SPECIAL REPORT

SPEAKING OUT ABOUT THE RISING COST OF EDUCATION

CREATIVE FINANCING

Speaking out about the Rising Cost of Education, Creative Financing continues a new series from usmnews.net. Its purpose is to investigate reasons the cost of a college education continues to climb, creating a massive, unsustainable burden for students and their families. In Mississippi, "since 2000, average tuition among the eight universities increased 96 percent, an average of 8 percent a year."

The focus of this series has been the multibillion dollar building boom and the massive debt incurred to support it. As reported by Bloomberg News:

> As borrowing soared, university presidents began a multibillion-dollar building boom across campuses, featuring private dorm rooms and network TV-ready football fields. Colleges themselves went into debt to pay for these extras. By the end of 2011, more than 500 colleges and universities rated by Moody's Investors Service had $211 billion of outstanding debt, compared with $91 billion in 2002.
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> "The tendency of the colleges and universities at the undergraduate or the graduate level is to charge as much as they can, and continue to build and expand," William Bennett, education secretary under Reagan, said in an interview.

According to the 2010 audited financial statements for the IHL, as of June 30, 2010, the non-current liabilities (debts that would take longer than 12 months to pay) were $958.1 million dollars. According to the IHL's auditors, these debts have increased 28.4% (or $211.7 million) since June 30, 2008." Why? According to the auditors, the main reason for the big jump in debt was "new bonded debt issues at many of the institutions. During recent years, the IHL System has experienced unparalleled levels of new construction and renovation to its existing facilities."

If you think a billion dollars in debt is bad, these likely do not include what is cleverly referred to by the IHL as "privatized" debt. For example, the much vaunted parking structure was:

> privately funded for design/construction, and be leased back to the university for a period not to exceed 31 years. The revenue stream to cover

> the lease payments would be generated by increasing parking permit fees, ticket surcharges on athletic and performing arts events on campus and by instituting a visitor parking fee."

"Privatized" funding is a euphemism for off balance sheet financing. According to the Financial Times Lexicon, off balance sheet financing is

> Financing that does not appear on [an organization's] balance sheet because it is not strictly debt (so liabilities and associated assets are excluded from the balance sheet).
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> ….published financial statements may fail to provide a full and transparent representation of the underlying activity of the reporting entity; in particular, **reported results may suggest less exposure to liabilities than really exists**.
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> Common off balance sheet financing mechanisms include … .creation of special purpose entities, and leasing.

In short, off balance sheet financing such as that used for the parking garage is to conceal debt and make it easier to borrow more money. How much money has Southern Miss "borrowed" by way of off balance sheet financing? Stay tuned for more.