

FITCH AFFIRMS BERKLEY, MI ULTGOS AT 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-01 May 2015: Fitch Ratings has affirmed the following Berkley, MI bond rating at 'AA':

--Approximately \$2.4 million unlimited tax general obligation bonds (ULTGOs), series 2006.

The Rating Outlook is Stable.

SECURITY

The bonds are general obligations of the city, payable from its full faith, credit and taxing power, without limitation as to either the rate or amount.

KEY RATING DRIVERS

SOUND FINANCIAL MANAGEMENT: The city has proactively made expenditure cuts in the face of declining revenues to preserve fund balance at a very healthy level.

MODERATE TAXBASE GROWTH FOLLOWING DECLINE: The city's predominantly residential tax base has benefitted from three years of modest growth following several years of declines and is nearly back to its level in 2009.

MODERATE LONG-TERM LIABILITIES: Debt levels are low with very rapid amortization. Carrying costs for all long-term liabilities are considered manageable by Fitch.

LOCAL ECONOMY BOLSTERED BY REGIONAL DIVERSITY: The city's economic base is somewhat limited, but derives benefit from the more diverse regional economic landscape.

RATING SENSITIVITIES

MAINTENANCE OF STRONG RESERVES: The rating is sensitive to the city's ability to maintain above average reserve levels which in Fitch's view offset certain budgetary limitations.

CREDIT PROFILE

Berkley is a mature, residential community of roughly 15,000 residents located 11 miles northwest of Detroit.

SUBURBAN COMMUNITY WITH LIMITED AUTO EXPOSURE

The city has limited exposure to the auto industry in its largest taxpayers or employers, unlike many area communities. However, the local economy likely faces indirect exposure to volatility from the currently recovering auto industry as most residents commute to the Greater Detroit area for employment.

Major employers within Berkley include city government, the school district and the SHW Group, a global engineering firm. Beaumont Hospital, located just outside of city limits, also employs a notable

number of city residents and recently built a new facility as part of its partnership with Oakland University.

Employment information for the city is not available given its small population. Oakland County's employment performance has mirrored the struggles of the broader Detroit-Warren-Livonia metropolitan statistical area (MSA), with year-over-year job loss reported from 2004-2010 and modest recovery since. Oakland County unemployment averaged 6.9% in 2014, slightly below the state but above the national average. Unemployment has improved from over 12% in 2009 and 2010 prior due to a combination of modest job growth and labor force contraction. The city's labor force exhibits a very high level of educational attainment, contributing to per capita income levels that exceed state and national norms by 39% and 32%, respectively.

SOUND FINANCIAL MANAGEMENT

The city's financial management remains sound, evidenced by its conservative budgeting and aggressive cost cutting actions enabling the preservation of healthy reserve levels, despite pressure from variable property tax and state aid revenues.

Revenue flexibility has improved as a result of the 2012 voter-approved permanent Headlee override, which will begin to generate \$1.4 million in additional revenue commencing fiscal 2014. This was the first time an increase was approved since 1965 and the city is levying the entire override increase. The resulting tax revenue provides funding for road improvements, capital expenditures and health care expenses.

The city generated positive operations in the past four fiscal years and improved the unrestricted general fund balance to \$3.2 million or 26% of spending in 2015 from \$1.9 million or 13% in 2009. Reserves are well ahead of the city's 15% unrestricted fund balance policy.

The fiscal 2015 general fund budget includes a 6.8% increase supported by growing tax revenues given the AV increase and the additional millage. Spending increases include a small salary and wage increase, continued capital improvement and equipment replacement efforts, and plans for a modest use of reserves equal to \$286,000 or 2% of spending. City current projections indicate a small \$200,000 general fund surplus is likely for fiscal 2015.

Fitch believes the city's historical record of conservative budgeting and strong financial management will allow the city to retain adequate financial flexibility for the current rating level.

TAXBASE CONTRACTION REVERSED

Contraction of the city's TAV has reversed after declines of 6.8% in fiscal 2010 and 2.4% in fiscal 2012, returning to cumulative growth of 8.6% fiscal 2013-15. The city is projecting 2-3% increase in TAV for fiscal 2016, which Fitch believes is achievable based on increased building permit activity.

MANAGEABLE LONG-TERM LIABILITIES

Overall debt is low at \$1,049 per capita and 1.7% of market valuation. More than half of the city's debt is self-supported by water and wastewater revenues. The city expects to continue pay-go funding most of its capital needs. Overall debt may increase but should remain moderate in the coming years if the Berkley school district ballot for \$59 million of capital improvement bonds is approved in May 2015.

The city's two pension plans are approximately 68% and 80% funded as of their latest valuations using 8% and 7.5% discount rates, or an estimated 62% and 76% on a Fitch-adjusted basis using

a 7% discount rate. A negotiated reduction in final average compensation by eliminating overtime costs from the calculation will allow the city to realize pension savings in the future.

All new city employees will be on defined contribution plans for other post-employment benefits (OPEB), which should help lower the city's OPEB liability in the future. The city plans to contribute a modest additional payment in excess of the current pay-go amount of \$230,000 in fiscal 2014 compared to a sizable \$16.6 million unfunded actuarial accrued liability dated June 30, 2009. Carrying costs for pension, OPEB, and debt service are a moderate 18% of total governmental funds spending for fiscal 2014.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors, and Financial Advisor.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

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