



**PRESS RELEASE**

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**FEDERAL COURT UPHOLDS VALIDITY OF ACT 7**

*Court denies workers unions' preliminary injunction petition against the Government regarding temporary suspension of certain agreements*

San Juan, P.R.—The San Juan Federal Court rejected the request for an injunction filed by workers unions against Governor Luis Fortuño and his Administration for the application of the Fiscal Emergency Act, better known as Act 7.

In his decision, the court determined that the implementation of Act 7's Phase III—which provides for the temporary suspension of certain clauses of current collective agreements between unions and several agencies of the government of Puerto Rico—does not violate the union workers' constitutional rights under the U.S. Constitution.

Act 7 of March 9, 2009 requires that the government achieve savings of \$2 billion in its fiscal year 2009-2010 budget. To that effect, the Act provides, among other things, a phased out plan to reduce expenses, including government payroll expenses. Phase I provided for voluntary plans to reduce hours permanently and for incentivized early retirement, while Phase II provides for staggered layoffs in order of seniority. Phase III, which entered into effect immediately, with the enactment of the law, temporarily suspended certain clauses of collective agreements that would have represented millions of dollars in additional expenses for the government.

Although the decision, signed by Senior Judge Jaime Pieras, only covers the request for preliminary injunction and does not resolve the dispute on its merits, the court stated that “given the important existing justification for Act 7, and given the fiscal emergency Puerto Rico is going through...this court finds, at this point in the process, that the plaintiffs will probably not prevail when the case is addressed on its merits...”

Through the interdiction request the unions sought to have the court order the Administration to stop the implementation of Act 7 immediately arguing that failure to do so would cause the plaintiffs damage irreparable. The court ruled that even if it were acknowledged that the plaintiffs, or their affiliates, might be affected by the application



of Act 7, the government's fiscal situation is such that it justifies the implementation of the expense reduction program mandated by Act 7, including the suspension of collective agreements' clauses.

To explain its ruling, the court sided with the Government's argument that the structural deficit confronted by the government must be reduced by finding equilibrium between cuts and revenue measures. At the same time, the court also acknowledged that the structural deficit of \$3.2 billion faced by the government and the real possibility of having the credit rating agencies downgrade Puerto Rico's credit to "junk" level require drastic measures.

"The court understands the position of the plaintiffs and their insistence on a less onerous plan. However, the court also recognizes that Puerto Rico faces a deep recession that requires urgent measures... Granting the remedy of preliminary injunction would render the government of Puerto Rico incapable of taking required action to address the deficit", the court stated in its ruling.

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