

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



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Natalie A. Jaresko
Executive Director

BY ELECTRONIC MAIL

June 1, 2020

The Honorable Wanda Vázquez Garced
Governor
Commonwealth of Puerto Rico

Dear Governor Vázquez Garced:

This letter serves as a Notice of Violation (“NOV”) pursuant to Section 202(c)(1)(B) of PROMESA that the Financial Oversight and Management Board (the “Oversight Board”) has determined, in its sole discretion, that the proposed Commonwealth of Puerto Rico (the “Commonwealth”) budgets for fiscal year 2021 (“FY21”), submitted to the Oversight Board on February 14, 2020, February 28, 2020 and May 8, 2020 (the “Submitted Budgets”), are not compliant with the 2020 Fiscal Plan for Puerto Rico (the “2020 Fiscal Plan”) as certified by the Oversight Board on May 27, 2020. The 2020 Fiscal Plan incorporates several important updates for new information and data, as well as focused investments and fiscal priorities.

As a result of said updates in the 2020 Fiscal Plan, the Oversight Board is providing a revised forecast of FY21 revenues pursuant to Section 202(b) of PROMESA. This letter also provides updated payroll and operating expenditure targets by concept of spend that must be used in the revised budget submission due to the Oversight Board no later than June 7, 2020. Appendix A describes the support required for the revised budget submission.

Government’s FY21 Submission

The Submitted Budgets are not compliant with the 2020 Fiscal Plan and do not meet the requirements set forth by the Oversight Board. Accordingly, substantial revisions and additional information from the Government are required before the Oversight Board can approve the Government’s proposed FY21 budget and submit it to the Legislature.

The following list describes the most significant items of non-compliance which are in violation of the Oversight Board’s 2020 Fiscal Plan and budget milestones guidelines:

- **Uniform Renumeration Plan (\$146 million excess)**
 - The Government’s submission included a request of \$146 million as a step towards civil service reform.

- **Christmas Bonus (\$64 million excess)**
 - The Government’s submission included a request of \$64 million to pay employees Christmas Bonus, which is not consistent with the 2020 Fiscal Plan.

- **Capital Expenditures (\$158 million excess)**
 - The Government’s submission included a request of \$464 million for capital expenditures.

- **Parametric Insurance (\$82 million excess)**
 - The Government’s submission included a request of \$82 million for incremental insurance coverage.

- **Liquidation for Trust Employees (\$15 million excess)**
 - The Government’s submission included a request of \$15 million for the liquidation payments of trust employees

- **WIPR Budget (\$10 million excess)**
 - The Government’s submission does not incorporate the privatization of WIPR as outlined in the 2020 Fiscal Plan. The Government’s submission included a request of \$10 million in General Fund appropriations

- **Professional Services**
 - The majority of the professional services budget requests were allocated to “other professional services” with very little explanation. This goes against the intended purpose of providing transparency to the public. Additionally, some of the descriptions provided for “other professional services” seem to correlate directly with the five resolution categories expected to be used. For example, one description says, ‘for legal fees’ but was classified as “other professional services’ instead of “Legal professional services”. We request including additional object codes to support more transparency. For example, there is no object code for financial professional services but there appears to be a material amount of this type of service provided; education and training are also examples of missing object codes. We request at least the following be used:
 - Legal professional services
 - Information technology (IT) professional services
 - Training professional services (CW employees and/or the general public)
 - Education professional services (schools)
 - Finance professional services
 - Accounting professional services
 - Engineering and architecture professional services
 - Medical professional services (if this is not sufficient for outsourced nurses

- and doctors then please include additional object code categories)
- Title III fees
- Labor and human resources professional services
- **Agency consolidations**
 - The fiscal plan requires a reduction in the number of agencies. There are two additional agency consolidations that have legal authority to do so but whose budgets were provided separately “Departamento de Recursos Naturales” and “Departamento de Desarrollo Económico y Comercio.” The Budget should align with the fiscal plan requirements regarding consolidations and allow for better shared services to reduce costs.
- **Incomplete and Inconsistent Data Submission**
 - Several files included in the Government’s submission lacked consistency and/or were incomplete including but not limited to the:
 - The headcount file included duplicative numbers and excluded headcount for the Department of Education, the agency with the largest staffing pool in Puerto Rico
 - The capital expenditures file included varying currency denominations across agencies mixing amounts in actuals, thousands, and millions and did not make recommendations on priority nor allocation of such capital expenditure requests
 - Pension PayGo actuals information for payments and number of beneficiaries by agency for FY18 and FY19 was not submitted

Revised FY21 Revenue Forecast

Pursuant to Section 202(b) of PROMESA, the Oversight Board has determined that for FY21 the General Fund revenue forecast to be used for budgeting purposes is **\$10,045 million**¹ and the Other Funds revenue forecast is **\$3,227 million**.

Revised FY21 Agency Expenditure Forecast

In addition to complying with the revised FY21 revenue forecast, the Oversight Board expects the Government’s revised FY21 budget submission to follow the agency payroll and operating expenditure targets provided in Appendix B². In general, the parameters represent agency appropriations on a concept level basis after applying 2020 Fiscal Plan updates and fiscal priorities³.

¹ General revenue amounts represent all funds available for general budgeting purposes in accordance with the Certified Fiscal Plan, including funds derived from specific taxes that the Central Government has retained for such general budgeting purposes.

² Appendix B provides the targets in excel.

³ The core agency level appropriations exclude certain appropriations such as those for Public Building Authority rent, utility payments, insurance premiums, capital expenditures and pay-as-you-go pension allocations.

The FY21 agency payroll and operating expenditure targets address the COVID-19 crisis despite a declining revenue environment by:

- Prioritizing implementation of reforms that are designed to promote focus of finite Government resources on front-line service delivery that matters to residents, specifically at the following departments: Education, Health, Public Safety, Corrections and Rehabilitation, and Economic Development and Commerce;
- Focusing on efficiencies and cost reduction, through agency consolidation, creation of the Office of the Chief Financial Officer (OCFO), Medicaid reform, enhancing tax compliance and optimizing taxes/fees, and reforming the Island's pension systems;
- Providing budget incentives tied to the achievement of certain critical milestones;
- Maintaining funding of critical services such as in Health, Social Welfare, Education, and Public Safety;
- Improving the capacity of the Government through investments in technology and infrastructure;
- Delaying most agency rightsizing measures by one year; and
- Delaying the previously scheduled reductions in subsidy levels to UPR and municipalities

Such revised targets for FY21 include spending in the following fiscal priority areas:

- **Healthcare System (\$313.7 million)**
 - \$110 million for major capital expansions in existing hospitals (included in Department of Health Capex)
 - \$145 million investment in the Medicaid system and benefits such as in IT, Hepatitis drug coverage, increased hospital and specialty provider reimbursements, and increased sub-capitation rates for primary care providers (\$50 million included in Department of Health Capex and \$95 million included in ASES)
 - \$20 million for Scholarship Fund for students pursuing medical or clinical careers and who commit to practice in non-metro and underserved areas of Puerto Rico (included in Hacienda Custody)
 - \$20 million for investments in public hospital IT such as electronic health records and clinical operations for more responsive patient care (included in Department of Health Capex)
 - \$10 million for opioid treatment to procure and distribute overdose reversal drugs, invest in community health events, and scale existing opioid treatment programs (included in Department of Health Capex)
 - \$4.6 million invested in Mental Health and Drug Addiction Services Administration (ASSMCA) for Medicare accreditation
 - \$4 million investment in the Cardiovascular Center for surgical and medical materials

- **Technology Sector (\$450 million)**
 - \$400 million investment to improve broadband telecom and infrastructure in rural areas to improve access to broadband for the residents of Puerto Rico
 - \$50 million in funding to invest in workforce development, specifically focused on technology-related disciplines critical for the future of the workforce

These Technology Sector funds have been included in appropriations under the custody of OMB until such time they are assigned to independently managed entities/funds per the Certified Fiscal Plan.

- **Education (\$131 million)**
 - \$50 million for school psychologists for Special Education therapy
 - \$40 million additional funds to cover transportation costs (largely to support Special Education students), student food expenses and other materials
 - \$23 million for one-time retroactive payments of salary increases to transitory teachers and directors held under the Custody of OMB
 - \$15 million for increased number of school nurses
 - \$3 million in funding to purchase new textbooks
- **UPR Independently-Managed Scholarship Fund (\$43 million)**
 - \$43 million annual investment (third consecutive year) into UPR's independently-managed scholarship fund

These funds have been included in appropriations under the custody of Hacienda until such time they are assigned/transferred to an independent entity per the Certified Fiscal Plan.

- **Police (\$275.1 million)**
 - \$122 million for police officers owed payment for past services
 - \$72 million investment in FY21 for another 15% salary increase for police officers to increase the average salary of sworn officers to \$47,284 per year and a \$250 employer contribution per sworn officer for life and disability insurance
 - \$37 million per year for Social Security contributions to all sworn officers
 - \$27.1 million in Capex spending to renew motorized fleet and improve IT systems
 - \$17 million increase in payroll for Law 70 revised projection amounts
- **Firefighters (\$9.5 million)**
 - \$4.1 million in Capex spending for firetrucks
 - \$2.8 million increase in payroll from FY20 to be used for an academy that should recruit an additional 160 new firefighters
 - \$2.6 million annual investment for salary increases of \$1,500 per firefighter to attract and retain talent per Act 181-2019

- **Emergency Medical Services (\$3.5 million)**
 - \$2.4 million in Capex spending for ambulances
 - \$1.1 million personnel investment to allow for 40 new paramedics and 4 dispatchers which should result in decreased emergency response times

- **Support for Municipalities (\$22 million)**
 - \$22 million per year through FY25 to incentivize voluntary service consolidation to streamline consolidation of municipal shared services

The aforementioned budgetary incentive amount has been included in appropriations under the custody of OMB until milestones are achieved.

- **Government Capacity Improvement (\$42 million)**
 - \$15 million for Cybersecurity
 - \$10 million for centralized data center strategy and operations, cloud services and new equipment
 - \$10 million to the Department of Labor for new system to process unemployment claims
 - \$5 million for the implementation of centralized telecommunication services
 - \$2 million to the Department of Justice for the digitization of land registry

- **Budgetary Milestones & Incentives (\$71.5 million)**
 - \$17.0 million available in incremental funds for the Department of Education upon meeting certain milestones including:
 - \$8.6 million upon improving student and teacher attendance reporting
 - \$7 million upon school innovation
 - \$1.4 million upon Kronos implementation
 - \$24 thousand upon the digitization of Individual Education Programs
 - \$1.2 million in additional Professional Services to the Department of Health upon preparing an analysis and a report reviewing all back-office roles and positions with the goal of identifying duplicate positions and functions and progress towards a consolidation of such for the Department of Health with ASES
 - \$10.8 million available in additional Capex funding to the Department of Corrections upon providing a feasibility study with the stated goal to reduce the number of facilities
 - \$36.1 million available in incremental funds for the Department of Treasury upon meeting certain milestones including:
 - \$36 million of Capex funding for ERP implementation. \$14 million for the implementation of the first wave if the agency designates a dedicated Project Management of at least 3 FTEs and \$22 million of Capex for the second wave of ERP implementation upon completing the first
 - \$104 thousand for a \$1,500 one-time bonus to the agency's central accounting employees if it publishes the 2017 CAFR and provides a draft of the 2018 CAFR

- \$2.0 million in Professional Services for AAFAF if the Employee Retirement System creates segregated accounts and transfers into them all defined-contribution plan funds from 2017 onward
- Up to \$7 million for DDEC's operating and management as an incentive-based funding for regular publication of economic incentives for private corporations and associated returns

The aforementioned budgetary incentive amounts have been included in appropriations under the custody of OMB.

- **Consent Decrees Funding (\$530.5 million)**

- \$531.88 million of incremental or newly segregated funding from FY20 to adequately meet requirements related to consent decrees outstanding for several Commonwealth agencies, including:
 - \$341 million for Special Education Program (including \$2.8 million for penalties, legal fees and monitoring fees)
 - \$22.5 million for the Remedio Provisional Program of the Department of Education
 - \$40.1 million for the Intellectual Disability program plus an additional \$5 million annually for the next four years as part of the \$20 million that is required
 - \$23 million in funds for ASSMCA's Psychiatric hospital
 - \$20 million appropriated for Police reform
 - \$11.1 million in additional assigned funds for the Police reform to improve and implement IT, \$6.6 million of which is incremental and included in Police's Capex and \$4.5 million assigned in payroll which will be transferred to the Department of Public Safety
 - \$22.5 million in separate budget funds for the Juvenile confinement facilities under the Department of Corrections
 - \$49.7 million for Correctional Health to comply with the Morales Feliciano case
 - \$650 thousand in additional funds for the Pump house improvements in response to the discharge of contaminated water in San Juan

- **Emergency Reserve replenishment (\$535.7 million)**

- The Government's submission did not include amounts to replenish the portion of the budgetary emergency reserves that have been spent by the Government with the approval of the Oversight Board. These amounts are estimated as follows:
 - \$89.4 million for FY17 reserve
 - \$186.3 million for FY18 reserve
 - \$130 million for FY19 reserve
 - Up to \$130 million for FY20 reserve.

These amounts will be funded from prior year unrestricted surpluses and will be included as a special appropriation in a separate budget resolution.

Control Language in Budget Resolutions

The Commonwealth shall include the following language in the budget resolutions:

- The Department of the Treasury will remit to: the Legislative Branch and its components, the Judicial Branch, the University of Puerto Rico (“UPR”), and the non-profit entities that receive funds from the General Fund, monthly and in advance, the budgetary allotments corresponding to one twelfth (1/12) of the budget allocation provided herein for such entities. The one-twelfth monthly allocation to each entity (except with respect to the Judicial Branch) shall be subject to the two and half percent (2.5%) withholding set forth in Section below during the first three quarters of FY21.
- The Director of the Office of Management and Budget (“OMB”) may authorize the encumbrance and disbursement of up to ninety-seven and a half percent (97.5%) of each appropriation during the first three quarters of FY21. The Director of OMB shall withhold the remaining two and a half percent (2.5%) of each appropriation until after the end of the third quarter of FY21. Such withheld percentage of each appropriation shall only be encumbered and disbursed during the fourth quarter of FY21 if (1) the first 8 months of actual General Fund revenues reported to the Oversight Board reach the revenue forecast in the 2020 Fiscal Plan for that period and (2) the encumbrance and disbursement is approved first by the Oversight Board after which the Director of OMB is required to authorize its release. If actual General Fund revenues for the first 8 months of FY21 fail to reach the revenue forecast for that period, the amount of the withheld percentage of each appropriation that may be encumbered and disbursed shall be reduced proportionally according to the negative budget variance between projected and actual General Fund revenues. Notwithstanding the foregoing, PayGo appropriations, Consent Decree amounts and agencies in the Department of Public Safety and in the Health groupings, as defined in the 2020 Fiscal Plan, shall not be subject to the two and half percent (2.5%) withholding requirement.
- Notwithstanding any provision in this Resolution to the contrary, the appropriations listed in the General Fund in Budget FY21 under (A) Allocation of SUT to FAM (excluding Debt Portion); and (B) Outflow of FEDE Portion of Corp. Income Taxes and Non-Resident Withholding, are entirely dependent on the level of revenues collected therefrom and, as such, the disbursements of those appropriations will be gradual and subject the actual collections thereunder. No expenditure, pledge, or obligation of any such funds may be made until such time as the revenues are actually collected and received.
- For purposes of determining compliance with the fifty percent (50%) election year expenditures and obligations limitation established in Article 8 of Act No. 147 of June 18, 1980, as amended, known as the “Office of Management and Budget Organic Act”, any obligation or expenditure of an actually received appropriation in the Emergency Reserve, capital expenditures, healthcare investments reserve, technology reserve, or the economic

incentive fund under the custody accounts of OMB and the Department of Treasury or if subject to milestone completion will not be counted to determine compliance with said fifty percent (50%) limitation. In other words, the fifty percent (50%) expenditures or obligations limitation will only be measured on the unrestricted appropriation for the entity as established in this Joint Resolution. Provided further that, as a result of an allocation of an Appropriation subject to milestone completion an entity may actually spend or obligate more than 50% of the total appropriation for FY21, before the new elected officials take possession of their positions, without constituting a violation of said Article 8.

- No later than 45 days after the closing of each quarter of FY21, the Secretary of Treasury shall revise the projected net revenues of the General Fund for FY21 (the “Quarterly Revision”) and notify the revision to the Director of the OMB, the Governor, and the Oversight Board. The Quarterly Revision shall project future revenues based on actual General Fund revenues and include revisions to the assumptions used to generate the General Fund’s net revenue projections.
- All appropriations not authorized or certified in FY21 are eliminated and no disbursement of such appropriations may be authorized, except for the following which the Oversight Board redeploys as current appropriations, subject to Oversight Board adjustment at any time: (1) appropriations authorized in the fiscal year to carry out permanent improvements that have been encumbered, accounted for and kept on the books, but not exceeding two fiscal years on the books; (2) appropriations in the certified budget for equipment with procurement cycles that extend beyond the end of the fiscal year, which are encumbered on or before June 30, 2021; (3) the portion of the appropriations authorized for fiscal year that have been encumbered on or before June 30 of such fiscal year, which shall be kept in the books for 60 days after the termination of that fiscal year and after those 60 days no amount shall be drawn against such portion for any reason; (4) the appropriation in the amount \$130 million for the emergency reserve included in the FY20 certified budget and required by Section 5.2.8 in the 2020 Fiscal Plan (the “Emergency Reserve”); (5) the unobligated portion of the \$100 million Public Assistance Federal Fund Matching appropriation included in the FY20 certified budget; (6) the unused appropriations for the UPR Scholarships Fund included in the FY19 and FY20 certified budgets, which are held under the custody of the Department of Treasury; (7) FY20 unused appropriations for use in the external financial audit services held at the Department of Treasury; (8) FY20 unused General Funds intended for Medicaid related expenditures; (9) Unused Title III funds; (10) Reported unused funds from Department of Health’s Mental Disability program until the end of the following fiscal year; (11) Reported unused funds from Department of Correction and Rehabilitation’s Juvenile program and (12) unused Special Revenue Funds collected during prior fiscal years for Ports Authority, Puerto Rico Convention Center District Authority and Puerto Rico Tourism Company, as long as they are supported by a valid FY21 budget appropriation. In addition, this restriction on the use of appropriations of prior fiscal years shall not apply to: (i) programs financed in whole or in part with federal funds; (ii) orders by the United States district court with jurisdiction over all matters under

Title III of PROMESA; or (iii) matters pertaining to any consent decree or injunction, or an administrative order or settlement entered into with a Federal Agency, with respect to Federal programs.

- On or before July 31, 2020, the Treasury Secretary, Executive Director of the Fiscal Agency and Financial Advisory Authority (“AAFAF”, by its Spanish acronym), and the Director of the OMB shall provide to the Oversight Board a certification indicating the amounts of unused FY20 appropriations for all items of the previous Section. Shall the government fail to submit said certification the amount of unused funds in items 1 and 2 will not carry over to the following fiscal year.
- Each power of OMB, AAFAF or the Department of the Treasury, including the authorities granted under Act 230-1974, as amended, known as the "Puerto Rico Government Accounting Act" (“Act 230”), to authorize the reprogramming or extension of appropriations of prior fiscal years is hereby suspended.
- The appropriations approved in this budget may only be reprogrammed with the prior approval of the Oversight Board. For the avoidance of doubt, this prohibition includes any reprogramming of any amount, line item or expenditure provided in this budget, regardless of whether it is an intra-agency reprogramming. Reprogramming also known as reapportionments may be made into spend concepts and/or objects not explicitly listed in the FY21 certified budget resolution as long as such requests are submitted to and approved by the Oversight Board.
- The Governor shall submit to the Oversight Board all reporting requirements set forth on Exhibit 129 of the 2020 Fiscal Plan according to the reporting cadence described therein. In addition, if the Oversight Board approves a reprogramming pursuant to the Section above, the immediately subsequent report by the Governor must illustrate the specific implementation of such reprogramming, including the amount, the source of the reprogrammed amount identified by government entity and expenditure concept, the government entity that received such amount, and the expenditure concept to which it was applied.
- In addition, the Governor shall submit to the Oversight Board a comprehensive reporting package in a similar format to that required and provided in accordance with Section 203 of PROMESA for the following specified programs within different agencies: (1) ASSMCA’s Rio Piedras Hospital; (2) PRDE’s Special Education; (3) DOH’s Adult Hospital; (4) DOH’s Pediatric Hospital; (5) DOH’s HURRA Bayamon Hospital; (6) DOH’s 330 Centers Payments; and (7) DCR’s Juvenile Program. Program reporting must include and clearly detail budget to actuals on a concept level basis, any reprogramming of funds within the program, and any reprogramming of funds to/from other programs or agencies.

- The reports required pursuant to this Section are in addition to the reports that the Governor must submit to the Oversight Board in accordance with Section 203 of PROMESA.
- In conjunction with the reports that the Governor must submit to the Oversight Board no later than 15 days after the last day of each quarter of FY21 pursuant to Section 203 of PROMESA, the Treasury Secretary, Executive Director of AAFAF and the Director of the OMB shall each certify to the Oversight Board: (1) that no appropriation of any previous fiscal year (except for the appropriations covered by the exceptions in the Sections above) have been used to cover any expense; and (2) the Director of the OMB shall certify to the Oversight Board that no amount of (i) the Emergency Reserve and (ii) the unallocated capital expenditures under the custody of OMB has been obligated unless authorized in accordance with the Section below.
- The Emergency Reserve, the unallocated capital expenditures, healthcare investments reserve, technology reserve, milestones reserve, and the economic incentive fund under the custody accounts of OMB and the Department of Treasury, respectively, as detailed in the certified budget for FY20 and FY21 may not be used to cover any allocation or expense whatsoever without the approval of the Oversight Board. The economic incentive funds held under the custody of the Department of Treasury will be released on a quarterly basis after a formal reapportionment is submitted by the Department of Economic Development and Commerce (DDEC), reviewed and approved by OMB, and submitted to the Oversight Board for review and authorization to release such funding. Exceptions to the economic incentive fund release may apply upon meeting all of the specified criteria listed on Appendix C of this Notice of Violation.
- As a rule, necessary for the responsible disbursement of budgetary allocations for operating and other expenses, OMB shall withhold from any of the allocations to the agencies of the Executive Branch the amounts necessary to pay for the pay-go contribution, unemployment insurance, or taxes withheld from their employees, when OMB determines that such a withholding is necessary to ensure compliance with these obligations by the agencies concerned. Any such amounts withheld by OMB shall solely be reprogrammed to pay the corresponding outstanding obligations related to PayGo contributions, unemployment insurance, or taxes withheld from employees.
- Additional General Funds may be made available to agencies upon reaching certain, specified milestones and after the approval and authorization from the Oversight Board. For FY21, see Appendix C for allowable milestones / incentives and corresponding agencies. Once the respective milestones are achieved, agencies must provide a formal notice and submit supporting data corroborating such achievement for the Oversight Board's review.
- OMB and the Department of the Treasury are authorized to establish the necessary mechanisms to ensure that when implementing the concept of mobility, pursuant to the

provisions of Law 8-2017, as amended, known as the “Puerto Rico Human Resources Management and Transformation in the Government Act,” the corresponding transfer of funds allocated to payroll and related costs of said employee are to be carried out simultaneously.

- The Secretary of Treasury, the Director of the OMB, and the Treasurer and Executive Director of each agency or public corporation covered by the 2020 Fiscal Plan shall be responsible for not spending or encumbering during FY21 any amount that exceeds the appropriations authorized for FY21. This prohibition applies to every appropriation set forth in a budget certified by the Oversight Board, including appropriations for payroll and related costs. The Executive Director of AAFAF and the Director of the OMB shall also certify to the Oversight Board by September 30, 2020 that no amount was spent or encumbered that exceeded the appropriations in the certified budget for FY20.
- For the avoidance of doubt, any reference within the budget to AAFAF, the Department of Treasury, or OMB, or any of their respective officers, shall apply to any successor thereof.
- On or before July 31, 2020, the Governor shall provide to the Oversight Board budget projections of General Fund revenues and expenditures for each quarter of FY21, which must be consistent with the corresponding budget certified by the Oversight Board (the “Quarterly Budget”). The Quarterly Budget shall be provided to the Oversight Board in Excel format and include detailed allocations by agency, public corporation, fund type and concept of spend. Together with the report that the Governor must provide under Section 203 of PROMESA not later than 15 days after the last day of each quarter, the Governor shall provide a quarterly variance analysis that is consistent with modified accrual accounting.
- If during the fiscal year the government fails to comply with the liquidity and budgetary savings measures required by this 2020 Fiscal Plan, the Oversight Board may take all necessary corrective action, including the measures provided in PROMESA Sections 203 and 204.
- In order to ensure agencies remain compliant with the 2020 Fiscal Plan, the Oversight Board has enacted a policy that includes review contracts of \$10 million or more. The objective of these reviews is, among other things, to determine the extent to which the contracts are in compliance with the applicable fiscal plan(s). The Oversight Board encourages the use of additional object level professional service fee categories in order to support more transparency of how professional fees are spent. The Oversight Board is authorized to require review contracts less than \$10 million to ensure compliance with the applicable fiscal plan(s).

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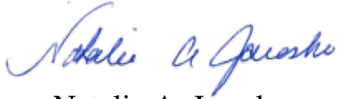
Honorable Wanda Vázquez Garced

June 1, 2020

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The Oversight Board looks forward to receiving the revised, proposed Commonwealth FY21 Budget by June 7, 2020, and to working together to certify a Commonwealth FY21 Budget by June 30, 2020.

Sincerely,



Natalie A. Jaresko

CC: Mr. Omar Marrero Díaz
Ms. Iris E. Santos Díaz
Hon. Francisco Parés Alicea

Encl.

APPENDIX A

Budget Support Deliverables for June 7, 2020

1. Draft budget resolutions
 - a. General Fund resolution, including the Special Resolution, with concept of spend details for each appropriation
 - b. Special Revenue Fund resolution
2. Budget 'Sabana' file for all fund types
3. Breakout of each agencies' concept and object of spend mirroring the same level of detail included in Appendix B
4. Explanation of any capital expenditures included in the budget
5. Schedule detailing all the lottery fund distributions and laws authorizing such distributions, excluding prize monies

APPENDIX B

(See FY21 Revised Budget Targets Excel sheet)

APPENDIX C
Milestones and Incentives

Agency	\$ '000s	Description
PRDE	1,385	<p>Milestone: Implement Kronos and time and attendance reporting policy for all school staff and institutionalize monthly reporting to the Oversight Board to improve transparency of school staff attendance. School directors must (1) validate that workable machines exist in each school, (2) provide a diagnostic of current usage, and (3) do targeted follow-ups for lack of participation.</p> <p>Incentive: \$1,500 one-time bonus for school directors if Kronos is properly implemented within their schools by December 31, 2020.</p>
PRDE	4,280	<p>Milestone: Improve time reporting for teachers in order to reduce teacher absenteeism as measured by Kronos, and institutionalize monthly reporting to the Oversight Board to improve transparency of teacher attendance. Teachers must use Kronos to record attendance and use the appropriate platform for vacation/sick leave to record absenteeism.</p> <p>Incentive: \$5,000 reward for schools that reach a teacher time reporting threshold of at least 95% by May 31, 2021.</p>
PRDE	24	<p>Milestone: Create a small Central Office team (max of 8) to implement the digitization of Special Education IEP records with supporting documentation, assigned resources and related service requirements, and provide a 12-month implementation plan to the Oversight Board by July 30, 2020. At a minimum, the plan must include (1) amount of IEPs to be digitalized, (2) amount of time employees will take to carry out the project, (3) accountability measures/checks to validate accuracy of data inputted, (4) monthly milestones, (5) team members with name, employee ID, contact information, and job title, and (6) project supervisor with name, employee ID, contact information, and job title.</p> <p>Milestone: Fully digitize Special Education IEPs with supporting documentation, assigned resources (e.g., special education assistants, resource teachers), related service requirements, (e.g., therapies, transportation, etc.), and any other information needed to clearly identify staffing and budgetary resource needs.</p> <p>Incentive: \$3,000 one-time bonus for the team of existing employees that carry out the project by May 2021.</p>
Agency	\$ '000s	Description

APPENDIX C
Milestones and Incentives

PRDE	4,280	<p>Milestone: Record daily student attendance on existing reporting platform SIE to better track attendance across PRDE schools, and institutionalize monthly attendance reporting to the Oversight Board to improve transparency of student attendance.</p> <p>Incentive: \$5,000 discretionary fund reward to schools that reach a student time reporting threshold of at least 95% by December 31, 2020 (as measured by % of all teachers recording student attendance within the SIE system at the end of a school day) with proof of physically marking students present over the course of the semester (with some minimum threshold). The reward may be used to improve school conditions (minor maintenance and repairs) or to provide students with direct incentives (gift cards, pizza days, student fairs, field days, etc.).</p>
PRDE	7,000	<p>Milestone: PRDE to launch a school competition for education innovation and create an application process for school leaders that have ideas to positively impact student achievement through innovative programs or practices.</p> <p>Incentive: \$100,000 reward to 10 schools per region for which an education innovation project was developed, submitted and selected by the FOMB by December 31, 2020. The reward will be used to implement the education innovation project during the second semester.</p>
DCR	10,753	<p>Milestone: DCR to contract, finish and publish a study with the stated goal of reducing the number of facilities. The study will highlight information including, but not limited to, the current conditions of the facilities, capital expenditures required to achieve ideal utilization, and potential cost avoidance opportunities through consolidation.</p> <p>Incentive: Provide \$5,000,000 additional Capex funds once the study has been delivered and reviewed by FOMB by December 31, 2020. No impact on Juvenile Capex funds as these amounts are pre-established in the Certified Budget.</p>

Agency	\$ '000s	Description
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APPENDIX C
Milestones and Incentives

DDEC	7,000	<p>Milestone: Publicly publish quarterly reports in the agency’s website detailing all economic incentive donation/subsidy amounts given to private corporations. The reported detail should include:</p> <ol style="list-style-type: none"> 1. Name of Corporation 2. Head/Representative of Corporation 3. Summary of what the Corporation does 4. Amount of funding planned to be given per quarter 5. Purpose of funding and reason for donation 6. Location (municipality) where economic impact should be seen 7. Number of times such recipient has received funding and aggregate amount for past 3 years 8. Annual ROI on each previous donation and expected ROI on current year donation. <p>Incentive: Reapportionments are currently required to release funds collected in Hacienda for economic incentives as well as public reporting (website publishing). This will continue to be a requirement for the transfer of funds. However, if all criteria is met beginning September 30, 2020 on a quarterly basis, FOMB will provide the lesser of 7% of the total amount of incentives or \$2,333,000 on a quarterly basis for DDEC’s operating and management.</p>
DOH	1,200	<p>Milestone: Prepare an analysis and report that reviews all back-office roles and positions by activity and program, such analysis must summarize and identify duplicate positions/activities amongst each of the agency's programs. Further, the analysis shall also identify duplicate positions performing the same tasks for different programs that can be centralized and performed by one position. Results of headcount reduction due to centralizing activities across programs, shall be quantified both on a headcount, and total employee cost (inclusive of payroll taxes and benefits). Pass legislation plan to consolidate DOH with ASES and kick-off implementation on the consolidation.</p> <p>Incentive: Provide an additional \$1,200,000 in professional services once capacity analysis has been delivered and reviewed by FOMB by December 31, 2020. No impact on professional services for hospitals, Medicaid program, and Intellectual Disability as these amounts are pre-established in the Certified Budget.</p>

Agency	\$ '000s	Description
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Milestones and Incentives

Hacienda	14,000	Milestone: Hacienda to designate a dedicated Project Management team fully dedicated to ERP implementation of at least 3 FTEs. Incentive: Provide an additional \$14,000,000 in Capex funds related to ERP Wave 1 implementation including: build of system, licensing/infrastructure, operational support, and program management and coordination once a dedicated Project Management team is in place with at least 3 FTEs by August 15, 2020.
Hacienda	22,000	Milestone: Complete ERP Implementation Wave 1 (Hacienda's ERP). Incentive: Provide an additional \$22,000,000 in Capex funds related to ERP Wave 2 implementation including: build of system, licensing/infrastructure, operational support, and program management and coordination once Wave 1 is completed by September 30, 2020. Half of this funding (\$11,000,000) will be provided upon completion and the remaining half will be in Hacienda custody and released upon FOMB approval subject to monthly progress reporting from 9/30/2020 - 2/29/2021.
Hacienda	104	Milestone: 1. Publish and issue the 2017 CAFR; 2. Provide a draft of the 2018 CAFR. Incentive: Provide a one-time bonus of \$1,500 to Central Accounting employees in Hacienda if the 2017 CAFR is published and draft of the 2018 CAFR is submitted to FOMB by November 30, 2020.
AAFAF	2,000	Milestone: Transferring DC plan funds from 2017 onward (located in temporary trust) into newly created segregated accounts, including payroll transfer of the employee contributions to the new DC account. Incentive: Provide an additional \$2,000,000 of professional services once written confirmation has been provided to FOMB that segregated accounts have been created and transfer of funds have been completed or scheduled to be completed. No impact on Title III fees as these amounts are pre-established on the Certified Budget.
