

THE WHITE HOUSE  
WASHINGTON

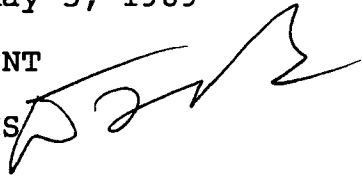
May 5, 1989

THE PRESIDENT HAS RECEIVED

5/6/89

1989 MAY -5 PM 1:4

MEMORANDUM FOR THE PRESIDENT

FROM: DAVID BATES 

SUBJECT: Recommendations from Special Negotiations with the Commonwealth of the Northern Mariana Islands (CNMI)

ISSUE:

Your concurrence in two recommendations submitted by representatives to special negotiations with the Commonwealth of the Northern Mariana Islands -- one dealing with a tax collection issue, the other dealing with legislative proposals.

BACKGROUND:

The Covenant between the United States and the Commonwealth of the Northern Mariana Islands (CNMI) set up a negotiating process for addressing issues of mutual concern. These negotiations have been sensitive due to the CNMI's desire to assert sovereignty contrary to U.S. policy. The Representatives of the CNMI and the United States have now submitted two recommendations for your concurrence that are designed to improve relations between the United States and the CNMI, without compromising the U.S. position in opposition to sovereignty. The U.S. Representative is the President's personal representative and the authority to receive the Representative's recommendations has not been delegated to any other Executive Branch official. White House Counsel has reviewed the package and has no legal objection to its submission.

DISCUSSION:

The two recommendations deal with relatively small issues for the U.S. government. Your Senior Staff and Cabinet have reviewed the two recommendations and, with the two caveats described below, do not oppose them.

The first recommendation deals with the collection of taxes. In short, the CNMI issued housing bonds it assumed qualified as tax-exempt. The IRS disagreed, began negotiations for payment in lieu of taxes, and eventually settled with the CNMI for a sum of \$600,000. Because under the Covenant all taxes collected by the U.S. in the CNMI are to be deposited in the CNMI Treasury, the U.S. government would not gain any revenue by attempting to collect the back taxes and the CNMI would simply be paying the settlement amount to itself. The representatives therefore

recommend that no effort be made to collect taxes on the CNMI housing bonds. Should you concur in this recommendation, the Department of Treasury requests that you send the attached memorandum to the representatives stating that your concurrence on the tax issue does not constitute a precedent.

The second recommendation is that you endorse seven legislative proposals designed to take into consideration special circumstances of the CNMI in dealing with U.S. Government programs and policies, such as residency requirements, federal depositories, the U.S. Service Academies, and grant-in-aid programs.

We have received no objections to six of the seven proposals. The Department of Health and Human Services (HHS) objects to the seventh, which would allow HHS to waive certain Medicaid requirements for the CNMI. HHS reports that this waiver authority was enacted in 1987, and that the recommended language could now be interpreted to waive remaining Medicaid requirements, which HHS would oppose. In endorsing the recommendations, we suggest that you note that the Medicaid proposal was enacted in 1987 and that further legislation is inappropriate.

Your concurrence in the two recommendations will show good faith in improving the U.S. relationship with the CNMI, a strategically-located territory in the Pacific. The Department of the Interior and the U.S. representative to the negotiations with the CNMI believe that failure to concur in these recommendations could encourage efforts in the CNMI to breach U.S. sovereignty. The CNMI will hold a plebescite in July, 1989 in which these issues could be featured prominently in pro-CNMI sovereignty rhetoric.

RECOMMENDATION:

That, subject to the above-described caveat with respect to Medicaid, you concur in the two recommendations from the representatives to special negotiations between the United States and the CNMI and that you sign the attached memorandum to the representatives stating that this does not set a precedent on the tax issue.

DECISION:

Concur

✓ CPB  
5-6-89

Do Not Concur \_\_\_\_\_

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