

Research Update:

Berkeley, CA Series 2026-27 Tax And Revenue Anticipation Notes Assigned 'SP-1+' Rating

June 25, 2026

Overview

- S&P Global Ratings assigned its 'SP-1+' short-term rating to **Berkeley**, California's anticipated \$81 million series 2026-27 tax and revenue anticipation notes (TRANs).

Rationale

Security

The notes are payable from taxes, income, revenue, cash receipts, and other funds attributable to fiscal 2027.

The city will use proceeds to manage liquidity risks associated with uneven cash flow receipts during the fiscal year, particularly in December and April, when it receives the bulk of its property tax receipts, and to take advantage of a credit from its pension manager if it makes the bulk of its pension contributions at the beginning of the fiscal year rather than paying in installments. The TRANs mature July 22, 2027, preceded by principal set-asides in January and May 2026 and an interest set-aside in June 2026. Although the maturity slightly trails the pledge period, we view projected pledge period receipts of 4x TRAN principal and interest as demonstrating the likelihood that the vast majority of funds on hand will be attributable to fiscal 2027.

Credit highlights

We view the city's short-term credit fundamentals as robust overall, with substantial experience in planning for and managing cash flow borrowing, strong coverage even after adjusting for a pattern of negative variances for actual year-end cash relative to projections, and extraordinarily strong projected coverage when accounting for alternative liquidity.

We understand that the city's recently adopted fiscal 2027 budget reflects a concerted effort to achieve structural sustainability now that the city has experience operating in the absence of one-time American Rescue Plan Act grants. A major component of this is the elimination of about one in 10 positions, most of which are vacant, and a focus on recruiting for police and fire positions to reduce exposure to overtime costs, which recurrently contribute to budgetary stress.

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Potential upsides for revenue include a proposal on the November 2026 ballot to increase the sales tax rate and consideration of a utility tax focused on streaming entertainment services, although the city has excluded these from budgetary assumptions and cash flow projections.

Cash flow projections for fiscal 2027 reflect what we view as reasonable assumptions based on experience. The city is assuming a 5% increase in property tax receipts (which make up 38% of projected general fund receipts, excluding TRAN proceeds) and a 6% increase in taxes other than those on property and sales (25% of projected receipts). Its disbursement assumptions include a 14% increase in general government expenses despite the position reductions, and a 7% reduction in public safety disbursements, reflecting an overtime control priority that has proven difficult to adhere to in the past.

The city's cash at comparable fiscal year-ends, which come about three weeks before TRAN maturities, have tended to come in below projections, with fiscal year-end 2026 cash slated to stand about 16% below what management anticipated at this time last year, using actual results through April 2026 and subsequent estimates and projections. This is similar to negative 20% variances in the prior two fiscal years, according to our calculations. If we apply negative coverage adjustment to management's projections for the series 2026-27 TRANs, the city would still have what we consider strong coverage at maturity, assuming that it declined to exercise the early pension contribution option. In practice we think the city would have considerable flexibility at series 2026-27 TRAN maturity, including the ability to issue TRANs just prior to exercising the pension prepayment option and/or draw on its considerable sources of alternative liquidity. Moreover, although we generally don't view early TRAN payment set-aside structures as materially enhancing credit quality by themselves, we think the city's continued practice of formally setting aside principal payments in January and May positions it to identify and counter a future adverse general fund liquidity situation on the maturity date.

The rating further reflects our opinion of the city's:

- Strong projected coverage of 1.8x TRAN principal and interest by the city's available general fund cash at maturity, inclusive of the "stabilization" and "catastrophic" reserves held within the general fund and legally available for general use, and assuming the city will not make a frontloaded pension contribution in July 2027; and
- Extraordinarily strong projected coverage of 4.2x at maturity inclusive of general fund and alternative liquidity across non-general-fund accounts, the largest of which are the city's sewer and permit service center funds.

Environmental, social, and governance

We view the city as facing elevated physical risk given the region's exposure to earthquakes and wildfires. The state's strong building codes have reduced seismic risk for buildings constructed during the past half century; the city maintains a program that allows residential property owners to use certain taxes payable to the city to retrofit properties, and has adopted hazard mitigation plans to reduce wildfire risk. Social risk is above average, in our view, with a significant unhoused population and high housing costs that put more people at risk of homelessness, especially during economic downturns. We believe that housing and services for individuals experiencing homelessness will likely be a key factor in budget decisions for the foreseeable future. We view the governance factor as neutral.

Ratings List

New Issue Ratings

Berkeley, CA Series 2026-27 Tax And Revenue Anticipation Notes Assigned 'SP-1+' Rating

Ratings List

US\$81.0 mil 2026-27 TRANs due 07/22/2027

Short Term Rating SP-1+

New Rating

Local Government

Berkeley, CA Cash Flow Notes SP-1+

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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