

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
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BY ELECTRONIC MAIL

December 17, 2018

Hon. Glorimar Andújar Matos
Secretary
Department of the Family
P.O Box 11398
San Juan, PR 00910

Dear Secretary Andújar Matos:

Two of the most important structural reform initiatives in the certified Fiscal Plan for the Commonwealth include the passage of an Earned Income Tax Credit (EITC) and institution of a work requirement in the Nutrition Assistance Program (NAP). As you are well aware, Puerto Rico faces immense challenges with formal labor force participation and preparedness. The Island's formal labor force participation rate is only about 40%, far from the U.S. mainland average (63%) and below the lowest-ranking U.S. state (West Virginia, 53%) and other Caribbean islands. Low rates of formal employment are a long-term structural problem that can only be addressed with significant changes to public policy.

A range of public policies have contributed to reduce formal employment on the Island, and a range of public policies are required to drive increased labor force participation and job creation, which is the single most important reform for long-term economic well-being in Puerto Rico. The Government has agreed to prioritize welfare reform in the form of the EITC and a NAP work requirement. These reforms, while not sufficient for a full transformation of the labor market, will provide incentives for Puerto Ricans to seek jobs in the formal economy, will ensure no one is disadvantaged by seeking work in the formal economy, and will reduce poverty on the Island.

The Fiscal Plan explicitly requires that the work requirement of 80 hours of work per month to receive NAP benefits must commence after three months of benefit collection and must begin in Fiscal Year 2020. As stated in the Fiscal Plan, this work requirement applies to able-bodied individuals aged 18-59 and can be satisfied by paid work, voluntary work, training and education, and job searching (under the time limit).¹

¹ This requirement in the Fiscal Plan does not implicate Section 204(d) of PROMESA.

We understand, however, that the Department of the Family's current plan for implementing NAP proposes that the work requirement phase in gradually. In essence, the Department of Family has asked the U.S. Department of Agriculture's Food and Nutrition Service to approve a plan that would permit beneficiaries in Fiscal Year 2020 to collect NAP benefits for nine months before the work requirement applies, and would not lower the number of months that a beneficiary can collect benefits before the work requirement applies to three months until Fiscal Year 2023.

This proposal is explicitly inconsistent with the Fiscal Plan. The Oversight Board projects that postponing full implementation of the work requirement will negatively impact economic growth and do less to reduce poverty on the Island because it will make the new policy less effective at increasing incentives to join the formal labor market. A delay in the implementation as required by the Fiscal Plan will likely result in a delay or no-uptick in economic growth, given that the Fiscal Plan projects an increase in economic growth by Fiscal Year 2021 as a result of the successful implementation of the work requirement and the EITC. The projected growth in the economy driven by increased incentives and preparedness to work is key to eventually getting to growth rates above zero versus negative growth for the next thirty years. The dampened economic growth that would result from this policy could also cost the Commonwealth millions in lower revenues over the next thirty years. Moreover, it makes more sense to implement the full work requirement in Fiscal Year 2020 (as required in the Fiscal Plan) when labor demand is expected to be robust, rather than delaying implementation to a future period when Puerto Rico is expected to have lower labor demand.

The Fiscal Plan requirements are not unique to Puerto Rico. Under the Supplemental Nutritional Assistance Program (SNAP), states and territories are subject to a federal regulatory minimum work requirement. According to the National Conference of State Legislatures, 22 states, the District of Columbia, and Guam follow the federal regulatory minimum, whereas other states have stricter work requirements.

The Oversight Board strongly encourages the Government to align the Department of the Family's proposed plan with the Fiscal Plan. We would be pleased to discuss this with you and your staff at your convenience.

Sincerely,



Natalie A. Jaresko

CC: Christian Sobrino Vega
Raúl Maldonado Gautier
Teresita Fuentes Marimón