

November 1, 1976

REPORT TO THE CONVENTION
BY THE COMMITTEE ON FINANCE
LOCAL GOVERNMENT AND OTHER MATTERS

Subject: Committee Recommendation Number Six:
Commonwealth Debt

The Committee on Finance, Local Government and Other Matters recommends that the Convention adopt in principle the attached Constitutional provisions with respect to public debt.

The Committee recognizes that bond issuance is an indispensable device to fund important capital projects undertaken by the Commonwealth or its political subdivisions. Borrowing is a well established means by which states and local governments secure funds for capital improvements such as public buildings, schools, health centers and the like. Given the high capital outlay required for construction, it is usually not feasible to finance such improvements directly from current tax receipts or other operating funds. Two types of bonds were considered by the Committee: general obligation bonds, in which the principal and interest for sums borrowed are repaid from annual appropriations from the general revenues of the Commonwealth; and revenue bonds, in which the principal and interest are repaid solely from the revenues derived from the capital improvement itself.

It is the Committee's view that under careful controls and safeguards both of these types of bonds can

serve a useful function in the economic development of the Commonwealth of the Northern Mariana Islands. In its review of constitutions of United States jurisdictions the Committee found that only a few states prohibit governmental borrowing. It was decided that a constitutional ban on Commonwealth debt is not a realistic alternative, since it would be impractical otherwise to finance capital improvements.

The Committee recognizes, however, that overborrowing can lead to undesirable results. The Committee's proposal includes two limitations on borrowing: (1) a limitation already contained in the Covenant, which is based on a percentage of the property valuation within the Commonwealth; and (2) a limitation that prohibits the use of debt for the regular operating expenses of the government of the Commonwealth. As a further control, the Committee recommends that no general obligation or revenue bond issue be authorized unless approved by a two-thirds vote of each house of the legislature.

The Committee decided that it would be appropriate to include in the Constitution not only a limitation on the amount of debt that could be incurred, but also a limitation on the means by which it could be incurred and the purpose for which it could be incurred.

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Regarding the limitation on amount, several alternatives were discussed: a flat dollar amount; a limitation based on a percentage of the revenues received by the Commonwealth; a limitation based on percentage of the assessed valuation of property within the Northern Mariana Islands. The last approach is contained in the Covenant and is mandatory for the first seven years of federal financial assistance, and any subsequent periods of United States financial support. The Committee decided that this limitation would be suitable for the Commonwealth after the Covenant provision ceases to be applicable.

With respect to the means by which debt can be incurred, the Committee considered a requirement for approval by an extraordinary majority of one or both houses of the legislature, and the alternative of a requirement of the consent of the electorate through popular referendum. The Committee decided that an extraordinary majority of two-thirds of the members of each house would be sufficient protection while permitting the Commonwealth the flexibility to enact debt provisions promptly when the need arose.

The Committee believes it is appropriate to set a "live within our means" course for the Commonwealth. This is accomplished in the Committee's proposed Constitutional provision by a prohibition on borrowing to meet operating expenses because these should be paid from current tax receipts. There are some operating expenses normally

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encompassed as a part of the actual construction of a capital improvement. These would not be prohibited but ordinary operating expenses of government would be.

The Committee analyzed another method to control debt used in a few jurisdictions: the regulation of bond maturities and repayment. The Committee decided not to utilize this approach because of the intricacies involved and possible fluctuations in the bond market.

Respectfully submitted by the
Committee,

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ARTICLE ____
COMMONWEALTH DEBT

Section 1: Public Debt Limitation. No public indebtedness other than bonds or other obligations of the government payable solely from the revenues derived from any public improvement or undertaking shall be authorized in excess of ten percentum of the aggregate assessed valuation of the property within the Northern Mariana Islands or for any operating expenses of the Commonwealth government or its political subdivisions.

Section 2: Public Debt Authorization. No public debt shall be authorized or incurred unless approved by two-thirds (2/3) of the members in each house of the legislature.