

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



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Executive Director

BY ELECTRONIC MAIL

March 29, 2018

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

RE: UPR Fiscal Plan

Dear Governor Rosselló Nevares:

The Board is in receipt of UPR's proposed fiscal plan, dated March 21, 2018 (the "Proposed Plan"), and recognizes the substantial efforts that UPR has put into creating a plan that addresses the post-Hurricane Maria reality and accounts for an organizational transformation. Nonetheless, the Board has determined that the Proposed Plan requires certain revisions before the Board can certify it as compliant with the requirements of PROMESA. The Board looks forward to continuing to discuss the Proposed Plan, and the violations detailed herein, with you in the coming weeks. This letter will serve as the notice of violation provided for in Section 201(c)(3)(B)(i) of PROMESA.

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. As outlined in the Board's letter to the University, dated March 15, 2018, 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.

Updates to financial projections

- **Central Government transfers:** The Proposed Plan can assume only those transfers from the central government included in the Commonwealth Fiscal Plan. In addition to the General Fund Appropriations laid out in the Commonwealth Fiscal Plan, UPR may assume modest training revenues and capital expenditures only to the extent these funds are clearly delineated in the Commonwealth Fiscal Plan.<sup>1</sup>
- **Student population:** The Proposed Plan must incorporate: (i) a student population decline assumption proportional to the overall demographic trends set forth in the Commonwealth Fiscal Plan; (ii) minimal increases in baseline revenue from student populations that make up a small portion of the student body (e.g., U.S. non-residents and foreign students) or assumptions around expanded applications or yield compared to previous school years.<sup>2</sup>
- **Bank accounts:** The Proposed Plan must specify the amount of funds available in UPR bank accounts and their intended uses and/or obligations. Reliance on existing or accrued cash reserves to finance UPR operations and achieve fiscal balance through FY2023 should be clearly articulated in the Proposed Plan baseline.<sup>3</sup>

Revenue measures

- **Tuition:** Unless the Proposed Plan identifies sufficient additional expenditure reduction measures, the Board reiterates its firm belief that further and more immediate increases to the cost per credit are likely to be required to achieve fiscal balance. The Board maintains its belief that UPR can sustainably increase per credit tuition (excluding fees) from \$57 to \$157 in FY2019. The implied annual tuition (with fees) of \$5,010 would still fall substantially below the U.S. Pell Grant maximum award of \$6,095 and be competitive with private universities on the Island. The Board further recommends the Proposed Plan include yearly per credit tuition increases to accommodate, at a minimum, the increased cost of delivering services due to inflationary factors.<sup>4</sup>
- **Means-based tuition policy:** The Board continues to encourage the UPR Governing Board to adopt a means-based tuition policy to protect the most financially-vulnerable students. If the Proposed Plan does adopt a means-based tuition policy, however, it must do so in a financially sustainable and responsible way, meaning it should balance students' Pell Grant award eligibility (Expected Family Contribution) with annual tuition increases so as to ensure that a far greater proportion of Pell Grant funding goes to UPR in the form of tuition, while still ensuring a reasonable allocation remaining to cover other expenses like books and transportation.<sup>5</sup>
- **Tuition exemptions:** The Board believes UPR should eliminate even more tuition exemptions that are based on factors unrelated to financial need. The Board expects the Proposed Plan to demonstrate an elimination of all exemption scholarships, except for

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<sup>1</sup> Section 201(b)(1)(A), (D), (F), (G)

<sup>2</sup> Section 201(b)(1)(G)

<sup>3</sup> Section 201(b)(1)(F), (G)

<sup>4</sup> Section 201(b)(1)(B), (D), (G)

<sup>5</sup> Section 201(b)(1)(B), (D), (G)

honors students and those legally required for veterans, beginning in FY2019 for each incoming class. Additionally, honors scholarships should have clear academic thresholds and provide only partial exemption from tuition.<sup>6</sup>

- **Graduate tuition:** Tuition for most UPR graduate programs range from \$2,600 to \$4,000 annually, well below the average cost of tuition for graduate programs for private universities on the Island, which was \$5,689 in 2017 (College Tuition Compare, 2017). The annual tuition for UPR’s medical school, for example, is ~\$9,200 for FY2018, compared to in-state tuition of \$25,000-\$40,000 at comparable public mainland universities and \$34,000-\$57,000 for other private universities on the Island. The Proposed Plan must include significant changes to right-size graduate tuition levels to better reflect the costs of comparable programs at private universities on the Island as well as U.S. mainland universities. Specifically, the Board believes substantial increases to the tuition of doctoral, juris doctor, doctor of dental medicine, and doctor of medicine programs should be put in place. These proposed increases must be included in the Proposed Plan on a program by program basis. The Board further recommends the Proposed Plan include yearly per credit graduate tuition increases to accommodate, at a minimum, the increased cost of delivering services due to inflationary factors.<sup>7</sup>
- **Dues and charges:** The Proposed Plan must include details behind the increase in specific dues and charges, as well as supporting information of their intended uses.<sup>8</sup>
- **Federal grants:** The Proposed Plan must commit to achieving additional federal grant funding and include a list of the specific grants or other funds that UPR plans to pursue, including the deadlines and disbursement dates associated with each source, and a brief statement of UPR’s eligibility and, where applicable, competitiveness for each.<sup>9</sup>

### Expenditure measures

- **Campus consolidation and HR optimization:** The Proposed Plan must include a substantial fiscal impact from the projected student population reduction and the “system-wide effort to evaluate and score all outstanding academic curriculums.” The Proposed Plan must also provide an implementation plan that maps specific consolidation efforts, including details pertaining to: (i) redesigned support functions with a focus on shared services; (ii) enhanced utilization of existing facilities; and (iii) elimination of redundant or ineffective academic programs. The Board also requires: (i) specific savings associated with shared support services, including a reduction of greater than 50% from non-faculty personnel located at regional campuses by FY2023; (ii) a description of faculty reductions with corresponding fiscal impact associated with the elimination of non-compliant programs, as outlined in the Proposed Plan; and (iii) increased savings generated from the reduction of trust, transitory, and temporary positions by eliminating more positions at regional campuses, along with detail describing the activities or services eliminated.<sup>10</sup>

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<sup>6</sup> Section 201(b)(1)(B), (D), (G)

<sup>7</sup> Section 201(b)(1)(B), (D), (G)

<sup>8</sup> Section 201(b)(1)(B), (D), (G)

<sup>9</sup> Section 201(b)(1)(B), (D), (G)

<sup>10</sup> Section 201(b)(1)(B), (D), (G)

- **Attrition:** The Board’s policy is that natural attrition is generally temporary if not accompanied by a permanent elimination of the positions being vacated. The elimination of positions may come from redefining non-teaching responsibilities, decreased enrollment requiring fewer teachers, or other service reductions and efficiencies that allow for not backfilling those positions. The Proposed Plan must include a description of how attrition is enabled and made permanent by either campus consolidation or HR optimization to be recognized by the Board as a viable and sustainable expenditure reduction measure.<sup>11</sup>
- **Procurement:** The Proposed Plan should strive for procurement savings of more than 9% due to reduced spending via campus consolidation. The Board also requires detail to explain how savings will be achieved from the line-item “Other Operating Payments.”<sup>12</sup>
- **Mayaguez Hub – Agriculture Center:** The Board commends the intent of the Mayaguez Campus Center, but the Proposed Plan must include significantly more detail for the Board to recognize any savings from the concept. The Proposed Plan must include a detailed roadmap for how this transformation will be initiated, including costs associated with transitioning these campuses towards Utuado.<sup>13</sup>
- **Pensions:** The Board appreciates the consideration given to the amortization of the pension fund given its importance and underfunding. However, consistent with the Board’s requirement for the Commonwealth’s Fiscal Plan, the Board requires that the Proposed Plan 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.<sup>14</sup> Consistent with the Board’s treatment of the Commonwealth’s retirement systems, the Board requires that 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. Based on the superior funding health of the UPR retirement system relative to the Commonwealth’s retirement plans, the Board requires an estimated 17% reduction in monthly benefits in excess of the combined Social Security and pension benefit of \$1,000. It is the Board’s estimate that such a process should reduce annual UPR pension costs by approximately 11%.
- **Budgeting and cash management:** The Proposed Plan should include detailed plans for budgeting processes and reporting for both the consolidated system and each campus under the consolidated model. Budgets should clearly delineate how sources of funding, including federal funds, tuition, and student fees, are being distributed across spending categories and programs at a campus-level. Cash controls should include both the governance structure and capabilities that will be developed to monitor internal and third-party spend, reallocate funds when required, and transparently report on sources and uses of funding to stakeholders of the University (including submission of timely audited financial statements).<sup>15</sup>

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<sup>11</sup> Section 201(b)(1)(B), (D), (G)

<sup>12</sup> Section 201(b)(1)(D), (F), (G)

<sup>13</sup> Section 201(b)(1)(D), (G)

<sup>14</sup> Section 201(b)(1)(C), (D), (G)

<sup>15</sup> Section 201(b)(1)(F), (G)

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Conclusion

The 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 UPR's and the Government's leadership, but done properly and in a sustained manner it will put UPR on the path to a better future. The Board requires that UPR submit a revised version of the Proposed Plan, in .pdf and .ppt, that addresses the foregoing issues, along with accompanying financial models, debt sustainability analysis, and all supporting materials, by April 5, 2018 at 5:00 p.m. AST.

Sincerely,



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