



# United States Department of the Interior

OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20240

JUL 12 1974

## Memorandum

To: Director, Office of Territorial Affairs  
Assistant Secretary -- Fish and Wildlife and Parks  
Assistant Secretary -- Land and Water Resources  
Assistant Secretary -- Energy and Minerals  
Assistant Secretary -- Congressional and Public Affairs  
Assistant Secretary -- Management  
Commissioner of Indian Affairs  
Legislative Counsel  
Solicitor

From: Assistant Secretary -- Program Development and Budget

Subject: Secretarial Issue Paper, Office of Territorial Affairs

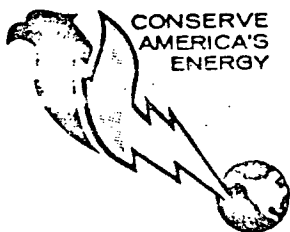
Attached is the FY 1976 Office of Territorial Affairs Secretarial Issue Paper. It has been revised to reflect the comments of various Assistant Secretaries and Bureaus and Offices. This paper has been transmitted to the Secretary and will serve as the basis for discussion in the Territorial Affairs meeting on July 17 at 2:00 p.m. in the Secretary's Conference Room.

*Royston C. Hughes*  
Royston C. Hughes

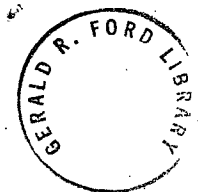
## Attachment

cc: Office of Micronesian Status Negotiations

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FY 1976  
OFFICE OF TERRITORIAL AFFAIRS  
SECRETARIAL ISSUE PAPER



Program Development and Budget  
July 15, 1974

FY 1976 SECRETARIAL ISSUE PAPER

OFFICE OF TERRITORIAL AFFAIRS

This Secretarial Issue Paper is based on the FY 1976 program plans presented in the Office of Territorial Affairs (OTA) program strategy paper. The first section of this paper presents a budget allocation summary in table form, identifies major program increases, and delineates the critical assumptions, decisions and priorities inherent in the OTA FY 1976 program plans.

The second section presents Program Development and Budget's (PDB) review and analysis of the OTA program strategy paper.

The third section presents an information paper on the Carmel Negotiations and their relationship to the budget for the Trust Territory of the Pacific Islands.

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SECTION I - OFFICE OF TERRITORIAL AFFAIRS

FY 1976 Target Allocation  
Budget Authority  
(\$1,000)

	FY 1975 Budget	FY 1976 Within Target Request	FY 1976 Over Target Increase	Total Request
<u>Trust Territory</u>				
Operations	50,843	54,910	90	55,000
Capital Improvement Program	9,157	5,090	19,910	25,000
Estimated Inflation Index Increase	0	0	6,570	6,570
(Sub-total, Carmel Agreement)	(60,000)	(60,000)	(26,570)	(86,570)
Economic Development Fund	1,000	1,000	100	1,100
Categorical Assistance Programs	0	0	3,000	3,000
Enewetak Rehabilitation	0	0	3,300	3,300
Micronesian War Claims	1,400	4,200	2,800	7,000
<b>Total, TTPI</b>	<b>62,400</b>	<b>65,200</b>	<b>35,770</b>	<b>100,970</b>
<u>American Samoa</u>				
Operations	14,000	14,000	0	14,000
<u>Guam</u>				
Comptroller	600	800	0	800
Economic Development Fund	1,000	1,000	0	1,000

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	FY 1975 Budget	FY 1976 Within Target Request	FY 1976 Over Target Increase	Total Request
Capital Improvement Program	0	0	11,200	11,200
<u>Virgin Islands</u>				
Matching Fund (Rum Revenues)	20,000	20,000	0	20,000
<hr/>				
Total, Office of Territorial Affairs	98,000	101,000	46,970	147,970

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## SECTION I

### Summary of the Office of Territorial Affairs Budget

The critical assumptions, decisions, and priorities included in the Office of Territorial Affairs' (OTA) submission, and major program increases entailed, are as follows:

#### Trust Territory of the Pacific Islands (TTPI)

Within its target allocation of \$101.0 million, OTA proposes to allocate \$65.2 million to TTPI. However, OTA emphasizes that that level of funding is insufficient to accommodate the following high priority programs:

#### Over-Target Requests

- Carmel Negotiations	+ \$26.6 million
- Categorical Assistance Programs	+ \$ 3.0 million
- Enewetak Rehabilitation	+ \$ 3.3 million
- Increase for Micronesian War Claims	+ \$ 2.8 million
- Increase for Economic Development Fund	+ \$ .1 million

(1) The Carmel negotiation question is addressed in the attached Information Paper in Section III.

(2) The TTPI's request for \$3.0 million for categorical assistance programs is based on the estimated amount of reduction or loss of Federal programs and grants-in-aid because the TTPI is ineligible for Federal revenue sharing. Previous categorical grants funded community action agencies, construction of new dispensaries, elementary and secondary education, and library services.

(3) A \$12.0 million authorization is currently pending in Congress to cover the amount that Interior has been requested to put into the rehabilitation of Enewetak Atoll. The total cost estimate is based on a master plan submitted by the Trust Territory and approved by the Department and OMB. If approved by Congress, the legislation will authorize \$230,000 for FY 1975 and \$3,300,000 for FY 1976 for the main thrust of the rehabilitation program.

(4) OTA included \$4.2 million within-target to cover payment of Micronesian War Claims. However, they estimate a total need of \$7.0 million, based on the number of claims they feel the Micronesian Claims Commission has the capability of adjudicating by FY 1976.



(5) The TTPI Economic Development Loan Fund was authorized in March 1973 for a total of \$5 million to encourage the development of local businesses. TTPI has been receiving \$1.0 million a year for this purpose, and has two years left before the authorization expires. They are requesting a \$.1 million increase because inflation has decreased its real effects.

#### American Samoa

American Samoa is requesting \$14 million for FY 1976 to maintain the same level of U.S. support for Samoa's operating budget as was provided over the two previous fiscal years. Samoa's proposed budget for FY 1976 calls for a total of \$32.3 million in expenditures, of which the Federal share of \$14 million would be used for operations of health, educational and cultural facilities, and for general administration. Local revenues will finance the remaining operating expenses of \$10.8 million and the capital improvement program of \$5.7 million.

#### Guam

Within OTA's target allocation, Guam would receive funding for the following programs:

- (1) Comptroller - \$.8 million represents a \$.2 million increase over FY 1975 level in order to compensate for inflation and to provide for an increase in the staff level.
- (2) Guam Economic Development Fund - \$1 million, which is equal to the FY 1975 funding level. The fund was established with a total authorization of \$5 million to encourage the growth of local economic development in agriculture, fishing and tourism. The FY 1976 request would bring the appropriations in the fund to an accumulative total of \$3.5 million.

Above the target level, OTA is requesting \$11.2 million for a Guam Capital Improvement Program. Although approved by the Department, the Capital Improvement Program bill has not yet been authorized and is pending before OMB. The bill would authorize expenditures of \$56.0 million over a five-year period for water, sewer, and education projects on Guam.

#### Virgin Islands

No increase is requested from the FY 1975 level of \$20 million. The \$20 million is based on the import taxes collected on rum and other items brought to the U.S. from the Virgin Islands. The monies are returned to the Virgin Islands and are used to pay the administrative costs of the Comptroller.



## SECTION II.

### Program Development and Budget Analysis

This section summarizes PDB's analysis of the OTA strategy paper, and indicates certain program areas which could be considered for increases and decreases in order to facilitate Departmental trade-off decisions.

#### A. PDB Review

##### OTA Environmental Assessment Effort

OTA states that they have sufficient funds both in FY 1975 and in their FY 1976 proposal to meet the requirements of NEPA and not delay any of their programs.

With respect to the environmental impact statement on the Hess Oil Company's proposed refinery, the Department has asked the Corps of Engineers to be the lead agency in the preparation of the statement. An independent consultant, agreeable to the Corps and Interior, will be retained by Hess to conduct the environmental assessment. The cost of consulting services will be borne by Hess, and DOI will be responsible for only those extra charges incurred by the COE in their capacity as contract administrator. These costs are estimated at \$28,800 for the Hess statement.

Although it has not as yet been determined, it is expected that the environmental impact statement for the Virgin Islands Refinery Corporation will be handled the same way.

##### Trust Territory of the Pacific Islands

The request for \$3 million for categorical assistance programs has raised a question as to TTPI's basis for computing this estimate. They do not have a firm grasp on which programs will be affected or what possible effects any discontinuance or reduction in categorical assistance programs will have on their economy. There is a possibility that the community action programs will be funded from an OEO bill currently pending in the Senate which would reduce the request by \$700,000. Although provisions for possible reductions or losses in these programs are covered by a \$10 million authorization, OMB has not approved any expenditures in the past on the grounds that it is not part of the President's program. It is unlikely that they will go along with it in FY 1976.

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OTA Comments:

The paragraph on Federal assistance programs for the Trust Territory implies that they are at fault for not having a "firm grasp" on computing losses in Federal programs. This is not the case as the Regional representatives for various programs in many cases do not themselves know what programs will be cut or reduced. We suggest the following rewording after Trust Territory of the Pacific Islands: "the \$3 million requested for categorical assistance is subject to many program decisions not yet made by various agencies of the U.S. Government. Though the amount could quite conceivably be less, based on the assumption that, as in the past, some programs are restored at the last minute. the request is based on the current inconclusive information supplied to the Trust Territory."

American Samoa

The long-term policy for American Samoa is development of an increasing measure of self-government, with gradually decreasing dependence on the Federal Government. While it continues to receive large Federal assistance each year in the form of grant funds appropriated by Congress, the Department's long-range budgetary goals call for decreasing levels of Federal funding as local Samoan revenues increase.

American Samoa traditionally underestimates local revenues each year. This is blamed on the use of a reportedly poor accounting system. In addition, a steady increase in local revenues has been projected through FY 1980, with a projected increase from \$14.7 million in FY 1975 to \$16.4 million in FY 1976. When two local canneries lose their tax exemption status in FY 1978, revenues are expected to hit \$31.0 million.

Because American Samoa is a relatively young economy, there is not much more of a tax base to draw on should there be a large and sudden decrease in Federal funding. In addition, inflation is eating away at the purchasing power of local revenues. However, the steady growth in the Samoan economy raises a question as to whether we should begin to implement our policy and start to decrease the level of funding.

Guam - Capital Improvement Program

Guam's economy, as stated in OTA's submission, has been expanding at a rate of 20 percent to 25 percent annually for the last decade. Since 1953, their budget has risen from \$10.4 million to \$129.8 million in 1973, and revenues from \$5.9 million to \$74.3 million. The FY 1974 projection for local revenues is around \$90 million. A large increase in local collection of income, business and property taxes has taken place since 1966 and attests to the increase of the local tax base.



This rapid growth of the economy and accompanying population increase has generated demand for increased capital improvements in schools, water supply, and sewer systems. In the last 10 years, \$117.6 million has been spent on capital improvement projects in Guam, \$58.2 million of which was from grants and loans from the Guam Rehabilitation Act. The termination of the Guam Rehabilitation Act, however, in conjunction with this forecasted need for expanded capital investment in social infrastructure, has prompted Guam to seek a \$56.0 million capital improvement program from the Federal Government.

In spite of the Department's original approval of this request, now pending at OMB, the question should be raised of whether Guam really needs this \$56.0 million for a capital improvement program.

On the other hand, there are political factors at play here which may lend support to this request. The Guamanians are very concerned about their future with respect to the political status negotiations being conducted with the Northern Marianas and the other five districts of Micronesia. They are frustrated at not receiving the attention and proposed financial settlements resulting from the talks, and feel they are being treated as second-class citizens.

OTA Comments:

We believe that the last sentence which questions the need of additional Federal assistance does not take into account the low per capita income of Guamanians. It could be argued that raising taxes is a partial answer towards offsetting this request, but to do this would place an intolerable burden on a large segment of the population. To pay additional taxes along with the already high cost of living, people would be forced to sell off their land and thereby lose one of the most precious commodities a family can have.

Bikini Island Reparations Payment

Like the natives of Enewetak, the Bikini islanders have requested an ex-gratia payment from the United States in reparation for the 20 years spent in exile while the military was using Bikini Island as a testing ground. A \$1.9 million payment has been determined as a fair settlement, and the Department's draft proposal as to who shall pay the costs is currently being reviewed by the Defense Department. While it was billed as a "U.S. payment," the Enewetak reparation payment was actually made from DOD funds, and it is OTA's expectation that a similar course will be followed with the Bikini payments.

Mariana Islands

The Northern Marianas, now part of the TTPI, are currently conducting separate negotiations for future commonwealth status with the United States. Certain financial agreements have been tentatively agreed upon as a result of these



negotiations; however, they will not be implemented before FY 1977. The Northern Marianas budget for FY 1976 is included in the total \$80 million being requested for the TTPI as part of the Carmel negotiations.

B. Trade-off Candidates

Presented below are two lists of OTA programs which can be used to facilitate budgetary trade-off decisions among program alternatives:

1. Candidates for increases above OTA's target allocation

TTPI

- |                           |                 |
|---------------------------|-----------------|
| - Carmel agreements       | +\$26.6 million |
| - Micronesian War Claims  | +\$ 2.8 million |
| - Enewetak Rehabilitation | +\$ 3.3 million |

2. Candidates for decreases below OTA's current target allowance

- |                    |                 |
|--------------------|-----------------|
| - American Samoa   | -\$ 1.0 million |
| - Guam Comptroller | -\$ .2 million  |

OTA Comments:

In B. Trade-off Candidates, 2. We believe that American Samoa should not be a candidate for a decrease. We are in full agreement with the goal of a reduced dependency on direct Federal funding for American Samoa and would argue that, by maintaining a constant contribution of \$14 million, we are meeting that goal. With an inflation rate even greater than that of the U.S. mainland, this \$14 million request represents a substantial reduction of Federal assistance in terms of real dollars. Secondly, the increase in local revenues reduces the percentage of Federal contribution to the total Samoan budget from 48.1 to 45.8.

It must also be stressed that there are political ramifications to the size of the Interior budget for American Samoa. A referendum on whether to popularly elect a Governor was recently defeated, in part due to the fear that greater autonomy could presage less Federal aid and interest. While we have gone on record denying this, an actual decrease coupled with the inflationary and percentage decreases will be subject to wide speculation and misinterpretation. Some will see it as punishment, others will point to it as the beginning of a trend which will bolster their arguments as to why there should continue to be an appointed Governor. Either way, the result will be a setback in the Secretary's policy to move Samoa toward greater local autonomy.

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### SECTION III

#### Information Paper on the Relationship of the TTPI's Budget to the Carmel Negotiations

Late in March 1974, Ambassador F. Haydn Williams and Senator Lazurus Salii, Chairman of the Micronesian Status Committee, met in Carmel, California, to draft an agreement resulting from previous rounds of talks on the future political status of Micronesia. This agreement addressed, inter alia, the transition years from 1975 to 1980 and called for a significant increase in U.S. funds for a Capital Improvement Program during the next four years, tapering back in FY 1979 and 1980. This program would concentrate on construction of roads, docks, airports, ships, utilities, and educational and hospital facilities to complete Micronesia's unmet needs in infrastructure, and is expected to lead to considerable growth in private sector commerce and industry, thereby generating a higher local tax base. At the same time, U.S. support of Micronesian government operations costs would be cut back as local revenues increase and governmental functions become reorganized and less costly.

The Trust Territory budget, as tentatively agreed to at Carmel, and as computed in FY 1975 constant dollars would be (in millions of dollars):

	CIP	Operations	Total
FY 1975	20	55	75
1976	25	55	80
1977	30	54	84
1978	35	52	87
1979	20	50	70
1980	15	45	60

It should be noted that the total figures are in constant dollar terms. However, the participants in the Carmel talks decided to include an inflation factor in the six-year budget plan so that the real impact of the budget levels would not be diminished by inflation. For each year, therefore, the total U.S. support level will be adjusted in order to take care of any inflationary trends from previous years. For example, it is anticipated that the \$80 million FY 1976 funding level would be increased by \$6.6 million in order to compensate for expected inflation between FY 1975 and FY 1976.

In accordance with these agreements, there is currently pending at OMB a legislative proposal to implement the above budget plan for FY 1975 and FY 1976. New legislation will be required to authorize the six-year proposal once the agreements have been finalized.



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Within its target allocation of \$101.0 million, OTA proposes to allocate \$65.2 million to TTPI. Because it has indicated that amount to be insufficient to accommodate several high-priority programs, OTA has requested a total of \$35.8 million over-target. \$26.6 million of that increase is consistent with the Carmel agreements.

Recommendation

Since the tentative agreements reached at Carmel must be approved by the President as well as Micronesia's Joint Committee on Future Political Status, PDB recommends you defer a final decision on the TTPI FY 1976 budget, pending Presidential approval.

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