THE FINANCIALIZATION OF HIGHER EDUCATION

AT MICHIGAN STATE UNIVERSITY

REPORT BY **AMAN BANERJI, BRIGID KENNEDY, AND ADEMALI SENGAL**
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REIMAGINE THE RULES

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Executive Summary

Financial actors and their values play an outsized role on college campuses today. This process, termed the "financialization of higher education," has led to a vast increase in the types of monetary flows that provide revenue for the financial sector—chiefly borrowing, construction, risky investments, endowment growth, and executive pay. In order to fund such spending priorities, universities have both increased costs on campus, including tuition price and additional fees, while simultaneously redirecting existing institutional resources away from scholarships and faculty and campus worker wages and benefits. Through this report, we document the financialization of higher education process through a case study of Michigan State University (MSU). The report's analysis finds a series of noteworthy findings regarding the university's financial decisions that are reflective of the financialization process and encourage greater scrutiny:

- Michigan State University has radically shifted its revenue model with student tuition accounting for 39% of total operating and nonoperating revenue in 2015-16, up from 20% in 2001-02. Closely related, the share of MSU's revenues drawn from state appropriations has fallen starkly during the same period.
- The percentage of the university's endowment that it spends annually on university programs has declined from 5% to 4.6% in the past two years. This change has led to the loss of over $15 million in programmatic spending on campus in the past two years alone.
- MSU has expanded its holding in alternative investments like private equity and hedge funds that have delivered low financial returns, high fees, and a series of ethical challenges. Effective oversight of the university's investments has been limited. The board of trustees has unanimously approved each of the 71 investment managers put forth by the university administration in the last decade.
- Debt levels at the university have exploded, with a 210% increase in long-term debt between 2001-15, and a 672% increase in interest payments on capital and related activities between 2002-16 put toward funding new construction projects on campus.
- In the 2016-17 school year, for every $1 MSU spent on scholarships and fellowships, it spent 32 cents paying hedge fund managers on its investments, and 74 cents on interest payments for capital and related financing activities.
- As of 2015, the university had spent over $130 million on interest rate swaps—a complex financial derivative designed to lower borrowing costs.
- Taken together, the university's decisions to decrease annual endowment spending to 4.6%, invest in hedge funds (and pay the astronomical attendant fees) instead of Standard and Poor's 500 index, and gamble on interest rate swaps have cost the university a staggering $493.6 million, enough to provide the full cost of attendance for 20,111 in-state students for one year.

With these core issues in mind, the authors of the report offer five core recommendations for MSU's administration: adding a voting student and faculty representative to the board of trustees; improving financial transparency; re-allocating MSU's endowment investment; freezing the cost of tuition; and returning to the previous endowment programmatic spending level of 5%.

Introduction

The state of America's higher educational institutions today is a radical departure from the promise progressives have envisioned for higher education. Successful public higher educational institutions have, rightly so, been defined as those that uphold education as a public good by providing it at an accessible and equitable cost for the many; are funded by collective sources of revenue; foster sustainable lifestyles for employees; and act as economic mobility engines for their communities. Few of these characteristics typify our higher education system today. Instead, skyrocketing student debt, massive funding cuts, and extreme wealth concentration are far better descriptors. In the 21st century, our higher educational system looks far more like a "pay to play" system than one that was designed to ensure access and equity for all. So, how did we get to this point?

One prevailing and powerful explanation places blame at the doors of state legislatures across the country that have systematically defunded universities in an age of austerity. The systematic destabilization of higher education through decades of public disinvestment has brought universities to their knees rendering them deeply fragile and vulnerable. Yet it is not just state legislatures that have threatened the financial viability of public higher education. For years now, Wall Street has preyed on the financial crisis that universities across the country are experiencing, to advance their priorities in a manner that ensures greater financial profits at the expense of students, faculty, and campus workers. But, by casting higher education institutions as powerless victims caught in the storm of austerity and financial sector profits, this broader explanation overlooks a crucial aspect of the story. It fails to explain, for instance, why university administrators across the country have been complicit in making financial decisions that have further undermined the university like prioritizing the growth of endowments above all else, constantly raising tuition prices, stripping campus and student workers of a sustainable wage, substituting sustainable tenure-track labor with adjuncts, and more.

Understanding the process of **financialization**—a growing phenomenon in today's economy—helps to explain a scarcely told but crucially important part of the story. Financialization can be defined as an "increase in the size, scope, and power of the financial sector relative to the rest of the economy" (Konczal and Abernathy 2016) or a reshaping of economic life by "extending the reach of financial markets, logics, and actors into new and varied domains" (Eaton et al. 2016). Financialization doesn't just refer to the increased power of the financial sector in the economy or the flow of material resources toward the sector from other parts of our society; it also results in the "reduction of all of society to the realm of finance" (Konczal and Abernathy 2016).

This radical shift toward a "portfolio society" leads public and private institutions alike to view success and value in solely monetary and market-based terms. The financialization of higher education then has led universities to move away from the values of accessibility and equity and toward a deeply financialized set of values: return maximization, streamlining, privatizing, and wealth hoarding. Equally, this process has blinded institutions from their collective institutional role within a community and society at large, focusing instead on becoming mere facilitators of individual market solutions for consumers—i.e., students.

A burgeoning stream of literature has attempted to identify the increasing financialization of today's economy as a key driver in the crisis of higher education. Our work aims to build on this analysis by offering an example of the ways in which these well-documented national trends—an increases in debt, construction booms, proliferating investments in risky investment vehicles—play out on a single campus. In this report, we analyze how these trends have shaped and restructured the finances of Michigan State University. We hope to not only provide tangibility to the process of financialization by highlighting the winners and losers, but to also demonstrate how such trends have reshaped the institutional funding model for a single university. We hope this case study will serve as a resource to activists and organizers on multiple campuses who have been calling attention to these trends.

In this paper, we focus solely on Michigan State University for a number of reasons. First, the decline in state funding offered by Michigan to its universities underscores the type of financial vulnerability that is trapping higher education institutions across the country. Second, MSU is in a comparable market basket with a host of similar public peer institutions, such as Penn State, Ohio State, the University of Minnesota, Wisconsin, Illinois, Purdue, Indiana, and Nebraska. Equally, the size of MSU's endowment assets are comparable to these peer schools—unlike that of the University of Michigan. Third, in spite of state funding challenges, MSU, like fellow public schools, must be held accountable for the institutional spending priorities it has enacted in the last two decades. Finally, the Roosevelt Institute at Michigan State University, coupled with a host of other organizing groups, has been actively engaging in a set of conversations around MSU's financial priorities and leadership structure.

Broadly, this report makes a few core conclusions in documenting and analyzing the financialization of the Michigan State University campus:

- Over the past 15 years, the revenue burden for the university has increasingly fallen on the backs of students through vast increases in tuition costs. Section 1 of our report analyzes this trend.
- The spending priorities of the university—widespread use of actively managed investments like hedge funds, large construction expenditures, and high executive pay—reflect the ongoing process of financialization at the university. Today's institutional priorities are neither set nor serve students, faculty, or workers on the campus.
- Finally, section three outlines the broader process of financialization at work at the university and suggests six recommendations for key stakeholders to address.

Through these three sections, we hope to demonstrate how the complex interplay between the two deeply related trends of public disinvestment and financialization lie at the heart of the demise of Michigan State University, and, more broadly, public higher education at large.

Section One: Where Does MSU Draw Its Revenues?

In this section, we document the ways in which the decline in higher educational appropriations at the state level has compromised the public university financial model and shifted costs on to the backs of students.

Unlike Social Security and Medicare, higher education has never been codified as an entitlement. As a result, spending on higher education in states across the country has become discretionary, allowing states to drastically cut funding in times of budgetary duress. In the decade following the Great Recession, state funding for "public two- and four-year colleges in the 2017 school year (that is, the school year ending in 2017) was nearly $9 billion below its 2008 level, after adjusting for inflation" (Mitchell et al. 2017). 49 of 50 states spent less per student in the 2017 school year than in 2008, with average state spending per students dropping to $1,448 in 2017—a 16% drop from 2008. As a result of these shifts, nearly every state in the country has transferred higher educational financing costs to students, as a growing share of these revenues are drawn from student tuition.

Michigan has been at the forefront of these changes, as the state legislature has sponsored vast declines in state appropriations. Between 2008-17, state spending per student in Michigan fell by 16.3%, resulting in a $969 per student decline when adjusted for inflation (Mitchell et al. 2017). At Michigan State University, the national trend of making up for state appropriations with tuition increases is greatly pronounced and, according to our analysis, dates back to 2001—at least.

To document the trend at MSU, this report draws on the Integrated Postsecondary Education Database System (IPEDS),[1] which requires colleges to report on a host of financial information annually. Within the financials sections, universities are required to report on both revenue and spending numbers. The database requires colleges to report "total operating revenues,"[2] "total nonoperating revenues,"[3] and "total other revenues and additions." In this report, the term "revenue" refers to the aggregate of total operating and nonoperating revenues and excludes other revenues.[4]

In this section, we are focused on the relationship between two core variables: tuition/fees and state appropriations as a share of the total revenues. The earliest and latest years for which we have data—2001-02 and 2014-15—provide an indicator of the drastic reshaping of Michigan State University's revenue base over the past decade. While tuition comprised just 20.18% of Michigan's core revenues in 2001-02, by 2015-16 it accounted for 38.78%. In stark contrast, state appropriations that accounted for nearly a third (31.33%) of revenue in 2001/02, made up just over one-tenth (12.55%) of revenues by 2015-16. There is a strong negative correlation between the share of revenue coming from state appropriations and tuition. For the same years the correlation between tuition and state appropriations is -0.7234. Assuming that tuition taken in by MSU is a response to changes in state appropriations from the previous year the lag correlation is -0.8112, which may suggest that the university

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[1] Throughout this report, we make extensive use of the IPEDS dataset available online at: https://nces.ed.gov/ipeds/use-the-data.

[2] Operating revenues refers to those revenues that "result from providing services and producing and delivering goods." These revenues consist of the following variables: tuition and fees (after discounting discounts and allowances); federal, state, local, and private operating grants and contracts; sale and service of auxiliary enterprises; hospitals (not applicable for MSU); and educational enterprises, independent operations, and other sources.

[3] Nonoperating revenues are 'those generated from non-exchange transactions." Federal, state, and local appropriations, federal, state, and local non-operating grants, gifts, investment income, and other sources all make up this variable.

[4] We focus on this variable as opposed to the total of all revenues for a couple of reasons. First, it allows us to more closely isolate the impact of changes to state appropriations and tuition incomes compared to the revenues at large. Second, our database does not contain the total of all revenues figures for the entire 2001-15 period.

adjusts tuition revenue to make up for losses in state appropriations.[5] Tuition revenue today plays the central role in MSU's revenue base.

Increasing student enrollment rates do not explain the rise in tuition costs at Michigan State University. Undergraduate enrollment[6] at the university has risen through the period, climbing from 30,450 in 2003 to 37,214 by 2015—representing a 22% increase (IPEDS data). Unlike its peer institution, the University of Michigan, MSU has had limited success in attracting an international and out-of-state student body; in-state students represented 70% of undergraduates in 2016, while out-of-state and foreign students accounted for 14% and 16%, respectively (IPEDS data). Thus, increases in enrollment, especially those of out-of-state and foreign students who are charged higher tuition rates, plays a relatively minor role in explaining the shift in revenue base.

The biggest driver of the shifting revenue base has been the increase in tuition and related costs for students. In 2000, the university charged $216.32[7] (inflation-adjusted) per credit amount at the undergraduate level. Yet, by the fall of 2017, this figure has risen to $482, representing a 123% increase over the 17-year period when adjusted for inflation. According to IPEDS data, published tuition and fees for both in-state and out-of-state students have risen dramatically over the 2001-02 to 2016-17 period by 84.20% and 99.83%, respectively.[8] MSU outpaces national trends during this period, as the average increase in tuition and fees for in-district students at public two-year institutions and in-state students for public four-year institutions stands at 39%[9] (College Board n.d.).

Supplementing these tuition costs are basic living expenses for students. From 1999 to 2016, on-campus room and board costs have increased by 56% at MSU from $6,247[10] to $9,784 (IPEDS data). Below, we outline the total price increase for in-state and out-of-state students from 2002-03 and 2016-17:

	2002-03[11]	**2016-17**	**Price Increase**
Total price for in-state students living on campus	$17,618	$27,290	55%
Total price for out-of-state students living on campus	$29,704	$51,118	72%

As students deal with rising prices for tuition and fees, the ratio of students receiving financial aid has declined. While 88% of the student body received some form of financial aid in 2007, that number had declined to 68% by 2015. While the share of students receiving institutional aid from MSU has increased from 30% to 46%, the biggest cause in this decline is attributed to state and local grant aid. In 2002, 76% of the MSU student body was covered by some form of state and/or local grant aid; by 2015, however, just 13% of students were receiving such aid. Beyond the decline of state appropriations, this demonstrates again the state of Michigan's near complete abdication for ensuring the equity and accessibility of higher education. Taken together, MSU students today constitute a greater share of revenue than ever before, paying record-high levels of tuition and related costs. All the while, a declining percentage of students receive any kind of financial support.

[5] We analyze correlation based on the percentage of revenue and not absolute numbers to avoid the effects of nominal increases in absolute terms and focus on relative increases that align with the growth in spending.
[6] By enrollment, the authors refer to the IPEDS variable entitled "reported full-time equivalent (FTE) of undergraduate enrollment."
[7] This figure is inflation-adjusted to represent inflation as of August 2017. The base figure of $152.25 is drawn from the university's website.
[8] These increases are adjusted for inflation using the Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) inflation calculator.
[9] Using 2017 constant dollars.
[10] Inflation-adjusted using the BLS CPI inflation calculator.
[11] Inflation-adjusted to August of 2016 using the BLS CPI inflation calculator.

The vast expansion of student debt due to rising tuition costs, alongside the undoing of basic regulations regarding the size, quality, and terms of such debt (Eaton 2018)—both phenomenon a byproduct of the financialization of our economy—are central to explaining MSU actively shifting the burden of its revenue base onto students. The sum of these changes that have led to the treatment of students as consumers—upon whom the revenue burden is laid—represents just one element of the financialization of Michigan State University.

Section Two: How MSU Spends Its Financial Resources

The financialization process entails the movement of material, financial resources toward the type of revenue flows—savings, investment, borrowing, and construction—that enable the financial sector to profit while also concentrating wealth and power at the top. In that respect, the financialization of Michigan State University is most visible when conducting an analysis of the university's spending priorities today. The institutional priorities of MSU today are neither set by nor do they serve students, faculty, or workers on the campus. Over the past two decades, the university has taken on a host of new, deeply financialized costs. In the following section, we examine five subsections on spending: 1) endowment spending 2) endowment investments 3) debt spending 4) interest rate swaps and 5) executive pay spending. That such cost additions have come at a time of deep financial duress for students, workers, and faculty, is deeply concerning.

2.1: ENDOWMENT SPENDING

Endowments are financial assets donated to colleges and universities to provide long-term funding. Traditionally, they have been characterized as a rainy-day fund to ensure the institution's solvency in times of financial duress. MSU has an endowment worth $2.6 billion[12] as of June 30, 2017, placing it in the top strata of public university endowments across the country (Michigan State University 2017). Over the past few decades, even as endowments have grown massively, institutions across the country have begun to engage in the practice of wealth hoarding; investing a growing share of their assets in financial markets rather than spending such resources on campus to the benefit of students and faculty.

As if blithely unaware of shifts in its revenue base, the university has further increased students financial burden by declining the share of the endowment that it spends on campus annually. Since a significant portion of this revenue is used to cover university expenses and student scholarships, students have been the direct victims of these shifts. A *Detroit Free Press* article[13] made waves by demonstrating the declines in endowment spending at the university (Dolan and Jesse 2018). At the University of Michigan (UM), the endowment spending rate declined from 5.5% to 5.0% in 1995, followed by a further decline to 4.5% in 2010. While MSU boasts a smaller endowment than its peer, the decline has, in fact, been both faster and more severe than UMy. In the 2008-09 school year, MSU's endowment spending rate stood at 5.75% (Michigan State University Board of Trustees 2009). Even as recently as fiscal year 2016, the university made 5.0% of its endowment[14] available for programmatic spending (Michigan State University Board of Trustees 2015). Since then, however, the declines have been both steep and constant. For fiscal year 2017, the endowment spending rate had been reduced to 4.8% (Michigan State University Board of Trustees 2016); by 2018, this rate had declined to 4.6% (Michigan State University 2018). Worse still, the university expects to reduce the spending rate further to 4.4% effective as early as July 1, 2018 (Michigan State University 2018). This drop is especially concerning since about two-thirds of colleges actually

[12] Endowment in this case refers to the total value of MSU's Common Investment Fund (CIF) as of June 30, 2017. MSU's total investments as of June 30, 2017 are 3.1 billion.
[13] The article, titled "U-M Socks Away Millions in Endowment as Families Face Rising Tuition," is available in the bibliography.
[14] Represented here as "the average market value of the CIF as calculated for the period comprising 20 quarters of the five fiscal years ending one year prior to the beginning of the fiscal year in which the spending is expected to occur" (Michigan State University Board of Trustees 2016).

increased the amount they spend from their endowment in the past year (Mulhere 2018).

Below, we conduct an approximation of the amount the university could have spent on campus had it continued to spend at the 5.0% spending rate from its endowment for the 2017 and 2018 fiscal years.

Year	Common Investment Fund Size[15]	Spending Rate	Spending Rate Decline	Amount of Spending Decline[16]
2016	$2,292,062,000	5.0%	0.0%	$0
2017	$2,623,848,000[17]	4.8%	0.2%	$4,584,124
2018		4.6%	0.4%	$10,476,120
			Total Spending Decline=	**$15,060,244**

Thus, our estimates suggest that the university would have spent over $15 million of its endowment on programmatic spending over the course of 2017 and 2018 had it continued to spend at the former 5.0% rate. Such financial resources could have been deployed toward the aid of students and faculty on campus by funding students scholarships, for instance, or hiring more faculty.

In 2017, 38% of donor funded endowment income was spent on scholarships while 39% was spent on instruction (Michigan State University 2017). This suggests that had the university maintained the 5.0% endowment spending figure for 2017 (instead of 4.8%), an additional $1.742 million could have been spent on student scholarships plus an additional $1.788 million on instruction. Similarly, for 2018, assuming the same 2016 endowment spending distribution,[18] the university could have spent an additional $3.981 million on student scholarships and $4.086 million on instruction.

Cumulatively, over the course of just the past two years, the university's decision to cut its spending rate has cost students $5.723 million in student scholarships and faculty $5.873 million in instruction spending. On the student scholarship side, this figure could have accounted for the tuition, fees, and room and board for 233 in-state students for one year at the 2017-18 rates.[19] This figure does not account for the reduction to a 4.4% spending rate that the university is set to undergo on July 1, 2018 (Giving to Michigan

[15] The size of the Common Investment Fund for the year is obtained using the university's financial reports. We do not, however, have access to the exact measure of the CIF that the university used in determining programmatic spending since this information is not provided in external financial reports. The definition of the variable used by the university is available in footnote 6. Note: We use the value of the CIF for the previous year as the basis for making calculations.

[16] The dollar amount of spending decline is measured here by multiplying the percentage drop in spending rate from the 5.0% baseline (0.2% of for 2017 and 0.4% for 2018) with the value of the CIF for the previous year.

[17] Note: This is the official value of the CIF as reported in the university's 2017 financial report. However, to conduct this analysis, we use an adjusted CIF value of $2,619,030,086 for the 2017. We do so because if the university had continued spending at the 5.0% rate from its endowment for 2017, it would not have retained the $4,584,124 figure in its endowment that we calculate as a spending decline or received the $233,790 return that amount would have generated (based on the 5.1% annual return rate for the year). As a result, this cumulative amount of $4,817,914 ($4,584,124+$233,790) must be subtracted from the value of the 2017 CIF to arrive at our $2,619,030,086 Common Investment Fund value for 2017.

[18] Note: We use the 2017 distribution figures since the 2018 financial report has not been completed.

[19] This figure is calculated using the $24,542 cited by MSU as the cost of tuition, fees, and room and board for a single year for in-state students (Michigan State University Office of Admissions 2017). It's worth noting that this amount does not factor in additional state, local, and federal aid that a student may receive. Factoring this in would vastly increase the number of students who could be supported with this amount.

State University 2017). In Michigan, a state characterized by a small number of need-based state programs (Eaton et al. 2017), MSU's decision to under-invest in scholarships has even more critical implications for low income students.

2.2: ENDOWMENT INVESTMENTS

One of the core tenets of financialization is the shift of an ever-growing set of financial and material resources toward high-risk investments. MSU's endowment is invested in financial markets through the Common Investment Fund (CIF), headed by former hedge fund manager Philip Zecher. The CIF's stated purpose is to make money available for programs supported by the endowment and to "achieve the desired return while assuming only moderate risk" (Giving to Michigan State University 2017). Yet, Michigan State University has consistently invested about 40% of its resources in a series of risky alternative investments. From 2013-17, the percentage of the endowment invested in private investments (distressed, private equity, and venture capital) has climbed from 10.2% to 19.7%, and MSU hopes to these expand investments with the goal of reaching 26% (Michigan State University Board of Trustees 2017). Currently, $510 million[20] of MSU's endowment is invested in such private investments (Michigan State University 2017). Meanwhile, MSU's investment in hedge funds, formerly labelled marketable alternatives, has ranged from 29.3% to 24.4% between 2013-17 (Giving to Michigan State University 2014-17). Such risky investments have led MSU to a 10-year annualized return of 5.1%, trailing both peer institutions and, more importantly, schools that have taken on less risky strategies (Giving to Michigan State University 2017).[21] The University of Illinois—MSU's peer institution—has a 10-year annualized return of 5.8% with only 1.7% of its total endowment invested in hedge funds and 1.5% invested in private equity (University of Illinois System 2017). The majority of the University of Illinois' endowment is in fixed income (54.2%) and cash equivalents (24.0%). These lower-risk assets still provide more competitive returns than Michigan State University. This is true more broadly with smaller endowments, which have smaller allocation to alternative investments, gaining better returns recently than larger endowments (Stewart 2017).

The Common Investment Fund is mostly managed by three entities: the chief investment officer, the president of the university, and the board of trustees. The management structure of the CIF is indicative of a larger trend of the financialization of institutions of higher education, as colleges and universities devote more and more resources to operating within financial markets. The university's chief investment officer (CIO) position was created in 2015, and the office has only been held by Philip Zecher—who came to the university after a career as a hedge fund manager (Michigan State University Board of Trustees 2015). Zecher's experience in the financial industry was likely a driver of the renewed importance of hedge funds to MSU's investment strategy after his hiring. While the president of the university is responsible for "broad administrative oversight of the University's investment activities," the CIO monitors day-to-day activities of the CIF and its other employees.

The board of trustees approves investment policies and endowment spending rates at the recommendation of the finance committee of the board and the president of the university. The board also receives updates on investments from the finance committee and CIO (Michigan State University Board of Trustees 2016). Because of this structure, the CIO and the president of the university have an immense amount of power over investment strategy. Oversight from the board of trustees is more functional than effectual, since they rarely, if ever, push back against the recommendations. In the past decade,, no trustee has ever voted against a recommendation for a

[20] As of June 30, 2017.
[21] MSU's 10-year annualized return of 5.1% is lower than the University of Michigan (5.6%), the University of Illinois (5.8%), Northwestern (5.6%), and the University of Minnesota (5.4%).

new investment manager from the finance committee. Board of trustees' meeting minutes do not note any discussion on the finance committee's recommendations, and **all 71 investment manager decisions made from 2008-2018[22] were approved unanimously by the board.[23]** This means that decisions are made by the finance committee, well before investments are brought to MSU's Board of Trustees. Investments are considered by a small subset of trustees on the finance committee, the investment advisory subcommittee, which makes public oversight even more difficult.

Before the finance committee makes any recommendations, it consults with its investment advisory subcommittee, which is made up of trustees from the finance committee and external members who are appointed by the board and are subject to a conflict of interest policy (Michigan State University Board of Trustees 2017). Like the trustees themselves, external members of the investment advisory subcommittee tend to live outside of Michigan, and all live outside of the Lansing area (Michigan State University Investment Office n.d.). The investment advisory subcommittee advises both the finance committee and the CIO, meeting with the CIO quarterly. In many circumstances, the president of the university is authorized to act as a go-between for the finance committee and the CIO, as well (Michigan State University Board of Trustees 2016). The external members of the investment advisory subcommittee are not elected by the MSU community or by voters in the state of Michigan, like trustees. Rather, they are appointed by the trustees and have the ability to make and influence decisions about investments. The university does not publicize their involvement in board decisions. They are not listed on the board of trustees website, nor are they mentioned in the description of the investment advisory subcommittee. They are listed only on MSU's Investment Office website, and no contact information is provided. In this way, incredibly important actors in MSU investment strategy are shielded from public scrutiny.

Hedge Funds

While the investments of Michigan State University as a whole are worthy of great scrutiny, here we focus on just one category of private alternative investments: hedge funds. Hedge funds are risky investments and, for investors like MSU, rarely present an opportunity for significant financial gain even when they perform well. Additionally, hedge funds are virtually unregulated by the Securities and Exchange Commission (SEC), so it's incredibly difficult for investors like MSU to know what they're invested in in the first place. Over the past decade, universities across the nation have vastly increased the share of their endowment invested in these vehicles. As Hedge Clippers—an organization dedicated to uncovering fraudulent financial activity by those in power—highlights, over $100 billion of $500 billion of university endowments were invested in hedge funds in 2015 alone. Yet, the largely unregulated investment vehicles have delivered low returns while charging high fees and investing in the types of activities that students have rallied against for decades, including private prisons, for-profit colleges, and fossil fuels. Hedge Clippers estimates that US universities spent approximately $16.7 billion in hedge fund fees during the 2009-2015 period, a time in which hedge fund returns recorded a notable downturn (Hedge Clippers 2016).

As of June 30 2017, $653.2 million[24] of MSU's $2.6 billion endowment[25] was invested in hedge funds—a strategy

[22] We calculated these numbers by conducting an analysis of all MSU Board of Trustees' meeting minutes between the 2008-2018 period.
[23] Former trustee Scott Romney abstained from voting with four investment managers because of a conflict of interest. Three of these abstentions are noted in the meeting minutes for January 18, 2008. The fourth abstention was from May 16, 2008.
[24] As of December 30, 2017, the amount invested in hedge funds rose to $656.1 million.
[25] Endowment in this case refers to the total value of MSU's Common Investment Fund as of June 30, 2017. MSU's total investments as of June 30, 2017 are 3.1 billion.

that the university continues to pursue despite poor returns and ethical concerns (Michigan State University 2017). Since 2015, the university has set 22% as the target for the share of the CIF it hopes to invest in hedge funds (Michigan State University Board of Trustees September 2015). The share in hedge funds has stayed relatively consistent, reaching a high of 29.3% in 2015 and a low of 24.4% in 2017 (Giving to Michigan State University 2017). The university's description of the hedge fund asset class clearly acknowledges some of the harmful effects of hedge fund investments. MSU characterizes hedge funds as an asset class in which managers employ "event driven and arbitrage strategies" to maximize returns by investing in transactions, including "mergers, tender offers, liquidations, bankruptcies, and reorganizations or in arbitraging temporary discrepancies in securities pricing"(Michigan State University Board of Trustees 2017). These strategies are based on hunches from managers rather than any quantitative support or analysis of market trends. The decisions of event-driven strategies, for instance, are based on the possibility of changes for a given company, where there is great uncertainty (Vincent 2014). Equally, this category includes, according to the university's own investment strategy, "distressed security managers" that invest "primarily in bonds and bank loans trading at a significant discount to par value as a result of the debtor's troubled financial condition." (Michigan State University Board of Trustees 2017) Investing in this type of distressed debt is not new territory for hedge funds. While distressed debt investments are meant to be high risk and high return, hedge funds have become notorious for leveraging their political power to ensure the repayment of this type of debt thus negating any potential risk.The Baupost Group, a hedge fund invested in Puerto Rican distressed debt through university endowments, for instance, has consistently flexed its political muscle to push for austerity measures on the island and ensure full debt repayment to all creditors—including itself (Hedge Clippers 2017). For Michigan State University to actively acknowledge hedge fund investments in distressed debt, liquidations, and bankruptcies, and yet actively seek a 22% investment in them, is deeply concerning.

Given that the performance of specific funds is not published by the university, our best estimates for the returns of hedge funds is the benchmark designated by Michigan State University, the Fund of Funds Diversified index from the Hedge Fund Research indices (HFRI) (Michigan State University Board of Trustees 2017). Over the past 10 years, the Fund of Funds Diversified index annually performed 8.86% worse than the S&P 500 index. If, over the past four years, MSU instead allocated the amount in hedge funds to the S&P 500 index fund, they would seen returns $294.93 million higher than the HFRI index.[26] These higher returns could have paid the full cost of attendance (tuition, fees, room, and board) for 12,017 in-state freshman.[27] Even this figure, however, does not take into account the millions of dollars in fees associated with hedge funds.

Beyond the low returns, MSU has lost huge amounts of its endowment wealth through paying astronomical hedge fund fees. The fee structure for investing in a hedge fund is typically a 2% and 20%, where 2% of the total amount invested is charged as a management fee, and the hedge fund captures an additional 20% of any revenues generated as performance fees (Investopedia n.d.). Such a fee structure is far in excess of passive investment vehicles like investing in the S&P 500 index. Using the hedge fund industry standard of 2% management fees, we determine that MSU paid $50.61 million in management fees alone over the past four years.[28] These management

[26] We estimate this difference based on the difference in annual returns of the S&P 500 index and the HFRI over the past four years (Hedge Fund Research n.d.; *Yahoo! Finance* n.d.).
[27] This estimate based on MSU's quote of $24,542 as the total cost of attendance (tuition, fees, and room and board) for in-state students for a single year (Michigan State University Office of Admissions n.d.).
[28] We find that the nominal total amount allocated to hedge funds over the past four years was $2.531 billion; the three most recent years are published in audited financial statements, and the 2014 figure comes from 26.7% of the CIF ($2.185 billion) allocated to "marketable assets."

fees given to hedge fund managers could have paid the full cost of attendance for 2,062 in-state freshman over the past four years. Equally, assuming the performance fee standard of 20%, and assuming that performance fees are implemented without a threshold that managers have to meet, MSU paid an estimated $12.13 million[29] as performance fees for its investments over the past four years.[30] This performance fee paid for below-market performance is equal to the cost of attendance for 494 in-state freshman.

Collectively, this analysis argues that hedge fund investments, are not an effective financial investment for the university. Beyond the lack of financial returns and high-fee structure, MSU's hedge fund investments must be scrutinized from an ethical standpoint. As part of a transition to quantitative hedge funds, MSU invests $60.6 million[31] in Renaissance International Equity Fund, whose CEO is Breitbart co-owner Robert Mercer. Additionally, Renaissance's fees are markedly higher than those of most hedge funds. Beyond the standard 2% and 20% fees; Renaissance charges a 5% management fee and an astronomical 44% fee on returns (Best 2016). At this level of investment, MSU pays Renaissance $3.03 million on management fees alone in just a single year. Not only does that make Renaissance a questionable financial investment for the university, it means that more of MSU's money is going to Mercer and white nationalist institutions. There are no signs that the university plans to divest from Renaissance; in the time since this research began, an additional $2.7 million has been invested in the fund (Michigan State University Investment Office 2017).

MSU also invests in "vulture funds," so called for their tendency to invest primarily in companies, organizations, and even sovereign nations that are in financial crisis (Bloomberg 2018). The endowment currently invests $44.5 million in Elliott Management, a company that managing director of the International Monetary Fund Anne Krueger said was undermining "the entire structure of sovereign finance" (Salmon 2004). In fact, Elliott Management pioneered the financially risky and immoral practice of buying the debt of distressed nations for pennies on the dollar with the intention of litigation or coercing countries into repaying with interest (Kumar 2012). In their dealings with Argentina, Elliott Management went so far as to detain a ship of the Argentine Navy and its crew in Tema, Ghana (Fontevecchia 2012), in violation of international law (Stone 2013). They also made an attempt to seize Argentina's presidential plane and tried similar tactics against Peru in the 1990s and the Republic of the Congo about 10 years ago (Bosco 2009). Buying the debt of distressed nations is Elliott's specialty, but the hedge fund uses its power in other concerning ways, too. For example, Elliott Management called for changes to the Board of the Hess Corporation when the company began to move away from oil and gas towards environmentally sustainable alternatives (*The New York Times* 2013).

Not all of MSU's investments are so easy to decode. Given the lack of any real regulation of hedge funds, it is next to impossible to know the full range of ventures in which the university is invested, though there are some clues. MSU has $100,000 in OZ, a subsidiary of Och-Ziff, which paid more than $100 million in bribes to secure investments in Libya, Chad, Niger, Guinea, and the Democratic Republic of the Congo, and pleaded guilty to conspiracy (Stevenson 2016). MSU has $400,000 in Moon Capital, which was found by the SEC to have sold securities short during its public offering, affecting pricing of securities and earning an additional $88,100 in five days (Securities and Exchange Commission 2008). It was once possible to request information on fees paid to

[29] Note: We recognize that hedge funds often charge performance fees only in excess of a certain threshold for returns. Since we do not have access to MSU's hedge fund contracts, we cannot estimate the threshold for MSU's hedge fund investments and do not account for one in our estimates.
[30] We base performance fees on the annual returns of the HFRI Fund of Funds Diversified index designated as MSU's benchmark.
[31] As of December 31, 2017.

hedge funds and their returns via Michigan open record laws, but an amendment to the Confidential Research and Investment Information Act eliminated the possibility for any real public oversight and created an exemption for universities, so long as they publish the names of the funds in which they're invested and the performance of the endowment overall (Dolan and Jesse 2013). Although the amendment claimed to protect trade secrets of the financial sector, the state of Michigan's public universities lobbied for the change, too. The financialized mindset of the university was on full display here. Members of the MSU community deserve to know what they are investing in, but the secrecy surrounding hedge funds prevents that.

2.3: DEBT SPENDING

Over the past two decades, debt levels across the higher education sphere nationwide have increased massively, creating the opportunity for banks and other financial actors to receive a steady stream of interest payments. Between 2002-12, public and community college debt doubled from $73 to $151 billion (Eaton et al. 2016). Michigan State University is no exception, as debt levels have skyrocketed in the last decade. In 2001, MSU's long-term debt stood at $344 million.[32] By 2015, debt levels had risen by 210% at $1.066 billion (IPEDS data). Yet, the university has maintained an extremely positive credit rating through the entire period, rising from an Aa2 Moody's rating to an Aa1 rating in 2010-11 (Moody's n.d.).

As MSU's debt mounts, a fall in its credit rating, and subsequent increase in interest rates, could have extremely dangerous consequences for the university's ability to continue to service its debt through cash flows. By rapidly increasing debt levels, the university has strengthened the hand of credit rating agencies like Moody's in influencing and determining key financial decisions made by MSU. Current and future students, especially Michiganders, along with faculty and staff on campus, have been the biggest victims of this close adherence to Moody's recommended financial strategies. Increasing the power that credit holders like bond ratings agencies possess over public institutions is another example of the financialization of higher education.

Moody's reports[33] for MSU reveal how closely the university has followed credit rating agency recommendations to maintain its bond rating. As state appropriations have dwindled, student tuition revenue has begun to play the central role in ensuring MSU's credit rating. From 2011-14, Moody's highlighted "good revenue diversity" as a key university strength—in spite of the fact that student charges accounted for over 40% of revenues from 2010-14 according to their estimates. In this vain, Moody's 2011 analysis finds that the rise in net tuition per student to 40.7% between FY 2006-10 demonstrates the university's "pricing flexibility," as the increase is greater than similarly rated public universities. A 2012 report goes as far as to list "ability for students to shoulder tuition increases" as a factor that could push up MSU's rating. Similarly, a 2013 report expresses concern for the state of Michigan's economic challenges, partially because of the danger it could pose to the "ability to grow tuition revenues as some students and families face economic tightening." Far from diversifying its revenue sources, the reports have encouraged MSU to grow net tuition revenue per student both by listing the growth of net tuition as a strength and by citing "failure to grow net tuition revenues" as a potential factor that could lead to a credit downgrade. The implications here are staggering: In order for the university to maintain its debt rating, and thus serviceable debt levels, it must treat its students as consumers from whom a consistently greater share of revenues must be drawn.

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[32] Inflation adjusted using the BLS CPI inflation calculator.
[33] In the subsequent analysis, the authors draw on a number of publicly available annual "rating action" documents produced by Moody's. The full set of these documents are available here: https://www.moodys.com/credit-ratings/Michigan-State-University-MI-credit-rating-600028307.

Equally, Moody's has repeatedly called for the university to grow net tuition revenue by increasing out-of-state enrollment in multiple reports. A 2013 report, for example, highlights an increase to a 27% out-of-state freshman class as a core university strength. This is concerning both in light of the importance of an institution like MSU for Michigan's students, and in the context of the near-complete abdication of state grants for Michigan students highlighted in Section 1. Moody's calls for a diverse student body are far better understood as a push toward greater out-of-state tuition revenue than as a genuine concern for diversity on campus.

Moody's has also repeatedly encouraged MSU to improve its operating performance through expense reduction, encouraging the university to find ways to cut costs on faculty and campus workers. Among strengths in 2011 and 2012, for instance, Moody's lists a "[d]emonstrated history of conservative budgeting practices" along with an "ability to effectuate fiscal and operational decisions." Such conservative budgeting practices were in effect in 2011 when management planned a 13% decline in the upcoming year's budget, which was funded by enacting expense reductions worth $36 million through "layoffs, revisions to health care benefit offerings, and increased auxiliary fees." That same year, Moody's commended MSU on its ability to "position itself well to achieve healthy financial operations" by eliminating post-employment benefits for new hires after July 1, 2010. There's no doubt that such cost-cutting strategies help explain MSU's strong bond rating, but, as these reports demonstrate, these strategies have come at the expense of students, faculty, and workers on campus.

Even more concerning than the swelling size of the debt is the vast increase in the outflow of annual interest payments made by the university. Here too, MSU matches broader financialization trends, as interest payments have exploded across the higher education sector. Between 2003 and 2012, "[p]ublic colleges' annual spending on interest payments per FTE student increased by 45%, from $519 in 2003 to $750 in 2012" (Eaton et al. 2016). **At MSU, from school year 2002-03 to 2016-17, the university's interest payments on capital and related financing activities rose by an astronomical 572%, from $7.351 million**[34] (Michigan State University 2004) **to $49.73 million** (Michigan State University 2017). This change is still extremely significant when adjusted for full-time enrollment numbers, as shown below:

Year	**Reported Full Time Enrollment[35] (FTE)**	**Interest Paid[36]**	**Interest Per FTE**
2002-03	30,450	$12,017,210[37]	$394.66
2015-16	37,214	$46,935,000	$1261.22
			Total Change: 220%

For every dollar spent by the university on scholarships and fellowships in 2016-17,[38] it spent 74 cents on paying interest on capital and related financing activities. This change is especially alarming during a 15-year period characterized by low interest rates in the municipal bond market (Eaton et al. 2016).

[34] Inflation-adjusted using the BLS CPI inflation calculator.
[35] Using IPEDS data for the 2002-03 and 2015-16 school years.
[36] Using MSU's financial reports from 2002-03 and 2015-16 school years. Interest paid here refers to that spent on capital and related activities listed among the university's cash flows.
[37] Inflation-adjusted using the BLS CPI inflation calculator.
[38] The university's financial report indicates that it spent $67.013 million on scholarships/fellowships in 2016-17 (Michigan State University 2017).

Financialization has spurred an "amenities arms race" with schools across the country borrowing money to finance "fancier facilities such as gyms, student centers, or luxurious housing, in hopes of luring students who are willing to pay more to attend a campus with these amenities" (Russel, Sloan, and Smith 2016). Only 25% of institutional borrowing today is deployed toward debt that's designed to improve instruction (Eaton et al. 2016). Instead, the bulk of such borrowing is focused on providing "student services" and "auxiliary services," including items such as stadiums, cafeterias, and recreational centers. Between 2014-2016, colleges and universities spent a staggering $12 billion each year on new construction and renovations (Marcus 2017). Far from luring students, these new costs have simply increased operational and tuition costs on campus.

Michigan State University has used this vast increase in debt to fund a construction boom on their campus. At MSU, the value of building stock on campus has risen from $1.684 billion in the 2001 school year to $2.972 billion by the 2015 school year—an increase of 76.5%.[39] The $1.3 billion increase runs parallel to a 636% increase in construction in progress on campus, up from $62 million to $459 million during the same period[40]. In particular, the time between 2010 and 2015 appears to be an active building period for the university. Among the set of constructions and renovations undertaken in this period were: Morril Hall ($34.7 million), Plant Sciences Building ($41.4 million), Akers Dining Hall ($19.7 billion), a bio-engineering facility ($71.8 million), an electrical duct bank facility for -rare isotopes ($26 million), the Grand Rapids Research facility ($85.1 million), and the State Police-Post Redevelopment building ($156.7 million).

By 2014, it appears that even Moody's was concerned by MSU's debt levels, advising the university not to take on any new debt. MSU's debt situation is all the more worrying when one factors in a stream of upcoming costs the university is likely to incur through the Larry Nassar lawsuits and associated legal fees.[41] Those fees will affect more than the university's credit rating—Michigan State is on track to pay several times what Penn State did for its own sexual abuse scandal (Jones 2018). As of January 2018, MSU had been billed for nearly $5 million in legal fees from five separate firms, and they have since hired an additional firm just to represent the board of trustees. That firm charges rates up to $990 per hour (McVicar 2018)—a similar rate to the other firms currently employed (Mencarini 2017). In addition, Michigan State University spent more than $500,000 in January 2018 to monitor survivors' and journalists' social media accounts, undermining its ability to financially compensate survivors of Nassar's abuse and use its resources to implement better and more inclusive prevention and justice programs in the future (Mencarini 2018). The Roosevelt Institute supports survivors of sexual assault and their right to seek damages. The Nassar events have spurred Moody's to place MSU's long-term Aa1 bond rating under review for a downgrade (Moody's n.d.). These additional costs further strengthen the importance of our recommendation, as explained in Section 3, that the university issue no new debt in the coming years.

In September 2017, the university said it was paying for legal fees with "non-endowment investment income." It is unclear what "non-endowment investment income" refers to, as this is not a term used throughout MSU budget documents. It may mean that legal fees are coming from investments of the general fund (Michigan State University Office of Planning and Budgets n.d.), which is generally used to pay for "expenses necessary for the day to day operations of the departments/colleges" (Michigan State University Office of the Controller n.d.). The

39 Inflation-adjusted using the BLS CPI inflation calculator.
40 Inflation-adjusted using the BLS CPI inflation calculator.
41 Larry Nassar was a Michigan State University doctor and faculty member found guilty of decades of sexual abuse, assault, and the possession of child pornography. The university is a defendant in several related lawsuits and is accused of widespread institutional failure that protected administrators, faculty, and staff who violated relationship violence and sexual misconduct policy.

general fund is primarily comprised of revenue from student tuition and fees, state appropriations, and investment income (Michigan State University Office of Planning and Budgets n.d.).

2.4: INTEREST RATE SWAPS

In addition to vastly expanding the scope of borrowing on their campuses, universities have taken on a host of financial derivatives to finance such debt. One key example of this is a hedging interest rate swap, a derivative instrument sold to universities across the country as a way to protect against risk and lower financing costs. Essentially, a swap allows a university to switch out the variable interest rate typically paid on bonds with a steady fixed rate. Although such deals were sold by banks as an insurance scheme, in truth they contain a series of risks such as astronomic termination costs. With the financial crisis of 2008, these huge risks came to the fore. Yet, the long-term nature of these deals coupled with the stringent exit terms ensures that universities remain ensnared. Through swaps, the financial sector profits not just from university debt, but the additional derivative instruments placed on top of such debt. A Roosevelt Institute analysis (2016) found that these predatory schemes cost just 19 schools $2.7 billion with an additional $884 million in termination fees on the line should the universities choose to end their swap contracts.

The Roosevelt Institute's analysis (Russel et al 2016) found that between 1998-2008, Michigan State University entered into 12 interest rate swaps. Seven such agreements remained active as of 2017 (Michigan State University 2017, 44-45). Moody's reports from 2011-14 have repeatedly expressed the institution's debt structure as a core concern as a result of these swaps and the attendant lack of liquidity. As of 2015, the swap net interest costs[42] from these deals stood at $112.3 million. In addition, the school has already spent $17.3 million in terminating swaps (Russel et al. 2016). Had this $130.2 million been spent on scholarships instead, MSU could have paid the full cost of attendance for 5,305 in-state freshman.[43] The university reports the fair value on these remaining swaps at 73.685 million in 2016 and $57.178 million in 2017 (non-additive) (Michigan State University 2017). As a financialized instrument, interest rate swaps allowed banks that Michigan State University partnered with, such as Barclays, Deutsche Bank, and JP Morgan, to profit greatly, while the university and its students lost millions of dollars (Michigan State University 2017). It is concerning that a number of these agreements remain in place and that the university has made no efforts to renegotiate these deals.

2.5: EXECUTIVE SPENDING

Despite MSU reinvesting less of its investment returns into programs and services for students, alongside the rise of tuition costs, administrative salaries continue to increase. Former MSU president Lou Anna K. Simon made $750,000 in fiscal year 2017, which, at one point, made her the 6th-highest paid college president in the United States (Jesse 2016). That salary is more than double the $340,000 she made in 2005 in her first year as president (*MSU Today* 2006). Administrative positions can come with other financial perks, too: President Simon's husband, Roy, was given an annual car allowance of $7,250 on top of his regular $158,000 yearly salary as senior advisor to the executive vice president for administrative services (Kennedy 2018). In 2015, the median salary for college presidents was $431,000 (Jesse 2016); that number has been rising nationally, but at MSU, the salaries of

[42] The report contains a detailed explanation of how these swaps costs were calculated: "To calculate the costs of the interest rate swaps, we multiplied the swap notional amount by the monthly interest rate paid by the bank counterparty, and by the monthly interest rate paid by the school, and then subtracted one from the other. The difference is the net payment on the swap, which in all cases examined here is a net cost to the school" (Russel, Sloan, and Smith 2016, p. 45).
[43] This estimate is based on MSU's quote of $24,542 as the total cost of attendance (tuition, fees, and room and board) for in-state students for a single year (Michigan State University Office of Admissions n.d.).

other administrators reach and even surpass it. Provost June Youatt earned an annual salary of $402,000 in 2017, some deans made as much as $535,000, and members of the expansive executive management team often make upwards of $200,000 (Michigan State University Office of Planning and Budgets 2017). Philip Zecher made $335,600 in 2017, up from $325,000 in 2015—despite the poor performance of endowment investments (McVicar 2016).

Salaries within the athletics department are high, too; in 2017, MSU football coach Mark Dantonio earned a salary of $2,264,480; women's basketball coach Suzy Merchant earned a salary of $489,476; and men's basketball coach Tom Izzo earned a salary of $411,957 (Michigan State University Office of Planning and Budgets 2017). Dantonio, Merchant, and Izzo earn other money from the university beyond their salaries, too. *USA Today* (2018) reports that Izzo will make $3,652,979 from MSU in 2018, and is the fifth-highest paid coach in the country. Former athletics director Mark Hollis, who resigned as a result of the Nassar scandal, made a base salary of $688,000 and was given bonuses at the discretion of President Simon (Friend 2017) on top of a retention bonus quadruple the salary of some professors (Bull 2015). While MSU administrators and athletic staff rank as some of the highest-paid in the nation, MSU professors are consistently some of the lowest-paid faculty in the Big Ten (Howell 2013). This, along with diminishing programmatic spending from the endowment, shows that Michigan State University routinely fails to prioritize research, instruction, and the well-being of students and faculty members. Resources and wealth are concentrated at the top with the administration, while students and faculty pay the price.

Section Three: Policy Recommendations

As the financialization of Michigan State University remains unchecked, the university is moving further away from being the type of institution that prioritizes education as a public good and makes decisions that are reflective and representative of its core constituency: the students. Far from structuring its spending toward pushing for accessible and equitable education, or improving conditions for workers and faculty on campus, it has actively taken on a stream of new, deeply financialized activities. Across the country, financial actors have supervised this process from both the outside—through institutions like credit rating agencies or hedge fund/private equity managers—and from the inside of universities themselves. At major private research universities, for instance, financiers occupied 56% of board leadership positions in 2012, up from 26% in 1989 (Jenkins 2015). Today, financiers and their associates are exercising an oversized influence on campus: They hold decision-making power in all aspects, including tuition costs, construction budgets, salaries, faculty hiring, endowment investments and much more. At MSU, the appointment of CIO Philip Zecher in 2015, along with the lack of effective oversight over investments by MSU's Board of Trustees, must be examined in this light. MSU must be held accountable to questions of leadership and influence on financial decision-making. In this section, we put forth a series of five recommendations to reverse these trends and build a more democratic governance structure for MSU's financial priorities.

1. ENSURE STUDENT AND FACULTY REPRESENTATION ON THE BOARD OF TRUSTEES

Michigan State University has an eight-person board of trustees whose members are elected in statewide, partisan elections. In 2016, Joel Ferguson, vice chairman of the board of trustees, was sued for racketeering. Although the suit was ultimately dismissed, it called attention to community concerns regarding Ferguson's own development company and university bids and contracts for new buildings on campus (given Ferguson's position as vice chair of the board's finance committee, which is tasked with awarding construction contracts). As an organizer of Capitol National Bank and a Clinton appointee to the board of directors of the Federal Home Loan Mortgage Corporation, or Freddie Mac, Ferguson has explicitly strong ties to the financial industry (Michigan State University Board of Trustees n.d.). Ferguson is a personal friend of former Michigan governor and current MSU Interim President John Engler, helping to secure a position for Engler's wife at Freddie Mac, according to a lawsuit. In return for the appointment, Engler allegedly gave Ferguson's development company a $45 million no-bid award to build new headquarters for the Michigan State Police while governor. Given widespread condemnations of the legitimacy of Engler's appointment as interim president of the university, this history is concerning (Svrluga 2018).

One thing is very clear: Investment policy at Michigan State University is rarely, if ever, made known to the people it affects. There are no systems in place to give students and faculty a chance to engage in open dialogue with administration and trustees on this and other issues. When students and faculty go through the needlessly bureaucratic process to make their needs known to the board, they are disregarded. This was particularly apparent when the board chose Engler as interim president of the university against the expressed concerns of students, faculty, staff, the steering committee, and other members of the MSU community. As it stands, students and faculty hold a purely advisory role in the administration of an institution that governs so much of their lives. Information about the university's finances, and by extension student tuition and fees and faculty salaries, is not made public in a way that allows the community to have a say in how their own money is spent.

The first step in remedying this is to give students and faculty adequate representation on the university's board of trustees. If undergraduate students, graduate students, and faculty representatives were kept apprised of financial developments and given a vote on investment policy, spending, and adjustments to tuition and fees, MSU policy would become more reflective of the needs of those affected by it, and the university would be better able to serve its community.

2. IMPLEMENT A TUITION FREEZE

The rise of tuition prices at Michigan State University has been constant over the past two decades. As the state has disinvested in public higher education, the burden for collecting MSU's revenues has increasingly fallen onto students. As the student debt burden hits 1.4 trillion, it is imperative that the university commit to reducing tuition costs on campus.

We recommend that MSU implements a tuition freeze for the next three to five years, holding current tuition rates in place. Implementing a meaningful tuition freeze is a necessary first step for the university to address the problems its financialized behavior has created. This action is not without precedent: The University of Illinois has frozen in-state tuition for four straight years, and Purdue University's tuition freeze has been ongoing since 2013 (Rhodes 2018). Purdue has seen so much success with the policy that their student loan default rate is 1% as opposed to the national average of 7.6% (Purdue University 2016). MSU ought to follow the precedent set by its peer institutions. In enacting a tuition freeze, the university must ensure that student fees are frozen too or at least indexed to inflation. Michigan State University must make a real and immediate commitment to lowering the cost of attendance for students.

3. INCREASE PROGRAMMATIC SPENDING

In just the past two years, Michigan State University has lowered the percentage of its endowment that it spends on students, faculty, and workers from 5.0% to 4.6% with an additional 0.2% drop budgeted for July 2018. As we demonstrate, this programmatic spending decline has resulted in over $15 million being invested in financial markets, boosting the coffers of the financial sector instead of being spent on campus. This is especially damning since MSU's endowment generated a 16.2% return in the 2016-17 fiscal year, greatly boosting endowment size. A greater share of endowment funds today must be spent on the needs of students and faculty rather than inaccessibly stowed away from the community.

We recommend that the MSU administration return to the pre-2016 programmatic spending rate of 5.0%. Equally, we ask that the university conduct a due diligence investigation into the viability of returning to the higher 5.5% spending rate that it had maintained until 2009.

4. ESTABLISH FINANCIAL TRANSPARENCY

The lack of financial transparency at Michigan State University has allowed risky, inequitable financial practices to go on unabated for years. The bulk of these decisions are made behind closed doors, without any opportunity for students and faculty to take part in the decision-making process for changes that directly affect them. It is difficult to find information on past performance of the endowment, too. While past budgets for the general fund are easily accessible, lists of endowment investments and information on the performance of those investments are taken down and replaced each fiscal year. Without structures in place to hold administrators, trustees, and investment staff accountable to the MSU community, the university will continue down its current path.

State legislation passed in 1994 has made universities in Michigan exempt from the standard requirements for government organizations under the Michigan Freedom of Information Act. The Confidential Research and Investments Information Act (CRIIA) initially allowed MSU to ignore inquiries regarding the intellectual property and inventions created by research (State of Michigan Legislative Council 1994). In the interest of retaining investment managers, amendments were added in 2004 removing requirements to disclose the rate of return, names of those involved, and amount allocated in investment in portfolio companies (Dolan and Jesse 2018). Adherence to this law prevents members of the MSU community from understanding and addressing issues that stem from investments made by the university. Roosevelt Institute at Michigan State University supports either the repeal of this legislation or MSU voluntarily not adhering to this law in relation to its own investments.

The university should provide members of the MSU community the level of transparency they all deserve. As a public institution, endowed with the trust of the Michigan public, Michigan State University must be kept accountable to and by the public. Full transparency entails the university reporting returns of investment managers, investment strategies, and the fees paid to managers. While the CRIIA argues that information should not be disclosed to avoid “competitive harms” to “investment fiduciaries,” this is a burden that the university has yet to show. To justify not disclosing information, the university must prove that there is meaningful harm in disclosing investment decision-making, performance, and fees. Michiganders and members of the MSU community have a right to this information as taxpayers and as constituents.

5. RESTRUCTURE MSU’S INVESTMENT PORTFOLIO

As we demonstrate in Section 2.2, Michigan State University’s investment portfolio is heavily concentrated in hedge funds and private equity investments. Such investments carry high fees and have generated low returns. Most importantly, such investments do not match the progressive educational values that higher educational institutions are meant to stand for. Investments in white supremacy and distressed debt, for instance, disproportionately hurt the very communities for whom the promise of higher education is greatest. With these issues in mind, we recommend that the university drastically lower the share of private equity and hedge fund holdings in its portfolio moving toward full divestment from these investments within the next five years.

Instead, we propose that the university strengthen the share of passive investments—index funds, stocks, and bonds—in its holdings. Equally, the university ought to consider the way in which its investments can strengthen its role as an anchor in the East Lansing community. The George Washington University, which invested $250,000 in a DC community development financial institution in 2016, provides a model for how such investments could be tailored toward the goal of fighting economic inequality in the community (Komes 2016, p. 12).

Finally, our last recommendation is targeted at the Michigan Legislature. As the legislature and governor slash the education budget, public universities have been starved of resources and pushed into financial vulnerability. As we document, students have been the hardest hit by these trends. Any solution to this problem would be incomplete without a renewed commitment from the Michigan Legislature to funding public education at Michigan State University and other institutions.

Conclusion

Looking specifically at Michigan State University, we've shown the many ways in which the financialization of higher education plays out on any one campus. Overall, we demonstrate how MSU, like public institutions nationwide, is increasingly operating more as a company or financial corporation than as an institution providing a public good, that of higher education. Far from prioritizing equitable, accessible public education as its core mission, MSU today focuses on competing for students as consumers, engaging in risky borrowing practices, investing in financial strategies driven entirely by the purported bottom line, and decreasing the share of its revenues that should be spent on its core constituencies: students, faculty, and campus workers. The two core components of the financialization process are to blame. First, the predatory, extractive Wall Street business model designed to maximize profits for the wealthy and powerful few at the expense of the collective, greater good. Second, the financialized decisions of administrators at public institutions themselves. This report draws scrutiny on university leadership that has both facilitated and consistently reinforced these practices, ensuring that higher education's role as a source of economic mobility is depleting as it concurrently becomes a great cause of the very inequality it is supposed to fight.

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