



GOVERNING BOARD
UNIVERSITY OF PUERTO RICO

CERTIFICATION NUMBER 120
2021-2022

I, Margarita Villamil Torres, Secretary of the Governing Board of the University
of Puerto Rico, DO HEREBY CERTIFY THAT:

The Governing Board, in its ordinary meeting held on March 24, 2022,
approved the UNIVERSITY OF PUERTO RICO FISCAL PLAN, for
years 2022-2023.

IN WITNESS WHEREOF, issued under the seal of the University of Puerto Rico,
this March 24, 2022.




Margarita Villamil Torres
Secretary

Proposed Fiscal Plan for the University of Puerto Rico

Enhancing Public Higher Education

Fiscal Years 2023 to 2027

March 25, 2022

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Acronyms

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

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Examples of these factors include, but are not limited to: – The effect of the Coronavirus Disease 2019 (“COVID-19”) on the health and well-being of the people of Puerto Rico; – The short-term economic effects of COVID-19 on the global economy and the economy of the United States and Puerto Rico as it relates to Puerto Rico’s tax revenue and budget; – The longer-term economic ramifications from behavioral changes caused by COVID-19 (i.e., reduced travel, increased work and study from home, reduced activity in large gathering places, etc.); – The amount of federal aid and the efficacy and speed of disbursement of such aid; – The need to shift resources to create a more resilient structure to prevent or mitigate future pandemics; – The amount and timing of receipt of any distributions from the Federal Emergency Management Agency (“FEMA”), Federal Department of Housing and Urban Development (“HUD”)’s Community Development Block Grant-Disaster Recovery (“CDBG-DR”) Program and private insurance companies to repair damage caused by Hurricanes Irma and Maria; – The amount and timing of receipt of any additional amounts appropriated by the United States government to address the funding gap described herein; – and unpredictability of these factors, their impact cannot be included in the assumptions contained in this document. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. Nothing in this document should be considered as an express or implied commitment to do or take, or to refrain from taking, any action by the University of Puerto Rico, the Government, or any government instrumentality in the

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Executive Summary

For the past century, UPR has built a rich legacy of education, research, and cultural contributions while serving as the Island's principal source of socioeconomic upward mobility. UPR strives to provide high-quality education and create new knowledge in the Arts, Sciences, and Technology. However, serious financial and management challenges threaten to put this vital mission at risk. The UPR has to address academic curriculum optimization, declining enrollment, infrastructure and maintenance needs, operational inefficiencies, and liability management. To lower the financial burden on the Commonwealth, the Central Government started to reduce appropriations to UPR in 2017. Since FY2017, Central Government appropriations to the University have been reduced ~\$427M. For FY2023, appropriations make up 48% of total operating expenditures, which is down from nearly 70% before the first Fiscal Plan. UPR has been proactively diversifying its sources of revenue and managing unsustainable costs working towards a stronger and more sustainable University.

Since its first fiscal plan in 2017, the UPR has steadily implemented measures that improve its fiscal sustainability, as well as its global reputation and rankings, thus maintaining its position as the premier university in Puerto Rico across a wide variety of metrics. In five years, the UPR went from a staggering position #62 in Quacquarelli Symonds ranking to #37 among Latin American universities in 2021.

The goal for UPR is not only one of fiscal sustainability, but also of academic strength and leadership. UPR remains steadfast towards strengthening its academic mission through academic curriculum optimization, building on a framework including targeted graduation and retention rates. UPR's mission remains to forge the Island's future skilled labor market.

To comply with PROMESA, the Oversight Board has certified yearly fiscal plans for the University of Puerto Rico since 2017. Considering the many variables in the forecasts, the annual Fiscal Plan is updated and certified for accuracy and to serve as the most updated information for the purposes of certifying an annual budget. The UPR Fiscal Plans, in accordance with PROMESA, have outlined a path to achieve fiscal responsibility, gain and maintain access to capital markets, and provide an update of the various tasks and milestones that could assist UPR to achieve and ensure sustainability. The 2022 UPR Fiscal Plan continues emphasizing these priorities. The four core elements center largely around improving operations and increasing revenues, while maintaining the ability for all students to access and benefit from the improved university system:

- **Operational efficiencies:** UPR's existing operational model is in the throes of integrating the administrative functions of the eleven semiautonomous campuses: the objective being to eliminate unnecessary complexity that drives higher costs. The UPR Fiscal Plan continues to identify personnel and non-personnel efficiencies, prioritizing the latter, to make sure all campuses remain operational while reinvesting in core faculty.
- **Revenue enhancement and diversification:** The 2022 UPR Fiscal Plan maximizes opportunities to increase revenue from non-tuition sources. These include federal grants and awards, and ancillary service fees for providing training to external institutions.
- **Pension reform:** The 2022 UPR Fiscal Plan outlines the UPR proposed reform and discusses some continued risk and concerns.
- **Fiscal governance and controls:** The 2022 UPR Fiscal Plan includes fiscal governance reforms such as cross-campus and component unit controls on how revenues are collected, and expenditures are reported.

Both 2020 and 2021 UPR Fiscal Plans were adjusted to account for impact COVID-19 – a Pandemic that has radically reshaped the operations of the UPR. COVID-19 has brought a once in a generation opportunity to transform the University. For example, UPR expanded its distance learning capabilities for all students. Student residences and campus life was adapted

to undertake the necessary health measures and a more flexible academic program was implemented to allow for a successful higher education experience during the pandemic.

The University, now more than ever, needs to rethink, repurpose, and refocus on its core mission, to serve Puerto Rico's higher education market.

Chapter 1 UPR current context & baseline spend

1.1 UPR and its importance to the Commonwealth

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

To advance its mission, UPR strives to provide high quality education and further knowledge in the Arts, Sciences and Technology. UPR is the oldest institution of higher education in the Commonwealth and enjoys a history of academic excellence, with 694 degree granting academic and professional certification programs - including 6 first level professional degree programs and 40 PhD programs. UPR also plays a critical role in providing avenues for social and economic advancement, with 70% of students receiving Pell grants.

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

1.2 Challenges facing the UPR

UPR faces several trends that will make it more challenging for it to continue to fulfill its critical mission. The 2022 UPR Fiscal Plan addresses such trends directly and is designed to ensure UPR can continue to achieve fiscal balance while serving the students and residents of Puerto Rico notwithstanding:

- Academic and operational setbacks due to the COVID-19 pandemic
- Declining student enrollment, in line with the overall demographic shifts on the Island.
- Decreased Commonwealth appropriations to support UPR operations considering the Commonwealth's own fiscal challenges
- Impact of Natural Disasters on infrastructure and maintenance investment
- UPR's Pension System reform

1.2.1 COVID-19 Emergency situation

The COVID-19 pandemic threw a curveball to higher education institutions across the country. UPR was no exception, as it made the decision to shift nearly 100% of its courses online since the Spring 2020 semester, and halt much of its research activity to safeguard its community of students, faculty, and staff. While first and foremost a humanitarian crisis, the fiscal impacts of COVID-19 on the University have also been substantial. At the same time since FY2020, the University has faced new costs related to IT- related to remote instruction. These financial effects have been mitigated in part, however, by UPR's access to Federal COVID-related funds, including CARES, CRRSAA, and ARP, which are estimated at ~\$436M, of which ~\$241M are

available for institutional use and ~\$194M for student aid.

During May 2021, the University received accreditation from MSCHE for over 11,500 online courses and intends to continue expanding its academic offering in virtual learning. The UPR has assumed a hybrid instruction model for the 2021-2022 academic year. The University's 11 campuses planned for various control measures to comply with CDC and Puerto Rico Health Department recommendations.

Given the unprecedented challenge prompted by the COVID-19 global pandemic during FY2021 and FY2022, UPR's FY2023 will be strongly marked by the actions it takes to ensure the continuity of university services and the wellbeing of its broader community. The University implemented a phased reopening to in person learning, as of the second semester of FY 2022. UPR has equipped itself with the tools and resources necessary to effectively return to in person education: new safety measures, scheduling modifications when needed, appropriate update of technology, and adequate infrastructure to deliver the hybrid program, and greater support for students, faculty, and staff. For this, UPR has leveraged the different sources of funding made available to the University to weather the pandemic, such as CARES, CRRSAA, and ARP Act-related funds. Between the three COVID-19 Relief Fund packages, the University has allocated \$166M directly to students and \$174.6M for institutional funds to utilize in pandemic-related expenses.

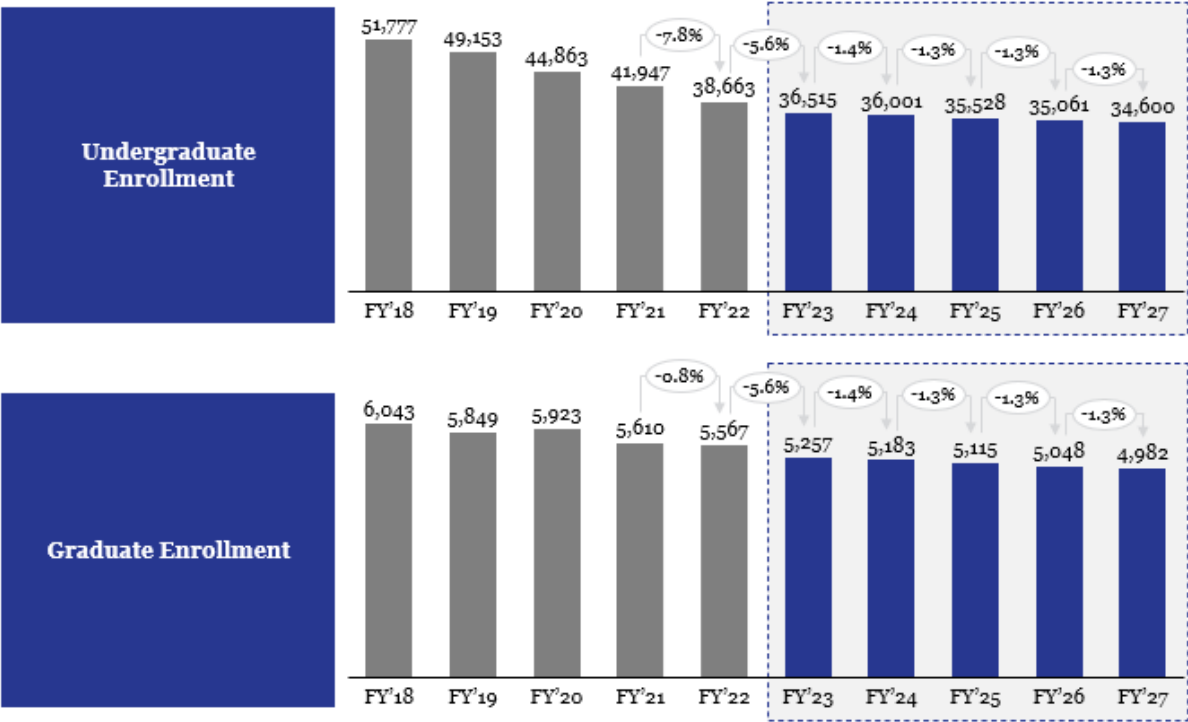
1.2.2 Decline in enrollment

The UPR has seen a continuous trend in student enrollment decline for the past decades. The economic and demographic challenges seen across Puerto Rico has led the UPR to establish a systemic work plan to strengthen the student recruitment strategies at local, national, and international settings. As of 2020, the economy was 23% smaller in real terms relative to 2005, while the population was nearly half a million smaller (primarily due to outmigration) than in the previous decennial census. Demographics are also shifting, with a significant aging of the population that is expected to continue.

As a result, UPR has seen substantial enrollment decline over the past decade across both graduate and undergraduate populations (EXHIBIT 1). In addition to lower enrollment, the UPR is experiencing a decrease in admission applications for the 2022-2023 academic year, when compared to previous years.

Outside of Commonwealth subsidies, tuition is the primary source of operating revenue for UPR (~33% in FY2022). The continued enrollment decline must be accounted for in designing the future operating model of the University. The UPR Governing Board projects a drop of 5.6% through FY2023 driven largely by demographic shifts on the Island that have reduced the number of likely enrollees. Given the importance of tuition revenue in financing UPR's operations, this enrollment drop has been accounted for when designing measures to meet structural balance. Specifically, the 2022 UPR Fiscal Plan takes declining student population into account when setting non-faculty attrition ratios that drive a large share of the expenditure measures across the system. These targets will be achieved in part through service level optimization and administrative consolidations that will prove to be essential as individual campuses further decline in scale and are no longer able to efficiently support independent administrative functions.

EXHIBIT 1: HISTORICAL AND PROJECTED UPR ENROLLMENT FY2018 -27

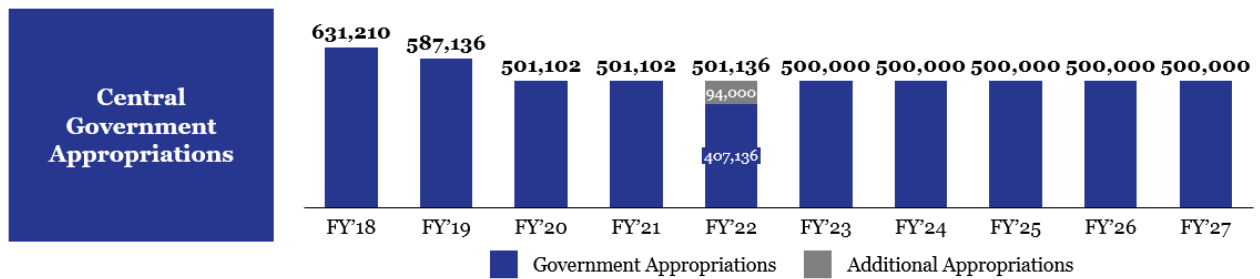


1.2.3 Decrease in Commonwealth appropriation

Between FY2017 and FY2022, Central Government appropriations to the UPR were reduced by \$427M or 49%. Notwithstanding the fiscal adjustments made by the UPR Central Administration, the University has consistently delivered operational budgets to the FOMB that range between \$1.2 to \$1.3B during the previous fiscal years. While improving its alternative revenue sources (e.g., greater institutional revenues and federal grants), the administration has managed to achieve various performance efficiencies and sustain its academic programs across all units.

Law 53 of 2021 known as the “Ley para Ponerle Fin a la Quiebra de Puerto Rico” fixed the general funds appropriations for the University of Puerto Rico at \$500M from FY2023 through FY2027.

EXHIBIT 2: CENTRAL GOVERNMENT APPROPRIATION TO UPR FY2018-27



Analysis published by the Chronicle of Higher Education, based on data on revenue reported by institutions to the Federal Department of Education's Integrated Postsecondary Education Data System for the fiscal years 2002 to 2019, provided a list of over 1,500 Public Colleges' state support indicators. This report shows that the UPR would be the 2nd institution (out of over 1,500) with the largest reduction in state support over a ten-year period. Additionally, the analysis published shows that the Government Appropriations and /or State Support (of approximately 49% in FY'2022, compared to 70% in FY'2017) would place the UPR under the 50% percentile of the 1,500 institutions being evaluated. While most state universities expect to receive a larger contribution from appropriations for 2022-2023 due to post-pandemic funds that have been received by state governments, the appropriations that UPR will receive will remain at \$500M for five years.

Benchmarking completed by the Pew Charitable Trust, based on data published by the Office of Management and Budget, shows that for FY'2017 State Higher Education spending represented 9.8% of total General Funds. Compared to the UPR's Central Government Appropriations of 4.1% of total General Fund budget for FY'2022.

EXHIBIT 3: STATE HIGHER EDUCATION BENCHMARK

State Higher Education Funding Benchmarks				
(in billions \$)	Benchmark		PR FY'22 GF	
Elementary and secondary education	283.00	35.7%	2.34	23.1%
Medicaid	156.00	19.7%	0.03	0.3%
Higher Education	78.00	9.8%	0.41	4.1%
Corrections	53.00	6.7%	0.40	4.0%
Public Assistance	9.00	1.1%	1.15	11.4%
Transportation	5.00	0.6%	0.16	1.6%
All Other	209.00	26.4%	5.62	55.6%
Total	\$793.00		\$10.11	

1.2.4 Impact of Natural Disasters on infrastructure investment

Infrastructure and permanent buildings, site improvements, and maintenance projects are a priority for the UPR Administration. The Capital Improvements Program is dynamic, and projects are an opportunity to improve the image and technologies of the institution. Recent events, such as the 2017 hurricanes, the 2020 earthquakes, and the COVID-19 pandemic have brought about new challenges to the existing infrastructure. For effective project development, the University had to create a transformation culture based on the following pillars: efficient project management strategies, implementation of technology in project administration, energy saving project strategies, construction resiliency planning, amendments to contracting and bidding regulations to allow agility in project execution. This has been possible with funding assignments from the Office of Institutional Transformation and external federal funds.

Noteworthy progress is verifiable in projects programmed and completed between FY2018 and FY2022. To-date, 157 projects are in diverse planning phases, an 85% increase from FY2018, where only 85 projects were part of the capital plan program. As of December 2021, the Board of Awards of the UPR has 19 projects scheduled for public notice announcement bidding and/or bidder selection. Meanwhile, 10 projects are in construction phase. These 10 projects under construction represent a total investment of \$46.2M.

During FY22, UPR reported quarterly budget to actuals on capital expenditure projects identified by project stage, approval certification, expected completion date and aggregate amounts disbursed by project. According to UPR's budget-to-actuals reporting, \$19M out of the \$42M designated for Capital Expenditures and Equipment was spent during FY2021, mostly the result of COVID-19 delays. Before COVID-19, UPR spent an average of \$27M or 59% of its budget in capital expenditures and maintenance.

1.2.5 Pension Plan Reform

The state of the UPR Retirement System ("UPRRS") poses a particularly serious risk. The latest UPRRS actuarial valuation report reveals that 65% of the plan is unfunded (~\$1.46B of unfunded liability).

During 2020, 2021, and 2022, UPR demonstrated its commitment to comply with the required contribution payment as stipulated by their actuary. For example, UPR contributed \$160M to cover normal cost and reduce unfunded pension liability in accordance with the Certified Budget for 2021. These additional contributions have mitigated the actuarial debt by a reduction of \$600M as stated in the UPRRS audited financial statements dated February 23, 2022.

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

1.3.1 Note on baseline presentation

The baseline revenues and expenditures in the 2022 UPR Fiscal Plan are presented in a manner consistent with and comparable to the 2021 UPR Fiscal Plan and FY2022 Certified Budget. As such, they reflect the path of the University prior to the implementation of any measures achieved since the beginning of FY2018 and through FY2022.

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

1.3.2 Baseline revenues

The University Baseline revenues are projected to decrease by 20% for FY2023 and remain relatively stable through FY2027. This is driven by the following trends:

- Tuition revenues decline: baseline tuition revenues are projected to decline proportionally to enrollment from FY2023 to FY2027. Tuition forecasts assume that cost per credit (pre-measures) will remain at FY2018 levels for all programs, but that the volume of enrolled students will decline as the Island population declines. Annual estimates of enrollment decline are based on FY2022 student population average.
- Central Government appropriations: As stated in section 1.2.3, appropriations will be fixed at \$500M through FY2026.

- The University receives additional Central Government transfers that are destined to a specific and restricted purpose, these include:
 - \$29.3M in Joint Resolutions mainly allocated for the Medical Sciences Resident Program.
 - \$9.5M as part of Legislative Scholarships
 - \$20M for the Trainings and Seminars Program for Central Government Employees and Department of Education
 - \$51M as a one-time payment for FY2023 for the UPR Scholarship Fund
 - FY2023 will also see the Medical Sciences Campus benefit from \$5M towards its Medical Residents Program. As of March 17, 2022, the Governor submitted the Commonwealth proposed budget for FY2023, which included an additional \$10M in appropriation for the Medical Science Campus to cover needs for accreditation and transformation.
 - Historically, another source of income for the University has come from Slot Machine revenues received from the Puerto Rico Tourism Company (“PRTC”), by virtue of Act 221 of 1948, as amended (“Slot Machines Act”). Beginning in FY2021, due to the new Puerto Rico Government Gaming Commission, by virtue of Act No. 81 of 2019, the University has begun to receive transfers directly from the Puerto Rico Gaming Commission. No fiscal impact is expected as part of this adjustment, although Slot Machine revenues have been affected by the COVID-19 pandemic by approximately -25% for FY2021 the slot machine revenues for the university are expected to increase by \$6.7M in FY2022 compared to Certified Budget.
- Some campus-generated inflows (e.g., dues and charges revenue) are also expected to decline proportionally to enrollment. Additionally, due to COVID-19, other revenues, such as medical services, sustained a negative impact expected to recover during FY2023.
- Traditional Federal receipts are expected to remain stable from FY2023-2027. Federal receipts include pass-throughs for Pell grants. Pell grant levels are expected to behave proportionally to enrollment. Starting FY2022, UPR is providing a breakdown of Pell from other federal funding for ease of tracking.
- CRRSAA and ARP Act revenues: UPR has received several sources of COVID-related funding for higher education institutions. To date, the UPR has received a total of \$437M of Higher Education Emergency Relief Funds of which \$241M is directed towards institutional use and \$194M for student aid. All institutional support will cover additional operating expenditures within guidelines of HEERF.
- Other components of baseline revenue are expected to remain relatively stable pre-measures throughout the 2022 UPR Fiscal Plan.

EXHIBIT 4: PRE-MEASURE BASELINE REVENUES

(000's)	CFP FY'22	FY'22	FY'23	FY'24	FY'25	FY'26	FY'27
Total Central Government Transfers	\$445,909	\$445,909	\$505,252	\$504,699	\$505,042	\$505,497	\$505,159
Total Operating Receipts	306,363	308,827	307,526	306,361	305,534	305,193	305,783
Total Intra-Government Receipts	172,248	235,124	225,543	230,590	235,661	240,794	246,001
Total Disaster Relief Receipts	-	8,115	-	-	-	-	-
Total COVID Related Relief	128,533	296,646	-	-	-	-	-
Total Receipts	1,053,054	1,294,621	1,038,321	1,041,650	1,046,237	1,051,484	1,056,943

1.3.3 Baseline expenditures

Baseline expenditures and disbursements are expected to remain relatively stable between FY2023 and FY2027 (see EXHIBIT 5). This stability reflects the prior implementation of a freeze on all operating and payroll expenses starting in FY2019. Baseline payroll (pre-attrition and pre-measures) is assumed to remain constant at \$706M, and non-payroll operating expenditure categories also remain constant except for scholarships and donations, which decline slightly to reflect decreases in disbursements of university-sponsored financial aid as enrollment declines.

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

- **Increase in Facilities & Payments.** These pertain to public services and are directly related to increases in electric and water utility expenses as per the Commonwealth Fiscal Plan.
- **Pensions.** Baseline pension expenditures assume maintenance of the defined benefit plan where UPR continues making the full actuarially required contribution with no reduction in accrued benefits or freeze.
- **Disaster-related disbursements.** These assumptions represent the latest information on federal and private-insurance relief funding related to the various natural disasters that have hit the Island in past years. For fiscal planning purposes, expenditures are assumed to occur within the fiscal year disaster-related funding is received.
- **COVID-19 related disbursements.** The funds received this fiscal year were greater than expected but are pass-through expenditures.

EXHIBIT 5: PRE-MEASURE BASELINE EXPENDITURES

(000's)	CFP FY'22	FY'22	FY'23	FY'24	FY'25	FY'26	FY'27
<u>Operating Disbursements:</u>							
Total Operating Disbursements	(1,105,558)	(1,109,365)	(1,113,452)	(1,133,630)	(1,152,235)	(1,171,424)	(1,190,836)
Total Disaster Relief Disbursements	-	(8,115)	-	-	-	-	-
Total COVID Related Relief	(128,533)	(296,646)	-	-	-	-	-
Pensions Payment	(205,200)	(205,200)	(202,600)	(200,500)	(198,700)	(197,200)	(195,900)
Capital Expenditures Equipment	(30,895)	(30,895)	(30,895)	(30,895)	(30,895)	(30,895)	(30,895)
	(11,553)	(11,553)	(11,553)	(11,553)	(11,553)	(11,553)	(11,553)
Total Disbursements	(1,481,739)	(1,661,774)	(1,358,500)	(1,376,578)	(1,393,383)	(1,411,072)	(1,429,184)

1.3.4 Baseline operating deficit/surplus and cash position

Before calculating the baseline primary deficit, it is important to note that none of these calculations account for fiscal measures (e.g., attrition, procurement savings) undertaken by UPR in prior fiscal years under direction of the UPR Fiscal Plan or otherwise. With that in mind, the above expenditure and revenue forecasts indicate UPR – in its baseline scenario – will operate at an operating deficit pre-debt service (see EXHIBIT 6). A large portion of this deficit is driven by the assumption that UPR will properly fund its pension system within the current plan design. With the addition of debt service, UPR’s operating deficit would approach \$415M in FY2022.

EXHIBIT 6: PRE-MEASURE FINANCIAL BASELINE

(000's)	CFP FY'22	FY'22	FY'23	FY'24	FY'25	FY'26	FY'27
Net Cash Flow (before Debt Service Payment)	(428,686)	(367,153)	(320,179)	(334,929)	(347,145)	(359,589)	(372,241)
Debt Service Payment	(48,252)	(48,252)	(48,252)	(48,252)	(48,252)	(48,252)	(48,252)
Net Cash Flow	(\$476,938)	(\$415,405)	(\$368,431)	(\$383,181)	(\$395,397)	(\$407,841)	(\$420,493)

Chapter 2 Implementation progress

The UPR Fiscal Plan has revenue enhancement & expense control measures that have brought an estimated \$1.1B in income & savings to the UPR by the end of FY2022. To date, UPR has made progress on various measures (e.g., undergraduate tuition increases, dues and fees, attrition, tuition exemptions, services provided to government) but less on others (e.g., graduate tuition, medical insurance, bonus reductions, pension reform) (See EXHIBIT 7 for status of measures). Among the adopted measures are undergraduate and graduate tuition increases of 154% and 57%, respectively. Dues and fees have increased by 57% since FY2018, while a reduction in tuition exemptions have translated into an additional average revenue of \$16M annually. Measures pertaining to personnel cutbacks have rendered a headcount reduction of over 2,740 employees since January 31, 2018. Another ongoing measure showing promising results are savings achieved through procurement efficiencies. However, the full impact of all the 2022 UPR Fiscal Plan measures is required to achieve fiscal balance, and these are highly dependent on timing. In other areas implementation challenges have been due to various events (e.g., COVID-19 pandemic, reopening plans, measures to return to work).

Yet, to achieve the much-needed savings and revenues outlined in this plan UPR remains cognizant of timing and milestones mentioned in each of the measures. The University continues to actively monitor progress against these targets and submits regular reports to the Oversight Board on its achievement of this plan. These measures are as much about improvement in student outcomes as about savings, slow implementation impedes quality service to students as well.

EXHIBIT 7: IMPLEMENTATION STATUS OF MEASURES

Measures	Status	Description
Revenue Enhancements		
Increase in Tuition - Undergraduate (net of scholarship fund)	●	Fully compliant with the CFP
Increase in Tuition - Graduate (including maintenance & technology fees)	○	Graduate tuition increased, but not to CFP levels
Dues and Fees	●	Fully compliant with the CFP
Federal Grants and Contracts	○	UPR has increased Federal Funds but not to CFP levels
Trainings, Seminar, Tutoring, & Technical Services	●	Fully compliant with the CFP
Plaza Universitaria Income	○	Not a measure, income included on Baseline
Expense Controls		
HR Optimization: Attrition	○	UPR has reduced Headcount by CFP levels but has not been able to reduce Payroll
HR Optimization: Adjustment in Marginal Benefits	○	Supplemental rules have not been negotiated & Christmas Bonues has not been eliminated
Centralized Procurement & Contract Re-negotiation	●	Fully compliant with the CFP
Reduction in tuition exemptions (considered revenue measure)	●	Fully compliant with the CFP
Pension Reform	○	Annual contribution compliant with CFP
Transformational Enhancements		
Transformation Plan Implementation Expense	●	Fully compliant with the CFP
Implementation expense for Training, Seminars Tutoring	●	Fully compliant with the CFP
Administrative Transformation		-

Chapter 3 Measures to improve fiscal & operational situation

3.1 Introduction to fiscal measures

The primary objective of the 2022 UPR Fiscal Plan is to continue the University on the path towards a more sustainable financial position while preserving and, wherever possible, improving its ability to deliver on its mission. All measures were designed in the best interest of improving the institution, with a deep focus on added transparency in both financials and operations. Given the scale of the challenges facing UPR, significant expenditure reductions and some tuition increases are required; however, these measures have been carefully designed to safeguard the institution and its most vulnerable students from adverse effects on instruction, research, and affordability.

Per the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”), the Fiscal Plan must cover a period of at least five years and provide a method to achieve fiscal responsibility and access to the capital markets. The COVID-19 pandemic gives UPR another chance to reimagine nearly all aspects of its operating model, a portion of which will be supported by ~\$240M in Federal CARES Act funding and other COVID-19 pandemic-related disbursements. Never has it been more imperative that the University seize this opportunity to make the required reforms.

The 2022 UPR Fiscal Plan includes prudent measures to supplement revenues through non-tuition measures, which serve to limit the need to increase tuition. The 2022 UPR Fiscal Plan also includes considerations to limit the impact of tuition increases on students with demonstrated financial need (e.g., increasing scholarship expenditures, capping tuition below the maximum Pell Grant). Finally, expenditure reductions are calibrated to prevent the loss of teaching staff and researchers; savings are achieved through non-personnel cuts as much as possible and faculty are not subject to the same benefit reductions and attrition as non-faculty personnel.

The University and its staff have been executing the fiscal measures outlined on past Fiscal Plans. Today, we highlight the most recent changes that will help continue the University’s transformation to a stable future state. It is important to observe the University’s progress in bridging the gap between the UPR’s proposed measures and FOMB’s initiatives. Key highlights in this Fiscal Plan include:

1. Full alignment with the FOMB in undergraduate tuition increases and partial alignment with graduate tuition increases;
2. Developed FY2023 projections based on 8 months of actual performance;
3. Updated payroll expense and revised attrition methodology
4. Pension plan contribution for FY2023 totaling ~\$158M;
5. Optimized institutional academic offering through resource sharing;
6. Centralization of Finance and Human Resources Units for greater efficiency and fiscal compliance;
7. Improved administrative processes through initiatives such as Centralized Time & Attendance and Procurement Reform

3.2 Summary and impact of fiscal plan measures

The 2022 UPR Fiscal Plan contemplates thirteen measures (EXHIBIT 8): five revenue enhancing measures that, if properly executed, can collectively increase UPR receipts by an average of \$127M per year by FY2027 and four expenditure reducing measures, including pension system reforms, that can drive savings of approximately \$245M dollars per year by FY2027. After accounting for implementation costs, these measures can drive a net improvement in UPR's pre-debt service operating surplus by over \$370M by FY2027. These measures are detailed in Section 3.3-3.5 of the 2022 UPR Fiscal Plan.

EXHIBIT 8: SUMMARY OF FISCAL PLAN MEASURES

(000's)	Measures	CFP FY'22	FY'22	FY'23	FY'24	FY'25	FY'26	FY'27
Revenue Enhancements								
	Tuition - Undergraduate (net of scholarship fund)	\$71,814	\$69,677	\$74,779	\$77,314	\$79,949	\$82,613	\$85,307
	Tuition - Graduate (including maintenance & technology fees)	17,475	13,359	14,262	15,027	15,556	16,591	17,389
	Dues and Fees	11,740	11,891	11,230	11,072	11,228	11,448	11,667
	Federal Grants and Contracts	15,000	15,000	20,000	20,000	20,000	20,000	20,000
	Trainings, Seminar, Tutoring, & Technical Services	20,000	20,000	-	-	-	-	-
	Plaza Universitaria Income	2,000	-	-	-	-	-	-
	Total Revenue Enhancement Measures	138,030	129,926	120,271	123,413	126,733	130,652	134,362
Expense Controls								
	HR Optimization: Attrition	107,605	92,480	84,708	86,784	93,284	101,972	110,399
	HR Optimization: Adjustment in Marginal Benefits	23,105	8,054	5,582	5,178	7,421	8,782	10,157
	Centralized Procurement & Contract Re-negotiation	19,813	30,635	19,813	19,813	19,813	19,813	19,813
	Reduction in tuition exemptions (considered revenue measure)	16,666	16,347	15,438	16,481	16,768	17,061	17,359
	Pension Reform	83,600	83,600	82,400	80,500	78,800	77,300	76,000
	Total Expense Controls	250,789	231,114	207,941	208,756	216,086	224,928	233,728
Transformational Enhancements								
	Transformation Plan Implementation Expense	(5,016)	(5,016)	(3,346)	(2,846)	(2,346)	(1,846)	(1,346)
	Implementation expense for Training, Seminars Tutoring	(8,000)	(8,000)	-	-	-	-	-
	Administrative Transformation	-	-	(2,446)	(5,645)	(12,337)	(12,337)	(12,337)
	Total Transformational Enhancements	(13,016)	(13,016)	(5,792)	(8,491)	(14,683)	(14,183)	(13,683)
Total Measures Impact		\$375,802	\$348,024	\$322,421	\$323,678	\$328,136	\$341,397	\$354,407

UPR continued to make progress on implementing measures during FY2022. For example, UPR has continued to comply with all reporting requirements. The University also began to adjust its employee benefits, designed a shared services program for implementation during FY2023 as part of its administrative transformation, and continued to make advances in its Pension Plan reforms.

The execution of all the measures outlined in the Fiscal Plan will place UPR on a path to fiscal responsibility. UPR, as of February 28, 2022, holds ~\$212M in operational cash of which ~\$26M is unrestricted and uncompromised. The 2022 UPR Fiscal Plan assumes unrestricted cash may be used to cover modest operating deficits, including those created by fulfilling increases in pension liability obligations in the early years of the Plan. As of March 2022, the University has not received the \$94M in Special Appropriations for FY2022. It is expected that approximately \$44M will be allocated for unrestricted cash reserves.

EXHIBIT 9: FINANCIAL POSITION POST IMPLEMENTATION OF ALL MEASURES

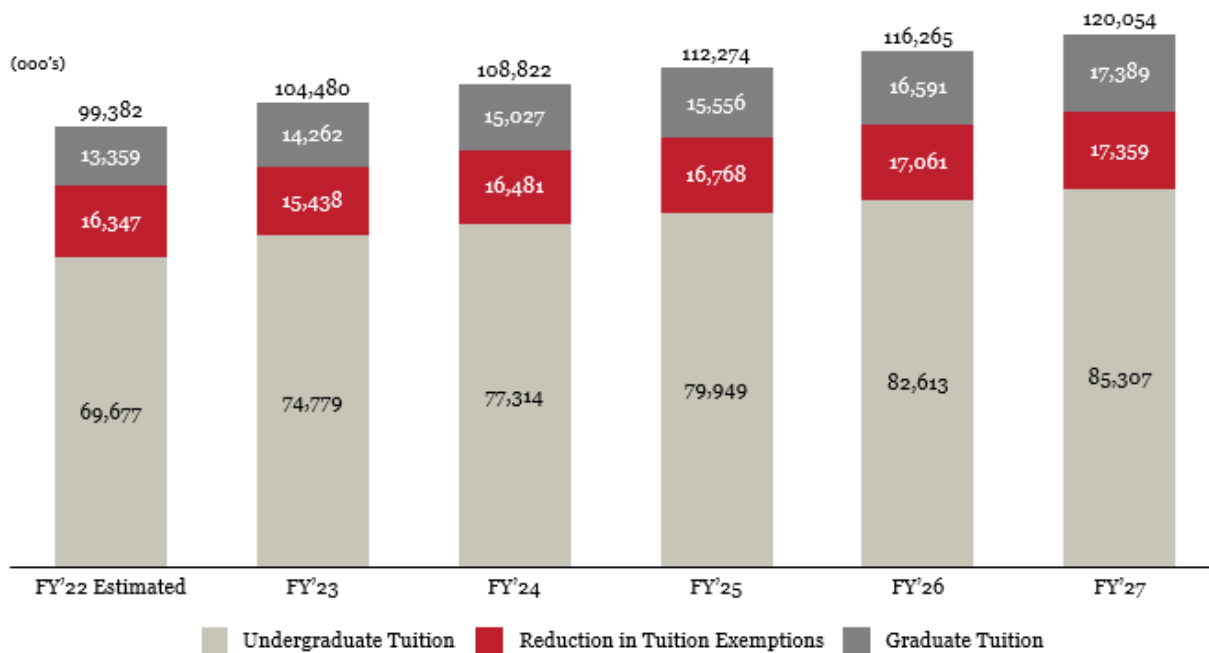
(000's)	CFP FY'22	FY'22	FY'23	FY'24	FY'25	FY'26	FY'27
Total Central Government Appropriations	\$559,909	\$559,909	\$543,835	\$543,835	\$543,835	\$543,835	\$543,835
Total Operating Receipts	426,059	419,099	423,235	426,254	429,036	432,906	437,504
Total Intra-Government Receipts	172,248	183,438	173,974	176,594	179,144	181,727	184,356
Total Disaster Relief Receipts	–	8,115	–	–	–	–	–
Total COVID Related Relief	128,533	296,646	–	–	–	–	–
Total Receipts	1,286,749	1,467,208	1,141,044	1,146,683	1,152,014	1,158,468	1,165,695
<u>Operating Disbursements:</u>							
Total Operating Disbursements	(\$891,792)	(\$932,562)	(\$937,572)	(\$956,350)	(\$969,882)	(\$975,973)	(\$982,504)
Total Disaster Relief Disbursements	–	(8,115)	–	–	–	–	–
Total COVID Related Relief	(128,533)	(296,646)	–	–	–	–	–
Pensions Payment	(\$121,600)	(\$121,600)	(\$120,200)	(\$120,000)	(\$119,900)	(\$119,900)	(\$119,900)
Capital Expenditures	(25,867)	(26,778)	(27,905)	(27,837)	(27,509)	(27,678)	(28,122)
Restricted: Graduate Tuition	(5,028)	(4,117)	(2,990)	(3,058)	(3,386)	(3,217)	(2,773)
Total CAPEX	(30,895)	(30,895)	(30,895)	(30,895)	(30,895)	(30,895)	(30,895)
Equipment	(11,553)	(20,218)	(11,553)	(11,553)	(11,553)	(11,553)	(11,553)
CW Additional Appropriations	(94,000)	(94,000)	(38,583)	(39,136)	(38,793)	(38,338)	(38,676)
Total Disbursements	(1,278,370)	(1,504,035)	(1,138,803)	(1,157,934)	(1,171,024)	(1,176,660)	(1,183,529)
Net Cash Flow (before Debt Service Payment)	8,379	(36,828)	2,241	(11,251)	(19,009)	(18,192)	(17,834)
Debt Service Payment	(48,252)	(44,715)	(48,252)	(48,252)	(48,252)	(48,252)	(48,252)
Net Cash Flow	(\$39,873)	(\$81,542)	(\$46,011)	(\$59,503)	(\$67,261)	(\$66,444)	(\$66,086)

3.3 Tuition revenue enhancing measures

In accordance with measures established by the FOMB, between FY2018 and FY2022, the UPR has witnessed a reduction in appropriations of over \$427M, or 49% in balances prior to the enactment of PROMESA. During FY2018, the UPR received \$879M in Central Government appropriations, which represented ~70% of its operational budget. By FY2022, the UPR's had reduced its dependence on the Central Government to around 40% of its total budget.

While the UPR Fiscal Plan for 2022 makes every effort to generate additional revenues from other sources, some tuition increases are necessary. The need-based financial assistance model established during FY2020 allowed 79.1% of undergraduate and graduate students to have their tuition expenses covered by a combination of institutional and federal funding. The UPR Fiscal Plan for 2022 will implement increases in undergraduate tuition costs to support its operational budget. These initiatives are expected to add between \$100 to \$120M in additional revenue a year, between FY2023 and FY2027. Even after implementation of these measures, the UPR will still be the most affordable higher education option on the Island and among the most affordable universities in the United States.

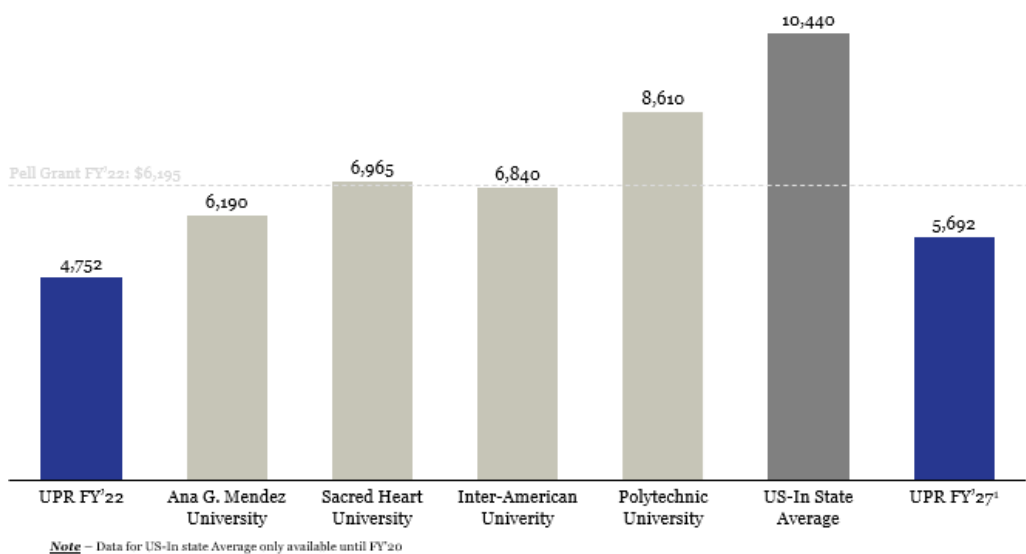
EXHIBIT 10: ADDITIONAL REVENUE FROM TUITION-RELATED MEASURES



3.3.1 Undergraduate tuition adjustment

Prior to PROMESA, UPR had not increased tuition at the same rate as other major public institutions in other US states or private higher education institutions on the Island. For the academic year 2021-2022, annual undergraduate tuition (for 28 credit hours) and fees was \$4,752, 33% less expensive than comparable universities in Puerto Rico and 45% lower than the average in-state annual cost at US public 4-year universities (EXHIBIT 11).

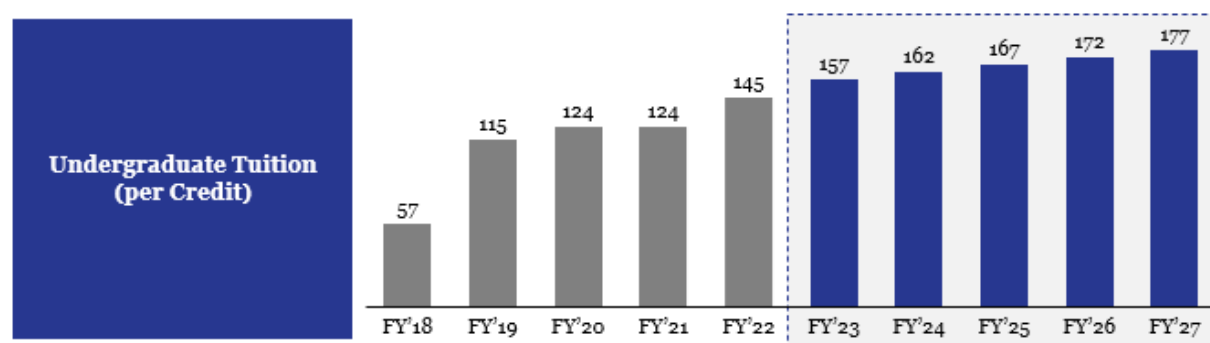
EXHIBIT 11: 2021-2022 UPR UNDERGRADUATE TUITION COMPARED TO OTHER UNIVERSITIES



To bring UPR undergraduate tuition costs more in line with those of its peers while also noting the unique demographics and economic challenges of the Island, undergraduate cost per credit hour will be increased to \$157 during FY2023, the last year as required by the Certified Fiscal Plan for a fixed increase in tuition. For subsequent years, tuition will be adjusted based on

inflation as shown in EXHIBIT 12. Increased undergraduate tuition will enable UPR to augment the share of revenue it receives from tuition to be more in line with mainland peers.

EXHIBIT 12: SCHEDULE OF UNDERGRADUATE TUITION INCREASES (COST PER CREDIT)



3.3.2 Tuition exemptions

While to date UPR has made the required adjustments to undergraduate tuition, it has also fulfilled its goals with regard to moving towards a more transparent and need-based system for tuition exemptions. The 2022 UPR Fiscal Plan expands UPR's ability to provide aid to students with financial need in order to make education accessible. However, it also aims to make financial aid processes more transparent and focused – ensuring UPR receives the most value for its money by prioritizing the students with the greatest objective financial need. The UPR made the following changes to its exemptions policy:

- Eliminated 13 of 16 exemption categories (keeping only teaching assistants, student representatives, and veterans).

Students are required to fill out the FAFSA to be eligible for exemptions. All exemptions are administered through the financial aid office with the oversight of the central administration.

3.3.3 Adjustment to graduate student tuition

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

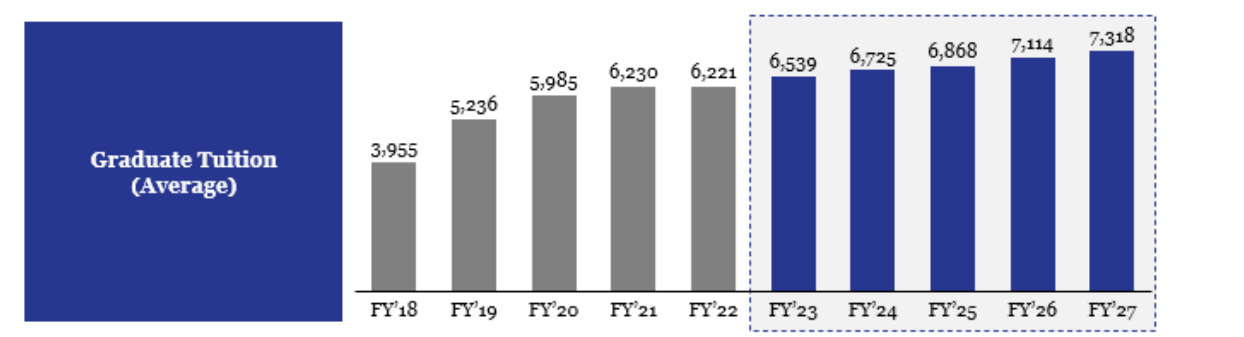
Even with the implementation of all these changes, UPR will remain an affordable and competitive option for graduate studies, compared to other mainland public universities.

Graduate programs at the University have been strengthened over the past three fiscal years. A continuous evaluation plan of these programs has been reinforced focused on academic effectiveness. Similarly, the development plan for graduate studies at UPR has been characterized as a joint effort with the faculties and schools. The implementation of a work schedule in each of the campuses was started, supported by the innovation of the graduated skilled offer.

During FY2020, changes were made to institutional policies and regulations, such as Certification No. 95 of the Río Piedras Campus, which, among other matters, recognizes the responsibility of the professors in the evaluative process of learning, and periodically communicating the results to their students. Through this Certification, the requirements regarding the digital format are tempered for the delivery and publication of the thesis and dissertation. During this same period and in response to the current labor market, the Governing Board approved the Online Master's Degree in Business Administration (iMBA) at the Río Piedras Campus from the Faculty of Business Administration, the Master of Laws

(LL.M.) in Orality in the Criminal System Online, from the Law School and the Curricular change to the program of master’s degree in Rehabilitation Counseling, from the Faculty of Social Sciences. An additional achievement in graduate studies is the proposal to establish an Academic Certificate Post-Baccalaureate in Disaster Planning, at the Graduate School of Planning.

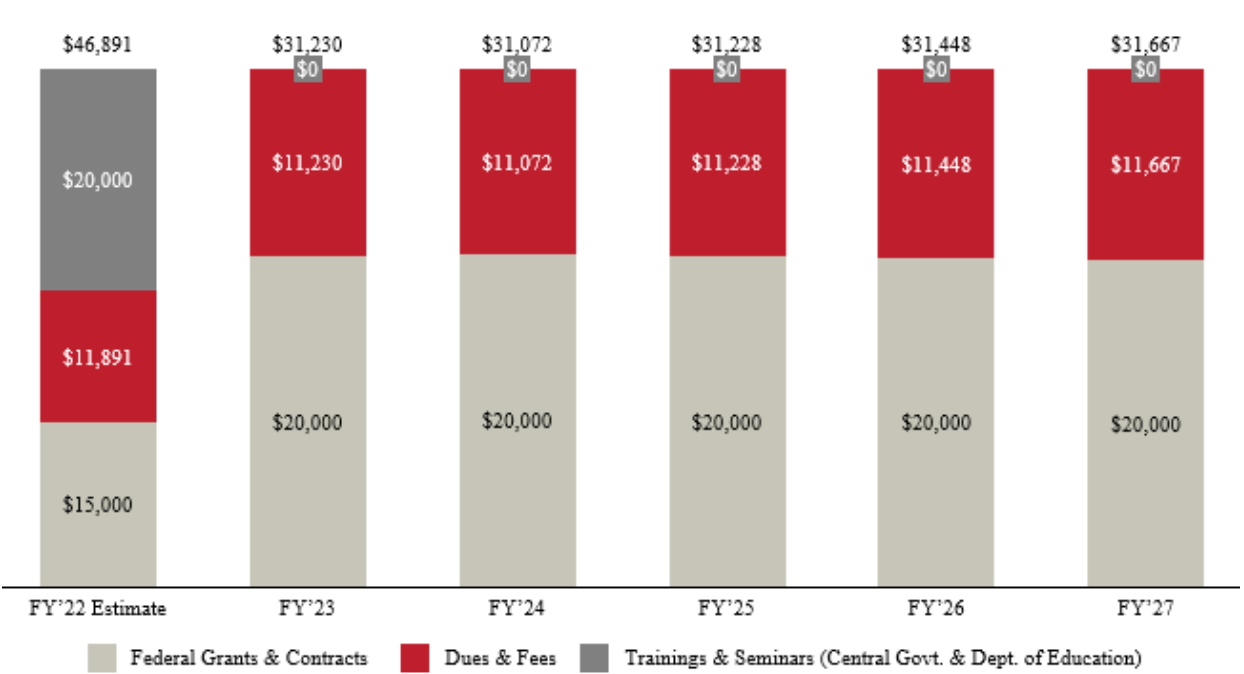
EXHIBIT 13: SCHEDULE OF GRADUATE TUITION INCREASES (AVERAGE)



3.4 Non-tuition revenue enhancing measures

The University understands the importance of diversifying its sources of revenue, to not be wholly dependent on student tuition given the ongoing demographic trends. Therefore, one of the first options is to increase revenue from sources other than state appropriations and tuition (EXHIBIT 14). These alternative sources include federal grants and contracts, services provided to the central government, and other self-generated revenues.

EXHIBIT 14: ADDITIONAL REVENUE FROM NON-TUITION REVENUE ENHANCING MEASURES
(000's)



3.4.1 Adjustment to dues & charges

Following a UPR Governing Board resolution, dues and charges have been gradually increased from FY2019 to FY2022. Dues and charges have increased by 57% since FY2018. This measure has three components:

- In the 2019 Certified Fiscal Plan, 4 fees were added: summer maintenance fee; partial drop in courses charge; full drop in courses charge; and repetition of courses charge. Together, these 4 fees equal \$95.
- From FY2025 onwards, they will grow with inflation.

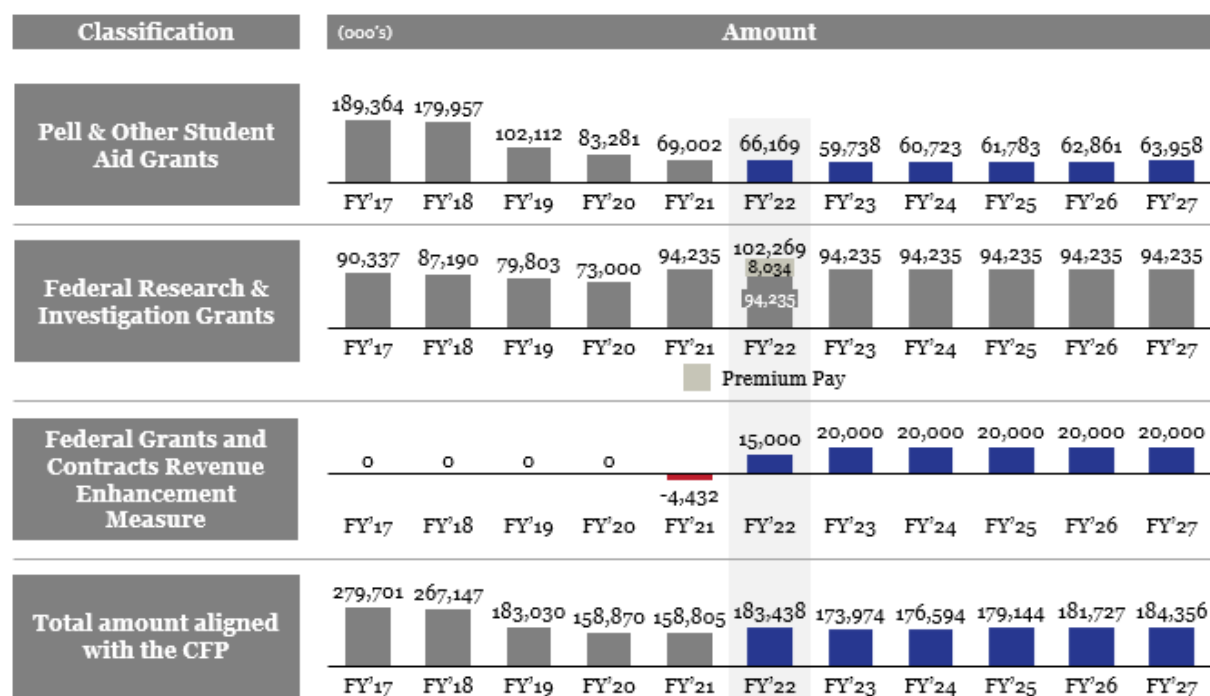
3.4.2 Increasing federal grants and contracts

The UPR understands the importance of Federal Funds. A critical measure for the University is to increase revenue from Federal Research & Investigation Grants & Contracts.

University driven R&D plays a significant role in Puerto Rico's economic growth and innovation. The University has ramped up R&D activities since 2017 to remain competitive academically. Between FY2020 and FY2021, the University was averaging ~600 proposals per year with an approval rate between 38% - 44%. Federal research project proposals were particularly challenging during FY2022 due to the pandemic and its effects on academic in person learning. As of December 2021, 218 research proposals had been submitted with a 40% approval rate observed. The monetary value of the submitted proposals as of December 2021 was \$203M, with \$32M already approved.

The University has historically received ~\$80M per year in federal funding. In FY2020, the UPR received grants which amounted to \$161M, not including FEMA funds. The UPR Revised Fiscal Plan for 2022 expects these funds to increase ~\$20M by FY2023 through the provision of resources for grant applications and other support efforts.

EXHIBIT 15: INCREMENTAL REVENUE FROM FEDERAL FUNDS



3.4.3 Providing services to the Central Government

Training & tutoring services to the PRDE and the Central Government

UPR has received ~\$20M in gross additional revenue (~\$12M in net additional revenue) per

year since FY2019 for tutoring and training services to both governmental entities. As of February 2022, ~\$57M in revenues have been realized in training and tutoring programs, with additional revenues incoming from various Units. The teacher acceleration course program (“PADE” for its Spanish acronym) provided to PRDE is launching a second phase during FY2022 with over \$10M expected in earned revenue.

The 2022 Fiscal Plan intends to utilize the funds accumulated to date. The University will continue to provide the following allowed services that UPR realizes to recognize revenue. UPR must manage the costs of delivering these services to ensure incremental revenue is available to use against other operating expenses:

- Tutoring services for students.
- Acceleration course program for PRDE teachers.

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

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

Technical Services to Government Agencies: Property Registry

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

UPR offers a work-study program (the “Program”) for its students to work in the Property Registry to help reduce backlog at a fraction of the initially projected cost while providing valuable experience to student participants on the intricacies of the legal processes surrounding property registration. For the first semester of FY2022, the students handled between 8,000 - 9,000 documents, and the expectation for the second semester is for an additional ~8,000 documents to be examined.

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

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

Technical Services to Government Agencies: Permits Management Office

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

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

OGPe signed a collaboration agreement with UPR providing an internship opportunity with pay for UPR students. There are currently 106 selected students from 8 different campuses assisting in different areas ranging from Permit Management, Incentives, Planning, Finance, Project Management, Human Resources, and specific development programs. Their work is both in-person or performed remotely and is providing concrete results for the agency.

Technical Services to Government Agencies: State Department

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

In collaboration with the UPR, the Department of State will obtain the necessary data to make a comparison between Puerto Rico and the Mainland regarding the scope and the specific burdens of occupational licensing, using the methodology presented in the License to Work study prepared by the Institute of Justice. The project's objective includes recommendations on the need to reduce the burden for Puerto Rico's occupational licenses and proposals to review certain occupations requiring a license. These have been completed for the licenses under the scope of the License to Work study, a total of 25 out of 140 licenses. However, most of the licenses in Puerto Rico do not fall under the License to Work study (115 out of 140) and therefore a second phase of the project would analyze the remaining licenses and their requirements. This technical service acquires the information and data needed to assess current operational efficiency in established systems and processes currently employed to obtain occupational licenses.

3.4.4 Additional opportunities for auxiliary revenue

Over time, and without distracting from implementation of core operating reforms, UPR continues to evaluate other additional sources of revenue that would enable it to diversify its sources of income and self-generated funding (e.g., space rentals, concessions) in case there is a steeper than expected decline in enrollment or other measures take additional time to implement. This area represents a significant opportunity for growth; other core revenues have historically comprised as little as 1% of UPR's total revenues (EXHIBIT 10). When pursuing additional sources of revenue, UPR must ensure transparency and controls, making sure that all self-generated revenues are recorded and properly reported as part of the consolidated financials.

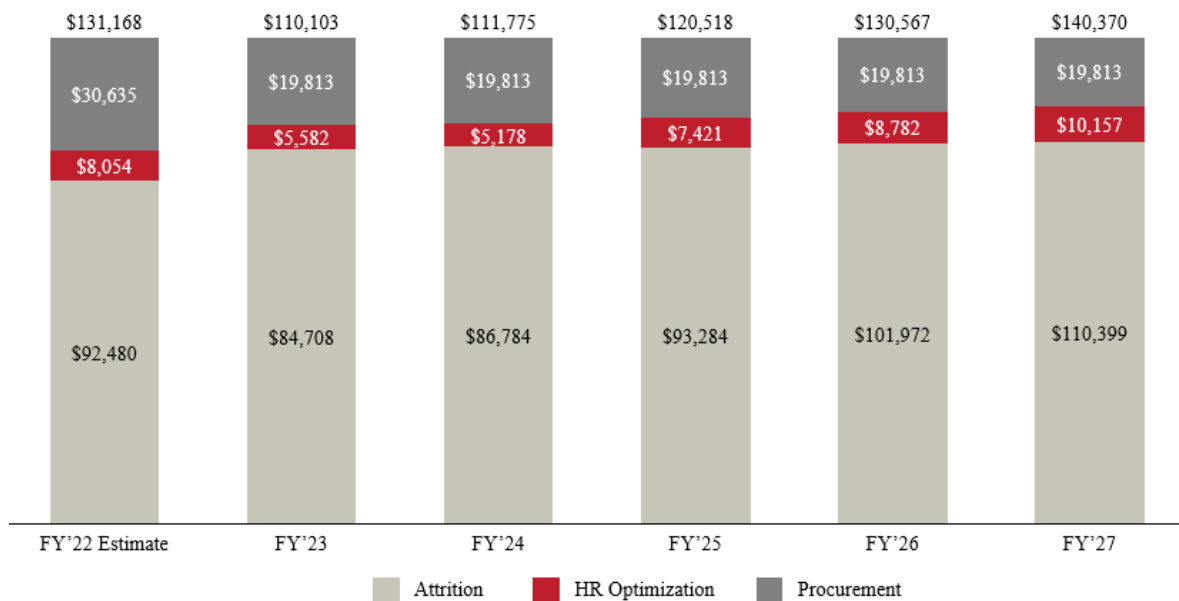
3.5 Expenditure reducing measures

The 2022 UPR Fiscal Plan calls for a continued reduction in operating disbursements. These reductions will significantly improve UPR's operating position, but they are also linked to operating improvements that will enable UPR to better focus its resources in areas closest to its core mission of academics.

Ultimately, these expense control measures will drive an average of over \$145M in savings per year in addition to improving the operational performance of the University (EXHIBIT 16).

EXHIBIT 16: IMPACT OF NON-PENSION EXPENDITURE MEASURES

(000's)



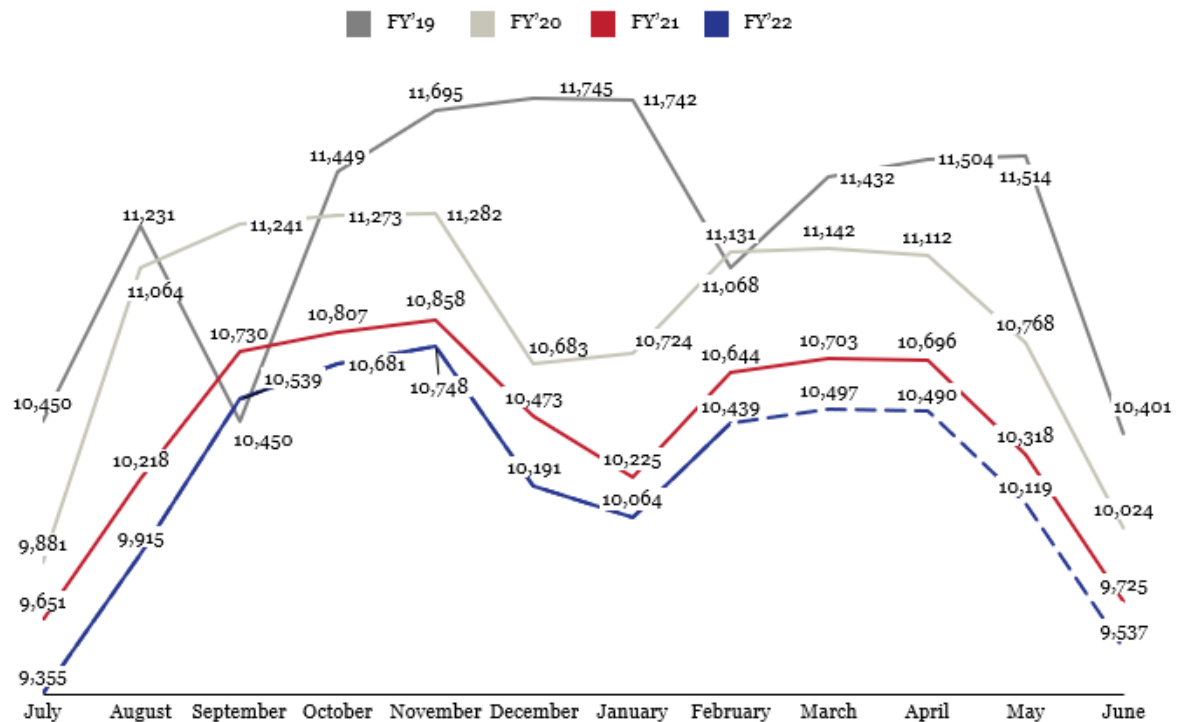
3.5.1 Attrition

Largely enabled by a successful administrative transformation, UPR is expected to reduce its overall administrative headcount by:

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

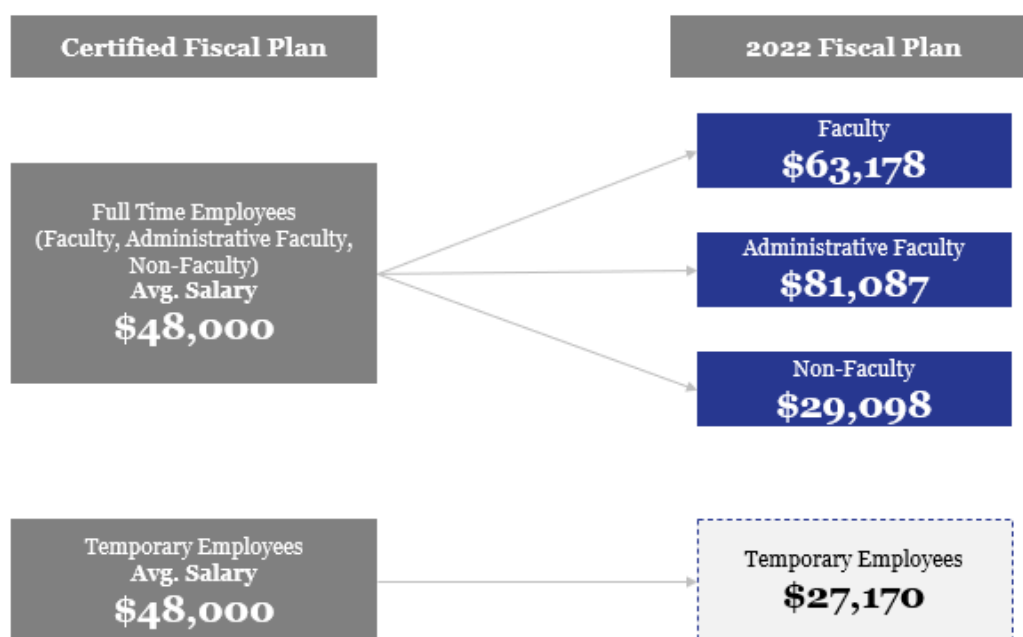
UPR employee headcount, however, observes a natural seasonality throughout the academic year. FY2022 has seen the employee headcount range from 9,355 in July to 10,748 in November and is expected to decrease to ~9,600 by June 2022.

EXHIBIT 17 - HISTORICAL HEADCOUNT COMPARISON



The Certified Fiscal Plan's Attrition Model assumes of a 3% annual decrease in administrative employee headcount. However, average salaries vary significantly among employee categories. In order to more accurately project the University's payroll savings, the Attrition Model for the 2022 Fiscal Plan has detailed the average compensation for each employee category, as shown in Exhibit 18 below.

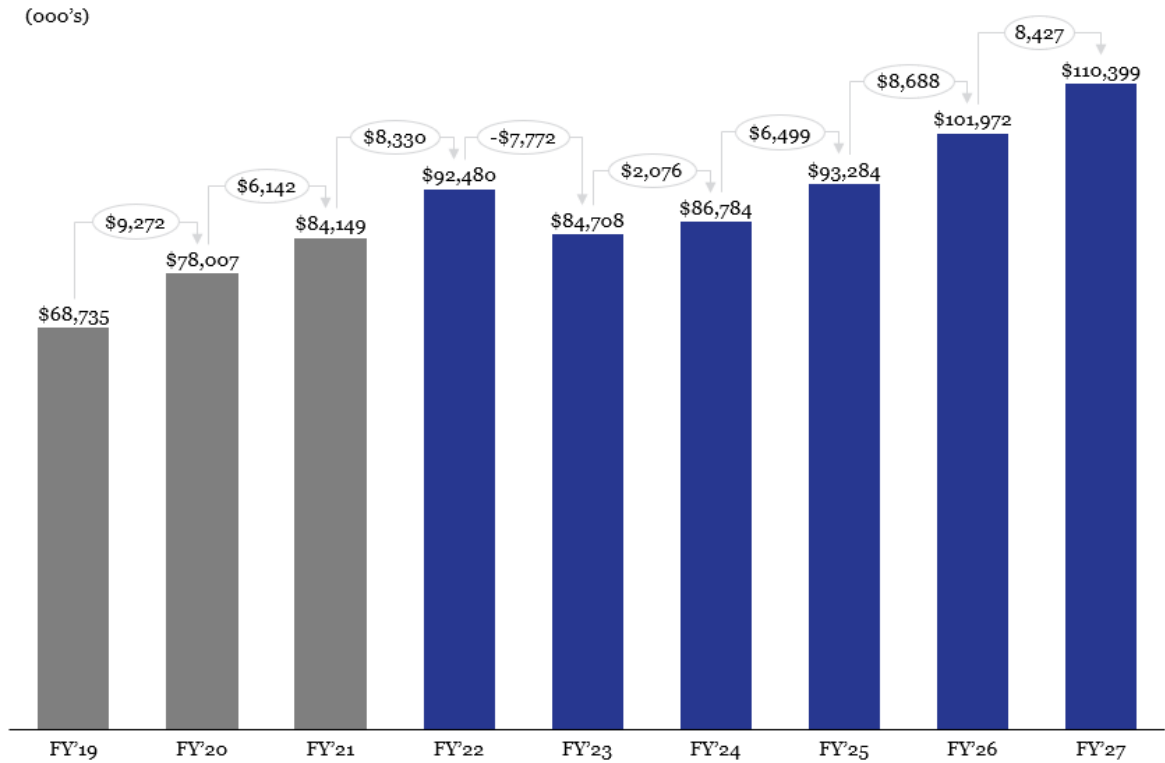
EXHIBIT 18 - ATTRITION MODEL METHODOLOGY



In order to maintain the highest level of instructional quality UPR plans to increase faculty annually by up to 3% per year throughout the Fiscal Plan period, as mentioned in previous Certified Fiscal Plans. This increase is calculated based on total payroll expense for all Units, to provide a clear increase across the System. These changes and expected enrollment declines will enable UPR to improve on its average historical student-faculty ratio of 18.9:1. The 3% increase in faculty payroll is only for teaching faculty and does not include administrative faculty payroll. Additionally, the increase should be distributed by a needs-based academic offering demand, it does not necessarily apply for each unit.

The attrition expected for the next five years has been adjusted with current payroll performance.

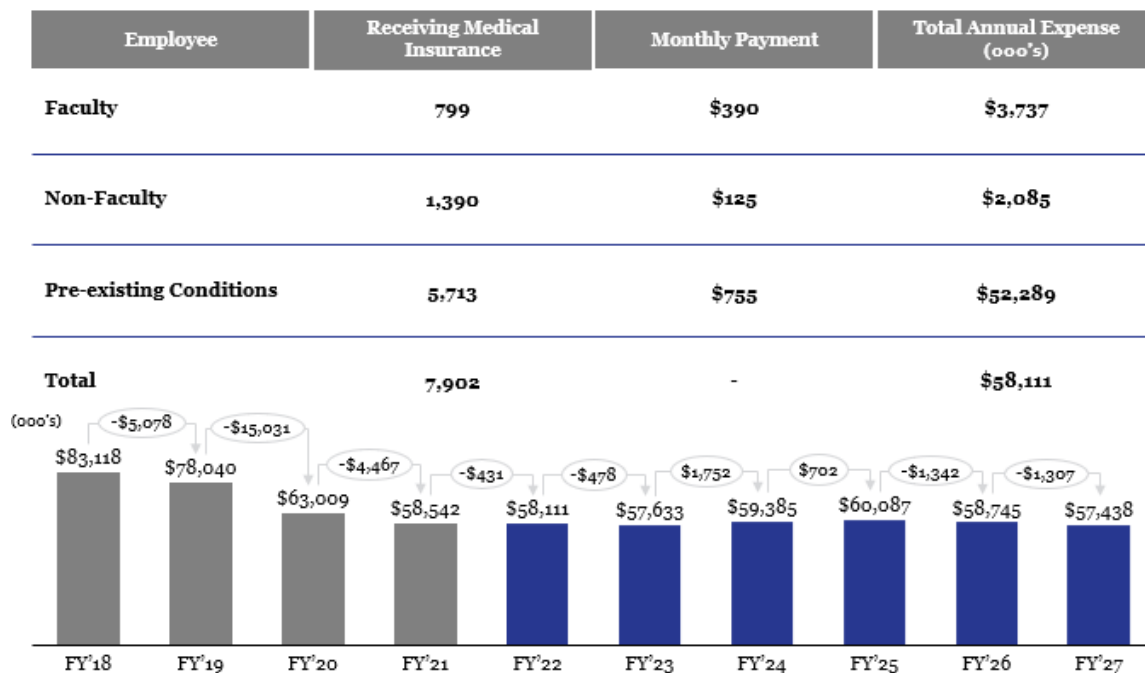
EXHIBIT 19 - ATTRITION MEASURE FROM FY2019 - FY2027



3.5.2 Benefit adjustments

As required by the FOMB, the UPR has implemented changes to the marginal benefits offered to its faculty and employees. The largest impact concerns the medical insurance offered by the UPR. The University will be aligned with the CFP Medical Insurance Expense for Faculty & Non-Faculty but will have a higher monthly payment for employees with a pre-existing condition (72% of employees receiving Medical Insurance). Starting in FY2020 medical insurance employer contributions renegotiations brought about savings of \$6.4M during FY2021. For FY2022 the total annual expense is expected at \$58,111, for an additional \$6.4M in savings versus baseline.

EXHIBIT 20 - MEDICAL INSURANCE BENEFIT



3.5.3 Centralized procurement efforts & contract renegotiations

From FY2023-2027 UPR should maintain ~\$20M already achieved in annual savings on non-payroll, direct operating expenses from FY2022. Given that a large portion of these savings relate to a reduction in procurement volume due to the COVID-19 pandemic, it will be important that the institution sustains the already achieved savings. (e.g., consolidated purchasing) and demand-side reforms (e.g., optimizing IT refresh cycles).

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

Chapter 4 Administrative Transformation

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

Additionally, Puerto Rico’s macroeconomic and social demographic realities have presented a challenge to the past and current University organization. Most all fiscal constraints have been presented and implemented by the Institution, but looking forward, the University must rethink its academic and administrative structure and services, one of which comprises a reduction of ~15,000 students and ~3,700 employees.

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

4.1 Administrative Working Groups

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

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

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

4.1.1 The 2022 UPR Fiscal Plan approach

The UPR is prioritizing the administrative transformation set forth in this 2022 UPR Fiscal Plan. This section will illustrate the potential of the administrative transformation through processes and initiatives that could be redefined in the Finance department.

The UPR has taken the following approach towards a redesign of the scope of the administrative transformation.

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

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

4.2 Targeted Initiatives Being Implemented

The UPR's Administrative Transformation has been the focus of much attention and discussion for the past five years. The University's effort on sustainability is not only financial, the UPR has three main challenges that overshadow its stability: student, workforce and financial. The University, now more than ever, must redirect its efforts to administrative transformations that result in efficiencies and better student services. While the current system is a very complex one from which substantial changes will take time, there are concrete opportunities that chart the path to immediate results. The following programs were developed during FY2022 and expect to commence implementation during FY2023.

4.2.1 Academic Transformation

The Academic Transformation efforts aim to champion social, cultural, and economic growth in alignment with the needs and priorities of the private and public sectors while strengthening the academic experience.

The 2022 Fiscal Plan is not centered on cost reductions alone. The consolidation of programs and services are designed to improve both student experience and educational outcomes. For example, a compliance scan of UPR's academic programs found many programs with graduation rates below 25% and non-compliance. A critical goal of the 2022 Fiscal Plan is the

re-focusing of resources on the strengths of the system – making sure students are receiving both an affordable and high-quality education.

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

4.2.2 Shared Services Model Pilot Program

The Shared Services Model Pilot Program identified concrete opportunities that chart the path towards immediate results. With the proposal of shared services, this Model seeks to address the flaws within the current operational design of the UPR system that no longer respond to the University's current needs. The Pilot Program designs a shared services structure between the Units of Aguadilla, Arecibo, and Utuado. It establishes opportunities for collaboration between these Units to maximize non-faculty resources across administrative offices. Among the amenities included in the model are economic incentives for personnel and the System, and their employees do not require physical transfer to different Units. Furthermore, this Model does not contemplate layoffs or closure of Units. Instead, it focuses on seeking sustainability for all UPR Units in the long term.

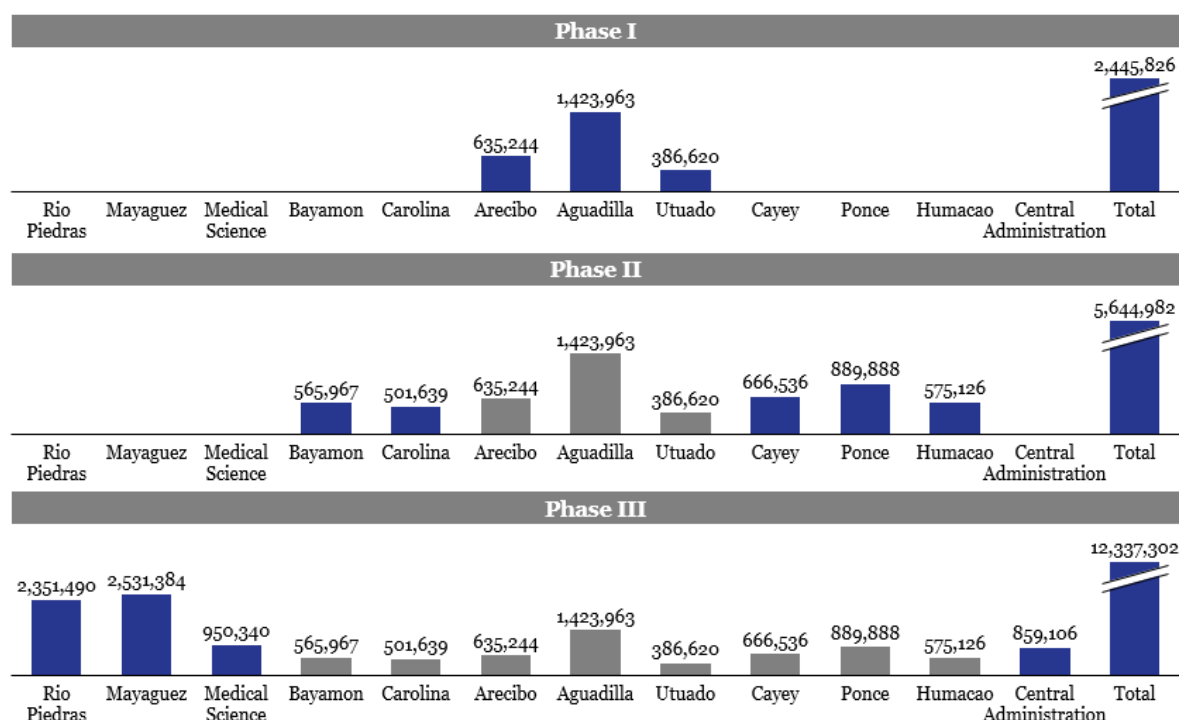
UPR Arecibo, for example, will increase its staff by 32 employees who will be transferred from UPR Utuado. UPR Aguadilla will permanently share support from 5 offices with Arecibo and Utuado: Finance, Information Technology, Planning, Human Resources, and Financial Assistance. Transactional Shared Services, as an optional program, will provide task-specific administrative opportunities to the 3 Units, as needed.

The Shared Services Model estimates that with an annual investment of ~\$2.4M, 130 permanent positions will be created, and 295 employees would receive salary or incentives for participating in the Pilot Program. In all, some 343 employees would benefit from the Shared Services Model out of 570 total non-faculty employees among these Units. In addition, \$250K would be allocated from the PMO budget to support transactional services within the Units and/or specific initiatives, such as technology investments.

The implementation process of this Pilot Program includes progress evaluation, target-specific metrics, and performance. In addition, a self-evaluation process will be incorporated to collect the input of the participating employees seeking to identify opportunities and necessary adjustments that result in long-term benefits to the Units.

4.2.3 Shared Services Model – Additional Phases

After the successful implementation of the Pilot Program, the University expects to expand the Shared Service Model throughout other Units. As scheduled in EXHIBIT 21.



4.2.4 Centralized Finance Office

As part of the Administrative Transformation the University will seek to centralize its Finance & Budget and Human Resources functions more effectively to have additional oversight of the entire System. In order to continue to align itself with past FOMB requirements and achieve a more proactive control and oversight over its units, the Office of the CFO will:

- Combine all accounting and finance-related offices under a single Finance Office in each Unit to streamline organizational structures across the UPR System.
- Reduce Finance Offices from 53 Offices to 26 Offices (1 Finance & 1 Budget per Unit).
- Strengthen central CFO office function to have direct reporting with all unit financial leads.
- Move towards integrated enterprise performance and financial management systems across all units, creating efficiencies, adequate reporting, and monitoring.
- Implement budget vs. actual reporting at line-item level for each unit and component included in the consolidated UPR budget: Budget Director should ensure reporting is accurate and submitted on time.
- Require units and component units to have approval from the CFO of all positions (new and replacement) both permanent and temporary – no matter the source of funding. Excludes positions financed by Federal Funds for Investigation & Grants.
- Require units and component units to report to CFO all self-generated income and related expenditures above threshold amounts (e.g., \$10,000).

- Create team to assist with improving, monitoring and reporting on all items outstanding with credit agencies, financial institutions, bondholders, and auditors.
- Team should be primarily staffed by existing employees to build institutional knowledge and capabilities. If external advisors are required on a temporary basis these contracts should include provisions for capability building and requirements to transition work to UPR personnel.

Similar to the Office of the CFO, the Central Office of Human Resources will:

- UPR has disjointed enterprise resource planning and HR / payroll systems across 13 units and component units.
- Require units and component units to have approval (jointly with the CFO) of all positions (new and replacement) both permanent and temporary – no matter the source of funding.
- Oversight of all units Time & Attendance platform
- Require minimum lag in Time & Attendance reporting for employees
- Revamp current HRSS and other HR technology platforms in order to provide up to date information on actual positions, full compensation packages and other
- Require the execution of the New Classification and Retribution Plan

4.2.5 Centralized Automated Time & Attendance

The 2022 UPR Fiscal Plan presents the implementation of a System-wide automated time and attendance (T&A) system that ensures only active employees who are working get paid, and thus prevents errors in payroll processing. This initiative aims at centralizing T&A across the 12 UPR units and impacts over 10,000 employees. Although, certain UPR units already have the same technology platform for employee attendance registration in place, attendance registration systems may not be fully integrated with current payroll systems. This initiative seeks to link time and attendance systems to payroll systems.

The Centralized Automated Time and Attendance initiative solves both fiscal and operational issues by ensuring the UPR has proper payroll controls. In addition to preventing fraud, it enables agencies to validate personnel assigned to offices/areas, measure compliance with assigned work schedules, and identify critical vacancies. To implement this project successfully, the project will include appropriate T&A policies, procedures, and internal controls across all units, as well as a communication, prevention, and accountability plan to eliminate time not recorded. The University PMO is leading efforts along with central administration to complete implementation during FY2023.

4.2.6 Centralized Procurement Reform

One of the key fiscal measures to control operational expenses entails continued annual procurement savings. University procurement processes include addressable and non-addressable expenditures. Non-addressable spend includes scholarships and donations, utilities as well as expenses related to Joint Resolutions. Addressable expenses include materials and supplies, purchased services, transportation, advertising, and other operating payments. Procurement inefficiencies are historically rooted in its lack of centralization and lack of synergies between campuses. To produce annual savings, the UPR began concentrating certain purchases across campuses to seek both, large scale economies, and as the most cost-effective options.

During FY2021, Act 73 of 2019, known as “Ley de la Administración de Servicios Generales para la Centralización de las Compras del Gobierno de Puerto Rico de 2019” dispositions were enacted. Although the law categorizes the UPR as an exempt entity, it imposes procurement methods that do not align with previously planned procurement reform efforts and hinders the ability of the UPR to accomplish those efforts. As an example, the number of bids (either informal or formal), which is the most complex type of transaction, would increase 777%. Similarly, the number of transactions that requires multiple quotations is increased 629%. The implementation of this law in UPR has shown that the costs of goods has increased due to the limited quantity of approved suppliers in the GSA register. Likewise, there is an opportunity cost in lost acquisitions due to delays in the processes.

The UPR believes it necessary to receive a full waiver of the application of this law as a measure to reduce costs, increase administrative and budgetary efficiencies, and regain market competitiveness. During FY2021, UPR and GSA officials agreed the University should adjust its Procurement Regulation to efficiently implement certain requirements, maintain the clauses necessary to comply with federal regulations and a letter to officially justify why the University of Puerto Rico should be able to enact an internal Procurement Regulation different from GSA’s. A complete exemption from this law, however, would allow the UPR continuous compliance with Fiscal Plan savings and greater operational efficiencies.

4.2.7 External Review Committee of Medical Sciences Campus

The initiative arises from the urgent need to seek alternatives to transform the Medical Sciences Unit to face the multiple challenges it’s currently confronting.

The External Review Committee for the Medical Sciences Campus (ERC) was developed during FY2022 and is made up of 17 professionals. The purpose of this Committee was to gather leading professionals to objectively evaluate the operation of the Medical Sciences Campus and provide optimization recommendations. Once the resources were identified, their backgrounds, education and expertise were referred to the Dean of the RCM for their input and identification of possible conflicts. Having not received notification of conflicts, work continued with the group of identified professionals.

The Medical Sciences Unit, like the other components of the UPR, is undergoing a transformation process to meet the challenges posed by the Oversight Board under the PROMESA. Therefore, the purpose of the ERC is to analyze specific aspects (administrative, academic, research and services, among others) of the Medical Sciences Unit to identify specific areas where there is a pressing need for restructuring and / or change, and thus assist in this entrustment to the Governing Board of the UPR. The ERC will submit a complete and comprehensive report to the Governing Board (which will later be shared by the central

administration and the Medical Sciences Unit) identifying its strengths and those areas where change and reform are necessary. In addition, as part of the report, it will provide alternatives for improvement and identify new and special opportunities for the institution. Its focus is for the sustainability of the Medical Sciences Unit.

It has been over 25 years since this type of external evaluation of the Medical Sciences Unit was performed. This assessment has the great advantage of providing the perspectives of experts external to the institution. It should be noted that the emphasis and purpose of this ERC assessment is different from those conducted by accrediting agencies.

4.2.8 Real Estate & Asset Mapping

The University will be receiving support from the FOMB in developing a Real Estate and Asset Mapping of all University assets. This initiative will provide visibility and target optimization opportunities for all assets of the institution. The initiative will pinpoint all services offered currently by university personnel, whether University-owned or other third party. The initial phase of the initiative will be conducted within the Medical Science campus.

Chapter 5 Recovery Funds

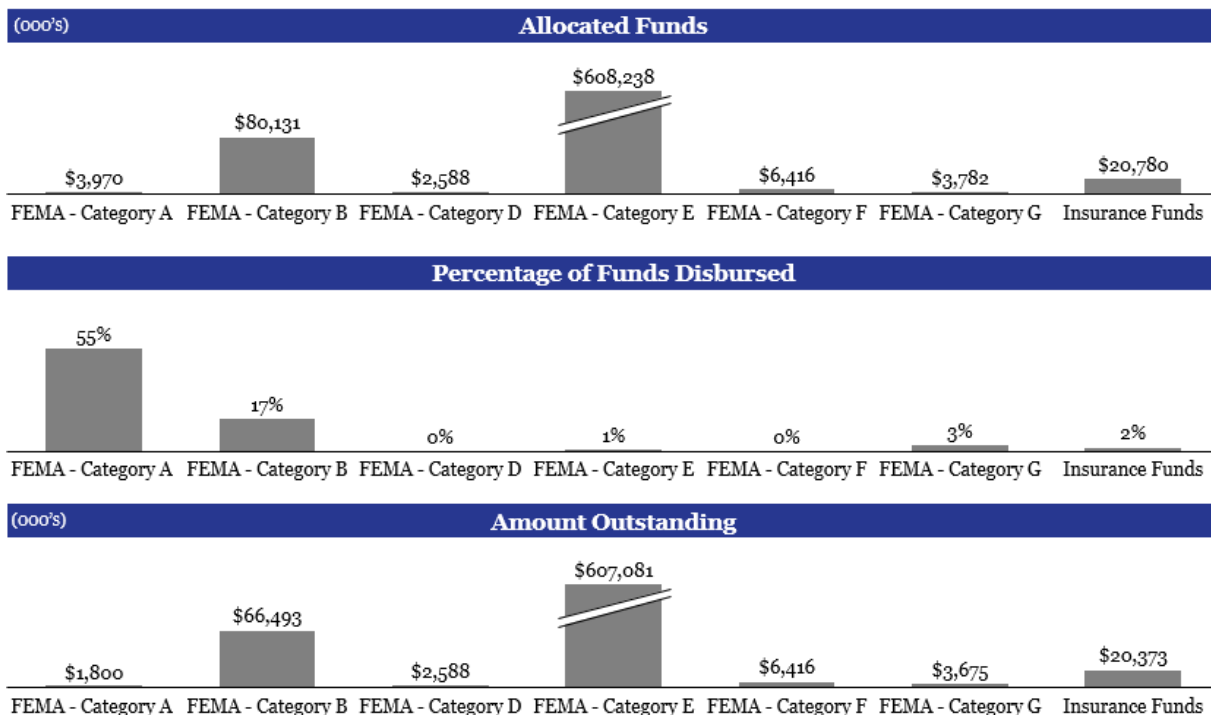
5.1 Natural Disaster Recovery Funds

The natural disasters of Hurricanes Irma & Maria in 2017 heavily impacted the University's infrastructure. Funds assigned for Hurricane Maria related damages, are intended to repair and rebuild the UPR's infrastructure derived from its insurance claims and FEMA programs. Of these funds, the insurance claim payout allocation represents \$20.8M towards infrastructure. These funds are already assigned to academic infrastructure projects within various units and currently have \$20.2M in outstanding reimbursements.

Currently, UPR is in full compliance with FEMA and the information required by the Federal agency at systemic levels. In addition to disaster recovery funding, UPR also presented proposals under the FEMA 404 Program. Projects that were not admitted under the 404 Program, were proposed to the CDBG-MIT Hazard Mitigation Action Plan. The University was granted CDBG funds with a 10% fund matching requirement to be invested in physical improvements pre-approved by FEMA categorized as permanent projects.

To date, there are \$705M in allocated towards federally funded infrastructure projects at the University. The cost-share distribution is 90% FEMA funds (\$636M) and 10% CDBG funds (\$69M).

EXHIBIT 22 - DISBURSEMENT STATUS OF RECOVERY FUNDS



5.2 COVID-19 Pandemic Relief Funds

In response to the COVID-19 pandemic, both the Federal Government and Puerto Rico Government have launched major relief packages to contain and mitigate the spread of COVID-19, support residents and frontline workers, and help the Island's economic rebound. There have been multiple rounds of federal assistance which have included direct assistance to individuals, families, and businesses, as well as funding provided to local governments to assist with pandemic response.

The CARES Act was enacted on March 27, 2020, as the federal government's response to the economic standstill brought about by the COVID-19 emergency. The CARES Act assigned \$14.25B to the newly created HEERF. These funds are for higher education institutions to prevent, prepare for and respond to the coronavirus emergency. The CARES Act required at least 50% of the funds be distributed through student grants and for each institution with amounts based on student enrollment. The University received a total allocation of \$81.1M, from which \$40.7M was distributed among ~44,400 students and \$34.3M spent on institutional expenses as of January 2022.

A second relief package HEERF II was authorized by CRRSAA Act, on Dec. 27, 2020. In total, the CRRSAA authorized \$81.88B in support for education during the COVID-19 pandemic. As part of this funding package, the UPR was assigned \$128.5M for distribution between student (through grants) and institutional pandemic-related expenses. As of January 2022, the UPR has received \$85M, from which \$42.5M were disbursed to students and \$35.5M in institutional funds received through reimbursement.

A third relief package HEERF III was authorized by the ARP Act, on March 11, 2021, providing \$39.6B in support to institutions of higher education to serve students and ensure learning continues during the COVID-19 pandemic. From this package, the UPR was assigned ~\$237M split between students and institutional pandemic-related expenses.

EXHIBIT 23 - DISBURSEMENT STATUS OF PANDEMIC RELIEF FUNDS

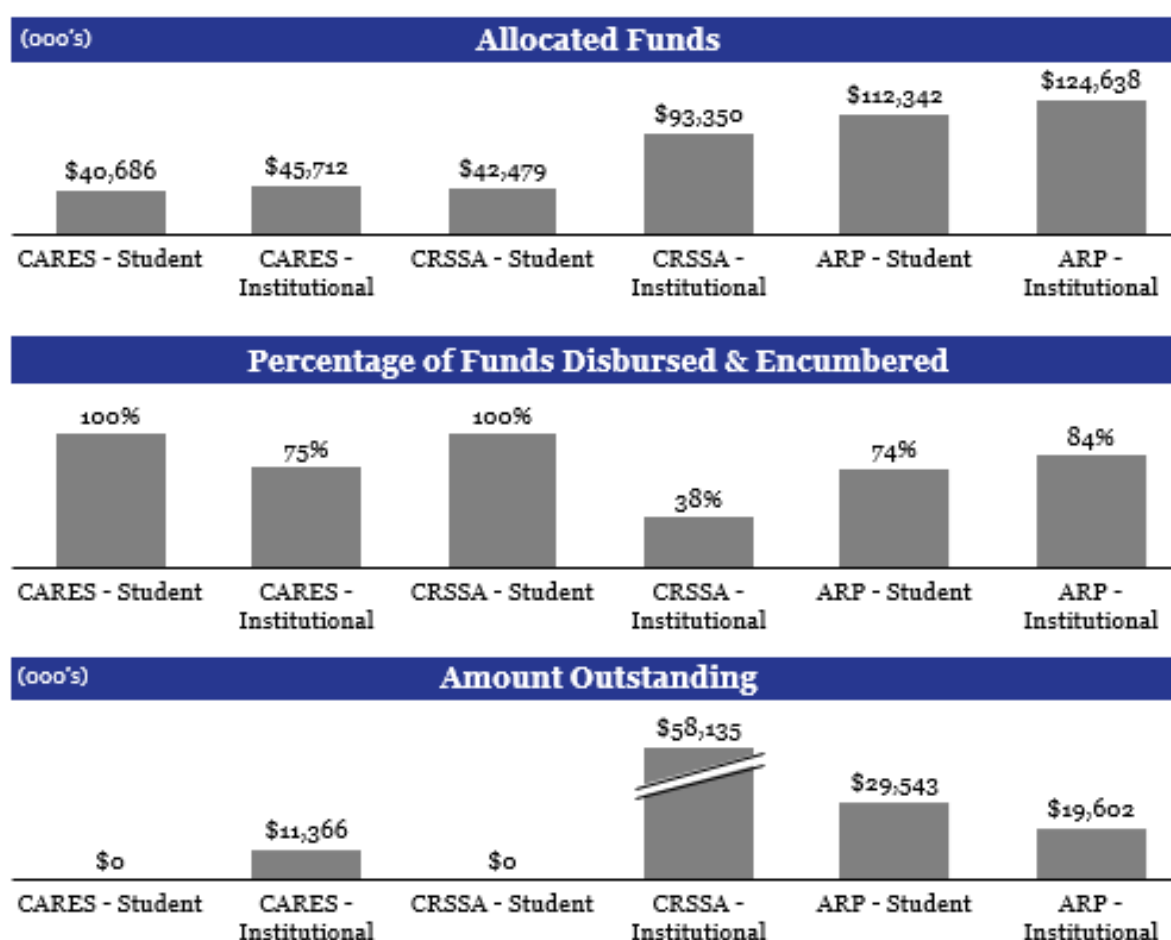


EXHIBIT 24 - DISBURSEMENT OF PANDEMIC RELIEF FUNDS BY CATEGORY

(ooo's)	CARES	CRSSA	ARP	Total
Allocated to Students	40,686	42,479	82,800	165,965
Capital Expenditures	0	0	0	0
Equipment	3,892	2,797	26	6,714
Facilities & Payment for Public Services	826	152	0	978
Materials & Supplies	16,531	4,977	116	21,624
Payroll & Related Costs	3,596	4,918	20,315	28,829
Scholarships & Donations	7,059	14,560	2,622	24,242
Pensions Payments	335	518	1,890	2,744
Other Operating Payments	2,107	7,292	80,067	89,466

Chapter 6 Safeguards to ensure continued

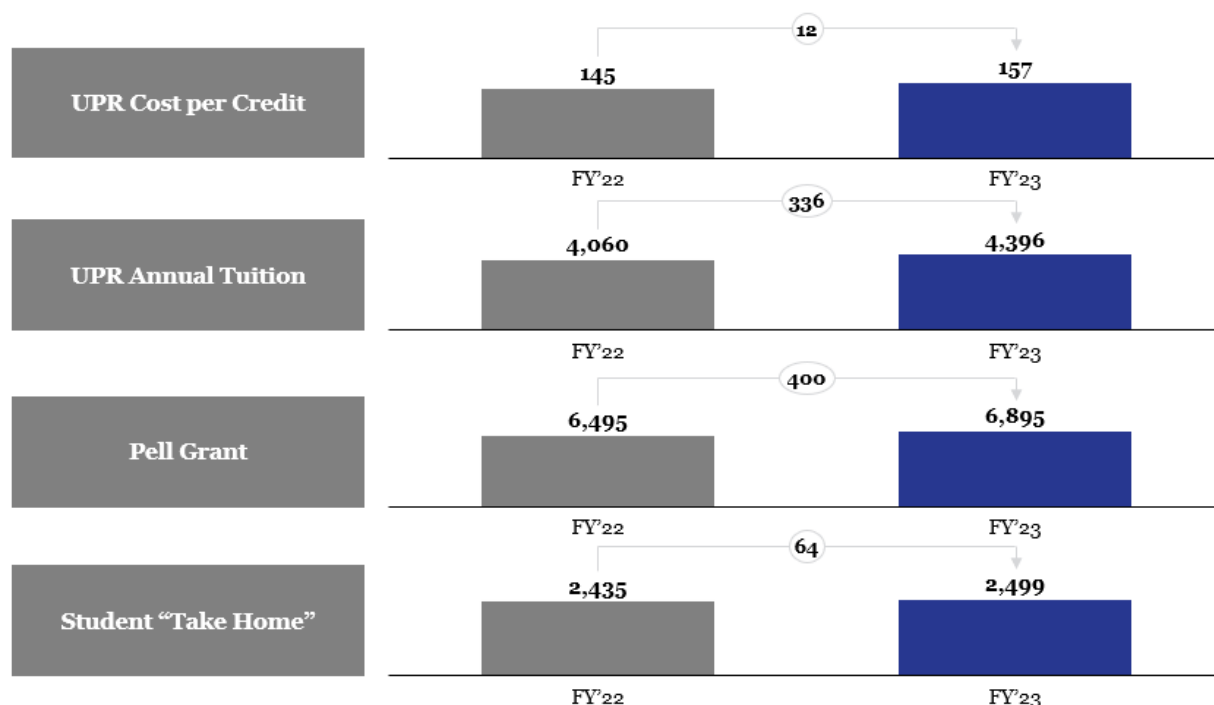
affordability

One of the main missions of the 2022 UPR Fiscal Plan is to ensure the University continues to be an engine of social and economic mobility. As such, numerous measures in the 2022 UPR Fiscal Plan aim at maintaining affordability and access to UPR:

- **Keeping overall undergraduate tuition under the maximum Pell Grant award** (\$6,495 for FY2022), ensuring that most students who receive financial aid (~70% of undergraduates) will retain ~\$1,000+ of Pell funding to cover non-tuition costs of attendance.
- **Maintaining total undergraduate tuition and fees below the cost of private universities in Puerto Rico** and well below the average in-state tuition for U.S. public universities
- **Increasing UPR's own annual scholarship expenditures for students with financial need.** Using revenue generated by exemption reductions, students that currently receive federal aid will see their scholarship award increase the allocation of these funds.

As part of the U.S. House passage of the \$1.5 trillion omnibus spending bill of March 9, 2022, representatives have approved a \$400 annual increase for federal Pell Grant program recipients, the largest in a decade. This additional increase would directly benefit UPR undergraduate students and would mitigate any potential increase in tuition.

EXHIBIT 25 – UPR UNDERGRADUATE TUITION AND PELL GRANT COMPARISON



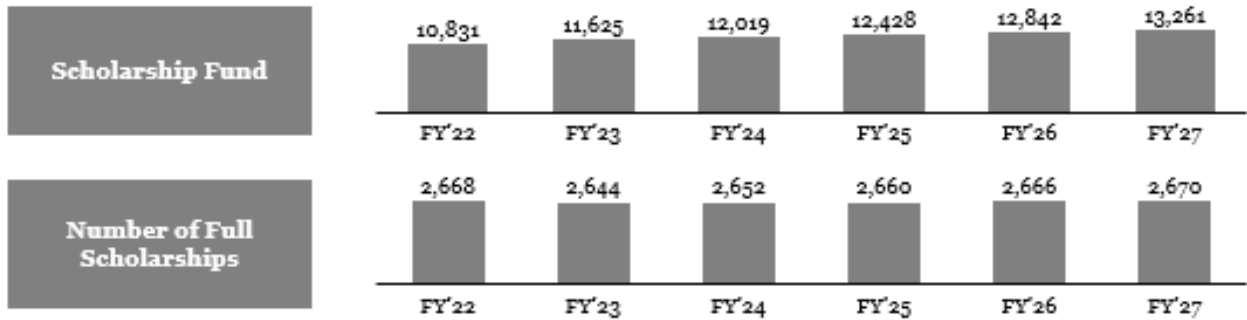
6.1 Additional detail on UPR scholarship funds

To ensure UPR continues to fulfill its role as an important driver of socioeconomic mobility, the 2022 UPR Fiscal Plan and the Commonwealth Fiscal Plan outline measures related to scholarship programs designed to ensure all students, regardless of their income level, have access to UPR's undergraduate and graduate programs.

6.1.1 UPR Internal Scholarship Fund

UPR expects the Internal Scholarship Fund to provide \$10.8M in financial aid during FY2022, as EXHIBIT 26 shows. The Fund will cover Undergraduate students who have any residual amount not covered by Pell Grants, and Graduate students by \$1,000 per year based on economic need.

EXHIBIT 26: UPR INTERNAL SCHOLARSHIP FUND POTENTIAL IMPACT

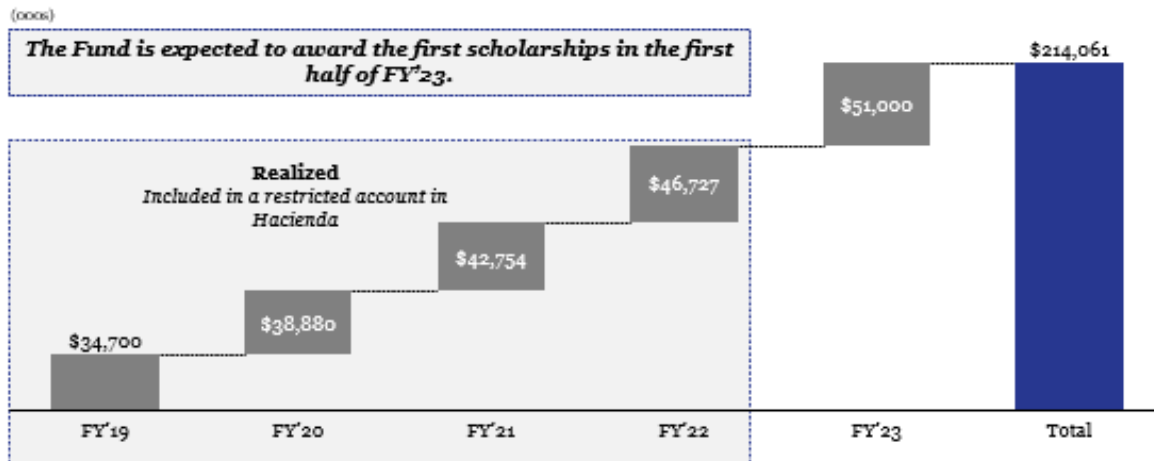


6.1.2 Commonwealth Scholarship Fund

The May 2018 Commonwealth Fiscal Plan established a scholarship fund, for which the Commonwealth would contribute \$35 to \$50M per year for external scholarships (see EXHIBIT 27) to be managed by an independent third party. During FY2022, however, the funds were instead transferred to the University's own Scholarship Fund and the \$46.7M scheduled contribution added to the fund's corpus. These funds will solely be used to provide need-based scholarships to UPR students starting in FY2023. The UPR will receive an accumulated \$214.1M from FY2019 to FY2023 from the Central Government Joint Resolutions. For FY2019 to FY2022 the funds have been restricted and accumulated to \$163.1M.

The University has amended the Trust Agreement of the UPR Endowment Fund, in order to include the required articles for the transfer of the Commonwealth Scholarship Fund to the Endowment Fund. Additionally, it is in the process of completing its internal regulations that would be approved by the Governing Board before the end of FY2022. Necessary amendments have been identified for Act 4-2022 regarding the timing for required reporting to the Legislature. The first disbursements of the Commonwealth Scholarship Fund are expected to be in place for Academic Year 2022-2023.

EXHIBIT 27: COMMONWEALTH SCHOLARSHIP FUND POTENTIAL IMPACT



6.1.3 Other Scholarships

Other financial supports include:

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

Chapter 7 Implementation resources and costs

The measures included in the 2022 UPR Fiscal Plan require a PMO with dedicated staff and the authority and capabilities to ensure successful execution across the university system. UPR set up a PMO under the University Governing Board in FY2019, the Office of Institutional Transformation (“OIT”). The University continues to integrate its work with the efforts of UPR’s central administration and empower it to compel the implementation of the 2022 UPR Fiscal Plan. The OIT is driven by full compliance with the objectives of the 2022 UPR Fiscal Plan. EXHIBIT 28 provides a detailed projection of the 2022 UPR Fiscal Plan implementation costs.

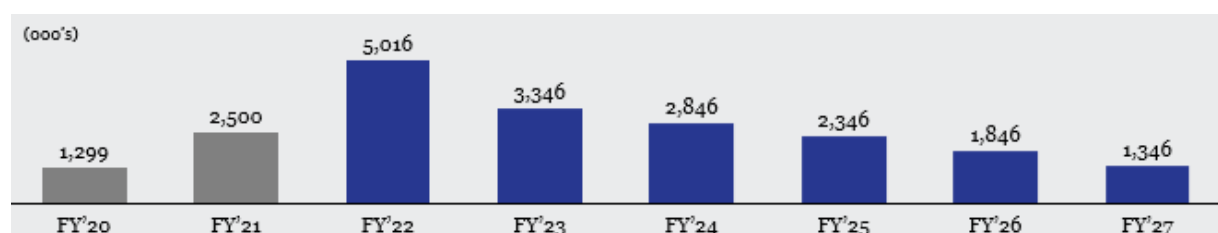
Some measures may require contracting external advisors to provide technical and other assistance, particularly when it comes to improving fiscal governance and reporting. UPR estimates the total cost of implementation will be roughly \$3.3M for FY2023, including professional services associated with the 2022 UPR Fiscal Plan measures.

For FY2023, the University is expected to recruit full-time dedicated personnel that will manage and oversee all fiscal plan compliance and transformational reforms. Key responsibilities of the Office include:

- *Fiscal Plan Development.* Lead the development of the Fiscal Plan as instructed by the FOMB. Technical and financial analysis will be support by the Office of the CFO of Central Administration.
- *Initiative Oversight.* Recurring oversight of all Certified Fiscal Plan measures both OIT-led or Central Administration-led initiatives.
- *Finance, Budget, and Controls.* Provide reporting, Budget-to-Actuals, Liquidity Reports, HR Reporting to the FOMB on a monthly basis. Set controls for compliance with Certified Fiscal Plans.
- *Transformations.* Oversight of all Administrative and Academic Transformations. Lead Shared Services, Medical Science Campus, and Real Estate initiatives.
- *New Revenues.* Oversight of all new revenue initiatives, including additional federal fund grants and contracts, philanthropy, and the development of the new Development Office.
- *Debt-Related.* Oversight of debt-related initiatives of the Institution, both the Pension Reform implementation and support AAFAF on the Municipal Bond renegotiations.

From FY2024 through FY2027, the OIT will operate with a lower annual budget, averaging a 20% decrease during that 4-year period. As fiscal sustainability and FOMB milestones are met, OIT will adapt its expenses accordingly.

EXHIBIT 28: PROJECTED FISCAL PLAN IMPLEMENTATION COSTS

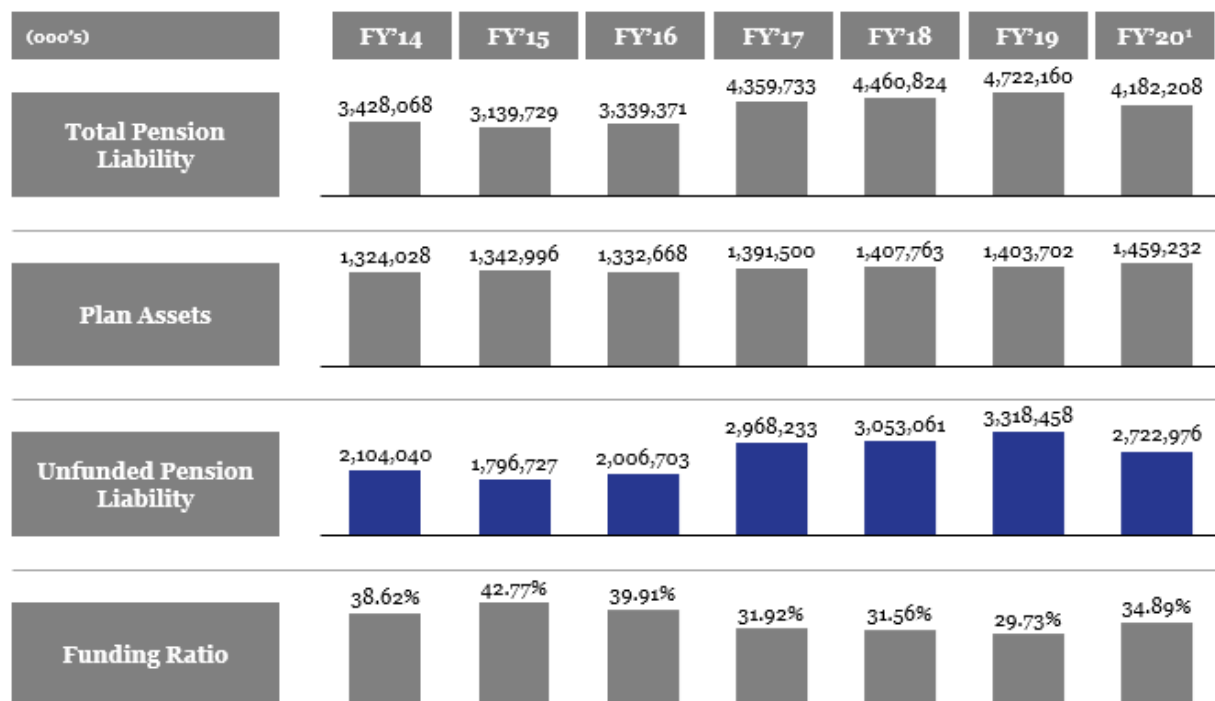


Chapter 8 Pension Reform

8.1 Reforms to UPR Retirement System

PROMESA Section 201(b)(1)(F) requires the 2022 UPR Fiscal Plan to improve fiscal governance, accountability, and internal controls. PROMESA Section 201(b)(1)(C) also requires the 2022 UPR Fiscal Plan to provide for adequate funding of public pension systems. As part of proper governance and accountability, the 2020 UPR Fiscal Plan required UPR to adequately fund pensions. This requires UPR to recognize its funding constraints and implement pension reform, and alignment of the employer contributions to the current defined benefit plan, as required by the actuarial reports using a 30-year amortization.

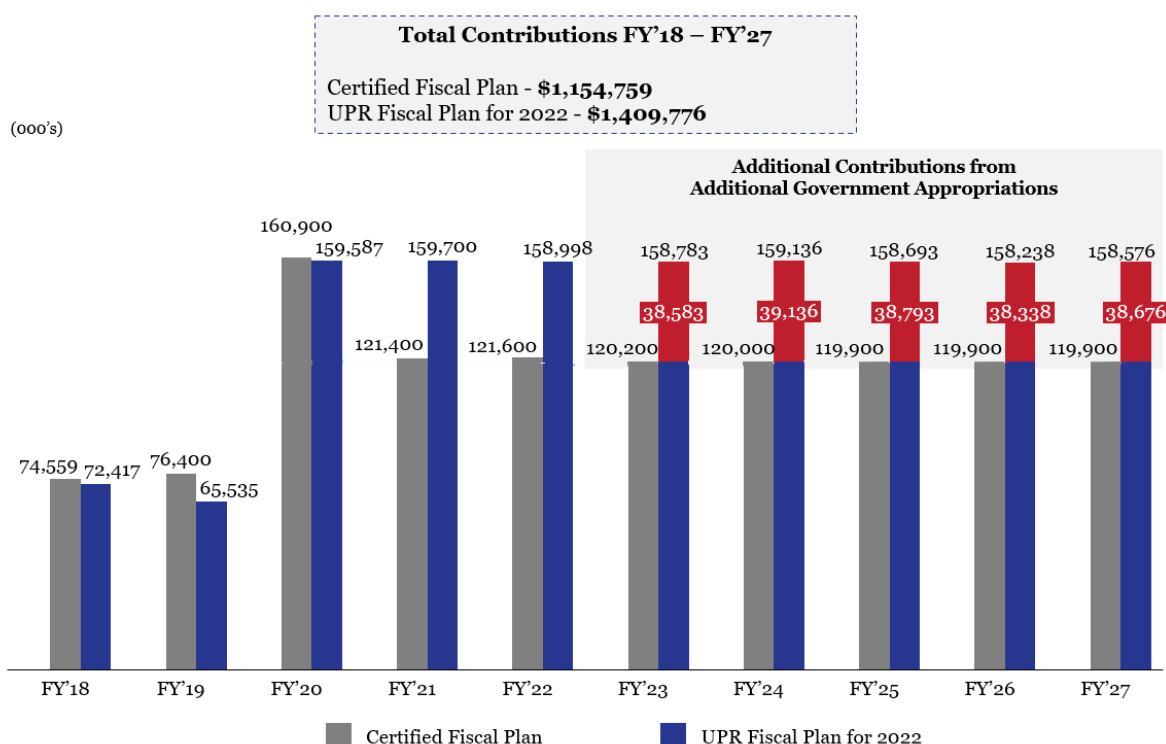
EXHIBIT 29: HISTORICAL PENSION PLAN LIABILITY



¹: Data obtained for Actuarial Report as of June 30, 2020 from Cavanaugh Macdonald Actuarial Report GASE 67 & GASE 68 reports as of June 30, 2021

Since 2017, the different UPR Fiscal Plans certified by the Oversight Board have consistently reiterated the necessity of implementing Pension Reform and provided the UPRRS the actuarially required contribution (see EXHIBIT 30). The latest studies suggest that UPR has a total pension liability worth ~\$4B. The fiduciary net position as a percentage of the total pension liability is at 34.89% according to 2020 audited financial statements. The sole intent of this Fiscal Plan is to ensure adequate funding and minimize liability risk to both UPR and its pension plan.

EXHIBIT 30: ACTUAL VS. REQUIRED HISTORICAL UPR CONTRIBUTIONS TO PENSION PLAN



According to the UPRRS commissioned actuarial report⁴³, annual pension expenditure must be revised to account for the following changes in actuarial assumptions:

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

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

UPR has already taken a significant step forward by certifying a plan for some pension reform, which includes a 30-year closed amortization and a level dollar funding contribution. In its plan, UPR closes the plan to new and non-vested members and moves them to a Defined Contribution (DC) Plan. UPR pension plan would be closed to new members effective as of October 31, 2022, for all non-vested participants and new employees. Vested participants will continue to accrue benefits. UPR's prospective approach to reform UPRRS would eliminate the long term the pension liability by 2044. In addition, UPR's plan reduces future pension liability risk due to the closing of the pension plan.

- **Non-vested & new participants:** 12% of total population would participate in the new DC Plan starting January 1, 2022. Employees will contribute 8.5% of their annual salary and UPR would contribute 4.25% annual matching.
- **Vested employees and retirees:** 88% of total population. Vested employees would see no impact and would continue to accrue benefits in UPRRS following current plan. Retirees would have no reduction.

This first step approved by UPR mitigates some of the increasing liability risk and is a step in the right direction. According to the latest actuarial data used for audited financial statement purposes, the proposed UPR measures result in a decrease of total pension liability of \$540M or 11%. In addition, the combined effect of the proposed measures and the increase in annual employer contributions of the UPR has resulted in an improvement of fiduciary net position as a percentage of the total pension liability of 5% (from 29.73% to 34.89%).

Chapter 9 Fiscal management & controls

The fiscal reforms described in the 2022 UPR Fiscal Plan represent a significant and transformative effort across the eleven UPR campuses and its component units. As such, strict reporting requirements ensure savings and revenue targets are achieved on time and identify any major risks to reform to course correct at an early stage.

The various reporting requirements detailed below are based on best practices of comparable systems and are designed to enable both the UPR project management organization and the Oversight Board to monitor progress and react to roadblocks proactively as well as to enable the University to meet its reporting responsibilities. UPR will continue meeting PROMESA's requirements and providing the required information for the Oversight Board to help the UPR achieve financial sustainability.

Below are the 2022 UPR Fiscal Plan reporting requirements from the FOMB. Reporting cadence to the Oversight Board: (i) Monthly: 15th day after the end of the month; if not a business day, then the previous business day and, quarterly: (ii) 15th day after the end of the quarter.

EXHIBIT 31: UPR REPORTING REQUIREMENTS

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

Chapter 10 Debt Sustainability Analysis

In the face of declining Commonwealth appropriations and the need for UPR's own sources of revenues to support more of its operations, this structure is inherently unsustainable from the University's perspective. The FY2022-27 UPR Fiscal Plan contains measures that, if timely and fully implemented by UPR, are projected to generate positive net revenues, with such primary surplus available for payment of some restructured debt service. These figures take into account the reduced level of Commonwealth appropriation payments to UPR contained in both the Commonwealth and the UPR fiscal plans.

EXHIBIT 32 represents the contractual debt payment for the following years, composed of two long-term debt obligations: the University's revenue bonds and the Desarrollos Universitarios, Inc's AFICA bonds (the AFICA bonds). These debt obligations amount to \$511.2M and \$78.3M, respectively. Both bonds are currently rated "C" by Moody's Investors Service (Moody's) and "CC" by Standard & Poor's Ratings Services (S&P).

EXHIBIT 32: UPR DEBT SERVICE

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

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

¹2026-2036 for Revenue Bonds and 2026-2033 for AFICA Bonds

² AFICA Bonds final payment is during 2034 and Revenue Bonds final payment is 2036

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

The Letter Agreement has been extended fifteen times and the new Compliance Period is July 1, 2022. Pursuant to the Letter Agreement and the fifteen standstill extension agreements, during the Compliance Period, holders of the majority in amount of the Revenue Bonds and the Trustee at the direction of the University's bondholders will negotiate in good faith towards a restructuring of the Revenue Bonds. In addition, the trustee agreed not to institute or commence certain legal proceedings and the University agreed to transfer the monthly payments of Pledged Revenues to the trustee to be applied in accordance with the Trust Agreement during the new Compliance Period.

Discussions with respect to a consensual restructuring of the Revenue Bonds have occurred; UPR intends to continue and conclude these negotiations as soon as is reasonably partible. With the implementation of the Pension Reform, the University and FAFAA would be in a better position to discuss potential re-negotiations with UPR's bondholders. Presently, the University has complied with and has made all transfers due under the Letter Agreement, as extended. For FY2022, the University will make transfers to the Trustee totaling \$42M. In addition, the Trustee of the University's Revenue Bonds, on behalf of the University, has paid, as agreed, the scheduled principal and interest payments on its outstanding Series P and Q Bonds.

CONCLUSION

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

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

The 2022 UPR Fiscal Plan does not suggest that taking this path will be easy. It is complex, requiring focus and attention to goals and targets, but if implemented well, will yield valuable results for students, faculty and administration. The singular opportunity to apply the COVID-related Federal funds to the new needs of the University and the FEMA funds to rebuild and transform the university creates a window for success.

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

Annex 1: Institutional Background

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

The University of Puerto Rico System

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

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

The University of Puerto Rico Campuses

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

UPR Campus Profile

Campus	Students	Faculty ¹	Non-Faculty
UPR Río Piedras	12,564	868	1,374
UPR Mayagüez	11,543	642	1,607
Medical Science	2,151	1,060	1,252
UPR Aguadilla	2,058	104	233
UPR Arecibo	2,991	177	271
UPR Bayamón	3,092	127	242
UPR Carolina	2,198	143	217
UPR Cayey	2,398	120	295
UPR Humacao	2,714	141	325
UPR Ponce	2,106	152	235
UPR Utuado	416	40	127
Total	44,230	3,574	6,178

Roster as of 01/31/22

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

The **Río Piedras Campus** (the “UPR-RP”) was established in 1903. It is a comprehensive doctoral institution and the oldest and most complex unit in the UPR system. Its academic offerings include 65 undergraduate programs. The graduate offering includes 41 master’s degrees, 15 PhDs, three Ed.D., and international programs in Law, at both Master of Laws (“LLM”) and Juris Doctor (“JD”) levels. The UPR-RP serves 12,564 students; comprises a faculty of 868 members and employs 1,374 non-faculty workers.

The **Mayagüez Campus** (the “UPRM”) was established in 1911 as a land-grant institution committed to teach agriculture, military tactics, and mechanic arts, as well as classical studies. The UPRM offers 104 academic programs: 54 bachelor’s degrees, 42 master’s degrees and 8 PhDs. It serves 11,543 students; comprises a faculty of 642 professors and employs 1,607 non-faculty workers. All six of its engineering bachelor’s degree programs are accredited by the Accreditation Board for Engineering and Technology (“ABET”). In addition, the UPRM offers a Teacher Preparation Program, accredited by The National Council for Accreditation of Teacher Education (“NCATE”), now known as the Council for the Accreditation of Educator Preparation (“CAEP”). Students of this program consistently score among the highest grades in the teacher certification exams.

The **Medical Sciences Campus** (the “UPR-MS”) was established in 1924 as the School of Tropical Medicine affiliated with Columbia University. It comprises the Schools of Medicine, Dental Medicine, Public Health, Pharmacy, Nursing, and Health Professions, and has 61 academic offerings, including 8 associate and bachelor’s degrees, 5 professional doctoral degrees, 30 masters, 5 postgraduate certificates, and 11 doctoral programs. It serves 2,151 students. Besides teaching and service, the UPR-MS is also engaged in numerous research projects, many of which are funded by the National Institutes of Health (“NIH”) and its subdivisions fueled in part by seed money from infrastructure building programs such as the Minority Biomedical Research Support (“MBRS”) and the Research Centers in Minority Institutions (“RCMI”).

The **Aguadilla Campus** (the “UPRAG”) was founded in 1972 and offers 15 bachelor’s degrees,

2 associate degrees, and 26 articulated transfer programs to other UPR campuses. UPRAg has embraced the Strategic Initiative that all programs and services subject to professional accreditation, should pursue accreditation. Campus programs have received certification from CAEP, the Association of Collegiate Business Schools and Programs (ACBSP), the Accreditation Board for Engineering and Technology (ABET), and the International Association of Counselling Services (IACS) to name a few. These professional evaluations and accreditations are substantial in helping us to improve continuously, enhance our assessment culture, strengthen program evaluation, and solidify our compliance with MSCHE standards. For the first semester 2020-21, UPRAg served 2,058 students, 104 faculty members and 233 non-faculty employees.

The **Arecibo Campus** (the “UPRA”) was established in 1967 and it offers 17 programs conducive to a degree, 14 bachelor’s degrees, three associate degrees, a post-baccalaureate degree and seven articulated transfer programs. The academic programs stand out for being innovative, competitive, and relevant. Courses are offered in several traditional and non-traditional modalities such as: experiential learning, learning communities, and distance education. Academic excellence is evidenced by thirteen programs accredited by specialized accreditations. Through its Division of Continuing Education and Professional Studies (DCEPS), it also offers professional development opportunities to the internal and external communities. Student enrollment at UPR-Arecibo is 2,991 students with 177 faculty members and 271 non-faculty employees.

The **Bayamón Campus** (the “UPRB”) was established in August 1971 as a community college and was part of the Regional Colleges Administration. In 1998, the UPRB became an autonomous campus within the UPR System. It is focused on the fulfillment of the growing academic needs of the region. The institution offers academic programs in technology, business, science, and education. Also, the UPRB offers coordinated articulated academic transfer programs in several academic disciplines, including the liberal arts, through agreements with other UPR campuses. The corresponding professional accreditation agencies accredit all UPRB’s academic programs susceptible to accreditation. Enrollment at the UPRB is 3,092 students with 127 faculty members and 242 non-faculty employees.

The **Carolina Campus** (the “UPRCA”) was founded in 1974. It serves 2,198 students. It offers 13 undergraduate majors, 5 associate degrees, as well as 19 transfer programs. It offers three Professional Accredited programs in Office Systems, Business Administration, and Hotel and Restaurant Administration. The UPRCA is the only campus within the UPR System that operates under a quarter term calendar system. Typically, students obtain their bachelor or associate degrees in a shorter period. The student body is served by a faculty of 143 professors and 217 non-faculty employees.

The **Cayey Campus** (the “UPR-Cayey”) was established in 1967 and offers 24 bachelor’s degrees in five academic areas: Teacher Preparation (11), the Natural Sciences (4), Social Sciences (4), Humanities (4), and Business Administration (4). It serves 2,398 undergraduate students with 120 faculty members and 295 non-faculty employees. UPR-Cayey is the third institution in Puerto Rico with the highest number of applicants to medical schools, ranked between third and fourth institution in Puerto Rico with the highest number of students that completes a PhD in Science, Technology, Engineering, and Mathematics (STEM) programs during the last decades. Moreover, UPR-Cayey follows UPR-Rio Piedras and UPR Medical Campus as the third UPR institutions with the highest amount of NIH funds, providing our students a competitive advantage when filing their graduate school applications.

The **Humacao Campus** (the “UPRH”), founded in 1962, is a public undergraduate institution classified as a Bachelor/Diverse: Baccalaureate Colleges-Diverse Fields by the Carnegie Foundation for the Advancement of Teaching. UPRH is the only UPR campus with a presence in the eastern region of PR. In 2018, UPRH provided service to 17% of the island’s population that extends beyond our target area, including the islands of Vieques and Culebra. Forty-eight percent of our students are below the poverty line that results in UPRH being a vital component in the economic and social development of the eastern region. The UPRH serves 2,714 students with 141 faculty members and 325 non-faculty employees.

The **Ponce Campus** (the “UPRP”) Established as Ponce Regional College in 1969 and first accredited by Middle States in 1970, UPR-Ponce was originally authorized to offer associate degrees and transfer programs but added several baccalaureate degree programs beginning in the 1980s. Five of UPR-Ponce’s academic programs are unique in Puerto Rico: Athletic Therapy Sciences, Psychology and Mental Health, Forensic Psychology, Biomedicine, and Civil Engineering Technology in Architectural Delineation. Total current enrollment is 2,106. The student body is served by 152 faculty and 235 non-faculty staff members.

The **Utuado Campus** was created in 1978 and it offers two-year agricultural programs. It offers 4 bachelor’s degrees and 6 associate degrees. UPR-Utuado holds specialized accreditation by the NCATE, the ACBSP, and includes a Learning Resource Center certified by the Association of College Research Libraries (ACRL) since 2008. Aligned with our institutional mission, UPR-Utuado has academic programs dedicated to the economic and cultural needs of the region. It serves 416 students, with 40 faculty members and 127 non-faculty members.

University Component Units

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

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

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

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

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

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