



Financial Oversight and Management Board for Puerto Rico

MEDIA RELEASE

OVERSIGHT BOARD TAKES ACTION TO PREVENT ROLL BACK OF LABOR REFORMS

Sues to Nullify Act 41;

Law Would Reduce Employment and Puerto Rico's Economic Competitiveness, Repel New Investments, Diminish Economic Growth, and Significantly Reduce the Commonwealth's Tax Revenues

San Juan, PR – September 1, 2022 – The Financial Oversight and Management Board for Puerto Rico announced today that it filed a complaint against Governor Pedro R. Pierluisi in the U.S. District Court for the District of Puerto Rico to nullify Act 41-2022 and any actions taken to implement the law.

Since 2017, the Oversight Board has consistently maintained that significant labor reform is a key element for Puerto Rico to achieve fiscal responsibility and access to the capital markets. Act 41 would repeal even the limited recent labor reforms aimed at increasing employment and improving the economy, and instead would add employment law requirements that negatively impact labor market flexibility in direct violation of express terms in the certified Fiscal Plan for Puerto Rico.

An economic analysis by the Oversight Board concluded that Act 41 will have a negative effect on Puerto Rico's labor market and its economy overall, leading to fewer jobs, higher outmigration, declining economic growth, and lower Commonwealth tax revenues. The law would make Puerto Rico less competitive in the United States and global marketplace.

By enacting Act 41, the Government disregarded the certified Fiscal Plan for Puerto Rico and the advanced warnings from the Oversight Board that the law violates PROMESA.

"Puerto Rico has made substantial progress towards fiscal responsibility, economic growth, and prosperity, but the implementation of Act 41 would set that progress back," said the Oversight Board's Chairman David Skeel. "Puerto Rico cannot implement laws that tie the hands of businesses that want to grow. Act 41 will derail Puerto Rico's path to recovery and diminish the economic growth the people of Puerto Rico deserve."

The Government failed to provide a complete estimate of the law's impact on revenues. The Oversight Board repeatedly reminded the Government that PROMESA requires the Government to analyze new laws and formally estimate the impact the legislation will have on Commonwealth revenues and

expenditures. Unfortunately, the Government enacted a law that impacts every private employer in Puerto Rico without fully understanding its effect.

This practice of passing laws without regard to, or understanding of, the economic consequences is part of what caused Puerto Rico's fiscal crisis and eventual bankruptcy.

The Government's explanation that it would be too "complex and difficult" to prepare a formal estimate does not stand up to scrutiny. The Oversight Board engaged its own economist and shared the analysis with the Government to spark a dialogue and ideally to cause the Government to undertake its own economic analysis of Act 41. The Government rebuffed these efforts.

The absence of an informed understanding of the law's impact on the Commonwealth's revenues should have caused the Government to pause and take the time to assess Act 41 to assure its passage would not have negative fiscal consequences.

The structure of Puerto Rico's labor market makes Puerto Rico vulnerable to decreases in formal sector employment from enactment of Act 41, especially given historical labor market performance, ease of migration to the mainland US, and a large informal labor market. Re-establishing labor restrictions under Act 41 reduces labor market flexibility, and negatively impacts labor force participation, discourages new hiring, and will significantly reduce the Earned Income Tax Credit (EITC) expansion's effectiveness in promoting LFP, economic growth, and the Government revenues associated with that growth.

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About the Financial Oversight and Management Board for Puerto Rico:

The Financial Oversight and Management Board for Puerto Rico was created under the bipartisan Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) of 2016. The purpose of the Oversight Board is to provide a method for Puerto Rico to achieve fiscal responsibility and access to the capital markets.

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