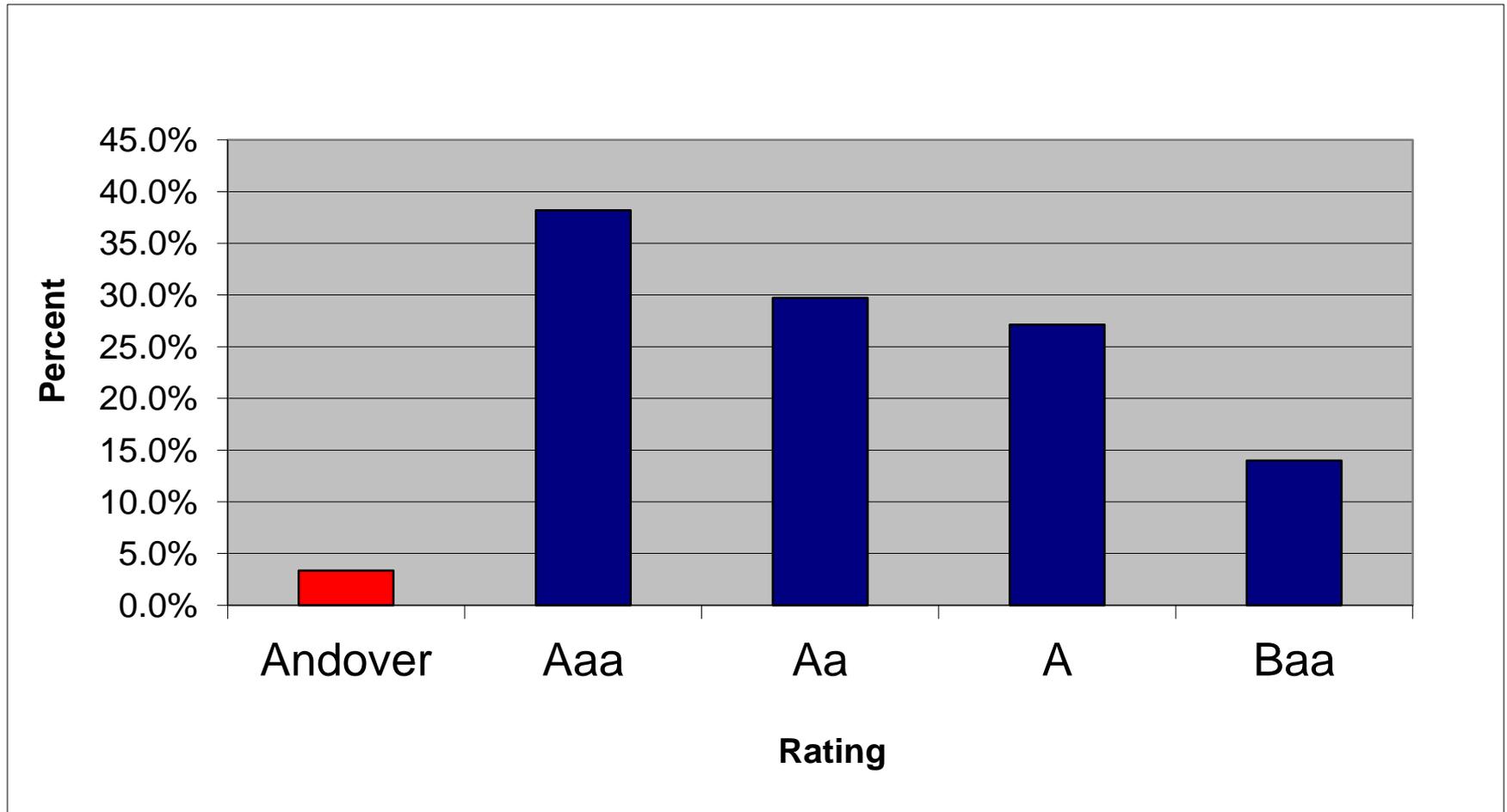
- ✓ Established rainy day/budget stabilization reserve
- ✓ Regular economic and revenue reviews
- ✓ Prioritized spending plans and establish contingency plans for operating budgets
- ✓ Formalized CIP
  - Assess future infrastructure requirements
- ✓ Long term planning for all liabilities
- ✓ Pay as you go financing as part of operating and capital budgets
- ✓ Effective management

# Major Credit Factors

- Finances
  - Amount and type of reserves (as % of revenues)
    - Undesignated General Fund Balance
    - Stabilization Funds
  - Structural Balance
    - Recurring revenues vs. recurring expenditures

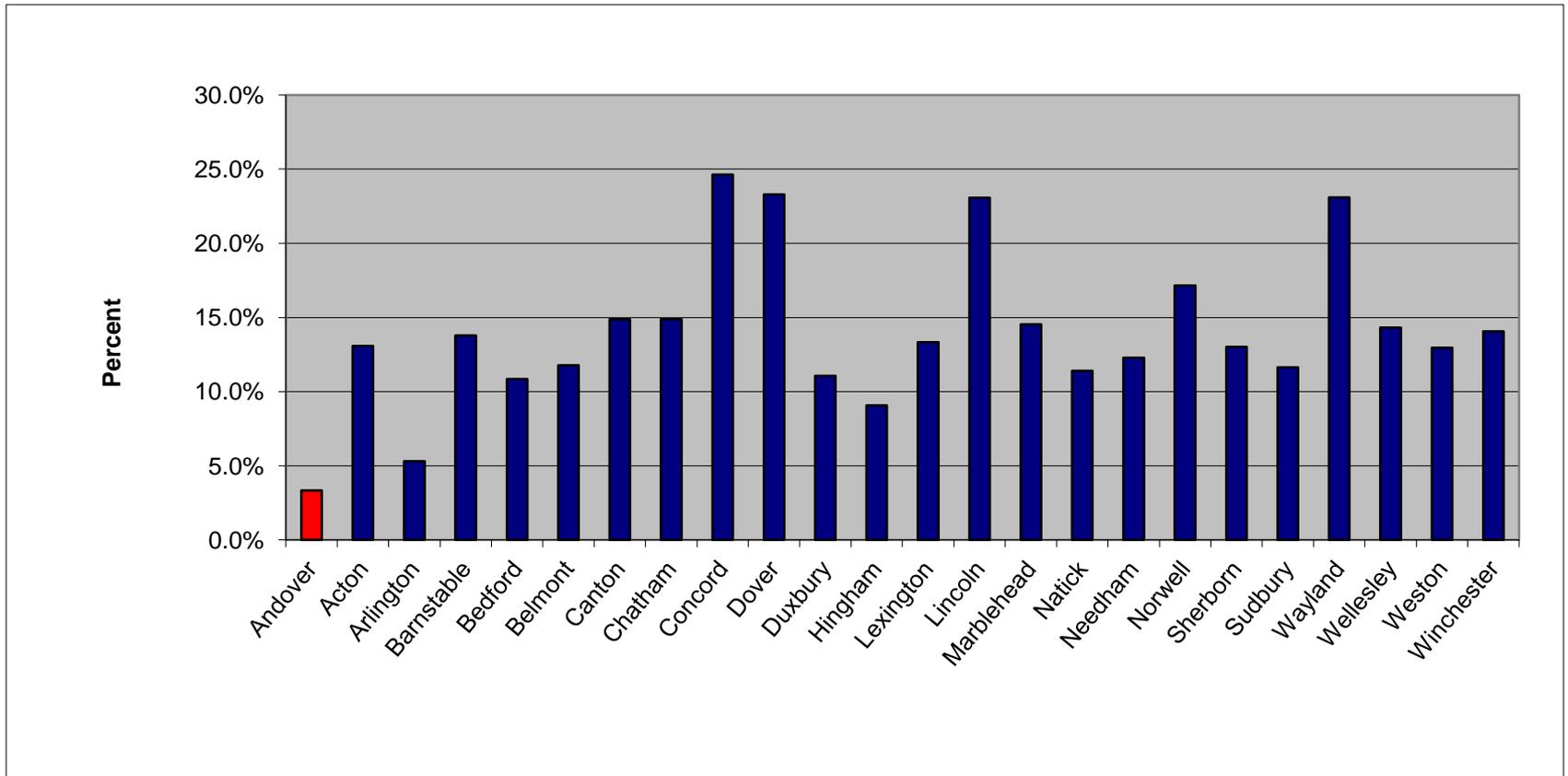
# General Fund Balance as a % Revenues

Moody's 2010 Medians – Population < 50,000

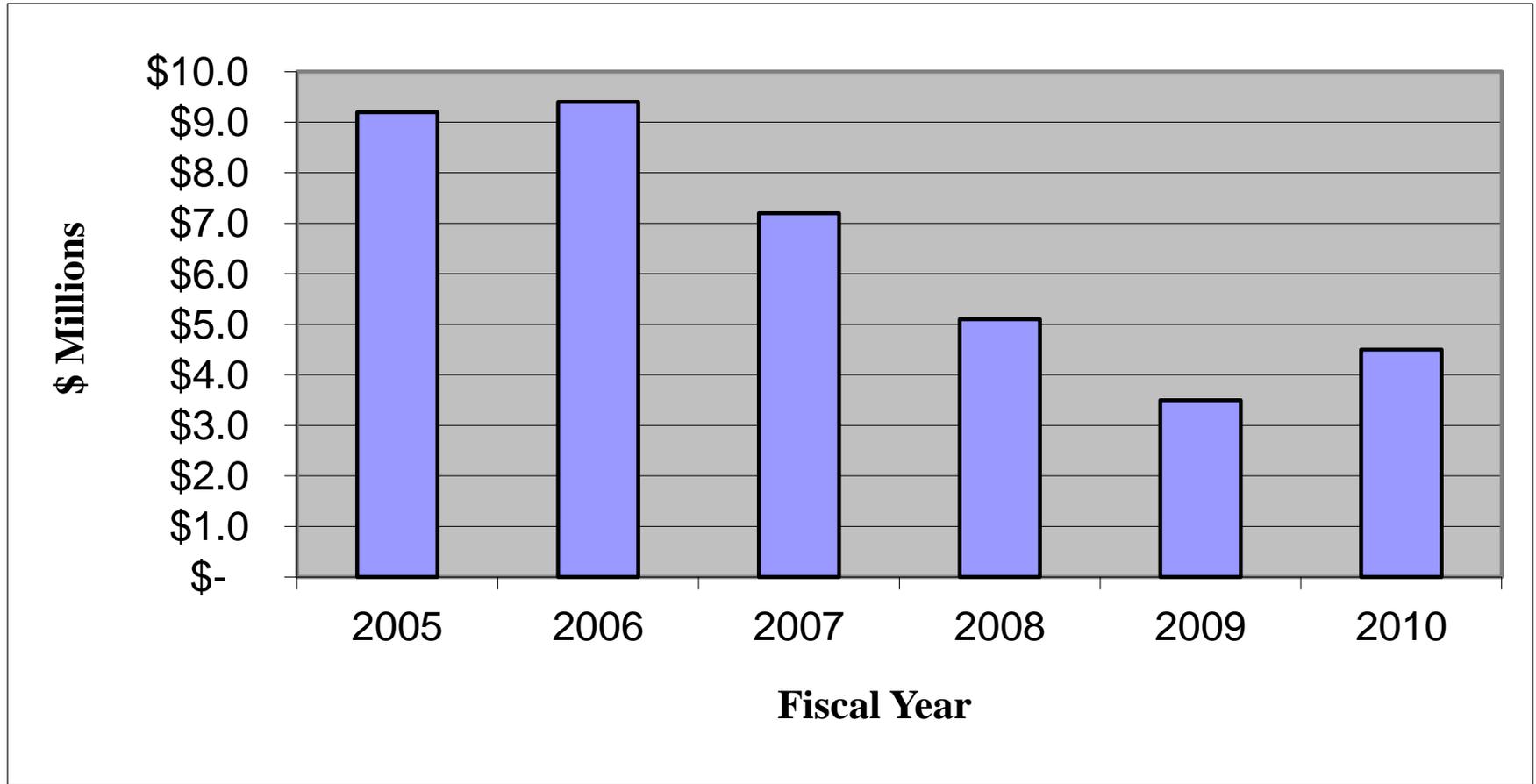


# Local General Fund Balance as a % Revenues

Population < 50,000



# General Fund Balance Trend



# Major Credit Factors

- Debt
  - Amount
  - Sources of Revenue
    - Exempt from Proposition 2 ½
    - Enterprise (Water & Sewer) Supported
    - Tax supported within the Levy Limit
  - Amortization
  - Offsetting Aid Payments/Subsidy

# Chapter 44, Sections 7 & 8

- Chapter 44, Section 7 - Inside the Debt Limit
  - Limited to a maximum of 5% of EQV
  - Tax supported purposes – Building, Land Acquisition, Equipment, Recreation, etc.
- Chapter 44, Section 8 – Outside the Debt Limit
  - Most limited to a maximum of 10% of EQV
  - Revenue supported purposes – water, sewer, electric, solid waste, etc.

# Chapter 44, Sections 7 & 8

- Describes almost all of the purposes for which a municipality can borrow
- Maximum borrowing term of purposes based on the useful life of the asset financed. DOR provides guidance.
- Municipal Relief Act (Oct 2010) – many borrowing terms were increased

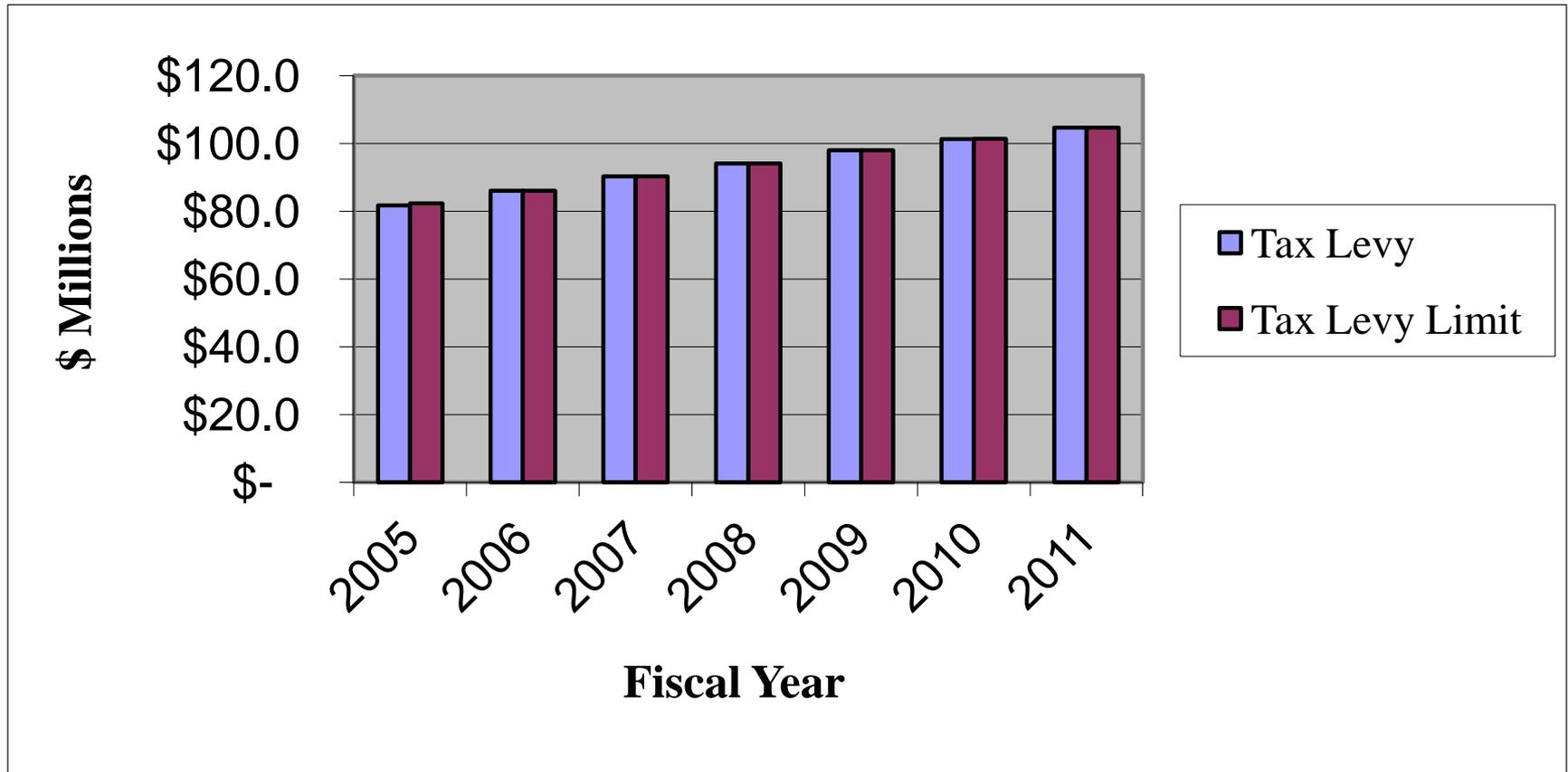
# Proposition 2 ½ and Debt Capacity

- Statutory Debt Limit – 5% of EQV - \$370,283,235 (\$86.8 million outstanding)
- Andover Debt Burden vs. Moody’s Medians – “Affordable Debt Burden”
- “Debt burden is low” S&P Report 2/14/2011
- Debt payable within the levy limit – A zero sum game.
- Exempt Debt – Indicates enhanced capacity and willingness to pay debt service

# Determining Limit of Indebtedness

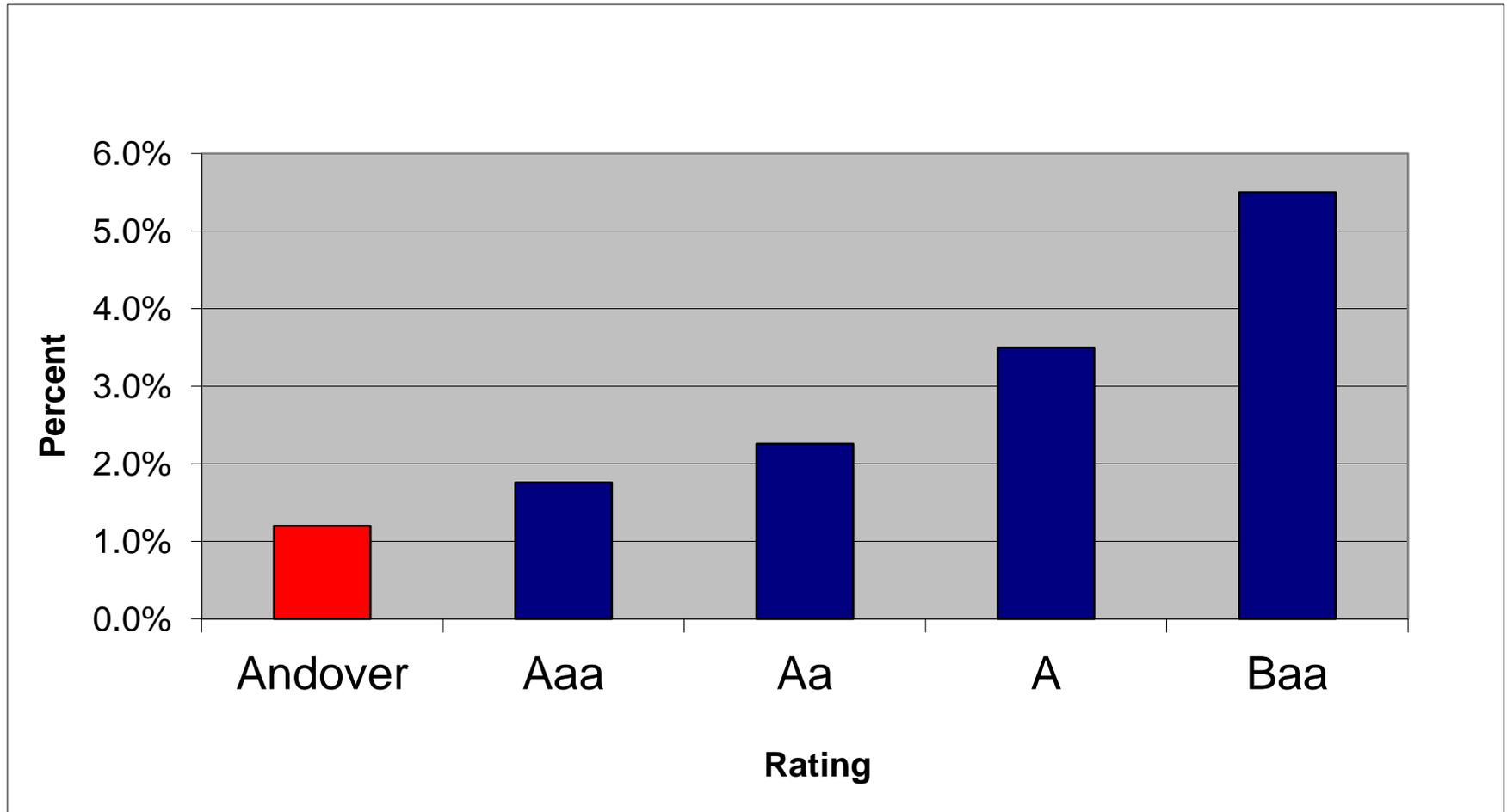
(A)	Equalized valuation under G.L. c.58, s. 10C as of January 1, 2010		\$	7,405,664,700
(B)	<b>Debt limit (5%)</b>		\$	<b>370,283,235</b>
	Total outstanding debt*	\$		86,828,019
	Debt authorized but not yet incurred, <u>including this issue</u>	\$		67,704,000
(C)	Gross debt		\$	154,532,019
(D)	Amount of outstanding debt which is outside the debt limit	\$		19,323,946
(E)	Amount of authorized but not yet incurred debt which is outside the debt limit	\$		11,985,000
(F)	Outstanding debt outside the debt limit plus authorized but not yet incurred debt outside the debt limit (D plus E)	\$		31,308,946
(G)	Net debt subject to the debt limit including this issue (C minus F)		\$	123,223,073
	<b>Remaining borrowing capacity under debt limit (B minus G)</b>		\$	<b>247,060,162</b>

# Tax Levy vs. Tax Levy Limit



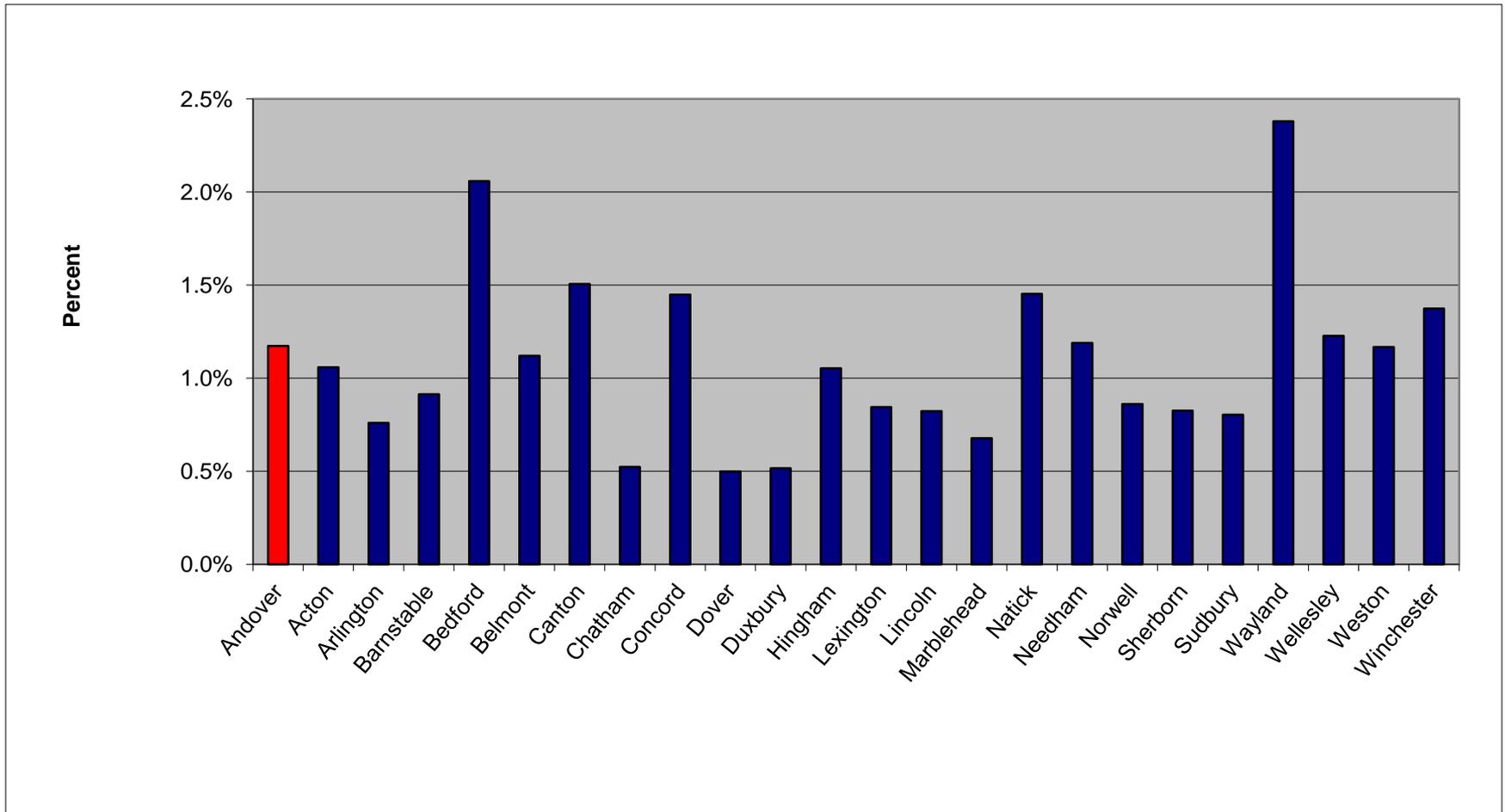
# National Debt Burden (Overall Net Debt as a % Full Value)

Moody's 2010 Medians – Population < 50,000

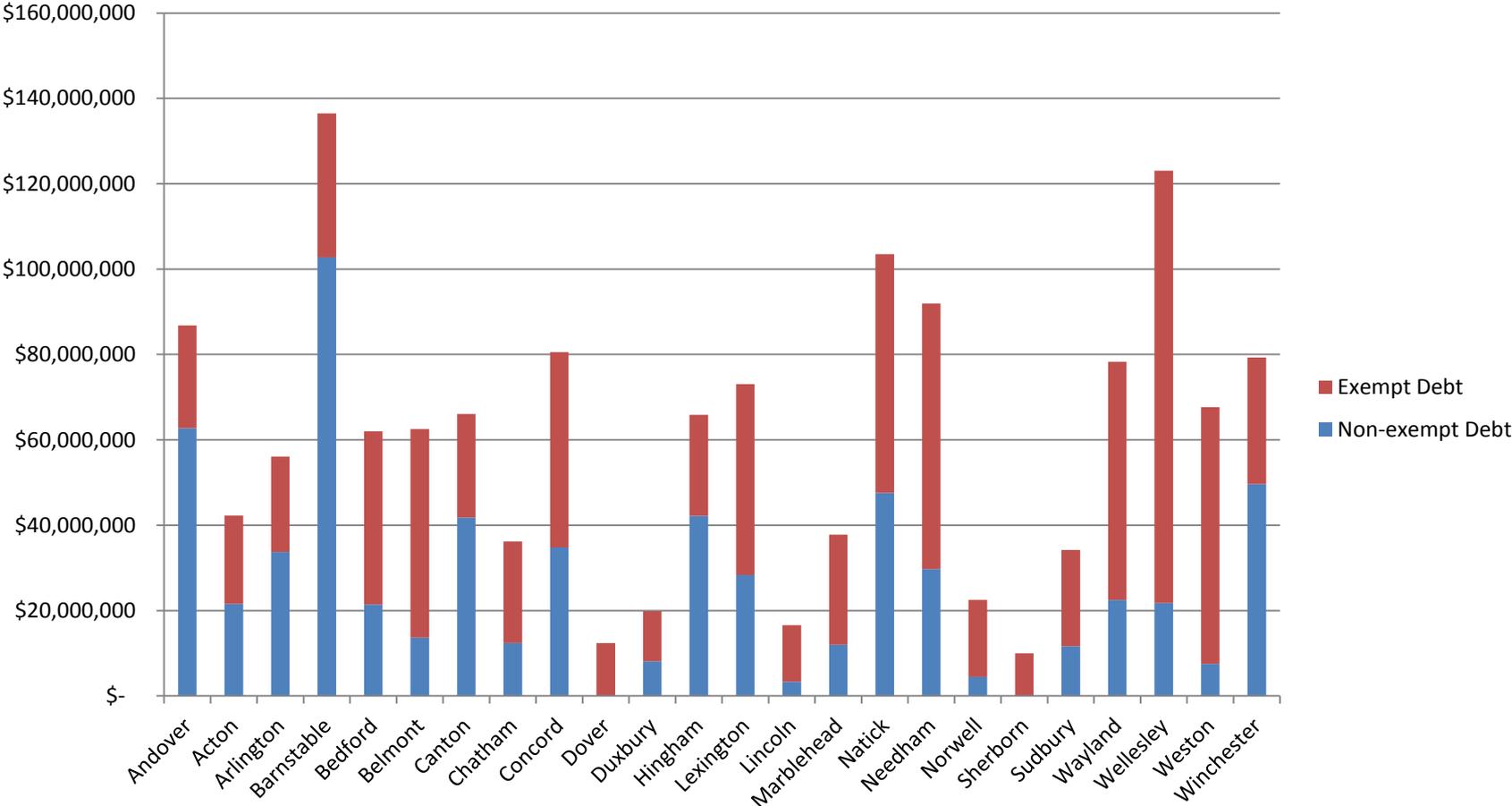


# Local (Overall Net Debt as a % Full Value)

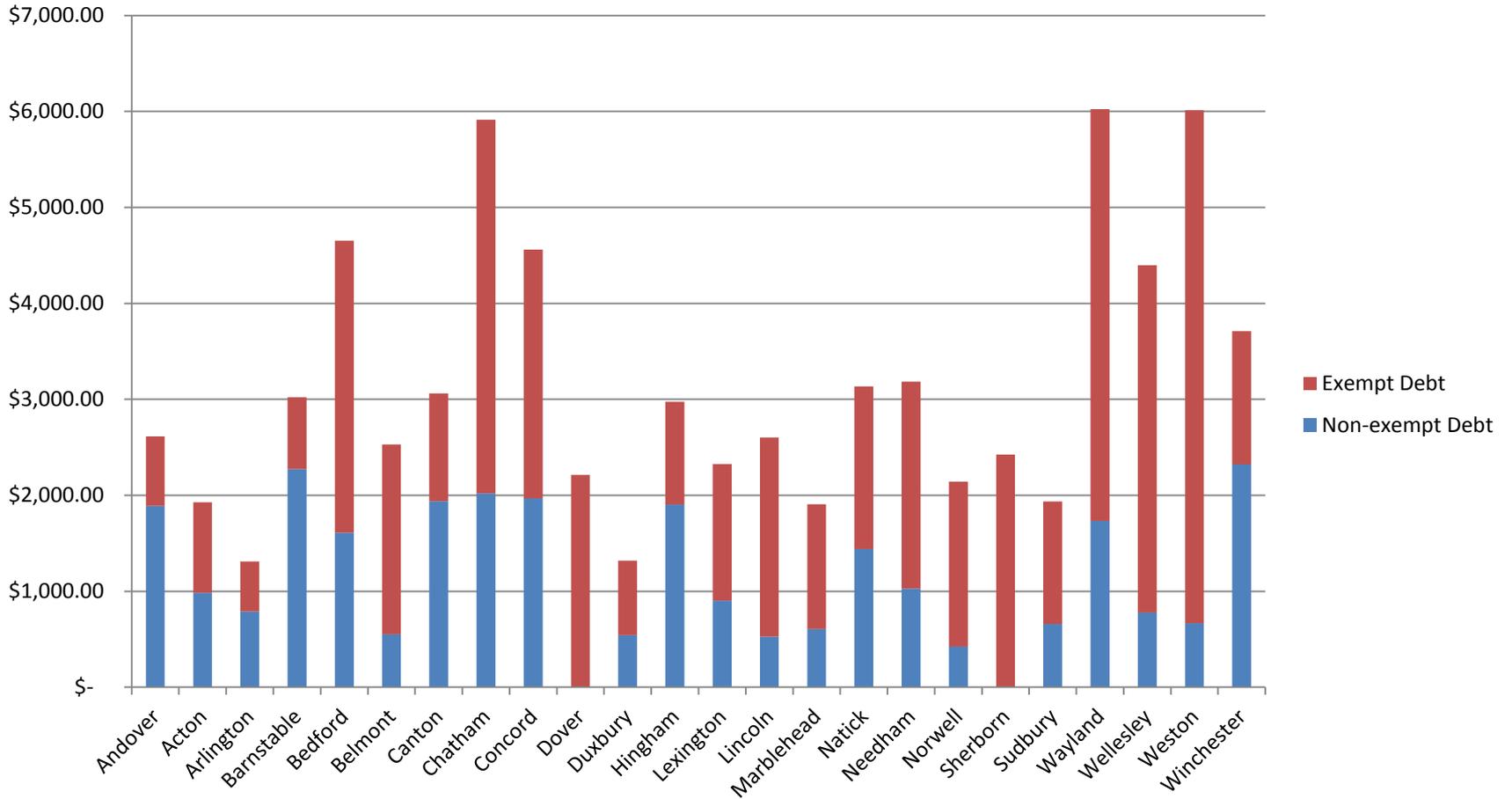
Moody's 2010 Medians – Population < 50,000



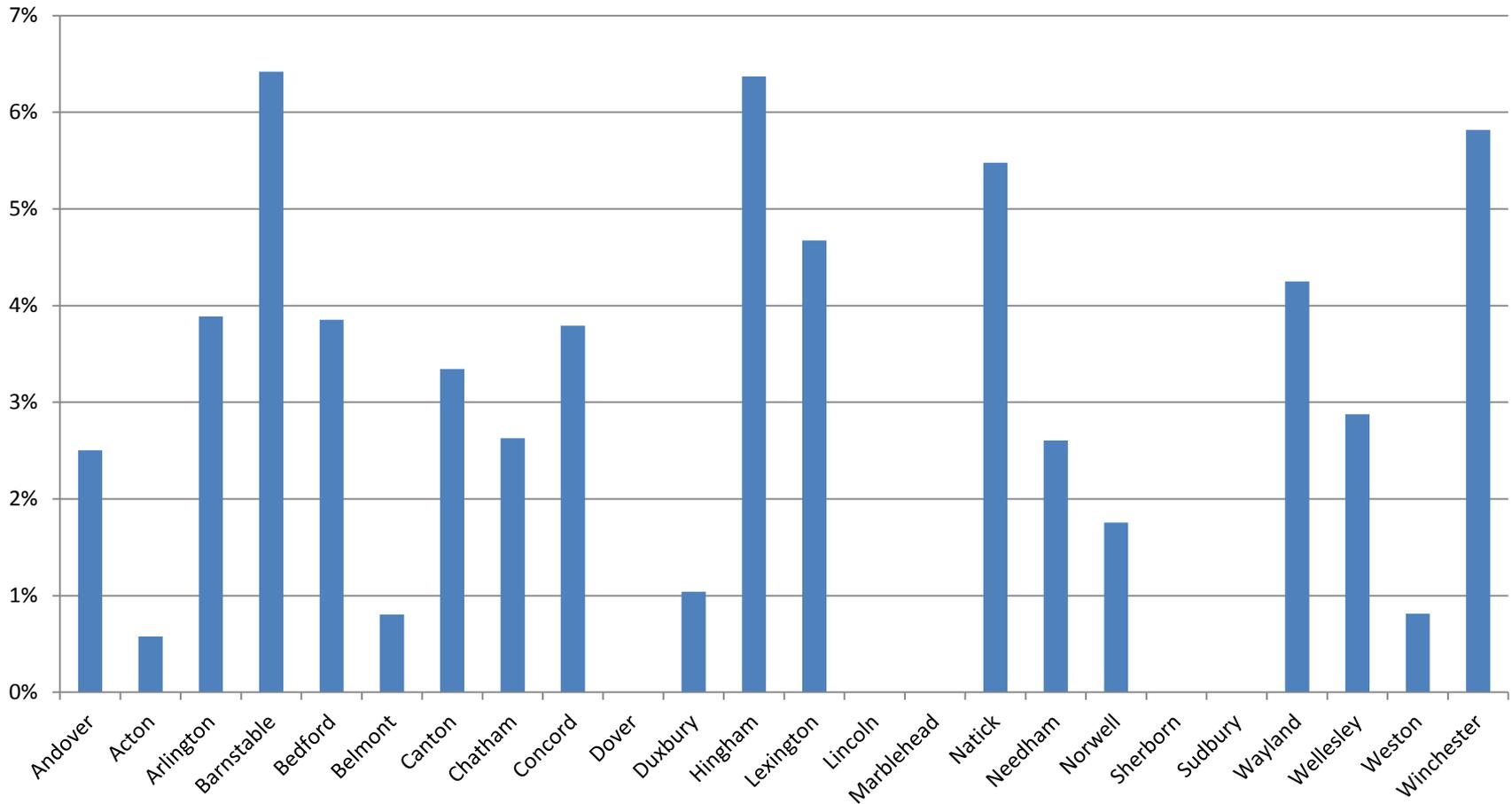
# Exempt and Non-Exempt Debt (in Dollars)



# Exempt and Non-Exempt Debt Per Capita



# Non-Exempt FY2011 Debt Service as a Percent of Revenues

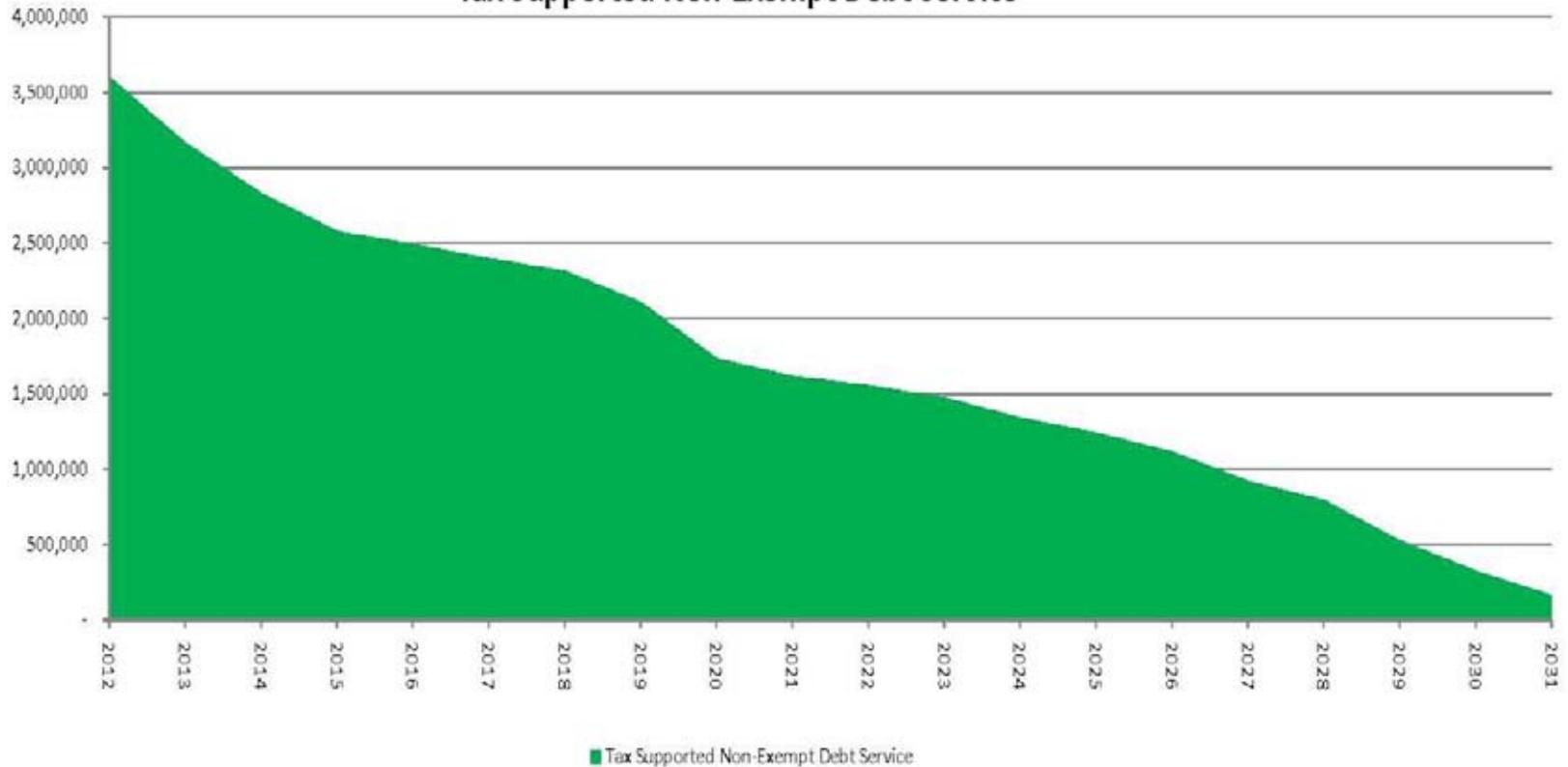


# Debt Analysis Tool (DAT)

- Board of Selectmen's FY12 Goal Includes:
  - Existing Debt Service detail (principal and interest) by project and revenue source (Exempt, Non-Exempt & Enterprise)
  - Projected Debt Service debt by project and revenue source with the ability to model various maturity structures and interest rate scenarios
  - Tax impact and ratios by fiscal year

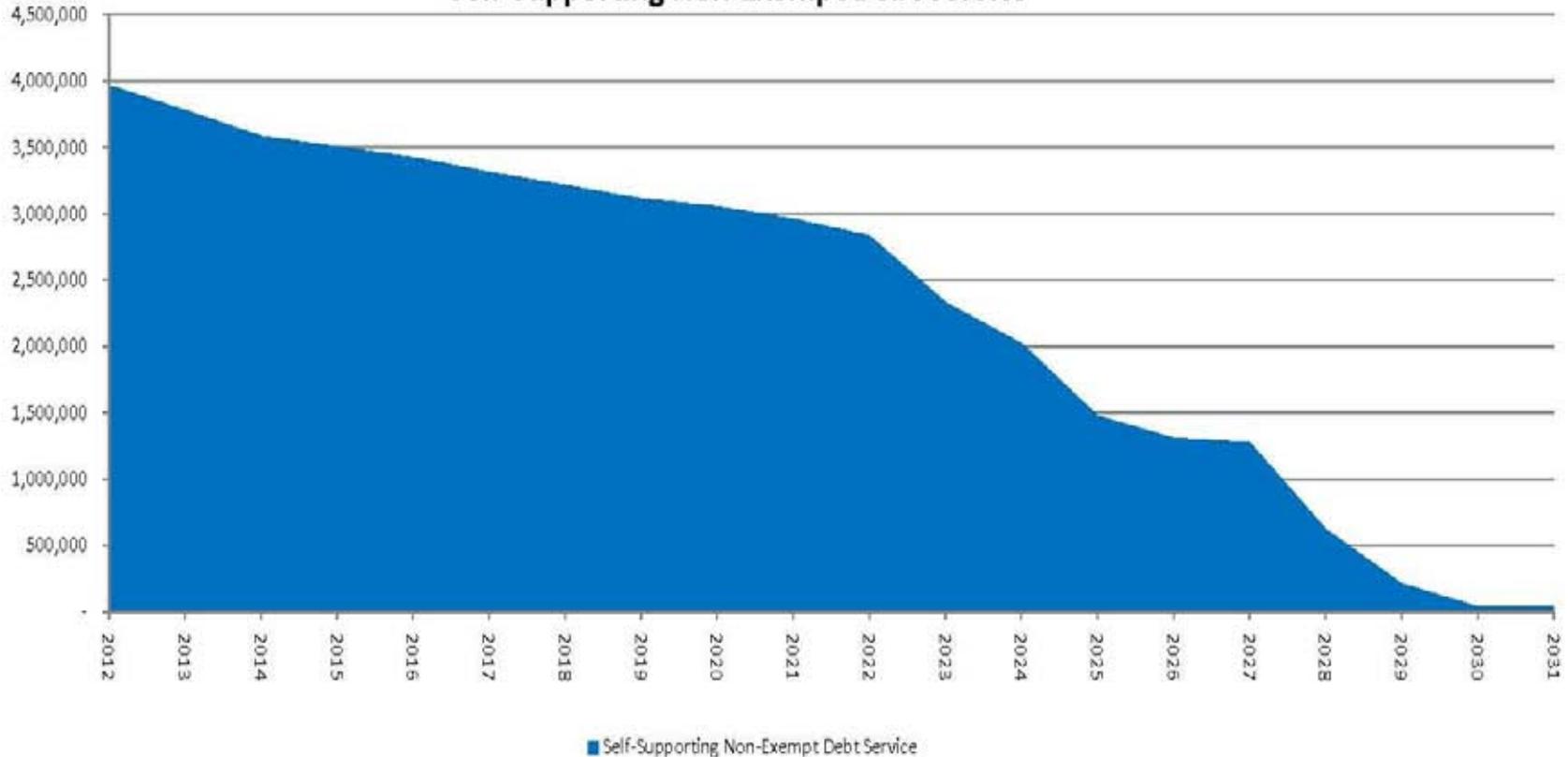
# Tax Supported Debt Within Levy Limit

Tax Supported Non-Exempt Debt Service



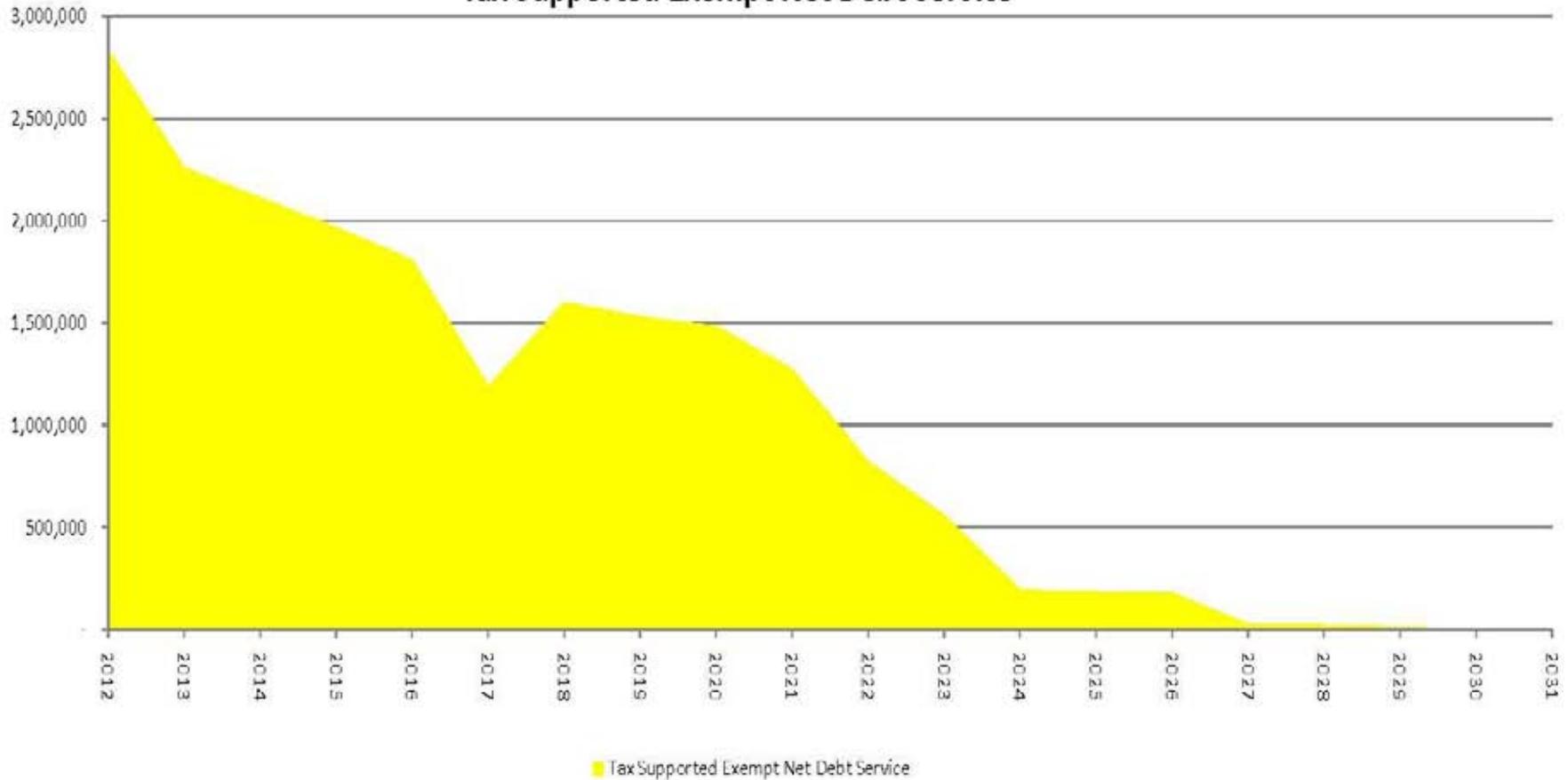
# Enterprise Supported Debt

Self-Supporting Non-Exempt Debt Service



# Exempt Debt - Net

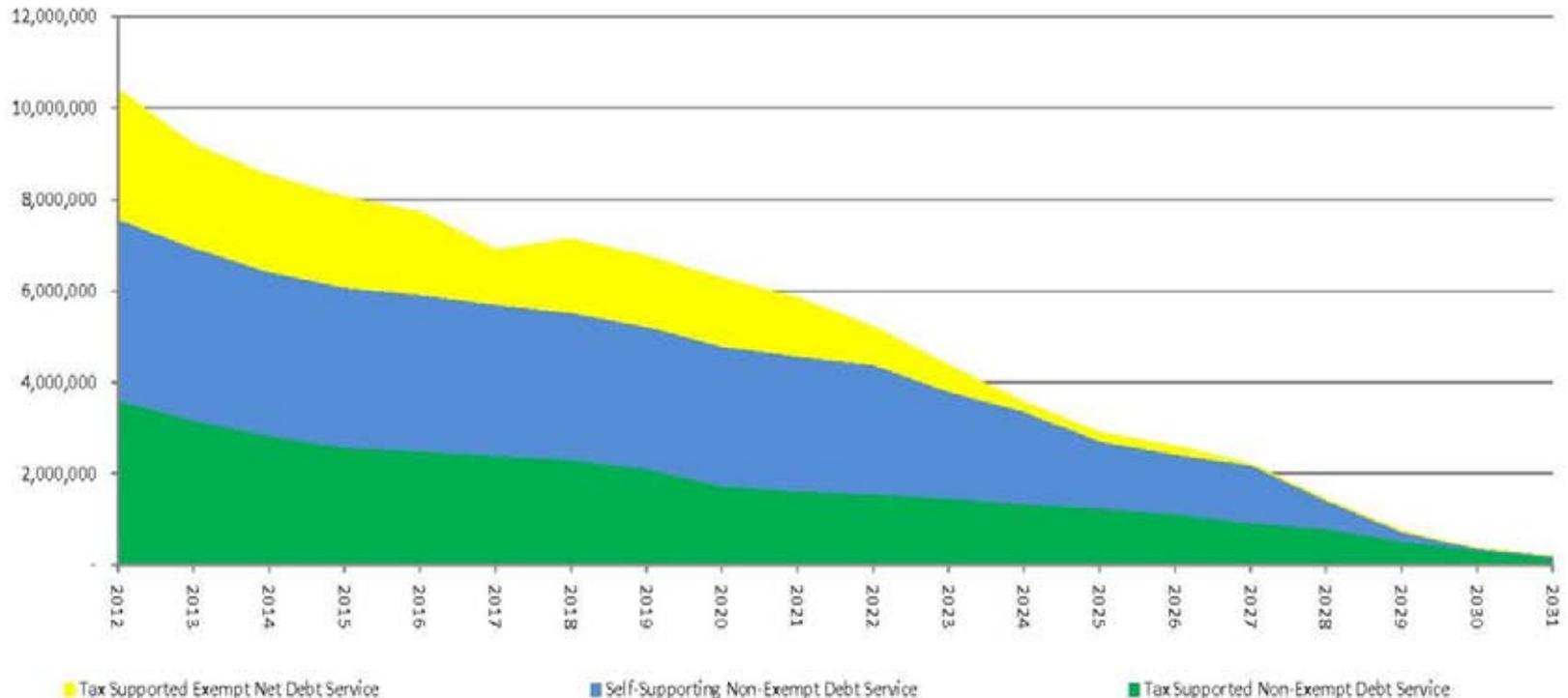
Tax Supported Exempt Net Debt Service



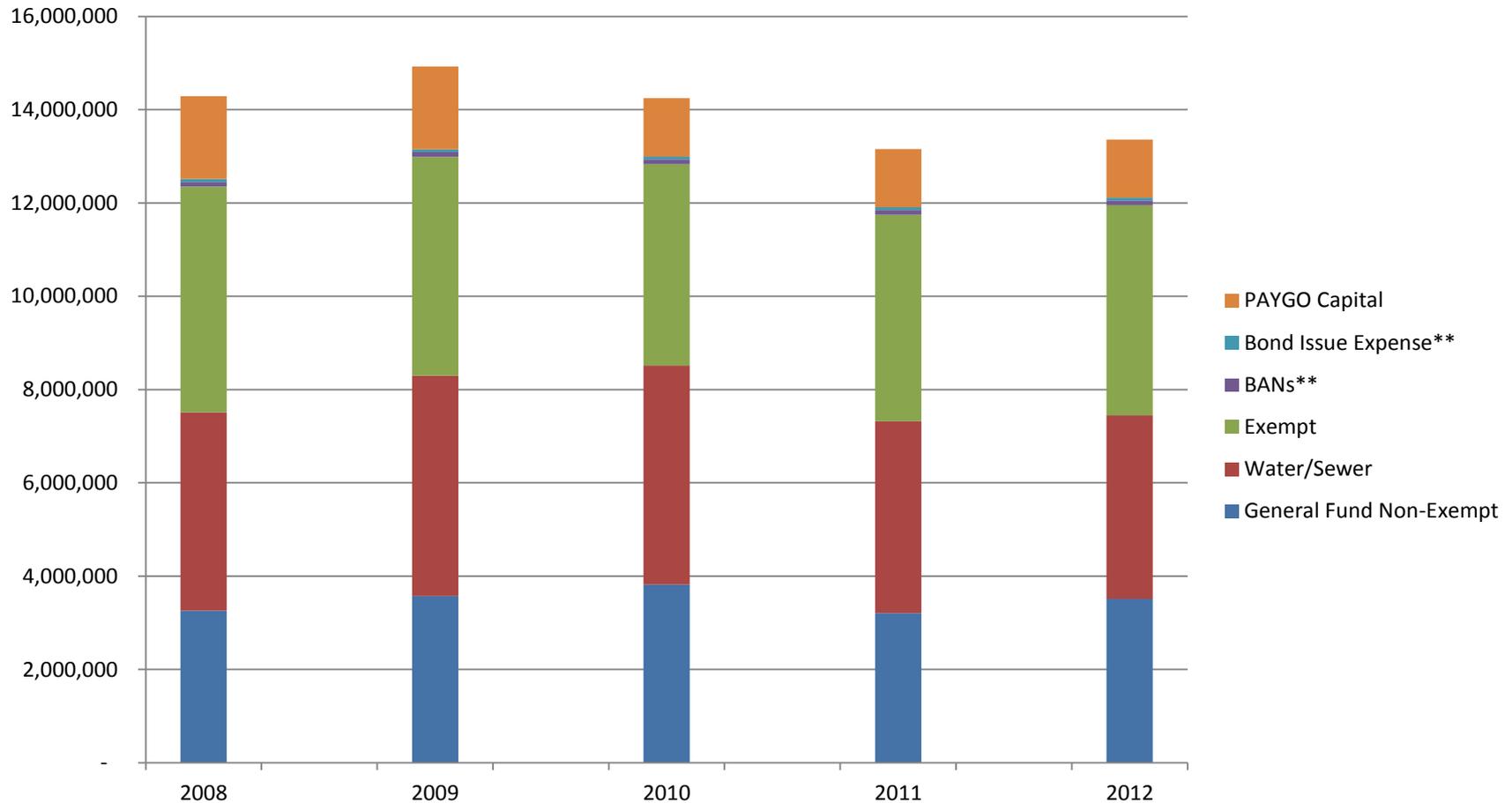
# Total Debt – Net of Aid

Town of Andover, Massachusetts

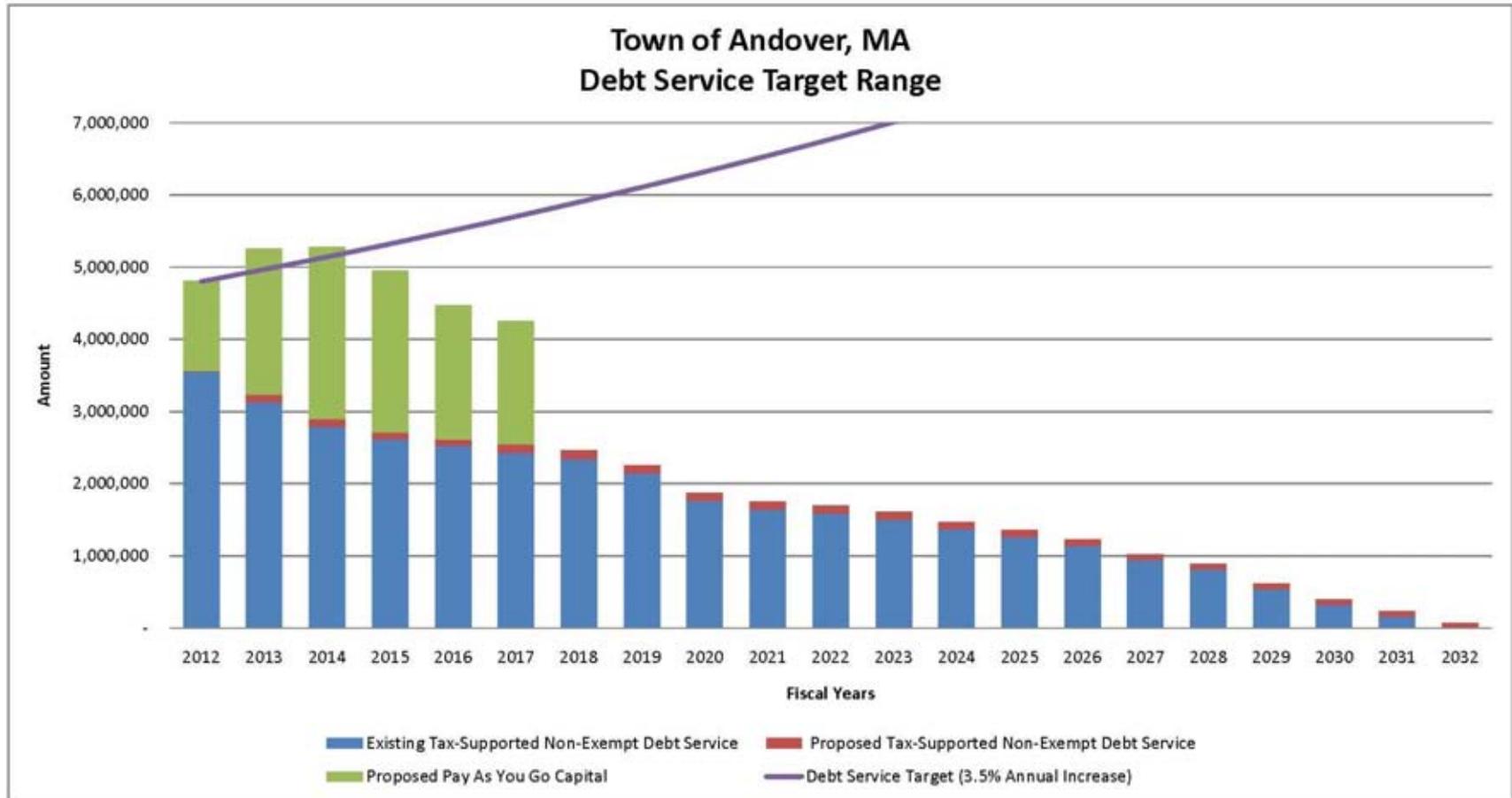
Net Existing Debt Service



# Components of Debt Service & Capital FY2008-FY2011



# Actual & Projected Non-Exempt Debt & PAYGO Capital vs. Growth Target



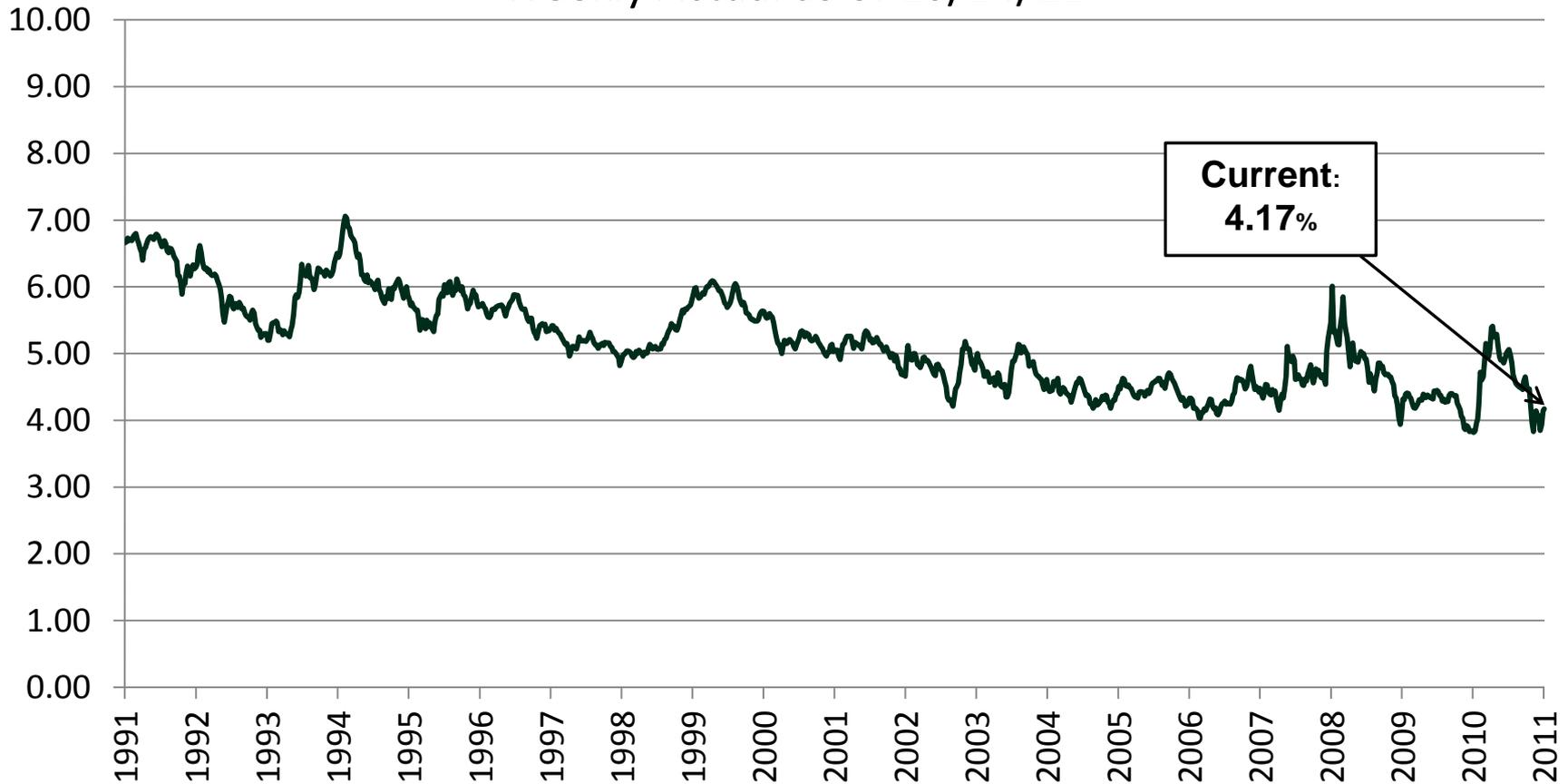
# Long Term Debt Structuring Considerations

- What to consider when structuring debt?
  1. Project cash flow needs
  2. Legal limits as described in M.G.L. Ch.44, s.7 & 8
  3. Tax/rate impact of structure
  4. How new debt fits into existing debt
  5. Tax and Rate Impact of new debt in future years
  6. Interest Rate Environment

# Bond Buyer GO Index

20 Year History

Weekly Actual as of 10/14/11



This graph depicts historical interest rates and their respective relationships. Future interest rates are dependent upon many factors such as, but not limited to, interest rate trends, tax rates, the supply and demand of short term securities, changes in laws, rules and regulations, as well as changes in credit quality and rating agency considerations. The effect of changes in such factors individually or in any combination could materially affect the relationships and effective interest rates. These results should be viewed with these potential changes in mind as well as the understanding that there may be interruptions in the short term market or no market may exist at all.

# Equal Principal vs Level Debt

- Total interest costs are higher with level debt
- Tax rate impact remains constant throughout the loan

Equal Principal			
Principal	Interest	Total P+I	Tax Rate Impact
200,000	74,000	274,000	0.27
200,000	66,000	266,000	0.27
200,000	58,000	258,000	0.26
200,000	50,000	250,000	0.25
175,000	42,000	217,000	0.22
175,000	35,000	210,000	0.21
175,000	28,000	203,000	0.20
175,000	21,000	196,000	0.20
175,000	14,000	189,000	0.19
175,000	7,000	182,000	0.18
<b>1,850,000</b>	<b>395,000</b>	<b>2,245,000</b>	

Level Debt			
Principal	Interest	Total P+I	Tax Rate Impact
155,000	74,000	229,000	0.23
160,000	67,800	227,800	0.23
165,000	61,400	226,400	0.23
175,000	54,800	229,800	0.23
180,000	47,800	227,800	0.23
185,000	40,600	225,600	0.23
195,000	33,200	228,200	0.23
205,000	25,400	230,400	0.23
210,000	17,200	227,200	0.23
220,000	8,800	228,800	0.23
<b>1,850,000</b>	<b>431,000</b>	<b>2,281,000</b>	

COMPARISON
45,000
38,200
31,600
20,200
(10,800)
(15,600)
(25,200)
(34,400)
(38,200)
(46,800)
<b>(36,000)</b>

## DEBT SERVICE COMPARISON:

LEVEL DEBT:	2,281,000
EQUAL PRINCIPAL:	<u>2,245,000</u>
	<b>36,000</b> Additional interest costs associated with level debt

**Structuring:** Each purpose is structured separately. The aggregate bond structure is the result of the combined individual purposes.

	Fire Department Vehicle	Senior Center (EXEMPT)	Road Improvements	Total
15-Jan-12	10,000	125,000	40,000	\$ 175,000
15-Jan-13	10,000	130,000	40,000	\$ 180,000
15-Jan-14	10,000	135,000	35,000	\$ 180,000
15-Jan-15	10,000	140,000	35,000	\$ 185,000
15-Jan-16	10,000	150,000		\$ 160,000
15-Jan-17	10,000	155,000		\$ 165,000
15-Jan-18	10,000	160,000		\$ 170,000
15-Jan-19	10,000	165,000		\$ 175,000
15-Jan-20	10,000	170,000		\$ 180,000
15-Jan-21	10,000	180,000		\$ 190,000
15-Jan-22		185,000		\$ 185,000
15-Jan-23		195,000		\$ 195,000
15-Jan-24		200,000		\$ 200,000
15-Jan-25		210,000		\$ 210,000
15-Jan-26		220,000		\$ 220,000
15-Jan-27		225,000		\$ 225,000
15-Jan-28		235,000		\$ 235,000
15-Jan-29		245,000		\$ 245,000
<b>Total</b>	<b>\$ 100,000</b>	<b>\$ 3,225,000</b>	<b>\$ 150,000</b>	<b>\$ 3,475,000</b>
Original Issue Date of BANs		1/15/2009	1/15/2010	
BANs Outstanding		\$3,225,000	\$150,000	\$3,375,000
Reference	7(9)	7(3)	7(6)	
Maximum Term	10	20	5	
Original Auth. Amt	\$100,000	\$5,000,000	\$150,000	
Maximum Maturity	1/15/2021	1/15/2029	1/15/2015	
Minimum Principal Payment	\$10,000	\$179,167	\$37,500	
Remaining Life	10	18	4	

# Questions?