

13
2,4,5

JMWilson:5-20-74:kkc

TALKING POINTS FOR PRESENTATION TO MPSC ON LAND
DETERMINATION OF FAIR MARKET VALUES

I. Introduction

- On assumption lump sum payment is what both sides desire, whether on basis of purchase or long term lease, problem is to develop method for determining fair market value.

- Process not too difficult where there is active commercial market for private real estate (Anticipate no real difficulty with this since current rates in different localities are matter of record and easily accessible).

- Assume it is mutually agreeable to throw out wide variants or patently rigged deals.

- Real difficulty comes when there is no active market or, as is case here, where public or military retention lands are involved which have had almost by definition no easily ascertainable value in the public market place.

- Professional appraisals in latter case are really not worth much of any thing since the appraiser has no more to go on than we do.

II. U.S. proposal

- U.S. proposes under these circumstances that we try to agree on single lump sum figure for all land involved in present requirements.

- This would not, however, be arbitrary figure, but would instead be based on agreed average price per acre or hectare for different categories of land in different locations.

03 - 036245

- We do not believe it would be useful to try to place a value on each piece of property involved on different kinds of military retention and public land.

- U.S. also believes value of military retention land to be returned should be taken into account in making calculations.

III. Land Involved

- We are talking specifically about the following categories and amounts of land necessary to meet U.S. military requirements:

On Tinian:

100 acres of commercial land

700 acres of agricultural/village land.

8,223 acres of public land

8,453 acres of military retention land

On Saipan:

Tanapag Harbor: 195 acres of military retention land;

Isely Field: 482 acres of military retention land.

On Farallon de Medinilla: 229 acres of military retention land.

- Each of these types of land probably has a different value and different considerations must apply in assessing value of each.

IV. Considerations Regarding Value of Military Retention Land on Farallon de Medinilla

- Uninhabitable, unexploitable land area
- Guano deposits not commercially exploitable.
- Accessable only by helicopter.
- Nothing comparable commercially.
- Therefore value per acre low.

036247

V. Considerations Regarding Value of Military Retention Land at Isely Field, Saipan

- Limited potential use due to proximity to airfield (noise factor) non-residential.
- Possible for commercial warehousing or light industry - but no commercial market at present.
- Limited agricultural use due to presence of hundreds of hard lands removal of which would be prohibitively expensive - might be used for grazing.
- Current average rental paid for grazing land (public land) on Saipan is \$1.79 per hectare or \$.73 per acre per year.
- Are there other indicators of fair market value?
- U.S. proposes to return 3,747 acres of land at Isely (including airfield itself) which because of location and potential use are far more valuable - how do we fix value on them?
- Also willing to lease back the 482 acres to Government of Marianas at nominal sum.
- Conclusion: Value of 482 acres U.S. wants to retain use rights for can't be very high.

VI. Considerations Regarding Value of Military Retention Land at Tanapag Harbor, Saipan

- This is all good land for harbor related commercial activity and industry.
- But rentals currently paid do not support any terrifically high prices. (Mobil, Micro Construction, Dillingham rents range from \$2,100/acre for Mobile's 2.27 acres to \$1 per acre for the Micronesian U.D. Lodge with

average industrial rental about \$230 per acre. Hotels - Continental and Inter Continental on public land start at \$210-263/acre and rise after 40 years to \$2,630-3,250/acre).

- Remember, however, best part of the 195 acres U.S. wants to retain use rights to is to be used for public good, and it would not appear equitable to charge full commercial prices for this purpose (We don't try to put commercial value on Central Park in New York City).

- U.S. moreover will be turning back 445 acres at Tanapag and the value of this to Government of Marianas should offset by more than twice the amount the value of what federal government would be keeping.

- Conclusion: Full commercial rate on this by no means justifiable.

VII. Considerations Regarding Value of Private Commercial Land on Tinian

- This one is easy - U.S. will pay the going commercial rate.

- Need simply to look up last transactions (discarding any anomalous sales) and we will pay the average for comparable land.

VIII. Considerations Regarding Value of Homesteads and Residential Land on Tinian

- The same considerations should apply.

- What does MPSC consider to be fair market value of average acre at current rates?

IX. Considerations Regarding Value of Public Land on Tinian.

- Same type of considerations apply to agricultural land as on Saipan, though probably would be worth less on commercial market if there were one.

- MDC paid during 1971 and 72 average of \$1.01 per hectare for the 3,035 hectares it leases on Tinian.

- Average value of small livestock leases on Tinian is \$2.35 per hectare or \$.95 per acre.

- Much of the public land is thoroughly worthless (i.e, unusable for any purpose).

- Conclusion: Public land on Tinian is not worth much.

X. Considerations Regarding Military Retention Land on Tinian.

- Probably worth less than 482 acres at Isely since less potentially useable for commercial purposes, and much less than value of military retention land at Isely to be returned.

- There is no real market at present.

- MDC pays same amount per acre for military retention land it leases as it does for public land - all very low.

- Conclusion: military retention land worth considerably less than Isely.

XI. Summary.

- Private land is easy to take going value on the average, throwing out rigged deals.

- Must reach equitable meeting of the minds on public lands and military retention lands, which constitute bulk of area requested.

- Latter not susceptible to professional appraisal.

- Would like to hear MPSC views on foregoing before getting down to actual prices.

JMWilson:5-20-74:kkc

TALKING POINTS FOR MPSC LAND PRESENTATION

PURCHASE VS. LEASE

I. Introduction

- U.S. has said many times and means it sincerely that it appreciates high degree of sensitivity Marianas people place on land and their feelings against its permanent alienation.

- Appreciate what this means in an island society.

- Appreciate quest of people throughout recent history to acquire land.

- We can also understand on this basis reasons why Marianas Commission has taken stand that while it is willing to make land available to federal government it does not want to do this in a manner which will constitute a permanent alienation of that land.

- This essentially provides what seems to be the principal rationale from MPSC position that it will lease but not sell land.

II. Rationale for U.S. position.

- U.S. also recognizes that other island societies have gotten over their hang-ups on this score so far as their own local governments are concerned and (in the case of other U.S. states and territories) the federal government is concerned.

- Can understand why island people do not want land alienated to foreigners and has especially recognized this in the case of Hawaii and Samoa.

- But have great difficulty in equating this with making land available to ones own government, which is the center of the political family the Marianas has asked to join and not a foreigner since the Marianas is part of it.

- This is particularly true when the federal government is committed to return land to local inhabitants when that land is no longer needed for public purposes.

- Appreciate argument that federal government may sometimes seem slow in other cases in returning unused public land, but this is almost always a short run impression. In many cases federal government is asked to hold unused areas a bit longer to guard against undue speculation and those who would alienate land to foreigners for their own personal profit. (cf. Guam).

- In particular we find difficulty with a line of reasoning which resists our encouragement of efforts to pass legislation prohibiting the alienation of land to foreigners and at the same time refuses to alienate land to a government of which the Marianas is becoming a part.

III. Cost factors

- Principal reason for our wish to purchase rather than lease land is that it is a clean transaction in which a single sum is paid for the current fair value of the land and that ends the matter until such time as the land is not needed for everyone's benefit and then reverts to local use.

- Experience has shown that this is the best way to handle such situations. It is the way land transactions involving the central government are handled in every major country in the world - even the communist

states, where everything belongs in theory to the state anyway, though there is no suggestion of reversion there. The dedication of certain amounts of land to public purposes - including the national defense - is recognized throughout the world as a public responsibility.

- The federal government operates this way in every state of the union, the District of Columbia, the Commonwealth of Puerto Rico and all the other territories and possessions of the United States.

- Experience has shown that with a lease, even a long lease, pressures can arise locally for renegotiation as land values change. Political pressures rise as pressure groups are formed and special interests take over. The result is a continuing series of friction points which are unhealthy at best and can give rise to situations in which the public in general suffers from the special selfish interests of a few who seek to gain profit from the rest.

- With a single purchase price the seller is able to take his money, invest it as he chooses (if he is smart he will invest it wisely in a way that will protect himself against inflationary influences) and come out well ahead financially in the long run.

- From the standpoint of the central government when public funds are to be used in large amounts (over \$300 million in this instance) the exercise of common prudence demands that there be solid assurances of unfettered use of the real estate before such sums are committed for investment in costly construction. That investment should be protected not threatened by future uncertainties in the method of land acquisition.

IV. Attitudes of U.S. Congress.

- Traditional Congressional attitude is to insist on federal ownership of land before large expenditures are made. Congress in the past has simply refused to appropriate funds unless this is done.

- In present case we have consulted carefully with key members of Congress and influential staff members. Strength of views differ, but all hold to view that purchase is far and away best means of handling land here. Some are adamant on the subject.

- Congress is always sensitive to desire of local inhabitants to retain land for local uses and will not needlessly appropriate money for any more land than is absolutely needed. It has also been generous in turning back large amounts of federal land when no longer needed. There is no reason to believe it will not continue to be so in the future. Everyone in the family after all has the same problems and responsibilities and Congress is most sensitive to peoples desires in this regard.

V. Conclusion.

- For ~~all~~ these reasons U.S. still feels purchase with reversionary provisions in event of non-use is most preferable to lease - even long term lease.

- It is less costly to all the people.

- It provides a healthy, large sum for intelligent use and investment by the seller.

- It avoids future misunderstandings and arguments.

- It is the way all other governments handle this and the way our government handles it everywhere else under the U.S. flag.

- It is the policy of the U.S. Congress.

036254

JMWilson:5-20-74:kkc

TALKING POINTS FOR LAND PRESENTATION TO MPSC

LUMP SUM VS. PERIODIC PAYMENTS

I. Introduction

- Closely related both to questions of lease versus purchase and methods of determining fair market value for land is matter of whether payments should be made in single lump sum or in periodic or installment payments.

- This could apply both to purchase or to long-term lease arrangements.
- U.S. has clear preference for lump sum and hopes MPSC does as well.
- Here are reasons for U.S. preference.

II. Advantages to Marianas.

- Provides large initial sum of money to Government of Marianas that should result in return of approximately 10% per year if properly handled.

- A good example of how this can work is found in the trust fund established with the money paid to TT Government by DOD in 1954 for military retention land.

- Initial sum was just under \$1 million for Marianas land.

- This money was placed in a "Special Deposit Fund" for the Saipan District, administered initially by the Department of the Navy (as administrative authority), and in 1969 the Fund was transferred to the Department of the Interior as the Navy relinquished control over the Marianas.

036255

- Control of the Fund was then delegated to the HICOM and thence to the DISTAD.

- At one time accumulated interest raised the value of the Fund to nearly \$1.5 million.

- The uses of the Saipan Trust Fund have varied.

- Some scholarships were granted several years ago and one economic development loan of \$25,000 was made to the Saipan Shipping Company. This loan has been repaid in full and no additional economic development loans have been made.

- The sum of \$882,322.34 was spent on the construction of Dr. Torres Hospital.

- A loan of \$130,000 was made to the Marianas District Housing Authority.

- There is still \$___ million left in the trust fund and it is still building up with accumulated interest.

- Proper investment of lump-sum payment should provide hedge against inflation and more.

- Interest could be plowed back into land development or other development projects, leaving principal intact.

(3) - Would provide Marianas Government and its new land entity greater flexibility in dealing with private land owners by giving sufficient assets to make best possible deal for all concerned. (We assume here that Marianas land corporation would be dealing directly with private land owners, leaving U.S. Government out of it).

036236

- Lump sum payment would be made immediately upon approval of Covenant by U.S. Congress, giving new Marianas Government a major source of funds to invest and use as it sees fit.

III. Advantages to U.S.

- Single payment in single transaction if made to sellers satisfaction ends the matter.

- Avoids recurring annual appropriation problem with U.S. Congress.

- Avoids future arguments and misunderstandings.

IV. Assume MPSC will also favor lump sum, but need confirmation. If not, need to discuss at greater length.

ECWhelan:5-20-74:kkc

PRESENTATION OF RATIONALE FOR LAND VALUES

Introductory remarks: purpose is to acquire certain lands:

- at fair value
 - current market very limited
- without artificially raising land values in the area
 - which could stimulate greater inflation
 - make it more difficult for Marianas people to buy homesites and businesses.
- recognizing there are not many representative examples of recent land purchases, we can obtain an appreciation of the land market from a sampling of leases.
 - Records indicate some annual rates are:
 - MDC lease costs about \$1.00 per hectare (40¢ acre).
 - ranches or livestock land leases = less than \$1.00 acre.
 - commercial beach \$38 year
 - Continental Hotel starts at \$210 acre and after 50 years has risen to \$1,060 per acre.
 - Royal Taga Hotel is leased for 2 1/2% of gross or an annual rate of about \$58.00.

Explain development of a formula for arriving at land values.

- Four types of land are under consideration:
 - military retention lands.
 - public lands.
 - Village and agricultural lands

036253

-- Commercial land

- Military retention land under a valid use and occupancy agreement which was paid for thirty years ago.

-- Original sum paid was \$984,000 (current assets of fund - \$409,141).

-- term of retention lease is indefinite.

-- we are prepared to purchase residual rights.

-- \$40 acre paid in 1951 was fair (based on 1932-1942 prices) and if inflated at 10% per year, compounded annually, the value in 1975 would be \$394 acre.

-- Prepared to return large amount of these lands which will be same as additional funds.

- Public lands will be returned as promised.

--- And the U.S. will then purchase at a reasonable price.

-- A paper transaction for District Land entity, with no legal fees or friction with private land owner

- Agricultural/Village lands will be purchased at a fair value.

-- Even undeveloped land falling into this category.

- Commercial lands are considered to have the highest value.

-- Those lands which could be used for businesses, light or heavy industry, or warehousing.

The categories of land encompass that which we intend to purchase on Tinian, Saipan and Farallon de Medinilla