Research Update:

# Ann Arbor, MI Series 2026 Limited Tax GO Capital Improvement Bonds Assigned 'AAA' Rating

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## Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to Ann Arbor, Michigan's $10 million series 2026 limited tax general obligation (GO) capital improvement bonds (park projects).
- The outlook is stable.

## Rationale

### Security

The city's limited tax full faith and credit and agreement to levy ad valorem property taxes, within statutory and constitutional tax limitations, secure the bonds. We rate the city's limited tax GO debt on par with our view of its general creditworthiness given the fungibility of resources available for debt service.

Series 2026 bond proceeds will be used to finance various capital improvements toward the city's park system.

### Credit highlights

The rating reflects our view of the city's proactive management and oversight characterized by well-embedded management practices, planning, and policies. The strength of management has historically supported and is expected to continue to support consistently balanced operations and the maintenance of healthy reserves. The rating further reflects our view of the city's stable local economy, anchored by the University of Michigan (UM), with above-average economic indicators, a manageable debt burden, and limited pension pressures given a well-funded plan.

Ann Arbor, the seat of Washtenaw County, is about 35 miles west of Detroit. The city is home to UM with an estimated student count of approximately 52,000 and staffing of more than 38,000. We believe that UM anchors the local economy and that its stabilizing institutional influence benefits the city.

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

- Resilient economy with an employment base in education, health care, and professional services; per capita income and total market value metrics materially outpace those of most


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national peers hosting similarly sized universities and institutions, which tend to depress economic metrics. Proactive development strategy, reflected in management's land use policy changes to encourage higher-density, vertical growth, to support economic expansion and tax base stability.

- Consistently strong operating performances with a track record of consecutive surpluses that have resulted in steady reserve growth and strengthened financial flexibility. While the fiscal 2026 general fund was budgeted with a $7.4 million use of reserves, management is expecting an operating surplus of $377,000 reflecting stronger-than-anticipated property tax revenues and lower-than-budgeted expenditures for personnel, including wages and fringe benefits due to unfilled positions, as well as utilities and professional services. Although the fiscal 2027 budget assumes a $5.8 million use of reserves, we expect the city to achieve at least break-even operations, given its demonstrated track record of outperforming budgeted expectations. Therefore, we expect reserves to remain healthy.  Additionally, voters recently rejected Proposal E, which sought to establish a municipality owned electric utility. This potentially avoids acquisition costs and associated financial and operational risks for the city, which we view favorably.
- Very strong financial oversight and policy discipline, supported by line-item budgeting and ongoing budget-to-actual monitoring through monthly council reporting. Investment practices adhere to state guidelines with regular performance updates, while formal six-year financial and capital plans guide long-term decision making. Debt and reserve policies are well defined, including coverage requirements for revenue bonds, parameters for refunding savings and maturities, and a fund balance policy targeting 15% to 20% of available reserves, which we view as supportive of financial stability.
- Manageable debt burden, fixed costs, and pension profile, supported by conservative debt and pension management practices and adherence to formal policies. With the current issuance and about $28 million in additional debt expected under the capital improvement plan, per capita debt could increase to over $1,000. We believe management will prudently layer in new debt to maintain a manageable burden and stable carrying costs. The city's single defined benefit plan was well funded at approximately 98% as of June 30, 2025. Management has historically contributed in excess of the actuarially determined contribution for both pension and other postemployment benefits, and we view this as indicating disciplined funding practices and limited long-term liability pressure on operations.
- For more information on our institutional framework assessment for Michigan municipalities, see "Institutional Framework Assessment: Michigan Local Governments," Sept. 9, 2024.

# Outlook

The stable outlook reflects our view that Ann Arbor will maintain its healthy financial position, supported by well-embedded policies and disciplined budgeting practices, and continue to benefit from its growing and resilient economy.

## Downside scenario

We could lower the rating if the city's financial profile materially weakens, if it sees larger-than-anticipated debt issuance, or if pension and other postemployment benefit funding significantly weakens.

**Ann Arbor, Michigan--credit summary**


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| | |
|---|---|
| Institutional framework (IF) | 2 |
| Individual credit profile (ICP) | 1.15 |
| Economy | 1.0 |
| Financial performance | 1 |
| Reserves and liquidity | 1 |
| Management | 1.00 |
| Debt and liabilities | 1.75 |

**Ann Arbor, Michigan--key credit metrics**

| | Most recent | 2025 | 2024 | 2023 |
|---|---|---|---|---|
| **Economy** | | | | |
| Real GCP per capita as % of U.S. | 111 | -- | 111 | 111 |
| County PCPI as % of U.S. | 109 | -- | 109 | 110 |
| Market value ($000s) | 23,246,648 | 21,461,066 | 19,986,494 | 18,912,274 |
| Market value per capita ($) | 190,847 | 176,188 | 164,082 | 152,810 |
| Top 10 taxpayers as % of taxable value | 6.5 | 6.0 | 6.1 | 5.3 |
| County unemployment rate (%) | 4.5 | 4.5 | 3.8 | 3.2 |
| Local median household EBI as % of U.S. | 101 | -- | 101 | 107 |
| Local per capita EBI as % of U.S. | 117 | -- | 117 | 121 |
| Local population | 121,808 | -- | 121,808 | 123,763 |
| **Financial performance** | | | | |
| Operating fund revenue ($000s) | -- | 130,589 | 117,110 | 108,987 |
| Operating fund expenditures ($000s) | -- | 115,775 | 108,949 | 98,445 |
| Net transfers and other adjustments ($000s) | -- | (4,537) | (1,415) | (2,352) |
| Operating result ($000s) | -- | 10,277 | 6,746 | 8,190 |
| Operating result as % of revenue | -- | 7.9 | 5.8 | 7.5 |
| Operating result three-year average % | -- | 7.0 | 5.0 | 4.8 |
| **Reserves and liquidity** | | | | |
| Available reserves as % of operating revenue | -- | 37.1 | 40.3 | 37.4 |
| Available reserves ($000s) | -- | 48,435 | 47,170 | 40,719 |
| **Debt and liabilities** | | | | |
| Debt service cost as % of revenue | -- | 5.1 | 7.6 | 6.1 |
| Net direct debt per capita ($) | 1,165 | 841 | 741 | 835 |
| Net direct debt ($000s) | -- | 102,465 | 90,201 | 103,312 |
| Direct debt 10-year amortization (%) | 77 | 91 | 95 | -- |
| Pension and OPEB cost as % of revenue | -- | 15 | 15 | 15 |
| NPLs per capita ($) | -- | 121 | 322 | 505 |


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| | | | | |
|---|---|---|---|---|
| Combined NPLs ($000s) | -- | 14,793 | 39,256 | 62,559 |

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| **Ratings List** | |
|---|---|
| **New Issue Ratings** | |
| US$10.000 mil cap imp bnds (ltd tax GO) (Park Project) ser 2026 due 5/1/2041 | |
| Long Term Rating | AAA/Stable |

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