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Summary:
Andover, Massachusetts; General Obligation; Note

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Credit Profile		
US$18.845 mil GO muni purp loam of 2010 bnds ser 2010 dtd 02/15/2010 due 08/15/2028		
Long Term Rating	AAA/Stable	New
US$4.615 mil GO BANs dtd 02/25/2010 due 02/25/2011		
Short Term Rating	SP-1+	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating, and stable outlook, to Andover, Mass.' series 2010 general obligation (GO) municipal-purpose loan bonds and its 'SP-1+' short-term rating to the town's GO bond anticipation notes (BANs), which the town is issuing concurrently.

The 'SP-1+' short-term rating reflects the town's underlying credit quality and demonstrated access to credit markets as evidenced by previous note borrowings.

In our opinion, the long-term rating reflects the town's:

- Strong and stable economic base that participates in the greater Boston metropolitan statistical area (MSA) economy;
- Very strong household income levels and favorable unemployment;
- Extremely strong and diverse property tax base, characterized by high-end residential values and a large commercial and industrial sector;
- Good financial position despite recent declines to available reserves and strong financial management practices; and
- Low overall net debt burden, modest additional capital needs, and rapid amortization schedule.

Officials plan to use BAN and bond proceeds to fund various capital projects.

Andover is approximately 22 miles north of Boston. The town's 2008 population estimate was 33,146, a 6% 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. 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, including:

- Raytheon Co. (3,300 employees), missile systems;
- Phillips Corp. (2,600), medical electronics;
- IRS (2,340), a regional service center;
- Wyeth BioPharma (1,335), biopharmaceuticals; and
- Phillips Academy (1,186), a private school.

Unemployment, though rising over the past year, remains below commonwealth and national rates at 7%, as of December 2009. Moreover, median household effective buying income is, in our view, a very strong 156% of the commonwealth level and 182% of the national level.

The town's property tax base is 80% residential and 20% commercial and industrial. Assessed value has declined by 5% to $6.8 billion in fiscal 2010 from its peak valuation in fiscal 2007. The decline stems mainly from the softened residential market. Nevertheless, despite reduced property valuations, market value remains, in our opinion, an extremely strong $204,610 per capita, which we believe reflects the town's already high residential values and large commercial and industrial sector. The average single-family home is $548,000, roughly three times the national average.

The town's financial profile remains sound; and despite a few years of declines, reserves, in our view, remain good. The town closed fiscal 2009 with a $3 million unreserved general fund balance, or 2.3% of expenditures. The town's stabilization fund, available for any purpose with a two-thirds town meeting vote, closed with a $4.4 million balance, or 3.3% of expenditures. Overall, the unreserved general fund balance and stabilization fund balance was a combined $7.5 million, or a good 5.6% of operating expenditures. The current reserve position, which we consider good, is down from previous highs; nevertheless, the current reserve balance remains within the town's yearly goal of maintaining reserves between 3% and 7%.

Reacting to midyear state aid cuts and lower local receipts in fiscals 2009-2010, the town reduced spending by roughly $2 million in fiscal 2010; this, combined with the passage of new revenue options, balanced the budget without any use of reserves. Town officials are currently projecting, at worst, reserves to remain comparable to previous years.

For fiscal 2011, the town manager's recommended budget is a 2.4% increase in spending from the previous year. Most revenue items have been budgeted level or at a slight decline from the previous year. Projections, however, have property taxes increasing by 3.6%. Property taxes, which we view as a stable revenue source, account for 73% of general fund revenues; tax collections remain above 98% of the tax levy with current trends showing no deviation from that level despite the unemployment increase. State aid, which remains under pressure in this economy, is budgeted level from the previous year. Nevertheless, state aid accounts for 17% of revenues; as such, the town is not overly susceptible to midyear state cuts.

Standard & Poor's considers Andover's financial management practices "strong" under its Financial Management Assessment (FMA) methodology, indicating practices are strong, well embedded, and likely sustainable. The town uses identified trends and commonwealth estimates to develop its revenue and expenditure assumptions annually; it then uses these assumptions and updates the town's five-year budget forecast that it uses to compliment its capital and budget planning.

Management performs budget monitoring regularly, and it tracks revenues and expenditures and makes at least monthly reports on the results to the finance committee. The town performs midyear budget adjustments, when needed, at special town meetings. The town has a five-year capital plan and a capital budget that management approves and reprioritizes yearly.

The town has a formal debt management policy that it adheres to when planning and addressing its capital needs, including a policy that limits the debt service in any one year to 10% of budgeted general expenditures and targets principal amortization at 20 years. The town does not maintain a formal reserve policy, but management adheres to the historical goal of maintaining reserves between 3% and 7% of expenditures.

The town's debt burden is favorable. Overall net debt is a low $1,848 per capita, or 0.9% of market value. Debt service carrying charges are also a low 6% of expenditures. We believe this is favorable given that amortization of existing debt is rapid with officials planning to retire 80% of principal by 2020 and 100% by 2030. Additional capital needs are limited, and the town will finance these needs through pay-as-you-go financing from available funds and commonwealth and federal grants. Large additional debt borrowings will be contingent on an electorate-approved debt exclusion from Proposition 2 1/2 levy limits.

Outlook

The stable outlook on the long-term 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 management practices and demonstrated ability to make the necessary expenditure adjustments needed to yield balanced operating results. Property taxes generate the vast majority of the town's revenues, and tax collections should remain strong through the economic downturn. The town's overall debt is low, and we believe the debt burden should remain favorable given the town's rapid principal amortization and modest additional capital requirements.

Related Research

USPF Criteria: GO Debt, Oct. 12, 2006

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