
FINANCIAL OVERSIGHT & MANAGEMENT BOARD FOR PUERTO RICO



David A. Skeel, Jr.
Chair

Members

Andrew G. Biggs
Arthur J. González
Antonio L. Medina
John E. Nixon
Justin M. Peterson
Betty E. Rosa

Natalie A. Jaresko
Executive Director

BY ELECTRONIC MAIL

April 12, 2021

The Honorable Pedro Pierluisi Urrutia
Governor
Commonwealth of Puerto Rico

Eng. Emilio Colón Beltrán
President of the Governing Board
University of Puerto Rico

Dear Governor Pierluisi Urrutia and Eng. Colón Beltrán:

The Financial Oversight and Management Board for Puerto Rico (“Oversight Board”) received the University of Puerto Rico’s Proposed Fiscal Plan on March 25, 2021 (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 noteworthy 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 Oversight Board recognizes the extraordinary value and important role played by UPR in Puerto Rico’s economic development, especially during times of uncertainty in which the University has proven its adaptation capabilities and significance. 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, considering the financial and demographic realities of the Island. The comments and requirements contained herein are provided in this spirit,

we continue to acknowledge the risk to fiscal sustainability of not executing the required measures and transformation discussed in the Certified Fiscal Plan, as well as the diversification of its sources of revenue. The Oversight Board encourages UPR to augment its efforts to execute. All the information requested in this document is intended to assist the Oversight Board in ensuring

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

UPR continues to provide an accessible education and to drive growth well into the future.

Financial model assumptions²

The Oversight Board requests the following changes to and/or explanations regarding the revenues and expenditures baseline for FY21-26 in the Proposed Plan:

- **Commonwealth appropriations:** Please adjust Commonwealth appropriations reduction of \$94M as set forth in the Commonwealth Certified Fiscal Plan for FY22.
- **COVID-19 related potential impacts:** Please provide information on the following items:

Receipts

- **Slot Machine Receipts:** The information provided differs from the data provided in the Commonwealth Certified Fiscal Plan. Please adjust accordingly with the amount presented in the Commonwealth Certified Fiscal Plan.
- **Lost Revenues:** Please provide an explanation regarding forecast revenue losses of 10% for FY22 and 5% for FY23. Please correct with the Commonwealth Certified Fiscal Plan projections.
- **Medical services:** Please provide a forecast and detail on the impact of COVID-19 related protocol measures. Please indicate whether the Proposed Plan considers the impact of the funds available to be reimbursed through the American Rescue Plan and other Emergency Relief Funds.
- **Campus Generated Inflows:** Please provide detail of impact as a result of the pandemic, if any. Are there other additional sources of revenue that UPR is considering for the next 5 years?
- **Other Revenue Risks:** Please provide potential risks to Other Revenue Sources and respective collections, including all component units' revenues (e.g., hospital, parking).
- Please provide a detail of the lost revenues from FY20 and onwards due to COVID-19 to be considered in requesting reimbursements by the Federal Government assistance through the HEERF I, II, and III programs.

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

Disbursements

- **Infrastructure and Technology:** Does UPR plan any additional investment, if any, in infrastructure for the University to continue to provide virtual courses and ensure capability of providing Online Undergraduate and Graduate Programs?
- **Other COVID-19 Related Expenditures:** Are there any forecast changes in required faculty, non-faculty, and transitory employees, including associated operating expenses that could be affected?
- **Disaster-relief receipts:** Please provide additional detail on how these funds are planned to be invested and to what extent, if at all, FEMA funds contribute to the 5-year ~\$381M Infrastructure, Modernization & Resiliency Plan. Please include specific disaster-relief related projects and expected timelines for these expenditures. Please identify cost share expense and please distribute by priority or importance. The Proposed Plan only contemplates ~\$150M in FEMA Disaster Relief Projects. Please verify assumptions used in submission.
- **Payroll:** The Proposed Plan shows a ~\$3M decrease in payroll costs based on an adjusted roster. Please provide additional details on the savings associated with payroll. Please provide a roster segregated by type of employees who are eligible for health care and pension benefits and those who are not. Please provide detail on which salaries are covered by grants or research funds.
- **Tuition:** The Proposed Plan shows a ~\$12.8M (-7%) difference in tuition revenues vs. UPR Certified Fiscal Plan projections. Can you identify out of total enrollment, how many students are enrolled from the public school system and how many from the private school system by campus? Also, provide breakdown of enrollment decline per campus.
- **Campus generated inflows:** A ~\$13.4M or 10% increase in campus generated inflows is stated in the Proposed Plan. Please provide additional detail on sources of revenue considered for this line item and the main drivers of additional growth. Please update if necessary due to the COVID-19 crisis.
- **Other operating disbursements:** The Proposed Plan shows a significant decrease in the following operating disbursements: purchased services, professional services, and transportation expenses. Please provide an explanation for why this adjustment is part of the baseline expenditure projections, rather than as part of the measures.

Revenue measures³

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

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

- **Graduate tuition increase:** Even though certain adjustments to graduate tuition have been made, the Proposed Plan does not match the tuition increases as required by the current Certified Fiscal Plan (“CFP”). The Proposed Plan results in an average tuition per student of \$6,252, while the CFP requires an average tuition per student of \$7,446. Please adjust tuition cost according to the CFP or describe what other sources of revenue UPR is considering to sustain the reduction in this line item.
- **Tuition exemptions:** The Proposed Plan states that exemptions will be limited to three categories (veterans, teaching assistants, and honor students), yet UPR has added an additional category which includes student representatives. Please provide the estimated number of students expected in this category and the financial impact it may have on this measure.
- **Federal Grants and Contracts:** The Proposed Plan states that in FY20 UPR submitted a total of 588 proposals with a 44% approval rate and received grants which amounted to ~\$161M. Additionally, UPR expects funds to increase ~\$20M by FY23 through the provision of resources for grant applications and other support efforts. Please provide a list of past proposals along with current submitted proposals pending award with an estimated grant amount and your outlook on approval process. Also, please include a paragraph on the organization and development of the grant efforts and the expected impact in revenues.
- **S&T Patent Revenue:** The Proposed Plan does not specifically mention initiatives related to this measure. Please revise and provide any additional information to ensure compliance.
- **Alumni Donations Initiative:** The plan should include a section on *alumni fundraising*. Please outline milestones and donation targets for the period of the Fiscal Plan. Please explain how the effort is organized, coordinated, and managed. Please provide details of the donations received by UPR as mentioned by President Dr. Haddock (\$10 million annually) in the April 9, 2021 call with Board Members of the Oversight Board.

Expenditure measures⁴

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

- **Procurement:** The Proposed Plan states UPR has been fully compliant with this measure for FY22 reaching savings of ~\$19.8M; however, reporting lacks supporting data to confirm. Additionally, UPR has not yet revised the institution’s Procurement Regulation in compliance with the General Services Administration (“GSA”). Please provide supporting data related to identified savings in procurement (contracts renegotiated, for

⁴ Sections 201(b)(1)(A),(C),(F),(G),(H)

example) and additional information on the status and next steps regarding procurement rules and regulations.

- **Attrition:** The Proposed Plan’s personnel reduction assumption is 3% YoY for non-faculty and administrative personnel. Since FY18, UPR has been undergoing higher than usual attrition levels. However, it is important to note these levels of attrition are unrelated to Administrative Transformation measures. Please provide an update on the Administrative Transformation tasks and implementation milestones for the Proposed Plan period. Also, please explain in your revised plan any updates from the different committees provided in your monthly reporting and the feedback received from the community. Please define what are some of the successes, opportunities and roadblocks.
- **Benefit reduction (medical insurance):** The Proposed Plan shows UPR is committed to renegotiating medical insurance contracts in alignment with the Oversight Board’s requirements to achieve prospective savings of \$11.8M for FY22. However, to achieve full compliance UPR should specify the required reduction in employer contribution for faculty to \$390 per month and \$125 per month for non-faculty (both excluding beneficiaries with pre-existing conditions). Also, UPR should specify benefits that will be granted to new employees. Please revise this measure accordingly.

As requested in previous section, please provide a roster segregated by type of employees who are eligible for health care.

- **Benefit reduction (Collective Bargaining Agreements):** UPR has expressed its commitment to Fiscal Plan compliance in Collective Bargaining Agreements starting July 1, 2021. However, no specific details are mentioned in the Proposed Plan. The following reductions must be addressed and specifically defined in Fiscal Plan: employment leaves, health insurance, and education exemptions.
- **CAPEX:** The Proposed Plan mentions “significant progress is visible in projects programmed and completed between FY18 and FY21”. Please provide a report with detail on these CAPEX projects, progress and milestones. Additionally, please identify projects under the Capital Improvement, Maintenance, Infrastructure, and Technology (“CIMIT”) Plan that may be covered by FEMA, COR3, or Federal Funds. Please identify and segregate Maintenance vs. CAPEX that could have a greater impact on other Commonwealth agencies and the community and identify each project with their level of priority (“urgent”, “high”, “medium”, and “low”).

Pension Policy Reform: *Section 201(b)(1)(c) of PROMESA requires that the options provided in the CFP provide an adequate funding for public pension systems.* However,

UPR’s Proposed Plan includes a new proposal on Pension Policy Reform. This proposal results in a higher employer contribution, while no pay for has been provided for in the Proposed plan. Please provide the other sources of revenue or additional savings that would

compensate for the incremental cost. We recently received the portfolio performance report as of June 30, 2020 and December 31, 2020. However, updated census data and an updated actuarial valuation report are still needed in order to calculate the exact cost. Please provide the requested documentation. The Oversight Board is aware of UPR's request to evaluate the discount rate of 4.5%. We will proceed to analyze further and will provide feedback in upcoming working sessions.

Reporting and implementation⁵

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

- **Compliance with reporting requirements:** The Oversight Board recognizes improvements in UPR's compliance with reporting requirements, particularly the improved timeliness with which it has provided audited annual financial statements. Nonetheless, there are still some specific areas where we believe improvement or changes to reporting will be needed to achieve greater visibility and monitoring of measures. Some examples include Federal Grants, CAPEX, Use of Prior Year Funds, and Unearned Revenues (Trainings & Seminars). Additional reporting for the new Federal Fund programs UPR is expected to receive and a schedule on how the deployment of student funds will disbursed should be provided.

Other items

- **ASEM Receivables:** The Proposed Plan mentions receivables from ASEM as of June 30, 2020 of ~\$53.6M. This gross amount should be revised to the net number of receivables, which is \$22.3M (subtracting payables of \$31.3M to ASEM).
- **Prior Year Funds:** Flexibility in reporting and budget use – UPR made a special request for flexibility in reporting and budget use of prior year funds for the following: (1) Federal Grants and Contracts, (2) Infrastructure and Capital Improvement Plan, (3) Central Government Trainings and Seminars Program, and (4) Needs-Based Financial Assistant Model. The Oversight Board requires all specific requests for prior year use of funds to be submitted to the Oversight Board for approval as per PROMESA.
- **Higher Education Emergency Relief (“HEERF”):** UPR must submit reimbursement requests as required by Law to receive the assigned funds. It is estimated that in total UPR will be assigned over ~\$400M, of which over ~\$200M are designated as institutional funds.⁶ Currently, UPR has only spent ~\$16M of assigned institutional funds. It is imperative that the University seizes this opportunity, which would immensely benefit the institution in accordance with the Federal guidelines.

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

⁶ Preliminary amount. This includes CARES, CRRSAA, and American Rescue Plan (simulated distribution per American Council on Education).

Hon. Pedro Pierluisi Urrutia
Ing. Emilio Colón Beltrán
April 12, 2021
Page 7 of 7

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 all a full commitment from the UPR's leadership to drive real transformation across the system. Our hope is that through the process of certifying an up to date 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 April 30th, 2021, as the deadline for submitting a revised updated fiscal plan, including all financial and supporting models.

Sincerely,



Natalie A. Jaresko

CC: Dr. Jorge Haddock Acevedo
UPR Governing Board
Mr. Omar J. Marrero