

THE SPECIAL REPRESENTATIVE OF  
THE PRESIDENT OF THE UNITED STATES  
and  
THE SPECIAL REPRESENTATIVES OF  
THE GOVERNOR OF  
THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Saipan, Commonwealth of  
the Northern Mariana  
Islands

January 11, 1989

The Honorable Ronald Reagan  
President of the United  
States of America  
The White House  
1600 Pennsylvania Avenue, N. W.  
Washington D.C.

Dear Mr. President:

The Special Representative of the President of the United States and the Special Representatives of the Governor of the Commonwealth of the Northern Mariana Islands, appointed pursuant to Section 902 of the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America are pleased to jointly propose a basis for resolution of the issue of "Federal Taxation of M.I.H.A Bonds Underwritten by Matthews & Wright, Inc." This issue concerns taxation of interest payments on the 1984 Home Revenue Bonds issued by the Mariana Islands Housing Authority.

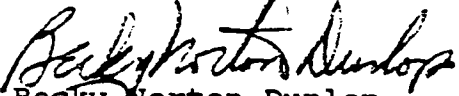
It is the position of the Commonwealth (1) that these bonds are tax-exempt pursuant to Section 607(a) of the Covenant; (2) that the United States is without the power unilaterally to amend the Covenant to alter that tax-exempt status, since in the hierarchy of law governing the relationship between the United States and the Commonwealth established by Section 102 of the Covenant, the Covenant reigns supreme; and (3) and that, in any event, any tax collected by the Internal Revenue Service would have to be covered over to the Commonwealth pursuant to Section 703(b) of the Covenant.

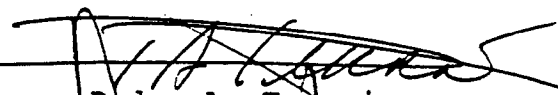
It is the position of the Internal Revenue Service and the Department of Justice that Section 607(a) of the Covenant does not provide an independent basis for tax exemption, but merely qualifies the Commonwealth to issue tax-exempt obligations pursuant to the Internal Revenue Code and that the bonds are not tax-exempt under Section 103 of the Internal Revenue Code. It is also the position of the Internal Revenue Service that individual

analysis of each taxpayer's status would have to be made before any determination could be made as to what portion, if any, of taxes collected from bondholders would have to be covered over to the Commonwealth pursuant to Section 703(b) of the Covenant.

The Special Representative of the President of the United States and the Special Representatives of the Governor of the Commonwealth of the Northern Mariana Islands jointly recommend that the Federal Government concur in the position of the Commonwealth that any and all federal income taxes collected by the Internal Revenue Service from the bondholders must be covered over to the Commonwealth pursuant to Section 703(b) of the Covenant, without prejudice to the position of either the United States or the Commonwealth with respect to whether Section 607(a) of the Covenant exempts interest paid on those bonds from federal income taxes. The Special Representatives further jointly recommend that no effort be made to collect federal income taxes from the bondholders, since the Federal Government will suffer no loss of revenue if it must cover over all taxes collected to the Commonwealth and will also thereby avoid the costs of collection.

Respectfully Submitted,

  
Becky Norton Dunlop  
Special Representative of  
the President of the  
United States

  
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Special Representatives  
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Commonwealth of the  
Northern Mariana Islands