

TO AUTHORIZE FINANCIAL ASSISTANCE FOR THE NORTHERN MARIANA ISLANDS

HEARING
BEFORE THE
SUBCOMMITTEE ON
INSULAR AND INTERNATIONAL AFFAIRS
OF THE
COMMITTEE ON
NATURAL RESOURCES
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
FIRST SESSION
ON
H.R. 1092
TO AUTHORIZE FINANCIAL ASSISTANCE FOR THE NORTHERN MARIANA
ISLANDS, AND FOR OTHER PURPOSES

HEARING HELD IN WASHINGTON, DC
MARCH 18, 1993

Serial No. 103-12

Printed for the use of the Committee on Natural Resources



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1993

67-191

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-041248-X

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Commonwealth Utilities Corporation: Schedule of Tax Components of Fuel Costs, September 30, 1988, to December 31, 1992. Prepared by Deloitte & Touche, Certified Public Accountants, Saipan, MP.	
Commonwealth Utilities Corporation: Proposal for Ten-Year Financial Projection Model Update and Redesign, Cost of Service Study (Demand Rates), and Rate Design and Implementation. Prepared by Deloitte & Touche, Certified Public Accountants, Saipan, MP.	
Commonwealth Utilities Corporation: Proposal to Develop Demand Rate Charges. Prepared by Deloitte & Touche, Certified Public Accountants, Saipan, MP.	
Proposed Capital Improvement Program for the C.N.M.I. Public School System with Reports. Dr. Betty Hanson, Ed.D., School Facilities Consultant, Los Angeles, California and Deloitte & Touche, Saipan, MP.	
General Facts, Power Distribution & Generation. Prepared by R.W. Beck & Associates, Consulting Services, April, 1993.	
Power Distribution Division, Ramon S. Guerrero, Executive Director, C.N.M.I. Utilities Corporation, Saipan, MP.	
Commonwealth Utilities Corporation, Water Division, Capital Improvement Projects. Ramon S. Guerrero, Executive Director, C.N.M.I. Utilities Corporation, Saipan, MP.	
Completed Water Capital Improvement Projects, Water Division, Capital Improvement Projects. Ramon S. Guerrero, Executive Director, C.N.M.I. Utilities Corporation, Saipan, MP.	
Power Generation Division. Submitted by Pedro C. Castro and Roger Kitchingham, Commonwealth Utilities Corporation, Saipan, MP.	
Wastewater Division Report. Ramon S. Guerrero, Executive Director, Commonwealth Utilities Corporation, April, 1993.	
Accounting and Billing. Prepared by the Commonwealth Utilities Corporation, and Deloitte & Touche, Saipan, MP, April 1993.	

**H.R. 1092, TO AUTHORIZE FINANCIAL ASSIST-
ANCE FOR THE NORTHERN MARIANA IS-
LANDS, AND FOR OTHER PURPOSES**

THURSDAY, MARCH 18, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INSULAR AND INTERNATIONAL AFFAIRS,
COMMITTEE ON NATURAL RESOURCES,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:08 a.m. in room 1324, Longworth House Office Building, Hon. Ron de Lugo (chairman of the subcommittee) presiding.

Mr. DE LUGO. Good morning. I would like to welcome you all here to this hearing of the Subcommittee on Insular and International Affairs. We are going to have a hearing on H.R. 1092, a bill to commit the Federal Government to provide the Northern Marianas with \$120 million in special assistance for infrastructure over 7 years beginning October 1.

[Text of the bill, H.R. 1092, follows:]

103^D CONGRESS
1ST SESSION

H. R. 1092

To authorize financial assistance for the Northern Mariana Islands, and
for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 24, 1993

Mr. DE LUGO introduced the following bill; which was referred to the
Committee on Natural Resources

A BILL

To authorize financial assistance for the Northern Mariana
Islands, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the Act of March 24, 1976 (Public Law 94-241; 90
4 Stat. 263), as amended, is amended by adding the follow-
5 ing new section at the end thereof:

6 “SEC. 6. Pursuant to section 701 of the foregoing
7 Covenant, enactment of this section shall constitute a com-
8 mitment and pledge of the full faith and credit of the Unit-
9 ed States for the payment of \$120,000,000 of guaranteed
10 amounts of direct grant assistance to the Government of

1 the Northern Mariana Islands for capital infrastructure
2 construction for the seven fiscal years 1994 through 2000,
3 which assistance shall be provided according to the Agree-
4 ment of the Special Representatives on Future Federal Fi-
5 nancial Assistance of the Northern Mariana Islands, exe-
6 cuted on December 17, 1992, between the special rep-
7 resentative of the President of the United States and the
8 special representatives of the Governor of the Northern
9 Mariana Islands.”.

OPENING STATEMENT OF CHAIRMAN DE LUGO

Mr. DE LUGO. I want to thank you all for traveling such a long distance to be here with us today. It is a beautiful day here in the Nation's capital, but it is certainly a little on the cold side for all of us.

This bill, which was proposed by the Bush administration on its last full day in office, would implement recommendations agreed to by representatives of President Bush and Governor Guerrero of the Commonwealth of the Northern Marianas.

The \$120 million, which has since been included in President Clinton's economic plan, would be provided in place of the current assistance commitment of \$27.7 million a year. It is intended to be matched by an equal amount of local funding for infrastructure projects.

Recommendations on special assistance for the Marianas are required by the covenant which united the islands with the United States.

Section 701 committed the Federal Government to assist the Commonwealth's efforts to achieve a progressively higher standard of living for its people as part of the American community and to develop the economic resources needed to meet the financial responsibilities of local self-government.

Section 702 required \$192.5 million to be provided from fiscal year 1978 to 1985.

Section 902 required representatives of the President and the Governor to make recommendations for multi-year periods after 1985.

The current commitment was enacted in 1986 in place of recommendations that representatives of a previous Governor of the islands said that a representative of President Reagan had insisted upon. The law provided \$228 million from fiscal years 1986 to 1992 and \$27.7 million a year afterwards.

In endorsing the new recommendations, both the last administration and this one have suggested that it would reduce spending by \$74 million over the next 7 years. The facts are not quite that simple, though. Since the \$27.7 million a year was only intended to provide for continued funding until a policy decision on future assistance could be made, this would not appear as an outright \$27.7 million a year saving. Thus, the \$120 million is as much new spending as it is a \$74 million savings.

Frankly, however, I for one am less interested in how the recommendations affect the budget than I am in how they relate to covenant commitments and the needs of the people of the Northern Marianas. As a sponsor of both the law that approved the covenant and the law that made the current commitment, as well as a representative of an insular area and Chair of this subcommittee, I think that these are the key issues.

- They also give rise to several questions, questions such as has the covenant commitment been met?

- If not, what needs to be done to meet that commitment?
- What is the Commonwealth doing to meet its needs?
- How will the \$120 million that we are talking about here today be used?

- How has the \$448 million provided to date been used?

• And, finally, how do the recommendations relate to Federal insular policies?

Over the years, committee members have expressed concerns that must be considered in determining a further financial assistance commitment.

The Commonwealth is not tapping all of its own revenue potential. Higher wage-earners, businesses, and investors paid \$49 million less in income taxes in 1991 alone under the Commonwealth's rates than they would have under Federal rates which the covenant provided for and other insular areas use. It does not levy other taxes that are common under the U.S. flag or make consumers pay for the cost of services.

Some of the islands' current needs may be attributable to the Commonwealth's alien labor policies—which have made the economic growth of the Commonwealth possible. But, it is debatable whether the growth has generated as much revenue as it should in light of the public burdens that it has imposed upon the Northern Marianas.

Substantial amounts of past assistance have reportedly been poorly or improperly used. Waste and abuse have been subtracted from the funds used to fulfill the covenant commitments and meet insular needs.

The recommendations themselves create concerns. Some of which are: They do not appear to be based on need; They do not make clear the projects or the areas of need to be financed; and in effect Congress would not be assured that what it believes are priorities will be met.

The N.M.I. has not committed to provide its intended \$120 million match. The legislature has not acted on the recommendations.

Terms for the assistance could be changed after congressional approval, without congressional approval. In addition, terms to which Congress disagreed could be added.

Some are also concerned about how the needs of other insular areas, particularly islands less developed than the Northern Marianas, will be met. Because of these concerns, the committee leadership said recently that the committee may condition or redirect the assistance, although it can be expected to support the level of spending contained in the President's economic package.

Today's hearing is intended to provide information for our decision on how the \$120 million should be spent. These decisions should balance concerns about the proposal with the arguments for it, arguments which are also important and which I expect our witnesses today to make very persuasively.

Because they represent the other key decision making authorities on this matter—with the exception of the Senate committee, which will have its own hearing this afternoon I believe at 2 o'clock—I would like all of our witnesses to appear as a panel and to be questioned together so we can move along and you can make your other appointments. In the interest of time, and in keeping with our rules, I am going to ask that everyone summarize their statements.

In closing, I want to reiterate my special interest in the welfare of the Northern Marianas and my commitment to our special political union. I also want to express my appreciation to all who have worked on these recommendations and, in particular, express my

condolences to the Governor's lead representative, Lieutenant Governor Manglona, on the passing of his wife. My deepest and sincerest condolences.

Now, at this time, I would like to recognize the gentleman from California, the ranking Republican on the committee, for an opening statement.

[Prepared statement of Chairman de Lugo follows:]

Statement of Chairman Ron de Lugo
opening a legislative hearing of the
Subcommittee on Insular and International Affairs
on H.R. 1092, a bill to authorize financial assistance for
the Northern Mariana Islands

March 18, 1993

Good morning and welcome to this hearing of the Subcommittee on Insular and International Affairs on H.R. 1094, a bill to commit the federal government to provide the Northern Mariana Islands with \$120 million in special assistance for infrastructure over seven years beginning Oct. 1.

This bill, which was proposed by the Bush administration on its last full day in office, would implement recommendations agreed to by representatives of President Bush and Governor Guerrero of the commonwealth.

The \$120 million, which has since been included in President Clinton's economic plan, would be provided in place of the current assistance commitment of \$27.7 million a year. It is intended to be matched by an equal amount of local funding for infrastructure projects.

Recommendations on special assistance for the Marianas are required by the Covenant which united the islands with the United States.

Sec. 701 committed the federal government to assist the commonwealth's efforts to achieve a progressively higher standard of living for its people as part of the American community and to develop the economic resources needed to meet the financial responsibilities of local self government. Sec. 702 required \$192.5 million to be provided from fiscal years 1978 to 1985. Sec. 902 required representatives of the president and the governor to make recommendations for multi-year periods after 1985.

The current commitment was enacted in 1986 in place of recommendations that representatives of a previous governor of the islands said that a representative of President Reagan had insisted upon. The law provided \$228 million from fiscal years 1986 to 1992 and \$27.7 million a year afterwards.

In endorsing the new recommendations, both the last administration and this one have suggested that it would reduce spending some \$74 million over the next seven years.

The facts are not that simple, though, since the \$27.7 million a year was only intended to provide for continued funding until a policy decision on future assistance could be made. Thus, the

\$120 million is as much new spending as it is a \$74 million savings.

Frankly, however, I, for one, am less interested in how the recommendations affect the budget than I am in how they relate to Covenant commitments and insular needs. As a sponsor of both the law that approved the Covenant and the law that made the current commitment as well as a representative of an insular area and chair of this subcommittee, I think these are the key issues.

They give rise to several questions.

- o Has the Covenant commitment been met? If not, what needs to be done to meet it?
- o What is the commonwealth doing to meet its needs?
- o How will the \$120 million be used?
- o How has the \$448 million provided to date been used?
- o And, finally, how do the recommendations relate to federal insular policies?

Over the years, Committee Members have expressed concerns that must be considered in determining a further financial assistance commitment.

- o The commonwealth is not tapping all of its own revenue potential. Higher wage-earners, businesses, and investors paid \$49 million less in income taxes in 1991 alone under the commonwealth's rates than they would have under the federal rates that the Covenant provided for and other insular areas use. It does not levy other taxes common under the U.S. flag or make consumers pay the cost of services.
- o Some of the islands' current needs may be attributable to the commonwealth's alien labor policies. They have made the economic growth of the commonwealth possible; but it is debatable whether this growth has generated as much revenue as it should in light of the public burdens it has imposed.
- o Substantial amounts of past assistance have reportedly been poorly used or used improperly. Waste and abuse has subtracted from the funds used to fulfill Covenant commitments and meet insular needs.

The recommendations themselves create concerns.

- o They do not appear to be based on need. They do not even make clear the projects -- or even the areas of need -- to be financed. Congress would not be assured that what it would agree are priorities will be met.

- o The N.M.I. has not committed to provide its intended \$120 million match. The Legislature has not acted on the recommendations.
- o Terms for the assistance could be changed after congressional approval without congressional approval. Terms to which Congress disagreed could be added.

Some are also concerned about how the needs of other insular areas, particularly islands now less developed than the Marianas, will be met.

Because of these concerns, the Committee leadership said recently that the Committee may condition or redirect the assistance although it can be expected to support the level of spending contained in the President's economic plan.

Today's hearing is intended to provide information for our decisions on how the \$120 million should be spent.

These decisions should balance concerns about the proposal with the arguments for it, arguments which are also important and which I expect our witnesses today to make.

Because they represent the other key decision-making authorities on this matter -- with the exception of the Senate committee, which will have its own hearing on it this afternoon -- I would like all our witnesses to appear as a panel and be questioned together. In the interest of time and in keeping with our rules, I will ask them to summarize their statements.

In closing, I want to reiterate my special interest in the welfare of the Northern Marianas and my commitment to our special political union.

I also want to express my appreciation to all who have worked on these recommendations and, in particular, express my condolences to the Governor's lead representative, Lieutenant Governor Manglona, on the passing of his wife.

**STATEMENT OF HON. ELTON GALLEGLY, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. GALLEGLY. Thank you very much, Mr. Chairman. I will make my comments brief, but I would like to tell you it is a real pleasure to join with you this morning in the first hearing of the Subcommittee on Insular and International Affairs. As you know, I have had the pleasure of serving with you, Mr. Chairman, for the past 6 years on this subcommittee, along with my good friend, Bob Lagomarsino, from California who is no longer with us, but who had a deep interest in the territories and United Nations trust territories for many, many years.

I gained a real appreciation for the issues of the territories from Bob, as well as directly from oversight hearings conducted in the Pacific. I also know that the lives of the United States citizens and nationals who live in the territories are affected by actions of Congress, which has plenary authority under the territorial clause of the U.S. Constitution. Today's hearing is a part of that constitutional prerogative of the Congress in making rules and regulations which will affect the Northern Mariana Islands.

It was, indeed, a memorable experience when we held oversight meetings in Saipan in 1989. I want to welcome the Governor, the Speaker of the House, and the Resident Representative. Your testimonies, as well as the administration's, will be important as we consider the need for the continued covenant funding for fiscal year 1993.

Mr. Chairman, I thank you, and I look forward to hearing the testimony.

Mr. DE LUGO. Thank you very much.

At this time, let me recognize my good friend, the next door neighbor of the people of the Northern Marianas, from Guam, a very able representative, Robert Underwood.

**STATEMENT OF HON. ROBERT A. UNDERWOOD, A DELEGATE
IN CONGRESS FROM GUAM**

Mr. UNDERWOOD. Thank you, Mr. Chair, and I would like to add my own words of welcome to our neighbors to the north. I appreciate very much the time that they have spent in preparing their remarks.

I am too interested in some of the issues that have already been outlined, and I am particularly interested in kind of a global or philosophical view as to what is seen as the appropriate mix between Federal participation and assistance in the insular areas. Rather than simply talking about specific programs, I am interested in hearing what the appropriate mix is and what is the emerging consensus on that particular issue. I will ask questions related to that.

Thank you.

PANEL CONSISTING OF HON. JUAN N. BABAUTA, RESIDENT REPRESENTATIVE TO THE UNITED STATES, COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS [C.N.M.I.]; HON. LORENZO I. DE LEON GUERRERO, GOVERNOR, C.N.M.I., ACCOMPANIED BY ELOY S. INOS, DIRECTOR, DEPARTMENT OF FINANCE, C.N.M.I. AND HON. THOMAS P. VILLAGOMEZ, SPEAKER OF THE HOUSE OF REPRESENTATIVES, C.N.M.I.

Mr. DE LUGO. Thank you very much.

Well, at this time, I would like to welcome our visitors to the conference table right there. Would you come forward and we will set up the panel. We have the Honorable Juan N. Babauta, who is the Resident Representative of the Northern Marianas here in Washington. Juan, would you bring forward the delegation? The delegation is led by the Honorable Lorenzo I. De Leon Guerrero, the Governor of the Northern Marianas, and the Honorable Thomas P. Villagomez, Speaker of the House of Representatives.

I would like to recognize that in the audience we have Representative Pedro Guerrero, an old friend of the committee and well-known to the committee and also Representative Pete Reyes. We want to welcome you all here. Thank you.

Who is going to lead off? Mr. Representative, will you lead off?

STATEMENT OF HON. JUAN N. BABAUTA

Mr. BABAUTA. Yes, thank you, Mr. Chairman.

I appreciate the opportunity to appear before this committee one more time to testify and give testimony on behalf of H.R. 1092, but before I do that, Mr. Chairman, I would like to take this opportunity to state my case again on the need for having a delegate to the United States Congress. If you will allow me to do that, Mr. Chairman, I would really appreciate it.

Mr. DE LUGO. Certainly. We would welcome that.

Mr. BABAUTA. The last time the Commonwealth came before this body, Mr. Chairman, several of your members spoke of the importance of having a Northern Marianas representation in Congress. You yourself, Mr. Chairman, told us from your own experience that the difference was like day and night, and that the C.N.M.I. was at a tremendous disadvantage not having representation in this House. Once again, we are here at a disadvantage without our own spokesperson in Congress.

H.R. 1092 would provide for \$120 million to the N.M.I. over the next 7 years. Obviously, Congress' decision on this bill will have a profound effect on the economy of the Commonwealth. I can only say that it is most unfortunate that the people of the Northern Marianas still have no representation in Congress to help make and to actually vote on this vitally important decision.

There has been progress in the Northern Marianas on this issue, and I would like to update the subcommittee on what has transpired. In December, Governor Guerrero announced that he had changed his mind and is now supporting representation for the Northern Mariana Islands. I want to take this opportunity to commend the Governor for taking that position.

Shortly after, the Commonwealth Senate adopted, as it has before, a joint resolution petitioning Congress for a seat in Congress. The Commonwealth House of Representatives, although it has not

acted on a resolution, its Committee on Federal Relations has reported a similar measure in its committee.

I believe that the Commonwealth officials are very close to achieving an agreement and that we may soon approach Congress with a request, Mr. Chairman.

With that, I want to thank you for the opportunity to speak in support of H.R. 1092 and the agreement it approves. Mr. Chairman, with your permission, may I ask that my detailed testimony be included in the record, if you so approve, Mr. Chairman.

In approving the covenant that brought the Northern Marianas in political union with the United States, Congress established a policy of providing direct financial assistance in multi-year increments. The goals of this policy were to assist the Commonwealth to raise the standard of living of its people and to help us become fully responsible for the cost of our own local self-government.

Last year, for the first time, U.S. financial assistance was not needed for the Commonwealth government operations, but was used solely for capital improvements to raise our standard of living. This agreement demonstrates we now have a growing confidence in our own ability to fund these projects, to fund these much needed capital improvements. We will match Federal contributions dollar for dollar. Over the 7-year life of the agreement, our reliance on Federal funds will decline while increasingly we rely on our own resources.

I view approval of the agreement and its schedule of swiftly reduced Federal aid to be another step in the transition to full self-government. I see a policy that is succeeding. I also see a successful process. This agreement is the outcome of a process of consultations set out in the covenant and thus sanctioned by Congress. The validity of that process is clear from the support the agreement has gathered. Governor Guerrero, House Speaker Thomas Villagomez, and President Juan S. Demapan have signed off.

The previous Federal administration supported the pact. Last month President Clinton endorsed the agreement in his Vision of Change for America. Now, the President has asked for Congress' approval. Your acceptance will reduce Federal expenditures by \$74 million over the life of the agreement.

But the agreement is more than a welcome spending cut. It is part of the Clinton vision consistent with his philosophy in three important respects. Number one, all money will be invested in infrastructure providing short-term economic stimulus and long-term economic health. Number two, no funds will be used for the operation of the Commonwealth government. Number three, by requiring the C.N.M.I. to contribute dollar-for-dollar matching amounts over the 7-year period, the agreement reflects the balance between spending cuts and revenue increases the President wants.

We in the Commonwealth of the Northern Mariana Islands accept our responsibility to join with all U.S. citizens in the positive change President Clinton sees for America.

Despite the success of the policy of direct financial assistance, despite the validity of the process that resulted in the agreement before us, and despite the wide support for that agreement, I know there are still questions about the cost and wisdom of continued U.S. financial assistance to the Northern Marianas. I address those

questions of which I am aware in my detailed testimony. Let me speak to one here.

There is concern that in receiving direct financial assistance to the Commonwealth, the Commonwealth is getting a free ride from U.S. taxpayers. It is true that the Commonwealth provides income taxpayers with a rebate on some of the tax they owe. Income taxes, however, are not the only source of revenue. Seven States in the Union collect no individual income tax.

In my testimony, I suggest comparison of the number of Federal dollars received for each dollar of local revenue raised as a method of determining whether the Commonwealth is getting a free ride. That comparison indicates that we in the Commonwealth are much less of a burden on U.S. taxpayers than are other insular areas.

I attribute the Commonwealth's ability to successfully raise local revenue to the strength of our economy, and I attribute the strength of our economy to the success the policy of this Congress initiated 16 years ago in approving the covenant. I ask you to continue to support that policy and report favorably on H.R. 1092.

Thank you, Mr. Chairman.

[Prepared statement of Mr. Babauta follows:]

STATEMENT OF
THE HONORABLE JUAN N. BABAUTA
RESIDENT REPRESENTATIVE TO THE UNITED STATES
FROM THE
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
ON
H.R. 1092
BEFORE THE
SUBCOMMITTEE ON INSULAR AND INTERNATIONAL AFFAIRS
OF THE
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES

MARCH 18, 1993

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to come before you today on behalf of the Commonwealth of the Northern Mariana Islands.

The last time the Commonwealth came before this Subcommittee several of your members spoke of the importance of having Northern Marianas' representation in Congress. Chairman de Lugo told us from his own experience that the difference was "like night and day" and that the CNMI was "at a tremendous disadvantage not having representation in this House."

Once again the Commonwealth comes before you at a disadvantage, without our own spokesperson within Congress. H.R. 1092 would provide \$120 million to the CNMI over the next seven years. Obviously, Congress' decision on this bill will have a profound effect on the economy of the Commonwealth. I can only say it is most unfortunate that the people of the Northern Marianas still have no representative here to help make — to actually vote on — this vitally important decision.

There has been some progress in the Commonwealth on the issue of representation in Congress and I would like to update the Subcommittee. In December Governor Guerrero announced that he had changed his mind and was now supporting representation for the Northern Marianas. Shortly after, the Commonwealth Senate adopted — as it has before — a joint resolution petitioning Congress for a seat. The Commonwealth House has not acted on this resolution, but its Committee on Federal and Foreign Relations has reported a similar measure.

I believe that Commonwealth officials are very close to achieving agreement and that we may soon approach Congress with our request.

I support H.R. 1092 and the agreement it approves. This agreement, commits the federal government and the Commonwealth government each to expenditure of \$120 million for capital improvements in the Northern Marianas over the next seven years. I view this agreement as another statement of a policy, which by its success credits its formulators. I also view the agreement as the outcome of a credible process for maintaining the relation between the Northern Marianas and the United States.

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That policy — set out in Section 701 of the the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America — had two goals: first, to progressively raise the standard of living of the people of the Northern Marianas and second, to develop an economy capable of supporting local self-government. The United States undertook to provide direct financial support to the Commonwealth government in support of these goals, but the policy was clearly a joint enterprise entered into by both the federal government and the Commonwealth.

At the outset sixteen years ago, the Northern Marianas' was virtually a subsistence economy. Today, our economy has grown to the point where it fully supports the operations of our local government. And the health, education, economic opportunity, and other indices of the quality of life in the Commonwealth have, I believe, clearly moved upward.

This growth has been possible for a three principal reasons. First and foremost, our decision to come into political union with the United States created an umbrella of legal protections and an environment of security that could attract investment. Second, we were in the right place at the right time: the appreciation of the Japanese yen, the decision of Japan and other burgeoning Asian nations to allow their newly enriched citizens to travel and take funds with them out of their countries, the Northern Marianas' location as one of the few tropical destinations within a comfortable flying time from these nations — together made our growth almost inevitable. And thirdly, the decision of the United States to provide financial assistance to help us build an infrastructure worked synergistically with outside development money to power our growth.

The Covenant provided an initial period of seven years of financial assistance and established a process in Section 902 for determining what level of financial assistance would be proper in subsequent periods. That process was first employed in 1985. Special Representatives of the President and the Governor met and formulated an agreement for direct financial assistance over a second, seven year period. Congress approved that agreement in U.S. Public Law 99-396.

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Today, Congress again is considering an outcome of the 902 process: an agreement recommended by the Special Representatives after lengthy consultation. The Commonwealth relied on the validity of this process and expended time and money working for a fruitful conclusion.

I have great faith in the Covenant, which was approved by a vote of the people of the Northern Marianas and by this Congress in U.S Public Law 96-241. Because of my respect for the Covenant that defines our relation and by extension for the 902 process established in that document, I am confident that the agreement before us is fair and faithful to the mutual commitments the United States and the Northern Marianas have made to each other.

My confidence is reinforced by the knowledge that the Governor and the presiding officers of the Commonwealth Legislature have approved the agreement. I know the agreement had the support of the previous administration. President Clinton has incorporated the terms of the agreement in his Vision of Change for America. This is not surprising since the agreement is totally consistent with major philosophical elements of his plan: 1) all money is to be invested in infrastructure, providing short-term economic stimulus and long-term economic health; 2) no funds are to be used for the operation of the Commonwealth government; and 3) by requiring the CNMI to contribute dollar-for-dollar matching amounts over the seven year period, the agreement reflects the balance the President wants between spending cuts and revenue increases.

Despite the apparent success of the policy, despite the validity of the process that resulted in the agreement now under consideration, despite the wide support for the agreement itself, questions have been raised about the cost and wisdom of continued U.S. financial assistance to the Northern Marianas. I would like to address some of those questions.

First, there is concern about how U.S. aid has been spent and how it will be spent over the next seven years. I share this concern. Through fiscal year 1992 the U.S. has provided \$181 million for capital improvement projects in the Northern Marianas via the multi-year assistance

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agreements. That's \$12 million dollars a year. Has it been spent wisely and effectively?

One way to determine the answer is to look at the safeguarding provisions of U.S. Public Law 99-396. Congress stipulated in that law that if performance standards for expenditure of U.S. assistance and for the operation of the CNMI government were not met, the Secretary of the Interior could request authority to withhold funds from the CNMI. Congress has never been asked to grant that authority.

We cannot assume, therefore, that performance has been flawless. But the CNMI must have remained within acceptable parameters or your agent, the Secretary of the Interior, would have been compelled to come to you for authority to halt the flow of funds.

The agreement now under consideration requires that a list of projects to be funded be provided to the Assistant Secretary for Territorial and International Affairs. The release of funds is not, however, preconditioned on approval of these projects by the Assistant Secretary. So control rests very much in the hands of the Commonwealth. Congress may consider that the interests of the federal government necessitate more explicit controls on expenditures.

A second concern raised about the present agreement focuses on the provision that the CNMI will match the federal contribution. Over the seven year period each side will spend \$120 million. In fiscal year 1994 the federal government's share is \$22 million, the CNMI share is \$9 million. By the last year of the agreement our roles are reversed: the CNMI puts up \$22 million, the federal government \$9 million.

The question being asked is whether the CNMI is fully committed to this arrangement. In fact, the CNMI has already demonstrated its commitment to match funds. The agreement requires that the federal government's fiscal year 1993 Covenant grant of \$27.72 million be matched by the CNMI with \$6.93 million. We have done this. As a further testimony to our commitment, I refer the Subcommittee to a letter of October 16, 1992 (attached) from the Governor and the presiding officers of our legislature to former Assistant Secretary Stella Guerra in which these leaders jointly

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state their support of the agreement and ask that it be sent to Congress for approval.

A third concern is triggered by the 95% rebate that the CNMI presently allows on some income taxes. There is an appearance that the CNMI may be getting a free ride from U.S. taxpayers.

Chart A, attached, shows the distribution of federal funds to non-state areas of the United States in fiscal year 1990.⁴ On average the non-state areas received \$2,003 per capita.⁵ The CNMI received 25% less than the average, \$1500 per capita. Only Guam did worse, receiving \$1,424 per capita.⁶ If the CNMI had not received a Covenant grant of \$33,850,000 in FY 1990, we would have received only 40% of the average amount of federal funds distributed to the insular areas. It is clear that we are not receiving an unusual amount of support from the United States. We may even fairly ask why we are receiving so little compared to other areas.

But the concern that has been raised is not whether the CNMI is being treated equitably. The concern is that we in the CNMI are not making a significant effort to take care of our own needs by raising local revenues.

The responsibility of the people of the CNMI under Section 701 of the Covenant is to meet the financial needs of "local" self-government. Therefore, it seems reasonable to compare our tax burden to the local tax burden of other U.S. citizens. Chart B, attached, makes this comparison for selected states and non-state areas. The CNMI raises \$2,561 per capita. This is 30% less than the Virgin Islands and Guam, but three times as much as American Samoa raises. In comparison to states, our revenue collections per capita are the equivalent of Hawaii's, slightly higher than

⁴ Chairman de Lugo selected 1990 as the reference year in expressing concern about the rebate in his floor statement on H.R. 1092.

⁵ This average discounts federal funds which flow to the non-state areas as federal salaries or for procurement and excludes the District of Columbia in which the circumstances that direct the flow of federal monies are quite different than those in the insular areas.

⁶ In Guam, however, federal salaries and procurement amounted to an additional \$5,356 per capita added to the local economy. The same sources contributed only \$69 per capita to the CNMI economy.

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California's, and 25% above the national average. It cannot be concluded that our collections are unusually low.⁷

But the question remains: does the CNMI get a free ride on U.S. taxpayers. To help make this determination the last column of Chart B sets out the ratio of federal funds received to local effort. The numbers speak for themselves. American Samoa receives \$2.76 in federal funds for every dollar raised locally. The Virgin Islands receive \$1.06 in federal funds for every dollar raised locally. The Northern Marianas receives just 59¢.

In conclusion, I repeat my support for the successful policy of direct financial assistance from the federal government to the CNMI. I support the process set out in the Covenant and approved by Congress that has resulted in the agreement now before us. And I support the agreement.

Thank you.

⁷ In addition to direct collections of revenue, the CNMI has negotiated impact fees with developers. For the period 1990-92 these fees amount to \$44.7 million pledged, paid, or provided in-kind. Data for the reference year 1990 were not separately available, but if computed would increase the per capita local effort and reduce the differential between the Northern Marianas and the Virgin Islands and Guam.

A: Distribution of Federal Funds to Non-State Areas of the United States, FY 1990

	Population	All Federal Funds	Per capita	Federal Grants	Per capita	Direct Payments to Individuals	Per capita	All Federal Funds less Federal Salaries & Procurement	Per capita
Dist. of Columbia	606,900	\$17,353,000,000	\$28,593	\$1,718,000,000	\$2,831	\$1,961,000,000	\$3,231	\$4,978,000,000	\$8,202
American Samoa	46,773	\$103,000,000	\$2,202	\$79,000,000	\$1,689	\$15,000,000	\$321	\$94,000,000	\$2,010
Guam	132,000	\$895,000,000	\$6,780	\$100,000,000	\$758	\$83,000,000	\$629	\$188,000,000	\$1,424
No. Mariana Islands	43,345	\$68,000,000	\$1,559	\$62,000,000	\$1,430	\$4,000,000	\$92	\$65,000,000	\$1,500
- actual	43,345	\$34,150,000	\$788	\$28,150,000	\$649	\$4,000,000	\$92	\$34,150,000	\$788
- w/o Covenant funds	43,345	\$34,150,000	\$788	\$28,150,000	\$649	\$4,000,000	\$92	\$34,150,000	\$788
Puerto Rico	3,338,000	\$7,539,000,000	\$2,308	\$3,082,000,000	\$924	\$3,488,000,000	\$1,046	\$6,662,000,000	\$1,997
U.S. Virgin Islands	101,809	\$527,000,000	\$5,176	\$273,000,000	\$2,681	\$95,000,000	\$933	\$375,000,000	\$3,683
Total	4,310,172	\$26,679,150,000	\$6,190	\$5,342,150,000	\$1,239	\$5,650,000,000	\$1,311	\$12,396,150,000	\$2,876
Average									
Total ex DC		\$9,326,150,000	\$2,518	\$3,624,150,000	\$979	\$3,689,000,000	\$996	\$7,418,150,000	\$2,003
Average ex DC	3,703,272								

Source: The Book of the States 1992:93

B: Comparison of Revenue, FY 1990

	Revenue	Per capita	Distribution of federal grants, direct payments to individuals, and other federal programs, per capita	Dollar of federal funds received by states for each dollar of state-local revenue raised, per capita
Selected states				
(combined state and local revenue)				
Mississippi	\$2,396,000,000	\$1,250	\$2,783	\$2.23
Tennessee	\$4,245,000,000	\$1,388	\$2,566	\$1.85
New Hampshire	\$595,000,000	\$1,560	\$2,197	\$1.41
California	\$43,419,000,000	\$2,149	\$2,304	\$1.07
Hawaii	\$2,335,000,000	\$2,554	\$2,480	\$0.97
New York	\$28,615,000,000	\$3,280	\$3,082	\$0.94
Alaska	\$1,546,000,000	\$4,134	\$2,656	\$0.64
Non-state areas				
("state" revenue only)				
American Samoa	\$34,000,000	\$727	\$2,010	\$2.76
District of Columbia	\$2,310,000,000	\$3,806	\$8,202	\$2.16
U.S. Virgin Islands	\$355,000,000	\$3,487	\$3,683	\$1.06
Guam	\$457,000,000	\$3,462	\$1,424	\$0.41
Northern Mariana Islands				
- actual	\$111,000,000	\$2,561	\$1,500	\$0.59
- hypothetical (w/o income tax rebate)	\$154,000,000	\$3,553	\$1,500	\$0.42
- hypothetical (w/o Covenant grant)	\$111,000,000	\$2,561	\$788	\$0.31
- hypothetical (w/o rebate, w/o Covenant grant)	\$154,000,000	\$3,553	\$788	\$0.22

Sources: The Book of the States 1992-93
OTIA Insular Area report

Prepared by the Office of the Resident Representative



Commonwealth of the Northern Mariana Islands
Office of the Governor
Capitol Hill, Saipan MP/USA 96950



Phone: (670) 322-5091/2/3
Telefax: (670) 322-5096/99

16 OCT 1992

The Honorable Stella Guerra
The President's Special Representative
for Covenant Section 702 Negotiations
Office of the Secretary of the Interior
18th & C Street, N.W.
Washington, DC 20240

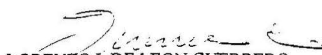
Dear Special Representative Guerra:

It is an honor for us to transmit the Agreement of the Special Representatives on Future Federal Financial Assistance for the Commonwealth of the Northern Mariana Islands pursuant to Covenant Section 702.

We are happy to inform you that this Agreement has the support of our Administration and Legislature. Therefore, we request that you transmit it to Congress for consideration and approval as soon as possible.

Thank you.

Sincerely,


LORENZO I. DE LEON GUERRERO
Governor

 
JUAN S. DEMAPAN
Senate President

THOMAS P. VILLAGOMEZ
Speaker, House of Representatives

Enclosure

Mr. DE LUGO. Thank you very much, Juan.
Governor Guerrero.

STATEMENT OF HON. LORENZO I. DE LEON GUERRERO

Governor GUERRERO. Thank you very much, Mr. Chairman.

Mr. Chairman, first of all, I bring you greetings from the people of the Commonwealth to your committee. We thank you very much to allow us to speak before your committee this morning.

Mr. DE LUGO. Thank you very much, Governor, and please return the committee's warm greetings to the people of the Northern Marianas. I am hoping that this year the committee will have an opportunity to come out, despite the budget problems that we are having, for a visit.

Governor GUERRERO. Thank you very much.

Mr. Chairman and members of the committee, thank you for allowing me a few words this morning. We appreciate this opportunity today.

We talk about investment. We are here to ask you to invest \$120 million in the N.M.I. Is this a good investment? Will your investment be justified? The answer is yes.

The new 702 agreement before you is much different from any you have seen before. In this agreement, the Commonwealth drastically changed its approach in Federal assistance. We create a 50-50 partnership approach.

In the past, the Federal Government put up all the money for the major infrastructure. Today the Commonwealth provides a dollar-to-dollar match. Before, the Federal Government picked up most of the burden. Now the Commonwealth lifts an equal share of that burden. Whereas in the past the Federal Government took all the responsibility to build a major infrastructure, today the Commonwealth takes an equal responsibility.

All Federal money must go for infrastructure. No Federal money goes for our government operations or salaries.

For the first time in the history of the 702 assistance, the C.N.M.I. will match the Federal contributions dollar for dollar. The 702 agreement before you requires a full local match. If we are to see 1 cent of Federal investment, local revenues must be raised. To raise the local revenues will require tax reform.

The agreement before you is radically different from the two previous 702 agreements. It is a transition agreement. It is an agreement that acts as a bridge. With this new 702 agreement, we move from the financial dependency to financial independence.

The C.N.M.I. is at a critical point. Now is not the time to stop Federal investment. Now is the time to continue investment. We are at a critical point. A cut in Federal assistance may prove most harmful. For the first time in years, the C.N.M.I. local revenues are down. With new programs like zoning and building codes to be implemented, the cost of government is up.

Business is stale. Bank deposits are down. Business taxes have fallen off sharply. Construction is down. Building construction is almost flat. The North American Free Trade Agreement and threats of trade sanctions have our Asian investors nervous. Money is tight. We have lost at least \$55 million in government revenues because of the stalled developments.

We are the last World War II battlefield to be reconstructed. Our main dock in Saipan was built by the Japanese before the war. The dock dates back to the war. Major roads we still use today were built by the U.S. military during World War II.

We have worked hard on infrastructure. We have declared a war on infrastructure problems. Many battles have been won. We have done our best not to waste a dime of Federal money. We are most grateful for the Federal help.

We have built our infrastructure according to plans. Several years ago, we used the services of the Arthur D. Little, a first rate consulting firm with a national reputation. This consultant helped us develop a comprehensive building plan. The plan is an intelligent blueprint to guide our building program. In most respects, that plan is followed today.

Our infrastructure is getting better, but it still needs more work. Our facilities have improved, but they have a long way to go. They are certainly not up to U.S. standards. Water is a problem. Nowhere can anyone at any time drink water from the tap. All water must be boiled to be safe.

Despite best efforts, we still do not have a strong enough foundation for a stable economy. We lack the basic infrastructure foundation. A weak infrastructure, combined with the current economic slowdown, puts our development at a critical point. If we do not make improvements to water, sewer and other utilities, we will not be able to attract investment. The world has become more competitive. If we do not finish our infrastructure foundation, we may even lose our present development. Our development might easily come to a stop, or worse, our development might slide backward. We are at risk.

Some Members of the Congress have been critical of the C.N.M.I. They find fault with us. Some members might say we have put some millions of dollars in financial assistance into N.M.I. Why should we invest more money into the islands? The question is how can you not put more money into the islands. Would you let the Federal investment go to waste? Millions of dollars is a lot of money. We made tremendous progress. Shouldn't you protect your investment?

If financial independence for the N.M.I. was a goal of the Congress, then success is on the horizon. Our progress during the last 14 years has been substantial. All the financial indicators show economic growth. Pledging \$120 million is a guarantee that your investment will not be wasted. We have been moving forward. Don't turn us around. Don't hold back assistance when we need it most.

We know money is tight. Federal dollars are hard to come by. We understand. We have reduced the amount we ask from you. We began our 702 negotiation with almost a billion dollars in projects. We now request only \$120 million in Federal investment. We will sacrifice with the rest of the Nation. We too will tighten our belts. This 702 agreement saves the Federal Government money. It is a budget cutting agreement.

We know Congress considers the hard task of raising national taxes. You ask why doesn't the C.N.M.I. raise its own taxes? Why doesn't the Commonwealth raise more of its own local revenues? It

is a good question. We have a good answer as well. We have made efforts along that line and we will make more.

From 1990 to 1992, we raised almost \$48 million in infrastructure money from our developers. We asked that the developers pay for the added roads, power, water, and sewer. We got this money from our developers informally without a tax. And now a formal developer's tax is before our local legislature. The bill has passed our local House and is now in the Senate.

We are now in the process of reforming our tax rebate system. We know a reduction in the rebate would generate needed infrastructure revenues. The rebate will be reduced. We will return less money to our taxpayers.

How can this committee and the Congress be sure of C.N.M.I. tax reform? The 702 agreement before you guarantees it will happen. Why is that so? Because we have to match \$120 million in Federal money. The match is worth \$120 million in local money. No match, no Federal money. No local tax reform, no Federal money.

To raise \$120 million, new revenues will be required. The matching requirement of the new 702 agreement is a guarantee to this committee and a guarantee to the Congress that the C.N.M.I. will tax itself more and rely on the Federal Government less.

What have we done to address congressional concerns since we last appeared on Capitol Hill on July 30 of last year? Have we done anything to raise the minimum wage? Yes. We have made major strides to raise our minimum wage. Following the recommendations of the Governor's Minimum Wage Tax Force, our local House of Representatives has passed a new minimum wage act. The measure is now before the C.N.M.I. Senate. Early action is promised on that measure. It will gradually raise our minimum to that of the U.S. minimum wage.

Have we passed laws to protect foreign workers? Yes, we have. We have protected female nonresident workers by enacting into law a strong anti-prostitution bill.

Have we passed any laws to guarantee a more ethical government? Yes, we have. We have guaranteed an honest and open government by enacting into law a strong ethics in government bill.

Have we addressed human rights? Yes, we have. We have introduced a strong human rights bill and asked the local legislature to pass it.

Have we made efforts to collect all taxes? Yes, we have. Our Finance Department has been working with the Federal Internal Revenue Service. Finance now carries out our recommendations and proposals made to us by the Tax Administration Advisory Service. We are collecting more taxes. Our data processing abilities are improved. More of our agents have been trained. We are much tougher with delinquent taxpayers.

Have we given any thought as to whether a large foreign labor force is good for us? Yes, we have. Since July 30, we have signed an historic agreement with the Department of Interior for a comprehensive study, a professional study, of the key elements of our economy. The joint Federal-C.N.M.I. partnership will study the impact of aliens on our islands, including labor and immigration en-

forcement. It will study our minimum wage situations and recommend changes. Lastly, it will study our entire tax system.

This agreement with the Department of Interior shows the Commonwealth is committed to working with the Federal Government. It shows the Commonwealth is open-minded for reform.

Since the July 30 hearing, we have taken several important steps to strengthen our commitment to the U.S. political family. The C.N.M.I. Executive Branch now endorses the idea of the delegate in Congress for the C.N.M.I.

Changing past policy, we have joined the Western Pacific Fishery Management Council. We now seek a partnership effort with the Federal Government to manage our fishery.

Lastly, since July 30, we have requested and seen an introduction of a bill in the 103rd Congress that would allow our C.N.M.I. young people to attend national military academies. We thank you, all Members, who supported our academy bill. We hope to see it pass the Congress. In light of the fine history of C.N.M.I. people serving in the U.S. military, we know we can count on your support.

In closing, we repeat that we stand at a critical point. We lack the foundation for economic self-sufficiency. The infrastructure we need is not in place.

Despite the covenant pledge to put us at the same level as a State-side community, our cost of living is higher than the mainland, and our standard of living is lower.

At this critical point, we present this committee with a 702 agreement, and that commits the C.N.M.I. to a dollar-to-dollar match. At this critical point, we present this committee with a 702 agreement that asks for less Federal money, not more. At this critical point, we pledge tax reform and guarantee it with the matching requirement of the new 702 agreement.

We pledged on July 30 to work hard toward reforms in our labor and government operations. We have made good on that pledge. Since July 30, we have shown good faith. We have matched action with words. Our legislature has passed laws to improve the life of nonresident workers. We have agreed to a Federal study of our tax and economy.

There is more to do. We admit this. But much has been accomplished since July. More will be done. We work toward our goals, as you do, within the rules of a democratic form of government.

Don't step back. Step forward with us, Mr. Chairman and members of this committee. Fund the 702 agreement. Have faith in the unique and the great Commonwealth you have created.

Thank you very much. Dangkulu na si yuus ma'ase.

[The prepared statement of Gov. Guerrero follows:]

Oversight Hearings

Covenant Section 702 Agreement

Written Testimony
of
Governor Lorenzo I. De Leon Guerrero
Commonwealth
of the
Northern Mariana Islands
to the

Honorable Ron De Lugo, Chairman
**House Subcommittee on
Insular and International Affairs
U.S. House of Representatives**

and

Honorable Daniel K. Akaka, Chairman
**Senate Subcommittee on
Mineral Resources Development and Production
U.S. Senate**

March 18, 1993
Washington, D.C.

'The Government of the United States will assist the Government of the Northern Mariana Islands in its efforts to achieve a progressively higher standard of living for its people as part of the American economic community and to develop the economic resources needed to meet the financial responsibilities of local self government.

'To this end the United States shall provide direct multi-year financial support to the Government of the Northern Mariana Islands ...

---NMI Covenant with U.S.

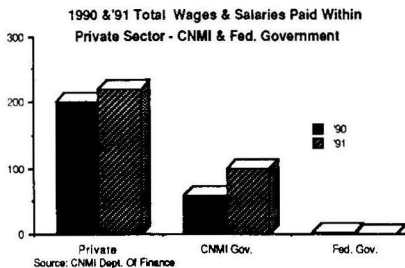
CNMI Joins Nation in Belt Tightening

• **Budget Savings.** The Covenant Section 702 Financial Agreement reached between the Northern Marianas and the Department of Interior saves the federal treasury nearly \$74 million. Present law, P.L. 99-396, would have the NMI receiving nearly \$194 million in Federal money over seven years. The 702 Agreement now before the Congress for authorization and appropriation, puts the Federal share at only \$120 million - a \$74 million saving.

• **Federal Share Diminishes.** Over time, the Agreement gradually reduces the yearly Federal obligation: Federal share \$22 million in FY'94, only \$9 million at Agreement's end.

• **Only Infrastructure--no salaries.** The 702 Agreement directs taxpayer dollars to infrastructure, only. No Federal money goes for CNMI government operations. Local government will pay government salaries and support local programs with locally raised revenues.

• **Size of Government Shrinks Relative to Private Sector.** During 1990, \$265.9 million in wages and salaries was reported as having been paid, of which 76 percent, or \$201.9 million dollars, were private sector earnings, as compared with \$58.7 million dollars paid CNMI employees and \$5.2 million to federal and other workers.



Northern Marianas Shoulders Responsibility

• **New Approach.** The Commonwealth pledges to change its approach to guaranteed Federal assistance. It will match the Federal effort. It will shoulder an increasing share of the burden. We will accept equal responsibility for infrastructure improvement.

• **Dollar-for-Dollar Match.** For the first time in the history of 702 guaranteed Federal financial assistance, the CNMI will match the Federal contribution dollar-for-dollar. The Agreement requires a full local match if the Islands are to see one cent of federal help.

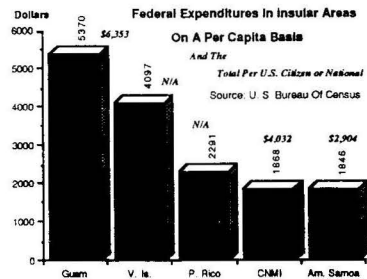
• **Agreement on Audit.** Prior to the spending of one Federal dollar, the NMI will have agreed with the Federal grantee to procedures ensuring Marianas compliance with all audit recommendations.

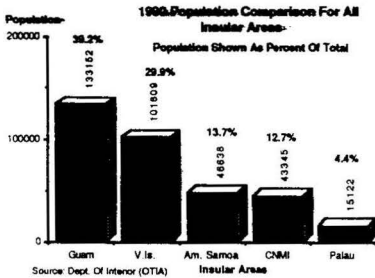
• **May Be Last Federal Money.** The NMI will phase in local financing for all capital development projects according to the schedule of the Agreement, with the goal of self-reliance by the end of seven fiscal years.

A History of Decreasing Reliance on the Federal Government.

• **Overall Decrease in Federal Expenditures.** Since 1983, overall Federal expenditures in the NMI have been dropping at an annual rate of -3.4 percent. According to the Congressional Research Service (92-872 GOV- Nov. 19, 1992), two-year averages indicate a decrease in expenditures from an average of \$97 million in FY 1983-84 to an average of \$76 million in FY 1990-91, in constant 1991 dollars, which is equivalent to an average annual rate of -3.4 percent.

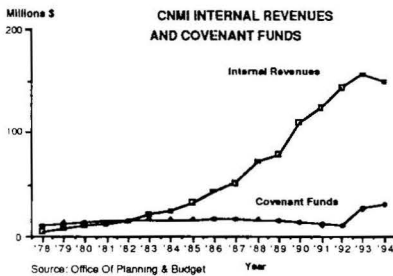
• **NMI Trails Other Insular Areas in Federal Assistance.** Total per capita or total per U.S. Citizen-National, the Northern Marianas trails Guam and the Virgin islands in Federal assistance. American Samoa is \$22 lower than the NMI on a per capita basis. According to the CRS Report for Congress, in 1991





each person in the NMI received \$1,868 in Federal assistance, while the figure is \$4,097 for each person in the Virgin Islands and \$5,370 per capita for Guam.

• **Reliance on U.S. Taxpayers Down - CNMI Pulls Its Own Weight.** Until just recently, the Commonwealth's internally generated revenues have steadily increased. CNMI internally generated revenues for 1994 (est. \$149.7 million), increased by 89% over those of 1989. Wage and salary taxes, together with the gross business revenue taxes, accounted for 57% of the total revenues. Revenue generated from excise taxes (\$19.5 million) are estimated to equal all taxes derived from wages and salaries in 1994. The CNMI's reliance on U.S. taxpayers has decreased at the same time local revenues have increased.



NMI Would Raise New Revenues - Join Nation in Tax Increases

• **Matching Requirement Guarantees Tax Reform.** The 702 Agreement requirement of a dollar-for-dollar match will spur the NMI to create new revenue sources. If the Commonwealth is to raise \$120 million to match the Federal 702 contribution, new

revenues will be necessary. NMI Dept. of Finance is urging rebate reform. The 702 Agreement is a lever for local tax reform.

• **CNMI Does "tax" Self - Raised \$44.7 million in Infrastructure Revenue.** For 1990-92, the CNMI Legislature, as a condition of approving public land leases for private developers, imposed pledges of \$40 million in cash or in-kind contributions to improve infrastructure. In addition, for 1991-92, the Commonwealth Utilities Corporation collected a total of \$4.1 million in contributions, from 17 separate developers, for upgrading the Sadog Tase and Agigan Point sewage treatment plants. For the same period, the Dept. of Public Works received \$600,000 in developer infrastructure improvement contributions, used mostly for road paving and solid waste projects.

• **Rebate Reform.** Preliminary findings of Department of Finance's comprehensive tax review indicate a modest reduction in the tax rebate system would generate needed infrastructure revenues. Changes in definitions will also help close loopholes in existing statutes and regulations, thereby increasing revenues.

• **Tax Bills Pending in Local Legislature.** The following bills document local legislative commitment to increasing local revenues: occupancy tax on transient occupants of hotel rooms (H.L.B. No. 8-19); to impose a \$100 surcharge upon Saipan employers for each non-resident worker employed (S.L.B. No. 8-10); to increase excise taxes on alcohol, tobacco, soft-drink non-deposit containers, and all goods imported for sale (H.L.B. No. 8-17).

Northern Marianas Worked Hard at Reforms and Stronger Federal Relationship Since July 30, 1992

• **Minimum Wage Reform.** Following the work of the Governor's Minimum Wage Task Force, a bill has cleared the CNMI House of Representatives and is now in the local Senate which will gradually raise the CNMI minimum wage toward the U.S. minimum.

• **For Many, Effective Minimum Wage More Than \$2.15.** Many employers of non-resident workers provide their employees subsidized or free lodging, free utilities, subsidized or free food, free medical care, and free transportation to and from work and free round-trip travel from point of hire to the CNMI. Further, because of the CNMI's rebate tax structure, employees earn and retain almost all their contracted wages. For these employees, benefits combine to increase the after tax CNMI wage of \$2.04 an hour by an additional \$1.87 to a total of \$3.91 per hour.

- **Protection of Female Non-resident Workers.** The Legislature passed and the Governor recently signed the Commonwealth's first anti-prostitution bill, aimed to protect foreign female workers.
- **Tax Administration Improved.** The CNMI Department of Finance currently implements recommendations and proposals of the Tax Administration Advisory Service (TAAS) of the IRS enhanced data processing capabilities; comprehensive training of revenue agents; assistance in developing collection programs for delinquent taxpayers.
- **CUC Finances to be Studied.** On March 1, 1993, the CNMI was awarded a \$331,000 grant by the Department of the Interior to improve financial management at the Commonwealth Utilities Corporation (CUC). The grant will provide an objective management audit of CUC so the true state of its financial and operational elements might be evaluated.
- **Human Rights Act Introduced.** The Governor has submitted a bill to the CNMI Legislature that would create a human rights commission with strong enforcement powers.
- **Federal-Local Study of Alien Labor, Minimum Wage, and Taxes Signed.** An historic agreement was signed with the U.S. Dept. of the Interior to conduct a joint study of these essential elements of the CNMI economy: taxes; impact of alien labor; minimum wage.
- **Ethics Bill Enacted.** The Legislature passed and the Governor recently signed the Commonwealth's first ethics in government law.
- **Delegate for Congress Endorsed.** The CNMI Executive Branch has endorsed the idea of a Delegate to Congress for the NMI.
- **Voice of America Welcomed.** The CNMI Executive Branch has supported in principle the location of a new Voice of America relay station on the island of Tinian.
- **WESPAC Joined.** Breaking precedent, the CNMI decided to abandon a long standing anti-Federal policy and agreed to formally submit names for full participation in the Western Pacific Fishery Management Council (Magnuson Fisheries Conservation Act).
- **Cadets for Military Academies Sought.** The CNMI appreciated the introduction of a bill in the 103rd Congress that would allow local elected officials to nominate CNMI young people to the nations military academies. We deeply appreciated this effort.

Northern Marianas - Cost of Living High - Standard of Living Low

- **Unique Federal Commitment for Appropriation - Mainland Standard for Commonwealth.** Section 701 4

of the Covenant states that: "The Government of the United States will assist the Government of the Northern Mariana Islands in its efforts to achieve a progressively higher standard of living ... as part of the American economic community and to develop the economic resources needed to meet the financial responsibilities of local self-government ..." Implicit, is that the United States will continue with guaranteed, annual Federal payments until a State-side standard of living is enjoyed by the people of the Northern Marianas.

- **Cost of Living Much Higher in NMI.** In a compilation by Economic Services Counsel (CNMI), Saipan had a '89 cost of living index of 273, the United States only 190. For this same year the NMI cost of living rose almost 11% over the previous year ('88), while the rise was only 4.80% for the United States.

Food & beverages, housing, utilities, apparel & upkeep, transportation, medical care, entertainment, other goods and services are all generally higher than a comparable State-side community.

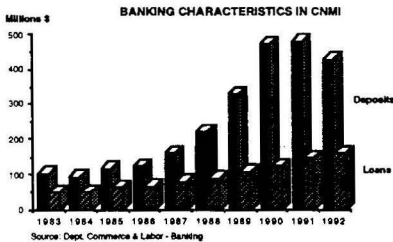
- **Standard of Living Lower.** High cost of living compared with the United States, particularly for food, rent and utilities; perceived limited medical facilities or educational opportunities; low wages and salaries compared with the mainland; limited opportunities for professional growth; a service oriented economy that limits opportunities for some professions; limited cultural entertainment; no public transport; water shortages and power outages in some areas; rough roads; scarce and costly building materials; a comparatively low performance public education system where students score below the national average (California Achievement Test) in all subjects--adds up to a standard of living much lower for the CNMI.

Item	Walnut Creek, CA	CNMI
Mean Income	\$69,457	\$35,994
Mean Home Value	\$303,186 ...	238,045
Median Home Value	\$289,300 ...	\$169,000
Sales Tax.....	9.75%	5.00 % (excise)
Hotel Tax	8.50%	10.00%
HS Education.....	77%	66.3%
College	47%	15.6%

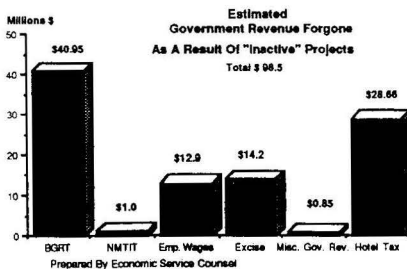
Economic Resources Decline for NMI

- **Bad Time to Cut Federal Assistance; Local Revenues Decline.** For the first time in recent years, local revenues have declined in the CNMI. The Commonwealth will face a short fall of at least \$7.2 million in its FY'93 budget. It is feared the shortfall could be more.

- **Down Turn in Local Economy.** The local economy declines in reaction to the world recession and particularly the down turn in the Japanese economy. Added to the woes are questions over the security of land titles caused by a rash of "Article XII" land alienation law suits, land title litigation aimed at upholding indigenous ownership. Within the year, relief from title uncertainties should be forthcoming as a result of 9th Circuit Court of Appeals decisions and local statutory remedies, for instance H.B. 8-235 - "Alternative Article XII Procedure."
- **Bank Deposits Down.** As of the third quarter of 1992, deposits in the seven CNMI banks have gone down as much as \$58 million.



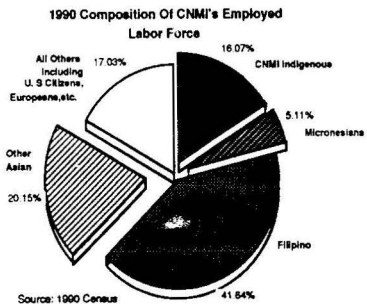
- **Construction Down.** The CNMI construction industry experiences an estimated 60% decline since last year. Construction company clients are no longer able to acquire loans from banks. Major projects have been put on hold.
- **Revenues Lost to Stalled Developments.** Investment in tourist related facilities has dropped sharply. During 1989-90 some \$2 billion in construction projects were planned for the Commonwealth. The majority have either been postponed or cancelled. Presently, only \$330 million of construction is now



planned for '93. Nineteen known projects, totalling 3,495 rooms, with a construction value at \$434.1 million, have been either postponed or cancelled. This represents a loss of potential government revenue of \$98.5 million annually and a loss of \$538.2 million which otherwise would have been placed in circulation (multiplier) within the economy. Had these rooms been built, it is not unreasonable to believe that the NMI economy would be almost twice the size it is today. The figures are startling and the loss to the economy can be readily seen.

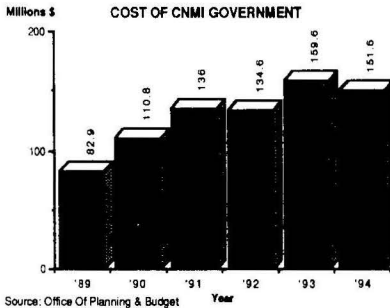
- **International and National Trade Developments Sour Investment.** Perceived long-term affects of the The North American Free Trade Agreement (NAFTA) have chilled investment in CNMI Headnote 3 [a] industries. The same can be said for anticipated affects of a new General Agreement on Tariffs and Trade (GATT-Uruguay Round) because of the proposed multi-fiber agreements. Proposed Ship Building Subsidy bills in the U.S. Congress (may bar foreign ships from CNMI ports), Trade Act 301 sanctions (Taiwanese and Japanese investors nervous), and the Clinton administration's proposal to sharply reduce the Possessions Tax Credit have a combined negative effect on the CNMI economy.

- **Internal Resources Limited - No Labor Pool.** The Commonwealth has no forests of significant size, no known surface minerals, agricultural soils are limited and poor, and fruit and vegetables ravaged by the melon fly. The fishery is underdeveloped. But the greatest constraint is the limited size of the indigenous population which, presently, can only supply 16% of the needed work force. At the time of the last census, there were 21,188 nonresident workers, which made up 81.6 of the labor force. Considering the annual rate of growth of the indigenous population there will not be sufficient local population within the labor force to staff the available jobs in the Commonwealth until 2042 of the next century.



Expenses of NMI Government Rise at Same Time Revenues Decline.

- **NMI Bears Cost of Micronesian Impact.** The CNMI is a magnet area for Micronesians. As a result of the Compacts of Free Association, negotiated without CNMI participation, the Commonwealth allows unlimited Micronesian migration. Total Micronesian residents reached 3,466 in 1990. Free migration of these peoples to the CNMI costs the CNMI government upward to \$10 million a year. Pursuant to U.S. Public Law (Section 104(e) of P.L.99-239, 99 Stat. 1770 (1986), as amended) the United States is to provide funds to alleviate the NMI from the financial drain of Micronesian immigration. The funds have not been forthcoming.
- **General Cost of Government Rising.** Implementing new programs related to safety and the environment like zoning, building codes, and a building permit process have driven up the cost of local government.



- **Federally mandated programs.** There are 172 Federal Laws containing spending mandates for the States, many of which also apply in the CNMI. The financial burden of federal requirements further increases the cost of local government.

No Unused Sources of Money for Infrastructure

- **Covenant FY'93 Monies Fully Committed.** The \$27.72 in Federal 702 Covenant monies, guaranteed by Public Law 99-396 and generously appropriated by the 102nd Congress, together with a matching fund of \$6.93, have been committed for use. The Governor will soon ask for a FY'93 supplemental appropriation of the \$34.65 million to be applied as follows: \$7 million water system upgrades; \$6.6 million sewage collection and treatment system upgrade; \$5 million Saipan sanitary land fill; \$3.7 million new Public Safety corrections facility. See pro-

ject funding schedule in Appendix.

Tax Rebate System To Be Modified - Tax To Be Made More Progressive

- **Proposed Changes to CNMI Tax System Will Make it More Progressive.** The recent study coordinated by the Dept. of Finance found the NMI tax system regressive for those taxpayers with adjusted gross incomes greater than \$100,000. Legislation the Finance Dept. will be submitting for tax reform will eliminate regressivity in the CNMI tax system while generating more revenue. The rebate system will be retained but graduated rates imposed so higher income taxpayers pay higher taxes and lower income taxpayers feel no effect.

- **Pure Mirror and Delinking Not Favored.** The CNMI wants to retain the best features of its local tax system while maintaining the linkage with the IRC. This tax system has worked well in the fifteen short years since the Covenant was approved. The CNMI doesn't want to adopt a pure mirror tax system, nor does it want to delink totally from the IRC. Introducing a graduated rebate system and modifying local taxes will obtain the extra revenues we need, make the tax system more fair, allow use of the sourcing and administrative provisions of the IRC, and still allow retention of general tax incentives to encourage investment in the CNMI.

- **Mirror System, Without Rebates, Could Generate Fewer, Not More Taxes.** Though implementing a pure mirror in the CNMI would generate generally proportional amounts of revenue as the BGRT and Wage and Salary Tax (W&ST) in times of economic downturn, revenues from a pure mirror could plummet considerably more than local taxes. Congress may be required to appropriate more - not less - money to the CNMI if the Islands used a pure mirror system. A pure mirror tax is imposed on taxable income, while the W&ST Salary Tax and BGRT are assessed against gross wages and revenues. The tax base is larger under the CNMI local taxes. Lower rates on a larger tax base can produce more taxes than higher rates on a small tax base. Repeal of rebates would doubtless mean a shrinking of economic activities. That will mean that business income and wages will also shrink. In other words, if the rebate goes the tax base will decrease resulting in lower total taxes. Lower tax revenues in the CNMI could mean larger appropriation of U.S. taxpayer dollars.

- **Joint Federal-CNMI Tax Study Underway.** On December 3, 1992, the CNMI and the Federal Government (DOI) entered into an historic first agreement to jointly study the CNMI tax system. This Federal-Local partnership promises an objective,

definitive analysis of the NMI taxes. Any out of hand condemnation of the Northern Marianas rebate should await the outcome of this professional study.

• **Rebate System Promotes Successful Economy.**

The rebate system, along with the Wage and Salary Tax, the Business Gross Receipts Tax (BGRT), the Excise Tax, and other local taxes, has helped the CNMI develop a respectable economy in just fourteen years. In the fourteen years we have seen economic growth of 16% across the board. The rebate supports capital accumulation and reinvestment. Repeal of the rebate would cause some investments to plummet, others to flee.

• **CNMI Rebate Patterned on Incentives for Other Insular Areas.** The CNMI rebate system was principally patterned after selected aspects of the incentive legislation of Guam, the American Virgin Islands, and Puerto Rico. Similar "tax incentive" systems were adopted in other jurisdictions subject to the "mirror" system of taxation, and approved in analogous context. See H.R. Rep. No. 1131, 86th Cong., 1st Sess. (1959), reprinted in 1960-2 C.B. 811; S. Rep. No. 1767, 86th Cong., 2nd Sess. (1960), reprinted in 1960-2 C.B. 829; Conf. Rep. No. 2214, 86th Cong., 2nd Sess. (1960), reprinted in 1960-2 C.B. 859 (American Virgin Islands incentive legislation).

• **Tax Incentives Common to the U.S. Internal Revenue Code.** Investment Tax Credit (taxpayers investing in equipment permitted to reduce taxes by 10% of cost); Accelerated Depreciation (IRC permits business taxpayers to deduct the cost of tangible property); Low Income Housing Credit (investors in low-income housing allowed a credit that could equal 70% of their investment), are typical of tax incentives employed by Congress to stimulate an economy.

No Tax Abatement. The CNMI tax system is a rebate not an abatement system. A tax abatement system would exist only if the CNMI relieved taxpayers from the obligation of paying taxes and then returns 95% of the mirror tax the following year. This is not the case. Interest and penalties are assessed to delinquent taxpayers who underpay or are delinquent. Interest and penalty collections totalled \$2.79 million in FY'91.

• **Rebate Supports Capital Accumulation and Reinvestment.** The rebate system has supported capital accumulation and reinvestment in the CNMI. In the four year period from 1986 to 1990 rebates grew from \$13.9 million to \$43.1 million - a dramatic increase of 210%. This growth is mirrored by the 281% increase in bank deposits from \$124 million to \$473 million in the same period.

• **Tax Rebate System Needed to Attract Investors**

and Mainland Citizens. The tax rebate is necessary to off-set higher costs and island hardships. World events like the Gulf War can instantly chill tourism. Super typhoons frequently destroy residential and business properties. Insurance for such losses is expensive. Lack of petroleum reserves skyrockets fuel costs during shortages. The CNMI is about as far away from the U.S. west coast as Washington, D.C. is from Cairo, Egypt. Freight costs associated with importing equipment and materials increase the cost of all projects. High cost of food, rent, utilities, expensive overseas telecommunications, slow mail delivery, expense of returning home visits, water shortages and power outages all combine to discourage investors and mainland U.S. citizen immigrants. Tax rebate off-sets these hardships and likewise alleviates some of the pressure of "buying power" created by the strong Japanese yen.

Investment Incentives Needed

• **CNMI is an Attractive, but Costly Place To Do Business.** No single area within the continental land mass of the United States has the NMI's same potential for economic disruption. Frequent typhoons, possibility of earthquakes, tsunami, volcanic eruptions and El Nino inspired droughts, not to mention the sheer isolation of the islands, create the most hazardous and expensive business conditions with the U.S. political family. The NMI's incentives of tax rebate, control over immigration and wage rates, duty free entry into the U.S. for certain products, all are needed to negate adverse business conditions.

Despite a vigorous "War" on utility problems, the CNMI Has Crucial Infrastructure Needs

• **Last Remaining World War II Battlefield To Be Reconstructed.** Saipan is still using a crumbling 50 year-old, pre-invasion, Japanese built dock. Portions of the water distribution system still need major repair and replacement. Nowhere is it safe to drink water from the tap. Bottled water is the norm. A clear Saipan lagoon, essential to public health and to the tourism economy, is threatened by over loaded sewage treatment plants. A detailed list of prioritized infrastructure projects, together with cost estimates and identified sources of funding are included in the "Appendix."

• **Water Systems - No Water Security.** Saipan has no rivers and only a few perennial streams. Except for a few small desalination plants operated by commercial enterprises, rainfall is the only source of fresh water. This is recovered through catchments, pumped groundwater, or from the Island's water lens. While these water resources are renewable, they are finite, with extreme limitations placed on

supply during the dry season. With the increase in population, it appears likely that the provision of water in the future may require rationing.

- *Sewer Systems - Threat to Lagoons.* The present sewage treatment systems were designed to accommodate a population of less than one-half the present population of Saipan. The central sewage system in Garapan consists of converted underground Japanese water tanks. It discharges 100 yards off the end of the commercial dock into Saipan's lagoon. Despite many improvements over the past three years, including a locally-funded two million gallon treatment plant, the threat of contamination of the lagoon and a negative impact on nearby tourist areas remains. Untreated sewage is also a problem in the interior of the island. Excess sewage often backs up in heavy rains, sometimes into school and tourist areas. This situation has led to the closing of beaches and school grounds.

- *Solid Waste Disposal.* The existing dump site at Saipan's Puerto Rico area has become the most unsightly area on Saipan and a health hazard to everyone in the vicinity.

- *Power Generation and Distribution.* The CNMI has experienced pronounced growth in economic activity and population in the past decade. Population increased 160% between 1980 and 1990, from 16,780 to 43,555 persons. In its planning for the future, CUC is anticipating that the population will continue to grow. A study for CUC performed by Deloitte and Touche indicates that the utilities ex-

pansion plans for power generation and water and sewer service improvements would require a substantial investment of millions of dollars. It is the CNMI's intent to reduce alien populations and plan for the needs of indigenous people.

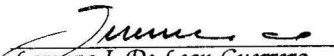
- *Roads.* A large portion of the roads on Saipan and Tinian were built or paved during the Second World War or shortly thereafter when the islands were under the Navy administration.

Comments on the Authorization Bill

- **No Amendment to Public Law 99-396.** Assuming the possibility of another multi-year funding cycle, we respectfully request the Congress that this Public Law should be left intact and not repealed.

Dated this 15 day of March, 1993

Respectfully submitted by


Lorenzo I. De Leon Guerrero
GOVERNOR

Commonwealth of the Northern Mariana Islands

APPENDIX I

A. 702 PROJECT FUNDING SCHEDULE FY 1993 - FY 2000

B. PROJECT DESCRIPTIONS AND JUSTIFICATIONS

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
CIP PROJECTS
MULTI-YEAR PHASING SCHEDULE
FISCAL YEAR 1993-2000

PARTICULARS	TOTAL	1993	1994	1995	1996	1997	1998	1999	2000
A.) WATER SYSTEMS:									
1. Surface Water Catchment	36,000,000	0	2,200,000	8,500,000	8,200,000	8,500,000	8,600,000	0	0
2. Sys. Rehab/Distribution	8,100,000	2,700,000	2,000,000	0	0	0	96,000	1,652,000	1,652,000
3. Rota Improvements	4,000,000	2,500,000	0	0	0	1,500,000	0	0	0
4. Tinian Improvements	3,600,000	1,800,000	0	0	0	0	1,800,000	0	0
TOTAL	51,700,000	7,000,000	4,200,000	8,500,000	8,200,000	10,000,000	10,496,000	1,652,000	1,652,000

B.) SEWER SYSTEMS

1. N. Saipan TP & Collection	15,000,000	900,000	3,700,000	3,700,000	4,700,000	0	0	2,000,000	0
2. Saipan Collection	8,100,000	5,706,000	0	0	0	2,194,000	0	0	0
3. Ocean Outfall (Garapan)	6,000,000	0	500,000	2,750,000	2,750,000	0	0	0	0
4. Rota Improvements	1,500,000	0	0	0	0	1,500,000	0	0	0
5. Tinian Improvements	1,200,000	0	0	0	0	1,200,000	0	0	0
TOTAL	31,800,000	6,606,000	4,200,000	6,450,000	7,450,000	5,094,000	0	2,000,000	0

C.) SEAPORT FACILITIES

1. Saipan	0	0	0	0	0	0	0	0	0
2. Rota	15,000,000	0	0	0	0	0	0	4,643,000	2,857,000
3. Tinian	10,000,000	0	0	0	0	0	7,500,000	3,000,000	7,000,000
TOTAL	25,000,000	0	0	0	0	0	7,500,000	7,643,000	9,857,000

D.) SOLID WASTE

1. Saipan Landfill	5,000,000	5,000,000	0	0	0	0	0	0	0
2. Rota Landfill	3,000,000	0	0	0	0	0	0	1,400,000	1,600,000
3. Tinian Landfill	3,000,000	0	0	0	0	0	0	1,400,000	1,600,000
TOTAL	11,000,000	5,000,000	0	0	0	0	0	2,800,000	3,200,000

E.) ROAD PROJECTS:

1. Cross Island Road	7,600,000	1,000,000	1,000,000	1,000,000	2,000,000	2,600,000	0	0	0
2. Beach Road Phase XV	1,500,000	0	700,000	800,000	0	0	0	0	0
3. Navy Hill Road	900,000	0	400,000	500,000	0	0	0	0	0

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS										
CIP PROJECTS										
MULTI-YEAR PHASING SCHEDULE										
FISCAL YEAR 1993-2000										
PARTICULARS	TOTAL	1993	1994	1995	1996	1997	1998	1999	2000	
4. As Tio Road	1,550,000	0	0	0	200,000	900,000	450,000	0	0	0
5. Lower Base Road Reconstr.	1,000,000	0	0	0	500,000	500,000	0	0	0	0
6. South San Vicente Road	1,700,000	0	0	125,000	0	525,000	525,000	525,000	0	0
7. Rota Singang Village	4,000,000	0	0	0	670,000	3,330,000	0	0	0	0
8. Tinian Marpo Road	5,700,000	0	0	0	0	0	2,850,000	2,850,000	0	0
TOTAL	23,950,000	1,000,000	2,100,000	2,425,000	3,370,000	7,855,000	3,825,000	3,375,000	0	0
F) POWER SYSTEM										
1. Chalan Piao Transm/Dist	7,100,000	0	2,400,000	2,400,000	2,300,000	0	0	0	0	0
2. Step-up Subst. & Upgrade	9,240,000	0	0	0	2,310,000	4,561,000	2,369,000	0	0	0
3. Rota Power Generation	11,000,000	0	0	0	0	0	0	5,500,000	5,500,000	0
4. Tinian Power Generation	11,000,000	0	0	0	0	0	0	5,500,000	5,500,000	0
TOTAL	38,340,000	0	2,400,000	2,400,000	4,610,000	4,561,000	2,369,000	11,000,000	11,000,000	0
G) HEALTH SERVICES										
1. Saipan Public Health Care/	15,900,000	2,500,000	2,500,000	1,500,000	375,000	2,500,000	3,400,000	2,500,000	625,000	0
Collateral Equipment	3,000,000	0	500,000	500,000	500,000	0	500,000	500,000	500,000	0
2. Rota Health Center	3,000,000	0	500,000	500,000	500,000	0	500,000	500,000	500,000	0
3. Tinian Health Center	3,000,000	0	500,000	500,000	500,000	0	500,000	500,000	500,000	0
TOTAL	21,900,000	2,500,000	3,500,000	2,500,000	1,375,000	2,500,000	4,400,000	3,500,000	1,625,000	0
H) EDUCATION										
1. Saipan/Rota/Tinian Sch.	32,306,000	3,250,000	4,300,000	4,975,000	4,745,000	4,110,000	5,830,000	2,230,000	2,866,000	0
Collateral Equip.	2,000,000	1,500,000	500,000	0	0	0	0	0	0	0
2. Admin. Bldg.	34,306,000	4,750,000	4,800,000	4,975,000	4,745,000	4,110,000	5,830,000	2,230,000	2,866,000	0
TOTAL	11,700,000	3,700,000	3,900,000	4,100,000	4,100,000	0	0	0	0	0
I) PUBLIC SAFETY										
1. Corrections Facility	11,700,000	3,700,000	3,900,000	4,100,000	0	0	0	0	0	0
TOTAL	11,700,000	3,700,000	3,900,000	4,100,000	0	0	0	0	0	0

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS										
CIP PROJECTS										
MULTI-YEAR PHASING SCHEDULE										
FISCAL YEAR 1993-2000										
PARTICULARS	TOTAL	1993	1994	1995	1996	1997	1998	1999	2000	
J.) NORTHERN MAR. COLLEGE										
1. General Purpose Classrooms	6,734,000	1,134,000	800,000	800,000	800,000	800,000	800,000	800,000	800,000	800,000
2. Library	1,160,000	0	0	0	0	580,000	580,000	0	0	0
TOTAL	7,894,000	1,134,000	800,000	800,000	800,000	1,380,000	1,380,000	800,000	800,000	
K.) JUDICIARY	13,000,000	0	4,900,000	2,650,000	5,450,000	0	0	0	0	0
L.) NATURAL RESOURCES										
1. Saipan Parks	700,000	500,000	100,000	100,000	0	0	0	0	0	0
2. Rota Parks	200,000	100,000	50,000	50,000	0	0	0	0	0	0
3. Tinian Parks	200,000	100,000	50,000	50,000	0	0	0	0	0	0
4. Building Improvements	700,000	0.00	0.00	0.00	0	500,000	200,000	0	0	0
TOTAL	1,800,000	700,000	200,000	200,000	0	500,000	200,000	0	0	0
M. BUILDING IMPROVEMENTS										
1. Attorney General	150,000	150,000	0	0	0	0	0	0	0	0
2. Commerce & Labor (new bldg.)	1,000,000	1,000,000	0	0	0	0	0	0	0	0
3. CCA - Office of Aging	250,000	250,000	0	0	0	0	0	0	0	0
5. Public Works	75,000	75,000	0	0	0	0	0	0	0	0
6. Rota Mayor's Office	700,000	700,000	0	0	0	0	0	0	0	0
30,000	30,000	30,000	0	0	0	0	0	0	0	0
7. Tinian Mayor's Office	55,000	55,000	0	0	0	0	0	0	0	0
TOTAL	2,260,000	2,260,000	0	0	0	0	0	0	0	0
GRAND TOTAL	274,650,000	34,650,000	31,000,000	35,000,000	36,000,000	36,000,000	36,000,000	35,000,000	31,000,000	
PERIOD TOTAL FEDERAL CNMI										
FY 1993	34,650,000	27,720,000	6,930,000							
FY 1994-2000	240,000,000	120,000,000	120,000,000							

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A. WATER SYSTEMS

A1. SURFACE WATER CATCHMENT

For many years the shortage of fresh water on the Island of Saipan has plagued technicians, professional people and management of the CNMI Government. This shortage of fresh water has resulted in less-than-adequate water delivery service to the residents of Saipan. The rapid growth of the economy, especially in tourism, has further aggravated the problem. Hotels and businesses can no longer tap into the public water system upon request. Those that are fortunate enough to be connected to the public water system cannot depend on the quality of this source and must process the water to make it potable.

The policy of drilling more wells from which to pump fresh water from the ground has historically proven to provide only temporary and limited relief. Due to the high demand for water, overpumping of the wells has resulted in producing saline water containing a higher chlorine limit than allowed by the U.S. Public Health Department. Thus the water is often not suitable for drinking. In addition, the high chloride concentration accelerates corrosion of the pumping equipment and pipelines resulting in leakage and a reduction in the life and efficiency of pumps. Water loss from leaks creates more demand for water which further increases pumping rates. The total result is a spiralling cycle of increasing demand from wells that cannot be recharged with fresh water fast enough to meet pumping requirements. Under these conditions, the fragile fresh water lens on Saipan will continue to deteriorate.

Currently, wells on Saipan produce slightly less than 6 million gallons per day (MGD) with additional amounts produced at Donni Springs, Achugao Springs and the airport catchment for a total daily production of 8.4 MGD. With a total Saipan population of 38,896 and an average daily per capita consumption of 140 gallons, the total estimated daily consumption is approximately 5.4 million gallons. However, approximately 16% of the water produced is lost through system leaks reducing the amount of available water to about 7.1 MGD. In addition, it is well known that the island's ground water aquifer is overpumped at certain times of the year which produces brackish water. If projections for Saipan's average daily population are correct for the year 2000, the island will require 9.7 million gallons per day (high projection).

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In order to relieve the demand for groundwater and to allow the fresh water lens to recharge, it has become necessary to explore other sources of water. One source available on Saipan that has not been utilized on a large scale is surface water catchment.

The U.S. Geological Survey has been monitoring stream flow in the Talofofo Basin for some time. A feasibility study for development of this water source was completed in October of 1990. The study was a joint venture between the CNMI Government and the Federal Government through the agencies of the U.S. Department of the Interior (Bureau of Reclamation and Geological Survey) and the U.S. Department of Agriculture (Soil Conservation Service). Six (6) alternatives were examined in the study and one (1) was recommended based on the quantity of water produced, economics and the least environmental disturbance the project would effect. The study recommended "Alternative A" at a total cost of \$31.0 Million in 1990 dollars. Allowing for just 5% inflation per year would bring this project to about \$36,000,000 in 1993 dollars.

A2., A3., A4. WATER DISTRIBUTION SYSTEM IMPROVEMENTS

The water distribution systems on Saipan, Tinian and Rota are all in need of upgrade and expansion. The system on much of the island of Saipan consists of asbestos cement and galvanized iron pipe of diameters too small to meet new distribution needs. Some of the waterlines still in use were installed shortly after the conclusion of World War II. A significant portion of the water produced is lost through these lines by leakage, and there is a possibility of sloughing of material from the interior of asbestos cement pipes. The distribution networks of concern on Saipan supply the communities of Garapan, San Antonio, San Vicente, Northern Capitol Hill, Tanapag, Agag to As Teo, Papago, As Perdido, Kagman, As Matuis and the region between San Jose and South Garapan. In addition, new residential areas have been developed under the homestead program administered by the Marianas Public Land Corporation which require extension of the present water system to serve the new residents.

Increased development in the areas already served as well as in the new homestead subdivisions has led to an increase in demand for water. Many residents with water connections are still not receiving water twenty-four hours per day.

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Existing waterline distribution systems will be upgraded and new systems will be installed utilizing polyvinylchloride (PVC) pipe which is six inches in diameter or greater. The program will include installation of service laterals, fire hydrants, air release valves and booster pump stations. All new and existing customers will receive water meters. In addition, new reservoirs will be sited and built to accommodate the need for increased water storage. Most of these same problems and proposed solutions apply to the villages of Songsong and Sinapalo on the Island of Rota and the villages of San Jose and Marpo on the Island of Tinian. Total cost of the selected projects has been estimated by the Commonwealth Utilities Corporation to be \$15,700,000.

B. SEWER SYSTEMS

B1. NORTHERN SAIPAN SEWER SYSTEM

The present sewage collection and treatment system on the Island of Saipan remains inadequate and presents a potential health and marine environment problem to residents and tourists alike. Saipan has recently undergone a phenomenal growth rate due mostly to the increase in tourism during the last five years. Most of the development has taken place on the western side of Saipan where a large, shallow lagoon and sandy beaches line the shores. To properly collect, treat and dispose of all the sewage generated by the homes and businesses in this area, three separate systems will ultimately be required; a Southern system, a Central system and a Northern system. To date, there exists a Southern and a Central system and both these systems have recently undergone expansion. Sewage generated in the northern area of Saipan, including the villages of Tanapag and San Roque, is conveyed to the Central system in Garapan for treatment and disposal. A recently completed expansion of this plant to 2 million gallons per day (MGD) is already very close to capacity. Further expansion is under consideration.

The CNMI Government will be spending many millions of dollars on sewage collection, treatment and disposal systems during the next 5-10 years. We are at a very critical juncture in how the current sewerage system along the entire western length of Saipan should be expanded. If our thinking is too small in this regard, millions of dollars will be spent and the desired result will not be achieved. To protect the health, safety and welfare of our residents and

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tourists and to ensure that the main component of our economic expansion (tourism) is not destroyed, it is imperative that we protect Saipan Lagoon from sewage discharge. This goal can be accomplished in two stages.

The first stage is to build a new Northern Saipan Sewer System. Both Government and private consulting engineers have already studied this proposal and a particular system for treatment and disposal has been consistently recommended. The treatment is known in the industry as an oxidation pond system and is a proven technology. When properly operated the discharge from such a system approaches that of conventional secondary treatment plants and the effluent can be safely percolated into the ground or used for irrigation purposes for such enterprises as nurseries or golf courses. The second stage would be the extension of the existing sewage outfall in Garapan to a point outside the reef of Saipan Lagoon as discussed in Project B3.

A Northern Saipan Sewer System of this type would relieve the Central plant by rerouting the sewage flow from the villages of Tanapag and San Roque as well as from the commercial business in the area to the new plant. In addition, a giant step forward will have been taken in reducing the amount of sewage currently being discharged into Saipan Lagoon from the Central plant in Garapan. A preliminary engineering report has been prepared for this recommended system which would collect, treat and dispose of 3 MGD for a total estimated cost of approximately \$15,000,000.

B2. SAIPAN COLLECTION SYSTEM

Saipan's system of collection and interceptor sewers, lift stations and treatment facilities are located only on the western side of the island and consist of 25 miles of collection and 12 miles of interceptor sewers together with 25 lift stations, 2 wastewater treatment plants and 2 ocean outfalls. The system was designed to accommodate a population less than one-half that which currently exists. The collection system is not contiguous in that it consists of two unconnected elements, one in the south from San Jose to Koblerville and the other from Garapan, Capitol Hill and the Lower Base area to Tanapag. There is no collection system to accommodate the Beach Road and Middle Road area between Garapan south to Oleai.

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In order to connect residences and businesses in the above described area on the western side of Saipan to a public sewer system, it will be necessary to expand and integrate the Central system and the Southern system. Presently, all of this unsewered area is served by individual wastewater systems (septic tanks). In addition, much of the existing system needs to be upgraded (increased in size) to accommodate larger flows. The Commonwealth Utilities Corporation has plans for various projects which hopefully would correct most of the system problems described. Funding limitations permit only seven (7) of the most critical projects which are listed at a total estimated cost of \$8,100,000.

B3. GARAPAN OCEAN OUTFALL EXTENSION

An additional problem associated with the Central sewerage system in Garapan concerns Saipan Lagoon itself. The Central system was built during the early Trust Territory Administration and discharges just 100 yards off the end of Charlie Dock into the harbor area of Saipan Lagoon. At the time of construction, the system was relatively small and the sewage discharge was low. A recent engineering study reveals that presently as much as 5 million gallons per day (MGD) may be discharged from the central plant.

The major attractions of Saipan as a tourist destination are the tropical climate and the crystal clear waters of Saipan Lagoon. The continued discharge of treated and untreated sewage into this lagoon in the present and projected quantities has become unacceptable. One of the goals of the CNMI's wastewater facilities improvement program is the ultimate removal of all sewage discharge from Saipan Lagoon.

The Commonwealth Utilities Corporation (CUC) has estimated the cost of extending the present ocean outfall to a point outside the reef for discharge into deep waters at about \$6,000,000. If this project were combined with the new harbor improvement project which is scheduled to begin in April, 1993, a significant savings in cost may be realized.

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B4. ROTA IMPROVEMENTS
B5. TINIAN IMPROVEMENTS

Both the islands of Rota and Tinian have very limited access to public sewer systems. The main village of Songsong on Rota is partially sewerred utilizing a new variable grade sewer (VGS) system. This system needs expansion to include the remaining residences and businesses which are not connected. The CUC has estimated that \$1,500,000 will be necessary to complete this system.

The Island of Tinian has no public sewer system and must rely on individual wastewater treatment systems (septic tanks) for all residences and businesses. The CUC has estimated that the main village of San Jose can be sewerred for approximately \$1,200,000.

C. SEAPORT FACILITIES

C1. SAIPAN SEAPORT

The primary commercial seaport in the CNMI is located at Charlie Dock on Saipan. The facility is outmoded and in a deteriorated condition. Limited shoreside facilities for dockage and storage create numerous ship delays and increased costs. The channel depths of 28 to 30 feet are insufficient and should be increased to safer depths of 38 to 40 feet. Plans were developed in the 1980s by the U.S. Army Corps of Engineers to reconstruct the facilities.

The seaport is operated by the Commonwealth Ports Authority (CPA). In March, 1992, the CPA announced plans to rehabilitate Charlie Dock. The CPA has been authorized to use \$10 million appropriated by the U.S. Congress for improvements to the harbor. In addition, the CPA has received a commitment of \$13.5 million through the Commonwealth Development Authority bond issue.

In October, 1992, the CPA advertised for proposals for the construction of the Saipan seaport. At that time, sufficient funds for only Phase I of the project were available. In January, 1993, the CPA was successful in securing financing for the needed additional funds to go forward with both Phases I and II of the project. Shortly after financing approval, the CPA entered

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into a construction contract with the lowest responsible bidder and work is expected to begin in April, 1993, at a total cost of \$36.2 million. As a result, no further funding is anticipated for this project and therefore none is requested from Covenant Section 702 funds.

C2. ROTA SEAPORT

On the Island of Rota, the existing small harbor is not adequate to handle cargo vessels of the size needed to support economic growth. The cost of living and development are quite high due to transshipment costs caused by this small and unprotected harbor. All ocean cargo is brought to Rota on tugs or on barges towed by tugs. Vessels at the docks are exposed to direct wave action through the cut in the reef which is at 90 degrees to the dock. Because of this, waves come through the channel and hit the unprotected vessels at the dock broadside. Stevedoring operations are very difficult during bad weather conditions. Development on Rota will be greatly curtailed unless the harbor's condition is expanded and improved.

Plans to expand and improve the main harbor at West Dock include sealing off the present channel entrance with a breakwater and cutting a new channel on a diagonal north of the docking area so that waves will break on the reef rather than pass through directly to the dock. Rebuilding the dock area and dredging the existing harbor and adjacent reef areas to a depth of 30 feet will greatly improve the docking area and the turning basin. The estimated cost of these improvements is \$ 15,000,000.

C3. TINIAN SEAPORT

The Tinian Harbor was built in the 1940s and no major maintenance has been performed to it since that time. A breakwater, built of steel sheet piles holding compacted coral, protects the harbor from normal and storm waves. It has been weakened by age and many typhoons. In addition, the breakwater has been further weakened by rust and is at risk of collapsing into the turning basin. Such a collapse would render the harbor unusable. Over the more than 45 years since the harbor was built, sand has been deposited naturally along the inside of the breakwater. The sand has narrowed the turning basin and must now be removed by dredging. Since this is a military retention area, a joint use agreement should be explored with the Department of Defense as well as the possibility of partial DoD funding for the needed repairs.

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Preliminary estimates indicate that to dredge the harbor to a depth of 40 feet, to rebuild the breakwater, and to rehabilitate the 1,500 foot long main dock would cost approximately \$10,000,000.

D. SOLID WASTE

D1. SAIPAN SANITARY LANDFILL

There is only one designated solid waste disposal area on Saipan at a location known as Puerto Rico on the northwestern lagoon. There is no municipal residential collection service offered by the government, but several contract collection services exist. Private contractors collect commercial and industrial waste and dump without charge at the existing site.

The existing dump site at Puerto Rico has become the most unsightly area on Saipan and presents a health hazard to anyone in the vicinity. It must be closed and a new site must be developed as soon as possible. For almost two years, a private developer has been proposing to fund the construction and maintenance of a new sanitary landfill in the Marpi area as a condition of approval of a public land lease for construction of a tourist resort facility in that area. The lease has been approved by the CNMI Legislature.

The estimated cost for closure of the existing dump site at Puerto Rico and the initial opening of the sanitary landfill at Marpi is approximately \$5,000,000.

D2. ROTA SANITARY LANDFILL

D3. TINIAN SANITARY LANDFILL

Both the islands of Rota and Tinian use conventional dump sites for the disposal of solid waste material. For the health, safety and welfare of residents and tourists alike, new sanitary landfills should be developed for the long term to adequately protect the natural resources such as ground water from possible contamination. Both islands are poised for some resort development in the near future and lack of proper solid waste disposal facilities would only add to the current threat posed by the conventional dump sites

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used by local residents and business owners. The estimated cost to design and construct a sanitary landfill and to establish proper maintenance facilities for each of the islands of Rota and Tinian is approximately \$3,000,000.

E. ROAD PROJECTS

Many of the roadways on Saipan and Tinian were paved during the Second World War or shortly afterward when the islands were under U.S. Navy Administration. The principal road on Rota, which traverses most of the length of the island from the airport to the village of Songsong, is about eleven (11) miles in length and was only recently paved. The World War II roads are still in reasonably good condition on Tinian but are showing signs of rapid deterioration on Saipan where the traffic levels and axle loadings are much higher. In recent years, Beach Road, the main road on Saipan, was paved to a maximum width of 52 feet over several sections. It has been extended to a total length of about 9 miles. The airport access road has also been paved by overlaying the older pavement built by the Navy during the 1950s. On Tinian, almost all of the paved roads were built by the U.S. Navy.

There are about 255 miles of roadways throughout the CNMI. During the last several years, the CNMI Department of Public Works has undertaken an aggressive campaign to reconstruct and pave about 33 miles of major roadway and about 36 miles of local roadway. Additional construction is scheduled throughout the islands. The major thoroughfares of Saipan, particularly the primary highways of Beach Road from Garapan south to Chalan Kanoa, and Middle Road are becoming increasingly congested. Average daily traffic on Beach Road in the vicinity of Susupe exceeds 27,000 vehicle trips. Congestion on this road will be addressed by widening the roadway and installing the CNMI's first traffic lights.

E1. SAIPAN ROADS

The Cross Island Road on the Island of Saipan is the major thoroughfare that traverses the eastern side of the island. It is 8.3 miles in length from its intersection with the Airport Road to its intersection with the West Coast Highway. The old asphalt concrete pavement has two ten-foot wide travel lanes with gravel shoulders. Like most of the primary roads on Saipan, this road was built and paved by the U.S. Navy after World War II and little to

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nothing has been done to it since except for emergency work and minor patching. The eastern side of the island has been growing quickly during the last few years as a result of homestead subdivision and private subdivision development. The Cross Island Road has not kept pace with the need to provide a well designed and constructed primary road to serve the residents who live on this side of the island. In particular, this roadway needs realignment, widening, construction of drainage facilities and major reconstruction of the road bed.

While some improvements have been made to Saipan's primary and secondary road system, much remains to be done before the road system can be considered safe and adequate. The Cross Island Road is one of the primary roads which has become a hazard because of its inability to handle the present traffic loads. Major improvements to this roadway would not only relieve traffic congestion in the area, but it would also provide an alternate route to the north end of the island thereby relieving some of the traffic congestion on the western side of the island. At an estimated cost of just under \$ 1 million per mile, the total cost to improve the Cross Island Road would be about \$7,600,000.

The Department of Public works has identified some 19 primary and secondary road projects which are in need of reconstruction and/or paving on the Island of Saipan. From this list, only six (6) of the most critical are included for Covenant funding. The requested road projects for Saipan, including the Cross Island Road, are estimated to total \$14,250,000.

E2. ROTA ROADS

Unlike Saipan and Tinian which obtained a network of paved roads during the U.S. military occupation of the islands, the roads on Rota were not paved by the U.S. Navy because Rota was not an active military base. There is only one paved road on Rota running 11 miles from the Rota International Airport in the center of the island to Songsong Village. It was paved in 1986 using covenant and local funds. Sinapalo Village adjoins the airport at the terminus of the paved portion of the road. All other roads are coral roads, most built during the Japanese administration.

The main village of Songsong and the village of Sinapalo are both in need of road construction. Covenant funds are requested only for the village of Songsong at an estimated cost of \$4,000,000.

E.3 TINIAN ROADS

Several road projects on the Island of Tinian are required to meet existing needs. Although the development of casino resorts is scheduled to begin within the next few years, casino sites have not yet been determined. Thus, the existing road needs on Tinian do not include building new roads to casino resort sites. All existing residential roads and some primary roads are constructed of compacted coral. They are muddy in the rainy season and dusty in the dry season. The dust is a potential health hazard. Pot holes easily develop on the roadways and vehicles are often damaged as a result.

Of the many needs for road improvements on the Island of Tinian, the construction and pavement of Marpo Road has been identified as one of primary importance to island residents. This roadway would connect the existing paved road near the village of San Jose with a new residential area known as Marpo. The project has been estimated by the Department of Public Works to cost approximately \$5,700,000.

F. POWER SYSTEMS

The CNMI electrical power generation and distribution system is operated and maintained by the Commonwealth Utilities Corporation. At the end of calendar year 1992, the installed power generating capacity on Saipan was 105 megawatts (MW). Rota has a capacity of 5 MW and Tinian has 4 MW, making the system total 114 MW. Peak loads for Saipan, Rota and Tinian are 43.2, 2.7 and 2.0 MW, respectively. Saipan has a distribution network of 135 miles of 13.8 kilovolt (KV) system. Tinian has 35 miles of 4.16 KV system. Rota has 25 miles of system including both 13.8 KV and 4.16 KV power. Saipan has seven feeder lines emerging from the plant at Lower Base.

The CNMI has experienced pronounced growth in economic activity and population in the past decade. Population increased 160% between 1980 and 1990, from 16,780 to 43,555 persons. In planning for the future, it is anticipated that the population will continue to grow at about 7% annually to the year 2000, giving the CNMI a population of approximately 69,940. The CUC also assumes a concomitant increase in tourism and commercial activities. Planning scenarios of a less ambitious nature have also been prepared.

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F1.& F2. SAIPAN POWER SYSTEM

At present the Island of Saipan has no power transmission capabilities. The entire electrical consumption load with a peak of over 42 megawatts (MW) is distributed to customers utilizing 13.8 KV distribution lines separated into seven feeders. Due to the length of these lines and the low distribution voltage the utility is not capable of providing adequate service to its present customers and future customers could not be served. Low delivery voltages and high electrical line losses are experienced throughout the distribution system. Studies indicate that by the end of 1993 electrical requirements will reach 72 MW and by the year 2000 the requirements could reach over 136 MW. The capability of the existing distribution system is less than adequate to service these loads.

A 115 KV transmission line system needs to be constructed to adequately provide continued electrical service to all major areas of the island while incorporating projected growth. One such line is needed from the Lower Base power plant along Middle Road to a substation in Chalan Piao. A distribution substation will be constructed in the Garapan area. This substation will transform the 115 KV voltage to 13.8 KV for distribution. Capabilities for 8 feeders at the substation will be provided. The installation of protective devices and regulating devices will be required to complete this system improvement.

The CUC estimates the cost of this new transmission line at \$7,100,000. The various substations required to be an integral part of this new transmission line together with the necessary distribution system upgrades to service existing unconnected loads is estimated at \$9,240,000.

F3. ROTA POWER SYSTEM

A new power plant was built in the harbor area in 1987. It consists of two 2.5 megawatt diesel powered generators. The 5.0 megawatt plant is adequate for present demand, but there is no reserve capacity. This is because one diesel engine failed in 1988 and was shipped to Japan for repair. Current peak power demand on Rota is 2.7 megawatts so the loss of this engine created a crisis. A private firm was contracted to provide backup power in the event the primary engine should fail. The repaired generator was held in Japan because funds were not available for its repair and shipment back to Rota. Even with this generator, Rota needs backup capacity

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in case of emergency, and it will not have the capacity to meet the needs of projected growth.

The Commonwealth Utilities Corporation (CUC) is planning to add two 2.5 megawatt engines to meet the expected increase in demand. These two generators and associated switching gear are estimated to cost \$11,000,000.

F4. TINIAN POWER

The Tinian power plant is located on the outskirts of San Jose Village. There are three 1.5 megawatt diesel generators installed. Two are operated and one is maintained as standby. The building and site are too small for expansion. The power plant must be relocated both because the site is too small and because certain wind directions cause the power plant exhaust to blow into the village area and is a health hazard. Although casino-resort development is expected to begin sometime within the next two years and will require additional power, domestic power demand will also increase as new residential and agricultural homesteads are settled.

The Island of Tinian will require a larger power plant and greater generating capacity in the very near future to accommodate its proposed developments. Domestic power demand is expected to increase by 5.0 megawatts by 1994. The cost of new generators to supply this additional power is estimated at \$11,000,000.

G. HEALTH SERVICES

G1. SAIPAN PUBLIC HEALTH CENTER

The Commonwealth Health Center is located on Saipan and is the principal medical facility in the CNMI. The hospital facilities are housed in four buildings of three floors, interconnected to each other to form a square box type structure. The buildings are constructed of reinforced concrete. There are two separate service buildings. One building houses the boilers, water heaters, medical gas plant and maintenance services.

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The hospital is a 72-bed, full medical service facility, completed and opened to the public in 1986. The support facilities of the hospital include a 100,000 gallon water storage and treatment system, a reverse osmosis system of 120 gallons per hour capacity, an air conditioning system by circulated chilled water of 200 ton capacity, steam and hot water systems powered by fuel oil, and two oxygen manufacturing plants for the production of medical gas.

Presently on Saipan the hospital and public health care facilities are located in the same structure which is known as the Commonwealth Health Center (CHC). The CHC was originally built for a projected population of 25,000. When it officially opened in late 1986, the population of the CNMI was estimated at 39,500. The official 1990 U.S./CNMI census population count was 43,555. The CHC plant was designed to serve 25,000 people; it is now serving over 45,000. The total estimated demand for visits and utilization of CHC clinics (public health, outpatient, dental, and emergency room - after 4:30 pm to 7:30 am on weekdays and weekends) is projected at 168,500 for 1993. This figure is based on the official 1990 census projection for 1993 showing indigenous populations as well as other Micronesians, Filipinos, Koreans, Japanese, U.S. Statesiders and other ethnic groups in the CNMI who use the CHC for health care services.

The existing CHC facility that houses Public Health grows smaller with implementation of existing and new programs. Both patients and staff frequently complain that Public Health is no longer "user friendly". In view of this, and the fact that the CNMI population will continue to grow within the next five to ten years, it has become necessary to construct a new facility to house the Division of Public Health, as well as Dental services, Vocational Rehabilitation, the Division of Environmental Quality, and the Mental Health Unit. A preliminary plan and layout of these required facilities has been prepared by CHC and the total cost including collateral equipment has been estimated at \$15,900,000.

G2. ROTA HEALTH CENTER

The Rota Health Center was built as a primary health care facility. The building is approximately 9,100 square feet, is constructed entirely of reinforced concrete and is air conditioned. A separate building houses the emergency power generator and hot water heaters. Due to current and projected growth on the island, health officials estimate the facility needs to expand to approximately twice its present size. Construction of this expanded facility together with the necessary collateral equipment is expected to cost approximately \$3,000,000.

G3. TINIAN HEALTH CENTER

The Tinian Health Center is similar to the Rota Health Center in design, size and type of construction. The Tinian Health Center building varies somewhat in floor layout from that of the Rota Center, being slightly smaller in size at 9,000 square feet of floor area. A doubling in the size of this facility is also recommended by health officials to keep pace with the current and projected growth of the island's population. Construction of this expanded facility together with the necessary collateral equipment is expected to cost approximately \$3,000,000.

H. EDUCATION

H1. SAIPAN/ROTA/TINIAN CLASSROOMS AND RELATED FACILITIES

The school system in the CNMI is made up of a total of 25 schools. Of this number, 13 are public and 12 are private schools. The public schools are located on four of the islands.

Just recently, the CNMI Public School System (PSS) completed a school facilities plan which succinctly details the additional classrooms and related facilities that the PSS will require to house the rapidly growing student population during the next seven years. The School Facilities Plan was compiled by Dr. Betty Hanson, a preeminent scholar in the field of school facilities planning, who works for the State of California and who has served as a consultant to the PSS.

The study exhausted the educationally feasible options and some marginally feasible options that can be tolerated to maximize use of existing classrooms. Some of the options exhausted are double session, larger class sizes, busing, and redrawing attendance boundaries. Two of the schools are already on double session. Consequently, children at these two schools are receiving less instruction than at the other elementary schools. The high school capacity was reached one year ago. It already houses 160 students beyond its capacity. If the pattern of 300 new students enroll in September of 1993, serious complications will result with the overcrowding of students.

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The School Facilities Plan, briefly highlighted, used 1990 Census data as well as recent PSS enrollment data in conjunction with a weighted cohort system to project student growth yearly until the year 2000. This study shows that CNMI public schools will experience 9% annual growth, on average, and that 5,000 additional students will enroll in the public schools in the next seven school years. This will require the construction of 180 new classrooms and related facilities to accommodate the increasing student population at an estimated cost of \$46.7 million or \$6.7 million annually until the year 2000. Covenant funds are requested to provide \$32,306,000 of the needed capital for additional classrooms.

H2. PSS ADMINISTRATION BUILDING

A new Administration Building is urgently needed by the Public School System (PSS). The existing warehouse structure presently used for this purpose at Lower Base is a remnant from the former Trust Territory Administration of the islands and the internal wood framing is almost completely rotten. In addition, the electrical and plumbing systems are substandard and in some cases hazardous requiring frequent repair. A preliminary architectural/ engineering report has been prepared for this proposed new building with an estimated cost of \$2,000,000.

I. PUBLIC SAFETY

II. CORRECTIONS FACILITY

The CNMI faces an immediate, critical threat to the safety of its citizens and the welfare of the community resulting from inadequate prison facilities, the inability to provide law enforcement services from marginally acceptable buildings and facilities, and from a lack of proper communication, evidence, interview / interrogation and laboratory accommodations. The present Commonwealth prison was constructed in the Susupe Civic Center in 1981 to hold 32 inmates. All of the beds are in two-man maximum security cells. Currently the prison's population is averaging between 48 and 58 inmates, which is in the range of 150% to 181% of rated capacity. In addition, there are no single isolation cells to house certain individuals that may require such separation from others. Inmate overcrowding and population projections underline the critical emergency directly contributing to tensions and threats to public safety and welfare.

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Since the signing of the Covenant in 1975, police and corrections facilities have been required to meet Federal standards and constitutional guarantees. Reports and survey results from the National Institute of Corrections (NIC) and U.S. Bureau of Justice Assistance (BJA) teams indicate that the Commonwealth is not meeting Federal standards in the specific areas of detention, corrections and prison facilities. Compliance with such standards, however, has been virtually impossible during past years due to severe limitations on funding.

The CNMI Department of Public Safety has retained an established consulting firm to prepare the architectural / engineering design for a new corrections facility with an estimated construction cost of \$11,700,000.

J. NORTHERN MARIANAS COLLEGE

- J1. GENERAL PURPOSE CLASSROOMS
- J2. LIBRARY

Although the Northern Marianas College (NMC) was fortunate to receive the former Dr. Torres Hospital complex buildings as a base from which to grow, many of the buildings have been neglected, or have survived numerous low budget renovations. Many of the original buildings are in very poor condition and present fire and life safety hazards.

During 1992, NMC officials retained a well known local architectural firm to study the existing campus facilities and to prepare a master plan which would describe needed improvements and budget available resources to accomplish the goal in the period of 1993 through 2001. The goal is to provide a college campus on Saipan to adequately serve an estimated 1,500 full-time equivalent (FTE) student population which would foster the Commonwealth's educational, social, political and cultural growth and development.

The study and master plan were completed in January, 1993, and gave emphasis to the academic concerns of the college utilizing enrollment reports from the Fall Semester of 1991 as the base period from which projections were made through the year 2001. Past and current enrollment histories and trends were studied and put into graphic form for examination by the College President and the Ad Hoc Committee established for that purpose.

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At the same time academic projections were being generated, an in-depth evaluation was completed of the physical configuration and condition of each of the buildings currently on campus, in order to determine which buildings could be utilized for further academic use, which buildings require minimal or major renovation for long-term use, and which buildings are inappropriate or dilapidated and should be scheduled for future demolition. The results of this study indicated that both academic programs and campus facilities required coordinate attention.

The 9-year Master Plan for the Northern Marianas College details the needed capital improvements during the period and totals approximately \$23 million. However, the Plan also identifies sources of anticipated funding other than Covenant funds to complete the program. Therefore Covenant funds in the amount of \$6,734,000 are requested for the construction and renovation of general purpose classrooms and an additional \$1,160,000 is requested for construction of a new library.

K. JUDICIARY

Presently, the Superior Court is located in crowded, outdated and foreign-owned structures unsuitable for the size and functions of the trial court. The Supreme Court and its staff are located in the Nauru Building on Saipan, a commercial operation which is shared with many other business enterprises. It is both inadequate in size and inappropriate for the CNMI's Supreme Court activities to be located in such a facility. For the past several years, members of the Judiciary have been working on plans to construct a new CNMI Judicial Complex. An architectural/engineering design firm was selected from proposals requested last year and the construction plans and specifications are scheduled to be completed by July 30, 1993.

It was initially thought that because the Judiciary generates some revenue from the levying of fines and court costs that sufficient revenue might be available to repay a private construction loan. Recently, however, further inquiry and analysis of the revenue generation potential of such a complex has revealed that repayment capability may be somewhat lacking to satisfy an interested investor. Currently, different funding sources for construction are being investigated but the likely outcome is not encouraging at this point.

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The initial estimate for design and construction of the Judicial Complex was placed at approximately \$18 million. The consulting firm retained to perform the detailed design has since refined that estimate to \$13 million. To insure that this most important project has the necessary funds to go forward during this next financial assistance period, Covenant funds in the amount \$13,000,000 are requested.

L. NATURAL RESOURCES

- L1. SAIPAN PARKS
- L2. ROTA PARKS
- L3. TINIAN PARKS

Many parcels of public land have been set aside in the past and designated as public parks. However, to date very few of them have been developed with facilities to be used by either local residents or tourists. One developed park on Saipan called Susupe Beach Park was improved about two years ago by the CNMI Department of Natural Resources and is used to the maximum each week by residents and tourists alike. This fact serves to demonstrate that the need exists for improvement of other park properties for the relaxation and enjoyment of both resident and tourist populations. Residents of Rota and Tinian find themselves in much the same situation of having parcels dedicated to park development but without the necessary funds to improve them. During this next period of U.S. financial assistance, Covenant funds for public park improvements are requested for Saipan, Rota and Tinian in the amounts of \$700,000; \$200,000; and \$200,000, respectively.

L4. BUILDING IMPROVEMENTS

The CNMI Department of Natural Resources (DNR) requires an inspection station at the Saipan International Airport in order to process restrictive incoming and outgoing plant materials. The project will consist of 2,400 square feet of inspection facility, fumigation equipment, and a laboratory and safety ventilation system. The project will allow import and export of plant materials with minimum restriction. The estimated cost for this facility is \$500,000.

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The DNR Division of Fish and Wildlife's office building is located in Lower Base adjacent to the lagoon near the old seaplane ramps. In 1988 it became necessary for the Commonwealth Utilities Corporation to construct a standby generator in close proximity to the office. The exhaust stacks of these generators are less than 40 feet from the office and frequently the emissions from these stacks blow directly toward the office. The regularity of degraded air which enters the office seems to have caused some health problems for several staff persons. As most of the smoke appears to enter the office through the air-conditioning system, it seems unlikely that this can be controlled. It is imperative that a new office be constructed away from its present location. A new location has been designated in Lower Base and preliminary plans have been prepared. The estimated cost of construction is \$200,000.

M. BUILDING IMPROVEMENTS

Most buildings occupied by the CNMI Government date from the U.S. Naval Administration and the old Trust Territory of the Pacific Islands. The buildings are old, require frequent repair and maintenance, are a constant and costly drain on resources and working conditions are crowded. Seven of the most critically needed projects were selected for funding during FY 1993 only at a total estimated cost of \$2,260,000.

Mr. DE LUGO. Thank you very much, Governor.

Mr. Speaker, we are prepared to hear your presentation.

STATEMENT OF HON. THOMAS P. VILLAGOMEZ

Mr. VILLAGOMEZ. Thank you.

Mr. Chairman, distinguished members of the subcommittee, distinguished guests, ladies and gentlemen, may I first extend my personal gratitude to you and members of your distinguished subcommittee for the opportunity to appear to you today relative to the proposed multi-year 702 funding for the Commonwealth of the Northern Mariana Islands.

As in the past, Mr. Chairman, we again wish to express our profound sense of gratitude for your leadership and sympathetic consideration of the needs and aspirations of the people of the Commonwealth of the Northern Mariana Islands. Indeed, we recognize and are cognizant of the global and national economic downturn which make individual sacrifices on the part of every level of government across the Nation a matter of necessity.

But we are hopeful that with your leadership and continued support, the dire needs of the Commonwealth of the Northern Marianas are not totally denied. It is the moral obligation of both our national and local governments to ensure the funding and subsequent emplacement of basic infrastructure so vital to us in the establishment of a strong economic base.

The proposed capital improvement projects to be funded under the 702 funds submitted by our chief executive has the support of the House of Representatives, Eighth Northern Marianas Commonwealth Legislature.

For instance, we are in agreement that water continues to be our primary concern, especially in the most populated islands in the Northern Marianas. The magnitude of this concern now calls for our exploring other sources of potable water beyond conventional means in order to adequately provide service in this area. The economic boom of the 1980s took us by surprise and did not leave much room for planning. This economic phenomenon has resulted in the sudden expansion of both the commercial and residential sectors in the C.N.M.I. While such is the case, much work remains to be done in meeting this basic need for our people.

There are other equally important areas in basic infrastructure development that mandates immediate and long-term attention and planning. Their development is a matter of necessity in order for us to promote and protect the economic and social wellbeing of residents of the C.N.M.I. Thus, the proposed capital improvement projects, as presented by our Governor, are vitally important for the C.N.M.I., but which could only be met with the approval of 702 funds negotiated between the C.N.M.I. and the Federal Government.

I might reiterate the fact that for the first time, beginning with fiscal year 1990, the C.N.M.I. cut one of two umbilical cords in terms of grant funds for government operations from the Federal Government. As such, all of the funds being sought under the proposed 702 financial assistance will be dedicated strictly to basic infrastructure development in the C.N.M.I.

We are fully cognizant of the matching requirement and obligation of the C.N.M.I. to meet its share under the proposed 702 financial assistance program. May I say, Mr. Chairman, that we are fully committed to honoring our share of responsibility in this regard, but I wish to note that this commitment could only be realized with the blessing of your distinguished subcommittee.

If you recall, the C.N.M.I. has successfully employed bond financing during the second financial assistance program to fund Capital Improvement Projects between 1986 through 1992. This approach has permitted us to accelerate infrastructure development and maximize the timely use of Federal funds for this purpose. Our successful experience in this area has allowed for the timely consideration of infrastructure needs because funds were up-fronted rather than waiting on annual payments during the 7-year period to complete development. Thus, the construction of basic infrastructure was undertaken on a cost effective basis and permitted for better planning to permanently solve problems instead of temporary "band-aid" solutions.

Furthermore, Mr. Chairman, bond legal requirements and use of trustee bank imposed certain fiscal disciplines on the use of bond construction funds. Project were prioritized. Economic benefits accelerated as infrastructure improvements occurred faster than if projects waited for funding over a 7-year period. I might note that this approach to financing capital improvement projects has ensured the emplacement of basic infrastructure well before the end of the 7-year period.

For us, the "Capital Improvement Bonds" we issued in 1986 through the Commonwealth Development Authority provided economic benefits that we had never experienced before. We now wish to build upon this successful experiment by launching a well-conceived financing program during the early years of the third financial assistance program. We are committed and prepared to share the cost of improving our islands' infrastructure. In fact, we have already been budgeting several local sources of revenue to pledge toward bond repayment which would count toward our share of matching fund revenues in order to qualify for the Federal match. We request your distinguished subcommittee, Mr. Chairman, to allow us some flexibility in creative financing plans premised on the second 7-year bond financing in order that we meet our obligations.

I wish to note too, Mr. Chairman, that other revenue generation measures are under serious consideration which should enable the C.N.M.I. to meet financing of capital improvement projects during and beyond the third year of CIP financial assistance program.

In other words, we are equally wary that this could just as well be the last CIP financial assistance coming from the Federal Government, given the widely publicized commitment by President Clinton to reduce the national deficit substantially over the next 4 years. Thus, the need for us to engage in considering creative financing measures that could eventually provide the financial cushion when this eventuality becomes reality.

The C.N.M.I. House of Representatives has approved a developer's fee legislation, as recommended by our chief executive. However sound the intent of this measure may be, the recent economic

downturn requires that we carefully deliberate on the impact of this measure on prospective investments for the Northern Marianas. Thus, the need to review whether the percentage we propose to levy investors and developers would further discourage investments in the C.N.M.I.

We have also approved land leases for large resort developments in the Northern Marianas. Included in this package are developers' contributions, portions of which are earmarked to meet urgently needed capital improvement projects, especially on the Island of Saipan. It is a good approach to development in the sense that some of our basic needs missing in out-of-the-way areas are met by these developers who also see the benefits of partaking in the overall development of our island. In short, we become partners in making the Commonwealth of the Northern Marianas a better place to live.

In closing, Mr. Chairman, we request your distinguished subcommittee to be considerate and flexible in the manner our needs and concerns are viewed. In order for the Northern Marianas to have a definite handle in building a strong economic base this is the opportune time for both the Federal and local governments to jointly finance our most basic needs in terms of infrastructure development. In fact, we wish to recommend too that other territories explore the success of the C.N.M.I. in this area so they too can benefit from our successful experiment. This approach has worked and will eventually permit the C.N.M.I. the opportunity to dictate the quantity and quality of development in our islands.

With this, Mr. Chairman, I thank you for the opportunity to join with you here today, and I shall be most happy to answer any questions that you or members of your subcommittee may have. [Chamorro spoken.] Thank you very much.

Mr. DE LUGO. Thank you very much, Mr. Speaker, Representative Babauta, Governor Guerrero. I want to thank all of you for your presentations here before this committee.

In looking at the figures back in 1975, the per capita income in the Northern Marianas was \$2,418. In 1980, it had risen to \$7,199. I'm sorry. Let me do that again. The per capita income, which was \$2,418 in 1980, has risen to \$7,199 in 1990. But that figure, the \$7,199 per capita income in 1990, is deceptively low because it includes the income of half of the population of the Northern Marianas which are low-paid alien workers. So, it would appear that the per capita income in reality for the citizens of the Northern Marianas would be substantially higher than that.

Business income, which in 1987 was \$420.7 million, rose in 1991 by \$1.4 million.

Now, the standard of living in the Northern Marianas is dramatically higher than it was in 1975. However, the committee listened to the Governor's and your presentation here this morning, and we heard of a great number of needs that still have not been met. The concern of the committee is that the Northern Marianas do its share in meeting the needs of its people.

For instance, according to Commonwealth officials, the tax burden in the N.M.I. is a fraction of the 36 percent tax burden that is shared by taxpayers on the U.S. mainland. Congressional Research Service calculates that the tax burden in the Northern Mar-

iananians is one-third of that of the U.S. mainland and probably less than half of that of the people of Guam, which is right next door.

My question to you, Governor, would be: why shouldn't the N.M.I. taxpayers pay at least what U.S. taxpayers do to meet their needs if the Commonwealth is to get special assistance from U.S. taxpayers.

Governor GUERRERO. Mr. Chairman, I have with me, of course, the Director of Finance. Perhaps I would like to yield the questions and he can respond very eloquently to your questions regarding the tax matters that you are referring to.

Mr. DE LUGO. That would be Mr. Inos?

Governor GUERRERO. That's correct, sir.

Mr. DE LUGO. We welcome him at the table.

My question to the Governor, Mr. Inos, is that it appears that while there are needs which continue in the Northern Marianas, it would appear that there are resources in the Northern Marianas which are not being used to meet these needs. According to Commonwealth officials, the tax burden in the N.M.I. is a fraction of the 36 percent tax burden that is borne by the taxpayers on the U.S. mainland. The figures we got from the Congressional Research Service show that the N.M.I. is paying less than a third of what we pay here on the mainland in taxes.

Now, with the needs that the people of the Northern Marianas have, why shouldn't these resources that are right there, these tax resources, be used to help meet these needs? That would be our question.

Mr. INOS. Well, thank you, Mr. Chairman.

Yes, the Governor recognizes the significant disparity in the burden that taxpayers in the Northern Marianas carry versus the tax burden that taxpayers on the mainland carry. In recognition of that great disparity, the Governor has commissioned and fully supports the existing effort to reform the tax system in the Northern Marianas in the hope that that disparity could be narrowed down, the objective being that the C.N.M.I. residents will carry a greater burden of their tax.

Of course, there are other elements that play into the calculation of the effective tax rates and the tax burden, but in its simplest form, we are looking at a significant variation from an approximately 4.8 percent effective tax rate in the N.M.I. as compared to around 35 percent effective tax rate in the United States. There are other factors that still have to be cranked in like a sales tax, excise tax, Social Security contributions and so forth, but even if those additional taxes are added into the C.N.M.I. tax model, the difference in tax burden will still be significant.

So, yes, the Governor and the leadership recognize the significant variation in the tax burden which suggests that there is quite a bit of untaxed base out there that the tax reform effort is trying to capture so that we can diminish the gap.

Thank you, Mr. Chairman.

Mr. DE LUGO. Thank you, Mr. Inos.

I note that there are a great number of taxes that are common under the U.S. flag which as you noted, are not applied in the Northern Marianas, such as property taxes. In addition, the full

cost for infrastructure and other services, such as the power system that is heavily subsidized, are not recovered.

In the Governor's presentation, he spoke about the tax reform package, and said that the committee need not worry, because the tax reforms would generate this \$120 million in added revenues.

But, on the other hand, the committee has a resolution that was passed by the Eighth Legislature of the Northern Marianas, signed by a majority of the House and a third of the Senate, which opposes any tax reform. It says a third delegation resolution advising the executive branch will not support any proposal by the executive branch with respect to tax increases and reductions on the percentage of income and corporate withholding rebates.

Now, in light of this, why shouldn't the committee be concerned that we are not going to see tax reform in the Northern Marianas? Governor?

Governor GUERRERO. Mr. Chairman, I think that particular answer would be best responded to by the Speaker of the legislature since that particular opposition or objection on raising taxes is from the Third Senatorial District, and the Speaker is here. It would be nice to hear the reservations they have.

But as I stated, Mr. Chairman, it has left us no choice. The executive branch has to come in with a proposal for a tax reform and, in fact, the day of my departure, I did submit to the legislature leadership the package of such proposed tax reform. Hopefully upon return we can all get together and discuss that particular issue with the leadership.

So, may I yield the questions?

Mr. DE LUGO. Well, Governor, let the Chair just note that this is progress, and I commend you for having done this. But we have heard I believe from the administration downtown and others who said that the Government of the Northern Marianas has committed itself to take certain steps. Well, the executive branch is only one part of the government. The legislature too is part of that government, and the committee is not aware that the legislature has committed itself to anything. In fact, we have this resolution before us. The only thing the legislature is committing itself to is to oppose any additional tax reform.

Mr. Speaker, would you like to comment?

Mr. VILLAGOMEZ. Yes, thank you, Mr. Chairman.

For the record, that resolution comes from the Saipan delegation, not from the House of Representatives.

But in any case, the position that was taken by the delegation was on the proposed tax reform that was presented by the executive branch.

Mr. DE LUGO. Well, Mr. Speaker, yes, this resolution does come from the Saipan legislative delegation, but according to what I have here it is also supported by a majority of the members of the House of Representatives, including yourself.

Mr. VILLAGOMEZ. Yes. Like I pointed out, the opposition that was taken was more on the presentation of the so-called tax task force that was presented by the executive.

Mr. DE LUGO. How does the economy of the Northern Marianas compare with Guam? Of course, Guam is booming along, or at least

it was until just recently. Has your standard of living been raised? Is it fairly comparable today with that of Guam?

Mr. VILLAGOMEZ. Well, I should say it this way that it was better than it was in 1975, but I still believe that we still need a lot of infrastructure to help out the standard of living in the C.N.M.I.

Mr. DE LUGO. Well, I don't think we can really measure it by 1975 because everybody knows that in 1975, the economy was almost nonexistent. There has been a dramatic change in the Northern Marianas. This is common knowledge.

I think what we have to measure is whether or not the Northern Marianas have caught up with their brothers and sisters in the other territories and, in fact, surpassed some of them.

How do you think the resources and economy of the Northern Marianas would compare, for instance, with American Samoa?

Governor GUERRERO. Mr. Chairman, let me try to respond to that. Comparing the economy, of course, of the C.N.M.I. versus Guam, we must realize also that the N.M.I. has solely relied on its tourism and the garment industry of our economy versus Guam where they have tourism plus the military installations. They have a stable economy in Guam that is supporting the needs of Guam.

Now, in terms of the Island of Saipan or the Marianas versus Guam economy, it is almost the same, but as I stated, the committee has to take serious consideration as well because we are only relying on the so-called tourism industry. The tourism industry, for your information, is increasing, of course, and it is substantially supporting the economy of the N.M.I.

So, I hope that I responded in part, sir.

Mr. DE LUGO. Well, Governor, the people of the Northern Marianas know that this committee and this Chairman have been among the strongest supporters of the people of the Northern Marianas. We are your ally. We have helped at every turn.

But now we are in 1993, we have to look at what we are asking the U.S. taxpayer to do, because there is a tremendous budget deficit here on the mainland. Knowing this we have to ask ourselves, how far has the Northern Marianas come since 1975? A long way. Has the Northern Marianas done enough to help its own people? Are their resources being used to help the people of the Northern Marianas and the economy?

I asked about comparing where we are today in the Northern Marianas with, for instance, Guam or American Samoa. Currently the mean income in the N.M.I. is \$16,000, whereas in American Samoa it is only \$10,000. I do not think that American Samoa has the resources which the Northern Marianas does. Let's compare this with Guam. Guam's at \$18,000 is higher. That is very close, virtually the same.

Therefore, the Northern Marianas that we see today is a strong U.S. territory. It has moved up into a position which is comparable to the Virgin Islands and Guam. It is ahead of American Samoa and it is certainly ahead of Palau, which is not a U.S. territory, but in another category.

At this time, let me recognize the gentleman from Guam for any questions he might have. Mr. Underwood.

Mr. UNDERWOOD. Thank you, Mr. Chairman.

[Chamorro spoken.] I appreciate the opportunity to interact with you on these issues.

I am glad that the Chairman's questions about comparisons between Guam and the C.N.M.I. relate to issues of standard of living rather than quality of life because both you and I know what the answer to that question would be.

The issue, as I am trying to collect it and gather it, is we have some data here that the effective U.S. tax rate is 15.4 percent and the effective tax rate in the C.N.M.I. is 4.8 percent. Then we have an interesting comparison of data and information presented by Mr. Babauta regarding the amount of per capita revenue, the relationship between Federal funds and the dollar of State and local revenue raised. In that, the Northern Marianas comes out looking pretty favorably at 59 cents. Guam comes out a little bit more favorably at 41 cents.

But along that line, I am curious to try to understand that as long as we deal with these facts and figures, I think we can cut them in a way to make the issue look favorable at any given point to a given position.

What I am most interested in is that in the Governor's presentation, in the prepared remarks presentation, he indicates that there has been a continual decline in the Federal expenditures in the Northern Mariana Islands, about 3.4 percent per year since the last decade, and there is a lot of discussion about the amount of funding for this specific program. What I am most interested in is just to hear your ideas, and perhaps all three of you can respond to this in a very general way.

What would be the end point? What do you see as the appropriate relationship of Federal assistance and responsibility and aid in terms of local government activities and local government expenditures? It is clear that if it keeps going down at 3.4 percent per year, there is going to be an end point at which there is nothing. Is that the objective? Do you gentlemen and does the political leadership of the Northern Mariana Islands see an emerging consensus about what is that appropriate relationship between the Federal Government and the local government in terms of Federal assistance? Is it seen as welfare, a kind of a government welfare? Is it seen as an obligation of the Federal Government? Is it seen as part of an emerging partnership? What is that precise relationship?

Because I think unless we kind of understand that globally and philosophically where we articulate those positions, I think we are going to end up being a little confused sometimes as policymakers by the figures that are presented, and at times I feel that perhaps the person who is most clever at manipulating these figures wins rather than the person who articulates the clearest vision as to what that appropriate relationship is.

So, I would like to ask that in a very general way and please excuse me if the question is a little broad. But certainly that will increase my understanding not only of the situation in terms of the political leadership of the Northern Mariana Islands, but certainly in terms of general Federal and insular issues.

Governor GUERRERO. Thank you, Delegate Underwood, for your questions. Let me try to respond.

Of course, as we present before your committee this morning, our approach is to be less Federal dependency and be more local independent—I mean, dependency rather than Federal independency. I think the approach here that what we like to present before you is that we want to assure your committee that perhaps this may be the last Federal assistance that we are seeking from the U.S. Federal Government under the agreement of our covenant. Hopefully we have fulfilled that commitment based on what we presented before you, that by having this \$120 million that we are asking you for, it would certainly help us in building the foundations of our infrastructure requirement so we can better stabilize and develop our economy and the future needs of the C.N.M.I. So, again I must say in general terms this is the objective of our presentation this morning.

We do not want to continue to come back here before your committee or before the Federal Government to ask for more assistance to the C.N.M.I. We understand the obligations, as the leaders of our islands, that we must stand up and try to come up with our own resources, at least to meet our own obligations. We do hope that this, of course, would be maybe the last financial assistance that we ask from your committee.

There is no question that the conditions of the economy, no difference to Guam as well, is being hurt at this time. We are relying ourselves in terms of the tourism industry. So, this is something that we may have—it is a different economy in Guam than us in the Northern Marianas because, as I stated earlier, you have two different types supporting the economy of Guam versus the C.N.M.I. is nothing more than the industries that we have, tourism and the garment industry.

Mr. UNDERWOOD. The point that I am trying to reach here is to see if there some kind of—with respect to the particular legislation that is in front of us, I would gather than what you are stating is that this is a Federal obligation. Correct? That is my understanding of the statement.

But with respect to the broader issue of Federal assistance or Federal expenditures in the C.N.M.I., how is that conceptualized generally? If I followed your thinking all the way through, the objective is never to ask for money again. I would say that that is probably, judging from my point of view, not a realistic objective, one, and maybe not even a desirable objective.

But more or less, we have to find a framework through which to fit in the general issue of how Federal assistance and Federal expenditures are seen in the context of Federal and territorial relations. With respect to this particular issue, I think it is clear that there is a Federal obligation here.

Governor GUERRERO. That is correct, Delegate Underwood, that under the covenant agreement, of course, the so-called 702 provisions of the covenant, C.N.M.I. will continue to receive Federal assistance until such time that, of course, the Congress basically rescinds this public law. Like I said, we are here this morning, and we certainly hope to see that our dreams will come true that we will be self-sufficient in terms of our own local resources to meet our local government obligations in the future. So, that is the objective.

I am sure that the leadership of the C.N.M.I. must get together, and we have to make that decision. Thank you.

Mr. UNDERWOOD. Perhaps a response from the Resident Representative.

Mr. BABAUTA. Congressman, I like your question on the standard of life versus that of the quality of life. I have heard that you are a philosophical man who comes from Guam, and you are, indeed.

I think that although we view some sections of the covenant as an obligation, I do not see that as one that we have to hold each other against in any given situation. I think that this relationship has to be viewed as a partnership, and it has to be a continuing partnership beyond the particulars of the particular sections of the covenant. We speak of the issue of whether the first 7 years was the only commitment that the United States made to providing financial assistance to the Northern Marianas. Well, in the view of Congress and people in the Federal Government, they see that as their only obligation. But I think that the obligation must continue beyond that and that this relationship be a partnership rather than going back and forth trying to figure out whether one has the obligation to do a certain thing.

The question of whether we ought to strive for a certain level of standard of quality of life is one that is quite elusive. What standard? What kind of measure do we use to measure where we are in the C.N.M.I. with respect to the quality of life and the standard of living that we have acquired? I don't know. I don't know where to go in the United States to take a mean standard of life to measure that against what we now have acquired in the C.N.M.I. But we have gone a long way thanks to the support of the United States Congress, this committee over the years. Yes, the people of the Northern Marianas are a lot better off than they were 10, 15 years ago.

I also want to make the comment that when we look at the statistics, we have to be able to be all-inclusive. We cannot exclude people who are non-U.S. citizens I think in the same manner that Guam cannot exclude people who are not U.S. citizens that are from the FSM with respect to its population base and the quality of life and the people there in general, just as American Samoa cannot exclude the people there who come from Western Samoa, or the Mexicans in California, or the Caribbeans and Cubans who are in Florida. So, we have to be sure that when we talk about Federal funds, that the Federal funds are not distributed on the basis of nationality and citizenship.

So, I agree with you, Congressman, that we ought to look beyond just purely what is an obligation of one over the other, and that this relationship is a full partnership that will linger for as long as it exists.

Mr. UNDERWOOD. Well, the wording in the covenant is very interesting in terms of raising the standard of living, and I meant the comment about the quality of life and the standard of living as a little gesture of competition between Guam and the C.N.M.I. Obviously, people in the C.N.M.I. perceive the quality of life much better than it is on Guam. They can rest assured I suppose in that sense.

But clearly in this document, if we are looking for the standard, I noticed that a comparison was given out of the Governor's office of Walnut Creek, California. In looking at that prepared testimony, I was curious as to find out why Walnut Creek, California was selected as a basis for comparison on a number of criteria in terms of the C.N.M.I. Perhaps Mr. Inos or somebody from the Governor's office could respond to that.

I think the question, as well, in terms of raising the standard of living in terms of immigrant populations is a little bit perhaps different in the case of the N.M.I., although I respect the authority that the N.M.I. has over immigration. In other areas, in other jurisdictions, we don't share that same kind of control. So, obviously, the perception of the population base is a little bit different. Perhaps someone would like to respond to that.

Mr. INOS. Mr. Chairman, let me respond to the question as to the comparability, why Walnut Creek, California was chosen as the location to compare standard of living or quality of life.

Mr. UNDERWOOD. Don't we all know the answer to that?

Mr. INOS. I don't know. Let me just say that I think it was the choice of the economist, but I don't have the answer why Walnut Creek, California was chosen. Obviously, if we are to make some valid comparability, Guam would probably be good.

Mr. UNDERWOOD. Just a couple of quick questions. I read in the PDN that Tinian is now considering opening up some garment manufacturing plants. Is there some concern in the C.N.M.I. leadership about that? Excuse my own misunderstanding. I don't quite understand how the relationship of island to island and how autonomous they are. But I hope that there is some concern that perhaps some of the negative experiences which had been experienced earlier will be guarded against in case these facilities are built on Tinian.

Governor GUERRERO. The issue of the garment that you have just raised, Delegate Underwood, basically under the local statute that we have, it allows that particular senatorial district that they may have, should they decide, additional garment factories. That is the prerogative of that senatorial district. But we have set up a moratorium basically on garment, and that moratorium has included the one allowable to Tinian, as well as Rota.

Again, how serious is this garment issue? I think it is a question that we must address, the impact that there will be in Tinian. I share the concern of what you are saying that we do not want to repeat the same problem as what we had perhaps in Saipan. That is exactly my position. I am very much concerned over what will happen in Tinian if they continue their intent in building the additional garment factories.

So, like I said, under the existing moratorium statute or the consensus of the legislature and the C.N.M.I. Government, basically it allows both Tinian and Rota additional factories.

Mr. UNDERWOOD. Just a question on C.N.M.I.'s representation in the House of Representatives. I know that Resident Representative Babauta has indicated his preference for this idea, and I understand now that you are in favor of it, Governor. Perhaps the Speaker would like to address the issue, whether there is some kind of emerging consensus in the C.N.M.I. regarding delegate representa-

tion for the N.M.I. and if there is not, perhaps he could explain some of the stumbling blocks in that matter.

Mr. VILLAGOMEZ. Thank you, Congressman Underwood.

The issue of the delegate is being addressed with the House Committee on Federal and Foreign Relations. The committee is ready to present it out to the floor to be discussed and debated. I believe there is consensus that it will be supported. That would be the last obstacle.

Mr. UNDERWOOD. Very good.

Mr. DE LUGO. Any further questions?

Mr. UNDERWOOD. I will wait until OTIA comes up.

Mr. DE LUGO. You are going to wait for OTIA. Save your energies for them. You guys better watch out. [Laughter.]

I have a few more questions here.

The alien workers were a tiny portion of the—before I continue the discussion about quality of life and standard of living, I must acknowledge the philosophical nature of the question Representative Underwood has propounded here. Quality of life is vastly different than what we refer to as standard of living. In my own case, I could go back to when I was a boy and say that the quality of life in my home, the Virgin Islands, was far superior to what it is today. Yet, we were a very poor community, considering economic measurements.

As we overcame poverty—these serene, beautiful islands—and as we raised the standard of living. And, as we moved into better houses, got electricity and all those good things, we also got traffic jams and, of course, what has come along with a higher standard of living in many areas, crime. I guess that comes from travel. As our standard of living went up, it attracted all kinds of people.

So, I would say that I would opt for the quality of life that we used to have, with some of the of the benefits which accompanied an increased standard of living—like the opportunity for our children to go to the best universities in America or the world. There is universal education, and better health care than we had in the old days. So, there are tough tradeoffs in this world that we live in. However, I still enjoy going sailing and fishing. Those things do not cost a lot of money. But whenever one speaks about quality of life, a lot of us would like to make the problems go away.

The Chair was just rambling there. [Laughter.]

Let us get back to the purpose of this hearing, and let me propound this question. Alien workers were a tiny portion of the population when the covenant commitment of assistance was made. They are now just slightly less than half of the population. Their presence is essential to much of the economic activity that has occurred in the Commonwealth, but even local business leaders, such as Joeten, have questioned whether this activity and their presence has generated more benefits than the cost that it has imposed.

The Chair's question would be how much of the need for infrastructure that the Governor mentioned here today is related to this economic activity in the presence of so many alien workers. Governor, let me put that question to you.

Governor GUERRERO. If I read you correctly, Mr. Chairman, this relates to the alien workers?

Mr. DE LUGO. Yes, it does. How much of the additional infrastructure that the Northern Marianas need is brought on by this tremendous increase in population, and alien workers? And, are those needs being met?

Governor GUERRERO. Yes. Basically, Mr. Chairman, the increase of the population of the alien workers is not foreseeable at this immediate future. In fact, for your information, it is rather decreasing. Therefore, we want to maintain that course and hopefully would not increase the numbers, as we can see the economic downfall at this time.

Mr. DE LUGO. I'm sorry, Governor. Perhaps I didn't state the question properly. The question was not about alien workers in the future. The Chair's question was about the policies that have been followed up to this time that brought on this explosion in the population, the explosion of alien workers that are presently in the Northern Marianas, which are approximately slightly less than one-half of the population. Therefore, how much of the additional infrastructure needs or how much of those infrastructure needs that have not been met can be laid at the doorstep of this alien policy and the needs or the burden that it puts on the rest of the community?

Governor GUERRERO. Well, Mr. Chairman, the overall needs of this infrastructure is basically not only on account of the number of aliens or the needs of the local people. Basically the estimate that we give you before your committee is basically what we see we need to develop such infrastructure in the immediate future. That, of course, would include the present number of aliens, as well as the local requirements, as well as the anticipated future development in terms of additional businesses that may come to the island. So, the figures, as we present them before you, would certainly accommodate hopefully in the next 7 years. So, as I said, the policy that we are trying to accomplish is to continue the trends of the number of alien workers that come through while the local population is increased.

Mr. DE LUGO. Governor, you said you did not foresee an increase in alien population, and in fact, the population is decreasing. But in the budget summary that you have submitted for fiscal year 1994, you project by the year 2000, which is just around the corner, that the C.N.M.I.—this is on page 7—would have a daily population of between 68,700 to 95,600 people. Now, where are all those people going to come from? Your population right now is approximately 45,000. So, are you going to almost double your population in the next 7 years? Local people are only 20,000 some.

Governor GUERRERO. Yes. Mr. Chairman, we must have to realize also that the increase of population, the growth of the population, by our indigenous alone is approximately 3 percent, and on top of it, we have also people from Micronesia, as well as the potential growth of the economy that would continue in needs of additional workers. So, the total population, as we project it, will increase approximately 7 percent over this year. I believe that is the calculations that were, of course, estimated. We have been given by the statistics office the projection of the number of aliens that may continue to come on the island, provided of course that the economy will continue to build.

Mr. DE LUGO. Well, Governor, that is why I asked a moment ago about the infrastructure. If you are pursuing a policy which has taken the Northern Marianas from a population of—what was it? In 1975 it was around 15,000 people.

Governor GUERRERO. Approximately 14,000.

Mr. DE LUGO. All right, 14,000 people in 1975. Compared to your present population, which is about 45,000 people, half of which are alien laborers, are you projecting that within the next 6 years, your population will double?

The committee wonders where the influx of people is going to come from. You say that your local population increases by 3 percent. If your local population is 45,000 people, a 3 percent increase will not get you up to these figures. Are all these people going to come from the Marshall Islands and the other islands of the Pacific? What is going to happen here?

Governor GUERRERO. Mr. Chairman, I think the figures of population, of course, that we give you basically includes the daily that comes through the islands. As I stated earlier, the projected local indigenous population, as I pointed out to you, hopefully within the next 7 years would only increase approximately 3 percent. But that figure does not include people from Micronesia. As I stated, the figure that we gathered or we computed is a 7 percent increase over the next 7 years, the 2000.

Mr. DE LUGO. Governor, if you look on page 8, you will see your estimate of your population by the year 2000. Fact is, you are estimating a nonresident population—well, let's look at these figures. On page 8 of your budget summary, you are estimating that the population of the N.M.I., the resident population, and the Chamorro population, would be from 20,000 to a high of 22,000 or 23,000. That includes the Micronesians who are included in that count I am informed. Nonresidents or aliens are shown at a low of approximately 40,000, or just about double the number of native N.M.I. residents, or a high of approximately 59,000 or 60,000. Your tourists are a completely different category. They are not staying. They come and go. You project tourists from a low of 9,440 to a high of 13,000.

So, what you see here is a policy that is being pursued that will create a situation where you will have twice as many aliens or non-citizens in the N.M.I. as you will have citizens of the N.M.I. Is the Chair correct in that? That is what I get from these figures.

Governor GUERRERO. Yes. I see what you are reading, Mr. Chairman. These figures, of course, are prepared by our planning and budget office with the projections on the previous year as reported, of course, from 1990 as well. We will continue to increase the number of workers, and we will continue to develop the island. But the condition today is changed.

Mr. DE LUGO. Governor.

Governor GUERRERO. Yes, sir.

Mr. DE LUGO. I have great concerns about this policy if it is pursued. If we are going to pursue a policy where we, within 6 or 7 years, are going to have twice as many aliens in the N.M.I. as citizens of the N.M.I. and of this country and count on these aliens to keep the economy of the N.M.I. going, I think it is a prescription for disaster. It is a prescription for great social unrest. It is a pre-

scription for the people of the C.N.M.I. losing control of their own community. It is a very, very serious situation that I would urge the leaders of the N.M.I. to study most carefully, and I would say to my friends from the Interior Department that this policy has to be of great concern.

As you have this kind of growth, naturally there is a tremendous need for additional infrastructure because if people are going to be brought in, to provide labor, then they have to live in conditions which are acceptable to the standards of the United States. The United States meaning the N.M.I. because the N.M.I., of course, is a part of the United States today.

Governor GUERRERO. I would like to have the Director of Finance respond to that question.

Mr. DE LUGO. All right. Let us hear from Mr. Inos, the Director of Finance.

Mr. INOS. Thank you, Mr. Chairman.

I will not dwell on the policy side of it. I realize there are a lot of merits to what you just mentioned.

But in defense of the numbers here, the nonresident population here was estimated based on the anticipated number of additional hotel rooms that will be built during the period. So, the significant increase in the number of nonresident workers has a lot to do with the construction industry, the need for alien labor who will have to be brought in to build the additional rooms, and when those rooms are built, then of course, those workers would have to return. Now, it is not an absolute reduction because I guess they will have to be replaced by foreign workers, nonresident workers, who work in the hotel industry, but at least that is some explanation as to why we see the huge numbers. If we are looking at increasing the number of hotel rooms, the construction period then will commence. That is just part of the explanation.

Mr. DE LUGO. Well, Eloy, let me say this. We were almost in a lighthearted way kidding around a little while ago regarding the question that was raised by my good friend from Guam, Delegate Underwood, about the quality of life. Can anyone believe that the quality of life for the people of the N.M.I. will improve by pursuing a policy which will double the population of aliens in the N.M.I.? The aforementioned is going to put the kind of strain on your infrastructure, which will result in an increased demand for taxes to provide the infrastructure, education, hospital facilities and other necessary things.

I understand that in response to the hearing this committee held on this very issue last year, regarding the impact of alien labor in the N.M.I., that as a result the Department of the Interior and the N.M.I. are doing a study on said impact. Am I correct in that assumption, Governor?

Governor GUERRERO. That is correct, Mr. Chairman.

Mr. DE LUGO. Could you tell us when you would expect to have that study and the results completed.

Governor GUERRERO. Well, Mr. Chairman, the C.N.M.I. Government and the OTIA, of course, as I said, just recently signed that agreement. Hopefully, the studies will be made available to your committee sometime soon. But I hope within the next couple of

months, these particular studies will be made available because, as I said, we already reached an agreement between the OTIA.

Mr. DE LUGO. The obligation of the United States to assist the N.M.I. was based on the 14,000 residents of the N.M.I. who were there in 1975 when that agreement was entered into. Now, if a policy is pursued which is going to bring in more aliens into this community heaping more problems on the N.M.I., that is against the spirit of the agreement.

This committee is seriously concerned about what is being pursued here. We will be speaking to the representatives of the Interior Department in just a few minutes. The whole purpose here is to create a higher standard of living for all people who are residents of the community. Therefore, policy is of great concern to the Chair.

Mr. Speaker, I see you want to make a statement?

Mr. VILLAGOMEZ. Yes, Mr. Chairman. On your concern about the additional influx of nonresidents, for your information, Mr. Chairman, my position as the House Speaker of the House of Representatives is I have formed a special committee on labor and immigration to look into the concerns of the influx and maybe a possibility of capping the influx through a quota. The committee will be reporting back in about 3 to 4 months, for your information.

Mr. DE LUGO. We have to remember that the N.M.I. was given control over immigration by the Congress of the United States to protect the people and community of the N.M.I. so that they would not be overrun by persons coming in from the outside who do not have a similar background. It seems as though this policy has been interpreted in exactly the opposite fashion. While at the hearing last year we heard you saying that you were going to take a look at this issue, perhaps to cut it back, I don't know. However, the point remains that your policy lacks potency.

Let me recognize at this time the gentleman from Guam, Delegate Underwood.

Mr. UNDERWOOD. Thank you, Mr. Chairman.

Thinking along the same issue, I just want to share a major concern with you. Obviously, we on Guam in the Commonwealth draft act are seeking relatively the kind of management of immigration policy which you already enjoy. By reason of example, it might create difficulty for us. But putting that issue aside, let me just address the question.

Indeed, it is no longer a philosophical question. It becomes a question of the meaning of economic development and the meaning of the quality of life. We have initially very unclear discussion about the number of aliens that we are talking about. In the course of oral presentation, we hear in response to inquiries and concerns about the number of aliens, that indeed the number of aliens are declining, and then you see in projections, the low projection here is—I think the current numbers are approximately a 60-40 relationship between residents and aliens. I wish we could find another name than aliens, but nonresidents.

Mr. DE LUGO. Non-citizens.

Mr. UNDERWOOD. Non-citizens. Thank you, Mr. Chairman. That is why he is Chairman. [Laughter.]

In terms of the low estimate given here by the projection of the Governor's office, it is a 2-to-1 ratio and the high estimate is a 3-to-1 ratio. It raises the meaning of what is the quality of life in that context. What is the meaning of economic development in that context?

I do not presume to want to answer that question from the C.N.M.I., but it is important I think that the C.N.M.I. come up with an answer themselves so that the question does not become addressed in the context of this discussion where kind of a carrot and stick are constantly being used to get policymakers to address those issues. To date I have not seen that. Admittedly I am a new member, and I am not as conversant with the issues on this particular matter as other members of the committee, but certainly I have been trying to keep on top of this issue and trying to be aware of this issue inasmuch as it does have impact on Guam in particular, but also just the general issue of what does this mean.

I go to the Northern Marianas frequently and I interact with many citizens from the Northern Marianas. To a person, it seems to me a great deal of concern is expressed over this, and yet it seems almost like addictive-compulsive behavior. People are all aware of the problems that are attached to this issue. Yet, it continues to go on and on, and it seems to create its own logic as it goes on.

Perhaps this is a legitimate point on which to raise the issue of the standard of living in terms of what kind of financial gains a process like this brings, which is a high level of per capita income, and yet to raise the issue of the quality of life. But those are issues that you should be deciding and shouldn't really be discussed in the context of this. Yet, the lack of attention and clarity exactly on what is the position in a sense almost obligates people who are involved in an oversight process to ask the question and to repeatedly ask the question.

Governor GUERRERO. Mr. Chairman, thank you, Delegate Underwood, for your concern. I am sure that it is equally important for us as what you are raising your concern as well. Like I said earlier, this is just merely a projection of what we see if the economic stimulation were continuing in the C.N.M.I.

Again, you, as well as the Chairman, pointed out that this is a very important question that should be addressed as a policy. I am sure that we can look into it seriously and try to diminish the unnecessary influx of it.

Thank you.

Mr. DE LUGO. Governor, let me simply state that I do not recall when I have been as upset or concerned at a hearing. I must say that I think that this policy is disastrous. I have to say, as Chairman of this committee, a Member of Congress, and as one who comes from a United States territory and has had some experience with development, that I cannot support in any way the continuance of a policy that I am convinced is disastrous to the best interest of the people of the N.M.I. and the United States. I feel that we are legitimizers because we are subsidizing a policy that contradicts everything we believe in. It is a policy—with growth figures, projecting the makeup of the community in the N.M.I. by the year 2000—for social disaster.

We have been joined by the Chairman of the full committee, and let me recognize him at this time. Let me say, that Chairman Miller was the first who became concerned about the policy which is being pursued out there, and I am sure he remains concerned. Certainly nothing at the hearing this morning should lessen the Chairman's concern. Mr. Chairman, thank you for joining us, and we recognize you at this time.

Mr. MILLER. Thank you, Mr. Chairman, and Governor, welcome to the panel. My apologies for not being here at the first part of the hearing, but I wanted to make sure that I had an opportunity to stop by. I thank you, Mr. Chairman, and I am glad I came in when I did because your statement says much of what concerns me.

I think we have probably already arrived at a point where this program cannot be allowed to continue in its present form. I say that after struggling a great deal—many, many months with trying to appreciate and understand the problems of the Mariana Islands and to appreciate and understand cultural differences and the problems that are inherent in the distance between Washington, D.C. and the Commonwealth. But as I read through what are now—I don't know—in excess of 15 or 20 IG reports, it would be impossible for me to recommend to this committee or to the Appropriations Committee that this program continue in its current form.

Having said that, the flip side of the question is then what form should it continue in because I think there has to be serious discussions. But I think we are at a point now where the Government of the Commonwealth has just flaunted his own laws and the laws of this country. You have ignored repeated efforts by the Inspector General and others to get answers, to negotiate outcomes, to follow guidelines. I certainly would not recommend to my committee and to the Appropriations Committee or to the House that we just give the Marianas another 7 years of money because I think that is just ludicrous. I couldn't go home and tell the people I represent that I would be prepared to do that.

The record, without going into detail after detail, having gone through this over the last couple of weeks, item after item after item shows where the concerns of this committee, of the Department of the Interior, of the Inspector General, of the GAO, the Department of Labor have simply been flaunted and ignored. It has been business as usual. Well, I can guarantee you it will not be business as usual henceforth. I expect to, as soon as I possibly can, meet with Chairman Yates to discuss this entire matter, and I think that Chairman de Lugo appreciates the need to do this.

This committee I think has done a very thorough job of looking at this problem, but there is no way that you can justify the continued failure to comply even for simple requests for information, even for requests for appointments with officials from the Federal Government. That is just not the way we do business. I think it is going to be a long and difficult struggle to put this thing back together.

Thank you, Mr. Chairman.

Mr. DE LUGO. Thank you.

Does anybody want to respond or have something to state for the record?

[No response.]

Mr. DE LUGO. Does the gentleman from Guam have any additional questions?

Mr. UNDERWOOD. No, Mr. Chairman.

Mr. DE LUGO. Well, Representative Babauta, Governor, Mr. Speaker, thank you very much for having joined us. I know it has been a difficult hearing for you. There is much for us, all of us, to think about, and I hope that we will think of the questions that have been raised, the discussions which have transpired here, and that we will fully realize the seriousness of the situation that we have found ourselves in. Thank you very much.

Our next witness is going to be David Heggstad. Mr. Heggstad will be representing the Interior Department, and I might suggest that our visitors from the N.M.I. remain for a moment or two while we hear from Mr. Heggstad. Mr. Heggstad, I see you are joined at the table by Larry Morgan and Rich Miller, well-known to the committee and all. So, welcome gentlemen, and please proceed.

STATEMENT OF DAVID H. HEGGESTAD, BUDGET OFFICER, TERRITORIAL AND INTERNATIONAL AFFAIRS, DEPARTMENT OF THE INTERIOR, ACCOMPANIED BY LARRY MORGAN, DIRECTOR OF LEGISLATIVE AND PUBLIC AFFAIRS, AND RICH MILLER, ECONOMIST

Mr. HEGGESTAD. Thank you very much, Mr. Chairman. I am here substituting today for our extremely able and knowledgeable acting Assistant Secretary, Ruth Van Cleve. You know Ruth very well. She deeply regrets that she was unable to attend this hearing. She wanted very much to be here. Unfortunately, she has strep throat, and that is the only reason she is not here and I am sitting in this chair right now.

Mr. DE LUGO. Please tell Ruth that I hope she recovers swiftly and that we missed her.

Mr. HEGGESTAD. Mr. Chairman, it is a pleasure to appear before you today. It is also a pleasure for me to have the opportunity to represent the Department of the Interior and to discuss H.R. 1092 and the Agreement of the Special Representatives on Future Federal Financial Assistance for the Northern Mariana Islands, an agreement that was signed on December 17 of 1992.

The agreement, which is now before you, is a result of discussions that began in April of 1991 between the special representative of the President of the United States, and the special representatives of the Governor of the C.N.M.I. This third agreement focuses on capital infrastructure and provides that the C.N.M.I. will increasingly match every Federal dollar. This results in a complementary decrease in Federal funding over the 7 year period. President Clinton endorsed this agreement as part of his economic plan, Vision for Change in America.

The special representative of the President approached the discussions leading to the agreement with a number of concepts and goals in mind.

One—renewed emphasis should be placed on economic resources to pay for local self-government with the intention that this will be the final multi-year funding agreement.

Two—Federal support can best meet the covenant section 701 objective of developing economic resources by targeting such support on capital infrastructure projects.

Three—Federal monetary and policy assistance have helped produce tremendous economic growth that now permits full C.N.M.I. funding of government operations.

From the very beginning, the special representatives' discussions centered on infrastructure needed to keep pace with growth in the C.N.M.I. The C.N.M.I. representatives enumerated many vital projects, with sewer and water heading the list. The discussions resulted in a relatively short agreement which incorporated all of our objectives.

Mr. Chairman, consistent with President Clinton's economic message, the Department of the Interior urges approval of H.R. 1092. We look forward to further improvement in the Northern Mariana Islands' economy that will yield new resources to meet the financial responsibilities of local self-government.

That concludes my statement.

I would like to add, as you already mentioned, Rich Miller, who is what I call our house economist, is here with me, and Larry Morgan, who is our Director of Legislative and Public Affairs. Larry has also been acting as Assistant Secretary, along with Ruth Van Cleave, and particularly right now in Mrs. Van Cleave's absence.

[Prepared statement of Mr. Heggstad follows:]

STATEMENT OF DAVID H. HEGGESTAD, BUDGET OFFICER, OFFICE OF TERRITORIAL AND INTERNATIONAL AFFAIRS, BEFORE THE HOUSE SUBCOMMITTEE ON INSULAR AND INTERNATIONAL AFFAIRS, REGARDING H.R. 1092, FUTURE FEDERAL FINANCIAL ASSISTANCE FOR THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS, MARCH 18, 1993.

Mr. Chairman and members of the Subcommittee on Insular and International Affairs, it is a pleasure to appear before you today to discuss H.R. 1092, a bill that would authorize \$120 million in Federal financial assistance, with a full faith and credit guarantee, for the Commonwealth of the Northern Mariana Islands.

Before detailing the Department's views on the bill, I would like to state that we in the Department of the Interior look forward to a cooperative relationship with the Congress, especially on issues relating to the insular areas. We are encouraged by President Clinton's stated intention to nominate persons of accomplishment to head the territorial office at Interior. We anticipate the confirmation and installation of Leslie M. Turner as Assistant Secretary of the Interior for Territorial and International Affairs as an essential step in establishing a cohesive territorial policy, complementary of action in Congress.

History

Turning to H.R. 1092, and the Agreement of the Special Representatives on Future Federal Financial Assistance for the Northern Mariana Islands (Agreement), signed December 17, 1992, some historical perspective may be useful. The first financial agreement was an integral part of the Covenant to Establish the Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (Covenant). It provided full faith and credit for multiple-year funding for the Commonwealth of the Northern Mariana Islands (CNMI) for 1978 through 1985 in the amount of \$192 million. A second agreement was concluded in 1985, which provided \$228 million over the 1986 to 1992 period, with declining assistance for government operations and increasing assistance for capital infrastructure.

Covenant section 701 has set the tone for the Federal/Commonwealth financial relationship since the inception of the Covenant:

The Government of the United States will assist the Government of the Northern Mariana Islands in its efforts to achieve a progressively higher standard of living for its people as part of the American community and to develop the economic resources needed to meet the financial responsibilities of local self-government. (emphasis added)

The Covenant requires that Federal and CNMI representatives meet at seven year intervals to discuss financial arrangements. The Agreement now before you is the result of discussions that began in April 1991, between the Special Representative of the President of the United States and the Special Representatives of the Governor of the CNMI. Economic development and self-sufficiency have always been the goal of Federal financial assistance for the CNMI. This third, seven-year Agreement focuses on capital infrastructure as the most effective way for the CNMI to meet its goals and achieve full economic potential. A unique, first-time aspect of the Agreement is that the CNMI will increasingly match every Federal dollar, with a complementary decrease in Federal funding over the seven-year period.

H.R. 1092 like its 1986 predecessor provision in section 10 of Public Law 99-396, provides full faith and credit funding by the Federal government to the Government of the Northern Mariana Islands. The \$120 million would be expended over the period of fiscal years 1994 through 2000. The Office of Management and Budget advises that H.R. 1092 would result in a decrease in direct spending. Thus, it is subject to the pay-as-you-go provision of the Omnibus Budget Reconciliation Act of 1990. President Clinton endorsed this Agreement as part of his economic plan, Vision of Change for America.

Federal Government Objectives and Assumptions

The Special Representative of the President approached the discussions leading to the Agreement with a number of concepts and goals in mind. Among them were the following:

- o Renewed emphasis should be placed on the Covenant section 701 injunction to develop economic resources to pay for local self-government, with the intention that this will be the final multi-year funding agreement.
- o Full economic potential cannot be achieved without adequate capital infrastructure.
- o Federal support can best meet the Covenant section 701 objective of developing CNMI economic resources by targeting such support on capital infrastructure projects.
- o Decreasing reliance on Federal money (which usually carries conditions) will bring a complementary increase in self-sufficiency and self-government to the CNMI.
- o Federal assistance pledged in Covenant section 701 need not be direct monetary assistance; it can be in the form of policies that aid or stimulate the economy.
- o Since the 1978 implementation of the Covenant, both monetary and policy assistance have helped produce tremendous economic growth that now permits full CNMI funding of government operations, without the \$10 million to \$17 million annual Federal subsidies provided in the 1986 to 1992 period.

- o With decreasing Federal assistance to the year 2000, the maturing CNMI economy and government will become increasingly more comfortable with the financing methods they adopt for infrastructure construction and maintenance.
- o The goal of increasing self-government requires that the CNMI be given maximum latitude allowed by the Covenant in determining the best way to meet CNMI commitments under the Agreement.

These concepts guided the President's Special Representative in the discussions with the CNMI. The Agreement reflects these concepts.

Agreement -- Basic Provisions

From the very beginning, the Special Representatives' discussions centered on infrastructure needed to keep pace with growth in the CNMI. The CNMI Representatives originally enumerated \$800 million in vital projects, with sewer and water heading the list. They requested that the Federal government fund \$500 million worth of these projects.

The discussions resulted in a relatively short Agreement, which includes the following major provisions:

- o An expectation that local resources will be able to finance the needs of local self-government by the year 2000.
- o Full CNMI financing of government operations.
- o Equal Federal and CNMI contributions to infrastructure of \$120 million each over the seven-year period.
- o Phased-in CNMI financing of infrastructure, backed by a matching requirement:

Fiscal Year	Federal Contribution	Commonwealth Contribution	Matching % Ratio	Capital Fund
1994	\$22,000,000	\$9,000,000	71/29	\$31,000,000
1995	21,000,000	14,000,000	60/40	35,000,000
1996	20,000,000	16,000,000	56/44	36,000,000
1997	18,000,000	18,000,000	50/50	36,000,000
1998	16,000,000	20,000,000	44/56	36,000,000
1999	14,000,000	21,000,000	40/60	35,000,000
2000	<u>9,000,000</u>	<u>22,000,000</u>	<u>29/71</u>	<u>31,000,000</u>
Total	\$120,000,000	\$120,000,000	50/50	\$240,000,000

- o The provision for withdrawal from the Agreement ensures that each party will act in good faith in promoting the Agreement through the legislative process.

Other Issues

On July 30, 1992, this subcommittee held a hearing dealing with important issues of labor conditions, immigration policy, trade policy and taxation in the CNMI. These issues are of serious concern to us because they deal with questions of fairness and fundamental rights.

At the July 30 hearing, the Department of the Interior proposed a full review of these issues with the CNMI prior to consideration of remedial legislation. We signed a memorandum of understanding with the Governor of the CNMI, detailing the reviews that would be conducted. The CNMI has made substantial progress in providing information on the issues and has begun to deal with them, although we do not yet have enough information to complete our reviews.

Regarding labor conditions, the Department of Labor has intervened forcefully against unfair labor practices, and this Subcommittee has expressed serious concerns regarding labor conditions and minimum wage levels in the CNMI. After the July 30 hearing, the CNMI prepared a report outlining options for raising the minimum wage and has proposed legislation to increase the minimum wage to the current mainland level by the year 1999. The legislation has been passed by the CNMI House of Representatives. We are pleased with the CNMI efforts in this regard, but believe that the data gathering process needs to be improved. To gather the needed information, we will assist the CNMI, beginning in April 1993, in the preparation of a report on wages and benefits by industry, similar to the report prepared by the United States Department of Labor in its biennial review of minimum wages in American Samoa. This report will assist both the CNMI Government and the Federal Government in assessing the adequacy of the minimum wage process and minimum wage level in the Commonwealth.

Another review which we and the CNMI have agreed to perform is a cost-benefit analysis of the presence of aliens in the Commonwealth. We have agreed on terms of reference for the review and expect to begin analysis after the report on wages and benefits is completed.

In the area of taxation, the CNMI has also made a good beginning, although progress seems to have stalled. The CNMI Tax Task Force prepared a report with a thorough analysis and alternative recommendations for improving equity and increasing revenues. Unfortunately, however, the report was not finalized nor released. More disturbing are recent news reports that members of the CNMI legislature have stated that no modifications in the tax system will be considered.

We consider it a high priority to obtain the Tax Task Force report and evaluate the CNMI tax system with regard to equity and its capacity to raise adequate revenue. The CNMI contends that its tax

system, with a 95% rebate of the "mirror" income tax and offsetting taxes on wages, salaries, and gross business revenue, can raise as much revenue as the "mirror" tax without any rebate. We are not convinced that this is the case, but believe that the CNMI should be given an opportunity to propose a tax system that, with modifications, can meet the test of fairness and raise adequate revenues.

It is important to understand that in proposing a financing agreement that contains no payments for operations of the government and requires a 100% local match for capital expenditures, we have made the availability of Federal funding contingent on an adequate system of raising local revenue. The burden of deciding how to raise this revenue will be where it belongs, with the government representing the people of the Commonwealth of the Northern Mariana Islands.

We remain hopeful that the CNMI will continue to cooperate by providing important information necessary for making informed decisions, and will continue to utilize the resources of the Office of Territorial and International Affairs and other Federal agencies as the issues of labor, immigration, trade and taxation are addressed. We understand the Subcommittee's concern with a number of Commonwealth issues, and we understand that unless sufficient progress is made toward resolving these issues, the Congress may decide that legislation is necessary. The Congress, of course, has the power to legislate on these issues and the financing agreement, either together or separately. We urge that H.R. 1092 and the financing Agreement be considered solely on their own merits. Please be assured that we stand ready to work with you in resolving any issues that might stand in the way of enactment of H.R. 1092 and implementation of the Agreement.

Consistent with President Clinton's economic message, the Department of the Interior urges approval of H.R. 1092. We look forward to further improvement in the Northern Mariana Islands' economy that will promote self-government and yield new financial resources needed to meet the financial responsibilities of local self-government.

Mr. DE LUGO. It is good to see you all here this morning.

I want to make some observations about two points made in your statement. One, is the statement which states that the commitment is "contingent on an adequate system of raising local revenues". Now, as you know, there is also a so-called side bar agreement to study the adequacy of the local tax system. The agreement you support would not condition assistance on the study's finding. The Governor's tax reform proposal states that the effective tax rates in the Commonwealth of the Northern Marianas are considerably less than the United States, two-thirds less, and with the reforms the Governor has suggested—and certainly it is questionable whether the legislature is even going to support those reforms—the tax rates would be 33 percent less than the United States. So, I think that it is stretching the point to say that the commitment is contingent on an adequate system of raising local revenues.

The other statement is that the bill and the agreement should be considered solely on their own merits, and I can assure you that they will be.

Let me ask some questions about OTIA's overall responsibility for its priorities regarding the insular areas. All of the insular areas have inadequate infrastructure. On a relative basis, American Samoa and Palau may have greater needs than the N.M.I., and lesser ability to finance them.

The proposal would provide \$22 million for the Commonwealth of the Northern Marianas. Has your office proposed an equivalent amount for American Samoa or for Palau? If not, how much?

Mr. HEGGESTAD. Mr. Chairman, I regret that I cannot discuss and have been asked not to discuss the specific details of President Clinton's budget until it is officially transmitted to the Congress. I can say that our overall commitment to American Samoa is certainly comparable to our commitment made here to C.N.M.I. It is a different kind of commitment, though. American Samoa has a much greater need for assistance in meeting basic operational requirements. There is a continuing and ongoing commitment and it has been discussed with our Secretary for infrastructure needs in American Samoa as well, and they will be addressed in the budget for fiscal year 1994.

Mr. DE LUGO. If you compare the overall assistance, in American Samoa that includes the actual operations of the government.

Well, let me ask this. You cannot comment on the Clinton proposals. What about the Bush proposals? What about the last administration? What did the last administration recommend before it left office?

Mr. HEGGESTAD. Well, again——

Mr. DE LUGO. Amazing things that we are aware of have occurred in the last day or so. Maybe they will continue to amaze me.

Mr. HEGGESTAD. There were no final decisions made on a Bush budget per se. He submitted what I would refer to as a current services budget so that there was a point of comparison by essentially inflating the 1993 enacted levels, and under that level, I think in 1993 American Samoa received about \$6.2 million in assistance for capital improvement. If you broke the Bush budget that was transmitted in January down to a line item level, then

American Samoa construction in that budget would have been about \$6.2 million, with an inflation adjustment attached to it.

Mr. DE LUGO. So, it actually went down?

Mr. HEGGESTAD. No. It would be a little bit higher, adjusted for inflation, than the 1993 enacted level.

Mr. DE LUGO. The figure you said was \$6 million?

Mr. HEGGESTAD. Yes. That was just for infrastructure.

Mr. DE LUGO. Well, that is what I am talking about, infrastructure. So, that is \$6 million.

Mr. HEGGESTAD. It was approximately \$22 million for operational needs as well.

Mr. DE LUGO. We are talking about infrastructure.

What about Palau?

Mr. HEGGESTAD. Again, the only thing that was done by the past administration was essentially a current services level based on the 1993 appropriations. Palau I think had—I do not have it in front of me. I think they received about \$4.5 million in infrastructure needs in the 1993 enacted budget. We would be looking at something comparable.

I would point out too, though, that Palau has received a great deal of assistance over the last 4 years, well in excess of \$25 million.

Mr. DE LUGO. It was \$25 million cumulative.

Mr. HEGGESTAD. Yes, cumulatively over the last 3 to 4 years. Palau has a limitation on how quickly it can spend some of that money. One big project, the hospital, is now complete, and an extremely good job has been done on that hospital I would add.

Mr. DE LUGO. Perhaps if they instituted a policy of bringing in enough non-Palauans, they could spend that money faster.

Mr. HEGGESTAD. That is possible.

But there is I think close to \$20 million worth of unobligated and unused money now in Palau for infrastructure assistance.

Mr. DE LUGO. In light of the needs of the other areas and their lack of resources, why should so much be provided for the N.M.I.?

Mr. HEGGESTAD. I think I would have to point first at the covenant itself and section 702 and 701, the entire article 7 of the covenant, which calls for assistance and ongoing discussions on the continuing need for assistance. There was a discussion that took place beginning in 1991, and at least a determination was made there that there needed to be continuing financial assistance, that there still were needs in the C.N.M.I. for CIP.

I could go on, though, and say that we view section 701 as a commitment on our part to assist the Government of the C.N.M.I. to achieve a progressively higher standard of living, not necessarily to pay for it. That was something that was taken into account throughout.

Mr. DE LUGO. Well, let me say that I support the commitment. I was one of the supporters, and I am committed to it and support it. But do you currently have a greater commitment to the N.M.I. than you have had in the past—what does OTIA see as its commitment to the people of American Samoa?

Mr. HEGGESTAD. Well, I do not think we can say it is the same kind of commitment because we do not have the same kind of statutory or legal basis for it, but we certainly have a strong commit-

ment to American Samoa, as we do to all the United States insular areas. I think it is reflected in their needs and how we adapt to that commitment. The needs in American Samoa are somewhat different than they are in the C.N.M.I. They have much more basic needs in terms of basic operational assistance, and their economic development is progressing at a much slower rate. That is a frustration to us and I am sure to the American Samoa Government, but it is also a fact.

Mr. DE LUGO. In the last administration, the Office of Management and Budget blocked your office's efforts to develop a multi-year assistance commitment to Samoa, a commitment that the committee had recommended. Has the new administration considered making a multi-year commitment of development assistance to Samoa?

Mr. HEGGESTAD. I can't say that it has. I have to point out that we do not have a policy official on board for territorial issues. We have a designated Assistant Secretary nominee, and that kind of review will be occurring. It would be one of the first items on the agenda, I am sure, of the new Assistant Secretary.

Mr. DE LUGO. Well, you are here to make a policy proposal with the Northern Marianas.

Mr. HEGGESTAD. That is correct, and we are doing that, though, on the basis it was an item specifically raised for review before the new administration. At the beginning of the administration, it was brought to the attention of the Secretary and to the attention of the Office of Management and Budget and was reviewed and was included in the President's economic plan.

Mr. DE LUGO. Well, given the constraints of the budget, is it likely that we could make a commitment of assistance for infrastructure in American Samoa or other areas equivalent to the commitment which this proposal would make to the N.M.I.?

Mr. HEGGESTAD. I could not promise that we would do that, if equivalent means the exact, same amount of money.

Mr. DE LUGO. Would you expect it? I am not asking you to promise that you would do it. Do you think it is reasonable to expect that that would occur—

Mr. HEGGESTAD. No.

Mr. DE LUGO [continuing]. Or not really realistic to expect it?

Mr. HEGGESTAD. I do not think it is realistic in the budget environment that we face, and not necessarily realistic when you look at the differing needs as well.

Mr. DE LUGO. Infrastructure in other insular areas is financed on an annual discretionary basis. Should it be financed on a multi-year commitment basis in the N.M.I., but not in other insular areas?

Mr. HEGGESTAD. I would have to say yes at this time. Again, we have a mutual goal expressed in this agreement that this will be the last such guaranteed multi-year assistance period, and after that we would be looking at annual discretionary assistance to the extent it is necessary, as we do in the case of American Samoa, Guam, and the Virgin Islands.

Mr. DE LUGO. The Chair has additional questions and will ask them after we recognize the Delegate from Guam for any questions that the Delegate might have.

Mr. UNDERWOOD. Thank you, Mr. Chairman, and good afternoon to you.

The questions that I have relate to a general question that I asked about the relationship between Federal assistance and participation in the local governments and in the insular areas. I asked the question in a general sense to the panel of officials from the C.N.M.I. whether they see this kind of assistance as part of an obligation or whether they see it as a kind of an emerging partnership, or perhaps do they see it as a kind of a form of government welfare. I was just wondering whether this kind of issue has been raised at OTIA. I know you have had a chance to think about it since I asked the question. I would like to put that question to you.

Mr. HEGGESTAD. Thank you for the question, and I will try to respond.

I see it as a partnership, and I think the covenant section 701 and the negotiated covenant also saw it as a partnership. It talks about the commitment of the United States Government to assist the Government of the Northern Mariana Islands achieve a progressively higher standard of living. It does not speak to, in fact, a specific standard or measurable standard. It talks about a progressively higher standard of living, but it also talks about assistance in doing that.

Within the covenant, there are obligations, but those obligations were subject to periodic reviews to the extent that there is any kind of guaranteed assistance. In other words, the original assistance spelled out in the covenant was for a 7-year period, and the covenant did not speak beyond that other than to say 1 year prior to the end of each such period of assistance special representatives would look and make recommendations as to whether we create a new guaranteed period.

So, I see it more as a partnership with certain obligations attached to it. Those obligations at this point are primarily to sit down on a periodic basis and reach a mutual decision as to where we go next. That is what we are presenting to the Congress now.

Mr. UNDERWOOD. In a broader framework, for those insular areas without covenants, would you see the framework of Federal assistance and participation along the same lines, a kind of emerging partnership?

Mr. HEGGESTAD. That is the way I perceive it and more so evolving more and more in that direction.

Mr. UNDERWOOD. So, would it be fair to say—I don't know given the stronger statements made earlier in this hearing, perhaps some of these questions relative to the specific assistance to the C.N.M.I. in jeopardy now. Would it be fair to say that OTIA sees this particular \$120 million assistance package as part of that emerging partnership as opposed to an obligation that is responsive to the covenant?

Mr. HEGGESTAD. Well, I think the overall theme is one of a partnership, and I think that is what the covenant intended to lay out. The covenant itself was a negotiated document that was then enacted into United States law. So, the theme is one of a partnership. I think within that, there are specific commitments that are made. In the case of the covenant, though, those financial commitments are subject to renewal. It wasn't a permanent and definite type

commitment. There are also similar type obligations by the Federal Government to Guam and the Northern Mariana Islands in the terms of the cover-overs, for example. But that doesn't mean that the overall framework cannot be one of a partnership and recognizing that there are certain commitments that are made and spelled out in law.

Mr. UNDERWOOD. In the schedule that is outlined in your presentation, the Federal contribution is significantly more in the earlier years in anticipation that the N.M.I.'s contribution to this capital improvement package will be significantly more in the end years. How do you see monitoring then? What happens in the scenario that perhaps the N.M.I. does not come up with—not that I anticipate that it won't, but I am just saying have you thought this issue through. What happens in the event that the N.M.I.'s share is not as planned?

Mr. HEGGESTAD. Well, the inverse relationship—our funding beginning at higher levels and decreasing and their match beginning at lower levels and increasing was certainly a purposeful policy in order to give the C.N.M.I. time to develop some kind of tax reform initiative. There are mechanisms, though, built into the agreement that protect our interests and essentially would require that something be done in the way of meeting the matching requirement.

You might recall in the agreement it says that all funds will be made on a grant basis. Each grant for each project will spell out a specific matching requirement. If the C.N.M.I. does not come up with their matching share on that project, there will be no Federal funds available either. So, Federal funds are actually only passed. There is no passage of cash until the matching share is essentially put on the table as well.

I have to say, though, that we are extremely disheartened by the action taken by the Saipan legislative delegation to quickly disavow the tax reform effort. That was our purpose in the matching requirement, to maximize self-government, to give the C.N.M.I. the maximum opportunity to seek their own reforms rather than trying to negotiate or mandate something in advance. But it is very disappointing to see that rejected by a large portion of the legislature before it even has a chance to be debated or seriously considered. I hope that is reversed.

Mr. UNDERWOOD. On the MOU signed between OTIA and the N.M.I., what is your sense of the progress of the review of these labor, alien, and tax issues, and how has that been affected by the changeover in administration? Perhaps you could just give us a reading on the amount of progress OTIA feels has been made in that review process, notwithstanding the resolution.

Mr. HEGGESTAD. Just a little historical perspective. The need for a cost-benefit analysis on alien labor is something that we started raising back in 1985 or 1986. I think Steve Sander is one of those who was very outspoken trying to get that type of analysis done.

It was a major issue throughout our discussions that began in April of 1991 and, in fact, was written in as an actual provision of the agreement in our proposal. It was removed from the agreement itself only based on the insistence of the C.N.M.I. special representatives and their agreement that we would have a separate agree-

ment on the side that addressed the issue. We desperately think that this cost-benefit analysis has to be done.

The C.N.M.I., I would say about 4 to 5 months ago, sent us a scope of work and a technical assistance application. We have agreed to pay for the cost of this analysis under our technical assistance program. They sent us a scope of work that had been prepared by a contractor. We have reviewed that scope of work and made several comments to it. One, we thought it was far too broad. We were looking at something that is a much more narrow, pure cost-benefit analysis. The N.M.I. proposal got into a lot more economic planning activities as well. We made some suggested revisions to the scope of work, sent that back to the C.N.M.I. Government, and are still awaiting their response to that.

So, there has been no specific activity yet. There is no contract out, and we do not yet have agreement on the scope of work. We do have agreement that we are going to pursue this, but there is no specific agreement on the scope of work.

Mr. UNDERWOOD. Did you anticipate that it would move faster than it has?

Mr. HEGGESTAD. Yes. We definitely hoped it would move faster. Maybe I shouldn't say we anticipated it would move faster, but we certainly hoped it would move a lot faster than it has.

Mr. UNDERWOOD. One last question. In the Governor's prepared presentation, he mentioned the issue of compact impact aid as a result of FSM immigration to the C.N.M.I., which is a problem, of course, that affects Guam as well. Has OTIA thought about the compact impact aid issue, and what is the current thinking on that?

Mr. HEGGESTAD. Well, the current thinking is financially we feel we have a commitment at least to provide technical assistance, which Congress has done over the last 2 years using the technical assistance program to provide some assistance to both the C.N.M.I. and Guam to address the impact issue.

I do think—and I guess we have stated this on many occasions—that we still need to pay more attention and focus more on developing good information, again cost-benefit type information, on the impact of the Micronesian immigrants. For example, in the C.N.M.I. data that is presented in the Governor's testimony, it uses figures that incorporate a large number of Palauans who live in the C.N.M.I. While they are Micronesians, they are not per se an impact to the compact since there is no compact yet with the Republic of Palau. Also, there is no data showing the offsetting contributions to the economy. Many of these Micronesians are taxpaying workers. There is essentially no unemployment in the C.N.M.I., as is somewhat the same case in Guam.

Mr. UNDERWOOD. So, is it OTIA's position that this kind of technical assistance or study grants fulfills the Federal obligation with respect to compact impact aid, or do you see it as a financial obligation?

Mr. HEGGESTAD. At this point, I have to say we see it more as, if you want to call it, a financial obligation. It is confined to providing assistance to deal with the impact as opposed to paying some kind of formula payment.

Mr. UNDERWOOD. As I understand the law, the law says that the affected areas will be financially compensated, not studied. I know that study is a prelude to compensation perhaps, but I am just curious. Is this issue going to be revisited? I hope so.

Mr. HEGGESTAD. I would guess that the issue would be revisited. I am going to say that it is addressed in the President's budget, and you will see how it is addressed in the President's budget. I am not saying whether you will like that or not like that.

Mr. UNDERWOOD. Well, do you think I would like it? [Laughter.]

Mr. HEGGESTAD. But it has been addressed to that extent in the President's budget.

But as to the law itself too, I don't want to get into legal arguments, but the law essentially authorizes that kind of payment. It does not mandate that kind of payment.

It is a matter of tremendous concern. Guam, for example, has talked about an annual impact that may be as high as \$8 million to \$10 million a year. It is not an easy issue for us to deal with in the current budget climate, nor is it an easy issue for the Appropriations Committees to deal with. We have had meetings and discussions with them on how we deal with that. The problem is everybody looks and stares at each other and says nobody has that kind of money.

We also look at the nature of the economies that we are talking about, Guam and the C.N.M.I., that have extremely strong economic bases. These Micronesian immigrants are an integral part of that economy. They may be holding minimum wage type jobs, but they are part of the fuel to that economy. How do you take that into account as well when you look at the overall impact? We see it as a net impact figure. You can't just reimburse for impact and not look at the benefits that accrue from the presence of these people too.

Mr. UNDERWOOD. Thank you for your answers.

Mr. DE LUGO. I thank the gentleman from Guam for his questions.

I am going to have to leave for a brief period, and I am going to ask the gentleman from Guam to assume the Chair. I hope that I will be able to return before the conclusion of the hearing.

Let me say that the representative from the Commonwealth of the Northern Marianas here in Washington, Juan Babauta, has asked to make a statement to the committee in a moment, and the Chair will be glad to receive that statement.

There are simply so many questions that we have for you. There is a lot of frustration here. You testify that OTIA has wanted to have a cost-benefit study done on the alien impact since 1985. Here we are in 1993, and we still do not have one. When you see what is happening out in the N.M.I. and hear what was brought forth at this hearing, we cannot help but be very concerned and upset.

You testify that the administration wanted to include language in this agreement related to alien labor reform. Is that correct?

Mr. HEGGESTAD. It related specifically to the cost-benefit analysis.

Mr. DE LUGO. To the cost-benefit analysis. Well, it is hardly something that is revolutionary or puts anything at risk. The administration knew of the concerns of this committee and the House,

the serious concerns about the situation out there as it relates to the impact of the alien labor on the community, and the fact that the MIRA system is not applied or has not been applied in such a way that shows that the resources of the N.M.I. are being utilized to meet the needs of the citizens of the N.M.I. It would appear that there are tremendous rebates given back to certain individuals in the N.M.I. There is great concern, and to hear that as mild a provision to have a cost-benefit ratio on the impact of alien labor was proposed by OTIA and then withdrawn from this agreement is troublesome to the Chair.

There is the question of the subsidy of water and power in the N.M.I. and a number of other issues that I could raise. I think we will put those forward to you in writing, and we will accept those answers for the record.

At this time, I am going to have to ask Delegate Underwood to assume the Chair, and I want to thank you all. If I am unable to return before this hearing is concluded, I want to thank you all for coming. Lastly, I would like to thank you for the courtesies which you have extended to the Chair. I know it has been a very difficult hearing.

I want to commend the Governor for his efforts at tax reform and say that it is of great concern. In addition, I am very disappointed in the position taken by Saipan delegation. We are at a very serious point. The policies which are being pursued cannot continue. The Chair is convinced they are destructive. You have also heard the remarks of the Chairman of the full committee. We have many, many responsibilities here, which must be met.

With that, I thank you all for your courtesies and beg your pardon that I have to leave at this moment.

Let me turn the gavel over at this time to Mr. Underwood.

Mr. UNDERWOOD [presiding]. Thank you, Mr. Chairman. I just have a couple of questions to continue along the same line.

The Inspector General said last year that the lack of adequate oversight by your office over covenant grants contributed to the extensive questionable use of funds. The IG recommended that assistance be withheld until the CUC, the Commonwealth Utilities Commission, set adequate rates and collected fees adequately.

Does this agreement condition the \$120 million on adequate utility rates and collections?

Mr. HEGGESTAD. Not specifically, but it is tied into the agreement. I can maybe give you a little more detail on that. The full cost recovery rates instituted in the area of water, sewer, and power was a condition of the second 7-year agreement entered into in 1985. It was then repeated in what was called the grant pledge agreement, which was the basis on which we used the covenant funds to back a bond issue by the Northern Mariana Islands. Once again, it mandated full cost recovery rates be put into place.

There has been progress by the C.N.M.I. in that on January 1 of 1989, a new rate structure was put into effect, which significantly raised utility rates to a level of 16 cents for commercial and 11 cents for residential users.

It was based on a rate study as well that had developed that as a full cost recovery level. I think there were two problems with it. One is that the rates had been completed 2 years before the rate

was ever instituted, and second, there has been no adjustment to the rates since January 1 of 1989, although there has been significant investment, including more than \$40 million worth of capital investment in new generation capability. So, the rates are certainly out of date now. That is why we raised it as an issue in this new agreement.

There is still approximately \$34 million in bond money, that is, interest money and unused debt service retirement money, sitting in the Bank of New York as a result of the bond issue under the second agreement. In response to the Inspector General's audit, we have placed a hold on that money on approval of the use of that money until something is done to correct the problems of full cost recovery.

Given the events of the last few years, full cost recovery is not something that can be done quickly though. The utility corporation financially is in dire straits right now. There is even very little good information to make decisions on. So, what we have told the C.N.M.I. is that we are willing to release the \$34 million as a full cost recovery plan is developed and implemented that will ultimately lead to the existence of full cost recovery rates in the utility.

We have also provided technical assistance and specific expertise in the utilities area to help them develop that plan and to carry it out. About a month ago, we signed a grant agreement with the C.N.M.I. that over a 3-year period will give them approximately \$1.1 million in technical assistance. That will be matched, actually about \$550,000 from us and about \$550,000 from the C.N.M.I., to develop a plan and implement it for full cost recovery. So, it is tied in that way.

They can only use the \$34 million and interest money that sits in the Bank of New York to meet matching share requirements if a plan is developed and implemented for full cost recovery.

Mr. UNDERWOOD. In your discussions with N.M.I. officials on the \$120 million for 702, did you discuss any possibilities or any scenarios on how C.N.M.I. might finance their end of it? Did that become an issue?

Mr. HEGGESTAD. About how they might raise their matching share?

Mr. UNDERWOOD. Yes.

Mr. HEGGESTAD. Sure. There was a great deal of discussion on that. One item in particular that was raised over and over and over again is what we perceive as the need for an impact fee, developers' tax, whatever you might want to call it. In fact, the Governor mentioned today that such a piece of legislation is now pending in the C.N.M.I. legislature. I guess the frustration, again, we have there is that that legislation has been pending since early 1991. So, it is now more than 2 years. But we see that as essential.

We already talked about the need for increased user fees. Full cost recovery in utilities is essential to good financial management, but you also have to look at other areas where there is need for user fees, such as the Commonwealth health center. You can also look at other things like trash services and other services.

But finally, I think we saw a general need for tax reform, and that was discussed often throughout the discussions.

We are very pleased with the efforts that have been made first by a task force and now by the Department of Finance on its own initiative to undertake a review of taxes and to propose a tax reform initiative. Just glancing at it—and we were handed a copy yesterday of the full document—it looks like a very comprehensive document that we think deserves a great deal of debate and strong consideration. Like I said, we are sort of disheartened, though, at the sort of dismissal that it has been given at least by part of the legislature.

Mr. UNDERWOOD. I have no other questions. This is not to belabor the point on compact impact aid. I fully understand the fact that the compact impact aid is not mandated and it is not appropriated funds, but it is authorized funds. In the law it reads, there are hereby authorized to be appropriated for fiscal years beginning after September 30, 1985, such sums as may be necessary to cover the costs, if any, incurred, by the State of Hawaii, the Territories of Guam and American Samoa and the Commonwealth of the Northern Mariana Islands resulting from any increased demands placed on educational and social services by immigrants from the Marshall Islands and the Federated States of Micronesia.

My reading on that is that this does not require any kind of cost-benefit analysis. It simply states that if there are additional costs, and I am sure that the local governments can make the case for those additional costs, and we will be pursuing that issue a little bit further.

At this time I would like to recognize Resident Representative Juan Babauta who would like to make a brief statement. Please, Mr. Babauta.

Mr. BABAUTA. Thank you, Mr. Chairman, for granting me permission to speak to the committee again after having spoken with the panel from the C.N.M.I.

I share the concerns that were expressed by Chairman Miller and Chairman de Lugo with respect to the N.M.I. policy on non-citizens or aliens in the Northern Marianas. This is my first time to hear such strong statements coming from both Chairmen. I must take seriously their statements not to support the proposed agreement for the \$120 million for the N.M.I.

I sit here before you as a duly elected official representing the people of the Northern Mariana Islands and to ask Chairman Miller and Chairman de Lugo to please reconsider their position. The failure of N.M.I. policies should not be allowed to be unfairly punitive to the innocent people of the Northern Mariana Islands. We hear your concerns, Mr. Chairman, Chairman Miller, Chairman de Lugo, and I am certain that the N.M.I. leadership will reverse this policy given the hard reality we have just been presented.

We all agree that there are problems with the aliens in the N.M.I. We have an immigration problem. We have a minimum wage problem. We have a problem with the number of non-citizens in the N.M.I., but I think that changing the way grants are given to the Northern Marianas is not the way to solve this problem. I think that the solution should go right to the heart of the problem and that is changing the law with respect to immigration.

Therefore, on behalf of the people of the Northern Mariana Islands, I would like to ask Chairman Miller and Chairman de Lugo

to reconsider their statements. We need your support, and we need your help. Thank you very much.

Mr. UNDERWOOD. Thank you.

At this time, I would like to simply say for the record that we will be including the statement of Representative Herman Guerrero and the summary of Inspector General findings regarding the Northern Marianas.

[The information referred to follows:]



Herman T. Guerrero
 REPRESENTATIVE
 Eighth Northern Marianas Commonwealth Legislature

P.O. Box 2051
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March 2, 1993

The Honorable Ron DeLugo
 Chairman, Subcommittee on Insular
 and International Affairs
 Committee on Natural Resources
 U.S. House of Representatives
 Room 1324, Longworth House Office Bldg.
 Washington, D.C. 20515-9998

RE: Multi-Year Funding Agreement with Northern Mariana Islands

Dear Chairman DeLugo:

I am pleased to hear that the U.S. Congress is moving ahead to approve the next phase of multi-year funding to the Commonwealth of the Northern Mariana Islands in accordance with section 702 of the Covenant. I applaud you for stepping forward to sponsor the legislation. I understand that the subcommittee will be holding a hearing on the measure on March 18. In that regard I would like to offer the following comments:

Although I support the intent of increased autonomy and economic self sufficiency for the CNMI, I question whether a one-to-one matching requirement is realistic in light of our current economic downturn. Although the Commonwealth legislature enacted a balanced budget for fiscal year 1992, we are faced with a \$ 7.2 million deficit, attributable primarily to a shortfall between projected and actual revenue collections. This, I believe, is indicative of a generalized economic slowdown and of the inescapable fact that the world wide recession has finally reached our island shores. In other words, I seriously question the ability of the CNMI to generate the matching funds proposed under the pending agreement, especially the proportionately increased levels in future years.

I am also concerned about certain ambiguities in the proposed agreement. Lets take a worst case scenario: Commonwealth matching funds for FY 1994 and 1995 are met with interest earnings on funds derived from the prior financial agreement with the United States; in FY 1996, the Commonwealth is unable to allocate \$ 16 million in matching funds under the

The Hon. Ron DeLugo
 March 2, 1993
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proposed agreement. What happens then? Is that year's federal contribution (\$20 million) lost to the Commonwealth in its entirety? Does it roll over to the next fiscal year to be available pending the CNMI's ability to match? Is it made available on a pro rata basis in FY 1995? The proposed agreement is silent on these issues. Nor does the proposed agreement provide a mechanism for the resolution of such eventualities.

I am further concerned by the possibility of Congress approving a 1994 budget prior to approving the Multi-Year Funding Agreement to the Northern Mariana Islands. Will OTIA attempt to bind the Commonwealth to providing matching funds even in the absence of congressional ratification of the agreement? This appears likely in the light of OTIA's insistence that the CNMI provide \$ 6.25 million in matching funds in order to receive the \$ 27.72 Covenant grant pursuant to U.S. Public Law 102-381. I seriously question OTIA's authority to impose such a requirement. Covenant section 704 (d) clearly states:

"Upon the expiration of the seven year period of guaranteed direct grant assistance provided by Section 702, the annual level of payments in each category listed in Section 702 will continue until Congress appropriates a different amount or otherwise provides by law."

Unless the \$ 27.72 million appropriated to the CNMI under U.S. Public Law 102-381 is specifically conditioned by Congress upon the CNMI appropriating matching local funds, the OTIA is without authority to make such a demand at this or any other time.

I am additionally troubled by the Special Representatives' evasion of the legislative process. Because the proposed agreement commits the CNMI to an expenditure of \$ 120 million over a seven year period, these local funds will have to be provided in successive appropriation acts of the CNMI legislature. Yet the Executive Branch at no time sought the advice or endorsement of the CNMI legislature. I seriously question whether the Special Representatives have the legal authority to commit Commonwealth funds without legislative approval. I would like to see a rectification of this procedure.

Chairman DeLugo, I welcome the subcommittee's oversight of the proposed multi-year funding agreement to the Northern Mariana Islands. Through the hard work of our people and the generous assistance of the United States, our islands and our people have come a long way toward realizing a

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March 2, 1993
Page 2

first world standard of living. Our aspiration is for full self government and economic self sufficiency. It is our goal, it is not yet a reality. We urge your committee's assistance in pursuit of that goal. I hope that my comment will prove valuable in the committee's consideration of the pending agreement.

Sincerely yours,

A handwritten signature in black ink, reading "Herman T. Guerrero". The signature is written in a cursive, flowing style with a large initial 'H'.

Herman T. Guerrero

Summary of Inspector General Findings on the C.N.M.I.

Commonwealth of the Northern Mariana Islands

Since 1982, the Office of Inspector General has issued 25 audit reports containing hundreds of recommendations for the Commonwealth to improve its overall fiscal activities and operations. Our audits have consistently reported instances of fiscal irresponsibility and mismanagement of both locally generated revenues and funds provided by the Federal Government. In response to our recommendations, the Commonwealth government has often promised corrective actions but has taken little if any substantive actions to improve its overall financial condition. The Commonwealth's failure to address its long-standing financial management problems is evidenced by its most recent financial audit. Its fiscal year 1989 single audit, the latest available, showed that the Commonwealth had an \$11.5 million operating deficit; carried over from prior years \$20.2 million of unresolved questioned costs; and did not properly account for its revenue. The audit also showed that the Commonwealth's financial management system had 65 deficiencies relating to inadequate controls over cash receipts, billings, accounts receivable, cash disbursements, and cash management.

OIG Report Highlights

"Review of Mariana Islands Housing Authority's Contract Administration Procedures," May 1988. Poor contracting and contract administration procedures enabled the contractor on the Koblerville subdivision project to overbill the Commonwealth \$3.2 million. The Housing Authority approved \$1.6 million of the overbillings for payment, recorded them as liabilities, and made payments to the contractor. The remaining \$1.6 million had not been recorded by the Housing Authority. In addition, the Housing Authority's Executive Director committed the Authority to pay \$2.3 million in contract price increases for on-site improvements that exceeded available funding.

"Review of the Mariana Islands Housing Authority's Contract With OCK Construction Limited," May 1988. The Housing Authority obligated \$2 million to \$3.5 million without authorization from the Commonwealth Legislature and awarded the \$15 million to \$25 million contract for the construction of low income housing on an unjustified sole-source basis for more housing units than were needed. The Housing Authority borrowed funds to advance a \$10 million payment to the contractor. Subsequently, the Housing Authority borrowed funds from the contractor as a means to pay interest on the \$10 million borrowed to make the advance. The Housing Authority paid \$683,000 of interest to finance the \$10 million advance to the contractor, and home buyers will needlessly pay an additional \$3.7 million to \$6.1 million because the contract was awarded sole source. Further, members of the Housing Authority's Board of Directors did not exercise due care in awarding the contract, and the end result was that contrary to legislative mandate, housing units were built that could not be sold because the houses cost more than low income families could afford or finance.

"Commonwealth Utilities Corporation Commonwealth of the Northern Mariana Islands," June 1989. The Utilities Corporation had not identified all consumers of utility services; accurately measured the consumption of those consumers it had identified; correctly billed for services, even when consumption was measured; and collected all amounts due. The Corporation's records reflected only 5,205 customers of the estimated 6,500 power users. Of the 5,205 power consumers, only 2,633 (51 percent) were metered. Further, less than 2 percent of water users were metered. For unmetered consumers, consumption was estimated at a constant flat rate each month that did not approximate actual use. Because of these deficiencies, the Corporation lost \$3.7 million in revenue. Also, past-due accounts totaling over \$5.5 million had not been collected by the Corporation.

"Economic Development Loan Fund, Commonwealth Development Authority, Commonwealth of the Northern Mariana Islands," September 1990. Because the Development Authority disregarded Federal and Commonwealth laws, policies, and

procedures, the Economic Development Loan Fund principal decreased by \$8.5 million, thus reducing the amount available to provide financial assistance for economic development. This condition occurred for four reasons: First, Loan Fund assets were used for purposes other than economic development (\$65 million was used to make payments on a bank loan obtained to finance a housing project, and \$1.3 million was used to refinance a Housing Authority debt that was owed the Commonwealth government). Second, nine loans totaling \$2.2 million were made to enterprises that were not commercially feasible or to ineligible applicants or for unauthorized purposes. Third, the Authority did not pursue the collection of loans. (Thirty-seven loans totaling \$5.7 million were in default, and 98 loans totaling \$13 million were revised without improving loan collectibility. Of the loans in default or revised, 17 loans amounting to \$3.2 million were held by both current and former Government officials or their relatives.) Fourth, loans were not secured by collateral (\$700,000), and borrowers were not required to obtain insurance for property securing loans (\$3.6 million).

"Capital Development Funds, Commonwealth of the Northern Mariana Islands," February 1992. The Commonwealth used \$6.7 million of capital development funds provided by the Department of the Interior ineffectively or for unallowable purposes and has a \$59 million shortfall in funding for capital development projects. This occurred because the Authority used \$5.3 million to build a project of questionable benefit and diverted \$1.4 million from specific projects to pay unallowable general operating expenses.

"Fees, Billings, and Collections, Department of Public Health and Environmental Services, Commonwealth of the Northern Mariana Islands," May 1992. The Department set fees for medical services that were too low to recover its cost of operations, failed to bill patients for health care services provided, neglected to collect delinquent accounts for services rendered, and did not record all amounts due. Because of these deficiencies, subsidies from the general fund of \$60 million for fiscal years 1989 through 1991 were required to support the Commonwealth's

health care needs. Billings were not issued for \$4.3 million of health care services provided and collection actions were not initiated on \$7.5 million of delinquent accounts. Further, accounts receivable of \$8.7 million were not recorded.

Mr. UNDERWOOD. Indeed, today's hearing had a very sobering tone to it with respect to some of the issues that were raised regarding the policy and the responsiveness perhaps of the C.N.M.I. Government to some concerns that were expressed in previous times.

Personally I would like to congratulate Mr. Babauta for his statement because I too personally feel that at times, coming from the insular areas, you hate to see funding used as a tool to, in a sense, be punitive, but there are serious concerns about the responsiveness and the clarity I think with which some of these policies have been articulated and whether, indeed, in fact, the policies have shifted.

This is not meant to interpret either Chairman Miller's or Chairman de Lugo's points. It simply is a personal reflection of mine that it seems that, at least in my reading of some of the directions in which the policies are being articulated in the C.N.M.I., it lacked the clarity as to whether, indeed, they have been responsive or not. In lieu of that fact, I guess there is some level of frustration about that.

Be that as it may, I think that when you reach the point in policymaking where you start making funding decisions and you utilize them as an opportunity to create new legal structures, it is something that is to be taken seriously by all of us. All of us I think have had the opportunity as political leaders to participate in that. Without making the words perfectly clear, I think the action and the anticipated actions are rather obvious. I think there is a great deal of work of reconstruction to be done with regard to this issue. I would like to say that on behalf of myself, I am quite willing to participate in that work.

So, thank you very much, and this meeting is adjourned.

[Whereupon, at 1:04 p.m., the subcommittee was adjourned.]

APPENDIX

MARCH 18, 1993

ADDITIONAL MATERIAL SUBMITTED FOR THE HEARING RECORD



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240



JUN 10 1993

Honorable Ron de Lugo
Chairman
Subcommittee on Insular and
International Affairs
Committee on Natural Resources
U.S. House of Representatives
Washington, D.C. 20515-6201

Dear Mr. Chairman:

On March 18, 1993, the Subcommittee on Insular and International Affairs held hearings on H.R. 1092, a bill to provide further financial assistance to the Northern Mariana Islands.

You requested answers to follow-up questions regarding H.R. 1092. The answers are enclosed.

Sincerely,

Ralph G. Hill, Jr.
Ralph G. Hill, Jr.
Assistant Legislative Counsel

(103)

QUESTIONS FOR THE INTERIOR DEPARTMENT OF TERRITORIAL AND INTERNATIONAL AFFAIRS BY THE SUBCOMMITTEE ON INSULAR AND INTERNATIONAL AFFAIRS - MARCH 18TH LEGISLATIVE HEARING ON H.R. 1092, A BILL TO PROVIDE FURTHER ASSISTANCE TO THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS.

OTIA OVERSIGHT

1. The Inspector General said last year that the lack of adequate oversight by your office over Covenant grants "contributed to the extensive questionable use of funds." The IG recommended that assistance be withheld until the CUC set adequate rates and collected fees adequately.

QUESTION: Does the agreement condition the \$120 million on adequate utility rates and collections?

ANSWER: There is no direct condition requiring adequate utility rates and collections before the \$120 million may be spent. There is, however, a potent indirect incentive for implementing full cost recovery by the end of fiscal year 1995. The second seven-year agreement required full cost recovery by 1989, which remains unfulfilled today. Also, on orders from the Interior, the Bank of New York is holding \$27 million in interest and other earnings related to the second agreement. The third agreement, now under consideration, states that the "interest earnings on funds contributed under the Second Financing Agreement may be applied to the total of the Commonwealth Government matching requirements for fiscal years 1993 through 1995. These earnings will be made available when the terms of the grant pledge agreements entered into under the Second Financing Agreement are met."

The primary condition under the grant pledge agreements that is being referenced above is the requirement for full cost recovery rates. Under the third agreement, the \$27 million can be applied as the CNMI match only in fiscal years 1993 through 1995. If the full cost recovery plan is not implemented in any one of these three years, the CNMI must raise its matching requirement from other locally derived revenue, imposing an additional, substantial burden on the Commonwealth. While this is not a condition precedent to receiving the \$120 million, the ability to use the \$27 million as a match is a powerful incentive for implementing full cost recovery.

While the CNMI is not in full compliance with the full cost recovery requirement, steps taken have been substantial and very positive. Since the Second Financing Agreement went into effect, the Commonwealth Utility Corporation (CUC) was created, power rates were increased from less than 6 cents

per kwh to 16 cents, and total annual collections rose from approximately \$5 million to nearly \$30 million.

SAVINGS OR NEW SPENDING?

2. Both the present and past administrations have suggested that the agreement would save some \$74 million over the next seven years. This assumes, however, that the current commitment would not otherwise be replaced. If it were repealed, for example, the agreement would represent an additional \$120 million in spending.

QUESTION: Did the new administration consider replacing the current commitment with anything other than the agreement negotiated by the last administration?

ANSWER: Yes, the Administration considered rejecting the agreement, as is allowed by its terms, and it considered starting over with new negotiations. After consideration, it was determined that supporting the existing agreement was the best option.

3. O.M.B.'s explanation of the President's economic plan stated that the agreement was with the government of the N.M.I. although, of course, it is only joint recommendations made by representatives of the past President and the Governor.

- a. **QUESTION:** Did the new administration believe that the agreement was with the government of the N.M.I., as they stated, or did they understand that the government of the N.M.I. had not approved it and that our government was not obligated to?

ANSWER: This Administration knew that it did not have to support the agreement. There is a provision in the agreement to that effect. However, the Administration does not take lightly the fact that this agreement was reached in good faith between Special Representatives of the Governor and the President. On that basis, we would not reject the agreement for purely partisan reasons.

- b. **QUESTION:** Did the new administration have full knowledge of all of its options on this matter? Did it know, for example, that it could have proposed conditions on funding?

ANSWER: The agreement does contain conditions on the funding. It does not allow the money to be used for operations; it requires matching contributions from the Commonwealth prior to Federal payment; it requires a project-specific plan before funds are expended; it requires a plan to meet the full cost recovery rate condition in the

last agreement; it requires the imposition of grant regulations, even though grant regulations normally do not apply to direct appropriations; and it requires the two parties to reach an agreement on audit resolution before funds can be expended.

Since the agreement was the result of "good faith" discussions, we believe additional conditions should be imposed only if there is mutual agreement between the parties. Of course, the Congress is free to legislate additional conditions as it deems appropriate.

4. An O.M.B. official told us that the Interior Department had suggested that the agreement was not controversial. Your office, however, has known that we were concerned about the N.M.I.'s tax and alien labor policies and their connection to federal assistance, that we were concerned about projects not being identified when the last agreement was proposed, and that these have been problems with the use of the past assistance.

QUESTION: Were policy-makers fully apprised of our concerns? Would you please submit copies of any such advice you gave them?

ANSWER: In the budget process and in the process of briefing the new administration on significant policy issues, the agreement and related congressional concerns were raised with policy officials at Interior, both orally and in various internal documents. The Assistant Secretary for Territorial and International Affairs was not yet nominated when many of the decisions on the budget had to be made.



Commonwealth of the Northern Mariana Islands

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Honorable Ron de Lugo
Chairman, Subcommittee on Insular and
International Affairs
Committee on Natural Resources
Washington, D.C. 20515-6201

Dear Chairman de Lugo:

Re: Follow-up Questions to March 18th Hearing - H.R. 1092 - Financial
Assistance to the Northern Mariana Islands - Your Letter of 1 April '93

Thank you for your many courtesies. We appreciate the time the Subcommittee has spent with the Northern Marianas. We provide answers to the follow-up questions you put to us in your letter of 1 April '93.

1) Federal Support Justified Even in Light of NMI Garment Manufacturing.

Why should the Federal Government use revenue contributed in part by U.S. workers and manufacturers, who are suffering in part from competition from the Marianas, to finance infrastructure for the Commonwealth?

Assumptions in this question are incorrect. U.S. garment workers and manufacturers do not suffer from NMI competition in textiles or garments. The NMI creates jobs for mainland U.S. citizens; it does not eliminate them.

U.S. manufactures do not suffer from competition from the Northern Marianas. The percentage of the U.S. garment market reflecting goods from the CNMI is very small. Computed as the value of the U.S. imports for consumption under HTSUS Chapters 61 & 62, in 1992 the CNMI represented only 1.0499% of all imports to the United States. The CNMI share of imports decreased between 1991 and 1992 from 1.07% to 1.04%.

We're sure mainland garment workers and manufactures don't complain that other States of the Union compete unfairly. The CNMI is member of the U.S. political family. We are citizens. U.S. owned or partially owned companies export more than 51% of the garments made in Saipan. Kelwood, one of these garment firms, is a U.S. Fortune 500 company. It cannot be fairly said that the NMI is a "non-domestic" competitor.

Mainland workers do not "suffer," they "benefit" from the NMI. Federal financing creates infrastructure that, in turn, allows the NMI to create jobs for mainland Americans. It is significant that NMI garment exports to the United States are close to equal in size to CNMI imports from the mainland United States. In 1992, garment exports to the mainland U.S. totaled \$294 million, while imports from the U.S. into the CNMI totaled \$275 million. The CNMI buys tons of U.S. goods; creates jobs on the mainland, doesn't eliminate them.

The CNMI garment industry slowly declines. From a high of 26 firms operating in 1989, there are now only 16 working garment factories. Reasons for plant closure range from declining profit margins, to increased competition from Asian rim countries. The number of workers employed in garment manufacture in the CNMI decreased by over 1,400 persons during the period 1991-1992. In 1986, a moratorium was placed on industry development.

The Federal Government has already shut down part of the NMI textile and garment industry. Sweaters were the initial garment produced in the CNMI. In 1984 the United States Customs changed its regulations to exclude any textile products from insular possessions unless "substantially transformed." Shortly thereafter, CNMI garment manufacturers had no choice but to begin to manufacture garments using "cut and sew" methods. The "cut and sew" garment production method is more labor intensive than sweaters.

The NMI has developed a garment industry, depending in the main on alien labor. This should come as no surprise to Federal authorities. It is overstatement to say that Congress' purpose in giving duty free status to CNMI goods was to help create jobs in the Marianas for local people. When General Headnote 3 (a) and its predecessor legislation were originally enacted, the duty-free exemption was not applicable to the Northern Marianas. We find nothing in the legislative history or negotiating history of Section 603(c) of the Covenant explicitly stating that the purpose of extending the headnote exemption to the Northern Marianas was to create jobs in the Marianas for local people.

Former Assistant Secretary of the Interior Montoya asserted that:

Little reference was made [in the legislative history of Headnote 3 (a)] to employment of local residents as opposed to aliens simply because the major territories, Guam and the Virgin Islands, were subject to U.S. immigration laws and employment of aliens in Headnote 3 (a) industries was not an option.¹

Subcommittee concern over the presence of a large non-resident worker population in the NMI comes as a surprise. Extensive reliance on alien labor for economic development was contemplated when the Covenant was negotiated. From the outset, the Marianas Political Status Commission knew - and communicated to the United States negotiators - that alien labor would be necessary to the economic development of the Northern Marianas:

The high level of population growth which we have projected ... reflects the explicit recognition by the Marianas Political Status Commission that the present small population base [of the Northern Mariana Islands] cannot provide the labor force needed for significant economic development.

¹ Special Representative of the President for the Section 902 Consultations, Position Paper, "Alien Labor and Headnote 3 (a)," at 3, reprinted in Compilation of Documents from the First and Second Rounds of the Covenant Section 902 Consultations, at 91, 93 (1986).

Controlled immigration into the Marianas will be necessary if we are to attain our economic goals.²

See also U.S. Dep't of State, *Trust Territory of the Pacific Islands: 1973*, at 57-58 (1974):

"The manpower supply of Micronesians with job skills required for ready participation in economic growth opportunities is limited ... Shortages exist mainly in managerial, professional, and middle level skills such as construction and service trades. The current increase in construction will require further increase in non-resident skilled workers."

Today, NMI citizens can still only provide 16% of the needed work force.

If the mainland U.S. workers and manufacturers are being overcome it is not due to the NMI. Look to Mexico. American corporations are closing plants and slashing work forces in the United States and shifting jobs to Mexico. Since 1965, more than 1,800 plants employing more than 500,000 workers have been built there, most by U.S. corporations. Mexico's Maquiladora program, a venture started to persuade United States companies to establish assembly plants there, has moved jobs and factories away from the U.S. flag. The government encourages such plants by setting low tariff on finished goods shipped back to the United States. Originally, Maquiladoras assembled components shipped in from the United by American corporations. Now many of these so-called assembly plants are full-scale manufacturing facilities, performing the same type of work that was once done by American workers, but at much lower wages.

2. The \$120 million Will Raise Standard of Living. Will Be Used for Priority Needs

How can we be assured that the \$120 million will be used for what we will agree are the priority needs in the NMI? Specifically, how would the recommended \$120 million raise the standard of living in and develop the economic resources of the Commonwealth?

While the text of the new 702 Agreement does not contain the specific projects which would be financed with the \$120 million, a list of CNMI priority projects was submitted to the Subcommittee as part of the Governor's written testimony to the March 18, 1993 oversight hearing. This list of projects has also been provided to the Department of the Interior's Office of Territorial and International Affairs (OTIA).

The 702 Agreement contains language that speaks to CNMI priority projects:

"The Commonwealth Government shall develop and maintain an integrated list of priorities for new and reconstructed capital infrastructure to serve the residents of the Commonwealth. Each listed project shall have a cost estimate with identified sources of financing. Projects may be phased over two or more years. Such list may be revised as deemed appropriate by the Commonwealth Government. Copies of the list and any revision shall be submitted to the Assistant Secretary of the Interior for Territorial and International Affairs." Part II, Funding, B. Capital Development, on Page 3

² Marianas Political Status Commission, "Response to Comments of Ambassador Williams and Mr. J. Wilson on the Marianas Political Status Commission Economic and Financial Position Paper" 1-2 (Marianas Political Status Negotiations, 2nd Round, May 25, 1973).

When negotiations first began on this new Agreement, the CNMI Government identified \$832 million worth of needed capital projects from its own internal planning process. From this original list, approximately two-thirds of the projects were eliminated in order to fit within the \$240 million to be made available under the terms of the new Agreement. The resulting list of capital projects are absolutely essential to the continued long-term economic growth and increased standard of living for the People of the Northern Mariana Islands.

From our spread sheet of priority projects for the period of FY 1993 through FY 2000, it is clear that certain projects require that funding be phased over two years or more. Funding contributions from both the CNMI and the U.S. Governments are included in the spread sheet to realistically show how the allocation of these resources might vary from one fiscal year to the next during the financial assistance period.

The Governor's Office wishes to assure the Subcommittee that significant changes in the priority of these projects is highly unlikely. These projects have been carefully studied and selected as those that will make the most positive contribution to the present and future economic prosperity of the CNMI, and only minor variations in the construction timing of these projects throughout the U.S. financial assistance period are anticipated. In accordance with the new Agreement, any revisions to the list of capital projects shall be submitted to the Assistant Secretary of the OTIA.

The Governor's Office has received inquiries indicating Congressional doubt that the CNMI plans for its infrastructure needs. Congress accepted the seven-year strategic development plan which was prepared for the NMI by the consulting firm of Arthur D. Little International, Inc. (ADL) in 1987. Perhaps we have been remiss in not informing the Congress of planning efforts undertaken by the various departments and agencies of the CNMI Government since the preparation of the ADL Plan. In an attempt to correct this oversight, we take this opportunity to describe our planning efforts.

The Arthur D. Little (ADL) Plan provided a needs assessment for basic infrastructure and was divided into three principle elements: (1) an economic development plan; (2) a capital improvement plan; and (3) a financial management strategy. The Plan identified capital improvement priorities that reflected prime development needs and opportunities. It also set those priorities with an eye on our limited funding sources. At the time the ADL Plan was prepared in 1987, very little real planning was being done by the departments and agencies of the CNMI Government. Funding was so limited and the needs were so vast that planning seemed a luxury.

Today, however, CNMI Government departments and agencies are all involved with long-range planning. And these plans are not just in-house reports to justify the actions of management. They are master plans prepared by qualified professional consulting firms retained by the Government to analyze current conditions and to recommend comprehensive solutions. Our present planning process resembles the type of infrastructure planning approach utilized by most U.S. Mainland communities. That is, comprehensive land use and zoning plans are prepared and adopted by the legislative body and then physical master plans in all categories are required to conform to the land use plan.

Our own comprehensive land use plan and zoning law has been under preparation for the past two years by a well known national planning consultant, Lane Kendig, Inc. The draft plans and zoning maps have been completed and submitted to the CNMI Legislature for adoption. When approved, these plans will guide development on Saipan for years to come.

Physical master plans which have been prepared since the Arthur D. Little plan are as follows: (1) Power generation and distribution - R.W. Beck & Associates; (2) Water supply - U.S. Geological Surveys; (3) Water distribution - Winzler & Kelly, Inc.; (4) Wastewater facilities - Duenas & Associates; (5) Solid Waste - Dames & Moore, Inc.; (6) Seaports - U.S. Army Corps of Engineers & Bechtel; (7) Airports - Leo A. Daly, Inc.; (8) Tourism - Duenas & Swavely, Inc.; (9) Public School System - Dr. Betty Hanson; (10) Northern Marianas College - Wilkinson, White Architects.

As an example of how we have arrived at our priority capital projects list, we are submitting the following set of documents so that the Subcommittee can retrace the process. We have randomly selected the Public School System for illustration. The set of documents include: (1) Spread Sheet (3 pages) showing the funding contributions of both the CNMI and U.S. Governments by sector and broad category spread from FY 1993 through FY 2000; (2) A list (7 pages) of the specific projects selected with estimated costs; (3) Project narratives and justifications (20 pages); and (4) The specific physical master plan from which the projects were selected.

For our example, we submit copies of the PSS Capital Improvement Plan prepared by Dr. Betty Hanson. Dr. Hanson is a preeminent scholar in the field of school facilities planning in the State of California. We also submit a financial management strategy prepared by Deloitte & Touche. If one starts with Sector H, EDUCATION, on Page 2 of the spread sheet, the projects can be retraced through the 4 documents listed above to give a clear picture of how these priority projects were selected for 702 funding.

Standard of living to be raised? Yes. The recommended \$120 million would raise the standard of living and develop the economic resources of the Commonwealth by providing a portion of the needed funds to upgrade our power, water and sewer systems, as well as our health care facilities, our schools and our roads. Facilities would reach a level of operation considered reliable by U.S. standards.

In addition, our water and sewer systems remain inadequate to effectively protect the CNMI's natural environment. Groundwater, which is the only developed source of fresh water in the CNMI, is in danger of being over pumped. New sources such as surface water catchment and the desalinization of sea water must be developed as supplementary sources. Our largest sewage treatment plant in Garapan, which is in the central part of Saipan, continues to discharge the effluent within Saipan Lagoon, a situation which must be changed in the very near future if we are to protect residents and visitors alike from possible health problems.

These are serious issues that require sophisticated and expensive solutions. The CNMI's internal resources are simply insufficient to provide the necessary funding to address these infrastructure needs. Until many of these issues are resolved, continued economic development of the CNMI will not proceed as desired by both the CNMI and the U.S. Governments.

Members of the U.S. Congress can be assured that the \$120 million will be used for priority needs of the CNMI. In addition, there exists an ongoing program in the insular areas known as the Operations and Maintenance Improvement Program. The OMIP program is jointly sponsored by the Department of the Interior and the U.S. Army Corps of Engineers, in conjunction with an private consulting firm, Louis Berger International, Inc. This group of highly qualified professionals has been working with the agencies of the

CNMI since 1990 and fully understands our infrastructure needs. The group could be asked to independently evaluate and verify the CNMI's list of needed capital projects and report its findings directly to the Congress.

3. NMI Legislature Approves 702 Agreement - Commits to Match

Why wasn't the Legislature asked to approve the Agreement? Why should the Congress approve the Agreement before the Legislature does?

The Legislative leadership approved the Agreement and expressed support. It has committed to match the \$120 million. We attach a letter of 16 October 1992, signed by the Governor, Senate President, and House Speaker, stating that: "We are happy to inform you that this Agreement has the support of our Administration and Legislature."

Will the Legislature commit to match the \$120 million? Why have so many legislators questioned doing so? How can we be assured of a commitment on the part of the NMI?

The dollar-for-dollar matching requirement of the 702 Agreement guarantees to this Subcommittee and to the Congress that there will be tax reform and matching revenue. We must match the Federal dollar. We need more local dollars to make the match. More local dollars will mean tax reform. No tax reform; no local match; no Federal money.

New taxes measures are now entertained at the CNMI Legislature. Just to mention a few: Developers' Infrastructure tax (imposing a 7% tax on the total project cost of new development); Garment Manufacturer's Gross Profits Tax; Saipan Room Occupancy Tax (levy an additional 5% occupancy tax on each room - funds dedicated for improvement of utility services); Additional Excise Tax on Alcoholic Beverages (fund dedicated for public schools). The Governor urges favorable action on these measures.

The CNMI Executive has also taken the lead in advocating general tax reform for the NMI. Our Finance Department has recommended ways to make the tax burden fairer to all and at the same time increase resources. We mean to close loopholes and smooth out uneven tax rates found in our present system. As the Finance Tax Report says: "These unfair practices will have to change if the CNMI is to have a credible tax system that promotes the welfare of all and not just the privileged few." We propose legislation that will bring in an additional \$30 to \$40 million a year in local revenues. We are hopeful that the local Legislature will join this tax reform initiative.

We enter the NMI election campaign season. Hesitancy of some legislators to publicly endorse tax increase should be read with that in mind. It is our opinion that the Legislature will pass revenue increases, if not in the present Eighth Legislature, then certainly in the new Legislature, following the next general election. There will be match.

A demonstration of legislative commitment for match can be found in the attached summary of House and Senate bills, regarding: immigration, labor, minimum wage, and taxes. If you desire the full bills, we will send them under separate cover.

4. No Fear of Amendments or Changes.

Since the Congress will have approved the agreement, why should changes in it be made without congressional approval?

The Congress is being asked to approve the fixed level of Federal funding. The first two such funding agreements addressed funding levels only, not the list of infrastructure priorities that could possibly change during the funding period. The proposed agreement, like the first and second agreements, is likewise carefully drafted in order to protect the sanctity of the Covenant. To require congressional approval for changes involving specific infrastructure projects, or OTIA administrative changes, would be contrary to self-government guarantees contained in the Covenant.

The Section by Section Analysis of the Covenant to Establish A Commonwealth of the Northern Mariana Islands: Marianas Political Status Commission, February 15, 1975, says: "It is important to note that the United States has agreed to provide direct assistance, which means that the Government of the Northern Marianas will be able to determine the precise projects on which the funds will be used."

The Covenant was the fulfillment of the U. N. Trusteeship Agreement in which the United States guaranteed self-government to the people of the Northern Marianas and committed to raise the standard of living to the U.S. standard by providing assistance for infrastructure development. In addition, the CNMI's matching contributions are appropriated by the legislature which has an important role in determining infrastructure priorities as special circumstances may dictate. For example, frequent typhoons can wipe out infrastructure, or a drought could create a need for more water projects.

Recognizing the Covenant's self-government guarantees, the President's Special Representative agreed the CNMI shall develop and maintain a list of priorities for capital infrastructure projects. That list may be revised as deemed appropriate by the CNMI, and shall be submitted to the Assistant Secretary of Interior for Territorial and International Affairs. Federal assistance provided under this agreement shall be subject to applicable Federal grant regulations.

What assurance does the Congress have that the provisions it is being asked to approve will not be changed immediately?

As mentioned above, Congress is being asked to approve fixed levels of Federal funding. Federal funding cannot be changed without subsequent Congressional approval.

5. Representation.

The agreement does not make clear who will represent the parties in making changes to it. Who will? How can we be assured that officials other than those intended now will not make changes in the future?

The approval process for changes in infrastructure priorities involves the CNMI executive and legislative branches. Changes are submitted to the Assistant Secretary of Interior for Territorial and International Affairs to assure that those projects are in fact solid capital development projects and consistent with applicable laws.

Any administrative changes must be made mutually by the NMI and OTIA.

6. Commonwealth Utilities Corporation - Meters On - Collections Up - Users Not Subsidized.

What is the current situation with collections, rates, and metering?

Collections have grown from \$5.6 million in fiscal year 1988 to \$37.5 million in fiscal year 1992. As of March '93, 98% of all customers are metered. Full cost recovery rates were implemented in January 1989. The power rate was increased by 100%, raising residential rates from \$0.05/KWH to \$0.11/KWH; commercial rates went from \$0.08/KWH to \$0.16/KWH. Further rate adjustments are planned for '93.

What provisions are there to ensure that those who can pay the cost of services do and only those who cannot are subsidized? Why should Federal tax payers provide additional infrastructure assistance when many in the NMI who can pay a fair share for utility services are not required to do so?

Regulations do not provide for subsidy. Everyone in the CNMI pays their fair share. Even customers under the Federal Low Income Housing Energy Assistance Program (LIHEAP) are billed for total consumption and are required to pay any balance in excess of the Federal assistance.

For a more detailed and fully documented response, please see the letter of April 7, 1993, from the CUC Executive Director (and attachments), enclosed. See, particularly: the attached report on *CUC Accounting and Billing*, which includes a thorough discussion of CDA and Mitsubishi loans

7. CUC Operations Efficient - Management Sound - Continued Federal Funding Justified.

Should Federal taxpayers provide additional infrastructure assistance in light of allegations of CUC mismanagement of past assistance?

Allegations of mismanagement have been rebutted. CUC used Federal assistance wisely. We believe that capital development funds are invested properly, and according to plans. Please see the CUC Executive Director's letter and its attachments, of April 7, 1993.

8. CUC Uses Local Money for Improvements.

In light of the past failure to provide local funds for infrastructure needs, should federal taxpayers provide additional assistance?

It is not even remotely accurate to say the CNMI has failed to provide local funds for infrastructure needs. CUC, alone, has invested: \$4,440,790 in water projects; \$5,275,944 in power distribution projects; and \$9,505,410 in wastewater division projects. Again, please see the CUC Executive Director's letter of April 7th, particularly the attachments: the Commonwealth Utilities Corporation *Wastewater Division Report*, April 1993; and, report of the CUC *Power Generation Division*, for more detailed breakdown.

By no stretch of the imagination has the NMI relied only on Federal money and failed to supply local support for infrastructure. On the contrary, besides direct appropriation of local revenue, the CNMI government has invested millions-of-dollars in its own land resources to help build infrastructure.

For example, when the Department of Public Works and CUC needed a right-of-way for road widening and utility easements along Saipan's Chalan Pale Arnold ("Middle Road"), thirty-three private parcels were needed. The CNMI government provided land exchanges

to compensate private parties for loss of land needed for the road and power poles. The land owners were given a piece of public land of the same value as that taken by the utilities for their right-of-way. Lands were appraised for a value-to-value exchange. It cost about a \$1 million per mile for the road and utility expansion, and \$59 million in property exchanges to complete the project.

The CNMI government has given up millions in valuable, limited land supplies - \$59 million in one project alone - in order to assist in public works projects. The Federal contribution has been more than matched.

And that's not the end of the story on non-Federal contributions. For 1990-92, the CNMI Legislature, a condition of approving public land leases for private developers, imposed pledges of \$40 million in cash or in-kind contributions to improve infrastructure. In addition, for 1991-92, the Commonwealth Utilities Corporation collected a total of \$4.1 million in contributions, from 17 separate developers, for upgrading the Sadog Tasi and Aingan Point sewage treatment plants. For the same period, the Department of Public Works received \$600,000 in developer infrastructure improvement contributions, used mostly for road paving and solid waste projects. In other words, the CNMI raised \$44.7 million in non-Federal infrastructure revenue from its developers.

9. Effective Management of Commonwealth Development Authority.

What assurance will there be of more effective management of assistance by CDA?

It is the resolved position of the Board of Directors and the Executive management of CDA to comply with the findings and recommendations of the Inspector General and the CNMI Public Auditor's findings and recommendations that are supported in fact and by law.

The Board of Directors has directed the CDA Executive Director and staff:

- a) To expand and improve the financial management system to properly account for all bond issuances and capital improvement projects funded by such Bond proceeds;
- b) For the Executive Director to expand and improve formal review procedures to monitor and review capital projects and project expenditures for allowability and sufficiency of supporting documentation; and
- c) For the Executive Director to expand and improve procedures to ensure that capital improvement projects are funded only if we meet the needs identified in the CNMI Development Plan. Any projects requiring significant modification (phasing) because of funding limitations should be undertaken only if the project still meets Development Plan objectives.

In all due respect, the opinion of the Inspector General that CDA has "exercised inadequate oversight and control regarding Federal infrastructure assistance," or that money was used "ineffectively or for unallowable purposes" is not holy writ. Just because the IG says it is so does not make it fact.

On November 29, 1991, CDA provided a detailed response to the IG's Draft Audit on Capital Development Funds (Assignment No. N-TG-NMI-09-90). CDA, in many cases, rebuts IG allegations of "unsupported charges." A copy of this CDA letter is included as an attachment to our response.

Reasonable minds can and do differ on proper fund management. The IG is not always correct. Consider this example. The IG charged that \$670,000 for services provided by the Department of Public Works Technical Service Division were unsupported. The subject charges were incurred by the Dept. of Public Works prior to the creation of CUC. These charges covered the in-house engineering and design of a major water project. This Marpi Reservoir and water transmission line project was subsequently funded by a 50/50 grant from the U.S. Department of Commerce Economic Development Administration (EDA). CUC used Covenant funds for its share as provided and permitted by U.S. P.L. 96-396. The original design and engineering cost were approved expenditures under the grant agreement. The transfer of \$670,700 to the Commonwealth General Fund only reimbursed the General Fund for the approved capital project expenditure. The project was completed over one year ago. It has met or exceeded anticipated benefits. The IG criticism was misplaced.

10. Federal Assistance Will Be Used Properly.

What assurance can you give us that further assistance will be used properly?

It should be assurance that past assistance was used properly. The CNMI has always endeavored to make the best use of Federal monies and to use them properly.

A comment on loans. CDA/EDLF is administered to be "commercially profitable," while not competing with other financial institutions. It fills a narrowly defined need for loans to enterprises that appear "economically feasible with a substantial degree of success," but that are not bankable. In other words, these are loans with an element of risk that commercial banks might not touch. Despite this, no developmental assistance loan has been written off. Collection efforts continue.

Because the Inspector General concludes that funds were "lost" or that there was "failure to collect repayment of loans" does not make the assertions automatically and irrefutably true. There are often two sides to a story.

We make it practice to communicate our differences of opinion to the Inspector General in a business-like manner. As an example, please consider our comments to Audit Report No. 90-104 - CDA Economic Development Loan Fund (EDLF). We went to great length to detail our response to audit recommendations. That we have a difference of opinion on the law or the facts should not justify a conclusion that we "lose" assistance or use it improperly.

Which is not to say that the CNMI does not have room to improve fiscal practices. We accept many IG criticisms. We try to owe up to shortcomings. Where appropriate, we have readily admitted to deficient practices and brought ourselves into line with IG positions. We concur and implement a great number of IG audit report recommendations.

We have summarized the CNMI Audit Reports issued over the last five years and set forth the status of recommendations. Please find this summary enclosed. Notice, if you will, the number of IG recommendations "implemented" or in which the "management concurs."

If we can be of further assistance, please do not hesitate to call upon us.

Sincerely,


LORENZO I. DE LEON GUERRERO
Governor

Enclosures

xc: Lt. Governor
Washington Representative
Senate President
House Speaker
CUC Executive Director
CDA Executive Director

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

CAPITAL IMPROVEMENT PROJECT SPREAD SHEET
FY 1993 THROUGH FY 2000

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
CIP PROJECTS
MULTI-YEAR PHASING SCHEDULE
FISCAL YEAR 1993-2000

PARTICULARS	TOTAL	1993	1994	1995	1996	1997	1998	1999	2000
A.) WATER SYSTEMS:									
1. Surface Water Catchment	36,000,000	0	2,200,000	8,500,000	8,200,000	8,500,000	8,600,000	0	0
2. Sys. Rehab/Distribution	8,100,000	2,700,000	2,000,000	0	0	0	96,000	1,652,000	1,652,000
3. Rota Improvements	4,000,000	2,500,000	0	0	0	1,500,000	0	0	0
4. Tinian Improvements	3,600,000	1,800,000	0	0	0	0	1,800,000	0	0
TOTAL	51,700,000	7,000,000	4,200,000	8,500,000	8,200,000	10,000,000	10,496,000	1,652,000	1,652,000
B.) SEWER SYSTEMS									
1. N. Saipan TP & Collection	15,000,000	900,000	3,700,000	3,700,000	4,700,000	0	0	2,000,000	0
2. Saipan Collection	8,100,000	5,706,000	0	0	0	2,394,000	0	0	0
3. Ocean Outfall (Garapan)	6,000,000	0	500,000	2,750,000	2,750,000	0	0	0	0
4. Rota Improvements	1,500,000	0	0	0	0	1,500,000	0	0	0
5. Tinian Improvements	1,200,000	0	0	0	0	1,200,000	0	0	0
TOTAL	31,800,000	6,606,000	4,200,000	6,450,000	7,450,000	5,094,000	0	2,000,000	0
C.) SEAPORT FACILITIES									
1. Saipan	0	0	0	0	0	0	0	0	0
2. Rota	15,000,000	0	0	0	0	0	7,500,000	4,643,000	2,857,000
3. Tinian	10,000,000	0	0	0	0	0	0	3,000,000	7,000,000
TOTAL	25,000,000	0	0	0	0	0	7,500,000	7,643,000	9,857,000
D.) SOLID WASTE									
1. Saipan Landfill	5,000,000	5,000,000	0	0	0	0	0	0	0
2. Rota Landfill	3,000,000	0	0	0	0	0	0	1,400,000	1,600,000
3. Tinian Landfill	3,000,000	0	0	0	0	0	0	1,400,000	1,600,000
TOTAL	11,000,000	5,000,000	0	0	0	0	0	2,800,000	3,200,000
E.) ROAD PROJECTS:									
1. Cross Island Road	7,600,000	1,000,000	1,000,000	1,000,000	2,000,000	2,600,000	0	0	0
2. Beach Road Phase XV	1,500,000	0	700,000	800,000	0	0	0	0	0
3. Navy Hill Road	900,000	0	400,000	500,000	0	0	0	0	0
4. As Tro Road	1,550,000	0	0	0	200,000	900,000	450,000	0	0
5. Lower Base Road Resurct.	1,000,000	0	0	0	500,000	500,000	0	0	0

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS											
CIP PROJECTS											
MULTI-YEAR PHASING SCHEDULE											
FISCAL YEAR 1993-2000											
PARTICULARS	TOTAL	1993	1994	1995	1996	1997	1998	1999	2000		
6. South San Vicente Road	1,700,000	0	0	125,000	0	525,000	525,000	525,000	0		
7. Rota Songsoog Village	4,000,000	0	0	0	670,000	3,330,000	0	0	0		
8. Tinian Marpo Road	5,700,000	0	0	0	0	0	2,850,000	2,850,000	0		
TOTAL	21,950,000	1,000,000	2,100,000	2,425,000	3,370,000	7,855,000	3,825,000	3,375,000	0		
F. POWER SYSTEM											
1. Chalan Piao Transm/Dist.	7,100,000	0	2,400,000	2,400,000	2,300,000	0	0	0	0		
2. Step-up Subst. & Upgrade	9,240,000	0	0	0	2,310,000	4,561,000	2,369,000	0	0		
3. Rota Power Generation	11,000,000	0	0	0	0	0	0	5,500,000	5,500,000		
4. Tinian Power Generation	11,000,000	0	0	0	0	0	0	5,500,000	5,500,000		
TOTAL	38,340,000	0	2,400,000	2,400,000	4,610,000	4,561,000	2,369,000	11,000,000	11,000,000		
G. HEALTH SERVICES											
1. Saipan Public Health Care/	15,900,000	2,500,000	2,500,000	1,500,000	375,000	2,500,000	3,400,000	2,500,000	625,000		
Collateral Equipment	3,000,000	0	500,000	500,000	500,000	0	500,000	500,000	500,000		
2. Rota Health Center	3,000,000	0	500,000	500,000	500,000	0	500,000	500,000	500,000		
3. Tinian Health Center	3,000,000	0	500,000	500,000	500,000	0	500,000	500,000	500,000		
TOTAL	21,900,000	2,500,000	3,500,000	2,500,000	1,375,000	2,500,000	4,400,000	3,500,000	1,625,000		
H. EDUCATION											
1. Saipan/Rota/Tinian Sch	32,306,000	3,250,000	4,300,000	4,975,000	4,745,000	4,110,000	5,830,000	2,230,000	2,866,000		
Classrooms and Related Facil	2,000,000	1,500,000	500,000	0	0	0	0	0	0		
2. Admin Bldg	34,306,000	4,750,000	4,800,000	4,975,000	4,745,000	4,110,000	5,830,000	2,230,000	2,866,000		
TOTAL	66,612,000	4,750,000	4,800,000	4,975,000	4,745,000	4,110,000	5,830,000	2,230,000	2,866,000		
I. PUBLIC SAFETY											
1. Corrections Facility	11,700,000	3,700,000	3,900,000	4,100,000	0	0	0	0	0		
TOTAL	11,700,000	3,700,000	3,900,000	4,100,000	0	0	0	0	0		

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

CIP PROJECTS

MULTI-YEAR PHASING SCHEDULE

FISCAL YEAR 1993-2000

PARTICULARS	TOTAL	1993	1994	1995	1996	1997	1998	1999	2000
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J.) NORTHERN MAR. COLLEGE

1. General Purpose Classrooms	6,734,000	1,134,000	800,000	800,000	800,000	800,000	800,000	800,000	800,000
2. Library	1,160,000	0	0	0	0	580,000	580,000	0	0
TOTAL	7,894,000	1,134,000	800,000	800,000	800,000	1,380,000	1,380,000	800,000	800,000

K.) JUDICIARY	13,000,000	0	4,900,000	2,650,000	5,450,000	0	0	0	0
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L.) NATURAL RESOURCES

1. Saipan Parks	700,000	500,000	100,000	100,000	0	0	0	0	0
2. Rota Parks	200,000	100,000	50,000	50,000	0	0	0	0	0
3. Tinian Parks	200,000	100,000	50,000	50,000	0	0	0	0	0
4. Building Improvements	700,000	0.00	0.00	0.00	0	500,000	200,000	0	0
TOTAL	1,800,000	700,000	200,000	200,000	0	500,000	200,000	0	0

M. BUILDING IMPROVEMENTS

1. Attorney General	150,000	150,000	0	0	0	0	0	0	0
2. Commerce & Laborview bldg.)	1,000,000	1,000,000	0	0	0	0	0	0	0
3. CCA - Office of Aging	250,000	250,000	0	0	0	0	0	0	0
4. Energy Office	75,000	75,000	0	0	0	0	0	0	0
5. Public Works	700,000	700,000	0	0	0	0	0	0	0
6. Rosa Mayor's Office	30,000	30,000	0	0	0	0	0	0	0
7. Tinian Mayor's Office	55,000	55,000	0	0	0	0	0	0	0

TOTAL	2,260,000	2,260,000	0	0	0	0	0	0	0
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GRAND TOTAL	274,650,000	34,650,000	31,000,000	35,000,000	36,000,000	36,000,000	36,000,000	35,000,000	31,000,000
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PERIOD	TOTAL	FEDERAL	CNNI
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FY 1993	34,650,000	27,720,000	6,930,000
FY 1994-2000	240,000,000	120,000,000	120,000,000

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

PROPOSED CAPITAL IMPROVEMENT PROJECTS
WITH ESTIMATED COSTS
FY 1993 THROUGH FY 2000

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDSPROPOSED CAPITAL IMPROVEMENT PROJECTSFOR THECOVENANT SECTION 702 MULTI-YEARFINANCIAL ASSISTANCEWATER SYSTEMS

Saipan:

Surface Water Catchment	\$ 36,000,000
San Antonio Waterline Rehabilitation	\$ 640,000
San Roque Waterline Rehabilitation	\$ 390,000
Gualo Rai Waterline Rehabilitation	\$ 320,000
Afetna Waterline Rehabilitation	\$ 350,000
Oleai Waterline Rehabilitation	\$ 460,000
San Vicente Waterline Rehabilitation	\$ 260,000
As-Perdido Booster Station	\$ 210,000
Northern Capitol Hill Distribution System	\$ 320,000
Tanapag Homestead Distribution System	\$ 860,000
Agag to As-Teo Distribution System	\$ 270,000
Papago Distribution Line	\$ 3,150,000
Talofofo Distribution System	\$ 320,000
Garapan Booster Pump Station	\$ 210,000
San Jose to South Garapan Distr. System	\$ 340,000
Subtotal	\$ 8,100,000

Page 2 of 7

Rota:

Songsong Village Water Distribution System	\$ 3,000,000
Sinapalo Village Water Distribution System	\$ 1,000,000
Subtotal	\$ 4,000,000

Tinian:

Marpo Aquifer Upgrade	\$ 500,000
Waterline from Marpo Aquifer to San Jose	\$
Well Construction and Rehabilitation	\$ 2,400,000
Subtotal	\$ 3,600,000

SEWER SYSTEMS

Saipan:

Northern Saipan Sewer System	\$ 15,000,000
Capitol Hill Sewer Expansion	\$ 700,000
Garapan Sewer Expansion	\$ 600,000
Existing Central Area Collection System Repair and Upgrade	\$ 2,000,000
Beach Road Sewer Expansion	\$ 500,000
San Jose Sewer Expansion	\$ 600,000
Existing Southern Area Collection System Repair and Upgrade	\$ 2,000,000
Dan Dan/San Vicente Collection System	\$ 1,700,000
Subtotal	\$ 8,100,000
Garapan Ocean Outfall Extension	\$ 6,000,000

Page 3 of 7

Rota:

Songsong Village Sewer Collection System	\$ 1,500,000
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Tinian:

San Jose Village Sewer Collection System	\$ 1,200,000
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SEAPORTS

Saipan:	\$ -0-
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Rota:

Dock Improvement	\$ 15,000,000
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Tinian:

Dock Improvement	\$ 10,000,000
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SOLID WASTE

Saipan:

New Solid Waste Sanitary Landfill	\$ 5,000,000
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Rota:

Tatachog Solid Waste Sanitary Landfill	\$ 3,000,000
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Tinian:

Solid Waste Sanitary Landfill	\$ 3,000,000
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Page 4 of 7

ROAD PROJECTS

Saipan:

Cross Island Road	\$ 7,600,000
Beach Road Phase XV	\$ 1,500,000
Lower Base Road Reconstruction	\$ 900,000
As-Teo Road	\$ 1,550,000
Navy Hill Road	\$ 1,000,000
South San Vicente Road	\$ 1,700,000
Subtotal	\$ 14,250,000

Rota:

Songsong Village Road	\$ 4,000,000
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Tinian:

Marpo Road	\$ 5,700,000
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POWER SYSTEMS

Saipan:

High Voltage Transmission Line Power Plant to Chalan Piao	\$ 7,100,000
Substations & Distribution Upgrades Power Plant to Chalan Piao	\$ 9,240,000

Rota:

3.0 Megawatt Generator (2 Units)	\$ 11,000,000
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Tinian:

Power Plant No. 2	\$ 11,000,000
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Page 5 of 7

HEALTH SERVICES

Saipan:

Primary Public Health Care Facility (including Drug Rehabilitation Center)	\$ 15,900,000
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Rota:

Health Center Renovation	\$ 3,000,000
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Tinian:

Health Center Renovation	\$ 3,000,000
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EDUCATION

Saipan:

Marianas High School	\$ 1,200,000
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Marianas High School Gymnasium	\$ 3,000,000
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Hopwood Junior High School	\$ 1,200,000
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Garapan	\$ 600,000
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San Vicente	\$ 600,000
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Koblerville	\$ 1,800,000
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Oleai	\$ 1,200,000
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Tanapag	\$ 1,200,000
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Kagman New Elementary School	\$ 4,200,000
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Dan Dan New Elementary School	\$ 3,600,000
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New Kagman Secondary School	\$ 10,600,000
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Subtotal	\$ 29,200,000
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PSS Administration Building	\$ 2,000,000
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Page 6 of 7

Rota:

Rota Elementary School	\$ 1,553,000
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Tinian:

Tinian Elementary School	\$ 1,553,000
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PUBLIC SAFETY

Saipan:

Corrections Facility	\$ 11,700,000
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NORTHERN MARIANAS COLLEGE

Saipan:

General Purpose Classrooms	\$ 6,734,000
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Library	\$ 1,160,000
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Subtotal	\$ 7,894,000
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JUDICIARY

Saipan:

Construction of Judicial Complex	\$ 13,000,000
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Page 7 of 7

NATURAL RESOURCES

Saipan:

Garapan Central Park	\$	700,000
Plant Fumigation Center	\$	500,000
Fish and Wildlife Building	\$	200,000

Subtotal	\$	1,400,000
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Rota:

Parks and Recreation	\$	200,000
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Tinian:

Parks and Recreation	\$	200,000
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BUILDING IMPROVEMENTS

Saipan:

Attorney General	\$	150,000
Commerce & Labor (new building)	\$	1,000,000
CCA - Office of Aging	\$	250,000
Energy Office	\$	75,000
Public Works	\$	700,000
Rota Mayor's Office	\$	30,000
Tinian Mayor's Office	\$	55,000

Subtotal	\$	2,260,000
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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

PROPOSED CAPITAL IMPROVEMENT PROJECT
NARRATIVES AND JUSTIFICATIONS
FY 1993 THROUGH FY 2000

APPENDIX I.B

A. WATER SYSTEMS

A1. SURFACE WATER CATCHMENT

For many years the shortage of fresh water on the Island of Saipan has plagued technicians, professional people and management of the CNMI Government. This shortage of fresh water has resulted in less-than-adequate water delivery service to the residents of Saipan. The rapid growth of the economy, especially in tourism, has further aggravated the problem. Hotels and businesses can no longer tap into the public water system upon request. Those that are fortunate enough to be connected to the public water system cannot depend on the quality of this source and must process the water to make it potable.

The policy of drilling more wells from which to pump fresh water from the ground has historically proven to provide only temporary and limited relief. Due to the high demand for water, overpumping of the wells has resulted in producing saline water containing a higher chlorine limit than allowed by the U.S. Public Health Department. Thus the water is often not suitable for drinking. In addition, the high chloride concentration accelerates corrosion of the pumping equipment and pipelines resulting in leakage and a reduction in the life and efficiency of pumps. Water loss from leaks creates more demand for water which further increases pumping rates. The total result is a spiralling cycle of increasing demand from wells that cannot be recharged with fresh water fast enough to meet pumping requirements. Under these conditions, the fragile fresh water lens on Saipan will continue to deteriorate.

Currently, wells on Saipan produce slightly less than 6 million gallons per day (MGD) with additional amounts produced at Donni Springs, Achugao Springs and the airport catchment for a total daily production of 8.4 MGD. With a total Saipan population of 38,896 and an average daily per capita consumption of 140 gallons, the total estimated daily consumption is approximately 5.4 million gallons. However, approximately 16% of the water produced is lost through system leaks reducing the amount of available water to about 7.1 MGD. In addition, it is well known that the island's ground water aquifer is overpumped at certain times of the year which produces brackish water. If projections for Saipan's average daily population are correct for the year 2000, the island will require 9.7 million gallons per day (high projection).

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In order to relieve the demand for groundwater and to allow the fresh water lens to recharge, it has become necessary to explore other sources of water. One source available on Saipan that has not been utilized on a large scale is surface water catchment.

The U.S. Geological Survey has been monitoring stream flow in the Talofofo Basin for some time. A feasibility study for development of this water source was completed in October of 1990. The study was a joint venture between the CNMI Government and the Federal Government through the agencies of the U.S. Department of the Interior (Bureau of Reclamation and Geological Survey) and the U.S. Department of Agriculture (Soil Conservation Service). Six (6) alternatives were examined in the study and one (1) was recommended based on the quantity of water produced, economics and the least environmental disturbance the project would effect. The study recommended "Alternative A" at a total cost of \$31.0 Million in 1990 dollars. Allowing for just 5% inflation per year would bring this project to about \$36,000,000 in 1993 dollars.

A2., A3., A4. WATER DISTRIBUTION SYSTEM IMPROVEMENTS

The water distribution systems on Saipan, Tinian and Rota are all in need of upgrade and expansion. The system on much of the island of Saipan consists of asbestos cement and galvanized iron pipe of diameters too small to meet new distribution needs. Some of the waterlines still in use were installed shortly after the conclusion of World War II. A significant portion of the water produced is lost through these lines by leakage, and there is a possibility of sloughing of material from the interior of asbestos cement pipes. The distribution networks of concern on Saipan supply the communities of Garapan, San Antonio, San Vicente, Northern Capitol Hill, Tanapag, Agag to As Teo, Papago, As Perdido, Kagman, As Matuis and the region between San Jose and South Garapan. In addition, new residential areas have been developed under the homestead program administered by the Marianas Public Land Corporation which require extension of the present water system to serve the new residents.

Increased development in the areas already served as well as in the new homestead subdivisions has led to an increase in demand for water. Many residents with water connections are still not receiving water twenty-four hours per day.

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Existing waterline distribution systems will be upgraded and new systems will be installed utilizing polyvinylchloride (PVC) pipe which is six inches in diameter or greater. The program will include installation of service laterals, fire hydrants, air release valves and booster pump stations. All new and existing customers will receive water meters. In addition, new reservoirs will be sited and built to accommodate the need for increased water storage. Most of these same problems and proposed solutions apply to the villages of Songsong and Sinapalo on the Island of Rota and the villages of San Jose and Marpo on the Island of Tinian. Total cost of the selected projects has been estimated by the Commonwealth Utilities Corporation to be \$15,700,000.

B. SEWER SYSTEMS

B1. NORTHERN SAIPAN SEWER SYSTEM

The present sewage collection and treatment system on the Island of Saipan remains inadequate and presents a potential health and marine environment problem to residents and tourists alike. Saipan has recently undergone a phenomenal growth rate due mostly to the increase in tourism during the last five years. Most of the development has taken place on the western side of Saipan where a large, shallow lagoon and sandy beaches line the shores. To properly collect, treat and dispose of all the sewage generated by the homes and businesses in this area, three separate systems will ultimately be required; a Southern system, a Central system and a Northern system. To date, there exists a Southern and a Central system and both these systems have recently undergone expansion. Sewage generated in the northern area of Saipan, including the villages of Tanapag and San Roque, is conveyed to the Central system in Garapan for treatment and disposal. A recently completed expansion of this plant to 2 million gallons per day (MGD) is already very close to capacity. Further expansion is under consideration.

The CNMI Government will be spending many millions of dollars on sewage collection, treatment and disposal systems during the next 5-10 years. We are at a very critical juncture in how the current sewerage system along the entire western length of Saipan should be expanded. If our thinking is too small in this regard, millions of dollars will be spent and the desired result will not be achieved. To protect the health, safety and welfare of our residents and

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tourists and to ensure that the main component of our economic expansion (tourism) is not destroyed, it is imperative that we protect Saipan Lagoon from sewage discharge. This goal can be accomplished in two stages.

The first stage is to build a new Northern Saipan Sewer System. Both Government and private consulting engineers have already studied this proposal and a particular system for treatment and disposal has been consistently recommended. The treatment is known in the industry as an oxidation pond system and is a proven technology. When properly operated the discharge from such a system approaches that of conventional secondary treatment plants and the effluent can be safely percolated into the ground or used for irrigation purposes for such enterprises as nurseries or golf courses. The second stage would be the extension of the existing sewage outfall in Garapan to a point outside the reef of Saipan Lagoon as discussed in Project B3.

A Northern Saipan Sewer System of this type would relieve the Central plant by rerouting the sewage flow from the villages of Tanapag and San Roque as well as from the commercial business in the area to the new plant. In addition, a giant step forward will have been taken in reducing the amount of sewage currently being discharged into Saipan Lagoon from the Central plant in Garapan. A preliminary engineering report has been prepared for this recommended system which would collect, treat and dispose of 3 MGD for a total estimated cost of approximately \$15,000,000.

B2. SAIPAN COLLECTION SYSTEM

Saipan's system of collection and interceptor sewers, lift stations and treatment facilities are located only on the western side of the island and consist of 25 miles of collection and 12 miles of interceptor sewers together with 25 lift stations, 2 wastewater treatment plants and 2 ocean outfalls. The system was designed to accommodate a population less than one-half that which currently exists. The collection system is not contiguous in that it consists of two unconnected elements, one in the south from San Jose to Koblerville and the other from Garapan, Capitol Hill and the Lower Base area to Tanapag. There is no collection system to accommodate the Beach Road and Middle Road area between Garapan south to Oleai.

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In order to connect residences and businesses in the above described area on the western side of Saipan to a public sewer system, it will be necessary to expand and integrate the Central system and the Southern system. Presently, all of this unsewered area is served by individual wastewater systems (septic tanks). In addition, much of the existing system needs to be upgraded (increased in size) to accommodate larger flows. The Commonwealth Utilities Corporation has plans for various projects which hopefully would correct most of the system problems described. Funding limitations permit only seven (7) of the most critical projects which are listed at a total estimated cost of \$8,100,000.

B3. GARAPAN OCEAN OUTFALL EXTENSION

An additional problem associated with the Central sewerage system in Garapan concerns Saipan Lagoon itself. The Central system was built during the early Trust Territory Administration and discharges just 100 yards off the end of Charlie Dock into the harbor area of Saipan Lagoon. At the time of construction, the system was relatively small and the sewage discharge was low. A recent engineering study reveals that presently as much as 5 million gallons per day (MGD) may be discharged from the central plant.

The major attractions of Saipan as a tourist destination are the tropical climate and the crystal clear waters of Saipan Lagoon. The continued discharge of treated and untreated sewage into this lagoon in the present and projected quantities has become unacceptable. One of the goals of the CNMI's wastewater facilities improvement program is the ultimate removal of all sewage discharge from Saipan Lagoon.

The Commonwealth Utilities Corporation (CUC) has estimated the cost of extending the present ocean outfall to a point outside the reef for discharge into deep waters at about \$6,000,000. If this project were combined with the new harbor improvement project which is scheduled to begin in April, 1993, a significant savings in cost may be realized.

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B4. ROTA IMPROVEMENTS
B5. TINIAN IMPROVEMENTS

Both the islands of Rota and Tinian have very limited access to public sewer systems. The main village of Songsong on Rota is partially sewered utilizing a new variable grade sewer (VGS) system. This system needs expansion to include the remaining residences and businesses which are not connected. The CUC has estimated that \$1,500,000 will be necessary to complete this system.

The Island of Tinian has no public sewer system and must rely on individual wastewater treatment systems (septic tanks) for all residences and businesses. The CUC has estimated that the main village of San Jose can be sewered for approximately \$1,200,000.

C. SEAPORT FACILITIES

C1. SAIPAN SEAPORT

The primary commercial seaport in the CNMI is located at Charlie Dock on Saipan. The facility is outmoded and in a deteriorated condition. Limited shoreside facilities for dockage and storage create numerous ship delays and increased costs. The channel depths of 28 to 30 feet are insufficient and should be increased to safer depths of 38 to 40 feet. Plans were developed in the 1980s by the U.S. Army Corps of Engineers to reconstruct the facilities.

The seaport is operated by the Commonwealth Ports Authority (CPA). In March, 1992, the CPA announced plans to rehabilitate Charlie Dock. The CPA has been authorized to use \$10 million appropriated by the U.S. Congress for improvements to the harbor. In addition, the CPA has received a commitment of \$13.5 million through the Commonwealth Development Authority bond issue.

In October, 1992, the CPA advertised for proposals for the construction of the Saipan seaport. At that time, sufficient funds for only Phase I of the project were available. In January, 1993, the CPA was successful in securing financing for the needed additional funds to go forward with both Phases I and II of the project. Shortly after financing approval, the CPA entered

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into a construction contract with the lowest responsible bidder and work is expected to begin in April, 1993, at a total cost of \$36.2 million. As a result, no further funding is anticipated for this project and therefore none is requested from Covenant Section 702 funds.

C2. ROTA SEAPORT

On the Island of Rota, the existing small harbor is not adequate to handle cargo vessels of the size needed to support economic growth. The cost of living and development are quite high due to transshipment costs caused by this small and unprotected harbor. All ocean cargo is brought to Rota on tugs or on barges towed by tugs. Vessels at the docks are exposed to direct wave action through the cut in the reef which is at 90 degrees to the dock. Because of this, waves come through the channel and hit the unprotected vessels at the dock broadside. Stevedoring operations are very difficult during bad weather conditions. Development on Rota will be greatly curtailed unless the harbor's condition is expanded and improved.

Plans to expand and improve the main harbor at West Dock include sealing off the present channel entrance with a breakwater and cutting a new channel on a diagonal north of the docking area so that waves will break on the reef rather than pass through directly to the dock. Rebuilding the dock area and dredging the existing harbor and adjacent reef areas to a depth of 30 feet will greatly improve the docking area and the turning basin. The estimated cost of these improvements is \$ 15,000,000.

C3. TINIAN SEAPORT

The Tinian Harbor was built in the 1940s and no major maintenance has been performed to it since that time. A breakwater, built of steel sheet piles holding compacted coral, protects the harbor from normal and storm waves. It has been weakened by age and many typhoons. In addition, the breakwater has been further weakened by rust and is at risk of collapsing into the turning basin. Such a collapse would render the harbor unusable. Over the more than 45 years since the harbor was built, sand has been deposited naturally along the inside of the breakwater. The sand has narrowed the turning basin and must now be removed by dredging. Since this is a military retention area, a joint use agreement should be explored with the Department of Defense as well as the possibility of partial DoD funding for the needed repairs.

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Preliminary estimates indicate that to dredge the harbor to a depth of 40 feet, to rebuild the breakwater, and to rehabilitate the 1,500 foot long main dock would cost approximately \$10,000,000.

D. SOLID WASTE

D1. SAIPAN SANITARY LANDFILL

There is only one designated solid waste disposal area on Saipan at a location known as Puerto Rico on the northwestern lagoon. There is no municipal residential collection service offered by the government, but several contract collection services exist. Private contractors collect commercial and industrial waste and dump without charge at the existing site.

The existing dump site at Puerto Rico has become the most unsightly area on Saipan and presents a health hazard to anyone in the vicinity. It must be closed and a new site must be developed as soon as possible. For almost two years, a private developer has been proposing to fund the construction and maintenance of a new sanitary landfill in the Marpi area as a condition of approval of a public land lease for construction of a tourist resort facility in that area. The lease has been approved by the CNMI Legislature.

The estimated cost for closure of the existing dump site at Puerto Rico and the initial opening of the sanitary landfill at Marpi is approximately \$5,000,000.

D2. ROTA SANITARY LANDFILL D3. TINIAN SANITARY LANDFILL

Both the islands of Rota and Tinian use conventional dump sites for the disposal of solid waste material. For the health, safety and welfare of residents and tourists alike, new sanitary landfills should be developed for the long term to adequately protect the natural resources such as ground water from possible contamination. Both islands are poised for some resort development in the near future and lack of proper solid waste disposal facilities would only add to the current threat posed by the conventional dump sites

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used by local residents and business owners. The estimated cost to design and construct a sanitary landfill and to establish proper maintenance facilities for each of the islands of Rota and Tinian is approximately \$3,000,000.

E. ROAD PROJECTS

Many of the roadways on Saipan and Tinian were paved during the Second World War or shortly afterward when the islands were under U.S. Navy Administration. The principal road on Rota, which traverses most of the length of the island from the airport to the village of Songsong, is about eleven (11) miles in length and was only recently paved. The World War II roads are still in reasonably good condition on Tinian but are showing signs of rapid deterioration on Saipan where the traffic levels and axle loadings are much higher. In recent years, Beach Road, the main road on Saipan, was paved to a maximum width of 52 feet over several sections. It has been extended to a total length of about 9 miles. The airport access road has also been paved by overlaying the older pavement built by the Navy during the 1950s. On Tinian, almost all of the paved roads were built by the U.S. Navy.

There are about 255 miles of roadways throughout the CNMI. During the last several years, the CNMI Department of Public Works has undertaken an aggressive campaign to reconstruct and pave about 33 miles of major roadway and about 36 miles of local roadway. Additional construction is scheduled throughout the islands. The major thoroughfares of Saipan, particularly the primary highways of Beach Road from Garapan south to Chalan Kanoa, and Middle Road are becoming increasingly congested. Average daily traffic on Beach Road in the vicinity of Susupe exceeds 27,000 vehicle trips. Congestion on this road will be addressed by widening the roadway and installing the CNMI's first traffic lights.

E1. SAIPAN ROADS

The Cross Island Road on the Island of Saipan is the major thoroughfare that traverses the eastern side of the island. It is 8.3 miles in length from its intersection with the Airport Road to its intersection with the West Coast Highway. The old asphalt concrete pavement has two ten-foot wide travel lanes with gravel shoulders. Like most of the primary roads on Saipan, this road was built and paved by the U.S. Navy after World War II and little to

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nothing has been done to it since except for emergency work and minor patching. The eastern side of the island has been growing quickly during the last few years as a result of homestead subdivision and private subdivision development. The Cross Island Road has not kept pace with the need to provide a well designed and constructed primary road to serve the residents who live on this side of the island. In particular, this roadway needs realignment, widening, construction of drainage facilities and major reconstruction of the road bed.

While some improvements have been made to Saipan's primary and secondary road system, much remains to be done before the road system can be considered safe and adequate. The Cross Island Road is one of the primary roads which has become a hazard because of its inability to handle the present traffic loads. Major improvements to this roadway would not only relieve traffic congestion in the area, but it would also provide an alternate route to the north end of the island thereby relieving some of the traffic congestion on the western side of the island. At an estimated cost of just under \$ 1 million per mile, the total cost to improve the Cross Island Road would be about \$7,600,000.

The Department of Public works has identified some 19 primary and secondary road projects which are in need of reconstruction and/or paving on the Island of Saipan. From this list, only six (6) of the most critical are included for Covenant funding. The requested road projects for Saipan, including the Cross Island Road, are estimated to total \$14,250,000.

E2. ROTA ROADS

Unlike Saipan and Tinian which obtained a network of paved roads during the U.S. military occupation of the islands, the roads on Rota were not paved by the U.S. Navy because Rota was not an active military base. There is only one paved road on Rota running 11 miles from the Rota International Airport in the center of the island to Songsong Village. It was paved in 1986 using covenant and local funds. Sinapalo Village adjoins the airport at the terminus of the paved portion of the road. All other roads are coral roads, most built during the Japanese administration.

The main village of Songsong and the village of Sinapalo are both in need of road construction. Covenant funds are requested only for the village of Songsong at an estimated cost of \$4,000,000.

E.3 TINIAN ROADS

Several road projects on the Island of Tinian are required to meet existing needs. Although the development of casino resorts is scheduled to begin within the next few years, casino sites have not yet been determined. Thus, the existing road needs on Tinian do not include building new roads to casino resort sites. All existing residential roads and some primary roads are constructed of compacted coral. They are muddy in the rainy season and dusty in the dry season. The dust is a potential health hazard. Pot holes easily develop on the roadways and vehicles are often damaged as a result.

Of the many needs for road improvements on the Island of Tinian, the construction and pavement of Marpo Road has been identified as one of primary importance to island residents. This roadway would connect the existing paved road near the village of San Jose with a new residential area known as Marpo. The project has been estimated by the Department of Public Works to cost approximately \$5,700,000.

F. POWER SYSTEMS

The CNMI electrical power generation and distribution system is operated and maintained by the Commonwealth Utilities Corporation. At the end of calendar year 1992, the installed power generating capacity on Saipan was 105 megawatts (MW). Rota has a capacity of 5 MW and Tinian has 4 MW, making the system total 114 MW. Peak loads for Saipan, Rota and Tinian are 43.2, 2.7 and 2.0 MW, respectively. Saipan has a distribution network of 135 miles of 13.8 kilovolt (KV) system. Tinian has 35 miles of 4.16 KV system. Rota has 25 miles of system including both 13.8 KV and 4.16 KV power. Saipan has seven feeder lines emerging from the plant at Lower Base.

The CNMI has experienced pronounced growth in economic activity and population in the past decade. Population increased 160% between 1980 and 1990, from 16,780 to 43,555 persons. In planning for the future, it is anticipated that the population will continue to grow at about 7% annually to the year 2000, giving the CNMI a population of approximately 69,940. The CUC also assumes a concomitant increase in tourism and commercial activities. Planning scenarios of a less ambitious nature have also been prepared.

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F1. & F2. SAIPAN POWER SYSTEM

At present the Island of Saipan has no power transmission capabilities. The entire electrical consumption load with a peak of over 42 megawatts (MW) is distributed to customers utilizing 13.8 KV distribution lines separated into seven feeders. Due to the length of these lines and the low distribution voltage the utility is not capable of providing adequate service to its present customers and future customers could not be served. Low delivery voltages and high electrical line losses are experienced throughout the distribution system. Studies indicate that by the end of 1993 electrical requirements will reach 72 MW and by the year 2000 the requirements could reach over 136 MW. The capability of the existing distribution system is less than adequate to service these loads.

A 115 KV transmission line system needs to be constructed to adequately provide continued electrical service to all major areas of the island while incorporating projected growth. One such line is needed from the Lower Base power plant along Middle Road to a substation in Chalan Piao. A distribution substation will be constructed in the Garapan area. This substation will transform the 115 KV voltage to 13.8 KV for distribution. Capabilities for 8 feeders at the substation will be provided. The installation of protective devices and regulating devices will be required to complete this system improvement.

The CUC estimates the cost of this new transmission line at \$7,100,000. The various substations required to be an integral part of this new transmission line together with the necessary distribution system upgrades to service existing unconnected loads is estimated at \$9,240,000.

F3. ROTA POWER SYSTEM

A new power plant was built in the harbor area in 1987. It consists of two 2.5 megawatt diesel powered generators. The 5.0 megawatt plant is adequate for present demand, but there is no reserve capacity. This is because one diesel engine failed in 1988 and was shipped to Japan for repair. Current peak power demand on Rota is 2.7 megawatts so the loss of this engine created a crisis. A private firm was contracted to provide backup power in the event the primary engine should fail. The repaired generator was held in Japan because funds were not available for its repair and shipment back to Rota. Even with this generator, Rota needs backup capacity

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in case of emergency, and it will not have the capacity to meet the needs of projected growth.

The Commonwealth Utilities Corporation (CUC) is planning to add two 2.5 megawatt engines to meet the expected increase in demand. These two generators and associated switching gear are estimated to cost \$11,000,000.

F4. TINIAN POWER

The Tinian power plant is located on the outskirts of San Jose Village. There are three 1.5 megawatt diesel generators installed. Two are operated and one is maintained as standby. The building and site are too small for expansion. The power plant must be relocated both because the site is too small and because certain wind directions cause the power plant exhaust to blow into the village area and is a health hazard. Although casino-resort development is expected to begin sometime within the next two years and will require additional power, domestic power demand will also increase as new residential and agricultural homesteads are settled.

The Island of Tinian will require a larger power plant and greater generating capacity in the very near future to accommodate its proposed developments. Domestic power demand is expected to increase by 5.0 megawatts by 1994. The cost of new generators to supply this additional power is estimated at \$11,000,000.

G. HEALTH SERVICES

G1. SAIPAN PUBLIC HEALTH CENTER

The Commonwealth Health Center is located on Saipan and is the principal medical facility in the CNMI. The hospital facilities are housed in four buildings of three floors, interconnected to each other to form a square box type structure. The buildings are constructed of reinforced concrete. There are two separate service buildings. One building houses the boilers, water heaters, medical gas plant and maintenance services.

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The hospital is a 72-bed, full medical service facility, completed and opened to the public in 1986. The support facilities of the hospital include a 100,000 gallon water storage and treatment system, a reverse osmosis system of 120 gallons per hour capacity, an air conditioning system by circulated chilled water of 200 ton capacity, steam and hot water systems powered by fuel oil, and two oxygen manufacturing plants for the production of medical gas.

Presently on Saipan the hospital and public health care facilities are located in the same structure which is known as the Commonwealth Health Center (CHC). The CHC was originally built for a projected population of 25,000. When it officially opened in late 1986, the population of the CNMI was estimated at 39,500. The official 1990 U.S./CNMI census population count was 43,555. The CHC plant was designed to serve 25,000 people; it is now serving over 45,000. The total estimated demand for visits and utilization of CHC clinics (public health, outpatient, dental, and emergency room - after 4:30 pm to 7:30 am on weekdays and weekends) is projected at 168,500 for 1993. This figure is based on the official 1990 census projection for 1993 showing indigenous populations as well as other Micronesians, Filipinos, Koreans, Japanese, U.S. Statesiders and other ethnic groups in the CNMI who use the CHC for health care services.

The existing CHC facility that houses Public Health grows smaller with implementation of existing and new programs. Both patients and staff frequently complain that Public Health is no longer "user friendly". In view of this, and the fact that the CNMI population will continue to grow within the next five to ten years, it has become necessary to construct a new facility to house the Division of Public Health, as well as Dental services, Vocational Rehabilitation, the Division of Environmental Quality, and the Mental Health Unit. A preliminary plan and layout of these required facilities has been prepared by CHC and the total cost including collateral equipment has been estimated at \$15,900,000.

G2. ROTA HEALTH CENTER

The Rota Health Center was built as a primary health care facility. The building is approximately 9,100 square feet, is constructed entirely of reinforced concrete and is air conditioned. A separate building houses the emergency power generator and hot water heaters. Due to current and projected growth on the island, health officials estimate the facility needs to expand to approximately twice its present size. Construction of this expanded facility together with the necessary collateral equipment is expected to cost approximately \$3,000,000.

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G3. TINIAN HEALTH CENTER

The Tinian Health Center is similar to the Rota Health Center in design, size and type of construction. The Tinian Health Center building varies somewhat in floor layout from that of the Rota Center, being slightly smaller in size at 9,000 square feet of floor area. A doubling in the size of this facility is also recommended by health officials to keep pace with the current and projected growth of the island's population. Construction of this expanded facility together with the necessary collateral equipment is expected to cost approximately \$3,000,000.

H. EDUCATION

H1. SAIPAN/ROTA/TINIAN CLASSROOMS AND RELATED FACILITIES

The school system in the CNMI is made up of a total of 25 schools. Of this number, 13 are public and 12 are private schools. The public schools are located on four of the islands.

Just recently, the CNMI Public School System (PSS) completed a school facilities plan which succinctly details the additional classrooms and related facilities that the PSS will require to house the rapidly growing student population during the next seven years. The School Facilities Plan was compiled by Dr. Betty Hanson, a preeminent scholar in the field of school facilities planning, who works for the State of California and who has served as a consultant to the PSS.

The study exhausted the educationally feasible options and some marginally feasible options that can be tolerated to maximize use of existing classrooms. Some of the options exhausted are double session, larger class sizes, busing, and redrawing attendance boundaries. Two of the schools are already on double session. Consequently, children at these two schools are receiving less instruction than at the other elementary schools. The high school capacity was reached one year ago. It already houses 160 students beyond its capacity. If the pattern of 300 new students enroll in September of 1993, serious complications will result with the overcrowding of students.

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The School Facilities Plan, briefly highlighted, used 1990 Census data as well as recent PSS enrollment data in conjunction with a weighted cohort system to project student growth yearly until the year 2000. This study shows that CNMI public schools will experience 9% annual growth, on average, and that 5,000 additional students will enroll in the public schools in the next seven school years. This will require the construction of 180 new classrooms and related facilities to accommodate the increasing student population at an estimated cost of \$46.7 million or \$6.7 million annually until the year 2000. Covenant funds are requested to provide \$32,306,000 of the needed capital for additional classrooms.

H2. PSS ADMINISTRATION BUILDING

A new Administration Building is urgently needed by the Public School System (PSS). The existing warehouse structure presently used for this purpose at Lower Base is a remnant from the former Trust Territory Administration of the islands and the internal wood framing is almost completely rotten. In addition, the electrical and plumbing systems are substandard and in some cases hazardous requiring frequent repair. A preliminary architectural/engineering report has been prepared for this proposed new building with an estimated cost of \$2,000,000.

I. PUBLIC SAFETY

II. CORRECTIONS FACILITY

The CNMI faces an immediate, critical threat to the safety of its citizens and the welfare of the community resulting from inadequate prison facilities, the inability to provide law enforcement services from marginally acceptable buildings and facilities, and from a lack of proper communication, evidence, interview / interrogation and laboratory accommodations. The present Commonwealth prison was constructed in the Susupe Civic Center in 1981 to hold 32 inmates. All of the beds are in two-man maximum security cells. Currently the prison's population is averaging between 48 and 58 inmates, which is in the range of 150% to 181% of rated capacity. In addition, there are no single isolation cells to house certain individuals that may require such separation from others. Inmate overcrowding and population projections underline the critical emergency directly contributing to tensions and threats to public safety and welfare.

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Since the signing of the Covenant in 1975, police and corrections facilities have been required to meet Federal standards and constitutional guarantees. Reports and survey results from the National Institute of Corrections (NIC) and U.S. Bureau of Justice Assistance (BJA) teams indicate that the Commonwealth is not meeting Federal standards in the specific areas of detention, corrections and prison facilities. Compliance with such standards, however, has been virtually impossible during past years due to severe limitations on funding.

The CNMI Department of Public Safety has retained an established consulting firm to prepare the architectural / engineering design for a new corrections facility with an estimated construction cost of \$11,700,000.

J. NORTHERN MARIANAS COLLEGE

- J1. GENERAL PURPOSE CLASSROOMS
- J2. LIBRARY

Although the Northern Marianas College (NMC) was fortunate to receive the former Dr. Torres Hospital complex buildings as a base from which to grow, many of the buildings have been neglected, or have survived numerous low budget renovations. Many of the original buildings are in very poor condition and present fire and life safety hazards.

During 1992, NMC officials retained a well known local architectural firm to study the existing campus facilities and to prepare a master plan which would describe needed improvements and budget available resources to accomplish the goal in the period of 1993 through 2001. The goal is to provide a college campus on Saipan to adequately serve an estimated 1,500 full-time equivalent (FTE) student population which would foster the Commonwealth's educational, social, political and cultural growth and development.

The study and master plan were completed in January, 1993, and gave emphasis to the academic concerns of the college utilizing enrollment reports from the Fall Semester of 1991 as the base period from which projections were made through the year 2001. Past and current enrollment histories and trends were studied and put into graphic form for examination by the College President and the Ad Hoc Committee established for that purpose.

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At the same time academic projections were being generated, an in-depth evaluation was completed of the physical configuration and condition of each of the buildings currently on campus, in order to determine which buildings could be utilized for further academic use, which buildings require minimal or major renovation for long-term use, and which buildings are inappropriate or dilapidated and should be scheduled for future demolition. The results of this study indicated that both academic programs and campus facilities required coordinate attention.

The 9-year Master Plan for the Northern Marianas College details the needed capital improvements during the period and totals approximately \$23 million. However, the Plan also identifies sources of anticipated funding other than Covenant funds to complete the program. Therefore Covenant funds in the amount of \$6,734,000 are requested for the construction and renovation of general purpose classrooms and an additional \$1,160,000 is requested for construction of a new library.

K. JUDICIARY

Presently, the Superior Court is located in crowded, outdated and foreign-owned structures unsuitable for the size and functions of the trial court. The Supreme Court and its staff are located in the Nauru Building on Saipan, a commercial operation which is shared with many other business enterprises. It is both inadequate in size and inappropriate for the CNMI's Supreme Court activities to be located in such a facility. For the past several years, members of the Judiciary have been working on plans to construct a new CNMI Judicial Complex. An architectural/engineering design firm was selected from proposals requested last year and the construction plans and specifications are scheduled to be completed by July 30, 1993.

It was initially thought that because the Judiciary generates some revenue from the levying of fines and court costs that sufficient revenue might be available to repay a private construction loan. Recently, however, further inquiry and analysis of the revenue generation potential of such a complex has revealed that repayment capability may be somewhat lacking to satisfy an interested investor. Currently, different funding sources for construction are being investigated but the likely outcome is not encouraging at this point.

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APPENDIX I.B

The initial estimate for design and construction of the Judicial Complex was placed at approximately \$18 million. The consulting firm retained to perform the detailed design has since refined that estimate to \$13 million. To insure that this most important project has the necessary funds to go forward during this next financial assistance period, Covenant funds in the amount \$13,000,000 are requested.

L. NATURAL RESOURCES

- L1. SAIPAN PARKS
- L2. ROTA PARKS
- L3. TINIAN PARKS

Many parcels of public land have been set aside in the past and designated as public parks. However, to date very few of them have been developed with facilities to be used by either local residents or tourists. One developed park on Saipan called Susupe Beach Park was improved about two years ago by the CNMI Department of Natural Resources and is used to the maximum each week by residents and tourists alike. This fact serves to demonstrate that the need exists for improvement of other park properties for the relaxation and enjoyment of both resident and tourist populations. Residents of Rota and Tinian find themselves in much the same situation of having parcels dedicated to park development but without the necessary funds to improve them. During this next period of U.S. financial assistance, Covenant funds for public park improvements are requested for Saipan, Rota and Tinian in the amounts of \$700,000; \$200,000; and \$200,000, respectively.

L4. BUILDING IMPROVEMENTS

The CNMI Department of Natural Resources (DNR) requires an inspection station at the Saipan International Airport in order to process restrictive incoming and outgoing plant materials. The project will consist of 2,400 square feet of inspection facility, fumigation equipment, and a laboratory and safety ventilation system. The project will allow import and export of plant materials with minimum restriction. The estimated cost for this facility is \$500,000.

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APPENDIX I.B

The DNR Division of Fish and Wildlife's office building is located in Lower Base adjacent to the lagoon near the old seaplane ramps. In 1988 it became necessary for the Commonwealth Utilities Corporation to construct a standby generator in close proximity to the office. The exhaust stacks of these generators are less than 40 feet from the office and frequently the emissions from these stacks blow directly toward the office. The regularity of degraded air which enters the office seems to have caused some health problems for several staff persons. As most of the smoke appears to enter the office through the air-conditioning system, it seems unlikely that this can be controlled. It is imperative that a new office be constructed away from its present location. A new location has been designated in Lower Base and preliminary plans have been prepared. The estimated cost of construction is \$200,000.

M. BUILDING IMPROVEMENTS

Most buildings occupied by the CNMI Government date from the U.S. Naval Administration and the old Trust Territory of the Pacific Islands. The buildings are old, require frequent repair and maintenance, are a constant and costly drain on resources and working conditions are crowded. Seven of the most critically needed projects were selected for funding during FY 1993 only at a total estimated cost of \$2,260,000.



Commonwealth of the Northern Mariana Islands
Office of the Governor
 Capitol Hill, Saipan MP/USA 96950



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16 OCT 1992

The Honorable Stella Guerra
 The President's Special Representative
 for Covenant Section 702 Negotiations
 Office of the Secretary of the Interior
 18th & C Street, N.W.
 Washington, DC 20240

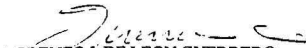
Dear Special Representative Guerra:

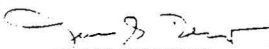
It is an honor for us to transmit the Agreement of the Special Representatives on Future Federal Financial Assistance for the Commonwealth of the Northern Mariana Islands pursuant to Covenant Section 702.

We are happy to inform you that this Agreement has the support of our Administration and Legislature. Therefore, we request that you transmit it to Congress for consideration and approval as soon as possible.

Thank you.

Sincerely,


 LORENZO I. DE LEON GUERRERO
 Governor

 
 JUAN S. DEMAPAN THOMAS P. VILLAGOMEZ
 Senate President Speaker, House of Representatives

Enclosure

**HOUSE AND SENATE BILLS ON:
IMMIGRATION, LABOR, MINIMUM WAGE, AND TAXES:**

IMMIGRATION/LABOR

HB8-15HD1:Comprehensive Resident and Alien Labor Act.

Introduced in House of Reps. 1/24/92. Passed Final
Reading 8/19/92. Pending in Senate.

Summary:

Repeals the present law and reorganizes Dept. of Commerce and Labor. Establishes Divisions of Resident Labor, and Alien Labor. Addresses other entities in Micronesia. Addresses employment requirements and procedures. Limits employment of Alien Labor.

HB8-16: Illegal entry and overstay. Introduced in House of
Reps. 1/24/92. Pending in House.

Summary:

Provide civil and criminal penalties for illegal entry into CNMI; for aiding, employing or assisting illegal entry or stay; for harboring illegal aliens.

HB8-65: CNMI Manpower Development Fund. Introduced in
House of Reps. 2/28/92. Pending in House.

Summary:

Impose on employers, who employ non-resident labor, at a rate of 3 cents per hour for each employee. Fund to be earmarked as follows: 30% for training of public service employees; 34% for nursing and vocational education at Northern Marianas College; 36% for employees in private sector.

HB8-129: Nonresidents workers certificate. Introduced in House of Reps. 6/26/92. Pending in House

Summary:

Increase the annual fees for both the processing of the initial application and for the renewal of nonresident worker certificates by 10%. Funds to be used as follows: \$25,000 or 10% whichever is less for Tinian, \$25,000 or 10% whichever is less for Rota, for youth employment training programs on those islands; \$60,000 or 20% whichever is less for enforcing this Act; 10% for deportation cost to government.

HB8-132: Deported Individuals. Introduced in House of Reps. 7/20/92. Pending in House.

Summary:

Amend the law to remove the five year waiting period for re-entry of a deported alien to permanently ban from reentry into CNMI.

HB8-140: Immigration Enforcement Act. Passed House of Reps. Passed First Reading at Senate on 1/19/93.

Summary:

Provide enforcement authority to the Immigration and Naturalization Office in order to improve its ability to detect, apprehend and deport illegal aliens; to provide criminal penalties for certain fraudulent immigration and identification practices and provide for enhanced investigating authority.

HB8-210: Local Hire Tax Incentive Act. Introduced in House of Reps. 1/11/93. Pending in House.

Summary:

To provide a 25% tax deduction from gross revenue in an amount up to that which is equal to 25% of the wages actually paid to an employee hired through the Job Training Partnership Act. No tax deduction shall exceed \$5,000 per employee.

TAXES:

8-14,HD3: Developers' Infrastructure Tax. Introduced in House and Passed on 5/20/92. Passed First Reading at Senate 6/18/92.

Summary:

Imposing upon a developer a tax of 7% of the total project cost of new development.

HB8-23: Garment Manufacturer's Gross Profits Tax Act. Introduced in House of Reps. 1/24/92. Pending in House.

Summary:

There shall be an annual 5% revenue tax on the gross profits of all textile products manufactured in the CNMI and, pursuant to sales agreement, transported to any destination outside of the CNMI. (Dir. of Finance recommended that if a tax must be raised, then a more moderate amount would be more reasonable).

HB8-28: Impose excise tax on video films. Introd. in House of Reps. 1/24/92. Pending in House.

Summary:

Impose 5% ad valorem excise tax on all video films. Director of Finance recommended the tax be "\$2.50 per film or 5% ad valorem which ever is greater".

HB8-167: Tax-credit to first time homeowners. Introduced in House of Reps. 11/9/92. Pending in House.

Summary:

Every first time homeowner is authorized a one-time tax credit or \$5,000 to be prorated equally for 5 yrs., provided that person is a wage-earner.

HB8-170: Health Insurance Funding Act. Introduced in House of Reps. 11/9/92. Passed First Reading 11/10/92. Referred to W&M/HEW 1/13/93.

Summary:

Establishes a sales tax on consumer purchases of cigarettes, alcoholic beverages and nightclub services, and to earmark such taxes to provide subsidies for health insurance premiums.

HB8-189: Decrease Excise Tax on Foodstuffs. Introduced in House. Passed First Reading 1/14/93. Referred to Ways and Means on 3/10/93.

Summary: Exclude all foodstuffs from imposition of excise taxes.

MIIMUM WAGE:

HB8-197: Minimum Wage and Hour Act. Introduced in House of
Reps. 1/11/93. Passed Final 1/13/93. Pending in Senate.

Summary:

*Increase minimum wage to: 1993-\$2.45 per hour; 1994-\$2.75;
1995-\$3.05; 1996-\$3.35; 1997-\$3.65; 1998-\$3.95; 1999-\$4.25.
Provide exemptions to certain categories.*

Other bills addressing minimum wage were also introduced before House Bill 8-197 was introduced. HB8-197 is the recommended version from the Minimum Wage Task Force created by the Governor. The prior bills are: HB8-49; HB8-94; & HB8-108.

LOCAL BILLS AND RESOLUTIONS:

HLB8-2: Heavy equipment fees. Introd. by Saipan Delegation.
Passed and became Saipan Local Law 8-2.

Summary:

Establish a fee assessed by gross laden weight for heavy vehicles on Saipan. Funds are earmarked for improvement of roads in Saipan.

HLB8-3: Managaha Surcharge tax. Introd. by Saipan Delegation.
Pending.

Summary:

Impose surcharge tax of \$2.50 on each non-resident of CNMI transported to and from Managaha by a commercial enterprise. Funds to be used for village and secondary roads on Saipan.

HLB8-5: Saipan Surtax Act. Introd. by Saipan Delegation. Pending.

Summary:

Surtax of 1% of the construction cost for commercial units ; 3% user fees paid by each garment manufacture located on Saipan; 1% of the total sales or lease price of the land on Saipan, to be paid by the seller or lessor; .25 cents per share on the transfer of stock of any corporation located in Saipan; Initial \$500,000 collected annually to be used for Joeten-Kiyu Library on Saipan. Revenue in excess to be used for youth programs on Saipan.

HLB8-16: Public School System Meals Tax. Introd. by Saipan Delegation. Pending.

Summary:

Impose a meal tax of 4% to be levied on each retail or wholesale sale of food or beverage intended for consumption on the seller's premises in Saipan. Funds to be used for Public Schools in Saipan.

HLB8-17: Excise Tax and User Fees Act. Introd. by Saipan Delegation. Pending.

Summary:

Levy additional excise taxes of first sale or use of alcohol and tobacco, soft drink, beer, ale or other malt beverages imported into Saipan; establish user fees based on the gross value of merchandise

to be certified for the purpose of Headnote 3(a). Funds earmarked for Public Schools in Saipan.

HLB8-19: Saipan Room Occupancy Tax. Introd. by Saipan Delegation. Pending.

Summary:

Levy additional 5% occupancy tax on each hotel room, lodging house, or similar facility. Funds to be used for improvement of power, water and sewage services.

SLB8-10: Surcharge tax. Introd. by Saipan Delegation. Pending.

Summary:

Impose \$100 surcharge upon Saipan employers for each nonresident employed by said employer. Funds to be used for Vocational Education;

SLDResolution. 8-4: Saipan Delegation Resolution advising the Executive Branch that they will not support tax increases or rebate decrease proposed by the Executive Branc. Adopted by Saipan Delegation.



Commonwealth Utilities Corporation
Office of the Executive Director

April 7, 1993

The Honorable Lorenzo I. Deleon Guerrero
Governor
Commonwealth of the Northern Mariana Islands
Office of the Governor
Capitol Hill
Saipan, MP 96950

Subject: Questions by the Subcommittee on Insular and International
Affairs - March 18th Legislature Hearing on H.R. 1092

Dear Governor Guerrero:

The CUC is please to provide the following responses to Questions No. 6 and No. 7, raised by the U.S. House of Representatives Committee on Natural Resources transmitted to you by the Honorable Ron De Lugo, Chairman, Subcommittee on Insular and International Affairs, in his letter dated April 1, 1993.

Question No. 6:

Introduction:

The prelude to this question is apparently referring to the Inspector General's audit report dated February 1989, report No. N-TG-NMI-09-88. Even though it was evident in the audit report, the Inspector General (IG) could not comprehend that their audit was mainly a review of the Department of Public Works (DPW) operations and management (O&M) of the utilities and not those of the Commonwealth Utilities Corporation (CUC). On page 1, the report states that "On October 1, 1987, the Utilities Corporation took over the operations and management of the facilities (emphasis added), including the personnel, and assumed full responsibility for providing power, water, sewer, and refuse services." On page 2, the audit report states that "We reviewed Utilities Corporation procedures for metering, billing, collecting, contracting for fuel and fuel storage, and related budget and financial documents for the period November 1, 1985, through October 31, 1988 (emphasis added)." See Exhibit A. Thus, the audit encompassed only the first year of CUC's operation, during which there was a natural carry over from DPW administration. The creation of CUC to take over the O&M of the utilities was the consequence of the bleak situation documented by the audit.

According to IG's audit report, "For fiscal year 1987, Public Works' operating revenues for these utilities were \$4.5 million, and operating expenses were \$10.9 million. The operating loss of \$6.4 million was offset by other Commonwealth Government revenues". See Exhibit A.

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The Honorable Lorenzo I. Deleon Guerrero
 April 07, 1993
 Page Two

The IG "estimated that the Utilities Corporation's fiscal year 1988 losses would amount to \$12.9 million, of which \$9.2 million is due to an inadequate rate structure and \$3.7 million is due to ineffective procedures over metering, billing, and collecting." See Exhibit A.

For fiscal year 1988, CUC's operating budget assumed a rate increase for power. However CUC was prevented by Section 8143(c), Public Law 4-47 from raising rates. This section of the law was later amended by Public Law 6-5 which allowed CUC to increase rates in fiscal year 1989.

1. What is the current situation with collection, rates, and metering?

Collection:

In its first year, fiscal year 1988, working with DFW's records and personnel, CUC was able to increase collection by over \$1 million; it collected \$5.6 million, exclusive of government utilities payment. Collection has since skyrocketed, brought about primarily by the massive improvements made to the power systems including increased metering, improved billing and accounting procedures, and improved generation and distribution equipment. Collections have grown from \$5.6 million in fiscal year 1988 to \$37.5 million in fiscal year 1992. A comparative collection report is enclosed as Exhibit B.

Rates:

Due to the prohibition of Section 8143(c) of Public Law 4-47 and the lengthy requirements of the Administrative Procedure Act, CUC was unable to implement the full cost recovery rates in fiscal year 1988. The full cost recovery rate was implemented on January 1989 when Public Law 6-5 amended Section 8143(c) of PL 4-47. The power rate was increased by one hundred percent (100%), raising residential rates from \$0.05/KWH to \$0.11/KWH; commercial rates went from \$0.08/KWH to \$0.16/KWH. See Exhibit C for rate comparison including the proposed rates for all utilities.

Metering:

In August 1987, only fifty five percent (55%) of customers were metered. By January 1990, metered customers had increased to seventy four percent (74%). As of March 1993, metered customers are ninety eight percent (98%) with a meager two percent (2%) remaining unmetered. See Exhibit D.

The Honorable Lorenzo I. Deleon Guerrero

April 07, 1993

Page Three

2. What provisions are there to ensure that those who can pay the cost of services do and only those who cannot are subsidized?

CUC's regulations for Power, Water, and Sewer and its enabling legislation (P.L. 4-47) require all customers to pay for utility services when a bill is rendered. In addition, all customers are required to pay an application fee, a security deposit and a connection fee. The regulations do not provide for any subsidy. Even those customers under the federal Low Income Housing Energy Assistance Program (LIHEAP) are billed for total consumption and are required to pay for any balance in excess of the federal assistance.

3. Why should federal taxpayers provide additional infrastructure assistance when many in the N.M.I. who can pay fair value for utility services are not required to do so?

This statement is not correct. As shown in question 2, CUC's regulations and its power rates were full cost recovery rates. CUC has recently completed a financial plan which calls for a rate increase to meet operating cost as well as projected capital improvements projects and debt service.

Question No. 7:

Introduction:

Since its inception, CUC's project funding has come primarily from Commonwealth Development Authority (CDA) loans. These funds, pursuant to the provisions set forth in the June 10, 1985 Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands, were from tax-exempt bonds in the United States market secured by Covenant funds. Funds from these loans are expended upon approval of the Department of the Interior's Office of Territorial and International Affairs (OTIA). The funds expended by CUC were all for capital improvement priorities identified in the Seven-Year Strategic Development Plan (SDP), developed in accordance with the requirements of the Agreement of the Special Representatives. The SDP was approved by the Department of the Interior (DOI). How funds could be alleged to have been spent "inefficiently" when they were spent in accordance with approved development plan and with DOI's oversight is beyond our comprehension.

Since fiscal year 1988, CUC has constructed three major power plants. The Emergency Power Plant, commissioned in August 1988, consists of six (6) General Motors Electromotive Division generators. As the name implies, the Emergency Power Plant was needed to meet demand at that

The Honorable Lorenzo I. Deleon Guerrero
 April 07, 1993
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time and to buy time for CUC to construct a permanent power plant. In May 1990, CUC commissioned the first phase of one of the most modern power plants in the Pacific. This plant has both fuel and lubrication performance guarantees, and has enabled CUC to lower its fuel consumption from 71 percent of total operating expenses to less than 50 percent. The Emergency Power Plant remains for peaking capacity and as emergency backup for the main power plant. Obviously, this is not an example of "inefficient power generators". The Phase II Expansion added two more of the same diesel engines.

The initial power distribution expansion program undertaken enabled CUC to double its load distribution capacity from 6 to 12 megawatts. Today, the distribution capacity exceeds 15 megawatts. Again, this is not inefficient. In fact, all these improvements were strategically executed to bring efficient power to the people of the Commonwealth.

1. Should federal taxpayers provide additional infrastructure assistance in light of the allegations of mismanagement of past assistance?

In the absence of specific citations or allegations, we assume that you are referring to the IG's letter dated April 26, 1991 (7520-91-541) regarding the independent Auditor's Report on Compliance with Laws and Regulations for the year ended September 30, 1988 and specifically to the Findings of Noncompliance identified in connection to the 1988 Single Audit. The questions raised were addressed in a letter dated May 8, 1991 to Mr. Sam W. Gillentine, Regional Audit Manager, Office of the Inspector General. The same information was provided to Mr. Thomas Bussanich of Territorial and International Affairs. See Exhibit E.

If you are referring to the IG's Audit Report on Capital Improvement Funds, Commonwealth of the Northern Mariana Island (Assignment No. N-TG-NMI-09-90), again we addressed the issues raised to The Honorable Stella Guerra in a letter dated November 25, 1991, see Exhibit F.

As far as N.M.I officials' complaints about CUC, this is to be expected due to the new regulations and requirements for providing services. CUC is aware of complaints regarding having to pay for connection fees, security deposits, application fees and being required to comply with national standards on water, power and sewer services. Complaints have been made regarding service disconnections of delinquent customers. Disconnection of utility services is made routinely by CUC for all delinquent customers, pursuant to specific requirement of Public Law 4-47.

The Honorable Lorenzo I. Deleon Guerrero
April 07, 1993
Page Five

We believe that capital developments funds are invested properly, and according to plans. This is evident in the tremendous improvements made to power, water and sewer services to date. The Department of the Interior's Operation and Maintenance Improvement Programs (OMIP) report testifies to this fact.

Question No. 8:

1. In light of the past failure to provide local funds for infrastructure needs, should federal taxpayers provide additional assistance?

This is not a correct statement. CUC alone has invested over \$10 million of local funds in sewer improvements and over \$5 million in power distribution improvements.

The CNMI is making a good faith effort in funding its capital improvement needs using locally generated revenues.

Sincerely,


Ramon S. Guerrero
Executive Director

Enclosures



Commonwealth of the Northern Mariana Islands
Office of the Governor
Capitol Hill, Saipan MP/USA 96950



U. S.

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TELEFAX

DATE: 4/7/93

TO: Governor Guerrero

FAX NO.: 322-4323

FROM: Tim Bruce, Special Legal Counsel to Governor Lorenzo I. De Leon
Guerrero

FAX NO.: (670) 322-5096

OPERATOR: Donna J. Cruz *frances*

TOTAL PAGES INCLUDING THIS COVER PAGE: 5

Note: If you do not receive legible copies of all the pages, please telephone (670) 322-5091-3 and ask for sender.

Apr 11 1, 1993

DON YOUNG ALASKA
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 AL THEYER ARIZONA

JOHN LAWRENCE
 STAFF DIRECTOR
 NICHOLAS WALTER
 GENERAL COUNSEL
 DANIEL WALKER
 REPUBLICAN STAFF COUNCIL

My dear Governor Guerrero:

Thank you for your continued cooperation.

Sincerely,

~~RON DE LUCA~~
~~Chairman~~

Subcommittee on Insular and
International Affairs

QUESTIONS FOR GOVERNOR LORENZO I. GUERRERO OF THE NORTHERN MARIANA ISLANDS BY THE SUBCOMMITTEE ON INSULAR AND INTERNATIONAL AFFAIRS - MARCH 16TH LEGISLATIVE HEARING ON H.R. 1092, A BILL TO PROVIDE FURTHER ASSISTANCE TO THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS.

Infrastructure Cost

1. A significant portion of the economic activity in the commonwealth is garment manufacturing. This industry -- which grossed \$279 million last year and includes substantial foreign ownership -- used foreign workers paid less than the U.S. minimum wage to make garments which freely entered the U.S. market. The N.M.I. developed its garment industry and its reliance on alien labor in spite of federal warnings, including from representatives of this Committee. U.S. garment workers and manufacturers -- in an industry being overcome by non-domestic competition -- say that the Marianas competition is unfair.

Why should the federal government use revenue contributed in part by U.S. workers and manufacturers who are suffering in part from competition from the Marianas to finance infrastructure for the commonwealth?

Projects

2. The agreement does not specify the projects which would be financed with the \$120 million to which the Congress is being asked to commit...or even the types of projects.

Specifically, how would the recommended \$120 million raise the standard of living in and develop the economic resources of the commonwealth?

How can we be assured that the \$120 million will be used for what we will agree are the priority needs in the N.M.I.?

Matching Commitment

3. The N.M.I. Legislature has not been asked to approve the agreement and, thus, has not committed to provide the intended \$120 million match. Further, many N.M.I. legislators have publicly questioned the wisdom of the making the commitment.

Why wasn't the Legislature asked to approve the agreement?
Why should the Congress approve the agreement before the Legislature does?

Will the Legislature commit to match the \$120 million? Why have so many legislators questioned doing so? How can we be assured of a commitment on the part of the N.M.I.?

Amendments

4. The agreement provides that it may be changed by the parties.

Since the Congress will have approved the agreement, why should changes in it be able to be made without congressional approval?

What assurance does the Congress have that the provisions it is being asked to approve will not be changed immediately?

5. The agreement does not make clear who will represent the parties in making changes to it.

Who will? How can we be assured that officials other than those intended now will not make changes in the future?

Use of Past Assistance

6. Representatives of past federal and commonwealth administrations have agreed that the full cost of N.M.I. utility services would be borne by the users. The N.M.I. utility agency, the CUC, has not been collecting the full cost of services. A few years ago, the Interior Inspector General estimated that the N.M.I. was losing \$14 million a year because fees were not collected, rates were too low, and services were not metered. Although there were an estimated 6,500 power users at the time, for example, there were only 3,200 customers on CUC's books. Of this number only 2,600 were metered. Less than 2% of water users were metered.

What is the current situation with collections, rates, and metering?

What provisions are there to ensure that those who can pay the cost of services do and only those who cannot are subsidized?

Why should federal taxpayers provide additional infrastructure assistance when many in the N.M.I. who can pay fair value for utility services are not required to do so?

7. The Inspector General has reported that the CUC spent millions of dollars of past federal infrastructure assistance inefficiently. Interior Department officials have told us of purchases of inefficient power generators and lines as well as of allegations of mismanagement. N.M.I. officials have complained about the CUC.

Should federal taxpayers provide additional infrastructure assistance in light of the allegations of mismanagement of past assistance?

8. The Inspector General has also criticized the N.M.I. government for not meeting its own plans for providing local funds for infrastructure needs to the extent of \$59 million, delaying the accomplishment of the islands' overall development plan objectives.

In light of the past failure to provide local funds for infrastructure needs, should federal taxpayers provide additional assistance?

9. The Inspector General has said that the N.M.I. agency responsible for managing development projects, the CDA, has exercised inadequate oversight and control regarding federal infrastructure assistance and that \$6.7 million was used ineffectively or for unallowable purposes.

What assurance will there be of more effective management of assistance by the CDA?

10. The Inspector General found that \$8.5 million of past federal developmental assistance was lost because of loans for ineligible purposes or failures to collect repayment of loans. (Of 37 loans totalling \$5.7 million that were in default, 17 amounting to \$3.2 million were reportedly held by current or former government officials or their relatives.) \$2 million of federal assistance for housing loans was used for housing authority operations expenses. (This does not include a reported overbilling on the (Koblerville subdivision of \$3.2 million or an additional \$3.7 to \$6.1 million that homebuyers will allegedly needlessly pay in the authority's contract with OCK construction.)

What assurance can you give us that further assistance will be used properly?

EXHIBIT A

INTRODUCTIONBACKGROUND

The Commonwealth of the Northern Mariana Islands Public Law 4-47 established the Commonwealth Utilities Corporation, a public corporation, to supervise the construction, maintenance, operations, and regulation of all utility services. Although the law became effective October 1, 1985, the Department of Public Works, predecessor to the Utilities Corporation, continued to operate and maintain the facilities which provided electrical power, as well as water, sewer, and refuse services, through fiscal year 1987. For fiscal year 1987, Public Works operating revenues for these utilities were \$4.5 million, and operating expenses were \$10.9 million. The operating loss of \$6.4 million was offset by other Commonwealth Government revenues.

On October 1, 1987, the Utilities Corporation took over the operations and management of the facilities, including the personnel, and assumed full responsibility for providing power, water, sewer, and refuse services. For fiscal year 1988, the Utilities Corporation estimated its operating revenues to be \$8.2 million (assuming a rate increase for power and aggressive collection efforts occurred during the year) and operating expenses to be \$14.1 million. To offset the anticipated operating loss, Public Law 5-44 authorized a \$5.9 million subsidy to the Utilities Corporation. An additional \$2.0 million was appropriated to the Utilities Corporation through Public Law 6-5.

Public Law 4-47 requires that the Utilities Corporation be governed by a Board of Directors which, once confirmed, will implement a plan within 90 days to establish rates and meter, bill, and collect fees in a fair and rational manner from all consumers of utility services provided by the Utilities Corporation. Billings are prepared monthly. Customers with meters are billed based on measured consumption, while customers without meters, except Governmental, are billed a flat-rate assessment based on estimated consumption. Governmental customers are not billed for utility services.

On June 11, 1987, the Utilities Board selected a private utilities company, experienced in operating power facilities on other Pacific Islands, to provide consulting services for the electrical power operations. The consulting contract was awarded on August 25, 1987. The consultant was subsequently selected as the contractor for two other contracts. One is a \$1.2 million contract, signed July 18, 1988, to plan and initiate an effective metering program for the Utilities Corporation. The other is a 3-year contract, signed August 15, 1988, to operate and manage the electrical power system and the administrative offices of all utility functions.

OBJECTIVE AND SCOPE

The objective of the audit was to determine if (1) the Commonwealth Utilities Corporation effectively metered, billed, and collected for utility services; (2) contracts for fuel and fuel storage were awarded in accordance with required procurement standards and in the best interest

of the Commonwealth; and (3) the desired goals established by the Commonwealth Legislature in Public Law 4-47 were being achieved.

We reviewed Utilities Corporation procedures for metering, billing, collecting, contracting for fuel and fuel storage, and related budget and financial documents for the period November 1, 1985, through October 31, 1988. To accomplish our objective, we visited offices of the Utilities Corporation; Utilities Corporation's consultant; Commonwealth Departments of Finance, Public Works, and Commerce and Labor; the Governor's Office of Planning and Budget; and selected consumer locations. The audit work was completed in November 1988.

Our review disclosed only minor deficiencies concerning the fuel supply or fuel storage contracts. These deficiencies were communicated to Utilities Corporation management under separate cover.

This economy and efficiency review was made, as applicable, in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

The accounting and administrative records at the Utilities Corporation were inadequate to fully determine the cause and effect of conditions identified by our review. Repeated attempts to obtain information or explanations from Utilities Corporation employees were not successful. Accordingly, the lack of documentation and adequate explanations limited the scope of our review.

As part of our review, we evaluated the system of internal controls over metering, billing, and collecting for utility services. Also, we reviewed the internal controls over procurement of fuel and fuel storage for electrical power generation. Our review disclosed major weaknesses in the administration of the metering, billing, and collecting functions. The internal control weaknesses identified are addressed in the Findings and Recommendations section of this report. The recommendations, if implemented, should improve the controls in these areas.

PRIOR AUDIT COVERAGE

During the past 5 years, the General Accounting Office had not evaluated the procedures used by the Utilities Corporation or Public Works to meter, bill, and collect for utility services. The Office of Inspector General issued one flash audit report entitled "Review of The Commonwealth Utilities Corporation, Commonwealth of the Northern Mariana Islands" in September 1988 (No. 88-114). That report contained recommendations to the Governor of the Northern Mariana Islands and the Chairman of the Board of the Utilities Corporation dealing with unrealistic flat rates for power consumers without meters. The report identified \$1.2 million in lost revenue associated with the 20 to 30 largest commercial users. The Governor and the Utilities Corporation generally agreed with the recommendations and proposed actions to correct the problems.

FINDINGS AND RECOMMENDATIONSA. COMPLIANCE WITH LEGISLATIVE GOALS

The Utilities Corporation had not achieved the desired goals of the Commonwealth Legislature for full cost recovery and effective operations. Public Law 4-47 requires that the Utilities Corporation be independent of all appropriations by the Commonwealth Legislature by the end of fiscal year 1988 and establish the policies and procedures necessary to ensure effective operations. The Commonwealth did not act promptly to establish a Board of Directors for the Utilities Corporation, and the Board has not acted promptly to implement the mandates of the law. At the time of our audit, many utility customers still had not been metered, and flat rates charged these customers normally recovered far less than the costs of the services provided. As a result, the Utilities Corporation lost an estimated \$12.9 million in 1988 and may not be financially independent in the near future. Additionally, the Utilities Corporation does not have the accounting and administrative systems necessary to ensure effective operations.

The Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands requires the Commonwealth Government to ensure that the Utilities Corporation is fully funded, through the use of user fees, and independent of Government subsidy by the end of fiscal year 1988. This requirement was agreed to as a condition for the Commonwealth to receive Federal funds for Commonwealth Government operations. Federal funds provided for Government operations in fiscal year 1989 will amount to \$15 million.

Cost Recovery

Contrary to applicable law, the Utilities Corporation has been providing services to consumers at prices far below actual costs. Public Law 4-47 requires the Utilities Corporation to take all steps necessary to accurately meter and bill all consumers, including Government consumers and all Government buildings, for electrical power, sewage, refuse collection, and water consumption by no later than October 1, 1986, at no less than the cost of production, operation, and maintenance of the services provided. No rate increases were permitted unless the Corporation was in full compliance with these provisions. Because all consumers were not metered, the Board could not implement a new rate schedule.

Utility rates have not been changed since 1982, and the existing rates did not recover the full costs of providing service. For example, the cost of producing power is estimated at 11.5 cents per kilowatt hour, while the average rate charged by Public Works and the Utilities Corporation was 7.2 cents per kilowatt hour. Consequently, utility services were provided to consumers at a loss, and as consumers were added to the system, the operating losses and corresponding Government subsidies increased proportionately. We estimated that the Utilities Corporation's fiscal year 1988 losses would amount to \$12.9 million, of which \$9.2 million is due to an inadequate rate structure and \$3.7

EXHIBIT B

COLRP 901
04/07/93COMMONWEALTH UTILITIES CORPORATION
COMPARATIVE COLLECTION REPORT
FISCAL YEARS 1993, 1992, 1991, 1990, 1989 & 1988

	1993		1992	%	1991	%	1990	%	1989	%	1988
OCTOBER	3,503,325	0.4%	3,490,409	30.0%	2,684,657	67.4%	1,604,141	63.1%	983,468	164.6%	371,675
NOVEMBER	3,298,775	15.5%	2,855,326	67.4%	1,705,664	-51.9%	1,797,239	127.5%	789,900	366.2%	169,451
DECEMBER	3,212,592	3.5%	3,103,333	64.2%	1,890,040	11.4%	1,696,299	145.5%	691,048	16.5%	593,319
JANUARY	5,176,370	42.7%	3,627,126	-12.8%	4,159,632	94.0%	2,144,277	94.6%	1,102,013	158.6%	426,090
FEBRUARY	4,180,467	30.7%	3,197,581	15.9%	2,758,776	27.3%	2,166,561	31.4%	1,649,309	334.6%	379,469
MARCH	2,742,350	-9.5%	3,031,764	18.5%	2,558,766	16.7%	2,193,159	41.2%	1,553,637	164.7%	587,021
APRIL			2,965,304	-7.7%	3,211,124	61.1%	1,993,856	85.2%	1,076,555	138.5%	451,359
MAY			3,018,979	-16.0%	3,595,427	20.6%	2,981,100	100.7%	1,485,137	291.4%	379,441
JUNE			3,117,951	3.8%	3,003,175	40.0%	2,145,061	27.0%	1,688,759	202.0%	559,236
JULY			3,266,870	-0.2%	3,272,410	83.4%	1,784,628	12.3%	1,589,402	212.2%	509,050
AUGUST			2,837,409	-8.9%	3,115,800	28.8%	2,419,964	40.8%	1,718,143	186.4%	599,999
SEPTEMBER			2,954,890	-2.3%	3,025,241	40.8%	2,147,907	29.3%	1,661,655	204.9%	544,957
TOTAL	\$22,113,878		\$37,466,940	7.1%	\$34,980,731	39.5%	\$25,074,191	56.8%	\$15,989,025	187.0%	\$5,571,068
AVERAGES	\$3,685,646		\$1,122,245		\$2,915,061		\$2,089,516		\$1,132,419		\$464,256
AVE. INC. FROM - 1992	\$563,401	18%									
AVE. INC. FROM - 1991	\$770,585	26%	\$207,184	7%							
AVE. INC. FROM - 1990	\$1,596,130	76%	\$1,032,729	49%	\$825,545	40%					
AVE. INC. FROM - 1989	\$2,353,228	177%	\$1,789,626	134%	\$1,582,642	119%					
AVE. INC. FROM - 1988	\$3,221,391	694%	\$2,657,989	573%	2,450,805	528%					

NOTE. EXCEPT FOR GOVERNMENT OFFSETTING OF ACCOUNTS WHICH ARE PRESUMED AS COLLECTIONS,
THE ABOVE FIGURES WERE BASED ON THE ACTUAL MONTHLY COLLECTIONS DEPOSITED UNDER
CUC'S OPERATION FUND (BOG#0603 - 1343).

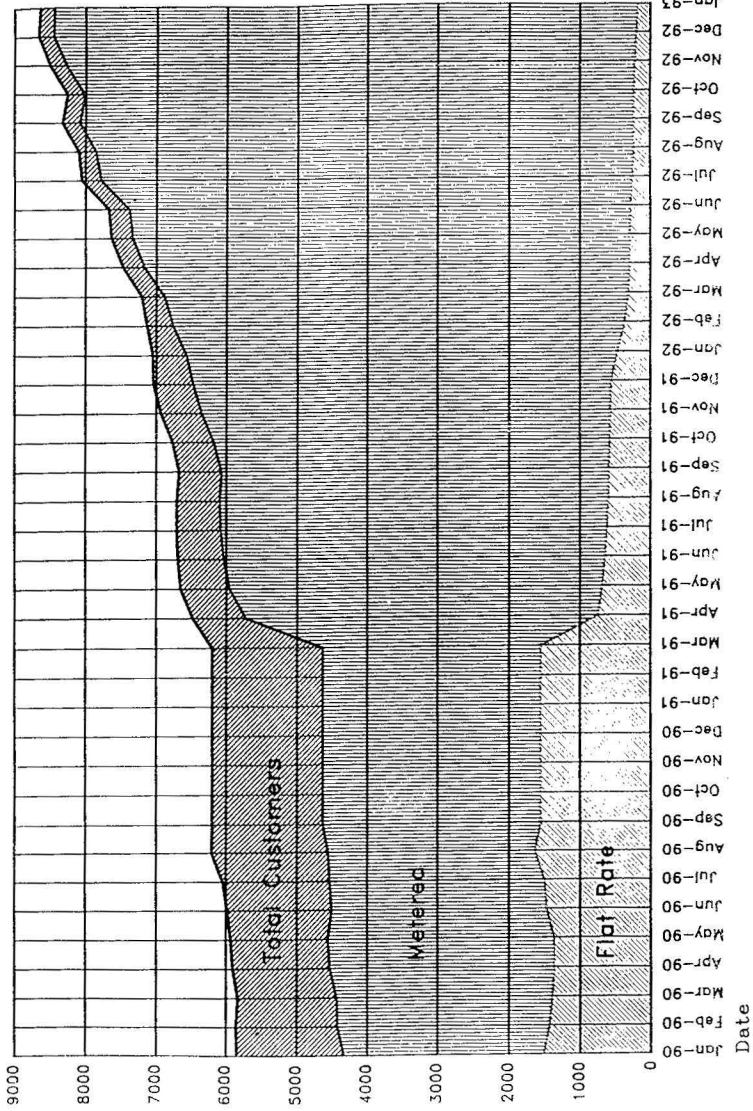
MARCH 1993 COLLECTION DOES NOT INCLUDE GOVERNMENT BILLING WHICH HAS YET
TO BE PRINTED AS OF APRIL 7, 1993

EXHIBIT C

COMMONWEALTH UTILITIES CORPORATION
HISTORY OF RATE ADJUSTMENTS

UTILITY SERVICE	BASE YEAR (FY 1988)	FIRST ADJUSTMENT (FY 1989)			SECOND ADJUSTMENT (FY 1993)			PLANNED ADJUSTMENT (FY 1993)		
		\$ / KWH			\$ / KWH			\$ / KWH		
POWER-----		RES	COMM	GOV	RES	COMM	GOV	RES	COMM	GOV
0-800	\$0.05	\$0.11	\$0.16	\$0.16	\$0.11	\$0.16	\$0.18	\$0.12	\$0.18	\$0.18
801-2,000	\$0.06	\$0.11	\$0.16	\$0.16	\$0.11	\$0.16	\$0.18	\$0.12	\$0.18	\$0.18
2,001-25,000	\$0.07	\$0.11	\$0.16	\$0.16	\$0.11	\$0.16	\$0.18	\$0.12	\$0.18	\$0.18
25,001 & OVER	\$0.08	\$0.11	\$0.16	\$0.16	\$0.11	\$0.16	\$0.18	\$0.12	\$0.18	\$0.18
WATER-----		\$ / 1,000 GAL			\$ / 1,000 GAL			\$ / GAL		
0-3,000	\$0.50	\$0.50			RES	COMM	GOV			
3,001-15,000	\$0.50	\$1.20			\$0.50	\$0.50	\$30.00	\$0.01		
15,001-30,000	\$0.50	\$1.50			\$1.20	\$1.20	\$30.00	\$0.01		
30,001-60,000	\$0.50	\$1.75			\$1.50	\$1.50	\$30.00	\$0.01		
60,001 & OVER	\$0.50	\$2.00			\$1.75	\$1.75	\$30.00	\$0.01		
SEWER-----		\$ / 1,000 GAL			\$ / 1,000 GAL			\$ / GAL		
0 & OVER	\$0.50	\$0.50			RES	COMM	GOV	\$0.01		

METERING OF NEW CUSTOMERS - JULY 1989 - FEBRUARY 1993



Jan 1993 - Flat Rate Customers

Residential	1,448
Commercial	0,372
Government	0,000
Total	1,820

Jan 1990 - Flat Rate Customers

Residential	10,232
Commercial	0,000
Government	0,000
Total	10,232

Meters on Order

Flat Metered Total



Commonwealth Utilities Corporation
Office of the Executive Director

Lower Base P.O. Box 1220
 Saipan, MP 96930

EXHIBIT E

February 11, 1992

Mr. Thomas Bussanich
 Budget Office
 Territorial and International Affairs
 United States Department of the Interior
 Office of the Secretary
 Washington, D.C. 20240

Subject: Fiscal Year 1988 Audit of the
 Commonwealth Utilities Corporation

Dear Mr. Bussanich:

We are in receipt of your letter dated January 9, 1992 and the attached letter of June 25, 1991 together with the April 16, 1991 memorandum from the Inspector General. We have no record that we receive your letter of June 25, 1991 and explains the lack of response.

The fifteen control and noncompliance findings with questioned costs were addressed in a letter dated May 8, 1991 to Mr. Sam Gillentine, Regional Audit Manager. We note that the questioned costs were an issue only because the auditor could not find the procurement records at the CNMI Procurement and Supply who is the custodians of all procurement record at the time in question. With CUC's direct assistance the findings were resolved. The audit of the Commonwealth Utilities Corporation (CUC) for Fiscal Year 1989 attest to this fact.

We have enclosed a copy of our letter dated May 8, 1991 to Mr. Gillentine together with our detailed response dated January 28, 1991 and the resulting response from CUC's auditor, Deloitte & Touche.

Sincerely,


 Ramon S. Guerrero
 Executive Director

Enclosure

cc: Comptroller
 Special Advisor



Commonwealth Utilities Corporation
Office of the Executive Director

Lower Base P.O. Box 1220

Sanpan, MP 96930

May 8, 1991

Mr. Sam W. Gillentine
 Regional Audit Manager
 United States Department of the Interior
 Office of Inspector General
 North Pacific Region
 238 Archbishop F.C. Flores Street
 PDN Building, Suite 807
 Agana, Guam 96910

Dear Mr. Gillentine:

The Chairman of the Commonwealth Utilities Corporation (CUC) asked me to respond to your letter to him, dated April 26, 1991 (7520-91-541), regarding your desk review of the audit report on the Commonwealth Utilities Corporation for the year ended September 30, 1988.

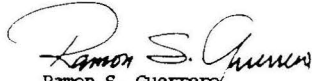
My response to the Federal Assistance Questioned Cost Detail was sent to Deloitte & Touche by the enclosed letter dated January 28, 1991 (Exhibit 1). However, it was not addressed nor included in the final audit report. Deloitte & Touche, through our insistence, have since reviewed the procurement records at CNMI Procurement and Supply and have eliminated most of the questioned cost. Enclosed is their facsimile transmittal and its attachments (Exhibit 2) which indicate the reduction in question cost. The resolution of the question cost is contained in the Fiscal Year 1989 audit report.

The Administrative Control Weakness Summary is enclosed as Exhibit 3. Action plans, where relevant, are noted on the bottom of the sheets.

We wish to emphasize that every contract by CUC during the fiscal year are procured competitively and selected pursuant to the criterias listed on the published Request for Proposal (RFP). All proposals for these RFP were received by CNMI Procurement and Supply, in duplicate copies. We took one set for evaluation and the other set remains with CNMI Procurement and Supply. These information are stored by Procurement and Supply and requires more than a cursory effort to get them for review. The reduction of Federal Assistance Question Cost is an example of this.

Mr. Sam W. Gillentine
May 8, 1990
Page Two

Sincerely,


Ramon S. Guerrero
Executive Director

Enclosures

cc: Governor
Chairman
Comptroller
Special Advisor
Deloitte & Touche
Public Auditor w/enclosures
Director of External Audits w/enclosures
Director, Audit Followup and
Quality Assurance w/enclosures

Enclosure I



Commonwealth Utilities Corporation
Office of the Executive Director

January 28, 1991

Mr. Michael Johnson
Deloitte & Touche
P.O. Box 308
Saipan, MP 96950

Dear Mr. Johnson:

Pursuant to Independent Auditor's Report on Compliance with Laws and Regulation, for the year ended September 30, 1988, and specifically to the Findings of Noncompliance identified in connection with the 1988 Single Audit and discussed in the Schedule of Findings and Questioned Costs, we provide the following justifications:

CFDA/GRANT NUMBER	FINDINGS	QUESTIONED COST
66.418/US EPA - Sadog Tase STP	...purchase pick-up truck in a lease agreement without prior approval...	\$ 4,490
Justification:	CUC conducts many informal consultation with U.S. EPA where approval in some cases are obtained. Purchase of vehicles and equipments were viewed as necessary to support grant work and thus approved by the grantor. The obvious proof of this approval is the fact that reimbursement of the expense was made.	
	..charge rent for government housing	\$ 4,500
Justification:	CUC was charged (billed) by CNMI Personnel for the government quarters. Thus, the charge is proper and approved by the grantor as administrative cost.	
	..charged Sadog Tase STP..for vehicle rental expenses, although the Ayingan STP project had been charged for the same expenses.	\$ 1,540
Justification:	The rental expense for the vehicle was split between the two projects. As stated above, this is viewed as necessary to support grant work and authorized.	

Lower Base B.O. Box 1220
Saipan, MP 96950

Deloitte & Touche
January 28, 1991
Page Two

66.418/US EPA - ..purchase computer system with printer \$ 6,649
Rota Sewer System and software without proper approval from
grantor....

Justification: The purchase of equipments such as
computers are viewed as necessary to support
the administrative staff for the grant work
and are approved by the grantor agency.

15.875/US DOI "...could locate no evidence of procure- \$252,807
Org. No. 4258 ment procedures performed. Contract No.
Proc. Generator C17843

Justification: Contract No. C017843 was awarded by the CNMI government
on July 8, 1986 for the Rota Power Plant. Contracting
Officer then was the Director of Public Works.
Procurement information should be with DPW.

The Executive Director for CDC came on board on October
1, 1987.

15.875/US DOI ..received \$1,000 for the sale of plans \$ 1,000
Maui IV/Calhoun and specifications..recognized as misce-
Reservoir Water llaneous revenue.
Sys. Improvement

Justification: CNMI Dept. of Finance was providing the accounting for
this project and should have booked the receipt in
accordance to OMB Circular A-102.

15.875/US DOI/ ...disbursement which were made to contrac-
CDA loan proceeds tors for which no evidence was available
indicating that procurement procedures
had been performed. Check No. 0001 \$ 168,811
0002 \$ 191,023
97001731 \$2,628,041
CT-03-3156 \$ 16,200
CT-03-2766 \$1,011,993
CT-03-2927 \$1,818,007

Justification: Check No. 0001 in the amount of \$168,811.20 was
disbursed to IBC as final payment for the purchase of
two 1.6 MW Caterpillar generators installed in the
Agingan Power Plant pursuant to Contract No. C018576.

The procurement of this contract was done by the
Director of Public Works during the last quarter of

Deloitte & Touche
January 28, 1991
Page Three

calendar year 1986. On September 24, 1986, the Director of Public Works sent a memo to the Chief of Procurement and Supply requesting approval for emergency procurement of the generators. On December 1, 1986, the Chief of Procurement and Supply approved the request. These information should be with Procurement and Supply, CNMI government.

Check No. 0002 in the amount of \$191,023.20 was disbursed to LGA for the Metering project pursuant to Contract No. C41649-01. This contract was procured pursuant to RFP 8703. Proposals were received by CNMI Procurement and Supply in May 1987 and should have record of this procurement.

Check No. 97001731 in the amount of \$2,628,041 was disbursed to the Department of Finance as a reimbursement for the advance provided to open a letter of credit in the amount of \$1,971,031, in favor of The O'Brien Machinery Company, and the advance payment of \$657,010, to the same company, pursuant to Contract No. C41439-01, the Emergency Power project. This contract was procured pursuant to RFP 8705 in September 1987. CNMI Procurement and Supply should have record of this procurement.

Check No. CT-03-3156 in the amount of \$16,200 was disbursed to Mitsui & Co. in accordance with Contract No. C41522-01, Sinapalo Transmission and Distribution, island of Rota. Procurement of this contract is made pursuant to RFP 8702. Again, Procurement and Supply should have record of this procurement.

Check No. CT-03-2766 in the amount of \$1,011,993.88 was disbursed to Mitsui & Co. in accordance to Contract No. C017843, the Rota Power Plant. This contract was awarded by the Director of Public Works on July 8, 1986. Both DPW and Procurement and Supply should have record of the procurement process.

Check No. CT-03-2927 in the amount of \$1,818,007.12 was disbursed to Mitsui & Co. in accordance to Contract No. C017843, Rota Power Plant. This contract was awarded by DPW on July 8, 1986. Both DPW and Procurement and Supply should have record of this procurement.

Deloitte & Touche
January 28, 1991
Page Four

15.875/US DOT/ ..following disbursement to contractors
CDA loan proceeds which include interest expense...

Check No. 0001	\$ 11,911
CT-03-2766	\$ 187,359
CT-03-2927	\$ 47,262

Justification: CNMI contracts have always allowed payment of interest up to a maximum of 12 percent per year. Additionally, since this is bond funds, we see no reason to obtain additional authorization for interest payment when authorized by contract.

Sincerely,


Ramon S. Guerrero
Executive Director

cc: Comptroller
Special Advisor

**Deloitte &
Touche**rec'd.
4/19/91

Enclosure 2

FAX

TRANSMITTAL

Box 308

Saipan, MP 96950

Telephone: (670) 322-7337/8/9

Facsimile: (670) 322-7340

PLEASE DELIVER THE FOLLOWING PAGES TO:

NAME: Pete Sasamoto

FIRM: Commonwealth Utility Corporation

FAX NO: 322-4323

FROM: Mike Johnson

FIRM: DELOITTE & TOUCHE, P.O. BOX 308, SAIPAN, MP 96950

FAX NO: (670) 322-7340 PHONE NO: (670) 322-7337/8/9

CLIENT: CUC

IF YOU DO NOT RECEIVE 5 PAGES (INCLUDING THIS ONE) IN GOOD
CONDITION, PLEASE CALL BACK AS SOON AS POSSIBLE.

ADDITIONAL INFORMATION: _____

Pete,

Attached are copies of the revised p. 20
of the FY 89 Compliance report, and copies
of the still unresolved issues from FY 88

SENT BY: [Signature]DATE: 4/19/91

MESSAGE TRANSMITTED: YES: _____ NO: _____

CONFIRMATION NO 1118

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary
Year ended September 30, 1989Unresolved Prior Year Questioned Costs and CommentsFinding No. 4

Criteria: A review of the system of internal control includes making an evaluation of whether prior year recommendations concerning internal controls were implemented.

Condition:

The fiscal year 1988 report on compliance with laws and regulations noted the following questioned costs and comments, for the year ended September 30, 1988 (report dated September 15, 1989) which were unresolved at or considered to be reportable conditions for the year ended September 30, 1989.

Questioned Costs:

Questioned costs as originally reported	\$ 6,105,061
---	--------------

Resolved questions costs:

Procurement procedures made available and reviewed for propriety:

Contract No. C17843	(252,807)
Check No. 97001731	(2,628,041)
Check No. CT-03-2766	(1,011,993)
Check No. CT-03-2927	(1,818,007)

Emergency justification made available and reviewed for propriety, check no. 0001

(166,811)

Unresolved prior year questioned costs at September 30, 1989

\$ 225,492

Comments:

- No. 1 Reconciliation of receivable/payable balances from/to grantor agencies not performed
- No. 2 No inventory of fixed assets
- No. 3 Finished construction in progress not transferred to plant
- No. 4 Davis-Bacon Act
- No. 5 Submission of financial reports
- No. 6 Program outlays reported
- No. 7 Evidence of administrative review
- No. 8 Lack of subgrant agreements
- No. 10 Contract provisions
- No. 11 Operations and maintenance manual
- No. 12 Clean Water Act
- No. 13 Insurance
- No. 14 Establishment of a water system revenue fund

COMMONWEALTH UTILITY CORPORATION
Federal Assistance Questioned Cost Detail
Year ended September 30, 1988

CFDA/Grant Number	Findings	Questioned Cost
CFDA No. 66.418/U.S. Environmental Protection Agency - Sadog Tase Sewage Treatment Plant (assistance ID No. C690001-04-0)	CUC exercised its option to purchase a pick-up truck in a lease agreement without prior approval from the grantor. OMB Circular A-87 attachment B Section c(3) requires prior approval from grantor agencies for capital expenditures.	
	Accounts payable Voucher No. 827614	\$ 4,490
	CUC charged rent for a governmental housing unit to the federal grant which appears inconsistent as other governmental agencies are not charged for use of governmental quarters. OMB Circular A-87 Attachment A Section c(1) requires policies, regulations and procedures be applied on a consistent basis among federally assisted and other government programs.	
	Journal voucher No. 80054	4,500
	CUC charged the Sadog Tase Sewage Treatment Plant project \$1,540 for vehicle rental expenses, although the Agingan Wastewater Treatment Plant project (assistance ID No. C690001-030) had been charged for the same expenses.	
	Accounts payable voucher No. 831399	<u>1,540</u>
		<u>10,530</u>
C P D A N o . 6 6 . 4 1 8 / U . S . Environmental Protection Agency - Rota Wastewater Treatment System Phase I (assistance ID No. C690002-010)	CUC purchased a computer system with printer and software without proper approval from the grantor. OMB Circular A-87 Attachment B Section c(3) requires prior approval from grantor agencies for EDP purchases.	
	Contract No. 18459	<u>6,642</u>
	Total CFDA No. 66.418	<u>17,172</u>

Deloitte &

COMMONWEALTH UTILITY CORPORATION

Federal Assistance Questioned Cost Detail
Year ended September 30, 1988

CFDA/Grant Number	Findings	Questioned Cost
C F D A N o . 15.875 / U . S . Department of the I n t e r i o r / Procurement of Generator Org. 4258	OMB Circular A-102, Attachment O, sets procurement standards for construction related contracts. No evidence of procurement procedures performed could be located. Contract No. C17843	<i>Residual</i> 252,997
C F D A N o . 15.875 / U . S . Department of the Interior Water Systems Improvement Maud IV/Calhoun Reservoir org. 4493	CUC received \$1,000 for the sale of plans and specifications for this project and recognized this as miscellaneous revenue. OMB Circular A-102 Subpart C, Section 25 requires program income be deducted from program outlays to determine reimbursement requests.	1,000 252,997 1,000
Total CFDA No. 15.875		
Total Questioned Costs included in Schedule of Federal Financial Assistance		\$ 252,996 \$ 1,000

COMMONWEALTH UTILITY CORPORATION
 Federal Assistance Questioned Cost Detail
 Year ended September 30, 1988

CFA/Grant Number	Findings	Questioned Cost
C F D A N o . 15.875 / U.S. Department of the Interior/Common - wealth Development Authority loan proceeds	OMB Circular A-102, Attachment O, sets procurement standards for construction related contracts. The following disbursements were made to contractors for which no evidence was available indicating that procurement procedures in accordance with Circular A-102 had been performed.	
Check No.	0001 <i>Resolved</i>	168,011
	0002	191,023
	97001731 <i>Resolved</i>	2,628,041
CT-03-3156		16,200
CT-03-2766	<i>Resolved</i>	4,011,393
CT-03-2927	<i>Resolved</i>	1,918,007
		6,834,074 20731
OMB Circular A-87, Attachment B, Section D Paragraph 7 states that interest on borrowings, bond discounts, cost of financing and refinancing operations, and legal and professional fees paid in connection therewith, are unallowable except when authorized by Federal legislation. The following disbursements to contractors include interest expense, which was unauthorized. These disbursements were questioned in their entirety above but also included interest charges as indicated below.		
Check No.	0001 \$ 11,911	
CT-03-2766	187,359	
CT-03 2927	<u>47,262</u>	
Total Questioned Costs from CDA Loan Proceeds		55,824,075 20722
Total Questioned Costs		66,103,061 225,402

Enclosure 3

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary
Year ended September 30, 1988Revenue/ReceiptsFinding No. 1

Criteria: Without an adequate system to record receivable or payable balances from or to the grantor agency, an entity can not accurately report on the use of the funds.

Condition: CUC is not reconciling receivable or payable balances from or to the grantor agency on a timely basis, nor does CUC have in place a system to establish those balances.

Cause: The cause of the above condition is that management has not introduced an adequate system of recording receivable or payable balances.

Effect: The effect of the above condition is that amounts due from or to the grantor agency are misstated throughout the year.

Recommendation: We recommend that CUC implement a system whereby a receivable/payable account records all cash received from the grantor agency and records all payments made to vendors. This account should be reconciled on a monthly basis.

Auditee Response: We concur with the above finding. Grant related transactions are recorded when cash is received or expenses are incurred. Reconciliations have been postponed until audited balances are established.

This recommendation has been fully implemented since October 1988. We have established a subsidiary ledger for the grantor agencies that will cover our receipts and disbursements for the projects.

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary, Continued
Year ended September 30, 1988Fixed AssetsFinding No. 2

Criteria: OMB Circular A-87, Attachment B, paragraph 11, allows grantee compensation for the use of buildings, capital improvements, and equipment through a use allowance or depreciation.

Condition: CUC has not taken a physical inventory of fixed assets to determine what is on hand and what was contributed by the CNMI government and capital grants. Additionally, CUC has no registration system in place to ensure safekeeping of fixed assets. Thus, neither depreciation or a use allowance has been charged to grant awards.

Cause: The cause of the above condition is that no inventory has ever been called for by management.

Effect: The effect of the above condition is that an allocation of depreciation or use allowance to federal grants is not occurring. Additionally, a serious weakness in control exists over the safeguarding of fixed assets.

Recommendation: We recommend that CUC perform a physical inventory of all fixed assets on hand, agree the count with their records and make necessary adjustments. Contributed fixed assets should be credited to contributions. Additionally, we recommend that CUC implement a system of tagging fixed assets and perform periodic counts to ensure existence. Once fixed assets are recorded, CUC should obtain the approval of grantor agencies concerning depreciation or a use allowance to charge to grant awards.

Auditee Response: We concur with the above finding. However, at the end of fiscal year 1990, CUC had performed its first company-wide inventory of fixed assets on hand. Tagging of the assets were thoroughly implemented. This inventory is being processed for costing and is summarized in preparation of the valuation of a certified appraiser. Assets contributed are credited to appropriate contribution account (CNMI, Federal, or others). Fixed assets recorded in the books are depreciated on a monthly basis.

Recommendation has been fully implemented to date.

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary, Continued
Year ended September 30, 1988Finding No. 2

Criteria: Construction in progress projects should be recorded as fixed assets when complete and depreciation expense should commence at that time.

Condition: CUC retains numerous construction in progress projects in its construction in progress account which have not been transferred to fixed assets or depreciated. Additionally, the total cost of projects transferred to CUC from the CNMI government has not been determined and thus some construction in progress accounts do not reflect historical cost.

Cause: The cause of the above condition is that CUC is not monitoring the accounting for its construction in progress projects.

Effect: The effect of the above condition is that fixed assets are understated and depreciation expense, which should be used in rate setting, is understated.

Recommendation: We recommend that CUC scrutinize its existing construction in progress projects to determine which are complete, adjust these projects to fixed assets, and depreciate them. Additionally, CUC should work with the CNMI government in determining the historical cost of transferred projects.

Auditee Response: We concur with the above finding. However, this matter has been monitored and coordinated with the operating division responsible for the construction of the project. Upon receipt of advise of completion from the division, the finished project will be reclassified to the corresponding asset account. Additionally, depreciation is automatically computed and recorded on a monthly basis. Consultation with the CNMI government as to the valuation of the projects transferred to our accounts is pending.

Consultation with operating divisions are already in effect. Division heads were requested to submit project completion reports. This program will be fully implemented in fiscal year 1991.

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary, Continued
Year ended September 30, 1988Davis Bacon ActFinding No. 4

Criteria: When required by the Federal grant program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction projects financed by federal assistance must be paid wages not less than those established for the locality of the project by the Secretary of Labor. (40 Stat 1494, March 3, 1921, Chapter 411, 40 U.S.C. 276A-276A-5).

Condition: The Commonwealth of the Northern Marianas Islands has not established a minimum wage rate for laborers or mechanics employed by contractors or subcontractors working on federally financed construction projects. Wages paid to laborers by a contractor on the Rota Wastewater Treatment System - Phase I project (funded by the U.S. Environment Protection Agency, assistance ID. No. C690002-010) were below the minimum wages set in the labor standards provisions of the construction contract. CUC in general, does not appear to have established procedures for the review of contractor wage rates to ensure compliance with grant provisions.

Cause: The above condition was caused by the lack of adequate oversight procedures by CUC over its contractors and poor adherence to compliance requirements.

Effect: The effect of the above condition is noncompliance with federal regulations.

Recommendation: We recommend that the CUC review contractor's payroll reports closely and enforce compliance with contract payroll requirements.

Auditee Response: We concur with the above finding. We will implement the recommended procedure to ensure compliance with grant provisions.

We will implement the recommendation as soon as possible as applicable to CUC. However, although the Davis Bacon Act applies to the CNMI, the federal wage determination has always been waived due to the amount of minimum wage involved. The CNMI regulations is therefore used in lieu of this factor.

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary, Continued
 Year ended September 30, 1988

Federal Financial ReportsFinding No: 5

Criteria: Terms and conditions of the Covenant Capital Improvement funding from the Department of the Interior (DOI) require that SF-269 and SF-272 reports be prepared quarterly and be submitted to the DOI 30 days after the end of the quarter. OMB Circular A-102 Subpart C, Section 41 requires that federal financial reports be prepared using grantee's grant accounting system which is periodically reconciled to the general ledger.

Condition: CUC is not submitting the reports required to the Commonwealth Development Authority (CDA) so they can comply with DOI requirements. CUC is not basing its requests for reimbursement on its accounting system and has drawn funds in excess of those expended.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is a violation of specific terms of the covenant funding and federal compliance requirements.

Recommendation: We recommend that the CUC establish an accounting system capable of providing information required to file and support quarterly reports.

Auditee Response: We concur with the above finding. We will furnish the Commonwealth Development Authority with our audited financial statements as soon as they become available. A reconciliation process between the two agencies has been implemented to monitor accounting records showing the status of the capital improvement projects and the requested amount to be drawn on a periodic basis.

This recommendation has been fully implemented in fiscal year 1991.

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary, Continued
Year ended September 30, 1988Finding No. 6

Criteria: The Common Rule requires the periodic submission of Federal financial reports which are developed from financial data in the grantee's grant accounting system which is periodically reconciled to the general ledger.

Condition: Program outlays reported to grantor agencies, for the period ending September 30, 1988, did not equal grant outlays recorded in CUC's financial management system, as follows:

<u>Project</u>	<u>Outlays per SP-271</u>	<u>Outlays per General Ledger</u>
Agingan Wastewater Treatment Plant/ Saipan Pump Stations Renovation (assistance ID No. C690001-030)	\$314,415	\$306,603
Sadog Tase Sewage Treatment Plant (assistance ID No. C690001-04-0)	\$929,460	\$958,790
Water Systems Improvement, fiscal year 1986 (federal grant No. 14-01-4102)	\$860,260	\$799,198

Cause: The cause of the above condition is a general lack of reconciliation procedures between financial management system grant outlays and reported grant outlays.

Effect: The effect of the above condition is that expenses recorded in CUC's financial management system do not coincide with those stated in financial reports.

Recommendation: We recommend that CUC structure its financial management system so that expenditures recorded against a particular grant can be reconciled to expenditures reported to grantor agencies.

Auditee Response: We concur with the above finding. We will provide subsidiary ledger for each grantor agency. This subledger will include receipts, disbursement, and amount due to or from the grantor agency. The balance of the subledger will be reconciled with the general ledger on a monthly basis.

This recommendation has been fully implemented in fiscal year 1991.

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary
Year ended September 30, 1997Grant AdministrationFinding No. 7

Criteria: In order to adhere to compliance with grant awards, the CUC must structure its control procedures to ensure that officials review disbursements made related to grant awards.

Condition: Currently, costs recorded against grant awards, by the Department of Finance, are not reviewed for propriety and allowability by the CUC-Sewer Branch.

Cause: The cause of the above condition is that CUC is not accounting for grant awards it receives in a subgrantee capacity from the CNMI.

Effect: The effect of the above condition is possible unapproved and unallowable grant charges.

Recommendation: We recommend that CUC arrange with the CNMI Department of Finance to begin accounting for all grants that it receives in subgrantee capacity. Additionally, we recommend that disbursement vouchers related to grant charges require approval of the appropriate grant manager.

Auditee Response: We concur with the above finding. The recommendation will be performed upon establishment of the subsidiary ledger for the grantor agencies. We will seek assistance from the Department of Finance as necessary to establish an accounting system for all grants received. Approval for payment of grant related disbursements are performed by the Executive Director as recommended by the division manager.

This recommendation has been fully implemented in fiscal year 1997.

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary, Continued
Year ended September 30, 1988Finding No. 2

Criteria: OMB Circular A-128 defines subrecipients as "any person or government department, agency or establishment that receives Federal financial assistance to carry out a program through a State or local government". Additionally, the United States Department of the Interior Office of the Inspector General, has stated that Federal funds, and their requirements, maintain their identity as they are passed down to subrecipients.

Condition: CUC is administering federal grants that it has received in subrecipient capacity from the CNMI government. Although CUC has recorded these grants within its general ledger, individual transactions are recorded by the CNMI Department of Finance. Additionally, CUC has not entered into any subgrant agreements with the CNMI, that would define terms and conditions of the subgrants.

Cause: The cause of the accounting condition is that the CNMI Department of Finance accounted for utility related grants before CUC was established and has continued to do so. The cause of the lack of subgrant agreements is unknown.

Effect: The effect of the above accounting condition is that CUC is not accounting for grants it administers. This may lead to unauthorized disbursements and an inability to report to grantor agencies. The effect of the lack of subgrant agreements is that terms and conditions that attach to funds CUC receives may be unknown.

Recommendation: We recommend that CUC reach an agreement with the CNMI Department of Finance to begin accounting for grants it receives in subgrantee capacity. Additionally, we recommend that CUC not accept or administer grants in the future unless terms and conditions of the grants are documented in a written subgrant agreement.

Auditee Response: We concur with the above finding. Upon establishment of subsidiary ledgers for grantor agencies, our legal counsel will draw-up the subgrant agreements.

We will coordinate this matter with the Department of Finance and implement the recommendation as soon as possible.

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary, Continued
Year ended September 30, 1988

Special RequirementsFinding No. 9

Criteria: OMB Circular A-102, Attachment E, defines program income as gross income earned by the grantee from grant-supported activities and requires grantees to use program income to further eligible program objectives.

Condition: CUC is obtaining program income through investing proceeds of its loan payable to the Commonwealth Development Authority (CDA). CUC is not segregating this program income to ensure that it is used to further eligible program objectives.

Cause: The cause of the above condition is that the source of the loan proceeds is bond issuances of CDA that are supported by federal capital improvement grants. Although terms and conditions of grants should pass through to subrecipients, the loan agreement between CDA and CUC does not include federal terms and conditions.

Effect: The effect of the above condition is the possibility of disallowed costs if CUC cannot account for its use of program income.

Recommendation: We recommend CUC segregate any interest income accrued on CDA loan proceeds and report to CDA that the income was used to further the eligible programs as outlined in the loan agreement.

Auditee Response: We concur with the above finding. Program income or interest income earned from the CDA loan proceeds are properly accounted for and deposited into our construction bank accounts. We will inform CDA about this matter.

This recommendation has been fully implemented. Fiscal year 1991

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary, Continued
Year ended September 30, 1988

Finding No. 10

Criteria: OMB Circular A-102, Attachment O requires any recipient of federal grant funds to include the following contract provisions or conditions in all procurement contracts and subcontracts:

- . Provision for the termination of the contractor by the grantee.
- . Provision requiring compliance with Executive Order 11246 "Equal Employment Opportunity".
- . Provisions requiring compliance with the Copeland "Anti-Kickback" Act.
- . Provisions requiring compliance with the Davis Bacon Act.
- . Provisions requiring construction contracts to require compliance with Sections 103 and 107 of the contract work hours and safety standards act.
- . Provisions requiring compliance with all applicable standards, orders, or requirements issued under Section 306 of the clean air act.

Condition: Contract numbers C018576, C41649-01, C018660, C41522-01 and C41439 did not contain all or some of the contract provisions or conditions noted above.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is a violation of the terms of OMB Circular A-102.

Recommendation: We recommend that CUC attempt to amend the above listed contracts and ensure that the listed contract provisions or condition are included in all procurement contracts and subcontracts related to federal grant awards.

Auditee Response: We concur with the above finding. We will implement the recommended action as soon as possible.

The action plan on this recommendation is presently ongoing. We are trying to incorporate these provisions in all procurement contracts and subcontracts related to federal grant awards.

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary, Continued
Year ended September 30, 1988

Finding No. 11

Criteria: Special conditions of the U.S. EPA grant award for the Sadog Tase Sewage Treatment Plant (assistance ID No. C690001-04-0) require CUC to make provision, including developing an operations and maintenance (O&M) manual, to assure economic and effective operation and maintenance of the treatment plant in accordance with a final plan of operation (40 CFR 35.2206).

Condition: CUC has not prepared an O&M manual for the Sadog Tase Wastewater Treatment Plant.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with special conditions of the grant award.

Recommendation: We recommend that CUC prepare an O&M manual for the Sadog Tase treatment plant or obtain a written waiver of the requirement from EPA.

Auditee Response: We concur with the above finding. However, the operation and maintenance manual was prepared in 1990 in compliance with the requirement.

Response to this finding was inaccurate. The operation and maintenance manual for the Sadog Tase treatment plant was presented and accepted by the grantor agency (EPA) as early as April 1989.

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary, Continued
 Year ended September 30, 1988

Finding No. 12

Criteria: EPA requires that the grantee shall certify one year after the project begins operating that the project is capable of meeting the project performance standards and the enforceable requirements of the Clean Water Act (40 CFR 35.2214).

Condition: CUC has not sent a written certification to EPA stating that the EPA funded Agingan Wastewater Treatment Plant (assistance ID No C690001-030) project meets the standards and requirements of the Act.

Cause: The cause of the above condition appears to be a lack of awareness of the requirement by the grantee agency and CUC.

Effect: The effect of the above condition is noncompliance with special requirements of a federal grant.

Recommendation: We recommend that the project be tested for the performance standards and that written certification be sent to EPA as soon as certifiable.

Auditee Response: We concur with the above finding. This recommendation will be implemented as soon as possible.

This matter will be initiated through the Sewer Division. We will send EPA with the written certification explaining the status of the Agingan Waste Water Treatment Plant.

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary, Continued
Year ended September 30, 1988

Finding No. 11

Criteria: The \$30 million loan agreement between CUC and CDA requires that CUC obtain insurance for projects financed by loan proceeds.

Condition: CUC has not obtained insurance for projects financed by CDA loan proceeds.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is a lack of compliance with the loan provisions.

Recommendation: We recommend that CUC obtain insurance for projects financed through CDA loan proceeds.

Auditee Response: We concur with the above finding. CUC is in the process of obtaining bids from insurance companies to cover all its assets which includes construction projects.

This course of action is still underway. We have obtained proposals from various insurance company. We are in the process of finalizing the valuation of all our assets which include construction projects.

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary, Continued
Year ended September 30, 1988

Finding No. 14

Criteria: The loan contract between the CNMI and the U.S. Department of Agriculture, Farmers Home Administration, requires CUC to deposit water systems revenues and Covenant funds it receives into a water system revenue fund.

Condition: CUC has not established a water system revenue fund account for funds to be used for repayment of the loan.

Cause: The cause of the above condition is the lack of precise policies and procedures.

Effect: The effect of the above condition is noncompliance with the terms and conditions of the loan contract.

Recommendation: We recommend that CUC establish a water system revenue fund in compliance with the terms and conditions of the loan contract and begin depositing funds for the repayment of the loan proceeds.

Auditee Response: We concur with the above finding. CUC's general ledger provides separate accounting of its water systems revenue and will be used for repayment of the loan.

We will establish the required water system revenue fund in compliance with the terms and conditions of the loan contract and will begin depositing the necessary funds for the repayment of loan proceeds as soon as possible.

COMMONWEALTH UTILITY CORPORATION

Administrative Control Weakness Summary, Continued
Year ended September 30, 1988

Unresolved Prior Year Comments

Finding No. 15

Criteria: A review of the system of internal control includes making an evaluation of whether prior year recommendations concerning internal controls were implemented.

Condition: The United States Department of the Interior, Office of the Inspector General's report on "Commonwealth Utilities Corporation, Commonwealth of the Northern Mariana Islands", dated February, 1989 noted the following items which have yet to be acted on by management:

- No. 1 Establish and maintain records of all customer transactions.
- No. 2 Establish controls over customer records and account numbers.
- No. 3 Adopt and enforce a policy on theft.
- No. 6 Document flat-rate assessments or meter multipliers.
- No. 7 Seal meters and require meter readers to verify seal.
- No. 8 Establish controls to ensure that all account adjustment are properly approved and justified.
- No. 9 Enforce collection requirements of Public Law 4-47.

Cause and Effect: The cause and effect of the comments were discussed in that report dated February, 1989.

Recommendation: We recommend that CUC implement the recommendations made in the February, 1989, report.

Auditee Response: We concur with the above finding. This matter is a major concern to management. We will implement the recommendations as soon as manpower becomes available.

This recommendation has been implemented in fiscal year 1991.

EXHIBIT F



Commonwealth Utilities Corporation

P.O. Box 1220
Saipan, MP 96950

November 25, 1991

The Honorable Stella Guerra
Assistant Secretary
Office of Territorial and International Affairs
U.S. Department of the Interior
18th & C Street, N.W.
Washington, D.C. 20240

Subject: US Department of the Interior, Office of the Inspector General's
Draft Audit Report on Capital Development Funds, Commonwealth of
the Northern Mariana Islands (Assignment No. N-TG-NMI-09-90)

Dear Madam Secretary:

We have reviewed the subject matter and specifically the areas that directly impact the relationship of the Commonwealth Utilities Corporation (CUC) and the Commonwealth Development Authority (CDA). We offer the following response with the hope that you can utilize them in responding to the final audit report.

Part A - Financial Management System, Management Oversight

Finding - The Development Authority did not take an active role in managing or monitoring the use of the funds once those funds were advanced and the Development Authority did not establish a structured review activity to ensure that (1) projects undertaken by the various agencies achieved the results intended by the Development Plan and (2) funds were used only for Development Plan projects.

Response - The Office of Management and Budget's Questions and Answers on the Single Audit Provisions of OMB Circular A-128 "Audits of State and Local Government", question 23, states that prime recipients of federal funds are expected to establish a system to assure that audits of subrecipients meet the requirements of Circular A-128. Such a system should include a desk review of each subrecipient report to ensure it conforms to the Circular. The prime recipient is required to ensure that systems are established at the subrecipient level that would require that compliance audits be performed, that a system for follow up on audit findings be implemented, and that the prime recipient have access to subrecipient's records and financial statements.

In accordance with these requirements, CUC has been audited for compliance with Circular A-128 since inception. Copies of these audit reports have been provided to CDA for follow up of audit findings. Additionally, CDA requested, and CUC provided, identification of the related projects for all fund requisitions. This project identification was checked for allowance with the Seven Year Strategic Development Plan.

The Honorable Stella Guerra
November 25, 1991
Page Two

Part A - Financial Management System, Project of Questionable Benefit

Finding - Capital Development funds were used to construct an underground electrical power transmission line that does not meet Development Plan objectives.

Response - The Underground Cable project is a Strategic Development Plan (SDP) project. Thus, the expenditure of Capital Development fund is consistent with SDP objectives. The CUC requested proposals for the Underground Cable project and negotiated the contract with the best responsible proposer.

The fallacy of the statement of finding is the failure of the IG to differentiate between bids and request for proposal (RFP). The citation of the Procurement Regulation provisions made by the IG applies to bids where the basis for contract award is the lowest bid price. In contrast, contract procured by RFP is awarded to the proposal best meeting the selection criteria defined in the RFP.

The IG's critique of the technical merit of the Underground Cable project showed a lack of research and understanding of the project. The Underground Cable project was not intended to eliminate the southern distribution lines from the San Jose Substation. It was intended to transmit power to the southern distribution from the substation with the resulting improve voltage, the added reliability during typhoons and the inexpensive increase capacity and voltage to the shortened feeder.

The original plan of the Underground Cable is to bring three circuits to the San Jose Substation with a dispatch center outside the power plant at Lower Base. As constructed, only two circuits were built and the dispatch center outside was eliminated in lieu of a switchgear in the power plant which will perform the same function. Options to the underground cable were analyzed by R.W. Beck and demonstrated that every options, including a double circuit overhead system, cost more than \$13 million, far exceeding the \$5.3 million expended.

In the final analysis, the IG should be cognizant of the fact that the problems with the underground project was a direct result of CUC's reliance on the O&M contractor. The retention of an O&M contractor was required by the Grant Pledge Agreement of October 1, 1991 precedent to the use of bond funds. For the record, CUC voiced its disagreement to the retention of an O&M contractor in a meeting with Office of Territorial and International Affairs (OTIA) officials in November 1987.

Part A - Financial Management System, Funds Used Improperly

Finding - Funds advanced by the Development Authority to the

The Honorable Stella Guerra
November 25, 1991
Pager Three

Commonwealth Utilities Corporation for specific "priority" capital development projects were not expended on projects. Instead, the funds were used to purchase general operating equipment, specifically, four utility trucks at a total cost of \$352,279.

Response - CUC has expended its loan funds on projects approved by the Northern Marianas Commonwealth Legislature pursuant to Public Law 5-37 and contained in the Loan Agreement. Additionally, drawdown authority for CUC's funds were all obtained from OTDA. Reconciliation of funds were coordinated with CDA and complaints for funds requisitioned were not received from CDA. When equipments are purchased in the project, it is because the equipments were necessary to implement the project objectives. We would note, however, that noncompliance on the use of the funds was not considered to be a compliance concern in the Single Audit of CUC.

Part B - Implementation of Development Plan Financing Strategies

Findings - As CUC has failed to achieve full cost recovery, CDA should withhold any undisbursed loan proceeds from CUC until it provides an independently prepared cost recovery plan by the end of fiscal year 1991. This action would be a result of CUC defaulting on loans from CDA and not achieving full cost recovery.

Response - We are unaware that CUC is currently delinquent in payments on its loans with us. Initial payments on those loans is due in early 1992. Further, we strongly question reasoning for the recommendation to withhold any undisbursed loan proceeds from CUC as we feel this action would only halt existing projects and force CUC to drive up existing rates.

It is our understanding that CUC has currently entered into contracts with outside private firms to prepare rate structure related plans, including cost projections and financial needs analysis.

Sincerely,


Ramon S. Guerrero
Executive Director

cc: Acting Chairman, CUC
Chairman, CDA
Special Advisor

THIRD SENATORIAL DELEGATION

S.D.L. Res. No. *Panel* 8-6

EIGHTH NORTHERN MARIANAS COMMONWEALTH LEGISLATURE

Second Regular SESSION, 1993

A THIRD SENATORIAL DELEGATION RESOLUTION

Requesting the members of the Eighth Northern Marianas Commonwealth Legislature not to support any proposal by the Board of Directors of the Commonwealth Utilities Corporation (CUC) with respect to utility rate increases; and advising the Board of Directors of the Commonwealth Utilities Corporation that the Third Senatorial Delegation strongly oppose any proposal to increase utility rates.

1 WHEREAS, the recent financial fiasco experienced by the
2 Commonwealth Utilities Corporation has led the Board of Directors and the
3 Executive Director to propose utility rate increases as the only mean to
4 improve the financial status of CUC; and

5 WHEREAS, the Third Senatorial Delegation feels that the recently
6 financial fiasco experienced by CUC are caused by the Board's and the
7 Executive Director's inability to develop policy to insure prudent financial
8 management; and

9 WHEREAS, the Third Senatorial Delegation request the Eighth Northern
10 Marianas Commonwealth Legislature to review the present statute of the
11 Commonwealth Utilities Corporate and recommend appropriate amendments to
12 prevent CUC from continuing to accumulate substantial debt to its vendors; and

13 WHEREAS, the Third Senatorial Delegation feels that increasing utility
14 rates would forced the consumers to conserve energy, which means less
15 revenue to CUC; and

1 WHEREAS, the Third Senatorial Delegation encourages CUC to persuade
2 large power consumers to connect their electrical power to CUC; now,
3 Therefore,

4 BE IT RESOLVED, that the Third Senatorial Delegation request the
5 members of the Eighth Northern Marianas Commonwealth Legislature not to
6 support any proposal by the Board of Directors of the Commonwealth Utilities
7 Corporation (CUC) with respect to utility rate increases; and advises the Board
8 of Directors of the Commonwealth Utilities Corporation that the Third
9 Senatorial Delegation strongly oppose any proposal to increase utility rates;
10 and

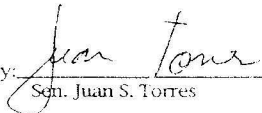
11 BE IT FURTHER RESOLVED, that the Third Senatorial Delegation request
12 the Executive Director to provide the names of CUC customers whose electrical
13 power were disconnected from Saipan, Tinian and Rota; and

14 BE IT FURTHER RESOLVED, that the Chairman of the Third Senatorial
15 Delegation shall certify and the Legislative Secretary shall attest to the
16 adoption of this Resolution and thereafter transmit certified copies to:
17 Honorable Lorenzo I. Guerrero, Governor, Commonwealth of the Northern
18 Mariana Islands; All Mayors, Chairman, Board of Directors, CUC; and Executive
19 Director, CUC.

20

Date: _____

Introduced By: _____


Sen. Juan S. Torres

HOUSE OF REPRESENTATIVES

Eighth Northern Marianas Commonwealth Legislature
Third Regular Session, 1992

HOUSE JOINT RESOLUTION NO. 8-9

A HOUSE JOINT RESOLUTION

Requesting the Board of Directors of the Commonwealth Utilities Corporation not to increase utility rates until the House Committee for Public Utilities, Transportation and Communications has completed oversight investigation of CUC's financial policies, practices and condition and released its findings to the Board.

Offered by Representatives: Heinz S. Hofschneider, Jesus T. Attao,
Crispin I. Deleon Guerrero, and Stanley T. Torres

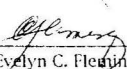
Date: August 18, 1992

HOUSE ACTION

Adopted: August 18, 1992

SENATE ACTION

Adopted: September 23, 1992


Evelyn C. Fleming
House Clerk

THIRD REGULAR SESSION, 1992

A HOUSE JOINT RESOLUTION

Requesting the Board of Directors of the Commonwealth Utilities Corporation not to increase utility rates until the House Committee for Public Utilities, Transportation and Communications has completed its oversight investigation of CUC's fiscal policies, practices and condition and released its findings to the Board.

1 WHEREAS, it has become common practice for the Legislature to assist the
2 Commonwealth Utilities Commission either in the form of loan guarantees or advance utility
3 payments as evidenced by the passage of Public Laws 6-14 and 7-28 and Senate Joint
4 Resolution 7-9 ; and

5 WHEREAS, these events and the most recent threat by Shell Marianas to discontinue
6 fuel deliveries unless CUC's fuel bill was brought up to date indicate an inability on the part
7 of CUC to pay debts as they become due; and

8 WHEREAS, as a result of these events, the House Committee for Public Utilities,
9 Transportation and Communications held an oversight hearing on CUC's operations on June 28
10 and 30, 1992 and is concurrently continuing an investigation on the same topic; and

11 WHEREAS, during the two day hearing, officers and directors of CUC testified as to
12 their knowledge of and participation in the fiscal management of CUC as well as the financial
13 condition of CUC; and

14 WHEREAS, upon the conclusion of the two day hearing it was abundantly clear that
15 the Board had very little knowledge of the fiscal management or affairs of CUC and had
16 adopted the practice of allowing the Executive Director unilateral authority to sign checks for
17 CUC; and

1 WHEREAS, the two day hearing also disclosed unacceptable bookkeeping practices,
2 favoritism in the priority order of payment to certain vendors, and a Board sanctioned policy
3 of spending more than was taken in by CUC and the taking on of debt that far outstripped
4 CUC's present or future ability to pay based upon any reasonable projection of anticipated
5 revenues; and

6 WHEREAS, the House Committee for Public Utilities, Transportation and
7 Communications, concurrent with the two day hearing, requested and received various
8 financial documents for the purpose of further investigation and analysis of the fiscal affairs
9 of CUC; and

10 WHEREAS, the preliminary findings of the committee substantiated the findings of
11 the hearings as well as disclosed other serious situations of gross financial mismanagement
12 that indicate that the need to raise utility rates is substantially due to gross mismanagement
13 of the financial affairs of CUC by its officers and Board of Directors; and

14 WHEREAS, the spirit of 4 CMC 8143 (c) prohibits anything less than an equitable
15 increase in existing rate schedules; and

16 WHEREAS, the Legislature finds that any proposed rate increase by CUC must be
17 considered and undertaken if necessary only after a complete and thorough review of the
18 fiscal policies and practices of CUC and the implementation of remedial measures based upon
19 such a review; and

20 WHEREAS, the House Committee for Public Utilities, Transportation and
21 Communications has undertaken to provide CUC with a comprehensive review of CUC's fiscal
22 policies and practices in the absence of any initiative by the Board to act in this area; and

23 WHEREAS, among other things, the committee's report is intended to be a tool for
24 the Board's use in addressing where CUC presently stands and to indicate the direction CUC is
25 headed; and

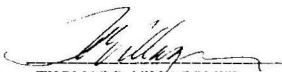
1 WHEREAS, the Legislature further finds that any consideration of a rate increase
 2 by the Board without the benefit of the committee's report would allow for an inequitable
 3 increase in utility rates if the current fiscal policies and practices of CUC are allowed to
 4 continue and, in the Legislature's view, serve as at least a partial basis for the need to
 5 increase utility rates; now, therefore,

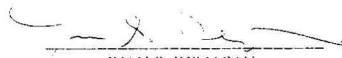
6 BE IT RESOLVED, by the House of Representatives, Eighth Northern Marianas
 7 Commonwealth Legislature, the Senate concurring, that both houses of the Legislature hereby
 8 request the Board of Directors of the Commonwealth Utilities Corporation not to increase
 9 utility rates until the House Committee for Public Utilities, Transportation and
 10 Communications has completed its oversight investigation of CUC's financial policies,
 11 practices and condition and release its findings to the Board; and

12 BE IT FURTHER RESOLVED, that the Speaker of the House and the President of the
 13 Senate shall certify and the House Clerk and the Senate Legislative Secretary shall attest to
 14 the adoption of this joint resolution and thereafter transmit copies to the Honorable Lorenzo I.
 15 De Leon Guerrero, Governor of the Commonwealth of the Northern Marianas Islands; the Board
 16 of Directors and the Executive Director of the Commonwealth Utilities Corporation.

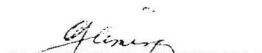
Adopted: September 23, 1992

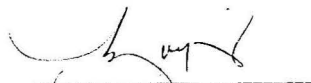
CERTIFIED BY:


 THOMAS P. VILLAGOMEZ
 Speaker of the House


 JUAN S. DEMAPAN
 President of the Senate

ATTESTED BY:


 EVELYN C. FLEMING
 House Clerk


 EDWARD O. MARATITA
 Senate Legislative Secretary



Commonwealth of the Northern Mariana Islands
COMMONWEALTH DEVELOPMENT AUTHORITY
 Wakin's Bldg., Gualo Rai, Tel. 234-7145/7146/6293
 Saipan, MP 96950

APPENDIX 6
 Page 1 of 5

MAILING ADDRESS:
 P.O. BOX 2149
 SAIPAN, MP 96950

November 29, 1991
 OurRef: XL-91-388

Mr. Harold Bloom
 Assistant Inspector General for Audits
 United States Department of the Interior
 Office of Inspector General
 Washington, D.C. 20240

Subject: U.S. Department of the Interior, Office of Inspector
 General's Draft Audit Report on Capital Development
 Funds, Commonwealth of the Northern Mariana Islands
 (Assignment No. N-TG-NMI-09-90)

Dear Mr. Bloom:

We have reviewed the above referenced subject matter and this
 letter will convey our official response to findings and
 recommendations contained in that report.

Section A. Financial Management System

Recommendation No. 1 - Development of a financial management
 system to properly account for all bond issuances and capital
 improvement projects.

Response - We have worked in conjunction with our Auditors,
 Deloitte & Touche, in developing a financial management system and
 a chart of accounts to properly account for all bond issuances and
 capital improvement projects. This system has recorded all bond
 transactions (from the inception of CDA) in a Development Banking
 Division, in accordance with our enabling legislation, CNMI Public
 Law 4-49. Some of the areas that the system was tailored to in
 order to meet terms and conditions of the Covenant Capital
 Development funding are as follows:

1. A revolving loan fund has been established to account for all
 repayments of interest and principal from revenue producing
 projects in accordance with the Agreement of the Special
 Representatives on Future United States Financial Assistance
 for the Northern Mariana Islands (the Agreement). As loan
 receivables are established, contributions from the U.S.
 Department of the Interior have been recorded within the fund

response to CIP Audit Report
(Assignment No. N-TG-NMI-09-90)
page 2

equity of CDA in keeping with generally accepted accounting principles. All interest earned on the loans of the revolving fund, become part of the revolving fund and increase the contribution amount.

2. All funds disbursed for non-revenue producing projects are accounted for as receivables until such time as financial reports are received from the grant receipt. In this manner CDA properly keeps track of all outstanding grant awards.
3. As described above, all bond related transactions have been recorded including applicable cost of issuance fees. Amounts received through the grant pledge agreements are recorded as deferred revenue until such time as the funds are expended in accordance with the terms and conditions of the Agreement. At that time either a contribution or revenue is recorded. Additionally, all cost of issuance fees have been established as other assets and will be amortized over the life of the bonds.

We feel that the system established meets the requirements of the Covenant and the CNMI enabling legislation of CDA. We are currently working to bring our general ledger up to date in accounting for the bond transactions.

Recommendation No. 2 - Establish formal review procedures to monitor and review projects and project expenditures for allowability and sufficiency of supporting documentation.

Response No. 2 - The Office of Management and Budget's Questions and Answers on the Single Audit Provisions of OMB Circular A-128 "Audits of State and Local Governments", question 23, states that prime recipients of Federal funds are expected to establish a system to assure that audits of subrecipients meet the requirements of Circular A-128. Such a system should include a desk review of each subrecipient to ensure it conforms to the Circular. The prime recipient is required to ensure that systems are established at the subrecipient level that would require that compliance audits be performed, that a system for follow up on audit findings be implemented, and that the prime recipient have access to subrecipient's records and financial statements.

In accordance with these requirements, CDA has assured that subrecipients of Covenant funding are audited in accordance with Circular A-128 (including both subrecipients of loan programs and subrecipients of grants). CDA has been working with the various subrecipients to ensure follow up on audit findings. In addition, CDA has always requested identification of the related project and

Response to CIP Audit Report
(Assignment No. N-TG-NMI-09-90)
Page 3

copies of supporting documentation before fund requisition from subrecipients are approved. Project identification has always been checked for compliance with the seven year strategic development plan.

Recommendation No. 3 - Establishment of formal procedures which ensure that capital improvement projects are funded only if they adequately meet the need identified in the development plan. Any projects requiring significant modification because of funding limitations should be undertaken only if the project still meets the development plan objective.

Response No. 3 - As discussed in Response No. 2 above, CDA has always checked for compliance with the seven year strategic development plan before fund requisitions from subrecipients are approved. We will establish formal procedures, approved by the Board, that will officially require this procedure. In addition, any modifications to projects will be determined to meet the original development plan objectives.

Additionally, Section A of the audit report aluded to certain findings that we feel require response.

1. The report mentioned that CNMI Public Law 4-46 and the Agreement prohibited the use of Covenant development funds for operations of CDA. We are currently working with the U.S. Department of the Interior on procedures for developing an indirect cost rate or an allocation formula whereby a certain percentage of capital development funds could be used for administration. We do not believe that it was the intention of the Covenant agreement that the CNMI government would fund all administrative costs of the development funds.
2. The report mentions the underground electrical power transmission as being the project that does not meet the development plan objectives. This assertion appears to be based on the statement that the final product operates at only one-fourth of the original design requirements.

The underground cable project was administered by the Commonwealth Utilities Corporation, a subrecipient of the Covenant funds. This project was undertaken around the time of inception of CUC. Due to problems inherent in the initial start-up of any organization, CUC was forced to subcontract administrative type of work to various consulting firms. The firm contracted by CUC to perform operational and maintenance services was also contracted to perform the underground cable project. It is our belief that this firm has a conflict of interest in being contracted to perform other services and it is our belief that this firm acted outside the boundaries of

Response to CIP Audit Report
Assignment No. N-TG-NMI-09-90)
Page 4

its professional responsibility. The firm recommended the reduction in scope of the project and was able to approve this reduction through its capacity within the O&M contract. We are currently determining whether legal action should be taken against the firm in question.

The report suggests that funds were used improperly and that this was a result of (1) fund advances being allowed, (2) not performing on-site inspections, and (3) not verifying the allowability of claimed expenditures. We are not aware of any stipulations within the Agreement that disallows fund advances as long as funds are not held for an extended period of time. We do not believe this was the case. Further we have responded to the non performance of on-site inspections and allowability verification in responses 2 and 3 above.

The report goes on to list \$670,700 and \$352,279 in capital development fund expenditures that were unallowable per Public Law 4-46 and the Agreement. We do not feel these expenditures were unallowable and if the Inspector General's Office could provide sufficient identification of the above expenditures we feel we can provide detailed responses on why the expenditures are allowable.

6. The report makes reference to the fact that no Single Audit for CDA has been issued since 1986. It was our understanding that Single Audits were to be issued with our 1986 and 1987 financial audits, but this was never performed. We have expanded the scope of our 1988 Single Audit to include a financial and compliance review of bond transactions for the years 1986 and 1987.

Section B. Implementation of Development Plan Financing Strategies

Recommendation No. 1 - Withhold any undisbursed loan proceeds from CUC until it provides an independently prepared cost recovery plan that guarantees full cost recovery by the end of fiscal year 1991.

Response No. 1 - We strongly question the reasoning for the recommendation to withhold any undisbursed loan proceeds from CUC. We feel this action would only halt existing projects and force CUC to drive up existing rates. It is our understanding that CUC is currently entered into contracts with private outside firms to prepare rate structure related plans, including costs projections and financial needs analyses.

Recommendation No. 2 - Enforce loan agreement provisions and appoint a business entity to manage CUC if it fails to provide a full cost recovery plan before the end of fiscal year 1991.

Response to CIP Audit Report
(Assignment No. N-TG-NMI-09-90)
Page 5

Response No. 2 - We are unaware that CUC is currently delinquent in payments on its loans. Initial payments on those loans are due in early 1991. Again, it is our understanding that CUC has entered into contracts with outside firms to prepare a full recovery plan.

Recommendation No. 3 - Withhold loan proceeds from the Ports Authority until it can demonstrate an ability to repay the loan.

Response No. 3 - As mentioned in the audit report, this is currently being done.

Recommendation No. 4 - Request that the CNMI and OTIA allow \$4.3 million of capital development funds allocated for economic development loan purposes to be reprogrammed to capital development projects.

Response No. 4 - As the Agreement specifically allows a maximum of 20 percent of capital development funds to be used for economic activities, we do not see the reasoning for this recommendation and its validity.

Recommendation No. 5 - Directed to OTIA.

Section C. Grantor Oversight

Recommendations 1 through 3 - As these recommendations are directed to OTIA we will not directly respond however we would like to direct the reader to our response no. 2 on page 2 and response no. 4 on page 5 of this document.

We believe that the above responses to the above mentioned suggestions will require revisions to the draft audit report. We will continue to work with the Office of the Inspector General in preparing these revisions.

Sincerely,



Juan S. Tenorio
Chairman, Board of Directors

xc: CDA Board of Directors
Chairman, CUC Board of Directors
Acting Executive Director, CDA
Executive Director, CUC



Commonwealth of the Northern Mariana Islands
Office of the Governor
Capitol Hill, Saipan MP/USA 96950



U. S.

Mr. Harold Bloom
Assistant Inspector General for Audits
United States Department of the Interior
Office of the Inspector General
Washington, D.C. 20240



Phone: (670) 322-5091
Telefax: (670) 322-5096
Telex: 783-622 Gov.N

Dear Mr. Bloom:

Re: Comments on Audit Report No. 90-104 (Sept. 1990) - Commonwealth Development Authority (CDA) Economic Development Loan Fund (EDLF)

Please excuse our delay in providing comments to recommendations made in the Inspector General's CDA-EDLF audit. We consider this an important matter to which we have given considerable thought. The Commonwealth of the Northern Mariana Islands (CNMI) Government and its autonomous agencies strive to be fiscally responsible. In the main, I believe we succeed in this effort. But there is always room for improvement. As usual the Inspector General provides some positive suggestions for changes in financial procedures and fiscal controls. We express our appreciation for these suggestions and offer the following comments.

1) No Need for Governor to Request Appropriation to Repay Loan Fund for CDA Payments on MIHA \$10 million Loan (OCK housing project) and \$1.3 million Loan to MIHA in 1982

There is no doubt that CDA has attempted to help out the Mariana Islands Housing Authority (MIHA). MIHA, an autonomous agency of local government, in an arrangement with OCK construction company, obligated itself to construct approximately 360 low-income housing units and related infrastructure. Because of problems with the Matthews & Wright bond issue meant to finance this project (problems beyond MIHA's control), MIHA was forced to secure a \$10 million bank loan. Obtaining the bank loan could not be done without CDA assistance.

As we read our local law, CDA could legitimately aid in financing projects undertaken by autonomous agencies of CNMI Government. Title 4, CMC, §10192 says the purpose of the Banking Division of the Development Authority shall be to receive Covenant Section 702(c) monies and then, among other purposes, use that money to aid in financing projects undertaken by autonomous agencies of the CNMI Government. As a practical matter, economic development of the CNMI cannot proceed in the absence of essential infrastructure. Low income housing is essential infrastructure for our community. It is, therefore, an element of economic development activity.

We will not belabor the point with you. Admittedly, reasonable legal minds might differ on the legitimacy of using the Loan Fund to assist MIHA with its low-income housing project. The Inspector General's audit draws into question a discretionary judgment call by the CDA Board of Directors. From our point of view, CDA provided a valuable public service. Without this service, the CNMI Government might have lost its Housing Authority and found itself embroiled in financial difficulties impossible to offset by the benefits of leaving the monies in the Loan Fund.

Be that as it may, the CNMI has taken steps to see that CDA, and its Loan Fund, are fully reimbursed for expenditures made on MIHA's behalf. A new appropriation law will not be necessary. The CNMI Legislature has already passed a law to remedy the CDA-MIHA loan problems.

Our Public Law No. 6-34, effective July 28, 1989, provided a financial recovery plan for MIHA's fiscal difficulties. The law authorized MIHA to lease for commercial development certain properties known as the North Garapan Subdivision Annex No. 2. The Legislature directed that the proceeds from this lease must be used to meet MIHA's fiscal obligations outstanding at the time a lease is executed. MIHA recognizes its obligation to CDA on the \$10 million loan arrangement. When a lease is signed, that obligation will be met.

Further, the statutorily approved financial recovery plan should also provide MIHA with monies to repay CDA for the \$1.3 million borrowed by the Housing Authority in 1985. No appropriation should be necessary.

2) Governor Should Defer to Legislature on Wisdom of Amending CDA Law to Restrict Use of Loan Fund Interest Income.

The Inspector General's audit states that Loan Fund assets were used for purposes other than those related to Loan Fund activities. The audit says that Loan Fund assets were used to pay all of CDA's operating expenses and to purchase goods and services unrelated to Loan Fund activities. Yet, as the Inspector General admits, our local law, P.L. No. 4-49 (4 CMC §10402(f) and (g)), expressly permits use of Loan Fund assets for just these purposes. Our law makes it clear that CDA can use the Loan Fund for administrative expenses, technical assistance, studies and evaluations. To forestall abuses, the Legislature provided that such expenditures could not exceed two percent of CDA's assets (2% for administration; 1% for technical assistance, etc.). Certainly, we cannot fault CDA for following the law. Nonetheless, the Inspector General's audit concludes that the local law conflicts with U.S. Public Law 94-241 and Office of Management and Budget Circular A-102.

The Inspector General recommends that the Governor introduce legislation to amend Public Law 4-49, Section 10, to restrict the use of interest income and other fees earned by the Loan Fund to those activities associated with Loan Fund purposes. But isn't the purpose of the Loan Fund to help develop CNMI economic resources? CDA's administrative activities are associated with the purpose of developing economic resources. In our view, virtually everything CDA does advances, directly or indirectly, CNMI economic development activity. There is nothing in Sections 701 through 703 of the Covenant suggesting the restrictive definition of "economic development" advanced by the Inspector General.

Again, reasonable legal minds might differ on this issue. We don't mean to quibble. But, rather than point out a clear-cut violation of law in this audit, the Inspector General really questions the policy-making and interpretive prerogatives of the CNMI Legislature. This is a subjective call. I do not believe the Legislature clearly misconstrued Section 701(c) of the Covenant, or purposefully set out to confound U.S. Public Law 94-241, or acted beyond its powers in enacting 4 CMC §10402(g) and (f). Therefore, I don't think it necessary to introduce legislation to amend Commonwealth Law 4-49.

If the Legislature in its wisdom, however, is persuaded by the argument in the Inspector General's audit, and initiates amendment, I will yield.

3) Commonwealth Public Auditor to Review all Loan Fund Expenditures

I have no problem agreeing with your recommendation that the CNMI Public Auditor review Loan Fund expenditures for compliance with legal requirements. In fact, in all due respect, I believe all Covenant guaranteed funds are "local" funds subject to audit by local auditors only. Why did we bother to create our own Public Auditor if he is frequently pre-empted by federal auditors?

I would add, however, that it doesn't seem necessary for the Commonwealth Public Auditor to audit CDA since CDA has its own independent auditors. If you disagree, I would be happy to discuss this matter further.

4) Investigate and Consider Legal Action to Hold CDA Board Members Personally Responsible for Loan Fund Losses Resulting from Neglect of Fiduciary Responsibilities

In small island communities such as ours, public board members are extremely susceptible to community, political, and family pressures. This is a part of the indelible cultural fabric of these islands. It is a lamentable adornment almost impossible to strip away completely. In islands where the majority of the population is inter-related by family blood, heroic efforts are necessary to avoid all "conflict of interest" problems or the appearance of same.

From the Inspector General's Audit, I see evidence that some CDA Board Members exercised less than stout business practices in granting and collecting loans. I particularly reject the practice whereby Board Members obtain private profits of any sort or in any amount from the exercise of official duties on the CDA Board. I also think it something of an embarrassment that so many public officials, elected and appointed, show up on the Loan Fund list.

But, from what I see so far in the Inspector General's Audit, there isn't clear evidence of criminal or even civil culpability. Nonetheless, the fiduciary responsibility is one of the most sacred to be observed by our public servants. Therefore, I will ask the CNMI Attorney General to review evidence in its possession that indicates any civil or criminal liability on the part of past or present CDA Board members. If we find such evidence, I have the assurance of CDA that it will fully assist and cooperate in any investigation.

I hope that my comments here help to resolve the Inspector General's recommendations in the CDA-EDLF Audit. Thank you for your professional courtesy.

Sincerely,


LORENZO I. DE LEON GUERRERO
Governor

cc: CNMI Lt. Governor
CNMI Senate President
CNMI House Speaker
CNMI CDA Executive Director
CNMI Attorney General
CNMI Public Auditor
CNMI MIHA Executive Director

DEPARTMENT OF INTERIOR
OFFICE OF INSPECTOR GENERAL
CNMI AUDIT REPORTS ISSUED OVER THE LAST FIVE YEARS
STATUS OF OIG AUDIT REPORT RECOMMENDATIONS

N-IN-NMI-010-88
REPORT NO. 88-78
MIHA: MIHA's Contract with OCK Construction Ltd.

- A.1 - Unresolved
- A.2 - Unresolved
- A.3 - Unresolved
- A.4 - Unresolved
- A.5 - Management Concur
- A.6 - Management Concur

N-IN-NMI-002-87
REPORT NO. 88-79
MIHA: MIHA's Contract Administration Procedures

- A.1 - Unresolved
- A.2 - Unresolved
- A.3 - Management Concur

N-IN-NMI-009-88
REPORT NO. 89-77
CUC: Legal Compliance

- A.1 - Unresolved
- A.2 - Implemented
- A.3 - Implemented
- A.4 - Unresolved
- A.5 - Unresolved
- A.6 - Unresolved
- A.7 - Unresolved
- B.1 - Implemented
- B.2 - Implemented
- B.3 - Implemented
- B.4 - Implemented
- B.5 - Implemented
- B.6 - Implemented
- B.7 - Implemented
- B.8 - Implemented
- B.9 - Implemented

DEPARTMENT OF INTERIOR
OFFICE OF INSPECTOR GENERAL
CNMI AUDIT REPORTS ISSUED OVER THE LAST FIVE YEARS
STATUS OF OIG AUDIT REPORT RECOMMENDATIONS

N-IN-NMI-009-88A

REPORT NO. 88-114

CUC: FLASH REPORT: Metering Largest Consumer of Power

- 1 - Implemented
- 2 - Unresolved
- 3 - Management Concur
- 4 - Management Concur

N-IN-NMI-020-89

REPORT NO. 90-104

CDA: Review of the Economic Development Loan Fund: Dec. 11, 1989 to June 1, 1990

- A.1 - Unresolved
- A.2 - Resolved not Implemented
- A.3 - Unresolved
- A.4 - Unresolved
- B.1 - Resolved not Implemented
- B.2 - Unresolved
- B.3 - Unresolved
- B.4 - Implemented
- B.5 - Implemented
- C.1 - Unresolved
- C.2 - Unresolved
- C.3 - Unresolved
- C.4 - Implemented
- D.1 - Unresolved
- D.2 - Unresolved
- D.3 - Unresolved
- D.4 - Unresolved
- D.5 - Unresolved
- D.6 - Implemented
- D.7 - Unresolved

N-IN-NMI-020-89A

REPORT NO. 91-I-386

MIHA: Audit of EDLF - Dec. 11, 1989 to June 1, 1990

- A.1 - Unresolved
- A.2 - Unresolved
- A.3 - Unresolved
- A.4 - Implemented

DEPARTMENT OF INTERIOR
OFFICE OF INSPECTOR GENERAL
CNMI AUDIT REPORTS ISSUED OVER THE LAST FIVE YEARS
STATUS OF OIG AUDIT REPORT RECOMMENDATIONS

N-IN-NMI-009-90
REPORT NO. 92-I-389
CDA: Capital Development Funds

A.1 - Implemented
A.2 - Unresolved
A.3 - Management concurs
B.1 - Unresolved
B.2 - Unresolved
B.3 - Implemented
B.4 - Unresolved
B.5 - Implemented
C.1 - Implemented
C.2 - Implemented
C.3 - Implemented
C.4 - Implemented

N-IN-NMI-019-91
REPORT NO. 92-I-829
DPHS: Fees, Billings and Collections

A.1 - Implemented
A.2 - Resolved not Implemented
A.3 - Resolved not Implemented
B.1 - Resolved not Implemented
B.2 - Implemented
B.3 - Resolved not Implemented
B.4 - Resolved not Implemented
B.5 - Unresolved

N-IN-NMI-001-92
REPORT NO. 93-I-403
PSS: Audit Report on Food Services Operation, 10/89 to 07/92.

A.1 - Unresolved
A.2 - Unresolved
A.3 - Unresolved
A.4 - Unresolved
B.2 - Management concurs



ENI F.H. FALEOMAVAEGA

STATEMENT

Hearing on Northern Marianas Aid Proposal

March 18, 1993

Mr. Chairman, today we are being asked to obligate the Federal Government to provide the Northern Mariana Islands with \$120 million from fiscal years 1994 to 2000. If approved, this would replace the current commitment of \$27.7 million a year to the one proposed in HR 1092.

I have in the past, and will continue in the future, to support the needs of our fellow islanders in Northern Marianas. However, on this particular issue, I question whether it is prudent to obligate such a large sum of money to one possession of the U.S. when the overwhelming needs of other territories are barely being met.

According to one report, those who are in most need of assistance are the Trust Territory of Palau, and my own district of American Samoa.

During the past five years, the territory of American Samoa, whose native population is more than double that of the Northern Mariana Islands, has received approximately six million dollars per year for all its capital improvement projects. As a result, our total system of infrastructure is

in an absolute state of decay. The roads are in some places, impassable. Our medical facilities are in such poor condition that a health crisis is now imminent. The roofs on many of our schools continuously leak -- and the students have to sit on the floor because we cannot afford to purchase the necessary desks.

I understand that people of Palau face similar, or even worse conditions.

This is a question of need. A recent report states the standard of living for the natives of the Northern Marianas (NMI) has been raised substantially. Further, although the NMI needs hundreds of millions dollars of capital improvements, the economy has developed to the point that it can generate funds to meet much of this need.

The economic success of NMI can be attributed to the wisdom of its leadership and its proximity to Asia, particularly Japan. American Samoa, on the other hand, is isolated and thousands of miles from any of the world's centers of commerce.

While the current administration of Governor Lutali is attempting to cut government expenditures (almost 1,000 government employees have been laid off in the past three months), and raise local revenues, the government is a long way from being economically self-sufficient --- the ultimate goal of all U.S. territories, commonwealths, and possessions.

I ask that we seriously consider the needs of our brothers and sisters in the Northern Mariana Islands, and ask whether the Covenant goals of section 702 have been met. I also ask that we seriously consider the needs of our other territories.

Thank you Mr. Chairman



Office of the Speaker
HOUSE OF REPRESENTATIVES
EIGHTH NORTHERN MARIANAS COMMONWEALTH LEGISLATURE

P.O. Box 586
SAIPAN, MP 96950

Phone: (670) 664-5498
Fax: (670) 322-2500

THOMAS P. VILLAGOMEZ (KIYU)
Speaker

March 13, 1993

The Honorable Ron De Lugo
Chairman
Subcommittee on Insular and
International Affairs
U.S. House of Representatives
Washington, D.C. 20515-6201

Dear Mr. Chairman:

We are writing to express our support for passage of the "Agreement on Future Federal Financial Assistance for the Northern Mariana Islands," but we request that your Committee consider certain amendments that may enable the CNMI to optimize its infrastructure development through the use of approved public bond financing which will be repaid from a combination of local revenues and the U.S. federal grants pledged under the proposed "Future Federal Financial Assistance" Agreement.

The CNMI successfully used bond financing during the Second Financial Assistance Program of 1986-1992 to expedite its infrastructure development and maximize the timely and prudent use of the Federal Grant Payments. We believe bond financing can be successfully used again in 1993 to improve our islands' infrastructure.

Our experience with bond financing had many benefits for our island development. We wish to use bond financing to achieve further gains in our infrastructure during the Third Financial Assistance Program. Among the benefits of bond financing we experienced were:

1. Infrastructure needs were addressed in a timely way since the bond proceeds were "upfronted" rather than waiting on annual payments during a seven year period to complete development.
2. Infrastructure projects were better planned to permanently solve problems instead of temporary "band-aid" solutions.
3. Infrastructure projects were done on a more cost-effective "economies of scale" planning and construction program.

The Honorable Ron De Lugo
 March 12, 1993
 Page 2

4. Prioritization of projects was improved.
5. Bond legal requirements and use of trustee bank imposed certain fiscal disciplines on the use of bond construction funds.
6. Economic benefits were accelerated as infrastructure improvement occurred faster than if projects waited for funding over a seven year period. Most of our projects were "placed in service" well before the end of the seven year period.

There is still much infrastructure improvement to be made, and the benefits of project planning and execution cited above need to be applied during the Third Financial Assistance funding period. We believe the time is opportune for the CNMI to launch another bond financing during 1993 for these reasons and the following timing reasons.

- * Interest rates are currently low and can save us millions of dollars of debt service payments.
- * Our local economy needs the boost that renewed infrastructure construction would provide.
- * Most of the construction can be done by local firms so the monies have a multiplier effect on our economy and much of the imported equipment and materials come from U.S. suppliers.
- * Improving our infrastructure will help attract new investments to our islands which has slowed down considerably. Many potential investors complain that our infrastructure is inadequate to support their investment plans.
- * Many of our planned improvements are urgently needed to serve our children's education and improve our environment and health with better sewage and water distribution.
- * An improved infrastructure creates the base for our future development as we strive toward greater economic self-reliance.

Bond financing is commonly used by states and municipal governments throughout the United States to build various public projects. For us, the "Capital Improvement Bonds" we issued in 1986 through our Commonwealth Development Authority provided economic benefits that we had not experienced before. We now want to build on that successful experiment by launching a well-conceived financing program during the early years of the Third Financial Assistance Program.

We support the "Financial Assistance Agreement" being considered by your Committee at this time, including the intent that we contribute local "matching

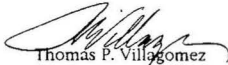
The Honorable Ron De Lugo
 March 13, 1993
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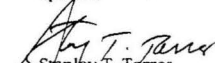
fund" revenues toward our capital improvements. We are prepared to share the cost of improving our islands' infrastructure. In fact, we have already been budgeting several local sources of revenue to pledge toward bond repayment and that would count toward our share of "matching fund revenues" for purposes of qualifying for the federal match. These local revenue sources include local tax revenues like fuel taxes and vehicle registration fees, as well as public benefit contributions from large resort developments planned for our islands. We are prepared to divert local revenues from government operations to infrastructure investment for our future.

To assist us in our efforts, we ask that your staff sit down with our advisors to consider certain amendments to the proposed legislation that may facilitate our ability to use bond financing and thereby accelerate our development. We plan to support a bond issue by pledging the Federal Grant payments along with our local matching fund revenues, but we want to insure that the language of the proposed Congressional legislation will permit bond financing on a more cost-effective basis and clarify any ambiguities that could later cause problems for issuing bonds. We fear that without some amendments, the full intent of the Assistance Program will not be maximized.

We appreciate your consideration of our requests as we work together to make prudent use of federal grant payments to improve the life of our people.

Sincerely,

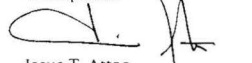

 Thomas P. Villagomez
 Speaker


 Stanley T. Torres
 Floor Leader


 Heinz S. Hofschneider
 Chairman
 Committee on Public Utilities,
 Transportation and Communications


 Pete P. Reyes
 Chairman
 Committee on Judiciary and
 Governmental Operations


 Diego T. Benavente
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 Jesus T. Attao
 Chairman
 Committee on Ways & Means

Ana S. Teregeyo
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 and Welfare

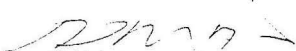

 Francisco DLG. Camacho
 Chairman
 Committee on Commerce &
 Tourism

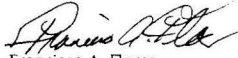
The Honorable Ron De Lugo
March 13, 1993
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Crispin I. Deleon Guerrero
Chairman
Committee on Federal and
Foreign Relations

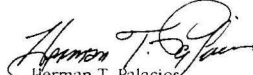

Mamerto U. Naranita
Minority Leader


Herman T. Guerrero
Minority Member

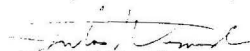

Jesus P. Mafnas
Minority Member


Francisco A. Flores
Minority Member

Antonio O. Quitugua
Chairman
Committee on Natural Resources


Herman T. Palacios
Minority Member

Joaquin S. Borja
Minority Member


Antonio M. Camacho
Minority Member

Pedro R. Guerrero
Minority Member



The Senate
 NORTHERN MARIANAS COMMONWEALTH LEGISLATURE
 P.O. Box 129
 Saipan, MP 96950

Juan S. Demapan
 President

Tel: (670) 664-5495
 Fax: (670) 322-7077

March 12, 1993

Honorable Ron De Lugo
 Chairman, Subcommittee on Insular
 and International Affairs
 Committee on Natural Resources
 United States House of Representatives
 2427 Rayburn House Office Building
 Washington, DC 20515-5501

Dear Chairman De Lugo:

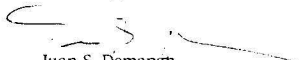
I am deeply honored and grateful for your invitation to address the United States House of Representatives Subcommittee on Insular and International Affairs on March 18, 1993, during its hearing on the multi-year funding agreement between the United States and the commonwealth of the Northern Mariana Islands. This is indeed a subject of great importance to the Commonwealth and its future. I thank you for seeking my in-put and views on this agreement.

However, due to pressing needs here in the Commonwealth and the plethora of important legislation now before the Commonwealth Senate, I regret I will not be able to personally appear before you. I had looked forward with great anticipation to this opportunity to meet with you and the other subcommittee members and am saddened that I will have to forego such at this time.

I am, therefore, submitting written testimony for your subcommittee's consideration. I hope that I have spoken well on the issues which are of concern to you and the other members and look forward to a continued dialogue between our office.

Please do not hesitate to contact me about any of my testimony. Again, thank you for your consideration and this opportunity to address the subcommittee.

Sincerely,


 Juan S. Demapan
 Senate President

WRITTEN TESTIMONY BY
THE HONORABLE JUAN S. DEMAPAN
PRESIDENT OF THE SENATE
OF THE
EIGHTH NORTHERN MARIANAS COMMONWEALTH LEGISLATURE
BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON INSULAR AND INTERNATIONAL AFFAIRS
COMMITTEE OF NATURAL RESOURCES
FOR THE MULTI-YEAR FUNDING AGREEMENT
BETWEEN THE UNITED STATES OF AMERICA
AND
THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MARCH 18, 1993

HONORABLE CHAIRMAN DE LUGO AND DISTINGUISHED MEMBERS OF THIS SUBCOMMITTEE:

I AM JUAN SABLAN DEMAPAN, A PROUD AMERICAN OF NORTHERN MARIANAS ANCESTRY AND PRESIDENT OF THE SENATE OF THE EIGHTH NORTHERN MARIANA ISLANDS COMMONWEALTH LEGISLATURE. I AM GRATEFUL FOR THIS OPPORTUNITY TO SUBMIT THIS WRITTEN TESTIMONY ON THE SUBJECT OF MULTI-YEAR FUNDING AGREEMENT ENDORSED, AFTER CONSIDERABLE NEGOTIATIONS BY THE U.S. PERSONAL REPRESENTATIVE AND THE NMI REPRESENTATIVES TO THE COVENANT 702 AND 902 TALK. THIS AGREEMENT WAS CONCLUDED PRIOR TO THE INAUGURATION OF PRESIDENT CLINTON, AND AS I UNDERSTAND IT, WAS ALLOWED BY THE CLINTON ADMINISTRATION TO GO TO U.S. CONGRESS UNALTERED FOR ITS CONSIDERATION.

MR. CHAIRMAN, THE MULTI-YEAR FINANCIAL ASSISTANCE AGREEMENT WAS GROUNDED ON THE COVENANT 702 PROVISION AND IS A PRODUCT OF EXHAUSTIVE NEGOTIATIONS BY THE U.S. PERSONAL REPRESENTATIVE AND OUR REPRESENTATIVES. FROM OUR PERSPECTIVE, THIS AGREEMENT REFLECTS OUR COMMITMENT TO TAKE ON A GREATER SHARE OF THE RESPONSIBILITY FOR FUNDING CAPITAL IMPROVEMENT PROJECTS IN THE COMMONWEALTH OVER THE NEXT 7-YEAR PERIOD. THIS ECHOES THE CALL OF PRESIDENT CLINTON TO THE NATION FOR "SHARE RESPONSIBILITY". UNDER THIS AGREEMENT, WE COMMITTED OUR GOVERNMENT TO MATCH ON A DOLLAR FOR DOLLAR BASIS THE FEDERAL CONTRIBUTION AND TO LIMIT THE USE OF THE FINANCIAL ASSISTANCE TO FUNDING CAPITAL IMPROVEMENT PROJECTS ONLY, AND NOT FOR GOVERNMENT OPERATIONS AS WAS PREVIOUSLY PERMITTED. SUCH AN ARRANGEMENT AND ITS CORRESPONDING INCREASE OF OUR FINANCIAL RESPONSIBILITY, WHILE IT IS FAR LESS ATTRACTIVE FOR US THAN THE FORM OF FEDERAL FINANCING PREVIOUSLY PROVIDED, IS ONE WE ARE WILLING TO ACCEPT IN ORDER TO REALIZE A FAIR, EQUITABLE, AND DECENT STANDARD OF LIVING FOR ALL RESIDENTS OF OUR ISLANDS.

WE ARE EVER MINDFUL OF THE LIMITS OF THE FEDERAL GOVERNMENT FINANCIAL RESOURCES. WE, TOO BELIEVE THAT IF THE NORTHERN MARIANAS WERE TO ACHIEVE GREATER ECONOMIC GROWTH IN THE FUTURE AND THUS IMPROVE THE STANDARD OF LIVING FOR ALL AMERICANS IN THE COMMONWEALTH, WE OUGHT TO INVEST OUR MONEYS IN THE CONSTRUCTION AND IMPROVEMENT

OF OUR PHYSICAL INFRASTRUCTURE. THEREFORE, LET ME SHARE WITH YOU THE PRESSING NEEDS FOR INFRASTRUCTURE IMPROVEMENT WITHIN THE NORTHERN MARIANAS.

AS YOU MAY KNOW, OUR PEOPLE ARE NOT BLESSED WITH AN ABUNDANCE OF POTABLE WATER. IN FACT, RAINFALL IS OUR ONLY SOURCE OF FRESH WATER AND IS SEASONAL WITH AN AVERAGE MONTHLY PRECIPITATION OF ONLY SEVEN INCHES. SOME OF THIS FRESH WATER SOAKS INTO THE GROUND AND FORMS INTO "LENSES" WITHIN THE POROUS ROCKY MATRIX OF THE ISLANDS. FRESH WATER LENSES FLOAT UPON THE PERMEATING, DENSER, SEA WATER. THESE LENSES AS WELL AS THE FRESH WATER AND BRACKISH AQUIFERS ARE TAPPED BY DRILLING WELLS.

HOWEVER, DUE TO EXCESSIVE SALINITY AND BACTERIAL CONTENT, OUR RESIDENTS ARE UNABLE TO DRINK THE WATER WHICH FLOWS FROM THEIR FAUCETS. A MAJORITY OF OUR RESIDENTS RELY ON CATCHMENT TANK TO COLLECT RAIN WATER. THEY BOIL THE RAIN WATER BEFORE DRINKING. THOSE WHO ARE FINANCIALLY FORTUNATE BUY THEIR DRINKING WATER FROM A LOCAL WATER COMPANY OR BUY IMPORTED BOTTLED WATER. I FIND IT APPALLING THAT IT IS CHEAPER TO BUY A GALLON OF GASOLINE OR A GALLON OF DIESEL THAN A GALLON OF IMPORTED WATER. THE PUBLIC WATER SYSTEM IS THREATENED WITH CONTAMINATION FROM VARIOUS SOURCES, SUCH AS SEWAGE SEEPING FROM SEPTIC TANKS AND DILAPIDATED PIPES SOME OF WHICH DATE BACK TO WORLD WAR II.

THE COMMONWEALTH'S WATER DELIVERY SYSTEM PRESENTS A CLEAR HEALTH HAZARD TO OUR CITIZENS. WE CANNOT CONTINUE TO PUT OUR CHILDREN'S LIVES AT RISK. IT IS IMPERATIVE THAT THESE INEFFICIENT AND POTENTIALLY DANGEROUS PROBLEMS BE REMEDIED AS SOON AS POSSIBLE.

FURTHER, WITHOUT AN IMPROVED SYSTEM FOR DISTRIBUTING WATER, SAIPAN CANNOT CONTINUE TO GROW. EVEN NOW, ACCESS TO WATER IS LIMITED; SOME COMMUNITIES RECEIVE ONLY A FEW HOURS OF RUNNING WATER A DAY. WE CAN NO LONGER APPROACH THIS VERY SERIOUS AND LONG STANDING PROBLEM WITH ONLY BAND AID SOLUTIONS.

I KNOW YOU HAVE HEARD THIS BEFORE BUT UNTIL WE CAN PROVIDE OUR PEOPLE AND COMMUNITY WITH SAFE, RELIABLE RUNNING

WATER, WE CANNOT CLAIM TO HAVE ATTAINED THE STANDARD OF LIVING ENJOYED BY MOST AMERICANS.

IN THE SAME VAIN, ANOTHER CRITICAL NEED IS TO COMPREHENSIVELY UPGRADE OUR SEWER SYSTEM. THE SEWAGE TREATMENT AND DISPOSAL CAPABILITY OF THE COMMONWEALTH, ESPECIALLY OF SAIPAN, IS AT BEST INADEQUATE AND ANTIQUATED. DESPITE THE LARGE GROWTH IN OUR RESIDENT POPULATION AND A CORRESPONDING INCREASE IN THE NUMBER OF AVAILABLE HOUSING UNITS, MOST HOMES ARE STILL NOT CONNECTED TO A SEWER SYSTEM. THE CONTINUED USE OF SEPTIC TANKS THREATENS TO CONTAMINATE OUR GROUND WATER AND IS NOW CREATING ENVIRONMENTAL PROBLEMS WITHIN OUR COASTAL WATERS.

LIKewise, WHILE OUR ECONOMY, WHICH IS SO VERY DEPENDENT ON TOURISM WELCOMES THE GROWTH IN THE NUMBER OF TOURISTS ARRIVING EACH DAY AND THE RESULTING INCREASE IN THE NUMBER OF HOTEL ROOMS AND LARGE RESORT DEVELOPMENT PROJECTS UNDER WAY ON ALL THREE MAJOR ISLANDS, WE RECOGNIZE SUCH GROWTH FURTHER STRESSES THE CAPACITY OF THE SEWER TREATMENT AND DISPOSAL SYSTEM.

THROUGH LOCAL APPROPRIATIONS A FEW YEARS AGO, A NEW SEWAGE TREATMENT PLANT WAS PUT INTO OPERATION. THIS ENABLED SAIPAN TO TERMINATE THE DUMPING OF RAW UNTREATED SEWAGE DIRECTLY INTO OUR SCENIC LAGOON. HOWEVER, THIS PLANT IS ALREADY INADEQUATE GIVEN THE GROWTH IN POPULATION EXPERIENCED SINCE ITS START UP.

LOCAL APPROPRIATIONS CONTINUE TO BE AUTHORIZED TO WARD OFF FUTURE DUMPING OF RAW SEWAGE INTO OUR LAGOON, BUT THIS IS NOT ENOUGH. THE LAGOON IS OUR SINGLE MOST IMPORTANT NATURAL RESOURCE. ITS BOUNTY SUSTAINS OUR FAMILIES AND ITS UNIQUE BEAUTY ATTRACTS THOUSANDS OF TOURISTS EACH YEAR. IT IS AN ESSENTIAL ELEMENT IN THE LIVELIHOOD OF OUR PEOPLE. ITS DESTRUCTION WOULD SET OFF A CHAIN REACTION THAT WOULD ULTIMATELY RESULT IN THE DESTRUCTION OF OUR PEOPLE'S WAY OF LIFE AND OUR HOPE OF BECOMING ENTIRELY SELF RELIANT.

ENVIRONMENTAL EXPERTS PREDICT THAT UNLESS WE ADDRESS THE SEWAGE PROBLEM IMMEDIATELY AND EFFECTIVELY, AN OUTBREAK OF TYPHOID, CHOLERA, OR SIMILAR EPIDEMIC IS POSSIBLE. BESIDES

THE OBVIOUS DANGER TO OUR PEOPLE'S WELL-BEING, SUCH AN OUTBREAK WOULD WREAK HAVOC ON OUR TOURIST BASED ECONOMY.

IN ADDITION TO UPGRADING AND EXPANDING PRIMARY TREATMENT PLANTS, THERE IS A NEED TO IMPROVE THE TRANSMISSION SYSTEM AND EXISTING OCEAN OUTFALLS. THE NORTHERN OUTFALL DISCHARGES ITS SEWAGE 100 YARDS FROM OUR COMMERCIAL DOCKING FACILITY, AND DIRECTLY UP CURRENT FROM OUR MAJOR HOTEL BEACHES. THE SOUTHERN OUTFALL DISCHARGES AT THE HIGH WATER MARK, DISCHARGING UNTREATED SEWAGE TOO CLOSE TO SHORE AND TOO CLOSE TO THE SURFACE TO OBTAIN ADEQUATE DILUTION.

FINALLY, ON THE ENVIRONMENTAL FRONT, THE PRESENT LANDFILL SITE AT PUERTO RICO VILLAGE MUST BE RELOCATED IMMEDIATELY. TO THIS END, BOTH THE LEGISLATURE AND THE LIEUTENANT GOVERNOR'S OFFICE HAVE BEEN DILIGENTLY WORKING TO CONSTRUCT A NEW LANDFILL SITE AND PREPARE A WASTE MANAGEMENT PLAN. THE PRESENT SITE HAS BEEN IN USE SINCE JUST AFTER THE WAR. IT IS PRECARIOUSLY LOCATED DIRECTLY ON THE LAGOON AND IS YET ANOTHER THREAT TO THE HEALTH OF OUR WATERS AND OUR PEOPLE. I AM PROUD TO REPORT THE DESIGN OF THE NEW LAND FILL SITE IS COMPLETE. HOWEVER, TO DATE, THE EXPECTED AGREEMENT WITH A PRIVATE LAND DEVELOPER FOR CONSTRUCTION AND LONG TERM MAINTENANCE OF THE LANDFILL HAS NOT BEEN REACHED.

FURTHER, THIS LANDFILL, OR DUMP AS THAT IS WHAT IT TRULY IS, IS THE BIGGEST CONTRIBUTOR TO AIR POLLUTION ON OUR ISLAND. IT IS CONSTANTLY BURNING AND REPORTEDLY, THE FIRE IS MANY FEET BELOW THE SURFACE AND THUS, FOR ALL PRACTICALITY, IMPOSSIBLE TO EXTINGUISH. THE ONLY FEASIBLE REMEDY FOR THIS ANTIQUATED EYESORE AND HEALTH HAZARD IS ITS ENTIRE REMOVAL. BUT AGAIN THE LOCAL FUNDS FOR THIS UNDERTAKING ARE SORELY LIMITED AND TO DATE OUR EFFORTS TO SECURE ALTERNATIVE FUNDING HAVE NOT COME TO FRUITION.

LIKE MANY OF OUR INSULAR BROTHERS WE INHERITED MUCH OF OUR INFRASTRUCTURE FROM BEFORE WORLD WAR II. MUCH OF WHAT SERVES OUR PEOPLE WAS BUT TEMPORARY MEASURES TO CARE FOR THE NEEDS OF OCCUPYING FORCES AND THEN FOR OUR LIBERATORS, THE US ARMED FORCES. NOW, NEARLY FIFTY YEARS LATER, REPAIRS AND RENOVATIONS, UPGRADES AND MODERN

TECHNOLOGICAL ADVANCEMENTS ARE NOT SIMPLY DESIRABLE BUT IMPERATIVE TO SUSTAIN BOTH ECONOMIC GROWTH AND DEVELOPMENT AS WELL AS THE HEALTH AND WELL-BEING OF OUR PEOPLE. SUCH INFRASTRUCTURE IMPROVEMENTS ARE THE VERY FOUNDATION NECESSARY FOR US TO GAIN BOTH SELF-RELIANCE AND ALSO AFFORD US THE LIFE-STYLE ENJOYED BY MOST AMERICANS. WE ARE PAINFULLY REMINDED THAT BECAUSE OF OUR SMALLEST IN BOTH LAND SIZE AND POPULATION BECAUSE WE ARE OCEAN-LOCKED AND ARE SEPARATED FROM THE CONTINENTAL U.S. MARKET PLACE BY THOUSANDS OF MILES, AND DUE TO THE INORDINATELY HIGH DISTRIBUTION COSTS INIMICAL TO ISLAND ECONOMIES, OUR COMMITMENT TO RAISE LOCAL TAX REVENUES TO MATCH THE ANNUAL FEDERAL GRANTS UNDER THE AGREED 702 AGREEMENT COMES WITH GREAT SACRIFICE TO OUR PEOPLE AND OUR LOCAL TAXPAYERS.

FOR EXAMPLE, THE PRESENT ROAD SYSTEMS ON ALL THREE MAJOR ISLANDS IS SORELY IN NEED OF UP GRADING AND REPAIRS. MOST OF THESE ROADS WERE BUILT EITHER BY THE JAPANESE OR THE AMERICAN ARMIES. WHILE THEY HAVE SERVED US FOR NEARLY A HALF DECADE, DUE TO THE HARSH TROPICAL ENVIRONMENT MOST ARE RAPIDLY DETERIORATING WHILE TRAFFIC IS GREATLY INCREASING. CAR REGISTRATIONS FORETELL THE NEED FOR LARGE INVESTMENTS IN THE ROAD SYSTEM IN THE COMING YEARS. PRESENTLY, WE ARE PROPOSING FUEL TAXES TO HELP FUND THESE PROJECTS, BUT THE MAGNITUDE OF THE REPAIRS INDICATES THAT THIS WILL NOT BE SUFFICIENT AND SPECIAL LEVIES MAY NEED TO BE USED.

ALSO IN THE TRANSPORTATION AREA, AS A SMALL ISLAND ECONOMY, THE SEA IS OUR LIFELINE TO THE PRODUCTS OF THE WORLD. WE DEPEND ON SHIPPING FOR MOST OF OUR BASIC NEEDS; FROM FOOD TO CONSTRUCTION MATERIALS TO FUEL. YET, OUR COMMERCIAL PORT FACILITIES OUR WOEFULLY INADEQUATE TO HANDLE OUR GROWING ECONOMY. THIS IS TRUE FOR BOTH ON SHORE AND OFF SHORE FACILITIES.

RECENTLY, OUR COMMONWEALTH PORTS AUTHORITY AWARDED A CONTRACT FOR A MAJOR SAIPAN HARBOR AND PORT DEVELOPMENT PROJECT. THIS PROJECT IS LONG OVER DUE AND GREATLY WELCOMED. PREVIOUSLY, MANY VESSELS HAVE REPORTED TOUCHING BOTTOM WHILE NAVIGATING THE SAIPAN SHIPPING CHANNEL. THE DOCK BESIDES BEING IN DANGER OF COLLAPSING DUE

TO THE AGE AND THE REFITTING OF THE DOCK WITH HEAVIER, MORE MODERN EQUIPMENT IS ALSO DANGEROUSLY CLOSE TO THE PUERTO RICO DUMP WHICH AS I STATED EARLIER IS NEARLY ALWAYS ON FIRE. WE ARE HOPEFUL THAT WITH THE RENOVATIONS PRESENTLY PLANNED, THAT SAIPAN WILL ENJOY A MODERN PORT AND HARBOR FACILITY.

HOWEVER, OUR SISTER ISLANDS OF ROTA AND TINIAN ARE NOT SO LUCKY. THE PORT AND HARBOR FACILITIES IN ROTA ARE IN SUCH A STATE THAT ONLY BARGES CAN UTILIZE THEM. THIS TRANSLATES INTO MUCH HIGHER PRICES FOR THE ISLAND DUE TO THE NEED TO FIRST SHIP AND OFF-LOAD ALL CARGO IN SAIPAN TO THEN BE LATER LOADED ONTO BARGES FOR THE 100 MILE TRIP TO ROTA, ITS FINAL DESTINATION. TINIAN IS IN NO BETTER SHAPE. WHILE THE COMMONWEALTH PORTS AUTHORITY IS SYMPATHETIC TO THE NEEDS OF THESE TWO ISLANDS, THEY PRESENTLY LACK FUNDING FOR UNDERTAKING EVEN AN A AND E STUDY FOR FUTURE HARBOR AND PORT PROJECTS.

AS I SPOKE OF EARLIER, MANY OF THE INADEQUACIES IN OUR PRESENT INFRASTRUCTURE FACILITIES IS DUE TO THE COMBINED EFFECTS OF THE AGE OF THE PHYSICAL PORTIONS AND INCREASE IN THE DEMAND DUE TO THE EXPLOSION IN THE COMMONWEALTH'S RESIDENT AND TOURIST POPULATION. ONE CONTRIBUTOR TO THE MARKED INCREASE IN THE POPULATION OF THE ISLANDS IS THE INFLUX OF MICRONESIANS FACILITATED UNDER THE COMPACTS OF FREE ASSOCIATION BETWEEN THE UNITED STATES AND THE GOVERNMENTS OF THE REPUBLIC OF THE MARSHALS ISLANDS AND THE FEDERATED STATES OF MICRONESIA. THESE COMPACTS GRANTED THE CITIZENS OF THESE ISLANDS THE RIGHT TO FREELY TRAVEL TO ESTABLISH HABITUAL RESIDENCE AS A NON IMMIGRANT IN THE UNITED STATES AND IN U.S. FLAGGED AREAS.

ALTHOUGH THE UNITED STATES ENTERED INTO THE COMPACTS WITHOUT CONSULTATION OR AGREEMENT OF THE AFFECTED AREAS, THE COMMONWEALTH HAS THUS FAR HONORED THIS AGREEMENT TO WHICH IT IS NOT A PARTY. THIS HAS BEEN DONE OUT OF DEFERENCE TO THE COMMON HISTORICAL AND CULTURAL TIES AMONG MICRONESIAN ISLANDS AND PEOPLES.

CONGRESS RECOGNIZED AS INEVITABLE THE ADVERSE EFFECTS OF FREE MIGRATION TO U.S. INSULAR AREAS. TO THIS END, THE "COMPACT OF FREE ASSOCIATION OF 1985," SECTION 104(E), MAKES

A COMMITMENT THAT "CONGRESS WILL ACT SYMPATHETICALLY AND EXPEDITIOUSLY TO REDRESS THOSE ADVERSE CONSEQUENCES." TO DATE CONGRESS HAS TAKEN NO ACTION TO FULFILL THIS COMMITMENT. NO APPROPRIATION HAS BEEN MADE. NO PAYMENT HAS BEEN RECEIVED.

NEVERTHELESS, THE MIGRATION OF LARGE NUMBERS OF MICRONESIANS TO OUR ISLANDS HAS PLACED A GRAVE BURDEN UPON US. MICRONESIANS COMPETE WITH OUR PEOPLE FOR JOBS AND HOUSING. MICRONESIANS ADD TO THE STRESS ON DELIVERY OF ESSENTIAL SERVICES IN EDUCATION, HEALTH CARE, PUBLIC SAFETY, UTILITIES, AND OTHER AREAS.

IF WE ARE TO CONTINUE TO WELCOME MICRONESIANS TO OUR ISLANDS UNDER SUCH PRIVILEGED TERMS AS WERE CREATED BY THE UNITED STATES, THEN THE UNITED STATES MUST LIVE UP TO ITS RESPONSIBILITY AND COMMITMENT TO OFFSET THE BURDEN. THE ESTIMATED COST OF THE IMPACT IS NEARLY \$8.0 MILLION DOLLARS FOR 1992 ALONE. WE HOPE THAT CONGRESS WILL "ACT SYMPATHETICALLY AND EXPEDITIOUSLY" IN APPROPRIATED THESE FUNDS AS AGREED UNDER THE COMPACTS.

AS YOU SEE OUR NEEDS ARE HIGH. OUR FINANCIAL RESOURCES ARE STRESSED BEYOND CAPACITY AND OUR TECHNICAL EXPERTISE IS LIMITED. AS THE OPERATIONS AND MAINTENANCE IMPROVEMENT PROGRAM TEAM SENT BY THE DEPARTMENT OF THE INTERIOR AND THE ARMY CORP OF ENGINEERS REPORTED IN THEIR THIRD YEAR REVIEW, TECHNICAL ASSISTANCE IN AREAS FROM PLANNING TO OPERATIONS AND MAINTENANCE TO FINANCIAL MANAGEMENT ARE PRIORITY AREAS WHICH THE COMMONWEALTH REQUIRES FEDERAL GOVERNMENT EXPERTISE.

CHAIRMAN, WE ARE MORE THAN AWARE OF THE MAGNITUDE OF OUR MODERNIZATION PROJECTS. WE ARE ALSO MORE THAN AWARE OF THE DIRE AND IMMEDIATE NEED FOR ACTION ON THESE PROJECTS. HOWEVER, WE ALSO RECOGNIZE THAT WITHOUT PROPER TECHNICAL EXPERTISE THE RESULTS OF OUR EFFORTS AND RESOURCES MAY SIMPLY BE MORE BAND AIDS AND LITTLE IN THE WAY OF FUTURE SOLUTIONS. WITHOUT FEDERAL ASSISTANCE IN THE VERY WAY WE APPROACH AND SOLVE THE ABOVE PROBLEMS, I AM RETICENT TO TELL MY PEOPLE THAT THEY WILL SOON ENJOY A STANDARD OF LIVING THAT OTHER AMERICANS NOW EXPERIENCE.

IF THE ABOVE INFRASTRUCTURE PROBLEMS ARE NOT ENOUGH TO DISCOURAGE EVEN THE STRONG OF HEART, WE ARE ALSO PRESENTLY EXPERIENCING AN INCREASE IN THE FLOW OF CRYSTAL METHAMPHETAMINE USE AND DISTRIBUTION, THE DRUG COMMONLY REFERRED TO AS "ICE". OUR LAW ENFORCEMENT AND CUSTOMS OFFICERS ARE DILIGENTLY ATTEMPTING TO STEM THIS TIDE. OUR YOUTH, WHO ARE THE PRIME TARGETS FOR DISTRIBUTORS, ARE STRUGGLING TO GET A DECENT EDUCATION SO THAT THEY CAN CONTINUE THE WORK WE ARE UNDERTAKING. BUT LIKE MANY OTHER INSTITUTIONS WITHIN OUR ISLANDS, OUR PUBLIC SCHOOLS TOO ARE IN DISREPAIR. OFTEN TOILETS AND WATER FOUNTAINS ARE UNUSABLE AT OUR ONLY PUBLIC HIGH SCHOOL. BESIDES FACILITIES BELOW THE NATIONAL NORM, OUR CHILDREN'S TEST SCORES ARE ALSO AT SUCH A LEVEL. WE ARE ALSO EXPERIENCING A RISE IN TEEN AGE PREGNANCY.

AS I SPOKE OF EARLIER, WE SEVERELY LACK MUCH OF THE TECHNICAL EXPERTISE TO ADEQUATELY IDENTIFY, ANALYZE AND PLAN LONG-TERM SOLUTIONS TO THE INFRASTRUCTURE PROBLEMS FACING US DURING THIS TIME OF EXPLODING TECHNOLOGY. LIKEWISE, IN MANY WAYS, WE LACK DEMOCRATIC, POLITICAL EXPERTISE TO ADEQUATELY IDENTIFY, ANALYZE AND PLAN LONG-TERM SOLUTIONS TO FAILURES IN OUR GOVERNMENTAL INSTITUTIONS. CHAIRMAN, THIS LACK OF EXPERTISE IN BOTH ARENAS IS NOT BECAUSE WE FAIL TO DESIRE TO LEARN; TO SERVE; OR TO WORK. MUCH OF THIS SHORTAGE IN EXPERTISE IS DUE TO INEQUITIES IN THE AVAILABILITY OF POST-SECONDARY EDUCATION WHICH UNTIL VERY RECENTLY GREATLY PLAGUED OUR PEOPLE. VERY FEW OF OUR PRESENT LEADERS POSSESS MORE THAN HIGH SCHOOL EDUCATION AND SOME WERE NOT EVEN BLESSED WITH THAT.

THIS SITUATION, I AM PROUD TO REPORT, IS NOT CHANGING. LIKE PRESIDENT CLINTON, WE STRONGLY BELIEVE THAT ONLY THROUGH THE IMPROVEMENT IN THE EDUCATION OPPORTUNITIES OFFERED TO OUR PEOPLE CAN WE EVER ACHIEVE A TRUE DEMOCRATIC SOCIETY. AS MANY ENLIGHTENMENT WRITERS WARNED DEMOCRACY CANNOT EXIST WITHOUT AN EDUCATED POPULIST. WE FIRMLY ACCEPT THIS PREMISE. PRESENTLY, MANY MAINLAND INSTITUTIONS EXTEND ASSISTANCE TO OUR YOUTH WHO ARE SEEKING POST-SECONDARY EDUCATION. OUR GOVERNMENT ALSO OFFERS AS MUCH ASSISTANCE TO THIS END AS IS POSSIBLE. YET, AS IN OTHER AREAS, THE NEED FAR OUT DISTANCES OUR RESOURCES. WE PRAY THAT FEDERAL

PROGRAMS WILL CONTINUE TO BE AVAILABLE SO THAT OUR FUTURE CAN BE ONE OF CONTINUED GROWTH WHICH CULMINATES IN PUBLIC OFFICIALS WELL VERSED IN DEMOCRATIC INSTITUTIONS AND MODERN TECHNOLOGICAL SOLUTIONS TO THE VERY COMPLEX ISSUES CONFRONTING US.

PLEASE UNDERSTAND THAT WHILE WE FACE GREAT CHALLENGES, WE CONTINUE TO STRIVE TO DELIVER TO ALL OUR PEOPLE A STANDARD OF LIVING, WHICH LIKE YOUR OWN CONSTITUENTS, IS BASIC TO DEVELOPED NATIONS. WE HAVE MADE GREAT STRIDES TOWARDS THIS GOAL. OUR HEALTH CENTER SERVES OUR PEOPLE AT A HIGHER LEVEL THAN ANY IN MICRONESIA. OUR TELEPHONE SYSTEM IS CURRENT WITH MODERN TECHNOLOGY. HOWEVER, WE CANNOT STOP HERE. WE STILL NEED YOUR ASSISTANCE BOTH MONETARILY AND IN THE WAY OF EXPERTISE. WE APPRECIATE ALL WE HAVE PREVIOUSLY RECEIVED AND STRIVE TO BECOME A MEMBER OF THE AMERICAN POLITICAL FAMILY WHICH ALL AMERICANS CAN BE PROUD OF.

ALONG THESE LINES, DURING MY TENURE AS PRESIDENT OF THE SENATE, WE RECENTLY HAD OUR ETHICS CODE SIGNED INTO LAW. SHORTLY, OUR OPEN GOVERNMENT ACT WILL LIKEWISE GO INTO THE BOOKS. WE ARE PRESENTLY CONDUCTING COMPREHENSIVE REVIEWS OF THE REPORTS OF VARIOUS TASK FORCES AND RESULTING LEGISLATION AFFECTING SEVERAL AREAS OF OUR ECONOMY AND SOCIETY. THIS REVIEW PROCESS IS TIME CONSUMING AND IN OUR OPINION MUST BE PAINSTAKING. PART OF THAT PROCESS INCLUDES PUBLIC HEARINGS WHICH ARE PRESENTLY SCHEDULED FOR LEGISLATION ADDRESSING AREAS OF ALIEN LABOR, IMMIGRATION, MINIMUM WAGE LEVELS, TAX REFORM, AND REGULATION OF INTRA-ISLAND SHIPPING RATES.

OF MAJOR CONCERN TO ALL OF US IS THE REPORTED LABOR ABUSES IN SOME ISLAND INDUSTRIES. A COOPERATIVE EFFORT IS UNDERWAY TO CORRECT THIS PROBLEM. THIS EFFORT INCLUDES INDUSTRY REPRESENTATIVES, THE PUBLIC AND LABOR REPRESENTATIVES. PROGRESS IS BEING MADE. HOWEVER, CERTAIN MEMBERS OF CONGRESS BELIEVE ENOUGH TIME HAS BEEN AFFORDED OUR ISLANDS; THAT A SOLUTION SHOULD HAVE BEEN ACCOMPLISHED IF WE WERE SERIOUSLY COMMITTED TO SUCH REFORM. MANY IN OUR GOVERNMENT FEEL THIS PRESSURE AND ARE RUSHING TO BUILD ANY SCAFFOLD, NO MATTER HOW UNSOUND, TO KEEP THE SKY FROM FALLING. THIS IS NOT THE COURSE TO FOLLOW.

THE MAJOR THREAT REPEATED BY THESE CHICKEN LITTLES IS THAT IF WE FAIL TO ACT WITHIN THE TIME CONSTRAINTS PUT FORTH BY SOME OF THOSE IN WASHINGTON, THAT THE CONGRESS WILL DELETE OUR EXEMPTION UNDER HEADNOTE 3(A) OF THE UNITED STATES CUSTOMS REGULATIONS. WHILE ALL OF US AGREE THIS WOULD HAVE A DEVASTATING AFFECT ON OUR ABILITY TO ATTRACT INDUSTRY AND THUS ON OUR ECONOMIC GROWTH, WE DO NOT ALL AGREE THAT WE MUST ACT WITHOUT FIRST UNDERSTANDING WHAT TRULY NEEDS TO BE DONE TO RIGHT THE WRONGS IN OUR PRESENT SYSTEM. WE RECOGNIZE THAT OUR PRESENT ALIEN LABOR SYSTEM IS INADEQUATE. LIKE REVAMPING OUR INFRASTRUCTURE, REMEDYING THESE INADEQUACIES IS A PRIORITY AREA FOR BOTH THE LEGISLATURE AND THE EXECUTIVE BRANCH. BUT SUCH REMEDIES MUST BE PROPERLY DESIGNED AND IMPLEMENTED OR THEY WILL RESULT IN NO REAL CHANGES; NO REAL RELIEF FOR WORKERS, ALIEN OR LOCAL.

AS YOU KNOW DEMOCRACY IS NOT THE MOST EFFICIENT FORM OF GOVERNMENT. THIS IS ESPECIALLY ILLUSTRATED WHEN ADDRESSING ISSUES LIKE THE ABOVE. NOT ALL OF US ARE IN AGREEMENT AS TO WHAT IS THE BEST COURSE OF ACTION. HOWEVER, WE FIRMLY BELIEVE THAT PIECE MEAL, REACTIONARY LEGISLATION IS A DINOSAUR TO BE LEFT BEHIND.

THE EIGHTH LEGISLATURE UNDERSTANDS THAT WE ARE AT A MAJOR CROSS-ROADS IN OUR ECONOMIC AND POLITICAL DEVELOPMENT. OUR CHOICES ARE HARD BUT OUR GOALS ARE SIMPLE; WE MUST INSURE OUR RESIDENTS OF A STANDARD OF LIVING WHICH IS ON PAR WITH THAT OF OTHER AMERICANS AND WE MUST MAKE EVERY EFFORT TO INCREASE THE ECONOMIC LOT OF OUR PEOPLE BY LOWERING THE COST OF LIVING WHICH IS PRESENTLY ONE OF THE HIGHEST IN THE WORLD.

IN FINAL PASSING, MR. CHAIRMAN, FROM MY PERSPECTIVE, THE BOTTOMLINE IS THAT THE LEVEL OF THE MULTI-LEVEL FEDERAL/NMI FUNDS CONTAINED IN THIS FUNDING AGREEMENT IS FAR LESS THAN ANY REASONABLE ESTIMATE OF THE REQUIRED AMOUNT FOR BASIC INFRASTRUCTURE IMPROVEMENTS THAT THE NMI SHOULD HAVE IN PLACE AND OPERATING NOW, AND NOT TOMORROW. AS NEWCOMERS TO THE AMERICAN POLITICAL FAMILY, I KNOW THAT WE ARE NOT EXPECTED TO BE FLAWLESS; TO NOT MAKE MISTAKES; OR TAKE MISSTEPS. AND ADMITTEDLY, WE

HAVE OCCASIONALLY ERRED IN OUR STRIDES TO BECOME RESPONSIBLE AMERICANS. HOWEVER, AS A CONCERNED CHAMORRO HOLDING A U.S. PASSPORT AND THE POSITION OF PRESIDENT OF THE NMI SENATE, LET ME ASSURE YOU THAT THE FEELING IS MUTUAL THAT WE MAKE THIS COMMONWEALTH A BETTER PLACE TO LIVE IN FOR ALL AND TO ASSIST OUR RESIDENTS IN BECOMING BETTER AND MORE RESPONSIBLE AMERICANS.

I IMPORE YOU TO JOIN US IN OUR EFFORTS TO ATTAIN THESE GOALS AND THANK YOU AGAIN FOR THIS OPPORTUNITY TO ADDRESS YOU TODAY.

AGREEMENT OF THE SPECIAL REPRESENTATIVES
ON
FUTURE UNITED STATES FINANCIAL ASSISTANCE
FOR THE NORTHERN MARIANA ISLANDS

EXHIBIT A

1986-1992

WHEREAS, under the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (Covenant) the peoples of the Northern Mariana Islands and the United States of America desire to improve their mutually beneficial relationship, and to develop the economic resources referenced in Section 701 needed to meet the financial responsibilities of local self-government in the Northern Mariana Islands; and

WHEREAS, the guaranteed annual levels of direct grant assistance will expire at the end of fiscal year 1985; and

WHEREAS, Section 704(d) of the Covenant provides that the Congress may appropriate different amounts at the end of the seven-year period of guaranteed annual direct grant assistance provided by Section 702 of the Covenant; and

WHEREAS, the Covenant provides for the appointment of special representatives of the two governments to consider and make recommendations regarding future multi-year financial assistance to the Government of the Northern Mariana Islands; and

WHEREAS, President Ronald Reagan and Governor Pedro P. Tenorio appointed such special representatives who have considered such United States future financial assistance;

NOW, THEREFORE, we, Richard T. Montoya, special representative for the President of the United States, and Pedro A. Tenorio, Benjamin T. Manglona, Gregorio C. Sablan, and Ignacio K. Quichocho, special representatives of the Governor of the Northern Mariana Islands, agree as follows:

PART I. POLICY STATEMENT

The Government of the United States and the Government of the Northern Mariana Islands mutually agree that the people of the Northern Mariana Islands will be best served by promoting economic development, lessening dependence on Federal financial assistance for government operations, and reducing the size of government, including the executive and legislative branches. Priority shall be given to maximizing capital development through the use of public and private financing techniques. The Government of the United States recognizes recent significant efforts and the future commitment on the part of the Government of the Northern Mariana Islands to achieve these objectives.

This document affirms the mutual commitment of the Government of the United States and the Government of the Northern Mariana Islands to these goals.

PART II. FUNDING

1. Full Faith and Credit. After approval of this Agreement by the Congress and the President of the United States, payments under this second multi-year financial assistance agreement shall be accorded the full faith and credit of the United States, except that the full faith

and credit for the payment of government operations funds shall be subject to the performance standards (paragraph 4 of this Part) and settlement of disputes provisions (paragraph 2 of Part III) contained in this agreement.

2. Schedule of Payments. The Government of the United States shall provide the Government of the Northern Mariana Islands \$228 million over a seven-year period, beginning October 1, 1985, and ending September 30, 1992, to be appropriated according to the following schedule:

Fiscal Year	Capital Development	Government Operations	Special Programs	Total
1986	\$ 8,466,000	\$ 17,760,000	\$1,500,000	\$ 27,726,000
1987	18,294,000	17,050,000	--	35,344,000
1988	18,000,000	16,360,000	--	34,360,000
1989	25,150,000	15,000,000	--	40,150,000
1990	20,850,000	13,000,000	--	33,850,000
1991	17,850,000	11,000,000	--	28,850,000
1992	17,390,000	10,330,000	--	27,720,000
Totals	\$126,000,000	\$100,500,000	\$1,500,000	\$228,000,000

When appropriated, funds shall be granted annually by the Department of the Interior according to such regulations as are applicable to such grants. All previous funds granted under Section 702 of the Covenant remain subject to the provisions and restrictions under which they were granted.

3. Capital Development.

a) The Government of the Northern Mariana Islands shall develop a seven-year strategic plan for capital improvement projects and economic development activities. At a minimum, eighty percent of the annual capital development funds identified in the schedule of payments (paragraph 2 of this Part) shall be obligated and expended in accordance with such plan that shall provide for essential infrastructure through capital improvement projects in the areas of power, water, sewers, roads, schools, ports and harbors, and public facilities. The balance, not to exceed a maximum of twenty percent of such annual capital development funds, shall be obligated and expended in accordance with the provisions of such plan that shall provide for economic development activities. Such plan and amendments thereto shall be submitted in accordance with Northern Mariana Islands law and mutually agreed upon by the Government of the Northern Mariana Islands and the Secretary of the Interior, or his designee. The plan shall be project specific with sufficient detail to perform cost/benefit analyses and develop financing strategies and alternatives. The Government of the Northern Mariana Islands shall establish a revolving fund, into which repayments of principal and interest from revenue-producing projects shall be deposited for financing of additional revenue-producing capital development projects. Interest earned on capital development funds before such funds are expended shall be treated as capital development funds; interest earned on moneys in the revolving fund shall become part of the revolving fund.

b) The payment of federally appropriated funds, backed by the full faith and credit of the United States, may be applied or directed by the Government of the Northern Mariana Islands (but such an application or direction by the Government of the Northern Mariana Islands shall not be a guarantee of payment by the United States, either directly or indirectly) for the repayment of debt instruments issued by the Government of the Northern Mariana Islands for capital development funds.

c) The islands of Rota and Tinian shall each receive no less than a 1/8 share and the island of Saipan shall receive no less than a 2/8 share of annualized capital improvement project funds which shall be no less than 80% of the capital development funds identified in the Schedule of Payments in paragraph 2 of this Part.

4. Government Operations. The full faith and credit of the United States for the payment of government operations funds shall be subject to fulfillment of the following performance standards during the entire seven-year period:

a) The Government of the United States shall provide \$100.5 million in operations funds over the seven-year period in the annual amounts set forth in the schedule of payments. These annual funds shall be provided according to a separate payment schedule developed by the Government of the Northern Mariana Islands consistent with Federal regulations.

b) The Government of the United States, through its designee, subject to the availability of funds, and at the request of and in cooperation with the Government of the Northern Mariana Islands, shall provide technical assistance, including but not limited to the following purposes: (i) the development and operation of a financial management system, (ii) the development of a plan for the transfer to the private sector by the Government of the Northern Mariana Islands of those functions that can be privately owned and operated, (iii) the promotion of government efficiency, (iv) the improvement of Northern Mariana Islands business development capability, (v) the promotion of business development and marketing by the Government of the Northern Mariana Islands, and (vi) assistance in bonding and financing techniques to be used in capital development.

c) Representatives of both governments shall meet at least biennially to evaluate and discuss progress and achievements made under this agreement.

d) The Government of the Northern Mariana Islands shall demonstrate a decreasing reliance on Federal Covenant financial assistance for government operations by reducing such assistance by an average of \$1 million a year during the seven-year period of this agreement, and by reducing the overall size of government. Capital development funds shall not be spent for government operations purposes.

e) The Government of the Northern Mariana Islands shall ensure continuation of an independent public agency that sets rates and fees for public utilities as described in Northern Mariana Islands Public Law 4-47. These services shall be fully funded, including both current expenses and long-term debt, without government subsidy through such user rates and fees by the end of the third year after this agreement is effective.

f) The Government of the Northern Mariana Islands shall ensure the continued administration of capital development funds by an autonomous public agency of the Northern Mariana Islands, as described in Northern Mariana Islands Public Law 4-49. Such administration shall include the coordination and approval of all public financing of capital improvement projects and economic development activities.

g) The Government of the Northern Mariana Islands shall obligate and expend those capital development funds to be devoted to capital improvement projects only according to definitions now contained in Northern Mariana Islands Public Law 4-46.

h) The Government of the Northern Mariana Islands, within three months after this agreement becomes effective, shall initiate a study and an implementation plan that shall ensure an actuarially sound, locally funded pension system for the Government of the Northern Mariana Islands by the end of the seven years after this agreement becomes effective. Alternative strategies to bring the pension system into actuarial balance and alternative time periods necessary to accomplish this objective shall also be analyzed. The plan shall be fully implemented within the seven years referred to above unless otherwise mutually agreed by representatives of the Government of the United States and the Government of the Northern Mariana Islands based on long-term financial considerations and sound governmental management.

i) The Government of the Northern Mariana Islands shall, within one year after this agreement becomes effective, develop a comprehensive plan for the transfer to the private sector of selected functions currently operated by the Government of the Northern Mariana Islands, and thereafter to the extent feasible, shall implement such transfers to the private sector.

5. Special Programs. The Government of the United States shall provide a one-time payment of \$1 million for the Commonwealth Health Center operational start-up costs, and \$500,000 for special technical assistance for developing a plan to fully fund the Government of the Northern Mariana Islands pension system. Should a portion of these pension study funds remain unexpended, the balance may be used for such technical assistance as the Government of the Northern Mariana Islands may determine.

PART III. CONGRESSIONAL OVERSIGHT AND REPORTING

1. Reporting. In addition to other reports and audits required by the Government of the United States, the Government of the Northern Mariana Islands shall furnish to the Congress of the United States, as part of its annual budget justification, a report on the use of the funds made available under the schedule of payments contained in this agreement. Such annual reports shall outline the achievements to date under the categories of funding (including the status of efforts to provide for capital development through the use of revenue and general obligation bonds, like instruments of public debt, and other financing techniques) and the progress of efforts to transfer selected functions to the private sector.

2. Settlement of Disputes. Should the Government of the United States believe that understandings or the performance standards of this agreement are not being met, it shall notify the Government of the

Northern Mariana Islands in writing, with the intent to resolve such issue in a mutually agreeable and expeditious manner. Should the issue not be resolved within thirty days after such notification is received, the Secretary of the Interior may propose deferral of Government of the Northern Mariana Islands operations funds pursuant to the Congressional Budget and Impoundment Control Act of 1974, (United States Public Law 93-344, 2 U.S.C. 681, et seq.).

PART IV. AMENDMENT OF THIS AGREEMENT

This agreement may be amended from time-to-time as mutually determined by the Secretary of the Interior, or his designee, and the Government of the Northern Mariana Islands, provided that the full faith and credit authorization and appropriation of the capital development funds, and the minimum shares guaranteed for Rota, Tinian and Saipan as provided in Part II, paragraph 3(c), shall not be subject to such amendment.

PART V. RECOMMENDED STATUTORY AMENDMENTS

In order to give effect to this agreement, the parties recommend that the Covenant (Public Law 94-241, 97 Stat. 1461) be amended as follows:

Be it Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That Section 2 of Public Law 94-241 (97 Stat. 1461) is amended as follows --

In Section 703, Subsection (a), after the words "Section 702" add the words "and Section 705".

In Section 704, Subsections (a), (b) and (d), after the words "Section 702" add the words "and Section 705".

In Section 704, delete Subsection (c), and redesignate Subsection (d) as Subsection (c).

After Section 704 add a new Section 705, as follows:

"Section 705. Enactment of this section by the United States Congress and approval by the President shall constitute a commitment and pledge of the full faith and credit of the United States for the payment, as well as an authorization for the appropriation, of \$228 million at guaranteed annual amounts of direct grant assistance to the Government of the Northern Mariana Islands for an additional period of seven fiscal years after the expiration of the initial seven-year period specified in Section 702, which assistance shall be provided according to the Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands, executed July 10, 1985, between the special representative of the President of the United States and the special representatives of the Governor of the Northern Mariana Islands. The islands of Rota and Tinian shall each receive no less than a 1/8 share and the island of Saipan shall receive no less than a 2/8 share of annualized capital improvement project funds, which shall be no less than 80% of the capital development funds identified in the Schedule of Payments in paragraph 2 of Part II of the Agreement of the Special Representatives."

In Section 1003, Subsection (b), delete "Article VII" and insert in lieu thereof "Section 701-704"; redesignate Subsection (c) as Subsection (d); and add a new Subsection (c) as follows:

(c) Section 705 will become effective on October 1, 1985.

Signed at Saipan, Northern Mariana Islands on the tenth day of July, 1985.

FOR THE UNITED STATES OF AMERICA:

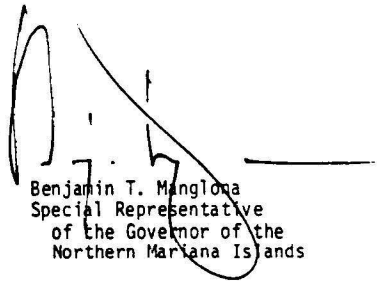


Richard T. Montoya
Special Representative of the President of
the United States

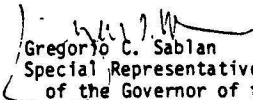
FOR THE NORTHERN MARIANA ISLANDS:



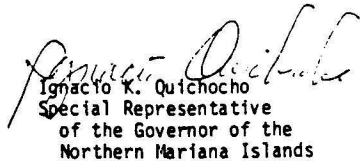
Pedro A. Tenorio
Special Representative
of the Governor of the
Northern Mariana Islands



Benjamin T. Manglona
Special Representative
of the Governor of the
Northern Mariana Islands



Gregorio C. Sablan
Special Representative
of the Governor of the
Northern Mariana Islands



Ignacio K. Quichocho
Special Representative
of the Governor of the
Northern Mariana Islands



United States Department of the Interior



OFFICE OF THE SECRETARY
Washington, D.C. 20240

January 19, 1993

The Honorable Thomas S. Foley
Speaker
U.S. House of Representatives
Washington, D.C. 20215

Dear Mr. Speaker:

Enclosed are the Agreement of the Special Representatives on Future Federal Financial Assistance for the Northern Mariana Islands, and a draft bill "To authorize financial assistance for the Northern Mariana Islands, and for other purposes."

We recommend that the bill be referred to the appropriate committee for consideration, and that it be enacted.

Section 702 of the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America, approved by the Congress in Public Law 94-241, provides that the President and Governor of the Northern Mariana Islands shall appoint special representatives to consider and make recommendations regarding future multi-year financial assistance to the Northern Mariana Islands. President George Bush and Governor Lorenzo I. De Leon Guerrero, respectively, appointed special representatives. On December 17, 1992, the special representatives completed the signing of the Agreement of the Special Representatives on Future Federal Financial Assistance for the Northern Mariana Islands (hereinafter referred to as "agreement").

Subject to approval by the Congress, the agreement provides the framework for Federal financial assistance for the Northern Mariana Islands for a third seven-year period, fiscal years 1994 through 2000. The United States' full faith and credit guarantee would continue to be applicable to the negotiated \$120 million in Federal funding for the Northern Mariana Islands. This third agreement differs from the previous two agreements in two significant respects -- the funding would be devoted exclusively to capital infrastructure development, and over the period of the agreement there will be a 50/50 match between Federal and local funds.

Fueled by rapid economic growth, the Government of the Northern Mariana Islands has experienced striking increases in local revenue over the past decade. Federal funding of government operations, therefore, is not required. This rapid economic growth, however, has severely taxed the physical infrastructure

of the Commonwealth. Thus, Federal assistance, in declining amounts over the seven-year period of the agreement, is required to fund capital infrastructure construction.

The effect of this draft bill on the deficit is:

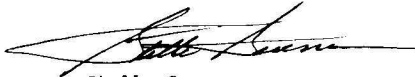
	Fiscal Years (in millions of dollars)					
	1994	1995	1996	1997	1998	1994-1998
Outlays	-6	-7	-8	-10	-12	-43

The Omnibus Budget Reconciliation Act (OBRA) requires that all revenue and direct spending legislation meet a pay-as-you-go requirement. That is, no such bill should result in an increase in the deficit; and if it does, it will trigger a sequester if it is not fully offset. This draft bill would decrease direct spending. Considered alone, it meets the pay-as-you-go requirement of OBRA.

Enactment of the draft legislation is essential for fulfillment of the agreement and meeting the infrastructure needs of the Commonwealth. We urge early action by the new Congress.

The Office of Management and Budget has advised that there is no objection to the submission of this draft bill from the stand point of the Administration's program.

Sincerely,



Stella Guerra
Assistant Secretary
Territorial and International Affairs

A B I L L

To authorize financial assistance for the Northern Mariana Islands, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled. That the Act of March 24, 1976 (Public Law 94-241; 90 Stat. 263), as amended, is amended by adding the following new section at the end thereof:

" Sec. 6. Pursuant to section 701 of the foregoing Covenant, enactment of this section shall constitute a commitment and pledge of the full faith and credit of the United States for the payment of \$120 million of guaranteed amounts of direct grant assistance to the Government of the Northern Mariana Islands for capital infrastructure construction for the seven fiscal years 1994 through 2000, which assistance shall be provided according to the Agreement of the Special Representatives on Future Federal Financial Assistance of the Northern Mariana Islands, executed on December 17, 1992 between the special representative of the President of the United States and the special representatives of the Governor of the Northern Mariana Islands."

PROPOSED

AGREEMENT OF THE SPECIAL REPRESENTATIVES

ON

FUTURE FEDERAL FINANCIAL ASSISTANCE

FOR THE NORTHERN MARIANA ISLANDS

1994 - 2000

WHEREAS, under the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (Covenant), the Government of the United States (Federal Government) and the Government of the Commonwealth of the Northern Mariana Islands (Commonwealth Government) desire to further their mutually beneficial relationship through the development of the economic resources of the Commonwealth, which, over the next seven years, are expected to meet the financial needs of local self-government; and

WHEREAS, the current guaranteed annual levels of direct grant assistance expire at the end of fiscal year 1992; and

WHEREAS, the Covenant provides for the appointment of special representatives to consider and make recommendations regarding future Federal financial assistance to the Commonwealth Government; and

WHEREAS, President George Bush and Governor Lorenzo I. De Leon Guerrero appointed such special representatives who have considered such future Federal financial assistance;

NOW, THEREFORE, we, Stella Guerra, Special Representative of the President of the United States, and Benjamin T. Mangiona, Pedro R. Deleon Guerrero, Joseph S. Inos, Eloy S. Inos, David M. Sablan, and Mike W. Naholowaa, Special Representatives of the Governor of the Commonwealth of the Northern Mariana Islands, agree as follows:

PART I. POLICY STATEMENT

The Special Representatives mutually agree that economic growth in the Commonwealth of the Northern Mariana Islands has progressed so that the Commonwealth Government is now capable of fully financing its government operations, and will phase in local financing for all capital development projects according to the schedule in this agreement, with the goal of self-reliance by the end of the period of this agreement.

PART II. FUNDING

A. Guaranteed Funding Schedule. Subject to the minimum matching contributions by the Commonwealth Government, the Federal Government pledges the full faith and credit of the United States to the appropriation of \$120 million in capital development funding in accordance with the following schedule:

Fiscal Year	Federal Contribution	Commonwealth Contribution	Matching Ratio	Commonwealth Capital Development Fund
1994	22,000,000	9,000,000	71/29	31,000,000
1995	21,000,000	14,000,000	60/40	35,000,000
1996	20,000,000	16,000,000	56/44	36,000,000
1997	18,000,000	18,000,000	50/50	36,000,000
1998	16,000,000	20,000,000	44/56	36,000,000
1999	14,000,000	21,000,000	40/60	35,000,000
2000	<u>9,000,000</u>	<u>22,000,000</u>	<u>29/71</u>	<u>31,000,000</u>
TOTAL	120,000,000	120,000,000	50/50	240,000,000

The Special Representatives agree that the final appropriated amount for fiscal year 1993 will be granted in accordance with the terms described in Parts II and III of this agreement, except that the matching contributions by the Commonwealth Government will be 25 percent of the Federal contribution.

The Special Representatives agree that the interest earnings on funds contributed under the Second Financing Agreement may be applied to the total of the Commonwealth Government matching requirements for fiscal years 1993 through 1995. These earnings will be made available when the terms of the grant pledge agreements entered into under the Second Financing Agreement are met.

Any non-Federal funds appropriated by the Legislature in the internal Commonwealth budget process constitutes local revenue for the purpose of complying with the Commonwealth Government contribution requirements for specific projects delineated in Part II B of this Agreement.

B. Capital Development. The Commonwealth Government shall develop and maintain an integrated list of priorities for new and reconstructed capital infrastructure to serve the residents of the Commonwealth. Each listed project shall have a cost estimate with identified sources of financing. Projects may be phased over two or more years. Such list may be revised as deemed appropriate by the Commonwealth Government. Copies of the list and any revision shall be submitted to the Assistant Secretary of the Interior for Territorial and International Affairs.

Projects shall be funded in accordance with an annual grant that specifies the required Federal Government and Commonwealth Government contributions for the projects.

The islands of Rota and Tinian shall each receive no less than a 1/8th share and the island of Saipan shall receive no less than a 2/8th share of the total Commonwealth Capital Development Fund.

C. Debt Financing. The Federal contribution provided in accordance with this agreement may be applied or directed by the Commonwealth Government for the repayment of debt instruments issued by the Commonwealth Government for purposes of capital development, subject to the approval of the Assistant Secretary of the Interior for Territorial and International Affairs.

PART III. ADMINISTRATIVE PROVISIONS

A. Reporting and Accountability. The Federal financial assistance provided under this agreement shall be subject to applicable Federal grant regulations (the Common Rule: 43 CFR 12a, OMB Circular A-102, and OMB Circular A-128).

Prior to the contribution of funds under this agreement, the Federal Government and the Commonwealth Government shall enter into a Subsidiary Agreement on Audit Resolution describing the procedures for resolution and follow-up of all audit recommendations related to financial assistance provided pursuant to Section 702 of the Covenant.

B. Performance Review. Prior to the beginning of the third and fifth years of this agreement, representatives of the Commonwealth Government and the Federal Government shall meet to review progress in carrying out this agreement.

C. Prerogative. This agreement may be amended by mutual agreement in writing, or may be voided by either party prior to ratification by the Congress. In recognition of mutual compromise in exhaustive discussions leading to this agreement, and the Governor of the Commonwealth shall communicate his endorsement of this agreement to the Congress concurrently with the Administration's formal transmission and endorsement.

Signed at San Francisco, California on the 17th day of December, 1992.

FOR THE UNITED STATES OF AMERICA:

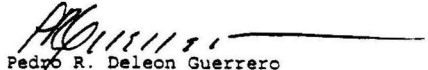


Stella Guerra
Special Representative of the President

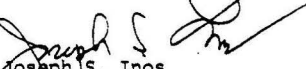
FOR THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS:



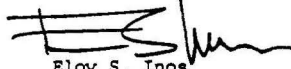
Benjamin T. Mangiona
Special Representative of the
Governor of the Commonwealth
of the Northern Mariana Islands



Pedro R. Deleon Guerrero
Special Representative of the
Governor of the Commonwealth
of the Northern Mariana Islands



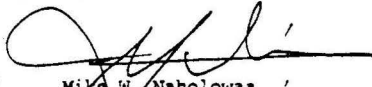
Joseph S. Inos
Special Representative of the
Governor of the Commonwealth
of the Northern Mariana Islands



Eloy S. Inos
Special Representative of the
Governor of the Commonwealth
of the Northern Mariana Islands



David M. Sablan
Special Representative of the
Governor of the Commonwealth
of the Northern Mariana Islands



Mike W. Naholowaa
Special Representative of the
Governor of the Commonwealth
of the Northern Mariana Islands



Commonwealth of the Northern Mariana Islands
Office of the Governor
 Capitol Hill, Saipan MP/USA 96950



3 DEC 1992

Phone: (670) 322-5091/2/3
 Telefax: (670) 322-5096/99

The Honorable Stella Guerra
 Assistant Secretary
 Territorial and International Affairs
 U.S. Department of the Interior
 18th & C Street, N.W.
 Washington, DC 20240

Dear Ms. Guerra:

Re: Memorandum of Understanding - Review of Labor, Alien and Tax Issues

I have signed the MOU telefaxed to us with your letter of November 25, 1992. If you would be so good as to send me a copy of this MOU with your original signature, I believe we can complete the formal steps to execution.

By this memorandum, OTIA and the Commonwealth take a positive step toward analysis of the CNMI economy. This economy has produced unprecedented prosperity for the Northern Marianas. It has allowed us to export more than we import and to maintain a favorable balance of trade with Japan. It has relieved American taxpayers of the burden to support operations of our local government. It has allowed a dramatic increase in internally generated revenues. We have been able to shrink the size of local government relative to the private sector. These accomplishments would be the envy of other island areas and, for that matter, the Mainland U.S. economy.

Our robust economy has also allowed us to provide jobs, housing, education, and medical attention to our Micronesian neighbors. The combined range of businesses in the Commonwealth, in 1990, reported the highest ever total gross revenues. Bank deposits in 1990 were almost four times the amount of loans granted and lending activity during this same period increased by 14 percent. Economically, the CNMI has been a star in the insular area constellation.

Yet, there have been concerns and speculations about elements of our successful economy. Most of these speculations come from outside the Commonwealth. But we, too, have desired a more detailed cost/benefit analysis on the effect of non-U.S. citizens on our society and government services. It's an unchallengeable fact that we cannot drive a modern economy without resorting to foreign labor. Because of our small indigenous population, we simply lack the necessary local labor force. If forced to rely on our own population to supply labor needs, hopes for economic self-sufficiency vanish. We would be permanent welfare wards of the U.S. taxpayer. Since a foreign labor force will be a fact of life for us, we need to more fully understand its impact.

This unprecedented partnership effort will launch a joint Federal-CNMI examination of key elements of our economy: wages, alien impact, taxes. This historic agreement with the Department of the Interior demonstrates the CNMI's commitment to work in full cooperation with the Federal Government. By this MOU, we show that we are

open to federal scrutiny, committed to work with Washington to get to the bottom of labor and financial concerns, and open minded for reform.

Thank you so much for your cooperation. Best regards and the very best to you this holiday season.

Sincerely,



LORENZO I. DE LEON GUERRERO
Governor

Enclosure

cc: CNMI Lt. Governor
CNMI Resident Representative to the United States
CNMI Senate President
CNMI House Speaker
CNMI Director of Finance
CNMI Director of Commerce and Labor
CNMI Attorney General
OTIA, CNMI Field Representative

MEMORANDUM OF UNDERSTANDING
BETWEEN
OFFICE OF TERRITORIAL AND INTERNATIONAL AFFAIRS
DEPARTMENT OF THE INTERIOR
AND
GOVERNMENT OF THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
FOR
REVIEW OF LABOR AND ALIEN ISSUES
AND
REVIEW OF TAX ISSUES

The Office of Territorial and International Affairs (OTIA) and the Government of the Commonwealth of the Northern Mariana Islands (CNMI) agree to conduct a review of labor and alien issues and a review of tax issues as they affect the CNMI and the Federal government.

REVIEW OF LABOR AND ALIEN ISSUES

Basic labor information for the CNMI is needed in order to properly analyze wage and alien issues. The parties, therefore, agree to a three-stage review as follows:

- (1) Basic data will be collected on current wages and benefits in all CNMI industries,
- (2) The data will be available to assist the process of setting minimum wage rates in the CNMI, and
- (3) The data will be used in the preparation of a cost/benefit analysis of the effect of non-United States citizens on the economy of the CNMI.

REVIEW OF TAX ISSUES

There has been much speculation about the actual effect of the CNMI system of income taxation, how it affects taxpayers in various income brackets and how much revenue it raises in comparison to the application of the Internal Revenue Code (IRC). The parties agree to a three-stage review as follows:

- 1) Observing all confidentiality requirements of local and Federal law and regulation, we will ask the Internal Revenue Service to review a representative sample of CNMI tax returns in a way similar to the Internal Revenue Service (IRS) Taxpayer Compliance Measurement Program. These data will enable us to determine how well taxpayers are meeting the requirements of CNMI and Federal law. They will also provide the raw data for the next stage of the review.
- 2) A review will be performed measuring receipts under the CNMI system of income taxation (wage and salary tax, gross receipts tax, and mirror IRS tax with rebate) and measuring what receipts would be under a pure mirror IRC tax alone, without rebate.

- 3) A review will be made of the entire CNMI tax structure, comparing it to other jurisdictions and to CNMI revenue needs.

To the extent that the enumerated work is accomplished under a separate contract by the CNMI and available for use in this review of taxation, it need not be duplicated.

COOPERATION

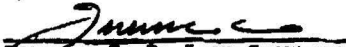
For the collection of data for these reviews, the assistance and full cooperation of the CNMI Government officials will be essential.

The Office of Territorial and International Affairs will provide funding for the review of labor and alien issues and review of tax issues when the statements of work are completed. The Commonwealth Government may augment this funding should it need additional, related information.

The scope of work for all phases of the reviews shall be jointly agreed between the CNMI and OTIA. All contracts for needed consulting services shall be awarded by the CNMI pursuant to the procurement regulations of the CNMI. Final selection of contractors shall be made by the CNMI in consultation with OTIA.

Completion of the reviews contemplated by this MOU shall not be a condition precedent to approval of the Covenant section 702 agreement.

Signed this _____, 1992.


Lorenzo I. De Leon Guerrero
Governor
Commonwealth of the
Northern Mariana Islands


Stella Guerra
Assistant Secretary
Territorial and
International Affairs
Department of the Interior



United States Department of the Interior



OFFICE OF THE SECRETARY
Washington, D.C. 20240

November 25, 1992

The Honorable Lorenzo I. De Leon Guerrero
Governor
Commonwealth of the Northern Mariana Islands
Saipan, Northern Mariana Islands 96950

Dear Governor Guerrero:

I appreciated receiving your suggested changes to the Memorandum of Understanding (MOU) I sent on October 20, 1992.

Most of your suggestions are acceptable. I have three modifications, however. First, in paragraph one you deleted the last line, which read "and relations between the CNMI and the Federal government." On re-reading the material in question, I surmise that you may have interpreted this language as involving possible changes in the Covenant. This was not the purpose of the language in question. As I stated in the July 30 hearing, I believe that any policy changes deemed desirable can be accomplished without changing the Covenant. In the same statement, however, I said that (in addition to Commonwealth issues) Federal issues may be involved. Thus, the Federal government should be mentioned. The reference to "relations," which might be misconstrued, is removed.

A second modification appears before the enumeration in the tax section. It is merely the stylistic addition of "The parties agree to a three-stage review as follows:"

The third modification is a deletion in the last paragraph under "Cooperation" of the words "or support." While I intend to fully support the draft Covenant section 702 agreement, the agreement specifically allows withdrawal of that support if untoward activity occurs. Thus, removal of the words "or support" puts the MOU in harmony with the Covenant section 702 agreement without compromising support for that agreement.

In the interest of time and believing that these modifications are minor, I have signed and enclosed a copy of the new Memorandum of Understanding. With your signature, we can initiate the process in a timely manner.

Sincerely,

Stella Guerra
Assistant Secretary
Territorial and International Affairs

Enclosure



United States Department of the Interior



OFFICE OF THE SECRETARY
Washington, D.C. 20240

October 20, 1992

The Honorable Lorenzo D. L. Guerrero
Governor
Commonwealth of the Northern Mariana Islands
Saipan, Northern Mariana Islands 96950

Dear Governor Guerrero:

Covenant section 702 discussions, last winter, included the subject of a cost/benefit analysis of the presence of non-United States citizens in the Commonwealth of the Northern Mariana Islands (CNMI). This past summer, you and I discussed issues of concern to the CNMI that were being raised in the Congress: alien labor, minimum wage, taxes, and Federal funding. You may recall that I committed the Department of the Interior to a review of NMI labor and alien issues and a review of NMI tax issues. In the last Covenant section 702 discussions, I reminded Lieutenant Governor Manglona of the commitment. Follow-through on the commitment may have important consequences for next year's congressional deliberations on funding the new 702 agreement.

Because the fate of the 702 agreement may hang in the balance, and because long lead time is necessary for gathering information, I believe it critical that we commence work soon. In order to avoid delay, I suggest that the following actions might expedite the process:

- (1) signing of the enclosed memorandum of understanding which outlines the general principles for the review of labor and alien issues and the review of tax issues, and
- (2) meeting in November (with principal staff responsible for labor, alien and tax issues) to finalize details for the review of labor and alien issues and the review of tax issues.

Delay in our showing a commitment to action, could elicit change that may be viewed by persons in the CNMI as contrary to the Commonwealth's best interests.

REVIEW OF LABOR AND ALIEN ISSUES

In order to obtain basic data regarding employment and wages in the CNMI, a full review of current wages and benefits in all CNMI industries must be performed. Under current law, the United States Department of Labor performs such a review biennially in American Samoa in preparation for the meeting of

an industry committee to set minimum wage rates for American Samoa. In the past, similar law and procedures applied to the Commonwealth of Puerto Rico. A copy of the United States Department of Labor report "Various Industries in American Samoa" is enclosed for your information along with the questionnaire used to elicit information from firms for the report. I am not at this time proposing application to the CNMI of the federally mandated procedure for setting the minimum wage. However, I believe the preparation of a report similar to the enclosed will provide essential information for the Commonwealth and Federal governments.

We expect to have assistance from the Department of Labor and will need the full cooperation and assistance of the CNMI government in collecting the necessary data for the report.

A second step in the review of labor and alien issues will be the preparation of a cost/benefit analysis of the affect of aliens (including laborers, tourists, and Micronesians) on the economy of the CNMI. I have reviewed the technical assistance funding request enclosed with your letter of July 23, 1992: a proposal to perform a cost/benefit study on the impact of non-United States citizens on the economy of the Commonwealth of the Northern Mariana Islands. The proposal would address the issues, but is considerably broader than the study we have discussed. Its estimated cost is well in excess of the amount we believe is adequate for addressing House committee issues.

I enclose a copy of an alternative draft statement of work for the cost/benefit study. The study would use base data obtained in the review of wages described above. It would not include detailed economic planning and projections, legal analysis or draft legislation. If you feel that it would be useful also to prepare a development plan and draft legislation and regulations based on the study, you may want to prepare, additional provisions for the scope of work to be funded by your government. Any contract paid in whole or in part out of OTIA technical assistance funding must be let under competitive bidding procedures.

At the meeting I propose, we can discuss technical assistance for training CNMI immigration and labor personnel, and its timing in relation to the review of labor and alien issues.

REVIEW OF TAX ISSUES

The second issue that will require extensive review is taxation. There is much interest, in the Congress as well as the Administration, in the degree to which the Commonwealth has met the goal expressed in Covenant section 701 "to develop the economic resources needed to meet the financial responsibilities of local self-government."

The cornerstone of the system of raising revenues to meet these responsibilities is the income tax. The Tax Reform Act of 1986 contained a provision permitting American Samoa, Guam and the Northern Marianas to replace the Internal Revenue Code (IRC) applied as a local tax with a locally legislated income tax. Each jurisdiction could implement the Tax Reform Act through an agreement with the United States Treasury involving cooperation and exchange of information to increase efficiency and prevent avoidance and evasion of taxes. Any new tax system is required to raise an equivalent amount of revenue to that raised under current law. The CNMI has not implemented this provision.

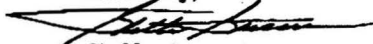
It is clear that, in 1986, Congress expressed a strong preference for, but did not require, individual jurisdictions to adopt tax systems that would be better tailored to their local economies and the needs of their peoples than the mirror code. There also was an implicit congressional and executive expectation that most jurisdictions would avail themselves of this opportunity.

At this time there is little information available in the United States on the operation of the CNMI tax system. This lack of information, coupled with continued CNMI use of the mirror code, has led to congressional and executive concerns about the administration and equity of the CNMI tax system and the continued appropriateness of the mirror code for the CNMI economy. For this reason we believe now is the appropriate time for a review of the CNMI tax system.

This proposed review of the CNMI system would be tailored to address the issues of concern, and would be conducted with the aid of personnel from the Treasury Department. The goal of the review would be for all interested parties to reach a better understanding of the system. The review would provide a framework in which we could evaluate the system and then propose and ultimately implement changes that we agreed were necessary and beneficial to the people of the CNMI. This review would be coordinated with any ongoing tax studies that your government is now conducting in order to ensure a complimentary effort.

I enclose a memorandum of understanding that would get the process underway. The memorandum should provide a firm footing for the November meeting I propose.

Sincerely,



Stella Guerra
Assistant Secretary
Territorial and International Affairs

Enclosure

Covenant Law
P.L. 94-241 (1976)

**"ARTICLE VII
"UNITED STATES FINANCIAL
ASSISTANCE**

"Section 701. The Government of the United States will assist the Government of the Northern Mariana Islands in its efforts to achieve a progressively higher standard of living for its people as part of the American community and to develop the economic resources needed to meet the financial responsibilities all income taxes derived from the Northern Mariana Islands, the proceeds of all taxes collected under the internal revenue laws of the United States on articles produced in the Northern Mariana Islands and transported to the United States, its territories or possessions, or consumed in the Northern Mariana Islands, the proceeds of any other taxes which may be levied by the Congress on the inhabitants of the Northern Mariana Islands, and all quarantine, passport, immigration and naturalization fees collected in the Northern Mariana Islands, except that nothing in this Section shall be construed to apply to any tax imposed by Chapters 2 or 21 of Title 26, United States Code.

"Section 704. (a) Funds provided under Section 702 not obligated or expended by the Government of the Northern Mariana Islands during any fiscal year will remain available for obligation or expenditure by that Government in subsequent fiscal years for the purposes for which the funds were appropriated.

"(b) Approval of this Covenant by the United States will constitute an authorization for the appropriation of a pro-rata share of the funds provided under Section 702 for the period between the effective date of this Section and the beginning of the next succeeding fiscal year.

"(c) The amounts stated in Section 702 will be adjusted for each fiscal year by a percentage which will be the same as the percentage change in the United States Department of Commerce composite price index using the beginning of Fiscal Year 1975 as the base.

"(d) Upon expiration of the seven year period of guaranteed annual direct grant assistance provided by Section 702, the annual level of payments in each category listed in Section 702 will continue until Congress appropriates a different amount or otherwise provides by law.

of local self-government. To this end, the United States will provide direct multi-year financial support to the Government of the Northern Mariana Islands for local government operations, for capital improvement programs and for economic development. The initial period of such support will be seven years, as provided in Section 702.

"Section 702. Approval of this Covenant by the United States will constitute a commitment and pledge of the full faith and credit of the United States for the payment, as well as an authorization for the appropriation, of the following guaranteed annual levels of direct grant assistance to the Government of the Northern Mariana Islands for each of the seven fiscal years following the effective date of this Section:

"(a) \$8.25 million for budgetary support for government operations, of which \$250,000 each year will be reserved for a special education training fund connected with the change in the political status of the Northern Mariana Islands;

"(b) \$4 million for capital improvement projects, of which \$500,000 each year will be reserved for such projects on the Island of Tinian and \$500,000 each year will be reserved for such projects on the Island of Rota; and

"(c) \$1.75 million for an economic development loan fund, of which \$500,000 each year will be reserved for small loans to farmers and fishermen and to agricultural and marine cooperatives, and of which \$250,000 each year will be reserved for a special program of low interest housing loans for low income families.

"Section 703. (a) The United States will make available to the Northern Mariana Islands the full range of federal programs and services available to the territories of the United States. Funds provided under Section 702 will be considered to be local revenues of the Government of the Northern Mariana Islands when used as the local share required to obtain federal programs and services.

"(b) There will be paid into the Treasury of the Government of the Northern Mariana Islands, to be expended to the benefit of the people thereof as that Government may by law prescribe, the proceeds of all customs duties and feder-

P.L. 99-396

"Sec. 3. Pursuant to section 701 of the foregoing Covenant, enactment of this section shall constitute a commitment and pledge of the full faith and credit of the United States for the payment of \$228 million at guaranteed annual amounts of direct grant assistance for the Government of the Northern Mariana Islands for an additional period of seven fiscal years after the expiration of the initial seven-year period specified in section 702 of said Covenant, which assistance shall be provided according to the schedule of payments contained in the Agreement of the Special Represent-

atives on Future United States Financial Assistance for the Government of the Northern Mariana Islands, executed July 10, 1985, between the special representative of the President of the United States and the special representatives of the Governor of the Northern Mariana Islands. The Islands of Rota and Tinian shall each receive no less than a 1/4 share and the island of Saipan shall receive no less than a 1/4 share of annualized capital improvement project funds, which shall be no less than 80 per centum of the capital development funds identified in the schedule of payments in paragraph 2 of part II of the Agreement of the Special Representatives. Funds shall be granted according to such regulations as are applicable to such grants.

"Sec. 4. (a) Section 704(c) of the foregoing Covenant shall not apply to the Federal financial assistance which is provided to the Government of the Northern Mariana Islands pursuant to section 3 of this Act.

"(b) Upon the expiration of the period of Federal financial assistance which is provided to the Government of the Northern Mariana Islands pursuant to section 3 of this Act, payments of direct grant assistance shall continue at the annual level provided for the last fiscal year of the additional period of seven fiscal years until Congress otherwise provides by law.

"Sec. 5. Should the Secretary of the Interior believe that the performance standards of the agreement identified in section 3 of this Act are not being met, he shall notify the Government of the Northern Mariana Islands in writing with the intent to resolve such issue in a mutually agreeable and expeditious manner and notify the Committee on Interior and Insular Affairs of the House of Representatives and the Committee on Energy and Natural Resources of the Senate. Should the issue not be resolved within thirty days after the notification is received by the Government of the Northern Mariana Islands, the Secretary of the Interior may request authority from Congress to withhold payment of an appropriate amount of the operations funds identified in the schedule of payments in paragraph 2 of part II of the Agreement of the Special Representatives for a period of less than one year but no funds shall be withheld except by Act of Congress."



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Memorandum

July 15, 1992

TO : House Interior and Insular Affairs Committee
Attention: Virginia Sablan

FROM : David L. Brumbaugh
Specialist in Public Finance
Economics Division

SUBJECT : The Northern Marianas' Tax System and a Pure "Mirror"
System: Additional Hypothetical Tax Liabilities

This memorandum responds to your request for a calculation of hypothetical tax liabilities under the current tax system in place in the Commonwealth of the Northern Marianas Islands (CNMI) and under a system that mirrors Federal income taxes without imposing additional taxes or granting rebates. As discussed in our telephone conversations, the calculations are made for a number of specified income levels, family situations, and filing statuses. Also, the calculations assume all income is from wages and salaries and is earned in the CNMI.

In our recent telephone conversation, you also requested that we calculate hypothetical tax liabilities for a person who is assumed to earn the Marianas' minimum wage (\$2.15 per hour, with "time and a half" for weekly hours that exceed 40) and who works 13 hours per day, 7 days a week, and 52 weeks a year. This calculation is contained in the last chart below (chart 4). Note that we make no judgement about whether or not the resulting annual salary is or is not typical (or even possible) for a wage earner in the Marianas.

CHART 1. Tax Liability of a Hypothetical CNMI Taxpayer under Current Law and a Pure Mirrored System at Selected Income Levels (Married Couple with Two Children Filing a Joint Return and Claiming the Standard Deduction)			
Pure Mirrored Income Tax			
Wages and Salaries	\$15,000	\$21,460	\$25,000
Personal Exemptions (4): 4 X \$2,150	-8,600	-8,600	-8,600
Standard Deduction: \$5,700	<u>-5,700</u>	<u>-5,700</u>	<u>-5,700</u>
Taxable Income	\$700	\$7,160	\$10,700
Tax Before Credits	\$105	\$1,074	\$1,605
Earned Income Credit	<u>-769</u>	<u>0</u>	<u>0</u>
Total Tax or Refund	\$664 (Refund)	\$1,074	\$1,605
Effective Tax Rate	-4.4%	5.0%	6.4%
Present Law: Wage and Salary Tax plus Mirrored Tax with Rebates			
Wages and Salaries	\$15,000	\$21,460	\$25,000
CNMI Wage and Salary Tax	\$600	\$1,073	\$1,500
Mirrored Tax (without EITC refund) + Wage and Salary Tax	\$600	\$2,147	\$3,105
Credit of Wage and Salary Tax against Mirrored Tax	0	-1,073	-1,500
Rebate: 95% X Excess of Mirrored Tax over the Wage and Salary Tax	<u>0</u>	<u>-1</u>	<u>-100</u>
Final Tax After Credits and Rebates	\$600	\$1,073	\$1,505
Effective Tax Rate	4.0%	5.0%	6.0%

CHART 2. Tax Liability of a Hypothetical CNMI Taxpayer under Current Law and a Pure Mirrored System at Selected Income Levels (Married Couple with Four Children Filing a Joint Return and Claiming the Standard Deduction)			
Pure Mirrored Income Tax			
Wages and Salaries	\$30,000	\$34,888	\$40,000
Personal Exemptions (6): 6 X \$2,150	-12,900	-12,900	-12,900
Standard Deduction: \$5,700	-5,700	-5,700	-5,700
Taxable Income	\$11,400	\$16,288	\$21,400
Tax Before Credits	\$1,710	\$2,443	\$3,210
Earned Income Credit	0	0	0
Total Tax or Refund	\$1,710	\$2,443	\$3,210
Effective Tax Rate	5.7%	7.0%	8.0%
Present Law: Wage and Salary Tax plus Mirrored Tax with Rebates			
Wages and Salaries	\$30,000	\$34,888	\$40,000
CNMI Wage and Salary Tax	\$1,800	\$2,442	\$2,800
Mirrored Tax (without EITC refund) + Wage and Salary Tax	\$3,510	\$4,885	\$6,010
Credit of Wage and Salary Tax against Mirrored Tax (Cannot Exceed Mirrored Tax)	-1,710	-2,442	-2,800
Rebate: 95% X Excess of Mirrored Tax over the Wage and Salary Tax	0	-1	-390
Final Tax After Credits and Rebates	\$1,800	\$2,442	\$2,820
Effective Tax Rate	6.0%	7.0%	7.1%

CHART 3. Tax Liability of a Hypothetical CNMI Taxpayer under Current Law and a Pure Mirrored System at Selected Income Levels			
(Single Person with No Dependents Claiming the Standard Deduction)			
Pure Mirrored Income Tax			
Wages and Salaries	\$6,000	\$7,577	\$10,000
Personal Exemptions (1): 1 X \$2,150	-2,150	-2,150	-2,150
Standard Deduction: \$3,400	-3,400	-3,400	-3,400
Taxable Income	\$450	\$2,027	\$4,450
Tax Before Credits	\$68	\$304	\$668
Earned Income Credit	0	0	0
Total Tax	\$68	\$304	\$668
Effective Tax Rate	1.1%	4.0%	6.7%
Present Law: Wage and Salary Tax plus Mirrored Tax with Rebates			
Wages and Salaries	\$6,000	\$7,577	\$10,000
CNMI Wage and Salary Tax	\$180	\$303	\$400
Mirrored Tax (without EITC refund) + Wage and Salary Tax	\$240	\$607	\$1,068
Credit of Wage and Salary Tax against Mirrored Tax (Cannot Exceed Mirrored Tax)	-68	-303	-400
Rebate: 95% X Excess of Mirrored Tax over the Wage and Salary Tax	0	-1	-254
Final Tax After Credits and Rebates	\$180	\$303	\$414
Effective Tax Rate	3.0%	4.0%	4.1%

CHART 4. Tax Liability of a Hypothetical CNMI Taxpayer under Current Law and a Pure Mirrored System: \$13,025 Annual Wages (Single Person, No Dependents Claiming the Standard Deduction)			
Pure Mirrored Income Tax		Present Law: Wage and Salary Tax plus Mirrored Tax with Rebates	
Wages and Salaries	\$13,025	Wages and Salaries	\$13,025
Personal Exemption: 1 X \$2,150	-2,150	CNMI Wage and Salary (W&S) Tax	\$521
Standard Deduction: \$3,400	-3,400	Mirrored Tax + W&S Tax	\$1,642
Taxable Income	\$7,475	Credit of W&S Tax against Mirrored Tax (Cannot Exceed Mirrored Tax)	-521
Total Tax	\$1,121	Rebate: 95% X Excess of Mirrored Tax over the W&S Tax	-570
Effective Tax Rate	8.6%	Final Tax After Credits and Rebates	\$551
		Effective Tax Rate	4.2%



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Memorandum

June 17, 1992

TO : House Interior and Insular Affairs Committee

FROM : David L. Brumbaugh
Specialist in Public Finance
Economics Division

SUBJECT : The Northern Marianas' Tax System and a Pure "Mirror"
System: Hypothetical Tax Liabilities

This memorandum responds to your request for a brief description of Commonwealth of the Northern Marianas' (CNMI) tax system and a comparison of tax liabilities hypothetical taxpayers might face under that system and a system consisting exclusively of a "mirrored" U.S. Internal Revenue Code without rebates. As you requested, hypothetical tax liabilities are calculated for each income bracket of the Marianas' Wage and Salary Tax.

Section 601 of the Covenant to Establish a Commonwealth of the Northern Marianas provides, in effect, that the provisions of the U.S. Internal Revenue Code are mirrored as the Marianas' own tax system. Thus, the same tax rates, deductions, credits, and exemptions that apply in the United States apply in the CNMI.¹

But the Marianas' mirroring of the U.S. Internal Revenue Code is, in practice, far from exact. Section 602 of the Covenant permits the CNMI to impose an income tax of its own and also allows the Marianas to grant taxpayers rebates of the taxes they pay under the mirrored Internal Revenue Code laws.² And the CNMI has exercised this authority by imposing a tax on gross wages and salaries while rebating a substantial portion of the mirrored tax. The Wage and Salary Tax is imposed on a gross basis (no deductions or personal exemptions are allowed) at graduated rates that range from 0 to 9 percent. The rebate is generally 95 percent of the excess of the mirrored tax over the Wage and Salary Tax, although a smaller percentage

¹In actuality, the Covenant provides that U.S. tax laws are to apply in the Marianas as they do on Guam. Guam, in turn, mirrors the U.S. tax code.

²Taxes can only be rebated, however, on income whose source is the CNMI.

applies at extremely high income levels. We should also note that the CNMI also applies a Business Gross Revenue Tax at rates that range from 1.5 percent to 5 percent; it is subject to the same rebate rules that apply when the Wage and Salary Tax is paid.

Technically, the CNMI Wage and Salary Tax and the mirrored income tax exist side-by-side. The Wage and Salary tax, however, is allowed to be credited against the mirrored tax an individual would otherwise owe. Suppose, for example, a CNMI resident owes \$5,576 of taxes under rules mirrored from the Internal Revenue Code and \$4,000 under the CNMI's own Wage and Salary tax. The sum of the two amounts is \$9,576. But in this case -- assuming no other taxes apply -- the person could credit the Wage and Salary tax against the mirrored tax, and would owe \$1,576 in mirrored taxes before rebates (\$5,576 minus \$4,000) and \$4,000 under the Wage and Salary Tax.

But this example does not include the effect of rebates. Marianas' law provides that an individual receives a tax rebate that is generally equal to 95 percent of the mirrored tax that remains after applying the Wage and Salary Tax as a credit. To continue the example, the individual who owes \$1,576 in mirrored taxes, after credits, would receive a rebate of \$1,497 (95 percent times \$1,576). Their total tax after all credits and rebates would therefore consist of the \$4,000 Wage and Salary Tax and \$79 of the mirrored tax, for a total of \$4,079.

Chart 1, below, summarizes the forgoing example and provides a few more illustrative details about how the tax for this hypothetical taxpayer is calculated. The example assumes that the taxpayer is a married individual with two children filing a joint return. The example assumes the individual has an annual income of \$50,000, consisting exclusively of wage and salary income. The taxpayer is assumed to use the standard deduction under the mirrored Internal Revenue Code rules.

The income level in this first example is not typical of the CNMI; according to the Bureau of the Census, the median family income is \$20,644. At this lower income level, the CNMI Wage and Salary Tax of the hypothetical taxpayer is higher than the mirrored tax before credits and rebate. The taxpayer therefore receives no rebate and his total taxes are equal to his CNMI Wage and Salary Tax liability. This second example is summarized in chart 2, below. (Note that in this example, the taxpayer is assumed to qualify for a \$76 earned income credit under the mirrored tax.)

CHART 1. Tax Liability of a Hypothetical CNMI Taxpayer under Current Law: \$50,000 Income (Married Couple with Two Children Filing a Joint Return and Claiming the Standard Deduction)	
Mirrored Income Tax	
Wages and Salaries	\$50,000
Personal Exemptions (4): 4 X \$2,150	- 8,600
Standard Deduction: \$5,700	- 5,700
Taxable Income	\$35,700
Total Tax	\$5,576
CNMI Wage and Salary Tax	
Wages and Salaries	\$50,000
Total Tax at Applicable Rate (8%)	\$4,000
Effect of Credits and Rebate	
Mirrored Tax + Wage and Salary Tax	\$9,576
Credit of Wage and Salary Tax against Mirrored Tax	-4,000
Rebate: 95% X Excess of Mirrored Tax over the Wage and Salary Tax 95% X (\$5,576 - \$4,000) = \$1,497	-1,497
Final Tax After Credits and Rebates	\$4,079

CHART 2. Tax Liability of a Hypothetical CNMI Taxpayer under Current Law: \$20,644 (Median CNMI Income)	
(Married Couple with Two Children Filing a Joint Return and Claiming the Standard Deduction)	
Mirrored Income Tax	
Wages and Salaries	\$20,644
Personal Exemptions (4): 4 X \$2,150	- 8,600
Standard Deduction: \$5,700	- <u>5,700</u>
Taxable Income	\$6,344
Tax Before Credits	\$952
Earned Income Credit	- <u>76</u>
Total Tax	\$876
CNMI Wage and Salary Tax	
Wages and Salaries	\$20,644
Total Tax at Applicable Rate (5%)	\$1,032
Effect of Credits and Rebate	
Mirrored Tax + Wage and Salary Tax	\$1,908
Credit of Wage and Salary Tax against Mirrored Tax (Cannot Exceed Amount of Mirrored Tax)	-876
Rebate: 95% X Excess of Mirrored Tax over the Wage and Salary Tax = \$0	- <u>0</u>
Final Tax After Credits and Rebates	\$1,032

Table 1, below, compares the tax liabilities hypothetical CNMI individuals would pay under the current system and under a system consisting exclusively of the mirrored tax with no rebates. Note that the negative amounts shown at low income levels under the pure mirror system reflect the impact of the Earned Income Tax Credit, which is refundable.

Given that the tax liabilities and rates in the table are for hypothetical taxpayers and make no attempt to reflect the CNMI's actual income distribution, the conclusions that can be drawn from the table are limited. For example, it is not clear at a glance which system would produce more tax revenue in the aggregate, since the pure mirrored tax produces lower effective rates at some income levels and higher effective rates at others.

It is highly probable, however, that the mirrored income tax, if applied alone without rebates, would be more progressive than the current system. It is at low income levels that the mirrored tax produces lower effective tax rates than the current system and higher income levels have higher effective tax rates. The principal factors behind this pattern are the presence of personal exemptions, a standard deduction, and an Earned Income Credit under the mirrored system but not the Wage and Salary tax. Also, the graduated rates that are applicable under the mirrored Internal Revenue Code rules are higher than the rates that apply under the CNMI's Wage and Salary Tax. The mirrored rates therefore have a larger impact in redistributing income.

Importantly, all the examples used in this memorandum assume that taxpayers only receive wage and salary income; they receive no income from the conduct of a business or investment in stocks or bonds. As noted above, the CNMI levies a Business Gross Revenue Tax; economists frequently assume that a large portion of the burden of gross revenue taxes is borne, not by the companies that actually pay the tax, but by workers and consumers in the form of lower wages or higher prices. Further, the information available to us on the CNMI tax system makes no mention of any tax that applies to income from financial investments, leaving the unrebated residual of the mirrored tax -- equal to 5 percent of the mirrored tax -- as the only levy that applies to income such as interest and dividends. Thus, if one assumes that relatively high-income individuals receive a larger share of their income in the form of business income and investment income than do low-income individuals, it is probable that a pure mirror system is even more progressive relative to the CNMI's current system than appears in the examples here.

Taxes and Effective Tax Rates for Hypothetical Taxpayers at Different Income Levels: Current Rules and the Mirrored Tax Alone				
Income	Present Law: Combined Wage and Salary Tax and Mirrored Income Tax after all Credits and Rebates		Taxes under Mirror System Only without Rebates	
	Amount	Effective Tax Rate	Amount	Effective Tax Rate
\$1,000	\$ 0	0.0%	\$ -177	-17.7%
5,000	100	2.0	-869	-17.4
7,000	210	3.0	-1,215	-17.4
15,000	600	4.0	-769	-5.1
20,644	1,032	5.0	876	4.2
22,000	1,103	5.0	1,155	5.3
30,000	1,828	6.1	2,355	7.9
40,000	2,853	7.1	3,855	9.6
50,000	4,079	8.2	5,576	11.2
75,000	7,041	9.4	12,576	16.8
100,000	9,534	9.5	19,683	19.7
500,000	49,934	10.0	143,683	28.7
1,000,000	100,434	10.0	298,683	29.9

Finally, the table does not show the income level at which the current tax system produces the same tax liability as a pure mirror system would. The point at which this occurs depends on the deductions and exemptions assumed to be claimed under the mirrored tax. However, given the assumptions used in the other examples here (joint filing status, 4 exemptions and the standard deduction), the point of equality is at a wage level of \$21,450, where both systems produce a hypothetical tax liability of \$1,073 and an effective tax rate of 5 percent.

Appendix C-3

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

DEPARTMENT OF FINANCE

SUMMARY OF INCOME TAX REBATES

Tax Years 1985 to 1991

I. Rebates Allowed: (\$000 omitted)

Category	1985	1986	1987	1988	1989	1990	1991	Total
A. Individuals	\$3,449.7	\$4,571.5	\$8,021.2	\$8,747.6	\$13,901.6	\$20,045.9	\$28,003.5	\$86,741.0
B. Corporations	2,008.4	9,382.5	5,823.4	12,324.5	16,292.1	23,107.4	21,015.1	89,953.4
Totals	\$5,458.1	\$13,954.0	\$13,844.6	\$21,072.1	\$30,193.7	\$43,153.3	\$49,018.6	\$176,694.4

II. Number of Taxpayers Receiving Rebates:

Category	1985	1986	1987	1988	1989	1990	1991
A. Individuals	7,703	5,726	5,995	7,560	9,020	10,554	11,707
B. Corporations	51	71	89	123	159	164	182
Totals	7,754	5,797	6,084	7,683	9,179	10,718	11,889

Note: 1985 totals include refunds as well as rebates.

EXECUTIVE SUMMARY

Department of Finance's Recommendations for Tax Reform

The CNMI Department of Finance (DOF) submits this report which includes major recommendations to reform the CNMI tax system. It contains options and proposals that will generate between \$31 and \$43 million annually in additional revenues, make the overall tax system more fair by increasing the progressivity of the NMTIT and other local taxes, and make tax and revenue administration and enforcement more effective and efficient. The proposed changes retain incentives for new and continued investment in business activities; new tax incentives are proposed for businesses to hire local workers in the private sector by providing their employees medical and retirement benefits. The significant recommendations are as follows:

- (1) The chief policy option recommended to raise more revenues and improve the fairness of the tax system is the implementation of graduated rebate rates on personal and corporate income taxes. Generally, the income brackets would break at adjusted gross income levels of \$30,000 and \$50,000 for individual taxpayers and taxable income levels of \$75,000 and \$250,000 for corporations. DOF is not recommending a specific rebate rate, but rather a menu of three scenarios that will provide necessary revenues when combined with the recommendations in the report:

Option #	<u>Graduated Rebate Rates:</u>	Est. Additional Revenue
		(<u>\$ MIL</u>)
(1)	90% - 80% - 70%	\$ 14.3
(2)	90% - 75% - 60%	20.0
(3)	90% - 70% - 50%	27.3

- (2) To clarify the policy with respect to tax credits against the NMTIT, DOF proposes the Business Gross Revenues Tax, User's Fee, and Duty Free Concessionaire Fee will be changed from tax credits against the NMTIT, to deductions from business income. The Wage and Salary Tax, proposed Earnings Tax, and Gross Revenues Tax on the nonbusiness sale or lease of real property will remain tax credits.

EXECUTIVE SUMMARY

Department of Finance's Recommendations for Tax Reform

(3) To make the tax system more fair to low income taxpayers, DOF proposes refunding the unused portion of the Earned Income Credit. Low income households in the CNMI would be paid approximately \$1 Million that under current law they do not receive.

(4) To provide incentives for timely and accurate filing, and full payment of local taxes, the following provisions affecting the NMTIT rebate are recommended: (a) a ten percent reduction in the rebate amount for each month a taxpayer is late in filing, up to six months; and (b) ineligibility for a rebate if a tax return is filed more than 180 days late; and (c) no rebate unless the person(s) paid one of the local taxes.

(5) To ensure capital infrastructure priorities are met, creation of a Special CIP Revenue Account is recommended where funds required to match Covenant \$702 CIP grants will be placed.

(6) To eliminate gaps in the coverage of local taxes and make administration of local taxes less complicated, definitional changes are proposed to the gross revenues tax and wage and salary tax. All revenues earned by a business will be taxed at the same (lower) rate, and all individuals will pay the same local tax on the same amount of income, regardless of its source. To achieve this equity, an Earnings Tax, with rates that are the same as the wage and salary tax, is proposed. The earnings tax will tax the investment and other passive income of individuals; the wage and salary tax will continue to tax their wage income.

(7) To enhance the progressivity of local taxes, three additional brackets and two rates are proposed at the higher income end of the wage and salary tax and earnings tax:

If the total yearly wages or total yearly earnings is:	The tax on the total wages or earnings is:
\$50,001 to \$75,000	9%
\$75,001 to \$100,000	10%
over \$100,000	12%

EXECUTIVE SUMMARY*Department of Finance's Recommendations for Tax Reform*

(8) To provide incentives for businesses to hire local workers and give employee benefits comparable to those found in the public sector, DOF recommends the following deductions be allowed from BGR when computing BGRT due:

<u>Employer Benefit Provided:</u>	<u>BGR Deduction Allowed:</u>
Resident Wages and Salaries	20% of Wages and Salaries paid to Resident Workers
Retirement Contributions	The lesser of the effective CNMI employer contribution rate to the NMIRF or the actual amount contributed by the employer.
Medical Insurance Premiums	The actual amount contributed by the employer.

(9) To raise additional revenues from the sale or use of certain commodities or services, the following rate changes are proposed to the Excise Tax provisions:

<u>Category</u>	<u>Current Rate</u>	<u>Proposed Rate</u>
Cigarette	\$0.15/ 20 cigs	\$0.22/ 20 cigs
Distilled Alcohol	\$0.1094/ fl oz	\$0.12/ fl oz
Beer	\$0.0083/ fl oz	\$0.0167/ fl oz
Wine	\$0.0234/ fl oz	\$0.03/ fl oz
Perfume	20% ad valorem	25% ad valorem
Leather Goods (non-footwear)	5% ad valorem	25% ad valorem
Jewelry & Precious Metals	5% ad valorem	25% ad valorem
Autos > \$30,000	5% ad valorem	10% ad valorem
Boats > \$50,000	5% ad valorem	10% ad valorem
Non-alcoholic containers	\$0.04/ container	\$0.05/ container
Alcoholic container	\$0.04/ container	\$0.05/ container
Soft drinks	\$0.047/ fl oz	\$0.05/ fl oz
Hygenic products	5% ad valorem	1% ad valorem
Construction mat'ls	3% ad valorem	5% ad valorem

EXECUTIVE SUMMARY

Department of Finance's Recommendations for Tax Reform

(10) To raise more revenue from the first sale or distribution of liquid fuel, DOF proposes changing the liquid fuel tax rate from \$0.10 per gallon to \$0.15 per gallon.

(11) To ensure garment manufacturers pay the same amount of local taxes as other large corporations, DOF recommends increasing the Custom's Certification Fee (User Fee) from three percent (3%) to five percent (5%).

(12) To raise additional revenues from the visitor industry, DOF recommends increasing the Hotel Occupancy Tax from ten percent (10%) to thirteen percent (13%).

Revenue Effects:

The Department estimates that implementation of the proposed changes to the Revenue and Taxation statutes will generate from the base-year about \$31 to \$43 Million annually in additional revenues.

From extensive analysis of the taxpayer database and historical collection data, the base-year source of these additional revenues is estimated as follows: \$14 to \$27 million from income taxes, \$5 Million from excise taxes, \$2 Million from liquid fuel taxes, \$5 Million from user fees, \$2 Million from hotel occupancy taxes, and \$2 Million from changes to the local taxes.

Fairness of the Tax System:

Enactment of the proposed changes to the CNMI tax system, particularly the graduated NMTIT rebates and refund of the EIC, will create a fairer tax system. If the lowest rebate scenario is adopted, effective tax rates will progressively increase from 3.2 percent to 16.2 percent, with high income taxpayers paying taxes at the highest effective rates. Moreover, 80 percent of individual CNMI taxpayers would see their average tax liability increase less than \$180.

EXECUTIVE SUMMARY

Department of Finance's Recommendations for Tax Reform

Competitiveness:

Incentives for investment and business activity are retained in the proposed CNMI tax system. The effective tax rates that will be imposed on individual and business taxpayers in the CNMI will remain lower than the rates applicable in Guam and the mainland U. S. under mirror tax or the Internal Revenue Code.

Conclusion:

The enactment of the changes proposed by DOF to the CNMI tax system, included in this report as "The Revenue and Taxation Reform Act of 1993," will allow the CNMI to maintain current public service delivery and meet future financial commitments. Moreover, they will result in a tax system that is fair to lower income individuals and families and will facilitate administration, enforcement, and voluntary compliance with the tax laws. Finally, the proposed changes will provide businesses generous incentives to hire or pay more to local workers in the private sector and provide their workers benefits comparable to those received by government workers.



THIRD SENATORIAL DELEGATION

S.L.D. Res. No. 8-4

EIGHTH NORTHERN MARIANAS COMMONWEALTH LEGISLATURE

Second Regular SESSION, 1993

A THIRD SENATORIAL DELEGATION RESOLUTION

Advising The Executive Branch that the Third Senatorial Delegation will not support any proposal by the Executive Branch with respect to tax increases and reductions on the percentage on income and corporate withholding rebates.

1 WHEREAS, the original negotiations of the Covenant to establish a
2 political relationship with the United States of America recognized the unique
3 economic condition in the Northern Marianas, and

4 WHEREAS, in order to expand its economic base it was agreed upon that a
5 tax system which provides low rate would entice outside investors to invest in
6 the newly established Commonwealth of the Northern Mariana ; and

7 WHEREAS, in the 1980's the Commonwealth experienced an unparalleled
8 economic growth which as a result provided a tremendous increase in
9 revenues to our government and

10 WHEREAS, the Saipan Legislative Delegation recognizing the general
11 down trend in the global economy and in particular, the economy of the CNMI
12 feeling, the doldrums effect of such condition; and

13 WHEREAS, increasing taxes in general and reducing the 95% tax rebates
14 may not be in the best interest for the CNMI economy and our constituents;
15 and

1 WHEREAS, other alternatives of generating needed funding for basic
2 infrastructure developments may be explored through debt financing by
3 floating bonds now because of a attractive interest rates, and

4 WHEREAS, it is the general consensus of the Saipan Legislative
5 Delegation that government operational expenditures be prioritized and
6 controlled to minimize duplication of efforts; now, Therefore,

7 BE IT RESOLVED, that the Saipan Legislative Delegation urges Governor
8 Guerrero to delay all efforts for tax increases at this time until several years
9 down the road when the general economic condition in the CNMI start to
10 improve.

11 BE IT FURTHER RESOLVED that the CNMI still needs to entice outside
12 investor to do business inthe Commonwealth and that concerted promotional
13 efforts must be intensive developed to stimulate economic activities; and

14 BE IT FURTHER RESOLVED, that it is the position of the Saipan Legislative
15 Delegation to not entertain any proposed changes in the present tax structure
16 and fervently urges Governor Guerrero to refrain from proceeding with its
17 proposed plan for tax increases in general; now, Therefore,

18 BE IT FURTHER RESOLVED, that the Chairman of the Third Senatorial
19 Delegation shall certify and the Secretary of the Third Senatorial Delegation
20 shall attest to the adoption of thjs resolution and thereafter transmit certified
21 copies to: Honorable Lorenzo I. Guerrero, Governor, Commonwealth of the
22 Northern Mariana Islands; Chairman, Tax Task Force; Honorable Thomas P.
23 Villagomez, Speaker, House of Representatives, Eighth Northern Marianas
24 Commonwealth Legislature; and Juan S. Demapan, President, The Senate.

- 1 Eighth Northern Marianas Commonwealth Legislature; Honorable Jesus S.
- 2 Deleon Guerrero, Mayor of Saipan.

Date: 2/26/93

Introduced By:

Juan S. Torres

majority of
the House
 $\frac{1}{3}$ of the Senate
voted yes
on this measure.

unanimously adopted

SAIPAN DELEGATION
 EIGHTH NORTHERN MARIANAS COMMONWEALTH LEGISLATURE
 DAY, 2nd REGULAR / SPECIAL SESSION, 199 3

ROLL CALL

VOTING ON :

SLB 8-1

REPRESENTATIVES	YES	NO	OTHER
1. Rep. Jesus T. Attao	1		
2. Rep. Diego T. Benavente	2		
3. Rep. Antonio M. Camacho	3		
4. Rep. Francisco DLG. Camacho	4		
5. Rep. Crispin I. DL Guerrero	5		
6. Sen. Juan S. Demapan			
7. Rep. Francisco A. Flores	6		
8. Rep. Herman T. Guerrero	7		
9. Rep. Heinz S. Hofschneider			
10. Rep. Jesus P. Mafnas	8		
11. Rep. Manetto U. Maratita	9		
12. Rep. Herman T. Palacios			
13. Rep. Pete F. Reyes	10		
14. Sen. Jesus R. Sablan	11		
15. Rep. Ana S. Teregeyo	12		
16. Sen. Juan S. Torres	13		
17. Rep. Stanley T. Torres	14		
18. Rep. Thomas P. Villagomez	15		
19. Chairman Pedro R. DLGuerrero	16		
TOTAL VOTES	16		

DATE:

2/26/93

ATTESTED BY:

CA

Secretary