

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



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BY ELECTRONIC MAIL

May 1, 2019

Honorable Ricardo A. Rosselló Nevares
Governor of Puerto Rico
La Fortaleza
PO Box 9020082
San Juan, PR 00902-0082

Dear Governor Rosselló Nevares:

The Oversight Board is in receipt of the University of Puerto Rico's Proposed Fiscal Plan as of April 5, 2019 (the "Proposed Plan"). After careful review of the updates made to baseline assumptions and measures, as well as to various policy decisions, the Oversight Board has determined that the Proposed Plan requires certain significant revisions and additional supporting information before the Oversight Board can certify it as compliant with the requirements of PROMESA. The Oversight Board looks forward to continuing to discuss the Proposed Plan, and the violations detailed herein, with the University of Puerto Rico (UPR) in the coming weeks.¹

The Board recognizes the extraordinary value and important role played by UPR in Puerto Rico's economic development. PROMESA provides the Government with a powerful tool to restore economic growth and opportunity to the people of Puerto Rico. The Board urges the Government to use this tool to provide for a sustainable fiscal future for UPR. Moreover, the Government should ensure UPR remains an economic growth driver for the Island and provides an accessible and affordable education to students of all backgrounds, taking into account the financial and demographic realities of the Island. The comments and requirements contained herein are provided in this spirit. Any requests for additional detail, modification, or clarification are intended to assist the Board in ensuring UPR continues to provide an accessible education and drive growth well into the future.

Baseline assumptions²

The Oversight Board requires the following changes to and/or explanations of elements of the revenues and expenditures baseline for FY19-24 included in the Proposed Plan:

¹ This letter serves as the notice of violation pursuant to PROMESA Section 201(c)(3)(B).

² Sections 201(b)(1)(A),(B),(C),(D),(G),(H)

- **Presentation of FY19 baseline:** The Proposed Plan presents an FY19 baseline that incorporates the achieved impact of measures for FY19. This obscures the true impact of measures and makes it challenging to fully understand what UPR has already achieved in working towards the Certified Fiscal Plan. Please revise the baseline of the Proposed Plan to reflect revenues and expenditures prior to the enactment of any measures.
- **Pension costs:** The Proposed Plan does not include updated pension payment projections. The current baseline utilizes projections from UPR's previous submission even though UPR has indicated in several recent working sessions that these numbers will likely change due to recent actuarial work and pension reform efforts. Please include the most current estimates of pension plan costs in baseline. Please also provide all relevant supporting analyses.
- **Dues and fees volumes:** The Proposed Plan reflects volumes for non-Medical Science Campus dues and fees that are on average 6% higher than total projected volumes in the Certified Fiscal Plan. Projections for FY19-23 are also 2-3% higher than UPR's September submission. This is despite an overall lower enrollment in the Proposed Plan. Please confirm that these updates are due to improved data and are consistent with latest enrollment actuals.

Revenue measures³

The Oversight Board requires the following changes to and/or explanations of the revenue measures included in the Proposed Plan:

- **Graduate tuition increase:** The Proposed Plan does not match the tuition increases required by the Certified Fiscal Plan. For example:
 - MBA candidates will pay \$10 less per credit in FY23 than required
 - JD candidates will pay \$137 less per credit in FY23 than requiredFurthermore, the tuition increases that do occur in the Proposed Plan have a slower ramp up than in the Certified Fiscal Plan and the Proposed Plan does not index tuition in FY23 and beyond to inflation, as in the Certified Fiscal Plan. Please increase cost per credit for all graduate programs to the required levels according to the timing in the Certified Fiscal Plan and index growth in outer years to tuition inflation of 1.5%.²
- **Undergraduate tuition increase:** The Proposed Plan is now aligned through FY23 with the Oversight Board's schedule of undergraduate tuition increases. However, in FY24 the Proposed Plan keeps tuition stable at \$157 per credit hour and contemplates no increases past FY24. The Oversight Board is concerned that this will prevent UPR from keeping pace with operational costs and may necessitate a dramatic increase in tuition in future years. To avoid this scenario, which would be harmful for students and UPR's ability to

³ Sections 201(b)(1)(A),(B),(D),(F),(G),(H)

continue to provide excellent service, please index tuition in FY24 and beyond to tuition inflation of 1.5%.⁴

- **Science & Technology Trust Patent partnership:** The Proposed Plan has reduced total expected measures FY19-23 by \$500,000 because no measures were achieved in FY19 even though the Certified Fiscal Plan expected UPR to achieve \$500,000 in incremental revenue from this measure during that period. UPR is still required to achieve total measures despite delays. Please include expected FY19 savings in overall measure target. Please also provide the supporting detail on what steps UPR plans to take to achieve stated targets.
- **Government services measures:** The inclusion of only implementation costs for tutoring and training services provided to PRDE and the Central Government in the measures view of the Proposed Plan obscures the overall impact of this measure. Please include net impact in the measures view (\$20,000,000 revenue currently included in baseline minus implementation costs). Please also ensure FY19 reflects revenue received from this measure, not budgeted revenue.

Expenditure measures⁵

The Oversight Board requires the following changes to and/or explanations of the expenditure measures included in the Proposed Plan:

- **Tuition exemptions:** The Proposed Plan has made significant changes to UPR's exemptions policy. It now only awards automatic tuition exemptions to:
 - Veterans (100% of tuition) and veterans' dependents (50% of tuition)
 - Teaching assistants and graduate work study students (100% of tuition)
 - Student representatives to campus or university system boards (100% of tuition)

It continues to award exemptions (mostly partial but some up to 100% of tuition) to some honor students and some employees and their dependents. These exemptions are not guaranteed and will be awarded based on a process administered by the Office of Financial Aid. Students will need to fill out the FAFSA to be eligible and applications of students with financial need that are not eligible for Pell grants will be prioritized.

The Proposed Plan also limits how long undergraduates can receive exemptions to "150% of the time to complete an undergraduate degree." The duration of graduate student exemptions will depend on program requirements.⁶ Important components of this policy change are consistent with the Oversight Board's position as stated in the Certified Fiscal Plan, namely the centralized award of exemptions and the minimization of guaranteed exemptions. However, the awarding of exemptions to employees, dependents of

⁴ Tuition inflation estimate from The College Board

⁵ Sections 201(b)(1)(A),(B),(C),(D),(F),(G),(H)

⁶ 1 year, 30 Credit Program; 2 years, 31-65 Credit Program; 3 years, 66-100 Credit Program; 4 years, 101+ Credit Program

employees, dependents of veterans, and board representatives is inconsistent, as is the extended duration of exemptions. Furthermore, this new policy does not cap the overall exemption budget, creating potential for increased and unpredictable burden on UPR's already strained finances. Please revise this measure to only award exemptions to veterans, honor students, and TAs, include a cap on total value of exemptions awarded per year, and limit the duration of exemptions to the exact minimum length of a student's program of study.

The Proposed Plan also includes a budget to award merit-based exemptions to high-performing athletes and other extracurricular participants. This budget will be controlled by individual campuses, which will have complete discretion to define high performance and make awards. This is inconsistent with the exemptions measure outlined in the Certified Fiscal Plan which eliminates exemptions to these groups. Furthermore, the Oversight Board is concerned about the lack of transparency and accountability stemming from a decentralized award policy. Please eliminate this extracurricular exemption budget from the Proposed Plan.

As a reminder, the Certified Plan contemplates several initiatives (the establishment of a \$35M needs-based scholarship fund (included in Commonwealth Fiscal Plan), an increase in UPR's internal scholarship fund, and the maintenance of total tuition costs below the max Pell grant award) to ensure exemptions eliminations do not impact students' ability to afford a UPR education. Therefore, all students with financial need will still have resources available to fund their education.

- **Internal Scholarship Fund:** The Proposed Plan sets aside money for an internal scholarship fund (\$13,699,000 in FY24) granting up to \$1,000 per year to eligible graduate and undergraduate students. Students who show the most need for economic assistance will receive priority but “25% of the fund will be reserved for students who don't qualify for economic assistance because of their Estimated Family Contribution (“EFC”).” This fund will be administered centrally by the Office of Financial Aid, but no clear criteria for evaluating economic need outside the use of EFC is provided. Without a clearly defined and publicized criteria for award this could result in an opaque process that does not benefit students with the greatest need. Please provide additional detail on the criteria to be used to select students for this award (especially those who do not already qualify for economic assistance) and the procedure for reviewing applications and making awards.
- **Procurement:** The Proposed Plan includes \$46,954,000 in “other operating payments” as addressable spend in its procurement measure. This category of spend includes items that may not be able to be addressed through procurement efforts such as “unclassified miscellaneous services” (\$12,502,000) and “other expenses” (\$21,618,000). Please provide the next level of detail behind these categories to confirm they should be included in addressable procurement spend. Furthermore, the Proposed Plan assumes an 8.6% reduction on the original FY19 addressable spend base of \$167M (\$9M already achieved in FY19 and an incremental \$5.3M going forward). This only accounts for the system-wide 9% reduction assumed in the Certified Fiscal Plan and not the additional 9% reduction that

is applied to satellite campuses, resulting in a blended reduction rate of 11.6%. Please revise total blended reduction on original FY19 base to 12% or provide justification for why lower rate of savings is appropriate.

- **Attrition:** The Proposed Plan provides insufficient detail to understand what drives assumed attrition. The plan includes a high-level explanation about maintaining relatively constant student to faculty and student to non-faculty ratios, but the supporting financial model does not clearly lay out this mechanism, and the rationale for target ratios is not clearly presented (e.g., benchmarks used to construct target ratio). Please provide rationale for ratio assumptions in the Proposed Plan and revise associated model to clearly show how maintenance of ratios impacts various employee categories. It is also unclear that this measure will result in sustainable attrition. The Oversight Board is concerned that UPR may lose some of its most skilled faculty and administrators, limiting its ability to operate effectively. Please provide a projection for how this will impact critical talent areas and describe any plans to mitigate losses of top performing employees.
- **Administrative shared service hubs:** The Proposed Plan provides insufficient detail to understand the operational impacts of administrative hubs. Please provide additional detail on how program rationalization and administrative streamlining will occur, including key milestones and timelines. Please also outline the specific mechanisms through which shared service hubs will contribute to savings (e.g., reduction of unnecessary management layers, efficiencies in purchasing, efficiencies in staff utilization).
- **Benefit reduction:** The Proposed Plan lowers monthly employer contribution on medical benefits to \$350. This is applied to all beneficiaries, including those with preexisting and catastrophic conditions, which is inconsistent with the Certified Fiscal Plan. Please revise this measure to exclude beneficiaries with preexisting and catastrophic conditions from benefit reduction.
- **Christmas Bonus Elimination:** UPR continues to pay the Christmas Bonus in the Proposed Plan. This is inconsistent with the Certified Fiscal Plan.
- **Pension Reform:** The Proposed Plan does not include any detail on pension reform efforts. As such it is not compliant with all the components of the pension reforms in the Certified Fiscal Plan, namely:
 - A freeze in the pension;
 - A reduction in the unfunded portion of accrued benefits (saving \$10,700,000 per year);
 - The continuation of a Defined Contribution plan similar to those of other Commonwealth plans, but with a 50% match on member contributions of up to 2% (costing \$4,700,000 per year); and
 - The investment of remaining savings (\$6,000,000 per year) back into the fund to improve solvency.

UPR has indicated it will provide more information on this area in the coming weeks once actuarial analyses are completed. UPR has also indicated that, based on preliminary

estimates, the University's annual pension payment will be significantly larger than the \$74M/year currently contemplated in the Certified Fiscal Plan. Given the magnitude of this expense, it is critical that UPR provide updated pension data in a timely fashion to enable accurate estimation of UPR's year-to-year operating surplus/deficit and overall cash reserves. It is also critical UPR provide a plan to address the current state of its pension plan; without reform UPR could be required to spend down its cash reserves quite rapidly to meet pension liabilities. Please provide an update on expected pension costs and planned reform efforts as soon as possible.

Reporting and implementation:⁷

The Oversight Board requires the following changes to and/or explanations of the reporting and implementation plans included in the Proposed Plan:

- **Inclusion of implementation plans and milestones:** The Proposed Plan provides little detail on how UPR plans to enact measures. Please included detailed implementation plans with key milestones, owners, and KPIs for each measure. The Oversight Board has already provided preliminary suggestions for milestones and KPIs in the reporting template provided to UPR in March 2019. These suggestions are also included in the attached appendix.
- **Compliance with reporting requirements:** Please provide a detailed workplan and timeline for how the improvements in fiscal controls stated in the Proposed Plan will be accomplished, eventually resulting in compliance with most reporting requirements by August 2019.

Other items⁸

- **Plaza Universitaria cash recognition and revenue:** The Proposed Plan incorporates \$12,342,000 in historical Plaza Universitaria cash recognition into the baseline as Other Receipts for FY19. This should already be included in UPR's existing cash balance. Thus, incorporating it as FY19 revenue double counts its impact on UPR's overall operating surplus. Please remove this from revenues baseline.
- **Debt sustainability analysis:** The Proposed Plan does not include an analysis of the sustainability of UPR's existing debt. Please include an analysis of the restructured debt that could be supported given the operating deficit/surplus predicted in the Proposed Plan, assuming a 30-year payment structure.

The Oversight Board recognizes the difficulties implicit in these decisions, as well as the progress UPR has already made in several areas. Achieving our shared goal of ensuring UPR can continue to provide an excellent education in the face of subsidy and enrollment reductions will take above

⁷ Sections 201(b)(1)(F),(G)

⁸ Sections 201(b)(1)(A),(G),(H),(I)

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all a full commitment from the UPR's leadership to drive real transformation across the system. Our hope is that through the process of re-certifying the Fiscal Plan, UPR re-commits to taking the actions necessary to put the University and the Commonwealth on the path to a better future. The Oversight Board specifies 12:00pm AST on May 14, 2019, as the deadline for submitting a revised, proposed fiscal plan, including all financial and rightsizing models.

Sincerely,



Natalie A. Jaresko

CC: Prof. Walter Alomar Jiménez, President, UPR Governing Board
Dr. Jorge Haddock Acevedo, President, UPR Administration
Christian Sobrino Vega, Executive Director, AAFAF
Raúl Maldonado Gautier, Chief Financial Officer, Government of Puerto Rico
Alejandro Camporreale, Chief Operating Officer, AAFAF

Appendix 1: Preliminary suggestions for milestones and KPIs by measure

Measure type	Measure	Milestones	KPIs
Revenue	<i>Undergraduate tuition increase</i>	Increase undergraduate tuition for FY19	Cost per credit
		Increase undergraduate tuition for FY20	Total revenues received from Tuition
		Increase undergraduate tuition for FY21	Number of undergraduate students receiving Pell Grants
		Increase undergraduate tuition for FY22	Average student loans per student
		Increase undergraduate tuition for FY23	Value of scholarships paid out
	<i>Graduate tuition increase</i>	Increase graduate tuition for FY19	Cost per credit by program
		Increase graduate tuition for FY20	
		Increase graduate tuition for FY21	
		Increase graduate tuition for FY22	
		Increase graduate tuition for FY23	
	<i>Exemptions reduction</i>	Move exemption awards to centralized function	Number of exemptions by category
		Eliminate 13 exemption categories required in FP	Revenue foregone due to exemptions by category
		Eliminate veteran spouse exemption	
		Implement 4 year limit on veteran exemptions	
		Change value of ayudantias and honor student exemption	
	<i>Federal funds increase</i>	Identify areas of strengths and needs to target for grants	Total federal funds received by type
		Create strategy and workplan to increase grant funding	
		Conduct trainings for faculty and staff	
		Apply for additional grants	
	<i>Dues and charges increase</i>	Increased Annual Maintenance Fee for FY	Annual Maintenance Fee
		Increased Technology Maintenance Fee for FY	Technology Maintenance Fee
		Increased Laboratory Rights for FY	Laboratory Rights
		Increased Graduation Rights for FY	Graduation Rights
		Increased Other Maintenance Rights for FY	Other Maintenance Rights
		Increased Admission Application for FY	Admission Application
		Increased Re-Admission for FY	Re-Admission
		Increased Transfer to other Institutions for FY	Transfer to other Institutions
		Increased Transfer with the UPR System for FY	Transfer with the UPR System
		Increased Transcripts & Certificates for FY	Transcripts & Certificates
		Increased Document Duplicates for FY	Document Duplicates
		Increased Change in Faculty for FY	Change in Faculty
		Increased ID Card for FY	ID Card
		Increased Charges for late tuition for FY	Charges for late tuition
		Increased Summer Maintenance Fee for FY	Summer Maintenance Fee
Increased Charges for partial drop in courses for FY	Charges for partial drop in courses		
Increased Charges for full drop in courses for FY	Charges for full drop in courses		
Increased Repetition of courses for FY	Repetition of courses		

<i>Revenue from central government services</i>	Provide central government services for FY	Fees received from central government	
	Receive payment from central government for FY	Hours of training provided	
	Provide PRDE services for FY	Number of trainees in program	
	Receive payment from PRDE for FY		
<i>S&T patent revenue</i>	MOU UPR / PR Science & Technology Trust	Revenue from IP / patents	
	Personnel who will be leading the workstream	Amount of patents currently being conducted by PRST	
	Negotiate contract with possible external resource - Non-exclusive royalty-bearing license for the EHop-016 compound with Millipore Sigma	Number of current faculty working on patents	
	Requesting access to Patent Application Information Retrieval	Amount of possible \$ for current pipeline	
	Visits 5 UPR units / Spread IP knowledge	Expenses/investment from the UPR - by faculty	
	Global Exposure of UPR patents portfolio		
	Negotiate contract with possible external resource - Licensing Option with Start-up for patent 9,981,980 (MBQ Pharma)		
	Aligning Educational initiatives with the Office of intellectual Property and technology transfer - IP Clinic, Prop Bono IP and CAIC		
	Amendments to University Patent policies		
	Identify possible external resources needed and request proposals		
	Acquiring patent and commercialization search engine		
	Negotiate contract with possible external resource - Licensing Option with Start-up for patent 9,650,627		
	Negotiate contract with possible external resource - Licensing trademark with Banco Popular		
	Negotiate contract with possible external resource - Licensing Option with DTOPI for units' trademarks		
Expenditure	<i>Headcount reductions</i>	Conduct audit of academic programs, identify programs for rationalization	Change in payroll spend
		Create plan to consolidate campuses, including personnel changes	Change in HC by reason for leaving
		Implement shared services program	Faculty:student ratio
		Implement consolidation plan	Faculty:non-faculty ratio
		Implement program rationalization	Number of academic programs consolidated
	<i>Benefits reduction</i>	Convert trust positions to faculty	
		Reduce Non-faculty employer contribution to \$125	Benefits spend by category
		Reduce faculty employer contribution to \$390	Employer contribution (split by faculty and non-faculty)
		Health Insurance RFP	
	<i>Procurement measures</i>	Health Insurance New Contract	
		Reduce other compensation	
Hire procurement consultant		Spend on Materials and Supplies	
Conduct analysis of opportunities		Spend on Purchased Services	
Decide on contracts / areas of spend to target		Spend on Transportation Expenses	
<i>Christmas bonus</i>	Implement spend reduction plan	Spend on Media Ads and Guidelines	
		Spend on Other Operating Payments	
		Total spend on Christmas bonus	
<i>Pension reform</i>	N/A	University Contribution - to Pension System	
	Hire pensions consultant	Total contribution rate	
	Implement 10% benefits reduction	Normal contribution rate	
	Freeze pensions and continue as defined contribution		

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Increase contribution by \$6.0M	Unfunded accrued liability rate
Institute 50% employer match	Average member contribution rate
	University contribution rate
	Actuarial Value Assets Funded Status
	Amortization Period
	Payroll Growth Assumption
	Annual benefits
	Total assets
	Actuarial accrued liability
	Total number of active members
	Annual covered payroll
	Number of retired and disabled members and survivors
	Total number of terminated vested members
	Total number of non-vested terminated members
	Average amount of pension received by member
	Average amount of non-pension benefits received