FitchRatings

FITCH AFFIRMS ST. CLAIR COUNTY, MI'S GO LTD TAX BONDS AT 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-14 September 2011: Fitch Ratings has affirmed the ratings on the following series of St. Clair County, MI bonds, in the course of routine surveillance:

--$27.9 million general obligation (GO) limited tax bonds series 2003 at 'AA-';
--$9.7 million GO limited tax community mental health bonds series 2007A at 'AA-';
--$3 million GO limited tax communication system bonds series 2007B at 'AA-'.

The Rating Outlook is Stable.

SECURITY
The limited tax GO bonds are secured by the county's full faith and credit general obligation and its ad valorem tax pledge, subject to applicable statutory and constitutional limitations.

KEY RATING DRIVERS
Stagnant Local Economy: The local economy continues to exhibit weak employment trends and persistent housing weakness.

Financial Operations Adequately Maintained: Successful cost-containment efforts and conservative revenue budgeting have led to modest general fund net surpluses in each of the last four years, despite strong recessionary pressures.

Strong Reserve Levels: Substantial financial flexibility is afforded by ample reserves in the general and delinquent tax revolving funds, which together amounted to 56% of general fund spending in FY10.

Favorable Debt Profile: Existing debt levels are modest and future borrowing plans appear manageable.

CREDIT PROFILE

Stagnant Local Economy
St. Clair County is located 60 miles north of Detroit and shares the region's vulnerability to manufacturing, particularly in the automotive industry. Several new manufacturing plants have opened recently; however, the magnitude of these additions has not been sufficient to offset persistent housing weakness. Taxable value has dropped 28% since its 2008 peak, with the biggest decline of 19.2% occurring in 2010 and another 5.7% in 2011. Concentration of the tax base is a concern. The largest taxpayer, Detroit Edison, accounts for 11.5% of taxable value. The county has taken an aggressive approach to economic development and is actively promoting diversification into non-manufacturing areas.

The unemployment rate remains elevated, with a May 2011 seasonally unadjusted rate of 12.7% that was significantly higher than the state's rate of 10.3% and the U.S. rate of 8.7%. Although the rate of 12.7% is lower than the 14.6% recorded in May 2010, this is mainly attributable to the labor force contracting more severely than the contraction in employment. Per capita income is somewhat below average, at 91% of the state and 79% of the U.S.

Financial Operations Adequately Maintained
Ample reserve levels have been preserved throughout the recession, underscoring management's ability to react to falling revenues and rising cost pressures. Unreserved general fund balance equaled 9.7% of spending in FY10. The county recorded net surpluses in the general fund in the last four years and projects another modest surplus in FY11. The unrestricted balance in the county's

delinquent tax revolving fund was $26.1 million in FY10, representing another 43% of general fund spending.

Revenue flexibility is limited, as all millages are at the Headlee limit. Favorably, voters approved overrides of the rolled-back rates for two of the county's five millages as well as authorizing a brand new millage for veteran's services in 2010. Conservative forecasting of revenues, particularly for the housing for federal prisoners, also contributes to the county's fiscal stability. All labor contracts are currently settled, with most calling for zero percent wage increases and favorable health care plan changes which limit future increases in labor costs.

Favorable Debt Profile
Direct debt levels are low, at 0.5% of full value or $412 on a per capita basis. Moderate levels of overlapping borrowing bring overall debt burden up to 3.6% or $2,706 per capita. Payout is average, with 58% scheduled for retirement within 10 years. Debt service accounts for a manageable 7.1% of spending and future borrowing plans should be easily accommodated.

The St. Clair County Retirement System, a single-employer defined benefit plan, provides retirement and pension benefits for employees, although some employees hired after Jan. 1, 2009 are covered under a defined contribution plan. The county consistently funds the actuarially based annual required contribution (ARC), which accounted for 8.3% of spending in FY10. The plan was 86.9% funded at the end of FY09, or 73.2% funded using Fitch's more conservative 7% discount rate.

The county has a substantial other post-employment benefit (OPEB) liability, which it has begun to pre-fund, with $37.2 million in assets recorded in FY10. The 2010 contribution, which represented 27% of the ARC, accounted for 5.1% of FY10 spending. Officials are also acting to limit the number of employees who qualify for OPEB benefits in an effort to control future growth of the liability.

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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, Zillow.com, National Association of Realtors, U.S. Federal Government.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria', dated Aug. 15, 2011;
--'U.S. Local Government Tax-Supported Rating Criteria', dated Aug. 15, 2011.

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Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648898
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648842