

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



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BY ELECTRONIC MAIL

June 18, 2020

Mr. Walter Alomar Jiménez
President
UPR Governing Board

Dear Mr. Alomar Jiménez:

On June 12, 2020, the Oversight Board certified a fiscal plan for the University of Puerto Rico (the “2020 UPR Fiscal Plan”). The 2020 UPR Fiscal Plan states that UPR “has built a rich legacy of education, research, and cultural contributions while serving as the Island’s chief source of socioeconomic mobility.” The fiscal sustainability of UPR and its transformation is of utmost importance for the Oversight Board.

Regrettably, a press release by UPR President Dr. Jorge Haddock issued yesterday included gross mischaracterizations. Unfortunately, it seems that the UPR President either did not review the 2020 UPR Fiscal Plan before making his misguided press statement, or he was misinformed by his team, or both. We take this opportunity to address the issues, and clarify point by point:

1) “UPR has paid its debt to date and does not represent a risk to the University.”

- a. While we do not disagree that the University has been paying its bonded debt to date, it must be clarified that it is not paying its actuarially-required pension obligations. Thus, we are simply clarifying that the revenues do not allow for full payment of both the debt service and the actuarially-required pension obligations. As per UPR’s monthly Budget to Actuals report submitted June 1, 2020, only \$54.6M of the expected \$160.9M were contributed to the UPR Pension Fund. Moreover, even after implementing fiscal measures in the upcoming fiscal years, UPR will not be able to pay its contractually obligated accrued debt of approximately \$600 million and will need to pursue debt restructuring.

2) “[Title III] would put the University at risk for accreditation.”

- a. This is false. Title III of PROMESA is not the equivalent to Chapter 11 of the Bankruptcy Code and accordingly should not jeopardize federal funding or accreditation, as a result.

3) ***“Eliminating 10,300 jobs, as FOMB pretends, ‘is not feasible and much less sustainable.’”***

- a. Of course eliminating 10,300 jobs is not feasible. The Fiscal Plan does not require anything even close to that. The statement made is false. 10,300 jobs are the end state of the Fiscal Plan in FY25. Page 40 of the 2020 UPR Fiscal Plan states the following:

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

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

In order to maintain the highest level of instructional quality, UPR may increase faculty annually by up to 3% per year throughout the 2020 UPR Fiscal Plan period.”

Moreover and importantly, the employee attrition presented in the 2020 UPR Fiscal Plan between FY20 and FY21 is ~3.8%, far below the ~5.40% of natural attrition (due to employee retirement) that UPR has experienced in the past.

See the exhibit from the fiscal plan below:

Conglomerate Transformation – Leaner Administrative Structure

	10,938	10,527	10,426	10,354	10,289	10,229
Total Headcount, number of employees	FY20	FY21	FY22	FY23	FY24	FY25
Headcount Reduction Analysis, %						
	FY20¹	FY21	FY22	FY23	FY24	FY25
1 Reduction of Federal Funds Personnel	0%	0%	0%	0%	0%	0%
2 Reduction of Transitory / Temporary Personnel	-3%	-3%	0%	0%	0%	0%
3 Increase of Faculty Personnel ²	3%	3%	3%	3%	3%	0%
4 Reduction of Faculty -Administrative Personnel	-10%	-10%	-3%	-3%	-3%	-1% ³
5 Reduction of Non-Faculty	-5%	-5%	-3%	-3%	-3%	-1% ³
Total Savings, \$000's	64,758	100.882	107.605	112.441	116.830	117.762

¹ Expected as per June 2019 Certified UPR Fiscal Plan, does not consider COVID impact

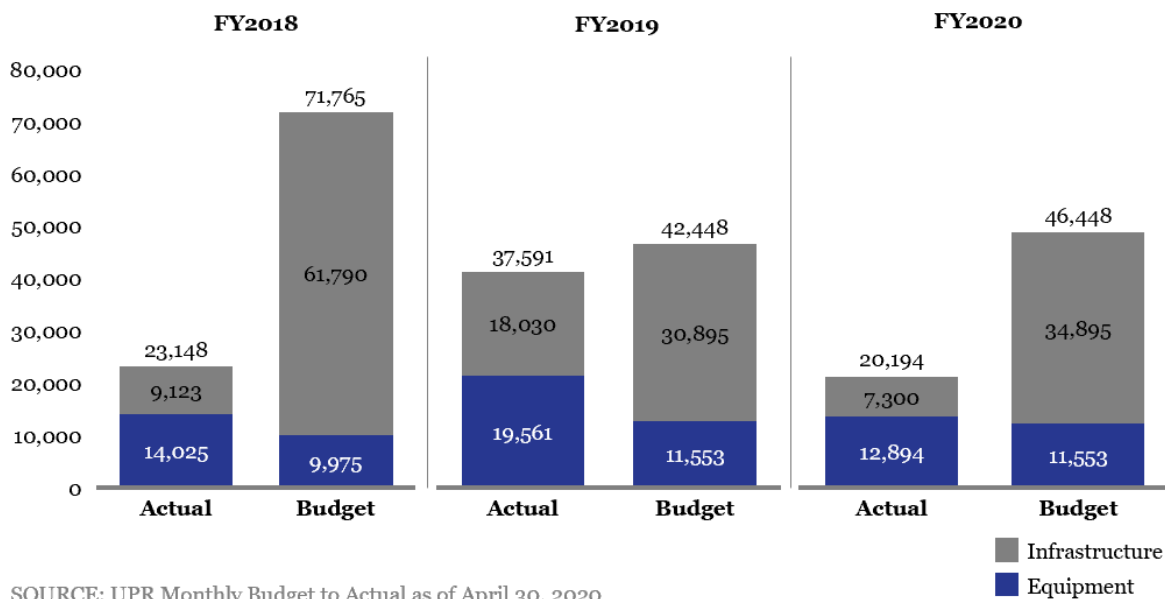
² Growth may include conversion of trust personnel into faculty and any conversions not covered by 3% allowed growth must be offset through other attrition

³ Indexed to expected population decline

4) *The press release denied that Puerto Rico’s main educational center has only disbursed \$4 million in CARES Act funds.*

- a. The Oversight Board does not dispute this allegation. However, during the press roundtable explaining the 2020 UPR Fiscal Plan, the discussion concerned federal disaster relief funds in light of the recent hurricanes – not CARES Act Funds. Based on the latest COR3 transparency portal, just \$4.8 million of these funds have been disbursed out of the ~\$118 million that have been obligated. However, it is important to add that of UPR’s own capital expenditures budget, less than half of funds had been disbursed/invested as of April 30, 2020. See the exhibit from the 2020 UPR Fiscal Plan below:

Capital Expenditures Actual vs Budget, \$000s



5) *“We know that we are called, by PROMESA, to foster fiscal responsibility on the Island, but there is a social and human responsibility that should also be considered.”*

- a. Social and human responsibility would mean adequately funding the University’s Pension Plan. In fact, that is what the UPR Fiscal Plan requires, social and human responsibility for the Pension Plan which will become insolvent by 2031 if existing practices continue. The latest actuarial studies - performed by UPR and Oversight Board actuaries - suggest that UPR has accrued pension liabilities worth ~\$3.2B, of which \$1.8B is unfunded. Despite the crisis, UPR has made a contribution ~66% lower than what its own actuaries have deemed to be financially necessary and what is required in the FY2020 Certified Budget for UPR. Continuing to underfund the

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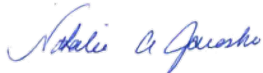
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Pension Plan means UPR will be forced to make higher future contributions to service retirees as unfunded liabilities keep growing. Such contributions, combined with accumulated \$600M in debt, will come at the expense of student services and other academic responsibilities of the University if no action is taken. The UPR pension liability needs to be currently funded in order to avoid the high risk of unaffordability and insolvency, as well as to be a responsible fiduciary for the retirees of UPR.

* * *

Again, we ask for leadership, accountability, and transparency to both the community and Puerto Rico so that we all work together towards a common goal. The sustainability of the University as an engine of economic development is challenged by inaction.

Sincerely,



Natalie A. Jaresko

CC: Mr. Omar J. Marrero Díaz
Dr. Jorge Haddock
UPR Governing Board