

TALKING PAPER ON ECONOMICS/FINANCE

Agenda Item B, 2, a

15 December 1973

"Phase II Amounts"

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I. Goals and Standards

- Over the past two days have, following your proposed agenda, we have been concentrating on Phase II, "Goals and Standards".

-- Believe both sides have benefitted from the exchange and consideration of each others views.

-- Also believe both sides agree that further consideration of this question should be left to experts and planners.

- Would now propose that we move to the next item on your agenda -- "Amounts" during Phase I.

II. Current "Amounts" being provided the Marianas by the U.S. Government through the TIPI

- The Marianas is currently receiving about 9.4 million in U.S. support.

- This 9.4 million figure can be broken down as follows:

-- 5,240,000 for District Government operations

-- 2,200,000 for CIP (five years average).

-- 2,000,000 for federal programs and services.

III. General Comments on U.S. Proposed "Amounts" during the first five years of the new relationship

- U.S. grant assistance and payments are interrelated. The figures to be given for the individual items should be considered provisional, since a material change in the dollar amount of one of the component parts will entail reconsideration of the other parts, and none can be regarded as final until all parts have been agreed to.

- The total amounts will include both direct and indirect assistance and other payments. Direct assistance and direct payments are quantifiable.

Indirect assistance and benefits are much more difficult to estimate but would

be less substantial.

IV. Direct Assistance (Annual grants for first five years new relationship)

- In comparison with what the Marianas now receive.

-- 7.5 million for Budgetary Support for government operations

--- 2,260,000 increase

-- 3.0 million for CIP

--- 800,000 increase

-- 1.0 million grant for Marianas Development Loan Fund

--- 1.0 million increase (but recognize existence of TTPI Economic Development Loan Fund)

-- 3.0 million for federal programs and services (estimated)

--- 1.0 million increase.

- This total of 14.5 million as opposed to 9.4 million represents an increase of 5.1 million per year or a percentage increase of 54%.

- But this is far from the whole story in terms of revenues and benefits that will accrue to the new government of the Northern Mariana Islands. Other revenue will come from:

-- Returns from payments for use of land by U.S. military. I will discuss amounts later. The amount will depend on agreement on fair market value. It should be relatively speaking, substantial in terms of GOM income for public purposes. This amount would be added to Marianas Development Loan Fund and it could be in the millions.

-- Land payments for use of land by other departments of the U.S. Government - Coast Guard, Weather Bureau, FAA, Post Office, etc.

V. Indirect Assistance and Benefits

- Rebate of all federal income taxes and customs duties, fees, etc.

-- Will build up progressively each year.

-- Will be low at beginning but it should be in excess of \$4-5 million

annually after fifth year if current plans for military activities are realized.

- Income or benefits deriving directly and indirectly from build-up, and maintenance of joint service military base complex in the Marianas.

-- These potential increases were reviewed at length in May/June.

-- Difficult, if not impossible to quantify, but in terms of potential infusion of additional funds into Marianas economy, the amount is likely to be substantial.

-- Income or benefits in varying amounts would derive from following sources:

1. Construction contracts and purchase of local materials.
2. Employment of local people both during construction and operational phases of base operations: Salaries & wages.
3. Business opportunities including concessions for activities on the base.
4. Local purchase goods and services by base personnel.
5. Improved infrastructure, military CIP-type projects of direct benefit - harbor and roads - utilities - of benefit to civilian community.
6. Transportation services including high speed ferry service between Saipan-Tinian-Rota.

VI. Programs and Services

- Average yearly figure of \$3 million could be conservative (but not guaranteed)

- Future eligibility will call for review and amendment as may be necessary of applicable federal statutes.

- Assistance and benefits could be both constant and long-term, or on the basis of a one-time grant -- examples CIP-type one-time grants.

COA - Federal Airport Development Act -- 2 million for rehabilitation Isley Field.

-- Possible - future grants for highway planning and construction from Department of Transportation.

-- Possible - housing and urban renewal funds and basic water and sewage facilities from HUD.

-- Possible - from HEW - health facilities construction and modernization.

-- Possible - from EPA - grants for construction of wastewater treatment plants.

-- Above only partial list -- other possibilities exist covering wide range of activities. Keep in mind that obtaining funds through these Federal programs would be over and above the funds provided under the covenant for Mariana CIP programs.

-- Other Federal Programs and Services include funds for a wide spectrum of social and educational programs, from maternal and child welfare programs, school lunch programs, neighborhood Youth Corps, Vista, social security, Medicare -- to various old age assistance-type programs.

-- Wish to repeat that it is impossible to quantify value of these diverse programs. Some would have a direct \$ benefit and impact on GOM budget.

-- Other programs of an indirect nature would relieve GOM of direct expenses and would contribute to goal of higher standards of living for people without cost to the local government.

VII. Own Income - Own Revenue

-- It is expected that your own economy will be growing and that your revenue base based on local taxation will increase accordingly.

-- Your own estimates in your May 14 paper of your tax revenues during the first five years, i.e., from 2.9 million in 1975 to 7.8 million in 1979 are considerably higher than ours because your projection of population increase during these first five years far exceeds the slower and more natural population growth that we had in mind.

-- MPSC - 53% from present base thru 1979.

-- U.S. - ours much smaller based on 3% annual increase and some immigration.

-- Nevertheless, it is expected that the funds available to your new government from local taxes and other revenue sources will grow.

-- Still another potential source of major income for the GOM will be the proceeds realized from the management of your public lands -- sale, lease, etc. (Over and above income from U. S. land payments).

-- Finally - funds for development from foreign investment will also be available.

VIII. Recapitulation

-- The U. S. intends to provide the new GOM with basic budgetary support for its government operations with a guaranteed level of support for the first five years.

-- GOM expenditures during first five years for government operations and CIP over and above the \$10.5 million annual level of U. S. Support would have to be funded from the GOM's own revenues.

Additionally the U. S. proposes a 1 million grant each year for a Marianas Development Loan Fund or 5 million over the period covered. The Marianas will also be eligible for loans under the Small Business Administration.

- Finally, present and added Federal Programs and Services will be available (value of these programs and services to Guam the year before last was 17 million).
- This quick review does not include of course elements like tax rebates which will continue into the indefinite future and which will be a major continuing asset for your new government.
- It does not include moreover any allowance for the further substantial sources of revenue which will accrue directly and indirectly from military land payments and the presence of U.S. joint service military base complex in the Marianas.
- We believe that the totality of our proposed assistance (direct and indirect) and other payments will enable the GOM to get off to a sound start. True, a gap exists between your projected levels and ours -- and it grows larger as your projected costs of government rise dramatically and as your projected CIP spending jumps from 3.5 million to 12.3 million from 1975-1979, a projected 250% increase.
- As we have previously noted, we wonder whether this projected rapidly accelerating rate of expenditures for government operations is wise -- whether it would not in fact lead away from self-sufficiency and toward greater and possibly permanent dependence upon outside external assistance.

... but this is for you to decide. What we will provide you with is basic support but at a much higher level than you are now receiving -- which we believe will cover your basic needs of government operations and needed priority CIP projects.

-- Over and above this -- your spending above the 7.5 and 3.0 million will have to come from your own revenues.

IX. After Five Years

-- At the end -- or before the end -- of the first five years we would propose a full review of your financial situation to determine the need and level and relevancy of U. S. support for the second five years.

X. The above positions are incorporated in Article VI of the draft covenant which we will present to you at the close of this meeting.

-- I repeat, there is an inter-relationship between the various component parts of the U. S. proposed financial arrangements and the provisional nature of the levels suggested until agreement is reached on all sections and subsections of Article VI.

-- Again, I want to stress this, it is our desire to facilitate the achievement of economic self-sufficiency and higher standards of living for the people of the Northern Marianas. This is a goal which we share in common.