

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



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Natalie A. Jaresko
Executive Director

BY ELECTRONIC MAIL

August 30, 2018

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

Dear Governor Rosselló Nevares:

The Oversight Board is in receipt of UPR's revised fiscal plan, dated August 20, 2018 (the "Proposed Plan"), and recognizes the efforts that UPR has put into revising and updating the plan certified by the Oversight Board on June 30, 2018 (the "June Certified Fiscal Plan"). Nonetheless, the Oversight Board has determined that the Proposed Plan requires certain revisions before the Oversight Board can certify it as compliant with the requirements of PROMESA. The Oversight Board looks forward to continuing to discuss the update to the Proposed Plan, and the violations detailed herein, with you in the coming weeks.¹

The Oversight Board recognizes the extraordinary value of and important role played by UPR in Puerto Rico's economic development. 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 Oversight Board looks forward to reviewing a new version of the Proposed Plan that achieves these goals and is one that the Oversight Board hopes it can determine is compliant with PROMESA.

UPR's Submission²

The Proposed Plan fails to achieve structural balance over the five-year horizon, even when excluding debt-related obligations. To correct for this imbalance, as well as to meet other principles of PROMESA, the Oversight Board requires substantial revisions and additional information before it can approve the Proposed Plan, included herein.

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

² Sections 201(b)(1)(B),(D),(G)

Baseline

- **Commonwealth appropriations:** There are discrepancies across several years in the Proposed Plan's projected Commonwealth appropriations when compared to the certified Commonwealth Fiscal Plan expenditures. Please provide a bridge to demonstrate how the UPR is tying these revenues to the certified Commonwealth Fiscal Plan or correct the revenue assumptions.
- **Student population:** The student projections have been revised for both undergraduate and graduate student numbers. Please provide actual enrollment data, as soon as available, for the current term to account for the revised projections.

Revenue measures:

- **Tuition exemptions:** The Oversight Board recognizes the Proposed Plan's initiative to reduce non-means-based tuition exemptions. Nonetheless, the Proposed Plan has exemptions that are forecast to cost \$24.2M in FY19 compared to \$11.6M for those included in the June Certified Fiscal Plan. A sustainable plan requires eliminating the full roster of tuition exemptions (e.g., athletics) unrelated to financial need, with reasonable accommodation for honors students and veterans. These tuition exemptions unrelated to financial aid, with the exception for honors students and veterans, should phase out in full for each incoming class beginning in FY19.
- **Graduate tuition increase:** The Proposed Plan does not commit to a sufficient increase in graduate tuition as outlined in the June Certified Fiscal Plan. Specifically, it promises to deliver only \$52.4M in revenue enhancement between FY19 and FY23, as compared to the \$93.9M outlined in the June Certified UPR Fiscal Plan. The Proposed Plan must further right-size graduate tuition levels (especially for doctoral, juris doctor, doctor of dental medicine, and doctor of medicine programs) to better reflect costs of comparable programs at private universities on the Island and the U.S. mainland.
- **Federal grants:** The Proposed Plan outlines a decrease in the expected federal grants revenue line item of \$4.3M for FY19. This compares to the projected \$5M enhancement that is included in the June Certified Fiscal Plan. Please provide more information on why the revenue target was reduced, and what measures are being taken to ensure the UPR is on track to achieve revenue targets in FY20 and beyond.
- **Plaza Universitaria:** Two additional revenue measures were included in the Proposed Plan pertaining to Plaza Universitaria: (i) a one-off \$12.3M increase in FY19; and (ii) an increase of \$2M in revenue on an annual basis composed to the baseline. Please provide more information regarding the inflows adjustments.

Expenditure measures

- **Attrition/headcount reduction:** The Proposed Plan includes headcount reduction savings of \$16.0M in FY19, which is below the required \$28.7M in the June Certified Fiscal Plan. Further, the Proposed Plan projects \$171.4M less in attrition/headcount reduction savings between FY19 and FY23. Consistent with the Oversight Board's position in other

Commonwealth entities, attrition is only likely to lead to permanent savings if accompanied by a corresponding elimination of the position being vacated. The elimination of positions may come from redefining non-teaching responsibilities, decreased enrollment requiring fewer teachers/professors, or other service reductions and efficiencies that allow for not backfilling those positions. Failure to achieve the savings required in the June Certified Fiscal Plan through voluntary attrition may require intentional headcount reduction.

- **Christmas bonus:** The Proposed Plan does not deliver the immediate cessation of the Christmas Bonus as outlined in the June Certified Fiscal Plan. This measure is expected to generate \$7.5M annually. If these savings will not be achieved, then agency efficiency personnel savings must be increased so that total annual savings from the June Certified Fiscal Plan are maintained.
- **Mayaguez Hub – Agriculture Center:** The Proposed Plan must include significantly more detail on the Mayaguez Campus Center for the Oversight Board to recognize any savings from the concept. The Proposed Plan must include a supporting financial model that illustrates calculations and a detailed roadmap for how this transformation will be initiated, including costs associated with transitioning these campuses towards Utuado.
- **Uniform healthcare measure:** The Proposed Plan does not incorporate the uniform healthcare measure as has been previously communicated to UPR. Please revise the savings in the submission so that they reflect the total savings to be achieved as if employee health contributions were reduced to \$125 per employee per month.
- **Pensions:** Consistent with the Oversight Board's requirement for the Commonwealth's Fiscal Plan, the Proposed Plan must include the following pension savings measures and reflect them in the financial projections: benefit accruals are frozen, and all employees are enrolled in defined contribution plans with segregated, self-directed accounts; and benefits are reduced progressively at an appropriate rate that accommodates the differences between UPR and the Commonwealth. Consistent with the Oversight Board's treatment of the Commonwealth's retirement systems, pension benefits should not be reduced for any beneficiaries with a combined pension and Social Security benefit below the \$1,000 per month federal poverty threshold.
- **Procurement savings:** The Proposed Plan contains an incremental \$7.2M in FY19 and \$11.7M in FY20-FY23. Please provide a detailed implementation plan with identified contract savings to explain through what mechanisms the UPR believes it can achieve these higher targets.
- **Implementation PMO:** The Proposed Plan reduces the cost of the implementation PMO, projecting \$10M in annual spend in FY19-20 vs. the \$20M in FY19-FY20 projected by the Oversight Board. Please provide detailed implementation plans to support the lower cost of these implementation plans, which includes specific details on campus consolidations.

Conclusion

The Oversight Board recognizes the difficulties implicit in these policy decisions, as well as the long path to return UPR to fiscal stability. Reaching this goal will take time, enormous effort and the full commitment of the Government's and UPR's leadership, but done properly and in a sustained manner it will put UPR on the path to a better future. The Oversight Board specifies

Hon. Rosselló Nevares

August 30, 2018

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12:00pm AST on September 7, 2018 as the deadline for submitting a revised, proposed fiscal plan, including all financial and rightsizing models.

Sincerely,



Natalie A. Jaresko

Andrew G. Biggs

José B. Carrión

Carlos M. García

Arthur J. González

José R. González

Ana J. Matosantos

David A. Skeel, Jr.

CC: Christian Sobrino Vega
UPR Governing Board
Walter Alomar Jiménez
Jorge Haddock Acevedo