

RatingsDirect®

Summary:

Andover, Massachusetts; General Obligation; Note

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Credit Profile

US\$39.365 mil GO muni purp loan bnds ser 2024 due 12/01/2054		
<i>Long Term Rating</i>	AAA/Stable	New
Andover GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Andover GO mun purp ln		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Andover GO mun purp loan of 2022 bnds ser 2022 due 07/15/2052		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Andover GO BANs		
<i>Short Term Rating</i>	SP-1+	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Andover, Mass.' \$39.365 million series 2024 general obligation (GO) bonds.
- At the same time, we affirmed our 'AAA' rating on the town's existing GO debt and our 'SP-1+' short-term rating on existing bond anticipation notes.
- The outlook on the long-term ratings is stable.
- The rating reflects the application of our methodology for rating U.S. governments, published Sept. 9, 2024.

Security

The town's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds and debt outstanding. We rate the bonds based on the application of our criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Nov. 20, 2019; despite limitations imposed by the commonwealth's levy limit law, we do not make a rating distinction between the town's limited- and unlimited-tax GO pledges.

Bond proceeds will finance various general capital, water/sewer projects, and school projects.

Credit overview

The rating reflects Andover's above-average economic base, comprehensive and forward-looking management framework, and consistently balanced financial results within a predictable revenue environment. Although the town's available reserves compared with the budget remain somewhat below that of peers despite nominal fund balance growth, and Andover's net debt burden is somewhat elevated given previous issuances funding its pension obligation and major school projects, we believe liabilities are relatively affordable and thoughtfully supported by management. The rating also incorporates our view of Andover's comparably stronger income metrics, which are well above the

150% threshold and higher than state and national peers at the current rating level, providing a solid economic base to support financial operations and debt issuances.

Credit fundamentals supporting the 'AAA' GO rating include:

- Andover's substantially higher income metrics compared with those of Essex County and U.S. levels, which offset the county's average economic output metrics. The town's wealthy economic base provides rating stability despite elevated debt metrics.
- A forward-looking and comprehensive management environment. Budgeting assumptions are supported by multiyear financial and capital planning that is incorporated into the annual budget process. The formalized reserve, investment, and debt management policies also guide operations.
- Positive financial trends, as demonstrated by estimated fiscal 2024 year-end surplus results, which will further increase available fund balance levels. While the town budgets a portion of the fund balance (known as free cash) annually for pay-as-you-go capital, we anticipate balanced results will likely sustain reserves near current levels.
- Affordable fixed costs from debt and retirement liabilities despite higher debt per-capita metrics; however, since the town issued debt to fund its pension obligation the debt metric incorporates the liability that would otherwise be calculated in our net pension liability per-capita metric.
- For more information on our institutional framework assessment for Massachusetts municipalities, see "Institutional Framework Assessment: Massachusetts Local Governments," published Sept. 9, 2024, on RatingsDirect.

Environmental, social and governance

We analyzed Andover's environmental, social, and governance risks relative to the town's economy, management, financial measures, and debt and liability profile, and determined that all are neutral in our credit analysis. Despite its location along the Merrimack River, Andover does not experience material flooding.

Rating above the sovereign

Andover's GO bonds are eligible to be rated above the sovereign based on our criteria "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013, because we think the town can maintain better credit characteristics than the nation in a stress scenario. Property taxes are the primary general fund revenue source, comprising 75% of general fund revenue, and the town also has independent taxing authority and treasury management from the federal government.

Outlook

The stable outlook reflects our opinion that growth in Andover's already-robust tax base will result in continuous healthy financial performance, thereby sustaining reserves around current levels despite the town's regular practice to use a portion toward pay-as-you-go capital.

Downside scenario

We could consider a negative rating action if Andover's financial performance materially weakens, leading to significant and sustained draws on reserves, or if it were to issue significant debt that materially weakens debt metrics.

Credit Opinion

Economy

Andover's local economic profile, characterized by above-average local incomes and average county-level economic output, is a credit strength. The town is an affluent residential community about 20 miles north of Boston, providing residents with access to high-income employment throughout the greater Boston regional economy. Housing is still in high demand, resulting in increasing home values and town approval for mixed-use redevelopment and multifamily developments to meet the demand. We anticipate the town's economic base and stronger incomes will continue providing credit uplift given overall stability and opportunities for growth.

Management

Andover has well-embedded policies and forward-looking practices that drive decision-making and support balanced financial operations. Key policies and practices include:

- A five-year capital improvement plan that identifies projects and annual costs, and clearly identifies funding sources. The town has a five-year budget forecast that complements capital budgeting and uses both plans to inform its annual budget process.
- Use of trends and commonwealth estimates to develop annual revenue and expenditure assumptions. Budget performance is regularly monitored and reported monthly to the financial committee. Officials can make midyear budget adjustments if needed at a special town meeting.
- A formal debt management policy that limits debt service in any one year to 10% of budgeted general expenditures and targets principal amortization at 20 years. State statutes largely guide debt issuances.
- A formal reserve policy to maintain stabilization reserves at 3%-7% of expenditures for liquidity purposes. Officials have increased total fund balance levels to about 12%, which is still on the lower end compared with that of national peers but will likely be sustained at about current levels.

Performance

Andover's financial performance is typically breakeven to positive, averaging 0.5% over the past three years. Fiscal 2024 estimated year-end results indicate another likely surplus as local excise taxes outperformed budgeted figures and prior-year collections, which should result in an audited addition to the fund balance. Given that property taxes are the primary revenue source, the strength of Andover's economic base in turn supports the town's revenue-raising capabilities within the confines of the commonwealth's property tax limitations. Andover has also built up its excess levy capacity, which it could tap into without voter approval although it has no plans to do so. While Massachusetts local governments typically hold less in reserves compared to national peers, Andover's available fund balance has historically been below that of similarly rated state peers, but we believe this is somewhat offset by other credit strengths.

Debt

Although Andover's \$405 million net direct debt burden results in elevated debt per-capita metrics compared with the town's 'AAA' peers, this includes \$150 million remaining pension obligation bonds (POBs) that would otherwise be captured in our pension liability per-capita metric. However, debt service costs only comprise about 7% of the general

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fund and we believe the costs will remain manageable in the budget. Andover will likely issue about \$25 million in spring 2025 to complete financing for the elementary school project but otherwise expects to fund its capital needs on a pay-as-you-go basis in the budget.

Andover's pension plan funding level improved significantly following the 2021 POB issuance; the Andover Contribution Retirement System is now about 89% funded, with a \$39.5 million net pension liability as of June 30, 2023. This also results in a relatively low pension liability on a per-capita basis. In addition, the town's approximately \$106 million net other postemployment benefit liability will remain a long-term budgetary consideration.

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Table 2

Andover, Massachusetts--Key credit metrics				
	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.	--	--	89	90
County PCPI % of U.S.	--	--	121	121
Market value (\$000s)	--	10,940,571	9,658,565	9,027,671
Market value per capita (\$)	--	295,947	260,311	250,122
Top 10 taxpayers % of taxable value	--	6.6	6.3	7.3
County unemployment rate (%)	--	3.5	3.8	6.0
Local median household EBI % of U.S.	--	203	203	198
Local per capita EBI % of U.S.	--	194	200	197
Local population	--	36,968	37,104	36,093
Financial performance				
Operating fund revenues (\$000s)	--	226,801	208,640	214,060
Operating fund expenditures (\$000s)	--	212,580	207,723	217,578
Net transfers and other adjustments (\$000s)	--	(8,296)	--	8
Operating result (\$000s)	--	5,925	917	(3,510)
Operating result % of revenues	--	2.6	0.4	(1.6)
Operating result three-year average %	--	0.5	0.3	0.1
Reserves and liquidity				
Available reserves % of operating revenues	--	12.1	10.5	9.7
Available reserves (\$000s)	--	27,413	21,889	20,831

Table 2

Andover, Massachusetts--Key credit metrics (cont.)				
	Most recent	2023	2022	2021
Debt and liabilities				
Debt service cost % of revenues	--	7.9	4.2	4.4
Net direct debt per capita (\$)	10,981	8,845	7,857	3,187
Net direct debt (\$000s)	405,932	326,974	291,543	115,045
Direct debt 10-year amortization (%)	48	--	--	--
Pension and OPEB cost % of revenues	--	5.0	79.0	9.0
NPLs per capita (\$)	--	1,114	--	4,940
Combined NPLs (\$000s)	--	41,200	--	178,313

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data are generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

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