

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



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*Natalie A. Jaresko*  
Executive Director

BY ELECTRONIC MAIL

August 24, 2018

The Honorable Ricardo A. Rosselló Nevares  
Governor of Puerto Rico  
La Fortaleza  
P.O. Box 9020082  
San Juan, PR 00902-0082

The Honorable Thomas Rivera Schatz  
President of the Senate of Puerto Rico

The Honorable Carlos J. Méndez Núñez  
Speaker of the House of Representatives of Puerto Rico

Dear Governor Rosselló Nevares, President Rivera Schatz, and Speaker Méndez Núñez:

Pursuant to Section 205(a) of PROMESA, we write to recommend that the Governor rescind Executive Order 2018-033 (the “Executive Order”), which sets a minimum wage of \$15 per hour for those performing work for federally-funded construction projects. Specifically, based on a preliminary analysis of the available information and research, the Oversight Board is concerned about the impact that the Executive Order will have on private sector employment, particularly in construction, but with the potential to leak into the broader economy. We make this recommendation to ensure compliance with the certified Fiscal Plan for the Commonwealth and to promote economic growth for Puerto Rico.

According to the federal Bureau of Labor Statistics, the median wage for construction laborers in Puerto Rico is \$8.69 per hour. Thus, the Executive Order could be expected to directly impact labor costs for a large number of construction workers. In addition, research by the Congressional Budget Office indicates that increases in minimum wages tend to affect even those wages that are above the new minimum. Thus, the Executive Order is likely to increase labor costs substantially for federally-funded construction projects because it will increase the costs not just for minimum wage earners, but for workers making more than \$15 per hour as well.

Given the large number of federally-funded construction projects that will take place over the next several years, it seems very likely that the Executive Order will have a similar effect on costs for non-federally-funded construction in Puerto Rico, making it more costly to undertake the vast amount of private reconstruction required on the island and likely reducing employment of construction workers for private projects. Even if federal funds can pay for the increased costs for those projects to which the Executive Order applies, doubling the minimum wage for construction workers may have significant, unexpected, and counterproductive economic effects that would dampen future revenues for the Commonwealth.

An immediate doubling of the minimum wage for construction work also does not appear consistent with the Puerto Rico Planning Board's recent comprehensive study of the minimum wage in Puerto Rico. That study made a series of reasonable recommendations with regard to minimum wage policy: first, do nothing and wait to see how federal policy may evolve; second, if an increase in the Puerto Rico minimum wage is desired, wait until the local economy has sufficiently recovered to handle such a wage increase; third, enact any minimum wage increases in small increments, such as 25 cents per year over three years; and finally, include provisions to cushion smaller employers from the impact of a minimum wage increase.

Even prior to Hurricane Maria, Puerto Rico's employment-to-population ratio of only 38% was ranked 227<sup>th</sup> out of 233 countries or territories surveyed by the World Bank. Even modest increases in the employment rate in Puerto Rico would go a long way to narrowing the income gap between Puerto Rico and the mainland and slowing the outmigration that saps the island of its current and future economic strength. It is the Oversight Board's view that policies to increase the rate of employment should be foremost in the Government's mind as it crafts economic policies for Puerto Rico. In this context, the more prudent course would be to let the market dictate wages for federally funded construction projects, and as demand rises for workers, we would expect wages to increase accordingly.

Accordingly, pursuant to Section 205(a) of PROMESA, the Oversight Board submits this recommendation that the Executive Order be rescinded as described herein. We look forward to your response within 90 days.

Sincerely,



José B. Carrión

Andrew G. Biggs  
Carlos M. García  
Arthur J. González  
José R. González  
Ana J. Matosantos  
David A. Skeel, Jr.

CC: Natalie A. Jaresko  
Christian Sobrino Vega