

May 12, 1976

LCardwell/NRD

Clearance of Interior draft bill providing annual appropriation authorizations for fiscal years 1978, 1979, and 1980 for the Trust Territory of the Pacific Islands

Mr. James L. Mitchell

Timing:

- A draft bill needs to be transmitted to the Congress by not later than Friday, May 14, to comply with the Congressional Budget Act requirement.
- Interior was late getting their proposal to us. The draft bill for which they are requesting clearance only arrived on May 4.

Interior Proposal:

- The bill would provide annual authorizations for both the operating costs and a stepped-up capital improvements program for the Trust Territory for FY 1978, 1979, and 1980. The amounts proposed for operating costs and construction are the same as those tentatively agreed to in the continuing political status negotiations. See Table I (attached) for details.
- The Department proposes to change the constant dollar adjustment provision, which was recommended by the Administration and recently was enacted by Congress in order to specifically forecast the amount of the constant dollar adjustments in the annual budget in advance of the beginning of the fiscal year.

Other Agency Views:

- Office of Micronesian Status Negotiations:

Supports the Interior bill and says failure to carry out the tentative agreement on amounts of annual assistance would seriously impede U.S. efforts to reach early agreement on the future political status of the Marshall and Caroline Islands.

- Defense:

Indicates they can support the bill as proposed by Interior but raise questions concerning whether the declining amounts provided for operating costs could hamper current efforts to complete the political future negotiations.

- State:

Has no objection to the Interior proposal.

Issues:

#1 Change in method for constant dollar adjustments.

- Department staff argue the change is necessary for the following reasons:

- The amounts ought to be forecasted in advance so that the Trust Territory Government, the Department, OMB and Congressional Budget and Appropriation Committees can plan for them.
- Not including the forecasts in the budget increases the risk that Congress will not appropriate them.
- The economic indicator estimates used in preparing the annual budget always tend to be conservative in Interior's view. Therefore, Department staff do not believe the amounts forecast would be greater than the actual amounts which would be determined later by changes in the gross national product implicit price deflator series. It would be the actual amounts which would be requested in supplemental appropriations.
- The Interior proposal is similar to one we rejected last year. Our rejection was based on the belief that the Trust Territory Government would be better able to handle adjustments made during the year rather than to try to plan for adjustments forecast at the beginning of the year.

#2 Continuation of constant dollar adjustments.

- The U.S. has offered to make constant dollar adjustments in the amounts to be provided to the Trust Territory. This offer was made in May 1974 in the political future

negotiations and has been approved by the President.

- An Administration draft bill which has been enacted by Congress provides the formula for making constant dollar adjustments using the third quarter of calendar year 1974 as the base period for calculating changes and using the gross national product implicit price deflator (GNP-IPD) to determine the adjustment amounts.
- The FY 1977 budget provides dollars for the first constant dollar adjustment to the Trust Territory appropriation for FY 1976.
- The Northern Mariana Islands Commonwealth Covenant, approved for which recently was enacted by the Congress, includes a constant dollar adjustment provision which only could be deleted with the consent of a new Northern Mariana Islands Government.
- New instructions for Ambassador Williams, now under consideration, would withdraw the constant dollar adjustment concept after FY 1980 (i.e. the period following the dissolution of the U.N. Trusteeship). Periodic reviews of the amounts offered to be provided with possible adjustments in those amounts is to be available as a substitute.
- The problem is that providing constant dollar adjustments for five years (i.e. FY 1977-1981) and then discontinuing such adjustments would result in a tremendous reduction in the number of dollars available to the Trust Territory. The amount of the reduction could be as much as \$63 M from 1980 to 1981 (if one uses the GNP-IPD estimates in the FY 1977 budget and applies them to the base amounts for operation and construction offered in May 1974).

### #3 Carmel formula vs. equal annual amounts for construction

- The May 1974 (Carmel) offer included a stepped-up, six-year \$145-M capital improvements program for the entire Trust Territory. The \$145 M was distributed over the six years in unequal amounts with the largest amounts in the early years as shown on the attached Table II.
- This distribution was specifically approved by the President; however, later the Micronesians rejected the entire financial aid package as being inadequate.

- The FY 1975 and 1976 appropriations and the FY 1977 Budget amounts for capital improvements all are less than the amounts offered in May 1974 and they are shown in Table III (attached).
- Current OMB five-year projections (developed in January 1976) assume equal amounts for capital improvements for each of the next four years. Those amounts are \$25 M per year (BA and outlays) starting in FY 1978. See Table IV.
- Interior, with support by the Ambassador, is proposing to return to the Carmel unequal annual amount formula as shown on Table IV (attached).

#### #4 Reviews of the projects proposed for construction.

- The \$145-M for capital improvements was based on a list as specific projects identified by geographic location.
- The Senate Interior Committee and the Congress of Micronesia, in the spring of 1975, both issued reports which were critical of the nature of the projects proposed and the quality of the cost estimates for them.
- As a result, two reviews of the capital improvements program were initiated. The first review was made by an Interior Task Force headed by the then newly appointed Director of Territorial Affairs, Fred Zeder, which analyzed the cost estimates and concluded that many of them were substantially understated. Consequently, the number of projects which would now be planned would be smaller than before; however, the details are still under review at the district level within the Trust Territory.
- A second review is being made by a United Nations Development Planning Group which will report its findings and recommendations to the Congress of Micronesia within the next four to six weeks. This group is operating under an assumption that the maximum amount for construction projects would be \$145 M between FY 1975 and FY 1980, including those for the Mariana Island District. This group's recommendations may be for a substantially different mix of projects from what has been proposed previously.

#### #5 Administration of the construction program

- The Senate Interior Committee report of a year ago was highly critical of the Trust Territory Government's administration of the construction program. The Interior task force report concurs with many of the findings by the Committee.
- To improve the management of the construction program, Interior has reached agreement with the Office in Charge of Construction (OICC) of the Naval Facilities Engineering Command (NAVFAC) that Navy will be assigned full responsibility for the completion of all of the \$145 M in construction projects. Additionally, the Navy Sea Systems Command and the U.S. Coast Guard have agreed to provide technical assistance in the selection of types and design of ships to be used in the Trust Territory's inter-island transportation system.
- This combination of changes should overcome the major problems identified in the Senate Committee and Task Force reports.

#### Conclusions

- There is substantial uncertainty at this time concerning the types and location of projects which will be proposed for construction in FY 1978, 1979, and 1980.
- While there has been an offer for a capital improvement program with larger amounts of funding for it in earlier years, it would be simpler to administer and easier to budget equal amounts for construction under the next several years. Having equal amounts also would increase the likelihood that appropriations would be made for the amounts budgeted.
- Providing adjustments to the amounts of financial assistance for the Trust Territory appears to be unavoidable; however, the particular method now enacted into law is presenting problems.
- Discontinuing the present constant dollar adjustments in 1980 or 1981 together with the reduction in the base amounts would cause huge adjustment problems for the Government of what is now the Trust Territory.

Options (See Table V for budget impacts)

- Option #1 - clear the Interior bill as proposed.
- Option #2 - clear a bill which maintains the present constant dollar adjustment mechanism, reflects the declining amounts for operation costs proposed in May of 1974, and maintains a \$25 M per year level for construction.
- Option #3 - clear the bill which has the same provisions as Option #2 except provides only a 1978 authorization.
- Option #4 - clear the bill which recommends deletion of the constant dollar adjustment provisions in the current law, maintains the reduced amount for operations offered in May 1974, and provides \$25 M per year for construction.

NR Recommendation

Option #3.

cc: NR Records/IntBr  
Mr. Sasaki/Cardwell  
Mr. Crabill  
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