

MARIANAS POLITICAL STATUS COMMISSION

May 14, 1973

Position Paper
Regarding Economic Aspects
of the
Revised Political Status
of the
Mariana Islands

During the first round of political status talks, the United States indicated a desire to explore jointly with the Marianas Political Status Commission the financial needs of the Mariana Islands. Accordingly, the Commission has undertaken studies to determine the financial requirements to facilitate an orderly transition to a new political status, to provide an adequate social and industrial infrastructure, to provide necessary public services and programs, and to provide the economic means for the people of the Marianas to participate in the economic development of their islands. While the Commission is confident that the people of the Marianas expect and desire to assume the financial responsibilities of self government, it is obvious that the financial requirements cannot be met from internal financial resources until an expanded tax base has been developed. Therefore, the Commission proposes a program of United States economic assistance and budget support to establish a base for economic and social development which will enable the people of the Marianas to realize their long range goal of self support.

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agree

The financial assistance program which the Commission proposes is directly related to the process of transition to a new political status. Because of historical and cultural factors, and given the current level of economic and social development in the Marianas, the Commission believes that the transition process will continue for many years beyond the formal acceptance of a new status agreement by the United States and the people of the Marianas. It appears to the Commission that there must be at least three separate phases of transition.

The first phase of transition, consisting of one year, should be a period during which detailed plans are prepared to facilitate changes in government structure required by the new status, to accelerate industrial and social infrastructure development, to establish institutions for economic and social development, and to establish a legal basis for self government. *Constitution*

The second phase of transition, consisting of seven years, should be a period during which the plans formulated in the first phase are implemented. By the end of the second phase, the standard of living in the Marianas should be at an acceptable level, and the base for long term growth and development should be firmly established.

The third phase of transition, extending to the year 2000 and perhaps beyond, should be a period during which the people of the Marianas develop their economic potentials and assume increasing responsibility for the support of their own government.

I. Financial Requirements for Phase I (1974)

The essential planning to be undertaken in the first phase of transition will require expert assistance from physical planners, architects, engineers, public administrators, and others. It is anticipated that the required planning activities will cost \$4.5 million, allocated as follows:

A. Physical Plan		
1. Cadastral Survey	\$3,000,000	
2. Master Planning	300,000	
3. Schematic Design of Facilities	450,000	
	<hr/>	\$3,750,000
B. Government Reorganization Plan		125,000
C. Economic and Social Development Plan		125,000
D. Legal Plan (Including Political Education, Constitutional Convention and Development of Legislative Programs)		500,000
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TOTAL		\$4,500,000

The Commission proposes that funds sufficient to allow the implementation of Phase I be made available as a grant to the Commission immediately after the conclusion of successful negotiations for a new political status.

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II. Financial Requirements for Phase II (1975-1981)

The implementation of transition and development plans formulated during Phase I will require greatly expanded government programs in the Marianas. The studies undertaken by the Commission indicate that these expanded programs will require substantial budget support for the new Marianas Government from external sources.

A. Capital Improvement Requirements

The Commission has reviewed with care the master plans for Saipan and Rota prepared by Hawaii Architects, memoranda prepared by the Marianas District Planning Office on road, water and power requirements in the Marianas; programs memoranda for FY 1974 - 1978 and FY 1975 - 1979 prepared by the District Administrator, the FY 1974 budget for the Trust Territory, and various other documents. Expressed in terms of a five year capital improvements program, covering the period FY 1975 - 1979, the estimates of the Trust Territory and Marianas District administrations indicate that \$47.7 million (projected 1975 dollars) will be required to meet the need for public facilities in the Marianas by 1980 (Table 1).

While the Commission does not agree with the Trust Territory and Marianas District administrations as to the need for specific projects, the priorities of projects, or even the period over which construction should be programmed, the Commission does believe that \$47.7 million (projected 1975 dollars) represents a realistic order of magnitude of the capital improvements program which should be implemented during Phase II.

B. Programs Operations Requirements

The Commission has also reviewed current programs operations of the Marianas District administration, as well as the District Administrator's projections of program operations for the period FY 1974 - 1979.

TABLE 1. MARIANA ISLANDS
CAPITAL INVESTMENT REQUIREMENTS
(Thousands of 1975 dollars)

CAPITAL IMPROVEMENTS	1975	1976	1977	1978	1979	Total
	Roads:					
Repair and upgrading 38 miles primary, Saipan.	1,830					1,830
Paving 34 miles primary and secondary, Saipan.	1,120	1,120	1,120	1,120	1,120	5,600
Paving 20 miles village roads, Saipan.	840	840	840	840	840	4,200
Construction and Paving 68 miles village and rural roads, Rota.	1,800	1,800	1,800	1,800	1,800	9,000
Construction and paving roads on Tinian and Northern Islands, 27 miles.	600	600	600	600	600	3,000
<u>Sub-total</u>						<u>20,660</u>
Water:						
Saipan	650	650	650	650	650	3,250
Rota	450	450	450	450	450	2,250
Tinian	-	460	460	-	-	920
Northern Islands	100	250	180	-	-	530
<u>Sub-total</u>						<u>6,950</u>
Power:						
Saipan	770	770	770	770	770	3,850
Power lines, all islands	70	70	70	70	70	350
Generators for Pagan, Rota, Tinian	60	120	-	-	-	180
<u>Sub-Total</u>						<u>4,380</u>

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CAPITAL IMPROVEMENTS	1975					1976					1977					1978					1979					Total									
Sewer:																																			
Sewer lines, Saipan.	675					110					110					110					110					110					1,115				
Relocate Treatment plant, Saipan	1,870					-					-					-					-					-					1,870				
Sewer lines, 25,00 feet, Rota.	140					140					140					140					140					140					700				
Treatment plant for Rota 370,000 GDP.	200					-					-					-					-					-					200				
Sewer system, Northern Islands.	-					890					-					-					-					-					890				
<u>Sub-Total</u>																															<u>4,775</u>				
School Construction:																																			
Elementary schools, 28 classrooms on Saipan, 8 on Rota, 4 on Tinian.	340					340					340					340					340					340					1,700				
Secondary schools, 30 classrooms on Saipan, 8 on Rota, 4 on Tinian.	360					360					360					360					360					360					1,800				
Community college or occupational for 200 students or 12 classrooms.	500					-					-					-					-					-					500				
<u>Sub-Total</u>																															<u>4,000</u>				
Health Facilities:																																			
Expansion and reconstruction of Saipan hospital.	150					-					-					320					-					-					470				
Public health facilities on Rota.	35					-					-					-					-					-					35				
Relocation of hospital, Rota.	-					-					-					-					-					130					130				
Dispensary on Tinian	-					-					-					110					-					-					110				
<u>Sub-Total</u>																															<u>745</u>				
Land Reclamation, Saipan	-					-					-					190					-					-					190				
<u>Sub-Total</u>																															<u>190</u>				

Table 1. (continued)

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CAPITAL IMPROVEMENTS	1975	1976	1977	1978	1979	Total
Transportation:						
Airfield paving, Rota and Pagan.	150	-	-	220	-	370
Improvements to north airfield, Magpi.	-	-	-	-	500	500
Rebuilding Army Dock facility on Saipan as an international sea terminal.	2,500	-	-	-	-	2,500
Develop West Harbor, Rota.	-	-	740	420	500	1,660
<u>Sub-Total</u>						<u>5,030</u>
Communication:						
Telephone.	130	-	-	-	-	130
<u>Sub-Total</u>						<u>130</u>
Public buildings:						
Government administration center, Rota.	15	-	-	-	-	15
Civic center, including museum, Saipan.	-	-	250	300	-	550
Farmers' market, Saipan.	50	-	-	-	-	50
Jail, Tinian.	-	-	-	20	-	20
Relocate prison, Saipan.	-	-	-	220	-	220
<u>Sub-Total</u>						<u>855</u>
						<u>47,715</u>

sources: 1. Saipan and Rota Master Plans, Hawaii Architects, 1968.
 2. Marianas District Planning Office.
 3. District Programs Memoranda, FY 1974-1978 and FY 1975-1979.
 4. Trust Territory Budget Justification, FY 1974.

Table 1. (continued)

Applying salary rates established by the Trust Territory Salary Act of 1973, the Marianas District Administrator's projections of program requirements indicate that the cost of programs will range from \$8.6 million (current dollars) in FY 1975 to \$11.8 million (current dollars) in FY 1979 (Table 2).

The people of the Marianas have long felt the injustice of a separate Micronesian pay scale in government for Marianas citizens when they are performing the same work as United States citizens. Therefore, the Commission strongly feels that, as part of the change in political status, the government pay scale in the Marianas must be changed to correspond with the pay scale of the Guam Government. The gradual application of the Guam pay scale to the District Administrator's projections of programs operations over a period of five years, commencing in 1975, would increase the cost of programs to \$8.6 million (current dollars) in 1975 and \$18.0 million (current dollars) in 1979.

✓ C. Economic Development Requirements MDC

Private financial institutions cannot be expected to meet the needs for either commercial investment or housing development during Phase II. The people of the Marianas do not possess the financial resources to establish such institutions, and the development of such institutions by attracting external private investment funds would deny the people of the Marianas participation in, and control of, the economic development of their islands.

The Commission's projections, based on assumptions of moderate tourist industry and related private sector growth, indicate that between \$40 and \$50 million (1973 dollars) will be required for commercial development during Phase II. An equal amount will be required to finance the

TABLE 2. MARIANAS OPERATING BUDGET PROJECTIONS--FISCAL YEARS 1973-79
(Thousands of Current Dollars)

	1973		1974		1975		1976		1977		1978		1979	
	Posi- tions	Am't. \$	Posi- tions	Am't. \$	Posi- tions	Am't. \$	Posi- tions	Am't. \$	Posi- tions	Am't. \$	Posi- tions	Am't. \$	Posi- tions	Am't. \$
Public Affairs ^{a/}	20	68	20	77	22	170	22	175	22	180	22	185	22	190
Community Development ^{b/}	8	26	8	30	8	124	8	125	8	127	8	130	8	135
Judiciary ^{c/}	-	-	-	-	11	150	11	165	11	175	11	185	11	195
Local Affairs and Public Safety ^{d/}	70	283	80	306	92	440	96	493	96	527	100	585	100	623
Elementary Education ^{e/}	182	656	187	692	191	770	198	837	204	902	210	977	216	1,060
Secondary Education ^{f/}	81	486	83	515	85	575	95	655	105	728	115	810	125	895
Health, Special and Higher Education ^{g/}	30	133	30	140	30	151	42	245	42	265	42	280	42	310
Public Health ^{h/}	175	680	170	772	169	1,150	172	1,440	174	1,684	178	1,825	178	1,960
Transportation and Communications ^{i/}	-	-	-	33	40	500	42	550	44	600	46	650	48	700
Resource Development (in- cluding Agriculture and Forestry) ^{j/}	120	626	128	662	133	777	133	815	133	855	133	895	133	950
Commerce and Industry (in- cludes Economic Development and Labor) ^{k/}	9	70	11	71	15	100	15	105	15	110	15	115	15	120
Water, Sewerage and Power ^{l/}	123	1,293	123	1,609	144	1,977	146	2,312	148	2,694	150	3,100	152	3,715
Revenues	565	728	931	1,143	1,143	834	1,334	978	1,548	1,762	1,762	1,762	2,273	
Net Cost	728	728	678	678	834	834	978	978	1,146	1,146	1,338	1,338	1,442	
Maintenance and Oper- ation ^{m/}	222	865	237	964	247	1,057	294	1,150	356	1,630	419	2,190	492	2,640
General Support ^{n/}	54	289	51	302	65	410	66	445	67	475	71	505	73	530
General Operations	1,094	5,475	1,128	6,173	1,252	8,351	1,340	9,512	1,425	10,952	1,520	12,432	1,615	14,023
Net Operations	4,910	4,910	5,242	5,242	7,208	7,208	8,178	8,178	9,404	9,404	10,670	10,670	11,750	

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- a/ Beginning in 1975 funds are included for a more adequate legislative liaison (\$10,000) for elections of the Marianas Legislature (\$5,000), and for operations of the legislature, (\$7,500).
- b/ Beginning in 1975 funds are included to cover grant-in-aid (\$50,000) and housing loan funds (\$40,000) now provided by the Trust Territory Government.
- c/ Funds must be provided for a separate Marianas court system.
- d/ Positions added in 1975 to staff a separate district attorney's office (\$10,000); and a public defender's office (\$80,000)
- e/ Assumes for the Department of Public Safety have been accelerated in 1976 and beyond (\$20,000) per year.
- f/ Assumes additional teachers will be needed to staff the additional classrooms recommended in capital projection: 7 in 1977; 6 in 1978; 6 in 1979. Average annual rate is \$3,500 in 1976 and increases at 7 percent per year.
- g/ Assumes high schools on Rota (1976) and Tinian (1977) and 32 additional classrooms on Saipan. Staff increases are for additional teachers in 1976 and each succeeding year.
- h/ Funds should be provided for a Marianas Community College and Occupational Center beginning in 1976. Projection assumes an enrollment of 25 percent of the high school graduates and a need for 12 teachers.
- i/ Beginning in 1975 funds are included to cover medical referrals, supplies and equipment not covered in the Program Memorandum projection.
- j/ These activities are not now included in the District budget. Beginning in 1975 a separate staff is provided for operation or subsidization of a transportation and communications network between Saipan and the Outer Islands as well as airport operation on Saipan.
- k/ Changed from '75-'79 Program Memorandum to reflect new pay scale.
- l/ Projection includes funds for a Labor division of 6 positions. This function is now budgeted at an inadequate level (2 positions). Capital for an economic development fund is included elsewhere.
- m/ These are total operating costs. Revenues are estimated to obtain net operating cost. Staff increases are proposed to accommodate expanded service but these costs are offset by increased revenues.
- n/ Increases in staff are provided to maintain expanding level of public works at the rate of 20 percent each year after 1975.
- o/ Staff is increased beginning in 1975 to provide for complete program and budget, engineering and procurement and supply services.

Source: The Marianas Program Memorandum for 1975-79 and JRLA estimates of additional program requirements.

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TABLE 2. (continued)

upgrading and construction of housing to meet the needs of a growing population. Thus, between 1975 and 1981 a total of \$80 to \$90 million (1973 dollars) must be made available for local investment in the Marianas.

A Marianas development corporation, owned and controlled by the citizens of the Marianas, could be a source of equity financing, loans, and technical assistance for both business enterprises and housing. In addition, it could serve as a vehicle for occupational training and other economic and social development programs. Such a corporation could attract capital from external sources by guaranteeing loans and using various other devices to obtain financial leverage while, at the same time, providing safeguards against external domination of the Marianas' economy. However, geographic and other factors would limit the access of a development corporation to established money markets, and the amount of financial leverage which could be exercised would not be as great as for a similar development corporation in the United States or in some other highly developed area. The Commission feels that to provide \$80 to \$90 million in investment funds in the Marianas during Phase II, at least \$40 million (1973 dollars) will be required to capitalize a Marianas development corporation.

D. Government Expenditures and Revenues (1975 - 1981)

Based on the estimates of capital improvements, programs operations and economic development funds presented above, the Commission has prepared a proforma statement of government operations during Phase II. Recognizing the difficulties of compressing accelerated programs into the five year planning period of the Trust Territory Government, expansion of both the required capital improvement program and programs operations has been scheduled over seven years to allow their orderly implementation (Table 3).

TABLE 3. PROJECTIONS OF MARIANA ISLANDS GOVERNMENT EXPENDITURE AND REVENUE REQUIREMENTS DURING TRANSITION PHASE II (1975-1981)

Year	Mariana Islands Population Thousands	Government Expenditure Requirements			District Income	Per Capita Income Current Dollars	Tax Revenue as Percentage of District Income ^d	Total Tax Revenue	Deficit (Government Expenditure Requirements minus Tax Revenue)
		Capital Improvements ^{a/}	Program Operations ^{b/}	Economic Development ^{c/}					
(Estimated)		Millions of Current Dollars							
1973	14.9	2.2	5.0	--	15.0	1,000	8.0	1.2	--
(Projected)									
1975	17.3	3.5	8.6	10.0	29.1	1,680	10.0	2.9	19.2
1976	18.4	5.4	10.9	10.0	34.0	1,850	11.5	3.9	22.4
1977	19.5	8.6	13.5	7.5	38.9	1,990	13.0	5.7	23.9
1978	20.6	11.7	15.5	7.5	43.8	2,125	14.5	6.4	28.3
1979	21.7	12.3	18.0	5.0	48.7	2,240	16.0	7.8	27.5
1980	22.8	10.5	18.5	2.0	53.6	2,350	17.5	9.4	21.6
1981	24.2	8.5	20.5	2.0	58.3	2,430	19.0	11.1	19.9

a/ Total capital improvements, 1975 - 1981, valued at \$47.7 million in 1975 dollars. Assumes 7 percent annual increase in capital improvement costs, 1975 - 1981.

b/ Assumes 5 year, 1975 - 1979, adjustment from Micronesian to Guam Government pay system, and 5 percent annual increase after 1979.

c/ Total economic development funds, 1975 - 1981, valued at \$40.0 million in 1973 dollars. Assumes 7 percent annual increase in hotel, housing, and other private sector construction costs, 1975 - 1980. These economic development funds should generate \$75 - \$80 million (1973 dollars) in private sector investment between 1975 and 1981.

Source: Tables 1 and 2 and Marianas Political Status Commission economic studies.

In assessing the total requirements for budget support of a new Marianas Government, the Commission has projected both district income and tax revenues. As shown in Table 3, the Commission anticipates that the people of the Marianas will increase local taxes by increasing the rates at which they will tax themselves. By 1981, with Marianas per capita income less than one-half of U. S. per capita income, the Commission expects the tax burden in the Marianas to be at least 50 percent of the tax burden borne by the people of the United States. However, even though the tax burden in the Marianas is projected to increase by more than 100 percent between 1973 and 1981, from 8 percent to 19 percent of district income, large government deficits will still exist.

As part of the political status settlement the Commission proposes that the United States provide assurance that it will provide budget support for the Government of the Marianas at levels required to implement transition and development plans. The required levels of budget support during Phase II are estimated to be:-

<u>Year</u>	<u>Millions of Current Dollars</u>
1975	19.2
1976	22.4
1977	23.9
1978	28.3
1979	27.5
1980	21.6
1981	19.9

E. United States Military Impacts

In conducting its studies, the Commission did not have details of planned U. S. military operations in the Marianas. Thus, the Commission's

estimates of required support do not take account of military expenditures in the Marianas or of any payments to be made by the U. S. military to the citizens or Government of the Marianas. The Commission will work with the U. S. Delegation to determine how U. S. military plans may affect the Commission's estimates. However, the U. S. Delegation should be aware that the Commission believes that any benefits from military operations which might reduce the level of required budget support should be provided in some other form in the event military plans are not implemented.

Prior to their implementation, military plans must be regarded as speculative. They are subject to change, or even cancellation, by actions which may be taken by the U. S. Congress or the Department of Defense. Further, the phasing of military construction and operations can greatly influence their economic impact. Accordingly, the Commission feels that it is essential for the United States to make specific commitments of economic assistance which will not be contingent on the re-establishment of the military in the Marianas.

III. Financial Requirements for Phase III (1982 - ?)

At this point in time it is difficult for the Commission to project the financial requirements of the Marianas beyond Phase II. The Commission proposes, therefore, that in the fifth year of Phase II, coinciding with the date established for review of political status issues, the Marianas and the United States review together the progress of Phase II, and explore the future requirements for budget support of the Marianas during Phase III.