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Investors Put a Price on Michigan State's Sex-Abuse Settlement.

About $323 million of taxable bonds are sold at a not-too-punitive rate.

Michigan State University on Thursday sold about $323 million of taxable bonds to fund a settlement with the more than 330 women and girls who were victims of serial sex abuser and campus doctor Larry Nassar. It was never truly a matter of whether the deal would get done, but at what cost to the school.

Now there's an answer: 4.5 percent over almost 30 years.

That was the top yield on the $304 million of debt that matures in 2048. It's about 150 basis points above the going rate on 30-year U.S. Treasuries. For context, the spread is 134 basis points on a Bloomberg Barclays index of taxable municipal bonds, which averages about 22 years to maturity and counts Illinois as its largest component. The state, of course, is rated just one step above junk by Moody's Investors Service and S&P Global Ratings, while Michigan State has the third-best investment grade rating. In another comparison, top-rated Texas A&M University issued 30-year taxable securities last month at a spread 25 basis points less than Michigan State.

I wrote in June that "it's an open question whether investors will show up for this offering as they would any other." It's a good thing that the proceeds will compensate Nassar's victims, but it's easy to see why investors might pass on lending to an institution where at least 14 representatives reportedly received reports of Nassar's crimes over the two decades before his arrest. Incidentally, that question was never put to the test until now, as Bloomberg News's Danielle Moran reported.

> Even though the school had always intended a public sale of municipal bonds, it was forced to seek private lenders because terms of the settlement required payment to the victims within 10 days of court approval.
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> "It is not logistically possible to issue public debt and close in that time period," Mark Haas, vice president for finance and treasurer at Michigan State said in an emailed statement.
> …
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> RBC Capital Markets was the original lender in December. It in turn sold the loan to its affiliate Royal Bank of Canada, according to a filing.

The results of the sale show that there's almost always a clearing price in the market, and often when things are operating smoothly, it's lower than expected. Suppose the school could have priced the 30-year debt at a yield 15 basis points lower if the proceeds weren't tied up in the Nassar scandal, which Moody's says raises "potentially material financial and reputational risks." Roughly, that comes out to $456,000 a year in higher interest costs. For a 50,000-student university with a

$2.5 billion in operating revenue, that's easily manageable.

For bond investors, it usually takes a direct threat to getting paid back to really put the brakes on any sort of deal. In one high-profile example in 2015, Louisiana State University took the rare step of scrapping a $114.5 million offering. Buyers were spooked by talk that because of state budget cuts, it was exploring the option of financial exigency, declared when schools face insolvency.

Michigan State will try to come to terms with Nassar's crimes by paying what appears to be a slight premium to fund its $500 million settlement. More important, as I said more than seven months ago when the sale was first in the works, I hope this public offering is one of the last steps for the victims to get some closure and move forward.

Bloomberg Opinion

By Brian Chappatta

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