SUMMARY OF ECONOMIC-FINANCIAL

PRESENTATIONS BY U.S.-MPSC

ROUNDS II, III and IV

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MARIANAS II - MPSC PROPOSAL

- Three phases of transition.
  - -- First--one year — $4,500,000
  - -- Second--seven years
    - --- CIP — $47.7 million (total)
    - --- Operations — $ 8.6 million in 1975 and $18 million in 1979
    - --- Economic Development — $40 million to capitalize a Marianas Development Corporation
- Required levels of budget support, Phase II (current dollars)

1975	19.2
1976	22.4
1977	23.9
1978	28.3
1979	27.5
1980	21.6
1981	19.9

- MPSC estimates of military impact.
  - -- MPSC agreed to work with U.S. to determine how U.S. military plans may affect Commission's estimate.
- Phase III. Review with U.S. in fifth year of Phase II, the future requirements for budget support of Marianas.
- <u>Revenues - Marianas</u>
  - -- Increased taxes.
    - --- expected to increase between 1973 & 1981 from 8% to 19% of district income, still leaving a large government deficit.

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-- Tax Revenues (projected)

1975	$ 2.9 million
1976	3.9
1977	5.7
1978	6.4
1979	7.8
1980	9.4
1981	11.1

U.S. RESPONSE TO MPSC, MARIANAS II

- Phase I. U.S. needs to explore further nature of requirements for Phase I planning.
  - -- Result was Ad Hoc Committee report with a budget of $1.5 million for Phase I.
- Phase II.
  - -- Not clear as to how MPSC arrived at total figure of $47.7 for CIP.
    - --- Averages $6.8 million a year over seven years and is in excess of $6.5 million CIP budgeted by TT for period FY 75-79.
  - -- Operations
    - --- Noted MPSC projected a large increase in government employees (50%) over planning period.
    - --- Questioned need to apply Government of Guam pay scale which has a minimum wage above federal minimum wage.
  - -- Economic Development
    - --- Need to discuss at length.
    - --- Have trouble with concept of Marianas Development Board.
    - --- Suggest that sufficient funds might be available from private sources, land rentals.
- Phase III.
  - -- Not sure of necessity to review at end of fifth year of Phase II.
    - --- Should be continuing

MARIANAS REVENUES

- Believe there greater number of sources of revenues than indicated by MPSC.

U.S. MARIANAS II

5-23-73 PRESENTATION

I. Background.

- Pattern in other U.S. territories is similar: the USG has followed a policy of encouraging and assisting them to become more self-sufficient.
- This has resulted in gradual lessening of reliance and direct Congressional appropriations.
- Guam, Puerto Rico, Virgin Islands, no longer receive direct annual grant assistance.

II. U.S. Approach to Marianas

- We should follow above approach of working toward self-sufficiency.
- Level of assistance "would depend largely upon mutually determined needs of the Marianas Government and people taking into account local revenues and other sources of local government funds".

III. Sources of Funds

- Must set needs and requirements. Also must determine sources of revenue.

A. Present sources:

1. Marianas share of import duties collected by COM in Marianas;
2. Minor income from licensing fees;
3. Federal Programs ($2.5 million in FY 73);
4. Mariana Islands share of Federal Grants to the TTPI as a whole ($7.1 million FY 73).

B. Future sources (non-military):

1. Disposal of public lands;

2. Disposal of real and personal property left by TT;

3. New import duties;

4. Direct income tax;

5. Property taxes, sales or excise taxes;

6. New or existing Federal Programs

C. Future Sources (military):

1. Impact of military on revenues could be considerable if current U.S. plans implemented.

2. Any assessment of the financial relationship would be incomplete without taking into account the "possible dramatic increase in revenues which you would derive from this source".

3. Following figures are estimates based on preliminary planning data and, therefore, represent current best judgments--they do not include any multiplier, which we estimate at 2½-3:

   a. six years of constructions should provide $39.8 million;

   b. labor force of 1,000 will be required during construction and as many as possible will be hired locally;

   c. Base operations will have an "economic impact of $15 million per year when base completed".

   d. completed base will require 600 local employees;

   e. Once base is completed, U.S. personnel will pay $4 million per year, which would be rebated.

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ROUND II - JOINT COMMUNIQUE

Before we can estimate assistance needed for the new Commonwealth to achieve self-sufficiency further study is required regarding the needs of the Marianas and their anticipated revenues. "In this connection, the proposed military activities for the Marianas, especially in Tinian could have substantial impact upon the anticipated income and revenues of the new Marianas Government".

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MARIANAS III - U.S. PROPOSAL

- Reviewed MPSC request from Marianas II.

  -- CIP - 7 years totalling 47.7 in 1975 dollars

  -- Economic development fund - $40 million grant as leverage for $80 million investment

  -- $105 million government operations for 7 years

- U. S. views on Marianas III MPSC proposal

  -- If financial requirements for government operations outdistance capacity of economy, Marianas will never reach self-sufficiency or attain higher standard of living

  -- CIP as far out of line as operations and is overly ambitious but U. S. proposes to provide substantial assistance

  -- U.S. sees no requirement for economic development loan fund proposal

- Resources available to Government of Marianas

  -- Return of all federal taxes collected on economic activity or federal income earned in Marianas

    --- This should yield in excess of $4 million/year after development of base on Tinian

    --- Substantial yield from use of land on Tinian by U. S. military forces.

  -- GOM will want to increase lead of revenue from domestic income

    --- Should result in $1 million, rising as economy rises

    --- Disposal of public land

- Other considerations underlying plans for financial assistance

  -- Shortage of labor
  -- Need to keep government expenditures down
  -- Need to keep CIP in manageable form
  -- Goal of economic self-sufficiency
  -- Availability of other sources of financial help

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- Prospects for agreement

  -- Levels U. S. has in mind would put Marianas at highest per capita level of external assistance in world

- U. S. levels of assistance

  -- Levels worked out are appropriate to following criteria

    --- Assumptions that working with us Marianas can approach economic self-sufficiency and higher standard of living in matter of a generation

  -- U. S. suggested target of 10% annual growth

  -- Estimate current income in Marianas at $12 million

  -- Estimate population growth at 3% annually

  -- Believe an increasing share must come from local taxation and revenues

  -- U. S. concludes that if available resources used carefully, at end of 15 years there would be no need for special appropriations from U.S.

  -- Per capita income would be $2,000

  -- GOM could fund a $15-16 million annual budget

  -- Local savings and foreign investment would keep economy growing.

MARIANAS III - MPSC POSITION

- Living standard must bear a reasonable relationship to the living standards of the rest of the United States. It is simply not acceptable for per capita income in the Marianas to be 20 or 25 percent of the U.S. national per capita income after 15 or 20 years of political union. $2,000 per capita income in 1981 more realistic than U.S. estimate of $2,000 per capita in fifteen years with U.S. per capita at $8,000-10,000.
- Economic and social development loan fund of $80 million.
  - -- $40-45 million for economic development.
    - --- will need 1,000 hotel rooms (1975-1980) at cost of $20,000 per room or total investment of $20,000,000 and
    - --- an additional $20-25 million for tourist related retail and service industries required to meet general population and income growth and to develop other economic sectors.
  - -- $30-35 million for social development by 1981.
    - --- For housing: 1970 census states there are 1000 substandard housing units in the Marianas, cost $4000-5000 per unit to upgrade housing.
    - --- Also will need 1300-1400 new units for normal population increase at $20,000 each will be required by 1981
- Current population and income MPSC estimates 15,000 and $15 million income. U.S. estimates 14,000 and $12 million. MPSC figures add up to $162 million for seven years or an average of $23 million a year of $1600 per year per capita.

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ROUND III - JOINT COMMUNIQUE

ECONOMICS AND FINANCE.

- From U.S. record of Marianas III, Section III, 2, b. and Section III, 3

"b. Under the heading of indirect assistance that would accrue to the new government, the United States agreed to rebate to the Commonwealth all customs duties, excise taxes and federal income taxes collected by the United States Government and derived from the Marianas. These rebates are expected to build up at the end of five years to a level of $4-5 million annually as added revenue for the Marianas and could be expended for such purposes as the Marianas might decide."

"3. Not included in any of the foregoing would be the indirect economic benefits to the economy as a whole, resulting from the establishment and maintenance of a U.S. military base complex in the Marianas. Though the exact amount is difficult to determine, the benefits both to the Marianas' Treasury and the people are likely to be very substantial in the United States' view."

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MARIANAS IV - MPSC POSITIONS

- U.S. is preoccupied with the notion of self-sufficiency to the detriment of economic development and increased standard of living.
- Living standards in the Marianas must bear a reasonable relationship to the living standards of the rest of the United States.
- For rebate of federal taxes, the Marianas will have to wait until the Tinian facility is operational before levels of tax rebates takes on significance.
  - -- We said by 1979 it could be over a million dollars and by 1982 about $4 million a year.
- They will tax themselves more heavily after the change in status and will therefore be paying an increasing share of the cost of government.
- Revenues from the lease of public lands other than to the military will not be sufficient to support even the administration of the public lands for a number of years.

MARIANAS IV - U.S. POSITIONS

- Tinian base development plan calls for the expenditure of an average of $40 million a year for seven years.
- Tax rebates on American construction and military personnel will increase gradually over seven years.
- 1,450 jobs will need to be filled locally.
- Local buying of construction material range between $5-10 million per year.
- "Tinian base may not be completed on schedule--there may be some slippage. However, present plans call for its completion by the early 1980's.
- We note that you estimate your tax revenues should increase from 4.2 to 7.3 million during the first five years after Phase I begins.
- Government income from public lands include:
  -- valuable housing to be leased or sold, potentially a real and very early source of income.
  -- commercial land development especially public beach areas for hotel and restuarant development and potential income from rental of lands from "A" Dock north. Terms of future leases of public land will have government income as a goal.
- Federal Programs: long and impressive list. In Guam federal programs costed out about $15-18 million in recent years. The Marianas could expect assistance totalling $3 million or more.
- Other income will include:
  -- Tax revenues
  -- Rebates of federal income tax.
  -- Income from sale, lease or rental of public lands for both civilian and military purposes.

-- added income from increased scale of local activity resulting from U.S. presence.

- We estimate that the average during the seven year period under consideration will be in the neighborhood of $25 million. This exceeds your own estimates of the total fund requirements for running the government.
- There is no time limit of the financial assistance to the Marianas. The five years in the compact is designed to provide a start-up program for the new government.
- The MPSC leaves out the value to the government of defense land payments, a serious omission. Beyond this the value of the Capital Improvements to the harbor and airfield at Tinian by Defense. The combined expenditures run between $40 and $50 million for these two facilities.
- Per capita calculations. Per capita input of CIP, Operations and Economic Development is over $800--plus federal programs is over $1,000.
- <u>Other Resources</u>
  -- U.S. military presence
  -- foreign investment
  -- land payments by DOD
  -- income tax rebates
  -- economic impact of job opportunities and marketing opportunities at U.S. military base.
- Potential for economic growth is in excess of 10% per year. Limitations of manpower, management skills and government experience is likely to impede realization of full potential--money will not be a problem.

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