Akron Buys School Bonds in Deal that Quietly Settles a Multimillion-Dollar Dispute.

On its surface, a city loan for new school administration offices seems straightforward.

Akron Public Schools agreed to borrow $10 million from the city to buy the SummaCare building at 10 N. Main St. The new administrative building would replace the 102-year-old Sylvester Small Building (the former Bowen School) on North Broadway, where central administrators work, and the 88-year-old Conrad C. Ott Building (the former Miller School) on Steiner Avenue, used to support and train teachers and staff.

The $10 million debt — school bonds bought by the city — would be repaid over 10 years at a 2.62 percent interest rate, or nearly a percentage point less than any bank had offered the schools. The city expects to get $11,683,425.

The financing is a "win-win," according to city and school administrators. Superintendent David James gets a cheap loan with no closing fees for newer, more efficient office space. Mayor Dan Horrigan, facing a budget pinch this year, gets a $1.7 million return on a pretty safe investment.

"This is another testament to the strong partnership between APS and the city and our shared commitment to making decisions that not only make financial sense but also have the greatest community benefit," said Ellen Lander-Nischt, the mayor's spokesperson.

But the financing is only half the deal.

What wasn't explained last month when the deal was announced is that the mayor's financial team is using the $10 million loan to settle a $6.6 million "dispute" with the school district that began under the Don Plusquellic administration.

This disputed amount, which has been settled at $5.3 million, involves annual payments the city owed the school district. The settlement will be applied to the bond repayments, effectively wiping out the district's need to make the first five annual installments.

The dispute

City Council has no obligation to review or approve any part of the complex deal. And it didn't have to sign off on the dispute settlement, which has a clause that says the agreement would "avoid the cost of prolonged litigation."

"I have not been brought into these conversations," said Mike Freeman, chair of City Council's budget and finance committee, unaware of any dispute.

The settlement requires the city to pay $164,000 in interest on back payments owed to the school under a deal meant to compensate the district for money it initially loses when the city offers tax incentives to businesses.

The dispute stems from the city not making scheduled payments of about $3 million annually in 2014 and 2016 to the school district. City officials declined to discuss details about the disputed payments.

Jack Pierson, who was treasurer of Akron Public Schools until 2014, had been getting the annual payments — sometimes in March and sometimes in May — since the school and city struck a “compensation agreement” in 1996. Pierson’s successor, Ryan Pendleton, said he was never given a satisfactory, detailed explanation on why the city paid the schools $1.1 million one year and $4 million in another.

Pendleton also noticed little, if anything, coming in 2014 and 2016. So, he took a second look at the 1996 compensation agreement.

Time for review

The compensation agreement, which took effect in 1997 and expires Dec. 31, 2093, allows for some businesses that move into the city school district to avoid paying property taxes in exchange for promising jobs or economic growth.

Per the agreement, the businesses instead make direct payments to county tax collectors. The county then sends the proceeds to the city. The city, in turn, keeps what it’s entitled to under the compensation agreement. That includes what are called offsets, or the cost of any public works projects that the city completes to accommodate some businesses as they set up shop in or near Akron.

Whatever is left goes to the school district. It’s a standard agreement that many cities and schools have entered since the late 1990s. Schools, which share in the initial loss of property tax revenue, assume economic development will ultimately result in more families (and students) and a healthier tax base (which is felt gradually business tax breaks lasting up to 30 years expire on a rotating basis).

Pendleton and some school board members are advocating for more clarity and consistency in the payments the school district receives under the compensation agreement with the city in the future. They’re open to renegotiating the 1996 agreement, which doesn’t expire for another 65 years.

“I don’t know if those [2014 and 2016] payments fell through the cracks, but we never got them,” said Tim Miller, who serves on the school board’s subcommittee on finance.

Speaking about the broader issues raised by the “missed payments,” Miller said his “interpretation of the compensation agreement is that we [the school district] don’t have a seat of the table when it comes to getting details about where the money is coming from.”

Future payments from the 1996 agreement will pay off the last half of the district’s loan from the city.

The settlement wrapped in the bond sale also illustrates how city administrators can move money around in the budget and make multimillion-dollar transactions without notifying City Council.

The city will purchase the $10 million in school bonds through what is referred to as the “investment fund.” The mayor is allowed to use the fund, which isn’t listed in budget documents, without council’s approval per the city charter. The fund has assets that climbed from $138 million to $148 million in the first two months of this year. It’s fed by other city funds and used for low-risk investments, like municipal bonds and a state-managed investment fund.

The next two-month investment report provided to City Council will likely reflect another $10 million in bonds but no detailed accounting of whether that purchase was made by cashing in other investments or moving money into the investment fund from elsewhere in the city's budget. Lander-Nischt said that after the city makes the school district whole, basically forgiving the first five years of repayment until the city has repaid $5.3 million for the 2014 and 2016 payments, the plan is to replenish the investment fund by the end of the 10-year loan repayment period.

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