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# Akron Seeks Sewer Lease

*Plan to Fund Scholarships Up to Voters*

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By Caitlin Devitt

CHICAGO - The fate of Akron, Ohio, Mayor Donald Plusquellic's controversial plan to lease the city's sewer system and use the proceeds for a local university scholarship fund will be decided by voters after opponents forced the proposal onto the November ballot.

The move delays Akron's fast-tracked effort to solicit bids this month and close the first-of-its-kind transaction by the end of the year. City officials instead will launch a campaign urging voters to approve the proposal - apparently marking the first time a city has put a specific privatization proposal before voters.

Opponents of the sewer lease plan will have their own amendment on the November ballot. It would amend the city charter to require voter approval on any sale or lease of an Akron utility. The critics have launched their own voter education campaign on the issue.

"It's delayed our aggressive schedule," said Rick Merolla, the city's pubic services director, who has control over Akron's public utilities. "Now we're not sending out the [requests for proposals] until after the election." The city now aims to have the transaction closed and funds in hand by early next year, he said.

First proposed by Plusquellic in his state of the city address in February, the plan calls for Akron to enter into a lease of the sewer system for up to 99 years to raise an upfront cash windfall of around $250 million. In its ballot amendment, the city refined a number of key terms in the transaction, adding rate increase caps and putting the city on the line for the financing of any future environmental updates required by the U.S. Environmental Protection Agency. The first of any proceeds would go to pay off the system's roughly $73 million of outstanding debt.

The proposal marks a new front in the efforts by some local governments to lease existing municipal assets to finance other investments. Akron's plan would be the first time a city has leased a sewer system in order to generate an upfront cash payment.

Proceeds from the transaction - which Plusquellic estimated could be as much as $250 million - would fund a unique scholarship program reserved for local public high school graduates attending a local university, college, or trade or vocational school. Dubbed by some as "Stools for Schools," the proposal is an effort to stem the loss of talented students as well as a general population decline in recent years. Recipients would be subject to a 30-year requirement to reside in Akron.

While other cities, such as Kalamazoo, Mich., have launched similar scholarship programs for local students, Akron's would be the first that would be funded through privatization of a municipal asset. In a similar proposal, Indiana Gov. Mitch Daniels - who closed the $3.8 billion lease of the Indiana Toll Road, the largest privatization deal in the country - last month revived an attempt to privatize the Hoosier Lottery in order to fund a college scholarship program for middle-income Indiana high school graduates.

Akron has hired Morgan Stanley to act as its financial adviser on the deal, working with public finance banker William Daley Jr., a nephew of Chicago Mayor Richard Daley, who has made Chicago a pioneer in public-private partnerships in the country.

Akron officials also formed a 12-member advisory group, led by Louise Gissendaner, president of Cincinnati-based Fifth Third Bank's Akron market, to study the transaction and recommend terms of the deal.

Opposition to the plan is being led by the 100 sewer system employees, represented by the Akron American Federation of State, County, and Municipal Employees Union Council 8, as well as the Northeast Ohio American Friends Service Committee, a Quaker organization.

"Round these parts, there's certainly no other local issue that's quite garnering this degree of interest," said Greg Coleridge, director of the Quaker group's economic justice program. "You lose public control when you privatize. If something is privatized, you're trying to exert some sort of pressure on decision makers that may be half a world away. That is not a step in the democratic, self-governing direction. A large number of people think this is a boneheaded idea."

The coalition earlier this year gathered enough signatures to put on the November ballot a proposal amending the city charter to require voter approval on any effort to sell or lease a municipal utility. That measure essentially forced Plusquellic to put his own amendment on the ballot, or risk delaying the entire proposal for a year or more.

"Once we knew that their [proposal] was going on the ballot, then the mayor knew that his proposal would have to go on the ballot," Merolla said.

In crafting his ballot amendment, Plusquellic addressed a number of key issues for both critics and any investment or management group interested in bidding on the asset.

Under Akron's ballot amendment, the director of public service would be allowed to negotiate and enter into a lease - not to exceed 99 years - of the sewer system for the sole purpose of generating revenue for the so-called Project Scholarship Fund. Sewer rates could not be increased by more than 3.9% annually, and any federal- or state-mandated expenditure for capital improvements would be separately funded by the city.

Like many other Midwestern cities, Akron faces a series of costly capital upgrades to its sewer system to meet environmental mandates set by the EPA in 1994. Most municipalities like Akron that have so-called combined sewer systems - in which both sanitary sewage and stormwater are conveyed through a single pipe - are in the process of developing overflow plans to comply with the EPA order. By agreeing to separately fund such upgrades, the city makes the deal more attractive to any interested bidder.

The amendment also offers details of the scholarship program, including a provision that a scholarship student would agree to live or work in Akron for 30 years after graduation or would be required to repay the scholarship.

Under the proposal, the city would use proceeds to repay about $73 million in outstanding debt. That includes $37.4 million of revenue bonds, $35.5 million of loans from the state revolving fund, and $35,000 of general obligation bonds, according to Andre Blaylock, the business services administrator for the public utilities bureau. The remainder of the funds would be deposited in a fund controlled by a newly formed group called the Akron Community Foundation.

Plusquellic's amendment is likely the first time a city has put on the ballot a specific measure to privatize a municipal asset, according to people familiar with public-private partnerships. But the opposition coalition's broader amendment requiring voter approval for such transactions has at least two precedents, in Stockton, Calif., and New Orleans, according to Jon Keesecker, senior water organizer with Food and Water Watch, a consumer advocacy group focused on water privatization. Voters in both cases approved those measures, he said.

Moody's Investors Service rates Akron's general obligation bonds at A1, while Standard & Poor's and Fitch Ratings each assign a AA-minus to the city's limited-tax GOs.

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