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Experts cite sewer leasing pros and cons

An economist, student of scholarships discuss merits of issues Akron voters will face next week

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The proposed Akron city charter amendment that would free up millions of dollars from the public sewer system to finance college scholarships has generated a flood of competing claims.

Introduced to the public by Mayor Don Plusquellic in his February State of the City address, the proposal attempts to address the community's low level of education, which lags the national average, and the \$40,000 cost of a four-year degree at a state-supported Ohio university.

There are two related issues facing voters.

Opponents of Plusquellic's plan placed Issue 9 on the ballot to require voter approval of any sale or lease of major city assets.

The mayor and council responded with Issue 8, which allows the city to move forward.

Approval of Issue 8 would do the following: Allow for a lump-sum payment to the city in exchange for the lease of the sanitary sewers, pay off existing sewer debt, deposit the remaining funds into a scholarship account and define the basics of who will receive the scholarships.

A special oversight panel would be created to iron out logistics.

The scholarship portion of the amendment would provide tuition for an Akron resident who graduates from a public or private high school, is home schooled or has a general education diploma to attend the University of Akron or a trade school in the city.

In an effort to remove the rhetoric, the Beacon Journal turned to some outside third parties for their observations on the pros and cons. Here are some of their thoughts, accompanied by basic questions and answers on how the program would work.

Leasing the sewers

There are two issues wrapped into one charter change, according to William Peirce, professor emeritus and former economics department head at Case Western Reserve University.

"There are really two proposals. One is about leasing the sewer system and the other is a scholarship plan tied to the lease of the sewers," said Peirce. "You can argue the case for or against either of them."

"The sewer lease is the tool for financing the scholarships," Peirce said.

Plusquellic was inspired by the Kalamazoo Promise, in which the Michigan city offered public-school graduates a full ride at any of the state's public universities.

After inception in 2005, Kalamazoo Public Schools enrollment increased 10 percent in 2006 and 2.3 percent in 2007, drawing students from 32 states and reversing a 35-year decline.

Those gains have been tied to economic development in the district, which includes the urban core and adjoining suburban areas, which showed initial boosts in home sales and home prices until the real estate market flattened in 2007.

However, Kalamazoo has something Akron doesn't — anonymous donors to fund the program.

In Akron, "there was no magic source of money, no private donations like in Kalamazoo. So the mayor went to the sewers," said Peirce.

Plusquellic's hope is that the "value of the city sewer system will generate the upfront infusion of cash" to fund the scholarship program, Peirce said.

The city estimates that the lease would generate between \$200 million and \$300 million from large investors. The city would first be obligated to pay off existing sewer-system debt of about \$90 million, then deposit the rest into the scholarship fund.

Peirce said he believes the estimates on the upfront payment are optimistic, considering that the system generated only \$3 million in profit in 2006.

"I don't know who would pay \$250 million for a system that generates \$3 million in profit," he said. That's a "pretty thin margin" and a private firm will have to "save big" in operating expenses to make it attractive.

"One thing a private company can do is operate with fewer employees and pay them less," Peirce said.

To ensure reliable service and competitive prices, a privatized sewer system requires a "very carefully" drawn lease agreement, Peirce said.

"A sewer system is a monopoly. I can't choose to disconnect and put in a septic tank. Citizens are stuck with whatever service cost a private company chooses to set," said Peirce.

The charter amendment would cap sewer rates at a 3.9 percent average rate over 10 years for normal operations and capital expenses.

"However, that means your rates could double approximately every 20 years," said Peirce.

Still, he said he applauds the mayor for thinking creatively about funding post-secondary education.

"His heart is in the right place. . . . The idea of a scholarship program is very attractive, the way of funding it is not," he said.

The scholarship plan

The Kalamazoo Promise has inspired spinoffs in several cities using a variety of funding sources including oil revenues, endowments and casino taxes.

The Kalamazoo program pays up to 100 percent tuition and mandatory fees for Kalamazoo school district graduates to attend any public Michigan university or community college for up to four years.

Akron could hope for population and economic gains similar to those in Kalamazoo, according to Michelle Miller-Adams, an assistant professor of political science at Grand Valley State University. She is writing a book on the Kalamazoo Promise and its impact on the community.

She said she admires many details of the Akron plan, but the provision requiring recipients to pay Akron city income tax for 30 years or repay the scholarship could undermine its appeal and blunt its economic impact.

"I think this is a terrible idea. It's going to seriously undercut usage," said Miller-Adams, a visiting scholar at the W.E. Upjohn Institute.

"Given the mobility of families these days, almost nobody stays anywhere for 30 years. This makes it almost punitive," she said.

She said a commitment of a few years might make sense.

The mayor said the 80 percent of the city's families that do not have children in school should receive some return from the program, thus the requirement that scholarship recipients pay taxes for 30 years.

Miller-Adams said there can be benefits without the 30-year requirement.

Families would move into Akron to take advantage of an attractive scholarship and the students would be in the community, at least for the duration of their college education, she said. And after they find success outside of Akron, they might return to raise families and take advantage of the scholarship for their children.

However the plan is accomplished, tuition help can't come too soon for Akron's students.

Tuition at the University of Akron has nearly quadrupled since 1990. Costs for commuter students rose from \$2,672 to \$9,503 (not

adjusted for inflation) from 1989-90 to 2007: a 256 percent increase.

During the same time, the median income in the state rose only 54 percent.

Miller-Adams especially likes Plusquellic's "last-dollar" approach, requiring students to apply for federal and state financial aid and use the plan to pay the remaining tuition.

"The last-dollar thing is absolutely great," Miller-Adams said. "That's the simplest way relative to the Kalamazoo Promise to save money."

Kalamazoo is a "first-dollar" plan, which means the program pays tuition and whatever other financial aid the student receives can be applied toward other costs such as room and board.

And students don't have to report the tuition assistance as income on their financial aid forms because the program sends the money directly to the college. It never passes through the hands of the students, Miller-Adams said.

The Kalamazoo plan also allows students to attend any public institution in Michigan, including the University of Michigan, which makes the scholarship appealing.

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