

**Fiscal Plan for the University of Puerto Rico**

# Enhancing Public Higher Education

**Fiscal Years 2022 to 2026**

**As certified by the Financial Oversight and Management  
Board for Puerto Rico**

May 27, 2021

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# Acronyms

FAFAA	Fiscal Agency and Financial Advisory Authority
AFICA	Puerto Rico Industrial, Tourist, Educational, Medical & Environmental Control Facilities Financing Authority
ARP	American Rescue Plan
CARES	Coronavirus Aid Relieve and Economic Security Act
CDC	Center for Disease Control
COR3	Central Office for Recovery, Reconstruction and Resilience
COVID	Coronavirus Disease or 2019 Novel Coronavirus
CRRSAA	Coronavirus Response and Relief Supplemental Appropriations Act
CW	Commonwealth of Puerto Rico
DB	Defined Benefit Pension Plan
DC	Defined Contribution Pension Plan
EDA	Economic Development Administration
EFC	Expected Family Contribution
FAFSA	Free Application for Federal Student Aid
FEMA	Federal Emergency Management Agency
FOMB	Financial Oversight and Management Board
HEERF	Higher Education Emergency Relief Fund
IT	Information Technology
Moody's	Moody's Investor Services
MOU	Memorandum of Understanding
MSCHE	Middle States Commission on Higher Education
MSI	Minority Serving Institutions
OPEB	Other Post-Employment Benefits
OPEX	Operating Expenses
PMO	Project Management Office
PROMESA	Puerto Rico Oversight, Management, and Economic Stability Act
R&D	Research and Development
S&P	Standard & Poor's Ratings Services
TSA	Treasury Single Account
UPR	University of Puerto Rico
UPRRS	University of Puerto Rico Retirement System
VPF	Vice Presidency of Philanthropy

# DISCLAIMER

The Financial Oversight and Management Board for Puerto Rico (“Oversight Board”) has formulated the 2021 UPR Fiscal Plan based on, among other things, information obtained from the Government, FAFAA and the University of Puerto Rico (“UPR” or “University”).

This document does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants or any other organization. Accordingly, the Oversight Board cannot express an opinion or any other form of assurance on the financial statements or any financial or other information or the internal controls of the Government and the information contained herein.

The 2021 UPR Fiscal Plan is not a Title III plan of adjustment. The 2021 UPR Fiscal Plan does not specify classes of claims and treatments, does not discharge debts, and does not extinguish liens. The 2021 UPR Fiscal Plan is based on what the Oversight Board believes is the best information currently available to it. To the extent the Oversight Board becomes aware of additional information after it certifies the 2021 UPR Fiscal Plan that the Oversight Board determines warrants a revision of the 2021 UPR Fiscal Plan, the Oversight Board will so revise it.

For the avoidance of doubt, the Oversight Board does not consider and has not considered anything in the 2021 UPR Fiscal Plan as a “recommendation” pursuant to Section 205(a). Nevertheless, to the extent that anything in the 2021 UPR Fiscal Plan is ever deemed by a court to be a “recommendation” pursuant to Section 205(a), the Oversight Board hereby adopts it in the 2021 UPR Fiscal Plan pursuant to various provisions of Section 201(b).

Any statements and assumptions<sup>1</sup> contained in this document, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates, and other assumptions made in this document. The economic and financial condition of the Government and its instrumentalities is affected by various legal, financial, social, economic, environmental, governmental, and political factors. These factors can be very complex, may vary from one fiscal year to the next and are frequently the result of actions taken or not taken, not only by the Government, the Oversight Board, and other third-party entities such as the Government of the United States.

Because of the uncertainty and unpredictability of these factors, their impact cannot be included in the assumptions contained in this document. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. Nothing in this document should be considered as an express or implied commitment to do or take, or to refrain from taking, any action by the Oversight Board, the Government, or any instrumentality in the Government or an admission of any fact or future event. Nothing in this document shall be considered a solicitation, recommendation, or advice to any person to participate, pursue or support a particular course of action or transaction, to purchase or sell any security, or to make any investment decision.

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<sup>1</sup> The projections presented herein consider estimates due to the COVID-19 crisis and its impact on UPR as an institution, its students, faculty employees, non-faculty employees, and community in general. Due to the inherent uncertainty of these estimates, the cash flow budget is subject to material change.

# Executive Summary

For the past century, UPR has built a rich legacy of education, research, and cultural contributions while serving as the Island's principal source of socioeconomic upward mobility. UPR strives to provide high-quality education and create new knowledge in the Arts, Sciences, and Technology. However, serious financial and management challenges threaten to put this vital mission at risk. For decades, UPR has struggled to address academic curriculum optimization, declining enrollment, infrastructure and maintenance needs, operational inefficiencies, and liability management. To lower the financial burden on the Commonwealth and encourage sound fiscal self-management, the central Government started to reduce appropriations to UPR in 2017. The Commonwealth cannot provide appropriations at the same level as in the past (nearly 70% of operating expenditures compared to a US mainland average of 20-30% for public universities)<sup>2</sup>. UPR has been aware that diversifying its sources of revenue and managing unsustainable costs is key to a stronger and more sustainable university. The institution continues to be at risk of being unable to withstand the perils of the Island's expected continued negative demographic trajectory.

Expenditure and revenue forecasts indicate that in the absence of fiscal measures and reforms, UPR will operate at a significant operating (pre-debt service) deficit, which is expected to reach ~\$420 million by FY2026. Even after implementing new measures aimed at promoting greater fiscal responsibility and sustainability, UPR will not be able to pay its contractually obligated accrued debt of ~\$600 million in full when due and will need to pursue debt restructuring. Moreover, based on FY2019 actuarial studies – performed and confirmed by the Oversight Board's actuaries – data suggests that UPR has accrued pension liabilities worth ~\$3.2B, of which \$1.8B is unfunded,<sup>3</sup> leading to the insolvency of the pension fund in the long term. If UPR makes no changes to its current pension plan, its liability risk could become unsustainable. While UPR has proposed certain pension reform steps to close the plan to new and non-vested members by December 2021, further reform of its pension plan will likely be needed if no additional saving measures or other sources of revenues are identified by the University.

The goal for UPR is not only one of fiscal sustainability, but also of academic strength and leadership. UPR should redouble efforts to strengthen its academic mission even further; for instance, the University should implement proposed plans for academic curriculum optimization, building on a framework including targeted graduation and retention rates. Doing so will also allow UPR to accelerate its ability to address the demands imposed by the 21st century labor market. Puerto Rico has also missed out on the substantial growth of patents among national research universities that has occurred over the past five decades.<sup>4</sup>

To address this difficult situation, the Oversight Board has certified yearly fiscal plans for the University of Puerto Rico since 2017. Considering the many variables in the forecasts, the Oversight Board has chosen to annually update and certify a Fiscal Plan for accuracy and to serve as the most updated information for the purposes of certifying an annual budget. The UPR Fiscal Plans, in accordance with PROMESA, have outlined a path to achieve fiscal responsibility, gain and maintain access to capital markets, and provide an update of the various tasks and milestones that could assist UPR to achieve and ensure sustainability. The 2021 UPR Fiscal Plan continues emphasizing these priorities. The four core elements center largely around improving operations and increasing revenues, while maintaining the ability for all students to access and benefit from the improved university system:

- Operational efficiencies: UPR's existing operational model does not integrate the

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<sup>2</sup> All General Fund Appropriations in FY2017 (~\$872M in TSA General Fund Appropriation + ~\$39M in other General Fund Appropriations) are ~69% of total FY2018 baseline revenues. This does not include other sources of state funding such as PR Slot Machine Receipts. Data on US public university average from National Center for Education Statistics

<sup>3</sup> As per Cavanaugh MacDonald's latest actuarial valuation study of the UPR Retirement system draft (February 14, 2020 for FY2019)

<sup>4</sup> USTPO Patents View database

administrative functions of the eleven semiautonomous campuses. This creates unnecessary complexity and drives higher costs. The UPR Fiscal Plan continues to identify personnel and non-personnel efficiencies, prioritizing the latter, to make sure all campuses remain operational while reinvesting in core faculty.

- Revenue enhancement and diversification: The 2021 UPR Fiscal Plan maximizes opportunities to increase revenue from non-tuition sources. These include federal grants and awards, IP and patent monetization, and ancillary service fees for providing training to external institutions.
- Pension reform: As a result of historic decisions by UPR to contribute insufficient funds to the UPR pension fund, the latter faces significant challenges, with 57% of liabilities unfunded.<sup>5</sup> The 2021 UPR Fiscal Plan outlines the UPR proposed reform and discusses some continued risk and concerns.
- Fiscal governance and controls: UPR has long struggled with maintaining an adequate central control of and transparency into campus finances. The 2021 UPR Fiscal Plan includes fiscal governance reforms such as cross-campus and component unit controls on how revenues are collected, and expenditures are reported.

Both 2020 and 2021 UPR Fiscal Plans were adjusted to account for impact COVID-19 – a Pandemic that has radically reshaped the operations of the UPR. COVID-19 has brought a once in a generation opportunity to transform the University. For example, UPR expanded its distance learning capabilities for all students. However, UPR must still rethink student residences and discover how to provide the full student experience under the “new normal.”

Now more than ever, UPR will need to demonstrate a new level of leadership and management discipline in performing the measures and controls outlined in this plan keeping in perspective that with crisis comes great opportunity. As always, the Oversight Board stands ready to partner with the Governing Board, the UPR Administration, and the Government of Puerto Rico to ensure UPR emerges from COVID-19 as a stronger institution. The Oversight Board is committed to ensuring UPR becomes even more resilient and impactful in its contributions to society.

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<sup>5</sup> As per Cavanaugh MacDonald’s latest actuarial valuation study of the UPR Retirement system as of FY2019.

# Chapter 1 UPR current context & baseline spend

## 1.1 Background on UPR and its importance to the Commonwealth

The University of Puerto Rico, founded in 1903, is Puerto Rico's largest university system. UPR's current structure was created by Law No. 1 of January 20, 1966, "Law of the University of Puerto Rico" ("Act No. 1"), as amended, with the mission (committed to the ideals of a democratic society) to serve the people of the Commonwealth of Puerto Rico (the "Commonwealth") and contribute to the development and enjoyment of the fundamental, ethical, and aesthetic values of Puerto Rican culture.

To advance its mission, UPR strives to provide high quality education and further knowledge in the Arts, Sciences and Technology. UPR is the oldest institution of higher education in the Commonwealth and enjoys a history of academic excellence, with 694 degree granting academic and professional certification programs - including 6 first level professional degree programs and 34 PhD programs. UPR also plays a critical role in providing avenues for social and economic advancement, with 70% of students receiving Pell grants.

The University is also an important center of research: The Rio Piedras campus is classified as a high research activity university by the Carnegie Foundation (one of only 335 U.S. universities to receive such a designation), and there are 79 separate research centers across the university system.<sup>6</sup> These contributions to education, research, and socioeconomic mobility make UPR a critical factor in maintaining the health of Puerto Rico's economy and communities.

## 1.2 Challenges facing UPR

UPR faces several trends that will make it more challenging for it to continue to fulfill its critical mission. The 2021 UPR Fiscal Plan addresses such trends directly and is designed to ensure UPR can continue to achieve fiscal balance while serving the students and residents of Puerto Rico notwithstanding:

- The setbacks due to the COVID-19 pandemic
- Declining enrollment, in line with the overall demographic shifts on the Island.
- Decreased Commonwealth appropriations to support UPR operations considering the Commonwealth's own fiscal challenges
- Historic inability to identify other sources of revenue
- An operationally inefficient footprint (and related challenges with centralized controls)
- Inability to keep pace with critical infrastructure and maintenance investment
- UPR's increasing unfunded pension liability
- Longstanding challenges in centralizing financial controls and implementing fiscal governance.

### 1.2.1 COVID-19 Emergency situation

The COVID-19 pandemic threw a curveball to higher education institutions across the country. UPR was no exception, as it made the decision to shift nearly 100% of its courses online since the Spring 2020 semester, and halt much of its research activity to safeguard its community of

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<sup>6</sup> UPR 2012-2017 Strategic Plan. For further context on each individual campus and component units please refer to Annex 1.



students, faculty, and staff. While first and foremost a humanitarian crisis, the fiscal impacts of COVID-19 on the University have also been substantial. Much of the self-generated revenue the University relies on to cover operating expenditures will remain at reduced levels due to the pandemic through the remainder of December 2022. At the same time, the University faces new costs related to IT- related to remote instruction. These financial effects are mitigated in large part, however, by UPR's access to Federal COVID-related funds, including CARES, CRRSAA, and ARP<sup>7</sup>, which are estimated at ~\$439M, of which ~\$245M are available for institutional use and ~\$193M for student aid.<sup>8</sup>

Note that, in April 2021 the U.S. Department of Education released additional formal guidance on how to calculate the Maintenance of Effort (MOE) requirements associated with various federal relief funds, including CARES, CRRSAA and the Governor's Emergency Education Relief (GEER) Fund. The guidance explains how states and territories should determine what level of state spending on elementary, secondary, and higher education is required in order to comply with the MOE requirements in these relief packages, as well as procedures for seeking waivers. The Oversight Board is analyzing this guidance to determine what, if any, implications the MOE requirements have on the Commonwealth and UPR (and other instrumentalities and agencies), provided in this Fiscal Plan, the Commonwealth's 2021 Fiscal Plan and the FY2022 Commonwealth Budget.

During May 2021, the University received accreditation from MSCHE for over 11,500 online courses and intends to continue expanding its academic offering in virtual learning.<sup>9</sup> Thus far, UPR plans to assume a hybrid instruction model for the first semester of the 2021-2022 academic year. Under this scenario, the University assumes most courses continue remotely throughout the summer, with a hybrid class model in the first semester, since some students may face restrictions to return and meaningful public health measures remain in place. The University's 11 campuses are planning for limits in class size among other control measures to comply with CDC and Puerto Rico Health Department recommendations. In addition to CDC guidance for higher education institutions, UPR should review guidelines from comparable large public university systems for best practices.

Further declines are expected in enrollment and items could proportionally be affected by enrollment, payroll, and necessary materials, supplies, and utilities. Also, due to lower enrollment, major campus generated inflows are likely to be affected and adjustments to campus operations will have to be put in place as life on campus adapts.

Given the unprecedented challenge instigated by the COVID-19 global pandemic during FY2021, UPR's FY2022 will be strongly marked by the actions it taken to ensure the continuity of university services and the wellbeing of its broader community. As higher education leaders across the US (and the world) have worked tirelessly to understand the depth and breadth of the impact of the pandemic, they must be prepared for multiple scenarios. Therefore, the most immediate priority for UPR is to develop a phased reopening plan for students, faculty, and staff with 'trigger points' for each phase corresponding to specific public health indicators (e.g., number of confirmed cases within system).

Among the critical questions UPR will continue to assess:

- Who will be on campus (e.g., all students or certain segments, what types of workforce, vaccinated, non-vaccinated)?
- What activities will resume (e.g., in-person instruction, research, dining, residence facilities, athletics, student activities?)
- How will UPR keep the university community safe in each phase, including UPR's strategy for testing and containment across campuses (and the medical center)?

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<sup>7</sup> ARP amount is preliminary per American Council on Education simulated distribution. <https://www.acenet.edu/Policy-Advocacy/Pages/HEA-ED/ARP-Higher-Education-Relief-Fund.aspx>

<sup>8</sup> Source: U.S. Department of Education Office of Postsecondary Education <https://www2.ed.gov/about/offices/list/ope/>

<sup>9</sup> Source: <https://www.upr.edu/upr-logra-acreditacion-de-toda-su-oferta-academica-a-distancia/>

In addition to CDC guidance for higher education institutions<sup>10</sup>, there are numerous public plans from large university systems that UPR can look to as a guide for best practices<sup>11</sup>. Furthermore, UPR will have to continue equip itself with the tools and resources necessary to effectively pursue its plan: new safety measures are required, on top of scheduling modifications when needed, appropriate update of technology, and adequate infrastructure to deliver their hybrid program, and greater support for students, faculty, and staff. For this, UPR should leverage the different sources of funding made available to the University to weather the pandemic, such as CARES, CRRSAA, and ARP Act-related funds.

UPR proposed fiscal plan stated that personnel from all offices returned to in person operations during March 2021. This means that all campuses and Central Administration services will be provided in person going forward. UPR should continue taking steps towards ensuring the operations of the institution and the safety of its community:

- Set up an integrated task force to manage the COVID-19 response and coordinate action across campuses reopening: This team must be divided in working groups with specific areas of responsibility, and must be in charge of (1) assessing the current situation (e.g., on campus, in virtual classrooms), (2) surfacing and prioritizing all gaps, (3) aligning on the actions that will be taken to address those gaps, and (4) following the implementation in an efficient and flexible manner to factor in the continuously changing scenario.
- Focus on students, financial resilience, and support of faculty and staff: UPR must protect its community as it weathers the crisis as safely as possible, while ensuring that it can meet its mission in the mid and long-term. This means providing all necessary assistance (including mental health services) to its members, supporting faculty as they continue their research and learn how to teach effectively in an online environment, or evaluating the financial health of the University in light of the different potential scenarios.
- Assemble Working Groups to file federal aid funds under the CARES, CRRSAA, and ARP acts. UPR must organize working groups to file, in a timely manner, the required documentation to receive funds under the Federal COVID relief legislation.
- Monitor enrollment, persistence, and operations to manage potential shortfalls: The University must establish a command center to manage yield actively, particularly regarding students at higher risk of not enrolling, such as out-of-state (primarily graduate students for UPR) and lower-income students. Moreover, UPR should assess changes to current teaching models, making them more scalable, more flexible, and more engaging, while planning for appropriate remediation for the disruptions to teaching and learning in the past (and coming) months.

**The Oversight Board recognizes that UPR has played an important role in serving the community during this pandemic.** On multiple occasions, the University has collaborated with the Central Government in mass COVID-19 testing exercises taking place throughout its campuses. Additional services provided during the pandemic include tutoring provided by University students to Department of Education K-12 students in need (through expanded scope of technical services within the Trainings and Seminars Program), medical services for UPR students covering both physical and mental health, as well as student related offices, among others.

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<sup>10</sup> Please visit the official CDC website for detailed information:

<https://www.cdc.gov/coronavirus/2019-ncov/community/colleges-universities/index.html>

<sup>11</sup> For instance, Vanderbilt University has created a Return to Campus Plan available through their website:

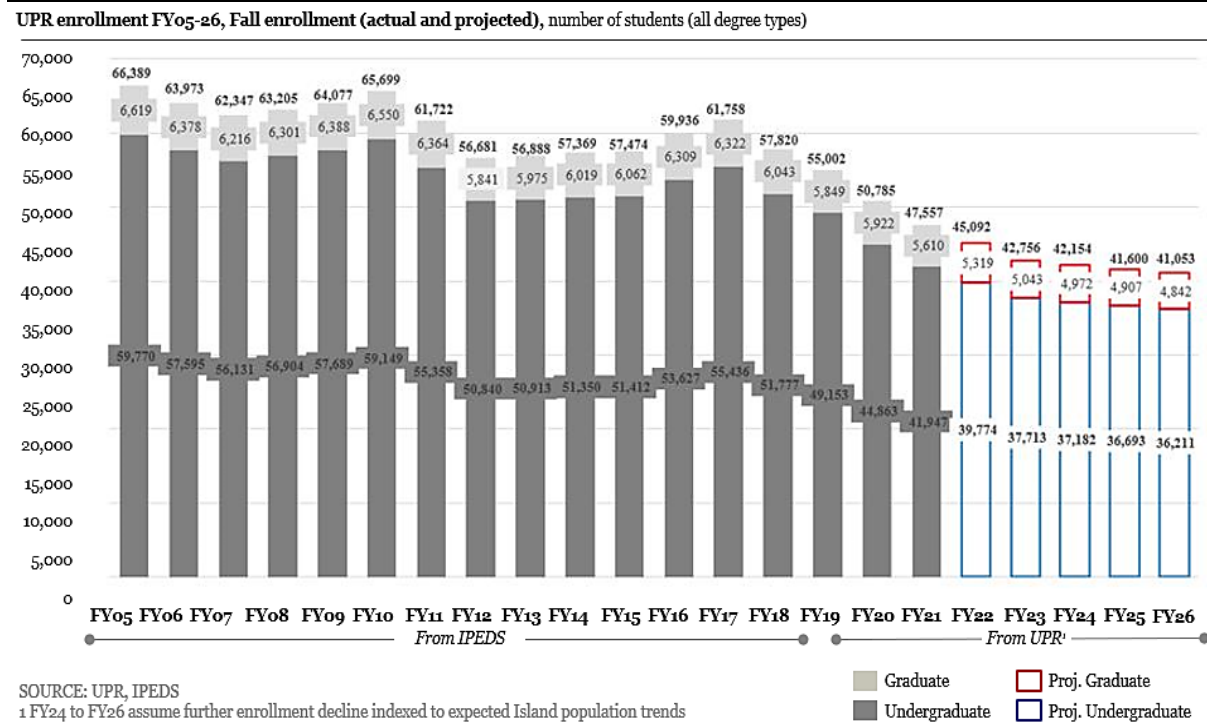
<https://www.vanderbilt.edu/coronavirus/campus-return/>

### 1.2.2 Decline in enrollment

Even before consideration of COVID-19, enrollment decline had been a norm for UPR. Puerto Rico has been mired in an economic and demographic downward spiral for over a decade—and UPR has not fully adapted to this reality. As of 2020, the economy was 23% smaller in real terms relative to 2005, while the population was nearly half a million smaller (primarily due to outmigration) than in the previous decennial census. Demographics are also shifting, with a significant ageing of the population that is expected to continue.<sup>12</sup>

As a result, UPR has seen substantial enrollment decline over the past decade across both graduate and undergraduate populations (EXHIBIT 1). Outside of Commonwealth subsidies, tuition is the primary source of operating revenue for UPR (36% in FY2018). The continued enrollment decline must be accounted for in designing the future operating model of the University. The UPR Governing Board projects a drop of 5.2% through FY2023 driven largely by demographic shifts on the Island that have reduced the number of likely enrollees. Given the importance of tuition revenue in financing UPR’s operations, this enrollment drop must be accounted for when designing measures to meet structural balance. Specifically, the 2021 UPR Fiscal Plan takes declining student population into account when setting non-faculty attrition ratios that drive a large share of the expenditure measures across the system. These targets will be achieved in part through service level optimization and administrative consolidations that will be increasingly necessary as individual campuses further decline in scale and are no longer able to efficiently support independent administrative functions.

EXHIBIT 1: HISTORICAL AND PROJECTED UPR ENROLLMENT FY2005-26



### 1.2.3 Decrease in Commonwealth appropriation

Among the expenditure measures included in the 2021 Commonwealth Fiscal Plan, there is a reduction in the level of appropriations directed to finance UPR operations. Historically, the Commonwealth appropriated ~\$872M in formula appropriations annually to support UPR’s general operating expenses.<sup>13</sup> This revenue plus other central Government funds covered

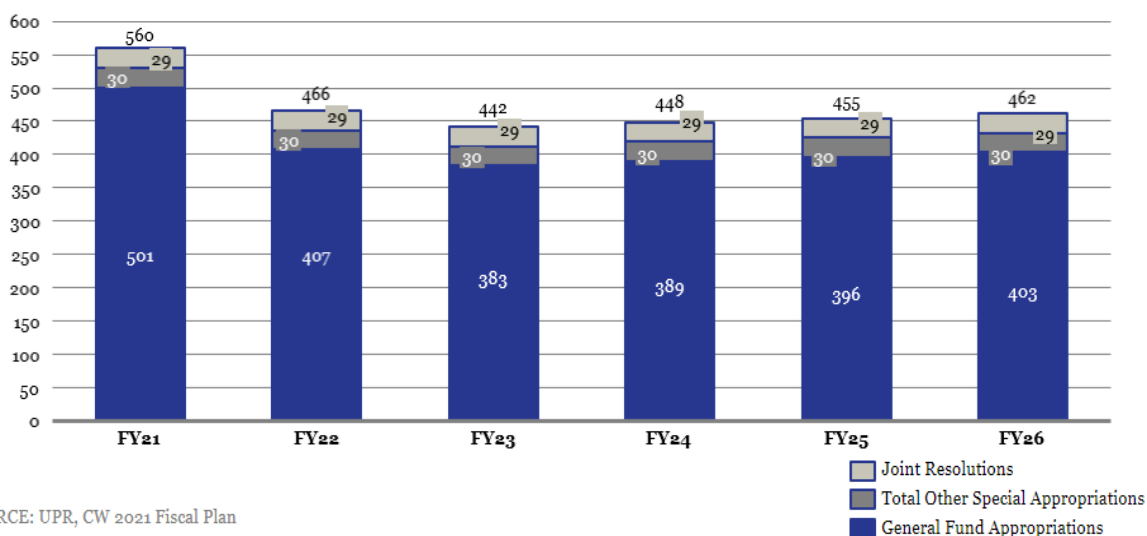
<sup>12</sup> As shown in latest Census Data as of 2020 <https://censo.estadisticas.pr/>

<sup>13</sup> ~\$872M represents only TSA General Fund Formula Appropriation. It does not include other General Fund appropriations (e.g., training and tutoring revenues, legislative scholarships)

roughly ~69% of UPR’s annual expenditures.<sup>14</sup> By comparison, most mainland state university systems receive 20-30% of their funding from the state in which they are located, with the remainder coming primarily from tuition, federal funds, and self-generated revenues to support operations. To meet its goal of achieving structural balance, the Commonwealth can no longer afford to provide UPR with this level of appropriation. As a result, the 2021 Commonwealth Fiscal Plan continues to reduce the general appropriation to UPR through FY23 with the expectation that UPR will become more self-sufficient and develop more diverse and resilient revenue streams through the measures outlined in the 2021 UPR Fiscal Plan. After these reductions take place, state funding as a share of overall operating revenues will still be ~10% higher than the mainland average (with ~38% of revenues coming from state appropriations).<sup>15</sup>

**EXHIBIT 2: COMMONWEALTH APPROPRIATION TO UPR FY2021-26**

**Subsidy levels provided by the Commonwealth, \$000s, TSA General Formula Fund Appropriation**



SOURCE: UPR, CW 2021 Fiscal Plan

It is also worth noting that, although measures over 4 years reduce operating expenditures ~21% versus the baseline scenario by FY2026,<sup>16</sup> these expenditures, per full-time student equivalent, increases 2% on average per annum (see EXHIBIT 3). This aligns with the Fiscal Plan’s commitment to ensuring that UPR stays aligned to its mission, and all its students receive adequate support to achieve academic success.

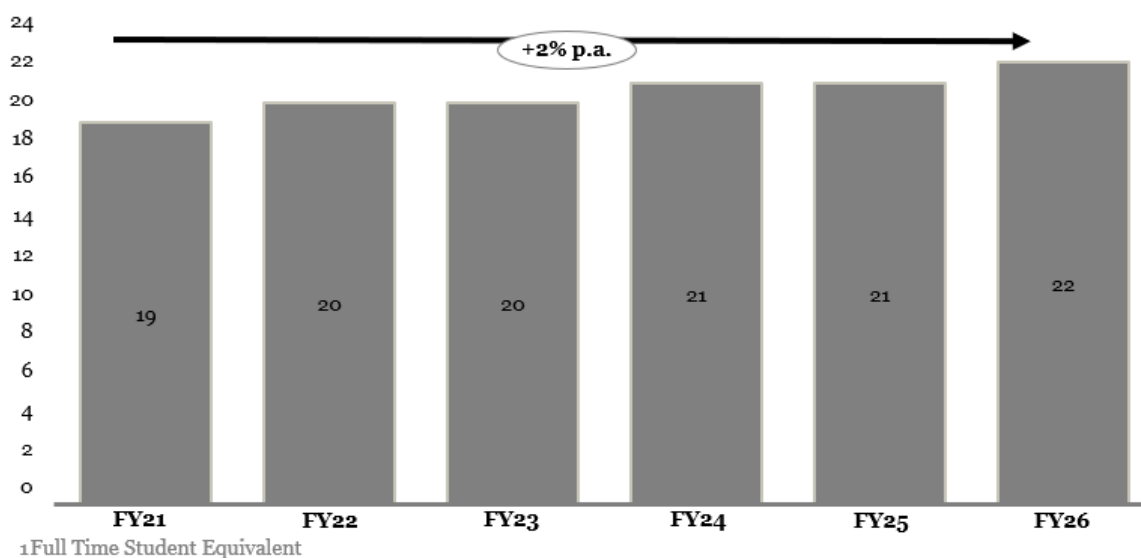
<sup>14</sup> All the General Fund Appropriations (i.e., ~\$872M of TSA General Fund Appropriation, as well as ~\$39M in other General Fund Appropriations) were ~69% of the total FY2017 baseline revenues. It does not include other sources of state funding such as PR Slot Machine Receipts

<sup>15</sup> Includes all General Fund revenues. It does not include other sources of state funding such as PR Slot Machine Receipts

<sup>16</sup> When comparing pre-measure baseline operating expenditures and expected operating expenditures in FY2026

## EXHIBIT 3: UPR OPEX PER STUDENT, FY2021-26

### Post-measure operating expenditures per FTSE<sup>1</sup>, \$/student



#### 1.2.4 Inefficient footprint

UPR's disconnected footprint comprised of eleven campuses has left the system with an operating model that is both expensive to maintain and more vulnerable to revenue fluctuations. Initially, decades of demographic and economic growth fueled this expansion, as demand for higher education and research grew with economic output. With expansion, higher education coverage improved, and the University emerged as a key player in transforming the Island into an attractive destination for manufacturers. New campuses also injected financial stimulus and created jobs in lesser developed regions.

However, the creation of these campuses also gave rise to a complex and disconnected administrative structure that even the previous highly subsidized university model could not support. The decline in enrollment only added to this stress. Today, the redundant and overly complex bureaucracy diverts critical resources from UPR's academic core. Moreover, this lack of consolidated effective administration does not serve the needs of the student population well. Equally important, the lack of central controls, data systems, and management functions has served to reduce visibility over the different campus' finances and overall academic performance.

In addition, UPR must make sure it complies with all reporting deadlines to the U.S. Department of Education and entities in charge of the different accreditation programs. UPR faces significant and longstanding challenges in monitoring and controlling financial activity across its eleven campuses and component units. These challenges have resulted in an inability to submit timely financial reporting as required by accrediting and government entities.

Finally, these challenges in monitoring and controlling financial activity also prevent the University from operating as efficiently and effectively as possible. The 2021 UPR Fiscal Plan outlines measures to continue to address these issues (See Chapter 3).

#### 1.2.5 Neglect of critical infrastructure investment

Part of UPR's strategy for managing its growing operating expenditures has been reducing investment in capital assets. In FY17, just before the arrival of Hurricanes Irma and Maria, UPR's capital expenditure budget hit a 10-year low (roughly one-fourth of FY10 levels in *nominal* terms). By the time the hurricanes hit, many campuses were already suffering significant deterioration. With the arrival of the two hurricanes came \$132M in estimated,

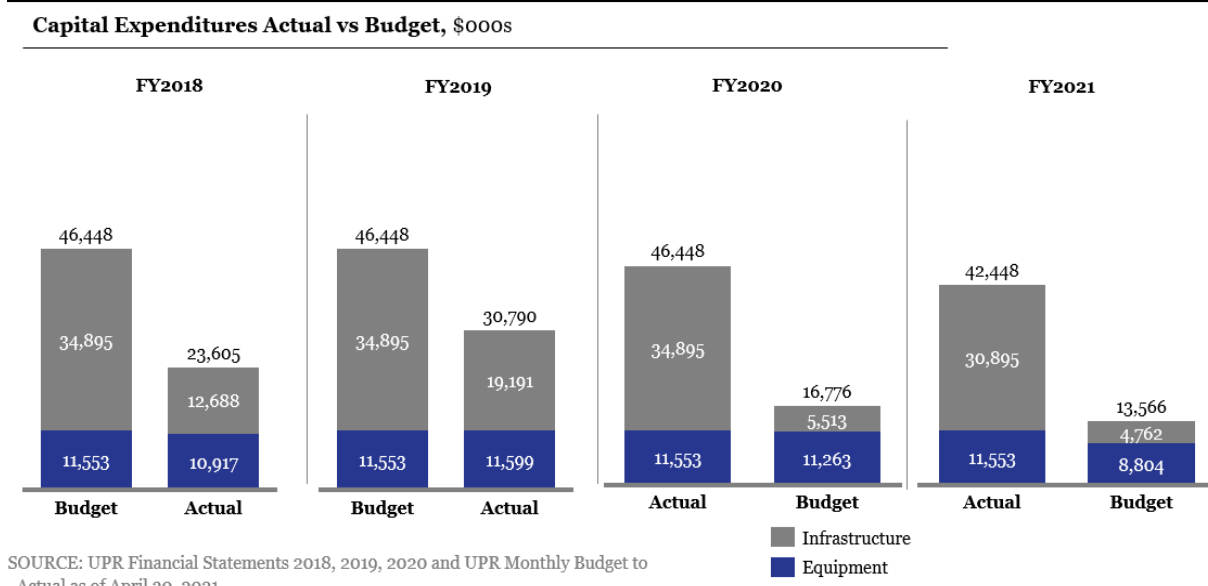


incremental capital and maintenance needs.

The insolvency of UPR’s primary insurer left a large portion of campus damage in disrepair. More problematic, however, has been the University’s slow progress in putting to use the private insurance receipts and federal disaster relief funds that are available. According to UPR’s Financial Statements as of June 30, 2020, UPR made capital assets additions mainly of renovations and rehabilitation of technology, educational standards requirements of modern building codes. However, capital assets decreased by \$25.5M from FY19 to FY20 mainly due to depreciation and amortization expense of \$40.6M offsetting UPR’s investment in construction projects of \$16.8M. To date, over \$352M in federal disaster relief funds have been obligated to UPR<sup>17</sup> (of which UPR expects to receive and use \$~315M, the difference being made up by the cost share portion); however, based on the latest reporting, just \$7.5M of these funds have been disbursed, which increased only \$2.7M during FY21. Difference in amounts approved by FEMA could arise due to UPR’s internal process of project approval.

Similar delays are seen in UPR’s investment of its own, self-funded capital program. During FY21, UPR reported quarterly budget to actuals on capital expenditure projects identified by project stage, approval certification, expected completion date and aggregate amounts disbursed by project. According to UPR’s budget-to-actuals reporting, only ~36% of its total capital budget was spent for FY2020 due to COVID-19 delays. Before COVID-19, UPR spent an average of \$27M or 59% of its budget in capital expenditures and maintenance. (see EXHIBIT 4). UPR proposed Fiscal Plan submitted to the Oversight Board assumed that UPR will spend an average of \$86.4M in annual expense for infrastructure maintenance for the following years, 20% more of what historically has been expensing.

**EXHIBIT 4: CAPEX BUDGET VS. ACTUAL BUDGET FOR FY2018-2021**



It is important to mention as well that FEMA disbursements during FY2021 amount to \$7.3M in aggregate, increasing by \$2.5M or ~1% during FY21 of expected disbursement of total obligated amounts.

**1.2.6 Growing pension plan liabilities**

The state of the UPR Retirement System (“UPRRS”) poses a particularly serious risk. The latest UPRRS actuarial valuation report<sup>18</sup> reveals that 57% of the plan is unfunded (~\$1.4B of unfunded liability). The university has failed to meet the required contribution in the plan in the past. As a result, the total amount necessary to fully fund the pension system reached \$1.8B in FY18 (\$400M above previous estimates)<sup>19</sup>.

<sup>17</sup> As publicly reported by COR3 last updated during April 26, 2021, <https://recovery.pr/es>

<sup>18</sup> As per the latest actuarial valuation study of the UPR Retirement system of FY2019 (Cavanaugh MacDonald, UPR’s actuaries)

<sup>19</sup> As per the latest experience study of the UPR Retirement system of FY2018 (Cavanaugh MacDonald, UPR’s actuaries)

During 2021, UPR demonstrated its commitment to comply with the required contribution payment as stipulated by their actuary. For example, UPR contributed \$160M to cover normal cost and reduce unfunded pension liability<sup>20</sup> in accordance with the Certified Budget for 2020<sup>21</sup>. However, continuing to fund the pension plan below the actuarial contribution could mean UPR will be forced to make higher future contributions to service retirees as unfunded liabilities continue to grow. Continued underfunding, combined with accumulated debt, could jeopardize student services and other academic responsibilities of the University.

In this 2021 Certified Fiscal Plan for FY2022, the Oversight Board included UPR's proposed option of pension reform to be considered and compared to original reforms presented in 2020 Certified Fiscal Plan for FY2021. UPR's reform option for UPRRS would require \$184M contribution for FY2022, \$64M more than Option 1, as recommended by the Oversight Board.

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<sup>20</sup> During May 2021, UPR contributed \$121M and requested reprogramming of additional \$40M contribution to reach \$160.9M required contribution per UPR Certified Fiscal Plan for 2020.

<sup>21</sup> As per Foster & Foster (FOMB's actuaries) report in which it was estimated that a \$160.9M contribution was required for FY2020 to cover normal cost and reduce unfunded pension liability.

### **1.2.7 Longstanding challenges centralizing financial controls and management**

As discussed further in Chapter 4, UPR has faced some challenges meeting basic financial and performance reporting requirements of the Oversight Board:

- UPR lacks central accountability over self-generated revenues and related expenditures.
- UPR maintains different operational controls and allocation of resources that are not consistent across the campuses. Changes in administration and turnover continuously affect the service and prompt response to regulators, financial institutions, and other third-party that require accurate financial data to regulate and oversee.

## **1.3 UPR's financial position in the absence of fiscal plan measures**

### **1.3.1 Note on baseline presentation**

The baseline revenues and expenditures in the 2021 UPR Fiscal Plan are presented in a manner consistent with and comparable to the 2020 UPR Fiscal Plan and FY21 Certified Budget. As such, they reflect the path of the University prior to the implementation of any measures achieved since the beginning of FY2018 and through FY2021.<sup>22</sup>

As further discussed in Section 1.3.3, the baseline presented also assumes necessary funding of UPR's existing, defined benefit pension plan.

### **1.3.2 Baseline revenues**

Baseline revenues are projected to decrease by 4% per year between FY2019 and FY2024 before beginning to increase again slightly in FY2025, as seen in EXHIBIT 5. This is driven by the following trends:

- Tuition revenues decline: baseline tuition revenues are projected to decline proportionally to enrollment from FY2021-2026. Tuition forecast assumes that cost per credit (pre-measures) will remain at School Year 2017-2018 levels for all programs, but that the volume of enrolled students will decline as the Island population declines. Estimates of year-by-year magnitude of enrollment decline are based on spring 2020 enrollment projections. Additionally, the baseline projects a one-year additional drop in enrollment of 5.2% for FY2021 due to COVID-19, as a portion of students may not be able to come back to campus due to economic or other contingencies.
- Central Government appropriations decrease: As stated in section 1.2.3, appropriations will be reduced during FY2022 in accordance with reductions outlined in the Commonwealth Fiscal Plans. Appropriations from the Commonwealth will decrease further by 9% per year from FY2022-2023 then, no further reductions are expected after FY2023 and appropriations are indexed to inflation going forward.
- Some campus-generated inflows (e.g., dues and charges revenue) are also expected to decline proportionally to enrollment. Additionally, due to COVID-19, other revenues, such as medical services, sustained a negative impact expected to be recovered during FY22
- Traditional Federal receipts are expected to remain stable from FY2022-2025. Federal

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<sup>22</sup> The baseline approach taken here creates presentational differences when compared to the April 30th, 2021 revised baseline submitted by the UPR Governing Board, which incorporates the impact of achieved measures into the FY2021 baseline. This approach provides a more accurate picture of the University's pre-measure financial trajectory and differentiates the impact of measures achieved in Fiscal Year 2021 from baseline trends. The post-measure financial position of the University is not impacted by this approach.



receipts include pass-throughs for Pell grants. Pell grant levels are expected to behave proportionally to enrollment. Starting FY22, UPR will provide break out of Pell from other federal funding for ease of tracking.

- CRRSAA and ARP Act revenues: UPR is eligible for several sources of COVID-related funding for higher education institutions. It is estimated that UPR is eligible to receive a total of \$440M based on Simulated Distribution of Higher Education Emergency Relief Fund of which \$246M is available for institutional use and \$193M for student aid. The plan assumes all institutional support will cover additional operating expenditures withing guidelines of HEERF".
- Other components of baseline revenue are expected to remain relatively stable pre-measures over the period of the 2021 UPR Fiscal Plan.

## EXHIBIT 5: PRE-MEASURE BASELINE REVENUES

UPR financial baseline (pre-measures), \$000s

	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
<b>Total Receipts</b>	\$1,056,430	\$1,051,577	\$896,145	\$902,323	\$909,667	\$917,554
Total Central Government Appropriations	\$539,875	\$445,909	421,909	\$428,286	\$434,972	\$441,877
Total Operating Receipts	\$290,884	\$304,887	\$303,948	\$302,825	\$302,489	\$302,460
Total federal Receipts	\$182,374	\$172,248	\$170,288	\$171,212	\$172,206	\$173,217
<b>Disaster-relief receipts</b>						
Insurance Proceeds	-	-	-	-	-	-
FEMA funds	\$2,744 <sup>2</sup>	-	-	-	-	-
COVID-19 emergency funds <sup>1</sup>	\$40,553	\$128,533	-	-	-	-

<sup>1</sup> Does NOT include CARES, CRRSAA, or ARP Acts (higher education funds and HBCUs/MSIs), EDA or COVID-19 research disbursements.  
<sup>2</sup> Total FEMA disbursements during FY21 according to COR3 Transparency Portal (<https://recovery.pr/es>)

### 1.3.3 Baseline expenditures

Baseline expenditures and disbursements are expected to remain relatively stable between FY2022 and FY2026 (see EXHIBIT 6). This stability reflects the prior implementation of a freeze on all operating and payroll expenses starting in FY2019. Baseline payroll (pre-attrition and pre-measures) is assumed to remain constant at \$706 million, and non-payroll operating expenditure categories also remain constant except for scholarships and donations, which decline slightly to reflect decreases in disbursements of university-sponsored financial aid as enrollment declines.<sup>23</sup>

Other expenditures vary according to individual assumptions. Two-line items of note:

- **Pensions.** Baseline pension expenditures assume maintenance of the defined benefit plan where UPR continues making the full actuarially required contribution (~\$185 million in FY2022-24), with no reduction in accrued benefits or freeze. The baseline assumes that UPR will remain underfunding its pension system to pay for operating expenditures while, at the same time, increasing the pension liability.
- **Disaster-related disbursements.** These assumptions represent the latest information on federal and private-insurance relief funding related to the various

<sup>23</sup> UPR's 2020 audited financial statements report significant accounts payable (over \$88.22million2 million) in previous fiscal years. Any of those outstanding amounts carried over to the period of the 2021 Fiscal Plan will require additional savings or revenues to offset them.

<sup>24</sup> As per Foster & Foster's latest actuarial analysis (2021) where UPR is assumed to continue the pension plan without any changes to the benefits.

natural disasters that have hit the Island in past years. For fiscal planning purposes, expenditures are assumed to occur within the fiscal year disaster-related funding is received. Section 1.2.5 discusses further the imperative that UPR accelerate spend of disaster-related relief funds, particularly as it relates to facility maintenance, to help campuses return stronger.

## EXHIBIT 6: PRE-MEASURE BASELINE EXPENDITURES

UPR financial baseline (pre-measures), \$000s

	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
<b>Total Disbursements</b>	(\$1,393,759)	(\$1,461,036)	(\$1,327,962)	(\$1,342,186)	(\$1,357,233)	(\$1,372,591)
Total Operating Disbursements <sup>1</sup>	(\$1,105,773)	(\$1,105,558)	(\$1,103,914)	(\$1,120,838)	(\$1,138,585)	(\$1,156,843)
Total Disaster-related Disbursements	-	-	-	-	-	-
Capital Expenditures	(30,895)	(30,895)	(30,895)	(30,895)	(30,895)	(30,895)
Equipment	(11,553)	(11,553)	(11,553)	(11,553)	(11,553)	(11,553)
CARES Act required disbursements	(40,533)	(128,530)	-	-	-	-
Required Pensions Contribution (for DB plan) <sup>2</sup>	(\$205,000)	(\$184,500)	(\$181,600)	(\$178,900)	(\$176,200)	(\$173,300)

<sup>1</sup> Payroll expenses are assumed to be frozen until FY23.

<sup>2</sup> Pensions baseline cost estimate reflects UPR continuing its current defined benefit policy and making the full actuarially required contribution. This assumes a 30-year amortization period and a 5.5% rate of return. Estimates were constructed by the Oversight Board's actuary using latest census data provided by UPR.

### 1.3.4 Baseline operating deficit/surplus and cash position

Before calculating the baseline primary deficit, it is important to note that none of these calculations account for fiscal measures (e.g., attrition, procurement savings) undertaken by UPR in prior fiscal years under direction of the UPR Fiscal Plan or otherwise. With that in mind, the above expenditure and revenue forecasts indicate UPR – in its baseline scenario – will operate at a significant operating deficit pre-debt service (see EXHIBIT 7). A large portion of this deficit is driven by the assumption that UPR will properly fund its pension system within the current plan design. With the addition of debt service, UPR's operating deficit will approach \$379 million by FY2022.

## EXHIBIT 7: PRE-MEASURE FINANCIAL BASELINE

UPR financial baseline (pre-measures), \$000s

	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
<b>Operating Surplus/Deficit (Pre-Debt Service)</b>	(\$337,329)	(\$409,459)	(\$431,817)	(\$439,863)	(\$447,566)	(\$455,037)
Contractual Debt Service	(\$52,321)	(\$48,252)	(\$48,252)	(\$48,252)	(\$48,252)	(\$48,252)
<b>Operating Reserve/Deficit (Post Contractual Debt Service)</b>	(\$389,650)	(\$457,711)	(\$480,069)	(\$488,115)	(\$495,818)	(\$503,289)

## Chapter 2 Implementation progress

To date, UPR has made progress on some measures (e.g., undergraduate tuition increases, attrition) but less on others (e.g., administrative shared service implementation, graduate tuition, medical insurance, bonus reductions) (See EXHIBIT 8 for status of measures). However, the full impact of all the 2021 UPR Fiscal Plan measures is required to achieve fiscal balance, and these are highly dependent on timing. Indeed, some savings have already been forfeited due to slow implementation (e.g., slow ramp up in graduate tuition increases, pension reform delays). Others will see challenges in implementation due to various events (e.g., COVID-19 pandemic, reopening plans, measures to return to work).

Yet, in order to achieve the much-needed savings and revenues outlined in this plan UPR must adhere to the timing of the activities and milestones mentioned in each of the measures. The Oversight Board will actively monitor progress against these targets and requires UPR to submit regular reports on its achievement of this plan. The Oversight Board highlights that these measures are as much about improvement in student outcomes as about savings, slow implementation impedes quality service to students as well.

### EXHIBIT 8: IMPLEMENTATION STATUS OF MEASURES

Implementation status of measures through FY2021, \$000s					● Compliant	○ Partially compliant	● Non-compliant
Type	Measure	CFP	Expected	Status	Description		
Revenue Enhancement Measures	1. Adjustment to Undergraduate Student Tuition	57,664	55,706	●	Per credit tuition increase met; however, variance remains due to unexpected enrollment decline and non-compliant exemption policies (see item 2)		
	2. Reduction in Tuition Exemptions	18,789	14,453	○	FY2019 categories were maintained		
	3. Adjustment to Dues & Charges	8,657	8,263	●	Required FY2020 Fiscal Plan increase met, variance given unexpected enrollment decline		
	4. Adjustment to Graduate Student Tuition	15,672	14,453	○	Partial increases, not the levels required by the Fiscal Plan for FY2020		
	5. Federal Grants & Contracts	5,000	-	●	No increase as required as the Fiscal Plan for FY2020		
	6. Revenue from training & tutoring services provided to government	20,000	20,000	●	Unable to realize current FY and some prior year revenues		
	7. S&T patent revenue	1,000	-	○	UPR has not made any progress in this measure. A new initiative was proposed by UPR to mitigate impact - renegotiation of Plaza Universitaria management contract from FY22 forward.		
Expense Measures	8. Benefits adjustments (e.g., medical benefit reduction, Christmas Bonus elimination)	29,051	-	●	No adjustments made		
	9. Centralized Procurement & Contract Renegotiation	19,806	0,594	●	Small pilots launched but no initiatives to capture opportunity at scale		
	10. Attrition	100,882	87,837	○	Partial decrease. No detail to determine whether is tied to administrative transformation efforts.		
	11. Pension plan reforms	-	-	○	Public statement on intent of paying full expected contribution		
Implementation costs	Transformation PMO expense	(5,016)	(5,016)	●	PMO office created		

<sup>1</sup> Expected amount as per 2021 Certified UPR Fiscal Plan, considers COVID-19 impact

# Chapter 3 Measures to improve fiscal & operational situation

## 3.1 Introduction to fiscal measures

The primary objective of the 2021 UPR Fiscal Plan is to move the University to a more sustainable financial position while preserving and, wherever possible, improving its ability to deliver on its mission. All measures were designed in the best interest of improving the institution, with a deep focus on added transparency in both financials and operations. Given the scale of the challenges facing UPR, significant expenditure reductions and some tuition increases are required; however, these measures have been carefully designed to safeguard the institution and its most vulnerable students from adverse effects on instruction, research, and affordability.

Per the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”), the Fiscal Plan must cover a period of at least five years and provide a method to achieve fiscal responsibility and access to the capital markets. The COVID-19 pandemic gives UPR another chance to reimagine nearly all aspects of its operating model, a portion of which will be supported by ~\$246M<sup>25</sup> in Federal CARES Act funding and other COVID-19 pandemic-related disbursements. Never has it been more imperative that the University seize this opportunity to make the required reforms.

The 2021 UPR Fiscal Plan includes prudent measures to supplement revenues through non-tuition measures (e.g., monetizing intellectual property, increasing revenue from services), which serve to limit the need to increase tuition. The 2021 UPR Fiscal Plan also includes considerations to limit the impact of tuition increases on students with demonstrated financial need (e.g., increasing scholarship expenditures, capping tuition below the maximum Pell Grant). Finally, expenditure reductions are calibrated to prevent the loss of teaching staff and researchers; savings are achieved through non-personnel cuts as much as possible and faculty are not subject to the same benefit reductions and attrition as non-faculty personnel.

Measures included in this plan were developed through consultation with a wide variety of UPR stakeholders including current administration, faculty, and students, as well as third parties with experience in higher education administration and other related matters.

## 3.2 Summary and impact of fiscal plan measures

The 2021 UPR Fiscal Plan contemplates eleven measures (EXHIBIT 9): seven revenue enhancing measures that, if properly executed, can collectively increase UPR receipts by approximately \$177 million per year by FY2026 and four expenditure reducing measures, including pension system reforms, that can drive savings of approximately \$244 million dollars per year by FY2026. After accounting for implementation costs, these measures can drive a net improvement in UPR’s pre-debt service operating surplus by over \$400M by FY2026. These measures are detailed in Section 3.3-3.5 of the 2021 UPR Fiscal Plan.

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<sup>25</sup> The CARES Act includes several sources of funding for higher education institutions. UPR will receive from these funds (as of May 25, 2020) ~\$81M from Higher Education Emergency Relief Fund as well as ~\$5M from additional funding directed towards Minority Serving Institutions (MSIs) and ~\$3M from EDA and COVID-19 research disbursements. ARP amount is preliminary per American Council on Education simulated distribution. <https://www.acenet.edu/Policy-Advocacy/Pages/HEA-ED/ARP-Higher-Education-Relief-Fund.aspx>

## EXHIBIT 9: SUMMARY OF FISCAL PLAN MEASURES

### Fiscal Plan measures & implementation costs, \$000s

Type	Measure	FY21 <sup>1</sup>	FY22	FY23	FY24	FY25	FY26
Revenue Enhancement Measures	1. Adjustment to Undergraduate Student Tuition	57,664	71,814	77,379	80,002	82,728	85,845
	2. Reduction in Tuition Exemptions	18,879	16,666	17,110	17,277	17,467	17,662
	3. Adjustment to Dues & Charges	7,881	11,740	11,132	10,975	11,120	11,357
	4. Adjustment to Graduate Student Tuition	15,672	17,475	17,252	18,085	18,942	19,808
	5. Federal Grants & Contracts	10,000	15,000	20,000	20,000	20,000	20,000
	6. Revenue from training & tutoring services provided to government	20,000	20,000	20,000	20,000	20,000	20,000
	7. S&T patent revenue <sup>2</sup>	1,500	2,000	2,000	2,000	2,000	2,000
Expense Measures	8. Benefits adjustments (e.g., medical benefit reduction, Christmas Bonus elimination)	23,405	23,105	22,857	22,627	22,475	22,325
	9. Centralized Procurement & Contract Renegotiation	19,858	19,806	19,910	19,806	19,806	19,806
	10. Attrition	100,882	107,605	112,441	116,830	120,899	124,914
	11. Pension plan reforms <sup>4</sup>	87,100	83,600	82,400	80,500	78,800	77,300
Implementation costs	Transformation PMO expense	(5,016)	(5,016)	(3,346)	-	-	-
	Implementation cost for training & tutoring	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)
<b>Total impact</b>		<b>349,825</b>	<b>375,795</b>	<b>393,290</b>	<b>400,102</b>	<b>406,237</b>	<b>413,017</b>

<sup>1</sup> May require Title III to execute. If Pension reforms not enacted UPR will need to find similar savings through other measures

<sup>2</sup> S&T patent revenue measure will be replaced with savings from Plaza Universitaria management contract only for FY2022

UPR has made progress on implementing some measures during FY2021 (see Chapter 2). For example, UPR continued to improve reporting requirements and applied student exemption policy. However, on other measures implementation has not met previous UPR Fiscal Plan requirements. For example, UPR has not implemented graduate tuition measures or pension reform, and the implementation reports suggest that UPR is behind schedule on capturing the milestones required as part of the administrative transformation process.

The execution of all the above measures will place UPR on a path to fiscal responsibility. UPR, as of April 30, 2021, holds ~\$290 million in cash of which ~\$122 million is unrestricted.<sup>26</sup> The 2021 UPR Fiscal Plan assumes unrestricted cash may be used to cover modest operating deficits, including those created by fulfilling increases in pension liability obligations in the early years of the Plan. Given UPR's limited sources of revenue and the need to continue investing that revenue in core academic functions, measures must be implemented to put UPR on a path to operating balance (see EXHIBIT 10).

<sup>26</sup> Under Oversight Board's definition of restricted and unrestricted cash for the Commonwealth, as per UPR Minimum Cash Analysis submitted on May 15, 2021.

## EXHIBIT 10: FINANCIAL POSITION POST IMPLEMENTATION OF ALL MEASURES

<b>UPR financial baseline (post-measures),</b>						
<b>\$000s</b>	<b>FY2021<sup>1</sup></b>	<b>FY2022</b>	<b>FY2023</b>	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>
Baseline revenues	\$1,056,430	\$1,051,577	\$896,145	\$902,323	\$909,667	\$917,554
+Revenue measures	\$117,209	\$ 148,217	\$ 153,234	\$ 156,810	\$ 160,846	\$ 165,018
<b>Post measure revenues</b>	<b>\$1,173,209</b>	<b>\$1,199,794</b>	<b>\$1,049,379</b>	<b>\$1,059,133</b>	<b>\$1,070,513</b>	<b>\$1,082,572</b>
Baseline expenditures	(\$1,393,759)	(\$1,461,036)	(\$1,327,962)	(\$1,342,186)	(\$1,357,233)	(\$1,372,591)
+Expenditure measures (incl. implement. cost)	\$242,688	\$ 277,064	\$ 288,227	\$ 294,974	\$ 299,717	\$ 305,443
<b>Post-measure expenditures</b>	<b>(\$1,151,071)</b>	<b>(\$1,183,972)</b>	<b>(\$1,039,972)</b>	<b>(\$1,047,735)</b>	<b>(\$1,057,816)</b>	<b>(\$1,067,148)</b>
<b>Operating Surplus/Deficit (Pre-Debt Service)</b>	<b>\$22,568</b>	<b>\$15,822</b>	<b>\$9,644</b>	<b>\$11,921</b>	<b>\$12,997</b>	<b>\$15,424</b>
	<b>FY2021<sup>1</sup></b>	<b>FY2022</b>	<b>FY2023</b>	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>

<sup>1</sup> Expected amount as per 2021 Certified UPR Fiscal Plan, considers COVID-19 impact

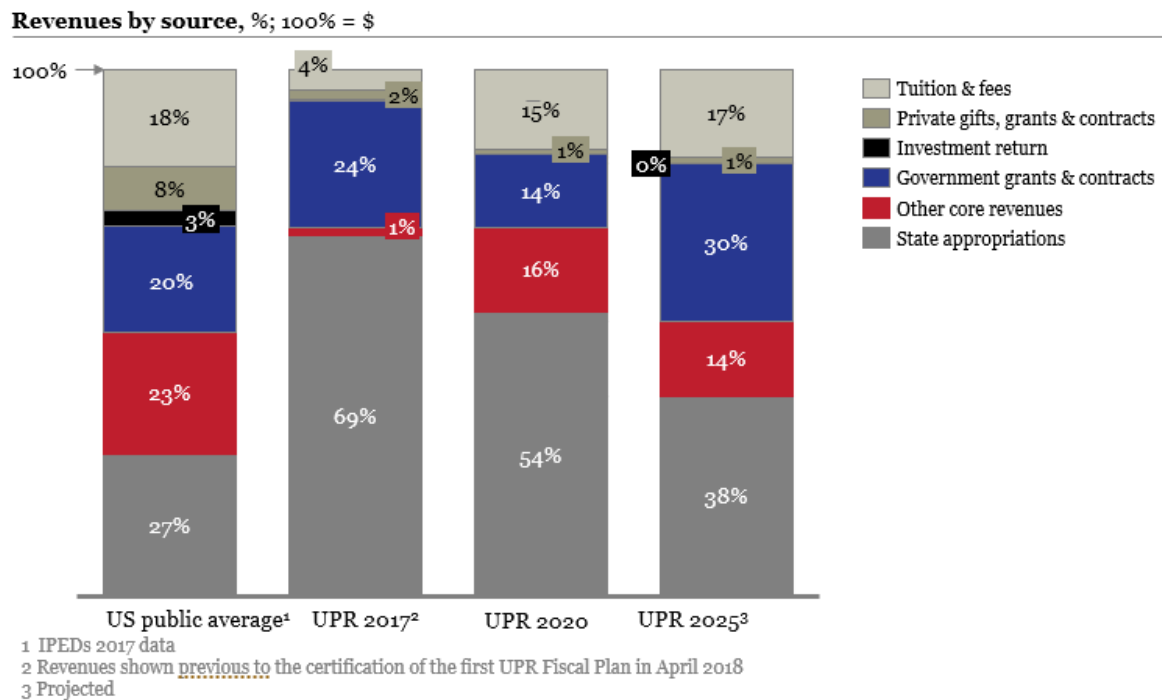
The 2021 UPR Fiscal Plan forms the basis of the corresponding Certified Budget, including the full implementation of all revenue and expenditure measures described for the FY2022 and any investments described. The Certified Budget must include the same level of specificity as outlined by the Oversight Board in the budgetary process by budget line-item on sources and uses of funds by fiscal year. The Certified Budget must also provide additional detail on the types of funds used to cover expense categories (e.g., general fund, federal funds, special revenues, own revenues). Finally, the Certified Budget must include additional detail to track the impact of fiscal measure implementation (e.g., pensions, health benefits and elimination of Christmas bonus separated from salary and related benefits, professional services fees, etc.). A Certified Budget may include additional language as required by the Oversight Board to implement a path for the much-needed milestones which can bring UPR to fiscal responsibility and institutional sustainability.



### 3.3 Tuition revenue enhancing measures

UPR has historically depended on Commonwealth appropriations as a primary source of operating revenue at rates unprecedented among peers on the mainland. Whereas most mainland universities rely on state revenues to cover 20-30% of operating expenditures, for UPR this ratio was nearly 70% as recently as FY2018 (EXHIBIT 11).

EXHIBIT 11: UPR REVENUE MIX VS. MAINLAND

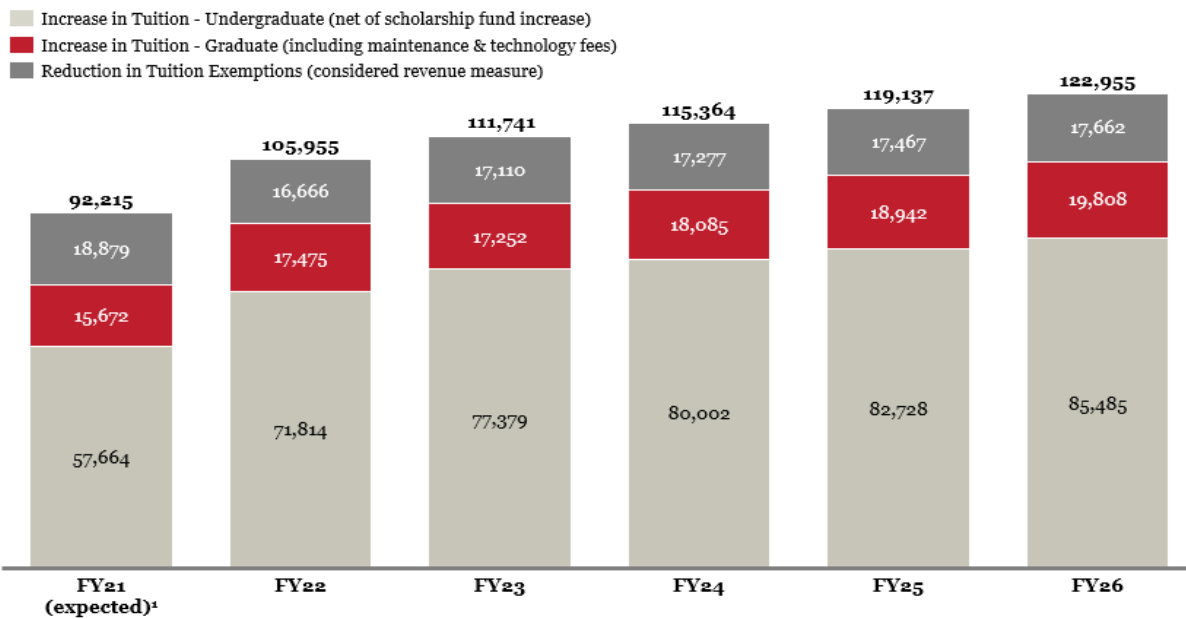


While the 2021 UPR Fiscal Plan makes every reasonable effort to add additional revenues from other sources, some tuition increases are necessary given the magnitude of the challenges that UPR faces. The principle of rebalancing revenues is first and foremost an opportunity to make sure that those who can afford to contribute to the cost of their education do so while those who cannot are protected. Valuable resources should go to those in need. Furthermore, UPR has historically generated far less of its income from tuition than comparable mainland universities (EXHIBIT 11).

The 2021 UPR Fiscal Plan requires reasonable increases in both undergraduate and graduate tuition to move UPR more in line with the tuition receipts generated by its mainland peers without putting accessibility for low-income students at risk. The plan also requires changes to the University's tuition exemption policy. These initiatives are expected to ramp up from \$90 to \$127 million in additional revenue a year between FY2021 and FY2026, as seen in EXHIBIT 12. Concurrently, offsets, such as increasing the University's needs-based scholarship expenditures, are put in place to ensure tuition-related measures do not impact the ability of students with demonstrated financial need to afford a UPR education. Even after implementation of these measures UPR will still be the most affordable higher education option on the Island and among the most affordable universities in the United States (See section 3.6 for greater detail on efforts to maintain affordability).

## EXHIBIT 12: ADDITIONAL REVENUE FROM TUITION-RELATED MEASURES

### Cumulative impact of tuition-related measures, \$000\$



<sup>1</sup> As per 2021 Certified UPR Fiscal Plan, considers COVID-19 impact

### 3.3.1 Undergraduate tuition adjustment

Over the past several decades, during a period of heavy Commonwealth subsidization, UPR chose not to increase tuition at the same rate as have either major public institutions in other US states<sup>27</sup> or private higher education institutions on the Island. For most of the last half-decade, annual undergraduate tuition (for 28 credit hours) and fees hovered around \$4,086, 19% less expensive than comparable universities in Puerto Rico and 49% lower than the average in-state annual cost at US public 4-year universities (EXHIBIT 13).<sup>28</sup>

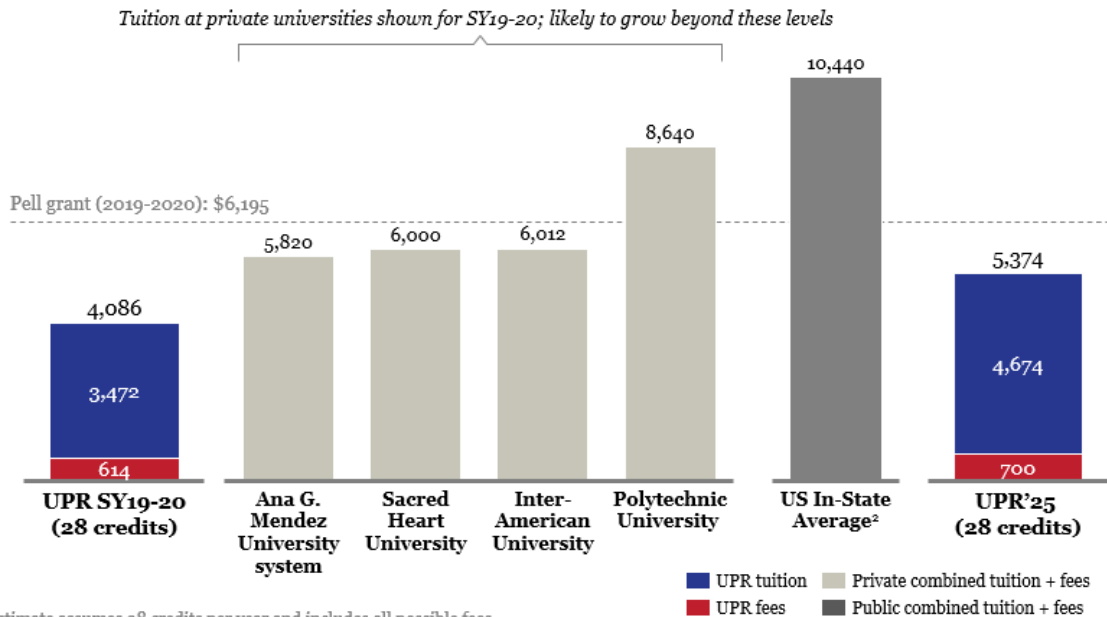
<sup>27</sup> The average public, four-year university in mainland US derives ~18% of its revenues from tuition and fees, compared to only 4% in the case of UPR (prior to the implementation of tuition measures). Data on US public universities from the National Center for Education Statistics' Integrated Postsecondary Education Data System (IPEDS)

<sup>28</sup> Comparison made before applying Fiscal Plan measures. UPR annual tuition assumes 28 credits per semester on average (per 2020 UPR Proposed Fiscal Plan). Average annual tuition and fees on peer mainland US institutions is \$5,000 (see IPEDS)



**EXHIBIT 13: UPR UNDERGRADUATE TUITION COMPARED TO OTHER UNIVERSITIES**

Average Tuition & Fees<sup>1</sup> per Undergraduate Students, \$



<sup>1</sup> UPR fee estimate assumes 28 credits per year and includes all possible fees  
<sup>2</sup> Data for 4-year public universities on tuition and required fees in 2019-2020  
[Educationdata.org](http://Educationdata.org)  
 US in state Avg update FY21: [https://nces.ed.gov/programs/digest/d18/tables/dt18\\_330.20.asp](https://nces.ed.gov/programs/digest/d18/tables/dt18_330.20.asp)

To bring UPR undergraduate tuition costs more in line with those of its peers while also noting the unique demographics and economic challenges of the Island, undergraduate cost per credit hour will be increased to \$157 by FY2023, phased in over four years according to the following schedule (adjusted based on FY2021 measure delay), as shown in EXHIBIT 14. UPR has implemented these undergraduate tuition adjustments through FY2020. Increased undergraduate tuition will enable UPR to augment the share of revenue it receives from tuition to be more in line with mainland peers.

This increase will only be applied to the population of non-exempt students, and UPR will increase its own needs-based scholarship expenditures year-on-year concurrent with this rate growth to preserve affordability and access. Post FY2024, tuition will be indexed to public 4-year tuition inflation (estimated to be 3.1%).<sup>29</sup>

**EXHIBIT 14: SCHEDULE OF UNDERGRADUATE TUITION INCREASES (COST PER CREDIT)**

FY 2021	FY 2022	FY 2023	FY 2024 and beyond
\$124	\$145	\$157	Indexed to tuition inflation.

**Tuition exemptions**

While to date UPR has made the required adjustments to undergraduate tuition, it has fulfilled its goals with regard to moving towards a more transparent and need-based system for tuition exemptions. Furthermore, in FY2019, 39% of exempt students had already received a full Pell grants covering all tuition costs plus a significant portion of non-tuition costs of attendance.

The 2021 UPR Fiscal Plan expands UPR’s ability to provide aid to students with financial need in order to make education accessible. However, it also aims to make financial aid processes

<sup>29</sup> Uses public 4-year 2009-2019 tuition inflation from College Board.

more transparent and focused – ensuring UPR receives the most value for its money by prioritizing the students with the greatest objective financial need. Accordingly, UPR must make three changes to its non-need-based exemptions policy:

- Eliminate 13 of 16 exemption categories (keeping only teaching assistants, honor students, and veterans)
- Limit veterans’ exemptions to veterans only (not spouses) and restrict eligibility to 4 years
- Adjust value of exemptions provided to TAs and honor students
- For FY22, UPR requested to include student representatives. This new exemption category, additional to those outlined in the FY21 Certified Fiscal, was approved by the Oversight Board for those student representatives who show demonstrated financial need.

Exemptions award values will now be determined after accounting for federal financial aid awards. Students will be required to fill out the FAFSA to be eligible for exemptions. All exemptions will be administered through the financial aid office with the oversight of the central administration.

These policy changes on exemption eligibility are set to reduce the total volume of exemptions from FY2022 to FY2026 and will drastically reduce the cost of exemptions, allowing UPR to earn back over \$24 million annually in foregone revenue.

For a detailed list of required action items regarding undergraduate tuition adjustment, please see EXHIBIT 15.

**EXHIBIT 15: REQUIRED ACTION ITEMS FOR UNDERGRADUATE TUITION ADJUSTMENT**

Action item	Deadline	Status
<b>To be continued in FY2022</b>		
<ul style="list-style-type: none"> <li>▪ Reform the exemption policy to (1) eliminate 13 of the 16 exemption categories, (2) limit veterans’ exemptions to veterans only, up to 4 years, and (3) adjust value of exemptions provided to TAs and honor students</li> </ul>	July 1, 2021	Completed. Additional category of Student Representatives with financial need was added for FY22.
<b>To be completed in FY2022 and beyond</b>		
<ul style="list-style-type: none"> <li>▪ Raise tuition for undergraduate degrees according to tuition increase schedule (see Exhibit 12)</li> </ul>	Annually, in July, before the beginning of the respective school year	UPR has committed to increase undergraduate tuition in accordance with Certified Fiscal Plan.

**3.3.1 Adjustment to graduate student tuition**

The UPR Fiscal Plan requires the University to adjust the cost per credit for graduate programs to be more in line with Island and mainland benchmarks, indexing the increase first to the average public higher education tuition growth over the past decade<sup>30</sup> (3.1%), then to Island inflation (1.0%).

Even with the implementation of all these changes, UPR will remain an affordable and competitive option for graduate studies, compared to other mainland public universities<sup>31</sup>:

<sup>30</sup> Uses public 4-year 2009-2019 tuition inflation from College Board.

<sup>31</sup> Compendio Estadístico de la Educación Superior en Puerto Rico 2018-2019 Databook. Instituto de Estadísticas de Puerto (estadísticas.pr)

- **For master’s programs**, cost per credit will be increased so that total tuition is slightly below the average of graduate programs offered on the Island. This will allow UPR to remain competitive against all other programs on the Island while raising incrementally more revenue.
- **For doctoral programs**, cost per credit will be increased so that annual tuition is roughly half of the average tuition at mainland public university peers
- **For all advanced degree programs within the Medical School**, tuition will be increased to roughly half of average in-state tuition for mainland public universities<sup>32</sup>

In parallel, UPR must explore other sources of revenue, and must commit itself to the implementation of this measure (see EXHIBIT 15): In June 2018,<sup>33</sup> UPR implemented a partial increase in graduate tuition but, as shown in EXHIBIT 16, it did not fully reach the required graduate tuition adjustments. The partial increase implemented in FY2021 allowed the University to increase tuition revenues but fell short of the UPR Certified Fiscal Plan target. UPR reported in their proposed fiscal plan that they expect to miss the Certified Fiscal Plan's graduate tuition target by \$5M in FY22 will fall short in FY22 revenues related to graduate tuition by ~\$5M FY2020.

#### EXHIBIT 16: REQUIRED ACTION ITEMS FOR ADJUSTMENT TO GRADUATE TUITION

To be completed in FY2022 and beyond

<u>Action item</u>	<u>Deadline</u>	<u>Status</u>
<ul style="list-style-type: none"> <li>▪ Raise tuition for graduate programs (masters, doctoral, and advanced degree programs within the Medical school) as per tuition increase schedule.</li> </ul>	Annually, in July, before the beginning of the respective school year.	Partially compliant. UPR has increased graduate tuition since FY18, but not at the levels required in the Certified Fiscal Plan.

### 3.4 Non-tuition revenue enhancing measures

Both a contributor and outcome of this reliance on Commonwealth funding is an underdeveloped strategy for attracting alternate sources of revenue (e.g., federal grants, self-generated revenues, IP commercialization).<sup>34</sup> UPR also derives a much smaller share of its income from tuition and private donations than its mainland peers. Therefore, one of the first options the 2021 UPR Fiscal Plan looks to is to increase revenue from sources other than state appropriations and tuition (EXHIBIT 17).

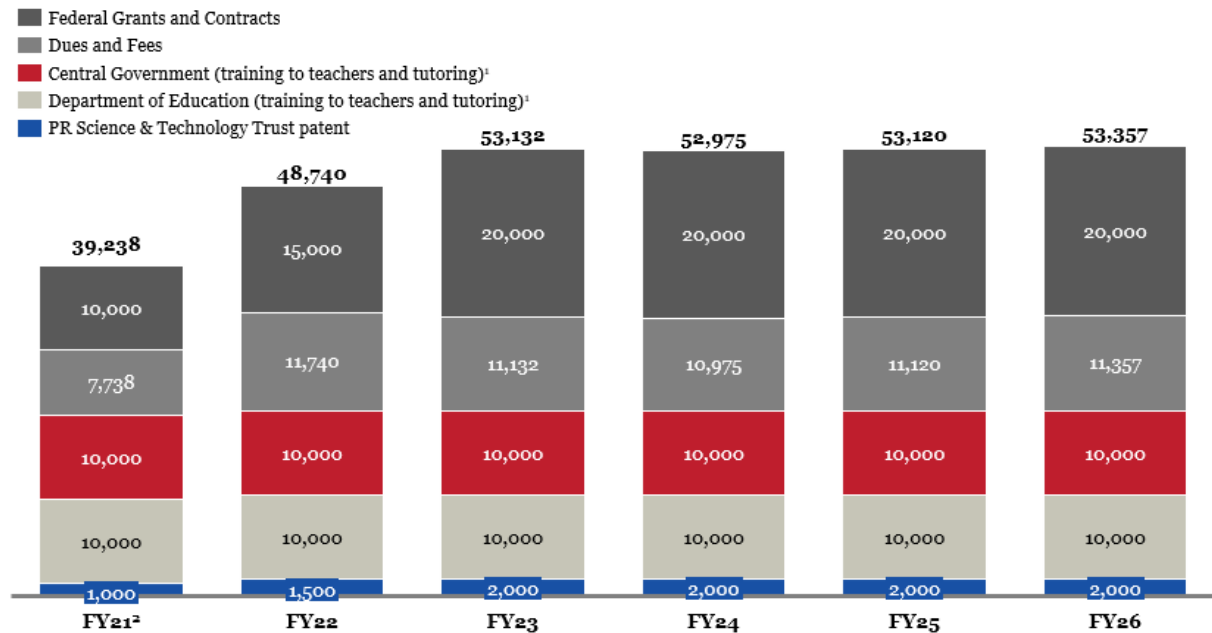
<sup>32</sup> A Loan Forgiveness Program in the Commonwealth Budget has made available \$30M to provide recently graduated physicians assistance to reduce student loans in exchange for the physicians to work in rural areas in need of specific expertise in Puerto Rico. Also Act 14-2017 and Act 60-2019, provide additional tax benefit and loan repayments in the island.

<sup>33</sup> UPR Governing Board Certification No. 11 from FY18

<sup>34</sup> Based on comparison of 2017 UPR vs. mainland average revenue per FTE by category. Data from National Center for Education Statistics

## EXHIBIT 17: ADDITIONAL REVENUE FROM NON-TUITION REVENUE ENHANCING MEASURES

Impact of non-tuition revenue enhancing measures, \$000s



<sup>1</sup> Gross revenue – does not include implementation costs

<sup>2</sup> Expected amount as per 2021 Certified UPR Fiscal Plan, considers COVID-19 impact.

### 3.4.1 Adjustment to dues & charges

Following a UPR Governing Board resolution, dues and charges will continue to be gradually increased from FY2019 to FY2022. Like tuition increases, increases to dues and charges will resume in FY2022 as included in the 2019 UPR Fiscal Plan (see EXHIBIT 18 and EXHIBIT 19). This measure has three components:

- The total cost of the existing 14 categories of dues is increased by \$346 by FY2022
- Additionally, 4 fees previously added in the 2019 UPR Fiscal Plan are maintained: summer maintenance fee; partial drop in courses charge; full drop in courses charge; and repetition of courses charge. Together, these 4 fees total \$95
- Dues and fees will slightly increase in FY2022. From FY2023 onwards, they will grow with inflation.

## EXHIBIT 18: DUES & CHARGES CHANGES OVER TIME

Action item	Deadline	Status
<b>To be completed in FY2021</b>		
<ul style="list-style-type: none"> <li>▪ Reform the exemption policy to (1) eliminate 13 of the 16 exemption categories, (2) limit veterans' exemptions to veterans only, up to 4 years, and (3) adjust value of exemptions provided to TAs and honor students</li> </ul>	July 1, 2021	Completed. Additional category of Student Representatives with financial need was added for FY22.
<b>To be completed in FY2022 and beyond</b>		
<ul style="list-style-type: none"> <li>▪ Raise tuition for undergraduate degrees according to tuition increase schedule (see Exhibit 12)</li> </ul>	Annually, in July, before the beginning of the respective school year	UPR has committed to increase undergraduate tuition in accordance with Certified Fiscal Plan.

## EXHIBIT 19: REQUIRED ACTION ITEMS FOR ADJUSTMENT TO DUES & CHARGES

To be completed in FY2022 and beyond

Action item	Deadline	Status
<ul style="list-style-type: none"> <li>Raise dues &amp; charges as per increase schedule</li> </ul>	Annually, in July, before the beginning of the respective school year	UPR has been compliant with this measure. Measure was frozen for FY21 due to COVID-19.

### 3.4.2 Alumni Donations

UPR must organize efforts to bring a total of ~\$10M in gross revenue per year between FY2021-2026 in alumni donations. This will potentially create an alumni base with the potential of steady amounts of donations. Also, it is important to note that although most donors are typically alumni, there are also parents of students, current students, faculty members, associations, staff, and other people of interest who donate to the UPR. University fundraising should place its focus on building a lasting relationship with donors. In FY2020 UPR was successful in raising over \$8.6 million in cash and in-kind donations.

Donations Received During FY'20

Campus	Donation	Cash	In Kind
Aguadilla	\$ 32,053	\$ 23,813	\$ 8,240
Arecibo	19,800	19,800	---
Bayamón	20,000	15,537	4,463
Carolina	---	---	---
Cayey	265,602	265,602	---
Humacao	525,602	417,094	108,508
Mayagüez	3,600,000	2,271,938	1,328,062
Ponce	122,435	122,435	---
Medical Sciences	2,385,073	2,202,760	182,313
Rio Piedras	1,450,348	1,375,348	75,000
Utuado	---	---	---
Central Adm.	194,000	125,000	69,000
<b>Total</b>	<b>\$ 8,614,913</b>	<b>\$ 6,839,327</b>	<b>\$ 1,775,586</b>

In order to achieve the targeted amount above, as well as reach the Fiscal Plan targets for FY21-26, UPR has pursued a number of actions aimed at improving its fundraising efforts. A software application was developed to document the amounts and types of donations received in the campuses, whether in cash, in kind, fixed assets or bequest. The software also contains the names and categories of the donors, the projects benefited and information for the due recognition and cultivation of donors.

In FY2019 the Governing Board created the VPF of the University of Puerto Rico, a unit assigned to the Office of the President. The main functions of the VPF are to supervise, manage, coordinate, and organize any philanthropy-related issues in partnership with the University President. The VPF's main functions include diversifying and expanding the lead and donor base to create visibility and procure financial resources for the University of Puerto Rico. The VPF directs and supports fundraising initiatives as a key strategy to draw additional resources to the institution. It is also responsible for facilitating the processes of solicitation, receipt, and management of donations with policies, rules, procedures, and technological tools tempered to best practices and trends in private fundraising.

**Deep-dive: Observed practices at schools in New Zealand for broader alumni network outreach**

<b>Observed practices</b>	<b>Description</b>
<b>Optimize support for class reunions</b>	<ul style="list-style-type: none"> <li>• Take a larger leadership role in organizing the class reunions</li> <li>• Standardize support package for reunions</li> <li>• Develop a fundraising approach for reunions</li> </ul>
<b>Consider asking for non-financial contributions</b>	<ul style="list-style-type: none"> <li>• Identify opportunities that would enable community support (e.g. mentorship, marketing events)</li> <li>• Communicate opportunities to community and coordinate participation with alumni organization</li> </ul>
<b>Consider developing online touchpoints</b>	<ul style="list-style-type: none"> <li>• Improve Website design and make it fundraising friendly (e.g. connect to specific events)</li> <li>• Leverage Facebook and LinkedIn to strengthen connection with alumni network</li> </ul>
<b>Optimize database</b>	<ul style="list-style-type: none"> <li>• Invest in improving the quality of the data and in the types of analytics it can provide</li> <li>• Embed analytics into the ‘operating model’ of the Fundraising office</li> </ul>

The Fiscal Plan recognizes the sense of urgency and proposes an annual goal of \$10 million in cash donations. UPR has distributed this global fundraising goal across the Central Administration and the 11 units of the UPR system using, as criteria, the registration of the campus, the cultivation history of donors and alumni, and the opportunity to attract donations.



## Projected Cash Donations

PROSPECT CATEGORY	GIFTS	DONATION AMOUNT	TOTAL
Local and int'l foundations, individuals and alumni	1	\$2,500,000	\$2,500,000
Corporations, foundations, legacy, individuals, and alumni	1	\$1,000,000	\$1,000,000
Corporations, foundations, individuals, and alumni	3	\$500,000	\$1,500,000
Corporations, foundations, individuals, and alumni	4	\$250,000	\$1,000,000
Corporations, foundations, individuals, and alumni	5	\$100,000	\$500,000
<u>UPR Endowment Fund donors</u>			
Corporations, foundations, individuals, and alumni	19	\$50,000	\$950,000
Corporations, foundations, Board Members, individuals, and alumni	50	\$25,000	\$1,250,000
Individuals, alumni, administrators, faculty, and staff	1,000	\$1,000	\$1,000,000
Payroll deduction and matching donations – staff	2,500	\$120	\$300,000
<b>Total Annual Goal</b>			<b>\$10,000,000</b>

UPR provided Projected Cash Donations as part of their proposed fiscal plan for FY22.

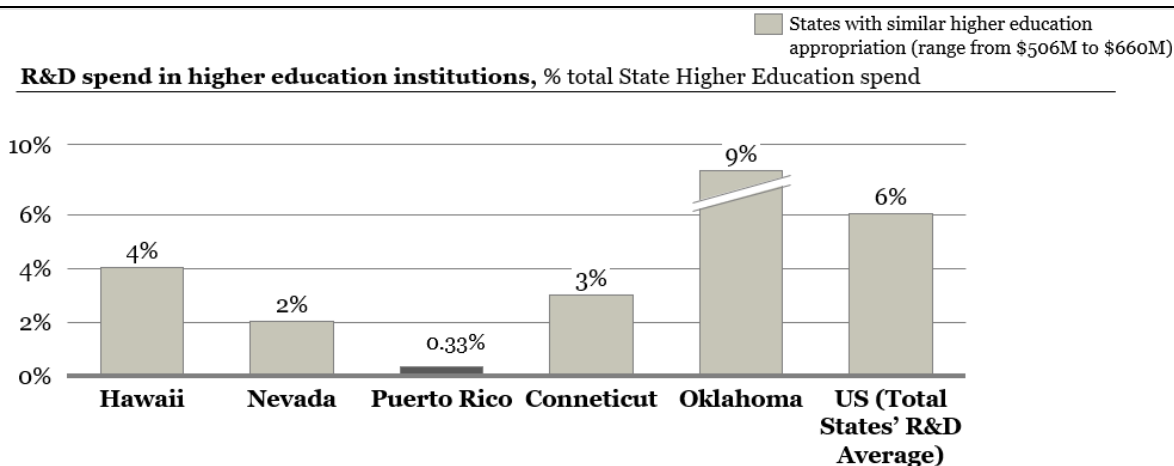
UPR's fundraising campaign is a significantly important effort to improve its financial situation, given the initiative's potential to generate incremental revenues from those currently contemplated in the Fiscal Plan. If successful in its goal, UPR could reduce financial risk and soften the impact of other Fiscal Plan measures, such as the increase in graduate tuition. The Oversight Board will be available to support UPR in the implementation of this fundraising campaign, including celebrating successes and eliminating roadblocks, whenever possible.

### **3.4.3 Increasing federal grants and contracts**

University driven R&D plays a significant role in Puerto Rico's economic growth and innovation. However, financial and management decisions in the past decade—both in the Puerto Rican Government and at the University—have constrained the Island's and University's research potential. Notably, in 2012 the National Science Foundation put the Rio Piedras and Mayaguez campuses in suspended status due to non-compliance in the management of funds. The University has carried out corrective actions in response, but it should continue to ramp up R&D activities to remain competitive academically. As a next step, UPR must focus on opportunities to further streamline its support for technology transfer, and realign incentives embedded in its commercialization and patent ownership policies.

UPR's R&D related expenditure during FY19 was \$109k and increased to \$115k during FY20. When compared to other US states with similar state appropriations fluctuating from \$506M to \$660M (Hawaii being the lowest and Oklahoma being the highest in that range as shown in EXHIBIT 20), PR sits in lowest positions not only in the range presented but nationwide.

## EXHIBIT 20: STATE SPONSORED R&D AS A PERCENT OF HIGHER ED EXPENDITURES

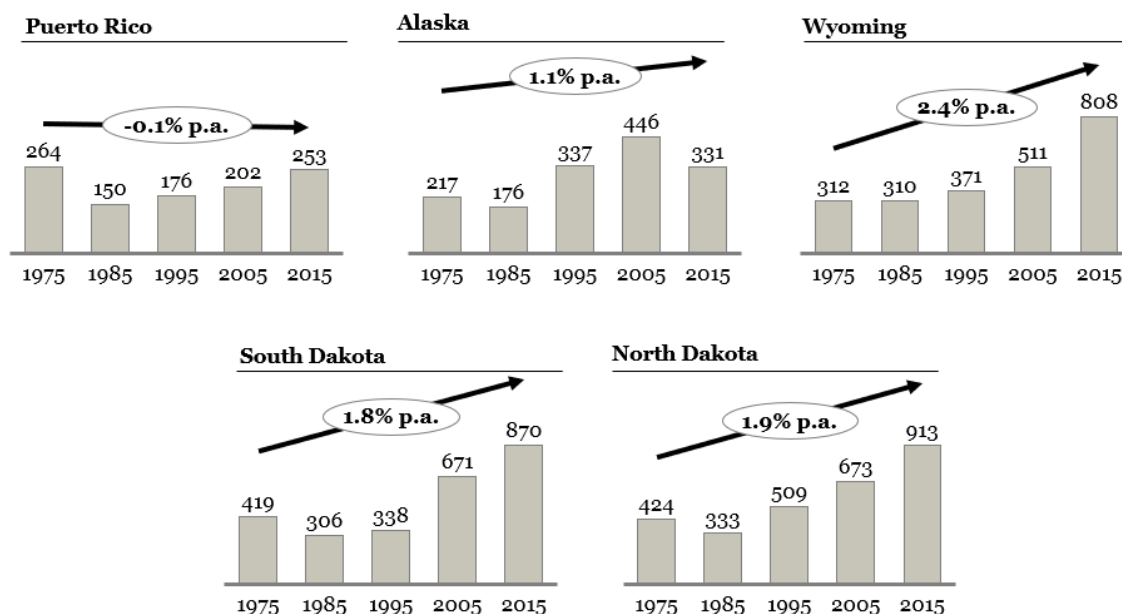


SOURCE: National Center for Education Statistics and National Science Foundation data for FY19 and UPR Audited Financial Statements for FY 2019

Productivity of R&D expenditure is also a growing concern. As EXHIBIT 21 shows, Puerto Rico has missed out on the substantial growth of patents in the past five decades that has occurred at a national level. This while Puerto Rico's higher education R&D spend per patent awarded is roughly four times higher than the national average<sup>35</sup>- suggesting a low productivity in research investments. Lower innovation expenditure and output is a key driver of talent loss. Fiscally, lower productive research activity reduces the ability of Puerto Rico to commercialize research and generate self-sufficiency in research centers.

## EXHIBIT 21: GROWTH OF PATENT AWARDS

Utility patents awarded by origin, # of utility patents approved by USPTO per decade by awardee origin for PR and lowest ranking states



SOURCE: USPTO PatentsView database

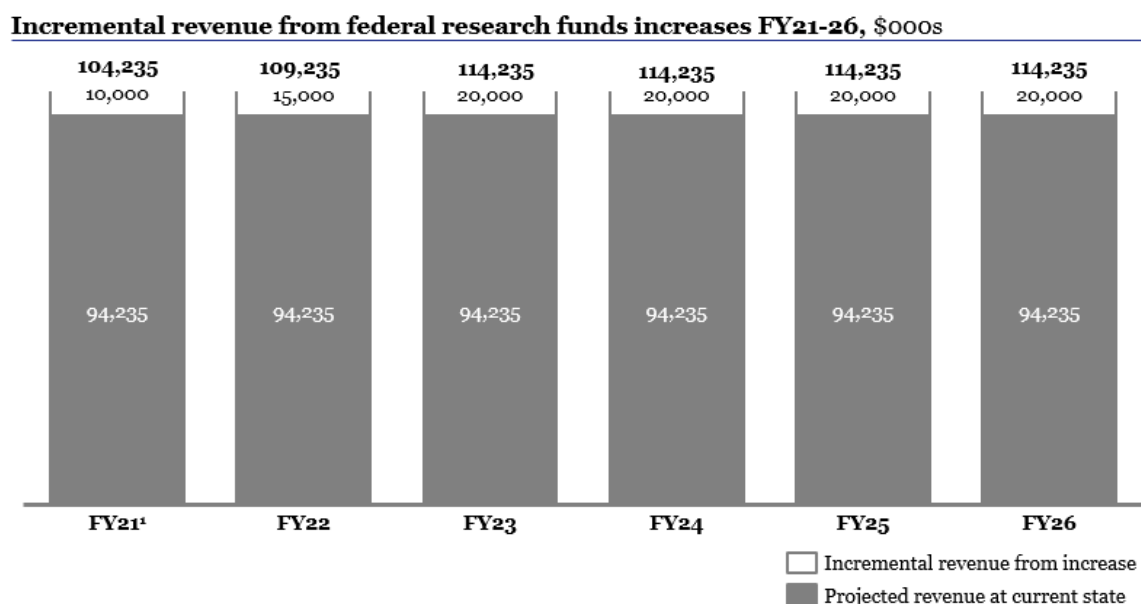
UPR has historically received ~\$80M per year in federal funding for research purposes. As shown in EXHIBIT 22, the 2021 UPR Fiscal Plan targets increasing annual funds received by \$20M by FY2023 through the provision of additional resources for grant applications and

<sup>35</sup> Data from the National Science Foundation's Higher Education Research and Development Survey and USPTO



other support efforts. To achieve such goal, EXHIBIT 22 identifies some actions that UPR should implement.

#### EXHIBIT 22: INCREMENTAL REVENUE FROM FEDERAL FUNDS



<sup>1</sup> Expected amount as per 2021 Certified UPR Fiscal Plan, considers COVID-19 impact

#### EXHIBIT 23: REQUIRED ACTION ITEMS FOR INCREASING FEDERAL GRANTS AND CONTRACTS

To be continued in FY2022		
Action item	Deadline	Status
<ul style="list-style-type: none"> <li>Identify priority research areas and targets to increase sponsored research/partnerships; process should be consultative with both leading research units and tracking external trends and opportunities</li> </ul>	October 1, 2020	Completed.
<ul style="list-style-type: none"> <li>Develop a series of initiatives to support and incentivize faculty in meeting the federal grant and contract measure targets</li> </ul>	October 1, 2021	New Target Date.
<ul style="list-style-type: none"> <li>Review progress against targets and adapt initiatives as needed in anticipation of the upcoming FY</li> </ul>	September 1, 2021, then annually	Completed. On-going with new CFP.

### 3.4.4 Providing services to the Central Government

#### Training & tutoring services to the PRDE and the Central Government

UPR will receive ~\$20M in gross additional revenue (~\$12M in net additional revenue) per year between FY2022-2026 for tutoring and training services to both governmental entities:

- UPR will provide \$10M worth of tutoring and training services to PRDE staff per year. In order to provide these services UPR will incur a \$4M implementation cost.
- UPR will also provide \$10M worth of training to other government staff per year. To provide this training, UPR will incur a \$4M implementation cost.

The 2021 Fiscal Plan continues to include the following allowed services that UPR could realize to recognize revenue. The Oversight Board encourages UPR to expand these initiatives and develop new ones in coming years. UPR must manage the costs of delivering these services to ensure incremental revenue is available to use against other operating expenses:

- Training and Seminars to non-teaching staff (impacting all PRDE employees)<sup>36</sup>.
- Tutoring services for students.
- Conferring academic credits and covering the costs of University courses for students in 11th and 12th grade.
- Conferring academic credits and covering the costs of University courses for employees identified in areas of difficult recruitment, completing requirements to obtain other certifications or re-certifications, and areas of innovation, for example STEM, Spanish as a second language, Montessori method of education, and others.

The rendering of services under the Training and Seminars Program will enable UPR to contribute to the growth and recovery of Puerto Rico’s economy by expanding the capability of current employees and positively impacting student outcomes, ultimately improving the quality of education on the island.

Other ad hoc partnerships with the central Government qualify under this program as detailed below:

### **Ease of Doing Business Initiatives: Technical Services to Government Agencies**

#### **Property Registry**

Registering properties is critical to the economic development of Puerto Rico since the information it contains provides legal certainty to real estate transactions. As of November 2019, the Property Registry, which is part of the Department of Justice (“DOJ”), had a pending document backlog of 414,576 documents.

UPR offers a work-study program (the “Program”) for its students to work in the Property Registry to help reduce backlog at a fraction of the initially projected cost while providing valuable experience to student participants on the intricacies of the legal processes surrounding property registration. The Program also offers opportunities with the Department of Corrections & Rehabilitation (“DCR”) and the Administration of Mental Health and Anti-Addiction Services (“ASSMCA”, for its Spanish acronym), which have requested technical assistance from UPR in a variety of matters. The Program is expected to continue through June 2022 and will include up to 80 students.

Responsibilities of the selected students include, but are not limited to:

- Administrative assistance consisting of registration of documents related to real estate.
- Study and dispatch of various documents related to mortgage cancellations, vouchers, declaration of heirs, expropriations, and other similar.
- Examining and identifying documents that do not meet agency or legal requirements.
- Preparing registration minutes of assigned cases.
- Calculating amounts on internal revenue stamps and vouchers required for registry.

#### **Permits Management Office (“OGPe”)**

The Permits Management Office (“OGPe”) is responsible for issuing final determinations and permits, licenses, inspections, certifications, and any other authorization needed to respond to requests from citizens. The main goal of this entity is to facilitate and promote sustainable integral, economic, and social development of Puerto Rico that would result in the increase,

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<sup>36</sup> Of the amount of funds dedicated to PRDE Trainings and Seminars a maximum of 30% can be used for non-teaching staff

improvement, and diversification of industries and job creation in the private sector.

OGPe signed a collaboration agreement with UPR providing an internship opportunity with pay for 180 UPR students commencing May 2021. Selected students will assist Planning Analysts of the Sub-program of Use of Land in the evaluation of filed cases and research to complement the territorial plans that personnel are developing.

### **State Department**

Current occupational licensing requirements complicate the entry of certain workers into the formal workforce and expose applicants to long waits. Occupational licensing can improve the quality of services provided while improving public safety, but the practice can also restrict labor force participation and economic output while increasing the cost of goods and services. To promote labor force participation and facilitate migration to the island, the government should update, simplify, or eliminate occupational licensing requirements, considering experiences in other US jurisdictions.

In collaboration with the UPR, the Department of State will obtain the necessary data to make a comparison between Puerto Rico and the Mainland regarding the scope and the specific burdens of occupational licensing, using the methodology presented in the License to Work study prepared by the Institute of Justice. As part of this technical service, they also expect to obtain the information and data needed to assess current operational efficiency in established systems and processes currently employed to obtain occupational licenses. Using the information and analysis performed, they expect to develop a technical report of the findings that includes recommendations to structurally reform both the number of existing occupational licenses and their requirements.

Requested services include 20 students who will serve as investigators assistants for 18 weeks (12 hours per week).

### **Planning Board**

The Planning Board is responsible for revision of projects that include, but are not limited to, application and supervision of compliance with laws and regulations enacted for the use, development, and subdivision of land, as well as the construction of buildings and structures.

The UPR plans to offer a work-study program that would consist of 30 students to aid as resources in this Agency. The resources needed for this program comprise a wide range of positions including Planners, Information systems analysts, Programmers, Demographers, Planning analysts, Human resources management, Paralegals, Accountants, and Office administrators.

UPR will continue to explore similar partnership opportunities to realize unused training and seminar funds. These additional programs must be approved by the Oversight Board before revenues can be recognized and have to abide by any existing agreements<sup>39</sup> between UPR and the government agencies.

EXHIBIT 24 contains some actions that should be undertaken in order to continue the implementation of this measure.

## EXHIBIT 24: REQUIRED ACTION ITEMS FOR THE PROVISIONING OF SERVICES TO THE CENTRAL GOVERNMENT

### To be continued in FY2022

Action item	Deadline	Status
<ul style="list-style-type: none"> <li>Create a list of the government training and seminar programs (both scoped and new), that will be implemented during the Fiscal Year, together with their corresponding implementation calendars</li> </ul>	August 31, 2021	Completed. On-going.
<ul style="list-style-type: none"> <li>Resume work of the Property Registry backlog reduction taskforce</li> </ul>	August 2021 (or as COVID-19 permits)	Completed. On-going.
<ul style="list-style-type: none"> <li>Review effectiveness and demand against current offerings to adapt as needed in anticipation of the upcoming Fiscal Year; partnerships not explicitly related to training government employees must be submitted to Oversight Board for approval for Commonwealth funds to be recognized</li> </ul>	March 5, 2022, then annually	Completed. On-going.

### 3.4.5 Puerto Rico Science & Technology Trust Partnership

UPR signed a Memorandum of Understanding (“MOU”) with the Puerto Rico Science & Technology Trust for support in drafting patent applications and other IP processes. This effort was set to begin generating revenue in FY2019. However, since the teams are still working on the research underlying these patents and the patents have not yet been filed, the measure is delayed: UPR will receive \$1.5M starting in FY2021, eventually reaching a target of \$2M in additional revenue per year from intellectual property by FY2022. In EXHIBIT 26 shows action items required and completed by UPR during FY2021, however, no monetization of patents is expected considering the delays mentioned above. Therefore, this Fiscal Plan identifies savings in expenses for FY2022 and FY2023 which will be offsetting this lack of income. The Oversight Board continues to encourage UPR to identify the steps that are required to recognize this milestone.

## EXHIBIT 25: REQUIRED ACTION ITEMS FOR THE IMPLEMENTATION OF THE PUERTO RICO SCIENCE & TECHNOLOGY TRUST PARTNERSHIP

### To be continued in FY2022

Action item	Deadline	Status
<ul style="list-style-type: none"> <li>Establish a commercialization and tech transfer working group that includes the dean and faculty to benchmark performance to peer institutions, identify assets within the system to build upon, and send forward policy recommendations to the UPR Governing Board. This working group will also review current procedures and suggest how these could be improved</li> </ul>	August 1, 2021	Completed working group. No monetization.
<ul style="list-style-type: none"> <li>Approve revised commercialization and tech transfer strategy; strategy should include specific initiatives to be taken centrally to support and incentivize faculty research, suggested revisions to MOU with the Puerto Rico Science &amp; Technology Trust, and more granular commercialization targets (i.e., at campus and department level)</li> </ul>	September 30, 2021	Completed strategy. Will continue monitoring strategy.
<ul style="list-style-type: none"> <li>Review tech transfer strategy and adapt as needed in anticipation of the upcoming FY</li> </ul>	March 15, 2021, then annually	Completed initial analysis. Will monitor again in March 15, 2022.

### 3.4.6 Additional opportunities for auxiliary revenue

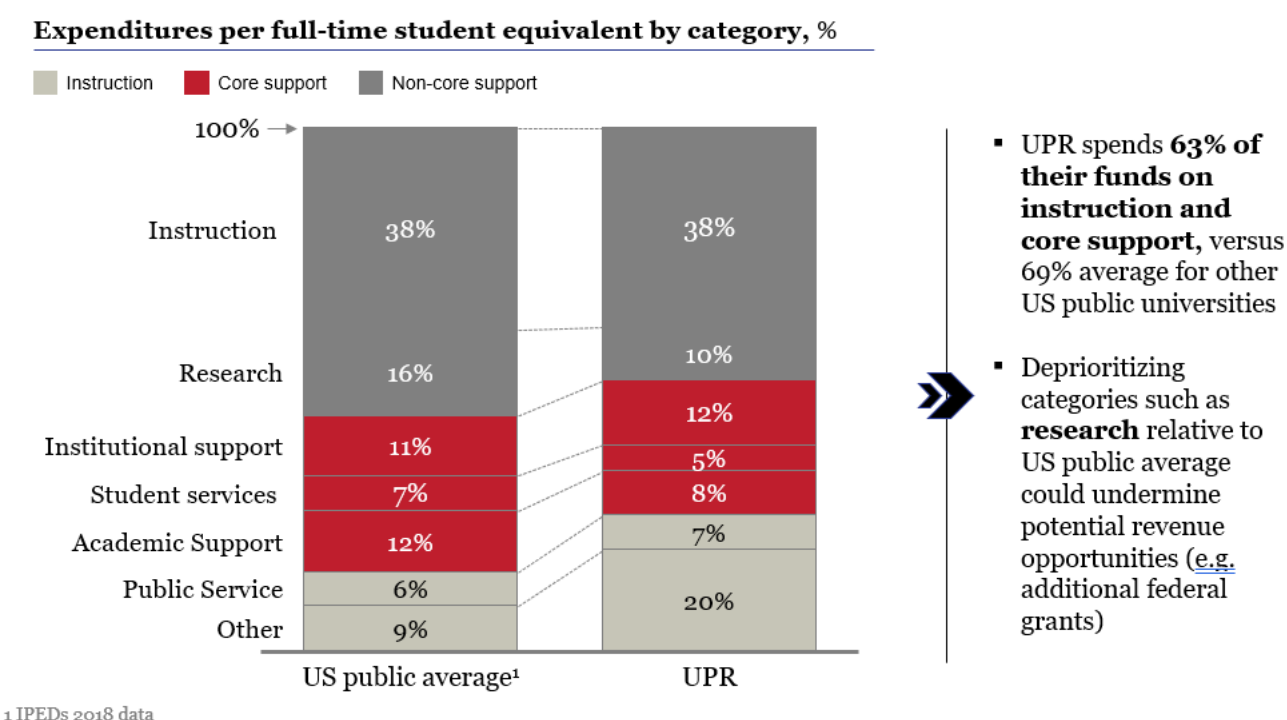
Over time, and without distracting from implementation of core operating reforms, UPR should evaluate other additional sources of revenue that would enable it to diversify its sources of income and self-generated funding (e.g., space rentals, concessions) in case there is a steeper than expected decline in enrollment or other measures take additional time to implement. This area represents a significant opportunity for growth; other core revenues have historically comprised as little as 1% of UPR’s total revenues (EXHIBIT 10). When

pursuing additional sources of revenue, UPR must ensure transparency and controls, making sure that all self-generated revenues are recorded and properly reported as part of the consolidated financials.

### 3.5 Expenditure reducing measures

The 2021 UPR Fiscal Plan calls for a ~2% decrease in total operating disbursements between FY2022 and FY2026. These reductions will significantly improve UPR’s operating position, but they are also linked to operating improvements that will enable UPR to better focus its resources in areas closest to its core mission of academics. Historically, UPR has spent more on non-core functions and less on key areas (e.g., student services and academic support) than mainland peers, as seen in EXHIBIT 26<sup>37</sup>. The following measures aim to correct this imbalance.

EXHIBIT 26: COMPARISON OF EXPENDITURES PER CATEGORY FOR UPR AND OTHER US PUBLIC UNIVERSITIES

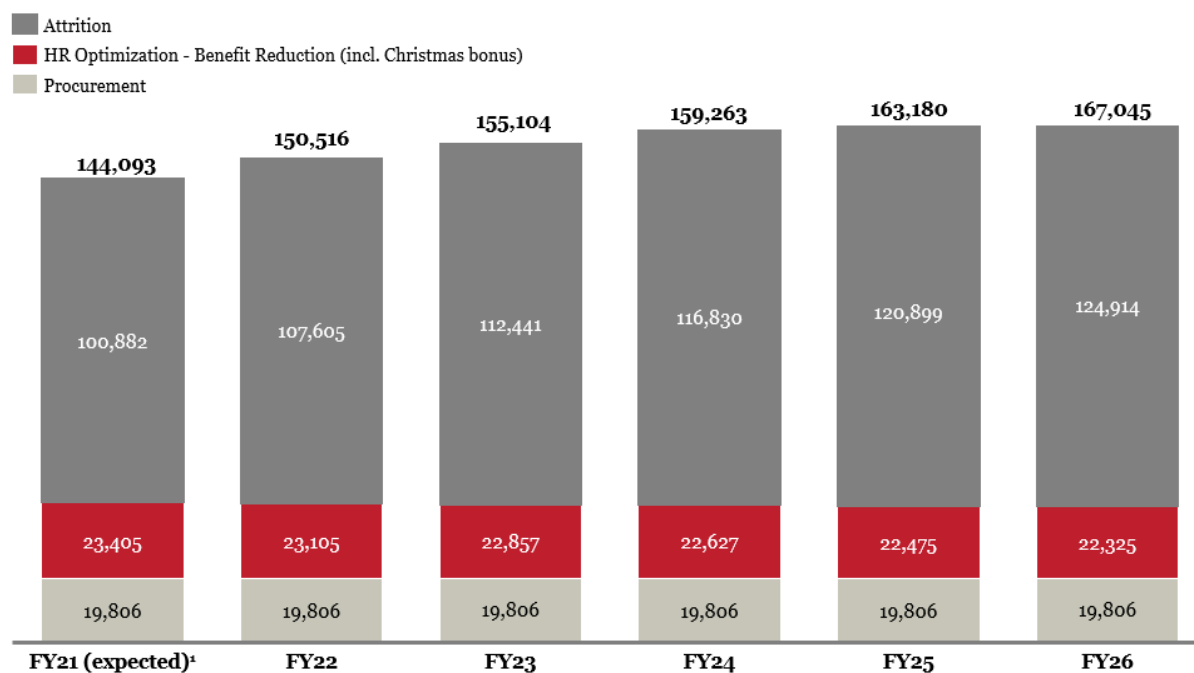


Ultimately, these expenditure reductions will drive over \$150 million in savings per year in addition to improving the operational performance of the University (EXHIBIT 27).

<sup>37</sup> Data from IPEDs, 2017

## EXHIBIT 27: IMPACT OF NON-PENSION EXPENDITURE MEASURES

### Impact of non-pension expenditure measures, \$000s



<sup>1</sup> As per 2021 Certified UPR Fiscal Plan, does not consider COVID impact

### 3.5.1 Administrative transformation

As with other university systems around the country, COVID-19 presented unprecedented humanitarian and fiscal setbacks that challenges the administration to rethink its operating model in ways it has never had to consider before. However, in these challenging times, there is also opportunity. In ‘reimagining’ its future operations, UPR can also build a system that is more resilient, transparent, and higher performing.

A wholesale transformation of UPR’s operating model is more important now than ever. UPR’s current model of 11 different campuses is not only too expensive, it has also led to unstandardized levels of administrative support and academic program quality that critically detract from student, faculty, and staff experience. Administratively, UPR’s existing system structure has led to:

- High levels of duplication in administrative and academic leadership with redundant management structures (e.g., 11 separate chancellors, multiple academic department leaders per specialty) across the UPR system.
- Redundant and over-staffed support functions due to existence of separate offices for administrative functions on each campus (e.g., finance, HR)
- Difficulty in enforcing and monitoring consistent financial procedures and policies across the system, resulting in delays in implementation of fiscal reforms and issuance of financial reporting to comply with deadlines set by accreditation programs
- Poor coordination among campuses; making it challenging for students and staff to navigate the distinct campus bureaucracies.

The transformation outlined in this section should be seen as exactly this type of opportunity for UPR to ‘reimagine’ what it could become over the next coming years. It must seek to concentrate resources on the academic and research core that is at the heart of UPR’s mission, while enabling the savings targets outlined in other parts of the 2021 UPR Fiscal Plan. For example, while attrition is a powerful lever to right-size payroll, it cannot be sustained –



without harm to service delivery – unless the underlying services those positions were fulfilling are performed more efficiently.

UPR has already begun focused efforts to achieve an effective administrative transformation. UPR has outlined the following efforts:

### ***Administrative Working Groups***

The administrative change strategy is based on the creation of working groups represented by administrative staff from each of the UPR system units, including Central Administration. Each group is divided by administrative areas (e.g., purchasing, human resources, document management, etc.). The groups meet under a working methodology designed to promote cultural change based on structured dialogue, decision-making, and empowerment. Based on this methodology each of the working groups perform the following actions in their work areas:

- **Review of regulations:** Each working group meets to identify areas of regulatory limitation and inefficiency that affect the quality and service of its functions. After identifying these limitations, the working groups agree on the recommendations they will make to amend the regulations.
- **Operational transformation proposals:** Each working group evaluates inefficient processes in its work areas and proposes timely recommendations on the changes needed to generate efficiencies in administrative services. Similarly, they identify areas of collaboration and areas where, for reasons of administrative efficiency, it is necessary to maintain in each unit.
- **Education and Training:** Each working group identifies training areas to temper actions to new regulations and, in turn, improve administrative services.
- **The strategy of the working groups has been recognized as an essential contribution of administrative transformation because each unit can propose systemic changes that improve collaboration between the units. This strategy is not intended to be a standalone event. Rather, the process of regulatory review, proposals for administrative transformation and education must be a continuous one and sustainable over time.**

UPR describes this as an opportunity to ‘reimagine’ what it could become over the next coming years. It must seek to concentrate resources on the academic and research core that is at the heart of UPR’s mission, while enabling savings targets.

### ***Incentivizing collaborations among campuses***

While service efficiency opportunities exist within all UPR campuses, the greatest opportunity emerges when looking across the system. To that end, UPR has developed various models and strategies to achieve cross-campus synergies. The new budget model encourages campuses to reach out to the rest of the university system to collaborate and develop cost-effective initiatives.

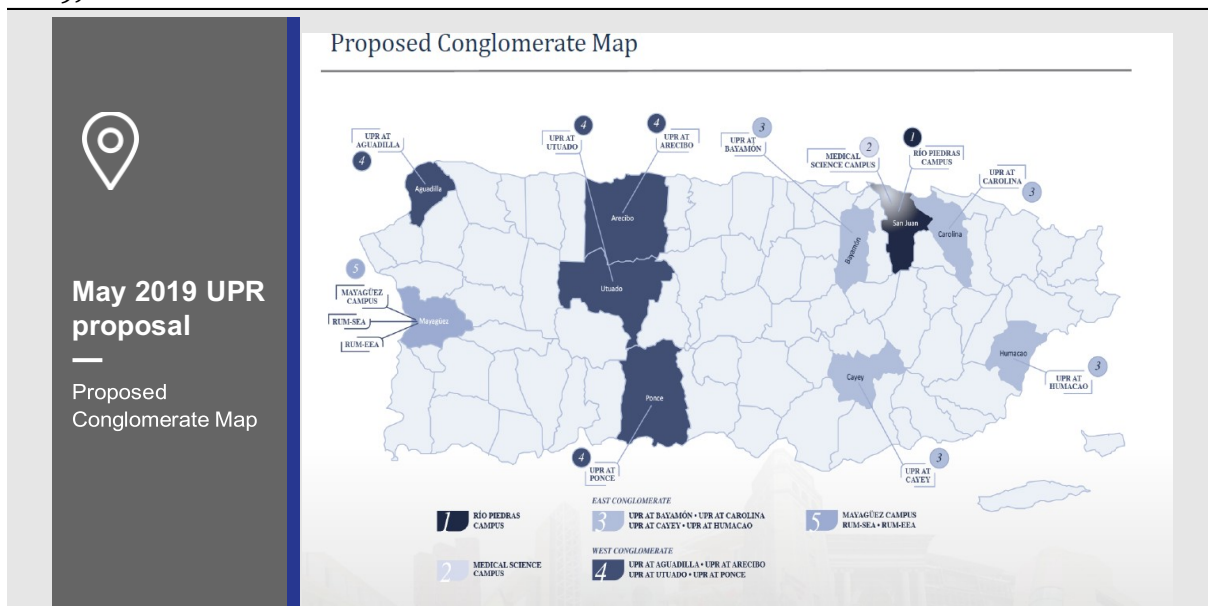
The push for cross-campus synergy goes beyond operational excellence and financial health; it is also an opportunity to significantly improve student (and research) outcomes.

### **A hub-based ‘conglomeration’ model**

UPR administrations dating back to 2014 have explored various models to achieve cross-

campus synergies, though none has materialized. These models, including the May 2019 UPR “conglomeration” proposal shown in EXHIBIT 28, have generally focused on some combination of administrative consolidation and academic program optimization. Plans for administrative consolidation have most recently taken the form of a “hub” model, designed to accelerate use of shared services among campuses. The June 2019 UPR Fiscal Plan explicitly encouraged scaling preexisting pilot initiatives -- such as the shared category purchasing programs across the Arecibo and Aguadilla campuses -- while also providing the UPR Administration time for internal management consideration to identify redundancies and create efficiency plans.

#### EXHIBIT 28: UPR’S PROPOSED CONSOLIDATION STRUCTURE FOR CAMPUSES (MAY 2019)



The push for cross-campus synergy goes beyond operational excellence and financial health; it is also an opportunity to significantly improve student (and research) outcomes. A compliance scan of UPR’s academic programs included in UPR’s April 2018 Fiscal Plan submission found that 35% of the system’s academic programs were totally or partially “non-compliant” based on retention and graduation outcomes. Following through on its self-imposed program criteria, the University must now act quickly to address academic shortfalls as part of this transformation. Specifically, in conducting its analysis on program optimization, UPR identified a number of specific organizational implications under consideration: relocation of the faculty according to preparation and discipline of specialty; consolidation of faculties and academic departments within an enclosure; and relocation of faculties or schools and programs from one enclosure to another. Wholesale transformation of the system operating model also brings opportunity to expand and enrich the University’s nascent research areas and build upon high-perform lifelong learning and distance education models.

To date, UPR has not provided any specific plans for substantive administrative consolidation or program optimization reforms for the Oversight Board to take them into account during the Fiscal Plan certification process.

#### The 2021 UPR Fiscal Plan approach<sup>38</sup>

It is imperative that UPR prioritized the administrative transformation set forth in this 2021 UPR Fiscal Plan. This section will illustrate the potential of the administrative transformation by focusing on potential processes and initiatives that could be redefined in the Finance department.

<sup>38</sup> Case study source: University of Missouri Administrative Service Success Stories: [https://www.umsystem.edu/ums/fa/transformation/admin\\_re\\_success](https://www.umsystem.edu/ums/fa/transformation/admin_re_success)



The Oversight Board encourages UPR to take these as an inspiration for the redesign of all the different areas in the scope of the administrative transformation.

- **Diagnostic phase:** The University should map thoroughly the current state of its operations and identify an objective, fact-based perspective on areas selected (e.g., IT, HR, Finance, Enrollment Services) for greatest efficiency/efficacy improvement.
- **Process redesign phase:** With the diagnostic completed, UPR should build out the future state operating model focusing on the areas with greatest opportunity, while also applying a lens of feasibility with regard to capability and timeline. This does not mean shying away from bold initiatives, especially in light of the current COVID-19 operating challenges, but rather developing a portfolio of initiatives that balance the need for near-term improvement with the University’s ambitious long-term fiscal priorities.
- **Initiative implementation phase:** With a clear set of defined initiatives, UPR should move towards their implementation. Initiatives should have clear owners and a system of accountability through centralized management, or ‘transformation office.’

### Case study – University of Missouri System

The University of Missouri (“UM”) system, faced with a dire financial picture, decided in 2017 to embark itself into an administrative performance and process improvement journey. Its four campuses had to address a budget shortfall of ~\$62M in FY2018, as their two primary traditional sources of revenue came under severe strain. State appropriations had fallen from 62% of total university revenues in 2000 to a mere 35% in 2016, while student enrollment was decreasing across many public higher education institutions in the Midwest.

System administrators used the crisis to look at the cross-campus administrative footprint, including the role of the System’s central office. The effort had both an opportunity identification phase, where System leaders engaged campuses in developing an end-state vision, and a multi-year transformation phase to execute on their new operating model.

UM’s scope was ambitious, targeting an annual operating reduction of ~\$600M (20% of the system’s total operating budget). For eight-week diagnostic phase, the System set up four teams to collect data across campuses, conduct 70+ stakeholder interviews, and prioritize insights for the System’s administration. A 7% net financial impact was identified out of the total addressable spend, and 12% in non-benefits spend, totaling ~\$70M.

The data gathering process provided particular importance in providing a level of transparency that was necessary to building appetite for difficult change, particularly among campus leaders and faculty that were initially resistant to the center-lead transformation effort. Through careful communication and genuine engagement across institution stakeholders, the System was able to present a plan that focused not only on reducing costly inefficiencies but also demonstrate how the transformation would meaningfully reduce administrative work and remove cumbersome bureaucracy for faculty, students, and staff.

### *Diagnostic phase*

Successful higher education operational transformations begin with a function-by-function understanding of current state performance. For UPR, this means:

- Using other data analytic tools (e.g., central office spans-and-layers analysis, cross-campus procurement spend cube analysis) that can also inform opportunity identification.
- Conducting interviews and focus groups with diverse stakeholders (including “customers” of administrative services such as students and faculty) to augment quantitative insights
- Identifying and sizing (both in terms of budget impact and efficacy improvement) an initial list of opportunities to explore in the process redesign phase.

As part of the transformation, UPR's leadership should generate specific headcount and operating expense targets at a campus level. It should also list the expected improvements in academic and/or administrative outcomes for each functional area. UPR leaders should also use this phase as an opportunity to communicate the aspirations that the institution is striving to solve by the end of the transformation as a critical first step in change leadership that will be required to execute the end-state vision down the road.

### *Process redesign phase*

The results of the diagnostic phase should enable UPR teams (central administration as well as campus-based functions or administrative groups) to focus on tackling the processes in scope; teams will identify priority areas for improvement as well as specific initiatives to improve them, design an end state, and define initiatives that will build towards the end state while fixing the highlighted pain points. Teams will also have to assess which capabilities and investments are needed to reach the desired outcome.

In order to determine the applicability of the diagnostic findings and relevance of potential opportunities, UPR should provide a list of initiatives by process (tied to the savings targets identified in the diagnostic phase). Each process should include relevant KPIs, have a process owner, and detail the required investment to enable the initiatives under the process redesign.

Using the finance function as an example, UPR has substantive opportunity to address the decentralized and fragmented network of finance professionals across campuses. Centralizing the fragmented structure is also a critical step for the University to reduce delays and inconsistencies in financial planning and reporting and to remove barriers to academic performance, particularly with regards to UPR's aspirations to improve sponsored research.

Centralization, therefore, is an outcome not the end objective, of the newly envisioned function. Specific opportunities for streamlining, digitization, and customer experience improvement should ultimately occur across the broad range of transaction processes (e.g., billing,), decision support processes (e.g., budgeting and forecasting) and specialty services (e.g., treasury). The future vision must also be paired with a pragmatic human capital and technology gap assessment to inform the implementation plan to achieve this end vision. In that vein, finance function transformation is not a cost-cutting exercise – UPR should understand where opportunity exists to reallocate resources to highest value-add activities, such as financial planning and analysis, accounting, group purchasing/category management.

UPR Audited Financial Statements reflect in the FY2020 Schedule of Findings and Responses that “The University should consider changing or reinforcing the organizational structure to improve monitoring controls over the accounting and financial reporting functions of units. The accounting and financial reporting responsibilities should be centralized, and units should report directly, timely and effectively to the Central Administration Finance Director and Controller. An effective control environment requires that those in charge of governance monitor the accounting and financial reporting functions effectively.”

UPR should carry out the same process redesign exercise across all processes and areas in the scope of the transformation. Importantly, the process of engaging campus leaders in the redesign is another way to build support for the transformation and ensure that the outcomes are genuinely reflecting the most important needs of UPR's faculty, staff, and students. As shown in EXHIBIT 30, UPR should pursue the consolidation of (including, but not limited to) services in enrollment, finance, HR, IT, and facilities. EXHIBIT 29 lists some categories tackled during a higher education administrative transformation, as well as some common sub- functions (or areas of activity) for the different categories.

**EXHIBIT 29: COMMON LEVERS AND EXPECTED SAVINGS RANGE**

<b>Category</b>	<b>Typical impact % of base spend</b>	<b>Activity</b>
<b>Enrollment management</b>	<b>4-8%</b>	<ul style="list-style-type: none"> <li>▪ Register</li> <li>▪ Admissions processing</li> <li>▪ Financial aid processing</li> </ul>
<b>Finance</b>	<b>15-30%</b>	<ul style="list-style-type: none"> <li>▪ Audit</li> <li>▪ Budgeting and planning (system-level)</li> <li>▪ Capital planning</li> <li>▪ Treasury</li> <li>▪ General and grant accounting (including campus-level)</li> <li>▪ Accounts payable</li> <li>▪ Strategic procurement</li> <li>▪ Procurement administration</li> </ul>
<b>HR</b>	<b>10-30%</b>	<ul style="list-style-type: none"> <li>▪ Benefits administration</li> <li>▪ Labor relations</li> <li>▪ Learning and development</li> <li>▪ Payroll administration</li> <li>▪ Strategy and policy</li> <li>▪ Record keeping and reporting</li> </ul>
<b>IT</b>	<b>TBD</b>	<ul style="list-style-type: none"> <li>▪ Network &amp; infrastructure</li> <li>▪ Application development</li> <li>▪ Application maintenance</li> <li>▪ Helpdesk</li> </ul>
<b>Facilities</b>	<b>3-8%</b>	<ul style="list-style-type: none"> <li>▪ Capital planning &amp; budgeting</li> <li>▪ Capital project management</li> <li>▪ Maintenance and operations</li> </ul>

*Initiative implementation phase*

Once the initiatives to be implemented have been defined and socialized with all relevant stakeholders, UPR should develop a consolidated implementation plan while noting the need to continuously adapt the plan and incorporate feedback from the UPR community as initiatives scale. By taking a phased approach to implementation, UPR should focus on achieving escalating measures targets on a function-by-function basis (e.g., Finance, HR, IT) across campus centers.

To keep pace with implementation needs, UPR should begin planning and prioritization for new functional transformations while beginning execution of prior phases. This overlapping sequencing of initiative execution will accelerate UPR stakeholders’ ability to see the benefits that will emerge out of the disruption. As part of its implementation plan, UPR should include KPIs, milestones, and clear owners for each initiative, as well as clear efficiency targets with timing for when budget impacts are expected to be realized. UPR must also designate a Chief Transformation Officer, or similar officer, who will be accountable for reporting on the progress of the rollout across campuses and functions.

This step will be an essential part of the 2021 UPR Fiscal Plan implementation process: UPR should be able to connect the initial transformation goals with the outcomes of the different initiatives, demonstrating administrative efficiencies and category- level savings across campuses during the elapsed time. UPR must report to the Oversight Board monthly their ongoing efforts and results and should discuss updates with the Oversight Board as initiatives are implemented and savings are recorded. As shown in EXHIBIT 30 below, in order for the Oversight Board to conduct a transformation review in September 2021 as part of the 2021

UPR Fiscal Plan, UPR should complete intermediate steps. The Oversight Board recognizes some steps have taken place however, synergies between campuses and administrative offices should be planned and with a clear path strategically.

**EXHIBIT 30: ACTION ITEMS FOR UPR TO COMPLETE THROUGH ADMINISTRATIVE TRANSFORMATION**

<b>Expected to be continued during FY2022</b>		
<b>Action item</b>	<b>Deadline</b>	<b>Status</b>
▪ Establish a financial baseline	August 3, 2020	Completed
▪ Carry out interviews with administrative positions across campuses on potential value creation opportunities	September 1, 2020	Completed
▪ Perform deep dive analyses on available metrics (e.g., top-down functional headcount, position review, cost/KPI benchmarking)	November 5, 2020	Completed
▪ Develop list of processes and team assigned to redesign each process	December 2, 2021	Partially Completed
▪ Develop an implementation plan for each shared service change	January 11, 2022	Partially Completed
▪ Kick-off roll-out of implementation plan	February 15, 2022	Partially Completed
▪ Prepare performance report of transformation	March 30, 2022, then annually	New target Date
▪ Present progress to Oversight Board	April 15, 2022	Initial Progress Submitted. New Target Date
▪ Review transformation processes and baseline based on progress and feedback from the Oversight Board	September 16, 2022, then annually	Delayed. New target date.

The Fiscal Plan’s sole intention is to enhance the academic aspect of the institutions as the top priority, not to impact students, faculty, or the learning experience. UPR must reflect upon these realities and analyze if the University requires so many administrators and acknowledge the potential savings a reduction in bureaucratic positions would imply; savings that could be used towards other initiatives. The Fiscal Plan maintains that the reduction in duplicity as a result of administrative and back-office consolidation would benefit the institution and improve the student experience as whole.

**3.5.2 Attrition**

Largely enabled by a successful administrative transformation, UPR must reduce its overall headcount to ~10,300 in FY2025 by:

- Reducing non-faculty personnel through attrition, enabled by combination of administrative consolidation across campuses, other process efficiencies
- Reducing the number of trust and senior administrative positions by ~300

In order to maintain the highest level of instructional quality UPR should increase faculty annually by up to 3% per year throughout the Fiscal Plan period (EXHIBIT 31). Trust positions that are converted to faculty positions will count toward this increase. The goal is to maintain student-to-faculty ratios at roughly 18:1. These changes and expected enrollment declines will enable UPR to slightly improve on its average historical student-faculty ratio of 18.9:1.<sup>39</sup>

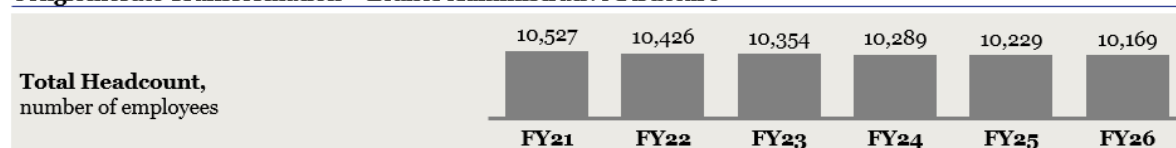
Most of this attrition should be driven through the establishment of administrative shared service hubs across the university system and overall service optimization, and any attrition updates should be included in the administrative transformation reports that will be shared with the Oversight Board (see EXHIBIT 41 and EXHIBIT 31). The reduction in trust and senior

<sup>39</sup> Historical ratios from IPEDS, current ratio per UPR April 2019 roster and enrollment data. Ratio calculated as total enrollment divided by non-administrative faculty

administrative positions at campus-level similarly reflects a centralization of overall governance for the University’s executive functions, reducing the need for campus-level overhead.

**EXHIBIT 31: EXPECTED ATTRITION BY TYPE**

**Conglomerate Transformation – Leaner Administrative Structure**



**Headcount Reduction Analysis, %**

	FY21 <sup>1</sup>	FY22	FY23	FY24	FY25	FY26
1 Reduction of Federal Funds Personnel	0%	0%	0%	0%	0%	0%
2 Reduction of Transitory / Temporary Personnel	-3%	-3%	0%	0%	0%	0%
3 Increase of Faculty Personnel <sup>2</sup>	3%	3%	3%	3%	3%	0%
4 Reduction of Faculty -Administrative Personnel	-10%	-10%	-3%	-3%	-3%	-1% <sup>3</sup>
5 Reduction of Non-Faculty	-5%	-5%	-3%	-3%	-3%	-1% <sup>3</sup>

<sup>1</sup> Expected as per June 2021 Certified UPR Fiscal Plan. Headcount numbers are based on monthly average headcount for the year. UPR uses June (the second lowest month of the year) numbers to report headcount.

<sup>2</sup> Growth may include conversion of trust personnel into faculty and any conversions not covered by 3% allowed growth must be offset through other attrition

<sup>3</sup> Indexed to expected population decline

**3.5.3 Benefit adjustments**

To-date, the University has not complied with UPR Fiscal Plan’s measures to adjust benefits to sustainable levels. The 2021 UPR Fiscal Plan requires the University to: (1) reduce medical insurance employer contribution for faculty to \$390 per month, \$125 per month for non-faculty starting in FY2021, and keeping baseline contributions to employees with preexisting conditions; (2) reduce prospective pay out of non-payroll compensation (e.g., sick days, union charges<sup>40</sup>); and (3) eliminate the payment of Christmas Bonus<sup>41</sup>. On medical insurance, the University has refused to normalize the benefits of its non-faculty employees to those adopted by the Commonwealth. On reducing pay out of non-payroll compensation, UPR has not reported any progress. In an agreement with the Governor and Governing Board of UPR, the FOMB decided in 2019 to allow UPR to continue to pay out the Christmas bonus as a one-time exemption during FY2020. However, the measure will be implemented from FY2022 onwards. EXHIBIT 32 contains a detail list of actions that UPR should take to adjust benefits.

<sup>40</sup> Per the 2020 UPR Fiscal Plan, other non-payroll compensations such as PTO accruals and liquidations will be maintained at current levels

<sup>41</sup> In an agreement with the Governor and Governing Board of UPR, the Oversight Board decided to allow UPR to continue to pay out the Christmas bonus for one year in 2019.



## EXHIBIT 32: ACTION ITEMS FOR UPR TO COMPLETE THROUGH BENEFIT ADJUSTMENTS

### To be continued in FY2022

Action item	Deadline	Status
▪ Reduce medical insurance employer contribution for employees according to employee category	July 1, 2021	New Target Date
▪ Reduce prospective pay out of non-payroll compensation	July 1, 2021	New Target Date
▪ Eliminate the payment of Christmas Bonus	July 1, 2020	Not completed. new deadline for November 2022

### 3.5.4 Centralized procurement efforts & contract renegotiations

From FY2022-2026 UPR should maintain ~\$20M in already achieved in annual savings on non-payroll, direct operating expenses in FY2021. Given that a large portion of these savings relate to a reduction in procurement volume due to the COVID-19 pandemic, it will be important that the institution picks up the pace on the supply and demand reforms to sustain the already achieved savings. (e.g., consolidated purchasing) and demand-side reforms (e.g., optimizing IT refresh cycles).

This savings target represents a ~12% reduction in addressable procurement spend. The targets are based upon the breakdown of specific categories of addressable spend in the UPR's operating budget today as well as category-level benchmarks for potential savings targets best on procurement efficiency initiatives in similar institutions. EXHIBIT 33 lists some actions that UPR should continue to maintain the savings achieved.

## EXHIBIT 33: ACTION ITEMS FOR UPR TO PURSUE CENTRALIZED PROCUREMENT EFFORTS & CONTRACT RENEGOTIATIONS

### To be continued in FY2022

Action item	Deadline	Status
▪ Identify category specific savings targets across campuses	August 31, 2020	Completed
▪ Identify the top 5-10 contracts for re-procurement based on size and potential savings opportunity	August 31, 2020	Completed
▪ Fill out revised centralized procurement protocols including demand controls (e.g., refresh rates) as part of the larger procurement function transformation	June 30, 2021	Delayed. <sup>1</sup> New target date .

<sup>1</sup> Process was interrupted due to new regulation published by General Administration Services ("ASG") no. 9230. Currently under legal assessment.

## 3.6 Safeguards to ensure continued affordability

One of the main missions of the 2021 UPR Fiscal Plan is to ensure that UPR continues to be an engine of social and economic mobility. As such, numerous measures in the 2021 UPR Fiscal Plan aim at maintaining affordability and access to UPR:

- **Keeping overall undergraduate tuition under the maximum Pell Grant award** (\$6,345 for FY2021), ensuring that the majority of students who receive financial aid (~70% of undergraduates<sup>42</sup>) will retain ~\$1,000+ of Pell funding to cover non-tuition costs of attendance.
- **Maintaining total undergraduate tuition and fees below the cost of private universities in Puerto Rico and well below the average in-state tuition for U.S.**

<sup>42</sup> As per UPR scholarship distributions for FY2021

**public universities** (See EXHIBIT 12)

- **Increasing UPR’s own annual \$9 million in scholarship expenditures for students with financial need.** Using revenue generated by exemption reductions, students that currently receive federal aid will see their scholarship award increase the allocation of these funds.
- **Creating an independently-managed needs-based UPR scholarship fund** to be funded over 5 years with \$214 million through reductions in the budgets of the Oversight Board, Legislature, and FAFAA

### 3.6.1 Additional detail on UPR scholarship funds

To ensure UPR continues to fulfill its role as an important driver of socioeconomic mobility, the 2021 UPR Fiscal Plan and the Commonwealth Fiscal Plan outline measures related to scholarship programs designed to ensure all students, regardless of their income level, have access to UPR’s undergraduate and graduate programs.

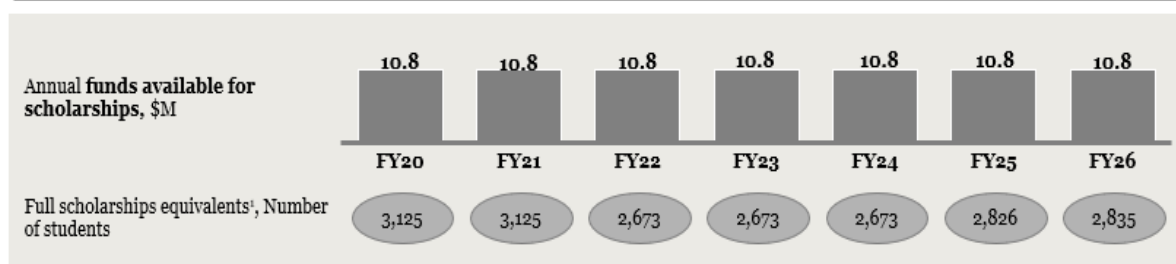
#### UPR internal scholarship fund

UPR expects the internal scholarship fund to provide \$9 million in financial aid during FY2021, as EXHIBIT 34 shows. The internal fund will cover Undergraduate students who have any residual amount not covered by Pell Grants, and Graduate students by \$1,000 per year based on economic need according to EFC as determined by the FAFSA:

- *Students with EFC of \$0 to \$499:* Pell Grant covers full cost of tuition and fees, with remaining balance available for other costs of attendance
- *Students with EFC of \$500 to \$2,999:* UPR scholarship will cover full cost of tuition plus contribution of >\$1,000 towards costs of attendance
- *Students with EFC of \$3,000 up to cost of tuition:* UPR scholarship will cover full cost of tuition and contribute \$1,000 or less towards costs of attendance
- *EFC greater than cost of tuition: no incremental need-based aid awarded; however, other affordability mechanisms and exemptions may apply*

#### EXHIBIT 34: UPR INTERNAL SCHOLARSHIP FUND POTENTIAL IMPACT

##### UPR Internal Scholarship Fund Impact



<sup>1</sup> These reflect the amount outlaid towards the equivalent of a full-ride need-based scholarship. In reality, these amounts would vary as not all every student would receive a 100% of scholarship due to variations in students’ expected family contribution (EFC)

#### Independently managed Commonwealth-funded scholarship fund

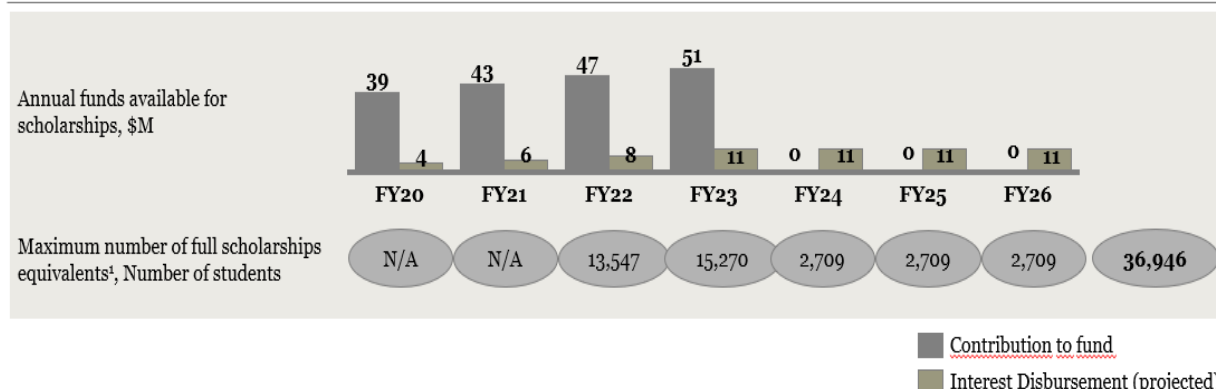
The May 2018 Commonwealth Fiscal Plan established an independently-managed scholarship fund, for which the Commonwealth would contribute \$35 to \$50 million per year for external scholarships (see EXHIBIT 35) to be managed by an independent third party. In FY2022, \$46.7 million will be added to the fund, and will be used to provide need-based scholarships to UPR students. Total scholarship funds available including prior year funds not yet utilized will reach in FY22 \$~163M.



The funds to be disbursed each year could **provide the equivalent of over 7,200 undergraduate scholarships (covering tuition) during FY2022 – FY2026.**

**EXHIBIT 35: COMMONWEALTH SCHOLARSHIP FUND POTENTIAL IMPACT**

**Commonwealth Scholarship Fund Impact**



<sup>1</sup> For FY20-FY21, although the Scholarship Fund had not yet been implemented, funds in the Commonwealth were assigned; these unused funds remain available for scholarships during upcoming fiscal years. Full scholarship assumption: 28 credits times \$145 cost per credit.

Other financial supports include:

- Legislative Fund: Total funds available of \$9.5M allocated directly from Puerto Rico’s legislature.
- Law 44 (2018): Covers undergraduate and graduate students with an available of \$1.4M from the Lottery funds.

Taken together, there is over ~\$174 million in scholarship funding available in FY22.

**3.7 Implementation resources and costs**

The measures included in the 2021 UPR Fiscal Plan require a PMO with dedicated staff and the authority and capabilities to ensure successful execution across the university system. UPR set up a PMO under the University Governing Board in FY2019. The University must further resource and empower this entity - integrating its work with the efforts of UPR’s central administration and empower it to compel the implementation of the 2021 UPR Fiscal Plan. The University must also orient its PMO towards the objectives of the 2021 UPR Fiscal Plan. EXHIBIT 36 provides a detailed projection of the 2021 UPR Fiscal Plan implementation costs.

Some measures may require contracting external advisors to provide technical and other assistance, particularly when it comes to improving fiscal governance and reporting. UPR estimates the total cost of implementation to be roughly \$5M for FY2022, including professional services associated with the 2021 UPR Fiscal Plan measures for \$3M. The total cost is expected to ramp down to ~\$3M in FY2023, subject to change depending on the contracts UPR enters into with various advisors and any updates to the PMO structure. UPR must explore opportunities to engage students and faculty in the design and implementation towards execution of strategic transformation initiatives. EXHIBIT 37 lists some actions that UPR should follow to operationalize the PMO.

**EXHIBIT 36: PROJECTED FISCAL PLAN IMPLEMENTATION COSTS**

Item	FY21	FY22	FY23	FY24	FY25	FY26
PMO staffing	963	963	963	-	-	-
Office & IT	933	933	933	-	-	-
Professional services	3,120	3,120	1,450	-	-	-
<b>Total</b>	<b>5,016</b>	<b>5,016</b>	<b>3,346</b>	-	-	-

**EXHIBIT 37: REQUIRED ACTION ITEMS TO ENSURE THE IMPLEMENTATION OF THE PMO**

**To be completed in FY2021 and FY2022**

<b>Action item</b>	<b>Deadline</b>	<b>Status</b>
<ul style="list-style-type: none"> <li>Fully staff team to manage PMO Office program</li> </ul>	July 15, 2020	Completed
<ul style="list-style-type: none"> <li>Prepare the UPR Measures' Implementation Plan; the plan should include a clear scope in conformance with both the 2021 UPR Fiscal Plan and PROMESA</li> </ul>	August 28, 2021	New Target Date
<ul style="list-style-type: none"> <li>Identify provider and award relevant professional services supp contract through competitive RFP</li> <li>Present measures' implementation progress to the Oversight Board</li> </ul>	December 15, 2021, then semiannually	New Target Date
<ul style="list-style-type: none"> <li>Review implementation plan based on achieved progress and feedback from the Oversight Board</li> </ul>	January 15, 2022, then annually	New target date

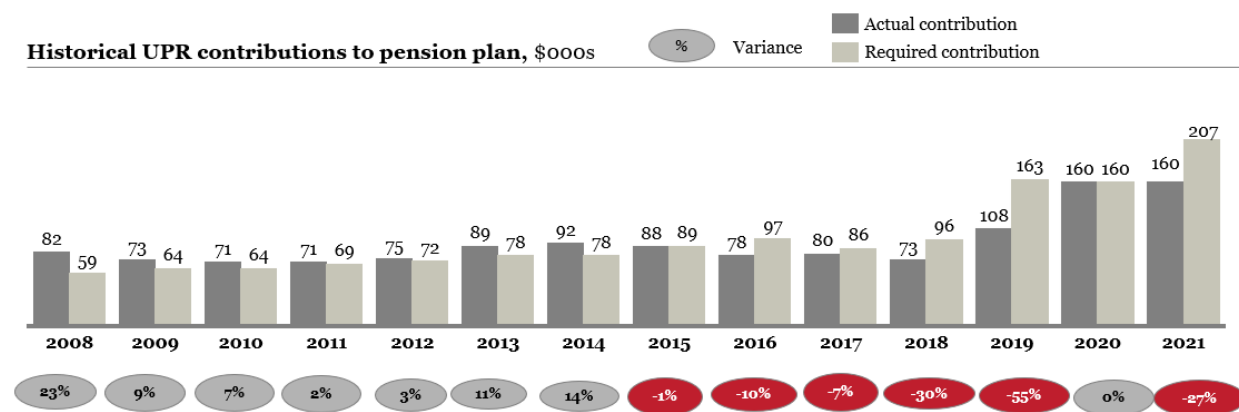
# Chapter 4 Pension reform

## 4.1 Reforms to UPR Retirement System

PROMESA Section 201(b)(1)(F) requires the 2021 UPR Fiscal Plan to improve fiscal governance, accountability, and internal controls. PROMESA Section 201(b)(1)(C) also requires the 2021 UPR Fiscal Plan to provide for adequate funding of public pension systems. As part of proper governance and accountability, the 2020 UPR Fiscal Plan requires UPR to adequately fund pensions. This requires UPR to recognize its funding constraints and implement pension reform, while correcting the failure of underfunding in the past and alignment of the employer contributions to the current defined benefit plan, as required by the Oversight Board’s actuary using a 30-year amortization.

Since 2017, the different UPR Fiscal Plans certified by the Oversight Board have consistently reiterated the necessity of implementing Pension Reform and provided the UPRRS the actuarially required contribution (see EXHIBIT 38). The latest studies suggest that UPR has an accrued pension liability worth ~\$3B, which is \$1B above previous estimates. The sole intent of this Fiscal Plan is to ensure adequate funding and minimize liability risk to both UPR and its pension plan.

EXHIBIT 38: ACTUAL VS. REQUIRED HISTORICAL UPR CONTRIBUTIONS TO PENSION PLAN



SOURCE: 2020 audited financial statements and Budget to Actuals reported to FOMB on behalf of UPR as of May 2021  
 FY21 Actuarially required contribution is based on 4.5% discount rate used by FOMB

According to the UPRRS commissioned actuarial report<sup>43</sup>, annual pension expenditure must be revised to account for the following changes in actuarial assumptions:

- Updated census information to reflect shifting UPR demographics (retirees and current employees)
- 30-year amortization based on Actuarial Best Practices
- Moved to level dollar funding since total payroll has been declining

UPR can achieve financial sustainability by instituting a pension reform that minimizes liability risk and reduces the annual university contribution in the long-term. Leaving the pension system unchanged will require identifying additional savings or revenues to offset the required increase in annual contributions through other means (likely additional tuition increases, reductions in faculty, or campus closures). It is not realistically possible for the

<sup>43</sup> Cavanaugh Macdonald Consulting Experience Study Report as of June 2015

University to do so currently.

UPR has already taken a significant step forward by certifying a plan for some pension reform, which includes a 30-year closed amortization and a level dollar funding contribution. In its plan, UPR closes the plan to new and non-vested members and moves them to a Defined Contribution (DC) Plan. UPR pension plan would be closed to new members effective as of December 31, 2021 for all non-vested participants and new employees. Vested participants will continue to accrue benefits. UPR’s prospective approach to reform UPRRS would eliminate the long term the pension liability by 2045. In addition, UPR’s plan reduces future pension liability risk due to the closing of the pension plan.

- **Non-vested & new participants:** 12% of total population would participate in the new DC Plan starting January 1, 2022. Employees will contribute 8.5% of their annual salary and UPR would contribute 4.5% annual matching.
- **Vested employees and retirees:** 88% of total population. Vested employees would see no impact and would continue to accrue benefits in UPRRS following current plan. Retirees would have no reduction.

**This first step approved by UPR mitigates some of the increasing liability risk and is a step in the right direction.** However, the funding of the plan remains a risk in the long-term taking into account this step, since UPR would still be required to identify an additional \$66M<sup>44</sup> to fund the plan in FY22. Unless further incremental pension reforms such as those presented below in Options 1 or 2 are implemented, this action alone requires new sources of revenue or a reduction in expenses to compensate for the incremental cost in required contributions this alternative entails.

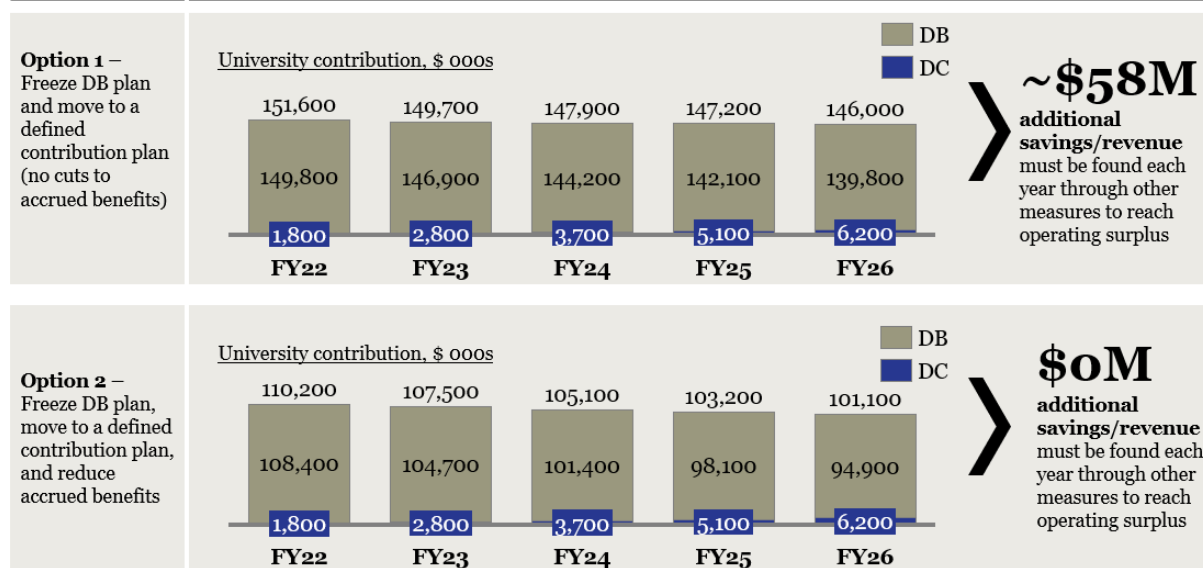
The 2021 Certified Fiscal Plan provides two potential paths:

Option 1 – Freeze and move to a Defined Contribution Plan with no reduction in accrued benefits; or

Option 2 – Freeze and move to Defined Contribution Plan coupled with a reduction in accrued benefits.

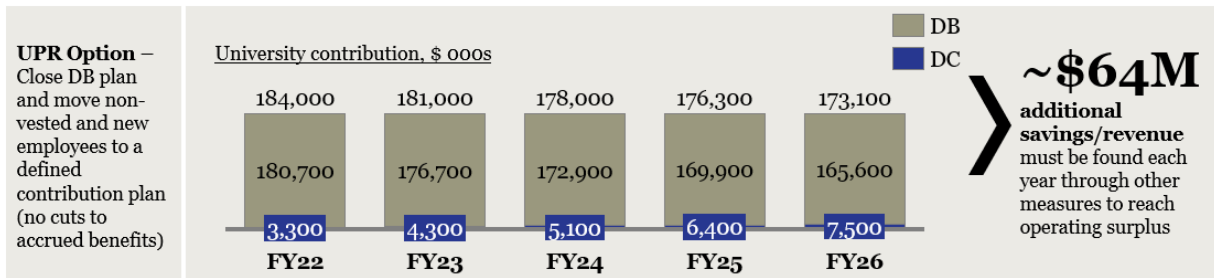
**EXHIBIT 39: ACTUAL VS. REQUIRED HISTORICAL UPR CONTRIBUTIONS TO PENSION PLAN**

**Impact of UPR pension policy options, \$000s**



SOURCE: May 2021 Scenarios evaluated by FOMB Actuaries estimates and 5.5% discount rate

<sup>44</sup> According to FOMB’s actuaries Foster & Foster updated analysis as of FY19 and updated census data.



SOURCE: UPR Proposed Fiscal Plan for FY2022 using FOMB Actuaries estimates and 5.5% discount rate

Option 1 would provide further stability. However, it still requires UPR to identify incremental funding to meet the actuarially required contributions necessary to mitigate additional liability risks.

Option 2 is the most beneficial to UPR in terms of liability risk. UPR would progressively reduce accrued benefits and freeze all prospective accruals for all vested and non-vested members. This alternative eliminates the \$250 minimum benefit and \$400 holiday bonus among other reductions as part of the analysis. Executing this freeze and reduction of accrued benefits would reduce pension contributions to a level that allows UPR to maintain the levels of revenues and expenditures in the Fiscal Plan.

Only Option 2 meets UPR's risk objectives due to its stable and predictable contribution requirements and lack of any requirement for additional savings or revenues to meet actuarial funding needs. The UPR pension liability needs to be funded at actuarially required levels going forward to avoid the high risk of insolvency. Further monitoring and reporting of the implementation process is part of this Fiscal Plan.

# Chapter 5 Fiscal management & controls

The fiscal reforms described in the 2021 UPR Fiscal Plan represent a significant and transformative effort across the eleven UPR campuses and its component units. As such, strict reporting requirements are needed to ensure savings and revenue targets are achieved on time, and to identify any major risks to reform in order to course correct at an early stage.

The various reporting requirements detailed below are based on best practices of comparable systems and are designed to enable both the UPR project management organization and the Oversight Board to monitor progress and react to roadblocks proactively as well as to enable the University to meet its reporting responsibilities. The Oversight Board believes them to be implementable within the coming Fiscal Year, and UPR is required by PROMESA to comply with them fully and on time. While the Oversight Board recognizes improvements in UPR’s compliance with the 2020 UPR Fiscal Plan and PROMESA Reporting Requirements, UPR should continue meeting PROMESA’s requirements and providing the required information for the Oversight Board to achieve its mandate of guiding UPR towards financial sustainability.

These are the 2021 UPR Fiscal Plan reporting requirements (EXHIBIT 41) and do not limit FOMB’s discretion to require other information under PROMESA. Reporting cadence to the Oversight Board: (i) Weekly: Every Wednesday, (ii) Monthly: 15th day after the end of the month; if not a business day, then the previous business day and, Quarterly: (iii) 15th day after the end of the quarter.

## EXHIBIT 40: UPR REPORTING REQUIREMENTS

### UPR Reporting requirements

Source of requirement	Item	Components	Cadence
FOMB-certified fiscal plan	Enrollment and tuition reporting	<ul style="list-style-type: none"> <li>Number of applicants, enrolled students, by program, as well as tuition exemptions by- type (e.g., Honor student, Veteran, etc.)</li> <li>Detail on scholarship and aid disbursements (Federal, Commonwealth, and UPR-funded) (identify # of students, and by program)</li> <li>UPR Scholarship Fund disbursement by # students (undergrad/grad), by program.</li> </ul>	<ul style="list-style-type: none"> <li>Within one month of start of each new academic period (i.e., semester)</li> <li>Semiannual</li> </ul>
	Implementation plan and monthly status	<ul style="list-style-type: none"> <li>Progress against all measures included in certified fiscal plan (e.g., federal funding, IP monetization) and status of associated KPIs and milestones</li> </ul>	<ul style="list-style-type: none"> <li>Implementation Plan: One time post – certification</li> <li>Report Status: Quarterly</li> </ul>
	Donations Receipts	<ul style="list-style-type: none"> <li>Implementation status of increasing donations initiatives and balance updates tied by campus.</li> </ul>	<ul style="list-style-type: none"> <li>Semiannual</li> </ul>
	Capital Expenditures	<ul style="list-style-type: none"> <li>List of active projects across all program types (i.e., Federal, Appropriations, Other) and progress completed during the month (e.g., Student Facilities, % of work certified)</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly</li> </ul>
	Administrative Transformation	<ul style="list-style-type: none"> <li>Progress against implementation plan for program consolidation (including programs eliminated or consolidated at a campus level), shared-services progress, and specific workforce reductions and positions eliminated</li> <li>Action Plan on resolving audit findings (FS FY2020)</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly</li> </ul>
	Balance Sheet Income statement	<ul style="list-style-type: none"> <li>Include only consolidated balance sheet &amp; Income Statement</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly</li> </ul>
	Auxiliary	<ul style="list-style-type: none"> <li>Detailed report of all auxiliary revenue streams generated by UPR that includes a comprehensive list for all campuses and component units of UPR</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly</li> </ul>
	Pension Status	<ul style="list-style-type: none"> <li>Detailed report of Pension Contribution Expense and payment information</li> <li>Actual transformation based on a project plan with a monthly update</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly</li> </ul>
	Liquidity	<ul style="list-style-type: none"> <li>13-week cash flow report; including accounts payable and accounts receivable roll-forwards as well as 12 common weeks analysis to track material changes</li> </ul>	<ul style="list-style-type: none"> <li>Monthly</li> </ul>
	Monthly budget to actuals	<ul style="list-style-type: none"> <li>Tracking of budgeted to actual and cash flow by each campus and consolidated</li> <li>Explanation for material variances (&gt;5% or \$5 million)</li> </ul>	<ul style="list-style-type: none"> <li>Monthly after budget is certified for headline I/S numbers including A/R &amp; A/P</li> </ul>
Minimum Cash Analysis	<ul style="list-style-type: none"> <li>Monthly Minimum cash balance kept on hand as a cash reserve to offset any unplanned cash outflows.</li> </ul>	<ul style="list-style-type: none"> <li>Monthly</li> </ul>	
PROMESA	Quarterly budget to actuals	<ul style="list-style-type: none"> <li>Quarterly consolidated budget to actuals as required by section 203 of PROMESA</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly</li> </ul>

## Chapter 6 Debt Sustainability Analysis

Historically, UPR has shown no independent and sustainable capacity to generate the funds to pay UPR bond debt service on a net revenue basis. Instead, UPR has borrowed using "gross pledges" of tuition revenues in which tuition revenues are paid directly to a Bond Trustee and applied to pay debt service without regard to whether UPR is generating net revenues or is running at a deficit.

In the face of declining Commonwealth appropriations and the need for UPR's own sources of revenues to support more of its operations, this structure is inherently unsustainable from the University's perspective. The FY2021-26 UPR Fiscal Plan contains measures that, if timely and fully implemented by UPR, are projected to generate positive net revenues, with such primary surplus available for payment of some restructured debt service. These figures take into account the reduced level of Commonwealth appropriation payments to UPR contained in both the Commonwealth and the UPR fiscal plans.

EXHIBIT 41 represents the contractual debt payment for the following years, composed of two long-term debt obligations: the University's revenue bonds and the *Desarrollos Universitarios*, Inc's AFICA bonds (the AFICA bonds). These debt obligations amount to \$511.2M and \$78.3M, respectively. Both bonds are currently rated "C" by Moody's Investors Service (Moody's) and "CC" by Standard & Poor's Ratings Services (S&P).

### EXHIBIT 41: UPR DEBT SERVICE

University's bonds payable required payments of principal and interest, \$000s

Year	Revenue Bonds			AFICA Bonds			Aggregate		
	Principal	Interest	Debt Service	Principal	Interest	Debt Service	Principal	Interest	Debt Service
2021	25,480	17,072	42,552	2,880	2,749	5,629	28,500	19,750	48,250
2022	26,760	15,798	42,558	3,020	2,602	5,622	29,940	18,330	48,270
2023	28,095	14,460	42,555	3,15	2,447	5,662	31,430	16,830	48,260
2024	29,505	13,055	42,560	3,330	2,284	5,614	33,010	15,250	48,260
2025	30,975	11,580	42,555	3,500	2,113	5,613	34,660	13,610	48,270
2026 to 2030	113,757	39,348	152,924	20,300	7,690	27,990	34,660	13,610	48,270
2031 to 2036.	87,040	16,851	103,891	20,215	2,082	22,297	237,510	63,950	301,460
<b>Total</b>	<b>365,750</b>	<b>145,440</b>	<b>511,190</b>	<b>56,420</b>	<b>21,967</b>	<b>78,387</b>	<b>422,200</b>	<b>168,830</b>	<b>591,030</b>

<sup>1</sup>2026-2036 for Revenue Bonds and 2026-2033 for AFICA Bonds

<sup>2</sup>AFICA Bonds final payment is during 2034 and Revenue Bonds final payment is 2036

In addition to the pension obligations, and the aforementioned long-term debt obligations, the University has two other liabilities worth highlighting: the Other Post-Employment Benefits ("OPEB") liability, and the University's accrual for compensated absences. Both liabilities together add up to a total of ~\$358 million; the total OPEB liability is ~\$226.M, while the accrual for compensated absences related to accrual of vacation and sick leave by employees to be liquidated upon employee retirement or termination totaled ~\$132.0M. On June 29, 2017, the Trustee and the University, at the direction of FAFAA, entered into a letter agreement (the "Letter Agreement") providing the University will transfer certain amounts in respect of pledged revenue, as defined in the Trust Agreement, to the Trustee, on condition—among others—that through August 31, 2017 (the "Compliance Period") the Trustee will not institute, commence, or continue certain legal proceedings against the University, the Government or



any other agency, instrumentality, or municipality thereof except in certain limited enumerated circumstances.

The Letter Agreement has been extended fourteen times and the new Compliance Period is August 31, 2021. Pursuant to the Letter Agreement and the fourteen standstill extension agreements, during the Compliance Period, holders of the majority in amount of the Revenue Bonds and the Trustee at the direction of the University's bondholders will negotiate in good faith towards a restructuring of the Revenue Bonds. In addition, the trustee agreed not to institute or commence certain legal proceedings and the University agreed to transfer the following monthly payments of Pledged Revenues to the trustee to be applied in accordance with the Trust Agreement during the new Compliance Period.

Discussions with respect to a consensual restructuring of the Revenue Bonds have occurred but have not been active in the last year; UPR intends to continue and conclude these negotiations as soon as is reasonably partible. Presently, the University has complied with and has made all transfers due under the Letter Agreement, as extended. For FY21, the University will make transfers to the Trustee totaling \$52.3 million. In addition, the Trustee of the University's Revenue Bonds, on behalf of the University, has paid, as agreed, the scheduled principal and interest payments on its outstanding Series P and Q Bonds.

## Chapter 7 Financial reporting & governance improvements

The fiscal reforms described in the 2021 UPR Fiscal Plan represent a significant and transformative effort across the eleven UPR campuses and its component units. As such, strict reporting requirements are needed to ensure savings and revenue targets are achieved on time, and to identify any major risks to reform in order to course correct at an early stage.

The various reporting requirements detailed below are based on best practices of comparable systems and are designed to enable both the UPR project management organization and the Oversight Board to monitor progress and react to roadblocks proactively as well as to enable the University to meet its reporting responsibilities. The Oversight Board believes them to be implementable within the coming Fiscal Year, and UPR is required by PROMESA to comply with them fully and on time. While the Oversight Board recognizes improvements in UPR's compliance with the 2020 UPR Fiscal Plan and PROMESA Reporting Requirements, UPR must continue meeting PROMESA's requirements and providing the required information for the Oversight Board to achieve its mandate of guiding UPR towards financial sustainability.

# CONCLUSION

UPR has faced and successfully met many of the recent challenges brought on by the pandemic. COVID-19 has forced the institution to solve a set of unprecedented issues, requiring its leaders to rethink its operating model in ways it has never had to consider before. UPR's administration must continue to lead and guide the University's community through the reopening. The opportunities created by the Federal COVID-related programs will assist UPR not only with the reopening, but also with the improvements and technology needed to continue hybrid education. Bold leadership, accountability, and transparency are a must if UPR wishes to remain the preeminent engine of economic development on the Island that it has been since its early origins. The Fiscal Plan provides a path to ensure UPR is prepared and able to weather the storm, ensuring that the University -- and the Island as a whole -- emerges stronger than ever, a solid beacon of continuous pride for Puerto Rico given its role as both the primary vehicle for social mobility on the Island, as well as a hub for cultural and research advancement.

UPR has worked for four years to mitigate and prepare by diversifying its revenues and rationalizing its expenses. It has succeeded in engaging alumni to support the University, to build new external partnerships, begin an administrative transformation and more. Going forward, UPR must continue to apply operational model improvements that have proven successful in other universities to not just reduce expenditures but, more importantly, deliver better outcomes for students, faculty, staff, and the broader Puerto Rico community.

The 2021 UPR Fiscal Plan does not suggest that taking this path will be easy. It is complex, requiring focus and attention to goals and targets, but if implemented well, will yield valuable results for students, faculty and administration. The singular opportunity to apply the COVID-related Federal funds to the new needs of the University and the FEMA funds to rebuild and transform the university creates a window for success.

UPR must remain the preeminent engine of economic development on the Island and transform itself into a 21st century education institution. Puerto Ricans deserve no less.

# Annex 1: Institutional Background

The University of Puerto Rico, founded in 1903, is a state supported university system created by Act No.1 of January 20, 1966, “Law of the University of Puerto Rico” (“Act No. 1”), as amended, with the mission to serve the people of Puerto Rico and contribute to the development and enjoyment of the fundamental, ethical, and esthetic values of Puerto Rican culture, committed to the ideals of a democratic society. To advance its mission, the University strives to provide high quality education and create new knowledge in the Arts, Sciences, and Technology. The University is a public corporation of the Government of Puerto Rico (the “Central Government”).

## ***The University of Puerto Rico System***

The University is the oldest and largest institution of higher education on the Island with a history of academic excellence and comprises 11 campuses located throughout the Island. For FY’21, the University has approximately 4,500 professors and researchers, 46,000 students (as of February 2021), and thousands of alumni that honor the Island with their intellectual and professional contributions at the local and international level. The University of Puerto Rico currently offers 32 associate degrees, 231 bachelor’s degrees, 118 master’s degrees, 15 graduate certificates, 7 professional level degrees, 35 doctoral degrees and many continuing education courses and programs. During the past decade, the University has focused on developing the graduate level; conferring over 700 PhD’s in the last five years, 50% of which are in Science and Technology.

The organizational structure includes a Governing Board, a University Board, a President, an Executive Vice President of Academic and Research Affairs, a Vice President of Student Affairs, a Vice President of Professional Programs and Distance Learning, a Vice President of Philanthropy, and a Vice President of External Resources. Each campus has a Chancellor, a Dean of Academic Affairs, a Dean of Students, a Dean of Administration, a Dean or Director for each college or school, and Río Piedras and Medical Sciences, a Dean of Research. All units have institutional accreditation by the MSCHE and the required program accreditations allowing students to continue graduate studies in the United States or in other countries. The University has an ample research agenda and professional exchange programs with over 120 institutions of higher education at the international level.

## ***The University of Puerto Rico Campuses***

The University system includes all its campuses: Río Piedras, Mayagüez, Medical Sciences, Aguadilla, Arecibo, Bayamón, Carolina, Cayey, Humacao, Ponce, and Utuado, as well as its Central Administration.

## UPR Campus Profile

Campus	FY'21 Students	Faculty <sup>1</sup>	Non-Faculty <sup>1</sup>
UPR Río Piedras	13,286	1,173	1,290
UPR Mayagüez	12,343	798	1,546
Medical Science	2,180	1,166	1,202
UPR Aguadilla	2,645	148	188
UPR Arecibo	2,944	215	227
UPR Bayamón	2,297	221	225
UPR Carolina	3,255	181	185
UPR Cayey	3,399	165	275
UPR Humacao	2,442	243	282
UPR Ponce	2,258	189	196
UPR Utuado	511	67	124
<b>Total</b>	<b>45,557</b>	<b>4,566</b>	<b>5,740</b>

*Roster as of 02/28/21*

*1: Faculty includes – Administrative, and Research and Investigation Faculty*

The **Río Piedras Campus** (the “UPR-RP”) was established in 1903. It is a comprehensive doctoral institution and the oldest and most complex unit in the UPR system. Its academic offerings include 65 undergraduate programs. The graduate offering includes 41 master’s degrees, 15 PhDs, three Ed.D., and international programs in Law, at both Master of Laws (“LLM”) and Juris Doctor (“JD”) levels. The UPR-RP serves over 13,286 students; comprises a faculty of 1,173 members, of which 84% hold the highest degrees conferred by universities all over the world and employs 1,290 non-faculty workers.

The **Mayagüez Campus** (the “UPRM”) was established in 1911 as a land-grant institution committed to teach agriculture, military tactics, and mechanic arts, as well as classical studies. The UPRM offers 104 academic programs: 54 bachelor’s degrees, 42 master’s degrees and 8 PhDs. It serves 12,343 students; comprises a faculty of 798 professors and employs 1,546 non-faculty workers. All six of its engineering bachelor’s degree programs are accredited by the Accreditation Board for Engineering and Technology (“ABET”). In addition, the UPRM offers a Teacher Preparation Program, accredited by The National Council for Accreditation of Teacher Education (“NCATE”), now known as the Council for the Accreditation of Educator Preparation (“CAEP”). Students of this program consistently score among the highest grades in the teacher certification exams.

The **Medical Sciences Campus** (the “UPR-MS”) was established in 1924 as the School of Tropical Medicine affiliated with Columbia University. It comprises the Schools of Medicine, Dental Medicine, Public Health, Pharmacy, Nursing, and Health Professions, and has 61 academic offerings, including 8 associate and bachelor’s degrees, 5 professional doctoral degrees, 30 masters, 5 postgraduate certificates, and 11 doctoral programs. It serves 2,180 students. Besides teaching and service, the UPR-MS is also engaged in numerous research projects, many of which are funded by the National Institutes of Health (“NIH”) and its subdivisions fueled in part by seed money from infrastructure building programs such as the Minority Biomedical Research Support (“MBRS”) and the Research Centers in Minority Institutions (“RCMI”).

The **Aguadilla Campus** (the “UPRAG”) was founded in 1972 and offers 15 bachelor’s degrees, 2 associatedegrees, and 26 articulated transfer programs to other UPR campuses. UPRAG has

embraced the Strategic Initiative that all programs and services subject to professional accreditation, should pursue accreditation. Campus programs have received certification from CAEP, the Association of Collegiate Business Schools and Programs (ACBSP), the Accreditation Board for Engineering and Technology (ABET), and the International Association of Counselling Services (IACS) to name a few. These professional evaluations and accreditations are substantial in helping us to improve continuously, enhance our assessment culture, strengthen program evaluation, and solidify our compliance with MSCHE standards. For the first semester 2020-21, UPRAg served 2,645 students, 148 faculty members and 188 non-faculty employees.

The **Arecibo Campus** (the “UPRA”) was established in 1967 and it offers 17 programs conducive to a degree, 14 bachelor’s degrees, three associate degrees, a post-baccalaureate degree and seven articulated transfer programs. The academic programs stand out for being innovative, competitive, and relevant. Courses are offered in several traditional and non-traditional modalities such as: experiential learning, learning communities, and distance education. Academic excellence is evidenced by thirteen programs accredited by specialized accreditations. Through its Division of Continuing Education and Professional Studies (DCEPS), it also offers professional development opportunities to the internal and external communities. Student enrollment at UPR-Arecibo for academic year 2020-2021 is 2,944 students with 215 faculty members and 227 non-faculty employees.

The **Bayamón Campus** (the “UPRB”) was established in August 1971 as a community college and was part of the Regional Colleges Administration. In 1998, the UPRB became an autonomous campus within the UPR System. It is focused on the fulfillment of the growing academic needs of the region. The institution offers academic programs in technology, business, science, and education. Its four-year programs include: Accounting (BBA), Computer Science (BCS), Electronics Engineering Technology (BS), Finance (BBA), General Biology (BS), Human Biology (BS), Management (BBA), Marketing (BBA), Materials Management (BMM), Office Systems (BOS), Preschool and Elementary Education (BEEd), Special and Elementary Physical Education (BEEd). Also, the UPRB offers coordinated articulated academic transfer programs in several academic disciplines, including the liberal arts, through agreements with other UPR campuses. The corresponding professional accreditation agencies accredit all UPRB's academic programs susceptible to accreditation. Enrollment at the UPRB for Fall 2020 is 2,297 students with 221 faculty members and 225 non-faculty employees.

The **Carolina Campus** (the “UPRCA”) was founded in 1974. It serves 3,255 students. It offers 13 undergraduate majors, 5 associate degrees, as well as 19 transfer programs. It offers three Professional Accredited programs in Office Systems, Business Administration, and Hotel and Restaurant Administration. The UPRCA is the only campus within the UPR System that operates under a quarter term calendar system. Typically, students obtain their bachelor or associate degrees in a shorter period. The student body is served by a faculty of 181 professors and 185 non-faculty employees.

The **Cayey Campus** (the “UPR-Cayey”) was established in 1967 and offers 24 bachelor’s degrees in five academic areas: Teacher Preparation (11), the Natural Sciences (4), Social Sciences (4), Humanities (4), and Business Administration (4). It serves 3,399 undergraduate students with 165 faculty members and 275 non-faculty employees. UPR-Cayey is the third institution in Puerto Rico with the highest number of applicants to medical schools, ranked between third and fourth institution in Puerto Rico with the highest number of students that completes a PhD in Science, Technology, Engineering, and Mathematics (STEM) programs during the last decades. Moreover, UPR-Cayey follows UPR-Rio Piedras and UPR Medical Campus as the third UPR institutions with the highest amount of NIH funds, providing our students a competitive advantage when filing their graduate school applications.



The **Humacao Campus** (the “UPRH”), founded in 1962, is a public undergraduate institution classified as a Bachelor/Diverse: Baccalaureate Colleges-Diverse Fields by the Carnegie Foundation for the Advancement of Teaching. UPRH is the only UPR campus with a presence in the eastern region of PR. In 2018, UPRH provided service to 17% of the island’s population that extends beyond our target area, including the islands of Vieques and Culebra. Forty-eight percent of our students are below the poverty line that results in UPRH being a vital component in the economic and social development of the eastern region. The UPRH serves 2,442 students with 243 faculty members and 282 non-faculty employees.

The **Ponce Campus** (the “UPRP”) Established as Ponce Regional College in 1969 and first accredited by Middle States in 1970, UPR-Ponce was originally authorized to offer associate degrees and transfer programs but added several baccalaureate degree programs beginning in the 1980s. Five of UPR-Ponce’s academic programs are unique in Puerto Rico: Athletic Therapy Sciences, Psychology and Mental Health, Forensic Psychology, Biomedicine, and Civil Engineering Technology in Architectural Delineation. Total headcount enrollment for academic year 2020-2021 is 2,258. The student body is served by 189 faculty and 196 non-faculty staff members with an average student/faculty ratio of 12:01. All its academic programs susceptible to accreditation are accredited or in process of reaccreditation by the following agencies: ACBSP, ABET, the American Physical Therapy Association (APTA), Commission on Accreditation in Physical Therapy Education (CAPTE), and the Council for the Accreditation of Educator Preparation (CAEP).

The **Utua Campus** was created in 1978 and it offers two-year agricultural programs. It offers 4 bachelor’s degrees and 6 associate degrees. UPR-Utuado holds specialized accreditation by the NCATE, the ACBSP, and includes a Learning Resource Center certified by the Association of College Research Libraries (ACRL) since 2008. Aligned with our institutional mission, UPR-Utuado has academic programs dedicated to the economic and cultural needs of the region. It serves 511 students, with 67 faculty members and 124 non-faculty members.

### ***University Component Units***

The University of Puerto Rico has several component units which are separate legal entities from the University. For each entity, the University appoints a majority of these organization’s board members, can impose its will on those entities, or there is a financial benefit/burden situation with these entities. Among the active Component Units are the following:

**Desarrollos Universitarios, Inc. (“DUI”)** is a legally separate entity from the University and a nonstock corporation governed by a separate board. DUI was organized on January 22, 1997, under the laws of the Commonwealth of Puerto Rico as a not-for-profit organization. DUI was organized to develop, construct, and operate the academic, residential, administrative, office, commercial, and maintenance known as Plaza Universitaria. This mixed-use complex consists of a student housing facility, a multi-story parking building and an institution building to house administrative, student service and support functions, and, to a lesser extent, to lease commercial space. DUI is fiscally dependent on the University and its debt is expected to be repaid entirely or almost entirely from University resources.

**Servicios Médicos Universitarios, Inc. (the “Hospital” or “SMU”)** is a legally separate entity from the University and a nonstock corporation that is governed by a separate board. The Hospital is a not-for-profit acute care corporation, organized under the Laws of the Commonwealth of Puerto Rico, on February 11, 1998, to operate and administer healthcare units. The principal objectives of the Hospital are to constitute it as the principal medical education institution of the University and to offer healthcare services to the residents of Puerto Rico. The University appoints a voting majority to the Hospital board and is also financially accountable for the Hospital.



**University of Puerto Rico Parking System, Inc. (“UPRPS”)** is a legally separate entity from the University and a nonstock corporation that is governed by a separate board. UPRPS was organized on May 5, 2000, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. UPRPS was organized to operate the parking facilities of the University system. UPRPS currently operates Plaza Universitaria, as well as the parking facilities of the Medical Sciences and Río Piedras campuses. The University appoints a voting majority of UPRPS board and is also financially accountable for UPRPS.

**Materials Characterization Center, Inc. (“MCC”)** is a legally separate entity from the University and a nonstock corporation that is governed by a separate board. MCC was organized on April 15, 1999, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. MCC was organized to provide a much-needed accessible and reliable center to characterize materials chemically and physically from the pharmaceutical as well as other manufacturing endeavors. MCC is administrated in conjunction with the College of Natural Sciences of the Río Piedras Campus of the University. The University appoints a voting majority of MCC board and is also financially accountable for MCC.

Starting in FY’20, the **Molecular Sciences Research Center, Inc. (“MSRC”)** functions as a separate component unit of the University. Previously, this component unit operated as a part of the University. MSRC is a not-for-profit corporation, organized under the Laws of the Commonwealth of Puerto Rico, on March 23, 2011, to operate and administer the University’s Molecular Science Building (“MSB”). MSB is an advanced research facility of the University with laboratories conducting basic and translational biomedical research in the areas of protein structure and dynamics, molecular biology, genomics, proteomics, bio-imaging, pharmacogenetics, and neurosciences. The MSRC is the University System’s first multidisciplinary environment, designed to meet the needs of cutting-edge research in Puerto Rico.