Research Update:

Berkeley, CA Series 2026 Infrastructure And Facilities Improvement GO Bonds Assigned 'AA+' Rating

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Primary Contact

Chris Morgan
San Francisco
1-415-371-5032
chris.morgan
@spglobal.com

Secondary Contact

Treasure D Walker
Englewood
303-721-4531
treasure.walker
@spglobal.com

Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to **Berkeley**, California's expected $20 million series 2026 (2016 Election: Infrastructure and Facilities Improvements) general obligation (GO) bonds.
- We also affirmed our 'AA+' long-term rating and underlying rating (SPUR) on the city's GO bonds outstanding and our 'AA' long-term rating on the city's appropriation obligations outstanding.
- The outlook is stable.

Rationale

Security

Revenue from an unlimited ad valorem tax on all taxable property in the city secures the series 2026 and previously issued GO bonds. Proceeds will fund a mix of facility improvements, particularly among the city's community and recreation centers.

The city's previously issued appropriation obligations are payable from lease payments by the city for the use of leased assets. We view lease terms as standard. Furthermore, the leased assets meet our minimum requirements for seismic resilience during the term of the respective obligations. We rate the appropriation obligations one notch below our view of the city's general creditworthiness to reflect our view of the risk of nonappropriation inherent to the lease structure.

Credit highlights

We view Berkeley's credit quality as buoyed by its namesake university, highly educated local population, and land use regulations that appear to be enabling developers to respond to strong regional housing demand and the space needs of biotechnology and light industrial companies. At the same time, we think the city is in a pivotal moment budget-wise, with management positioning the fiscal 2027 budget to structurally balance general fund operations in in the absence of major federal grant receipts early in the decade.

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. 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. We think the fate of the sales tax measure will have a major effect on the tenor of the upcoming year's budget cycle, as management has linked its approximately $10 million in proceeds (equivalent to about 3% of revenue) to the city's ability to maintain staffing in public safety and parks and recreation functions.

For more information on our view of California municipalities, see "U.S. Local Governments Credit Brief: California Counties And Municipalities Means And Medians," Oct. 31, 2025.

The ratings further reflect our view of the city's:

- University-anchored economic base in the center of the San Francisco Bay Area, with above-average gross county product and incomes relative to the nation. Management reports that the city continues to approve multifamily housing developments, including 11 comprising approximately 1,800 units in calendar 2025.
- Very strong reserves that have shown a pronounced decline relative to revenue, a trend that the city is seeking to arrest in its fiscal 2027 budget, which includes major spending reductions and minor ongoing revenue increases, and a request from voters to increase the city's sales tax rate, which would provide budgetary relief for fiscal 2028 and beyond, if approved.
- Comprehensive management framework that includes robust budget-building and monitoring methodologies and transparency, well-defined policies, scrutiny from an auditor's office separate from the city's management hierarchy, and a multiyear revenue forecast, although the city does not perform expenditure forecasting beyond a given biennial cycle. In 2025 the city scaled back its reserves goal to 20% to 30% of revenue in 2025 from an aspirational 30% ratio, but we view positively that the city cites the policy in budget proposals. The city annually renews a five-year capital improvement plan that outlines projects and funding plans. We view the city's cyber risk mitigation measures as consistent with its credit fundamentals.
- Weak fixed-cost burden, with substantial pension and other postemployment benefit (OPEB) carrying charges and low funded ratios for its closed single-employer plans relative to plans open to new employees that state pension manager CalPERS operates. At the same time, we note that the city has continuously emphasized in public documents its policy commitment to making regular contributions to long-term assets in a Section 115 trust to reduce long-term pension and OPEB costs. The series 2026 GO bonds represent the final issuance under the city's current authorization, but management anticipates the city requesting another approximately $300 million from voters in November 2026, concurrent with the sales tax rate increase. Also under consideration during the next two years is an appropriation issuance to purchase the city's fire department headquarters, which would also take out an obligation with a $10.2 million bullet maturity coming due in fiscal 2030.

- For more information on our institutional framework assessment for California cities, see: "Institutional Framework Assessment: California Local Governments, Sept. 9, 2024," Sept. 9, 2024.
- We view the city as facing elevated exposure to earthquakes and sea level rise. For the former, the city maintains a program that allows residential property owners to use certain taxes payable to the city to retrofit properties, while new construction is subject to robust state building codes. For the latter, the city has a comprehensive climate action plan that includes mitigating infrastructure vulnerabilities.

Outlook

The stable outlook reflects our view that the city's budgetary monitoring, planning, and policy tools position it to execute on its goal to achieve structurally balanced operations, with the upcoming public vote on sales taxes providing an important signal to political leaders on budgetary tradeoffs that the city will consider for the fiscal 2028 budget and beyond. Accordingly, whether or not voters approve or decline the tax change, we anticipate that the city will continue to seek to keep revenue and expenditures in alignment.

Downside scenario

Notwithstanding our confidence in the city's ability to find consensus sufficient to balance its budget on paper, we see, based on the city's experience and that of cities elsewhere in the state, a downside risk in a yet-unproven ability to manage overtime costs related to the tension between public safety service priorities and unfilled positions that lead to overtime expenses. Although we don't anticipate that this challenge will be fully resolved during the outlook period, we could lower the ratings if expenditure overages related to overtime or another cause led reserves to approach our 15%-of-revenue threshold.

Upside scenario

We could raise the ratings if multiple elements, such as strengthening revenue, the adoption of a comprehensive financial planning practice, and what we thought were sustainable accelerated contributions to the pension fund led us to believe that the city's budgetary environment had sustainably strengthened.

Berkeley, California--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	2.07
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	1.35
Debt and liabilities	5.00

Berkeley, California--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita as % of U.S.	133	--	133	135
County PCPI as % of U.S.	152	--	152	149
Market value ($000s)	30,830,699	28,189,621	27,822,050	25,929,246
Market value per capita ($)	258,376	236,242	233,162	211,252
Top 10 taxpayers as% of taxable value	7.3	5.8	7.1	6.8
County unemployment rate (%)	4.2	4.7	4.4	4.1
Local median household EBI as % of U.S.	131	--	131	136
Local per capita EBI as % of U.S.	147	--	147	145
Local population	119,325	--	119,325	122,741
Financial performance				
Operating fund revenue ($000s)	--	285,841	261,783	241,248
Operating fund expenditures ($000s)	--	276,942	241,803	211,304
Net transfers and other adjustments ($000s)	--	(6,775)	(25,417)	(19,520)
Operating result ($000s)	--	2,124	(5,437)	10,424
Operating result as % of revenue	--	0.7	(2.1)	4.3
Operating result three-year average %	--	1.0	5.9	8.8
Reserves and liquidity				
Available reserves as % of operating revenue	--	19.0	22.9	35.9
Available reserves ($000s)	--	54,392	59,914	86,669
Debt and liabilities				
Debt service cost as % of revenue	--	4.0	4.3	3.6
Net direct debt per capita ($)	2,553	1,898	1,818	1,862
Net direct debt ($000s)	304,642	226,511	216,991	228,550
Direct debt 10-year amortization (%)	40	60	49	49
Pension and OPEB cost as % of revenue	--	18	16	16
NPLs per capita ($)	--	5,916	5,916	5,925
Combined NPLs ($000s)	--	705,892	705,903	727,292

Financial data may reflect analytical adjustments and is sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. EBI--Effective buying income. GCP--Gross county product. NPL--Net pension liability. OPEB--Other postemployment benefits. PCPI--Per capita personal income.

Ratings List	
New Issue Ratings	
US$20,000,000 City of Berkeley, 2026 General Obligation Bonds, (2016 Election: Infrastructure And Facilities Improvement), dated: August 11, 2026, due: September 01, 2056	
Long Term Rating	AA+/Stable
Ratings Affirmed	
Local Government	
Berkeley, CA Lease Appropriation	AA/Stable
Berkeley, CA Unlimited Tax General Obligation	AA+/Stable

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.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.