

### Summary:

## Andover, Massachusetts; General Obligation; Note

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Credit Profile		
US\$17.895 mil go mun purp bnds ser 2011 due 11/01/2031		
<i>Long Term Rating</i>	AAA/Stable	New
US\$2.0 mil go bnd antic nts dtd 12/22/2011 due 12/20/2012		
<i>Short Term Rating</i>	SP-1+	New
Andover GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Andover GO BANs		
<i>Short Term Rating</i>	SP-1+	Affirmed

## Rationale

Standard & Poor's Ratings Services has assigned its 'SP-1+' short-term rating to the town of Andover, Mass.' new general obligation (GO) bond anticipation notes (BANs) and affirmed its 'SP-1+' short-term rating on the town's existing GO BANs, based on our revised criteria for evaluating and rating BANs. The ratings reflect our view of the town's general creditworthiness, coupled with a low market risk profile. The low market risk profile reflects the town's strong legal authority to issue long-term debt to take out the notes as well as the town's position as a frequent issuer that regularly provides ongoing disclosure to market participants.

Standard & Poor's has also assigned its 'AAA' long-term rating to the town's series 2011 GO municipal purpose bonds, reflecting our opinion of the town's:

- Strong and stable economic base that participates in the greater Boston metropolitan statistical area economy;
- Very strong household income levels and below-average unemployment;
- Extremely strong and diverse property tax base, characterized by high-end residential values and an appreciable commercial and industrial sector;
- Good financial position and strong financial management practices; and
- Low overall net debt burden with a rapid amortization schedule.

Officials plan to use bond proceeds to refund a portion of the town's series 2002 GO municipal purpose bonds and for various capital projects and BAN proceeds to fund a school construction project.

Andover is approximately 22 miles north of Boston. The town's 2010 estimated population was 32,667, a 5% increase over the 2000 U.S. Census. The town is favorably located at the crossroads of interstates 93 and 495, providing residents with access to a large number of employment centers in the deep and diverse Boston metropolitan area. Area commuter rail stations also provide residents with access to downtown Boston. We believe the town's favorable location is a contributing factor to its strong economic profile. Locally, the town maintains a sizable and diverse high-end economic base; large employers include:

- Raytheon Co. (3,300 employees), missile systems;
- The Internal Revenue Service (2,340), which operates a regional service center;
- Phillips Corp. (2,000), medical electronics;
- Wyeth BioPharma (1,835), biopharmaceuticals; and
- Phillips Academy (1,186), a private school.

Unemployment has historically trended below both commonwealth and national rates and has shown relative resilience during the recession. The rate averaged 6.5% in 2010 and was just 5.7% as of September 2011.

The town's property tax base is roughly 80% residential and 18% commercial/industrial. Assessed valuation (AV) has decreased in each of the past four fiscal years due primarily to a softened residential market throughout eastern Massachusetts. Total AV decreased 3.2% to \$6.6 billion for fiscal 2011. Despite the softened real estate market, the median home value is \$530,500, more than three times the national median. Per capita market value remains extremely strong at \$202,550 per capita, reflecting, in our view, strength in both the town's residential and commercial/industrial values. Median household effective buying income is, in our view, very strong at 157% of the commonwealth level and 182% of the national level.

After general fund deficits averaging 1.6% of budget in each of fiscals 2007-2009, the town closed fiscal 2010 with a \$951,000 general fund surplus, bringing the unreserved general fund balance to \$3.25 million. The town's stabilization fund, which is available for any purpose with a two-thirds vote at town meeting, increased \$261,000 to \$4.8 million for the close of fiscal 2010. The combined reserve position was equal to 6% of general fund expenditures, which we consider good. For fiscal 2011, town officials estimate a roughly \$900,000 increase in available reserves.

The fiscal 2012 budget totals \$139 million, a 3.2% increase over the fiscal 2011 budget. The town's primary revenue source is property taxes, which accounted for 75% of 2010 general fund revenue. The collection rate has been stable at about 99% of the net levy in each of the past five fiscal years. State aid accounted for approximately 17% of 2010 general fund revenue. In fiscals 2010 and 2011, the town issued \$6 million in revenue anticipation notes (RANs). The 2011 notes were issued on Dec. 23, 2010, and retired on Feb. 25, 2011. According to the town, the notes were issued in both fiscal years because of a front-loaded expenditure profile, whereby certain costs such as retirement payments are paid in full at the beginning of the year in order to achieve overall savings. The town does not expect to issue RANs anytime in the near future, and in our opinion, the 2010 and 2011 issuances are not indicative of structural fiscal strain.

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, in our opinion. Overall debt, net of self-supporting enterprise debt and including overlapping debt, is \$1,884 per capita, or just 0.9% of market value. Debt service carrying charges have been low, averaging just 5.7% of 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.

The current-issue BANs are being issued pursuant to a \$45 million school project authorization, against which the town expects additional borrowing in the near-to-intermediate term. The project has been approved by the Massachusetts School Building Authority (MSBA) for reimbursement of 37.6% of eligible costs, which should

greatly reduce the local impact of the project. The local portion of the project's costs has been approved by the town electorate for a debt exclusion pursuant to Proposition 2 1/2, allowing the town to finance the project outside of Proposition 2 1/2 levy limitations. Due to the level of MSBA funding and the debt exclusion, coupled with a currently low debt burden with rapid amortization, we expect that the oncoming school debt will be manageable.

## Outlook

The stable outlook on the long-term bond rating reflects the town's extremely strong tax base and very strong household income measures. In Standard & Poor's view, the metropolitan Boston economy should remain resilient through the recession; moreover, the area's strong job market is a factor that has contributed to, and will continue to contribute to, new development and overall tax base stability for the town. The stable outlook also reflects management's strong financial policies and practices and demonstrated ability to contain costs to yield balanced operating results. However, should the town fail to make the necessary budget adjustments to maintain structural balance in the face of potentially continued recessionary revenue pressure, resulting in a substantial decrease in financial reserves, the rating could be lowered. If, on the other hand, management maintains a good-to-strong reserve and liquidity position through the tail-end of the recession, the rating will be maintained at 'AAA'.

## 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: Bond Anticipation Note Rating Methodology, Aug. 31, 2011

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