



# New Fiscal Plan for University of Puerto Rico

SAN JUAN, PUERTO RICO

DRAFT AS OF OCTOBER 21, 2018

# Disclaimer

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- The Financial Oversight and Management Board for Puerto Rico (the “FOMB,” or “Oversight Board”) has formulated this New Fiscal Plan based on, among other things, information obtained from the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”) and the University of Puerto Rico (“UPR” and together with AAFAF, the “Government”).
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- This New 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 this New Fiscal Plan that the Oversight Board determines warrants a revision of this New Fiscal Plan, the Oversight Board will so revise it.

# Executive Summary

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The University of Puerto Rico (“UPR”) plays an essential role as the Island’s engine for economic and workforce development. In many ways, the future of Puerto Rico depends on a vibrant and sustainable UPR. But sharp reductions in population and Commonwealth subsidies – which previously have provided over 70% of UPR’s revenues – demand significant, immediate changes to the core operating model of the UPR.

The FOMB strongly agrees with UPR’s Governing Board that the impending decline in Commonwealth subsidy poses both challenges and opportunities for the University. Specifically, in the words of the President of the Governing Board, it is an opportunity to build “a more efficient and less bureaucratic institution.” The reforms outlined in this document, which center largely around improving operations and increasing revenues, are designed to do just that, while maintaining the ability of *all* students to access and benefit from the improved university system.

The path to implementing these reforms will not be easy. They come at a time when the UPR is still recovering from the damage of Hurricanes Irma and Maria and adjusting to multiple leadership transitions. The FOMB looks forward to partnering the Government of Puerto Rico, the UPR Governing Board, and the UPR Administration in making the transition to a ‘new status quo’ operating model – one that is both more efficient and effective – as seamless as possible for the students, faculty, staff and communities who benefit from this vital institution.

## Executive Summary

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- *Operational excellence.* The New Fiscal Plan returns the system to a three campus “hub” model, whereby the footprint of secondary campuses are reduced, and shared services are increasingly relied upon to drive down operating expenditures. The New Fiscal Plan calls for a ~10% reduction in total operating disbursement by FY23 (excluding capital reinvestment and reconstruction costs) to be achieved through both personnel and non-personnel reductions. However, the plan is not centered on cost reductions alone. The consolidations of programs and services are designed to improve both student experience and educational outcomes. For example, a compliance scan of UPR’s academic programs found many programs with graduation rates below 25%. A critical goal of the New Fiscal Plan is the re-focusing of resources on the strengths of the system – making sure students are receiving both an affordable *and* high quality education.
- *Revenue enhancement.* The New Fiscal Plan makes every effort to minimize the increase of tuition and fees that could jeopardize affordability and access to quality higher education on the Island. It does so by first maximizing opportunities to increase revenue from non-tuition sources: federal grants and awards, IP and patent monetization, and ancillary service fees for providing training to external institutions. To the extent tuition increases are required, the New Fiscal Plan calls for implementing a need-based scholarship policy alongside increases in the cost per credit and related fees. The revised UPR scholarship program outlined in this plan ensures all students with demonstrated need (the vast majority of UPR students) are able to cover the cost of tuition and mandatory fees with federal award funds, and further ensures that the neediest students are able to leverage a portion of their federal award to cover other costs of attendance. Even for full-paying students, the tuition increases contemplated in this plan allow UPR to remain among the most affordable public 4-year university systems in the U.S., and the most affordable option to students on the Island.

## UPR's Executive Summary

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- The University of Puerto Rico (UPR) submitted a Fiscal Plan on August 1, 2017. Said plan was reviewed by the Financial Oversight and Management Board (FOMB), which requested further details as part of the iterative process between FOMB and UPR Team (including AAFAF and its advisors). This process was interrupted due to Hurricane Maria's impact.
- Since then, the UPR has focused on:
  - Reopening campuses and facilities after sustaining significant impact to its campuses
  - Implementing expense reduction measures throughout the central administration and its units
  - Elaborating on Fiscal Plan 1.0 proposed measures
  - Adjusting its projections according to current circumstances and macro projections
  - Operating within the constraints of the initial appropriation reductions of \$201MM for FY 2017-18
- Main variations embedded in the numbers presented herein are:
  - Gradual decrease in student population
  - Increase in tuition beginning in FY19
  - Fiscal impact from program consolidation and headcount reduction
  - Disaster related inflows
- Other variations are a product of further analysis and dialogue among key stakeholders in the system. For example:
  - Cost of trainings and seminars are net of cost (~40% operating cost included)
  - Adjusted exemption reductions
  - Adjusted graduate tuition costs
  - Further adjustment of marginal benefits to its employees (faculty and non faculty)
- UPR subsequently submitted a Fiscal Plan on August 20, 2018. Following a notice of violation from the FOMB, the UPR submitted a modified Plan on September 7, 2018. Both versions, however, were non-complaint with FOMB requirements. Thus, the FOMB has moved forward to certify its own Fiscal Plan for UPR

## Guiding Principles of the UPR Fiscal Plan

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1. Seeks to meet the fiduciary responsibility of the University with Puerto Rico while maintaining institutional integrity and financial stability.
2. Protects the necessary human, financial, technical, and capital resources needed to support the sustained achievement of the UPR mission, considering the UPR provides an essential service.
3. Centers on the strengthening of the diversity and uniqueness that characterizes the UPR System for the successful attainment of the UPR 2017-2022 Strategic Plan.
4. Recognizes the complexities of the external environment aiming to position itself as a key contributor to the development of local economies.
5. Aims to champion social, cultural, and economic growth in alignment with the needs and priorities of the private and public sectors while strengthening the academic experience.
6. Commits to its fiscal responsibility with specific revenues and expenditures measures to support the achievement of its strategic sustainable management goal.
7. Nurtures the innovation and transformation of academic endeavors, research and the creation of knowledge, as well as its technological structures.
8. Reinforces institutional capacities without affecting access, social responsibility, quality of services and professional and vocational success of its constituents.
9. Prioritizes administrative and academic transformations that are guided by efficiency and effectiveness criteria.
10. Allows for the development of capacity and creativity among teaching and non-teaching personnel to implement the necessary changes.

# Our Commitment to Puerto Rico

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## UPR Strategic Plan 2017-2022

### **Educational Environment**

To enhance and differentiate academic programs according to higher learning trends

### **Research and Creative Work**

To increase sources of external funding and to secure patents

### **Service to Diverse Communities**

To promote growth in local economies and to value cultural and artistic expressions

### **Sustainability**

To attain operational efficiencies and to secure fiscal stability

### **STUDENT SUCCESS**



# Organic Law

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## **Founded in 1903**

The University of Puerto Rico (the University) is a state supported university system created by Law No. 1 of January 20, 1966, **“Law of the University of Puerto Rico”** (“Act No. 1”), as amended.

## **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, and 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



# Governing Board

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The University is a public corporation of the Government of Puerto Rico governed by a fourteen-member **Governing Board** composed of:

UPR | Junta de Gobierno

Eight members appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico

Two tenured professors

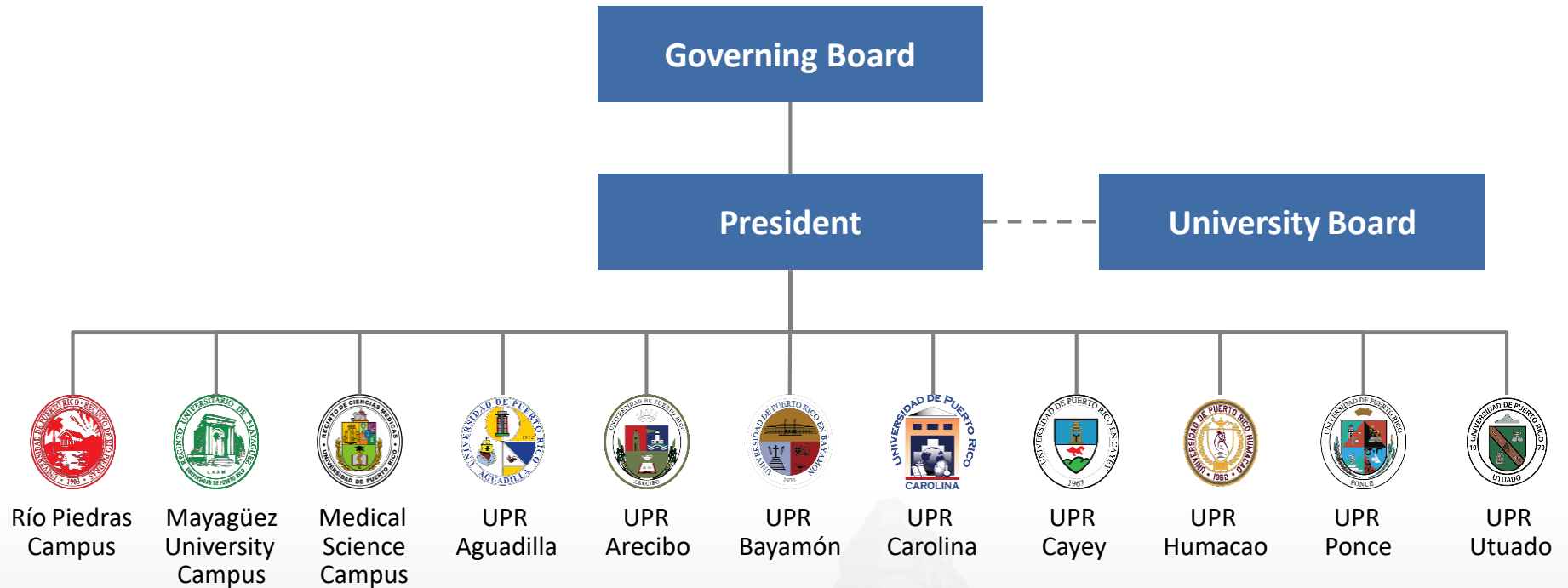
Two full-time students

The Secretary of the Department of Education of Puerto Rico becomes ex-officio member

One ex-officio member of the Fiscal Agency and Financial Advisory Authority

- The President of the University, appointed by the Board of Governors, is the Chief Executive Officer (CEO) of the Institution
- The Chancellors, appointed by the Board of Governors following the recommendation of the President of the University, under the President's oversight

# Organization and Governance



# Academic Offerings Across the UPR System

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## Undergraduate

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- **38** Associate Degrees
- **239** Baccalaureates
- **200** Articulated Transfer Programs between campuses leading to Baccalaureate Degrees

## Graduate

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- **6** First Professional Level Degrees: J.D., M.D., D.M.D., PharmD and
- Au.D.
- **15** Graduate Certificates
- **119** Masters
- **34** Ph. D.'s and Professional Doctorates
- **41** Medicine and Dental Medicine Residency Programs

## Undergraduate

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**694** degree granting academic programs and professional certification programs in:

- Arts
- Sciences
- Business
- Engineering
- Technology

**58%** of academic programs are susceptible to professional accreditation. Of these **87%** are already accredited.

Examples:

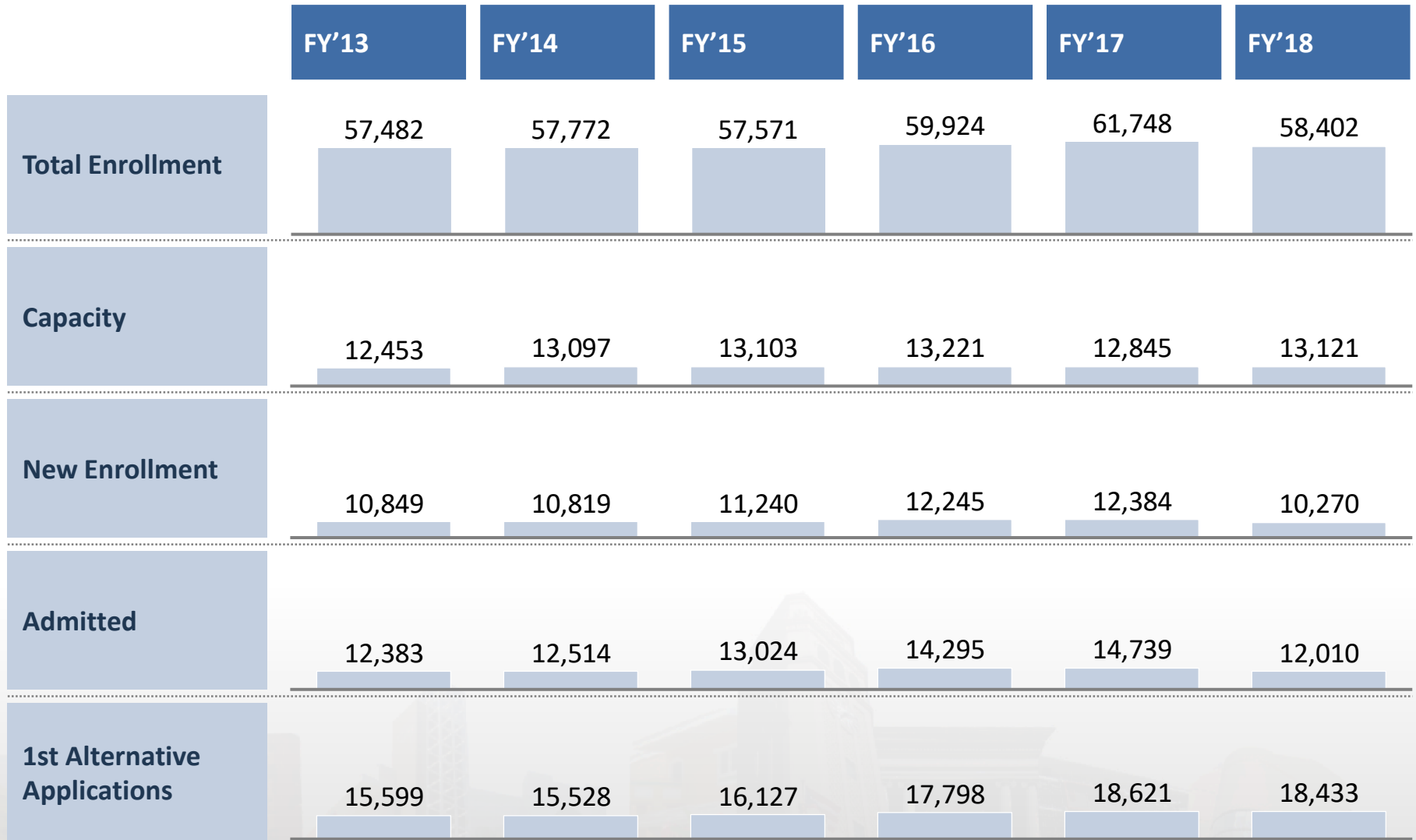
The Business Administration School at the Río Piedras Campus is accredited by the Association to Advance Collegiate Schools of Business (AACSB), making it the first public business school to achieve this distinction in the Caribbean Region.

**Less than 5% of the 13,000** business schools worldwide have achieved this prestigious recognition.

## List of Specialized Accreditations

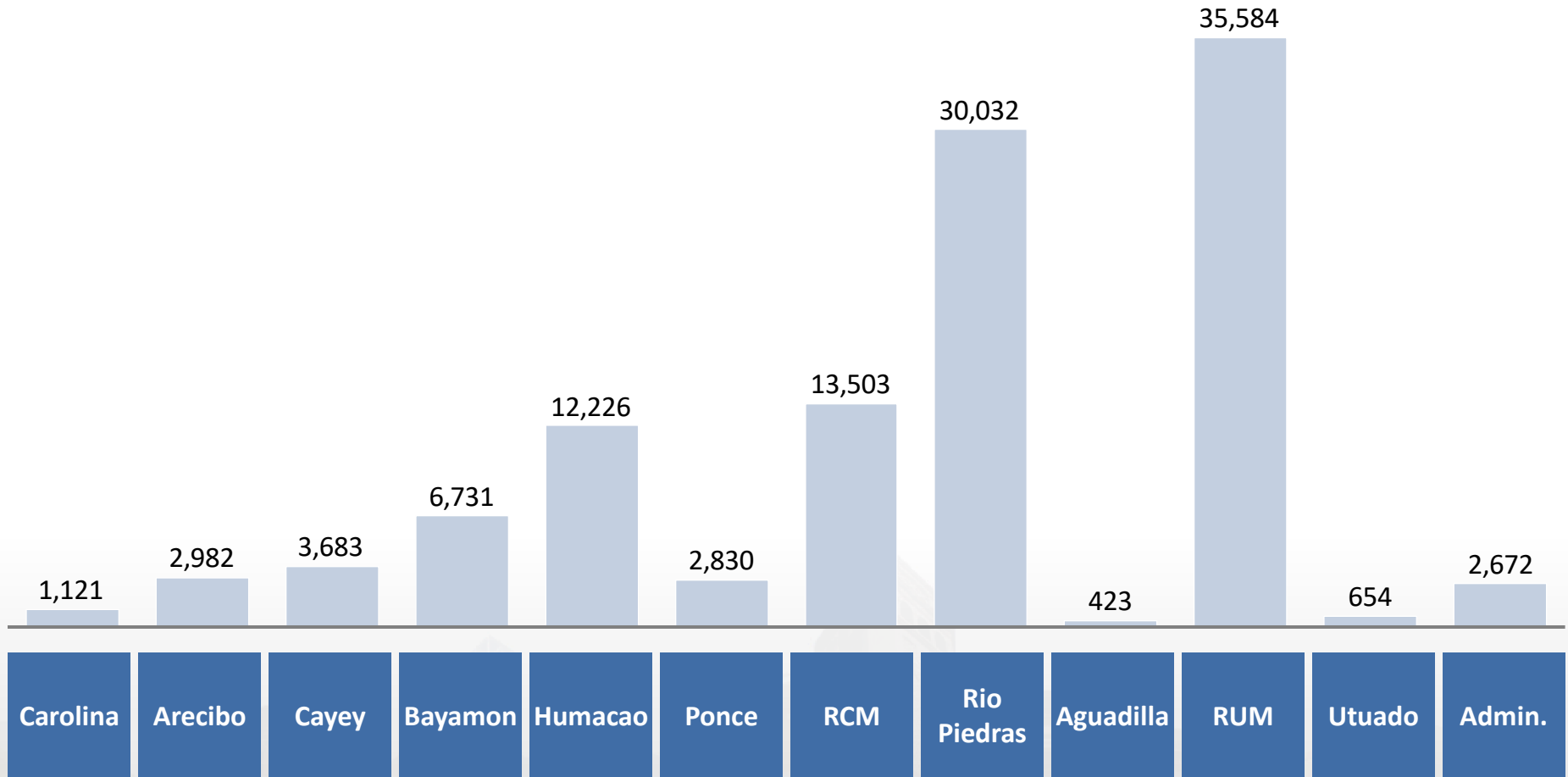
- ABET – CAC
- ABET - ETAC
- Accreditation Commission for Midwifery Education
- Accreditation Commission for Programs in Hospitality Administration (ACPHA)
- Accreditation Council for Business Schools and Programs (ACBSP)
- Accreditation Council for Education in Nutrition and Dietetics
- Accreditation Council for Pharmacy Education
- Accreditation Council for Occupational Therapy Education, American Occupational Therapy Association
- Accrediting Council on Education in Journalism and Mass Communication (ACEJAC)
- American Alliance of Museums
- American Bar Association
- American Chemical Society
- American College of Nurse Midwives
- American Dental Association
- American Physical Therapy Association
- American Psychological Association
- American Society of Cytopathology
- American Speech-Language-Hearing Association
- American Veterinary Medical Association
- Association of American Law Schools
- Association of College and Research Libraries, American Libraries Association
- Association to Advance Collegiate Schools of Business
- Commission on Accreditation for Health Informatics and Information Management Education
- Commission on Accreditation of Healthcare Management Education
- Commission on Accreditation of Ophthalmic Medical Programs
- Commission on Collegiate Nursing Education
- Computing Accreditation Commission, ABET, Inc.
- Council for the Accreditation of Educator Preparation.
- Council on Accreditation of Nurse Anesthesia Educational Programs
- Council on Education for Public Health
- Council on Rehabilitation Education
- Council on Social Work Education
- Engineering Technology Accreditation Commission, ABET, Inc.
- International Association of Counseling Services
- Joint Commission on Allied Health Personnel in Ophthalmology and Commission on Accreditation of Allied Health Education Programs
- Joint Review Committee on Education in Radiologic Technology
- Joint Review Committee on Educational Programs in Nuclear Medicine Technology
- Liaison Committee on Medical Education
- National Accrediting Agency for Clinical Laboratory Sciences
- National Architectural Accrediting Board
- National Association for the Education of Young Children
- National Association of Schools of Public Affairs and Administration
- National League for Nursing Accrediting Commission
- National Council for Accreditation of Teacher Education (NCATE)
- Planning Accreditation Board

# Student Enrollment



# Hurricane Irma and Maria Impact to the UPR<sup>1</sup>

## Estimated Reconstruction Costs by Campus / Unit (\$'000's)



<sup>1</sup> Total estimated damages as of December 2017 ascend to approximately \$132mm

# UPR Fiscal Plan Baseline

(\$'000's)

	FY'18 – Base	FY'18 – Maria Adj	FY'19	FY'20	FY'21	FY'22	FY'23
Total Central Government Appropriations	\$678,321	\$654,868	\$645,909	\$559,874	\$488,850	\$465,861	\$441,861
Total Operating Receipts	\$303,165	\$254,316	\$276,469	\$270,379	\$264,461	\$258,710	\$253,122
Total Intra-Government Receipts	\$285,814	\$242,942	\$285,814	\$285,814	\$285,814	\$285,814	\$285,814
<b>Disaster Relief Receipts</b>							
Insurance Proceeds	-	40,000	40,000	20,000	-	-	-
<b>Total Receipts</b>	<b>\$1,267,300</b>	<b>\$1,192,126</b>	<b>\$1,248,193</b>	<b>\$1,136,067</b>	<b>\$1,039,124</b>	<b>\$1,010,385</b>	<b>\$980,796</b>
Total Operating Disbursements	(\$1,160,063)	(\$1,115,825)	(\$1,151,655)	(\$1,145,629)	(\$1,139,783)	(\$1,134,113)	(\$1,134,113)
Total Disaster-related Disbursements	-	(40,000)	(40,000)	(20,000)	-	-	-
Capital Expenditures	(61,790)	(28,077)	(30,895)	(30,895)	(30,895)	(30,895)	(30,895)
Equipment	(11,553)	(11,553)	(11,553)	(11,553)	(11,553)	(11,553)	(11,553)
Pensions Payment	(\$74,559)	(\$74,559)	(76,376)	(79,598)	(82,570)	(85,108)	(87,744)
<b>Total Disbursements</b>	<b>(\$1,307,965)</b>	<b>(\$1,270,014)</b>	<b>(\$1,310,479)</b>	<b>(\$1,287,675)</b>	<b>(\$1,264,801)</b>	<b>(\$1,261,669)</b>	<b>(\$1,264,305)</b>
<b>Net Operating Surplus/Deficit</b>	<b>(\$40,666)</b>	<b>(\$77,888)</b>	<b>(\$62,287)</b>	<b>(\$151,608)</b>	<b>(\$225,677)</b>	<b>(\$251,284)</b>	<b>(\$283,509)</b>
Contractual Debt Service	(\$48,255)	(\$48,255)	(\$48,256)	(\$48,249)	(\$48,259)	(\$48,252)	(\$48,261)
<b>Reserve/Deficit (Post Contractual Debt Service)</b>	<b>(\$88,921)</b>	<b>(\$126,144)</b>	<b>(\$110,543)</b>	<b>(\$199,856)</b>	<b>(\$273,936)</b>	<b>(\$299,536)</b>	<b>(\$331,769)</b>

**DRAFT**

# UPR Fiscal Plan Summary of Measures<sup>1</sup>

(\$000's) Measure

	FY'19	FY'20	FY'21	FY'22	FY'23
<b>Revenue Enhancement Measures</b>					
Adjustment to Undergraduate Student Tuition	52,470	62,849	74,356	86,937	94,938
Adjustment to Dues & Charges	5,861	8,168	10,073	12,281	11,913
Federal Grants & Contracts; Patents	(3,790)	6,000	11,500	17,000	22,000
Reduction in Tuition Exemptions	27,538	25,141	22,641	19,986	19,416
Adjustment to Graduate Student Tuition	16,798	17,534	18,269	18,984	19,393
Implementation Expense on Training & Tutoring	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)
<b>Total Revenue Enhancement Measures</b>	<b>90,876</b>	<b>111,692</b>	<b>128,840</b>	<b>147,188</b>	<b>159,659</b>
<b>Expense Measures</b>					
Headcount Reduction & Attrition	37,906	62,232	90,848	96,934	97,898
Adjustment in Marginal Benefits	9,003	28,958	27,065	26,698	26,640
Centralized Procurement & Contract Renegotiation	-	2,675	10,700	10,700	10,700
Elimination of Christmas Bonus	7,476	7,476	7,476	7,476	7,476
Savings from Pension Benefit Reduction	-	10,700	10,700	10,700	10,700
Employer Pension Match	-	(4,700)	(4,600)	(4,600)	(4,600)
Increased Contribution to Improve Retirement System Solvency	-	(6,000)	(6,100)	(6,100)	(6,100)
<b>Total Expense Measures</b>	<b>54,386</b>	<b>101,342</b>	<b>136,089</b>	<b>141,808</b>	<b>142,714</b>
Transformation Plan Implementation Expense	(10,001)	(10,016)	(5,016)	(5,016)	(3,346)
<b>Total Measures Impact</b>	<b>135,261</b>	<b>203,018</b>	<b>259,913</b>	<b>283,980</b>	<b>299,027</b>

1. Although the FOMB does not consider and has not considered anything in the New UPR Fiscal Plan as a "recommendation" pursuant to Section 205(a), to the extent that the Government of Puerto Rico or UPR considers or has considered anything in this section a "recommendation" pursuant to Section 205(a), the FOMB hereby incorporates it into the New UPR Fiscal Plan pursuant to Section 201(b)(1)(K).



# UPR Fiscal Plan considering Measures

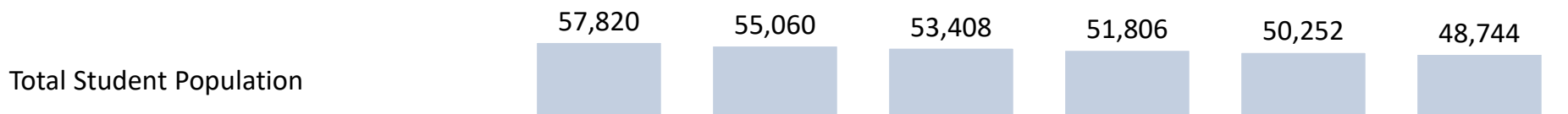
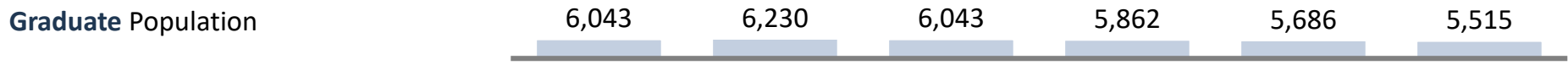
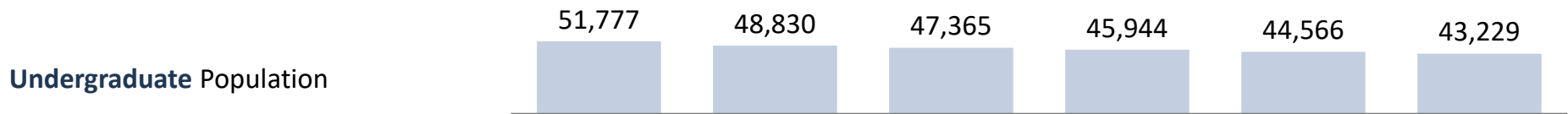
(\$'000's)

	FY'18 – Base	FY'18 – Maria Adj	FY'19	FY'20	FY'21	FY'22	FY'23
Total Central Government Appropriations	\$678,321	\$654,868	\$645,909	\$559,874	\$488,850	\$465,861	\$441,861
Total Operating Receipts	\$303,165	\$254,316	\$379,636	\$385,071	\$391,300	\$398,898	\$400,781
Total Intra-Government Receipts	\$283,969	\$242,942	\$281,524	\$290,814	\$295,814	\$300,814	\$305,814
<b>Disaster Relief Receipts</b>							
Insurance Proceeds	-	40,000	40,000	20,000	-	-	-
<b>Total Receipts</b>	<b>\$1,265,455</b>	<b>\$1,192,126</b>	<b>\$1,347,069</b>	<b>\$1,255,759</b>	<b>\$1,175,964</b>	<b>\$1,165,572</b>	<b>\$1,148,455</b>
<b>Operating Disbursements:</b>							
Total Operating Disbursements	(\$1,160,063)	(\$1,115,825)	(\$1,115,270)	(\$1,062,311)	(\$1,016,741)	(\$1,005,352)	(\$1,002,776)
Total Disaster-related Disbursements	-	(40,000)	(40,000)	(20,000)	-	-	-
Capital Expenditures	(61,790)	(28,077)	(30,895)	(30,895)	(30,895)	(30,895)	(30,895)
Equipment	(11,553)	(11,553)	(11,553)	(11,553)	(11,553)	(11,553)	(11,553)
Pensions Payment	(74,559)	(74,559)	(76,376)	(79,598)	(82,570)	(85,108)	(87,744)
<b>Total Disbursements</b>	<b>(\$1,233,406)</b>	<b>(\$1,270,014)</b>	<b>(\$1,274,095)</b>	<b>(\$1,204,357)</b>	<b>(\$1,141,759)</b>	<b>(\$1,132,908)</b>	<b>(\$1,132,968)</b>
<b>Net Operating Surplus/Deficit</b>	<b>\$32,049</b>	<b>(\$77,888)</b>	<b>\$72,974</b>	<b>\$51,402</b>	<b>\$34,205</b>	<b>\$32,665</b>	<b>\$15,487</b>
Contractual Debt Service	(\$48,255)	(\$48,255)	(\$48,256)	(\$48,249)	(\$48,259)	(\$48,252)	(\$48,261)
<b>Reserve/Deficit (Post Contractual Debt Service)</b>	<b>(\$16,206)</b>	<b>(\$126,144)</b>	<b>\$24,718</b>	<b>\$3,154</b>	<b>(\$14,054)</b>	<b>(\$15,587)</b>	<b>(\$32,774)</b>

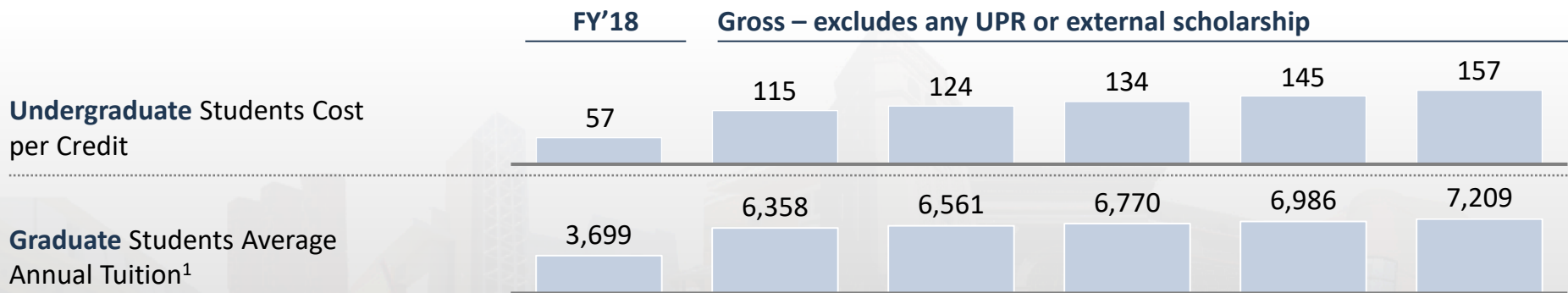
# UPR Fiscal Plan Summary of Tuition Adjustment

	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
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## Student Population – based on Revised Fiscal Plan for PR Macros



## Tuition Credit Adjustment



<sup>1</sup> Average tuition per student has changed from previous certified Fiscal Plan due to different proportional split of graduate students across the 3 campuses. No change in credit value for graduate students was included in this update of the Fiscal Plan

## UPR Fiscal Plan Summary of Tuition Adjustment

(\$ Per Student)

	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Annual Maintenance Fee	47.00	47.00	75.00	100.00	100.00	100.00
Technology Maintenance Fee	25.00	25.00	25.00	25.00	50.00	50.00
Laboratory Rights	33.00	100.00	100.00	100.00	100.00	100.00
Graduation Rights	27.00	80.00	80.00	80.00	80.00	80.00
Other Maintenance Rights	67.00	67.00	67.00	67.00	67.00	67.00
Admission Application	20.00	30.00	30.00	30.00	30.00	30.00
Re-Admission	33.00	35.00	35.00	35.00	35.00	35.00
Transfer to other Institutions	33.00	50.00	50.00	50.00	50.00	50.00
Transfer with the UPR System	20.00	25.00	25.00	25.00	25.00	25.00
Transcripts & Certificates	1.35	5.00	5.00	5.00	5.00	5.00
Document Duplicates	1.35	5.00	5.00	5.00	5.00	5.00
Change in Faculty	20.00	20.00	20.00	20.00	20.00	20.00
ID Card	5.00	10.00	10.00	10.00	10.00	10.00
Charges for late tuition	13.00	20.00	20.00	20.00	20.00	20.00
<b>Additional Fees</b>						
Summer Maintenance Fee	-	50.00	50.00	50.00	50.00	50.00
Charges for partial drop in courses	-	10.00	10.00	10.00	10.00	10.00
Charges for full drop in courses	-	15.00	15.00	15.00	15.00	15.00
Repetition of courses	-	20.00	20.00	20.00	20.00	20.00

# UPR Fiscal Plan Summary of Means Based Scholarship Expenditures

			FY'19	FY'20	FY'21	FY'22	FY'23
<b>Scholarship Expenditure (\$000's)</b>							
<b>Expected Family Contribution or EFC</b>	<b>% of Total Students</b>	<b>Average FY'19-23 Scholarship Increase</b>					
0 -499	50.32%	0.00%	-	-	-	-	-
500 -999	3.65%	8.00%	-	-	-	182	603
1000 -1499	3.57%	27.00%	425	702	996	1,299	1,601
1500 -1999	2.99%	50.40%	1,078	1,293	1,517	1,744	1,953
2000 -2499	2.73%	74.10%	1,650	1,826	2,009	2,199	2,378
2500 -2999	2.07%	95.80%	1,643	1,850	2,001	2,123	2,233
3000 -3499	1.61%	100.00%	1,274	1,435	1,600	1,770	1,946
3500 -3850	0.93%	100.00%	740	833	929	1,028	1,130
≥ 3851	2.14%	100.00%	1,693	1,906	2,126	2,352	2,586
No Pell Grant Qualification	30.00%	0.00%	-	-	-	-	-
<b>Total Scholarship Fund</b>			<b>9,016</b>	<b>10,438</b>	<b>12,043</b>	<b>13,907</b>	<b>15,596</b>

## Amount of Pell Grant Award Retained After Tuition & Fees that Can Be Applied to Other Costs of Attendance

<b>Expected Family Contribution or EFC</b>	<b>% of Total Students</b>	<b>Average FY'19-23 Scholarship Increase</b>					
500	50.32%	0.00%	1,761	1,594	1,411	1,209	1,008
1000	3.65%	8.00%	1,261	1,094	1,020	1,079	1,069
1500	3.57%	27.00%	1,005	1,009	1,018	1,024	1,045
2000	2.99%	50.40%	1,000	1,008	1,017	1,018	1,021
2500	2.73%	74.10%	1,000	1,008	1,015	1,018	1,025
3000	2.07%	95.80%	885	979	1,013	1,007	1,001
3500	1.61%	100.00%	385	479	578	680	809
3850	0.93%	100.00%	35	129	228	330	459
4500	2.14%	100.00%	(615)	(521)	(422)	(320)	(191)

# Conglomerate Transformation – Leaner Administrative Structure

		FY'19	FY'20	FY'21	FY'22	FY'23
<b>Headcount Reduction Analysis</b>						
1	Reduction of Federal Funds Personnel	0%	0%	0%	0%	0%
2	Reduction of Transitory / Temporary Personnel	-5%	-4%	-5%	-2%	-0%
3	Increase of Faculty Personnel	3%	3%	3%	0%	0%
4	Reduction of Faculty -Administrative Personnel	-20%	-17%	-21%	-2%	-0%
5	Reduction of Non-Faculty	-10%	-8%	-10%	-2%	-0%
		<b>FY'18</b>				
	<b>Total Headcount</b>	<b>12,779</b>	<b>11,965</b>	<b>11,440</b>	<b>10,814</b>	<b>10,650</b>
	<b>Total Savings (\$000's)</b>		<b>37,906</b>	<b>62,232</b>	<b>90,848</b>	<b>96,934</b>

## Headcount Reduction Analysis

- 1 Addition of ~300 faculty through conversion from Trust positions. Positions were largely in Faculty-Administrative and Non-Faculty positions and were spread across the different campuses
- 2 Elimination of non-faculty staff through new University-wide Conglomerate Structure and shared services using program consolidation to generate areas of focus.

# Conglomerate Transformation – Leaner Administrative Structure

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## 4 Conglomerates – beginning of FY19

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### **RIO PIEDRAS CAMPUS**

Río Piedras Campus: Students: 14,991 | Employees: 3,417

Bayamón Campus: Students: 4,165 | Employees: 543

Carolina Campus: Students: 3,368 | Employees: 340

### **MAYAGUEZ CAMPUS**

#### **Engineering, Aeronautics & Agricultural Sciences**

Mayaguez Campus: Students: 13,230 | Employees: 2,840

Aguadilla Campus: Students: 3,140 | Employees: 292

Arecibo Campus: Students: 3,660 | Employees: 469

Utuado Campus: Students: 841 | Employees: 206

### **SOUTHEAST REGION CONGLOMERATE**

#### **Entrepreneurship, Business, Natural & Behavioral Sciences**

Ponce Campus: Students: 2,827 | Employees: 473

Cayey Campus: Students: 3,098 | Employees: 517

Humacao Campus: Students: 3,319 | Employees: 511

### **MEDICAL SCIENCE CAMPUS**

Medical Science Campus: Students: 2,401 | Employees: 2,697

# Conglomerate Transformation – Evaluating the Academic Transformation

The UPR is currently conducting a system-wide effort to evaluate and score all outstanding academic curriculums. The finding will provide the tools to better serve the student population while reducing redundant expenses

<u>Category</u>	<u>Graduation Rate</u>	<u>Retention Rate</u>
Total Compliance (C)	40% <	80% <
Partial Compliance (CP), eligible for Improvement Plan	26-39 %	53-79%
No Compliance (NC)	25% >	52% >

## Implementation Decisions

1. Enrichment and Expansion of Highly Effective Programs
2. Transformation of distance programs
3. Reduction of programs / by Region College / UPR level system
4. Close or eliminate programs
5. Academic and administrative consolidation or restructuring

## Implications

1. Plans per campus to attend, until graduation, students enrolled in programs, declared in moratorium and gradual closing
2. Notification to Institutional and Program Accreditation Agencies and the Puerto Rico Board of Education
3. Relocation of the faculty according to preparation and discipline of specialty
4. Consolidation of faculties, academic departments within an enclosure
5. Relocation of faculties or schools and programs from one enclosure to another
6. Reduction of trust staff and support services

No fiscal impact considered. Faculty will be redistributed/revamped in focused areas.

## Pension Plan Considerations

The UPR Retirement System Funding Ratio as of June 30, 2016 was reported as 47.8%. The UPR Governing Board approved a 40 year plan for amortizing the unfunded liability considering 3% annual active member growth and 7.75% annual interest rate. Oversight Board finds that this method is optimistic and back-loaded, not appropriate for ongoing plan, but possibly adequate for frozen plan with no future accruals.

- The Oversight Board is concerned that the UPR FP contribution may not be adequate to maintain solvency, and recommends reductions in benefits but no reduction in total costs due to insolvency risks
- The Oversight Board plan includes a freeze in the pension, and continuation of a Defined Contribution plan similar to those of other Commonwealth plans, but with a 50% match on member contributions of up to 2%
- The Oversight Board plan also includes a reduction in accrued benefits, using the same mechanism as for other plans, but with recognition of the partially funded status of the UPR retirement system

### UPR financial summary post measures, \$ in millions

	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
<b>Baseline Expenditure Valuation as of 06/20/16<sup>1</sup></b>	<b>\$74,559</b>	<b>\$76,376</b>	<b>\$79,598</b>	<b>\$82,570</b>	<b>\$85,108</b>	<b>\$87,744</b>
50% employer match on 2% of contributions	\$0	\$0	(\$4,700)	(\$4,600)	(\$4,600)	(\$4,600)
Savings from reduction in accrued pension benefits	\$0	\$0	\$10,700	\$10,700	\$10,700	\$10,700
Increased Contribution to improve solvency	\$0	\$0	(\$6,000)	(\$6,100)	(\$6,100)	(\$6,100)
<b>Total Pension Cost</b>	<b>\$74,559</b>	<b>\$76,376</b>	<b>\$79,598</b>	<b>\$82,570</b>	<b>\$85,108</b>	<b>\$87,744</b>

<sup>1</sup> Per Proposed UPR Governing Board Fiscal Plan; assumes 7.75% discount rate and 40 year amortization

Note: As indicated on the Fiscal Plan, debt sustainability analysis is creditor agnostic, i.e. it does not take into account the rights and interests of creditors or allocate value of them.



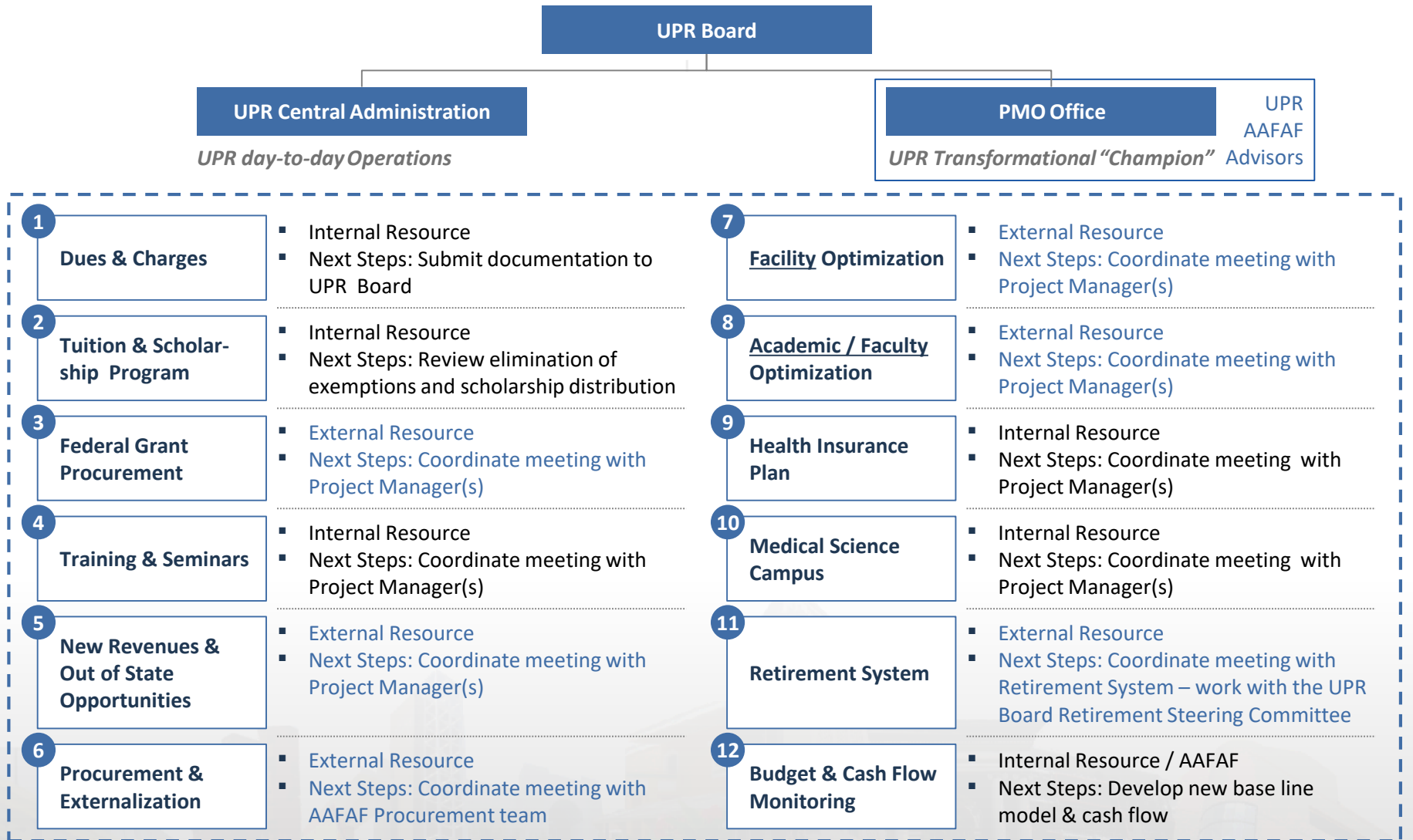
## Debt Sustainability

- 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 revenue is 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 subsidies and the need for UPR's own source revenues to support more of its operations, this past structure is inherently unsustainable from the University's perspective
- The 2018 UPR Fiscal Plan contains measures that, if timely and fully implemented by UPR, are projected to generate positive net revenues by 2023, with such primary surplus available for payment of some restructured debt service
  - These figures take into account the reduced level of Commonwealth subsidy payments to UPR contained in both the Commonwealth and UPR fiscal plans
- The following matrix illustrates, for varying coupon levels and primary surplus, or net revenue, figures, the amount of restructured UPR debt that could be supported by that surplus level
  - The matrix assumes a 30-year, level debt service payment structure and only one-time coverage of net revenues to debt service

		<b>Sensitivity Analysis:</b>			
		<b>Implied Debt Capacity at 1.0x Coverage</b>			
<b>Illustrative Cash Flow Available</b>		<b>\$10</b>	<b>\$20</b>	<b>\$30</b>	<b>\$40</b>
<b>Sensitivity Analysis: PV Rate %</b>	<b>4.0%</b>	\$173	\$346	\$519	\$692
	<b>5.0%</b>	154	307	461	615
	<b>6.0%</b>	138	275	413	551

\*Values in (\$millions)

# Fiscal Plan Implementation Workstreams



## UPR post-certification reporting requirements (1/2)

Report type	Detail	Reporting cadence	Deadline to FOMB	Deadline for public reporting
Enrollment and tuition reporting	<ul style="list-style-type: none"> <li>Number of applicants, enrolled students, as well as tuition exemptions by-type (e.g., Honor student, Veteran, etc.)</li> <li>Detail on scholarship disbursements (Federal, Commonwealth, and UPR-funded)</li> </ul>	<ul style="list-style-type: none"> <li>Within one month of start for each new academic period (i.e., semester)</li> </ul>	<ul style="list-style-type: none"> <li>15<sup>th</sup> day of month of start of academic period</li> </ul>	<ul style="list-style-type: none"> <li>Last day of following month</li> </ul>
Consolidation and operating model updates	<ul style="list-style-type: none"> <li>Implementation on 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> </ul>	<ul style="list-style-type: none"> <li>Monthly</li> </ul>	<ul style="list-style-type: none"> <li>15<sup>th</sup> day of month</li> </ul>	<ul style="list-style-type: none"> <li>Last day of following month</li> </ul>
Other implementation key performance indicators	<ul style="list-style-type: none"> <li>Development of long term KPIs to report on progress against all measures included in certified fiscal plan (e.g., federal funding, IP monetization)</li> </ul>	<ul style="list-style-type: none"> <li>Submit full implementation plan and associated performance indicators to FOMB by 1 month post-certification</li> <li>Monthly submission of progress against agreed upon KPIs</li> </ul>	<ul style="list-style-type: none"> <li>November 23, 2018</li> <li>15<sup>th</sup> day of month</li> </ul>	<ul style="list-style-type: none"> <li>December 30, 2018</li> <li>Last day of following month</li> </ul>

## UPR post-certification reporting requirements (2/2)

Report type	Detail	Reporting cadence	Deadline to FOMB	Deadline for public reporting
Cash reserves	<ul style="list-style-type: none"> <li>▪ Details of cash position and cash management for all subsidiaries and other entities under UPR</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monthly after budget is certified</li> </ul>	<ul style="list-style-type: none"> <li>▪ 15<sup>th</sup> day of month</li> </ul>	<ul style="list-style-type: none"> <li>▪ N/A</li> </ul>
Budget to actuals	<ul style="list-style-type: none"> <li>▪ Tracking of budgeted to actual cash flow per budget certification agreements with FOMB package to               <ul style="list-style-type: none"> <li>– Include explanation for material variances (&gt;10% or \$10 million)</li> <li>– Include Income statement in the reporting package</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Monthly after budget is certified for headline I/S numbers including A/R and A/P</li> <li>▪ Annually for B/S</li> </ul>	<ul style="list-style-type: none"> <li>▪ 15<sup>th</sup> day of month</li> <li>▪ July 15<sup>th</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Last day of following month</li> <li>▪ August 31<sup>st</sup></li> </ul>
Liquidity	<ul style="list-style-type: none"> <li>▪ 13-week cash flow report               <ul style="list-style-type: none"> <li>– Include accounts payable and accounts receivable roll-forwards to better understand the strength of collections and payables pressure;</li> <li>– Include 12 common weeks analysis to track material changes</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Bi-weekly</li> </ul>	<ul style="list-style-type: none"> <li>▪ 15<sup>th</sup> and 30<sup>th</sup> of month</li> </ul>	<ul style="list-style-type: none"> <li>▪ 7<sup>th</sup> and 22<sup>nd</sup> of following month</li> </ul>
Auxiliary revenue	<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> <li>▪ Certification that the report includes current associated expenditures for all auxiliary / self-generated revenues through supporting documentation</li> <li>▪ Monthly validation that these funds are still in UPR bank account through supporting documentation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Quarterly</li> </ul>	<ul style="list-style-type: none"> <li>▪ First full report due December 31, 2018</li> <li>▪ Updates due by last day of quarter (i.e., September 30; December 31, March 31, June 30)</li> </ul>	<ul style="list-style-type: none"> <li>▪ N/A</li> </ul>

# Appendix

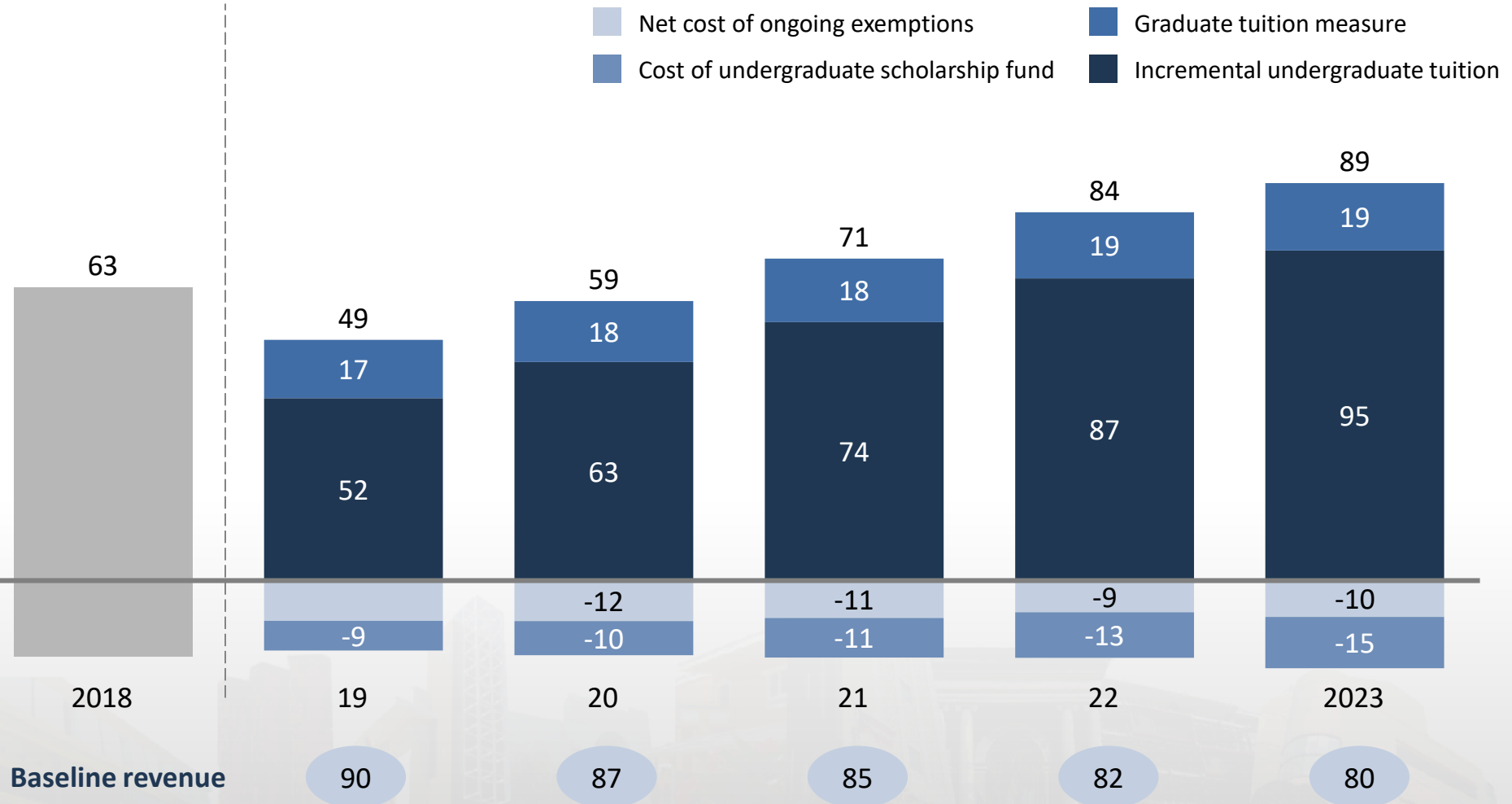
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# Net value of incremental revenue measures

## FY18 - FY23 year over year incremental revenue (post-scholarships, post exemptions)

\$, millions



**DRAFT**

# Reductions in a variety of benefits can generate ~\$155 million of savings from FY19-FY23

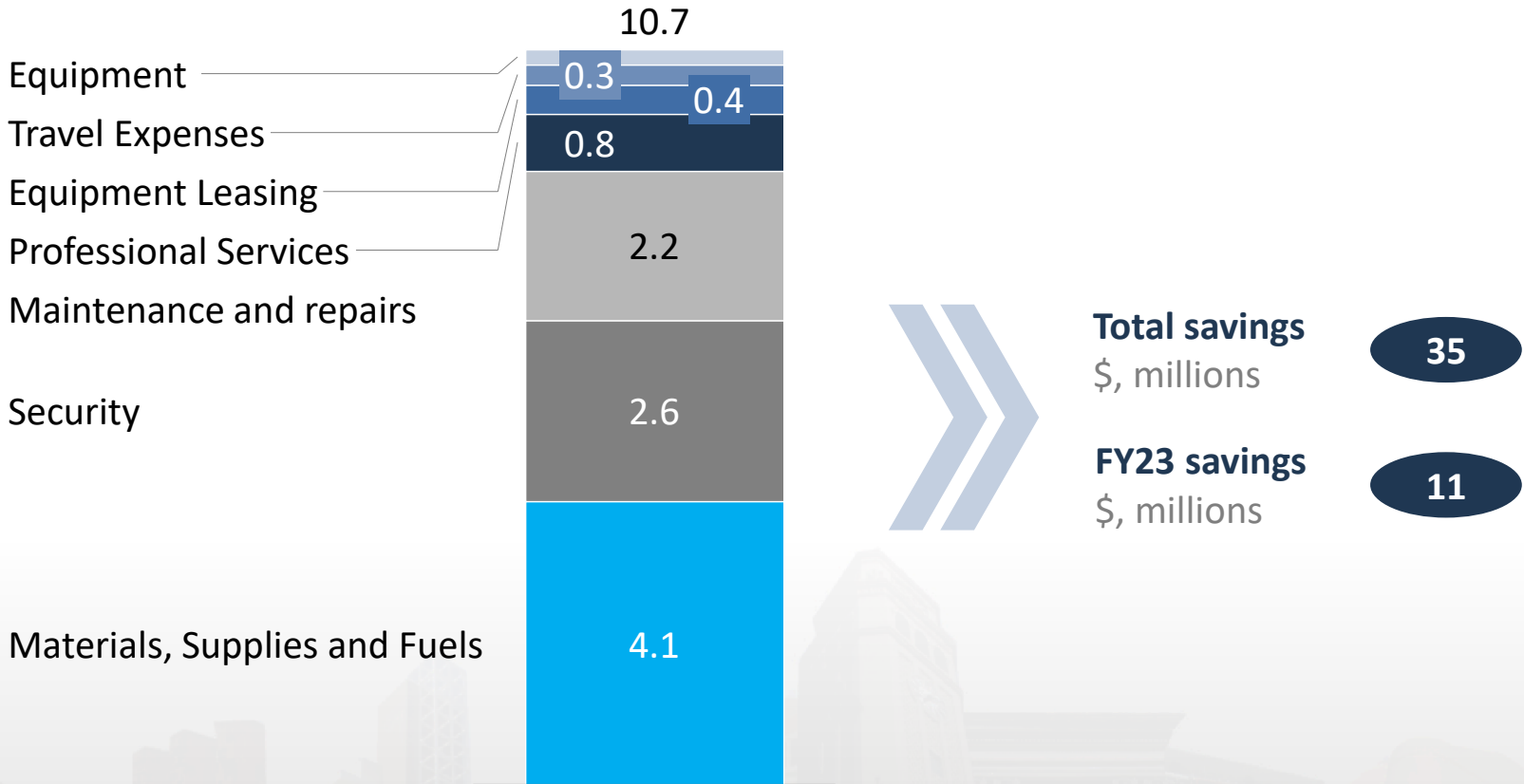
Category	Potential savings FY19-FY23, \$, millions	FY23 impact \$, millions	Description
Elimination of Christmas bonus	37	7	<ul style="list-style-type: none"> <li>Immediate elimination of Christmas bonus in FY19 for all employees</li> </ul>
Liquidations (Adjustment in Marginal Benefits)	21	5	<ul style="list-style-type: none"> <li>Based on 15-day liquidations of sick days with impact in FY20</li> </ul>
Medical Insurance Savings (Adjustment in Marginal Benefits)	67	14	<ul style="list-style-type: none"> <li>Reduction to \$390/month for faculty and \$125/month for non-faculty excluding those with pre-existing conditions from FY20</li> <li>\$500/month in FY19</li> </ul>
Other Compensation (Adjustment in Marginal Benefits)	29	7	<ul style="list-style-type: none"> <li>Small changes across items including union changes; impact in FY20</li> </ul>
<b>Total</b>	<b>155</b>	<b>34</b>	<ul style="list-style-type: none"> <li>Represents 20% savings across all employee benefits over the 5-year period</li> </ul>

**DRAFT**

~\$35 million of savings from FY19-FY23 can be achieved by generating 9% savings at hub campuses and 18% reduction of service at small campuses<sup>1</sup>

**Potential annual procurement savings**

\$, millions



<sup>1</sup> Key assumptions:

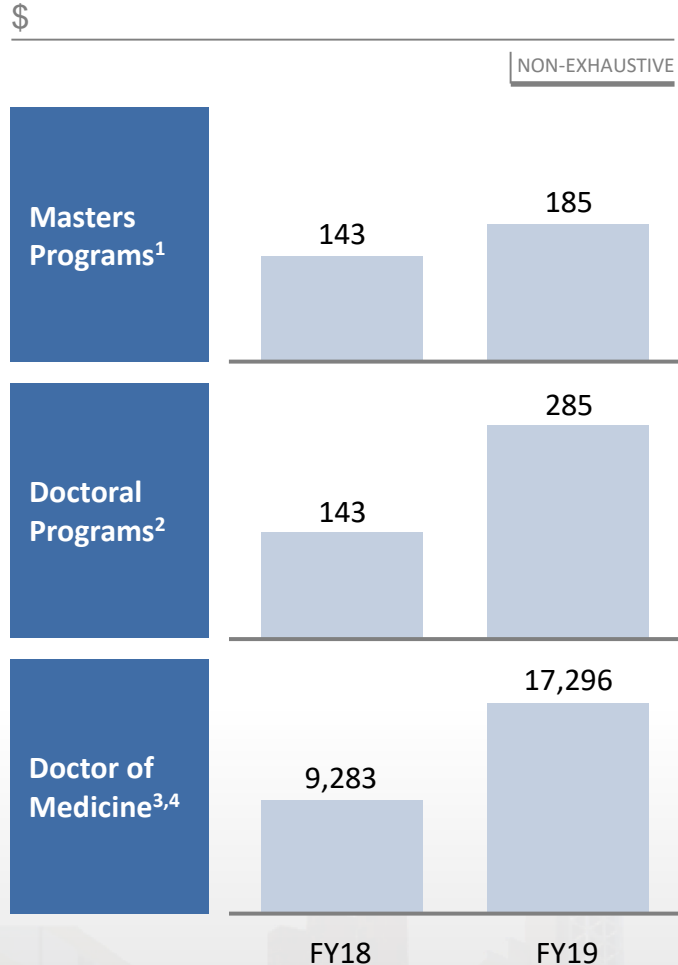
- Base spend of 92MM on procurable spends across the 11 campuses
- Base includes Materials and supplies, maintenance and repairs, equipment, travel, professional services, and security
- Procurement savings of 9% in hub campuses and 18% in satellite campuses from reduction of services



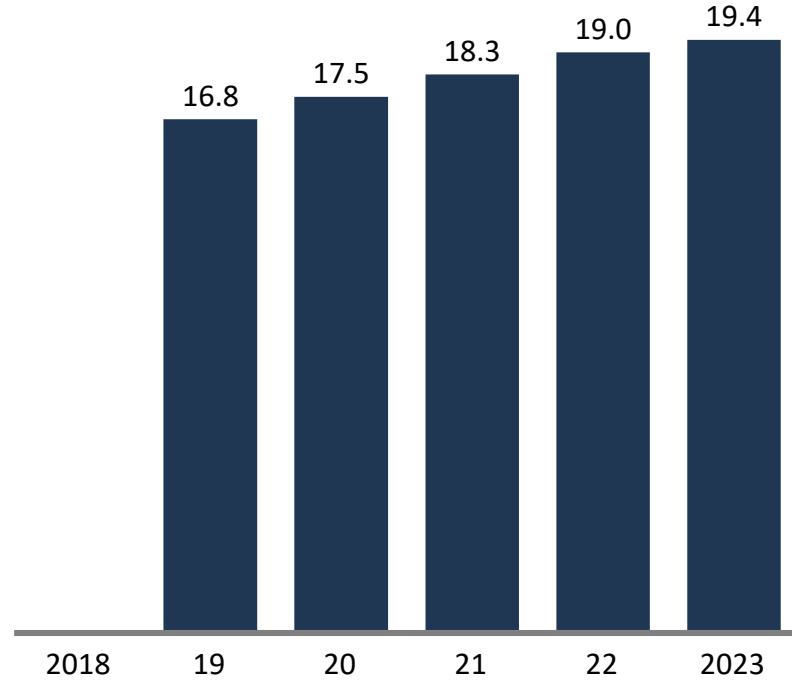
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# ~\$91 million of additional revenue can be collected by increasing graduate student tuition towards comparable universities

## Program-by-program per credit increase



Incremental graduate tuition revenue from measures \$, millions



Baseline graduate tuition \$, millions

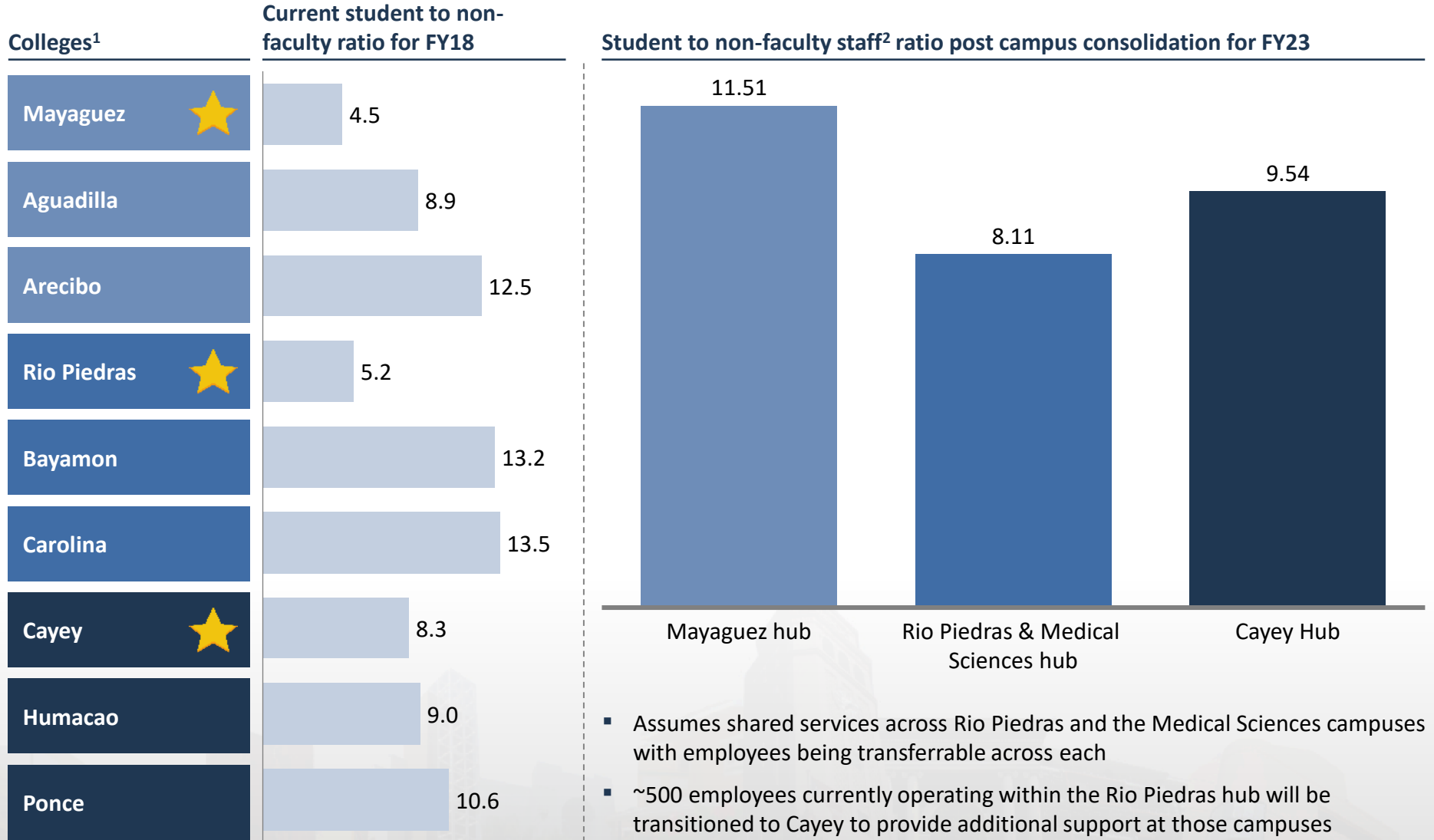


1 Increased to reflect average of graduate programs offered on the Island less ~\$500 to maintain competitiveness  
 2 Assumes programs increase annual tuition to ~50% of mainland programs which cost ~\$15,890 from public universities  
 3 For all advanced degree programs within the Medical School, tuition increased to 50% of average in-state, mainland tuition  
 4 Doctor of Dental Medicine and Medicine programs are 1 credit programs and the tuition is represented as an annual number

**DRAFT**

# Campus consolidation enables sharing of services and spreads out student to non-faculty ratio across the campuses

★ Hub Campus



- Assumes shared services across Rio Piedras and the Medical Sciences campuses with employees being transferrable across each
- ~500 employees currently operating within the Rio Piedras hub will be transitioned to Cayey to provide additional support at those campuses

<sup>1</sup> This analysis does not include Utuado campus and Medical Science Campus because of data unavailability  
<sup>2</sup> Includes all non-faculty and faculty-administrative positions across each campus included in the conglomerate structure