

**UNITED STATES DISTRICT COURT  
DISTRICT OF PUERTO RICO**

In re:

THE FINANCIAL OVERSIGHT AND  
MANAGEMENT BOARD FOR PUERTO  
RICO,

as representative of

THE COMMONWEALTH OF PUERTO RICO,  
et al., Debtors.<sup>1</sup>

Debtors

ASOCIACIÓN DE PROFESORAS Y  
PROFESORES DEL RECINTO  
UNIVERSITARIO DE MAYAGÜEZ, INC.  
(APRUM)

Plaintiffs,

v.

COMMONWEALTH OF PUERTO RICO; THE  
FINANCIAL OVERSIGHT AND  
MANAGEMENT BOARD FOR PUERTO  
RICO; HON. RICARDO ANTONIO  
ROSSELLÓ NEVARES; GERARDO  
PORTELA FRANCO; HON. RAÚL  
MALDONADO GAUTIER; JOSÉ IVÁN  
MARRERO ROSADO; NATALIE A.  
JARESKO and JOHN DOES 1-5,

Defendants.

PROMESA Title III

No. 17 BK 3283-LTS

(Jointly Administered)

ADV. PROC. NO.: 2017-\_\_\_\_\_

**ADVERSARY COMPLAINT**

<sup>1</sup> The Debtors in these Title III Cases, along with each Debtor’s respective Title III case number listed as a bankruptcy case number due to software limitations and the last four (4) digits of each Debtor’s federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation (“COFINA”) (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Employees Retirement System of the Government of the Commonwealth of Puerto Rico (“ERS”) (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686); and (iv) Puerto Rico Highways and Transportation Authority (“HTA”) (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808).

TO THE HONORABLE COURT:

Comes now Plaintiff, Asociación de Profesoras y Profesores del Recinto Universitario de Mayagüez, Inc. (APRUM), through its attorneys, Bufete Emmanuelli, C.S.P., for their Adversary Complaint against defendants the Commonwealth of Puerto Rico; the Financial Oversight and Management Board for Puerto Rico; Hon. Ricardo Rosselló Nevares; Gerardo Portela Franco; Hon. Raúl Maldonado Gautier; José Iván Marrero Rosado; Natalie A. Jaresko; and John Does 1-5 (collectively, the “Defendants”), and alleges, states, prays and requests relief as follows:

**I. NATURE OF THIS ADVERSARY PROCEEDING**

1. Founded in the early 1970’s, APRUM is a bona fide organization of teaching staff at the Mayagüez Campus of the University of Puerto Rico (RUM). Through its work, APRUM has managed to build a prestige among the RUM’s professors as an organization that defends the professoriate.
2. Likewise, it has gained the management's *de facto* recognition as a professors' representative organization that protects the working and academic conditions of the faculty, meeting periodically with the campus administration to carry the professors’ voice on matters pertinent to labor and academic environment of the Mayagüez Campus and the University of Puerto Rico (UPR) in general.
3. The UPR is the largest sustained public investment in the history of Puerto Rico. After 116 years of existence, it has evolved from a teachers’ college in

Río Piedras and a faculty of agriculture and mechanical arts in Mayagüez to become a university system with eleven (11) campuses and an enrollment of 60,000 students (33.4% of all college students in the country for 2015).

4. PROMESA in Section 201(b)(1)(A),(B),(G),(J)<sup>2</sup> specifically requires that any fiscal plan must:

(A) provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on—

(i) applicable laws; or

(ii) specific bills that require enactment in order to reasonably achieve the projections of the Fiscal Plan;

(B) ensure the funding of essential public services;

[...]

(G) enable the achievement of fiscal targets;

[...]

(J) provide for capital expenditures and investments necessary to promote economic growth;

[...]

5. It is evident that PROMESA requires that essential government services be protected, that fiscal targets are achieved, and investments are made to generate economic growth. The Commonwealth's fiscal plan dated March 13, 2017 (Exhibit A), as implemented through the newly-enacted Fiscal Plan Compliance Law<sup>3</sup>, totally disregards these requisites therefore constitutes a gross violation of the clear statutory

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<sup>2</sup> 48 U.S.C. §§ 2141(b)(1)(A),(B),(G),(J).

<sup>3</sup> Law 26-2017.

mandates of PROMESA, rendering the Fiscal Plan Illegal (from now on, Illegal Fiscal Plan).

6. Similarly, Sections 101(a)<sup>4</sup> of PROMESA require a compliant fiscal plan to “provide a method to achieve fiscal responsibility and access to the capital markets,” yet the Illegal Fiscal Plan significantly cuts government investments in education, an investment indispensable to promote economic growth and thus, ensures that Puerto Rico will not regain access to the capital markets for the foreseeable future.
7. The University of Puerto Rico is the main catalyst for sustainable economic development for Puerto Rico, therefore, comprises an essential service to the country and its constituents as defined by Section 201 of PROMESA.<sup>5</sup>
8. As an essential service, the Fiscal Plan should provide enough resources to the UPR, because it constitutes an imperative investment that promotes economic growth according to Section 201,<sup>6</sup> and this is also a requirement for the feasibility of a plan for the adjustments of debts as required by Section 314 of PROMESA.<sup>7</sup>
9. The budget imposed by the Oversight Board to the Legislative Assembly of Puerto Rico, ordered a reduction of \$201 million to the University of Puerto Rico (UPR) Exhibit B. This in turn, represents up to \$47 million

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<sup>4</sup> 48 U.S.C. §§ 2121(a).

<sup>5</sup> 48 U.S.C. §§ 2141.

<sup>6</sup> 48 U.S.C. §§ 2141.

<sup>7</sup> 48 U.S.C. §§ 2174.

in additional cuts to University of Puerto Rico, Mayagüez Campus (UPRM).

10. The Oversight Board's determinations summarized in the Fiscal Plan and imposed in the 2017-2018 budget, are arbitrary, lacking a rational basis and in clear and open violation of the requirements of Section 201 of PROMESA.<sup>8</sup> These also make impossible the confirmation of a plan of adjustments of debts according to Section 314 of PROMESA,<sup>9</sup> for lack of sustainability of payments. Thus, the Oversight Board's determinations summarized in the Fiscal Plan and imposed in the 2017-2018 budget violates the Due Process of Law enshrined in the Constitution of the United States of America.

11. According to a study made by Dr. Edwin Irizarry Mora and Dr. José I. Alameda Lozada,<sup>10</sup> the cuts imposed to UPR for the 2017-2018 fiscal year budget will have an adverse impact in Mayagüez Campus of approximately \$47 million which include \$9.7 million less in funds available for payroll expenses. This will result in a reduction of 155 full-time professors and 7 part-time and therefore, a drastic increase in the workload of each faculty member of the institution.

12. In other words, the budget reduction would imply that the teaching staff remaining in the UPRM would carry out the same work as in

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<sup>8</sup> 48 U.S.C. §§ 2141.

<sup>9</sup> 48 U.S.C. §§ 2174.

<sup>10</sup> *Impact of budget cuts on faculty members of UPRM, July 2, 2017, Exhibit C.*

previous academic years, attending to the same number of courses, sections and students with fewer personnel.<sup>11</sup>

13. The net impact of all the above is that each professor would increase their workload by approximately 25% in each academic semester, receiving the same pay (\$60,000 annually on average). Consequently, the effect of the budget reduction is that, by performing 25% of additional tasks for the same pay, the adjusted salary of each member of the teaching staff (distributed between the average wage) should increase by 25%. That is, an average of \$75,000 per year. This will result in an average of non-received payment of \$15,000 per professor who would remain working in the UPRM.

14. The \$201 million cut imposed to UPR for the 2017-2018 fiscal year budget will have an adverse impact in Mayagüez Campus of approximately 47 million dollars, which also means less resources for the sustainability of the academic offerings and accreditations.

15. As mentioned before, PROMESA requires that essential government services be protected, that fiscal targets are achieved, and investments are made to generate economic growth. This is for the ultimate purpose of achieving a debt adjustment plan that is viable and sustainable, through reliable income that promotes enough confidence

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<sup>11</sup> The RUM's Office of Admissions has already certified that the number of freshmen (first year enrollment) for academic year 2017-2018 has exceeded by 2% the amount of new-comers projected by the institution. This means that total enrollment by August 2017 (total demand for academic services) will surpass by 2% the projected academic offerings (total academic supply).

from the investors to warrant the territory access to the bond markets at reasonable costs.

16. For all the above reasons, threatening the economic viability of the UPR is equivalent to an unparalleled generational treachery and a social devastation in the short term. Furthermore, it seriously encumbers the possibility of reversing the country's continuing economic contraction. This will, in turn, make economic recovery an even more tortuous and tough climb, and immediately diminish the ability to address the claims of other creditors in a plan for the adjustments of debts that conforms to Section 314 of PROMESA.<sup>12</sup>

17. Unless totally recast to protect the essential services of the UPR, the Illegal Fiscal Plan and the 2017-2018 fiscal year budget cannot possibly be permitted to serve as the basis for any lawful plan of adjustment of debt that complies with the U.S. Constitution and the laws of the United States. Accordingly, Defendants should be enjoined and stayed from presenting any plan of adjustment, until the Illegal Fiscal Plan is reformulated to comply with the law.

## **II. THE PARTIES**

18. Plaintiff, Asociación de Profesoras y Profesores del Recinto Universitario de Mayagüez, Inc., (APRUM) is a corporation created under the Laws of The Commonwealth of Puerto Rico, with its principal place of business at Mayagüez, Puerto Rico.

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<sup>12</sup> 48 U.S.C. §§ 2174.

19. Defendant, the Commonwealth of Puerto Rico (the “Commonwealth”) is a territory of the United States.

20. Defendant, the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”) was created under Section 101(b)(1) of PROMESA<sup>13</sup> as an “entity within the [Commonwealth] government.”<sup>14</sup>

21. Defendant, Hon. Ricardo Rosselló Nevares (“Governor Rosselló”) is the Governor of the Commonwealth. Plaintiff sue Governor Rosselló in his official capacity.

22. Defendant, Gerardo Portela Franco (the “AAFAF Executive Director”) is the Executive Director of AAFAF and in that capacity is empowered to implement the Illegal Fiscal Plan and the Fiscal Plan Act. Plaintiff sue the AAFAF Executive Director in his official capacity.

23. Defendant, Hon. Raúl Maldonado Gautier (the “Secretary of Treasury”) is the Secretary of Treasury of the Commonwealth and in that capacity is empowered to implement the Illegal Fiscal Plan and the Fiscal Plan Act. Plaintiff sue the Secretary of Treasury in his official capacity.

24. Defendant, José Iván Marrero Rosado (the “OMB Director”) is the Director of the Commonwealth’s Office of Management and Budget (the “OMB”) and in that capacity, is empowered to implement the Illegal Fiscal Plans. Plaintiff sue the OMB Director in his official capacity.

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<sup>13</sup> 48 U.S.C. § 2121(b)(1).

<sup>14</sup> 48 U.S.C. § 2121(c)(1).



25. Defendant, Natalie A. Jaresko (the “Oversight Board Executive Director”) is the Executive Director of the Oversight Board and in that capacity, is empowered to implement the Illegal Fiscal Plans. Plaintiff sue the Oversight Board Executive Director in her official capacity.

26. Defendant, John Doe 1 is any successor to Governor Rosselló as Governor of the Commonwealth. Plaintiff sue John Doe 1 in his or her official capacity.

27. Defendant, John Doe 2 is any successor to Gerardo Portela Franco as Executive Director of AAFAF and in that capacity, is empowered to implement the Illegal Fiscal Plan and the Fiscal Plan Act. Plaintiff sue John Doe 2 in his or her official capacity.

28. Defendant, John Doe 3 is any successor to Hon. Raúl Maldonado Gautier as Secretary of Treasury of the Commonwealth and in that capacity, is empowered to implement the Illegal Fiscal Plan and the Fiscal Plan Act. Plaintiff sue John Doe 3 in his or her official capacity.

29. Defendant, John Doe 4 is any successor to José Iván Marrero Rosado as the Director of the Commonwealth’s Office of Management and Budget and in that capacity, is empowered to implement the Illegal Fiscal Plan and the Fiscal Plan Act. Plaintiff sue John Doe 4 in his or her official capacity.

30. Defendant, John Doe 5 is any successor to Natalie A. Jaresko as the Executive Director of the Oversight Board and in that capacity, is

empowered to implement the Illegal Fiscal Plan and the Fiscal Plan Act. Plaintiff sue John Doe 5 in his or her official capacity.

### **III. JURISDICTION AND VENUE OF THIS HONORABLE COURT**

31. This Court has federal question subject matter jurisdiction pursuant to 28 U.S.C. § 1331 because this action arises under PROMESA and the U.S. Constitution.

32. In addition, this Court has jurisdiction under Section 106(a) of PROMESA, which grants jurisdiction to this Court over “any action against the Oversight Board, and any action otherwise arising out of [PROMESA], in whole or in part.”<sup>15</sup>

33. Plaintiff seek a declaration and related relief pursuant to 28 U.S.C. §§ 2201 and 2202. An actual and justiciable controversy has arisen and exists between the parties with respect to the issues and claims alleged herein.

34. This is an adversary proceeding pursuant to Rule 7001 of the Federal Rules of Bankruptcy Procedure and Section 310 of PROMESA, which provides “The Federal Rules of Bankruptcy Procedure shall apply to a case under [Title III of PROMESA] and to all civil proceedings arising in or related to cases under [Title III of PROMESA].”<sup>16</sup>

35. Venue is proper in this District under Section 307 of PROMESA.<sup>17</sup>

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<sup>15</sup> 48 U.S.C. § 2126(a).

<sup>16</sup> 48 U.S.C. § 2170; Fed. R. Bankr. P. 7001.

<sup>17</sup> 48 U.S.C. § 2167.

36. Plaintiff have standing to bring this adversary proceeding, as parties in interest in the above-captioned Title III case according to Section 301 of PROMESA<sup>18</sup> which incorporates Section 1109 of the Bankruptcy Code.<sup>19</sup>

#### **IV. LEGAL AND FACTUAL BACKGROUND**

##### **A. PROMESA, THE FISCAL PLAN AND THE 2017-2018 FISCAL YEAR BUDGET**

37. On June 30, 2016, President Barack Obama signed PROMESA into law. The stated purpose of PROMESA is to “establish an Oversight Board to assist the Government of Puerto Rico, including instrumentalities, in managing its public finances, and for other purposes.”<sup>20</sup>

38. Among other things, PROMESA: (i) establishes a process for the Oversight Board to approve a fiscal plan governing the Commonwealth’s future finances and budgets (Title II); (ii) establishes a process for the Oversight Board to file a bankruptcy petition on behalf of the Commonwealth or its instrumentalities (Title III); and (iii) provides for an alternative mechanism for adjusting the Commonwealth’s bond debt outside of a bankruptcy proceeding by effectuating modifications with the substantial, but not necessarily unanimous, support of the affected bondholders.

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<sup>18</sup> 48 U.S.C. §§ 2161.

<sup>19</sup> 11 U.S.C. 1109.

<sup>20</sup> H.R. 5278, 114th Cong. (2016) (Preamble).

39. Pursuant to PROMESA, the Commonwealth, in conjunction with and under the supervision of the Oversight Board, must develop a fiscal plan designed to “provide a method to achieve fiscal responsibility and access to the capital markets.” PROMESA § 201(b)(1), (2).<sup>21</sup>

40. Congress included 14 different “requirements” that any fiscal plan must satisfy. PROMESA § 201(b)<sup>22</sup>. Congress authorized the Oversight Board to certify a fiscal plan only if the fiscal plan “satisfies such requirements.” *Id.* § 201(c)(3)(A).<sup>23</sup>

41. PROMESA in Section 201(b)(1)(A),(B),(G),(J)<sup>24</sup> specifically requires that any fiscal plan must:

(A) provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on—

- (i) applicable laws; or
- (ii) specific bills that require enactment in order to reasonably achieve the projections of the Fiscal Plan;

(B) ensure the funding of essential public services;

[...]

(G) enable the achievement of fiscal targets;

[...]

(J) provide for capital expenditures and investments necessary to promote economic growth;

[...]

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<sup>21</sup> 48 U.S.C. §§ 2141 (b)(1),(2).

<sup>22</sup> 48 U.S.C. §§ 2141 (b).

<sup>23</sup> 48 U.S.C. §§ 2141 (c)(3)(A).

<sup>24</sup> 48 U.S.C. §§ 2141(b)(1)(A),(B),(G),(J).

42. If a fiscal plan “does not satisfy such requirements,” then the “Board shall provide to the Governor a notice of violation.” *Id.* § 201(c)(3)(B).<sup>25</sup>

43. Once a fiscal plan is certified by the Oversight Board, the Commonwealth is required to pass annual budgets that follow the certified fiscal plan. See PROMESA § 202.<sup>26</sup>

44. The Commonwealth’s fiscal plan dated March 13, 2017 (as amended, the “Illegal Fiscal Plan”) (Exhibit A), as implemented through the newly-enacted Fiscal Plan Compliance Law (P. de la C. 938, the “Fiscal Plan Act”), totally disregards Section 201(b)(1)(A),(B),(G),(J) of PROMESA.<sup>27</sup>

45. The Illegal Fiscal Plan violates PROMESA by failing to even attempt to provide estimates of revenues and expenditures in conformance with the applicable standards and laws, and to prioritize as between different categories of “regular expenses” of government. Furthermore, the Illegal Fiscal Plan openly acknowledges that it does not reflect any attempt at differentiation between higher priority “essential” services and lower priority “non-essential services,” because it includes within its list of “Legal and Contractual Issues not determined by the Fiscal Plan” the issue of “What is an essential service for purposes of the exercise of the Government’s police power.” Exhibit A at 6. In addition, the letter from Mr. José B. Carrión III to Governor Rosselló, Mr. Thomas Rivera Schatz, President of the Senate of Puerto Rico and Mr.

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<sup>25</sup> 48 U.S.C. §§ 2141 (c)(3)(B).

<sup>26</sup> 48 U.S.C. §§ 2142.

<sup>27</sup> 48 U.S.C. §§ 2141(b)(1)(A),(B),(G),(J).

Johnny Méndez, Speaker of the House of Representatives, dated June 6, 2017, confirms the absence of definition of the essential services, because, specifically states at page 3, that the government should define the meaning of “essential services” in the context of the budget for fiscal year 2017-2018. Exhibit D.

46. On Friday, June 30, 2017, the Oversight Board approved the Commonwealth of Puerto Rico’s 2017-2018 fiscal year budget, aligned with the Illegal Fiscal Plan without correcting the incongruences and legal deficiencies of the Plan.

47. The budget imposed by the Oversight Board to the Legislative Assembly of Puerto Rico, ordered a reduction of \$201 million to the University of Puerto Rico (UPR). This in turn, represents up to \$47 million in additional cuts to University of Puerto Rico, Mayagüez Campus (UPRM).

48. In contrast to the reduction of \$201 million to the UPR, the budget imposed includes as “expenses” \$205 million in funds that the Commonwealth will build and maintain as a reserve and are not appropriated for any known or expected expenditure. First, the budget includes a “Liquidity Reserve” of \$190 million. Second, the budget includes an “Emergency Fund” of \$15 million to cover unexpected and unforeseen expenses caused by calamities such as wars or natural disasters. Together, these \$205 million in cushion-funds are not appropriated for any known or expected expenditure (essential or

otherwise) that is likely to occur in fiscal year 2017-2018. The Commonwealth and Oversight Board claim that these amounts will be spent in fiscal year 2018, leaving insufficient resources to pay essential services like the University of Puerto Rico.

49. In addition, spread throughout the budget are at least \$750 million in “expenses” that serve no purpose other than covering non-budgeted expenses. This amount is almost 5 times the reduction imposed to the UPR.

50. The Fiscal Plan not only considered all expenses to be “essential,” but it then artificially inflated the Commonwealth’s “expenses” by including a so-called “Reconciliation Adjustment” of \$585 million in the Fiscal Plan for fiscal year 2017 (the amount grows each year and totals \$6.2 billion over the March Fiscal Plan’s 10-year term). The Reconciliation Adjustment is a line item in the Fiscal Plan for unidentified expenses based on the assumption that Puerto Rico will spend more than its 2017 fiscal year Budget allows. Not only is the Reconciliation Adjustment antithetical to any concept of fiscal discipline, but the methodology the Oversight Board (and its advisors) used to determine the amount of the Reconciliation Adjustment was unreasoned and deeply defective.

51. Moreover, the imposed budget and the May 31, 2017 amendments to the Fiscal Plan include more than \$1 billion in additional revenues not set forth in the Fiscal Plan certified on March 13. In particular, the

Oversight Board and Commonwealth identified \$734 million in “additional revenue” from pension reimbursement and asset sales. Additionally, on May 5, 2017, President Trump signed into law the Consolidated Appropriations Act, Pub. L. No. 115-31, pursuant to which Congress allocated \$296 million in additional Medicaid funding for Puerto Rico that was not included in the March Fiscal Plan. The FY18 Budget and Fiscal Plan amendments acknowledge this additional funding: “Puerto Rico will receive an additional \$295.9 million in one-time funding for its Medicaid program.”<sup>28</sup>

52. As with the Illegal Fiscal Plan, the budget imposed by the Oversight Board violates PROMESA by failing to even attempt to provide estimates of revenues and expenditures in conformance with applicable standards and laws, and to prioritize as between different categories of “regular expenses” of government as between higher priority “essential” services and lower priority “non-essential services”. The budget imposed compounds the errors in the certified Fiscal Plan and further highlights the Oversight Board’s and Commonwealth’s disregard for Puerto Rico’s law and PROMESA.

## **B. PROMESA AND THE PLAN OF ADJUSTMENT OF DEBT**

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<sup>28</sup> On May 23, 2017, President Trump proposed his fiscal year 2018 budget, which includes full restoration of Medicaid funding for Puerto Rico, totaling \$862 million for the U.S. fiscal year 2018. Although this proposal has not passed, the Oversight Board and Commonwealth continue to project that the Commonwealth will not receive a single dollar beyond the \$296 million allocated under the Consolidated Appropriations Act.



53. Section 302 of PROMESA<sup>29</sup> defines who may be eligible to file a case under Title III. In the particular case of the Commonwealth, among other requirements, to be eligible for filing a Title III case, the territory should adopt a Fiscal Plan certified by the Oversight Board.

54. Moreover, according to sections 104 (j) and 312 of PROMESA<sup>30</sup>, as part of the Title III case, the Oversight Board, may file a plan of adjustment of the debts in a Title III. However, the Oversight Board may file the plan of adjustment of debts only after issuing of a certification that it is consistent with the applicable certified Fiscal Plan.

55. Once filed, the court shall confirm the plan of adjustment of the debts, only if it satisfies a series of requirements. In section 214(b)(6)-(7), PROMESA specifically states that the plan of adjustment of debts must be feasible and in the best interests of creditors, and consistent with the applicable Fiscal Plan certified by the Oversight Board.<sup>31</sup>

56. Therefore, the certification of a **valid fiscal plan** by the Oversight Board is an essential requirement for the Commonwealth in order to be eligible for filing a confirmable plan of adjustment of debt under Title III of PROMESA.

**C. THE UNIVERSITY OF PUERTO RICO IS AN ESSENTIAL SERVICE AND AN INVESTMENT TO PROMOTE ECONOMIC GROWTH THAT WILL SUPPORT THE ACHIEVEMENT OF FISCALS TARGETS AND SUSTAINABILITY OF A PLAN OF ADJUSTMENT OF DEBT**

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<sup>29</sup> 48 U.S.C. §§ 2162

<sup>30</sup> 48 U.S.C. §§ 2124(j) and 2172.

<sup>31</sup> 48 U.S.C. §§ 2174(b)(6)-(7).

57. The University of Puerto Rico is the largest sustained public investment in the history of Puerto Rico. After 114 years of existence, it has evolved from a teachers' college in Río Piedras and a faculty of agriculture and mechanical arts in Mayagüez to become a university system with eleven (11) campuses and an enrollment of 60,000 students (33.4% of all college students in the country for 2015).

58. The Law of the University of Puerto Rico, Act. No. 2 of 1966 (as amended), which allocated 9.6% of Puerto Rico's revenues to the UPR, was amended with Act. No. 66 of 2014, fixing the government contribution at \$833.9 million, forcing the UPR to operate under a significantly lower budget, amounting to \$300 million less in higher education government investment since 2014.

59. Considering the amount assigned for Puerto Rico's investment in the UPR as amended by Law 66 of 2014 (fixed at \$833.9 million), compared to the 9.6% formula of the total government income projections in the Commonwealth's Fiscal Plan, as certified by the Fiscal Oversight Board (JSF), the University of Puerto Rico would already have suffered an automatic reduction in government investment of \$320 million by 2018.<sup>32</sup>

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<sup>32</sup> Without the fixing of the governmental contribution at \$833.9 million, the UPR would have received an estimated \$1,154 in 2018, in accordance with the revenue estimates contained in the Commonwealth's Fiscal Plan, as certified by the Fiscal Oversight Board. Therefore, the cuts in the funds that should be destined to the UPR are arbitrary and contrary to Section 201 of PROMESA.

60. Those cuts in the investment for the UPR will undermine in an unbearable way the capacity of the institution to sustain the quality of education that Puerto Rico deserves to contribute to the economic growth of Puerto Rico.

61. The University of Puerto Rico is the main catalyst for sustainable economic development for Puerto Rico, therefore, constitutes an essential service to the country and its constituents as defined by Section 201 of PROMESA.<sup>33</sup>

62. The Chairmen of the Oversight Board, Mr. José B. Carrión III, acknowledged the importance of the UPR as an **essential service** during a meeting on June 26, 2017, with various UPR's representatives. Notwithstanding that fundamental **admission**,<sup>34</sup> the Board did not amend the Fiscal Plan and maintained the cuts to the UPR in the Commonwealth's Budget for year 2017-2018.

63. As an essential service, the Fiscal Plan should provide enough resources to the UPR, because it constitutes an imperative investment that promotes economic growth according to Section 201,<sup>35</sup> and this is also a requirement for the viability of a plan for the adjustments of debts as required by Section 314 of PROMESA.<sup>36</sup>

64. Currently, the UPR has the best graduation rates of all higher education institutions in Puerto Rico with academic and professional degrees, 85% of which are accredited by relevant professional organizations. Despite the

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<sup>33</sup> 48 U.S.C. §§ 2141

<sup>34</sup> See Federal Rule of Evidence 801. 28 U.S.C. Rule 801.

<sup>35</sup> 48 U.S.C. §§ 2141.

<sup>36</sup> 48 U.S.C. §§ 2174.

multiple challenges it faces, the excellence that characterizes the UPR's primary mission –the higher education of the younger generations and the continuous training of the adult work force–, is unquestionable.

65. At the same time, the UPR is also the leading institution in research and scientific publications and patent development (33 in 2016). It has research centers in the fields of medicine, engineering, agriculture, socio-humanistic sciences, and marine biology, which includes the marine research laboratory in Magueyes Island in La Parguera, Lajas.

66. The UPR shares with other public and private institutions in the country two vital tasks: (1) contributing to providing health care and safety to the population, and (2) promoting and safekeeping the cultural heritage.

67. As part of its work in health care, the UPR manages the University Hospital Dr. Federico J. Trillas in Carolina, where some 58,000 people are treated annually. The UPR faculty of the School of Medicine at the Medical Sciences Campus also offer their services in the various tertiary and supratertiary hospitals that make up the Medical Center, the largest and most important medical-hospital complex in the country. Among the schools that make up the Medical Sciences Campus of the UPR are medicine, pharmacy, nursing, dentistry, public health and other healths-profession that continually offer clinics and outreach programs which serve underprivileged populations, who would otherwise lack access to these services.

68. Furthermore, the UPR ensures the health and safety of the population in many ways beyond the important contribution of the Medical Sciences

Campus and the clinics and practices provided by graduate programs in psychology, counseling and social work. For example, in the Río Piedras Campus, the Community Sport Access and Integration Program (PAIDCO) promotes physical activity among its beneficiaries; the Caño Martín Peña Liaison Project promotes the environmental health of residents of G-8 communities; and the alliance with the Ricky Martin Foundation and the Office of the Ombudsman for Women educates and combats human trafficking and gender violence.

69. The Mayagüez Campus has projects that include Siempre Vivas, the Institute for Community Development, the Seismic Network, the Sea Grant Program and 55 agricultural extension offices, each promoting, respectively, violence prevention, sustainable development of communities in collaboration with universities, public safety in the event of an earthquake or tsunami, environmental conservation of coastal and marine ecology, coastal risk management, food security for communities and prevention of diseases related to nutrition.

70. The pivotal role of the UPR as promoter and custodian of culture, art and history is demonstrated, among other things, through the administration of four (4) museums (Anthropology and History, UPR-RP; Dr. Pío López Martínez, UPR-Cayey; MUSA, UPR-Mayagüez; Casa Roig, UPR-Humacao) and forty-two (42) different libraries open to the community, which constitute the only professional network of public libraries in the country.

71. The UPR also has a publishing house, a newspaper, an FM radio station and one of the most important musical and drama theaters in the country, the Theater of the University of Puerto Rico. To this cultural heritage, we should add dozens of internationally renowned, award-winning artistic groups, including Coralia, Chorium, Jóvenes del 98 and the Traveling Theater of the UPR (Teatro Rodante de la UPR).

72. Amidst the fiscal crisis affecting all government levels, no public or private institution exists in the country that can absorb the multiplicity of functions carried out by the University of Puerto Rico system. Nor has there been in the history of Puerto Rico any other institution with greater impact on the promotion of social equity by serving disadvantaged populations in multiple ways, and providing opportunities of all kinds to generations of young people with diverse talents. A valuable example is the Center for University Access (Centro Universitario para el Acceso-CUA), which was developed over a decade ago at UPR-Mayagüez. This university-community research project is devoted to developing outreach initiatives that help disadvantaged youth from the lowest socio-economic levels (especially, those living in public housing) to enter the UPR and successfully complete their education goals. Three years ago, CUA was expanded to five other campuses (Bayamón, Carolina, Cayey, Humacao and Río Piedras) and today, with just two years of sustained outreach work, it exceeds the rate of applications and admissions to the UPR in the entire system of public education in Puerto Rico.

73. The UPR has continued these diverse and vital undertakings despite a decade of economic contraction that has afflicted the country at large. In this same period, the UPR has improved its position in the SCIMAGO Institution Ranking, reaching no. 35 among all institutions of higher education in our hemisphere and no. 15 within Latin America and the Caribbean.

74. These feats have been accomplished notwithstanding the parameters of significant fiscal measures implemented over recent years:

- a. Replacement of the Law of the University of Puerto Rico, Act. No. 2 of 1966 (as amended), which allocated 9.6% of Puerto Rico's revenues to the UPR, with Act. No. 66 of 2014, which fixed the government contribution at \$833.9 million, forcing the UPR to operate under a significantly lower budget, amounting to \$300 million less in higher education government investment since 2014.
- b. Raise in the UPR's General Fund income levels by increasing the number of students admitted and through the recovery of indirect costs and other miscellaneous income, without substantially increasing tuition costs for students.
- c. Maintenance of savings measures established in 2010 through certifications and circular letters. These measures include the elimination of sabbaticals and annual supplementary payments for books and educational materials, the reduction in bonifications for

managerial positions and courses offered by contract, and the freezing of tenure track positions and merit promotions.

75. Moreover, Puerto Rico's financial situation prevented the UPR from receiving \$303 million in revenues for services rendered from 2004 to 2015. Of this amount, about \$92 million, was declared irrecoverable. The largest debtors were medical plans, the central government and municipal governments.

76. In this light, the UPR has become, in fact, a sensitive and supportive creditor of Puerto Rico and has provided a substantial amount of resources to alleviate the crisis that afflicts us as a country. It has continued to provide essential services in education, health and community development that otherwise would have further afflicted the poorest sectors of the population.

77. It should be noted that public investment in the UPR yields valuable returns through the multiplicity of services that the institution offers and which are all closely linked to teaching and learning.

78. Furthermore, it boosts local economic activity in various ways. The recent study by Alameda and González<sup>37</sup> shows that the increase in human capital of the institution's graduates significantly strengthens the capacity they will have to generate wealth throughout their lifetime.

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<sup>37</sup> José I. Alameda-Lozada and José Alfredo González-Martínez, "*The socio-economic impact of the University System of Puerto Rico.*" *Occasional Papers*. Op April 2017. #7 San Juan: Technical Studies, 2017. <http://www.estudiotecnicos.com/pdf/occasionalpapers/2017/OP-No-7-2017.pdf>



79. The difference in wages accrued by a graduate from the UPR compared to a worker without college education is \$25,857 per year. If we compare the cost of educating a graduating a UPR class to what it will produce economically over thirty (30) years of employment, we find that the annual rate of return on the initial investment in their education is 19.9%, which is considered very lucrative for any investment.

80. Alameda and González calculated that for every dollar invested in the UPR, its retirement system and its associated agents, \$1.56 is generated in economic activity for other sectors of the country.

81. In terms of job creation, the economists estimate that for every one hundred (100) direct jobs created by university spending, another sixty (60) jobs are created in other sectors.

82. Alameda and González concluded that the average rate of return on social investment in the UPR is equivalent to 434.0% for graduates in a generation, or to 5.2% as an annual average. Therefore, as Alameda stated in the SoS UPR Plan, at page 11, a cut of \$512 million in state investment in the UPR would generate a reduction of \$2,224 million in the local economy in the long run.

83. For all the above reasons, threatening the economic viability of the UPR is tantamount to an unprecedented generational betrayal and a social catastrophe in the short term. Furthermore, it seriously hinders the possibility of reversing the country's continuing economic contraction.

84. This will, in turn, make economic recovery an even more tortuous and uphill climb, and immediately diminish the ability to address the claims of other creditors in a plan for the adjustments of debts that conforms to Section 314 of PROMESA.<sup>38</sup>

85. As mentioned before, PROMESA requires that essential government services be protected, that fiscal targets be achieved, and investments are made to generate economic growth. This is for the ultimate purpose of achieving a debt adjustment plan that is viable and sustainable, through reliable income that promotes enough confidence from the investors to warrant the territory access to the bond markets at reasonable costs.

86. The budgetary reductions of the UPR are framed within the concept articulated by the Fiscal Oversight Board of *Government Right Sizing*. By its definition, this is a concept that is only applicable to private business, not to social entities like the UPR.<sup>39</sup>

87. Within the factual panorama described above –and recognizing that the UPR diligently fulfills its primary educational and professional training mission and, also, offers a multiplicity of services to the country and its economy. It is evident that the *Right Sizing* concept is not applicable to the UPR. It is a fitting concept only for private businesses whose main

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<sup>38</sup> 48 U.S.C. §§ 2174.

<sup>39</sup> The process of a corporation or restructuring reorganizing their business by cost-cutting, reduction of workforce, or reorganizing upper-level management. The goal is to get the company properly molded to achieve the maximum profit. The term rightsizing is often used by companies instead of downsizing Because it sounds less drastic. <http://www.businessdictionary.com/definition/rightsizing.html>.

goal is to generate profit for their owners. Therefore, this corporate and business philosophy is arbitrary and lacks any rational basis to be sustained against the minimum analysis of Due Process of Law.<sup>40</sup>

88. The UPR cannot, and should not, be subjected to the equation of private net benefits, but rather to social net benefits. Therefore, Government *Social Right Sizing* is the appropriate conceptual framework to address a social system such as the UPR. The basis for this paradigm shift are the following:

- a. The UPR should be considered as a State project that yields superior and permanent benefits to the expenditures resulting from taxes paid by Puerto Rico's taxpayers. The UPR cannot be treated as a private business, even if considered a nonprofit corporation.
- b. The best way to rise from the secular stagnation in which Puerto Rico finds itself is to dedicate more financial attention to higher education, especially to public education. Studies from the World Bank affirm that, in effect, education is a life preserver for any country or region in social and economic crisis.<sup>41</sup>
- c. Resources from Puerto Rico's General Fund should be considered an investment in essential services (not an expense) because of their positive multiplier effects in the formation of human and

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<sup>40</sup> Fifth and Fourteen Amendments of the United States Constitution.

<sup>41</sup> Patrinos, Harry. *Why education is important for economic development*. World Bank. 05/27/2016. <http://blogs.worldbank.org/voices/es/por-que-la-educacion-es-importante-para-el-desarrollo-economico>.

cultural capital, health care and the protection of natural resources, among others.

- d. Allocating State resources to the UPR formula channels much-needed investments to the formation of human capital, in contrast to what would result if it were left to the ebbs and flows of the taxpayers' will or the caprice of the Oversight Board.
- e. State investment in higher education, that is, in the UPR, promotes a better distribution of income and wealth in the country, which results in a better quality of life for the graduates who, in turn, contribute to the general economy.

89. PROMESA in Section 201(b)(1)(A),(B),(G),(J) specifically requires that any fiscal plan must:

(A) provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on—

(i) applicable laws; or

(ii) specific bills that require enactment in order to reasonably achieve the projections of the Fiscal Plan;

(B) ensure the funding of essential public services;

[...]

(G) enable the achievement of fiscal targets;

[...]

(J) provide for capital expenditures and investments necessary to promote economic growth;

[...]

90. Therefore, the Oversight Board's determinations summarized in the Fiscal Plan and imposed in the 2017-2018 budget, are arbitrary, lacking a rational basis and in clear and open violation of the requirements of Section 201 of PROMESA.<sup>42</sup> These also make impossible the confirmation of a plan of adjustments of debts according to Section 314 of PROMESA,<sup>43</sup> for lack of sustainability of payments. Thus, the Oversight Board's determinations summarized in the Fiscal Plan and imposed in the 2017-2018 budget violates the Due Process of Law enshrined in the Constitution of the United States of America.<sup>44</sup>

91. The lack of rational basis and arbitrariness of the Illegal Fiscal Plan and the 2017-2018 budget is clearly confirmed when we take into consideration that even without changing the fundamental premises and allocations of expenses of the Illegal Fiscal Plan, it is possible to protect the UPR as an *essential service* without affecting other essential services or priority expenses. See *Sustainable Fiscal Plan for the UPR* (SoS UPR Plan). See Exhibit E.<sup>45</sup>

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<sup>42</sup> 48 U.S.C. §§ 2141.

<sup>43</sup> 48 U.S.C. §§ 2174.

<sup>44</sup> Fifth and Fourteen Amendments of the United States Constitution.

<sup>45</sup> The SoS UPR Plan proposes another viewpoint, a paradigm shift and a sensible and rigorous agenda to ensure that Puerto Rico not only overcomes this economic depression, but rises from it with renewed strength. This Plan is built upon three guiding premises:

- a) It is essential to empower the university's comprehensive and multifaceted social mission.
- b) It is imperative for the university to model a complete transformation to ensure a responsible and efficient management of public funds.
- c) It is urgent that the UPR's teaching, research and productive and beneficial services for our students, and especially, for Puerto Rico, become a priority in budget decisions.

**D. IMPACT OF THE ILLEGAL FISCAL PLAN AND THE 2017-2018 BUDGET ON THE UNIVERSITY OF PUERTO RICO, MAYAGÜEZ CAMPUS AND APRUM'S MEMBERS**

92. Founded in the early 1970's, APRUM is a bona fide organization of teaching staff at the Mayagüez Campus of the University of Puerto Rico (RUM). Since its beginnings, APRUM has made various efforts to negotiate collectively with the management of the UPR the working conditions of the teaching staff of the system, motivated by the aspiration to become a union-type organization for the university faculty.

93. Through its work, APRUM has managed to build a prestige among the RUM's professors as an organization that champions the rights and prerogatives of the professoriate. Likewise, it has gained the management's de facto recognition as a professors' representative organization that protects the working and academic conditions of the faculty, meeting periodically with the campus administration to carry the professors' voice on matters pertinent to labor and academic environment of the Mayaguez Campus and UPR in general.

94. The certified fiscal plan, the 2017-2018 fiscal year budget, and the filing of the Commonwealth Title III petition has a negative effect in the vested labor rights and benefits of APRUM's members and will directly affect the funds available for the University of Puerto Rico, its campuses and faculty members, and academic and professional development.

95. According to a study made by Dr. Edwin Irizarry Mora and Dr. José I. Alameda Lozada,<sup>46</sup> the \$164 million cuts imposed to UPR for the 2017-2018 fiscal year budget will have an adverse impact in Mayagüez Campus of approximately \$47 million which include \$9.7 million less in funds available for payroll expenses. This will result in a reduction of 155 full-time professors and 7 part-time. The total would be 162 educators less, equivalent to 17.9% of the total number of current professors estimated in 903. Because the number of students at the UPRM will remain at about 13,000 during the next academic year, this will result in a drastic increase in the workload of each faculty member of the institution.

96. In other words, the budget reduction would imply that the teaching staff remaining in the UPRM would carry out the same work as in previous academic years, attending to the same number of courses, sections and students with fewer personnel.<sup>47</sup>

97. The net impact of all the above is that each professor would increase their workload by approximately 25% in each academic semester, receiving the same pay (\$60,000 annually on average). Consequently, the effect of the budget reduction is that, by performing 25% of additional tasks for the same pay, the adjusted salary of each member

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<sup>46</sup> *Impact of budget cuts on faculty members of UPRM, July 2, 2017, Exhibit C.*

<sup>47</sup> The RUM's Office of Admissions has already certified that the number of freshmen (first year enrollment) for academic year 2017-2018 has exceeded by 2% the amount of new-comers projected by the institution. This means that total enrollment by August 2017 (total demand for academic services) will surpass by 2% the projected academic offerings (total academic supply).

of the teaching staff (distributed between the average wage) should increase by 25%. That is, an average of \$75,000 per year. This will result in an average of non-received payment of \$15,000 per professor who would remain working in the UPRM.

98. The \$164 million cut imposed to UPR for the 2017-2018 fiscal year budget will have an adverse impact in Mayagüez Campus of approximately \$47 million dollars. That is a reduction of 17.2% in comparison with the budget for 2016-2017. In addition to the loss of faculty professors, this also means less resources for the sustainability of the academic offerings and accreditations.

99. As mentioned before, PROMESA requires that essential government services be protected, that fiscal targets be achieved, and investments are made to generate economic growth. This is for the ultimate purpose of achieving a debt adjustment plan that is viable and sustainable, through reliable income that promotes enough confidence from the investors to warrant the territory access to the bond markets at reasonable costs.

100. For all the above reasons, threatening the economic viability of the UPR is equivalent to an unparalleled generational treachery and a social devastation in the short term. Furthermore, it seriously encumbers the possibility of reversing the country's continuing economic contraction. This will, in turn, make economic recovery an even more tortuous and tough climb, and immediately diminish the ability to address the claims of



other creditors in a plan for the adjustments of debts that conforms to Section 314 of PROMESA.<sup>48</sup>

#### **V. FIRST PRAYER FOR RELIEF**

101. Plaintiff repeats and realleges the allegations contained in paragraphs 1 through 100 hereof, as if fully set forth herein.

102. An actual and justiciable controversy has arisen and exists between the parties with respect to these issues and claims and a declaratory judgment is necessary to resolve such controversy.

103. Plaintiff is entitled to an order declaring that UPR's services are essential public services, a capital expenditure and investment necessary to promote economic growth and indispensable for the achievement of fiscal targets and responsibility.

#### **VI. SECOND PRAYER FOR RELIEF**

104. Plaintiff repeats and realleges the allegations contained in paragraphs 1 through 100 hereof, as if fully set forth herein.

105. Plaintiff is entitled to an order declaring that the Fiscal Plan violates Section 201 of PROMESA, because it neglects the funding of essential public services, the achievement of fiscal targets and capital expenditures and investments necessary to promote economic growth.

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<sup>48</sup> 48 U.S.C. §§ 2174.

**VII. THIRD PRAYER FOR RELIEF**

106. Plaintiff repeats and realleges the allegations contained in paragraphs 1 through 100 hereof, as if fully set forth herein.

107. Plaintiff is entitled to an order declaring that the Oversight Board's determinations summarized in the Fiscal Plan and imposed in the 2017-2018 budget are arbitrary, lacking a rational basis and in clear and open violation of the Due Process of Law enshrined in the Constitution of the United States of America.<sup>49</sup>

**VIII. FOURTH PRAYER FOR RELIEF**

108. Plaintiff repeats and realleges the allegations contained in paragraphs 1 through 100 hereof, as if fully set forth herein.

109. Plaintiff is entitled to an order declaring that the Fiscal Plan and the 2017-2018 budget should be totally recast to ensure the funding of essential public services, enable the achievement of fiscal targets and provide for capital expenditures and investments necessary to promote economic growth.

**IX. FIFTH PRAYER FOR RELIEF**

110. Plaintiff repeats and realleges the allegations contained in paragraphs 1 through 100 hereof, as if fully set forth herein.

111. Defendants should be enjoined and stayed from presenting any plan of adjustment until the Illegal Fiscal Plan is recast to comply with the law and the United States Constitution.

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<sup>49</sup> Fifth and Fourteen Amendments of the United States Constitution.

**X. RELIEF DEMANDED**

WHEREFORE, in view of the foregoing, Plaintiff respectfully requests from this Honorable Court to enter a judgment against defendants as follows:

- a. An order declaring that UPR's services are essential public services, a capital expenditure and investment necessary to promote economic growth and indispensable for the achievement of fiscal targets and responsibility.
- b. An order declaring that the Fiscal Plan violates Section 201 of PROMESA, because it neglects the funding of essential public services, the achievement of fiscal targets and capital expenditures and investments necessary to promote economic growth.
- c. An order declaring that the Fiscal Plan should be totally recast to ensure the funding of essential public services, enable the achievement of fiscal targets and provide for capital expenditures and investments necessary to promote economic growth.
- d. An order declaring that the Budget for 2017-2018 should be totally recast to ensure the funding of essential public services, enable the achievement of fiscal targets and provide for capital expenditures and investments necessary to promote economic growth.
- e. An order declaring that the Oversight Board's determinations summarized in the Illegal Fiscal Plan and imposed in the 2017-

2018 budget are arbitrary, lacking a rational basis and in clear and open violation of the Due Process of Law enshrined in the Constitution of the United States of America.<sup>50</sup>

- f. An order enjoining and staying defendants from presenting any plan of adjustment until the Illegal Fiscal Plan is recast to comply with PROMESA and the United State Constitution.

RESPECTFULLY SUBMITTED.

In Ponce, Puerto Rico, this 9 day of July 2017.



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<sup>50</sup> Fifth and Fourteen Amendments of the United States Constitution.



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# I. INTRODUCTION





INTRODUCTION

## What the Government's Proposed Fiscal Plan Seeks to Achieve

### Closing the Projected Baseline Fiscal Plan Deficit

- At the direction of the Oversight Board, the Government's new administration has prepared this Fiscal Plan which supersedes the prior administration's December 2016 fiscal plan that was rejected by the Board. From the date the new administration took office, AAFAF and its advisors have earnestly worked in cooperation with the Board's input to put forth a credible and reliable Fiscal Plan that will guide Puerto Rico's fiscal and economic recovery
- **The Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth.** In particular, the Fiscal Plan averts the \$67bn fiscal deficit from the prior administration's plan and achieves +\$7.9bn in cumulative cash flow available for debt service through the 10 year period

### Further Improvement

- The Government fully appreciates that despite fiscal and economic uncertainties, now is the time to set the benchmark for the needed fiscal and economic measures as outlined in the Fiscal Plan. The Government is demonstrating its commitment to correcting the mistakes of the past. The Government is also mindful that in stopping the cycle of deficit spending, it must do so without undermining economic recovery or endangering the health, welfare or safety of the 3.5 million US citizens living in Puerto Rico

### Bondholder Negotiations and Consensus

- Per PROMESA Section 2.01(b)(1)(I), the fiscal plan must provide a debt sustainability analysis. The Government's Fiscal Plan consolidates available cash resources that can be made available for debt service payments. The Fiscal Plan as proposed does not presume cash flow for debt service for any particular bondholder constituency, including clawed back cash and special revenues, nor does it take a position with respect to asserted constitutional or contractual rights and remedies, validity of any bond structure, or the dedication or application of tax streams / available resources
- The Government believes that any fiscal plan should reflect commitment to develop and implement operational and structural improvements that demonstrate the Government's willingness to achieve maximum payment of its debt obligations as restructured. However, in achieving debt sustainability, Puerto Rico's bondholders will be called upon to share in the sacrifice needed for a feasible debt restructuring. **The Government believes communication, grounded in fiscal responsibility, can create the opportunity for maximum consensus among stakeholders and pave the way for Puerto Rico's long-term fiscal stability and economic growth**



INTRODUCTION

## What the Fiscal Plan does not determine

### Major Entities Impacted by the Fiscal Plan

- The Fiscal Plan is for the Government as a covered entity under PROMESA. The Government's various taxes, fees and other revenues are used to fund, subsidize or guarantee payments of the debt of many covered entities by various means. Accordingly, this Fiscal Plan does provide for payment of expenses and capital investments in, among other covered entities: (1) Public Building Authority, (2) PR Sales Tax Financing Corporation ("COFINA"), (3) PR Highways and Transportation Authority ("HTA"), (4) PR Convention Center District Authority ("PRCCDA"), (5) PR Infrastructure Finance Authority ("PRIFA"), (6) Employees' Retirement System ("ERS"), (7) University of Puerto Rico ("UPR"), (8) Puerto Rico Industrial Development Company ("PRIDCO"), and (9) Government Development Bank ("GDB")

### Major Entities Not Covered by the Fiscal Plan

- There are four entities whose revenues and expenses are not included in this Fiscal Plan: (1) Puerto Rico Electric Power Authority ("PREPA"), (2) Puerto Rico Aqueduct and Sewer Authority ("PRASA"), (3) The Children's Trust Fund and (4) Puerto Rico Housing Finance Authority ("PRHFA"). As a result, this Fiscal Plan does not take a position with respect to these entities' financial prospects or the debt sustainability of such entities

### Legal & contractual issues not determined by the Fiscal Plan

The Fiscal Plan does not attempt to resolve, among others, the following issues:

- The mechanisms by which projected cash flow available for debt service should be allocated to different debt instruments
- What is an essential service for purposes of the exercise of the Government's police power
- The scope, timing or specific use of revenues to be frozen or redirected as 'claw back' revenue
- The value, validity and /or perfection of pledges
- Whether any particular bond or debt issuance may have been improvidently issued
- What the Government is permitted to accomplish through the increase or decrease of dedicated taxes, fees, tolls or other revenue sources



## II. FINANCIAL PROJECTIONS

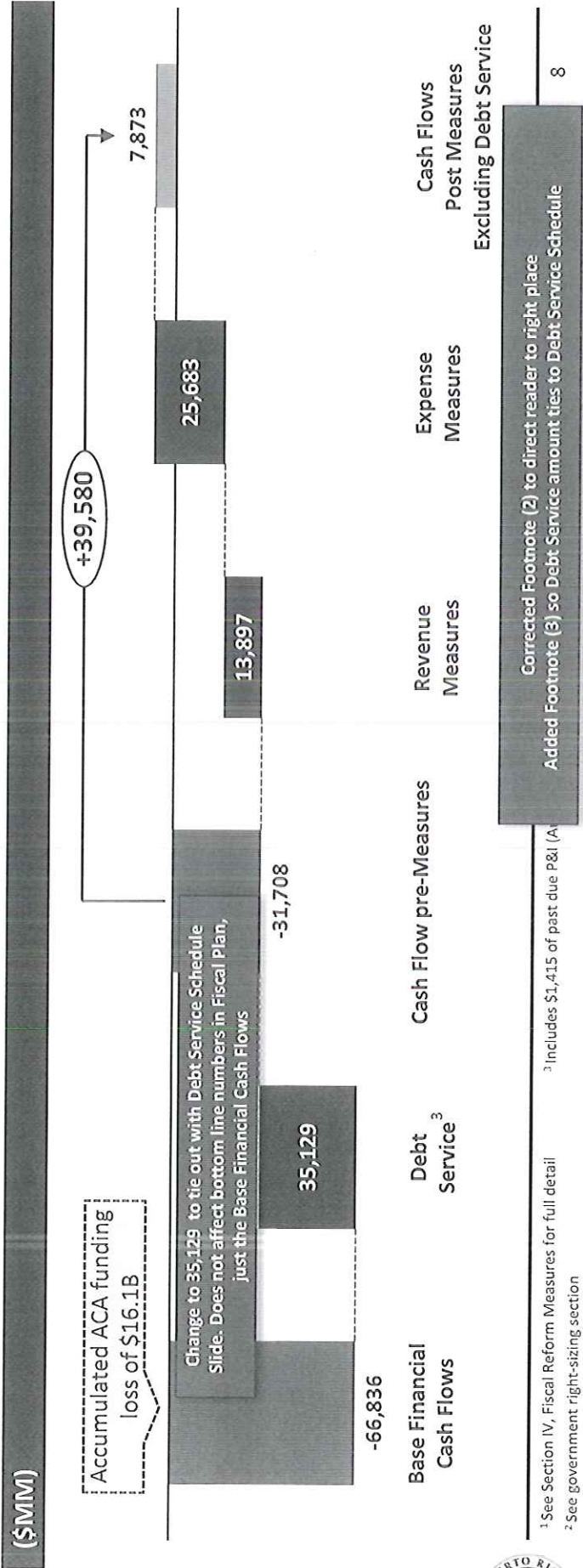


FINANCIAL PROJECTIONS

**The Government will undertake fiscal measures that will reduce the fiscal gap by \$39.6B, and create a 10 year cash flow surplus of \$7.9B**

- Based on the currently stated debt obligations, the 10-year budget gap is expected to reach \$66.9B
  - ~\$35.1B of expected principal and interest payments during the forecast period
    - Corrected to conform to \$35.1B on debt service bar below at \$35.1 same as debt service bar below
- The Fiscal Plan estimates cash flows available for debt service. The chart below shows the key components of the forecast, including:
  - Base fiscal gap of **Corrected to conform to debt service bar below**
  - Revenue and expense measures of \$13.9B and \$25.7B<sup>1</sup>
    - Revenue Measures: stabilizing corporate tax revenue through tax reform positively affects cash flows by \$7.9B
    - Expense Measures: \$19.2B of \$25.7B (79%) due to Government right-sizing initiatives<sup>2</sup>

Corrected the 25.7MM vs 25.1MM to tie out to bar graph, which increases from 76% to 79%



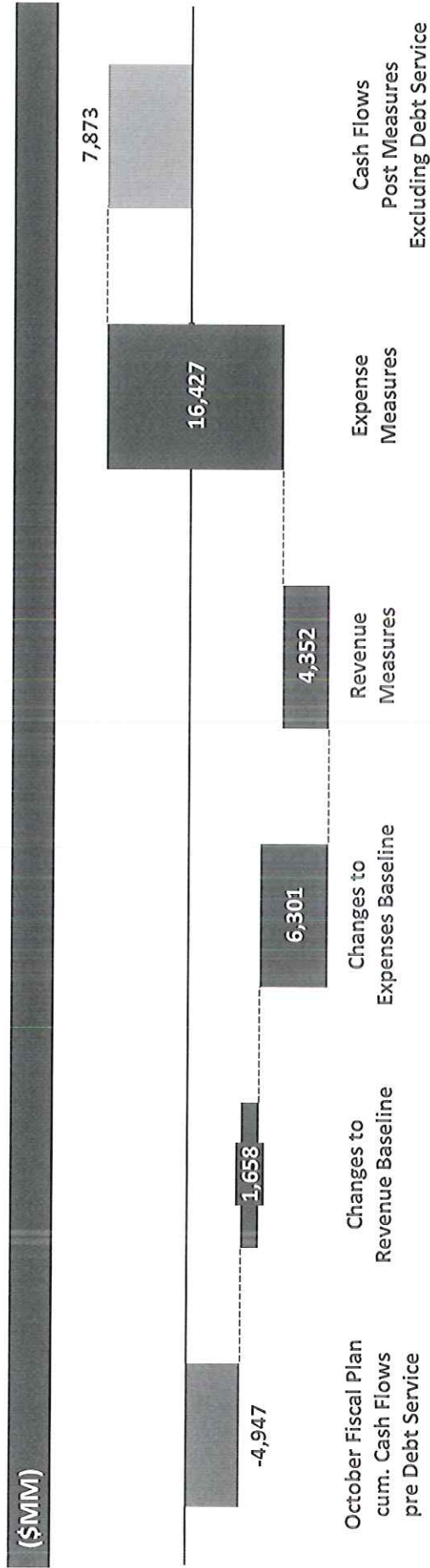
<sup>1</sup> See Section IV, Fiscal Reform Measures for full detail  
<sup>2</sup> See government right-sizing section  
<sup>3</sup> Includes \$1,415 of past due P&I (A)



FINANCIAL PROJECTIONS

**The current fiscal plan is a significant departure from the version presented in October, as it commits to higher revenue and expense measures of \$4.4B and \$16.4 B, respectively**

- The October proposed Fiscal Plan estimated negative cumulative cash flows pre-debt service over the projection period ('17-'26) of (\$4.9B) vs. the Current Fiscal Plan projections estimating positive cumulative cash flows pre-debt service of \$7.92B. The change is comprised primarily of:
  - Negative net impact on cash flows available for debt service, pre-Measures of -\$8.0B
    - Decrease in total revenues of \$1.7B
    - Decreased expenses of \$6.3B
  - Enhanced revenue measures of \$4.4B
  - Additional savings from Expense Measures of \$16.4B



FINANCIAL PROJECTIONS

**A summary of financials for the 10-year projection period shows positive cash flows post-measures, before debt service of \$7.9B**

**(\$MM)**

| Fiscal year ending June 30 (\$ in millions)   | 2017       | 2018       | 2019       | 2020       | 2021       | 2022       | 2023       | 2024       | 2025       | 2026       | '17 - '26 total |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-----------------|
| <i>PR Nominal GNP Growth</i>                  | (2.2%)     | (2.8%)     | (2.4%)     | (0.5%)     | (0.4%)     | 0.3%       | 1.0%       | 1.6%       | 2.1%       | 2.6%       |                 |
| Revenues before Measures <sup>1</sup>         | \$18,952   | \$17,511   | \$16,407   | \$16,434   | \$16,494   | \$16,590   | \$16,746   | \$16,953   | \$17,204   | \$17,509   | \$170,799       |
| Noninterest Exp. before Measures <sup>1</sup> | (\$17,872) | (\$18,981) | (\$19,233) | (\$19,512) | (\$19,950) | (\$20,477) | (\$20,884) | (\$21,310) | (\$21,973) | (\$22,316) | (\$202,507)     |
| Cash flows pre-Measures                       | \$1,080    | (\$1,470)  | (\$2,826)  | (\$3,077)  | (\$3,456)  | (\$3,886)  | (\$4,139)  | (\$4,357)  | (\$4,769)  | (\$4,807)  | (\$31,708)      |
| <b>Measures</b>                               |            |            |            |            |            |            |            |            |            |            |                 |
| Revenue measures                              | -          | 924        | 1,381      | 1,384      | 1,531      | 1,633      | 1,740      | 1,752      | 1,766      | 1,785      | 13,897.1        |
| Expense measures                              | -          | 951        | 2,012      | 2,415      | 2,983      | 3,156      | 3,255      | 3,357      | 3,724      | 3,830      | 25,683.3        |
| Net impact of measures                        | -          | 1,875      | 3,393      | 3,799      | 4,515      | 4,789      | 4,995      | 5,108      | 5,491      | 5,615      | 39,550          |
| Cash flows post-Measures, before Debt Service | \$1,080    | \$404      | \$567      | \$722      | \$1,059    | \$903      | \$857      | \$751      | \$722      | \$808      | \$7,873         |

Cash flows post-measures, before debt service trends:

- FY 2017 estimate of \$1.1B, declining to a low of \$0.4B in FY 2018, driven by GNP contraction and ERS Paygo contributions of \$1.0B in FY 2018  
Corrected to \$1.1 vs \$0.8B
- Forecast peaks at \$1.1B in FY 2021 before declining to \$0.8B by FY 2026. Decline is primarily driven by Affordable Care Act (“ACA”) funding expiration that increase steadily from ~\$0.9B in FY 2018 to ~\$2.4B in FY 2026
- Expense measures include \$1.3B in supplier payment pay downs through the projection period



<sup>1</sup> Full details in Appendix

<sup>2</sup> This addback is illustrative, and is not reflected in the amounts available for debt service elsewhere in this Plan

FINANCIAL PROJECTIONS

Revenues Before Measures

(\$MM)

| Fiscal year ending June 30 (\$ in millions) | 2017            | 2018            | 2019            | 2020            | 2021            | 2022            | 2023            | 2024            | 2025            | 2026            | '17 - '26 total  |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| PR Nominal GNP Growth                       | (2.2%)          | (2.8%)          | (2.4%)          | (0.5%)          | (0.4%)          | 0.3%            | 1.0%            | 1.6%            | 2.1%            | 2.6%            |                  |
| <b>Revenues</b>                             |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| General Fund Revenues:                      |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| Individual Income Taxes                     | \$1,392         | \$1,760         | \$1,718         | \$1,709         | \$1,703         | \$1,708         | \$1,725         | \$1,752         | \$1,789         | \$1,836         | \$17,592         |
| Corporate Income Taxes                      | 1,515           | 1,473           | 1,437           | 1,430           | 1,424           | 1,429           | 1,443           | 1,466           | 1,497           | 1,536           | 14,649           |
| Non-Resident Withholdings                   | 685             | 666             | 650             | 647             | 644             | 646             | 652             | 663             | 677             | 694             | 6,624            |
| Alcoholic Beverages                         | 268             | 260             | 254             | 253             | 252             | 253             | 255             | 259             | 265             | 272             | 2,591            |
| Cigarettes                                  | 112             | 109             | 106             | 106             | 105             | 106             | 107             | 108             | 111             | 114             | 1,083            |
| Motor Vehicles                              | 330             | 321             | 313             | 311             | 310             | 311             | 314             | 319             | 326             | 335             | 3,191            |
| Excises on Off-Shore Shipment Rum           | 206             | 173             | 175             | 176             | 178             | 179             | 180             | 182             | 183             | 184             | 1,816            |
| Other General Fund Revenue                  | 391             | 386             | 377             | 375             | 373             | 374             | 378             | 384             | 392             | 402             | 3,833            |
| <b>Total</b>                                | <b>5,399</b>    | <b>5,148</b>    | <b>5,030</b>    | <b>5,007</b>    | <b>4,989</b>    | <b>5,005</b>    | <b>5,055</b>    | <b>5,134</b>    | <b>5,239</b>    | <b>5,372</b>    | <b>51,378</b>    |
| General Fund Portion of SUT (10.5%)         | 1,718           | 1,655           | 1,596           | 1,553           | 1,511           | 1,484           | 1,472           | 1,474           | 1,487           | 1,512           | 15,463           |
| Net Act 154                                 | 2,075           | 1,556           | 1,038           | 1,038           | 1,038           | 1,038           | 1,038           | 1,038           | 1,038           | 1,038           | 11,931           |
| <b>General Fund Revenue</b>                 | <b>\$9,192</b>  | <b>\$8,360</b>  | <b>\$7,664</b>  | <b>\$7,598</b>  | <b>\$7,538</b>  | <b>\$7,527</b>  | <b>\$7,565</b>  | <b>\$7,646</b>  | <b>\$7,764</b>  | <b>\$7,921</b>  | <b>\$78,773</b>  |
| Additional SUT (COFINA, FAM & Cine)         | 850             | 877             | 906             | 936             | 968             | 1,003           | 1,039           | 1,078           | 1,118           | 1,161           | 9,936            |
| Other Tax Revenues                          | 1,337           | 1,396           | 1,401           | 1,411           | 1,423           | 1,429           | 1,436           | 1,445           | 1,455           | 1,467           | 14,199           |
| Other Non-Tax Revenues                      | 579             | 576             | 582             | 594             | 622             | 630             | 635             | 642             | 649             | 666             | 6,174            |
| <b>Adj. Revenue before Measures</b>         | <b>\$11,958</b> | <b>\$11,208</b> | <b>\$10,552</b> | <b>\$10,539</b> | <b>\$10,550</b> | <b>\$10,588</b> | <b>\$10,675</b> | <b>\$10,810</b> | <b>\$10,986</b> | <b>\$11,215</b> | <b>\$109,082</b> |
| Federal Transfers                           | 6,994           | 7,168           | 7,372           | 7,477           | 7,623           | 7,835           | 8,023           | 8,212           | 8,469           | 8,675           | 77,847           |
| Loss of Affordable Care Act ("ACA") Funding | --              | (865)           | (1,516)         | (1,582)         | (1,680)         | (1,833)         | (1,953)         | (2,069)         | (2,251)         | (2,382)         | (16,130)         |
| <b>Revenues before Measures</b>             | <b>\$18,952</b> | <b>\$17,511</b> | <b>\$16,407</b> | <b>\$16,434</b> | <b>\$16,494</b> | <b>\$16,590</b> | <b>\$16,746</b> | <b>\$16,953</b> | <b>\$17,204</b> | <b>\$17,509</b> | <b>\$170,799</b> |

Reclassified \$81m to Individual Income Taxes and \$34m to Excise on Off-shore Shipment of Rum from Other General Fund Revenue in FY2017 only



FINANCIAL PROJECTIONS

Non-Interest Expenses Before Measures

(\$MM)

| Fiscal year ending June 30 (\$ in millions)                      | 2017              | 2018              | 2019              | 2020              | 2021              | 2022              | 2023              | 2024              | 2025              | 2026              | '17 - '26 total    |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| <b>Expenses</b>  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |
| <b>General Fund Expenditures:</b>                                |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |
| Direct Payroll   | (\$3,271)         | (\$3,309)         | (\$3,342)         | (\$3,375)         | (\$3,413)         | (\$3,458)         | (\$3,509)         | (\$3,563)         | (\$3,619)         | (\$3,675)         | (\$34,532)         |
| Direct Operational Expenses                                      | (907)             | (918)             | (926)             | (936)             | (946)             | (959)             | (973)             | (988)             | (1,003)           | (1,019)           | (9,574)            |
| Utilities  | (260)             | (332)             | (352)             | (360)             | (373)             | (372)             | (369)             | (374)             | (387)             | (395)             | (3,575)            |
| Special Appropriations   | (3,890)           | (4,037)           | (4,068)           | (4,068)           | (4,209)           | (4,140)           | (4,143)           | (4,136)           | (4,250)           | (4,147)           | (41,087)           |
| <b>General Fund Expenses</b>                                     | <b>(8,329)</b>    | <b>(8,596)</b>    | <b>(8,688)</b>    | <b>(8,738)</b>    | <b>(8,941)</b>    | <b>(8,929)</b>    | <b>(8,993)</b>    | <b>(9,060)</b>    | <b>(9,259)</b>    | <b>(9,236)</b>    | <b>(88,768)</b>    |
| <b>Other:</b>  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |
| Paygo Contributions in Excess of Asset Balance                   | --                | (989)             | (1,014)           | (985)             | (964)             | (1,151)           | (1,177)           | (1,217)           | (1,251)           | (1,278)           | (10,026)           |
| Run-Rate Capital Expenditures                                    | (283)             | (400)             | (407)             | (415)             | (422)             | (429)             | (437)             | (445)             | (453)             | (462)             | (4,154)            |
| <b>Total other</b>   | <b>(283)</b>      | <b>(1,389)</b>    | <b>(1,421)</b>    | <b>(1,400)</b>    | <b>(1,386)</b>    | <b>(1,581)</b>    | <b>(1,614)</b>    | <b>(1,662)</b>    | <b>(1,704)</b>    | <b>(1,739)</b>    | <b>(14,180)</b>    |
| <b>Component Units, Non-GF Funds and Ent. Funds:</b>             |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |
| Net Deficit of Special Revenue Funds                             | (110)             | (130)             | (146)             | (154)             | (162)             | (169)             | (173)             | (176)             | (176)             | (174)             | (1,571)            |
| Independently Forecasted Non-Enterprise CUs                      | (452)             | (380)             | (433)             | (558)             | (639)             | (752)             | (859)             | (963)             | (1,109)           | (1,210)           | (7,356)            |
| HTA Operational Expenses   | (246)             | (234)             | (236)             | (238)             | (239)             | (243)             | (246)             | (250)             | (254)             | (258)             | (2,444)            |
| Other  | (44)              | (41)              | (30)              | (30)              | (30)              | (31)              | (31)              | (32)              | (32)              | (33)              | (335)              |
| <b>Total</b>   | <b>(853)</b>      | <b>(785)</b>      | <b>(845)</b>      | <b>(980)</b>      | <b>(1,071)</b>    | <b>(1,194)</b>    | <b>(1,310)</b>    | <b>(1,420)</b>    | <b>(1,572)</b>    | <b>(1,675)</b>    | <b>(11,705)</b>    |
| Disbur. of Tax Revenues to Entities Outside Plan                 | (335)             | (302)             | (304)             | (307)             | (313)             | (314)             | (316)             | (319)             | (322)             | (334)             | (3,168)            |
| <b>Adj. Expenses before Measures</b>                             | <b>(\$9,800)</b>  | <b>(\$11,071)</b> | <b>(\$11,259)</b> | <b>(\$11,425)</b> | <b>(\$11,712)</b> | <b>(\$12,018)</b> | <b>(\$12,234)</b> | <b>(\$12,461)</b> | <b>(\$12,857)</b> | <b>(\$12,984)</b> | <b>(\$117,822)</b> |
| Federal Programs   | (6,994)           | (7,168)           | (7,372)           | (7,477)           | (7,623)           | (7,835)           | (8,023)           | (8,212)           | (8,469)           | (8,675)           | (77,847)           |
| Reconciliation Adjustment  | (585)             | (592)             | (598)             | (604)             | (610)             | (618)             | (627)             | (637)             | (647)             | (657)             | (6,175)            |
| Other non-recurring  | (493)             | (150)             | (5)               | (5)               | (5)               | (5)               | --                | --                | --                | --                | (663)              |
| <b>Total</b>   | <b>(8,072)</b>    | <b>(7,910)</b>    | <b>(7,975)</b>    | <b>(8,086)</b>    | <b>(8,238)</b>    | <b>(8,458)</b>    | <b>(8,650)</b>    | <b>(8,849)</b>    | <b>(9,116)</b>    | <b>(9,332)</b>    | <b>(84,685)</b>    |
| <b>Noninterest Exp. before Measures</b>                          | <b>(\$17,872)</b> | <b>(\$18,981)</b> | <b>(\$19,233)</b> | <b>(\$19,512)</b> | <b>(\$19,950)</b> | <b>(\$20,477)</b> | <b>(\$20,884)</b> | <b>(\$21,310)</b> | <b>(\$21,973)</b> | <b>(\$22,316)</b> | <b>(\$202,507)</b> |
| <b>Removed "AP paydown" row that had zero values - no impact</b> |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |





## Assumptions and Methodology: Revenue

ADDED SLIDE, missing from march 13<sup>th</sup> version

| Category                     | Description                                 | '17 Revenue \$MM | '26 Revenue \$MM | 2017 – 2026 Growth Methodology   |
|------------------------------|---|------------------|------------------|--|
| 1 Taxes                      | Individual Income Taxes                     | 3,407            | 3,371            | <ul style="list-style-type: none"> <li>Grows with PR Nominal GNP Growth Factor</li> <li>Excludes corporate tax reform and compliance impact which is included within fiscal measure reform analyses</li> </ul> |
|                              | Corporate Income Taxes                      |                  |                  |  |
| 2 Other General Fund Revenue | General Fund                                | 391              | 402              | <ul style="list-style-type: none"> <li>Grows with PR Nominal GNP Growth Factor</li> </ul>  |
|                              |   |                  |                  |  |
| 3 Act 154                    | Act 154                                     | 2,075            | 1,038            | <ul style="list-style-type: none"> <li>Act 154 revenue is sustained at 2017 levels until 2026</li> <li>Losses equal (519) in 2018, double in 2019, and sustained at 2019 levels</li> </ul>                     |
|                              | Act 154 / Foreign Company Tax Losses        |                  |                  |  |
| 4 SUT                        | General Fund Portion of SUT (10.5%)         | 2,568            | 2,673            | <ul style="list-style-type: none"> <li>Total SUT grown at PR Nominal GNP growth</li> <li>Allocation proportions grow at historical levels</li> </ul>   |
|                              | Additional SUT (COFINA, FAM, & Cine)        |                  |                  |  |
| 5 ACA Loss                   | Loss of Affordable Care Act ("ACA") Funding | 0                | -2,382           | <ul style="list-style-type: none"> <li>Initial decrease from (\$65) in 2018 to (1,516) in 2019</li> <li>Annual growth in loss of 6.7% from 2019 to 2026</li> </ul>   |
| 6 Component Units            | Other Tax Revenues                          | 1,916            | 2,132            | <ul style="list-style-type: none"> <li>Grows with PR Nominal GNP Growth Factor &amp; Elasticity</li> </ul>   |
|                              | Other Non-Tax Revenues                      |                  |                  |  |



FINANCIAL PROJECTIONS

## Assumptions and Methodology: Expenses (1/2)

| Category | Description  | 2017<br>\$MM | 2026<br>\$MM | 2017 – 2016 Growth Methodology   |
|----------|--|--------------|--------------|--|
| <b>1</b> | <b>Direct Payroll</b>  |              |              |  |
|          | <ul style="list-style-type: none"> <li>Payroll and Operational Expenses</li> <li>Education Payroll</li> <li>Police Payroll</li> </ul>            | -3,271       | -3,675       | <ul style="list-style-type: none"> <li>Growth based on previous year multiplied by PR Inflation and Inflation pass-through to payroll</li> </ul>   |
| <b>2</b> | <b>Direct Operational Expenses</b>   |              |              |  |
|          | <ul style="list-style-type: none"> <li>Legislature</li> <li>Department of Education</li> <li>Other Agencies</li> </ul>                           | -907         | -1,019       | <ul style="list-style-type: none"> <li>Growth based on previous year multiplied by PR Inflation and Inflation pass-through to payroll</li> </ul>   |
| <b>3</b> | <b>Utilities</b>   |              |              |  |
|          | <ul style="list-style-type: none"> <li>Power and Water</li> <li>PBA Operating Subsidy (Rent)</li> <li>Insurance Premiums</li> </ul>              | -260         | -396         | <ul style="list-style-type: none"> <li>PBA Operating Subsidy maintains</li> <li>Power and water have initial increase due to subsidy reduction with steady year-over-year growth until 2026</li> </ul> |
| <b>4</b> | <b>Special Appropriations</b>  |              |              |  |
|          | <ul style="list-style-type: none"> <li>UPR</li> <li>Judicial and Municipalities</li> <li>Retirement Systems</li> <li>Health Insurance</li> </ul> | -3,890       | -4,147       | <ul style="list-style-type: none"> <li>UPR, Judicial and Municipalities increase in 2018, maintain steady-state following initial growth</li> </ul>  |
| <b>5</b> | <b>Paygo Contributions in Excess of Asset Balance</b>  |              |              |  |
|          | <ul style="list-style-type: none"> <li>Required Pay-go contribution: ERS, TRS and JRS</li> </ul>   | 0            | -1,278       | <ul style="list-style-type: none"> <li>Paygo program for ERS, TRS and JRS is initiated in 2018 with initial expenses of \$989MM</li> <li>Steady growth in expenses starting in 2020</li> </ul>         |
| <b>6</b> | <b>Run-Rate Capital Expenditures</b>   |              |              |  |
|          | <ul style="list-style-type: none"> <li>Non-Growth Capital Expenditures in the Base (Run-Rate)</li> <li>Growth Capex</li> </ul>                   | -284         | -462         | <ul style="list-style-type: none"> <li>Initial increase in 2018 to \$400MM and steady growth in following years based on previous year multiplied by PR Inflation following</li> </ul>                 |



## Assumptions and Methodology: Expenses (2/2)

Only formatting changes

| Category | Description                      | 2017<br>\$MM | 2026<br>\$MM | 2017 – 2026 Growth Methodology   |
|----------|----------------------------------|--------------|--------------|--|
| <b>7</b> | <b>Reconciliation Adjustment</b> | -585         | -657         | <ul style="list-style-type: none"> <li>Initial increase in 2018 to \$592MM with steady increase until 2026</li> <li>Reconciliation adjustment based on midrange estimate provided by E&amp;Y analysis and audit</li> </ul>   |
| <b>8</b> | <b>Other Non-Recurring</b>       | -493         | 0            | <ul style="list-style-type: none"> <li>Initial decline in tax refunds in 2018 from \$493MM to \$150MM, decline in 2019 from \$150MM to \$5MM, and elimination of non-recurring expenses in 2023</li> <li>Costs to implement restructuring (\$370MM over 10 years)</li> </ul>   |
| <b>9</b> | <b>Component Units</b>           | -853         | -1,675       | <ul style="list-style-type: none"> <li>Net Deficit of Special Revenue Funds growth is based on previous year multiplied by PR Inflation</li> <li>Non-enterprise expenses include ASEM, ASES, ADEA, PRCCDA, PRIDCO, PRITA, Tourism, and UPR deficits</li> <li>PBA and the Port Authority run a surplus in 2017 that transitions towards deficit beginning in 2018</li> <li>Initial HTA decline in expenses due to a reduction in Past Due AP costs</li> </ul> |



## Assumptions and Methodology: Macroeconomic Factors

Only formatting changes

| Category                              | Description, %   |
|---------------------------------------|--|
| <b>2017 – 2026 Growth Methodology</b> |  |
| 1 PR Nominal GNP Growth Factor        |  |
|                                       | <ul style="list-style-type: none"> <li>Initial decrease to 97.2% in 2019</li> <li>Increase in 2020 to 99.5%</li> <li>Steady, minimal growth until 2026</li> </ul>                          |
| 2 PR Inflation                        |  |
|                                       | <ul style="list-style-type: none"> <li>Initial negative inflation of -0.2% in 2017 increasing to 1.2% in 2018, 1.0% in 2019 with steady, minimal growth in Inflation until 2026</li> </ul> |
| 3 PR Population Growth Factor         |  |
|                                       | <ul style="list-style-type: none"> <li>Maintenance of 2017 PR Population Growth Factor of 99.8%</li> </ul>   |
| 4 US Population Growth                |  |
|                                       | <ul style="list-style-type: none"> <li>Maintenance of 2017 US Population Growth of 100.8% until 2024, where it drops to 100.7%</li> </ul>  |

Added Year Line



### III. FISCAL REFORM MEASURES



FISCAL REFORM MEASURES

**Fiscal Reform measures reduce the 10-year financing gap by \$39.6B**

Estimated Impact, \$MM



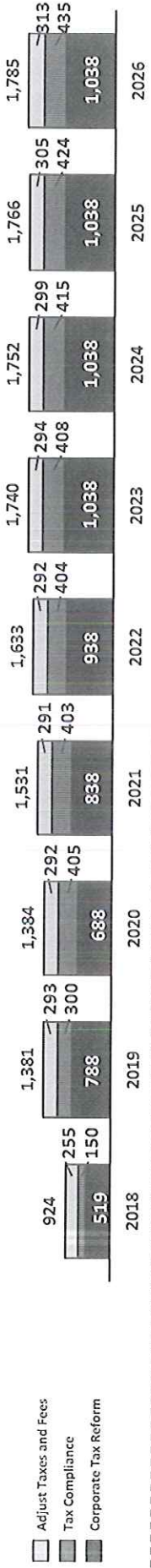
Note: Values may not add up due to rounding; Excludes expenditures related to rehabilitation of trade terms with local suppliers



REVENUE ENHANCEMENT

Hacienda will embark in a multi-year transformation process to reduce leakage, improve revenue collections and adjust fees

Revenue Enhancement Measures, \$MM



Reform Measures Description 2018 Impact

Corporate Tax Reform

- The Government will use the breathing room provided by the extension of Act 154 to seek a more stable, consistent corporate tax policy that implements a broad-based regime with fewer exemptions by no later than January 2019

\$519MM

Tax Compliance

- Reduce leakage by increasing electronic SUT tax collections at the point of sale, including internet sales
- Improve revenue collections by using advanced analytics, expanding capacity and conducting targeted interventions

\$150MM

Adjust Taxes and Fees

- Increase tobacco-related products excise tax and implement new property tax regime
- Revise fees including licenses, traffic fines, insurance fees and other charges for services to keep up with market trends

\$255MM

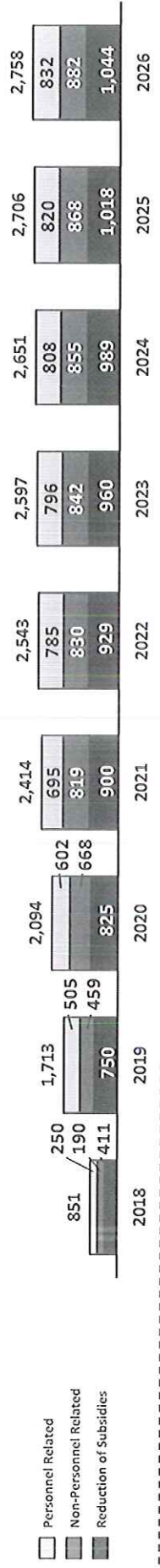
Note: To meet fiscal plan objectives, the Government may consider additional measures.



GOVERNMENT RIGHT-SIZING

# The Government must embark on a transformative journey in order to provide core services to citizens in an efficient and fiscally responsible manner

Government Right-Sizing Measures<sup>1</sup>, \$MM



## Reform Measures

| Category               | Description  | 2018 Impact |
|------------------------|--|-------------|
| Personnel Related      | <ul style="list-style-type: none"> <li>Freeze on payroll increases for fiscal years 2018 to 2020</li> <li>Improve employee mobilization across government, uniform fringe benefits and eliminate vacation and sick day liquidations to produce higher attrition rates or other payroll-related savings</li> </ul>  | \$250MM     |
| Non-Personnel Related  | <ul style="list-style-type: none"> <li>Freeze on operational cost increases for fiscal years 2018 to 2020</li> <li>Re-design the way the Government works by reducing non-core expenses, externalizing services to private entities, centralizing services to eliminate duplication, achieve procurement savings or other cost-cutting measures</li> </ul>               | \$190MM     |
| Reduction of Subsidies | <ul style="list-style-type: none"> <li>Gradually reduce general fund subsidies to the University of Puerto Rico, municipalities and other direct subsidies to the private sector</li> <li>Proactively engage with the University of Puerto Rico, municipalities, as well as industry partners, to mitigate the economic development impact of subsidy removal</li> </ul> | \$411MM     |

Note: To meet fiscal plan objectives, the Government may consider additional measures.

1) Post 2018, the relative distribution of savings between personnel and non-personnel related expenses will be decided as part of updates to the Fiscal Plan and the annual budget





REDUCING HEALTHCARE SPENDING

# The Government will focus on improving efficiencies, adjusting benefits and developing a new healthcare model in order to achieve savings in healthcare spend

Reducing Healthcare Spending Measures, \$MM



| Reform Measures                  | Description  | 2018 Impact |
|----------------------------------|--|-------------|
| <b>Pay for Value</b>             | <ul style="list-style-type: none"> <li>Establish uniformed fee schedules and limit reimbursement rates for providers</li> <li>Replace current profit sharing arrangement with MCOs and replace with a Medical Loss Ratio</li> </ul>  | \$38MM      |
| <b>Improve Payment Integrity</b> | <ul style="list-style-type: none"> <li>Establish partnerships to increase the scrutiny of premium payments for beneficiaries that have left the system or have another health insurance plan</li> <li>Establish Medicaid Fraud Control Unit and implement the Medicaid Management Information System to reduce waste, fraud and abuse</li> </ul> | \$25MM      |
| <b>Reduce Drug Cost</b>          | <ul style="list-style-type: none"> <li>Reduce outpatient drug spending by increase pharmacy discounts on branded drugs, enforce mandatory dispensing of generic drugs, updating the preferred formulary and establishing shared-savings initiatives</li> </ul>   | \$38MM      |
| <b>Modify Benefits Package</b>   | <ul style="list-style-type: none"> <li>Evaluate services that could be capped and/or eliminated from the current benefit package without adversely affecting access for Mi Salud beneficiaries</li> </ul>  | \$0         |
| <b>New Healthcare Model</b>      | <ul style="list-style-type: none"> <li>Develop a new healthcare model in which the Government pays for basic, less costly benefits and the patient pays for premium services selected resulting in cost reductions attributed to greater competition along with the capped PMPM amount</li> </ul>  | \$0         |

Note: To meet fiscal plan objectives, the Government may consider additional measures.



PENSION REFORM

# Segmentation of the defined contribution structure will protect the retirement savings of government employees

Pension Reform Measures, \$MM



**Reform Measures** | **Initiative** | **2018 Impact**

**Contribution Segregation and New Benefit Plans**

- Switch to pay-as-you-go model, segregate prospective employee contributions, facilitate Social Security enrollment and improve investment alternatives

**\$0**

**Adjust Retirement Benefits**

- Protect benefits for lowest pension income earners. Progressive strategy to reduce retirement benefit costs including other post-employment benefits.

**\$0**



Note: To meet fiscal plan objectives, the Government may consider additional measures.

## IV. STRUCTURAL REFORMS



STRUCTURAL REFORM MEASURES

# Implementing the package of structural reforms will provide a cumulative 2.0% increase in GNP growth

| 1  | 2   | 3  | Energy Reform |
|--|---|--|---------------|
| Improve Ease of Business Activity  | Improve Capital Efficiency  |  |               |
| <p><b>1a</b> <b>Increase Labor Participation</b></p> <ul style="list-style-type: none"> <li>Institute public policy measures aimed to attract new businesses, create new employment opportunities, and foster private sector employment growth to increase labor demand</li> <li>Change welfare and labor incentives to encourage greater sector participation thus increasing labor supply</li> </ul> | <p><b>2a</b> <b>Infrastructure Reform</b></p> <ul style="list-style-type: none"> <li>Augmenting competitiveness by investing in critical infrastructure and quality of public services in roads, ports, telecommunications, water and waste, knowledge services, and other strategically important sectors</li> </ul> | <p><b>3a</b> <b>Energy Reform</b></p> <ul style="list-style-type: none"> <li>Leverage and facilitate expedited private sector investments in modern, cost-efficient, and environmentally compliant energy infrastructure; reform PREPA operations and services to clients; and allow for greater competition in energy generation</li> </ul> |               |
| <p><b>1b</b> <b>Permitting Process Reform</b></p> <ul style="list-style-type: none"> <li>Centralize, streamline, and modernize and expedite permitting processes; increase business friendly environmental and economic growth</li> </ul>  | <p><b>2b</b> <b>Public-Private Partnerships</b></p> <ul style="list-style-type: none"> <li>Leverage key public assets through long term concessions to optimize quality of public infrastructure, services to public and sustainable operations and maintenance</li> </ul>  | <p><b>4</b> <b>Promoting Economic Development</b></p>  |               |
| <p><b>1c</b> <b>Tax Reform</b></p> <ul style="list-style-type: none"> <li>Lower marginal tax rates and broaden the tax base; simplify and optimize the existing tax code to achieve gains in efficiency, ease of doing business and reducing tax evasion</li> </ul>  | <p><b>2c</b> <b>Critical Projects</b></p> <ul style="list-style-type: none"> <li>Implement management system to boost development of critical projects through expedited processes</li> </ul>   | <p><b>4a</b> <b>Enterprise Puerto Rico</b></p> <ul style="list-style-type: none"> <li>Promote productivity growth, attract FDI &amp; incentivize investments in technology through collaboration with the private sector</li> </ul>  |               |
| <p><b>1d</b> <b>Regulatory Reform</b></p> <ul style="list-style-type: none"> <li>Reduce unnecessary regulatory burdens to reduce the drag of government on the private sector</li> </ul>   |   | <p><b>4b</b> <b>Destination Marketing Organization</b></p> <ul style="list-style-type: none"> <li>Externalize the overseeing of marketing efforts &amp; continuity under a single brand and as a unified front representing all of Puerto Rico's tourism components</li> </ul>   |               |



# The initial stage of the P3 program includes launching of ~\$5B of projects during the 2017-2019 calendar years that have been identified and are in project preparation

- P3 Project Identification**
- Identified initial list of priority projects with P3 potential
  - Assessed project business cases and impacts on priority infrastructure needs, the economy, and efficient delivery of public services
  - Split into 3 groups based on projected sequencing, designed to launch in 2017, 2018 and 2019

**Key Considerations in the Overall P3 Implementation**

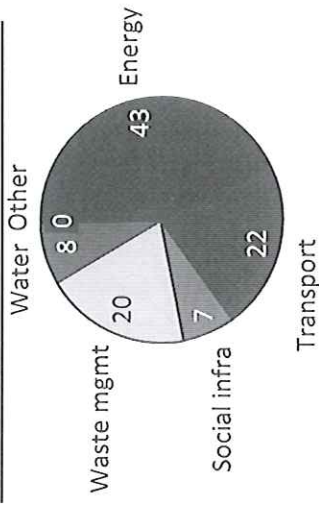
- Project sequencing is designed to effectively progress the advancement of projects and avoid major obstacles in the shortest timeline possible (i.e., progression from easily executable/advanced permitting to more difficult/less advanced projects)
- Need to promote and improve funding models to use private funds, where relevant, as leverage to maximize the unused federal funds current available

Removed 3<sup>rd</sup> bullet

**10-Year Impact**

→ Capital Improvement Investment: ~\$5B | Jobs Created: ~100,000

**P3 Key Target Areas %**



|                         | 2017   |       |       |       | 2018   |       |       |       | 2019   |       |       |       |
|-------------------------|--|-------|-------|-------|--|-------|-------|-------|--|-------|-------|-------|
|                         | Q-17   | Q2-17 | Q3-17 | Q4-17 | Q1-18  | Q2-18 | Q3-18 | Q4-18 | Q1-19  | Q2-19 | Q3-19 | Q4-19 |
| <b>Group 1 Projects</b> | <ul style="list-style-type: none"> <li>Launch Group 1 Projects</li> <li>Estimated value ~\$1B</li> </ul> |       |       |       |  |       |       |       |  |       |       |       |
| <b>Group 2 Projects</b> |  |       |       |       | <ul style="list-style-type: none"> <li>Invest in preparing Group 2</li> <li>Data gathering, due diligence, etc.</li> </ul> |       |       |       | <ul style="list-style-type: none"> <li>Launch Group 2 Projects</li> <li>Estimated value ~\$2B</li> </ul>                           |       |       |       |
| <b>Group 3 Projects</b> |  |       |       |       |  |       |       |       | <ul style="list-style-type: none"> <li>Invest heavily in preparing Group 3</li> <li>Data gathering, due diligence, etc.</li> </ul> |       |       |       |

(Project timeline includes P3 concessions included in Externalization measures)

Removed bullet



## V. DEBT SUSTAINABILITY ANALYSIS



DEBT SUSTAINABILITY

## Debt summary

- Below is a summary of the debt (excluding pension liabilities) considered in the fiscal plan
- Note: Amounts are estimated as of February 2017 and based upon preliminary unaudited numbers provided to AAFAF by issuer agencies and from publicly available information. On behalf of the Board, Ernst & Young is conducting an assessment of the debt outstanding to confirm these figures. Estimated amounts are subject to further review and may change

### Summary of debt outstanding as of February 2017 (\$MM)

| Issuers included in Fiscal Plan              | Bond principal  | CAB            | Unpaid P&I <sup>1</sup> | Private Loans  | Total Bonds & Private loans | Loans from GDB/MFA Entities | Total Debt Service FY 17-19 | DSRF Balance    |
|--|-----------------|----------------|-------------------------|----------------|-----------------------------|-----------------------------|-----------------------------|-----------------|
| GO   | \$12,013        | \$84           | \$1,146                 | \$24           | \$13,267                    | \$169                       | \$3,284                     | --              |
| COFINA                                       | 11,425          | 6,155          | --                      | --             | 17,580                      | --                          | 2,121                       | --              |
| HTA <sup>2</sup>                             | 3,983           | 135            | 6                       | --             | 4,124                       | 1,734                       | 997                         | 101             |
| PBA  | 3,930           | --             | 117                     | --             | 4,037                       | 182                         | 782                         | 6               |
| GDB <sup>3,4</sup>                           | 3,182           | --             | 742                     | 203            | 4,126                       | --                          | 1,863                       | --              |
| ERS  | 2,658           | 498            | --                      | --             | 3,156                       | --                          | 500                         | 44              |
| PRIFA <sup>5</sup>                           | 1,566           | 409            | 232                     | --             | 2,207                       | 49                          | 464                         | 2               |
| PFC  | 1,025           | --             | 172                     | --             | 1,197                       | --                          | 257                         | --              |
| UPR <sup>6</sup>                             | 496             | --             | --                      | 0              | 496                         | 76                          | 145                         | 61              |
| PRCODA                                       | 386             | --             | --                      | --             | 386                         | 145                         | 91                          | 9               |
| PRIDCO                                       | 145             | 11             | --                      | --             | 156                         | 78                          | 54                          | 19              |
| AMA  | --              | --             | --                      | 28             | 28                          | --                          | --                          | --              |
| Other Central Gov't Entities                 | 197             | --             | 29                      | 413            | 639                         | 3,975                       | --                          | --              |
| <b>Total</b>                                 | <b>\$41,056</b> | <b>\$7,293</b> | <b>\$2,444</b>          | <b>\$668</b>   | <b>\$51,461</b>             | <b>\$6,409</b>              | <b>\$10,558</b>             | <b>\$242</b>    |
| <b>Debt issuers not incl. in Fiscal Plan</b> |                 |                |                         |                |                             |                             |                             |                 |
| PREPA  | 8,259           | --             | --                      | 697            | 8,956                       | 36                          | 2,775                       | 6               |
| PRASA <sup>7</sup>                           | 3,943           | 28             | 13                      | 584            | 4,568                       | 229                         | 995                         | 93              |
| Children's Trust                             | 847             | 613            | --                      | --             | 1,460                       | --                          | 140                         | 85              |
| HFA  | 542             | --             | --                      | --             | 542                         | 85                          | 134                         | 33              |
| PRICO  | --              | --             | --                      | 98             | 98                          | --                          | --                          | --              |
| Municipality Related Debt <sup>8</sup>       | 556             | --             | --                      | 1,140          | 1,696                       | 2,036                       | n.a.                        | 59              |
| <b>Total</b>                                 | <b>\$14,147</b> | <b>\$641</b>   | <b>\$13</b>             | <b>\$2,520</b> | <b>\$17,320</b>             | <b>\$2,386</b>              | <b>\$4,044</b>              | <b>\$276</b>    |
| <b>Total</b>                                 | <b>\$55,203</b> | <b>\$7,933</b> | <b>\$2,457</b>          | <b>\$3,188</b> | <b>\$68,781</b>             | <b>\$8,795</b>              | <b>\$14,602</b>             | <b>\$518</b>    |
| Less: GDB Bonds (excl. TDF)                  |                 |                |                         |                | (3,766)                     |                             |                             |                 |
| Plus: Loans from GDB/MFA Entities            |                 |                |                         |                | 8,795                       |                             |                             |                 |
| <b>Public Sector Debt</b>                    |                 |                |                         |                |                             |                             |                             | <b>\$73,810</b> |

Reflects corrected debt amounts:  
 COFINA: reduced by \$300m  
 HTA: reduced by \$123m  
 PBA: reduced by \$32m

- Notes:**
- Unpaid principal and interest includes debt service that has been paid by insurers and is owed by the government
  - HTA includes Teodoro Moscoso bonds
  - GDB private loans includes Tourism Development Fund ("TDF") guarantees
  - Includes GDB Senior Guaranteed Notes Series 2013-81 ("CFSE")
  - PRIFA includes PRIFA Rum bonds, PRIFA Petroleum Products Excise Tax BANs, PRIFA Port Authority bonds and \$34.9m of PRIFA ASSMCA bonds
  - UPR includes \$64.2m of AFICA Desarrollos Universitarios University Plaza Project bonds
  - PRASA bonds includes Revenue Bonds, Rural Development Bonds, Guaranteed 2008 Ref Bonds
  - Municipality Related Debt includes AFICA Guyanabo Municipal Government Center and Guaynabo Warehouse for Emergencies bonds



DEBT SUSTAINABILITY

Changed Schedule to include 2017, exclude 2027 in order to tie out to Fiscal Plan projection period.

Corrected debt service amounts impacting GO, PBA, COFINA, HTA, PRIFA, PFC and GDB  
 Total debt service over the projection period reduced by \$68m

# Debt Service Schedule

The table below summarizes the annual debt service through FY 2026 for all issuers included in the fiscal plan

## FY 201 – FY 202 debt service (\$MM)

| Fiscal year ending June 30, | 2017           | 2018           | 2019           | 2020           | 2021           | 2022           | 2023           | 2024           | 2025           | 2026           |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Cash Interest</b>        |                |                |                |                |                |                |                |                |                |                |
| GO                          | \$733          | \$714          | \$699          | \$680          | \$658          | \$641          | \$621          | \$597          | \$571          | \$545          |
| PBA                         | 186            | 186            | 183            | 179            | 175            | 169            | 163            | 157            | 151            | 145            |
| COFINA                      | 686            | 685            | 684            | 697            | 709            | 703            | 696            | 688            | 680            | 671            |
| HTA <sup>1</sup>            | 206            | 201            | 194            | 188            | 182            | 175            | 167            | 160            | 153            | 145            |
| PRIFA <sup>2</sup>          | 86             | 80             | 77             | 75             | 72             | 69             | 65             | 61             | 57             | 53             |
| PRCCDA                      | 19             | 18             | 17             | 17             | 16             | 15             | 15             | 14             | 13             | 12             |
| PFC                         | 56             | 55             | 54             | 53             | 51             | 50             | 48             | 47             | 44             | 42             |
| UPR <sup>3</sup>            | 25             | 24             | 22             | 21             | 20             | 18             | 17             | 15             | 14             | 12             |
| ERS                         | 167            | 167            | 167            | 167            | 167            | 164            | 159            | 155            | 154            | 152            |
| GDB                         | 163            | 142            | 125            | 79             | 55             | 46             | 43             | 18             | 16             | 11             |
| PRIDCO                      | 8              | 8              | 7              | 7              | 6              | 5              | 5              | 4              | 3              | 2              |
| <b>Total</b>                | <b>\$2,333</b> | <b>\$2,279</b> | <b>\$2,229</b> | <b>\$2,161</b> | <b>\$2,109</b> | <b>\$2,054</b> | <b>\$1,999</b> | <b>\$1,916</b> | <b>\$1,857</b> | <b>\$1,790</b> |
| <b>Principal</b>            |                |                |                |                |                |                |                |                |                |                |
| GO                          | \$395          | \$351          | \$392          | \$439          | \$334          | \$358          | \$378          | \$402          | \$428          | \$454          |
| PBA                         | 91             | 66             | 70             | 74             | 100            | 102            | 96             | 103            | 107            | 100            |
| COFINA                      | 0              | 19             | 48             | 78             | 98             | 120            | 159            | 203            | 248            | 294            |
| HTA <sup>1</sup>            | 131            | 140            | 126            | 136            | 142            | 150            | 146            | 155            | 164            | 169            |
| PRIFA <sup>2</sup>          | 124            | 48             | 50             | 51             | 54             | 62             | 86             | 64             | 72             | 74             |
| PRCCDA                      | 12             | 12             | 13             | 14             | 14             | 15             | 16             | 17             | 17             | 18             |
| PFC                         | 29             | 30             | 32             | 33             | 34             | 36             | 37             | 39             | 41             | 43             |
| UPR <sup>3</sup>            | 23             | 25             | 26             | 27             | 29             | 30             | 31             | 33             | 35             | 24             |
| ERS                         | (0)            | 0              | —              | 0              | 50             | 70             | 80             | 19             | 22             | 29             |
| GDB                         | 309            | 277            | 848            | 432            | 434            | 143            | 47             | 541            | —              | 248            |
| PRIDCO                      | 10             | 10             | 11             | 11             | 11             | 13             | 13             | 14             | 15             | 16             |
| <b>Total</b>                | <b>\$1,124</b> | <b>\$979</b>   | <b>\$1,614</b> | <b>\$1,296</b> | <b>\$1,299</b> | <b>\$1,097</b> | <b>\$1,091</b> | <b>\$1,590</b> | <b>\$1,149</b> | <b>\$1,470</b> |
| <b>Total debt service</b>   |                |                |                |                |                |                |                |                |                |                |
| GO                          | \$1,128        | \$1,066        | \$1,090        | \$1,118        | \$991          | \$999          | \$999          | \$999          | \$999          | \$999          |
| PBA                         | 277            | 253            | 252            | 253            | 274            | 270            | 259            | 260            | 258            | 245            |
| COFINA                      | 686            | 704            | 732            | 776            | 807            | 823            | 855            | 891            | 928            | 965            |
| HTA <sup>1</sup>            | 337            | 340            | 320            | 324            | 324            | 325            | 314            | 315            | 317            | 314            |
| PRIFA <sup>2</sup>          | 210            | 127            | 127            | 126            | 126            | 130            | 151            | 125            | 130            | 127            |
| PRCCDA                      | 30             | 30             | 30             | 30             | 30             | 30             | 30             | 30             | 30             | 30             |
| PFC                         | 86             | 86             | 86             | 85             | 85             | 85             | 85             | 86             | 86             | 85             |
| UPR <sup>3</sup>            | 48             | 48             | 48             | 48             | 48             | 48             | 48             | 48             | 48             | 36             |
| ERS                         | 167            | 167            | 167            | 167            | 167            | 164            | 159            | 155            | 154            | 152            |
| GDB                         | 472            | 419            | 973            | 512            | 488            | 189            | 91             | 559            | 16             | 259            |
| PRIDCO                      | 18             | 18             | 18             | 18             | 16             | 18             | 18             | 18             | 18             | 18             |
| <b>Total</b>                | <b>\$3,457</b> | <b>\$3,257</b> | <b>\$3,843</b> | <b>\$3,457</b> | <b>\$3,408</b> | <b>\$3,152</b> | <b>\$3,090</b> | <b>\$3,506</b> | <b>\$3,006</b> | <b>\$3,261</b> |

1 HTA includes Teodoro Moscoso Bridge  
 2 PRIFA includes PRIFA BANS  
 3 UPR includes AFICA UPP





DEBT SUSTAINABILITY

## Debt sustainability

The table below summarizes the annual cash flow available for debt service, and calculates implied debt capacity based on a range of interest rates and coverage ratios assuming an illustrative 35 year term

- Cash flow available for debt service incorporates (i) the payment of essential services, (ii) benefit of clawback revenues and (iii) a prudent contingency reserve
- In the Fiscal Plan summarized below, the cash flow after Measures but before Debt Service averages \$787m per year during the period 2017 - 2026

### Debt sustainability sensitivity analysis (\$MM)

| Fiscal year ending June 30 (\$ in millions)        | 2017           | 2018           | 2019           | 2020           | 2021           | 2022           | 2023           | 2024           | 2025           | 2026           | '17 - '26 total |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| <b>Baseline Projections</b>                        |                |                |                |                |                |                |                |                |                |                |                 |
| Revenues   | \$18,952       | \$17,511       | \$16,407       | \$16,434       | \$16,494       | \$16,590       | \$16,746       | \$16,953       | \$17,204       | \$17,509       | \$170,799       |
| Expenses   | (17,872)       | (18,981)       | (19,233)       | (19,512)       | (19,950)       | (20,477)       | (20,884)       | (21,310)       | (21,973)       | (22,316)       | (202,507)       |
| <b>Cash Flow Excl. Debt Service &amp; Measures</b> | <b>1,080</b>   | <b>(1,470)</b> | <b>(2,826)</b> | <b>(3,077)</b> | <b>(3,456)</b> | <b>(3,886)</b> | <b>(4,139)</b> | <b>(4,357)</b> | <b>(4,769)</b> | <b>(4,808)</b> | <b>(31,708)</b> |
| <b>Impact of Measures</b>                          |                |                |                |                |                |                |                |                |                |                |                 |
| Revenue Measures                                   | --             | 924            | 1,381          | 1,384          | 1,531          | 1,633          | 1,740          | 1,752          | 1,766          | 1,785          | 13,897          |
| Expense Measures                                   | --             | 951            | 2,012          | 2,415          | 2,983          | 3,156          | 3,255          | 3,357          | 3,724          | 3,830          | 25,683          |
| <b>Total Measures</b>                              | <b>--</b>      | <b>1,875</b>   | <b>3,393</b>   | <b>3,799</b>   | <b>4,515</b>   | <b>4,789</b>   | <b>4,995</b>   | <b>5,108</b>   | <b>5,491</b>   | <b>5,615</b>   | <b>39,580</b>   |
| <b>Cash Flow Available for Debt Service</b>        | <b>\$1,080</b> | <b>\$404</b>   | <b>\$567</b>   | <b>\$722</b>   | <b>\$1,059</b> | <b>\$903</b>   | <b>\$857</b>   | <b>\$751</b>   | <b>\$722</b>   | <b>\$808</b>   | <b>\$7,873</b>  |

### Illustrative Sustainable Debt Capacity Sizing Analysis

| Sensitivity Analysis: PV Rate %  | Sensitivity Analysis: Implied Debt Capacity at 10% Contingency |        |        |        |        |        |         |         |         |         |
|----------------------------------|--|--------|--------|--------|--------|--------|---------|---------|---------|---------|
|                                  | \$700  | \$750  | \$800  | \$850  | \$900  | \$950  | \$1,000 | \$1,050 | \$1,050 | \$1,100 |
| Illustrative Cash Flow Available | \$700  | \$750  | \$800  | \$850  | \$900  | \$950  | \$1,000 | \$1,050 | \$1,050 | \$1,100 |
| 3.5%                             | 12,600   | 13,500 | 14,400 | 15,301 | 16,201 | 17,101 | 18,001  | 18,901  | 18,901  | 19,801  |
| 4.0%                             | 11,759   | 12,599 | 13,439 | 14,278 | 15,118 | 15,958 | 16,798  | 17,638  | 17,638  | 18,478  |
| 4.5%                             | 11,000   | 11,786 | 12,572 | 13,358 | 14,143 | 14,929 | 15,715  | 16,501  | 16,501  | 17,286  |

| Sensitivity Analysis: % Contingency | Sensitivity Analysis: Implied Debt Capacity at 4% PV Rate |        |        |        |        |        |         |         |         |         |
|-------------------------------------|---|--------|--------|--------|--------|--------|---------|---------|---------|---------|
|                                     | \$700   | \$750  | \$800  | \$850  | \$900  | \$950  | \$1,000 | \$1,050 | \$1,050 | \$1,100 |
| Illustrative Cash Flow Available    | \$700   | \$750  | \$800  | \$850  | \$900  | \$950  | \$1,000 | \$1,050 | \$1,050 | \$1,100 |
| 5.0%                                | 12,412  | 13,299 | 14,185 | 15,072 | 15,958 | 16,845 | 17,731  | 18,618  | 18,618  | 19,505  |
| 10.0%                               | 11,759  | 12,599 | 13,439 | 14,278 | 15,118 | 15,958 | 16,798  | 17,638  | 17,638  | 18,478  |
| 15.0%                               | 11,105  | 11,899 | 12,692 | 13,485 | 14,278 | 15,072 | 15,865  | 16,658  | 16,658  | 17,451  |

Corrected to reflect shift of \$262m of AP paydown from FY 2017 to FY 2024



## VI. TSA LIQUIDITY



TSA LIQUIDITY

Weekly cash flow forecast through 2017FY

| Cash Flows Before Cliffs, Measures and Debt<br>(figures in \$mm) |   | Fiscal Year    |                |                |                |                |                |                |                |                |                |                |                |                |                |                |                |
|--|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|  |   | 3/17           | 3/24           | 3/31           | 4/7            | 4/14           | 4/21           | 4/28           | 5/5            | 5/12           | 5/19           | 5/26           | 6/2            | 6/9            | 6/16           | 6/23           | 6/30           |
| 1  | General Collections   | \$349          | \$254          | \$58           | \$71           | \$66           | \$760          | \$186          | \$63           | \$66           | \$334          | \$60           | \$44           | \$59           | \$134          | \$520          | \$57           |
| 2  | Sales and Use Tax   | 18             | 13             | 146            | 5              | 17             | 14             | 163            | 5              | 18             | 5              | 167            | 4              | 5              | 18             | 14             | 171            |
| 3  | Excise Tax through Banco Popular                                  | 64             | -              | -              | -              | 77             | -              | -              | -              | -              | 68             | -              | -              | -              | 57             | -              | -              |
| 4  | Rum Tax   | -              | 10             | -              | -              | -              | 11             | -              | -              | -              | 18             | -              | -              | -              | 22             | -              | -              |
| 5  | Electronic Lottery  | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              | 14             | 37             | -              |
| 6  | Subtotal  | \$432          | \$277          | \$204          | \$76           | \$161          | \$794          | \$349          | \$68           | \$84           | \$424          | \$227          | \$48           | \$64           | \$210          | \$570          | \$265          |
| 7  | Employee/Judiciary Retirement Admin.                              | -              | -              | -              | -              | 56             | -              | -              | -              | 56             | -              | -              | -              | -              | 56             | -              | -              |
| 8  | Teachers Retirement System  | -              | -              | -              | -              | 70             | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              |
| 9  | Retirement System Transfers                                       | -              | -              | -              | -              | \$127          | -              | -              | -              | \$56           | -              | -              | -              | -              | \$56           | -              | -              |
| 10   | Federal Funds   | 93             | 110            | 83             | 123            | 95             | 119            | 123            | 95             | 126            | 93             | 123            | 49             | 99             | 107            | 107            | 121            |
| 11   | Other Inflows   | 9              | -              | 11             | -              | -              | 9              | 11             | -              | -              | -              | -              | 11             | -              | -              | -              | 11             |
| 12   | Tax Revenue Anticipation Notes                                    | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              |
| 13   | <b>Total Inflows</b>  | <b>\$534</b>   | <b>\$388</b>   | <b>\$298</b>   | <b>\$199</b>   | <b>\$382</b>   | <b>\$912</b>   | <b>\$483</b>   | <b>\$163</b>   | <b>\$267</b>   | <b>\$517</b>   | <b>\$350</b>   | <b>\$108</b>   | <b>\$163</b>   | <b>\$373</b>   | <b>\$677</b>   | <b>\$397</b>   |
| 14   | Payroll and Related Costs   | (18)           | (51)           | (120)          | (23)           | (95)           | (62)           | (101)          | (35)           | (90)           | (65)           | (96)           | (18)           | (22)           | (95)           | (106)          | (106)          |
| 15   | Pension Benefits  | -              | -              | (87)           | -              | (82)           | -              | (87)           | -              | (82)           | -              | (87)           | -              | -              | (82)           | -              | (87)           |
| 16   | Health Insurance Administration - ASES                            | (53)           | (53)           | (55)           | (53)           | (53)           | (53)           | (60)           | (53)           | (53)           | (53)           | (53)           | (7)            | (53)           | (53)           | (53)           | (55)           |
| 17   | University of Puerto Rico - UPR                                   | (18)           | (18)           | (24)           | (18)           | (18)           | (18)           | (24)           | (18)           | (18)           | (18)           | (18)           | (6)            | -              | (36)           | (18)           | (24)           |
| 18   | Muni. Revenue Collection Center - CRIM                            | (21)           | (8)            | (8)            | (8)            | (8)            | (8)            | (8)            | (8)            | (8)            | (8)            | (8)            | -              | -              | (15)           | (8)            | (26)           |
| 19   | Highway Transportation Authority - HTA                            | -              | -              | (16)           | -              | -              | -              | (16)           | -              | (19)           | -              | -              | (19)           | -              | -              | (19)           | (19)           |
| 20   | Public Building Authority - PBA / AEP                             | (9)            | (4)            | (4)            | (4)            | (4)            | (4)            | (4)            | (4)            | (4)            | (4)            | (4)            | (4)            | (4)            | (4)            | (4)            | (4)            |
| 21   | Other Governmental Entities                                       | (20)           | (9)            | (54)           | 25             | (20)           | (9)            | (54)           | 25             | (20)           | (9)            | (12)           | (18)           | (3)            | (20)           | (9)            | (63)           |
| 22   | Subtotal - Government Entity Transfers                            | (\$120)        | (\$92)         | (\$160)        | (\$57)         | (\$103)        | (\$92)         | (\$165)        | (\$57)         | (\$122)        | (\$92)         | (\$90)         | (\$54)         | (\$59)         | (\$128)        | (\$111)        | (\$191)        |
| 23   | Supplier Payments   | (57)           | (57)           | (58)           | (86)           | (86)           | (86)           | (87)           | (88)           | (68)           | (68)           | (68)           | (53)           | (65)           | (65)           | (65)           | (66)           |
| 24   | Other Legislative Appropriations                                  | (24)           | (14)           | (5)            | (2)            | -              | (38)           | (5)            | (6)            | (22)           | (10)           | (5)            | (4)            | -              | (16)           | (22)           | (5)            |
| 25   | Tax Refunds   | (12)           | (13)           | (4)            | (1)            | (6)            | (39)           | (4)            | (7)            | (4)            | (4)            | (31)           | (3)            | (1)            | (4)            | (6)            | (41)           |
| 26   | Nutrition Assistance Program                                      | (30)           | (70)           | (22)           | (35)           | (40)           | (54)           | (36)           | (22)           | (43)           | (56)           | (36)           | (16)           | (37)           | (30)           | (70)           | (20)           |
| 27   | Other Disbursements   | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              | -              | (4)            | -              | -              | -              | (4)            |
| 28   | Contingency   | (16)           | (16)           | (16)           | (29)           | (29)           | (29)           | (29)           | (29)           | (29)           | (29)           | (29)           | (23)           | (23)           | (23)           | (23)           | (23)           |
| 29   | Tax Revenue Anticipation Notes                                    | -              | -              | -              | -              | -              | -              | (152)          | -              | -              | -              | (137)          | -              | -              | -              | -              | (135)          |
| 30   | <b>Total Outflows</b>   | <b>(\$277)</b> | <b>(\$313)</b> | <b>(\$472)</b> | <b>(\$233)</b> | <b>(\$440)</b> | <b>(\$399)</b> | <b>(\$665)</b> | <b>(\$223)</b> | <b>(\$459)</b> | <b>(\$324)</b> | <b>(\$442)</b> | <b>(\$312)</b> | <b>(\$208)</b> | <b>(\$443)</b> | <b>(\$353)</b> | <b>(\$676)</b> |
| 31   | Net Cash Flows Excluding Debt Service, Fiscal Cliffs and Measures | \$257          | \$75           | (\$174)        | (\$34)         | (\$58)         | \$513          | (\$182)        | (\$60)         | (\$193)        | \$194          | (\$92)         | (\$204)        | (\$44)         | (\$70)         | (\$324)        | (\$279)        |
| 32   | Bank Cash Position, Beginning (a)                                 | \$319          | \$576          | \$650          | \$477          | \$442          | \$384          | \$897          | \$716          | \$655          | \$462          | \$656          | \$564          | \$360          | \$316          | \$246          | \$570          |
| 33   | Bank Cash Position, Ending (a)                                    | \$576          | \$650          | \$477          | \$442          | \$384          | \$897          | \$716          | \$655          | \$462          | \$656          | \$564          | \$360          | \$316          | \$246          | \$570          | \$291          |



(a) Excludes clawback account.

TSA LIQUIDITY

Corrected from liquidity discussion to TSA liquidity to match section name

## Liquidity Principles for FY 2018

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- No external short-term financing
- Rollout of Disbursement Authorization Group in order to enforce priority of payments through defined critical services (see Section VII)
- Consolidate dispersed treasury functions and put in place oversight over accounts not centrally managed
- Refine and regularly update 13 week cash analysis with detailed forecasting of cash receipts and disbursements
- Provide detailed daily performance projections, results, and variances



## VII. FINANCIAL CONTROL REFORM



FINANCIAL CONTROLS

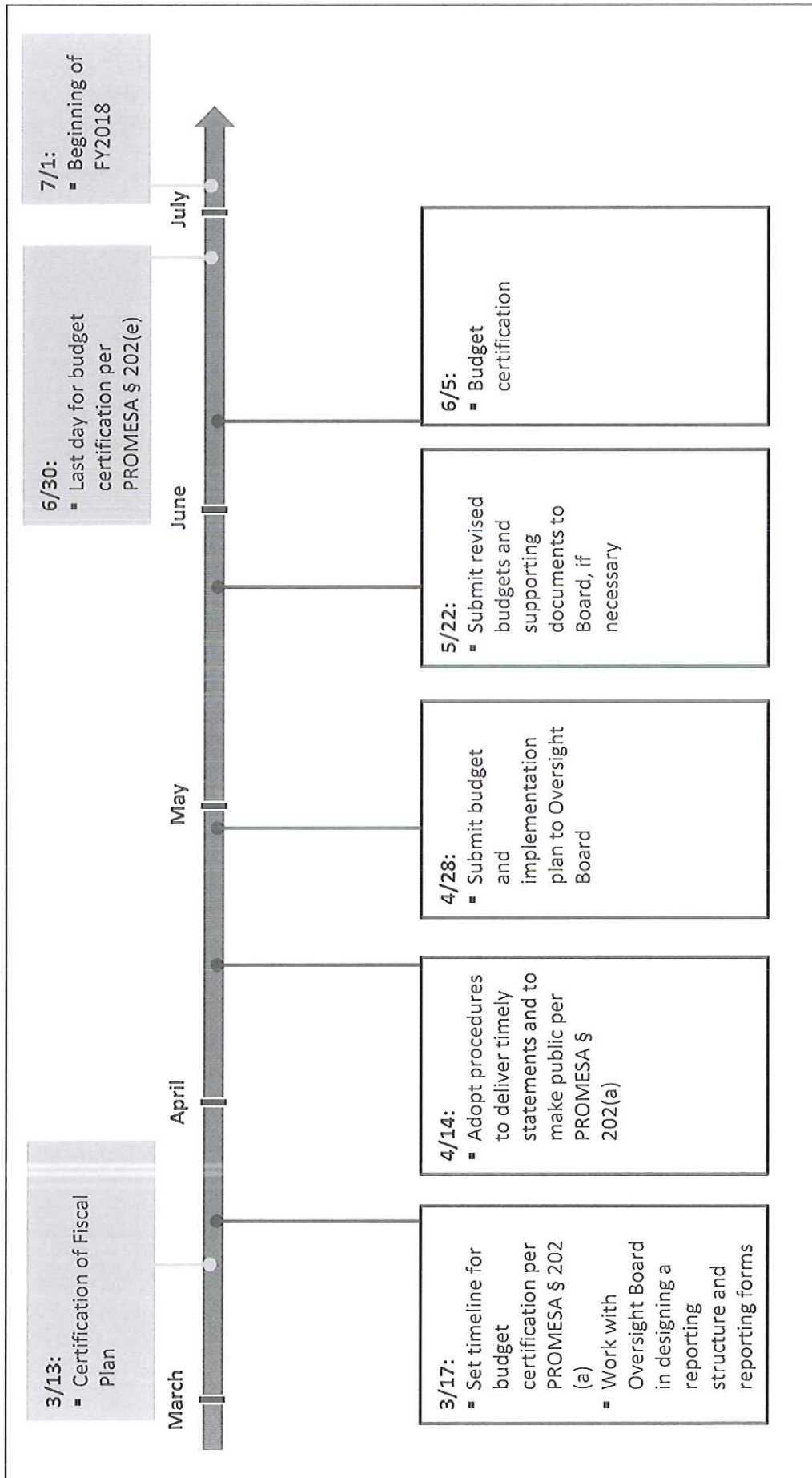
**Current state of financial controls**

- Cash is not centrally managed
  - No central office has visibility across all spending
  - Procurement agencies do not actively enforce terms and specifications
  - Limited coordinated effort to eliminate major cash outlays
  - Limited sweep of cash into general fund accounts
  - Cash disbursements is a manual and subjective process handled at Hacienda
  - No formal structure for reporting and release of audited financials
- Target is to improve level of detail on forecasting and specificity around assumptions
  - “Top-down” approach, based on prior year’s Budget
  - Bank-to-book reconciliations are not often prepared in a timely manner
  - No tracking mechanisms exist to measure intra-year actual expenditures vs. budget on an accrual basis



FINANCIAL CONTROLS

Budget certification per PROMESA § 202



FINANCIAL CONTROLS

**Quarterly budget compliance process per PROMESA § 203**

| Quarterly Action   | PROMESA section     | Description   | Proposed dates<br>(mm/dd/yy)  |
|--|---------------------|---|---|
| <b>Reporting<sup>1</sup></b>                                     | ▪ § 203 (a)         | ▪ Governor to submit a report describing: (1) the actual cash revenues, expenditures, and flows and (2) any other information requested by the Board  | <ul style="list-style-type: none"> <li>▪ Q1: 10/15/17<sup>1</sup></li> <li>▪ Q2: 1/16/18</li> <li>▪ Q3: 4/16/18</li> <li>▪ Q4: 7/16/18</li> </ul> |
| <b>External auditing</b>   | ▪ § 203 (b)         | ▪ Oversight Board to communicate the result of external auditing report to the government and identify any inconsistencies with the projected revenues, expenditures, or cash flows set forth in the certified Budget for such quarter  | <ul style="list-style-type: none"> <li>▪ Q1: 11/10/17</li> <li>▪ Q2: 2/12/18</li> <li>▪ Q3: 5/10/18</li> <li>▪ Q4: 8/10/18</li> </ul>             |
| <b>Correction of variance</b>                                    | ▪ § 203 (b)         | ▪ Government to provide additional information regarding any inconsistencies with the certified budget and implement remedial action to correct variances   | <ul style="list-style-type: none"> <li>▪ Q1: 11/20/17</li> <li>▪ Q2: 2/20/18</li> <li>▪ Q3: 5/21/18</li> <li>▪ Q4: 8/20/18</li> </ul>             |
| <b>Certification of variance / or Budget reductions by Board</b> | ▪ § 203 (c) and (d) | <ul style="list-style-type: none"> <li>▪ Board to certify that the government is at variance with the applicable certified Budget, and that the Government has initiated such measures as the Board considers sufficient to correct it</li> <li>▪ If the variances are not corrected, the Board shall make appropriate reductions in nondebt expenditures and may institute automatic hiring freezes in instrumentalities and prohibit them from entering in any contract in excess of \$100,000</li> </ul> | <ul style="list-style-type: none"> <li>▪ Q1: 12/11/17</li> <li>▪ Q2: 3/12/18</li> <li>▪ Q3: 6/11/18</li> <li>▪ Q4: 9/10/18</li> </ul>             |
| <b>Termination of budget reductions</b>                          | ▪ § 203 (e)         | ▪ The Board should decide whether the government or instrumentality has made the appropriate measures to reduce expenditures or increase revenues and cancel the reductions   | ▪ Ongoing   |



1. Per PROMESA, these dates must be 15 days after end of each quarter





### Budget and Forecasting process

**Define a timeline for each quarter's budget**

- Certification process must adhere to PROMESA requirements
- Should include, but not be limited to:
  - Certification process according to PROMESA requirements
  - Reporting, external auditing, and variance certifications

**Set guiding principles for budget and forecasting**

- Budget should be prepared...
  - Within the **confines of the overall fiscal plan**
  - As a **positive cash balance** with sufficient safety margin, due to lack of access to capital markets

**Set, update, and track targets every quarter**

- Use performance metrics, e.g.,:
  - Status? On track / Delayed / Completed
  - Reached target?
  - Above / below past instances?
- Implement measures to correct variances from budget



## Disbursement process

### Define disbursement process

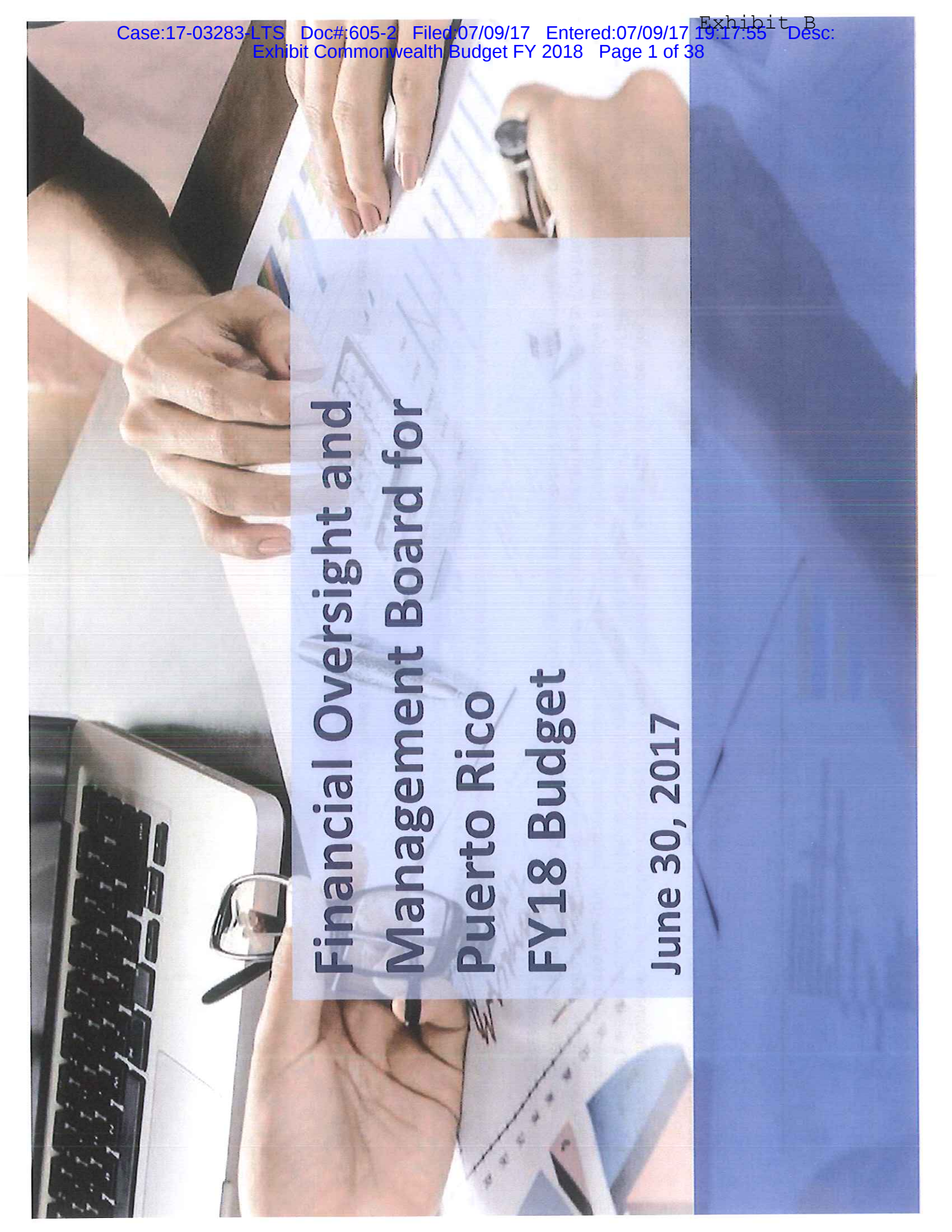
- Set guidelines and principles
- Work to match budget to disbursement authorizations
- Identify an effective, centralized, and time-sensitive disbursement process that involves the adequate authorities
  - Incorporate a mechanism that confirms alignment between revenues and expenses

### Implement a centralized disbursement digital database

- Centralize into a single Treasury account with a corresponding database
- Update and review periodically
- Set a minimum available liquidity threshold and an alert-system

### Set, update, and track metrics every quarter

- Establish preventive measures
- Implement detective procedures to correct problems before they arise
- Design a process to correct variances from budget mid-year



**Financial Oversight and  
Management Board for  
Puerto Rico  
FY18 Budget**

**June 30, 2017**

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Information contained herein has not been independently verified and is subject to material change based on continuing review. Accordingly, the information contained herein is not intended to be and should not be relied upon by any third party as legal, auditing, or accounting advice.

The financial information and projections contained in this report, including its base assumptions and underlying data (collectively, "Financial Information"), are the product of the Financial Oversight and Management Board (the "Board"), and consist of information obtained solely from the Government of Puerto Rico (the "Government") or publicly available resources. With respect to prospective Financial Information relative to the Government, there has not been any examination, compilation or application of agreed-upon procedures to such information in accordance with attestation standards established by the AICPA. Consequently, no assurance of any kind is given with respect to, or on, the information presented.

There will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected and those differences may be material. As a result, no assurance regarding the achievement of forecasted results is provided, and reliance should not be placed on the projected Financial Information contained herein as such information is subject to material change and may not reflect actual results.

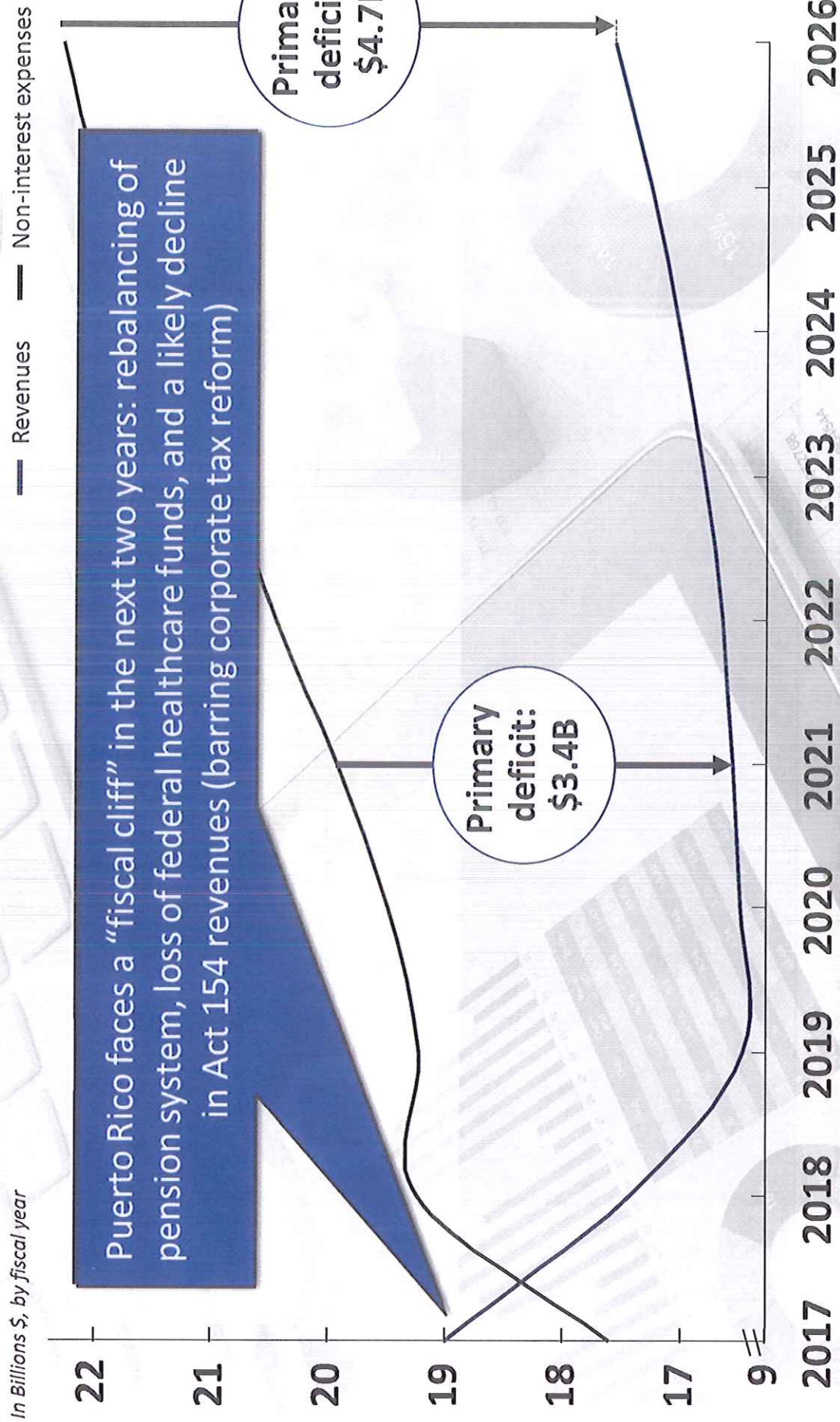
Many of the numbers set forth herein are estimates or based on assumptions which are subject to change. Such changes may be material and can materially affect the calculation of other amounts reflected herein.

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## FISCAL PLAN OVERVIEW

# Without action, Puerto Rico will confront a large and growing deficit



Note: Deficit does not account for reduced expenses and additional revenues that result from proposed Fiscal Reform Measures  
 Note: Amounts provided by AAFAF, from issuer agencies and from publicly available information. Estimated amounts are subject to further review and may change  
 Source: Government of Puerto Rico December 2016 Fiscal Baseline

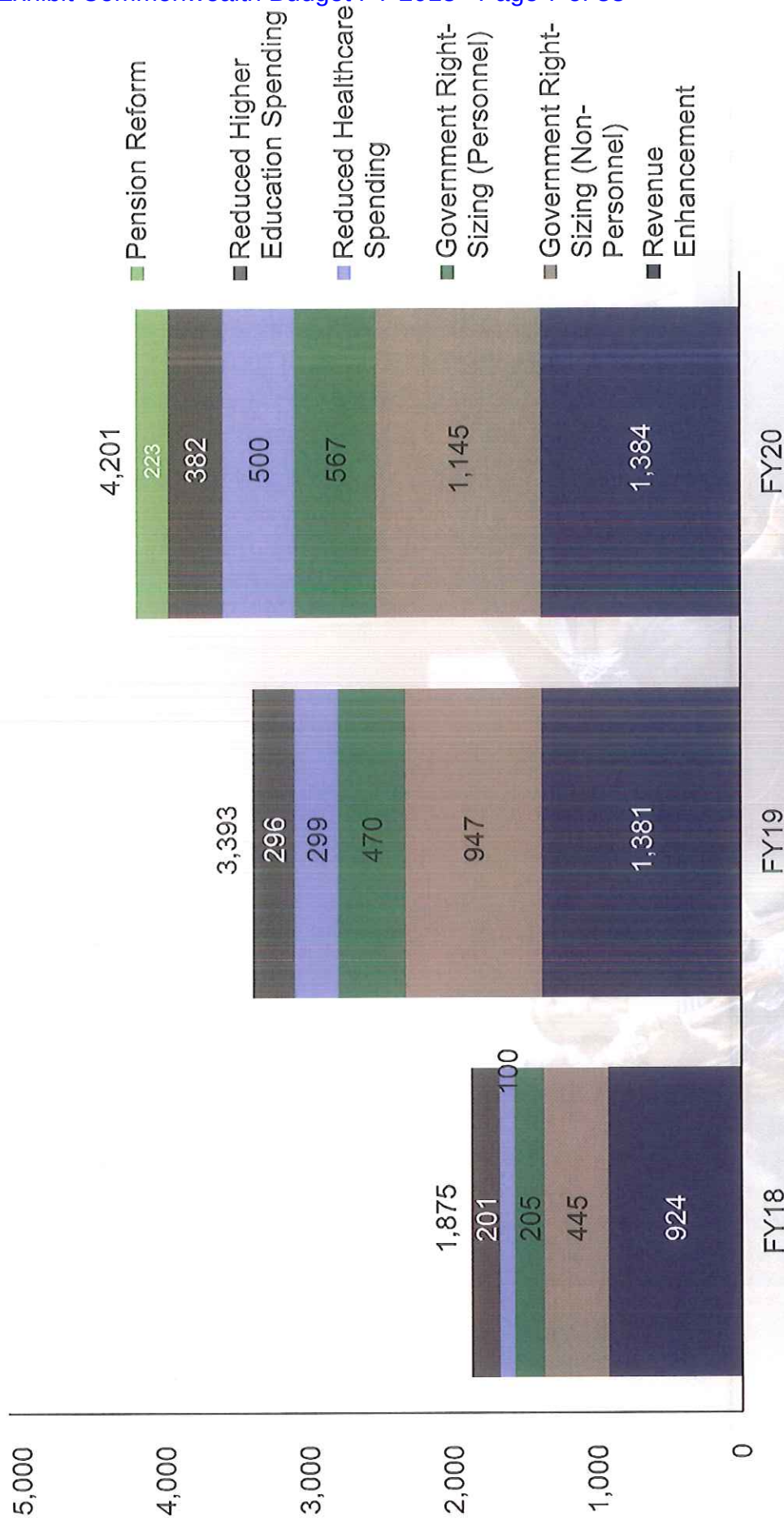
**The Fiscal Plan reform area targets were designed by the Government and certified by the Board to promote structural balance while following a core set of principles.**





# The Budget incorporates Fiscal Plan measures that start to set Puerto Rico on a path towards financial sustainability

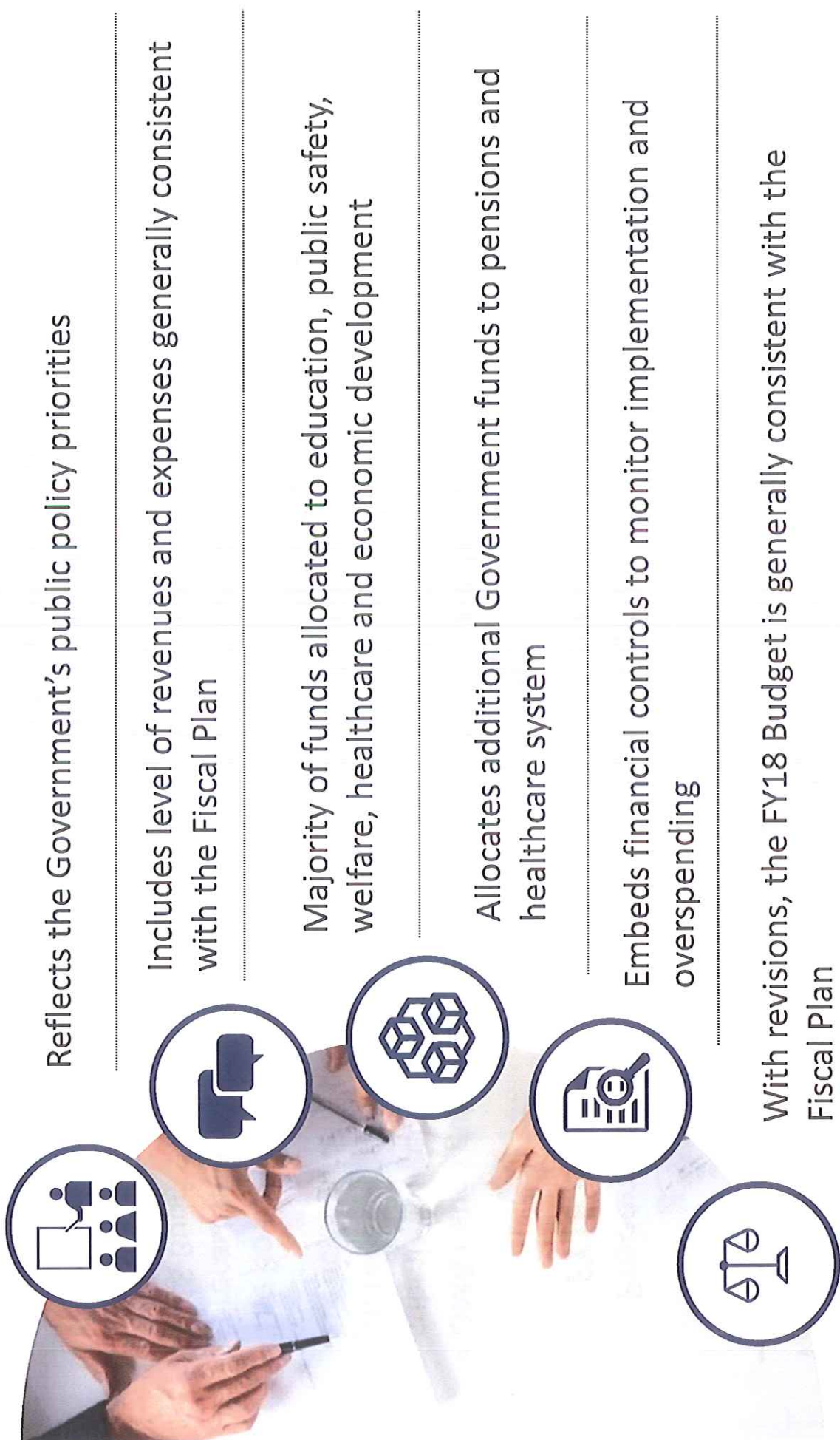
**Fiscal Reform Measures**  
In Millions \$, by fiscal year



Source: Puerto Rico Fiscal Plan

# EXECUTIVE SUMMARY

## The FY18 Budget represents another step towards Puerto Rico's recovery



# The Board closely reviewed the FY18 Budget



## Preparation of FY18 Budget

- **OMB issued guidelines to** submit budget requests based on requirement to achieve the agency's guiding principles
- **The Board provided revenue forecast** for use in developing FY18 Budget
- **Budget prepared based on FY17 Budget and considered** Fiscal Plan measures, impact of new initiatives and cost savings incurred/expected



## Evaluation of FY18 Budget

- **The Board requested the Government** prepare the FY18 Budget consistent with trajectory for primary fiscal balance in the Fiscal Plan
- **Onsite due diligence** was carried out to review FY18 Budget
- **Meetings with key individuals** included OMB, AAFAF, Hacienda, individual governmental agencies and the Legislature



## Reconciliation of Budget to Certified Fiscal Plan

- **The Budget includes** difficult adjustments in many areas, including reduced funding for municipalities and UPR, and cuts to education, health, public safety and welfare programs
- **While certain amendments are needed**, FY18 Budget is generally consistent with the certified Fiscal Plan

## Several recommendations have been proposed to the FY18 Budget

### Spending Adjustments

#### *Recommendations to reduce spending in several areas*

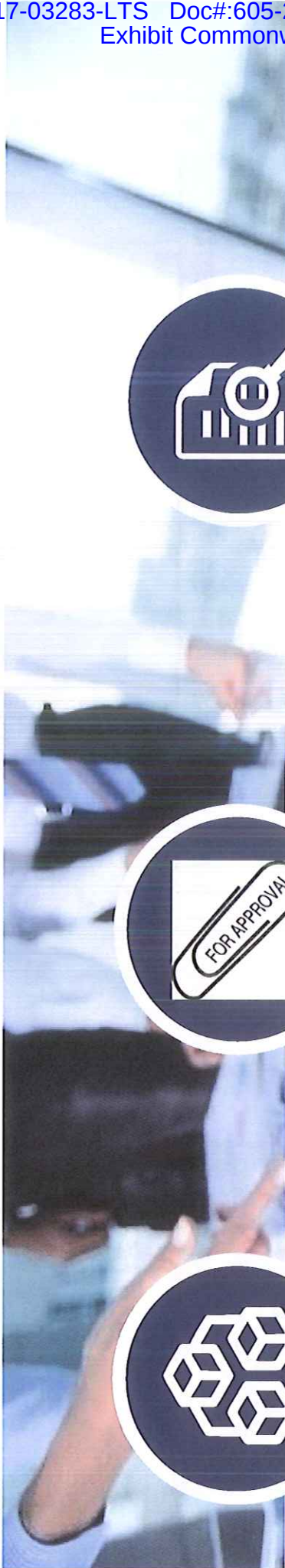
- Spending by certain government entities
- Spending increases as compared to FY17
  - Earmarks and special expenditures

### Technical Corrections

#### *Recommendations to correct several technical elements*

- Use of federal matching funds
  - Justice Dept. monthly allocation
  - Future modifications to the budget

## FY18 Budget incorporates strict financial controls to monitor overspending and maintain accountability



### Limitations on spending

- Agency expenses cannot exceed the amounts in the budget
- Multi-year appropriations authorized in previous fiscal years are suspended and no new multi-year appropriations with the exceptions of appropriations related to permanent improvements

### Approval for access to reserves

- No expenditure shall be charged against the Budgetary Reserve unless it is approved by the Board
- Expenses above and beyond the budget will need Board approval

### Regular reporting requirements

- Weekly and monthly reports of the actual cash revenues, cash expenditures, and cash flows of each agency
- Monthly and quarterly actual vs. budget reports from each agency of the Government on a modified accrual basis
- Monthly tracking of key performance indicators for each fiscal reform measure initiative
- Quarterly reports on macroeconomic performance

**CONSOLIDATED BUDGET OVERVIEW**

## Consolidated Budget Overview

- Key components of the Consolidated Budget include the following:

### General Fund

- The primary operating fund of the Government

### Special Revenue Funds

- Funds created by law, not subject to annual appropriations and have specific uses established by their respective enabling legislation

### Component Units / Public Corporations

- Legally separate from primary government but Puerto Rico appoints a majority of these organizations governing bodies<sup>1</sup>

### Federal Funds

- Expenses funded by Federal Government money

### Other Funds

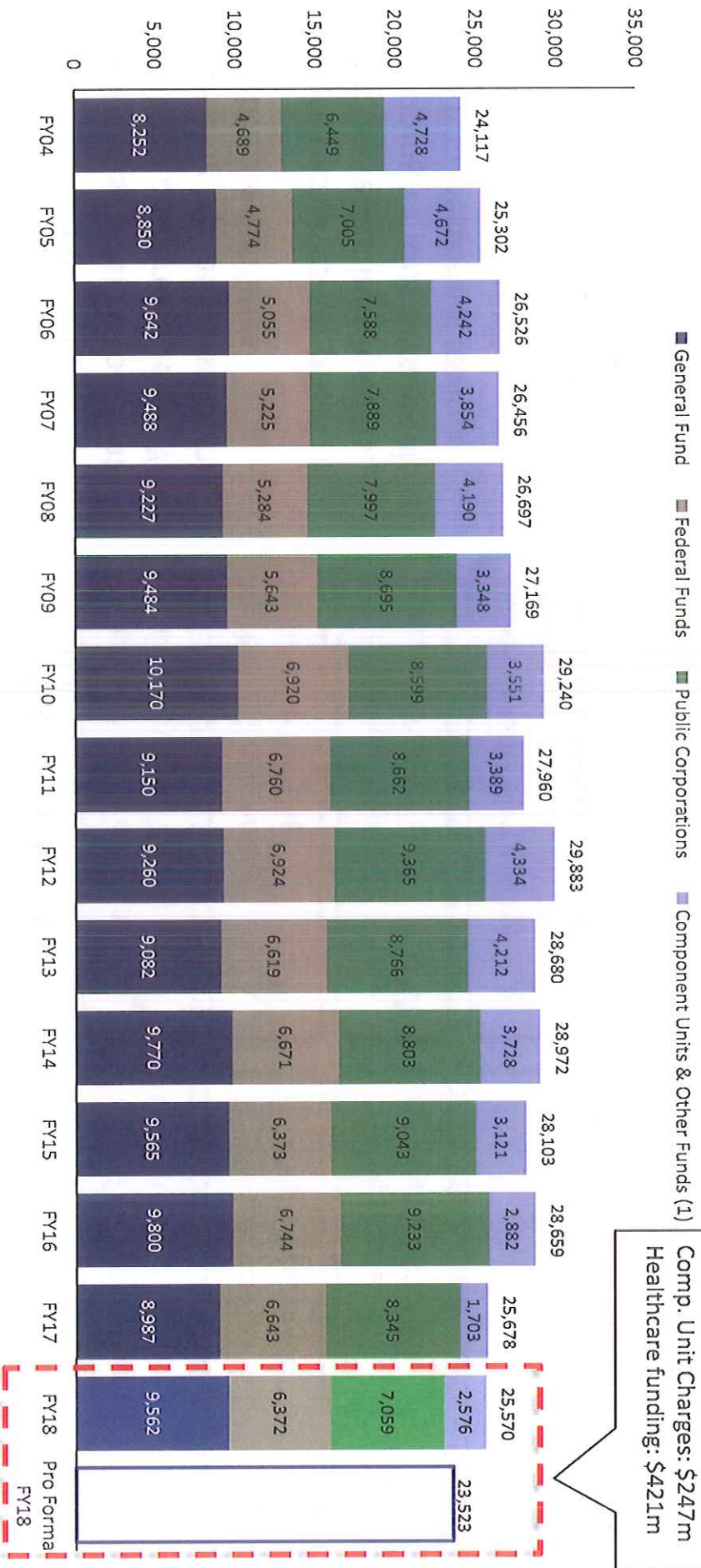
- Debt Service and other funds

(1) Many public corporations and other instrumentalities traditionally relied on subsidies, in the form of appropriations from the General Fund and/or assignments of Puerto Rico tax or other revenues, to fund a material portion of their operations



# FY18 Budget was developed based on FY17 budgeted amounts and reflects a reduction in spending

## Historical Consolidated Budget In Millions \$, by fiscal year



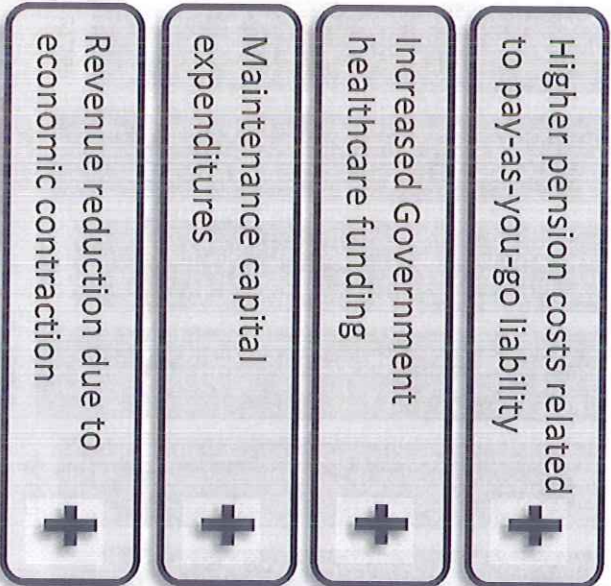
**Difference of \$2b:**  
 PayGo: \$989m  
 Pension Assets: \$390m  
 Comp. Unit Charges: \$247m  
 Healthcare funding: \$421m

(1) Component Units & Other Funds includes Special State Funds, Special Revenue Funds, and the incremental healthcare funding to cover the loss of Medicare funds  
 Source: Puerto Rico Office of Management and Budget – Budget Data

## The FY18 Budget includes a reasonable level of revenues and spending

- The Consolidated Budget includes several factors that increase costs relative to FY17, including higher pension and healthcare liabilities
- These increases are offset, in part, by reductions in costs, including various personnel and non-personnel savings and additional funds
- These are the first steps toward restoring fiscal responsibility and setting a path to achieve the Fiscal Plan's objectives

### Cost Escalators



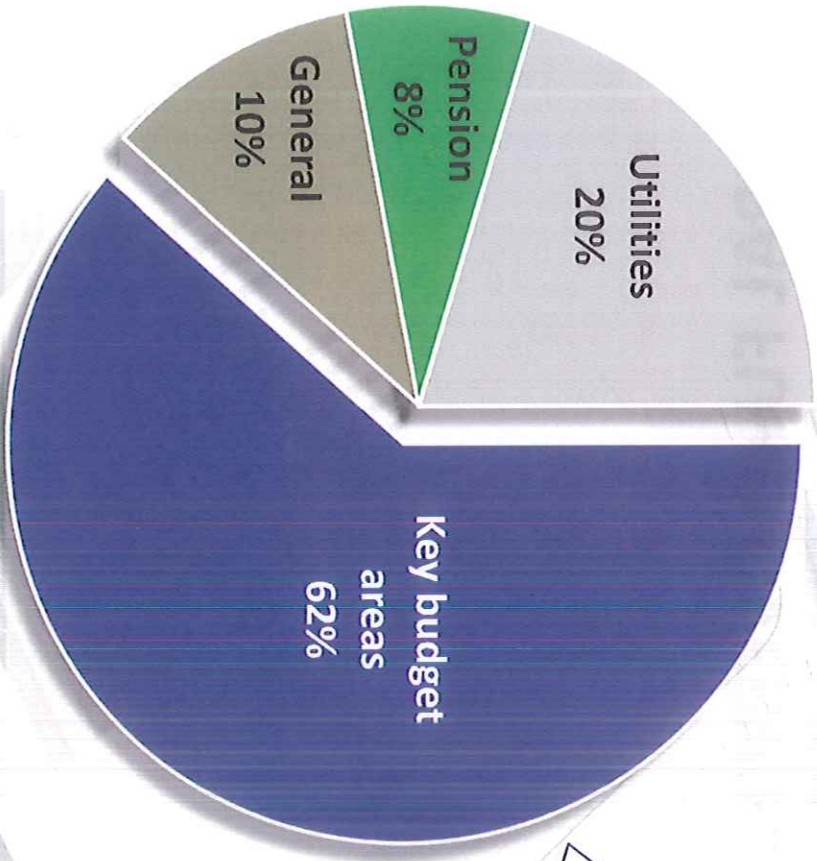
### Cost Reducers



# The majority of the FY18 Consolidated Budget is dedicated to five areas

**FY18 Consolidated Expenditures**  
In Millions \$

**Total Spending = \$25.6b**



|                   |                 |
|-------------------|-----------------|
| Education         | \$3,972         |
| Public Safety     | 2,015           |
| Health            | 4,653           |
| Welfare           | 3,597           |
| Econ. Development | <u>1,534</u>    |
| <b>Total</b>      | <b>\$15,771</b> |

Note: Utilities spending are budget allocations to PREPA and PRASA  
 Note: General spending includes municipal appropriations, OMB funds, liquidity reserve, Hacienda, Legislature and the Public Buildings Authority  
 Source: Puerto Rico Office of Management and Budget – Budget Data

# GENERAL FUND OVERVIEW

# The General Fund is the Government's principal operating fund

**General Fund - \$9.562 billion**

## Discretionary

Operating cost of the central government including programs, payroll, and administrative costs

Special appropriations for programs and some may be pass-through grants to non-profit or non-public entities

### Examples Include:

- Payroll
- Rent and utilities
- Purchased and Professional Services
- Materials, Equipment

## Semi-Discretionary

Contributions or block grants to entities outside the central government or large entitlement programs

### Examples Include:

- Public Health Insurance
- Special appropriations – OMB custody
- Contributions to Municipalities
- Contributions to Legislature

## Non-Discretionary

Expenses from appropriations by formula and other pre-legislated or agreed-upon commitments

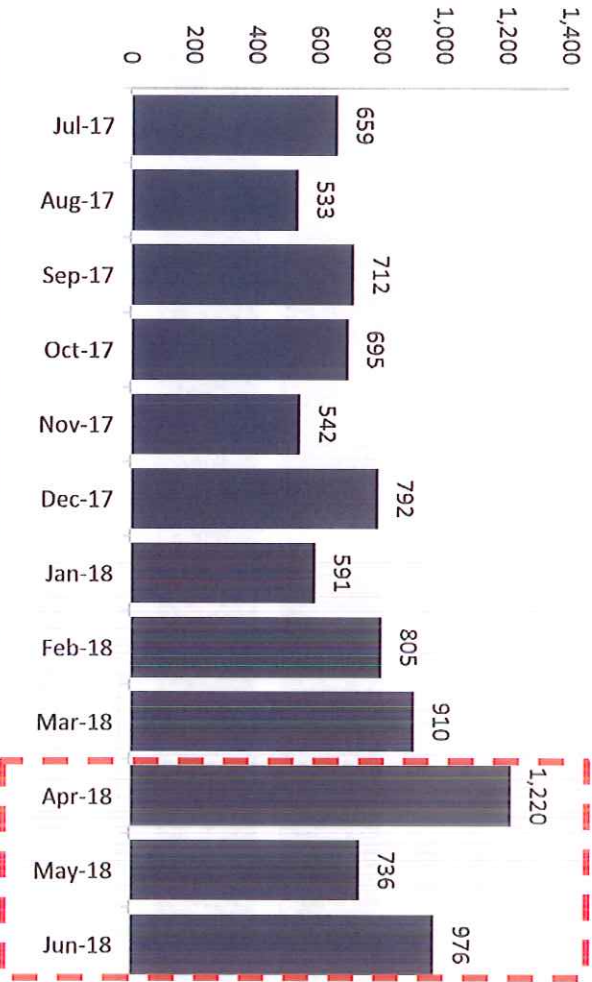
### Examples Include:

- Pension pay-as-you-go
- Judicial Branch Formula
- Municipalities Formula
- Legislature Formula
- UPR Formula
- Oversight Board

## FY18 General Fund revenue is projected to be \$9.562b, which is \$369m higher than FY17 General Fund revenue

- The Board evaluated revenues in the certified Fiscal Plan and incorporated revisions based on more recent analysis and new information
- The final revenue estimates were provided to the Government and are generally consistent with the Fiscal Plan

### FY18 Monthly General Fund Revenues In Millions \$



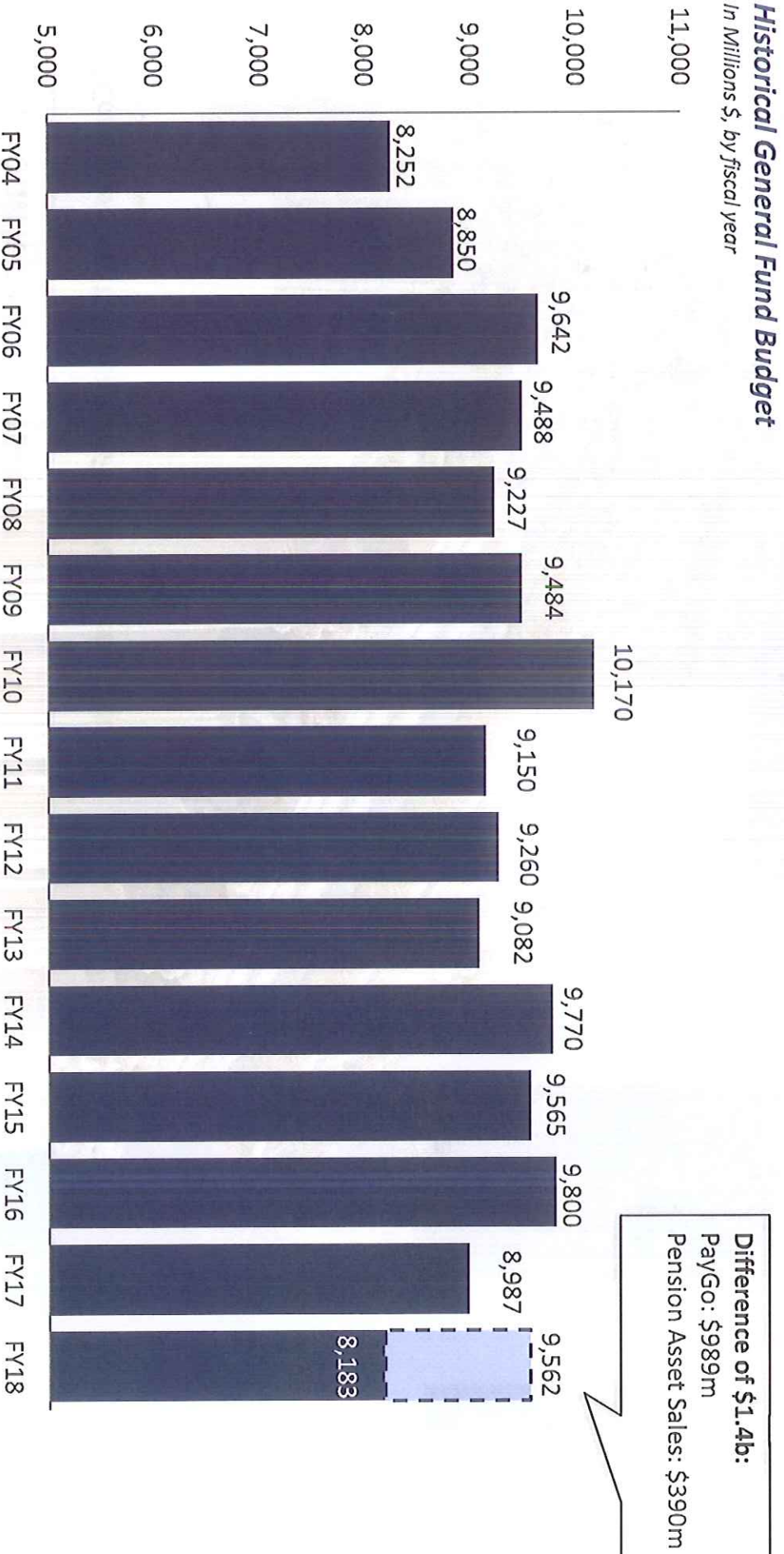
Note: Monthly revenue does not include pension asset sales for \$390m

### FY17 Compared to FY18 General Fund Revenue In Millions \$, by fiscal year

| Base Revenue                           | FY16           | FY17           | FY18           | FY17-FY18 Change |
|--|----------------|----------------|----------------|------------------|
|  | Budget         | Budget         | Budget         |                  |
| Individual Tax Collections             | \$2,135        | \$1,892        | \$1,800        | (\$92)           |
| Corporate Tax Collections              | 1,793          | 1,515          | 1,510          | (5)              |
| Non-Resident Withholding Tax           | 822            | 685            | 640            | (45)             |
| Sales & Use Tax                        | 1,738          | 1,718          | 1,567          | (151)            |
| Alcoholic Beverage Tax                 | 270            | 268            | 257            | (11)             |
| Excise Tax (Act 154)                   | 1,905          | 2,075          | 1,533          | (\$42)           |
| Tobacco Products Tax                   | 133            | 112            | 110            | (2)              |
| Excise tax from rum remittances        | 186            | 206            | 149            | (57)             |
| Other                                  | 513            | 721            | 681            | (40)             |
| <b>Sub-total</b>                       | <b>\$9,495</b> | <b>\$9,192</b> | <b>\$8,247</b> | <b>(\$945)</b>   |
| <b>Additional Fiscal Plan Measures</b> |                |                |                |                  |
| Extension of Act 154                   | -              | -              | \$519          | \$519            |
| Inc. Collections Sales & Use Tax       | -              | -              | 150            | 150              |
| Inc. in other revenues and taxes       | -              | -              | 255            | 255              |
| Pension asset sales                    | -              | -              | 390            | 390              |
| <b>General Fund Revenue</b>            | <b>\$9,495</b> | <b>\$9,192</b> | <b>\$9,562</b> | <b>\$369</b>     |

## Excluding pension adjustments, the FY18 General Fund Budget is 9% lower than the FY17 Budget

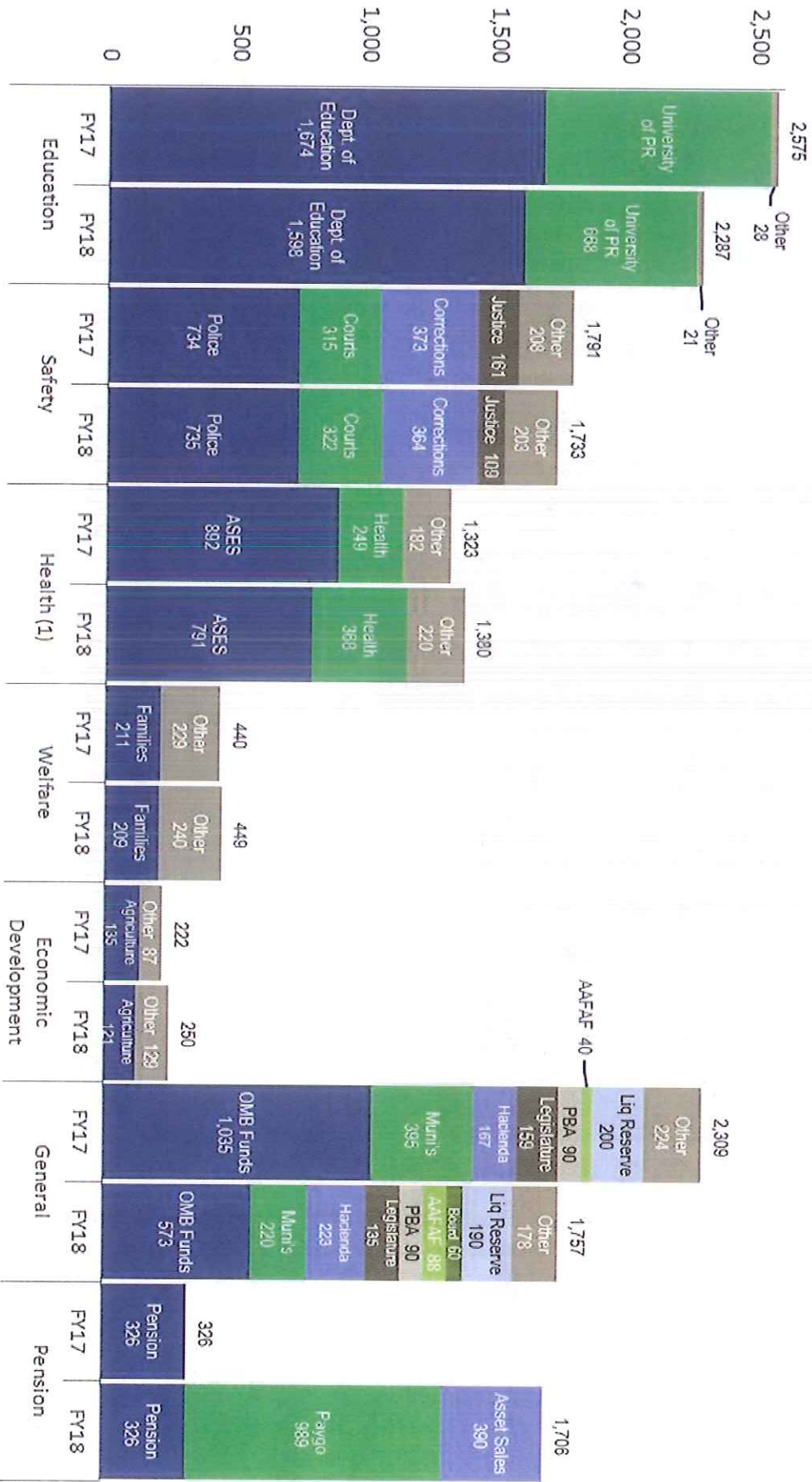
- The General Fund incorporates an additional \$1.4b to cover pension outlays as the retirement systems transition to a pay-as-you-go basis



Note: FY16 General Fund revenue was subsequently reduced to \$9.175b by the Government  
Source: Puerto Rico Office of Management and Budget

# A majority of the General Fund Budget is dedicated to education, public safety, health and welfare

**FY17 Compared to FY18 General Fund Budget by Type**  
*In Millions \$, by fiscal year*



(1) The increase in healthcare costs is primarily related to an increase in local funding.  
 Note: General Fund capital expenditures of approximately \$48m (of a total Consolidated Budget of \$1.2b) is split between multiple agencies  
 Source: Puerto Rico Office of Management and Budget – Budget Data

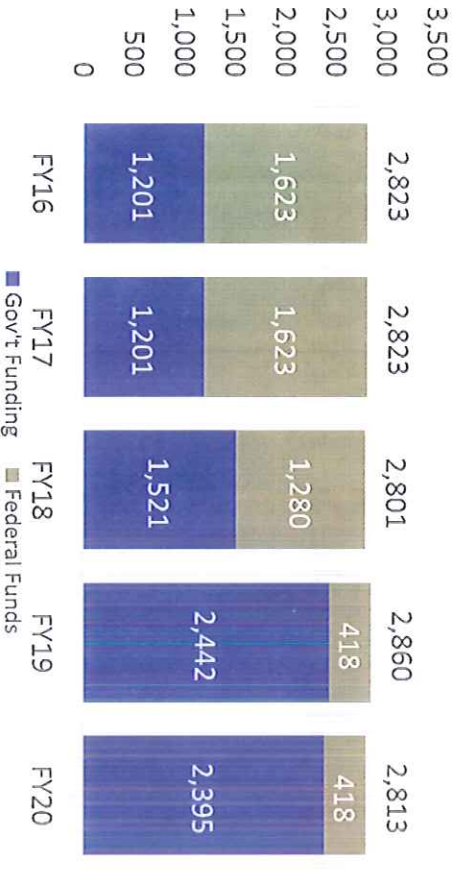


# ADDITIONAL SPENDING ANALYSES

# Additional healthcare and pension funding was allocated in the FY18 Budget

## Government Funding Increases due to Medicaid Cliff

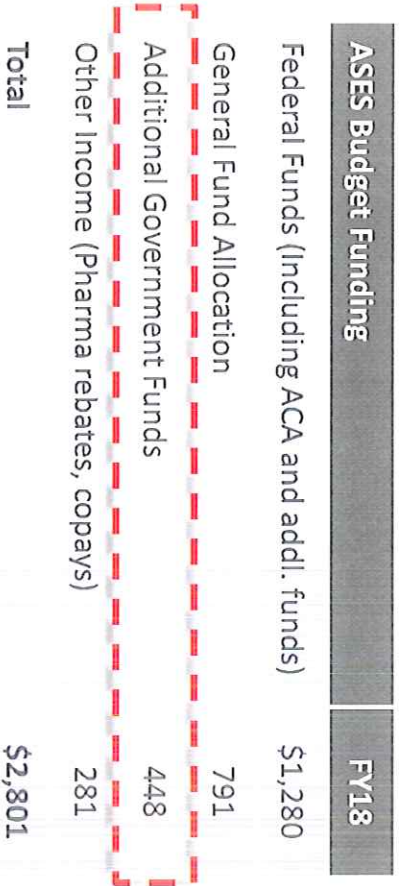
In Millions \$, by fiscal year



Note: Figures net of \$100m in FY18, \$299m in FY19 and \$500m in FY20 from Fiscal Plan savings  
Source: March 13, 2017 Fiscal Plan, OMB

## Estimated Distribution of Healthcare Resources in FY18

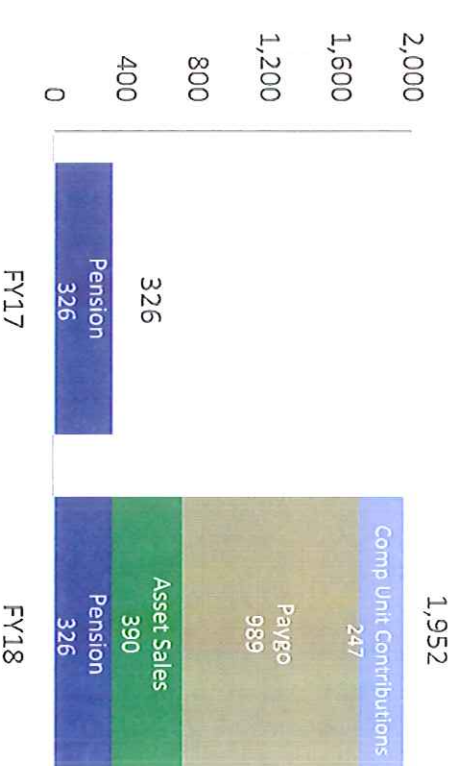
In Millions \$, by fiscal year



Source: Puerto Rico Office of Management and Budget – Budget Data

## FY18 Consolidated Budget Pension Components

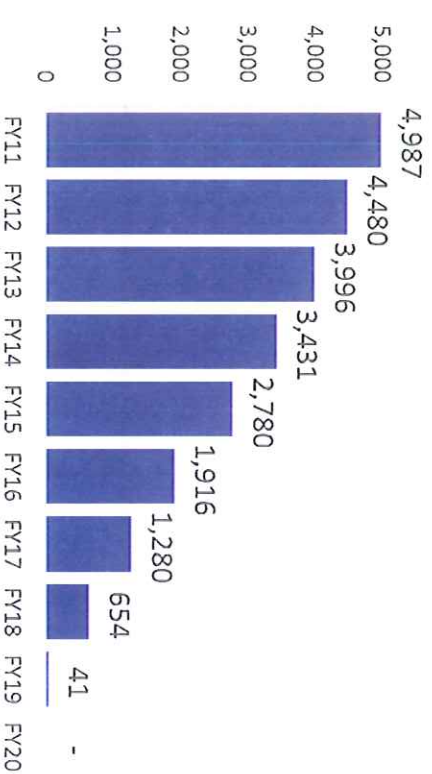
In Millions \$



Note: FY17 and FY18 pensions costs exclude employer pension cost  
Source: Puerto Rico Office of Management and Budget

## Liquid & Illiquid ERS System Assets

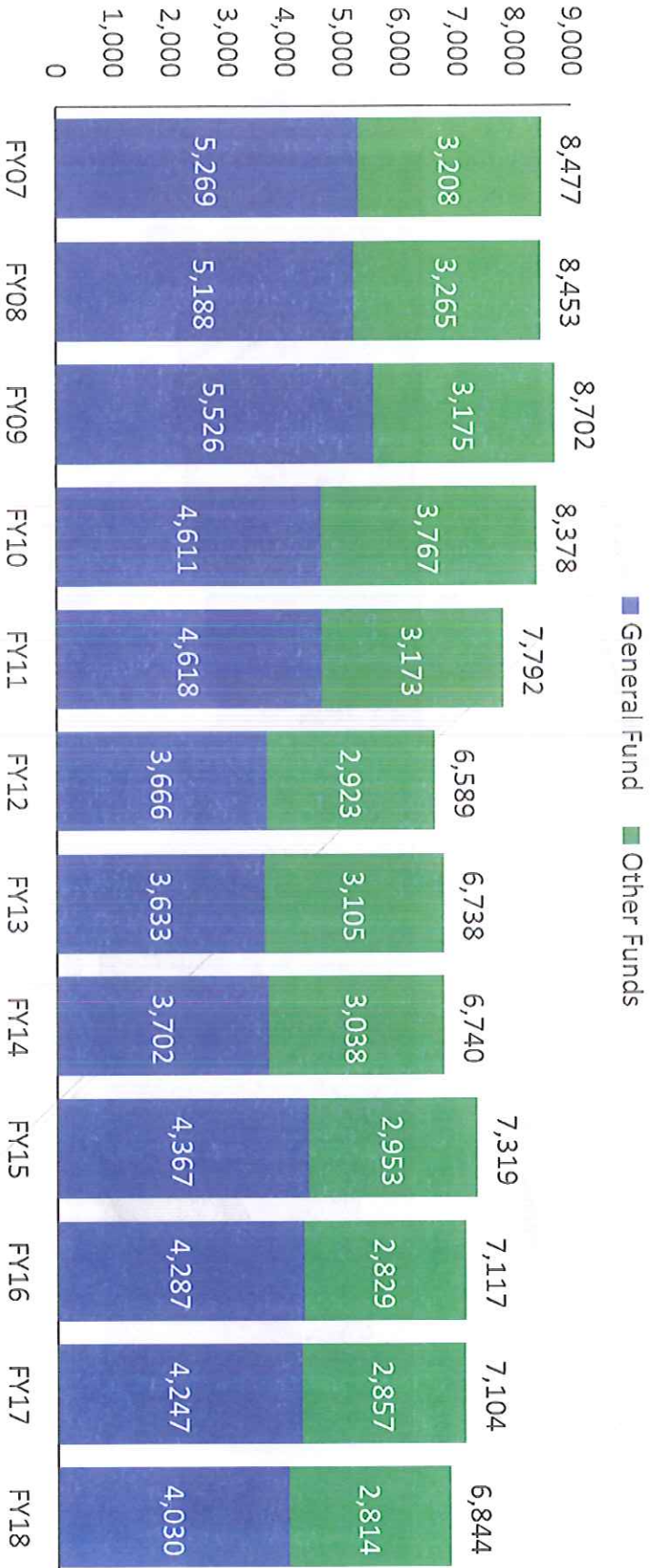
In Thousands \$



Source: Represents actuarial assets based on Actuarial Valuation Reports through 2015

## Payroll costs decline in the FY18 Budget, due to attrition and reduction of transitory employees

**General Fund and Consolidated Budget Historical Payroll**  
In Millions \$

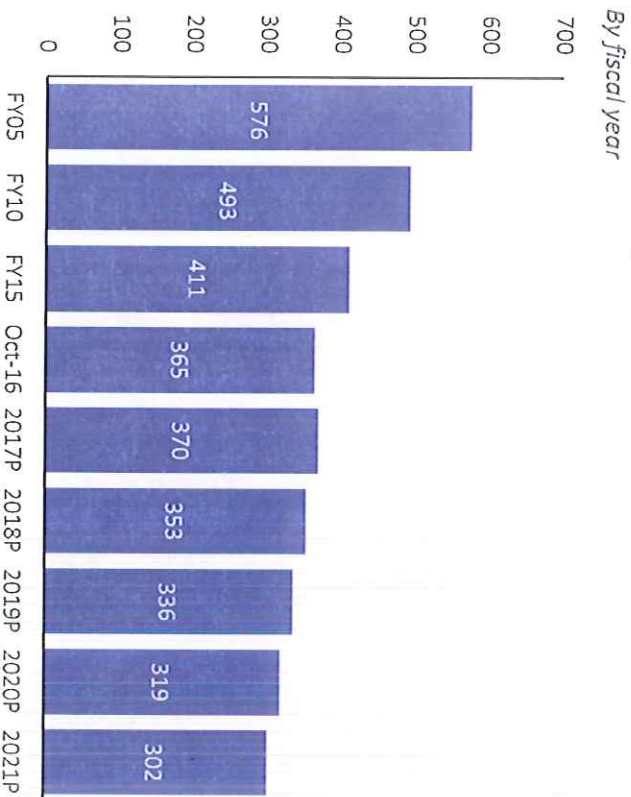


- General Fund payroll represents approximately 42% of total General Fund spending
- Other Funds payroll consists of payroll at component units, the largest being PREPA and PRASA

Note: Payroll increases from FY14 to FY15 because certain schoolwide program payroll costs at the Department of Education were misclassified as Other Agency Spending. The misclassification was corrected beginning with the FY15 Budget.  
 Note: Total payroll for FY18 includes employer pension costs of \$598m.  
 Source: Puerto Rico Office of Management and Budget – Budget Data

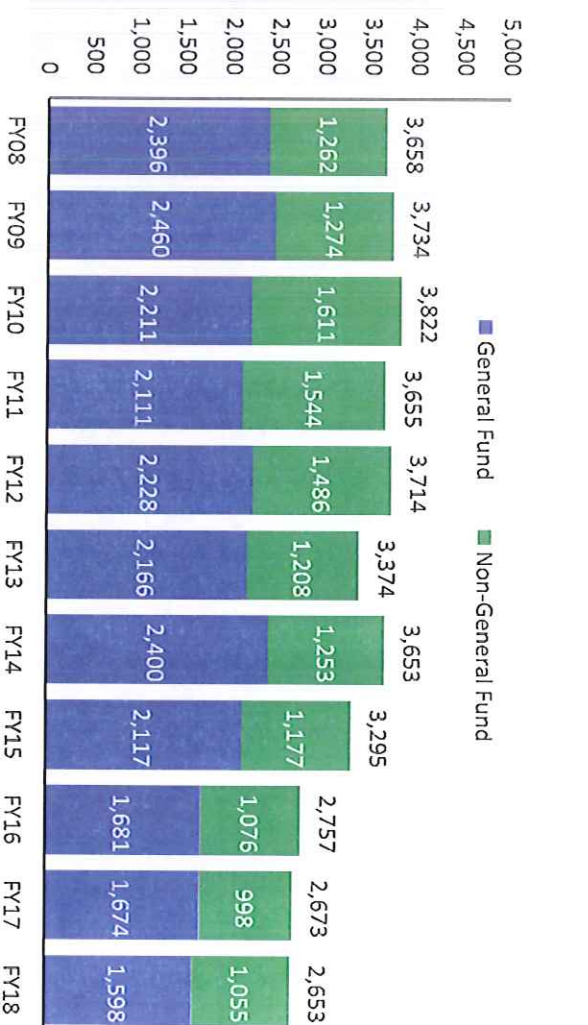
## Department of Education expenditures decrease in FY18 Budget as a result of efforts to review and streamline operations

**Actual and Projected School Enrollment**



Source: October 2016 Fiscal Plan

**Department of Education General Fund and Consolidated Budget**  
In Thousands \$, by fiscal year



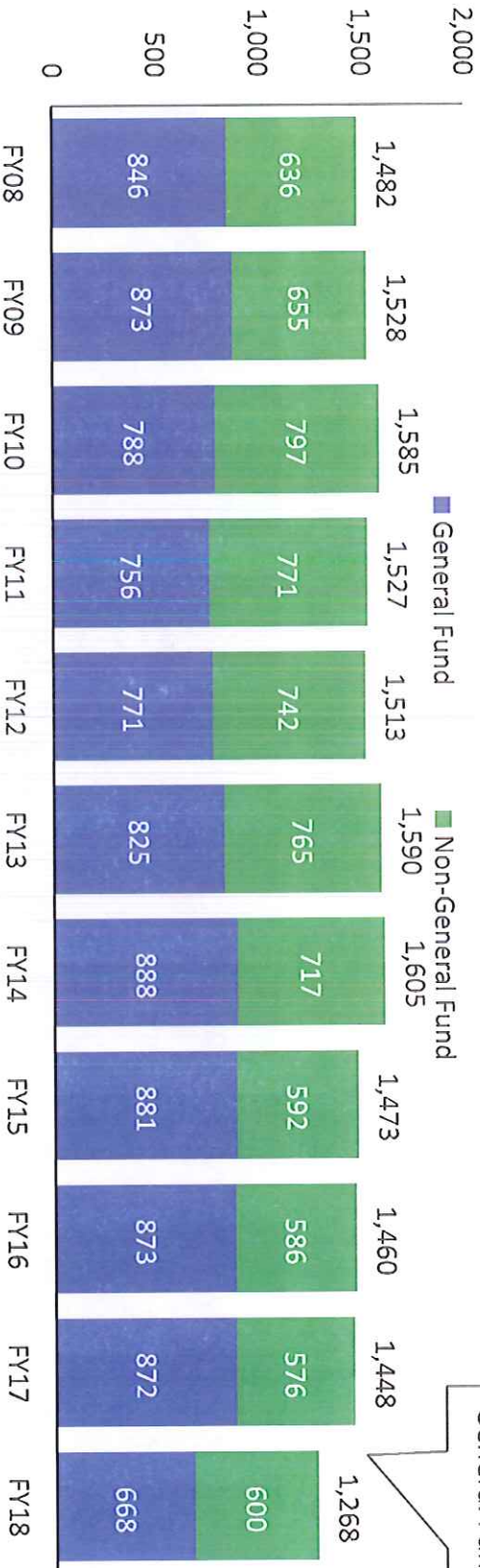
Source: Puerto Rico Office of Management and Budget – Budget Data

- Efforts are underway to review existing operations, prioritize spending and streamline education services without jeopardizing the delivery of this critical service
- The Government recently announced plans to close 167 schools by August 2017, which is expected to generate approximately \$7.5m in savings

# University of Puerto Rico General Fund appropriation decreases in the FY18 Budget, consistent with the Fiscal Plan

## UPR General Fund Budget and Consolidated Budget

In Millions \$, by fiscal year



Decrease in Consolidated Budget of 12% and General Fund of 23%

- The University has 11 campuses, more than 60,000 students, and 5,300 faculty members
- Government grants and appropriations as a percent of operating revenues are one of the highest for public universities
- While the General Fund appropriation declines, this reduction is partially offset by \$40m in incremental funding provided by other parts of the Consolidated Budget

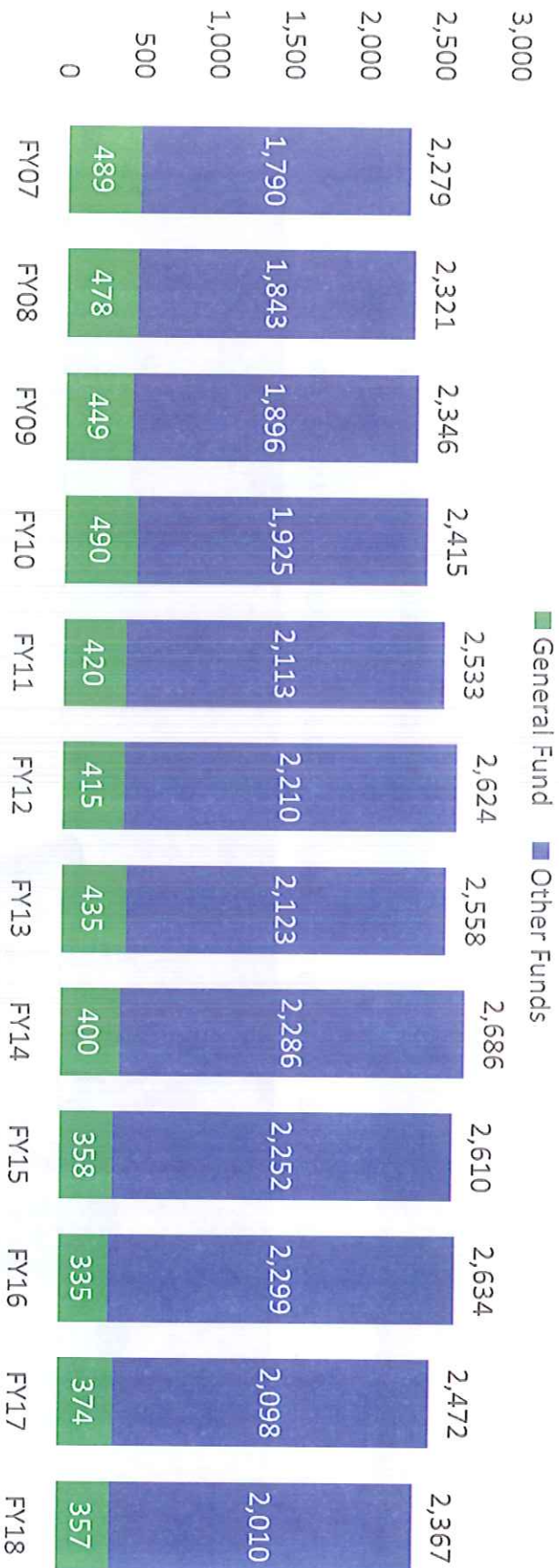
| Additional UPR Expenditures       |             |
|-----------------------------------|-------------|
| In Millions \$                    | FY18        |
| Capital Expenditures              | \$15        |
| Other Income Operating Costs      | 15          |
| Training and Technical Assistance | 10          |
| <b>Total</b>                      | <b>\$40</b> |

Source: Puerto Rico Office of Management and Budget - Budget Data

Source: Puerto Rico Office of Management and Budget – Budget Data

## Purchased and professional services decreased \$105m in FY18

*Historical General Fund and Consolidated Budget Purchased and Professional Services*  
In Millions \$

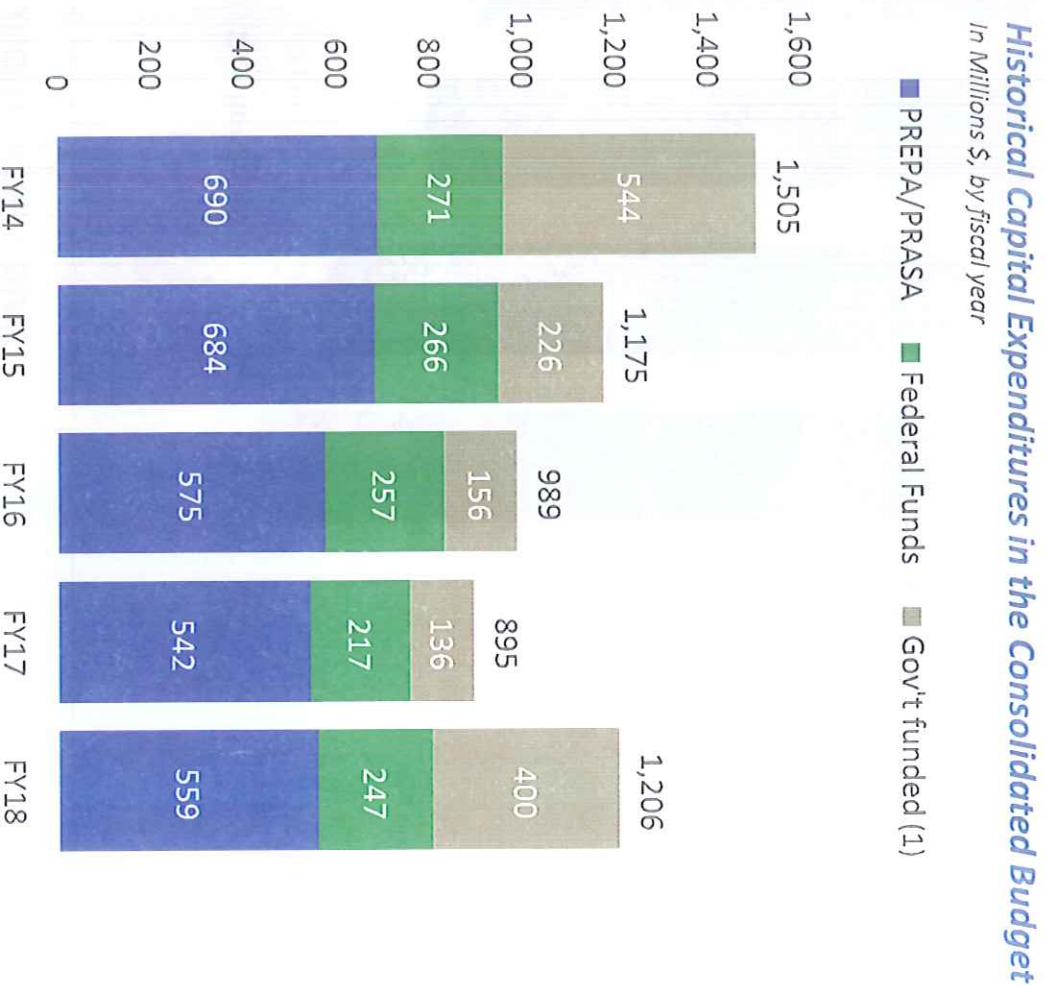


- The General Fund represents 15% of total purchased and professional services
- PREPA, PRASA, Department of Education, and HTA account for 60% of total purchased and professional services expenditures

Note: Chart is based on preliminary Budget allocation, final Budget allocation may differ  
Source: Puerto Rico Office of Management and Budget – Budget Data

## FY18 Budget includes capital expenditure increases mostly related to PREPA, PRASA and HTA

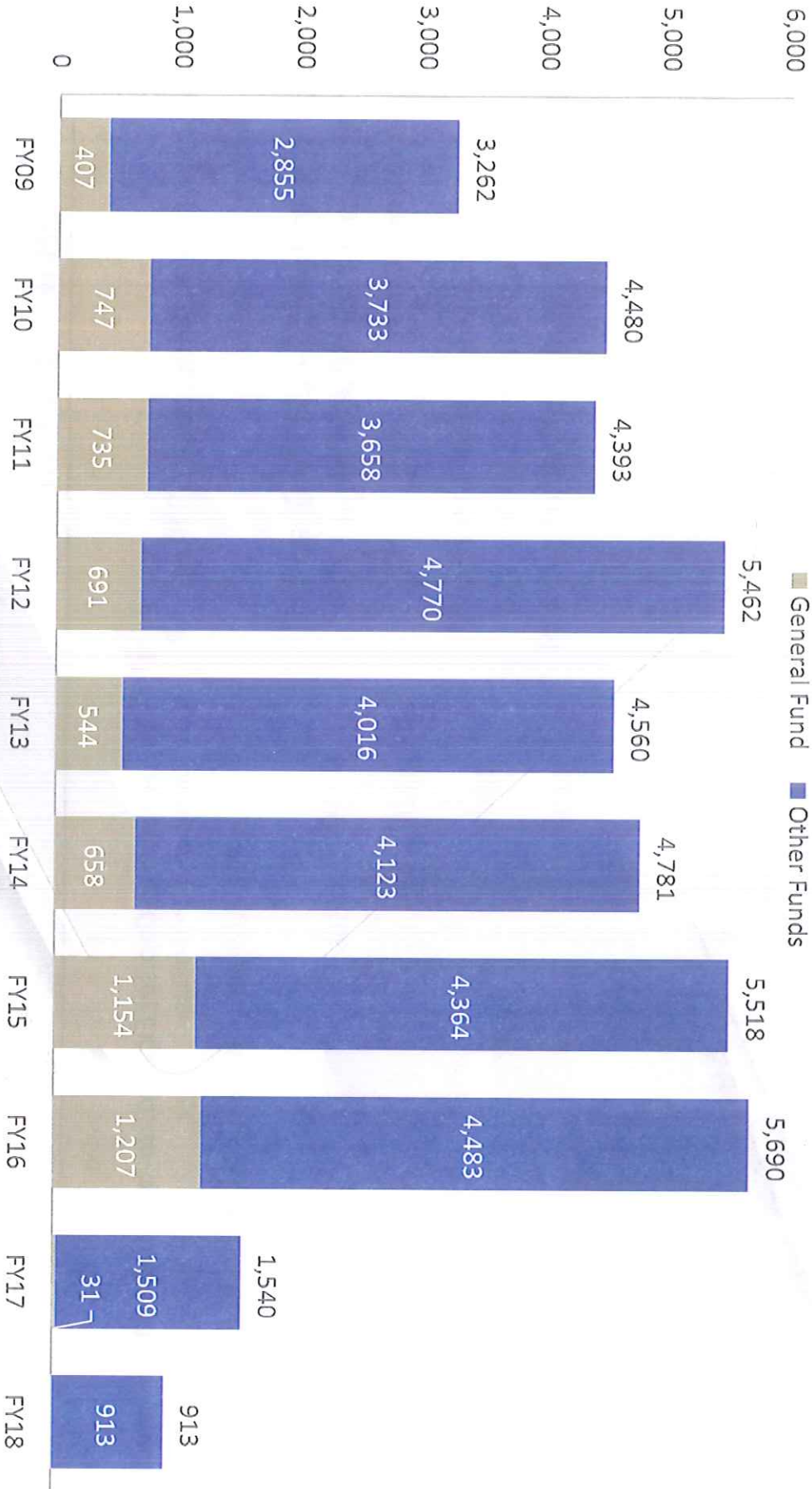
- Capital expenditures increase \$311m from FY17
- PRASA (\$304m), PREPA (\$275m), and HTA (\$281m) account for 70% of total FY18 capital expenditures
- Departments with the largest increase in capital expenditures from FY17 to FY18 include HTA, UPR, and the Department of Natural Resources



(1) Self reported by local agency  
Note: Chart is based on preliminary Budget allocation, final Budget allocation may differ  
Source: Puerto Rico Office of Management and Budget – Budget Data

The Budget will allocate funds for debt service after a Title III Plan of Adjustment is confirmed or Title VI agreements are approved by the Court

**Debt Service in Historical Budgets**  
In Millions \$, by fiscal year

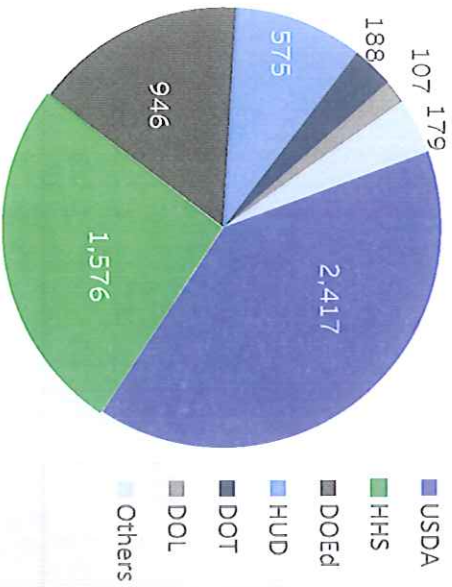
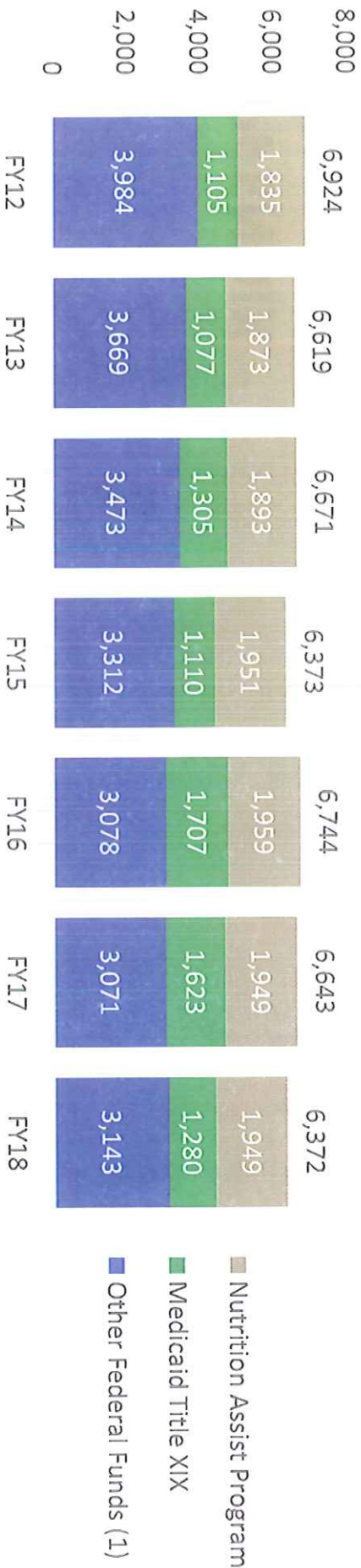


Note: FY18 debt service includes Federal debts (\$18m), PREPA (\$583m) and PRASA (\$313m) consistent with their Fiscal Plans  
 Note: Debt service for FY11-FY14 excludes refinancing of \$472m/\$148m, \$686m/\$154m, \$600m/175m and \$575m in GO and PBA debt service, respectively  
 Source: Puerto Rico Office of Management and Budget – Budget Data



# Federal funding was reduced by 9% year-on-year, primarily driven by a reduction in Medicaid and Other Federal Funds

**Historical Federal Funding**  
In Millions \$, by fiscal year



- Department of Housing & Urban Dev.**
  - Public and Indian Housing
  - Section 8 Rental Certificate Program
  - Section 8 Housing Choice Vouchers
  - Public Housing Capital Fund
- Department of Labor**
  - WIA Dislocated Workers
  - Unemployment Insurance
  - Employment Services
  - Occupational Safety and Health State Program
- Department of Transportation**
  - Highway Planning and Construction
  - Federal Transit and Formula Grants
  - State and Community Highway Safety
- Department of Agriculture**
  - Nutrition Assistance Program
  - NAP for Women, Infants and Children
  - National School Lunch
- Department of Education**
  - Title I Grants
  - Special Education Grants
  - Pell Grants
  - Improving Teacher Quality Grants
- Dept of Health and Human Services**
  - Medicaid Title XIX
  - Head Start
  - Temporary Assistance for Needy Families

(1) Federal Funds increased from FY15 to FY16 in part due a shift from the third-party administrator to the managed care organization health model which began on April 1, 2015  
Source: Puerto Rico Consolidated Budget, Office of Management and Budget. Not comparable with US Census figures because it excludes direct grants to non-profits, private entities and certain Municipalities; the number corresponds to a different year; and the numbers are strictly a compilation of self-reported numbers for Government agencies

# APPENDIX

**Revenues and expense measures in FY18 Budget total approximately \$1.875m**

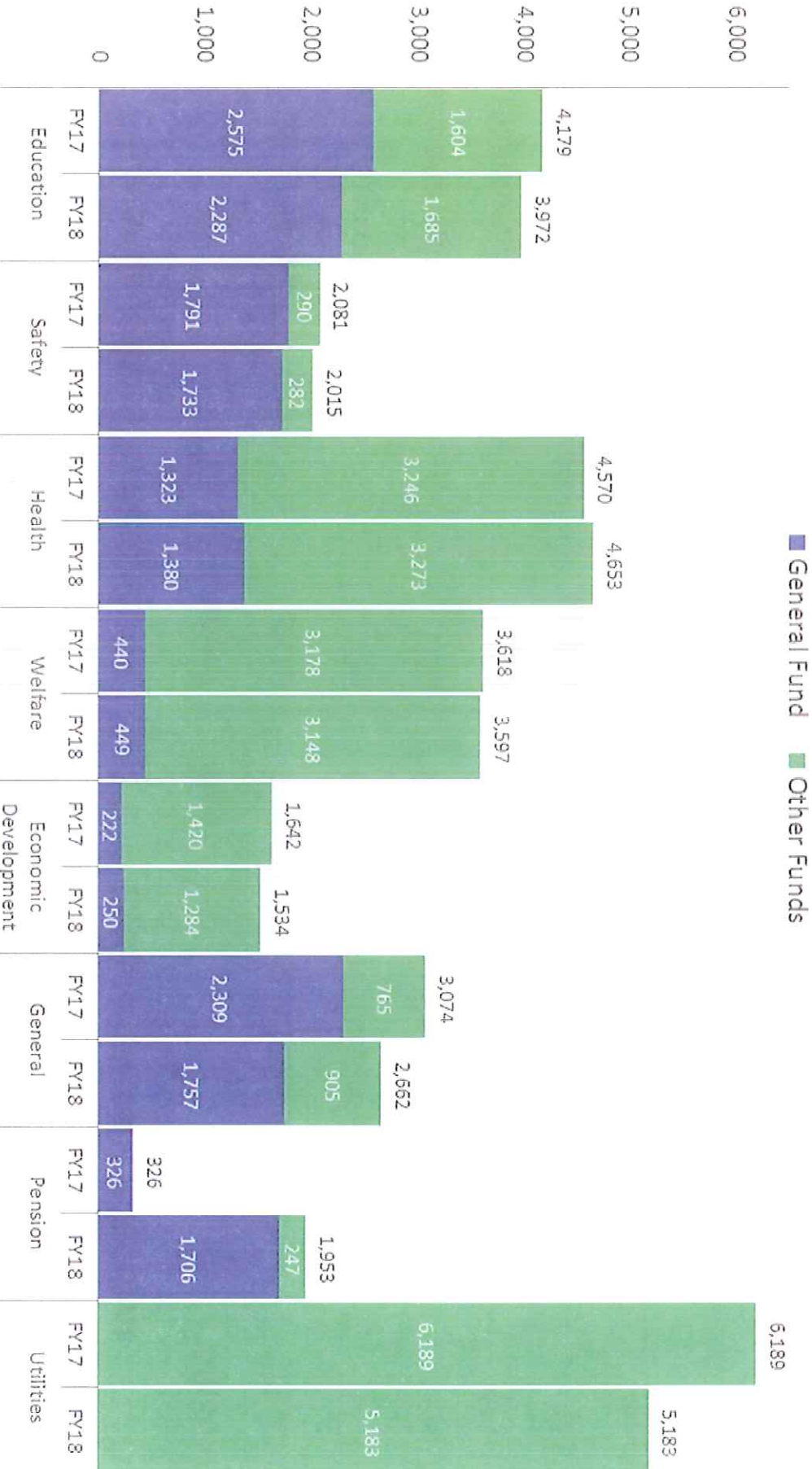
| <b>Revenue Actions In Budget</b>    |                       | <b>Expense Actions In Budget</b>    |                       |
|-------------------------------------|-----------------------|-------------------------------------|-----------------------|
|                                     | <i>In Millions \$</i> |                                     | <i>In Millions \$</i> |
| <b>Item</b>                         | <b>Amount</b>         | <b>Item</b>                         | <b>Amount</b>         |
| Extend Act 154 law                  | \$519                 | Personnel-related expense           | (\$167)               |
| Improved tax compliance             | 150                   | Non-personnel related expense       | (179)                 |
| Increase and right-size fees        | 56                    | Reduction of UPR subsidies          | (201)                 |
| Addl. revenue enhancements          | <u>199</u>            | Reduction of other subsidies        | (210)                 |
| <b>Subtotal of revenue measures</b> | <b>\$924</b>          | Additional expense measures         | (45)                  |
|                                     |                       | Reduction of healthcare spending    | (100)                 |
|                                     |                       | Payroll and operational exp. freeze | <u>(49)</u>           |
|                                     |                       | <b>Total <sup>1</sup></b>           | <b>(\$951)</b>        |

(1) (Reduction to expense)/ Increase to expenses

## The Consolidated Budget is \$25.6b and reflects year-on-year reductions in every major spend category, other than health and pensions

### FY17 Compared to FY18 Consolidated Budget by Type

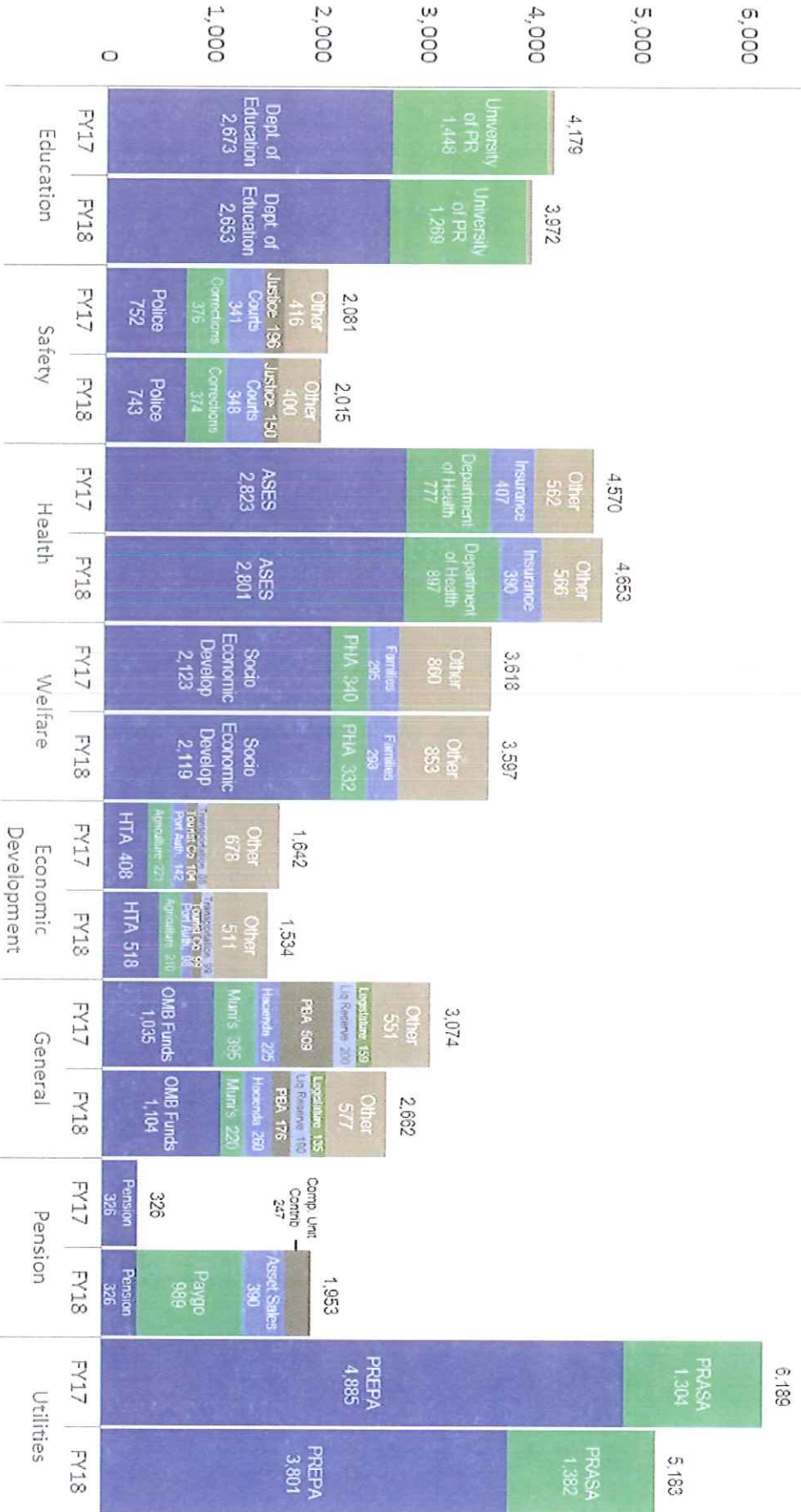
In Millions \$, by fiscal year



(1) Total pension cost of \$2.5b includes \$598m of employer costs currently sitting in individual agency payroll categories  
Source: Puerto Rico Office of Management and Budget – Budget Data

# Detailed agency comparison of the Consolidated Budget by type for FY17 and FY18

**FY17 and FY18 Consolidated Budget by Type**  
In Millions \$, by fiscal year



(1) Healthcare costs increase primarily due to an increase in local funding of \$448m, additional Medicaid funding of \$296m and a Reconciliation Adjustment of \$100m  
 (2) Other Economic Development costs are distributed amongst 24 agencies including: other transportation, agriculture, land, infrastructure and trade & export  
 (3) Consolidated capital expenditures of approximately \$1.2b is split between multiple agencies  
 Source: Puerto Rico Office of Management and Budget – Budget Data

## FY18 Consolidated Budget is slightly lower than FY17, even after increases in pension related expenses

| Allocation                    | FY17     | FY18     | Change    | Allocation                       | FY17     | FY18     | Change  |
|-------------------------------|----------|----------|-----------|----------------------------------|----------|----------|---------|
| PREPA                         | \$4,885  | \$3,801  | (\$1,083) | Hacienda                         | \$225    | \$260    | \$35    |
| OMB Custody Funds             | 1,035    | 1,104    | 69        | Municipalities                   | 395      | 220      | (175)   |
| Healthcare (ASES)             | 2,823    | 2,801    | (22)      | Care and Development of Children | 174      | 211      | 37      |
| Department of Education       | 2,673    | 2,653    | (19)      | Housing Finance Authority        | 221      | 201      | (20)    |
| Socio Economic Development    | 2,123    | 2,119    | (4)       | Liquidity Reserve                | 200      | 190      | (10)    |
| PRASA                         | 1,304    | 1,382    | 78        | Agricultural Development         | 167      | 181      | 14      |
| University of Puerto Rico     | 1,448    | 1,269    | (179)     | Public Building Authority        | 509      | 176      | (333)   |
| PayGo & Component Unit Charge | 0        | 1,236    | 1,236     | Mental Health                    | 126      | 149      | 23      |
| Department of Health          | 777      | 897      | 119       | Justice                          | 196      | 150      | (46)    |
| Police                        | 752      | 743      | (9)       | Puerto Rico Legislature          | 159      | 135      | (24)    |
| Road Authority                | 408      | 518      | 109       | Hacienda Custody Funds           | 112      | 112      | 0       |
| State Insurance Fund          | 407      | 390      | (17)      | Department of Housing            | 115      | 116      | 1       |
| Pension Asset Sales           | 0        | 390      | 390       | Corp Centro Cardiovascular       | 79       | 75       | (4)     |
| Corrections                   | 376      | 374      | (2)       | Human Resources                  | 127      | 110      | (17)    |
| Courts                        | 341      | 348      | 7         | Tourist Company                  | 104      | 99       | (5)     |
| Public Housing Administration | 340      | 332      | (8)       | Transportation and Public Works  | 88       | 99       | 11      |
| Retirement System             | 326      | 326      | (0)       | Ports Authority                  | 142      | 98       | (44)    |
| Families                      | 295      | 293      | (2)       | Transportation Authority         | 103      | 87       | (16)    |
| Corp Service Medical Center   | 240      | 234      | (6)       | Other                            | 1,882    | 1,691    | (191)   |
| Subtotal                      | \$20,553 | \$21,209 | \$656     | Subtotal                         | 5,125    | 4,360    | (765)   |
|                               |          |          |           | Total                            | \$25,678 | \$25,569 | (\$109) |

Source: Puerto Rico Office of Management and Budget – Budget Data

## FY18 General Fund is slightly higher than FY17, and includes incremental pension costs

| Allocation                    | FY17    | FY18    | Change |   | Allocation                       | FY17     | FY18     | Change |   |
|-------------------------------|---------|---------|--------|---|----------------------------------|----------|----------|--------|---|
| PREPA                         | \$0     | \$0     | \$0    | ↔ | Hacienda                         | \$167    | \$223    | \$56   | ↔ |
| OMB Custody Funds             | 1,035   | 574     | (461)  | ↘ | Municipalities                   | 395      | 220      | (175)  | ↘ |
| Healthcare (ASES)             | 892     | 791     | (100)  | ↘ | Care and Development of Children | 13       | 51       | 37     | ↔ |
| Department of Education       | 1,674   | 1,598   | (77)   | ↘ | Housing Finance Authority        | 11       | 10       | (1)    | ↘ |
| Socio Economic Development    | 72      | 68      | (4)    | ↘ | Liquidity Reserve                | 200      | 190      | (10)   | ↘ |
| PRASA                         | 0       | 0       | 0      | ↔ | Agricultural Development         | 84       | 96       | 12     | ↔ |
| University of Puerto Rico     | 872     | 668     | (204)  | ↘ | Public Building Authority        | 90       | 90       | 0      | ↔ |
| PayGo & Component Unit Charge | 0       | 989     | 989    | ↔ | Mental Health                    | 82       | 105      | 23     | ↔ |
| Department of Health          | 249     | 368     | 119    | ↔ | Justice                          | 161      | 109      | (52)   | ↘ |
| Police                        | 734     | 735     | 1      | ↔ | Puerto Rico Legislature          | 159      | 135      | (24)   | ↘ |
| Road Authority                | 0       | 1       | 1      | ↔ | Hacienda Custody Funds           | 0        | 0        | 0      | ↔ |
| State Insurance Fund          | 0       | 0       | 0      | ↔ | Department of Housing            | 13       | 12       | (1)    | ↘ |
| Pension Asset Sales           | 0       | 390     | 390    | ↔ | Corp Centro Cardiovascular       | 0        | 0        | 0      | ↔ |
| Corrections                   | 373     | 364     | (8)    | ↘ | Human Resources                  | 11       | 7        | (4)    | ↘ |
| Courts                        | 315     | 322     | 7      | ↔ | Tourist Company                  | 0        | 0        | 0      | ↔ |
| Public Housing Administration | 0       | 0       | (0)    | ↘ | Transportation and Public Works  | 32       | 52       | 19     | ↔ |
| Retirement System             | 326     | 326     | (0)    | ↘ | Ports Authority                  | 0        | 0        | 0      | ↔ |
| Families                      | 211     | 209     | (2)    | ↘ | Transportation Authority         | 29       | 25       | (4)    | ↘ |
| Corp Service Medical Center   | 42      | 64      | 23     | ↔ | Other                            | 744      | 770      | 26     | ↔ |
| Subtotal                      | \$6,795 | \$7,469 | \$673  | ↔ | Subtotal                         | 2,192    | 2,093    | (99)   | ↘ |
|                               |         |         |        |   | Total                            | \$ 8,987 | \$ 9,562 | \$574  | ↔ |

Source: Puerto Rico Office of Management and Budget – Budget Data

# Fiscal reforms included in the Budget

## Revenue enhancements

- Collect outstanding taxes from individuals
- Develop alternative models for new corporate tax regime
- Increase various taxes and fees (gaming, tobacco, military stores, insurance premium, others)
- Sell property tax liens and design a new property tax regime
- Increase sales and use tax compliance

## Right Sizing

- Freeze salaries, eliminating impact of inflation
- Do not renew some one-year contract employees
- Control backfilling of employees who have voluntarily left
- Reduce municipal subsidies
- Reduce UPR subsidies
- Reduce private sector subsidies
- Prevent incremental operating expenses
- Consolidate select agency services and facilities
- Renegotiate contract prices for procured goods and services
- Cancel unnecessary or duplicate contracts
- Reduce quantity of purchased goods and services

## Healthcare

- Implement standard fee schedule for providers and ancillary services
- Replace the current profit sharing contract clause in MCO contract
- Expand coordination of benefits to ensure Mi Salud serves as payor of last resort
- Create Memorandum of Understanding (MOU) with Department of Corrections to identify misclassified beneficiaries
- Create MOU with New York and Florida to identify the beneficiaries that are enrolled in Mi Salud
- Create Medicaid Fraud Control Unit to investigate and persecute Medicaid fraud
- Reduce drug costs
- Adjust benefits
- Switch to a new, single-region MCO Model

## Pensions

- Implement legislative changes to pension benefits
- Reform pension benefits



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Bufete Emmanuelli, C.S.P.  
Ponce, Puerto Rico

From: José I. Alameda-Lozada, Ph.D. *JIAL*  
Edwin Irizarry-Mora, Ph.D., PPL *EIM*  
Professors of Economics, University of Puerto Rico at Mayagüez (UPRM)

Date: July 2, 2017

**Subject: Impact of budget cuts on faculty members of UPRM**

**I. Introduction**

The following pages present a quantitative analysis on the above subject. The calculations produced by the authors are based on data available at the time it was written, i.e., by the middle of June of the current year. We assume that the budget cut to the Mayagüez Campus of the University of Puerto Rico (UPRM) can reach \$47 million. This budget reduction is largely based on the arbitrary determination by the Financial Oversight and Management Board for Puerto Rico to the Legislative Assembly, which orders a "saving" of \$204 million to the UPR. In spite of lacking the precise information on how much will finally be the cut to the UPRM, we assume that it follows the historical proportion that represents the enclosure of the total budgeted for the UPR system. Also, data on the number of courses and sections for the recently completed academic year 2016-2017 are not available at this time. Thus, we use the enrollment data (an average of 13,073 students for the last year) and the number of teachers (862 full time and 41 part time).

**II. Analysis of the academic load during the period 2012 to 2016**

The table below details the number of professors in each of the four UPRM faculties and those assigned to the Dean of Academic Affairs (AA) and to "others", the latter being a category which includes other teaching activities. In the case of Business Administration (ADEM) the number is reduced, from 46 to 41 during the period, but in the rest of the schools the number does not vary substantially. In the case of Agricultural Sciences (CA) there is an increase of 5 in the teaching staff. Consequently, the total number

of the teaching staff increases by only 2: from 738 for the academic year 2012-2013 to 740 for the academic year 2015-2016.

| School                  | NUMBER OF PROFESSORS |            |            |            |
|-------------------------|----------------------|------------|------------|------------|
|                         | 2012-13              | 2013-14    | 2014-15    | 2015-16    |
| Business Administration | 46                   | 46         | 43         | 41         |
| Arts and Sciences       | 366                  | 368        | 367        | 367        |
| Engineering             | 180                  | 177        | 173        | 178        |
| Agricultural Science    | 29                   | 29         | 24         | 34         |
| Academic Affairs (AA)   | 15                   | 15         | 17         | 18         |
| OTHERS                  | 102                  | 102        | 86         | 102        |
|                         | <b>738</b>           | <b>737</b> | <b>710</b> | <b>740</b> |
| <b>Four Schools</b>     | <b>621</b>           | <b>620</b> | <b>607</b> | <b>620</b> |
| <b>AA + Others</b>      | <b>117</b>           | <b>117</b> | <b>103</b> | <b>120</b> |

Source: Oficina de Investigación Institucional y Planificación. <http://www.uprm.edu/p/oiip/perfiles>

A glance at the workload of UPRM professors during the four years indicated reveals, according to the table below, that the number of credits per teacher decreased very little in the case of the ADEM College, but increased by 6.28% for Arts and Sciences (AC), by 0.54% for Engineering (INGE), by 7.04% for CA, 32.74% for AA, and 23.97% for "Others". This represents an increase of 6.7% in the median and almost 12% in the average workload of UPRM professors. The same pattern is observed in the number of sections per professor and in the number of students per professor. Avoiding details by academic schools, there is a median increase for the whole campus of 9.1% and an 8.6% increase in the average of sections per professor. There was also a 13% increase in the median and an 18.9% rise in the average number of students per professor. In other words, **during the past four academic years, not counting the current year, the three variables that are typically used to quantify the work of teachers reveal beyond doubt an increase in the workload responsibility of this professional class. It should not be forgotten that this has occurred in an environment of wage freeze and reduction or elimination of benefits, which has precariously affected the work situation and, consequently, reduced the purchasing power of the UPRM teaching staff.**

Data: Academic Years 2012-13 to 2015-16

|                         | Professors         | Credit/<br>Professor | Section/<br>Professor | Students/<br>Professor |
|-------------------------|--------------------|----------------------|-----------------------|------------------------|
| <b>School:</b>          | <b>Growth Rate</b> |                      |                       |                        |
| Business Administration | -10.9%             | -0.29%               | 3.9%                  | 12.0%                  |
| Arts and Sciences       | 0.3%               | 6.28%                | -3.7%                 | -0.4%                  |
| Engineering             | -1.1%              | 0.54%                | 0.7%                  | 0.5%                   |
| Agricultural Sciences   | 17.2%              | 7.04%                | 14.4%                 | 38.0%                  |
| Academic Affairs        | 20.0%              | 32.74%               | 22.0%                 | 49.1%                  |
| OTHERS                  | 0.0%               | 23.97%               | 14.2%                 | 14.0%                  |
| Median                  | 0.1%               | 6.7%                 | 9.1%                  | 13.0%                  |
| Simple Average          | 4.3%               | 11.7%                | 8.6%                  | 18.9%                  |
| Rate                    |                    |                      |                       |                        |
| Median                  |                    | 67.00                | 91.00                 | 130.00                 |
| Simple Average          |                    | 2.72                 | 2.00                  | 4.40                   |

Source: Oficina de Investigación Institucional y Planificación. <http://www.uprm.edu/p/oiip/perfiles>. Calculations from the authors

If the previous analysis weights the statistics of academic colleges based on the number of teachers per unit as a proportion of the total teaching staff of the UPRM, the results would be as presented in the following table. It should be noted that, even though weighting the annual average statistically, the workload increases by 7.5% in the case of credits per teacher; 1.5% in sections per teacher; and 5.1% in students per teacher.

| Academic Years 2012-13 to 2015-16 | Weighted yearly growth rate |                      |                        |                        |
|-----------------------------------|-----------------------------|----------------------|------------------------|------------------------|
|                                   | Professors                  | Credit/<br>Professor | Sections/<br>Professor | Students/<br>Professor |
| Business Administration           | -0.678%                     | -0.018%              | 0.246%                 | 0.748%                 |
| Arts and Sciences                 | 0.136%                      | 3.117%               | -1.857%                | -0.189%                |
| Engineering                       | -0.271%                     | 0.133%               | 0.177%                 | 0.117%                 |
| Agricultural Sciences             | 0.678%                      | 0.277%               | 0.566%                 | 1.493%                 |
| Academic Affairs                  | 0.407%                      | 0.666%               | 0.447%                 | 0.998%                 |
| OTHERS                            | 0.000%                      | 3.313%               | 1.968%                 | 1.930%                 |
| Average yearly growth rate        | 0.271%                      | 7.487%               | 1.546%                 | 5.097%                 |
| Rate                              |                             | 2762.7%              | 20.7%                  | 329.6%                 |

Source: Oficina de Investigación Institucional y Planificación. <http://www.uprm.edu/p/oiip/perfiles>. Calculations from the authors

Data in the following table reveals that over the past academic year the UPRM faculty offered 7,361 credits in 3,047 sections, or a "clientele" of 58,782 students. These figures provide an idea of the magnitude of

the work done by the UPRM teaching faculty and will be compared with the figures for the academic year

2016-2017, once official statistics are available.

| Total number of Credits, Sections and Students |              |              |               |
|--|--------------|--------------|---------------|
| Academic Year 2015-16                          | Credits      | Sections     | Students      |
| Business Administration                        | 424          | 162          | 3,422         |
| Arts and Sciences                              | 4,593        | 1,604        | 35,520        |
| Engineering                                    | 1,643        | 742          | 10,449        |
| Agricultural Sciences                          | 305          | 154          | 2,309         |
| Academic Affairs                               | 27           | 33           | 756           |
| OTHERS   | 369          | 352          | 6,326         |
| <b>Sub-total</b>                               | <b>7,361</b> | <b>3,047</b> | <b>58,782</b> |

Source: Oficina de Investigación Institucional y Planificación. <http://www.uprm.edu/p/oiip/perfiles>. Calculation from the authors

### III. Scenario resulting from reduction in UPRM budget

Now we simulate the scenario of an increase in the workload of the UPRM professors, once the institution's reduced budget begins on July 1<sup>st</sup>. If we use as a reference the 2017-18 Budget of Puerto Rico (which could coincide with the budget imposed by the Financial Oversight and Management Board), and the allocation of funds to the UPR, we have a decline in operating costs of about 165.4 million dollars, or a 13.3% reduction<sup>1</sup>. In the case of UPRM, the reduction would be \$47 million, equivalent to a 17.2%. Interestingly, Aguadilla and Carolina do not suffer drops in operating expenses.

Refer to the following table:

<sup>1</sup> Note that the budget reduction for the whole UPR system, as approved by the Oversight and Management Board, is \$204 million. However, the final version of the budget suggests an additional funding of \$40 million. Therefore, the net decrease would be \$160 million, a figure very close to the one employed in this report. The additional \$40 million will not be assigned to academic affairs, but to capital improvements, personnel training and other operational expenses.

| Operational Expenditures<br>(000 \$) | 2015             | 2016             | 2017             | 2018             | 2018-17         | 2018-17     | 2018-17      |
|--------------------------------------|------------------|------------------|------------------|------------------|-----------------|-------------|--------------|
|                                      | Expended         | Expended         | Appropriation    | Recommended      | Change          | % Total     | Cumulative % |
| Río Piedras                          | 292,041          | 291,549          | 308,510          | 247,369          | -61,141         | 37%         | 37%          |
| Mayagüez                             | 264,961          | 267,520          | 274,789          | 227,597          | -47,192         | 29%         | 65%          |
| Medical Sciences                     | 311,037          | 289,840          | 296,677          | 258,642          | -38,035         | 23%         | 88%          |
| Aguadilla                            | 40,011           | 39,189           | 36,367           | 38,085           | 1,718           | -1%         | 87%          |
| Arecibo                              | 52,160           | 51,422           | 50,421           | 45,803           | -4,618          | 3%          | 90%          |
| Bayamón                              | 57,796           | 59,853           | 53,699           | 51,958           | -1,741          | 1%          | 91%          |
| Carolina                             | 48,816           | 45,103           | 42,651           | 43,392           | 741             | 0%          | 91%          |
| Cayey                                | 58,079           | 51,598           | 50,532           | 48,987           | -1,545          | 1%          | 92%          |
| Humacao                              | 63,611           | 62,544           | 63,893           | 55,063           | -8,830          | 5%          | 97%          |
| Ponce                                | 41,309           | 42,379           | 40,489           | 37,909           | -2,580          | 2%          | 99%          |
| Utuaado                              | 21,714           | 21,978           | 21,482           | 19,282           | -2,200          | 1%          | 100%         |
| <b>Sub-total</b>                     | <b>1,251,535</b> | <b>1,222,975</b> | <b>1,239,510</b> | <b>1,074,087</b> | <b>-165,423</b> | <b>100%</b> |              |
| <b>Total Budget UPR</b>              | <b>1,377,732</b> | <b>1,377,449</b> | <b>1,383,966</b> | <b>1,270,276</b> | <b>-113,690</b> |             |              |

Source: Office of Budget and Management, Puerto Rico

The number of UPRM full time professors (862) and part time (41) are shown in the following table, for a total of 903, according to official UPR information for academic year 2016-17. Data from the other campuses are also presented for comparison purposes.

| UNITS            | Total, Professors |      |        | Full Time professors |      |        | Temporary professors |      |        |
|------------------|-------------------|------|--------|----------------------|------|--------|----------------------|------|--------|
|                  | Total             | Male | Female | Total                | Male | Female | Total                | Male | Female |
| Aguadilla        | 162               | 84   | 78     | 113                  | 54   | 59     | 49                   | 30   | 19     |
| Arecibo          | 212               | 103  | 109    | 175                  | 82   | 93     | 37                   | 21   | 16     |
| Bayamón          | 261               | 119  | 142    | 205                  | 96   | 109    | 56                   | 23   | 33     |
| Carolina         | 221               | 133  | 88     | 105                  | 59   | 46     | 116                  | 74   | 42     |
| Cayey            | 202               | 100  | 102    | 122                  | 67   | 55     | 80                   | 33   | 47     |
| Medical Sciences | 1,090             | 487  | 603    | 706                  | 272  | 434    | 384                  | 215  | 169    |
| Humacao          | 287               | 126  | 161    | 184                  | 87   | 97     | 103                  | 39   | 64     |
| Mayagüez         | 903               | 536  | 367    | 862                  | 514  | 348    | 41                   | 22   | 19     |
| Ponce            | 193               | 84   | 109    | 103                  | 43   | 60     | 90                   | 41   | 49     |
| Río Piedras      | 1,090             | 547  | 543    | 916                  | 466  | 450    | 174                  | 81   | 93     |
| Utuaado          | 88                | 48   | 40     | 66                   | 35   | 31     | 22                   | 13   | 9      |

Source: Consejo de Educación Superior.

<https://www.dropbox.com/s/thvem9qdati8fy/Databook%20%20CEPR%20Superior%202015%2016%20octubre%202016.xlsx?dl=0>

Payroll for the past academic year (2015-16) was \$ 54,180,000. If this figure is divided by the total number of teachers (903, divided between 862 full time and 41 part time), the average salary per teacher would be \$ 60,000. The table below shows that the UPRM paid a payroll of \$167,812,000, so that faculty's salaries represented 32.3% of total payroll. This ratio could increase, depending on the inclusion of marginal benefits and other allocations.

|   |               |
|---|---------------|
| <b>Professors UPRM 2015-16</b>            |               |
| Full Time                                 | 862           |
| Part time                                 | 41            |
| <b>Total</b>                              | <b>903</b>    |
| Average Salary                            | \$60,000.00   |
| Professors' Payroll                       | \$54,180,000  |
| Total Payroll                             | \$167,812,000 |
| <b>Professors' Payroll/ Total Payroll</b> | <b>32.3%</b>  |

Source: Oficina de Investigación Institucional y Planificación. <http://www.uprm.edu/p/oiip/perfiles>. Calculation from the authors

It is noted that the cut in payroll of the UPRM will be \$ 30.1 million for the next academic year. The following table shows the impact of the decline (column entitled "Change") for each item of expenditure. These figures confirm that the total reduction in the UPRM budget would be little more than \$ 47 million.

|  | 2015     | 2016     | 2017          | 2018        | 2018-17        | 2018-17       | 2018-17      |
|--|----------|----------|---------------|-------------|----------------|---------------|--------------|
| Operational Expenditures (000 \$)          | Expended | Expended | Appropriation | Recommended | Change         | % Total       | Cumulative % |
| Payroll and marginal benefits              | 174,147  | 167,812  | 170,818       | 140,707     | -30,111        | 64.1%         | 64.1%        |
| Facilities and Payments to Public Services | 10,427   | 7,780    | 10,454        | 7,155       | -3,299         | 7.0%          | 71.1%        |
| Services Purchased                         | 4,301    | 3,170    | 4,340         | 3,428       | -912           | 1.9%          | 73.0%        |
| Donations, Subsidies and Distributions     | 44,776   | 45,923   | 42,488        | 44,987      | 2,499          | -5.3%         | 67.7%        |
| Transportation Expenditures                | 2,540    | 3,199    | 3,026         | 2,276       | -750           | 1.6%          | 69.3%        |
| Other Operational Expenses                 | 8,455    | 23,573   | 21,953        | 18,340      | -3,613         | 7.7%          | 77.0%        |
| Equipment Purchases                        | 8,802    | 2,242    | 5,395         | 1,950       | -3,445         | 7.3%          | 84.3%        |
| Material and Supplies                      | 11,479   | 13,785   | 16,080        | 8,721       | -7,359         | 15.7%         | 100.0%       |
| Media and Social Promotion                 | 34       | 36       | 54            | 33          | -21            | 0.0%          | 100.0%       |
|  |          |          |               |             | <b>-47,011</b> | <b>100.0%</b> |              |

Source: Office of Budget and Management, Puerto Rico

If 32.3% of the budget decline corresponds to teachers' salaries, then we can expect that the employment impact of UPRM professors will be a reduction of 155 full-time and 7 part-time professors. The total would be 162 fewer educators, equivalent to 17.9% of the total number of current professors. Refer to the following table.

|                                |                 |              |
|--------------------------------|-----------------|--------------|
| Total Payroll Cut              | \$30,111,000.00 |              |
| Professors' Payroll Cut        | \$9,721,677     |              |
| Cut in Number of Professors    |                 | % total      |
| Full Time                      | 155             | 18.0%        |
| Part Time                      | 7               | 17.1%        |
| <b>Reduction of Professors</b> | <b>162</b>      | <b>17.9%</b> |

Source: calculation from the authors. See previous tables.

Even assuming that the number of teachers dismissed or whose contracts are not renewed for the next academic year (beginning in August 2017) is 150 (that is, we reduced from 162 to 150 the figure calculated in the previous table), the impact in terms of the decline of positions or jobs per academic college would be as shown in the following table. Based on the data we used at the beginning of this report, jobs would be reduced to 590 teaching positions. Using the figure of 903 positions suggested by the official source for academic year 2015-2016, the number of teaching positions would drop to 753.

|                         | 2015-16    |             | Simulation:                                   |
|-------------------------|------------|-------------|---|
|                         | Historic   | Change      | Assuming a Cut of approximately 150 positions |
| Business Administration | 41         | -9          | 32  |
| Arts and Sciences       | 367        | -74         | 293   |
| Engineering             | 178        | -37         | 141   |
| Agricultural Sciences   | 34         | -6          | 28  |
| Academic Affairs        | 18         | -3          | 15  |
| OTHERS                  | 102        | -21         | 81  |
| <b>Sub-total</b>        | <b>740</b> | <b>-150</b> | <b>590</b>                                    |

|              |     |      |
|--------------|-----|------|
| Four schools | 620 | -126 |
| AA + Others  | 120 | -24  |

Source: calculation from the authors. See previous tables.

If we calculate the impact of this drastic reduction in the number of professors on the three variables analyzed at the beginning of this report for the previous four academic years, the increase in the

workload for the UPRM teaching staff would be as reflected in the following tables. The first table suggests that the median of credits per professor rises from 9.1 to 11.23, which means a 23.46% increase in workload. In average, the increase would be from 7.69 credits per professor to 9.65, or a 25.41% growth in workload. The second table shows an increase in the load of sections per teacher of almost 25%, whether we use the median or the average. In practice this would result in one additional section of three credits per semester per professor, receiving the same salary as currently, which is equivalent to 25% increase in work to be done, assuming that the load per semester is twelve credits, or four sections of three credits each. Finally, the third table reveals that the number of students per professor would also increase between 24% and 25% (median and average respectively), which confirms the trends of the two previous variables.

In short, the budget “saving” for the UPRM, as projected in the budget of the UPR for the next fiscal year, would have a substantial impact on the workload of the campus teaching staff, as a consequence of the drastic reduction in payroll. Such a reduction would imply that, as a minimum, 150, and as a maximum, 162 fewer professors would be working in the institution and that the remaining teaching staff would carry out the same work performed by many more teachers in previous academic years, though attending the same number of courses, sections and students. In short, it will be a labor scenario with fewer teachers, but with the same amount of students as in previous academic years.



Credits/Professor

| Colleges                | 2015-16     | Year impact  | Change in Credits per Professor | Growth Rate   |
|-------------------------|-------------|--------------|---------------------------------|---------------|
| Business Administration | 10.33       | 13.38        | 3.05                            | 29.54%        |
| Arts and Sciences       | 12.52       | 15.70        | 3.18                            | 25.42%        |
| Engineering             | 9.23        | 11.62        | 2.39                            | 25.87%        |
| Agricultural Sciences   | 8.97        | 10.85        | 1.88                            | 20.97%        |
| Academic Affairs        | 1.50        | 1.81         | 0.31                            | 20.39%        |
| OTHERS                  | 3.62        | 4.54         | 0.92                            | 25.51%        |
| <b>Median</b>           | <b>9.10</b> | <b>11.23</b> | <b>2.13</b>                     | <b>23.46%</b> |
| <b>Average</b>          | <b>7.69</b> | <b>9.65</b>  | <b>1.96</b>                     | <b>25.41%</b> |

Sections/Professor

|                         | 2015-16     | Year impact | Change in Sections per Professor | Growth Rate   |
|-------------------------|-------------|-------------|----------------------------------|---------------|
| Business Administration | 3.95        | 5.12        | 1.17                             | 29.54%        |
| Arts and Sciences       | 4.37        | 5.48        | 1.11                             | 25.42%        |
| Engineering             | 4.17        | 5.25        | 1.08                             | 25.87%        |
| Agricultural Sciences   | 4.53        | 5.48        | 0.95                             | 20.97%        |
| Academic Affairs        | 1.83        | 2.20        | 0.37                             | 20.39%        |
| OTHERS                  | 3.45        | 4.33        | 0.88                             | 25.51%        |
| <b>Median</b>           | <b>4.06</b> | <b>5.18</b> | <b>1.01</b>                      | <b>24.99%</b> |
| <b>Average</b>          | <b>3.72</b> | <b>4.64</b> | <b>0.93</b>                      | <b>24.93%</b> |

Students/Professor

|                         | 2015-16      | Year impact  | Change in Students per Professor | Growth Rate   |
|-------------------------|--------------|--------------|----------------------------------|---------------|
| Business Administration | 83.46        | 108.11       | 24.65                            | 22.80%        |
| Arts and Sciences       | 96.79        | 121.39       | 24.61                            | 25.42%        |
| Engineering             | 58.70        | 73.89        | 15.19                            | 25.87%        |
| Agricultural Sciences   | 67.91        | 82.15        | 14.24                            | 20.97%        |
| Academic Affairs        | 42.00        | 50.56        | 8.56                             | 20.39%        |
| OTHERS                  | 62.02        | 77.84        | 15.82                            | 25.51%        |
| <b>Median</b>           | <b>64.97</b> | <b>99.63</b> | <b>15.50</b>                     | <b>23.86%</b> |
| <b>Average</b>          | <b>68.48</b> | <b>85.66</b> | <b>17.18</b>                     | <b>25.09%</b> |

IV. Conclusions

The analysis conducted in the previous pages allows us to reach the following conclusions:

1. During the past four academic years, not counting the current year, the three variables that are typically used to quantify the professors' workload reveal beyond doubt an increase in the responsibility of this professional class. **It should not be forgotten that this has occurred in an environment of wage freeze and reduction or elimination of benefits, which has precariously affected the labor situation and reduced the purchasing power of the UPRM teaching staff.**
2. If 32.3% of the budget reduction for the UPRM corresponds to professors' salaries (approximately \$ 9.7 million less in payroll), then we can expect that the employment impact of the UPRM professors will be reduced by 155 full-time professors and 7 part-time. Total drop would be 162 fewer educators, equivalent to 17.9% of total current professors. Because the number of students at the UPRM will remain at about 13,000 during the next academic year, this will result in a drastic increase in the workload of each faculty member of the institution. Based on the data employed at the beginning of this report, jobs would be reduced to 590 teaching positions. Using the figure of 903 positions suggested by data for academic year 2015-2016, the number of positions would be reduced to 753.
3. In other words, the budget reduction would imply that the teaching staff remaining in the UPRM would carry out the same work as in previous academic years, attending to the same number of courses, sections and students with fewer personnel<sup>2</sup>.
4. The net impact of all of the above is that each professor would increase their workload by approximately 25% in each academic semester, receiving the same pay (\$ 60,000 annually on average). **Consequently, the effect of the budget reduction is that, by performing 25% of additional tasks for the same pay, the adjusted salary of each member of the teaching staff**

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<sup>2</sup> The RUM's Office of Admissions has already certified that the number of freshmen (first year enrollment) for academic year 2017-2018 has exceeded by 2% the amount of new-comers projected by the institution. This means that total enrollment by August 2017 (total demand for academic services) will surpass by 2% the projected academic offerings (total academic supply).

(distributed by average wage) should increase by 25%, that is, an average of \$75,000 per year.

In allocating the average non-received payment of \$15,000 per professor (to teachers who would remain working in the UPRM), the impairment of incomes not received would be at least \$8.85 million per year if 590 professors remain employed and, at the most, of \$11.3 million per year, if 753 professors remain.

END

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



*José B. Carrión III*  
Chair

Members  
*Andrew G. Biggs*  
*Carlos M. García*  
*Arthur J. González*  
*José R. González*  
*Ana J. Matosantos*  
*David A. Skeel, Jr.*

*Natalie A. Jaresko*  
Executive Director

BY ELECTRONIC MAIL

June 16, 2017

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

Honorable Thomas Rivera Schatz  
President of the Senate of Puerto Rico

Honorable Carlos J. Méndez Núñez  
Speaker of the House of Representatives  
of Puerto Rico

Dear Governor Rosselló Nevares, Senator Rivera Schatz, and Speaker Méndez Núñez:

As we continue to move towards our common goal of achieving an Oversight Board-approved and certified Commonwealth budget for fiscal year 2018 by June 30, 2017, I write to you out of concern that some of the progress we appeared to have made in the past few weeks as a result of the close and positive collaboration between the Board and the administration—and their respective teams of advisors—may be receding, and that the necessary resolve to attain the goals set forth in the certified fiscal plan may be waning.

It is equally of concern that some of the narrative taking hold in the public discourse fails to characterize adequately the truly dire fiscal situation the Commonwealth is facing, thus leading the public to underestimate the true nature and impact of some of the fiscal responsibility measures mandated in the fiscal plan and that, accordingly, will have to be incorporated in the budget. Stability can only be earnestly projected if the people know and understand the reality of Puerto Rico's fiscal situation and the serious steps being undertaken to address it.

Honorable Ricardo A. Rosselló Nevares

Honorable Thomas Rivera Schatz

Honorable Carlos J. Méndez Núñez

June 16, 2017

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A good example is the narrative that incorrectly asserts that the measures the Board approved in the way of amendments to the administration's proposed fiscal plan to ensure sufficient liquidity to pay for essential services during FY18—i.e., a furlough program and the Christmas bonus reduction or elimination—will not go into effect if only the administration's liquidity plan can reasonably be expected to generate additional cash reserves of \$200 million by June 30, 2017. In fact—as stated in the Board Resolution of March 13, 2017, certifying the fiscal plan—the \$200 million cash reserve requirement is in addition to the main requirement that the administration submit for Board approval, along with the proposed budget for FY18, implementation plans for the right-sizing or spending reduction measures that provide necessary certainty that the critical liquidity and budgetary savings required by the fiscal plan will be achieved by the administration.

The importance of the implementation plans for the right-sizing or spending reduction measures the administration commits to undertake cannot be overestimated. We stressed it again in our Unanimous Written Consent approving the submission of the Commonwealth FY18 budget to the Legislature when we noted that “the Board expects that the final budget will...reflect any necessary changes to align to achievable implementation plans for spending reductions, to ensure the budget is fully aligned to the Commonwealth's fiscal plan....”

Let me assure you those implementation plans will be evaluated fairly and responsibly. We need to make sure all the measures the administration has committed to undertake to generate the liquidity and budgetary savings necessary to fund essential services throughout FY18 can reasonably be expected to do just that.

Casual reference to a particular level of funding in the Treasury Single Account not only can be deceiving, but is bound to generate the confusion that we witnessed yesterday in the wake of certain press reports on the subject. Scant progress will be made towards the goal of ensuring the necessary liquidity to fund essential services in FY18 if we just focus on a certain balance in the Secretary's TSA in a particular moment in time—let alone tout it—and, more importantly, if implementation plans to produce the necessary budgetary savings during the fiscal year are inadequate or poorly executed. If that happens, Puerto Rico is all but certain to run out of money to fund the central government's payroll come November or December of this year.

Modest improvements in liquidity don't change the reality of the Island's fiscal situation. Under current law, beginning in July, Puerto Rico will face a worsening cash flow problem because of loss of federal funds and the depletion of pension funds' assets.

In short, the issue of liquidity needs to be understood in the context of the cash flow over time. That is precisely the importance of the liquidity plan. While the administration did submit a liquidity plan in line with the proposed budget, we have yet to achieve confidence

Honorable Ricardo A. Rosselló Nevares

Honorable Thomas Rivera Schatz

Honorable Carlos J. Méndez Núñez

June 16, 2017

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Now we are at a critical juncture that requires that we collectively strengthen that resolve. I trust that, working together, we will successfully remove any potential roadblocks in our path towards successful implementation of PROMESA and the attainment of its goals of establishing fiscal responsibility, regaining access to markets, restructuring the public debt, strengthening economic competitiveness, and restoring opportunity to everyone in Puerto Rico.

The Oversight Board looks forward to continue working with your administration and the Legislature to accomplish the considerable remaining requirements and goals of PROMESA for the benefit of the people of Puerto Rico, its creditors and other stakeholders.

Sincerely,



José B. Carrión  
Chair

Andrew G. Biggs  
Carlos M. García  
Arthur J. González  
José R. González  
Ana J. Matosantos  
David A. Skeel, Jr.

CC: Natalie A. Jaresko  
Elías F. Sánchez-Sifonte

Honorable Ricardo A. Rosselló Nevares

Honorable Thomas Rivera Schatz

Honorable Carlos J. Méndez Núñez

June 16, 2017

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in the ability of Puerto Rico to fund essential services in an uninterrupted manner throughout the fiscal year taking into account several risk scenarios.

On that note, we must reiterate our earlier requests urging the administration to make and communicate as soon as possible the necessary public policy determinations with respect to what it understands constitute “essential services” in the context of PROMESA. As you know, in light of Puerto Rico’s fiscal situation, a PROMESA-compliant budget needs to reflect appropriate allocations for the adequate funding of essential services, pension benefits, investments to spur growth and other PROMESA priorities. We can no longer afford business as usual.

As we have stated in the past, the Oversight Board supports a fair, orderly and equitable restructuring of Puerto Rico’s debt, but such restructuring will take time and will not solve by itself Puerto Rico’s considerable fiscal disarray. We need to work within the parameters of PROMESA that provide for restructuring to a sustainable debt level so we can fund essential services, pension benefits, and the capital investments necessary to spur economic growth.

Finally, let me urge you further to work with the Oversight Board in the establishment of an appropriate, consistent and reliable protocol for the submission and publication of the various financial reports—including, but not limited to liquidity, collections, actual vs. budget—the administration must regularly submit to the Oversight Board. Transparency is a guiding principle specifically mandated by PROMESA. It is also, I know, a guiding principle of the Governor’s administration. Let’s make sure that, together, we deliver to all interested parties, stakeholders and, most importantly, the people of Puerto Rico the accurate and timely financial information they deserve and have every right to expect.

Governor, Mr. President and Mr. Speaker, in the past five and a half months the Oversight Board has given the Government of Puerto Rico—sometimes upon its request, sometimes out of our own volition—latitude to facilitate compliance with the mandates of PROMESA. For example, of our own accord, we changed our own guidelines regarding the formulation of a fiscal plan to grant the administration one more year in which to effect the spending reduction and revenue enhancement measures leading to fiscal equilibrium. At the administration’s request, we extended the automatic stay against litigation provided by PROMESA. We certified the administration’s proposed fiscal plan, noting our reservations in the way of amendments thereto. In every instance, we have provided the accommodation that you have required for two basic reasons: first, because we believed it was the reasonable and prudent thing to do given your short time in office as a new administration and a new legislature and, second, because we were, and remain, convinced of your steadfast resolve to comply with the requirements of PROMESA for the benefit of the people of Puerto Rico.



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# SUSTAINABLE FISCAL PLAN FOR THE UPR (SoS UPR PLAN)

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## SUSTAINABLE FISCAL PLAN FOR THE UPR *SoS UPR PLAN*

By adding rather than subtracting, the UPR gives more.  
Lissette Rolón Collazo, Coordinator, *SoS UPR Plan*  
(Full Professor, *UPR-Mayagüez*)

The best investment of the Puerto Rican people is its university and the eleven campuses.  
*Plena*, David González Barreto  
(Full Professor, *UPR-Mayagüez*)

### PREAMBLE

The University of Puerto Rico is the largest sustained public investment in the history of Puerto Rico. After 116 years of existence, it has evolved from a teachers' college in Río Piedras and a faculty of agriculture and mechanical arts in Mayagüez to become a university system with eleven (11) campuses and an enrollment of 60,000 students (33.4% of all college students in the country for 2015).<sup>1</sup> Currently, the UPR has the best graduation rates of all higher education institutions with academic and professional degrees, 85% of which are accredited by relevant professional organizations. Despite the multiple challenges it faces, the excellence that characterizes the UPR's primary mission<sup>2</sup> –the higher education of the younger generations and the continuous training of the adult work force–, is unquestionable. At the same time, and as demonstrated in the next section of the *SoS UPR Plan*, the UPR is also the leading institution in research and scientific publications and patent development (33 in 2016). It has research centers in the fields of medicine, engineering, agriculture, socio-humanistic sciences, and marine biology, which includes the marine research laboratory in Magueyes Island in La Parguera, Lajas.

However, the social functions assigned to the UPR, within the institutional and legal context of Puerto Rico, go far beyond its primary mission. They also transcend our own country, as they have great impact on the Caribbean region, which includes Puerto Rico. The UPR shares with other public and private institutions in the country two vital tasks: (1) contributing to providing health care and safety to the population, and (2) promoting and safekeeping the cultural heritage.

As part of its work in health care, the UPR manages the University Hospital Dr. Federico J. Trillas in Carolina, where some 58,000 people are treated annually. The UPR faculty of the School of Medicine at the Medical Sciences Campus also offer their services in the various tertiary and supratertiary hospitals that make up the Medical Center, the largest and most important medical-hospital complex in the country. Each of the schools that make up the Medical Sciences Campus of the UPR–medicine, pharmacy, nursing, dentistry, public health and other health-professions,

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<sup>1</sup>José I. Alameda-Lozada and José Alfredo González-Martínez. "[The socio-economic impact of the University System of Puerto Rico.](#)" *Occasional Papers*. Op April 2017. #7 San Juan: Technical Studies, 2017.

<sup>2</sup>To name just one example: two hundred (200) engineers and professionals working in the National Aeronautics and Space Administration (NASA) are alumni of the Faculty of Engineering, UPR-Mayagüez Campus.

continually offer clinics and outreach programs which serve underprivileged populations, who would otherwise lack access to these services.

Furthermore, the UPR ensures the health and safety of the population in many ways beyond the important contribution of the Medical Sciences Campus and the clinics and practices provided by graduate programs in psychology, counseling and social work. For example, in the Río Piedras Campus, the Community Sport Access and Integration Program (PAIDCO) promotes physical activity among its beneficiaries; the Caño Martín Peña Liaison Project promotes the environmental health of residents of G-8 communities; and the alliance with the Ricky Martin Foundation and the Office of the Ombudsman for Women educates and combats human trafficking and gender violence. The Mayagüez Campus has projects that include *Siempre Vivas*, the Institute for Community Development, the Seismic Network, the Sea Grant Program and 55 agricultural extension offices, each promoting, respectively, violence prevention, sustainable development of communities in collaboration with universities, public safety in the event of an earthquake or tsunami, environmental conservation of coastal and marine ecology, coastal risk management, food security for communities and prevention of diseases related to nutrition.

The pivotal role of the UPR as promoter and custodian of culture, art and history is demonstrated, among other things, through the administration of four (4) museums (Anthropology and History, UPR-RP; Dr. Pío López Martínez, UPR-Cayey; MUSA, UPR-Mayagüez; Casa Roig, UPR-Humacao) and forty-two (42) different libraries open to the community, which constitute the only professional network of public libraries in the country. The UPR also has a publishing house, a newspaper, an FM radio station and one of the most important musical and drama theaters in the country, the Theater of the University of Puerto Rico. To this cultural heritage, we should add dozens of internationally renowned, award-winning artistic groups, including *Coralía*, *Chorium*, *Jóvenes del 98* and the Traveling Theater of the UPR (*Teatro Rodante de la UPR*).

Amidst the fiscal crisis affecting all government levels, no public or private institution exists in the country that can absorb the multiplicity of functions carried out by the University of Puerto Rico system. Nor has there been in the history of Puerto Rico any other institution with greater impact on the promotion of social equity by serving disadvantaged populations in multiple ways, and providing opportunities of all kinds to generations of young people with diverse talents. A valuable example is the Center for University Access (*Centro Universitario para el Acceso-CUA*), which was developed over a decade ago at UPR-Mayagüez. This university-community research project is devoted to developing outreach initiatives that help disadvantaged youth from the lowest socio-economic levels (especially, those living in public housing) to enter the UPR and successfully complete their education goals. Three years ago, CUA was expanded to five other campuses (Bayamón, Carolina, Cayey, Humacao and Río Piedras) and today, with just two years of sustained outreach work, it exceeds the rate of applications and admissions to the UPR in the entire system of public education in Puerto Rico.

The UPR has continued these diverse and vital undertakings despite a decade of economic contraction that has afflicted the country at large. In this same period, the UPR has improved its position in the *SCIMAGO Institution Ranking*, reaching no. 35 among all institutions of higher education in our hemisphere and no. 15 within Latin America and the Caribbean. These feats have been accomplished within the parameters of significant fiscal measures implemented over recent years:

1. Replacement of Act. No. 2 of 1966 (as amended), which allocated 9.6% of Puerto Rico's Consolidated Budget to the UPR, with Act. No. 66 of 2014, which freezes the government contribution at \$833.9 million, forcing the UPR to operate under a significantly lower budget, amounting to \$300 million less in government investment (2014-2017).
2. Raise in the UPR's General Fund income levels by increasing the number of students admitted and through the recovery of indirect costs and other miscellaneous income, without substantially increasing tuition costs for students.
3. Maintenance of savings measures established in 2010 through certifications and circular letters. These measures include the elimination of sabbaticals and annual supplementary payments for books and educational materials, the reduction in bonifications for managerial positions and courses offered by contract, and the freezing of tenure track positions and merit promotions.<sup>3</sup>

Moreover, Puerto Rico's ruinous financial situation prevented the UPR from receiving \$3,200 million in revenues for services rendered from 2004 to 2015. Of this amount, 52%, or about \$1.673 million, was declared irrecoverable, which is the equivalent to two years of the government's contribution to the UPR's budget. In 2015, the largest debtors, with a total of \$303 million in accounts receivable, were medical plans, the central government and municipal governments. Of that \$303 million, only \$92 million were recovered.<sup>4</sup> In this light, the UPR has become, in fact, a sensitive and supportive creditor of Puerto Rico and has provided a substantial amount of resources to alleviate the crisis that afflicts us as a country. It has continued to provide essential services in education, health and community development that otherwise would have further afflicted the poorest sectors of the population.

It should be noted that public investment in the UPR yields valuable returns through the multiplicity of services that the institution offers and which are all closely linked to teaching and learning; furthermore, it boosts local economic activity in various ways. The recent study by Alameda and González cited above—which will be discussed in the following section—, shows that the increase in human capital of the institution's graduates significantly strengthens the capacity they will have to generate wealth throughout their lifetime. The difference in wages accrued by a graduate from the UPR compared to a worker without college education is \$25,857 per year (15). If we compare the cost of educating a graduating UPR class to what it will produce economically over thirty (30) years of employment, we find that the annual rate of return on the initial investment in their education is 19.9%, which is considered very lucrative for any company's performance (17). Alameda and González add that for every dollar invested in the UPR, its retirement system and its associated agents, \$1.56 is generated in economic activity for other sectors of the country (12). In terms of job creation, the economists estimate that for every one hundred (100) direct jobs created by university spending, another sixty (60) jobs are created in other sectors (13).

For all the above reasons and additional ones examined in the sections that follow, threatening the economic viability of the UPR is tantamount to an unprecedented generational betrayal and a social catastrophe in the short term. Furthermore, it seriously hinders the possibility of reversing the country's continuing economic contraction. This will, in turn, make economic

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<sup>3</sup> *General Budget UPR, 2016-2017.*

<sup>4</sup> Argeo Quiñones. "More Real Problems of the UPR," *El Nuevo Día*. 20 April 2017. Retrieved on May 24, 2017. <http://www.elnuevodia.com/opinion/columnas/masproblemasrealesdelaupr-columna-2312644/>.

recovery an even more tortuous and uphill climb, and immediately diminish the ability to address the claims of other creditors.

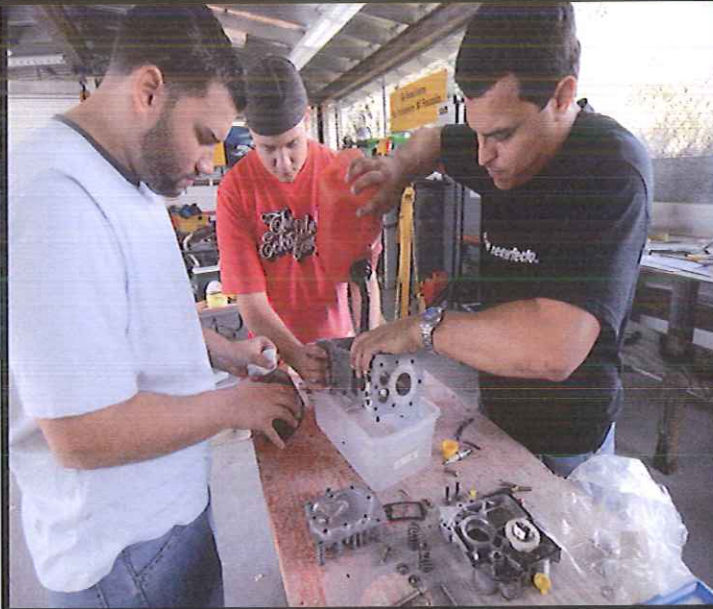
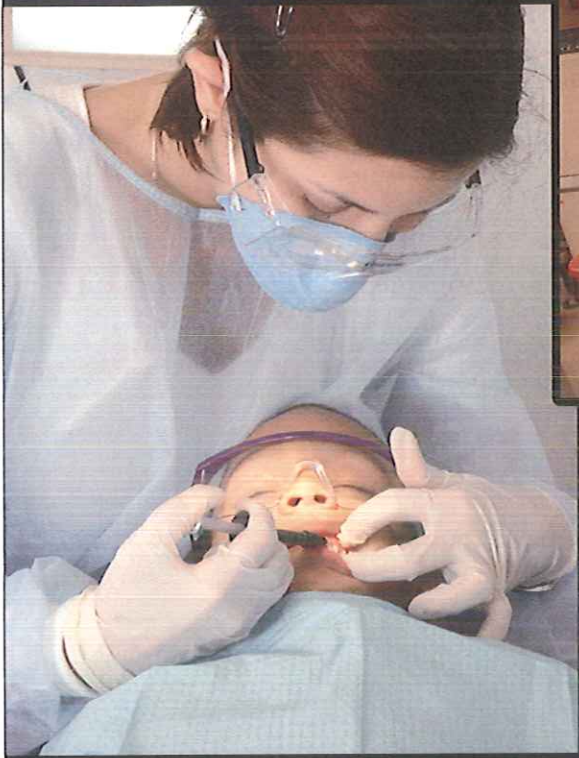
The *SoS UPR Plan* proposes another viewpoint, a paradigm shift and a sensible and rigorous agenda to ensure that Puerto Rico not only overcomes this economic depression, but rises from it with renewed strength. This Plan is built upon three guiding premises:

1. It is essential to empower the university's comprehensive and multifaceted social mission.
2. It is imperative for the university to model a complete transformation to ensure a responsible and efficient management of public funds.
3. It is urgent that the UPR's teaching, research and productive and beneficial services for our students, and especially, for Puerto Rico, become a priority in budget decisions.<sup>5</sup>

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<sup>5</sup> To offer recommendations on this section of the *SoS UPR Plan*, please visit:  
<https://goo.gl/forms/Z8dQtpphp4zs8Clm1>.





*From Government Right Sizing to Government Social Right Sizing:  
the UPR and its Essential Role for the Country*

I. FROM *GOVERNMENT RIGHT SIZING* TO *GOVERNMENT SOCIAL RIGHT SIZING*:  
THE UPR AND ITS ESSENTIAL ROLE FOR THE COUNTRY<sup>6</sup>

José I. Alameda-Lozada

*Government Right Sizing* is the primary conceptual framework employed by the Fiscal Oversight Board (*Junta de Supervisión Fiscal-JSF*). The concept is defined as:

The process of a corporation or restructuring reorganizing their business by cost-cutting, reduction of workforce, or reorganizing upper-level management. The goal is to get the company properly molded to achieve the maximum profit. The term rightsizing is often used by companies instead of downsizing because it sounds less drastic.<sup>7</sup>

The notion of Right Sizing, derived from the theory of neoliberal economics, is regularly used for analyses within the private sector, but not for the consideration of public sector functions. When the notion is imposed upon the public sector, the government (the public sector) is perceived as equivalent to the private sector. In this light, which is the one the JSF is shedding on Puerto Rico, the government appears too big in terms of public resources, so “subsidies” to public entities, including, in our case, the UPR, must be avoided.

However, international evidence nullifies the argument that higher education funded by the state is an expense or a “subsidy” of public resources. It also challenges the argument that funds directed to public higher education result in a significant loss in funds to other public interest activities, such as health and security, among others. Reports on global competitiveness published by the World Economic Forum in Davos (Switzerland) recognize basic and higher education among the twelve pillars needed to increase a country’s competitiveness.<sup>8</sup> Education increases the efficiency of each worker individually and fosters competitiveness for the population at large.

“Overall,” as argued by Harry Patrinos from the World Bank, “an additional year of schooling can increase income by 10% per year. This is typically higher than any other investment that an individual can make.” For example: Federal Treasury notes increase income by 1.4%; Treasury bonds by 5.3%; and savings accounts by 4.7%. Patrinos adds:

The value of human capital –the percentage of human capital in total wealth– is 62%.<sup>9</sup> That is, four times the value of produced capital and 15 times the value of natural capital. Globally, we –the government, the private sector, families and individuals– spend more than \$5,600 thousand million (\$ US) annually on education and training. Countries spend 5% of gross domestic product (GDP) in

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<sup>6</sup> This section includes contents, graphs and tables that appeared originally in Alameda-Lozada and González-Martínez’s study, cited in the Preamble (used with authors’ permission).

<sup>7</sup> <http://www.businessdictionary.com/definition/rightsizing.html>.

<sup>8</sup> See the *World Economic Forum*’s reports here: <https://www.weforum.org/>.

<sup>9</sup> See, for this fact: Hamilton Kirk and Gang Liu (2014). “Human Capital, Tangible Wealth, and the Residual Intangible Capital.” *Oxford Economic Policy Review* (2014) 30 (1): 70-91. <https://academic.oup.com/oxrep/article-abstract/30/1/70/559495/Human-capital-tangible-wealth-and-the-intangible>.

education, or 20% of its national budget. Education employs about 5% of the workforce.<sup>10</sup>

In addition, the Nobel Prize-winning economists TW Schultz and Gary Becker have promoted and documented the notion of public education as an investment. Schultz and Becker argue that investment in education explains growth, competitiveness and sustainable development, in addition to the external net benefits of the education-as-investment approach: human capital theory.<sup>11</sup> In a nutshell, this theory posits that investing in education provides benefits in terms of obtaining higher wages, creating a strong middle class, producing technological advances, and safeguarding, strengthening and diversifying arts and culture.

#### A. The Case of the UPR in the Context of Puerto Rico

Together with fellow economist Alfredo González-Martínez, and following the parameters of the theory of human capital, we have studied in depth the essential role that the UPR plays in the country from the perspective of its high social performance and its considerable direct, indirect and induced effects on the economy of Puerto Rico. In our analysis, we consider not only the UPR campus system but also the UPR Retirement System, since the activities inherent to it (such as payroll and workforce) as well as the benefits it offers to university staff who are covered, are sources of financing for their consumption expenditure on durable goods and for their housing investments. Thus, they create socioeconomic impacts attributable to the UPR's existence. Below we highlight just some of the elements of this study, which we recommend considering in its entirety.

First, we underline the comparative analysis between the added value to capital provided by education through high school and that added by the University in Puerto Rico. As shown in Figure 1, during the period from 1999 to 2016, a college graduate and graduate student will have a salary for life of \$1,152,802, the result of \$775.708 provided by a college career, versus \$377.094 for life that would be obtained with a high school education.<sup>12</sup>

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<sup>10</sup> Patrinos, Harry. "Why education is important for economic development." World Bank. 05/27/2016. <http://blogs.worldbank.org/voices/es/por-que-la-educacion-es-importante-para-el-desarrollo-economico>.

<sup>11</sup> See Gary S. Becker's classic, *Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education*. Chicago: University of Chicago P, 1993.

<sup>12</sup> See our study for a more long-term look at the strengthening of the middle class in Puerto Rico, since the mid-twentieth century to the present, and the preponderant role of the UPR in that development.

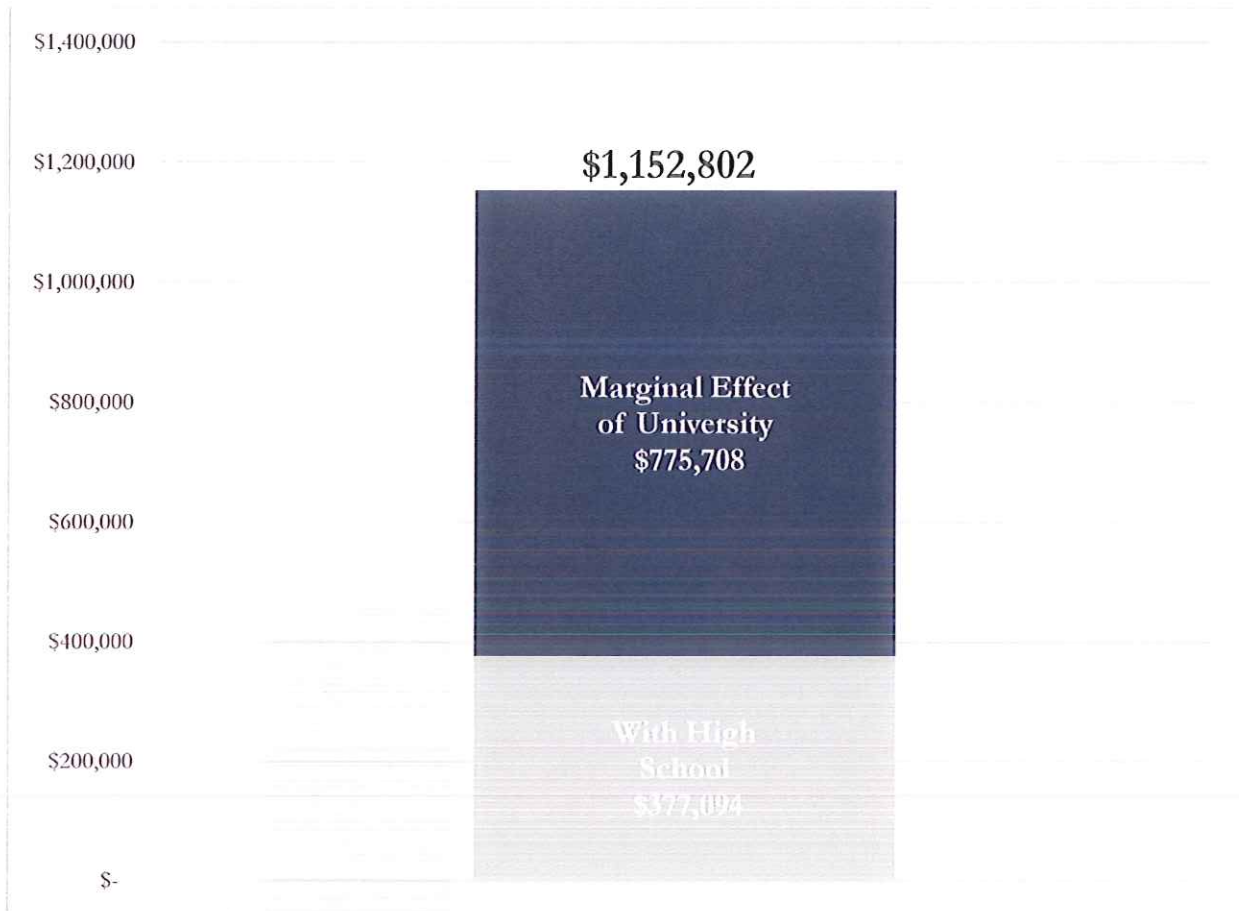


Figure 1: Average Salary for Life: With and Without College Education

In the context of social mobility facilitated by the UPR –which confirms the principles of the theory of human capital outlined above– our study estimates the human capital created by the UPR on graduates between 1999-2016 (see Table 1 and Figure 2 below). The present value of the earnings differential from the productive life of 162,951 graduates amounts to \$126,402.4 million, adjusted to the eventualities of unemployment and of death of graduates during their participation in the labor force. The value of the social investment in these resources was \$29.108 million during the period specified. As Figure 1 shows, we found that the additional average salary for graduates, for life, is \$775.708, which is \$25,857 extra, per year, to the income a person would have received without an education provided by the UPR. This data shows that the average rate of return on social investment in the UPR is equivalent to 434.0% for graduates in a generation, or to 5.2% as an annual average. Therefore, a cut of \$512 million in state investment in the UPR would generate a reduction of \$2.224 million in the local economy in the long run.

| The Total Amount of Human Capital: Graduates   |  | 1999-2016          |
|--|--|--------------------|
| Graduates 1999-2016  |  | 162.951            |
| Human Capital  |  |                    |
| Incremental a/   |  | \$ 126,402,428,324 |
| Additional Wages Created through UPR Education,<br>per person, per lifetime of work for 30 years |  | \$ 775.708         |
| Additional Wages Created by UPR Education, per year  |  | \$ 25,857          |
| Social Investment in UPR   |  | \$ 29,107,525,063  |
| Social Performance   |  | 434.26%            |

a / 3% discount rate; adjusted to probability of employment and life expectancy

Table 1: Net Value of UPR Graduates' Human Capital

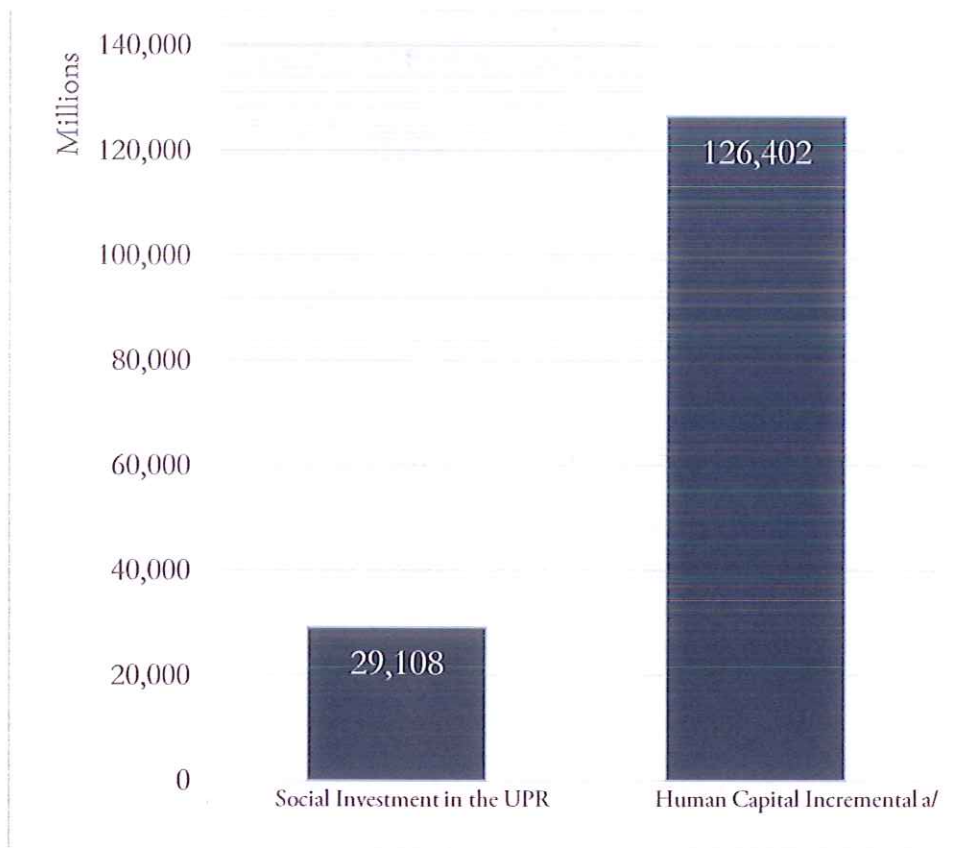


Figure 2: Performance Aggregate Value of UPR Education

It is imperative to note that the amount of accrued wages has significant direct, indirect and induced impacts on our economy. After a matrix analysis of the impact of disbursements from the UPR and its Retirement System (UPR conglomerate) on the amount of wages earned during the years 2010 to 2015, we found that wage compensation in Puerto Rico increased by \$7,824.9 million. This increase had a direct impact of \$3158.4 million, an indirect one of \$1792.2 million and an induced one of \$2869.3 (Table 2).

| (\$ Millions)     | Direct impact | Indirect Impact | Induced impact | Total     |
|-------------------|---------------|-----------------|----------------|-----------|
| UPR               | \$ 2957.0     | \$ 1652.0       | \$ 2670.0      | \$ 7279.0 |
| Retirement System | \$ 201.4      | \$ 145.2        | \$ 199.3       | \$ 545.9  |
| Total             | \$ 3158.4     | \$ 1797.2       | \$ 2869.3      | \$ 7824.9 |
| Wage Multiplier   |               |                 |                |           |
|                   | Type I        | Type II         |                |           |
| UPR               | 1.56          | 2.46            |                |           |
| Retirement System | 1.72          | 2.71            |                |           |
| Total             | 1.57          | 2.48            |                |           |

Table 2: Direct, Indirect and Induced Impact on Salary, 2010-2015

In addition, we estimated the rate of average annual yield of the social investment in the UPR. Since we estimated the average annual income at \$313,811,827, with the average discounted value of the expenses incurred by the UPR for the education of its graduates in \$1,575,333,333, we conclude that the average annual yield of the UPR is equivalent to 19.9%, as shown in Table 3. **This indicates that Puerto Rican society would benefit from twenty (20) cents on every dollar invested in the UPR from a graduating class for thirty (30) years, which is a very lucrative rate when compared with similar projects for private companies.**

|                    | Value (Million \$)  |
|--------------------|---|
| Col. 1             | Social Investment in the UPR<br>(Current Average Value 2011-2016)         |
|                    | \$ 1575.30  |
| Col. 2             | Net Value of Human Capital<br>(Annual Average of Graduates 2015 and 2016) |
|                    | \$ 313.80   |
| Col. 3 = (2) / (1) | Annual Performance Rate   |
|                    | 19.92%  |

Table 3: Alternate Rate of Average Annual Performance

Moreover, because of their expenses, both the UPR and its Retirement System have very significant direct and indirect effects on the Puerto Rican economy. Table 4 summarizes the impact of the final demand of the UPR conglomerate's expenditures, detailed in its two main components (UPR and Retirement System), between 2010 and 2015. The value of the gross production amounts to \$19,581.5 million, in 2013 prices. Of that total, the direct effect of the UPR conglomerate is valued at \$12,530.6 million, while the indirect effect amounts to \$7,050.9 million. Thus, from our analysis of the magnitude of the production multipliers of the UPR's disbursements, including its Retirement System, it follows that **every million dollars spent by the UPR, the Retirement System and its associated agents has the direct and indirect effect of inducing production activity in other sectors of the Puerto Rican economy ascending to \$1,563,000.**

| Effects            | Retirement         |                  | Total              |
|--------------------|--------------------|------------------|--------------------|
|                    | UPR                | System           |                    |
| Direct             | \$11,474.00        | \$1056.60        | \$12,530.60        |
| Indirect           | \$6,410.10         | \$640.80         | \$7,050.90         |
| <b>Total</b>       | <b>\$17,884.10</b> | <b>\$1697.40</b> | <b>\$19,581.50</b> |
| <b>Multipliers</b> | <b>1.56</b>        | <b>1.61</b>      | <b>1.56</b>        |

Table 4: Effects of UPR's Final Demand on Gross Production (\$ million, 2013 prices)

The direct and indirect impact on gross production induced by the UPR conglomerate on the entire economy is also disseminated throughout the ninety-three (93) industry groups that make up Puerto Rico's economy. Table 5 shows the pattern of sectorial impact of the gross production on ten (10) of the most favored industrial sectors, according to the inter-industrial structure in Puerto Rico prevailing in 2013. A simple calculation would indicate the multiplier effect of these expenses on each of the ten most sensitive sectors. For example, the production multiplier on trade would be 1.227, while the multiplier effect on the government would be 1.0. Compare each of these with the gross production multiplier for the whole economy, which is equivalent to 1.563.

| NAICS            | Industry                 | Gross                  |               |
|------------------|--------------------------|------------------------|---------------|
|                  |                          | Production             | Percentage    |
| 50000            | Commerce                 | \$2,858,337.00         | 14.6%         |
| 90100            | Government               | \$2,347,010.00         | 12.0%         |
| 65100            | Real Estate              | \$1,914,292.00         | 9.8%          |
| 28300            | Pharmaceutical           | \$948,088.00           | 4.9%          |
| 61100            | Commercial Banks         | \$851,305.00           | 4.4%          |
| 37000            | Transportation Equipment | \$687,742.00           | 3.5%          |
| 15100            | New Construction         | \$561,569.00           | 2.9%          |
| 90200            | Municipal Government     | \$535,287.00           | 2.7%          |
| 90300            | Federal Government       | \$432,196.00           | 2.2%          |
| 48100            | Communications           | \$426,230.00           | 2.2%          |
| <b>Sub-total</b> |                          | <b>\$11,562,056.00</b> | <b>59.2%</b>  |
| <b>Total</b>     | <b>1.56</b>              | <b>\$19,536,650.00</b> | <b>100.0%</b> |

Table 5: Direct and Indirect Impact on Gross Production (thousands \$)

It is important to factor in as well the fact that direct payments from the UPR System have an expansive impact on aggregate and sectorial employment, which manifests itself in direct, indirect and induced forms through repercussions in consumption. These effects are formally identical to the ones explained concerning salaries. Table 6 shows a summary of the values of the direct, indirect and induced impacts on employment due to the activity of the UPR and its Retirement System. From the direct impact equivalent to 25,881 jobs derived from the UPR conglomerate's expenses, 14,785 jobs have been generated indirectly and 27,718 in an induced manner, for a total impact on employment of 68,384 during the period 2010-2015.

The employment multiplier type I (1.6) implies that, for every 100 direct jobs that are created through the country's investment in the university, 60 additional positions are created in the

economy in other sectors. If we were to use the employment multiplier type II, which includes the induced effect through consumption generated in the process (2.7), the implication would be that for every 100 additional direct positions created by the UPR conglomerate’s expenditures, another 170 additional jobs would be generated in other sectors, including those that are marginally added to the UPR during the same lapse of time (Table 6).

| Annual Average           | Direct Impact | Indirect Impact | Induced Impact | Total         |
|--------------------------|---------------|-----------------|----------------|---------------|
| UPR                      | 23,877        | 13,339          | 25,936         | 63,152        |
| Retirement System        | 2,004         | 1,446           | 1,782          | 5,232         |
| <b>Total</b>             | <b>25,881</b> | <b>14,785</b>   | <b>27,718</b>  | <b>68,384</b> |
| <b>UPR</b>               |               |                 |                |               |
| Multiplier               |               |                 |                |               |
| Type I                   |               | 1.56            |                |               |
| Type II                  |               |                 | 2.64           |               |
| <b>Retirement System</b> |               |                 |                |               |
| Multiplier               |               |                 |                |               |
| Type I                   |               | 1.72            |                |               |
| Type II                  |               |                 | 2.61           |               |
| <b>Total</b>             |               |                 |                |               |
| Multiplier               |               |                 |                |               |
| Type I                   |               | 1.57            |                |               |
| Type II                  |               |                 | 2.64           |               |

Table 6: Direct, Indirect and Induced Impacts on Employment

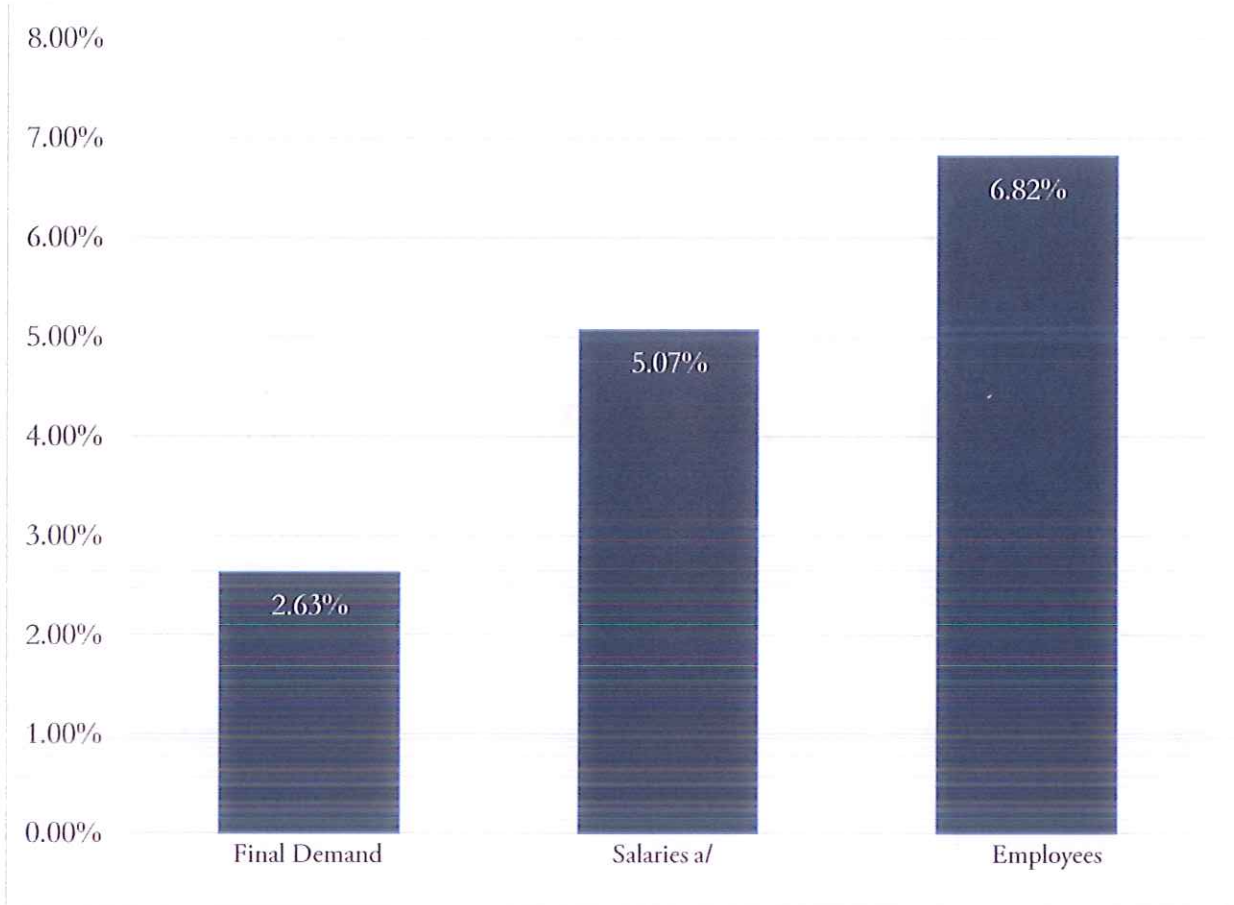
Table 7 and Figure 3, below, synthesize the relative impact of the activity generated by the UPR conglomerate in terms of its production, salaries, and employment, in relation to the corresponding numbers in the Puerto Rican economy.

|              | UPR        | Puerto Rico  | Ratio |
|--------------|------------|--------------|-------|
| Final Demand | \$3,264.00 | \$124,200.00 | 2.63% |
| Salaries a/  | \$1,304.00 | \$25,710.00  | 5.07% |
| Employees    | 68,384     | 1,003,000    | 6.82% |

a/ millions, 2013 prices

Table 7: Relative Impact of the Activity Generated by the UPR Conglomerate





*Figure 3: Relative Impact of the Aggregate Activity of the UPR Conglomerate*

Finally, it is imperative to consider as well, taxes payable from UPR salaries and from the Retirement System payroll (see Table 8). During the period from 2010 to 2015, the UPR conglomerate directly contributed \$535 million in income taxes from employees of both entities. The injection of salaries paid by the UPR and its Retirement System incite direct, indirect and induced effects equivalent to \$429.0 million in total, during the period under analysis. In this same period, the Puerto Rico Sales and Use Tax (*Impuesto a las Ventas y Uso-IVU*), for its part, caused direct, indirect and induced effects totaling \$437.6 million. The grand total of taxes generated from the UPR conglomerate’s activities totals \$1,607 million between 2010 and 2015, at 2013 prices. An additional \$2.9 million in taxes paid by the same conglomerate as a contributory unit should be added, for a total of \$1,610 million from 2010 to 2015.

|                         | Salaries | IVU   | Total   |
|-------------------------|----------|-------|---------|
| UPR + Retirement System | 535.0    | 205.3 | 740.3   |
| <b>Effects</b>          |          |       |         |
| Direct                  | 99.3     | 169.7 | 269.0   |
| Indirect                | 126.0    | 103.2 | 229.2   |
| Induced                 | 203.7    | 164.7 | 368.4   |
| Total                   | 964.1    | 642.9 | 1,607.0 |

Table 8: Taxes Paid (millions \$, at 2013 prices)

Within the factual panorama described above –and recognizing that the UPR diligently fulfills its primary educational and professional training mission and, also, offers a multiplicity of services to the country and its economy (detailed in the following section)–, it is evident that the *Right Sizing* concept is not applicable to the UPR. It is a fitting concept only for private businesses whose main goal is to generate profit for their owners. The UPR cannot, and should not, be subjected to the equation of private net benefits, but rather to *social net benefits*. Therefore, *Government Social Right Sizing* is the appropriate conceptual framework to address a social system such as the UPR. The basis for this paradigm shift are the following:

1. The UPR should be considered as a **State project that yields superior and permanent benefits to the expenditures resulting from taxes paid by Puerto Rico’s taxpayers**. The UPR cannot be treated as a private business, even if considered a nonprofit corporation.
2. **The best way to rise from the secular stagnation in which Puerto Rico finds itself is to dedicate more financial attention to higher education, especially to public education**. As indicated above, studies from the World Bank affirm that, in effect, education is a life preserver for any country or region in social and economic crisis.
3. **Resources from Puerto Rico’s General Fund should be considered an *investment* (not an expense) because of their positive multiplier effects in the formation of human and cultural capital, health care and the protection of natural resources, among others**.
4. **Allocating State resources to the UPR formula channels much-needed investments to the formation of human capital**, in contrast to what would result if it were left to the ebbs and flows of the taxpayers’ will.
5. **Allocated and permanent resources from the State to the University promote lower tuition costs, since society recognizes the created value in human capital and professionals trained**, as well as the extremely unequal distribution of income and wealth in the capitalist economic system.
6. **State investment in higher education, that is, in the UPR, promotes a better distribution of income and wealth in the country**, which results in a better quality of life for the graduates who, in turn, contribute to the general economy.

It is, therefore, evident that public funds –around \$1,000 million from the UPR– not only benefit the sixty (60) thousand students the institution currently serves. The UPR’s services to the Puerto Rican people, which are further discussed in the following sections, extend far beyond this

figure and make the budgetary cost for each beneficiary much lower than \$21,000. Also, the UPR systemic structure, formed by principal and regional campuses, generates a continuous platform of educational evolution. This system moves the student through complementary routes (second bachelor's degrees, curricular sequences or minors, participation in research projects, creative projects, internships, and others) to her/his regular major of choice. Such a system allows for the exploration and intensification of the students' intellectual and creative capacities, minimizing frustration and the waste of human capital. This is confirmed by the fact that the UPR has the highest retention and graduation rates of all institutions of higher education in Puerto Rico and enrolls and graduates the largest number of students in the country. Undoubtedly, the UPR's multiple services are not only indispensable for Puerto Rican society at large but also enable the institution to fulfill its imperative mission with regards to a holistic education of excellent quality.

#### B. The UPR's Social Role for the Benefit of Puerto Rico

In addition to the formation of human capital –which is a multiplier for our economy and has, as a result of its UPR experience, more productive, sensible and ethical capacities–, the multiple dependencies and sectors of the UPR, as well as its alumni, offer many services to Puerto Rico. These include, but are not limited to, the following:

1. Health care in UPR's hospital facilities, which constitute a *safety net* in Puerto Rico and have a complementary function in the teaching of medical and paramedic personnel.

Law 112-1997 created University Medical Services, Inc. (*Servicios Médicos Universitarios, Inc.*), a nonprofit organization affiliated to the Medical Sciences Campus, to operate the UPR hospital Dr. Federico J. Trillas in Carolina. The cost of Hospital Dr. Trillas was \$36 million. The credit rating agency [Moody's \(March 12, 2015\)](#) recognizes this corporation as a social *safety net*, since it provides care for indigent persons who do not have medical insurance while maintaining its operations with an ample social criterion. For example, Dr. Trillas attended 54,087 patient days in 2016.

Likewise, the UPR medical hospital facilities, as centers of medical and paramedical education, involve teaching, training and research in the Medical Sciences Campus (RCM), Hospital Dr. Trillas, the Comprehensive Cancer Center, the Center for Diabetes of Puerto Rico, the Cardiovascular Center of Puerto Rico and the Caribbean, as well as other facilities related to these endeavors. These centers of economic activity provide paramedical services as well. Thus, patients, as well as their companions, acquire consumer goods while visiting the facilities.

Combining various data sources, we have estimated that the facilities of the Río Piedras Medical Center received 210,626 patients during the 2014-2015 fiscal year, who needed a wide range of health services in external clinics: trauma incidents, hospitalizations, ambulatory treatments and emergency room services. From more specific sources, and with dimensions proportional to Puerto Rico, we have figured that the University Hospital for Adults, the Pediatric Hospital, the Cardiovascular Center of Puerto Rico and the Caribbean, and Hospital Dr. Trillas totaled 178,205 patient days hospitalized in 2015. This number represents 7.4% of the total hospitalizations in Puerto Rico for that year.

The *UPR Audited Financial Statements* for years 2010 to 2015, related to UPR revenues, accounts receivable and expenses, show that the contribution to Public Health through the School of

Medicine, the RCM, and affiliated hospitals, among others, all originated services to patients in the facilities in question (see Table 9). The revenues derived from these services to patients during the same period exceed \$400 million, which is equivalent to 22.1% of the total operational revenue.<sup>13</sup>

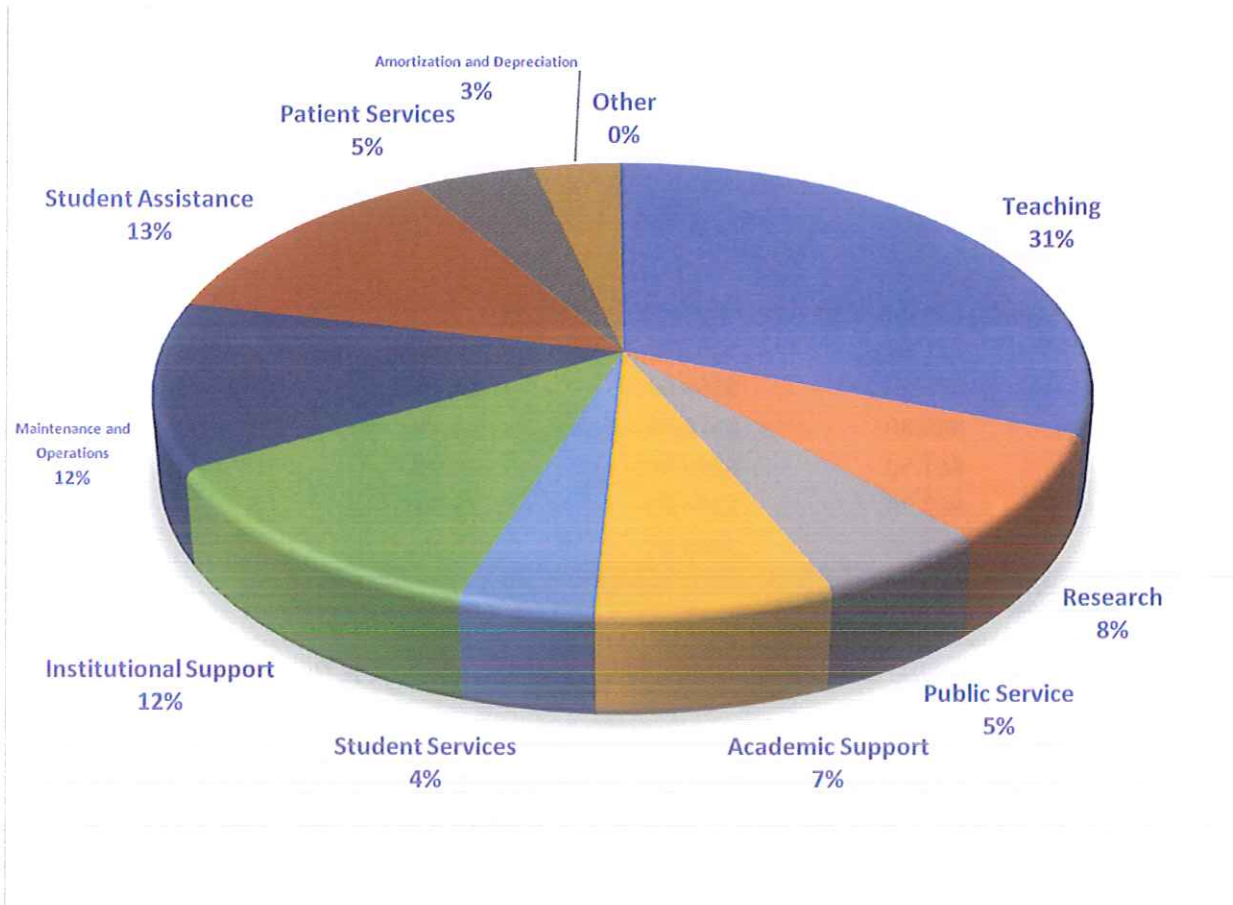
| Fiscal Year    | Revenues for Services to Patients | Operational Revenues | Percent of Revenues due to Services Provided with respect to Total Operational Revenues |
|----------------|-----------------------------------|----------------------|---|
| 2010           | \$51.40                           | \$265.00             | 19.4%   |
| 2011           | \$71.50                           | \$355.00             | 20.1%   |
| 2012           | \$86.80                           | \$371.00             | 23.4%   |
| 2013           | \$65.50                           | \$299.00             | 21.9%   |
| 2014           | \$67.70                           | \$264.00             | 25.6%   |
| 2015           | \$57.80                           | \$260.00             | 22.2%   |
| <b>2010-15</b> | <b>\$400.70</b>                   | <b>\$1,814.00</b>    | <b>22.1%</b>  |

Source: *UPR Audited Statements*. Several issues from 2010 to 2015.

**Table 9: Revenues for Services to Patients, Total Operational Revenues, UPR (in millions \$)**

The UPR Audited Financial Statement for 2015 represented in Figure 4 breaks down the composition of total expenses (24), and illustrates that Patient Services is equivalent to 5% (\$60.2 million). It is worth noting that this item is greater than Student Services (4%) and Amortization and Depreciation (3%), while representing the same average as Public Service (5%).

<sup>13</sup> See *UPR Audited Financial Statements* (2002 to 2006).



Source: UPR Audited Financial Statement, 2015.  
Figure 4: Expenses per Function (in thousands \$)

The operations recognized as Patient Services should be added to accounts receivable for services rendered. Therefore, revenues received plus accounts receivable are a substantial evidence of the UPR’s contribution in terms of health care for local residents, as shown in Table 10. The value of services to patients thus reaches an annual average close to \$100.0 million per year, for years 2013 to 2015.

| Fiscal Year | Patient Services Revenues | Accounts Receivable | Total Value of Services |
|-------------|---------------------------|---------------------|-------------------------|
| 2013        | \$65.50                   | \$27.50             | \$93.00                 |
| 2014        | \$67.70                   | \$32.90             | \$100.60                |
| 2015        | \$57.80                   | \$38.30             | \$96.10                 |
| 2013-15     | \$191.00                  | \$98.70             | \$289.70                |

Table 10: Revenues and Accounts Receivable in Patient Services, UPR (in millions \$)

Furthermore, the significant role of the UPR in health care is not only registered through its revenues, but also through its operational expenses (see Table 11). Between 2012 and 2015, the

expenditure for patient services amounted to \$253.0 million, which corresponded to 4.8% of the total expenses of the UPR. It should be acknowledged that this figure could be underestimated since salary payments to students and residents are lower than the salaries and marginal benefits that professionals and technicians receive in the labor market.

| Fiscal Year | Expenses for Patient Services | Total Expenses | % of Expenses for Patient Services of the Total Expenses |
|-------------|-------------------------------|----------------|--|
| 2012        | \$68.00                       | \$1,321.00     | 5.1%   |
| 2013        | \$62.60                       | \$1,330.60     | 4.7%   |
| 2014        | \$62.20                       | \$1,330.60     | 4.7%   |
| 2015        | \$60.20                       | \$1,266.20     | 4.8%   |
| 2012-15     | \$253.00                      | \$5,248.40     | 4.8%   |

Source: UPR Audited Financial Statements.

Table 11: Expenses in Patient Services, UPR (in millions \$)

2. Act as custodian and promoter of the socio-cultural, artistic, historic, scientific and natural patrimony of Puerto Rico, the Caribbean and the world, in response to the UPR's social and academic commitment to research and the generation, dissemination and preservation of human knowledge.

The patrimony of the UPR includes a multiplicity of archives, collections, and libraries that must be safeguarded. The forty-two (42) libraries of the institution, accessible to the Puerto Rican community, constitute the only professional network of public libraries in the country. Also, the UPR is the agent and custodian of artwork, buildings and monuments, as well as natural reserves and botanical gardens.

The following, widely recognized initiatives, also attest to the cultural worth of the UPR: *La Torre* review, *Diálogo* newspaper, Information Systems (including the UPR radio stations), the University of Puerto Rico Press, the Botanical Garden in Río Piedras and the Juan A. Rivero Zoological Park in Mayagüez, among others. Likewise, the UPR manages four museums, namely: Anthropology and History, UPR-RP; Dr. Pío López Martínez, UPR-Cayey; MuSA, UPR-Mayagüez; and Casa Roig, UPR-Humacao. The institution also has one of the most important musical and performance theatres in the country, namely the University of Puerto Rico Theatre. In addition, the UPR has cultivated dozens of well renowned and prized artistic collectives such as: *Coralia*, *Chorium*, *Jóvenes del 98* and the Travelling Theater (*Teatro Rodante*) of the University of Puerto Rico.

3. Promote, as an integral part of its teaching, research and creative mission, entrepreneurial leadership, cooperativism, and the creation of businesses in the context of a sustainable, viable and equitable economic development for the country.

The official relationship between the Business Administration Faculty of the Río Piedras campus and the international organization *Global Entrepreneurship Monitor* (GEM) is a prominent example of the UPR's service to Puerto Rico in this respect. Through annual reports, GEM assesses

entrepreneurial skills and attitudes prevailing internationally. The application of its methodology to initiatives in Puerto Rico has allowed the assessment of its results, which, in turn, promotes efficient entrepreneurship. The agreement between the Business Administration Faculty in Río Piedras and GEM also gave way to the creation of the Aeronautic and Aerospace Institute of Puerto Rico in collaboration with the Department of Education and the Puerto Rico Industrial Development Company –Economic Development Department–, where the University of Puerto Rico in Aguadilla will develop an Associate Degree in Aeronautics and Aerospace.

Other campuses are also active in the entrepreneurial development of students by means of formal courses or extracurricular activities. Prominent examples include: the Center for Entrepreneurial Development at UPR-Humacao, which acts distinctively as an incubator for businesses, serving the university community and other interested sectors in the region; the Center for Management and Operational Excellence (*Centro de Excelencia Gerencial y Operacional-CEGO*) of the Business Administration Faculty at UPR-Mayagüez, whose Entrepreneurial Development branch has established an alliance with the Center for Business and Economic Development to assist government dependencies, existing businesses and social organizations; and campus cooperative initiatives, such as the *Cooperativa Mixta IUPICoop Café* (UPR-Río Piedras) and the *Primera Cooperativa de Ahorro y Crédito de Puerto Rico* (UPR-Mayagüez).

**4. Maintain a leadership role in research, scientific innovation and socio-humanistic research and creative activity in Puerto Rico and the Caribbean.**

The UPR leadership in these areas is confirmed by the *Informe Iberoamérica 2015*. In this report, the UPR occupies position no. 26 in Latin America and the Caribbean, and no. 50 in Ibero America, among over 1,600 universities in the area. From its laboratories, workshops and research-study centers, in areas such as medicine, engineering, agriculture, socio-humanistic sciences and marine biology, the university personnel dedicated to research and creation explore new hypotheses, produce creative work and validate ancient knowledge to inspire, disseminate and preserve human knowledge. In applicable fields, created knowledge is turned into innovative technologies that propel industrial development and promote the creation of new businesses.

The results of these efforts, which are based on student-faculty collaborations, can be measured by the quantity and quality of articles published and of presentations in scientific, professional and humanistic conferences (see Figure 5).

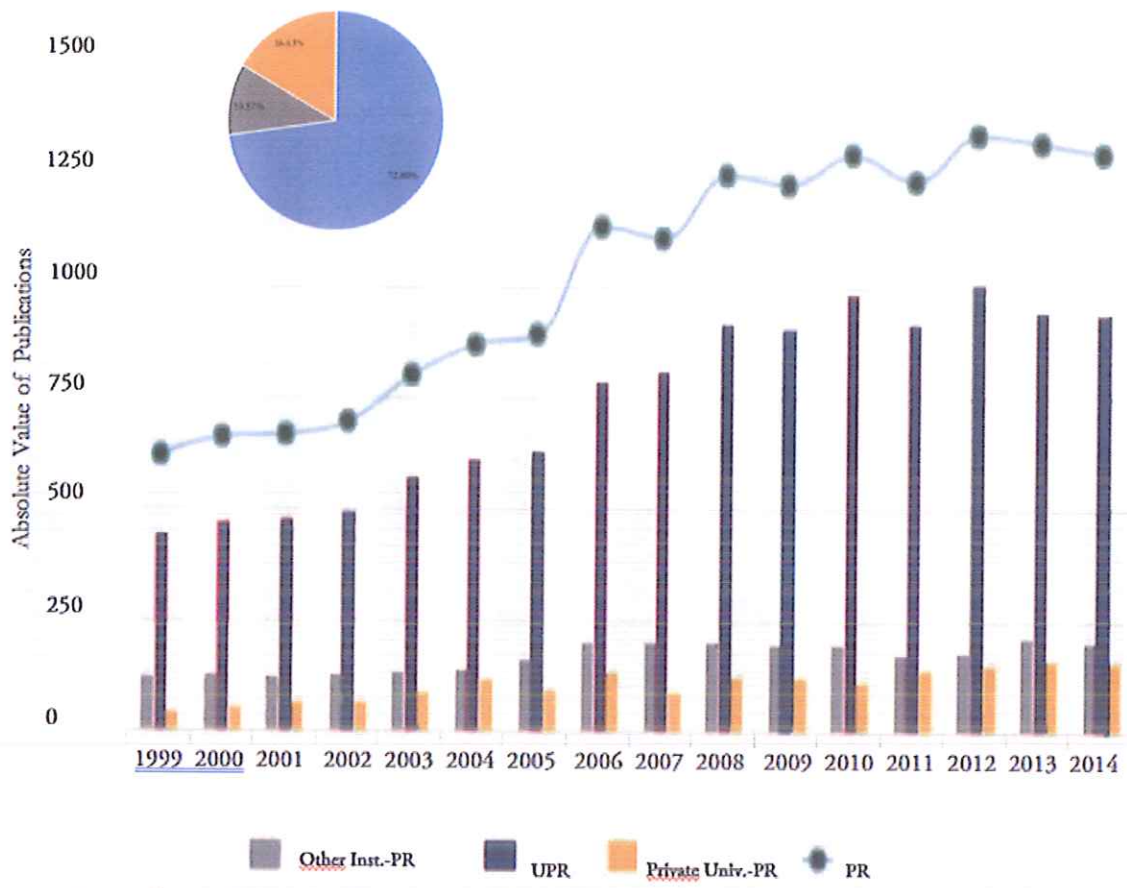
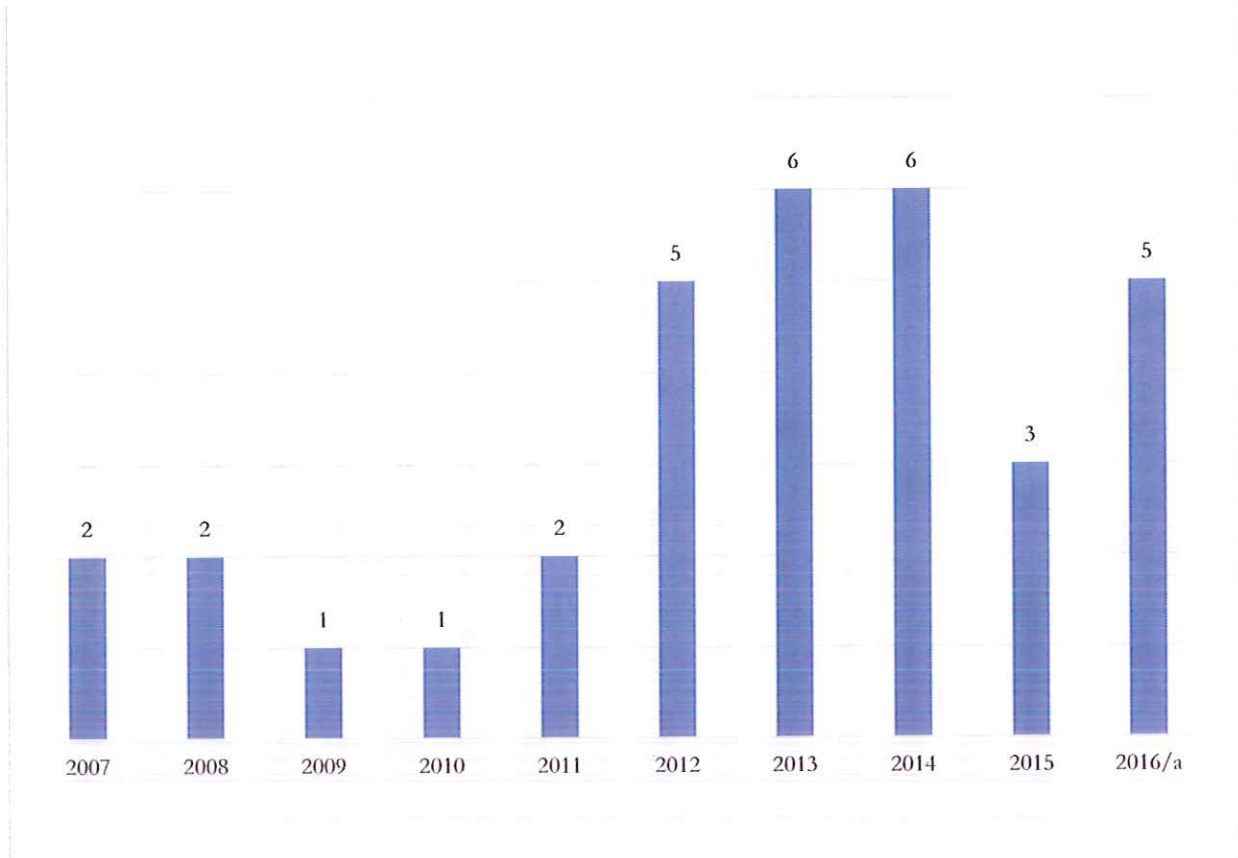


Figure 5: Scientific Production in Puerto Rico (1999-2014)

It should be noted that evaluations from the *SCIMAGO Institutions Rankings* demonstrate the excellent quantity and quality of the scientific production stemming from the UPR. Between 2009 and 2016, the UPR ascended 26% in the general category of 1,600 research institutions, and was ranked no. 502 in the universal ranking, no. 35 in our hemisphere and no. 15 in Latin America and the Caribbean.

The results of institutional endeavors in this area may also be confirmed through registered patents, innovations and technological transfers to businesses. For example, between 2010 and 2015, the *US Patent and Trademark Office-USPTO* granted 25 patents to researchers of the UPR (see Figure 6). At present, the total number of patents granted to the UPR amount to 62. In the 2016 certification process, the UPR had 108 patent petitions and 124 invention discoveries submitted.





Sources: University of Puerto Rico-Mayagüez, General Library, and U.S. Patent and Trademark Office (USPTO).

Figure 6: Patents Granted to the UPR (2007-2016)

5. Secure and strengthen the UPR's accountability and relevance to all social sectors of the country.

The UPR disseminates relevant information, conducts research with the objective of producing sensible public policy, and offers practical training to multiple social sectors, such as: farmers and agricultural workers, domestic workers, fishermen and women, and high school students in public and private schools, among others. In each UPR campus, there are Continuing and Professional Education Programs that offer a variety of short courses of practical value to consumers, businesses and citizen organizations, particularly adequate to regional community needs and circumstances. Noteworthy examples in this area are the Agriculture Extension Service (*Servicio de Extensión Agrícola-SEA*), which serves 175,290 people in the country; the Sea Grant Program (PSG), which benefits 22,000 persons per year; the Institute for Community Development, which works with students and communities following a participatory action-research methodology, to design, implement and sustain development projects in impoverished communities throughout the country; and the *Siempre Vivas* Program, which constitutes one of the very few assistance and counseling programs in the west coast of the main island for women who confront gender violence.

Likewise, the Puerto Rico Seismic Network (*Red Sísmica de Puerto Rico-RSPR*) stands out as another university dependency of great national and regional relevance. The RSPR, which has 25 seismic stations classified in short period stations and wide band stations, depending on the type of

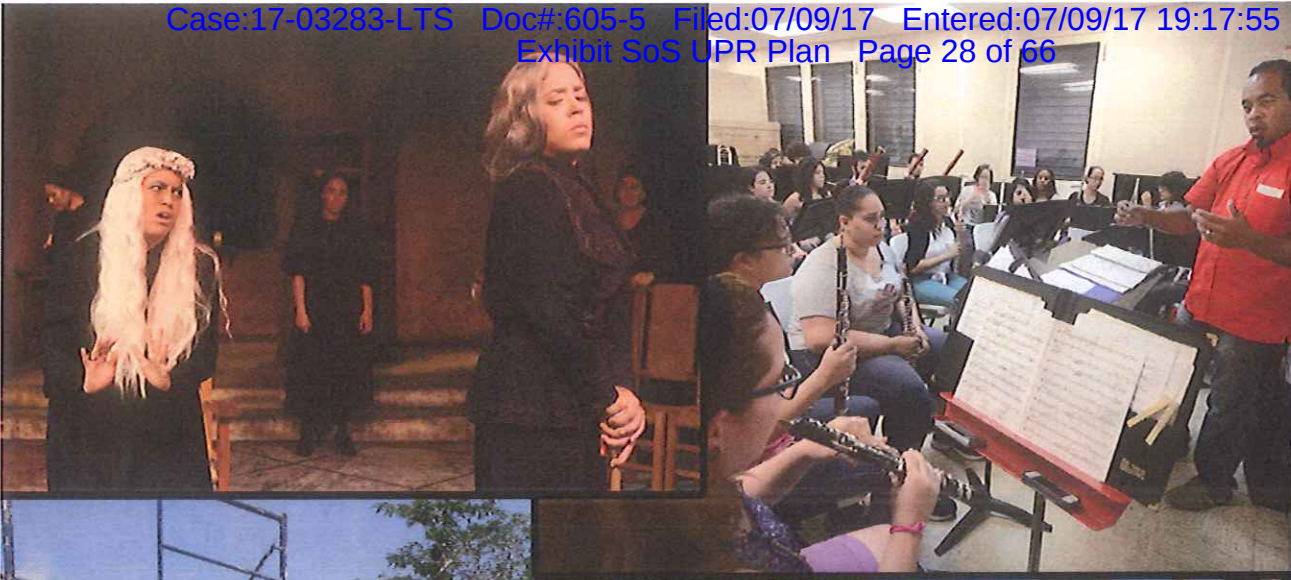
sensor or seismometer used to register earthquakes, has part of its equipment –including repeating stations and a data gathering center– installed in Puerto Rico. Services rendered by the RSPR are offered, especially, to coastal populations in Puerto Rico, which are estimated at 2.8 million people. The network also provides services to communities, such as the Caño Martín Peña.

Finally, the Center for University Access (*Centro Universitario para el Acceso-CUA*), which originated in the Mayagüez Campus over a decade ago, constitutes a prominent example in the area of essential services offered by the UPR. This community-university project is dedicated to research and outreach initiatives that seek to facilitate access to and means to complete higher education degrees to disadvantaged youth, primarily those who live in public housing and other low-income dwellings. Three years ago, the CUA was developed systemically to include under its perimeter of action another five UPR campuses (Bayamón, Carolina, Cayey, Humacao and Río Piedras). At present, after only two years of sustained outreach work, the systemic CUA exceeds the rate of applications and admissions to the UPR from the entire Puerto Rican public education system.

The previous examination of the UPR's prolific and positive economic impact, as well as its fundamental social contributions, demonstrates the institution's essential role for Puerto Rico and the urgency of tackling the present fiscal crisis from the *Government Social Right Sizing* principle, upon which the *SoS UPR Plan* is built. With a strengthened UPR resulting from the application of the *Government Social Right Sizing* premise, we will be able to guarantee greater benefits and less suffering for all social sectors of the country, especially the underprivileged ones. There is no question that the UPR is, in and of itself, a fundamental *safety net* for Puerto Rico, whereby its diverse and rich endeavors constitute an essential service towards our sustainable recovery. Without the UPR's multiple social functions, the country would have little or extremely limited possibilities to come out of the current crisis.<sup>14</sup>

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<sup>14</sup> To offer recommendations on this section of the *SoS UPR Plan*, please visit:  
<https://goo.gl/forms/U34VYCh1WKQjcbDh1>.



Sustainable Fiscal Scenarios for the UPR

## II. SUSTAINABLE FISCAL SCENARIOS FOR THE UPR

Within the conceptual framework of *Government Social Right Sizing*, the *SoS UPR Plan* is guided by seven principles.

1. The University of Puerto Rico is the main catalyst for sustainable economic development for Puerto Rico and, therefore, constitutes an **essential service** to the country and its constituents. The UPR educates professionals and technicians and thus contributes to optimizing the sustainable development that Puerto Rico needs at this juncture and to strengthening the public health system with the services it offers to the medically indigent population. Thus, as established in the previous section, the UPR ensures an economic multiplier effect in various sectors of economic activity, at a rate of \$1.56 per dollar invested in it. The UPR has been contributing substantially to alleviate the economic crisis of Puerto Rico through the following measures:
  - a. Replacement by the Puerto Rican Government of Act. No. 2 of 1966 (as amended), which allocated 9.6% of Puerto Rico's Consolidated Budget to the UPR, with Act. No. 66 of 2014, which freezes the government contribution at \$833.9 million, forcing the UPR to operate under a significantly lower budget, amounting to \$300 million less in government investment (2014-2017).
  - b. The UPR raised the income levels of its General Fund by increasing the number of students admitted and through the recovery of indirect costs and other miscellaneous income, without substantially increasing tuition costs for students.
  - c. The UPR maintained compliance with the savings measures established in 2010 through certifications and circular letters. These measures include the elimination of sabbaticals and annual supplementary payments for books and educational materials, the reduction in bonuses for managerial positions and courses offered by contract, and the freezing of tenure track positions and merit promotions.<sup>15</sup>
2. In fact, the UPR is a **creditor-in-solidarity** with the Commonwealth of Puerto Rico for services rendered in various dependencies, especially in terms of health care for medically indigent populations. During the period of 2004-2015, Puerto Rico's ruinous financial situation forced the UPR to stop receiving income from services rendered that reached \$3,200 million. Fifty two (52) percent of this figure –about \$1,673 million– was declared irrecoverable thereafter. The figure is equivalent to two years' worth of government contributions to the UPR budget. In 2015, the largest debtors, with an amount of \$303 million in accounts receivable, were medical plans, the central government and municipal governments. Of those \$303 million, only \$92 million were recovered.<sup>16</sup>
3. The UPR works towards the administrative and academic transformations necessary to enhance its impact, **intensify its efficiency**, and make all possible savings.

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<sup>15</sup> *General Budget UPR*, 2016-2017.

<sup>16</sup> See Argeo Quiñones' column cited in the Preamble.

4. The UPR is also identifying and operationalizing **new sources of income** in areas of opportunity, especially through professional services and innovation in public and private dependencies.
5. Conscious of the fiscal adjustments made in the Commonwealth's certified budget, the UPR proposes that the goal of **reducing governmental subsidies be distributed according to the economic impact** of the parties involved, as detailed below.
6. Considering the formula for Puerto Rico's investment in the UPR as amended by Law 66 of 2014 (\$833.9 million), the Commonwealth's General Fund income projections, and the collection premises destined for the General Fund in the Commonwealth's Fiscal Plan, as certified by the Fiscal Oversight Board, **the public university would already suffer an automatic reduction in government investment** of \$320 million by 2018, and up to \$212 million by 2026.<sup>17</sup>
7. The UPR is committed to strengthening its distinctive academic offer –both for the benefit of Puerto Ricans from all socio-economic sectors and for international students (undergraduates and graduates). Thus, it is imperative **to strengthen its faculty resources** within just labor conditions. Renewing the faculty resource will allow the UPR to thoroughly revalidate its social role and to strengthen, in turn, the UPR's Retirement Trust Fund.

These guiding principles inform the following formula for a **Sustainable Fiscal Plan for the UPR**:



Therefore, the *SoS UPR Plan* proposes three fiscal scenarios, described below.

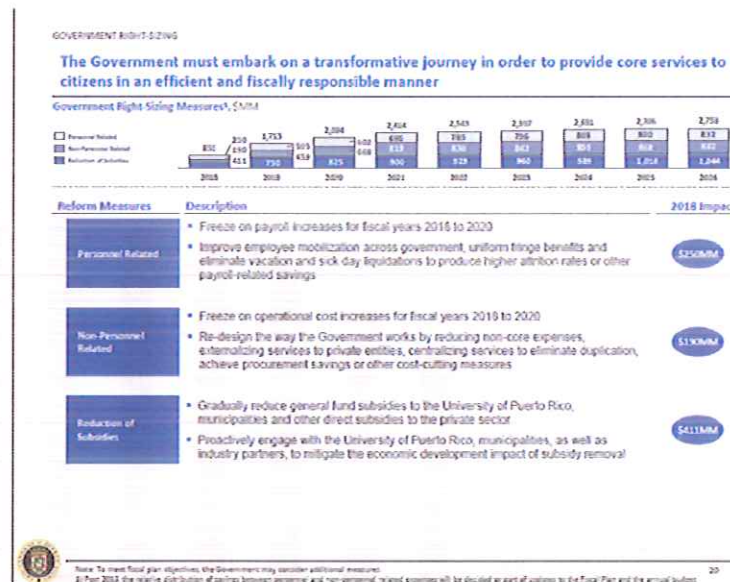
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<sup>17</sup> Without the freezing of the governmental contribution at \$833.9 million, the UPR would have received an estimated \$1,154 in 2018 and \$1,046 in 2026, in accordance with the revenue estimates contained in the Commonwealth's Fiscal Plan, as certified by the Fiscal Oversight Board (JSF).

A. Scenario I: Re-distribution of the Greater Weight of Government Investment Reduction to Credits and Private Tax Incentives

José Caraballo Cueto, UPR-Cayey and Marcel Castro Sitiriche, UPR-Mayagüez

The greatest weight of the credits and tax incentives reduction should be borne by the private sector, mainly by reducing its ineffective or useless tax credits and incentives (see [Ramón Cao et al.](#) and [Espacios Abiertos](#)).<sup>18</sup> Although the [Commonwealth’s Fiscal Plan](#), as certified by the Fiscal Oversight Board, indicates that the government should reduce its “subsidies” to the UPR, the country’s municipalities and the private sector (20), within the public discussion on these matters and even within the highest UPR leadership, most of the reduction is assumed for the UPR (\$450 million, of a total “subsidy” reduction of \$825 million by 2020). No specification is made about the amount of reduction the private sector will endure.



In contrast to this logic, and according to research by the economist Ramón Cao et al., there are hundreds of millions of dollars in useless tax incentives that benefit the private sector and do not generate returns for the Puerto Rican people. In contrast, Alameda-Lozada and González-Martínez’s research (cited above) solidly demonstrates that investment in the UPR generates a high return of economic performance in the country.<sup>19</sup> Even PROMESA<sup>20</sup> requires an inventory of private sector subsidies (70), which has not been made to date.<sup>21</sup> Therefore, it is absolutely necessary that the government of Puerto Rico makes the largest reduction in subsidies to the private sector, and that,

<sup>18</sup> Once an inventory of these private sector credits and incentives is completed, and an audit is made of their performance for Puerto Rico’s common good, one could validate the estimate of useless credits, which hover around \$500 million, per year, which is exactly the maximum amount that threatens the country’s investment in the UPR.

<sup>19</sup> <https://www.scribd.com/document/349462055/UPR-Inversio-n-2017-Sonia-Bartolomei>.

<sup>20</sup> Law 114 of the United States Congress (2015-2016). PROMESA stands for Puerto Rico Oversight, Management, and Economic Stability Act.

<sup>21</sup> These incentives to the private sector must be audited as part of the process of debt audit, which is amply supported by Puerto Rican society.

with this public policy decision, retracts from implementing the disproportionate cuts it intends to make to the UPR. Private enterprise cannot continue to be ineffectively subsidized while the Puerto Rican people’s public university is unfairly submitted to ruthless budget cuts.

Figure 7 shows the total reduction in subsidies required by the Commonwealth’s Fiscal Plan, as certified by the Fiscal Oversight Board (20). It details the reduction of the government’s investment to the UPR (in blue) using a portion of the 9.6% formula of the General Fund income, as it has been applied with different variations from 2006 to 2014. The Fiscal Plan’s financial projections were the basis to estimate the UPR’s budget and the reduction in governmental contribution that results from it. For the 2017-2018 fiscal year, the reduction in investment to the UPR appears at zero, since the 9.6% of the UPR’s income is greater than the annual frozen budget (\$833.9 million). From then on, cuts to the UPR fluctuate between \$8 million in 2019 and \$128 million in 2023. On the other hand, cuts to the private sector and municipalities range from \$411 million in 2018 and increase to \$932 million in 2026.<sup>22</sup>

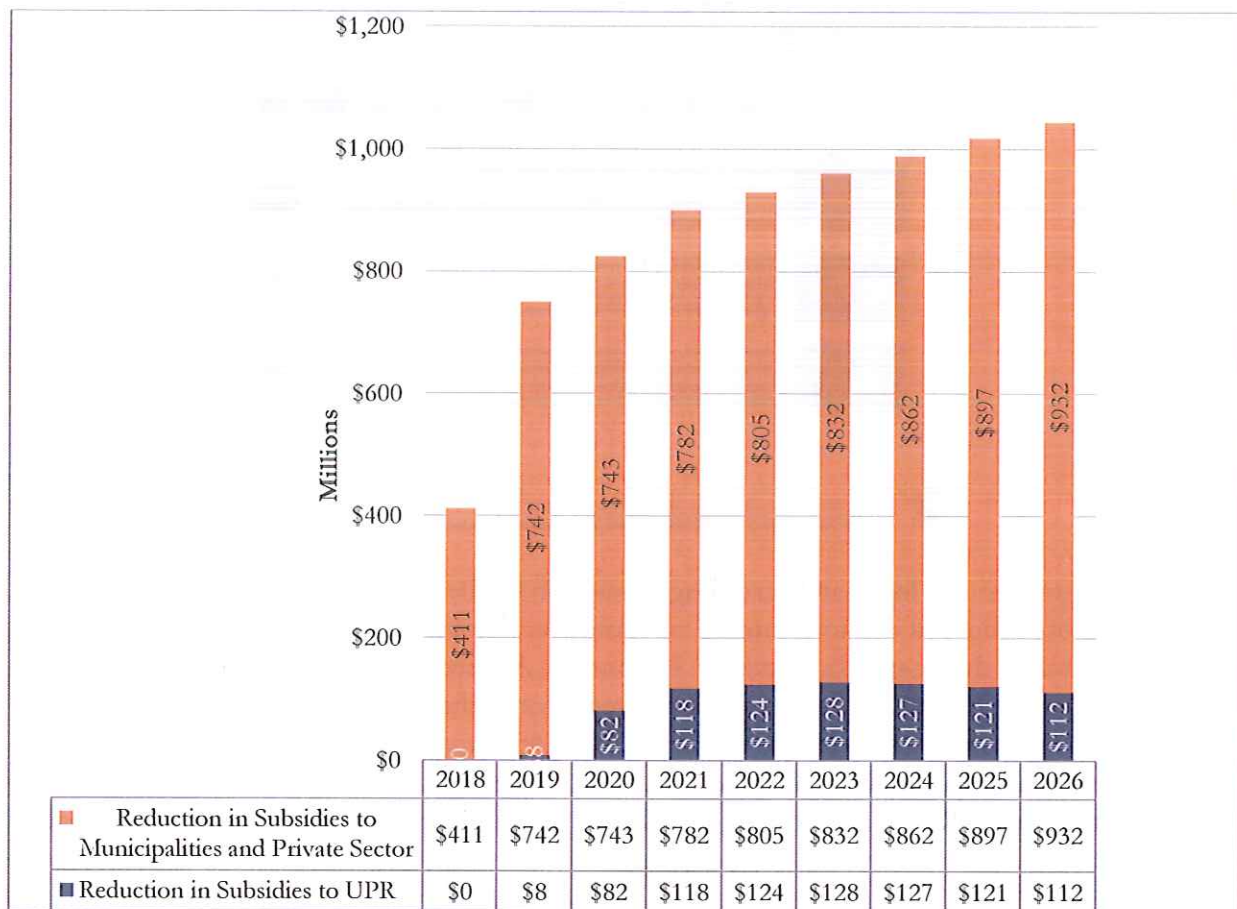


Figure 7: Reduction in Subsidies

<sup>22</sup> To be fair, if the UPR’s frozen budget was applied, far from the institution having to participate in the reduction to public “subsidies,” it should receive an additional \$37 million.

Figure 8 shows the proportion of subsidy cuts to be imposed to municipalities and private entities, when compared to the total amount of subsidies received: \$350 million to municipalities and \$1,670 million to the private sector (according to data from 2012, *Informe Espacios Abiertos* 2017).

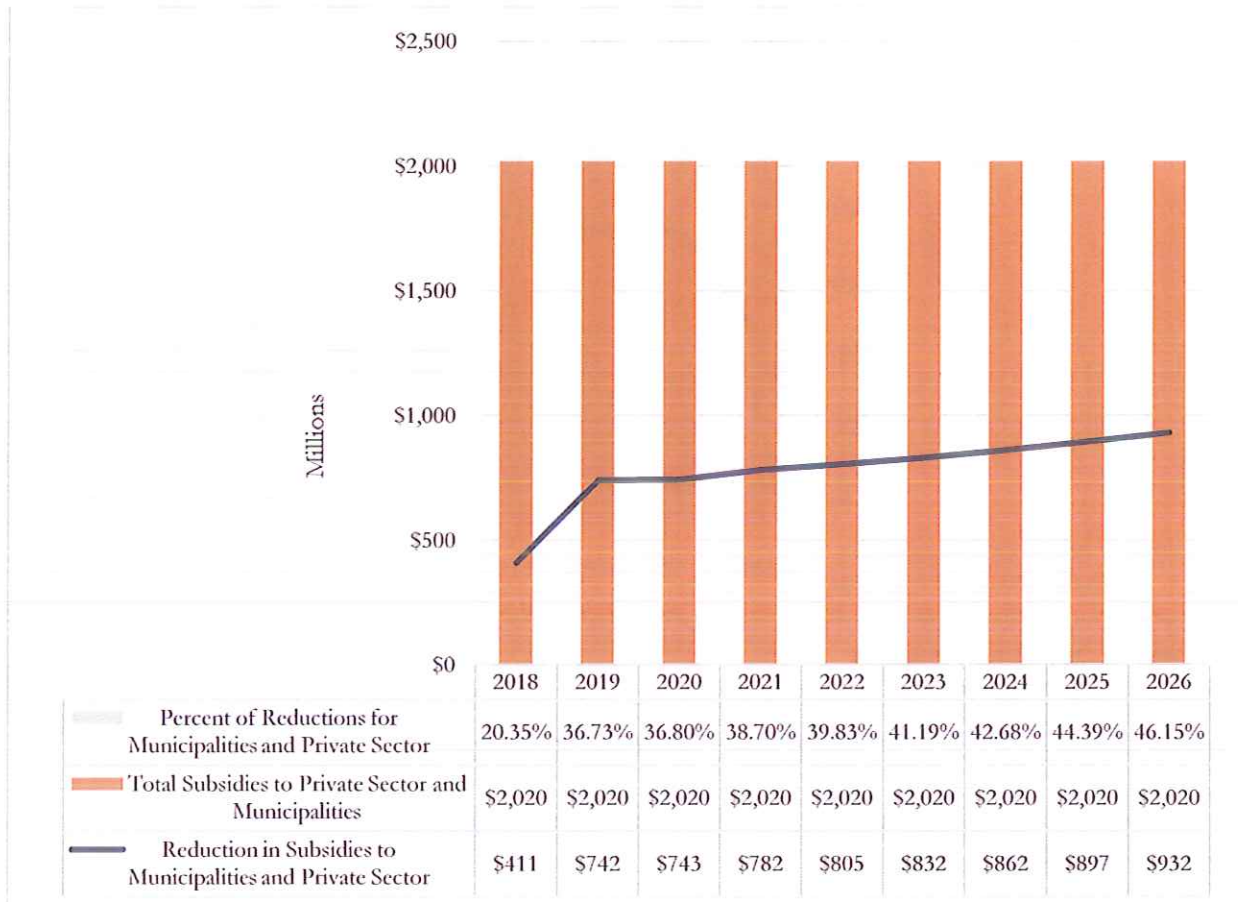


Figure 8: Subsidies Outlook for Municipalities and Private Sector

Finally, Figure 9 shows the scenario where the private sector assumes the remaining cuts, ranging from \$411 million (25%) in 2018 to \$932 million (56%) in 2026.



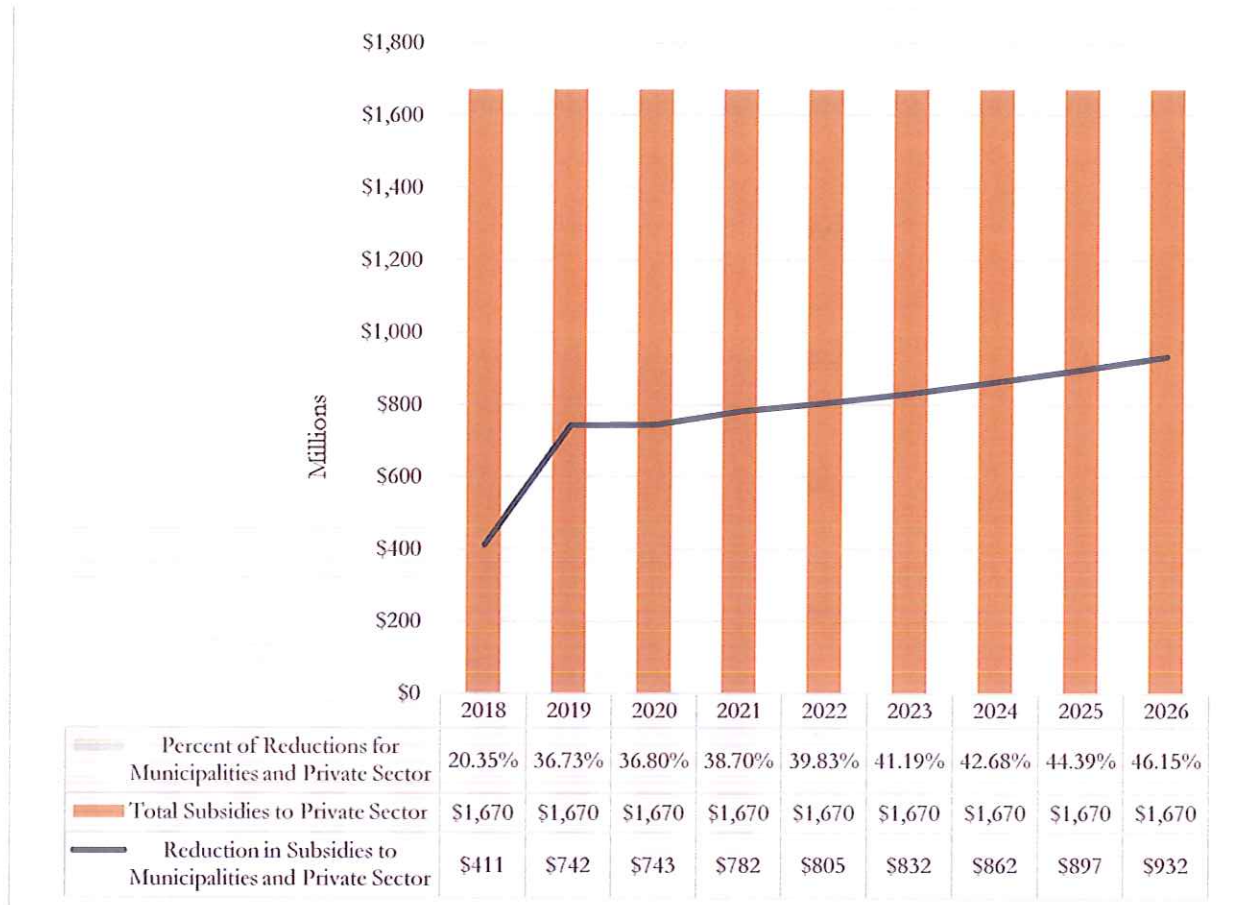


Figure 9: Subsidies Outlook for Private Sector Excluding Municipalities

**B. Scenario II: Compliance with Act No. 2 of 1966 as Amended (9.6%)**

Marcel Castro Sitiriche

One of the basic premises of the UPR’s autonomy is economic solvency, regardless of the political party in power at any time. This principle was enshrined in Act No. 2 of 1966 as amended, as one of the pillars of our commitment to the country.

However, for decades, various government administrations have developed mechanisms to prevent the UPR from growing and becoming stronger, in tandem with Puerto Rico’s needs. The most recent strategy –in the light of the crisis faced by the Treasury– was the approval of Law 66 of 2014, which froze the contribution from the country’s General Fund at \$833.9 million. With a single stroke, since then, the University of Puerto Rico has stopped receiving \$300 million of the governmental contribution. Precisely because of the institution’s commitment to the Puerto Rican people, the UPR has made significant adjustments (as previously noted) to continue fulfilling its mission.

Finally, the Commonwealth’s Fiscal Plan, as certified by the Fiscal Oversight Board, consolidates in the General Fund of Puerto Rico income that had been diverted elsewhere by previous legislation. In justice, and recognizing the UPR’s vital importance to overcome the fiscal crisis, the 9.6% formula should be restored and applied in accordance with the aforementioned Fiscal Plan. In lieu of the restoration of the formula, which is the fairest scenario, the budget freezing

that Law 66 of 2014 established should be maintained. Only in the worst-case scenario, should the partial formula attached to the estimates of the Puerto Rican government be reiterated for the next ten years, according to the same Fiscal Plan. In this latest variation, again, the UPR would face the largest reduction in government investment in 2023, with \$129 million less than in the 2016-2017 budget (\$833.9 million) (see Figure 10).

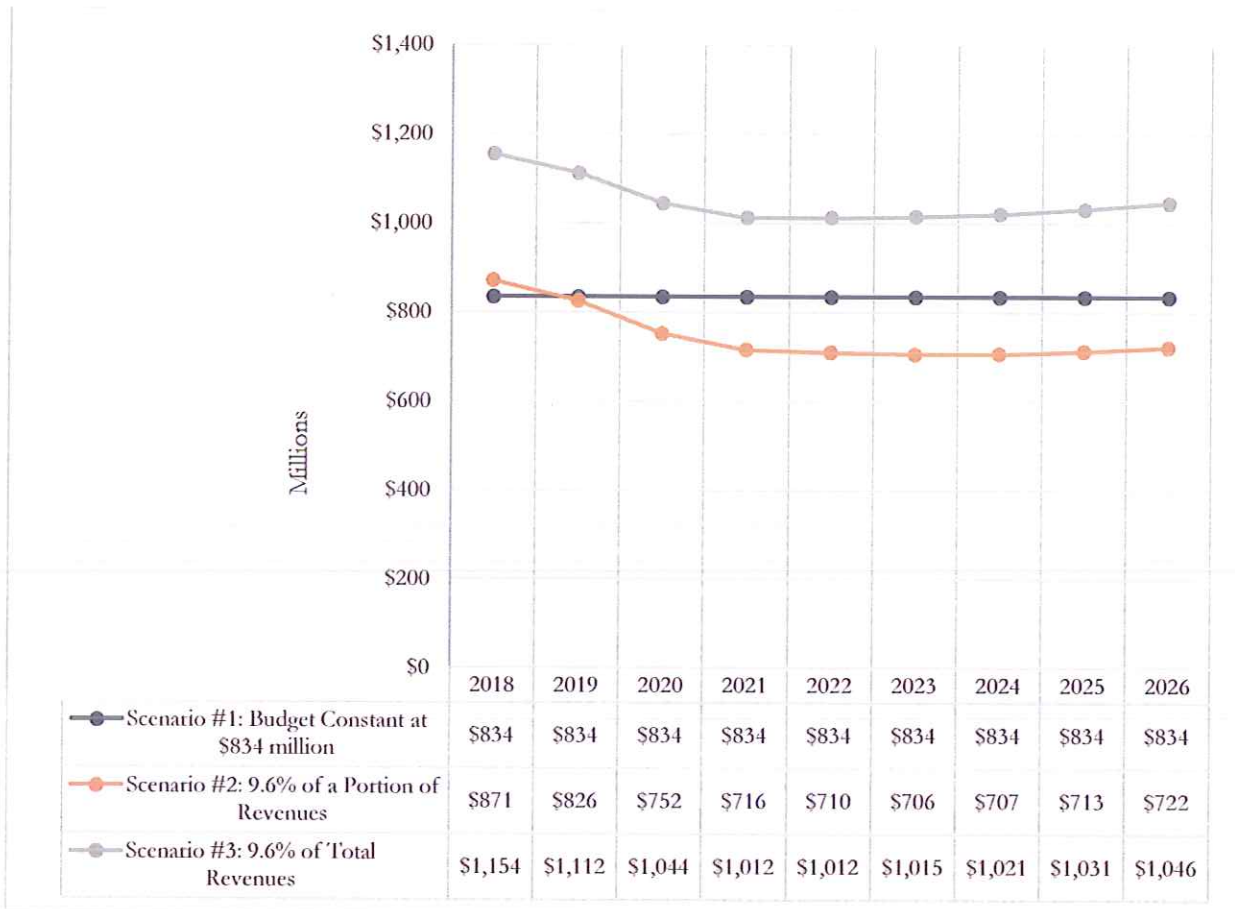


Figure 10: Projections for Three Fiscal Scenarios

Even if the 9.6% formula were reestablished with the General Fund’s partial collections, the UPR would receive a larger contribution than the frozen one of \$37 million for the 2017-2018 budget, although it would certainly experience a progressive reduction. In this variation of scenario II, we would have to wait until 2024 to begin experiencing a slight recovery. In any of these three cases, the UPR would be better positioned to face the challenges of the current situation and contribute decisively to Puerto Rico’s recovery.



Figure 11: Real Budget Reductions to UPR Based on 9.6% of Government Revenues

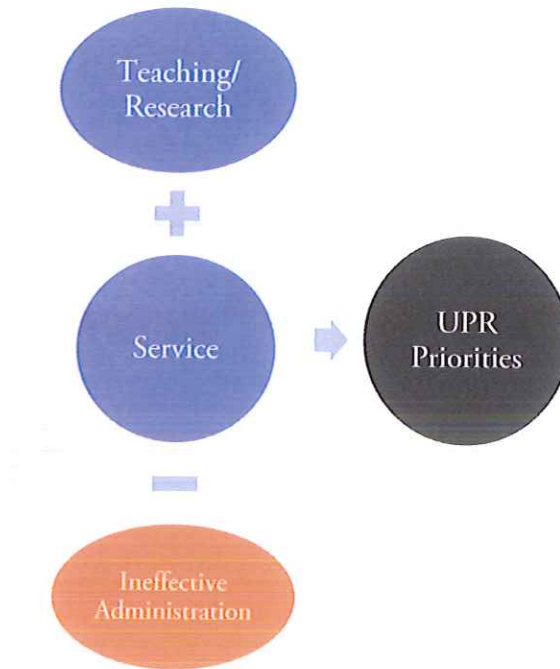
Figure 11 shows the magnitude of cuts to the UPR budget applying the 9.6% of the government’s income. If the cuts are applied to the UPR’s frozen budget, the latter would fluctuate between \$178 million in 2021 and \$320 million in 2018. In total, the UPR would be deprived from receiving \$1,942 million in the period from 2018 to 2026. In turn, if we apply the partial 9.6% formula, budget cuts would fluctuate between \$283 million in 2018 and \$324 million in 2026. In total, the UPR would be forced to relinquish receiving \$2,726 million. Finally, if cuts are applied to the frozen budget, the latter would oscillate between \$327 million in 2021 and \$469 million in 2018. In this case, the UPR would be forced to forego \$3.283 billion. These projections show that, even in the best of these three scenarios, a resource cut of almost two billion in total would be applied to the UPR between 2018 and 2026.

C. Scenario III: Outline of the Public Contribution Reduction to the UPR

Similarly, Puerto Rico’s budget, to date, imposes a reduction of \$149 million to the UPR for 2017-2018. This figure, like all others, has no justification or supporting argument whatsoever. It may seem random, but it is not: it is the blind and uninformed application of the *Government Right Sizing* paradigm, solidly challenged by the *SoS UPR Plan*.

Even insisting on the arbitrariness of the reduction figure for the UPR, and despite the strong arguments presented against it in this document, the *SoS UPR Plan* argues that, if inevitable,

this cut must be reassessed from the perspective of the *Government Social Right Sizing* paradigm. That is, it must respond to the following framework:<sup>23</sup>



Another way of managing the arbitrary governmental contribution reduction to the UPR is to deduct from it the *de facto* contribution reduction when applying the formula from Act No. 2 of 1966 as amended, or even in its present, partial, form, in accordance with the certified Fiscal Plan. As was already mentioned, that Fiscal Plan consolidates in the General Fund of Puerto Rico income that had been diverted elsewhere by previous legislation. Figure 12 shows the impact in each case:

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<sup>23</sup> Visit the link provided at the end of this Plan to consult the Draft of the UPR 2017-2018 Budget. The draft contemplates 5 and 10 year projections with these premises in mind, which implies that, although we would all contribute towards meeting the imposed reduction, the primary contributor would be the ineffective administrative sphere.

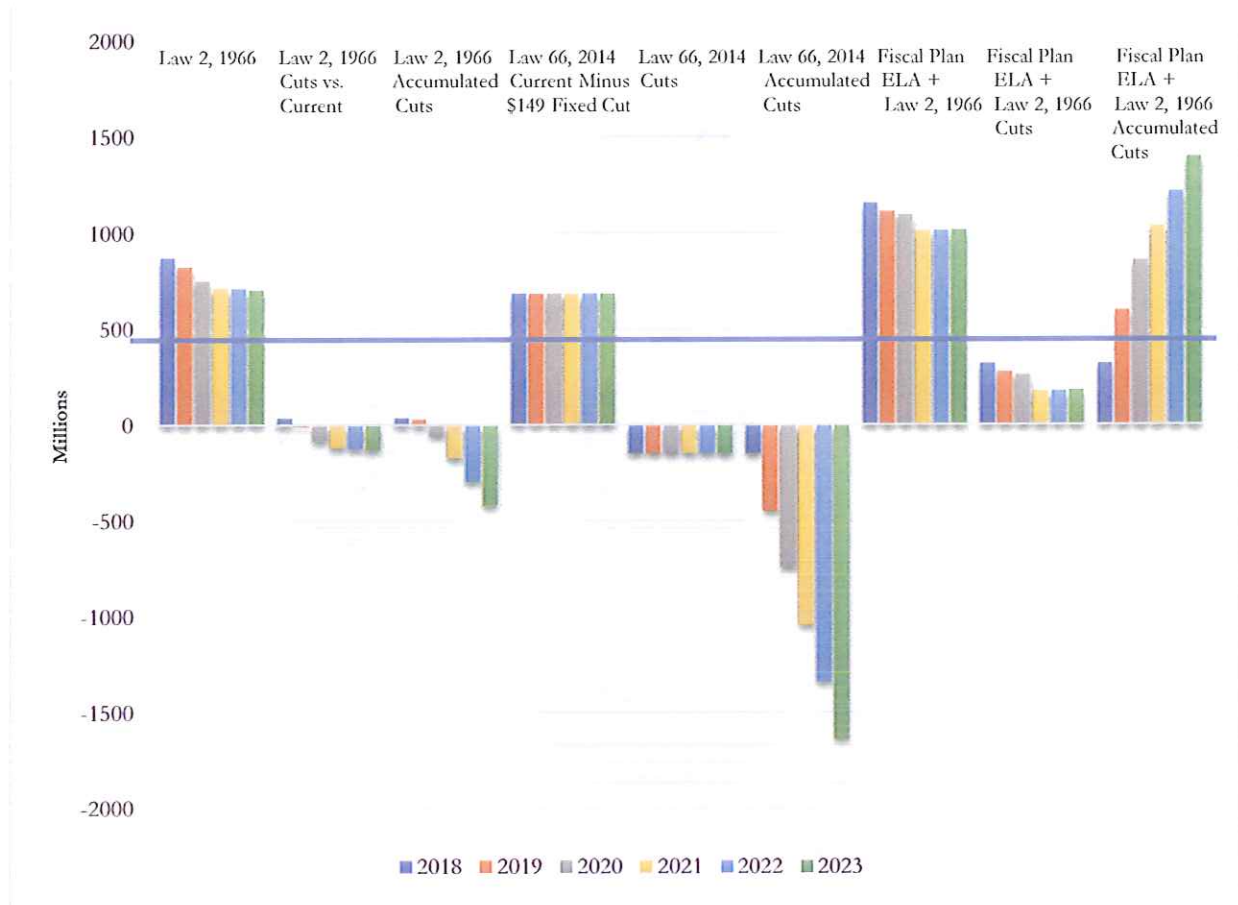
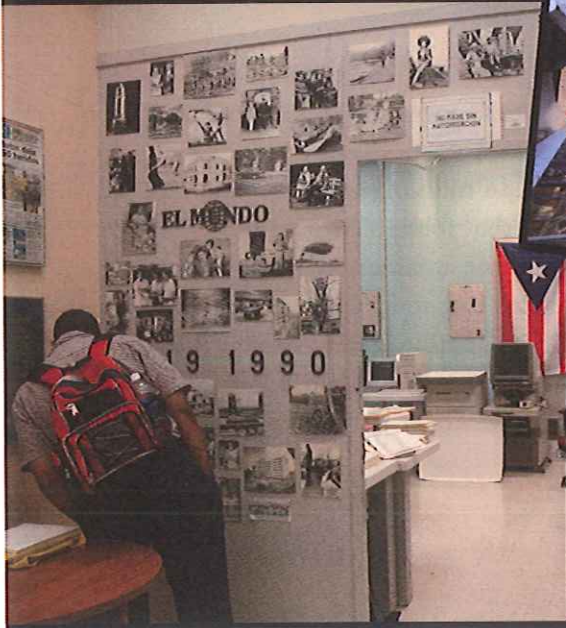
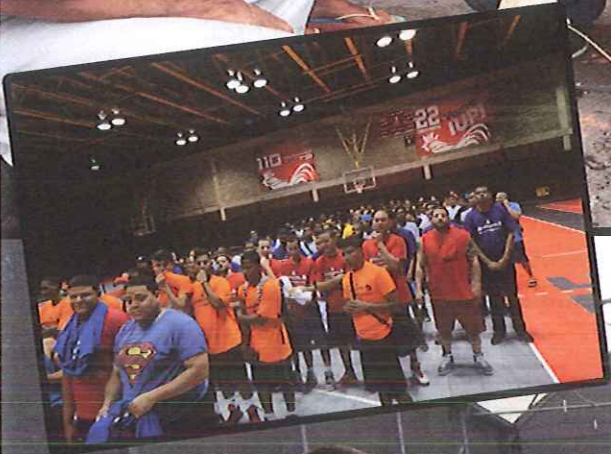


Figure 12: Three Scenarios vs. Current (Law 66, 2014)

If we recognize the versatile, productive and forceful social role the UPR plays in and for the country, each Puerto Rican would defend the sustained strengthening of the institution proposed in the *SoS UPR Plan*. For Puerto Rico to overcome the present fiscal crisis –which was caused by irresponsible and highly questionable indebtedness of government leadership for decades– and to grow and diversify in every socio-cultural area, a robust public university that continues to confront urgent social problems (in particular, public health and the accelerated impoverishment of our retirees) is imperative. If we give serious and fair consideration to the *SoS UPR Plan*, we will commit to scenarios I and II. Otherwise, scenario III, in its most sensible form, would recognize the UPR’s undisputed commitment to the country and, therefore, would ensure the production of new income through the implementation of the proposals put forward in this document. These measures, in turn, recognize that new income for the UPR cannot come at the expense of another blow to the lower- and middle-classes in Puerto Rico. Moreover, they are intended to strengthen, as well, the Retirement Trust Fund of the Government of Puerto Rico and the currently imperiled public health system.<sup>24</sup>

<sup>24</sup> To offer recommendations on this section of the *SoS UPR Plan*, please visit: <https://goo.gl/forms/11AunQzEnLAPwfl93>.



Additional Sources of Income for the UPR

### III. ADDITIONAL SOURCES OF INCOME FOR THE UPR

#### A. Homely Contributions to Puerto Rico, Foreign Corporations in Solidarity with Puerto Rico, and Collecting for Puerto Rico: UPR Researchers

Edwin Irizarry Mora

One of the central components of the *SoS UPR Plan*, regardless of the contemplated fiscal scenarios and of their possible combinations or variations, is the institution's drive to attract new sources of income capable of supporting its commitment to excellence in teaching, research and service to students and surrounding communities). Moreover, the Plan factors in the central role the UPR has played and can continue to play to contribute to the country's recovery from the current fiscal crisis. In what follows, we present three initial measures to attract new revenues for the University and other essential services. These can be complemented with other proposals that might be delineated and implemented as part of the continuous revision and improvement of this Plan.

##### 1. *Homely Contributions to Puerto Rico*

From the real estate re-appraisal that the government plans to implement in the coming months, we request that 10% of the projected tax collection be directed to the UPR. Only when the re-appraisal project is presented, will we have a precise idea of the increase in the amount of tax collection. Given that this income funds, in part, the Center for Municipal Tax Collection (*Centro de Recaudación de Ingresos Municipales*, CRIM) of the Puerto Rican government, it will be necessary to convince the mayors of Puerto Rico's 78 municipalities about the economic social impact the UPR has in diverse areas of their municipal economies. An alternative scenario would be that, in those municipalities where there are UPR campuses (a total of 10, since there are two campuses in San Juan), the percentage of tax collections channeled to the UPR is higher (12.5%), while the other 68 municipalities contribute 10%.

Simultaneously, we must insist on the preservation of the tax exemption for working class, middle class, and pensioned families that have only one property (main and only residence), with a market value that does not exceed a certain limit, depending on the municipality of residence. Most probably, that limit approximates \$100,000 in rural municipalities and between \$125,000 and \$150,000 in urban ones. Thus, we can estimate, preliminarily, that the annual sum that would be re-directed to the UPR would range between \$40 and \$50 million.

##### 2. *Foreign Corporations in Solidarity with Puerto Rico*

From the tax collection income already received by the central government as stipulated by Law 154-Tax on Transactions between Foreign Corporations' Subsidiaries Operating in Puerto Rico (*Arbitrio sobre transacciones entre filiales de corporaciones foráneas con operaciones en Puerto Rico*), the average collected during the past five fiscal years (2012-2016) is \$1,843.14 million per year. This total has been received at 4% tax rate, which means that, from each 1% that foreign corporations pay, they have contributed, in average, \$460.8 million per year. We propose an amendment to Law 154 so that it increases the cited tax rate by 0.5%. In this scenario, the tax rate to foreign corporations will increase from 4% to 4.5% annually; the added 0.5% will be directed to the UPR. This proposed measure would render a budget boost for the UPR estimated at more than \$230 million per year (see Table 12), starting in fiscal year 2018 (July 1<sup>st</sup>, 2017). This figure exceeds by

almost \$80 million the proposed cut of \$149 million to the UPR’s budget that would become effective on the same date, according to the Commonwealth’s Fiscal Plan, certified by the JSF.

In light of the reasons outlined above, it would be legitimate to canalize the proposed 0.5% increase in taxes to foreign corporations to the UPR. However, an alternative scenario would be that with 65% of the 0.5% (equivalent to a third of 1%, or to 0.33% of the annual \$460.8 million), the UPR would obtain \$152 million annually, which is sufficient to avoid any budgetary cuts or, in other words, to substitute the \$149 million that the Commonwealth’s Fiscal Plan, as certified by the Fiscal Oversight Board, plans to withdraw during the next fiscal year. We propose, also, that the remaining tax collection be re-directed to: (1) strengthening the public employees’ Retirement Fund Trust, and (2) mitigating the impact of the fiscal crisis and the intended cuts to the public health system. For the 2019 fiscal year, we would increase the percentage to 70% of the 0.5%, which would result in the UPR receiving \$161 million. This amount is less than what the Commonwealth’s Fiscal Plan, as certified by the Fiscal Oversight Board, suggests reducing to the UPR during that year (\$180 million). In that case, we can adjust the calculation to a greater percentage, say 75%, and the following year, to 80% of the 0.5%. This would guarantee that the UPR does not forego additional funding in the upcoming years, taking as our base the current budget. Table 12 shows the pertinent calculations for each fiscal year, considering each one of the scenarios outlined above:

|                          | Fiscal Year |         |         |         |         |   |
|--------------------------|-------------|---------|---------|---------|---------|---|
|                          | FY 2018     | FY 2019 | FY 2020 | FY 2021 | FY 2022 |   |
| 4.5% Rate                | 230         | 230     | 230     | 230     | 230     | (presupposes 50% of the increased 0.5%) |
| 4.33% Rate               | 152         | 152     | 152     | 152     | 152     | (presupposes 66% of \$230.4 million)    |
| 4.35% Rate from FY 2019  | 152         | 161     | 161     | 161     | 161     | (presupposes 70% of \$230.4 million)    |
| 4.375% Rate from FY 2020 | 152         | 161     | 173     | 173     | 173     | (presupposes 75% of \$230.4 million)    |
| 4.4% Rate from FY 2021   | 152         | 161     | 173     | 184     | 184     | (presupposes 80% of \$230.4 million)    |

*Table 12: Calculations of the Impact of an Increase of 0.5% to the 4% Tax of Law 154 on the UPR Budget: Fiscal Years 2018 - 2022 (amounts in millions \$, according to current prices, 2017)*

The results shown in Table 12 suggest that the UPR might receive, at least, \$760 additional million, and, at most, \$1,150 million, during the period that starts on July 1<sup>st</sup>, 2017 and ends on June 30, 2022. The total income for the UPR depends on the increase that is approved as part of the amendment to Law 154, which would fluctuate between a minimum of 0.33% and a maximum of 0.5%, as previously explained. Table 13 shows the projected total incomes for fiscal years 2018-2022 under the various scenarios described above:



| Total Income FY 2018-FY 2022 |            |
|------------------------------|------------|
| Total, if 4.5% is applied    | \$1,150.00 |
| Total, if 4.33% is applied   | \$760.00   |
| Total, if 4.35% is applied   | \$796.00   |
| Total, if 4.375% is applied  | \$832.00   |
| Total, if 4.4% is applied    | \$854.00   |

Table 13: Calculations of total income for the UPR during the period between fiscal years 2018-2022

Two important points stand out concerning this proposal. First, that the current Puerto Rican Legislature seems open to an increase in the tax percentage of Law 154. Second, that in the United States the idea of continuing to collect this tax in Puerto Rico was accepted, and that an increase like the one suggested here (an initial increment from the current 4.0% to 4.33%, until a maximum of 4.5%) would not result absurd to anyone. We should not forget that foreign corporations reclaim a credit for this tax they pay in Puerto Rico when filing federal income tax, so there will be no additional penalty over their net gains.

### 3. *Collecting for Puerto Rico: UPR Researchers*

Within the proposed framework of the UPR offering professional services, I suggest a program of researchers/collectors in collaboration with the Department of Finance (*Departamento de Hacienda*). There are precedents to this proposal. Under the leadership of Juan Agosto Alicea, who was Secretary of Finance about thirty years ago, hundreds of agency employees were sent to the streets, house by house and business by business, to collect registered debt with the Department. The result was extraordinary: tax collections increased substantially. Later, at the beginning of 2005, governor Acevedo Vilá constituted a committee to analyze the imposition of a consumption tax in Puerto Rico. I was a member of that committee, from which the Sales and Use Tax (*Impuesto a las Ventas y Uso – IVU*) eventually emerged. During the research process, Juan Carlos Méndez, who was then the Secretary of Finance, proposed the approval of 200 “investigator” positions that the agency would send to the streets to collect debt and prosecute tax defaulters and evaders. Acevedo Vilá did not approve the proposal at that time, but it has been reiterated by subsequent Secretaries of Finance.

In the current context, we can own up to and develop this idea. A team of investigators and collectors could be constituted to cover the 78 municipalities with the tutelage of the Department of Finance. We could employ students majoring in business administration and other related areas at UPR campuses, who could work part-time as collectors/researchers, under the supervision of professors from all campuses (as time release for regular faculty and as full-time contracts for adjunct faculty) and of Department of Finance personnel. Salaries to students would be negotiated; all of them would receive training from Department of Finance personnel; and one of Puerto Rico’s historical objectives –to collect from tax evaders and defaulters– would be met.

In 2005, the talk was about a potential of close to \$700 million annually in additional collection, an amount we might consider conservative twelve years later, but that could be updated based on recent tax evasion and tax debt data from the Department of Finance. Of course, given that the UPR is the entity that would provide the human resources for this important project, the institution would receive a percentage of what is collected. We propose the UPR receives 10% of the approximately \$700 million per year that could be collected if the proposed project is implemented.

This conservative estimate could render an estimated \$70 million annually of new income for the UPR. The remaining 90% should be destined to strengthening the Puerto Rican public employees' Retirement Trust Fund and the public health system.

**Summary of the Estimated Collection from the Previous Three Proposals**

Table 14 summarizes, for the next five fiscal years (2018 – 2022), three scenarios for the previous three proposals of new sources of income for the UPR. If the three proposals were implemented, the UPR would increase its budget by, at least, by \$262 million per year, presupposing the most conservative scenario. We do not suppose there will be economic recovery over the next five years, and, thus, for each of the three scenarios, the Puerto Rican government's collections reflect those documented for 2016.

In the second scenario, we presuppose that the tax rate of Law 154 increases to 4.375%, which results in an income increase for the UPR in fiscal year 2019 and the subsequent three fiscal years. The budget would increase \$262 million for 2018, \$271 million for 2019, and \$283 million for years 2020, 2021 and 2022.

The third scenario is the most optimistic. It reflects an income of \$50 million annually from the increase in property tax; an increase to 4.5% in the tax rate from Law 154; and that, like the two previous scenarios, the collection of 10% of tax debt and tax evaders and defaulters, which is equivalent to an increase of \$70 million for the UPR budget. In this scenario, the UPR would have an additional income of \$350 million for each year during the period between fiscal year 2018 and fiscal year 2022.

| Conservative Scenario                        | FY 2018      | FY 2019      | FY 2020      | FY 2021      | FY 2022      |
|--|--------------|--------------|--------------|--------------|--------------|
| Increase in Property Tax                     | \$40         | \$40         | \$40         | \$40         | \$40         |
| 4.33% Rate: Law 154 (tax on foreign corps.)  | 152          | 152          | 152          | 152          | 152          |
| 10% from Tax Debt Collection                 | 70           | 70           | 70           | 70           | 70           |
| <b>Annual Increase in UPR Budget</b>         | <b>\$262</b> | <b>\$262</b> | <b>\$262</b> | <b>\$262</b> | <b>\$262</b> |
| Less Conservative Scenario                   | FY 2018      | FY 2019      | FY 2020      | FY 2021      | FY 2022      |
| Increase in Property Tax                     | \$40         | \$40         | \$40         | \$40         | \$40         |
| 4.375% Rate: Law 154 (tax on foreign corps.) | 152          | 161          | 173          | 173          | 173          |
| 10% from Tax Debt Collection                 | 70           | 70           | 70           | 70           | 70           |
| <b>Annual Increase in UPR Budget</b>         | <b>\$262</b> | <b>\$271</b> | <b>\$283</b> | <b>\$283</b> | <b>\$283</b> |
| Optimistic Scenario                          | FY 2018      | FY 2019      | FY 2020      | FY 2021      | FY 2022      |
| Increase in Property Tax                     | \$50         | \$50         | \$50         | \$50         | \$50         |
| 4.5% Rate: Law 154 (tax on foreign corps.)   | 230          | 230          | 230          | 230          | 230          |
| 10% from Tax Debt Collection                 | 70           | 70           | 70           | 70           | 70           |
| <b>Annual Increase in UPR Budget</b>         | <b>\$350</b> | <b>\$350</b> | <b>\$350</b> | <b>\$350</b> | <b>\$350</b> |

Table 14: Summary of Three Proposals: Three Scenarios (amounts in millions \$, according to current prices, 2017)

**Contribution to the Public Employees Retirement Trust Fund and the Public Health System (Reforma de Salud Patients)**

If we add the following suppositions to the less conservative scenario simulated in Table 14 (second scenario), the additional income the central government would receive from the implementation of the proposals suggested here would be distributed as follows (Table 15):

| Less Conservative Scenario                    | FY 2018      | FY 2019      | FY 2020      | FY 2021      | FY 2022      |
|---|--------------|--------------|--------------|--------------|--------------|
| Increase in Property Tax                      | \$40         | \$40         | \$40         | \$40         | \$40         |
| 4.375% Rate: Law 154 (tax on foreign corps.)  | 152          | 161          | 173          | 173          | 173          |
| 10% from Tax Debt Collection                  | 70           | 70           | 70           | 70           | 70           |
| <b>Annual Increase in Government’s Income</b> | <b>\$262</b> | <b>\$271</b> | <b>\$283</b> | <b>\$283</b> | <b>\$283</b> |

| Additional Contributions to Public Employees’ Retirement Trust Fund and Public Health System | FY 2018      | FY 2019      | FY 2020      | FY 2021      | FY 2022      |
|--|--------------|--------------|--------------|--------------|--------------|
| \$150 million annually allocated to the UPR  | \$112        | \$121        | \$133        | \$133        | \$133        |
| The remaining 90% from Tax Debt Collection   | \$630        | \$630        | \$630        | \$630        | \$630        |
| <b>Total contributions to Retirement Trust Fund and Public Health System</b>                 | <b>\$742</b> | <b>\$751</b> | <b>\$763</b> | <b>\$763</b> | <b>\$763</b> |

Table 15: Contribution to the Public Employees Retirement Trust Fund and the Public Health System in the Less Conservative Scenario

From the annual increase in government income, which fluctuates between \$262 million for fiscal year 2018, and \$283 million for years 2020 to 2022, we suppose \$150 million are annually allocated to the UPR’s budget, which would imply assigning \$112 million in 2018 and greater amounts in subsequent years to the public employees’ Retirement Trust Fund and to the Public Health System financing –specifically to *Reforma de Salud* patients. If we also allocate the remaining 90% of income obtained by tax debt and evasion collection, an amount that has been calculated at \$630 million per year (\$700 million less \$70 million for the UPR budget), the retirement and public health systems would receive \$742 million in 2018 and up to \$763 million during the years 2020 to 2022.

In summary, the proposed measures would help the Puerto Rican government to obtain additional funds not only to maintain and ensure a sustainable budget for the UPR, but also to strengthen fundamental needs of the population: the retirement and public health systems.

**B. UPR’s Alumni Contribution**

Marcel Castro Sitiriche

In order to pursue additional sources of income for the University of Puerto Rico, the *SoS UPR Plan* proposes the creation of the UPR’s Alumni Contribution initiative as a new source of income that constitutes an alternative to the “Means Based Tuition Model” proposed by previous fiscal plans. The alumni contribution would strengthen our teaching, research, and services to students and the country. In response to PROMESA, this initiative should be accompanied by a

concerted effort of sustainable economic development,<sup>25</sup> which would, in turn, bolster the country’s economy and provide opportunities to retain the human capital the country has invested in.

Following the principle that Puerto Rico should be injected with innovative economic activity from all sectors, but especially from the UPR, the alumni contribution proposal seeks to return to the country and its public university a portion of Puerto Rico’s investment in each student who graduates, either in the form of work (equivalent to years of study) in Puerto Rico or in monetary form, if the person migrates.<sup>26</sup> Figure 13 contains a comparison between the income obtained through the means based tuition model and that received through the alumni contribution, following a similar scheme to the one recently implemented by the state of New York (SUNY and CUNY systems) and Community Colleges in Tennessee and Oregon.

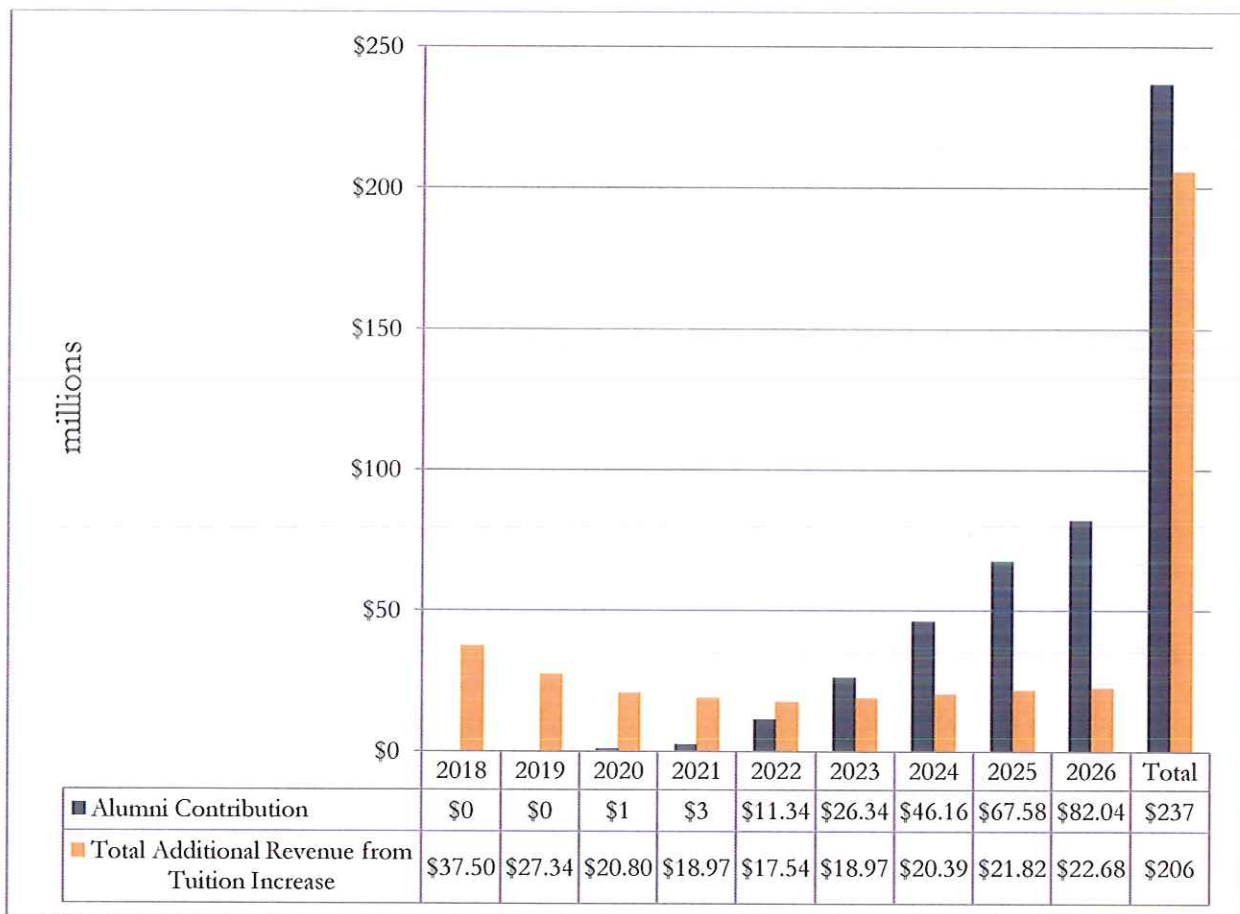


Figure 13: Alumni Contribution vs. Means Based Tuition Model

This projection takes as its starting point some of the institutional data concerning the number of students in four-year, five-year, masters and Medical Sciences programs, as well as graduation rates, exit interviews, and estimated percentages of migration in each case. The projection also maintains a consistent level of public investment (approximately 50%) in all UPR students. It

<sup>25</sup> Regional economic development model that starts from the UPR’s 11 campuses and is articulated through a multisectorial initiative. Designed by Dr. Pedro Resto, from the UPR-Mayagüez campus.

<sup>26</sup> Of course, it will be necessary to establish distinctions and safeguards to make sure this measure is fairly applied.

makes estimates by type of program, while also considering the tiered level of graduation rates. Evidently, this estimated data must be adjusted in accordance with precise systemic data. Moreover, if our alumni numbers increase (as they should), year upon year, this measure has the potential of increasing UPR's income even more after 2026.<sup>27</sup>

Although it requires five years to exhibit its real potential, the proposed Alumni Contribution project (if made effective in 2018), would surpass significantly, as early as 2023, the funds attracted by the means based tuition model. Moreover, this initiative's net benefit would preserve, in addition, the public contribution to everyone's education, regardless of where they eventually work professionally, and would stimulate the return of such investment with years of service in and for Puerto Rico. Finally, this project would complement the UPR's efficiency strategies included in this Plan, insofar as it would encourage students to complete their degrees in a timely manner.

The four proposals described in this section of the *SoS UPR Plan* would allow the UPR and the country to confront the current fiscal crisis with the objective of becoming a more just university and society, by preserving and strengthening essential social services, in accordance with the concept of *Government Social Right Sizing*. In tandem with the rest of this Plan, the measures described above would strengthen the UPR's main educational mission and its multiplier effect on Puerto Rico's economy, as well as provide fair conditions for our retired public employees and for the population's health. The decision to support the UPR and, consequently, to bolster the sustainable recovery of Puerto Rico, is now in the hands of the Puerto Rican legislature and the executive branch.

### C. Proposals for Additional Income Contemplated in Other Fiscal Plans

The Sustainable Fiscal Plan for the UPR (*SoS UPR Plan*) recognizes that, from existing governing bodies to the most diverse self-convened initiatives, alternatives and proposals have been developed to address the crisis that cuts across Puerto Rico and, therefore, its public university. Each entity has engaged in a rigorous process of introspection and formulated measures for strengthening teaching, research, and service to the UPR in the present context. At the same time, other drafts of fiscal plans have presented alternatives that may very well be articulated in conjunction with the *SoS UPR Plan*. Below, we include those that are compatible, in part or in their entirety, with this Plan:<sup>28</sup>

1. *Draft of the UPR Fiscal Plan (February 20, 2017)*<sup>29</sup>
  - a. Online Course Offerings: have potential impact on a steadily increasing foreign student population that recognizes both the excellent reputation of the UPR as well as its credentials.

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<sup>27</sup> As we have previously stated in this Plan, the UPR has the highest graduation rates, equivalent and proportional, in each unit and program comparable to private institutions. However, as part of its continuous improvement, the UPR seeks to increase its rates.

<sup>28</sup> In this inventory of initiatives, only a fraction of the proposals compatible with the *SoS UPR Plan*, in whole or in part, are included. We recommend the integration of proposals from the eleven campuses of the UPR system –deriving from all sectors– that can be harmonized with the vision and premises of this Plan. In this section, we cite directly the fiscal plans to which we have had access.

<sup>29</sup> <https://www.scribd.com/document/349395813/Plan-Fiscal-UPR-Borrador-20-de-febrero-de-2017>.

- b. Professional Development and Workshop Program for Training Public Employees: the current government administration has presented legislative bill 8 of 2017, in which it has designated the UPR as the recipient of 15% of the total contracts for the professional development of government personnel, public corporations, and instrumentalities. According to OGP data, government contracts represent a total of over **\$400 million**. On that basis, potential earnings have been calculated.
- c. Continuing Education Programs: Legislative bill 429 of the House of Representatives requires all its dependencies to separate 15% of their budgets for continuing education program contracts with the UPR. According to OGP, it is estimated the government spends **\$96 million** to this end. Based on this allocation, a projection of earnings can be established.
- d. Evening Academic Program Offerings: Presently, the UPR's Bayamón campus has a robust program of evening courses. This program can similarly be replicated in Río Piedras, Humacao and Arecibo.

2. *UPR Fiscal Plan 2017 (Revised Draft – April 27, 2017)*<sup>30</sup>

- a. UPR Foundation
- b. External funding by other federal agencies and private foundations
- c. Medical Cannabis Project
- d. License Plates
- e. Vehicle Registration Sticker (*marbetes*)
- f. UPR Financial Support Law (*Ley de Apoyo Financiero UPR*)
- g. Course Repetition Policy (*penalidad por repetir cursos*)

3. *Alternative Fiscal Plan for the UPR*<sup>31</sup>

- a. Establish the UPR and the Molecular Sciences Corporation Building as the entities charged with managing quality control of medicinal marijuana and related research in Puerto Rico. Establish a 11.5% tax for the UPR (estimated earnings: **\$80 million**).
- b. Offer priority to the UPR for tutoring, mentoring, coaching, and professional development services contracted by the Department of Education (see House of Representatives Legislative Bill 676. If 50% of the funds are secured and a 10% profit obtained, the estimated earnings are **\$10 million**).
- c. Offer priority to the UPR in the contracting of all professional development services for public employees of the Government of Puerto Rico (See Public Law 8 de 2017. If 50% of the funds are secured and a 10% profit obtained, the estimated earnings are **\$20 million**).
- d. Offer priority to the UPR in the contracting of consulting, publicity, representation (or artistic) and technical services (see Legislative Bill 635 of the House of Representatives. If 50% of the funds are secured and a 10% profit obtained, the estimated earnings are **\$30 million**).

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<sup>30</sup> <https://www.scribd.com/document/349396111/UPR-Fiscal-Plan-2017-v20-04-27-17-3-PM-pdf>.

<sup>31</sup> <https://www.scribd.com/document/349396258/Plan-Fiscal-Alternativo-en-la-UPR>. This document is the result of Aníbal Y. López Correa and Christian Arvelo's collaborative effort.

#### D. Proposals for Additional Income Developed by Other Sectors

A practice that could potentially be successful across all units of the UPR system is for each faculty or academic unit to develop initiatives based on their distinctive areas of strength to allocate new resources for the UPR. In the Mayagüez campus (RUM), this effort was taken up by some of its units. In the links provided below, measures to generate new earnings as well as strategies to ensure efficiency are highlighted:

1. Faculty of Agricultural Science: <http://www.uprm.edu/cms/index.php?a=file&fid=15146>
2. Faculty of Arts and Sciences: <http://www.uprm.edu/cms/index.php?a=file&fid=15150>
3. Faculty of Business Administration: <http://www.uprm.edu/cms/index.php?a=file&fid=15149>

Similarly, chancellors, academic senates, general student councils, self-convened faculty collectives, and diverse sectors of the student movement have undertaken related efforts.<sup>32</sup> Likewise, the *SoS UPR Plan* should be revisited based on the results of the comprehensive transformation project of the University of Puerto Rico (*Proyecto de Reforma Universitaria*), which is already being forged by the university community.<sup>33</sup>

On the other hand, the Río Piedras campus student movement has proposed diverse initiatives that have been rendered into five bills currently under legislative consideration:

1. Legislative Bill 1016 of the House of Representatives: **Tax on Luxury Property and Unused Property**<sup>34</sup>
2. Legislative Bill 1039 of the House of Representatives: **Special Law to Fortify the Intramural Practice Plan** of the University of Puerto Rico and Ensure the Quality in the Contracting of Services for the Commonwealth of Puerto Rico [Legislative Bill 50 of the Senate]
3. Legislative Bill 1040 of the House of Representatives: **Law of the Registry for Positions of Confidence** [Legislative Bill 503 of the Senate]
4. Legislative Bill 1042 of the House of Representatives: **Law to Repeal Law 20-2012** (Law to Promote Relocation of Investors to Puerto Rico) [Legislative Bill 502 of the Senate]
5. Legislative Bill 1046 of the House of Representatives: **Law to Increase the Commitment of the University of Puerto Rico with the Public Education of Puerto Rico (LACUPREP)** [Legislative Bill 504 of the Senate].

Lastly, and in light of some of the proposals included in this section, it is pertinent to note that the Governor of Puerto Rico, Hon. Ricardo Roselló Nevares, signed Executive Order 2017-012, which enables the UPR and other governmental entities to identify areas of possible collaboration for the university to offer **training workshops, seminars, and other professional services**. This initiative's progress report up to May 19th can be found [here](#). This effort could yield important sources of

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<sup>32</sup> In the following link, a sampling of ideas and proposals articulated by constituents of UPR-Cayey can be found: <https://www.scribd.com/document/349410157/Propuestas-UPR-Cayey>. Some proposals from the UPR-Humacao campus can be accessed at: <https://www.scribd.com/document/349548044/Propuestas-UPR-Humacao>.

<sup>33</sup> We recommend, at the same time, integrating into the *SoS UPR Plan* compatible proposals for allocating new resources to the UPR that have already been articulated for the Senate of Puerto Rico's public hearings on education and university reform (Legislative Bill 55 of the Senate Representatives).

<sup>34</sup> This legislative bill fruitfully combines with the initiative for new income "Homely Contributions to Puerto Rico," included in the present Plan.

income if an efficient system of compliance, billing, and payment is established to ensure that the university receives the agreed upon payment for its services within a reasonable timeframe.<sup>35</sup> Roselló Nevares also signed Executive Order 2017-021, **Public Employee Training**, to secure additional funding for the UPR.<sup>36</sup> The Draft of the Fiscal Plan dated April 27, 2017 estimates that this measure could increase UPR earnings up to \$5 million in 2018, \$10 million in 2019 and 2020, and \$15 million from 2021 to 2026.<sup>37</sup>

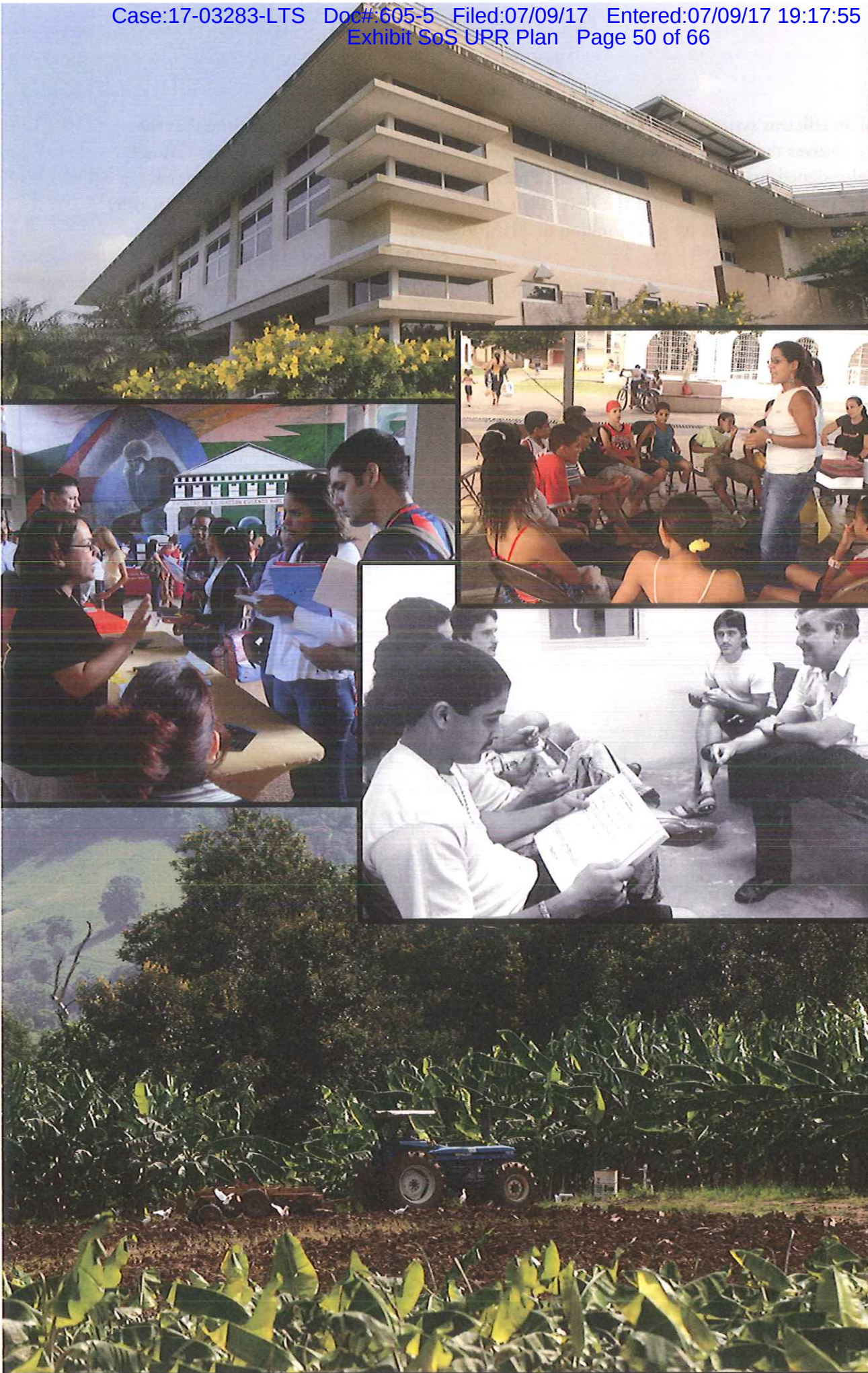
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<sup>35</sup> See the model designed by Basilio Rivera Arroyo in section “Efficiency Strategies” in this Plan.

<sup>36</sup> <https://www.scribd.com/document/349398486/Rosello-Letter-to-Carrion-re-UPR-March-20-2017>. In addition, the legislature, to date, has worked on some initiatives: <http://cb.pr/senado-aprueba-marbete-conmemorativo-para-recaudar-fondos-para-la-upr/> and <http://www.noticel.com/noticia/202901/senado-separa-312-mil-para-becas-a-estudiantes.html>.

<sup>37</sup> To offer recommendations on this section of the *SoS UPR Plan*, please visit: <https://goo.gl/forms/nLUF378pRszMolbG3>.





Efficiency Strategies for Strengthening the UPR

#### IV. EFFICIENCY STRATEGIES FOR STRENGTHENING THE UPR

The UPR is pressed to identify new sources of income to strengthen its primary mission and social services as it embarks on an ongoing process of self-critical analysis that increases and guarantees its continuous improvement. The *SoS UPR Plan* proposes a swift and periodic cycle of institutional analysis following these steps:

1. evaluate strengths and challenges;
2. identify and maximize strengths to determine a distinctive profile for each unit; and
3. pay close and sensible attention to transforming challenges into strengths, taking into account quantitative and qualitative criteria, as well as social impact in the surrounding geographic context.

On the other hand, the *SoS UPR Plan*, recognizes that it is imperative to:

1. strengthen academic, fiscal, and administrative autonomy in the University of Puerto Rico;
2. streamline processes by reducing bureaucratic transactions and minimizing Central Administration's range of action;
3. reduce partial and total student course withdrawals by developing and improving academic support programs and peer mentoring;
4. strengthen and maximize Intramural Practice, University Enterprises, Cooperatives, Experimental Stations, and Agricultural Extension Programs to bolster their functions in such a way that they attract new revenue for the UPR;
5. develop a ten-year plan to minimize energy expenses and facilitate a business opportunity;<sup>38</sup> and
6. develop an operational efficiency framework for significantly reducing accounts receivable and enabling the UPR to obtain new revenues by means of Executive Orders 2017-012 and 2017-21, and Memoranda of Understanding to offer services to other central and municipal governmental agencies, among others. The following operational model has been developed by the Division of Continuing Education (DECEP), Río Piedras campus, and could be adapted to meet the specific characteristics of each unit.

##### A. Operational Framework of the DECEP-Río Piedras Campus (RPC) to Establish a Model of Efficient Support for Fiscal Recovery Projects at the RPC<sup>39</sup>

Basilio Rivera Arroyo, DECEP, UPR-Río Piedras

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<sup>38</sup> This plan ought to commence with an energy audit and proceed with a tiered and combined system of investment, recovery, reinvestment, and net profit. The Mayagüez campus (RUM) has been developing initiatives to this end that should be considered and prioritized. See <https://www.scribd.com/document/349422167/UPRM-Lamps>.

<sup>39</sup> This framework could be applied to other UPR units according to their particularities.

Direct legal support from DECEP to expedite the authorization of service contracts with government, municipal and other agencies.

Timely internal processing (DECEP) of contracts and more efficient coordination with agencies, municipalities, and others.

It is recommended that legal services devoted to rapidly processing contracts between the RPC and the agencies, municipalities, and other parties interested in professional services the faculty might offer be assigned to DECEP. In addition, DECEP would address any legal matters, such as claims by agencies that receive services, or the faculty who provide these services.

Establish a DECEP-RPC-based Direct Support System\* for faculty who procure or direct contracts in order to fulfill the following components:

1. Completion of services contracted.
2. Timely billing for services provided based on the specifications of each contract.
3. Payment: Collection management for each bill issued, coordinated with the director of the service and the agency that receives the service.

\*This system was recommend by the OPEP-RPC in order to guarantee the success of the fiscal recovery plan. It requires trained personnel who focus on these components. The funding to provide for the subvention of personnel will derive from the surplus income of the selfsame projects. The initial cost could be covered by funding already identified by the OPEP.

Establish in the Chancellor's Office the policy of prioritizing efficient coordination between DECEP-RPC, fiscal offices, and the campus' Office of Human Resources in order to streamline payments to faculty who have provided services. This component is important for securing the stability of the fiscal recovery plan, as it would ensure an adequate flow of payments to the RPC human resources and the support professionals who provide services.

## B. Efficiency Strategies to Strengthen the UPR Considered in Other Fiscal Plans

Other drafts of fiscal plans have suggested efficiency strategies that may very well dovetail with the *SoS UPR Plan*. Below we include those that are compatible, in whole or in part, with this Plan.<sup>40</sup>

### 1. *Draft of the UPR Fiscal Plan (February 20, 2017)*<sup>41</sup>

#### *Efficiency Measures*

Adjustments for academic and administrative restructuring and consolidation:<sup>42</sup> this section of the Plan considers four areas in which adjustments to the UPR budget would be worked on. An attachment is included that explains the way in which the adjusted sum is achieved:

- a. adjustments to substitutions for work not related to teaching and research
- b. restructuring subsidies for administrative functions
- c. adjustment to the Governing Board's Budget
- d. adjustment to the Central Administration Offices' Budget

#### *Adjustments to Operational Expenses*

This section contains ten components around which adjustments to operation expenses would revolve. The majority of these adjustments are explained in separate attachments. The adjustments considered are presented below:

- a. public service costs
- b. adjustment to budget for materials and leasing of equipment
- c. adjustment for travel expenses
- d. adjustment for property insurance and public accountability
- e. adjustment to professional service contracts
- f. adjustment to private security contracts
- g. adjustment to Aguadilla's IAAPR operational budget
- h. adjustment to Molecular Sciences Corporation operational budget
- i. adjustment to University Plaza budget
- j. reserve funds for contingencies

#### *Adjustments to Paycheck Expenses*

The adjustments proposed in relation to paycheck expenses include five areas of revision. These are:

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<sup>40</sup> In this inventory of initiatives, only a fraction of the proposals compatible with the *SoS UPR Plan*, in whole or in part, are included. We recommend the integration of proposals from the eleven campuses of the UPR system –deriving from all sectors– that can be harmonized with the vision and premises of this Plan. In this section, we cite directly the fiscal plans to which we have had access.

<sup>41</sup> Refer to <https://www.scribd.com/document/349395813/Plan-Fiscal-UPR-Borrador-20-de-febrero-de-2017>.

<sup>42</sup> The *SoS UPR Plan* considers, in principle, adjustments to administrative domains. Only as a *last resort*, should adjustments to academic and research areas be contemplated.

- a. adjustments to vacant teaching and non-teaching positions, including the amount that corresponds to employer contributions<sup>43</sup>
- b. adjustment to Christmas bonus, which would be brought into line with the amount established by law. This implies, for this item, an adjustment of 47%.
- c. adjustment to the special bonus and perquisite for maintenance of uniforms of non-teaching personnel
- d. adjustment to employer's contribution to the employees' medical plan
- e. adjustment to financial support for studies for both teaching and non-teaching personnel

2. *Alternative Fiscal Plan for the UPR*<sup>44</sup>

- a. Promote the retirement of faculty who qualify. Ensure that newly vacant positions are announced as available. If faculty are not old enough to qualify for Medicare (65), pay their medical insurance until they can benefit from Medicare. If they are older than 65, offer them the opportunity to teach at least one class per semester at the additional compensation rate (\$2,000 for a 3 credit course). Savings estimated at \$19.3 million per year.
- b. Promote the retirement of non-teaching personnel who qualify. Ensure that newly vacant positions are announced as available. If they are not old enough to qualify for Medicare (65), pay their medical insurance until they can benefit from Medicare. Savings estimated at \$10 million per year.

*For 2015*

The 2015 Actuarial Valuation Report of the Retirement Trust Fund identifies personnel with more than 30 years of service (1,265). If 45% of these persons are faculty members, approximately 569 qualify for retirement. Savings of \$28,920 per position. *Subtotal: 569 x \$28,920 = \$16,455,480.*

*For 2020*

The 2015 Actuarial Valuation Report of the Retirement Trust Fund identifies personnel with more than 30 years of service by 2020 (1,481). If 45% of these persons are faculty members, approximately 667 qualify for retirement. Savings of \$28,920 per position. *Subtotal: 667 x \$28,920 = \$19,289,640.*

This proposal is consistent with the standpoint that the UPR's Retirement Trust Fund has assumed in the past few years. According to Dr. Eduardo Berríos Torres, President of the UPR's Retirement Trust Fund, the freezing of vacant positions due to retirement imposed in 2010 resulted in 900 frozen positions 2009 to 2013. This resulted in salary savings of \$60 million, but also meant that \$13 million were not deposited into the Retirement Trust Fund. Moreover, from 2010 to 2017, 2,863 employees have retired (508 in 2010-2011; 420 in 2011-2012; 383 in 2012-2013; 432 in

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<sup>43</sup> The adjustment considered in the *SoS UPR Plan* is 50% less than that proposed in the February 20, 2017 draft. According to the guidelines of the *SoS UPR Plan*, it is imperative to renew faculty resources with routine permanent positions, to strengthen the academic, research and service missions that have characterized the UPR, while invigorating, at the same time, the UPR's Retirement Trust Fund.

<sup>44</sup> Refer to <https://www.scribd.com/document/349396258/Plan-Fiscal-Alternativo-en-la-UPR>. This document is the result of Aníbal Y. López Correa and Christian Arvelo's collaborative effort.

2013-2014; 394 in 2014-2015; 353 in 2015-2016; and 373 in 2016-april 2017), which means that an estimated \$29.4 million were not deposited into the Retirement Trust Fund.

Similarly, Berríos Torres suggests that, if, at the very least, probationary positions were opened to cover 50% of retired personnel, utilizing funds contemplated in the UPR Budget for Faculty and Administrative contracts –according to the February 20, 2017 Draft of the Plan, the allocation of contracts hovers around \$31.5 million–, their replacement with new employees would benefit the UPR, prolonging its continuity as an institution and reducing its actuarial accountability.<sup>45</sup> The new employees would contribute to the Retirement Trust Fund on the basis of 12%, which would guarantee their future pensions and contribute to the Fund’s solvency. The actuarial cost per employee is 7.8%, which means that 5% of the employee’s contribution would aid in strengthening the Retirement Trust Fund.

- c. Decrease personnel of confidence, given the high level of expenditure presently incurred by the UPR for that item, as shown below in Table 16.

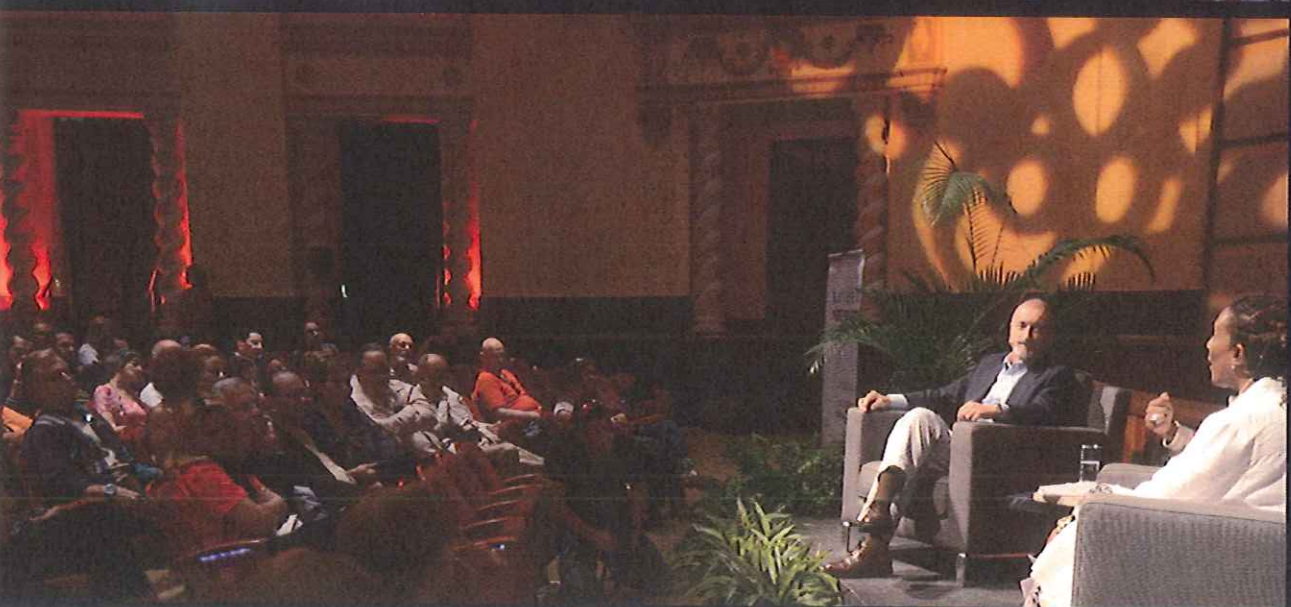
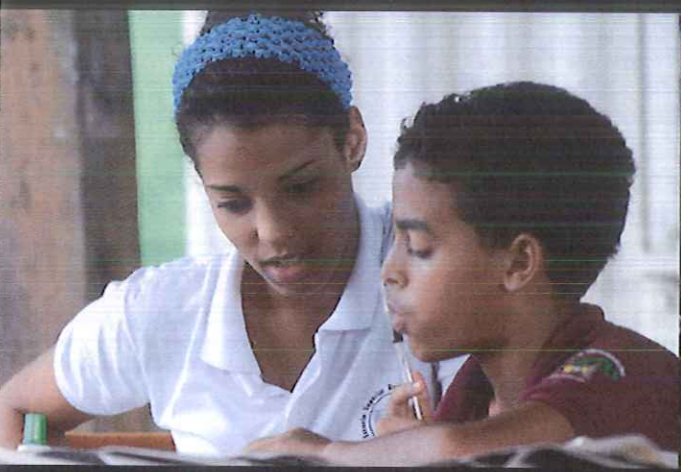
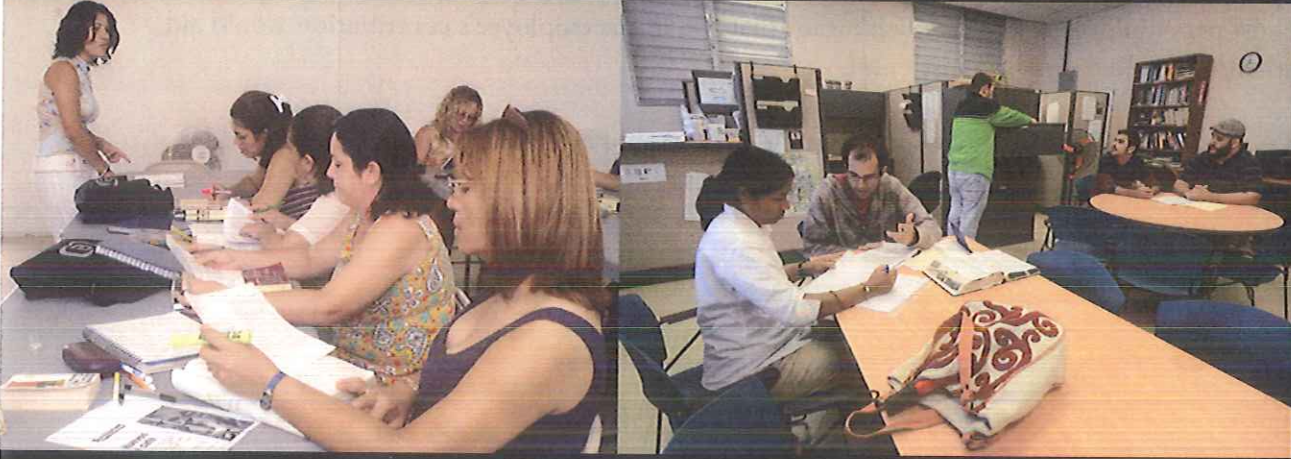
| UNIDAD ACADÉMICA         | 2011-2012  |                     | 2012-2013  |                     | 2013-2014  |                     | 2014-2015  |                     |
|--------------------------|------------|---------------------|------------|---------------------|------------|---------------------|------------|---------------------|
|                          | POSICIONES | SALARIO TOTAL       | POSICIONES | SALARIO TOTAL       | POSICIONES | SALARIO TOTAL       | POSICIONES | SALARIO TOTAL       |
| 1 Administración Central | 51         | \$3,617,679         | 51         | \$3,620,175         | 54         | \$4,215,559         | 54         | \$3,842,931         |
| 2 Junta de Gobierno      | 8          | \$828,284           | 9          | \$519,294           | 9          | \$882,059           | 10         | \$747,059           |
| 3 UPR Aguadilla          | 33         | \$1,928,892         | 31         | \$1,840,331         | 34         | \$2,267,992         | 34         | \$2,218,991         |
| 4 UPR Arecibo            | 29         | \$1,807,002         | 33         | \$1,833,213         | 42         | \$2,633,831         | 42         | \$2,807,957         |
| 5 UPR Bayamón            | 44         | \$2,708,890         | 43         | \$2,617,762         | 42         | \$2,611,139         | 40         | \$2,581,094         |
| 6 UPR Carolina           | 38         | \$2,432,488         | 40         | \$2,729,775         | 41         | \$2,776,483         | 40         | \$3,041,408         |
| 7 UPR Cayey              | 51         | \$3,059,039         | 51         | \$3,127,843         | 56         | \$3,626,053         | 58         | \$3,718,934         |
| 8 UPR Ponce              | 38         | \$2,221,724         | 37         | \$2,184,874         | 38         | \$2,232,152         | 38         | \$2,307,735         |
| 9 UPR Humacao            | 42         | \$3,017,846         | 44         | \$3,242,172         | 39         | \$3,264,860         | 43         | \$3,118,289         |
| 10 UPR Utuado            | 22         | \$1,184,079         | 21         | \$1,144,229         | 22         | \$1,314,000         | 23         | \$1,440,974         |
| 11 CRCI                  | 21         | \$940,407           | 17         | \$788,688           | 22         | \$1,084,328         | 22         | \$1,038,232         |
| 12 RUM                   | 130        | \$8,283,877         | 147        | \$8,815,187         | 151        | \$10,854,532        | 104        | \$8,007,119         |
| 13 SEA                   | 16         | \$993,348           | 16         | \$993,348           | 22         | \$1,553,591         | 20         | \$1,400,100         |
| 14 EEA                   | 11         | \$788,760           | 10         | \$743,882           | 10         | \$740,377           | 10         | \$701,228           |
| 15 CID                   | 2          | \$141,842           | 2          | \$132,414           | 2          | \$133,654           | 4          | \$295,404           |
| 16 RRP                   | 224        | \$15,177,757        | 223        | \$15,088,888        | 223        | \$18,012,476        | 189        | \$13,520,229        |
| 17 RCM                   | 89         | \$5,638,477         | 90         | \$5,818,184         | 93         | \$8,849,097         | 99         | \$7,458,568         |
| <b>TOTAL</b>             | <b>847</b> | <b>\$54,590,501</b> | <b>865</b> | <b>\$55,346,455</b> | <b>898</b> | <b>\$62,652,373</b> | <b>828</b> | <b>\$58,325,199</b> |

Table 16: Personnel of Confidence: Budgetary Impact, Fiscal Years 2012-2015

A significant part or the totality of the proposals appearing in this section are in tune with the *SoS UPR Plan* and its *Government Social Right Sizing* conceptual framework, which protects faculty, research, and service (both student and community-based). In these domains, the UPR can continue its trajectory as the most productive and indispensable social investment for the sustainable development of Puerto Rico.<sup>46</sup>

<sup>45</sup> The measures for new income and the efficiency strategies included in the *SoS UPR Plan* should provide, first and foremost, for the announcement of probationary positions, while mitigating, at the same time, any budget cut.

<sup>46</sup> To offer recommendations on this section of the *SoS UPR Plan*, please visit: <https://goo.gl/forms/ktFA48izcdjQD0sj1>.



Continuous Participatory Process

## V. CONTINUOUS PARTICIPATORY PROCESS

The *SoS UPR Plan* has been, since its inception, a collective and participatory university effort. Its authorship is collective; its proposals are binding; and its impacts, undoubtedly, will also be so. This Plan includes documented proposals elaborated by students, faculty, researchers, and some sectors of the university's leadership. It constitutes a concert of voices made possible because of the "pause in regular work" that the current student strike has produced. As a collective expression of self-organization, the *SoS UPR Plan* aspires to continue conceiving itself from such a sphere of autonomy. To achieve that, we propose that this Plan be dynamic and receptive to ample participation and continuous improvement, thus being enriched by all sectors committed with the defense and preservation of the integral public project that is the University of Puerto Rico.

The participatory process to enrich the *SoS UPR Plan* is envisioned in two phases: immediate and continuous. In what follows, we provide a sketch for both phases, which is also subject to revision and improvement:

### A. Immediate Participatory Phase: Deliberation-Revision-Approval

- a. Description: deliberative process by constituents and interested parties; process of specific revisions and approval by the existing structures of university governance. Once this Plan is approved, the Board of Governors, the Presidency, and the University Board will activate the participatory process described below as amply and agilely as possible. At the same time, each UPR unit will develop participatory processes through existing governance structures and autonomous efforts, according to the decisions of its constituents. The recommendations and input derived from the participatory process will be elevated to the University Board, the Presidency and the Board of Governors within the timeframe defined for this purpose. Duration: 1-2 weeks.
- b. Participants
  - i. University Governance
    1. Chairs
    2. Deans
    3. Chancellors and Administrative Boards
    4. Presidency
    5. Board of Governors
  - ii. Representative Structures
    - a. Student General Councils
    - b. Academic Senates
    - c. University Board
    - d. Retirement Trust Fund
  - iii. University Constituents
    1. Students
      - a. Independent Student Movement
      - b. Interested Students
    2. Faculty
      - a. Self-organized Collectives



- b. Faculty Associations
- c. Interested Faculty
- 3. Support Personnel (Non-Faculty)
  - a. Labor Organizations
  - b. Interested Employees

**B. Continuous Participatory Phase: Improvement-Ratification-Successive Budgets-Action Plans**

- a. Description: periodical and continuous improvement process on the part of constituents and interested parties. This process will allow for the: (1) refinement of data and establishment of amounts; (2) integration of new proposals for other sources of income and savings (efficiency strategies); (3) adaptation of the Plan to the new conjunctures that will result from success in the legislative sphere and through alliances with other sectors of society; (4) harmonization of the Plan to the University Reform (*Reforma Universitaria*) process currently being set off by university sectors for the Puerto Rico of today; (5) approval within the existing governance structures; and (6) elaboration of coherent action plans in all spheres, as required. Once the Plan is certified, the Board of Governors the Presidency, and the University Board will activate the continuous participatory process described below as amply as possible, within previously established timeframes. At the same time, each UPR unit will develop participatory spaces through existing governance structures and autonomous efforts, according to the decisions of its constituents. The recommendations and input derived from the participatory process will be elevated to the University Board, the Presidency and the Board of Governors within the timeframe defined for this purpose. Duration: according to each conjuncture, and by semester.
- b. Participants
  - i. University Governance
    - 1. Chairs
    - 2. Deans
    - 3. Chancellors and Administrative Boards
    - 4. Presidency
    - 5. Board of Governors
  - ii. Representative Structures
    - a. Student General Councils
    - b. Academic Senates
    - c. University Board
    - d. Retirement Trust Fund
  - iii. University Constituents
    - 1. Students
      - a. Independent Student Movement
      - b. Interested Students
    - 2. Faculty
      - a. Self-organized Collectives
      - b. Faculty Associations

- c. Interested Faculty
- 3. Support Personnel (Non-Faculty)
  - a. Labor Organizations
  - b. Interested Employees
- iv. Interested Sectors
  - 1. Alumni Organizations
  - 2. Friends of the UPR Organizations
  - 3. Retired Employees Organizations
  - 4. Other Interested Parties<sup>47</sup>

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<sup>47</sup> To offer recommendations on this section of the *SoS UPR Plan*, please visit:  
<https://goo.gl/forms/2JunE7Yb1OjLjCN42>.



Guiding Principles of the UPR Budget (2017-2018)

## VI. GUIDING PRINCIPLES OF THE UPR 2017-2018 BUDGET<sup>48</sup>

1. The UPR will distribute its resources following these priorities: (a) strengthening teaching, research and direct services to students and surrounding communities; (b) strengthening the UPR's Retirement Trust Fund by means of new hires for regular positions; (c) honoring fair labor conditions; (d) cutting first from the ineffective administrative sphere, which refers to that which does not offer direct services to students; (e) reducing bureaucracy and its related increase of inefficient administrative costs to the maximum; and (f) reducing from private services before regular labor conditions.
2. Given the foreseeable negative effects to most Puerto Rican households of the austerity measures contained in the Commonwealth's Certified Fiscal Plan, which will be piled upon the ravages of a decade of economic contraction, the UPR will not increase tuition costs for students. A study of the Higher Education Council (*Consejo de Educación Superior*), published in March 2017, shows that, in Puerto Rico, a family with average income currently devotes 62% of it to university expenses. In other jurisdictions, the proportion is considerably lower, and does not exceed 30%-40% of the family income. Increasing tuition costs now would also contribute to higher private indebtedness, which would, in turn, reduce the demand and restrain economic activity. To the extent that the country's economic recovery begins in earnest, this principle may be reevaluated.
3. The UPR has the capacity of maintaining, over the next ten (10) years, an enrollment of 55,000 to 62,000 students. With the best graduation rate among higher education institutions in the country, the UPR ensures that our alumni multiply their capital-generating capacity by \$25,000 per year, when compared with the average salary a worker without a university degree earns (Alameda and González, 2017). Progressively increasing regular faculty hires will augment the size of incoming classes, generate more income through tuition, multiply the human resources applying for external funding, and strengthen the UPR's Retirement Fund.
4. There is no economic or financial study, nor a historical precedent in the United States, that supports such an exorbitant cut to a higher education public institution as that contemplated in the Commonwealth's Fiscal Plan, as certified by the Fiscal Oversight Board and accepted in previous fiscal plans for the UPR. The MSCHE, in fact, has expressed concern about the magnitude of the adjustment, and for this reason has the UPR under observation. It is yet unknown how the anticipated cuts will affect, alongside the myriad other services detailed in the *SoS UPR Plan*, the essential health services the UPR offers, as an indispensable safety net, to medically indigent people in the country, which annually result in millions of dollars in accounts receivable.
5. The UPR maintains its leadership in scientific research in Puerto Rico, as the 2015 *Ibero-America Report (Informe Iberoamérica)* corroborates. In the Report, the UPR occupies position #26 in Latin America and #50 in Ibero-America. Between 2010 and 2015, the United States Patent and Trademark Office bestowed 25 patents to UPR researchers,

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<sup>48</sup> The information highlighted in each of the following Principles can be corroborated and deepened with a detailed consideration of this Plan's section titled "From the Government Right Sizing to the Government Social Right Sizing: the UPR and its Indispensable Role for the Country." A Draft of the Proposed Budget can be found at: <https://www.scribd.com/document/349884160/UPR-Fiscal-Plan-149-MM-Total-Adjust-Final-English-Ver>

elevating the total patents granted to the UPR to 62. For these reasons, this Budget seeks to strengthen the research component and technology transfers.

#### Budgetary Impact According to Scenarios Contemplated in the *SoS UPR Plan*

The 2017-2018 UPR budget presented here as part of the *SoS UPR Plan* responds to Scenario III (see this Plan's section titled "Scenarios"), which can be described as the most conservative of the contemplated scenarios. However, with the consideration of Scenario I, or any variation of Scenario II, the UPR's budget would be even more robust and consistent with the vision of Government Social Right Sizing previously explained.

The budget presented here makes moderate income projections. With the approval of the necessary new bills or amendments that would make viable, at least, some of the proposals for new income, the fiscal scenario for the UPR would correspond even more with its mission and social profile. Further, if the presented model for project operationalization is diligently implemented, measures taken to offer professional services and training to government agencies might generate more benefits, while assuring that the public debt to the UPR does not continue its current, incremental tendency.

Finally, it is extremely difficult to estimate now the net impact of avoided costs and of savings that the UPR might achieve if it implements rigorously the efficiency strategies presented here. Still, and as anticipated in the participatory process of revision and improvement included in this Plan, there is, undoubtedly, space to continue transforming challenges into strengths. The *SoS UPR Plan* was crafted and is being submitted against the backdrop of an ongoing process integral transformation of the UPR (*Reforma Universitaria*), spearheaded by various university sectors. Once that indispensable effort concludes, we are confident that, with the support it merits from the State, the public university of Puerto Rico will emerge strengthened and will continue to advance its mission for your younger generations and for our country.<sup>49</sup>

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<sup>49</sup> To offer recommendations on this section of the *SoS UPR Plan*, please visit:  
<https://goo.gl/forms/1epBQ4dL7iMUzRN2>.

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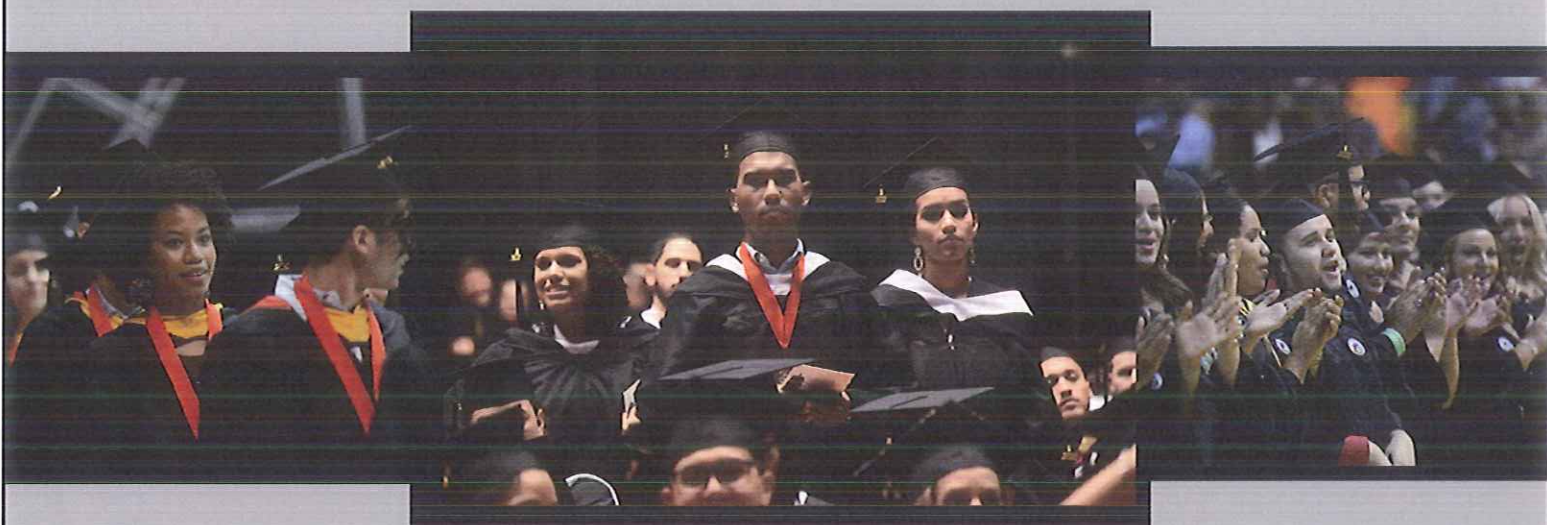


Endorsed by:









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