

# James R. Leonard Associates, Inc.

CONSULTING ECONOMISTS AND DEVELOPMENT PLANNERS

SUITE 400 • 1601 CONNECTICUT AVE., N.W. • WASHINGTON, D. C. 20009

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Senator Edward DLG Pangelinan,  
Marianas Political Status Commission  
P. O. Box 825  
Saipan, Mariana Islands 96950

Dear Ed:

The reason for my delay in responding to Jim White's letter was that I was out of town when it arrived. Needless to say, I was pleased to learn that you are now firming up the dates for the second round of negotiations. However, as I indicated in my cable, it is rather important for us to get exact dates for the various meetings (both with MPSC and with the U.S. delegation) as soon as possible.

We are still in the process of putting things together. In particular, we have not been able to get any details on the military plans for Saipan and Tinian. Captain Crowe, who seems to be quite frustrated, has set up a meeting for me and various representatives of the Pentagon for tomorrow. I am hopeful that we will soon be able to determine the size and nature of the military base and to judge the impacts it will have. I have told Crowe that if they did not give the information we simply will not be able to count on employment, etc. to be provided by the U.S. military.

While I am still working on projections of local income (and tax revenue) which will be available to meet capital and program requirements in the Marianas, we have completed our assessments of those requirements. By using the sources and procedures described below, we estimate capital program requirements to 1979 to be in the neighborhood of \$50 million, and, after 1979, an annual capital improvement program of 4.5 million. In addition, we have analyzed the various public services programs which are required, and we have estimated the annual services program operating budget for the period, 1975-1979.

For the capital improvement program we reviewed the plans prepared by Hawaii Architects and Engineers for Saipan and Rota; the Program Memorandum for FY 1974-78 and the one

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for FY 1975-79; long range projections prepared by the District Planning Office; the 1974 budget for the Trust Territory submitted to the U.S. Government and various other documents. The results of our analysis of capital needs through 1979 are presented below:

Road Construction and Rehabilitation	\$20,660,000
Water Supply Facilities	6,950,000
Power Facilities	4,380,000
Sewer and Sewage Treatment Facilities	5,575,000
School Construction	4,500,000
Health Facilities	745,000
Transportation and Communication Facilities	5,030,000
Public Buildings Construction	855,000
Miscellaneous	320,000
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Total	\$49,015,000

If these funds were available, the actual construction of these facilities could be accomplished efficiently in the period 1975 to 1979. In arriving at capital cost figures we escalated current costs to a price level expected in 1975, and used 1975 prices for all estimates. In addition to meeting these capital requirements, it will be necessary to replace facilities as they become inadequate and obsolete in the future. This would require an annual capital budget amounting to 4 per cent of the value of facilities now in place, perhaps \$10 million, and of new facilities which would be constructed if needs through 1979 were met (\$49.0 million). Also, provision should be made to take care of the capital needs resulting from a District population growing at 3.3 per cent annually. Thus, you should think about an annual capital improvement budget, assuming basic needs are met, of 7.3 per cent of \$59.0 million (10 million plus 49 million), or about \$4.5 million after 1979.

While our findings are not complete, the figure \$49,015,000 seems to be of justifiable magnitude. In the final analysis, some figures may be higher and others lower, but we do not expect any significant changes.

We do make one observation, however, about capital improvements. It is not at all obvious that the capital budget suggested by the various plans reflects the best ordering of priorities for development. While \$20 million for roads may be justified on the basis of priorities established by the Trust Territory Government, your priorities might be different if \$49 million in capital funds were actually available.

Turning now to our analysis of future service program operating requirements, we have developed forecasts for the years 1975 through 1979, using the same basic sources that we used to determine capital program requirements. Our forecasts are therefore, consistent with the capital improvement program presented above. We used the same pay scales that are included in the District's Program Memorandum for FY's 1974-78. These can be adjusted without much difficulty to reflect the changes that are needed to make them equivalent to U.S. Government pay scales.

Basically, we have assumed the need for a complete set of government services for the District Government. We have not incorporated amounts expended by municipal governments for the services they provide. Some new functions are included for the District on the assumption that services provided by the Trust Territory, (e. g. a community college) will not be available to residents of the Marianas. The dollar amounts included are net of utility revenues in order to make our projections consistent with the way the operating budget is presented in the FY 1974-78 Program Memorandum. Finally, our projections assume that programs directly funded by various U. S. Federal Agencies will continue at levels sufficient to cover the current level of service. For some programs, like the legal services program of the Office of Economic Opportunity, this may not be a valid assumption.

The table below presents our forecasts of the annual (1975 prices) operating budget for the District, 1974 to 1979. The budget includes the following programs: public affairs; community development; the judiciary; legal affairs; elementary education; secondary education; adult and higher education; public health; transportation and communication; resource development; commerce and industry; water, sewer and power, maintenance and operations; and general support.

<u>Fiscal Year</u>	<u>Operating Budget</u>
1973 (actual)	\$ 4,910,000
1975	6,692,000
1976	7,402,000
1977	8,093,000
1978	8,924,000
1979	9,595,000

We are continuing to refine these figures and to prepare narrative explanations to support them.

Our major task at the moment is to complete projections of District tax revenues, based on projections of economic

activity and income, that will be available to help defray the operating budget and new capital program requirements. This requires us to prepare forecasts of economic activity over the next five to ten years. As I mentioned above, we have been delayed in making these projections because of the lack of information about military plans.

We also want to turn our attention to the nature and size of an economic development fund for the District to provide assistance in private investment.

I feel we have made substantial progress but we must now consider how you can best use our work. I propose to prepare a detailed memorandum presenting as many facts and projections as possible. When I get to Saipan, I will use the memo as an aid in briefing the Commission, and the Commission, in turn, can use it as a "bargaining notebook" in considering U. S. proposals. Hopefully it will allow the Commission to judge the "reasonableness" of U. S. proposals at each stage of negotiations.

Pending your answer to my cable, I am planning to arrive in Saipan at least one week before negotiations commence. We can carefully review the numbers we will be presenting at that time. If the meetings are scheduled for the end of April I will send a draft of our memo before I arrive. If the meetings require me to be in Saipan around April 1, I will bring the memo with me.

I am looking forward to returning to Saipan and I am optimistic that the next round of negotiations will be productive and satisfactory.

Sincerely,

James R. Leonard

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copy to James White