



Commonwealth of the
Northern Marianas Islands



Facing the Challenge: Addressing the CNMI's Fiscal Crisis



April 23, 2020

CNMI Fiscal Response Summit Agenda

 THURSDAY 4/23



Opening Prayer

- **Rev. Francis X. Hezel, SJ**



Welcoming Remarks

- **Hon. Ralph DLG Torres**, Governor
- **Hon. Victor B. Hocog**, CNMI Senate President
- **Hon. Alexandro C. Castro**, Chief Justice
- **Ms. Velma Palacios**, President, Chamber of Commerce



CNMI Fiscal Response Summit Agenda

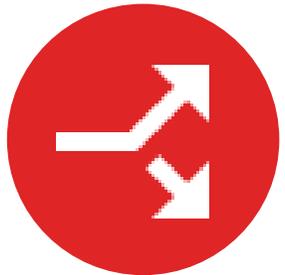
 THURSDAY 4/23



Keynote Address

- **Mr. Kevin O’Keefe**, Economist, GSUSA
- **Ms. Debbie Milks, CPA**, Accountant, GSUSA

LUNCH BREAK

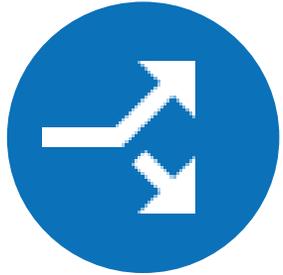


1:30 p.m. Start Group Work

- **Group A** – Governor + Senate President
- **Group B** – Speaker + Lt. Governor



CNMI Fiscal Response Summit Agenda

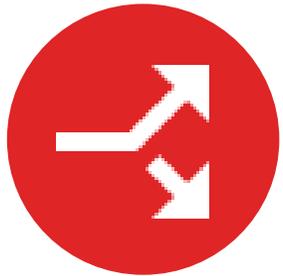


Group Work Continues



FRIDAY 4/24
9:00 a.m.

- **Group A** – Governor + Senate President
- **Group B** – Speaker + Lt. Governor



Group Work Continues



MONDAY 4/27
9:00 a.m.

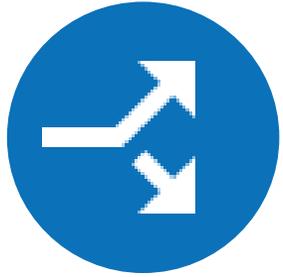
- **Group A** – Governor + Senate President
- **Group B** – Speaker + Lt. Governor

END-OF-DAY PROGRESS

**Near-Final Consensus on
Fiscal Policy Response Package**



CNMI Fiscal Response Summit Agenda

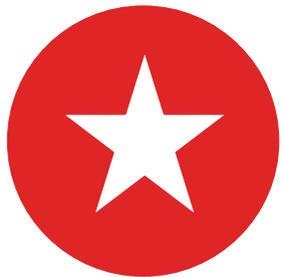


Final Deliberations



TUESDAY 4/28
9:00 a.m.

- **Group A** – Governor + Senate President
- **Group B** – Speaker + Lt. Governor



1:30 p.m. Return to Plenary



TUESDAY 4/28
1:30 p.m.

- **Summit Report Out:** Process, Outcomes of Consolidated Group Work & Next Steps



CNMI Fiscal Response Summit Agenda

 THURSDAY 4/23

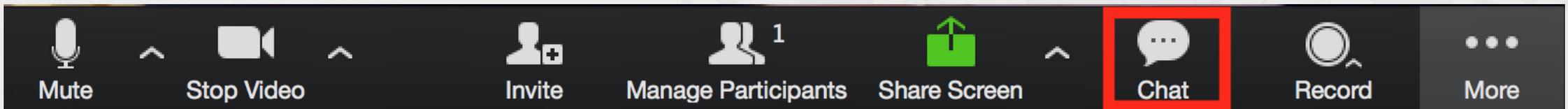


Facing the Challenge: Addressing the CNMI's Fiscal Crisis

• **Mr. Kevin O'Keefe & Ms. Debbie Milks, CPA**

Questions?

Please share questions via chat. The presenters will address questions at the conclusion of the presentation.





Commonwealth of the
Northern Marianas Islands



Facing the Challenge: Addressing the CNMI's Fiscal Crisis



Draft as of April 6, 2020

The Fiscal Response Task Force

The draft Commonwealth Fiscal Response Briefing Paper was prepared by the Governor's designated Fiscal Response Task Force, including:

- **Tracy Norita**, Director Division of Revenue & Taxation
- **Matthew Deleon Guerrero**, Financial Analyst
- **Ryan Camacho**, Financial Services Manager, Department of Finance
- **Vicky Villagomez**, Special Assistant for Management and Budget
- **Jason Aubuchon**, PITI/VITI Senior Program Manager, Graduate School USA
- **Debbie Milks**, CPA, Financial Advisor, Graduate School USA
- **Kevin O'Keefe**, Economic Advisor, Graduate School USA

Technical support provided by the Graduate School USA team is made possible through funding support from the Department of the Interior's Office of Insular Affairs.



The Fiscal Response Task Force



Facing the Challenge: Addressing the CNMI's Fiscal Crisis



Kevin O'Keefe

Economist, GSUSA



Debbie Milks, CPA

Accountant, GSUSA



TASK 1: Assessing the Size & Nature of the Crisis

- Assess the size of the **structural fiscal deficit** that the CNMI has incurred annually and carried into FY2020, and
- Assess the size of the **cyclical fiscal deficit** projected to be caused by the COVID-19 pandemic—including an estimate of the impacts during the remaining half of FY2020, and all of FY2021 and FY2022.



TASK 2: Identify Potential Response Options

- Identify and fully “cost” a broad range of fiscal policy options in the following areas:
 - Expenditure Reductions
 - Revenue Enhancements
 - Re-Allocation of Public Funds
 - Financing options, including potential federal support for fiscal adjustment



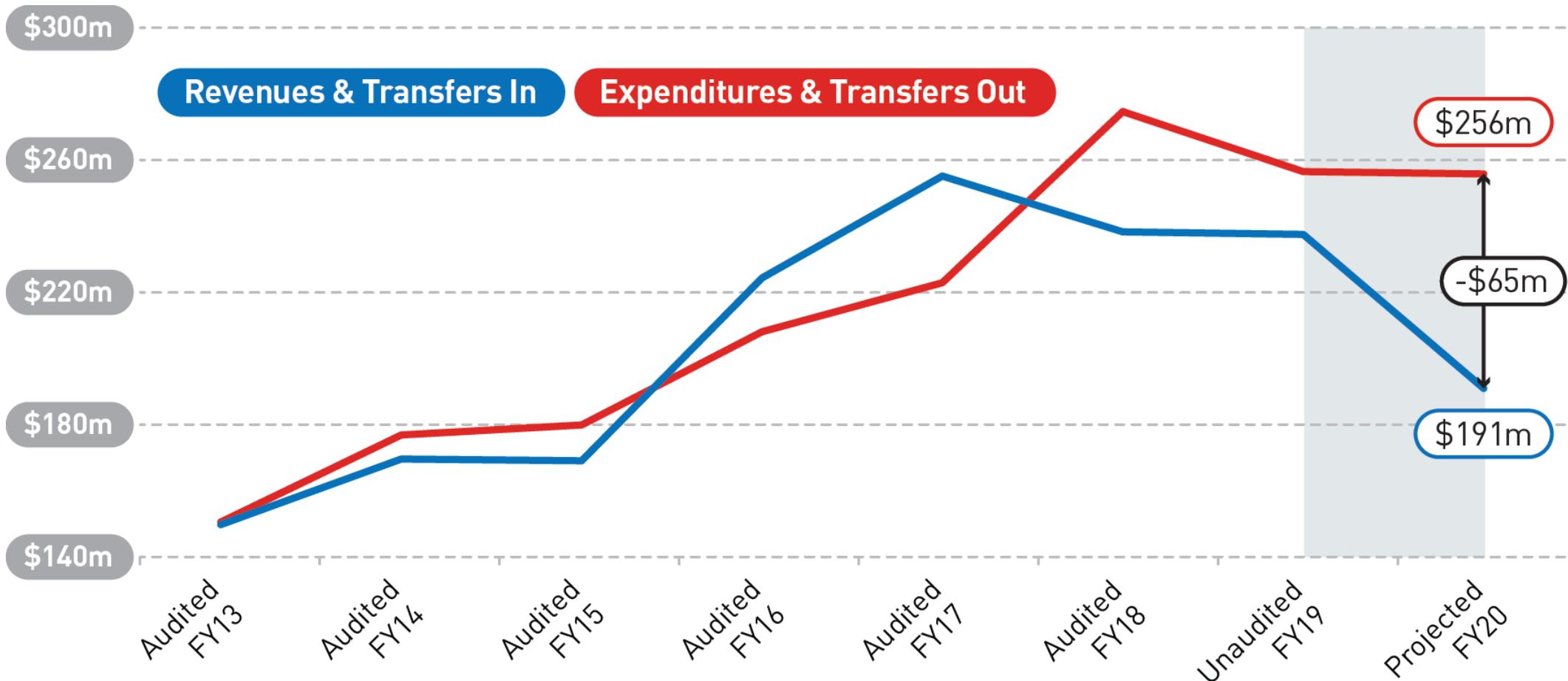
The Fiscal Position of the CNMI before COVID-19

- Rapid **growth in expenditures** in the period since FY13;
- A **dated tax and revenue system** that relies heavily on relatively volatile tourism and gaming sources to support ever-growing government services to the people;
- Judicially mandated **pension obligations**;
- Expenditures **persistently under-budgeted**, especially for medical referrals, overtime, utilities, and banking fees;
- The prevalent practice of **earmarking revenue sources**—thereby adding binding rigidities to the fiscal operations of the Commonwealth; and,
- Moderately high **outstanding liabilities** relative to the size of the CNMI economy.



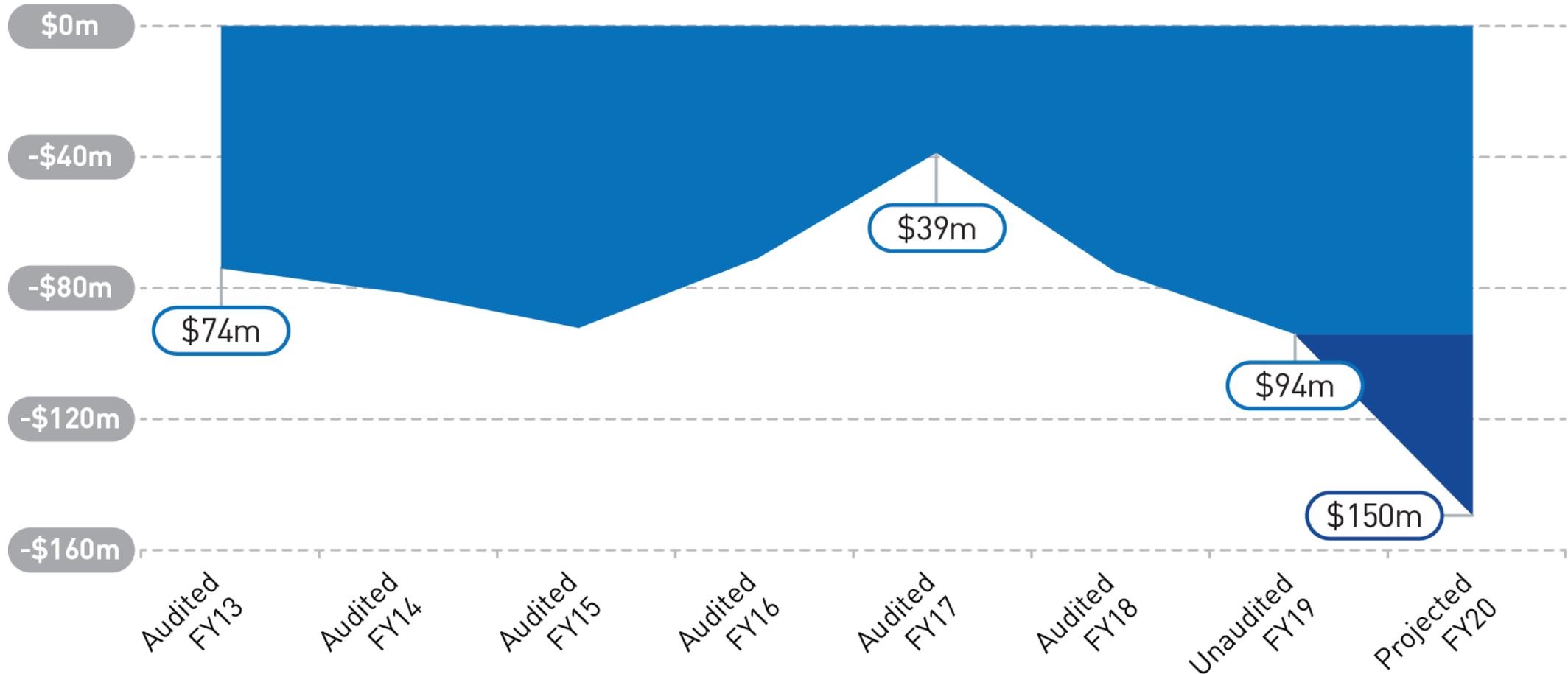
CNMI General Fund

Total Sources and Uses FY13 to FY20 (Projected)



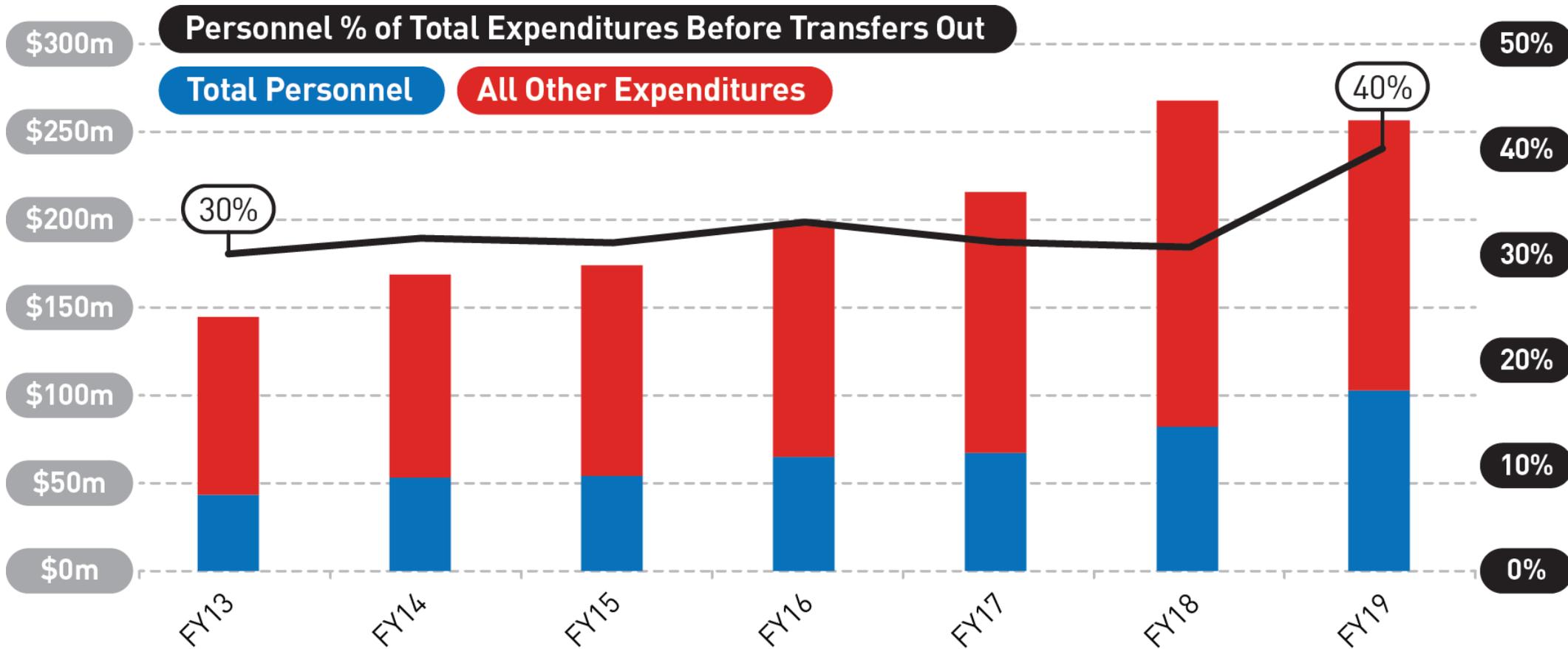
CNMI General Fund

Accumulated Deficit



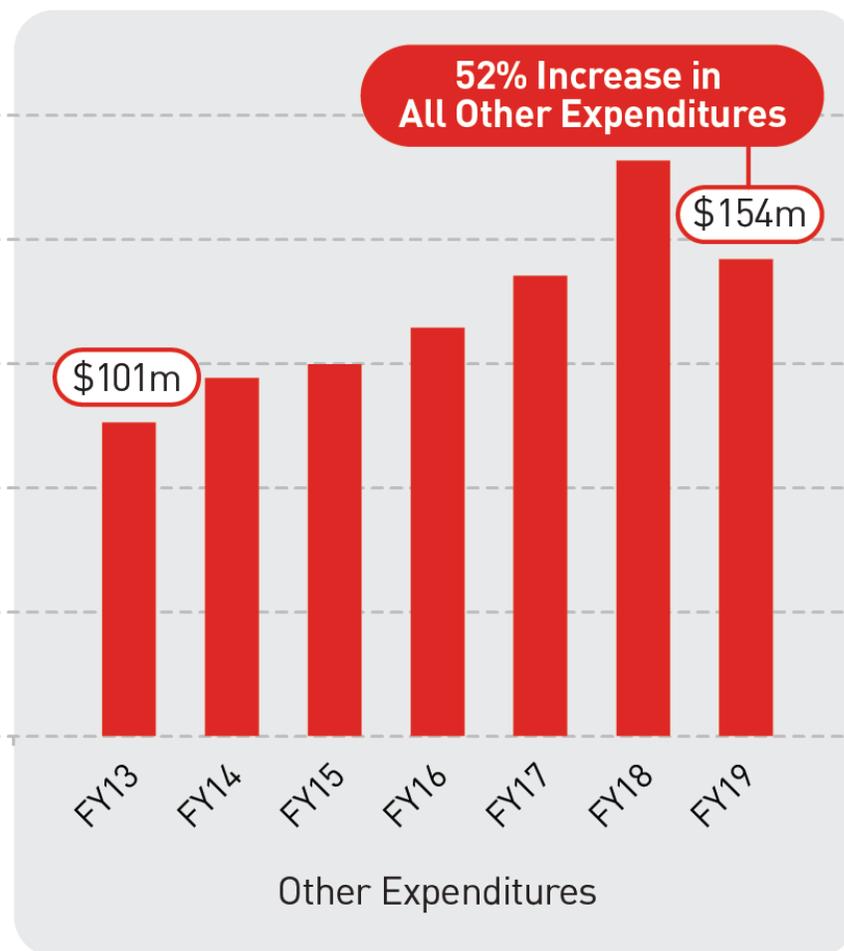
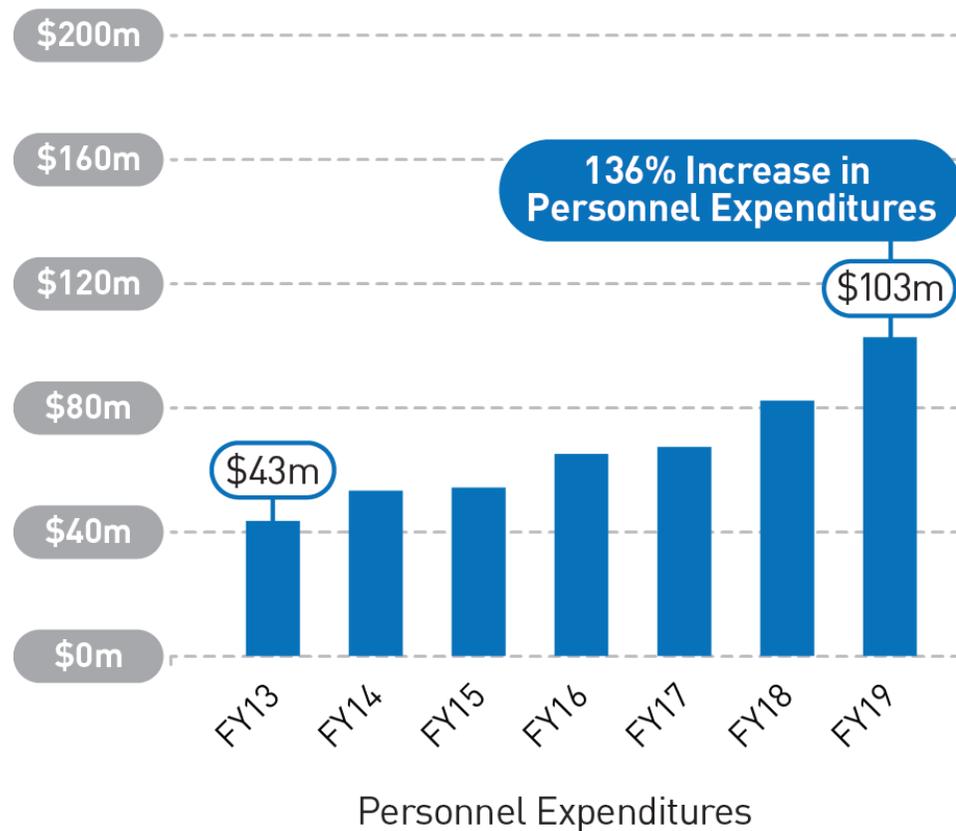
CNMI General Fund

Expenditure Growth FY13 to FY19



CNMI General Fund

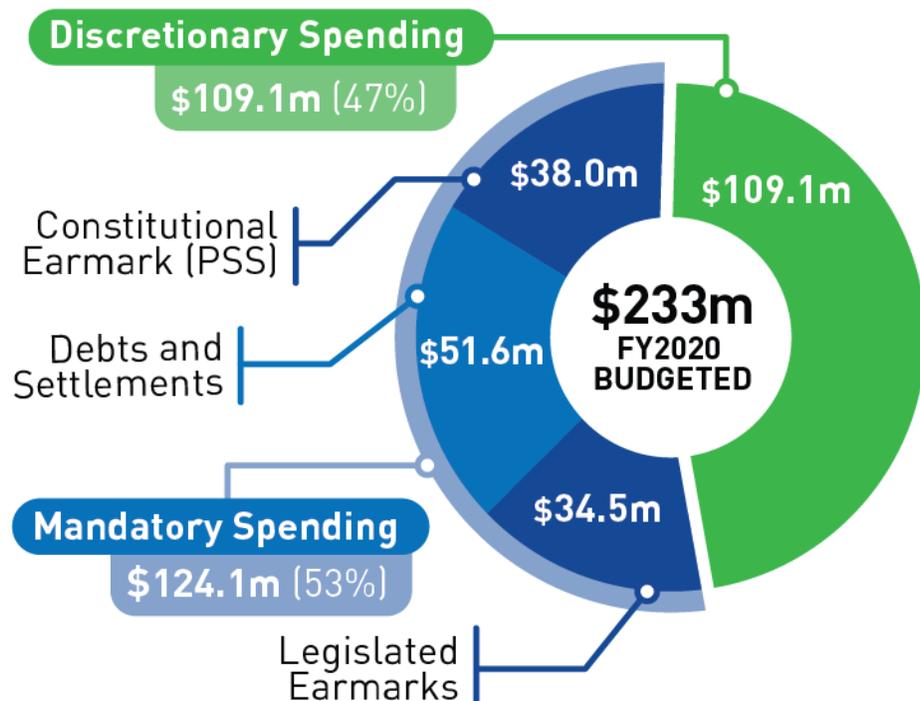
Personnel Growth FY13 to FY19



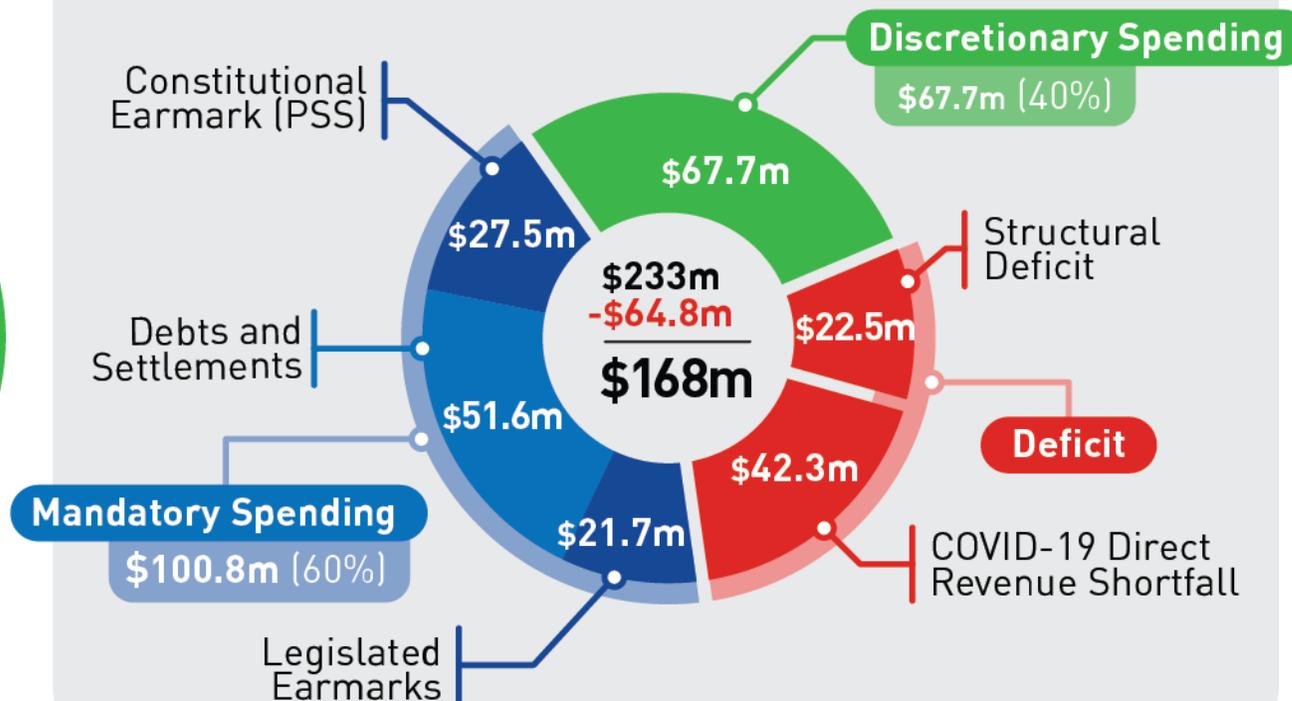
CNMI FY20 Fiscal Operations

Budgeted vs Modified

As Budgeted

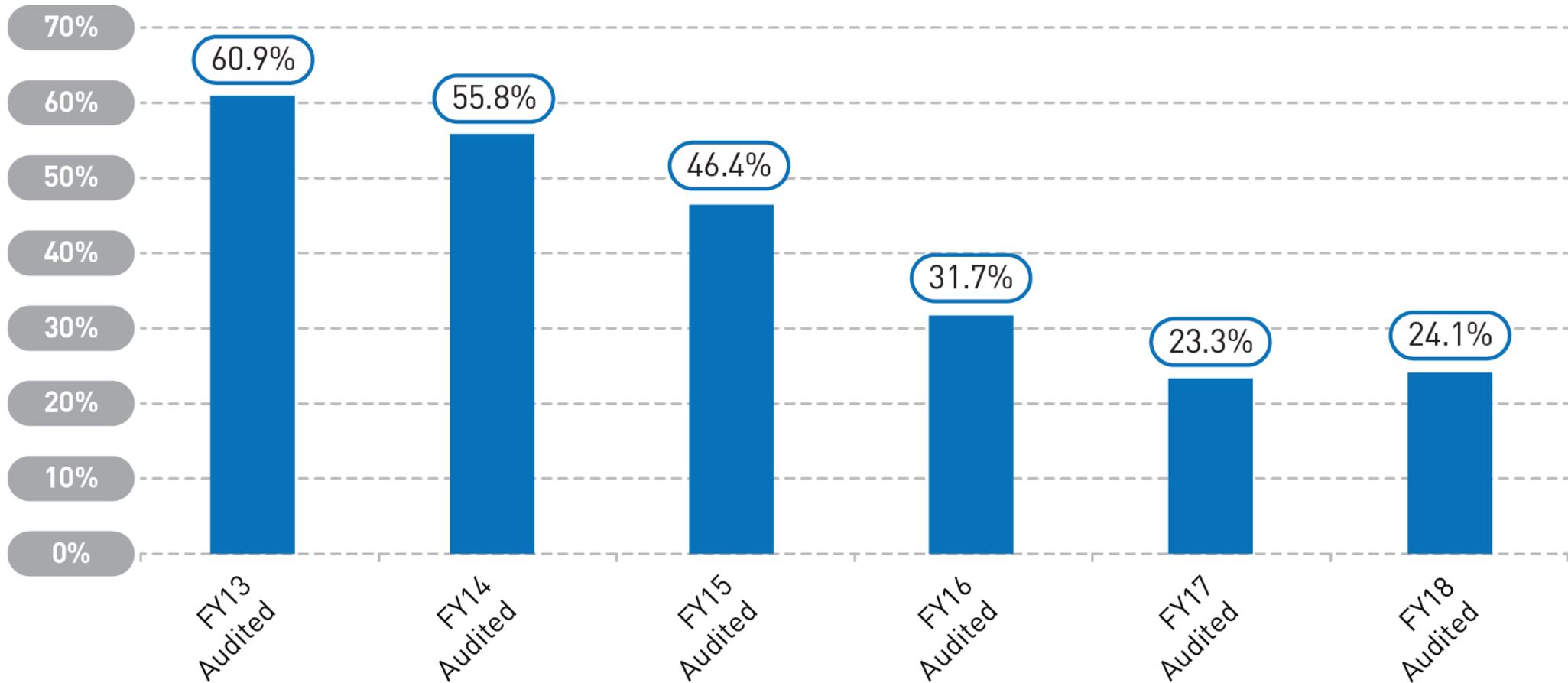


As Modified to Reflect Structural & Cyclical Deficits

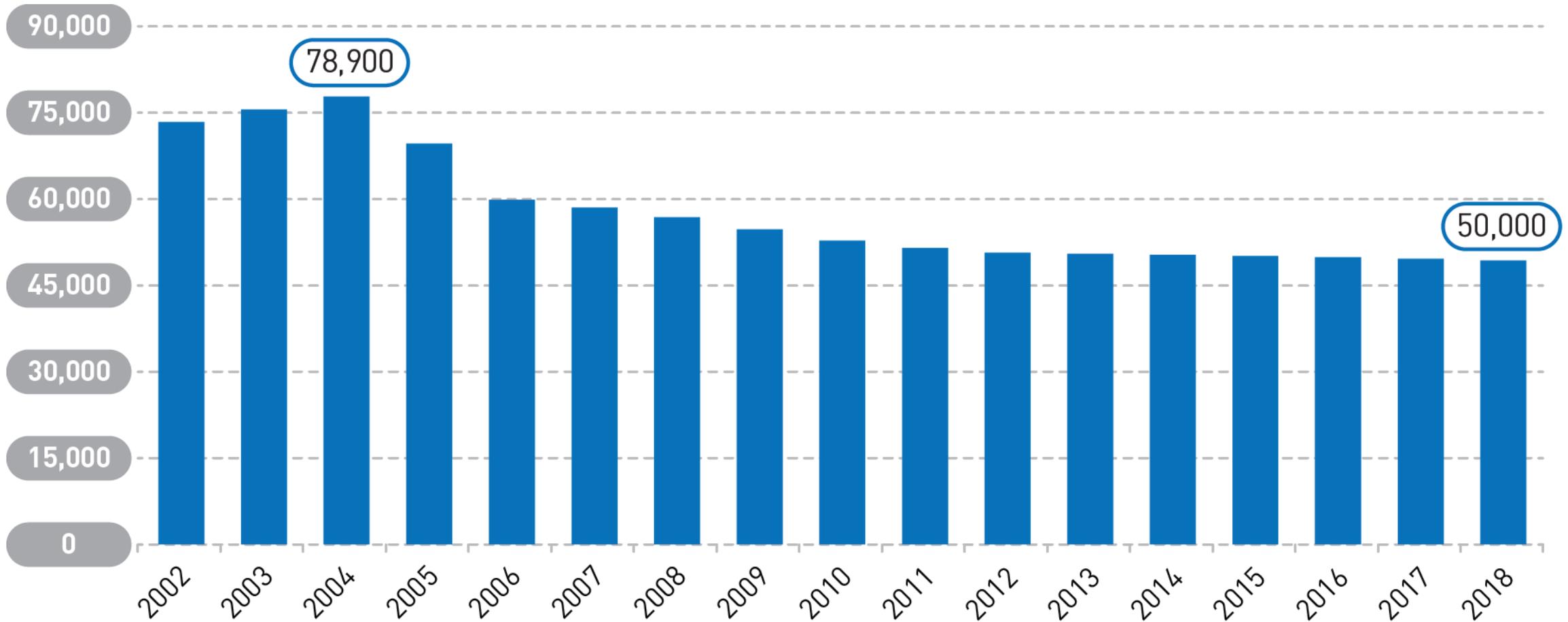


CNMI Total Liabilities

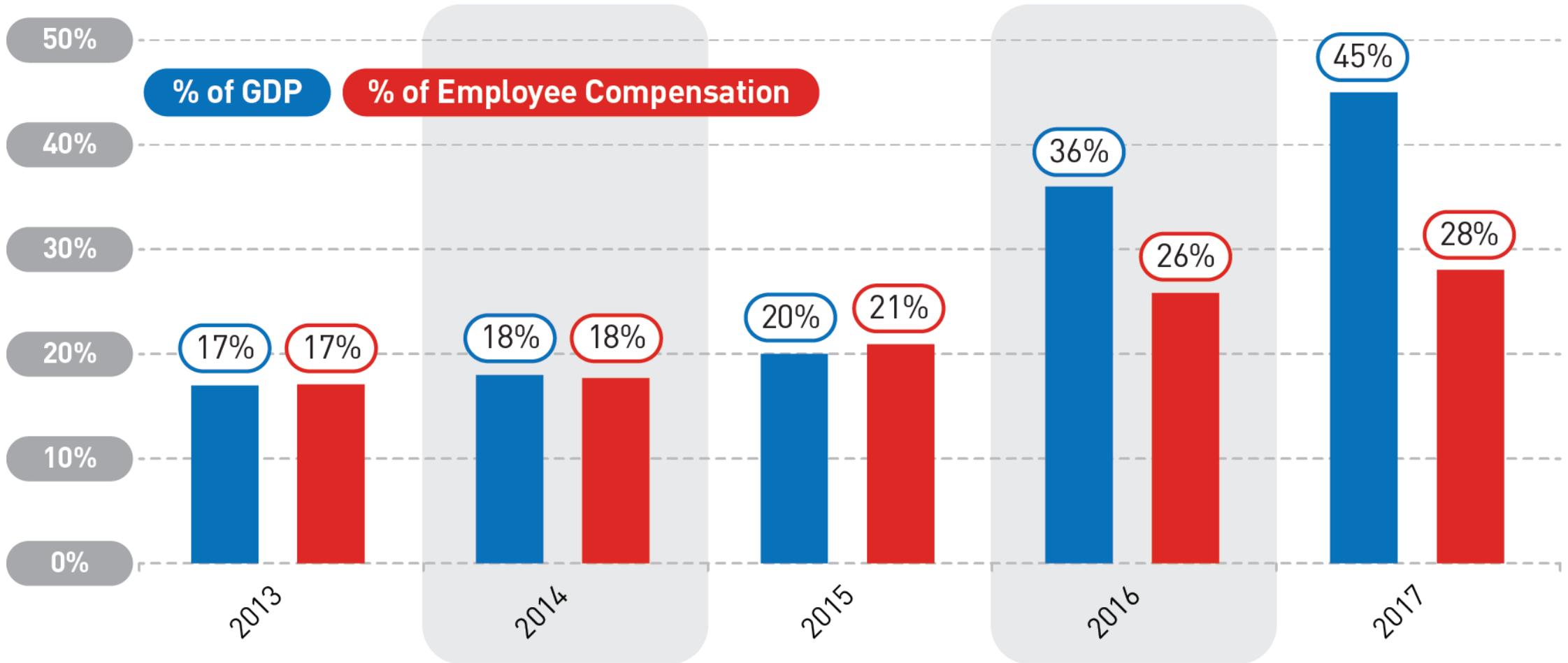
As a Share of GDP



CNMI Population



Accommodation and Amusement Sector



Next Steps: A Participatory, Problem-Solving Approach

Today's event and the hard work in the days ahead is designed to provide a broad-based, participatory event that allows key stakeholders to:

1. Fully comprehend and deeply understand the **size and nature** of the current crisis;
2. Have **all of their questions and concerns answered** with respect to the underlying fiscal and economic assumptions and findings; and then,
3. Work collectively and collaboratively to choose among the presented policy options to **create and endorse a Fiscal Response Policy Package** sufficient to address the size and urgency of the current crisis.



CNMI Fiscal Deficit, FY2020-FY2022

CNMI STRUCTURAL DEFICIT (FY20 to FY22)

		FY2020	FY2021	FY2022
CNMI Structural Deficit (est. @ FY20 start)		(22.5)	(22.5)	(22.5)
China Tourism Loss COVID-19 Structural Deficit	30%	(6.1)	(9.1)	(9.1)
Structural Deficit sub-total		(28.6)	(31.6)	(31.6)

CNMI CYCLICAL DEFICIT (FY20 to FY22)

		FY2020	FY2021	FY2022
China Tourism Loss, COVID-19 Cyclical Deficit	70%	(14.2)	(21.3)	(5.3)
Korean Tourism Loss, COVID-19 Cyclical Deficit	100%	(22.0)	(32.3)	(0)
Cyclical Deficit sub-total		(36.2)	(53.6)	(5.3)



CNMI Fiscal Deficit, FY2020-FY2022

	FY2020	FY2021	FY2022
CNMI Deficit Total	(64.8)	(85.2)	(36.9)
CNMI Fiscal Stabilization Contribution Target, est.	---	---	20



Task 2A: Expenditure Reductions

1. Reduction in **hours worked** (e.g. from 80 to 64 hours per pay period, already implemented and estimated to save approximately \$3.9 million in the last half of FY2020 and a further \$7.0 million if extended through FY2021)
2. Reduction in **Personnel**
 - a. Transition of personnel to federal grant coverage (transfers to-date save ~\$700k in FY2020)
 - b. Reduction of jobs resulting from mergers or consolidation of units
 - c. Temporary reduction of jobs (furloughs to-date save G/F ~\$2.8m in FY2020)
 - d. Permanent reduction of jobs
3. Reduction in **Overtime**



Task 2A: Expenditure Reductions, cont'd

4. Reduction in **Travel**
5. Reduction in **Professional Services**
6. Reduction in **all others**
7. Cancel/Postpone Additional 25% **Pension Payments**
8. Reduction in **Medical Referral** costs



Task 2B: Revenue Enhancements

1. Reform of the **BGRT**
2. Reform of the **Earnings** Tax
3. Reform of the **Rebate** of Territorial Income Tax
4. Increase of **Selective Fees**



Task 2C: Re-Allocation of Public Funds

1. Reform **Medical Referral** (funded MOU with CHC)
2. Collect GF-expended **Payroll Expenses from FEMA**
3. Collect GF-expended **Procurement Expenses from FEMA**
4. Utilize Pledge from **Commonwealth Casino Commission**
5. Seek Temporary Reallocation from **Casino License Fee** (with Advance)
6. Seek removal/relief from **various earmarks** to broaden participation in fiscal response



Task 2D: Financing Options

1. Seek **Financing Relief** from Full Payment of Pension Liabilities (Extend Settlement Period)
2. Seek **Federal Assistance** through relief from FEMA matching requirement
3. Seek temporary allowance for **Section 702 CIP** use to support fiscal response
4. Seek Federal Assistance through **COVID-19 stimulus program(s)**, including CNMI share under the CARE Act (\$38 million, March 1 – December 31, 2020)
5. Seek **community disaster loan program** from FEMA (\$5 million)





Commonwealth of the
Northern Marianas Islands



Questions?



April 23, 2020