

FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO



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Executive Director

BY ELECTRONIC MAIL

June 25, 2018

Gerardo Portela Franco
Puerto Rico Fiscal Agency and Financial Advisory Authority
PO Box 42001
San Juan, PR 00940-2001

Dear Mr. Portela Franco:

This letter serves as a Notice of Violation pursuant to Section 202(c)(1)(B) of PROMESA that the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”) has determined, in its sole discretion, that the proposed University of Puerto Rico (“UPR”) budget for fiscal year 2019 (“FY19”), submitted to the Oversight Board on June 4, 2018, is not compliant with the Fiscal Plan for UPR (the “UPR Fiscal Plan”) as certified by the Oversight Board on April 20, 2018. The Oversight Board looks forward to reviewing a revised consolidated budget that it hopes it can determine is compliant with the UPR Fiscal Plan so that the Oversight Board can certify on or before the deadlines set forth in this letter.

Background

At the Oversight Board’s eleventh public meeting, held on December 5, 2017, the Oversight Board outlined an approach to the FY19 integrated budget review process, including guiding principles and key milestones.

By letter dated December 12, 2017, the Oversight Board, pursuant to Section 202(a), set a schedule for UPR’s submission to the Oversight Board of the proposed budget for FY19, and requested that the budget be prepared in accordance with the principles provided by the Oversight Board.

By letter dated December 21, 2017, the Oversight Board provided a revised schedule for the FY19 budget process due to the delay in the certification of the UPR Fiscal Plan.

By letter dated January 5, 2018, the Oversight Board provided guidelines for Milestone 1 (complete inventory listing), which was due on January 10, 2018.

By letter dated February 5, 2018, the Oversight Board provided guidelines for Milestone 2 (proposed revenues), which was due on February 23, 2018.

By letter dated February 22, 2018, the Oversight Board provided a revised schedule for the FY19 budget process due to the delay in the certification of the UPR Fiscal Plan.

By letter of May 3, 2018, the Oversight Board set forth the deadline of May 21, 2018 for submission of the UPR proposed budget for FY19 with requirements to satisfy that request – further detail was provided on these requirements in a subsequent letter dated May 8, 2018. Attached to the letter was a revenue forecast as required by Section 202(b).

By letter dated May 8, 2018, the Oversight Board set deadlines for intermediate steps before the FY19 budget for UPR could be adopted and reconfirmed May 21, 2018 as the date by which UPR must provide its proposed budget and supporting details including proposed guidelines and reporting blueprints. These supporting details had to include a detailed reconciliation between the budget and the UPR Fiscal Plan, as well as budget to actual templates, which included key performance indicators for reporting post-certification and on an ongoing cadence as set by the Oversight Board. The Oversight Board also requested that all the UPR Fiscal Plan attributes, including revenue and expenditure initiatives and measures, be incorporated into Milestone #4 (proposed expenditure budget and reporting templates), and required that total expenditures be consistent with the UPR Fiscal Plan.

By letter dated May 21, 2018, UPR requested an extension for budget submission until June 4, 2018 and proposed sending working documents by May 24, 2018. By letter dated May 22, 2018 the Oversight Board agreed to extend deadline for submission of a fully compliant budget submission from UPR until June 4, 2018 and accepted the proposal of working documents to be received on May 24, 2018.

UPR's Submission

The budget submitted by UPR on June 4, 2018 is not compliant with the UPR Fiscal Plan, and it does not meet the requirements set forth by the Oversight Board in its correspondence with UPR. The Oversight Board requires substantial revisions and additional information from UPR before it can approve UPR's proposed budget.

Pursuant to Section 104(c), we request all outstanding information in our correspondence with UPR as outlined above. This will enable the Oversight Board to review the proposed budget in its entirety and determine its compliance with the UPR Fiscal Plan.

A summary of items that remain outstanding are included below.

Status Update of Materials Not Submitted

The following challenges were identified with the initial submitted budget that prevented the Oversight Board from conducting a true variance analysis to the UPR Fiscal Plan:

Missing consolidated expenditure submission	Two files were submitted containing consolidated revenue but are lacking consolidated expenditures. Milestone #4 letter dated on May 21, 2018, point 1 clearly requests “a detailed budget of total expenditures,” which has not been provided.
Unable to trace to the UPR Fiscal Plan	This was not provided by UPR and from what was provided the Oversight Board cannot trace with enough certainty and accuracy this analysis.
Supporting documentation for inflows and expenditures	The budget submission was incomplete as it does not provide the level of granularity on either the inflows or the expenditures requested in the Milestone #4 letter dated May 8, 2018.
Tuition fees & Other Campus inflows	UPR’s budget submission does not account for additional proceeds from increasing tuition fees and inflows from other campus revenues streams. Consequently, revenues are understated relative to the UPR Fiscal Plan.

* * *

Furthermore, below you will find the new schedule for developing, submitting, and certifying the Budget for UPR as follows:

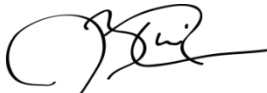
1. By **June 27, 2018**: The Governor shall submit a revised budget (including the UPR’s Governing Board resolution in electronic format with its supporting documentation authorizing such revised budget) to the Oversight Board. The Governor shall be adopting the Budgetary Resolution Language attached as Exhibit A.
2. By **June 29, 2018**: (a) If the Governor submits a revised, compliant budget to the Oversight Board on or before June 27, 2018, the Oversight Board shall approve it and issue a compliance certification to the Governor. (b) If the Governor fails to submit a revised, compliant budget to the Oversight Board, the Oversight Board shall submit its own compliant budget to the Governor on June 29, 2018 and that budget, pursuant to PROMESA § 202(e)(4), shall be (i) deemed to be approved by the Governor, (ii) deemed to be subject to a compliance certification issued by the Oversight Board to the Governor, and (iii) in full force and effect beginning the first day of the fiscal year.
3. Any time through **June 29, 2018**: Pursuant to PROMESA § 202(f), if the Governor and the Oversight Board each certify that a jointly developed budget reflects a consensus among them, then such budget shall serve as the Budget.

Please consider this a revision to the formal notice under PROMESA § 202(a) amended for the schedule for developing, submitting, approving, and certifying the budget for UPR. Subsequent clarifications of due dates and deliverables will follow as appropriate.

Conclusion

We are committed to reviewing the proposed consolidated budget submission promptly which is meant to be compliant with the UPR Fiscal Plan.

Sincerely,



José B. Carrión

Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

CC: Natalie A. Jaresko
Christian Sobrino Vega
Darrel Hillman
Walter Alomar Jiménez
UPR Governing Board
Ilka C. Ríos Reyes

Exhibit A

Budgetary controls for expenditure line items impacted by cost reduction initiatives

- The President, Executive Director, Chief Financial Officer and the Director of the Budget Office of UPR shall each be responsible for not spending or obligating during fiscal year 2019, any amount that exceeds the expenditures approved in the budget certified by the Oversight Board.
 - The allotments for the expenditure line items approved in the budget certified by the FOMB may not be reallocated or transferred at a campus or hub level without prior approval of the FOMB.
 - The President, Executive Director, Chief Financial Officer and the Director of the Budget Office shall each be responsible for not reallocating and/or transferring any amount of funds to other expense categories or areas that conflict with the UPR Fiscal Plan without prior FOMB approval including, but not limited to, the Christmas Bonus and the Agricultural Campus.
 - The President, Executive Director, Chief Financial Officer and the Director of the Budget Office shall each be responsible for preparing and issuing a report with the cumulative status of all expenditure line items at a campus and hub level. This report shall be issued quarterly beginning on September 30.
- The New Fiscal Plan for UPR as certified by the Oversight Board on April 20, 2018, requires cost reductions in payroll and related expenses, professional services, and other operating expenses (the “Controlled Categories”). The allotments for the Controlled Category approved in the budget certified by the Oversight Board may be reallocated or transferred solely with the approval of the Oversight Board.