School funding and the AAPS Sinking Fund millage

What's a sinking fund? Why do we need it?

Ann Arbor Citizens Millage Committee, July 2026

Tonight's topics

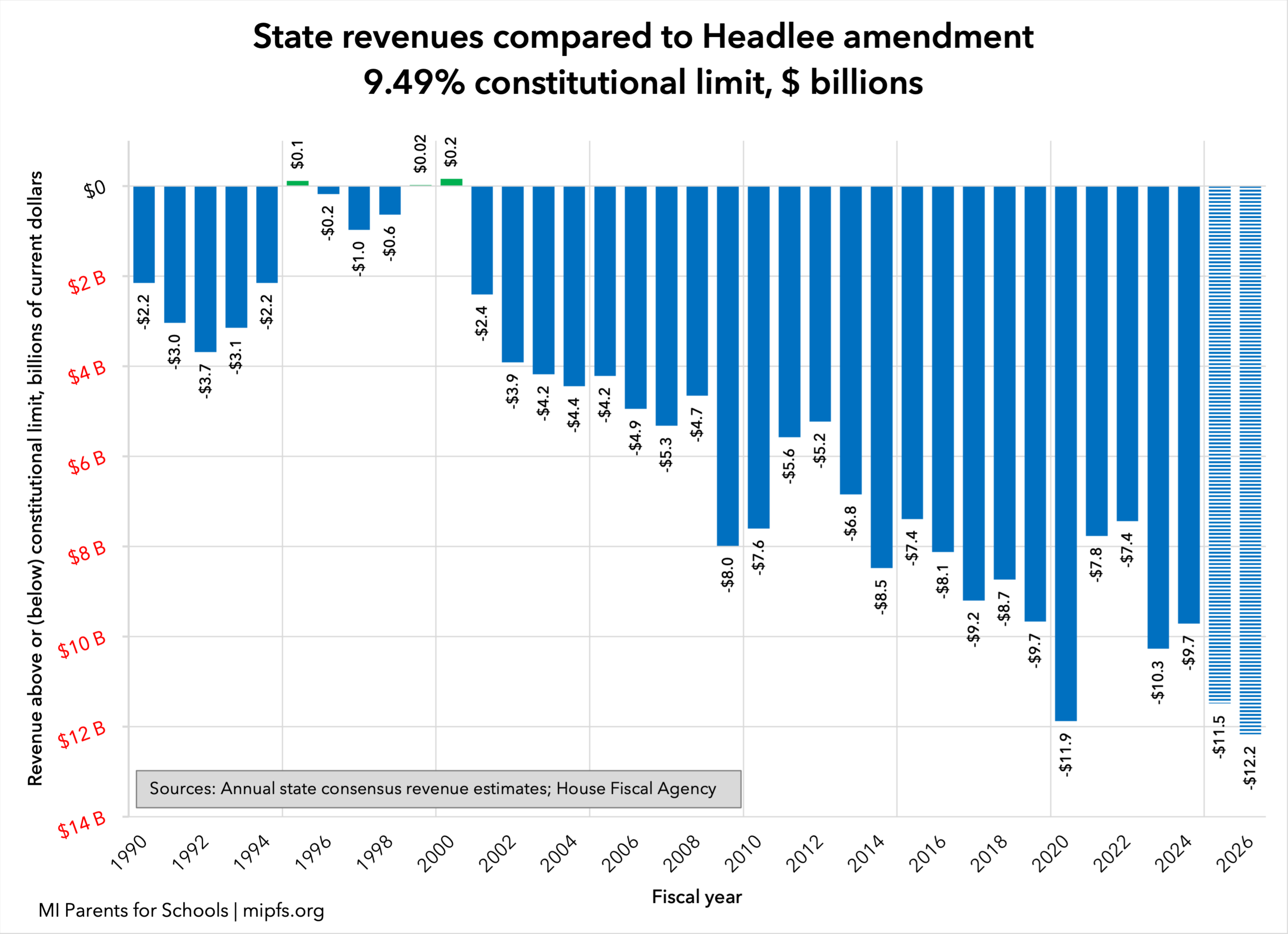
Sinking fund in the wider school funding picture

- ❖ Setting the stage: Michigan school funding
- ❖ Focus on local: Where does AAPS funding come from, and how can we use it?
- ❖ Plain language: What is a sinking fund anyway?
- ❖ What's on the ballot?
- ❖ What is it good for?
- ❖ Q&A

State level:
School funding and you

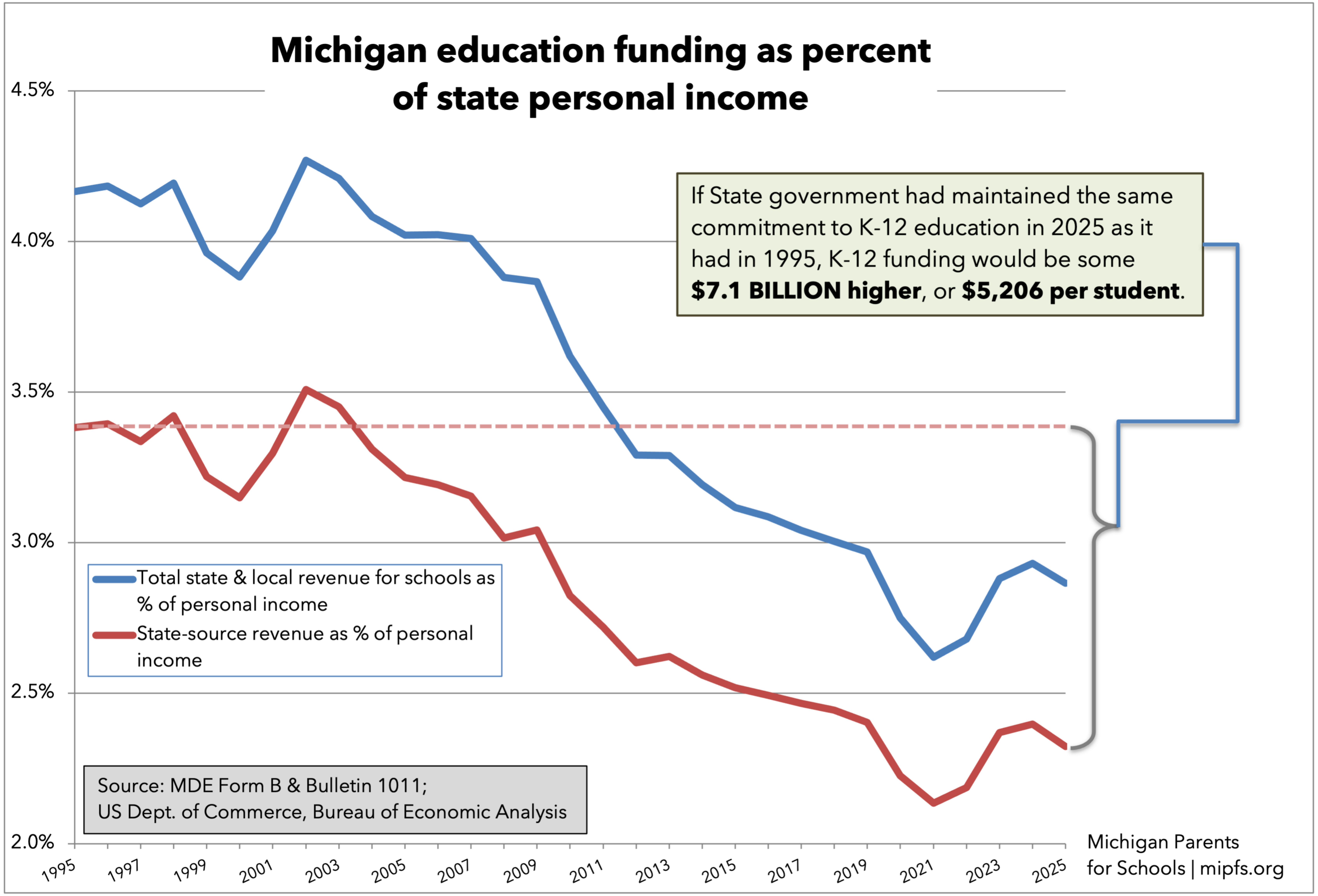
Taxes? What taxes?

Michigan is $12 BILLION under the limit set by 1970s anti-tax campaigners



Sliding effort

Michigan has spent less on K-12 education, in good times and bad, for over 20 years



Local level:
Not all funding is fungible

Non-Homestead

Homestead

State Government
School Aid Fund

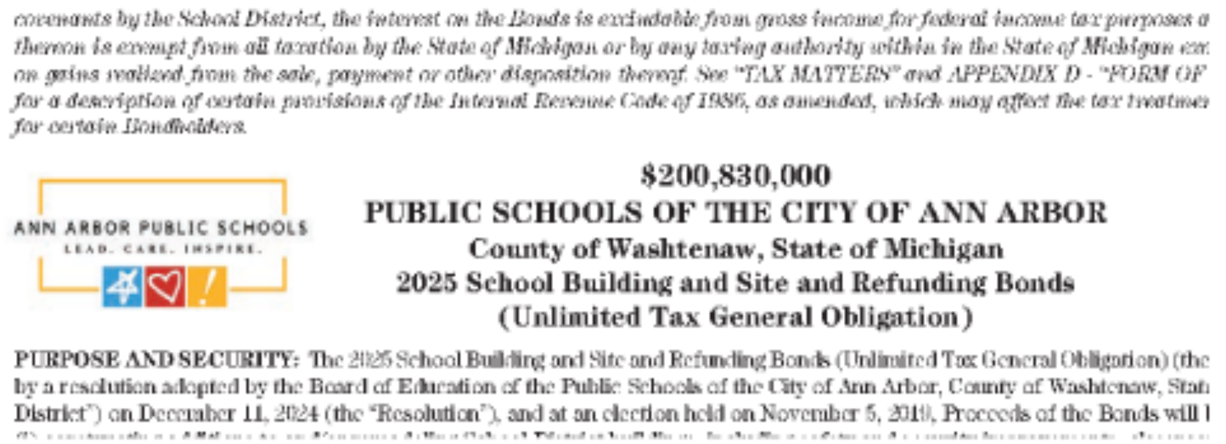
US Government
Dept. of Education

Operating funds

- **Set each year by the State Legislature in the annual School Aid Budget – not under local control**
- Funds all the operations of the school district, including salaries, supplies, maintenance and any other expenses not covered elsewhere
- Required local contribution, set by law, must be authorized by voters every few years
- Most local funds and some state funds are ***unrestricted*** – can be used for any purpose
- All Federal funds and some state funds are ***restricted*** – can only be used for specific programs and purposes
- District's finances must be audited annually
- Combination of local tax millages, state education tax, most of the sales tax, some of the income tax (plus a few others)

Sinking Fund

- **Local control: authorized by voters**
- Funds can only be used for purposes permitted by law
- Subject to audit, submitted to state
- Tax millage generates annual funds available for repairs, renovations, purchases, etc.
- No interest payments, no fees to financial firms


covenants by the School District, the interest on the Bonds is excludable from gross income for federal income tax purposes a thereon is exempt from all taxation by the State of Michigan or by any taxing authority within in the State of Michigan ex on gains realized from the sale, payment or other disposition thereof. See "TAX MATTERS" and APPENDIX D - "FORM OF for a description of certain provisions of the Internal Revenue Code of 1986, as amended, which may affect the tax treatmen for certain Bondholders.

ANN ARBOR PUBLIC SCHOOLS
LEAD. CARE. INSPIRE.

$200,830,000
PUBLIC SCHOOLS OF THE CITY OF ANN ARBOR
County of Washtenaw, State of Michigan
2025 School Building and Site and Refunding Bonds
(Unlimited Tax General Obligation)

PURPOSE AND SECURITY: The 2025 School Building and Site and Refunding Bonds (Unlimited Tax General Obligation) (the by a resolution adopted by the Board of Education of the Public Schools of the City of Ann Arbor, County of Washtenaw, Stat District") on December 11, 2024 (the "Resolution"), and at an election held on November 5, 2019, Proceeds of the Bonds will

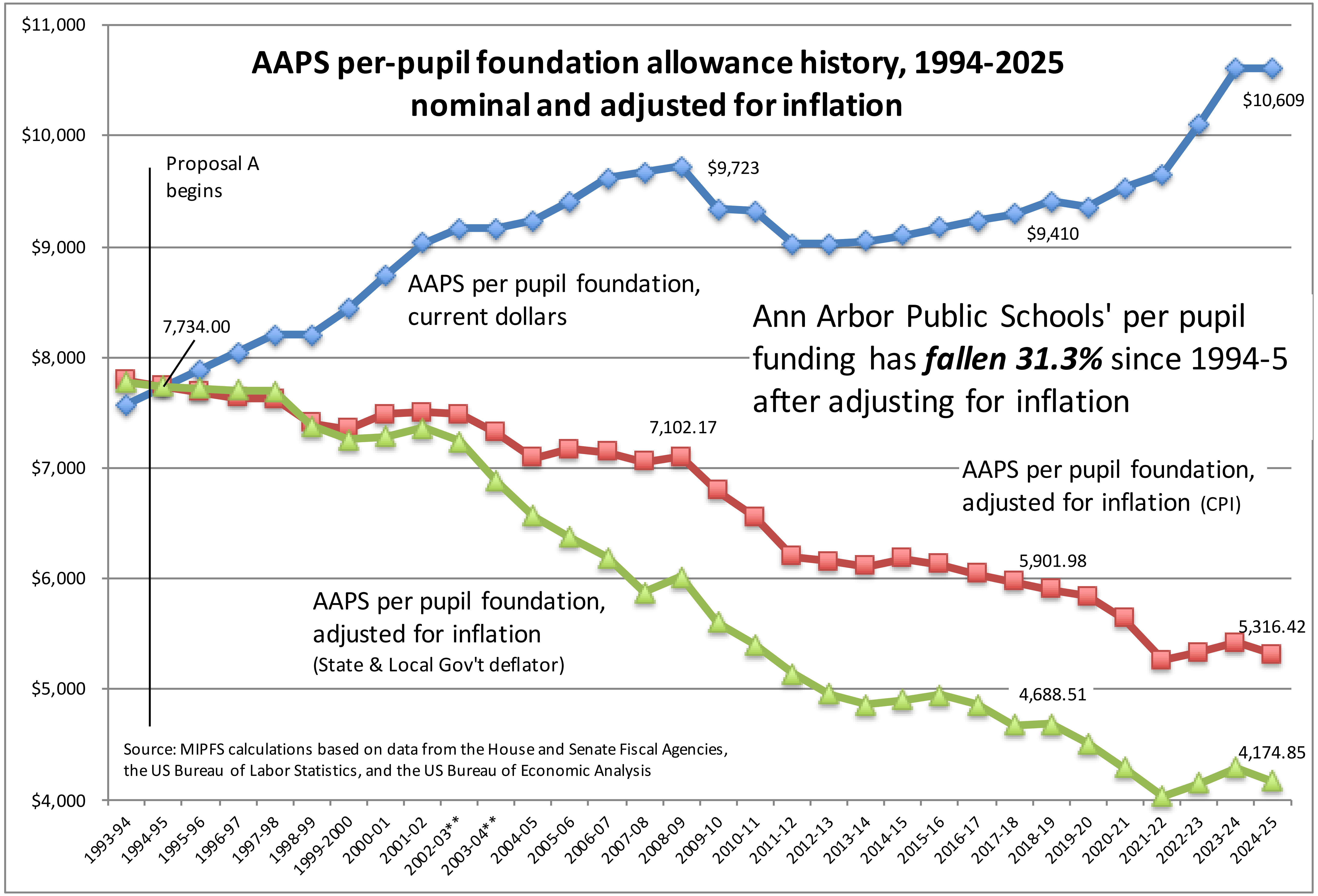
Bonds

- **Local control: authorized by voters**
- Funds can only be used for purposes listed in the original ballot language
- Subject to audit, submitted to state
- Bonds are sold in large batches, to provide substantial up-front resources for construction or purchases
- Tax millage pays off the bonds as they come due over time
- Interest paid to bond holders, fees for financial firms which handle the sale

Why is a sinking fund important?

The value of our foundation allowance has been falling

The value of the per-pupil foundation allowance—the main source of ***unrestricted*** funding for AAPS—has fallen over 30% in the last twenty years, after adjusting for inflation

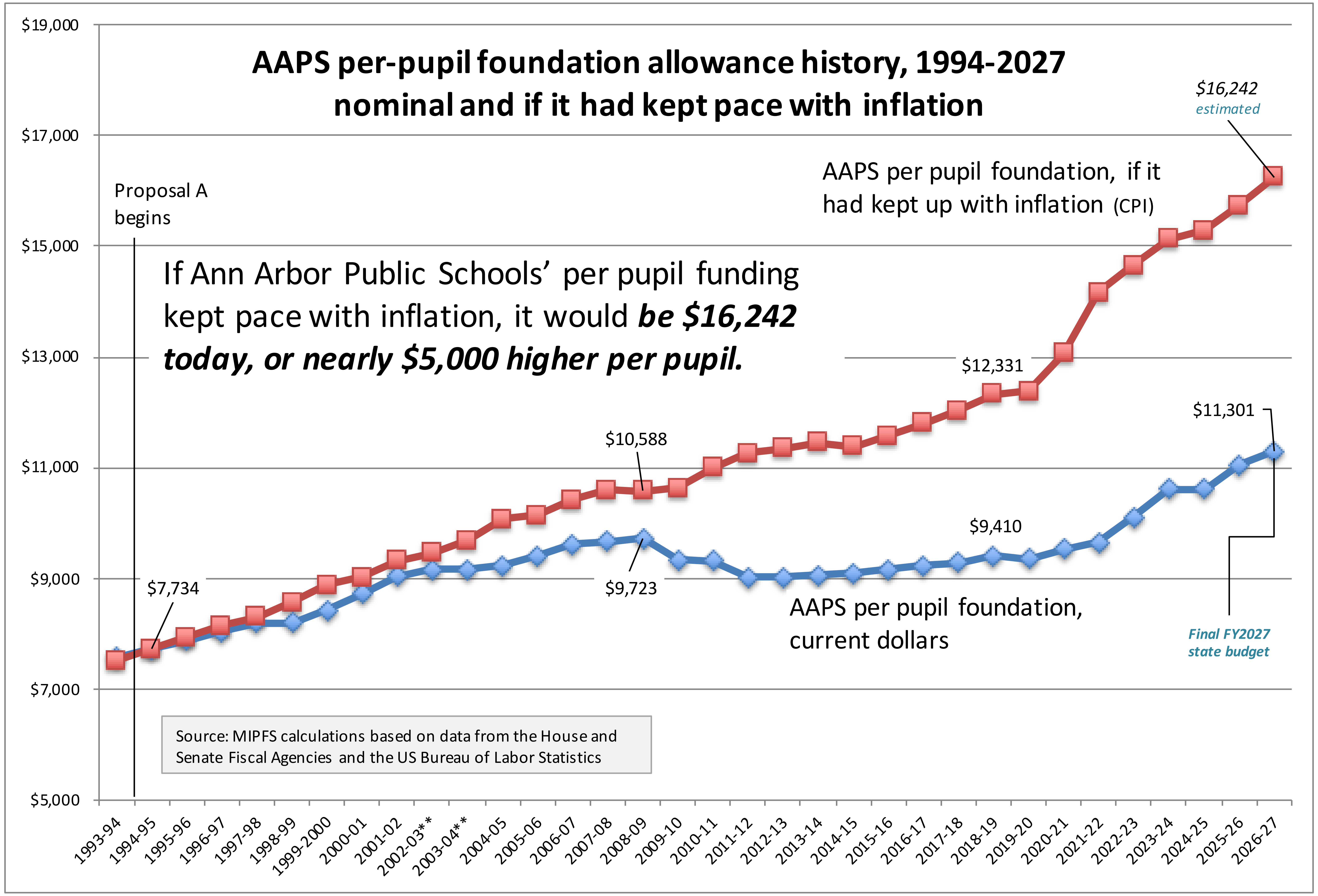


Falling behind

Funding has not kept up with costs

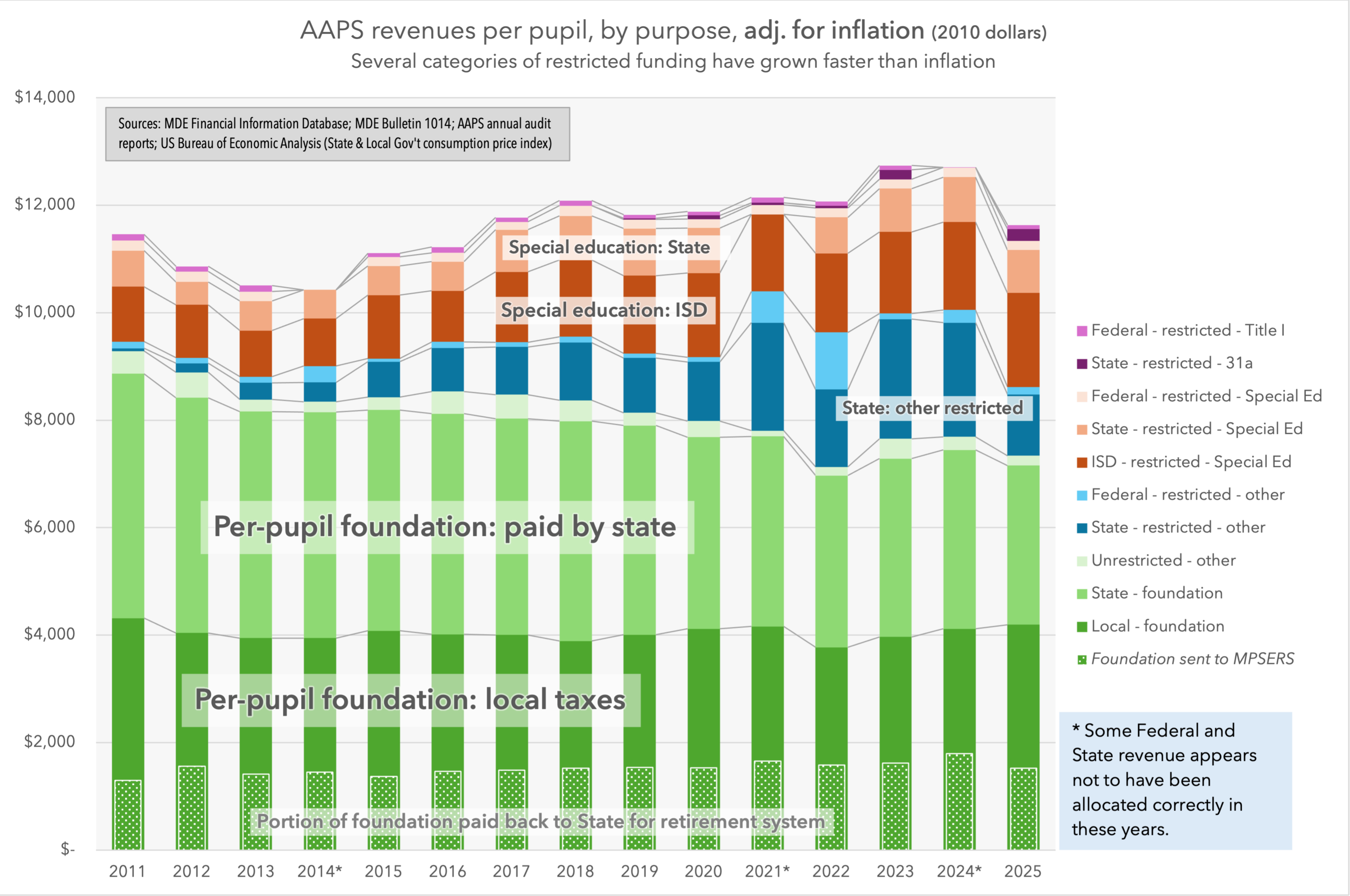
Looked at another way, if per-pupil unrestricted foundation funding had kept up with inflation since 1994, it would be ***over $16,000 today, or about $5,000 per student higher*** than our actual funding.

That represents over $80 million per year.



Revenue up?

Unrestricted revenue is down, after inflation—without a sinking fund, we'd have to choose between teacher salaries and leaky roofs



On the ballot:
AAPS Sinking Fund millage

What is a sinking fund, and why is it sinking?

A funny name for a very ordinary thing

In the world of finance, a “sinking fund” is someplace you put funds as you go along to cover future expenses.

The name supposedly comes from British history, where a government fund was created to pay off, or “sink” the national debt.

Michigan law lets school districts create sinking funds with local taxes, which they can use to buy land, perform major repairs, and a few other things added over the years.

Key advantage:

It doesn’t generate as much money up front as bond funds, ***but you can use it without going into debt*** (bonds are really a loan from investors).

What are the rules?

Sinking fund uses and restrictions

Permitted uses

- Sinking funds can be used to:
  - Repair (and build) school buildings, and buy land for buildings
  - Install school security improvements
  - Buy or upgrade technology hardware
  - Buy school buses (and parts)

Legal limits

- Can only be authorized for 10 years at a time
- Can only collect 3 mills in taxes ($3 per $1,000 in taxable value)
- Must be audited, including how funds are spent (with penalties for violations)

THE REVISED SCHOOL CODE (EXCERPT)

Act 451 of 1976

380.1212 Sinking fund; creation; purpose; tax levy; audit; submission of proposition to school electors; election; ballot; approval; definitions.

Sec. 1212.

(1) If approved by the school electors of the school district, the board of a school district may levy a tax on the taxable value of the real and personal property of the school district each year for the purpose of creating a sinking fund. All of the following apply to a sinking fund tax authorized under this section:

(a) For a sinking fund tax authorized before March 29, 2017, the sinking fund tax may be used for the purchase of real estate for sites for, and the construction or repair of, school buildings. For a sinking fund tax authorized on or after March 29, 2017 and before the effective date of the amendatory act that added the following sentence, the sinking fund tax may be used for the purchase of real estate for sites for, and the construction or repair of, school buildings, for school security improvements, or for the acquisition or upgrading of technology. For a sinking fund tax authorized on or after the effective date of the amendatory act that added this sentence, the sinking fund tax may be used for the purchase of real estate for sites for, and the construction or repair of, school buildings; for school security improvements; for the acquisition or upgrading of technology; for the acquisition of student transportation vehicles; for the acquisition of parts, supplies, and equipment used for the maintenance of student transportation vehicles; for the acquisition of trucks and vans registered under the Michigan vehicle code, 1949 PA 300, MCL 257.1 to 257.923, and used to carry parts, equipment, and personnel for or in the maintenance of school buildings; or for the acquisition of parts, supplies, and equipment used to maintain those trucks and vans.

(b) For a sinking fund tax authorized before March 29, 2017, the sinking fund tax must not exceed 5 mills. For a sinking fund tax authorized on or after March 29, 2017, the sinking fund tax must not exceed 3 mills.

(c) For a sinking fund tax authorized before March 29, 2017, the sinking fund tax may be levied each year for a period not to exceed 20 years. For a sinking fund tax authorized on or after March 29, 2017, the sinking fund tax may be levied each year for a period not to exceed 10 years.

(d) The sinking fund tax levy is subject to the 15 mill tax limitation provisions of section 6 of article IX of the state constitution of 1963 and the property tax limitation act, 1933 PA 62, MCL 211.201 to 211.217a.

(2) A school district that levies a sinking fund tax under this section must have an independent audit of its sinking fund conducted annually, including a review of the uses of the sinking fund, and shall submit the audit report to the department of treasury. If the department of treasury determines from the audit report that the sinking fund has been used for a purpose other than those authorized for the sinking fund under this section, the school district shall repay the misused funds to the sinking fund from the school district's operating funds and shall not levy a sinking fund tax under this section after the date the department of treasury makes that determination.

The ask

What is AAPS asking voters to approve on August 4th

- Renew the sinking fund which expires this year
- Renew at the current rate, 2.4031 mills, for 10 years
  - Voters originally approved 2.5 mills, but it was reduced by a “Headlee rollback”
- Authorize using the sinking fund for whatever purposes are allowed by law
  - *Estimated revenue in the first year: $33.8 million*

Washtenaw County – August 4, 2026 Primary Election
Official List of Proposals

<u>Public Schools of the City of Ann Arbor</u>

Building and Site Sinking Fund Millage Renewal Proposal

This proposal will renew the authority last approved by the electors in 2017 and which expires with the 2026 levy for the School District to levy a building and site sinking fund millage. Pursuant to State law, the expenditure of the building and site sinking fund millage proceeds must be audited, and the proceeds cannot be used for teacher, administrator or employee salaries, maintenance or other operating expenses.

Shall the Public Schools of the City of Ann Arbor be authorized to levy 2.4031 mills ($2.4031 on each $1,000 of taxable valuation), for a period of ten (10) years, being the years 2027 to 2036, inclusive, as a renewal of millage previously authorized, to maintain a building and site sinking fund to be used for the construction or repair of school buildings, school security improvements, the acquisition or upgrading of technology, the acquisition of student transportation vehicles, trucks and vans and parts, supplies and equipment used for the maintenance of these vehicles and for any other purposes permitted by law? This millage if approved and levied would provide estimated revenues to the School District of approximately $33,766,376 in the first year that it is levied.

Why?

A few reasons we can think of

- AAPS runs 33 schools, averaging nearly ***70 years old & aging daily***
- Sinking fund dollars pay for critical repairs and equipment as the need arises ***without needing to borrow money***
- Sinking fund dollars help ***protect general fund dollars*** used for classroom supplies and teacher salaries
- Bonds do not respond to inflation, but the sinking fund will ***keep up with rising costs***
- Passing this renewal will ***provide over $350 million in the next decade for repairs*** that would otherwise drain the general fund or be deferred until they become a crisis

What it’s done

Recent sinking fund projects

- Interior renovations at Bryant & Pattengill
- Boiler replacement at Allen Elementary
- Electrical transformer replacement at Clague
- Floor refinishing across several middle school buildings
- Repair loading docks at Clague, Scarlett, Forsythe, Ann Arbor Open, Community, and Pittsfield
- Playground replacements at every elementary school
- Elevator modernizations
- Water quality improvements, including hands-free fixtures
- Rooftop solar at many buildings, with accompanying roof repairs
  - In 2025, new arrays at Clague and Skyline, generating 1,024 KW (enough to power 220 homes)
- Electric vehicle charging infrastructure to support 14 electric school buses (with 10 more to come) - sinking fund covered what grants did not

Ann Arbor/Ypsilanti
A2Y REGIONAL CHAMBER

“The sinking fund renewal will ensure AAPS has the resources needed to effectively continue its important work and it should be renewed by voters this August.”

A2Y Chamber Statement Supporting the Ann Arbor Public Schools Sinking Fund Renewal, June 25, 2026

Vote Yes – August 4th, 2026

Renew the AAPS Sinking Fund —2.4031 mills — 10 years

- **No new taxes:** This is a renewal of an existing millage
- **Keeping up with repairs:** we can fix facilities and do preventive maintenance without dipping into the funds available to run our schools
- **$350+ million over a decade:** Over ten years of investment in Ann Arbor schools and community

Questions? Let's talk.

Thank you for coming!

Ann Arbor Citizens
Millage Committee