

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



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BY ELECTRONIC MAIL

March 15, 2018

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President  
UPR Governing Board

Dr. Darrel Hillman Barrera  
Interim President  
University of Puerto Rico

Gerardo Portela Franco  
Executive Director  
Fiscal Agency and Financial Advisory Authority

Dear Sirs:

The University of Puerto Rico (“UPR”) plays a critical role as the Island’s engine for economic and workforce development. The Financial Oversight and Management Board (“FOMB”) is dedicated to acting as a partner to the Governing Board and the Administration of UPR in finding ways to preserve affordable access to top-tier education for all residents of the Island.

As previously communicated to the Government and UPR following the August 1, 2017 fiscal plan submission, the FOMB believes UPR cannot afford to continue to operate business-as-usual. In order to ensure the viability of UPR, and to benefit future generations, UPR must take measures to save UPR from financial collapse. Sharp reductions in population and Commonwealth subsidies – which previously have provided over 70% of UPR’s revenues – demand significant, immediate changes to the core operating model of UPR.

These changes are ever more important as a result of Hurricane Maria. As we discussed in our meeting with the Governing Board and the Administration of UPR on March 8, 2018, the FOMB believes ambitious revenue and expenditure measures will be required to achieve fiscal balance over the next five years and to create long-term financial sustainability. This letter elaborates on previous discussions so that UPR has additional guidance as it develops its draft fiscal plan, which should be submitted by March 21, 2018.

***Revenue measures:***

- **General Fund Appropriations:** The only Commonwealth appropriations that may be included in the UPR fiscal plan are those identified in the Commonwealth's certified Fiscal Plan. This includes modest training revenues and capital expenditures to the extent these funds are clearly delineated in the certified Commonwealth Fiscal Plan.
- **Tuition Increase:** The FOMB has not stated what level of tuition increase is required to achieve fiscal balance. The magnitude of this increase will depend on several other factors, particularly the depth of expenditure measures. Nevertheless, at a minimum, the fiscal plan should: (1) incorporate a student population decline assumption proportional to the overall demographic trends set forth in the Commonwealth Fiscal Plan; (2) avoid reliance on increases in revenue from student populations that currently make up a small portion of the student body (e.g. out of state and foreign students); and (3) include a schedule of increases in tuition relative to the projected level of federal Pell Grant assistance available to the highest-need students.
- **Means-Based Scholarship Policies:** The FOMB strongly encourages UPR to adopt policies that protect the most financially-vulnerable students by offsetting some of the tuition increases with means-based scholarships for those with the greatest financial need.

***Expenditure measures:***

- **Campus Consolidations:** The FOMB has not stated what specific consolidation is required to achieve fiscal balance. Consolidation options range from centralizing departments and support resources around a few "hub" campuses to closing underutilized campuses. At a minimum, the fiscal plan should provide an implementation plan that maps specific consolidation efforts, including details pertaining to: (1) redesigned support functions with a focus on shared services; (2) enhanced utilization of existing facilities; and (3) elimination of redundant or ineffective academic programs.
- **Attrition:** As the FOMB has consistently stated, attrition generally provides temporary savings unless accompanied by a permanent elimination of the positions vacated and services provided. Any claimed savings associated with attrition must include a description of what steps are being taken to eliminate positions and services provided on a campus and departmental level.
- **Pensions:** As with the Commonwealth, the FOMB believes the fiscal plan should address any underfunding of the UPR retirement system, including changes that would ensure long term stability of the plan.

***Conclusion***

The FOMB recognizes the difficulty in attaining affordability and quality, while reaching fiscal balance. To assist UPR as it works to achieve these goals, the FOMB strongly suggests we meet with the UPR Governing Board and Administration, AAFAF, and our respective advisors at least once a week until the fiscal plan is certified. These meetings will help ensure cooperation and

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transparency as previous interactions suggest various stakeholders have had misaligned expectations.

With a significant mindset shift and ambitious goals, the FOMB believes a re-envisioned University will prove to be a critical source of renewal for the Island.

Sincerely,



Natalie A. Jaresko

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