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Moody's paints grim picture for higher education

Dr. Aldemaro Romero Jr.  
Letters from Academia

After looking at the budget proposal by the Trump administration, Moody's Investors Service painted a grim financial future for the nation's colleges and universities. According to their analysis, Trump's budget proposal to slash federal spending and end financial support for the arts and humanities would irrevocably affect the financial foundations that rely on these government entities.

But let's first put things into perspective. Moody's is one of the big three credit rating agencies (together with Standard & Poor's and Fitch) that rate the bond credit of businesses, governments, and other institutions.

They rank the creditworthiness of borrowers based on expected investor loss in the event of default.

The other thing that we must remember is that the creditworthiness of universities – both public and private – borrow money in order to pay for many programs that directly affect the cash flow of these institutions.

The proposal by the White House, higher education would lose $4 billion in federal funding.

This money not only covers direct expenses for research projects, but also directly pays for "indirect costs".

Indirect costs, which are paid to a consortium of universities to help them maintain their research infrastructure. Further, some of that money is used to provide what is called "start-up packages" that give tenure faculty the financial support necessary to kick-start their research agendas.

Additionally, the proposal’s "America First" budget proposes nearly $6 billion in cuts to the National Institutes of Health.

The vast majority of biomedical research in this country is funded by the NIH, and cuts of this magnitude would have serious consequences in our constant search for better medicines and medical treatments.

In fact, because of its importance, the NIH budget in the past has held relatively constant support in Congress.

While some of the wealthiest universities, like the Ivy League (Harvard, Yale, Princeton, etc.), packaging their large endowments and largesse from private sources can probably weather the cuts to some extent, most others will not.

This will be particularly the case for public universities who are the ones that usually serve people in rural areas and those with less financial resources.

According to Moody's, even for the Ivy League types, it will take years to adjust to the new realities that would be brought about by these cuts.

And Moody's projections for higher education are not alone, but accompany dire predictions for the National Science Foundation (NSF), the Department of Energy. The administration’s proposed budget eliminates the National Endowment for the Humanities and the National Endowment for the Arts.

Although the last two have very small budgets (under $50 million each), as a result of these changes, their disappearance will have a ripple effect on higher education. One of the most important sources of financial support is the National Science Foundation.

The NSF will lose these federal dollars and will have fewer options with which to attract private donors, sending them into a death spiral.

The same can be said of other federal agencies that support research, such as the National Environmental Protection Agency (EPA) budget will be slashed by 31 percent.

Although there will be a huge increase in defense spending (a $54 billion increase), which will probably go to private companies rather than the current administration, a lot of that money is obligated towards national security, whether from Sputnik, the arms race, pandemic disease, or climate change. Those cuts to NSF are probably even more devastating.

After looking at the budget proposal by the current administration, it is quite clear that higher education is one of the first activities to suffer because of federal budget cuts.

For the Informed Reader

Walker approved as SLE’s new VCA

The Southern Illinois University Board of Trustees approved Rich Walker as vice chancellor for administration and chief financial officer for the Edwardsville campus during its regularly scheduled meeting on the Carbondale campus.

Walker stepped into the role of interim vice chancellor for administration when former VCA Kent Noble retired in May 2016. Prior to serving in that role, Walker served as the assistant vice chancellor for administration and budgeting since 2011.

Walker will serve in conjunction with the SIU’s annual capital FAMP (Financial Action Management Plan) and strategic mission and implementation of the VCA function.

Walker has served in various leadership positions within financial organizations, including the Illinois Section of Phi Kappa Phi Honor Society, Leadership St. Louis and Southwestern Illinois Community Affairs Council for Leadership Development. In addition, he was recognized with the Cardinal Honor Award from the Edwardsville Fire Protection District for his work as an actuary.

He earned a master’s from the United States Capitol School and a bachelor’s from Indiana State University.

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