Fitch Ratings-New York-17 May 2013: Fitch Ratings has affirmed the following Berkley, MI bond ratings at 'AA':

--Approximately $3.25 million unlimited tax general obligation bonds (ULTGOS), series 2006.

The Rating Outlook is Stable.

SECURITY

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

KEY RATING DRIVERS

VOTER APPROVED OVERRIDE IMPROVES REVENUE: Voters overwhelmingly approved a Headlee override which raises the operating tax rate effective in fiscal 2014. The additional levy will allow the city to expand funding for operating and capital purposes.

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.

MODERATION IN TAXBASE DECLINE: The city's predominantly residential tax base is beginning to show signs of stabilization after four consecutive years of taxable assessed valuation (TAV) declines from fiscal 2009-2012.

MODERATE LONG-TERM LIABILITIES: Debt levels are low with very rapid amortization. The city's pension plans remain well funded, and 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 SOME AUTO EXPOSURE

The city has limited exposure to the auto industry in its largest taxpayers or employers, unlike many area communities, but 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 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 only modest recovery since. Oakland County unemployment was 8.3% as of March 2013, comparable with the state but above the national average. Unemployment improved from 8.9% a year prior due to a combination of very modest job growth (0.6%) and labor force contraction. The city's labor force exhibits a very high level of educational attainment, contributing to income levels that exceed state and national norms by 35.3% and 23.5%, 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 declining property tax and state aid revenues.

The city generated positive operations in fiscals 2011 and 2012 that improved the unrestricted fund balance to $2.7 million or 30.5% of spending from $1.9 million or 20.4%. Reserves are well ahead of the city's 15% unrestricted fund balance policy.

The fiscal 2013 budget includes a significant 5.1% increase in expenditures, largely to maintain capital improvement and replacement efforts, and plans for a modest surplus equal to $188,745 or 2% of spending.

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

HEADLEE OVERRIDE PROVIDES ADDITIONAL FINANCIAL FLEXIBILITY

Revenue flexibility will improve as a result of the recent voter-approved Headlee override, which will begin to generate $1.36 million in additional revenue commencing fiscal 2014. This was the first time an increase was approved since 1965 and the city is levying entire override increase. The resulting new tax revenue will provide funding for road improvements, capital expenditures and health care expenses. As a result of this additional revenue, fiscal 2014 is projected to end with a small operating surplus, based on the city's forecasts.

TAXBASE CONTRACTION MODERATING

Contraction of the city's TAV has moderated from -6.8% in fiscal 2010 to -2.4% in fiscal 2012, returning to positive growth of 2.2% in fiscal 2013. The city is projecting similar increases in TAV for fiscals 2014 and 2015, respectively, which Fitch believes are achievable based on increased building permit activity.

MANAGEABLE LONG-TERM LIABILITIES

Overall debt is low at $1,202 per capita and 2% of market valuation. More than half of the city's debt is self-supported by water and wastewater revenues. The city's master plan includes the construction of a municipal complex, with all public services in close range, and consolidation of public works facilities. Discussions for this potential project are preliminary and there are no concrete plans to issue debt in the near term.

On average the city's two pension plans are approximately 76% funded as of their latest valuations using an 8% discount rate, versus an estimated 71% on a Fitch-adjusted basis using a 7% discount rate. A recently negotiated reduction in final average compensation by eliminating overtime costs 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.

Carrying costs for pension, OPEB, and debt service are a moderate 19% of total governmental funds spending for fiscal 2012.

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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);

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

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