

Lyvan Butín
Former member of the University Board Budget Committee.

Honorable Chairman Grijalva and Committee Members:

My name is Lyvan Butín and I am a senior student majoring in accounting at University of Puerto Rico, Bayamon Campus. My presentation's purpose is to advocate for the amendment proposed by the Honorable Congressman Raul Grijalva to the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) on behalf of the 53,000 University students from the University of Puerto Rico. This amendment will also protect Puerto Rico's public education and allow economic growth and social development.

I was a member of the University Board Budget Committee until recently. This is the highest non-partisan body of governance of the University of Puerto Rico. In this committee, I studied and revised the multiple budgets that conform the University system as a whole, particularly it's eleven campuses and the fiscal plans approved by the Financial Oversight and Management Board for Puerto Rico -FOMB- and the University's Governing Board. I had the opportunity to examine the different regulations and accreditations that govern the University of Puerto Rico. This Budget Committee concluded that if the Fiscal Plan projected cuts are implemented, the University of Puerto Rico-- the only public university -- has a high probability of closing operations in a near future, leaving Puerto Rico in a precarious economic state. This in particular would contribute to social inequality and a mass migration to the United States would be inevitable.

I. PROMESA Goals

The primary purpose of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), at section 101 (a), is to promote a method to achieve fiscal responsibility in the Territory of Puerto Rico. Nonetheless, since the creation of the Financial Oversight & Management Board for Puerto Rico (FOMB), the method used to achieve fiscal responsibility has been through the implementation of austerity measures in the government sector, as well as stimulating privatization measures and granting tax exemptions to possible private sector investment. All these without any reliable analysis of those strategies or of the private sector investment. At the same time, there has been no consideration of economic studies on the possible outcomes of these investments. There has never been an economic analysis of the actions proposed or implemented. The result of these measures has been a massive migration of Puerto Ricans to the United States, engendering social inequality, poverty and violence in Puerto Rico.

The University of Puerto Rico produces 73% of the scientific knowledge in our region. An economic study established that the University of Puerto Rico's return investment is \$1.56 for each \$1 dollar that the government contributes to the institution. This creates 164 jobs for each one hundred (100) jobs generated as part of the institution's activities.

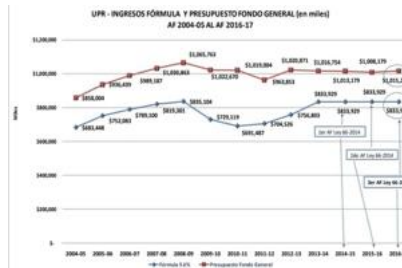
The approved fiscal plan imposes a reduction of 512 million dollars without any scientific data or criteria and does not take into consideration the University of Puerto Rico's social contribution to the island's local recovery and economic development.

II. Budget Cuts to the University of Puerto Rico

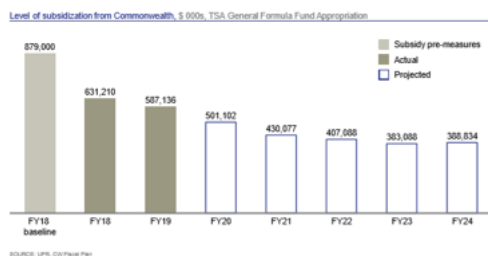
Before the implementation of PROMESA the University system had already undergone mayor cuts to its budget. In 2014, the administration of the governor, Alejandro García Padilla decides to freeze the allocation of funds to the University of Puerto Rico. This without following the established formula for the allocating of funds to our university. The university is entitled to receive 9.6% of the annual rental annuities by law. This represents a major part of our consolidated budget. Ignoring the University's budget

formula established by law contributed to an accumulated loss of 550 million dollars through fiscal years 2015 to 2017.

The graph below shows the dramatic budget reduction suffered by the University in recent years:



In fiscal year 2018, the FOMB started implementing their cuts through their fiscal plan, which started with a reduction of 202 million dollars to the University of Puerto Rico system. Two years has passed since the first mayor cuts. Currently this fiscal year 2020, the budget cuts have accumulated to a total of 333 million dollars. However, we are still projected to receive more cuts until the fiscal year of 2024; that adds another 112 million dollars to the reduction. In total, the budget cuts ascend to 445 million dollars. That represents a 56% of the total budget of the University of Puerto Rico since the freezing of the University formula used for the development of its budget.



The immediate effect of the severe budget cuts is the resulting operational deficit. Under the fiscal plan, a deepening deficit began this fiscal year.

II. Measures To Sustain Operations With The Budget Cuts.

The University is not oblivious of the need for fiscal restraint alternatives and has been working on those since 2014 with an economic reduction from the Government. Thus,

adopting multiple measures to continue providing higher education excellence. Some of the drastic adjustments that the University has been adopting in the past years are:

- Triple tuition fee increases and the creation of a new fee for students.

EXHIBIT 13: SCHEDULE OF TUITION INCREASES (COST PER CREDIT)

FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
\$115	\$124	\$134	\$145	\$157	Indexed to inflation

Fee changes over time

Cost per transaction (\$)	FY16-18 Cost	FY19	FY20	FY21	FY22	FY23	FY24
Existing fees:							
Maintenance Fee	47.00	47.00	75.00	100.00	100.00	100.00	100.00
Technology Maintenance Fee	25.00	25.00	25.00	25.00	50.00	50.00	50.00
Laboratory Rights	33.00	100.00	100.00	100.00	100.00	100.00	100.00
Graduation Rights	27.00	80.00	80.00	80.00	80.00	80.00	80.00
Other Maintenance Rights	87.00	87.00	87.00	87.00	87.00	87.00	87.00
Admission Application	20.00	30.00	30.00	30.00	30.00	30.00	30.00
Re-Admission	33.00	35.00	35.00	35.00	35.00	35.00	35.00
Transfer to other institutions	33.00	50.00	50.00	50.00	50.00	50.00	50.00
Transfer within the UPR System	20.00	25.00	25.00	25.00	25.00	25.00	25.00
Transcripts & Certificates	1.25	5.00	5.00	5.00	5.00	5.00	5.00
Document Duplicates	1.25	5.00	5.00	5.00	5.00	5.00	5.00
Change in Faculty	20.00	20.00	20.00	20.00	20.00	20.00	20.00
ID Card	5.00	10.00	10.00	10.00	10.00	10.00	10.00
Fees for late tuition	13.00	20.00	20.00	20.00	20.00	20.00	20.00
New fees:							
Summer Maintenance Fee	-	50.00	50.00	50.00	50.00	50.00	50.00
Fees for partial drop in courses	-	10.00	10.00	10.00	10.00	10.00	10.00
Fees for full drop in courses	-	15.00	15.00	15.00	15.00	15.00	15.00
Repetition of courses	-	20.00	20.00	20.00	20.00	20.00	20.00

- Reduction of faculty and administrative personnel. Most of our campuses are understaffed and this jeopardizes the multiple University of Puerto Rico accreditations. This measure has contributed to the increased recruitment of lecturers and part time Instructors. The hiring freeze of tenure track faculty positions places at risk the University of Puerto Rico accreditation. This has translated in a limited number of courses for students, a deterioration of our infrastructure and the limited staff attending student services. For example, in some offices used to be operated by full staff or administrative personnel, now are being operated by one or two work-study students.
- Interruption of some of our essential infrastructure projects. This is due to a combination of factors such as the lack of funding and that FEMA has not disbursement the necessary funds for the reconstruction required. Due to these measures, the university is in a critical situation regarding its infrastructure. There is an urgent necessity to fund projects to rebuilt and repair the University of Puerto Rico's infrastructure. In some cases, University Campuses such as Bayamon and Río Piedras, complete lost buildings due to the damages of hurricane María. To this day the reconstruction of those buildings essential to the functioning of many units of the University Campuses have not even begun.

- Academic and administrative reorganization or consolidation. At this moment, the university is evaluating every academic program that it offers throughout the eleven campuses operated by the whole University of Puerto Rico system; the University of Puerto Rico contemplates the consolidating of programs. On the administrative level, the University of Puerto Rico is working in economic strategies to foster savings by restructuring operations and its administration. I foresee this as one of the great challenges because if we want to operate more effectively, we need to invest in better technology, and infrastructure. Regretfully, we simply do not have the funding for all this.

III. University's Pension Plan Crisis

The pension plan of the university is being affected critically by these drastic budget cuts. Since the first budget cuts, the university no longer funds adequately its pension plan. As of today, the plan has an actuarial liability ascending to \$2,968,233,000.

	6/30/2017	6/30/2016	Change
Total Pension Liability	\$ 4,359,733,000	\$ 3,339,371,000	+ \$1,020,362,000
Total Plan's Net Assets	\$ 1,391,500,000	\$ 1,332,668,000	+ \$ 58,832,000
Net Pension Liability	\$ 2,968,233,000	\$ 2,006,703,000	+ \$961,530,000
Net Position as a Percentage of the Total Pension Liability	31.92%	39.91%	- 7.99% (a 20% deterioration)

According with the University of Puerto Rico fiscal Plan, the university will have to pay about 150 to 160 million dollars annually in order to close the actuarial deficit. The FOMB has proposed three different scenarios for the Pension Plan:

1. Leave the system as is, and increase the university's contribution from 80 to 160 million dollars or more annually.
2. Transform the retirement plan to a defined contribution plan and pay somewhere close to 143 million dollars annually.
3. Transform the retirement plan to a defined contribution plan and reduce most of the benefits. Under this option, the university must spend around 100 million dollars annually to the pension plan.

The university is leaning to sustain its pension plan as is, but the problem is that the amount that we have to pay (160 million) it is incredibly high when compared to our

budget. The uncertainty of the future of the pension plan is forcing productive employees into retirement because they are afraid that the university is going to transform or eliminate their pension plan.

As of July 31, 2019, University's pensioners are 9,023, and their monthly payroll amounts to around 16.5 million dollars. Both numbers are expected to increase given the large number of people who can retire because they now meet the years of service

Unidad	0-5	6-10	11-15	16-20	21-25	26-30	31 Más	Total
Centro de Recursos para las	1	0	0	0	0	0	0	1
Consejo de Educación Superior	18	4	12	7	16	1	4	62
Junta de Síndicos	0	0	0	0	0	4	2	6
UPR - Administración Central	12	4	2	3	7	4	2	34
UPR - Aguadilla	42	22	20	37	80	58	39	298
UPR - Arecibo	53	22	46	67	48	17	41	294
UPR - Bayamón	36	26	38	77	81	46	68	372
UPR - Carolina	55	42	45	71	75	47	83	418
UPR - Cayey	26	43	41	58	51	31	51	301
UPR - Ciencias Médicas	87	36	70	71	81	56	63	464
UPR - Estación Experimental	475	241	344	266	269	205	376	2,176
UPR - Humacao	94	27	49	46	24	32	53	325
UPR - Mayaguez	65	28	59	80	101	65	91	489
UPR - Ponce	288	120	288	307	273	186	272	1,734
UPR - Río Piedras	55	23	29	76	52	19	33	287
UPR - Servicio de Extensión	462	139	327	377	371	333	464	2,473
UPR - Sistema de Retiro	74	39	46	52	51	45	46	353
UPR - Utuado	7	1	9	3	9	11	6	46
Total	39	25	14	32	35	22	19	186
	1,889	842	1,439	1,630	1,624	1,182	1,713	10,319

for retirement as shown in the table.

One can see that in the next four years the number of people that can receive benefits from the pension plan would rise by 2,895. Therefore, the situation is made more difficult for the institution because it will have to disburse more money to the retirement system. The University of Puerto Rico will not have the money to sustain its pension plan and it will be forced to enter a **pay as you go system**, requiring greater disbursements from the Central Government.

IV. Budget Deficits

It is easy to see how the budget cuts are creating a massive fiscal deficit for the University of Puerto Rico. The Fiscal Plan approved last June 5th 2019 by the FOMB projects that the University will have a deficit of 88 million dollars by the end of fiscal year 2020.

	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Baseline revenues	1,254,884	1,180,836	1,082,341	1,032,307	1,001,480	1,005,477
+Revenue measures	96,347	127,201	149,662	173,181	186,323	187,608
Post measure revenues	1,354,231	1,307,896	1,212,033	1,205,488	1,187,803	1,193,084
Baseline expenditures	(1,357,400)	(1,444,130)	(1,362,600)	(1,384,277)	(1,376,583)	(1,373,533)
+Expenditure measures (incl. implement. cost)	81,711	95,509	183,782	186,417	194,563	201,151
Post-measure expenditures	(1,275,780)	(1,348,531)	(1,208,908)	(1,194,860)	(1,182,020)	(1,172,382)
Operating Surplus/Deficit (Pre Debt Service)	78,452		3,125	10,628	5,783	20,703
		-40,835				
Contractual Debt Service ¹	(\$41,304)	(\$48,252)	(\$48,252)	(\$48,252)	(\$48,252)	(\$48,252)
Operating Reserve/Deficit (Post Contractual Debt Service)	37,068		-45,127	-37,624	-42,469	-27,549
		-88,887				
Impact of Measures on Operating Reserve/Deficit (Post Contractual Debt Service)	181,058	222,859	333,474	362,598	380,888	388,759

As anyone can see in this graphic, the Fiscal Board is projecting that the deficit will disappear during the next fiscal years. But, the truth is the opposite: the deficit will not disappear any time soon, it will continue to increase. The University has already taken all possible measures for the improvement of cash flow and the generation of major savings. Although we can still implement minor adjustments that will save money, these adjustments yield minuscule results when compared to the projected budget cuts.

If the next reductions are implemented, we will be obligated to take drastic decisions regarding the future of the University of Puerto Rico. We will probably have to close many of our campuses, leaving thousands of students without a university center to attend. In fiscal year 2021, the University of Puerto Rico will be receiving 430 million dollars from the Central Government. This will not be enough funding to operate effectively: we will have to close several campuses to sustain the system.

Major Campuses	Budget
Rio Piedras	212,904,438
Mayaguez	134,578,621
Medical Science	118,353,984
Total	465,837,043

Minor campuses	Budget
Cayey	31,826,974

Humacao	39,117,93 1
Aguadilla	20,594,44 4
Arecibo	29,570,02 9
Bayamon	35,261,70 0
Carolina	25,315,73 3
Ponce	23,068,82 0
Utuaado	13,790,23 5
Total	218,545,8 66

The position of the President of the university and the FOMB is that they want to keep all campuses open, but as you can see, this is not going to be possible. The quality of education provided by the University has never been questioned. When we were placed on “show cause” by the Middle States Commission on Higher Education, it was for two central reasons:

1. Failure to comply with the financial information requirements by the MSCHE.
2. Concerns regarding the amount of fiscal resources the institution has to fulfill the obligation with its students.

The budget cuts, as specified in the fiscal plan, are going to force the closing of the University of Puerto Rico. We have to mention that in 1992, Congress amended bankruptcy law to exclude an institution of higher education that has filed for bankruptcy eligibility to participate in Title IV financial aid programs.

The approval of the amendment proposed by Congressman Grijalva is critical for the sustainability of the University of Puerto Rico. Some of the university campuses with this year's budget are not sure if they are going to be able to pay the payroll for the last months of the fiscal year or pay the utility bills. By endorsing this amendment, we ensure that the immediate future of the University of Puerto Rico is secure. This will give the opportunity for the university to reorganize, update infrastructure, acquire better technology, and in the near future operate more effectively. Referring to the University of Puerto Rico, Ms. Jaresko stated that, "the University of Puerto Rico system is the crown jewel of Puerto Rico." Having that in mind, it is important that the university is properly funded for the wellbeing of its citizens to secure the social and economic future of the island. We say that, a government is defined by the opportunities it gives its citizens. For many Puerto Ricans, the University of Puerto Rico represents our only hope for a better future, as well as the possibility for social and economic mobility. That is one of the main reasons to grant the University of Puerto Rico the status of an essential service. This will guarantee that the University of Puerto Rico continues the educational legacy initiated since 1903 in continuing to educate and provide the highest quality education available in Puerto Rico. This is what characterizes my University of Puerto Rico and what this University is known for.