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# Michigan State Just Agreed to Pay \$500 Million to Settle Sexual-Abuse Claims. Where Will It Find the Money?

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7–8 minutes



Michigan State University [announced on Wednesday](#) that it had reached a settlement agreement with 332 women and girls who were assaulted by Larry Nassar, a former university physician. The

terms call for \$425 million to be paid to current claimants, with an additional \$75 million to be set aside in a trust to pay for future claims. It awaits final approval from the parties involved.

It is unclear, however, where the money will come from, and whether taxpayers or students will ultimately be the ones who are left to pay for the settlement. The university declined to comment on Wednesday.

As a public institution that posted operating revenues of \$1.9 billion in the 2017 fiscal year, Michigan State could have a few options. Here's where the half-billion dollars might come from.

## 1. State Aid and Tuition

Tuition and state aid could be tapped to pay for any potential settlement, [the interim president, John Engler, said](#) in March during a contentious budget hearing with state lawmakers. But the legislators expressed dismay at the idea.

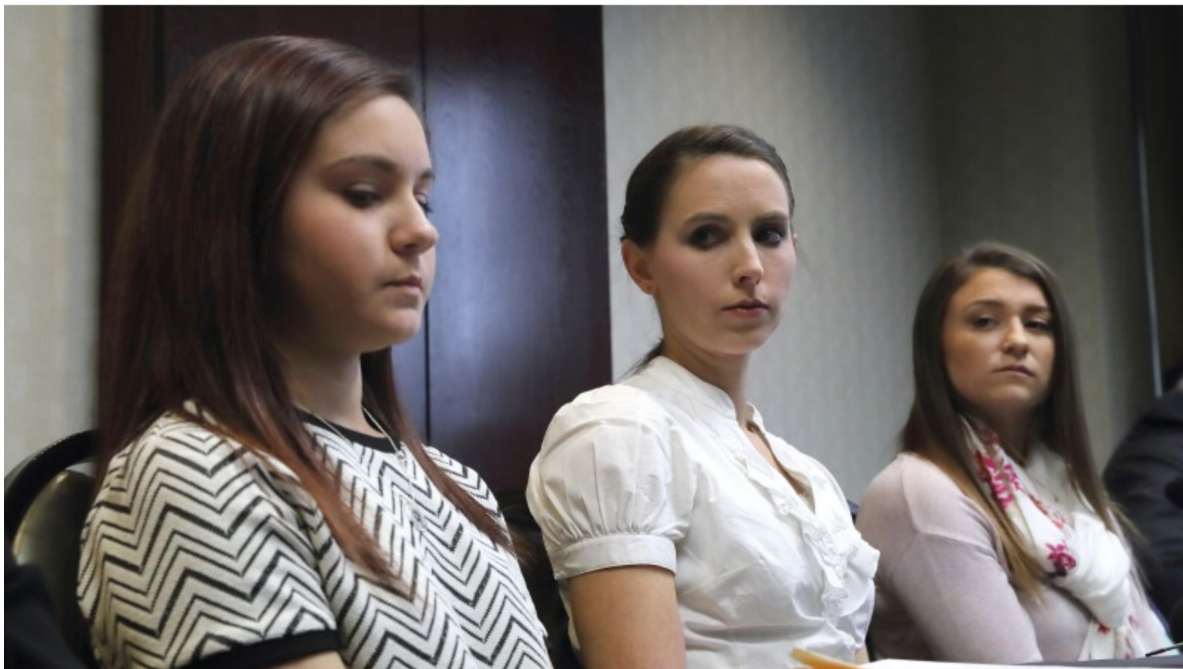
"I would say that the Legislature is not the reason why MSU is in the situation it is," State Sen. Curtis Hertel Jr. told Engler.

Theoretically, the university derives enough revenue from those two sources to cover the settlement. In 2016-17, MSU received

nearly \$860 million in net tuition and fee revenue, as well as \$290 million in unconditional revenue from the state. But that money also helps pay the university's operating expenses, which in 2016-17 amounted to \$2.4 billion.

## 2. Reallocated and Liquidated Assets

Despite a \$2.5-billion endowment, Engler said donor restrictions placed on gifts prevent the institution from using that money to resolve legal matters. But Engler didn't rule out other options, like raising tuition or [filing for bankruptcy](#).



Within a year the university lost two chief executives — Lou Anna K. Simon, sank by the scathing, heart-rending testimony of the sports doctor's scores of victims, and John M. Engler, whose interim presidency ended amid a backlash over his bare-knuckled tactics.

Michigan State also has \$1.1 billion in assets that are free from donor restrictions, though much of that money has been earmarked by the university for other purposes. Nearly \$557 million of that \$1.1-billion sum has been dedicated to capital- and infrastructure-improvement projects in the 2016-17 fiscal year; \$400 million is designated for university programs; and an additional \$354 million has been set aside for “self-supporting departmental activities.”

Some of those assets, like the money reserved for capital projects, might be easy enough to reallocate toward the settlement. Similarly, the university had \$20 million in cash on hand in 2016-17. But other assets are dedicated to the regular operations of the university or for other purposes. For instance, MSU said in its 2016-17 financial statement that a portion of that \$1.1 billion was needed to finance operations during the coming summer semester and the first quarter of the next fiscal year. Similarly, the university invested \$10 million in joint ventures in the 2017 fiscal year, assets that would require significantly more effort to liquidate.

### **3. Borrowed Money**

The university hasn’t announced any plans to take on debt to pay for the settlement. But Robert Kelchen, an assistant professor of higher education at Seton Hall University and a close observer of the industry, [told the \*Detroit Free Press\*](#) that Michigan State’s only real option for financing a potential deal would be to borrow money.

Even before the settlement, however, the university’s borrowing



costs were already set to increase. Citing the continuing litigation related to Nassar, as well as administrative turnover, the credit-rating agency Moody's Investors Service [downgraded](#) nearly \$1 billion in university debt. Moody's also said future rancor at Michigan State could lead to more downgrades, and it specifically warned that declines in donor contributions and student enrollment could negatively affect MSU's rating. Should the university choose to issue debt to finance the settlement, those relatively poor credit ratings would increase the long-term expense of the settlement by raising borrowing costs.

On the flip side, the rating agency said a possible settlement with assault survivors would be an important positive factor as the company continues to review the university's financial health.

#### **4. Insurance Coverage**

Despite holding an insurance policy against large legal costs like the proposed settlement, Michigan State's contract with United Educators puts a \$39-million reimbursement limit on cases related to sexual molestation. But recent history suggests that even that amount of money may not be made available for reimbursement from the insurance company. After Pennsylvania State University settled claims made against it by victims of the former assistant football coach Jerry Sandusky, United Educators, its insurance company, [denied the university's request](#) to cover the expense. The [insurer argued](#) that the allegations were excluded by its liability policy with Penn State. In his comments to lawmakers, Engler alluded to a similar possibility at Michigan State.

"As Penn State found out, sometime insurers don't pay," he said.

The survivors' settlement with Michigan State will not mark the end of the remedies they're pursuing. Additional claims have been brought against USA Gymnastics, the United States Olympics Committee, and Twistars USA Inc.