

RatingsDirect®

Summary:

Andover, Massachusetts; General Obligation

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Credit Profile

US\$22.055 mil GO mun purp loan of ser 2012 A due 01/15/2033		
<i>Long Term Rating</i>	AAA/Stable	New
US\$5.075 mil GO rfdg bnds ser 2012 B due 12/01/2025		
<i>Long Term Rating</i>	AAA/Stable	New
Andover GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Andover, Mass.'s 2012 general obligation (GO) bonds series A and 2012 GO refunding bonds series B. At the same time, we affirmed the 'AAA' long-term rating on the town's outstanding debt. The outlook is stable.

The rating reflects Standard & Poor's opinion of the town's:

- Broad and diverse economic base with participation in the greater Boston metropolitan statistical area economy;
- Very strong household income levels and below-average unemployment;
- Sizable property tax base characterized by high-end residential homes and an appreciable commercial and industrial sector;
- Good financial position and strong financial management practices with increasing fund balance reserve levels; and
- Low to moderate overall net debt burden with a rapid amortization schedule.

The town's full faith and credit GO pledge secures the bonds. Proceeds from the 2012 series A issuance will be used to fund various capital improvement projects, including the construction of a new school. Officials plan to use bond proceeds of the 2012 series B to advance refund the town's series 2004 and 2005 GO bonds. A preliminary analysis provided by the town indicates that the refunding will be structured with no extension of maturities and savings will be taken evenly over the life of the bonds.

Andover, with a population of approximately 33,000, is about 22 miles north of Boston. The town 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 regional economy. Area commuter rail stations enable easy travel to downtown Boston. Locally, the town maintains a sizable and diverse economic base; large employers include:

- Raytheon Co. (4,750 employees), missile systems;
- The Internal Revenue Service (3,500), which operates a regional service center;
- Phillips Healthcare (2,300), medical electronics;
- Pfizer (1,200), biopharmaceuticals; and
- Putnam Investments (900), mutual funds.

Unemployment has historically trended below both commonwealth and national rates and has shown relative resilience during the recession. The rate averaged 5.7% in 2011, down from 6.4% the year before and was below the state and national levels of 7.4% and 9.0%, respectively.

The town's property tax base is roughly 80% residential and 17% commercial/industrial. We consider the tax base diverse with the top 10 taxpayers comprising just 11.6% of total assessed value (AV) in 2012. After falling each of the past four fiscal years, total AV increased in 2012 (a revaluation year) by 2.7% from the previous year to \$6.8 billion. Despite an overall softened real estate market, per capita market value remains extremely strong at over \$200,000. Both median household effective buying income (EBI) and per capita EBI are, in our view, very strong at 185% and 194% of the respective national levels.

Andover's financial position remains good in our view, and the town has historically maintained reserve levels within its target range of 3% to 7% of expenditures. Fiscal 2011 closed, after transfers, with a small operating deficit of \$279,000, decreasing total fund balance to \$8.9 million or 6.5% of general fund expenditures; we view virtually all of the total fund balance as available. Following recent changes in Governmental Accounting Standards Board reporting requirements, the general fund balance now includes the town's stabilization fund. Andover's primary revenue source is property taxes, which account for about 75% of general fund revenues. The collection rate has been very strong, averaging close to 100% of the net levy over the past five fiscal years.

Fiscal 2012 closed, on an unaudited basis, with a healthy operating surplus, adding approximately \$4 million to the total fund balance. Management indicates the positive variance was the result of conservative budgeting, the receipt of some non-recurring revenue items, and no appropriation of free cash in the budget. The total fund balance is projected to increase to about \$13 million, which would equate to 9.3% of expenditures, a level we view as strong.

The fiscal 2013 budget totals \$142.8 million, a 2.7% increase over the fiscal 2012 budget. There is no appropriation of free cash, and the tax levy increase is within the town's Proposition 2 1/2 levy limit. The town also recently restructured its health insurance benefit plan and estimates savings of approximately \$600,000 for 2013. About six months into the fiscal year, management projects ending without a reduction in fund balance.

Standard & Poor's still considers Andover's financial management practices "strong" under its financial management assessment methodology, indicating practices are strong, well embedded, and likely sustainable.

The town's debt burden is low to moderate, in our opinion. Overall debt, net of self-supporting enterprise debt but including overlapping debt, is moderate at \$3,000 per capita and low at 1.5% of market value. Debt service carrying charges have been low, averaging just 5.0% of non-capital governmental expenditures over the past three audited fiscal years. We believe this is especially favorable given that amortization of existing debt is rapid, with officials planning to retire 76% of principal through 2021 and substantially all by 2030. Management indicates that the town will likely fund a number of upcoming projects with additional debt issuance over the next few years, including a possible open space land acquisition, technology upgrades for the town's schools, improvements to the town's water facilities, and the construction of a new youth center. Given the town's rapid debt amortization schedule and low debt service carrying charges, we do not believe this additional issuance will significantly increase its debt burden or pressure its finances.

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 \$4.7 million to the system in fiscal 2011 or 3% of total governmental expenditures. The town has historically funded its postemployment benefit (OPEB) liability on a pay-as-you-go basis, but did set up a trust in 2010 to begin pre-funding the liability. According to the most recent audit, in 2011, the town's annual OPEB cost was \$15.7 million, and it contributed \$5.9 million. As of the most recent valuation date, the town's unfunded actuarial accrued liability was \$215.3 million. The combined pension and OPEB contributions represented 6.8% of total government expenditures for fiscal 2011.

Outlook

The stable outlook reflects our belief that we are unlikely to revise the rating during the two-year horizon as we believe management will continue the town's good financial performance and preserve its solid reserves. Rating stability is enhanced by the town's very strong wealth and income indicators and its participation in a broad and diverse regional economy. While not expected, a deterioration of the town's financial position or a significant increase in its debt burden could put downward pressure on the rating.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

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