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Michigan State to Fund \$500 Million Sex-Abuse Settlement Through Bond Offering.

Board also votes to retain interim President John Engler, despite recent calls for his resignation

Michigan State University will fund its unprecedented \$500 million settlement with survivors of Larry Nassar's sex abuse through proceeds from a bond offering, after the board of trustees unanimously approved the settlement and bond amount at a raucous meeting Friday morning.

The board also voted to retain interim President John Engler, despite recent calls for his resignation by two trustees and multiple state officials.

The school, a Midwest powerhouse with an enrollment of 50,000 students, said it won't tap any state appropriations or use tuition funds for the settlement payout. It is in talks with its insurers, and has said it expects to recover at least some funds through them.

Any recovered funds will go directly toward paying down the debt, the board said at a packed meeting marked by shouts of "Shame on you, MSU" and calls for the interim president, Mr. Engler, to resign.

Melanie Foster, who chairs the finance committee on the board of trustees, said the money to repay the bond will come from income from the school's investments. Last year the school generated about \$391 million of which a little less than half is nonrestricted.

The money the school has invested comes from any annual surplus in the general fund, which includes tuition, money from housing and athletics among other sources.

"The truth is the money is fungible, it all goes into a general revenue pot and it's collectively invested and it's collectively spent," said Mark Haas, the school's vice president for finance and treasurer.

Service on the bond will be roughly \$35 million a year. The school is also instituting a 1% across the board cut on its \$2.6 billion operating budget, which will generate roughly \$26 million a year. In addition, the future pace of new construction will likely be slowed, Ms. Foster said.

"We're tightening our belts," she said.

Nassar pleaded guilty last year to state sexual-abuse charges in Michigan and to federal child-pornography charges, for which he is serving an effective life sentence. He was accused of sexual abuse by hundreds of women, while working as a team physician at MSU and for the U.S. Olympics gymnastics team.

Michigan State agreed in principle to the settlement last month, but at the time it wasn't clear how the school would cover the costs.

Before any payout begins, the plaintiffs and Michigan State still need to sign off on a final agreement, and the settlement must be approved by the federal judge handling the case.

MSU General Counsel Robert Young said Friday that the parties are in “the final stages” of drafting the final agreement.

In a court filing Wednesday, lawyers for the plaintiffs and Michigan State agreed to appoint a former California superior court judge to administer payments from the settlement fund.

The board voted 6 to 2 at the start of the meeting to retain Mr. Engler. Earlier this month the Chronicle of Higher Education reported that he had suggested in emails with other administrators that one of the lead plaintiffs would get a kickback for rounding up other survivors.

The first speaker in the public comment portion of Friday’s meeting was Kaylee Lorincz, a woman who alleged in April that Mr. Engler had offered her a \$250,000 settlement without her lawyer present.

Approaching the microphone to cheers from the audience, she reiterated the earlier claim. Mr. Engler has said that he and Ms. Lorincz have different “memories and interpretations” of the meeting at which the offer was allegedly made.

“Everything I said in that statement and the statements that followed is the complete and honest truth,” she said Friday.

Grace French, who was abused by Nassar, said during the comment period that it was “incredibly dangerous” for Mr. Engler to remain in his leadership role after accusing survivors of being manipulative and of lying, as it could deter others from coming forward and reporting their abuse, she said.

In an emotional appeal to the board, Bryant Tarrant, whose daughter Jessica was a patient of Nassar, said, “You have failed my daughter and you continue to fail.”

“There’s been a serious lack of leadership from this board and from this current interim president,” he said, adding that the board has “no business selecting the next university president.”

Despite the vote at the start of the meeting in favor of keeping Mr. Engler at the helm, people in the crowd continued to yell for him—and, in some cases, trustees—to resign. Trustee Mitch Lyons addressed those complaints, saying the best course was to keep Mr. Engler on and find a permanent president instead of pausing to find another interim president and potentially scaring off candidates for the permanent job.

“Nobody wants to walk into this hot mess right now,” Mr. Lyons said. “John said some really stupid things, and I’ve told John that, but John has moved the ball forward in terms of making this campus safer.”

Michigan State’s bond offering is likely to find an audience in the municipal bond market because the supply of high-quality debt has been scarce this year, depressed by changes in the 2017 tax-cut law.

“I would think it’s going to be well received, even though the purpose is kind of tainted,” said Gary Pollack, head of fixed-income trading at Deutsche Bank Private Wealth Management. While municipalities have sold bonds to fund legal settlements in the past, “normally they’re not as high profile as this one,” he said.

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