

RatingsDirect®

Summary:

Berkeley, California; Note

Primary Credit Analyst:

Cenisa C Gutierrez, San Francisco (510) 206-8913; cenisa.gutierrez@spglobal.com

Secondary Contact:

Chris Morgan, San Francisco + 1 (415) 371 5032; chris.morgan@spglobal.com

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Summary:

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Credit Profile

US\$36.0 mil TRANs ser 2024-25 dtd 07/30/2024 due 07/29/2025

Short Term Rating

SP-1+

New

Berkeley TRANs ser 2024-25 dtd 07/30/2024 due 07/29/2025

Short Term Rating

SP-1+

Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Berkeley, Calif.'s approximately \$36 million series 2024-25 tax and revenue anticipation notes (TRANs).

Security

The notes are payable from taxes, income, revenues, cash receipts, and other moneys received by the city that are attributable to fiscal 2025. The city will use proceeds to manage liquidity risks associated with uneven cash-flow receipts during the fiscal year, particularly in October and November, which are prior to an infusion of property tax receipts. The TRANs mature July 29, 2025.

Credit overview

We view the city's economy as having rebounded from the effects of the COVID-19 pandemic, with a return to in-person learning at its namesake university and continued residential and commercial development. We anticipate that the city will continue to maintain what we consider a very strong financial position on an accrual basis, and we calculate coverage for the series 2024-25 based on the city's projections for cash at maturity at a very strong level, comparable to prior years'.

Projections for fiscal 2025 include what we view as reasonable assumptions, including an increase in property tax receipts, which consist of both conventional ad valorem taxes and the more volatile real estate transfer tax, and a small increase in sales tax receipts. The city's property tax receipts, which make up 43% of projected non-TRAN receipts in fiscal 2025, are likely to steadily grow this year due to a strong residential real estate market. Sales tax receipts have returned to pre-pandemic levels and we believe a recent surge in inflation nationwide will continue to elevate receipts this year even if demand flattens out.

Based on current projections and a quantitative adjustment for comparability, we calculate that the city's TRANs maturing in July 2024 (just prior to the issuance of the series 2024-25) will show TRAN coverage below what the city projected at this time last year. However, coverage for the series 2024-25 would remain very strong even with a comparable negative variance, particularly when alternative liquidity is considered.

For more information on our view of the city's long-term credit profile, see the article published April 21, 2022, on RatingsDirect.

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

- Very strong projected coverage of 3.3x 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;
- Extraordinarily strong projected coverage of 9.1x at maturity inclusive of alternative liquidity across nine non-general fund accounts, the largest of which is the city's internal service fund to manage worker's compensation costs; and
- Current projections showing coverage at the end of June 2024, close to the maturity of the city's TRANs, tracking at about 8% below projections from a year ago, due in part to larger-than-projected public safety disbursements and transfers out.

Environmental, social, and governance

We view the city as facing elevated physical risk due to the region's exposure to earthquakes and sea level rise. The state's strong building codes have reduced seismic risk for buildings constructed during the past half century and the city maintains a program that allows residential property owners to use certain taxes payable to the city to retrofit properties. The city is planning to address sea level rise through a comprehensive climate action plan. Social risk is also 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 is likely to represent a key factor in budget decisions for the foreseeable future. We view the city's governance risks as in line with the sector standard.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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