UC on Wall Street: Another Reason Your Tuition Goes Up

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How does UC sell $1.3 billion in construction bonds immediately after declaring an "extreme financial emergency," slashing funds for teaching and research and cutting staff and faculty pay? By using your tuition as collateral. Higher tuition lets UC borrow more for construction even while it cuts instruction and research.

You're often told that your tuition goes up because the state pays less for higher education, but you're almost never told that UC isn't obliged to use your tuition in the way it uses public money. Unlike state funds, your tuition money can also pay the interest on construction bonds and be used as bond collateral.

UC has in fact promised its bond trustee (Bank of New York Mellon Trust) and the companies that rate bonds (S&P and Moody's) that bondholders have first claim on your tuition in the event of default. (See "They Pledged Your Tuition," keepcaliforniaspromise.org/?p=383) It has also promised bondholders that it will raise tuition as needed to avoid bond default. Most importantly, UC has pledged to do nothing to *lower* the ratings on its bonds. Your tuition is not only pledged to Wall Street, Wall Street could demand the next tuition hike by threatening to lower UC's Aa1 bond rating.

Harvard, the world's richest educational corporation, curbed construction when endowments fell because its people and programs came first. Its bond rating, slightly higher than UC's, does not seem to have suffered. UC, however, seems to have the opposite priorities. It started borrowing against your tuition in spring 2004—when Gov. Schwarzenegger gave it a green light to raise tuition, and claims the ability to do this in every prospectus for bonds partially backed by your tuition.

By June 2008, UC's pledged collateral has jumped by 60% (from $4.2 billion to $6.72 billion). Tuition, a large and growing component of that collateral, will have risen by 109% since 2004 *if* this year's increase happens. The Regents have approved another $2B in projects that they plan to fund primarily with tuition-backed bonds, because this is where their debt-bearing capacity will grow. When these new bonds are issued, *after* your tuition hike is a done deal, debt service on all tuition-backed bonds will have risen to around $430M, nearly double what it was last year. Your tuition and fees make up the largest component of this debt service and the only component that UC has pledged to increase.

Increasing the collateral for bonds and paying more in debt service are clearly among the reasons why the Regents want to raise your tuition. But students would be more likely to resist if they knew this. By describing tuition increases as a simple substitute for state educational funds, UC avoids the question of how much goes for construction, rather than instruction.

Don't be fooled by the argument that UC is simply emulating the great private universities. The ones I know now use their endowment income to subsidize tuition for students who would otherwise need loans: UC, by contrast, now pledges its ability to drive you and your families deeper into debt so that it can increase its leverage on Wall Street. This is what it looks like to privatize a great public university.

Will you go along with this November's 32% tuition increase, now that you know the money is being promised to Wall Street? It will happen unless you stop it.