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PARTS I & III PRESENTED BY AMBASSADOR WILLIAMS, PART II BY MR. WILSON 12-15-74

MARIANAS V--TENTH WORKING SESSION--12-15-74

U.S. RESPONSE TO MPSC STATEMENT ON COMPENSATORY
ECONOMIC SUPPORT

Introduction

- Today would first like to review your statement of last Friday on the economic impact of the change in the DOD plans and timetable for Tinian and your request for compensatory economic support
- Would then like to ask Mr. Wilson to review the basis for the U.S. offer for financial assistance during Phase II.
- And finally would like to discuss with you what you see as your additional needs which would not be covered by the current agreed levels of support found in Article 7 of the Covenant.

I. Comments on your presentation

- You have said that "you were persuaded that the construction and operation of the base during the near term would provide substantial new employment opportunities for the people of Tinian, new sources of income for all the people of the Marianas, and dramatically improved public services on Tinian". -- And you said further "now we are told, there will be no permanent military base for ten years, 20 years, or perhaps never."
- I would like for sake of clarity so that there will be no misunderstanding that I am not sure when the DOD might decide to go forward with the full development of the Tinian base.
- It could be sooner than ten years.
- It could be next year.
- Plans as I have said are under review.

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- What I can say is that at the present time the plans do not go beyond the harbor rehabilitation and the upgrading of West Field, some possible minor related improvements and the use of Tinian for comined military exercises.
- In the meanwhile there will be some economic benefits.
 - Rehabilitation of harbor--possible labor, possible local materials, possible income from work force.
 - Same would be true for upgrading of West Field.
 - Will save money for future Commonwealth government--in terms of own capital improvement funds.
 - But overall do not deny that in terms of expectations the work opportunities and added income and potential service, the change in DOD Tinian planning may indeed have changed the totality of your financial outlook for the near term in a number of important respects.
- But let me say again as you did in your paper that neither party in determining the basic financial needs of the new government took into account the expected additional funds to be derived from a military presence.
- You said on page 10 that "We framed our requests for Phase II support without regard to income which might be anticipated through increased economic activity resulting from Tinian base construction and operation or through rebates of federal income taxes paid by U.S. military and civilian personnel permanently stationed at the Tinian facility".

- You went on to say that we were critical of the MPSC's economic analysis for ignoring these additional sources of income.
- True we thought that this additional source should not be ignored but our major criticism was not this but the basic assumptions and economic projections of your future needs for which we could find no justification for -- i.e.
 - 105 million for government operations
 - 47.7 million for CIP
 - 40 million for Economic Development Loan Fund
 - Average of 23 million per year.
- In view of your projections for a 50-60% increase in government employment and an increase in government operations costs of 300% and a rapid increase in population that could only be met by a major influx of people from outside the Marianas we came to the conclusion that your statement of needs -- far outdistanced the capacity of your economy to support them.
 - We felt that this would lead to greater dependency - rather than toward your goal of self-sufficiency.
- Our final proposals and levels were based on our best estimates of your needs and I am glad that we finally reached agreement on what we both considered to be appropriate levels. In all fairness I am sure that the level of expectations for the added income from the projected military presence made it easier for you to reach a final compromise with us. But we thought then and we think now that the levels called for in the Covenant will meet your requirements.

- I think the constructive thing to do now is to look forward rather than backward--since there are some things that are beyond our control--and one of these is defense planning and the allocation of defense resources. Things can change--but I think it only wise not to count on any change in the near term.
- I would like to now ask Mr. Wilson to review the financial provisions of the Covenant with respect to your future financial needs as a basis for our further discussion this afternoon.

II. Analysis of Government of the Northern Mariana Islands Financial Needs

- Wish to start out by reviewing conclusions we reached in earlier rounds regarding nature and extent of Government of the Northern Mariana Islands needs and the purposes for which U.S. assistance would be required and amounts previously talked about in terms of their adequacy in meeting those needs.
- You will recall that we went through a rather laborious and sometimes contentious exercise of trying to determine what your government needs and expenses were likely to be in the early years of Phase II.
- Your own estimate of required expenditures as revised for Round IV ranged from \$19.8 million in FY 1978 to \$22.3 million in FY 1982 averaging \$21.5 million for the period.
- We in turn estimated your potential income, if one includes the amounts of U.S. assistance agreed to last May and now included in the draft Covenant, at an average of \$26.25 million annually over the first seven years of Phase II.
- Of that amount we estimated \$1.5 million as your average annual revenue derived from the U.S. military presence: tax rebates, income tax, local purchases, etc.
- But without this \$1.5 million the balance would still be almost \$25 million annually or well over your own estimates of your expenditures.
- You will recall that you argued yourselves in May that the principal component of this \$1.5 million figure--the tax rebates--would not be available in any appreciable quantity until the end of the seven year period when the Tinian base became operational and we all recognized even then that there could well be slippage in the projected schedule

of development.

- The real question then is what your other sources of income will be.
- We start out with the amounts agreed to last May for direct U.S. financial assistance.
 - First of these was \$8 million for support of government operations which is considerably in excess of the present level of support under the TTPI budget.
 - We spent much time talking about this item and thought we had agreed we didn't want this figure increased radically because if your financial requirements for government operations outdistanced the capacity of the basic economy to support it, the Marianas would never reach its goal of reasonable self-sufficiency or succeed in achieving appreciably higher standards of living.
 - We agreed at the end of Round IV to increase the level of U.S. support to \$8 million only on the basis of the argument that special assistance was needed to replenish the level of stocks that had been drawn too far down and to take account of rising personnel pay scales not associated with possible inflationary trends, taken care of by our constant dollar arrangement.
- The second item was capital improvements which was raised in the closing days to \$4 million annually by adding \$500,000 each in earmarked funds for Tinian and Rota.
 - We discussed earlier the problem of staying within your own capability of absorbing and managing this amount of money, which is greatly in excess of current levels under the TTPI budget.

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- We talked about the need for careful planning and spacing out of programs and projects.
- We talked about additional grant funds that could be made available for CIP type projects under other federal programs for which the Marianas would be eligible.
- So we have difficulty with the idea that much more should be added to this category of assistance.
- The third major item was the economic development loan fund, which you will recall is unique in several respects.
 - It is a grant to the Government of the Northern Mariana Islands which is not repayable and will build up into a very tidy sum over the years.
 - It makes available \$1.5 million per year for loans in the Marianas--almost 9 times more than is presently available under the TTPI EDLF
 - It earmarks \$500,000 annually for agricultural and marine cooperatives in an effort to stimulate these important elements of your future economy.
- On top of these is your promised eligibility for all the federal programs available to other territories.
 - We estimated this at \$3 million annually, which we still believe to be a very conservative figure.
 - Guam now gets between \$15 and \$18 million per year out of these programs.
 - You should be able to do just as well or better.
 - We feel in addition that you would be well advised to make the maximum use of these programs wherever possible rather than trying to rely on

direct grants if, again, your goal is relative self-sufficiency.

- Thus we would find it difficult to put more money into direct grants if it would mean lessening your eligibility for other federal programs.
- Let me review again what these programs can cover potentially.
 - Numerous programs available.
 - Participation depends primarily on Marianas effort.
 - Examples of program are:
 - LEAA (Justice) programs for planning and construction of court-houses, jails, police stations, etc.
 - HUD programs for housing loans, urban renewal and development, etc. Entire cities are being rebuilt in the U.S. under urban renewal programs. Low interests loans for upgrading of private dwellings are among urban renewal benefits. Also included are provisions for developing of housing for low income families
 - HEW programs for hospitals, training, rehabilitation and special prgrams for the poor.
 - Of special significance here in view of great interest are HEW's programs for and to education; schools, special programs, teachers etc. Some of these are:
 - Manpower Development and Training Grants
 - Head Start Grants
 - Adult Basic Education Grants
 - Bilingual Education
 - Work Study Programs
 - Upward Bound
 - Vocational Rehabilitation Services.

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- On-the-job training.
- Non-Food assistance to School Programs
- Grants for Public Libraries
- Teacher Education
- MDTA
- School lunches
- plus a number of other programs
- Labor programs for training, rehabilitation, job placement, etc.
- Agriculture programs for reclamation and soil conservation, improved pasturage, water reservoir construction, food stamp programs for low income families, crop insurance, etc.
- Transportation Programs such as FAA operations, equipment and facilities aid, harbor improvement, etc.
- Others are S.B.A., F.H.A., roads programs, library programs, sewer and water programs, social security, postal services and Community Action Programs.
- There are many more too numerous to recount here today.
- One of the important taskings of Phase I is to investigate and report on all possibilities.
- No present way to cost out potential future Government of the Northern Mariana Islands benefits, but \$3 million estimate is very conservative in our view.
- The other sources of income listed in our estimate of last spring we still feel to be valid.
- Your estimate of local revenues and our own (excluding military related

sources) were very close.

- We put it at an average of \$5.75 million per year, and still believe this is a viable figure.
- The last item was somewhat more controversial, but we remain convinced that it is a valid item for inclusion.
 - This is the estimate of income to be derived from your public property whether by its sale, rental, lease, concessions or what not.
 - You will be getting back shortly an enormous amount of public land in all the islands of the Marianas.
 - If that land is worth anything like what Mr. Seldin says it is worth, the potential income should be staggering.
 - This is without reference to the land you make available to us, which should under any circumstances provide a nice sum annually if properly managed.
 - Remember you will receive in the very near future approximately 41,300 acres of public land including approximately 4,780 acres of military retention land. All this is quite apart from what you have agreed to set aside for the U.S. military.
 - We figure the value of this public land in terms of its income to you at a conservative \$2.5 million annually. It could go much higher if your estimate of its value is anywhere near correct.
- All this means in our judgment that even without the estimated increase in revenues from the early military build up you should in our judgment be in excellent financial shape.

III. The MPSC Request for Compensatory Support

A. Their Paper

- One million per year for seven years
- Considered by MPSC to be roughly equivalent to the estimated net loss in revenues resulting from the recent change in the U. S. plans for Tinian.
- To be used for
 - \$500,000 for economic development
 - \$500,000 for government operations
- Economic development - to be largely earmarked for needs of people on Tinian and the other municipalities who have lost job opportunities because of change
 - what do you have in mind?
vocational and technical training programs or what?
- You do not say how you would use the increased funds for government operations -- but you do say on the other hand "probable expenses of the future government are somewhat reduced by the decision of the U. S. not to build the base". There may be some confusion here.
- Perhaps the second \$500,000 was for "A Community Development Corporation" to improve services on Tinian - and housing on Tinian and elsewhere in the Marianas -
 - Perhaps you could tell us more about what you have in mind in this area--or in other areas.

--BREAK FOR DISCUSSION--

B. Relationship to Special Funds already available to Tinian -- and Federal Programs and Services

- see no logic in giving funds for purposes that could be met out of U. S. Federal programs

C. Some Possibilities

1. \$500,000 more for Loan Fund
2. \$500,000 for special educational, in-service training and public administration scholarships and internships for transition and for the start-up years of the new Commonwealth.
3. \$250,000 for Community Development Corporation
\$250,000 for special educational training for Commonwealth.

D. What are your thoughts?

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FEDERAL PROGRAMS AND SERVICES

Selected from Guam program list and likely to be applicable to the Commonwealth.

1. To improve individual standards of living in the areas of health and welfare:

Maternal and Child Health Services
Family Planning
Social Security - Old Age Survivors
Social Security - Disability Benefits
Old Age Assistance
Aid to Families with Dependent Children
Medical Assistance Grants
Child Welfare Services

2. To provide for self-improvement, training and educational opportunities:

Manpower Development and Training Grants
Head Start Grants
Adult Basic Education Grants
Bilingual Education
Educational Opportunity Grants
Work Study Program
Upward Bound
Vocational Rehabilitation Services
On-the-Job Training
Non-Food Assistance to School Programs
Grants for Public Libraries
Teacher Education
Institutional Training - Manpower Development and Training Act (MDTA)
Economic Opportunity Loans to Small Business
Small Business Financial Assistance Program

3. To improve community life:

School Lunch Program
Child Breakfast Program
Social Services for Public Assistance
Home Mortgage Insurance
Economic Opportunity Programs
Grants for Community Planning
Grants for Law Enforcement Assistance

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Neighborhood Youth Corps
Environmental Protection Research
VISTA
Community Action Programs
Federal Crop Insurance

4. To contribute to improved infrastructure and capital improvement programs:

Construction of Public Libraries
Supplementary Educational Centers - construction
Urban Renewal Programs
Basic Water and Sewer Facilities
FAA - Airport and Airways Construction
Roads - Harbors
Construction Waste Water Treatment Works

5. To provide essential public services:

The Postal Fund
FAA - Operations
FAA - Equipment and Facilities
School Assistance to Federally Assisted Areas (SAFA) -
Maintenance and Operations