

Puerto Rico's Fiscal Crisis Impacts University of Puerto Rico System

By Don Sutherland

Back in September 2015, I raised concern in my [blog](#) that Puerto Rico's structural fiscal crisis could pose a challenge to its public university system. Reduced availability of funding could result in programmatic, non-programmatic, and tuition pressures on the system with accreditation-related implications.

With respect to the accreditation-related impact, the blog explained:

[A]n accreditation action related to Puerto Rico's deteriorating finances could have a system-wide focus. The magnitude of Puerto Rico's fiscal challenges makes a system-wide focus more likely than an institution-to-institution one.

On May 18, 2017, following a review of all of the University of Puerto Rico's institutions, the Middle States Commission on Higher Education (MSCHE) placed 8 of the 11 University of Puerto Rico institutions on probation for the challenges that now confront them (Requirements of Affiliation 3 and 8 and MSCHE Standard 3). The remaining three institutions from the University of Puerto Rico system were asked for monitoring reports documenting "financial resources, funding base, and plans for financial development adequate to support its educational purposes and programs and to assure financial stability Requirement of Affiliation 8 and Standard 3)."

Probation	Monitoring Report
University of Puerto Rico-Arecibo University of Puerto Rico-Bayamon University of Puerto Rico-Carolina University of Puerto Rico-Cayey University of Puerto Rico-Humacao University of Puerto Rico-Ponce University of Puerto Rico-Rio Piedras Campus University of Puerto Rico-Utuado	University of Puerto Rico-Aguadilla University of Puerto Rico-Mayaguez University of Puerto Rico-Medical Sciences Campus

ROA #3 (ROA #2 under the new MSCHE standards): *The institution is operational, with students actively pursuing its degree programs...*

ROA #8 (ROA #11 under the new MSCHE standards): *The institution has documented financial resources, funding base, and plans for financial development adequate to support its educational purposes and programs and to assure financial stability. The institution devotes a sufficient portion of its income to the support of its educational purposes and programs.*

Standard 3 (Standard VI under the new MSCHE standards): *The human, financial, technical, facilities, and other resources necessary to achieve an institution's mission and goals are available and accessible.*

Even as the University of Puerto Rico system struggles against the powerful gale of the Island's fiscal crisis, the structural factors responsible appear to have deepened since my last blog entry on the topic. By 2016, Puerto Rico's population had fallen more than 11% from its 2004 figure to 3,411,307. The rate of decline had continued to accelerate. The average annual rate of decline was 1.0% for the 2004-16 timeframe. Since 2010, Puerto Rico's population has fallen by an average of 1.4% per year. Since 2013, the annual rate of decline has increased further to 1.7%.

Declining population creates a macroeconomic headwind. At the same time, the outward migration has seen people who would typically comprise the workforce exiting the Island. That development may result in "brain drain" as both youth and skilled employees relocate outside of Puerto Rico, which would hamper productivity growth in Puerto Rico's economy. This would further increase the financial burden from a rising retiree-to-worker ratio.

In my view, Puerto Rico's debt will need to be restructured. A meaningful share of the principal will need to be written off. In addition, funding will likely be required to assure that Puerto Rico can cushion investments from expenditures reductions.

The political outlook for such an outcome remains unfavorable in the near-term. Neither the Congress nor the President appears inclined to go beyond what has already been done (the [Promesa Law](#) and the Medicaid funding provided in the budget deal through the remainder of the current fiscal year).

The combination of a lack of foresight and political polarization has greatly limited Washington's willingness to play a more robust role in helping Puerto Rico overcome its fiscal crisis. Washington's limited action could result in a delayed recovery from Puerto Rico's fiscal crisis, especially if the confidence necessary to stem the outward migration of Puerto Rico's residents is not restored. A delayed or limited recovery could inhibit the University of Puerto Rico system's capacity to achieve financial stability and ultimately trigger painful retrenchment. Retrenchment would entail the elimination of academic programs, student services, and possible the consolidation and/or closure of some campuses. Such an outcome would raise the long-term economic, social, and financial costs associated with the fiscal crisis above what they would otherwise have been.