



Commonwealth of the
Northern Marianas Islands



CNMI Fiscal Response Summit Proceedings

Thursday-Friday, April 23-24 &
Monday-Tuesday, April 27-28, 2020





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Summit Narrative



SUMMIT NARRATIVE

On March 4, 2020, Governor Ralph DLG. Torres established the Governor's Fiscal Response Task Force, in collaboration with Graduate School USA, to assess the fiscal position of the Commonwealth of the Northern Mariana Islands (CNMI). The key goals of the Task Force were to calculate the impact of the COVID-19 outbreak on the CNMI economy and government revenue, gather necessary financial data to formulate policy-modeling tools, and establish a framework for convening a broad collaborative stakeholder summit to recommend wide-ranging reforms to respond to mounting fiscal challenges.

The culmination of the Governor's Fiscal Response Task Force was the creation of the CNMI Fiscal Response Briefing Paper entitled "Facing the Challenge: Addressing the CNMI's Fiscal Crisis" (Appendix 11). The Briefing Paper was disseminated to the public on April 09, 2020. Outlined within the Briefing Paper was the proposal for a broad-based, participatory Leadership Summit; however, due to health-related risks of the COVID-19 outbreak within the CNMI, an alternative framework for the Summit was proposed. This alternative envisioned a smaller, physically dispersed process that aimed to gather Summit participants through remote conferencing technology.

Following the release of the Briefing Paper, Governor Torres convened a Fiscal Response Summit Organizing Committee comprised of members of the Executive, Legislative, and Judicial Branches of government and private sector non-profits. The Organizing Committee elected to work toward a smaller Summit of key individuals in leadership positions throughout the community and selected April 23, 2020 as the opening day for the proceedings. Graduate School USA created three videoconference channels using the cloud-based video conferencing service, Zoom.

The Organizing Committee established a methodology to assess participation in the Fiscal Summit and decided to allow various organizations to designate representatives on behalf of their respective members. The following governmental and community organizations were asked to participate:

- Executive Branch
- Legislative Branch
- Judicial Branch
- Municipality of Rota
- Municipality of Tinian and Aguiguan
- Municipality of Saipan
- Municipality of the Northern Islands
- CNMI Public School System
- Northern Marianas College
- Commonwealth Healthcare Corporation
- Commonwealth Utilities Corporation
- Commonwealth Ports Authority
- Marianas Visitors Authority
- Hotel Association of the Northern Mariana Islands
- Saipan Chamber of Commerce
- Northern Mariana Business Alliance Corporation
- Volunteer Agencies Active in Disasters
- Marianas Association of Non-Governmental Organizations



Invitations were sent to the selected organizations from the Office of the Governor requesting participation from the diverse voices of the private sector, and both the majority and minority parties of the Legislative Branch. Participants were provided to the organizing committee along with contact information to ensure access to working group sessions. Governor Ralph Torres and Speaker of the CNMI House of Representatives Blas Jonathan Attao were selected to Chair the two working groups during the Summit.

On April 23, 2020, the Chairmen of the two working groups assembled their teams in the Governor's Office on Capitol Hill Saipan. Governor Torres and Working Group A Technical Support staff, convened in the Governor's First Floor Conference Room, and Speaker Attao and Working Group B Technical Support staff convened in the Lieutenant Governor's Conference Room on the Second Floor.

At 9:00am on April 23, 2020, the CNMI Fiscal Summit Plenary Zoom videoconference room opened to the public, and the Summit's proceedings began with a prayer offered by Rev. Francis X. Hezel, SJ (Appendix 4). Welcoming Remarks began with Governor Ralph Torres (Appendix 5) who briefly outlined the present challenges and their historical foundations. Governor Torres stated his willingness to work on solutions that are meaningful and complex and accept the sacrifices that are necessary, asking the participants to commit to that same goal.

Opening Remarks proceeded to President of the CNMI Senate, Victor Hocog who thanked the participants and staff for their assistance in moving the "bloated government" forward. Senate President Hocog outlined 9 proposals for the Working Groups to consider during discussions. These proposals were to (i) recognize that the crisis is real; (ii) to review the size of government and seek a rightsizing of government that does not hamper services; (iii) to review departments and agencies for duplication of services and merge where duplications exist; (iv) to address the affordability of the CNMI Medical Referral Program; (v) to ensure proper budgets for law enforcement departments in either staffing or overtime to allow them to continue to protect the community; (vi) to leverage technology and establish a Department of Information Technology to reduce manual processes and routing costs; (vii) to create and support a rainy day fund to help during disasters or emergencies; (viii) consider the reduction in the number of lawmakers and to evaluate legislative proposals to ensure they do not add financial burden on the government; and (ix) to put politics aside and strive for reform that will allow government to be efficient and effective in providing quality public services.

Chief Justice of the CNMI Judiciary, Alexandro C. Castro provided his welcoming remarks by thanking Governor Torres for inviting the third branch of government in the discussions. Chief Justice Castro noted that while the Judiciary cannot make concessions in fiscal policy due to their role as arbiter of law, they look forward to participating and being consulted on the decisions that may impact the court system.

Chief Justice Castro asked the participants to fully apply the Commonwealth's norms and values to ensuring the government functions under the intents of the United States and CNMI Constitutions. Chief Justice Castro stressed the co-equal treatment of the Judiciary and the independence of the third branch of government. Chief Justice Castro lamented the recent 48% cut to the Judiciary's Fiscal Year 2020 budget, stating the cut "pierces the heart of the Judiciary's independence" as it would effectively shut down operations throughout Rota, Tinian and Saipan.

Chief Justice Castro provided two recommendations to the participants: (i) for the Legislature to allow the Judiciary a lump sum budget with 100% reprogramming authority; and (ii) to change the procedures of the Office of Management and Budget to no longer allocate the Judiciary budget on a monthly basis.



Representing the private sector participants, Saipan Chamber of Commerce President Velma Palacios concluded the opening remarks with her statement to the participants. In her statement, Ms. Palacios thanked the assembled participants and the Graduate School USA team for producing a data-centric report to guide the discussions. She highlighted that the private sector is not participating with the goal of dictating to the government “how to do its job”, but to join as a community to uncover solutions. Ms. Palacios noted that just as the government does not shoulder the sole responsibility for the community’s problems, the private sector cannot be tasked solely with providing the solution through increases in taxes and fines whenever government experiences a shortfall. Ms. Palacios closed by encouraging private sector participants to join in the summit to listen, explain their perspectives, and assist in finding solutions that will lead toward long-term stability in the community.

Following opening remarks, Graduate School USA’s Mr. Jason Aubuchon, discussed the remaining items for the Plenary Session, the division of the Working Groups and introduced Mr. Kevin O’Keefe and Ms. Debbie Milks, CPA who will deliver the Summit Keynote Presentation (Appendix 6). The presentation covered the work of the CNMI Fiscal Response Task Force and the findings of the Briefing Paper. Kevin O’Keefe discussed the tasks that will be assigned to the Working Groups and covered the rationale behind the potential response options contained in the Briefing Paper. He noted that the role of the Graduate School USA is not to provide solutions but to establish a framework and methodology that will assist community leaders in defining their response.

Debbie Milks continued the presentation with a description of the fiscal position of the CNMI before the COVID-19 outbreak. Ms. Milks highlighted the challenges of CNMI fiscal management primarily in the window beginning in Fiscal Year 2013, exiting this window to note that the CNMI experienced a budget deficit in 24 of the last 35 years since 1986. Issues covered by Ms. Milks were antiquated fiscal management systems, rapid increases in expenditures caused by growth in personnel, and the accumulated deficit that is exacerbated by the present fiscal crisis. Ms. Milks closed by remarking that the CNMI is extremely susceptible to outside forces and that it is imperative that for the CNMI to defend itself against these shocks to foster a fiscally stable and resilient government structure.

Kevin O’Keefe continued the presentation with the “donut graph” of the distribution of CNMI government finances, highlighting the structural and cyclical fiscal deficit caused by COVID-19 and the rigidities created by mandatory expenditure items through legislative earmarks.

Mr. O’Keefe provided a detailed outline for the next steps for Summit participants and the design of a broad-based participatory event for key stakeholders. Three goals for the Summit were for stakeholders to (i) fully comprehend and understand the size and nature of the current crisis; (ii) have all questions and concerns answered with respect to fiscal and economic assumptions; and (iii) create and endorse a Fiscal Response Policy Package.

Mr. O’Keefe discussed the size of the problem the Working Groups will be addressing. The size of the problem incorporates the cyclical effects of the COVID-19 outbreak which impacted 100% of Korean tourist arrivals and 70% of Chinese arrivals. 30% of China arrivals were considered to be structural as there existed diminished demand from Chinese tourists to the CNMI in the months preceding the global COVID-19 outbreak. The problem tasked to the Working Groups to resolve was divided among Fiscal Years 2020, 2021, and 2022. The target for Fiscal Year 2020 were solutions that contribute to filling a \$65 million hole in revenue. For Fiscal Years 2021 and 2022, that same deficit was estimated to be \$85.2 million and \$36.9 million, respectively. These figures do not include the accumulated debt from prior years.



Following the Keynote Presentation, the Plenary session participants were given the opportunity to ask questions of Kevin and Debbie. In total, 27 questions were asked.

Following the question and answer segment, Jason Aubuchon reiterated the next steps for the Summit for members of Working Groups A and B, thanked the public who joined in the Plenary Session and informed all those who have participated that the public Plenary Session will resume following Working Group deliberations on Tuesday, April 28, 2020 at 1:30 pm.

At this point the Plenary Session ended and members of Working Groups A and B were advised of their respective Zoom videoconference rooms and asked to log in at 2:00 pm following lunch.

Prior to the 2:00pm call, Chairmen of Working Groups A and B, along with their Vice-chairmen, and Technical Support Staff joined a call with the Graduate School USA team at 1:15 pm to discuss meeting management, strategies and to discuss remaining logistical questions prior to the resumption of the Summit. It was decided that in order to ensure government resources were available equally to both Working Groups, that Working Group A would begin with discussions on expenditure reductions, while Working Group B will begin with revenue increasing measures.

GROUP DISCUSSIONS

Notes from these discussions can be found in **Appendix 9**.

DAY 1

Group A began the Summit discussions by directly seeking to understand the largest expenditure categories, with greater emphasis on the reasons for dramatic over expenditures on the CNMI Medical Referral Program and overtime. These two elements represent the largest portion of the CNMI's structural budget deficit. Information was requested of the Medical Referral Office. Discussions additionally covered the reduction of Executive Branch office personnel and the elimination of functions within the Office of the Governor. Governor Torres was insistent that all options should be on the table and that the members should not shy away from difficult conversations.

Group B initiated its efforts on the increase in revenue by engaging in a roundtable discussion of ideas and concepts. These conversations covered a wide range of topics including commercial property tax, reforming business taxation, tax amnesty, fees, agriculture development and renewable energy. The concept of instituting a Sales Tax was proposed for further research along with the removal of existing earmarks that are not bond or settlement fund payments.

DAY 2

Group A started the second day of discussions by having each participant complete a survey about their views of which government functions are essential and which programs or functions are of low priority. The results of this survey were provided to the group and allowed for a shared understanding of the group's overarching philosophy of the role of government throughout the discussions. Medical Referral Staff were asked to participate to respond to questions from the group. The group discussed and voted on two expenditure reduction proposals: (i) reduction in Medical Referral costs as a result of travel limitations and existing cost mitigation efforts, and total reduction of Medical Referral expenditures to



\$8 million per annum. In FY21, Medical Referral is proposed to be transferred to CHCC with available funds for the program capped at \$8 million; (ii) increase law enforcement salaries by \$1 million in total and no longer permit overtime in excess of the appropriated amounts; and (iii) dramatically reduce general fund travel, eliminating travel for FY 20 and reducing travel expenses for FYs 21 and 22 by more than 88%.

Group B continued conversation on revenue generation with further dialogue on the increase in fees such as a three-year vehicle and business license, and regulatory increases to fees for business development. The group requested more information from the Department of Finance on adjustments to rebate and earnings tax, and the suspension of earmarks. Other proposals discussed were import taxes aimed at protecting local producers, such as water companies, adjustment of BRGT brackets, the alleviation of CIP fund restrictions, implementing a sugar tax, luxury tax, property tax and currency exportation fees. The group discussed the negative impacts of tax increases on business activity and development.

DAY 3

Both Groups met on Saturday morning to continue deliberations.

Group A exited discussion on expenditure reductions and proceeded to discuss revenue increases. The Group analyzed import tax data to derive an estimate for the potential revenue generation of instituting a sales tax on non-food item products. A vote was taken and the group agreed to a sales tax that captured domestic consumption and online sales. The Group discussed mergers of government agencies, including a proposed merger of Finance and the Department of Commerce as they provided permitting functions to business development. Discussion returned to expenditure reductions with a conversation of reviewing government positions for duplication of functions and effort. The Group voted and decided that there should be a legal restriction on the use of government funds for the purpose of providing tents, tables, water, to non-governmental functions. Further discussion was had on the transference of all community work to the respective mayor's offices of the municipalities. The Group decided that all scholarship programs should not provide funding to students enrolled in off-island institutions.

Group B continued discussion on revenue generation with a proposals to assess a 7% top bracket on BGRT for revenue in excess of \$750,000, to utilize the Casino License fee to support the full benefits for CNMI retirees, to suspend earmarks with the exception of the MVA, GHLI and Solid Waste earmarks, and to possibly amend the constitution to allow the Department of Public Lands to institute a Commercial Property Tax on public land leases for commercial use.

DAY 4

Both teams did not meet on Sunday. Discussion resumed on Monday.

DAY 5

In the final meeting of Groups A and B, both groups met at 9:00am and continued discussions well into the evening.

Group A discussed and voted on (i) an increase of BGRT rates by 3% for all non-zero brackets for the remaining of CY2020 then transitioning to a 3% sales tax in CY2021.



Increases to BGRT will sunset at the end of CY2020 and will revert to previous levels; (ii) the Division of Revenue and Taxation will enforce and file liens on tax receivables owed for the years 2009 to 2018; (iii) a request will be made for the Community Benefit Fund to be applied to deficit reduction in FY20 and FY21; the suspension of earmarks and reversion to the general fund for deficit reduction; (iv) the reduction of rebate percentages by 10 percentage points for all rebate brackets; (v) that the government pursue additional cuts to personnel to amount in total to a \$11.9 million reduction in personnel costs incorporative of cuts already implemented; (vi) a reduction of leave benefits for government personnel to only allow up to 30 days of annual leave per year that does not roll over with a new accrual structure of 2 hours per pay period and 4 hours per pay period dependent upon seniority; and (vi) institution of a 15% surtax on alcohol and tobacco. The consolidated decisions of Group A are contained in Appendix 8.

Group B began a lengthy discussion on expenditure reductions with conversations regarding the necessity for further furloughs of government personnel, the review of unfunded mandates and the review of essential services of the government. Much of the conversation regarded the large expenses originating from the Medical Referral program and options to reduce costs. These options included the transfer of Medical Referral to CHCC, the reduction of costs for escorts, reducing off-island Medical Referral staff, and the methods in which Medical Referral can reduce costs in patient travel (i.e. limit accommodations before and after appointment dates). Expenditure items discussed involved the suspension of government travel, law enforcement personnel overtime, reducing the number of legislators in both houses of the legislature, the merger of departments such as the Division of Youth Services and the Youth Affairs Office, and the merger of the Indigenous Affairs and Carolinian Affairs Offices into the Department for Community and Cultural Affairs. Further items discussed were the elimination of government issued cell phones, the elimination of the municipal councils, and the reduction of salaries. The consolidated decisions of Group B are contained in Appendix 8.

CLOSING DAY

Following early morning meetings within the respective Working Groups, all policy proposals were finalized and the groups joined together with the GSUSA team to discuss each group's findings and merge proposals into a single document. Final proposals were decided upon reasonableness of the proposal's projections, the magnitude of the proposal, and the assessment of timeline for the proposal's implementation.

This conversation progressed toward the creation of a unified set of proposals that was provided to the public in the closing Plenary Session (Appendix 1).

The closing Plenary Session was open to the public and held on Zoom videoconference and streamed on the Office of the Governor's Facebook page. In the closing, representative members from Group A and Group B discussed the process and shared their reflections on the interactions and outcomes (Appendix 7). Representing Group A, Mr. Alex Sablan highlighted the amount of thought that went into identifying the expenditure reductions and revenue enhancements proposed by the group. Mr. Sablan underscored the group's desire to maintain the "vital services" and core functions of the Commonwealth government. Mr. Sablan also highlighted the balance struck between increased taxes and reductions to government expenditures. He closed by noting the compromises and decisions made by the group ultimately resulted in a fair proposal.

Group B was represented by Lieutenant Governor Arnold Palacios. Lt. Governor Palacios remarked that many of the issues identified by the group had been discussed for years in



government circles, expressing his confidence that the Summit process marked a strong initial step towards implementation. Group B was forthcoming in addressing a wide range of issues and encouraging participants to propose ideas openly for consideration. He also remarked that the participation of combined public and private sector leadership gives added weight to the deliberations and decisions of the group, and committed to working closely with Governor Torres to ensure implementation.

Following remarks from group representatives, the GSUSA team proceeded to outline the methodology through which the outcomes of the two groups were merged and finalized. The final, consolidated working team outcome matrix captured 7 items from Group A, 9 items from Group B, and 12 items that both groups had equally identified and specified. The consolidated outcomes of the working groups are expected to comprise the CNMI Fiscal Response Implementation Plan. Mr. O'Keefe then proceeded to outline specific components of the consolidated Fiscal Response Implementation Plan, and then answer questions from the public regarding the proposals, the outcomes, and next steps (Appendix 10). In all, fourteen questions were asked and answered.

Governor Torres closed the conference by thanking the participants, the organizers, and reflecting on the overall process. The governor noted that many of the options that have been identified for implementation will be painful, and that no governor wants to furlough its public servants. However, he also noted that governments must live within their means and honestly acknowledge challenges being faced. In terms of next steps, the governor noted that many of the issues will require legislation—including tax structure, annual leave, rebates, or the community chest funds—and committed to working closely with the legislature. For the Executive, the governor committed to reconvening team members in mid-May, mid-July and mid-September to track implementation progress and to honor the hard work undertaken by the two team members. He closed by asking for the public's support and understanding for the difficult decisions that need to be made in order to secure the financial recovery of the Commonwealth government (Appendix 9).



1.

Consolidated Results of Working Teams Matrix Explanation



Consolidated

	CONSOLIDATED		
	FY2020	FY2021	FY2022
Size of the Fiscal Response Required	(64.8)	(85.2)	(37.0)
\$ Adjustments Identified:	74.8	142.3	104.0
\$ Over (Under) Required Response	9.9	57.1	67.1
2A: Expenditure Adjustments			
2A1: Reduction in hours worked	3.9	7.0	0.0
2A2: Reduction in Personnel			
2A2a: Transition of personnel to federal grant coverage (by fractional FTEs)	0.8	0.0	0.0
2A2b: Reduction of jobs resulting from mergers	0.0	0.0	0.0
2A2c: Temporary reduction of jobs (furlough period to be estimated)	10.0	10.0	0.0
2A2d: Permanent reduction of jobs	0.0	0.0	0.0
2A3: Reduction in Overtime	3.0	3.0	3.0
2A4: Reduction in Travel	1.3	1.1	1.1
2A5: Reduction in Professional Services	0.0	0.0	0.0
2A6: Reduction in All other categories	0.9	9.7	11.5
2A7: Cancel/Postpone Additional 25% pension payments	7.2	14.3	14.3
2A8: Reduction in Medical Referral costs	See item 2C1		
2B: Revenue Adjustments			
2B1: Reform of the BGRT	2.6	9.9	11.1
2B2: Reform of the earnings tax	0.0	1.8	1.8
2B3: Reform of Rebate of NMTIT	0.0	2.8	3.1
2Bx: Arrears collection of 2018 BGRT	4.5	0.0	0.0
2By: Enforce tax levy (2008-2019)	4.5	3.0	0.0
2Bz: Alcohol and Tobacco surtax	0.8	2.6	2.6
2B4: A: Sales Tax (3%) B: Various Taxes	0.0	28.5	40.0
2C: Re-Allocation of Public Funds			
2C1: Reform Medical Referral (MOU with CHC)	3.1	5.5	5.5
2C2: Collect GF-funded Payroll Expenses from FEMA	2.0	0.0	0.0
2C3: Collect GF-funded Procurement Expenses from FEMA	6.0	8.0	0.0
2C4: Seek pledge from Commonwealth Casino Commission	0.0	0.0	0.0
2C5: Seek temporary re-allocation from Casino License Fee (Advance of payment)	7.2	0.0	0.0
2C6: Seek removal/relief from various earmarks to broaden participation	2.2	0.0	0.0
2D: Financing options including federal support for fiscal adjustment			
2D1: Seek financing relief from full payment of pension obligation (extend settlement)	0.0	0.0	0.0
2D2: Seek relief from FEMA matching requirement	0.0	0.0	0.0
2D3: Seek temporary authority to use section 702 CIP funds for fiscal adjustment	0.0	10.0	10.0
2D4: Seek federal assistance through COVID-19 relief bill(s)	0.0	0.0	0.0
2Dx: Absorb Community Chest Fund	10.0	20.0	0.0
2D5: Seek community disaster loan program from FEMA	5.0	5.0	0.0



EXPENDITURE REFORM

2A1) 64 HOURS AUSTERITY

Includes employees in the Exec, Judicial and Legislative branches

- Many of the staff at the Legislature are paid through contracts which are not specifically included in the cutback. However, the Governor has enforced a 20% reduction in the Legislative budget.

Excludes:

- Fire—By contract fire department are paid 106 hours biweekly. Under the current order by the Governor, firemen are exempt from the 64-hour austerity plan.
- Police & Corrections—DPS employees work 86 hours each biweekly period. They too are exempt from the austerity plan.
- Other agencies outside of the Executive branch including the Casino Commission, Marianas Visitors Bureau, Public Lands, and all autonomous agencies

The reduction applies to an employee's direct wages. The government benefit contribution for Life Insurance and Health Insurance are not reduced.

Constraints: Necessary to amend the order to exclude employees working under a Federal Grant

Savings: \$3.9M for the period March 15-Sept 30 without adding any other agencies

Both groups concurred with this savings and did not add other personnel

2A2a) TRANSFER EMPLOYEES TO FEDERAL PROGRAMS

To the extent it is feasible and allowable, departments have been asked to transfer all or a portion of an employee's time and wages to a federal program.

OMB prepared a listing of the departments and employees who potentially could be transferred. Some transfers have occurred already.

Constraints: The federal agency must agree to the transfer if the number of personnel exceed what was included in the original grant award. Once approved by the Grantor, the transfer must be approved by OPM/Payroll/and OMB.

There must be a system in place to track the hours employees spend on the federal grant program. This is especially critical for employees who split their time. The risk of the lack of record keeping is costs being questioned and disallowed at a later date.

Savings: Potentially \$1.2M if all employees requested were transferred effective 3/15/2020. However, a majority of the transfers are likely to occur at a much later date so few savings will be realized in FY2020. Currently \$ 187,445 based upon the OMB spreadsheet.

Both groups concurred with this savings. There may be some overlap with employees who have been furloughed



2A2a) TRANSFERS FROM DEPT OF LANDS AND NATURAL RESOURCES TO DEPT PUBLIC LANDS

The transfers effectively remove the employees from the General Fund payroll. Since the Dept of Public Lands operations are funded by land lease revenues (with the excess going to MPLT), it is a way of using public land lease monies without directly transferring cash from DPL or MPLT.

Constraints: ?

Savings: \$571,501 per the OMB spreadsheet. The transfers were effective 3/15/2020.

Both groups concurred with this savings. There may be some overlap with employees who have been furloughed

2A2b) CONSOLIDATION OF DEPARTMENTS and PROGRAMS

There were numerous discussions about the efficiency and possible cost savings by merging various programs. Both groups agreed there is a need to consolidate and the implementation team should work on this solution. Based upon the questions asked during the two plenary sessions, there is a strong consensus from the public to take this action.

Notes from Group A

- There needs to be further conversations about the “right sizing of government” to look at CORE functions. Each branch and department or agencies come up with own reorganization plan by revised FY 2021 budget (Need by June 1, 2020). This would include combining similar function (e.g., accountants across departments), merging departments with similar activities (e.g., Parks & Rec and Mayor’s Office), and eliminating personnel or departments that are not essential to the functioning of government.

Group B proposed the following to take effect in FY2021

- Merging Youth Affairs with Dept of Youth Services
- Eliminate the municipal council staff

Other proposals discussed:

- Fire, Public Safety & Corrections
- “Affairs” offices and CCA
- OGM and DOF
- Dept Public Works & Mayor’s offices
- Commerce & Labor
- Finance & Commerce
- CDA & Commerce
- Parks & Rec with DPL
- NMTI with NMC
- Eliminate zoning
- All non-Federal positions in Ag and Fish and Wildlife
- DLNR & DPL



Constraints: Some offices are constitutionally mandated and would require a constitutional amendment. Other ideas included staffing the smaller offices with one individual and/or \$1/yr volunteers

Savings: To be determined. Likely reduction of upper level management & support staff, possibly reduction in physical space requirements—less rent, utilities, communications. Depending upon overlapping functions, reduction in operations personnel

2A2c) FURLOUGH STAFF

An estimated 400 employees have already been furloughed. The agreements were to furlough an additional number, in approximately equal shares for each of the 3 branches of government, to add \$10M in savings.

Furloughed employees are eligible for unemployment benefits of \$345/week for ?? weeks and an additional \$600/week through July 31.

The CNMI does not pay employee benefits for furloughed employees, including the employer's share of life and health insurance.

Constraints: None

Savings: The two groups agreed to furlough enough additional employees to save \$10M. The average government salary with benefits is approximately \$31,000.

2A2d) REDUCTION IN THE SIZE OF THE LEGISLATIVE BRANCH

The proposal was to cut the size of the Legislature in half. From 20 Representatives to 10 and 9 Senators to 6.

Constraints: Requires a constitutional referendum. Would not go into effect until the sitting representatives complete their term.

Applicable wording in the Covenant

Article 2 Section 203(c)

The legislative power of the Northern Mariana Islands will be vested in a popularly elected legislature and will extend to all rightful subjects of legislation. The Constitution of the Northern Mariana Islands will provide for equal representation for each of the chartered municipalities of the Northern Mariana Islands in one house of a bicameral legislature, notwithstanding other provisions of this Covenant or those provisions of the Constitution or laws of the United States applicable to the Northern Mariana Islands.

Applicable wording in the Constitution

Section 3: Composition of the House of Representatives.

a) The house of representatives shall consist of fourteen members with twelve members elected from Saipan and the islands north of it, one member elected from Rota and one member elected



from Tinian and Aguiguan. The number of representatives may be increased by law to not more than twenty. The term of office for representative shall be two years.

Section 2: Composition of the Senate.

a) The senate shall consist of nine members with three members elected at large from each of three senatorial districts. The first senatorial district shall consist of Rota, the second senatorial district shall consist of Tinian and Aguiguan, and the third senatorial district shall consist of Saipan and the islands north of it. The senate shall be increased to twelve members and three members shall be elected at large from a fourth senatorial district consisting of the islands north of Saipan at the first regular general election after the population of these islands exceeds one thousand persons.

Savings: By eliminating 13 legislators the savings are \$1.1M including the \$50,000/yr representation allowance. Other savings would be made in reduction of support staff. Reducing the House to 14 as suggested in the Constitution would save \$.5M.

2A3 & 2A4) REDUCTION IN OVERTIME AND TRAVEL FUNDED BY THE GENERAL FUND

The consensus of the groups was to reduce overtime and travel to the barest minimum. Through February, overtime expenditures totaled \$1.2M and non-medical travel totaled \$.9M. For future periods overtime for Public Safety only was left at \$1M by one group and capped at \$1.4M for all programs by the other group.

Travel allowed only within the CNMI. Travel associated with medical referral is accounted for in that section.

Constraints: Actual savings will be only from the unspent portions of the original FY2020 budgeted amounts.

Savings: Estimated at \$3 for overtime and \$1.3 for travel.

2A5) REDUCTION IN PROFESSIONAL SERVICES

This category was examined because it is one of the persistently underbudgeted cost items. The greatest expenditures were in the medical referral program, which is accounted for in a separate section. Other professional services included staff at the Legislature who are not hired as regular employees. Those contracts have already been cut due to the cutback in appropriations to all branches. Therefore, no savings were calculated in this category.

2A6) REDUCTION IN ALL OTHER EXPENDITURES and REFORM OF LEAVE POLICIES AND PAY

All other includes expenditures for office supplies, fuel for vehicles, rent, communications. Group A recommended that all departments eliminate payments for cell phones and reduce the executive branch by \$.8M. In addition, they resolved that

- All government entities will not be permitted to expend for water and tents for reasons outside their internal operations (e.g., funerals, fundraisers, events not related to their operations).



The Group B eliminated Holiday Pay and Annual Leave payments for FY21 & 22. Group A did not cost out the potential savings but agreed to reform leave policies to better match the private sector. Their resolution follows:

Moving forward, leave policies for employees who work for the Government:

1. Only 80 hours to be carried over after December 31st. All other hours would be lost,
2. No leave to be paid out, and
3. No more than 30 days earned in a given year.

The groups agreed that Scholarships should be reformed (not eliminated). It was generally agreed that CNMI Scholarship funds should remain in the CNMI, at a local institution of higher learning.

Constraints: Public Law 15-57 covers annual and sick leave for government employees and would have to be amended.

Savings: Leave savings: Potentially up to \$5.6M for all non-federal funded programs, if eliminated completely.

All other savings: \$833,000 to be determined by the Executive Branch

2A7 & 2C5) REALLOCATION OF CASINO LICENSE FEE and 25% RETIREE PAYMENTS

The IPI Casino license fee is due in August at \$15.5M. Initially the fee was designated to pay the remainder 25% of pensions not covered by the Settlement agreement. The agreement in both groups was to once again allocate that fee to the retirees.

The 25% pension paid during the first 6 months of FY2020 was paid from the general fund, so it is assumed that half of the \$15.5M would revert back to the General Fund in August.

Constraints: It was stated that the FY2020 fee had already been appropriated, so the 2020 budget law may need to be revised. PL 20-59 may also need to be revised.

Savings: Both groups did not want to cut any portion of the retirees' payments, however if the Casino license fee is dedicated to that payment (approx. \$14.3M/year) and not used for various projects in the Senatorial districts, the savings would be \$14.3/year.

REVENUE REFORMS

2B1) REFORM THE BUSINESS GROSS REVENUE TAX TABLES

Business gross revenue taxes have 3 categories, general business, wholesale and agriculture & fisheries. The tax is calculated on "dollar one" within each level of the rate table, from 1.5% to 5%. There are approximately 3,500 business in the CNMI.

The BGR table was revised by both groups. Only the rate levels were changed.



Constraints: Legislation is required.

Savings: \$2.6M was projected for FY2020 assuming the higher taxes would take effect by June 1. The savings for the current year and subsequent years is likely less than the estimated due to the reduction in business and the offsetting rebate credit in the NMTIT.

2B2) REFORM THE EARNINGS TAX

The earnings tax covers gains from the sale or lease of property, rentals, gaming winnings and interest and capital gains earned within the CNMI. It specifically excludes pension payments, social security, unemployment and alimony.

Group A discussed extensively about taxing PUA (pandemic unemployment assistance), but did not calculate the assumed savings.

2B3) REFORM THE REBATE OF THE TERRITORIAL INCOME TAX

Income taxes are rebated from 50% to 90% for taxes on income within the CNMI depending upon the taxpayer's income level. The proposal was to reduce the amount of the rebate by a "tax" on the rebate of 5%-30%.

Constraints: Legislation is required. In addition, several comments were made by the representatives of private industry that a reduction of the rebate on top of an increase in the BGR would be difficult to accept.

Savings: No savings are realized in FY2020, as the reform cannot be retroactive on 2019 taxes. If the decrease in the rebate amount is accepted as presented, the savings are estimated at \$2.8M and \$3.1M in FY21 & FY22, respectively.

2B4B) REFORM OF FEES AND OTHER TAXES

In addition to BGR, Wage & Salary and Income Taxes, there are approximately another 150 levels of various taxes and fees, including excise taxes, licensure fees, gaming taxes, court fees, building code fees, etc, etc.

Group B reviewed the fee and excise tax tables and proposed increases in "sin" taxes for alcohol, sugary drinks, cigarettes. Gaming taxes and luxury taxes were also increased. They heavily considered the added health benefit of reducing consumption of alcohol, sugar and tobacco by increased costs.

Constraints: Legislation is required.

Savings: Estimated \$22M in FY21.



2B4A) SALES TAXES

Both groups proposed sales taxes, including internet sales and EXCLUDING food items. Group A proposed 3% Sales and service tax on non-food products starting January 1st, 2021 and includes internet sales. Group B proposed a 2% tax on the same categories.

Constraints: Legislation is required. Businesses would need to ramp up their Point of Sale systems. Research would be needed to understand the requirements and restrictions of internet sales taxes in order to get large retailers to collect and remit those taxes.

Ref: <https://www.salestaxinstitute.com/resources/remote-seller-nexus-chart>

Savings: Group A estimated \$13M in 2021 and Group B estimated a conservative \$5.8M

2By) TAX COLLECTION ON OUTSTANDING TAXES PRE 2019

The CNMI has the ability to levy against bank accounts and property for unpaid taxes. The total unpaid from 2009-2019 is \$18,746,034. The recommendation is to begin proceedings to collect the unpaid taxes.

Constraints: ?

Savings: The consensus was a conservative collection rate which would generate \$7.5M during FY20 & FY21.

2B8) (New) COMMERCIAL PROPERTY TAX

Both groups discussed taxing commercial leases, but agreed that the idea requires further study to determine how much revenue could be generated. Most discussion specifically excluded residential property.

Constraints: Article X, Section 5 of the CNMI constitution reads:

No tax may be levied upon any owner-occupied single family residential, agricultural, or unimproved real property, unless approved by three-fourths of the votes cast in an election conducted in the senatorial district in which the tax is to be levied.

Source: Second Const. Conv. Amend. 29 (1985).

Savings: Not determined.

2B9) (New) REMITTANCE TAXES

Both groups discussed remittance taxes at some length. It was determined that they are generally unfair and difficult to enforce.

2B10) (New) TRUST MANAGEMENT SYSTEM

One consideration was forming Trust Management Services in the CNMI. Providing the climate and legislation for such services would add much needed diversity to the economy as well as providing tax revenues. The proposal was a 5% tax on the services yielding an estimated \$5M a year.



REALLOCATION OF GOVERNMENT FUNDS

2C1) REFORM OF MEDICAL REFERRAL

The 3-year average cost of Medical Referral is over \$15M while the typical appropriation for that program is little over \$6M. Two primary themes emerged from the lengthy discussions on Medical Referral; first, the program should be depoliticized by taking it from the Governor's office and moving it to CHCC and secondly, it should no longer be a "Cadillac" program. Over expenditures are due to over long length of stay off island due to lack of appointments or coordination of the required services, unnecessary travel companions, no utilization review of billings, poor airfare management and selection, among others. In addition, services tended to be provided in Hawaii or the mainland instead of comparable (or better) services in the Asia region at a much lower cost.

The CNMI has begun a "Travel for Treatment" program with their insurance provider which should reduce the medical cost component of medical referral.

Both groups agreed that the program should be moved to CHCC, though there was a question of timing due to the current heavy requirements for handling COVID19.

Constraints: ?? Perhaps some push back from CHCC if they feel the program appropriation of \$10M is too low

Savings: The expected annual savings is \$5.5M. FY2020 savings are expected as no patients are currently flying off island. There was a counter argument that there are patients who are unable to return to Saipan and therefore the costs continue to rise.

2C2 & 3) FEMA REIMBURSEMENTS

The CNMI fronted the costs of personnel and other procurement for the disaster response to Typhoons Yutu and Mangkhut. Many of those costs are reimbursable by FEMA, though they must be supported by appropriate documentation. The savings in this category are limited to those expenditures which the CNMI has already incurred and paid.

Constraints: Required supporting documents and appropriate reviews prior to billing FEMA. Difficult when the government offices are closed. The final billing and reimbursements has a 2 year limitation due to expire for these projects on 10-26-2020

Savings: Estimated by OMB at \$6M for FY2020.

2C4) SEEK PLEDGE FROM COMMONWEALTH CASINO COMMISSION

The CCC pledged back \$2M to the General Fund, but limited the use to the COVID response. No savings can be realized.

2C5) TEMPORARY REALLOCATION OF CASINO LICENSE FEE TO GENERAL FUND

Refer to 2A7



2C6) REFORM OF EARMARKS

There was a wide variation in the results from the two groups for reform of the earmark system. Group B did not change any earmarked funds for FY2020, presumably because they had already been appropriated for specific programs, but they did take 50% of all earmarked revenues for FY21 & 22 excepting:

- Cigarette taxes going to solid waste and the Govt Health and Life Insurance
- Hotel & alcohol taxes going to MVA
- MPLT interest going to pay the loan with MPLT

Presumably, they would reduce the other programs funded with earmarked funds by the 50%.

Group A took "All non-suspended earmarks with the exception of PL20-59 for remainder of 2020" for a savings in FY2020 of \$2.18M. It is unclear which programs are affected or which earmarks add up to that amount.

Constraints: The FY2020 earmarks would have been included in the FY2020 budget appropriation bill which would need amendment to remove the earmarks and include further collections in the general fund.

Savings: Unclear for FY2020.

2C7) (NEW) REALLOCATION OF TAX RETURN AMOUNTS TO ACCOUNT FOR FEDERAL STIMULUS CHECKS

FINANCING OPTIONS: INCLUDING FEDERAL SUPPORT FOR FISCAL ADJUSTMENT

2D1) SEEK FINANCING RELIEF FROM FULL PAYMENT OF PENSION OBLIGATION (EXTEND SETTLEMENT)

The CNMI Settlement Trust includes a payment schedule which approximately covers 75% of the retirees' pension payments. The schedule runs through 2023, at which point the Trust is to determine future payment requirements with an actuarial study of the remaining pension liability.

The suggestion was to request that the Trust pay the retirees partially from the capital of the Trust's investments and delay up to \$10M of the required annual payment for several years.

There did not appear to be any interest in pursuing this option.

2D2 & 3) SEEK RELIEF FROM FEMA MATCHING REQUIREMENT

\$5M of the 702 CIP funds is pledged for FEMA matching requirements. The CNMI is seeking relief from the matching requirement and redirect the 702 funds to outstanding bond payments.



Constraints: This option relies upon obtaining approval from FEMA and from OIA, perhaps including some Congressional legislation.

Savings: If approved by all parties, the savings would be \$5M

2D4) SEEK FEDERAL ASSISTANCE THROUGH COVID-19 RELIEF BILL(S)

The CARES Acts do not yet apply to direct assistance to States and Municipalities. The \$36M CAREs support for unbudgeted COVID response funds have been fully obligated for new costs in the CNMI.

2D5) SEEK COMMUNITY DISASTER LOAN PROGRAM FROM FEMA

The CNMI government has access under Yutu disaster declaration for \$5 million loan to support government expenses (unrestricted)... and will likely have access to another \$5 million under the COVID-19 declaration by FY2021... the terms of the loan make it likely the borrowing will be forgiven.

Constraints: The loans must be applied for and approved. Documentation would be required to meet the forgiveness criteria.

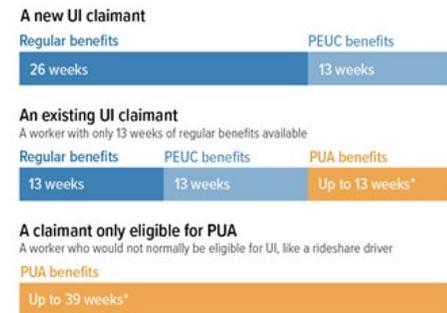
Savings: \$5M

The new Coronavirus Aid, Relief, and Economic Security (CARES) Act takes bold but short-term actions to combat the human hardship and economic damage flowing from the COVID-19 pandemic. It provides 100 percent federal funding for states to provide up to

CARES Act Boosts Jobless Benefits in 2020
 Examples of how Pandemic Emergency Unemployment Compensation (PEUC) and Pandemic Unemployment Assistance (PUA) make more weeks of unemployment insurance (UI) available

- The PEUC and PUA benefits under the CARES Act last through December 31, 2020 and work with UI to make up to 39 weeks of benefits available to workers.
- All UI claimants receive an additional \$600 per week through July 31, 2020.

13 weeks of Pandemic Emergency Unemployment Compensation (PEUC), and it creates a Pandemic Unemployment Assistance (PUA) program for people who exhaust their regular and extended benefits as well as many others, including “gig” workers, who would not normally be eligible for UI in most states. Until July 31, weekly benefits in all these programs are the amount determined by state rules plus \$600.



These provisions provide up to 39 weeks of UI but are only in effect through the end of this year. A new UI claimant eligible for 26 weeks of regular benefits would be eligible for 13 weeks of PEUC. At the other extreme, someone who is eligible only for PUA would get up to 39 weeks, depending on how many weeks are left in the year at the time of their claim. A person with 13 weeks remaining on their regular UI who exhausts them and the 13 weeks of PEUC would be entitled to as many weeks of PUA that are left in the year. See graphic.

* Depending on how many weeks are left in the year at the time of the claim.
 Notes: CARES Act = Coronavirus Aid, Relief, and Economic Security Act. Most states provide 26 weeks of regular unemployment insurance benefits, but a handful provide fewer weeks of benefits.
 Source: CBPP examples based on CARES Act provisions
 CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG



2.

*Summit Invitation Letter from Hon. Ralph
DLG Torres, Governor, CNMI*



RALPH DLG. TORRES
Governor

ARNOLD I. PALACIOS
Lieutenant Governor

COMMONWEALTH of the NORTHERN MARIANA ISLANDS
OFFICE OF THE GOVERNOR

Hafa Adai and Tiroow!

The global outbreak of the novel coronavirus (COVID-19) has resulted in a deep and dramatic shift in the structure of our economy and how our community interacts with one another and the world. These repercussions have caused tremendous consequences to employment, incomes and to obtaining the revenue necessary to support essential government services and programs.

It is clear that in response to this unprecedented challenge, our community must come together to chart a path forward for its government in new and innovative ways. To meet this challenge head on, the CNMI Government in collaboration with Graduate School USA will be virtually hosting a CNMI Fiscal Response Summit on April 23, 2020 to April 28, 2020.

It is important to ensure that the many voices of our community are heard in the difficult but necessary conversations about how your government functions.

To register your participation, please visit <http://cnmi.pitiviti.org> to enter the names, positions and contact information of participants from your organization. On the site, you will also find information related to the Summit and a digital copy of the CNMI Fiscal Response Task Force Briefing Paper, which discusses the challenges ahead and the framework we are pursuing toward reform.

We will be assembling this Summit via the Zoom videoconferencing platform. Information related to the Zoom platform will be provided to registrants on the site.

Thank you for your willingness to participate in this important event.

Should you have any questions or concerns, please contact my office.

Sincerely,


RALPH DLG. TORRES
Governor

CNMI Office of the Governor | Juan A. Sablan Memorial Building | Capitol Hill, Saipan
Caller Box 10007 | Saipan, MP 96950 | Telephone: (670) 237-2200 | Facsimile: (670) 664-2211 | www.gov.mp

 Ralph DLG. Torres |  CNMI Office of the Governor



3.

Summit Agenda



AGENDA

Commonwealth Fiscal Response Summit

*Large Group by Virtual Means
(Zoom) & Small Group Venues
(Conference Rooms of the
Governor and Lt. Governor)*

**Thursday-Friday, April 23-24 &
Monday-Tuesday, April 27-28, 2020**





Commonwealth Fiscal Response Summit

Large Group by Virtual Means (Zoom) & Small Group Venues (TBD)



To join the CNMI Fiscal Summit Plenary Session via **ZOOM**, visit <https://bit.ly/go-summit> on Thursday morning, April 23, 2020, at 9:00 a.m.

The purpose of the Commonwealth Fiscal Response Summit is to support a broad-based, participatory leadership event that will allow for representatives of all stakeholders in the Commonwealth to:

- fully comprehend and deeply understand the size and nature of the current crisis
- have all questions and concerns answered with respect to the underlying fiscal and economic assumptions and findings; and then,
- work collectively and collaboratively to choose among a comprehensive set of policy options to create and endorse a Fiscal Response Policy Package sufficient to address the size and urgency of the current crisis.

A Briefing Paper has been drafted to support the Summit process. It can be accessed at <https://bit.ly/CNMI-BP>. Due to the need to honor physical distancing requirements during the COVID-19 pandemic, the Summit will rely heavily upon virtual participation using Zoom conferencing tools to best replicate a large, open and participatory event. Still the organizing committee is confident that our approach will enable us to achieve our goal of **working together in a participatory, goal-oriented, “all for one and one for all” approach to solving our current crisis while also putting the Commonwealth in an improved fiscal position going forward.**



THURSDAY
APRIL 23, 2020

9:00 a.m.



Meeting for all Registered Participants

To access the meeting via **zoom**, visit <https://bit.ly/go-summit>

Opening Prayer

Rev. Francis X. Hezel, SJ

Welcoming Remarks

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

9:30 a.m.



Agenda, Technology Review and Process Overview

Mr. Jason Aubuchon, Graduate School USA

9:45 a.m.



Morning Break (15 minutes)

10:00 a.m.



Keynote Address—Overview of the Briefing Paper: “Facing the Challenge: Addressing the CNMI’s Fiscal Crisis”

Mr. Kevin O’Keefe; Ms. Deborah Milks, CPA, Graduate School USA and Fiscal Task Force members

Including Q&A after the keynote presentation

12:00 p.m.



Lunch Break for all

1:15 p.m.



Technical Meeting of Chairs, co-Chairs and Technical Support Teams

Registered participants will be emailed a Zoom video-conference link.

Group A

Individuals listed below will meet in-person at the Office of the Governor’s Conference Room. Additional participants will join virtually at 2:00 p.m.

- Chairman – Hon. Ralph DLG Torres, *Governor*
- Co-Chairman – Hon. Victor B. Hocog, *President of the Senate*
- Fiscal Analyst – Tracy Norita
- Fiscal Analyst – Matthew Deleon Guerrero
- Rapporteur – Gilbert Birnbrich
- Technician – Maxine Laszlo



Registered participants will be emailed a Zoom video-conference link.

Group B

Individuals listed below will meet physically in the Office of the Lt. Governor’s Conference Room. Additional participants will join virtually at 2:00 p.m.

- Chairman – Hon. Blas Jonathan Attao, *Speaker, NMI House of Representatives*
- Co-Chairman – Hon. Arnold Palacios, *Lt. Governor*
- Fiscal Analyst – Ryan Camacho
- Fiscal Analyst – Jazmin Camacho
- Rapporteur – Janina Maratita
- Technician - Franco Santos

2:00 p.m.



Summit Problem-Solving Process begins in two groups

Group A—Chairman, Co-Chairman, fiscal analysts, rapporteur and technician; joined virtually by 30 participants

Group B—Chairman, Co-Chairman, fiscal analysts, rapporteur and technician; joined virtually by 30 participants

4:30 p.m.



Adjourn Day One—Each group to break for the day *at the call of each Chair*

End of day check-in conference: Chairs, Co-Chairs, Technical Support Teams and the Graduate School USA support team to discuss progress, questions and concerns.

FRIDAY APRIL 24, 2020

9:00 a.m.



Continuation of Group A & Group B Working Groups

12:00 p.m.



Lunch

Technical Teams and Graduate School USA support team available on-call to each Group

TBD



Adjourn Day Two — *at the call of each Chair*

End of day check-in conference: Chairs, Co-Chairs, Technical Support Teams and the Graduate School USA support team to discuss progress, questions and concerns.



MONDAY APRIL 27, 2020

9:00 a.m.



Continuation of Group A & Group B Working Groups

12:00 p.m.



Lunch

Technical Teams and Graduate School USA support team available on-call to each Group

TBD

Adjourn Day Three—*at the call of each Chair*

Progress anticipated at this point: near final Working Group consensus on a “Fiscal Policy Response Package” awaiting only technical/analytical inputs (if any still outstanding for weekend technical support)

[End of day check-in conference: Chairs, Co-Chairs, Technical Support Teams and the Graduate School USA support team to discuss progress, questions and concerns—determine needs for weekend technical and analytical work to support each group (if any).]

TUESDAY APRIL 28, 2020

9:00 a.m.

Final Deliberations (if needed)
Group A & Group B Working Groups

11:30 a.m.

Working Lunch: *Finalizing/Consolidating* the Group A and Group B Working Group outcomes

Chairs, Co-Chairs and technical support teams with Graduate School USA support team



1:30 p.m.



Summit Report Out: Process, Outcomes & Next Steps

Group A and B Chairs & Summit support team members

zoom Zoom invite will be sent to all who participated on Day One

Closing Remarks.

~ 3:30 p.m.



Adjourn.



DRAFT AGENDA

The Commonwealth Fiscal Response Summit is supported by a Briefing Paper which can be accessed at <http://cnmi.pitiviti.org>. Additional questions can be directed to cnmi@pitiviti.org.



4.

Opening Prayer

Rev. Francis X. Hezel, SJ



Opening Prayer

Rev. Francis X. Hezel, SJ

Let's make this prayer earnest, not just a formality, but make it heartfelt because it reflects on the good of our people.

Let us pray. Risen Lord who brings new life with you to the whole of creation, we celebrated these wonders at Easter. We ask you now to show your power and your love today and the days that follow, as we work together to assist an island people struggling to recover in a time of depression. Offer us a path to recovery, give us the courage to accept the sacrifices that we might have to make to bring about this recovery. Grant us also the modesty to place our peoples' long-term interest above our own personal concerns. We ask for the good sense to realize that the achievements made in our work here belong to you, not ourselves. All this we ask for those we represent, your children, those you have promised to bring to new life. We ask you then for your help these days, and your guidance.

We make this prayer through Christ our Lord. In the name of the Father, Son, and Holy Spirit. Amen.



5.

Welcoming Remarks

Hon. Ralph DLG Torres, Governor, CNMI

Hon. Victor B. Hocog, President of the Senate, CNMI

Hon. Alexander C. Castro, Chief Justice, CNMI Supreme Court

Ms. Velma Palacios, President, Saipan Chamber of Commerce



Welcoming Remarks

Hon. Ralph DLG Torres, Governor, CNMI

Good morning, Hafa Adai yan Tirow, and thank you all for your time in joining the opening of this unique and important summit.

Today we are working toward accomplishing something new. We are for the first time trying to right the direction of the Commonwealth's finances after an accumulation of obligations, expenses, and practices that have been left unchecked since the Trust Territory government which we came from. Understanding the government's finances in a regular time is a difficult task, and we have teams of specialists within the CNMI government that have devoted their careers to navigating this so we can provide public services.

These times are anything but ordinary and we are dealing with challenges that we in the CNMI and the world have never experienced. Understanding where we are today requires being willing to take the time to understand the complexity involved with managing the government's finances. It takes a willingness to commit to search for answers that are not simple. I know we would like to have a simple solution and a simple easily understood answer, but looking solely for a simple solution does not get us to a proper solution that will last beyond our efforts.

We also must be willing to let go of our individual self-interest for ourselves, our organizations, or our branches. This is an unprecedented event to tackle unprecedented challenges. I am ready to work on solutions that are meaningful and complex, and to make the sacrifices that are necessary for the greater good. I ask that all participants do the same in this effort. We have a chance here to come to a mutual understanding of these issues, and I thank the Graduate School USA and the Office of Insular Affairs for their support in developing this framework for us to collaborate towards reform and viability going forward.

We have all voiced at one time or another our thoughts on needs for reform: that government is too bloated, that we must reduce expenses, that we must increase revenue. Now is the time to put these thoughts into action. I believe we can do it, and I look forward to working towards coming together, both public and private, minority and majority, to put our community first and charting our path forward together.

Thank you and Si Yu'us Ma'ase.



Opening Remarks,

Senate President Hocog

Good morning, Hafa Adai yan Tirow. On behalf of the people of the Commonwealth and on behalf of my colleagues from the House of Senate, we'd like to extend our sincere appreciation to all of the Governor's office and staff, and as always we work closely with the Office of Insular Affairs and those at the Graduate School USA to ensure that we can assist in moving our bloated government forward, and trying to find a solution that will enhance the livelihood of the people of the Commonwealth, as well as to increase the services by the government to the people diligently.

I have several proposals that I would like to share with the working groups for them to consider during their discussion with all parties involved that will definitely help us with what we're trying to accomplish in moving forward with the government operations, and aside from that I'd like to probably make some points to consider for this purpose.

- I would like for the working groups to consider the fiscal crisis, that it is real, and a government that is bloated, that we need to seriously work on it.
- I would like to see also the working groups address the issue that we need to review the size of government, and we need to ensure the right size of our government for business and services to our people without any hampering the services of our people.
- I would also like the working groups to consider the need to review the department and programs for duplication of similar functions, and merge them.
- I also want to recommend a need to address our generous medical referral and evaluate if we can really afford this program without having a source for the right appropriation.
- I would also ask the working groups to properly budget our law enforcement departments and either provide adequate funding for overtime or hire more officers to protect our community.
- Also, I would like to see the need to leverage technology in government, as we should have a Department of Information Technology to reduce manual processes and go paperless when having to route documents.
- We need also to require the CNMI government to build a rainy day fund to reserve to help us get through disasters and other emergencies.
- In the legislature, we need also to consider reducing the number of lawmakers. We should make sure we evaluate and have a physical impact analysis for every law that we pass to ensure we do not add financial burden to our government without proper funding.
- My last recommendation to the working groups is that we must put politics aside and strive to reform government to be efficient and effective so we can provide quality public services to our people and to the residents of the Commonwealth.

So with this again, I thank each one of you, participants in this working group, and most specially to the Office of the Governor for having this group set up to help us identify ways to uplift the critical financial situation that we are facing today. With that, again, thank you, and each one of you a good day and we wish the participants good luck and success for resurfacing our government operation to better serve our people of the Commonwealth.

Thank you and good day to everyone.



Opening Remarks,

Chief Justice Alexandro C. Castro

Text of Speech provided by Judiciary

Buenas yan Tirowammi. Today, our Commonwealth—and the world—face an unprecedented economic crisis. For such a challenge, there presents us with a choice to either unite or divide.

Thank you, Governor Ralph DLG Torres, for inviting the third branch of our government to this important summit.

While the Judiciary cannot make concession in matters of fiscal policy due to our role as an arbiter of law, we are grateful to participate and be consulted with, because the decisions made today will impact the court's future.

This summit has set in motion an effort for us to unite and to address the current crisis for the good of our Commonwealth because we—the government body—exist by the consent of our people and hold the highest duty to protect our people's right to life, liberty, and the pursuit of happiness.

And we must fulfill this duty by applying our norms and values of "respetu yan inaguiya," by preserving the principle of checks and balances, and by adhering to the doctrine of separation of powers.

For the Commonwealth to function smoothly as intended by the U.S. and CNMI Constitutions, the Judiciary must be treated at all times as co-equal with and independent of the executive and legislative branches, and not as a department, agency, or instrumentality of the CNMI government.

The recent budget cut of 48% pierces the heart of the Judiciary's independence because it effectively shuts down the third branch of our government.

Our fiscal projection indicates that it would be an impossibility for the court to perform its constitutional and statutory duties: no one will be left to supervise the probationers; the Drug Court will cease to exist; the Family Court Division services will come to a complete halt; the public will no longer have access to official land registration and other real estate, commercial, and personal property documents as well as death certificates, birth certificates, and marriage certificates; and the doors of Kotten Tinian and Centron Hustisia in Rota will be closed to our people.

Shut down cannot be an option because access to justice is crucial to our people today more than ever.

With restrictions in movement due to COVID-19, domestic violence and sexual abuse are likely to surge. Lost income and unemployment may lead to rise in property crimes. Without adequate treatment and supervision, drug court participants are already relapsing. The first ripple effect is the participant. The second ripple is the family and the children. The third is our community and our islands.



The people need the court system to seek justice, to preserve human dignity, and to uphold order, peace, and good governance.

In closing, I would like to propose few ideas which may help our government to operate optimally while living within our means.

I recommend that we continue the practice as we did in some budget years to give the Legislative and Judicial Branch a lump sum budget with 100% reprogramming authority to provide greater flexibility in addressing our internal needs.

I also recommend we change the present system of the OMB allocating our budget on a monthly basis, for this amounts to micro-managing the funds already appropriated. Thank you Si Yu'us Ma'ase Gilisow



Opening Remarks,

President of the Saipan Chamber of Commerce,
Ms. Velma Palacios

Thank you. Good morning, and Hafa Adai to everyone. Thank you, Governor Torres and Lieutenant Governor Hocog for extending an invitation to the private sector to participate in this summit. Thank you also to the Graduate School USA for working with our local government to produce a data-centric report, and the Fiscal Task Force members, for coordinating this summit.

We as private sector representatives are not here today with the goal of telling government how to do its job. We are also not here to bash, mudsling, or point fingers at how our government came to be in this fiscal situation. Our islands have overcome tremendous obstacles over the last few decades, and when disaster strikes, leaders make the best decisions they can with the information they have available. It is decades of both seemingly insignificant and significant choices that have gotten us here today, and I want to take a minute to applaud Governor Torres and the administration for being willing to address those choices with the hopes of creating more stability for our islands looking forward.

This is not the fault of one person, nor should it be the solution of one person. In our history, we as a community look to the government to solve all our problems and carry the burden of solution. We layer complex issues with labor, education, poverty, healthcare, environmental stewardship, economic development, and infrastructure all on top of each other and we look to the government for what seems are impossible solutions.

But, just like the government should not be the be solely responsible for solving our complex community problems, the private sector cannot alone be looked at as the solution. Using businesses as the purse strings, taxing and fining them every time there is a government expenditure shortfall will not lead to economic stability. Similarly, we cannot continue to rely on our local nonprofit establishments to support our most vulnerable community members and ignore their dire need for their operational funding. We can no longer exist in silos and we can no longer push the responsibilities on one person, one agency, or one sector. The private sector participants today as both business and nonprofit leaders are here to listen, explain our perspectives, and help find solutions that will set us down a path towards long term stability in our community together.

Thank you again for inviting us, and I look forward to a fruitful and productive summit.



6.

***Summit Keynote Presentation:
Facing the Challenge (Questions and
Answers)***

***Mr. Kevin O'Keefe & Ms. Debbie Milks, CPA
(Graduate School USA)***



Summit Keynote Presentation: Facing the Challenge (Questions and Answers)

Mr. Kevin O'Keefe & Ms. Debbie Milks, CPA (Graduate School USA)



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



Keynote Address

THURSDAY 4/23

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

LUNCH BREAK



1:30 p.m. Start Group Work

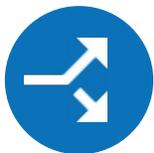
- **Group A** - Governor + Senate President
- **Group B** - Speaker + Lt. Governor

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CNMI Fiscal Response Task Force



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**

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CNMI Fiscal Response Task Force





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

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CNMI Fiscal Response Task Force



CNMI Fiscal Response Summit Agenda



Facing the Challenge: Addressing the CNMI's Fiscal Crisis

THURSDAY 4/23

- **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.



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CNMI Fiscal Response Task Force





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.

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CNMI Fiscal Response Task Force



The Fiscal Response Task Force



Facing the Challenge:
Addressing the CNMI's Fiscal Crisis



Kevin O'Keefe
Economist, GSUSA



Debbie Milks, CPA
Accountant, GSUSA

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CNMI Fiscal Response Task Force





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.

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CNMI Fiscal Response Task Force



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

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CNMI Fiscal Response Task Force





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.

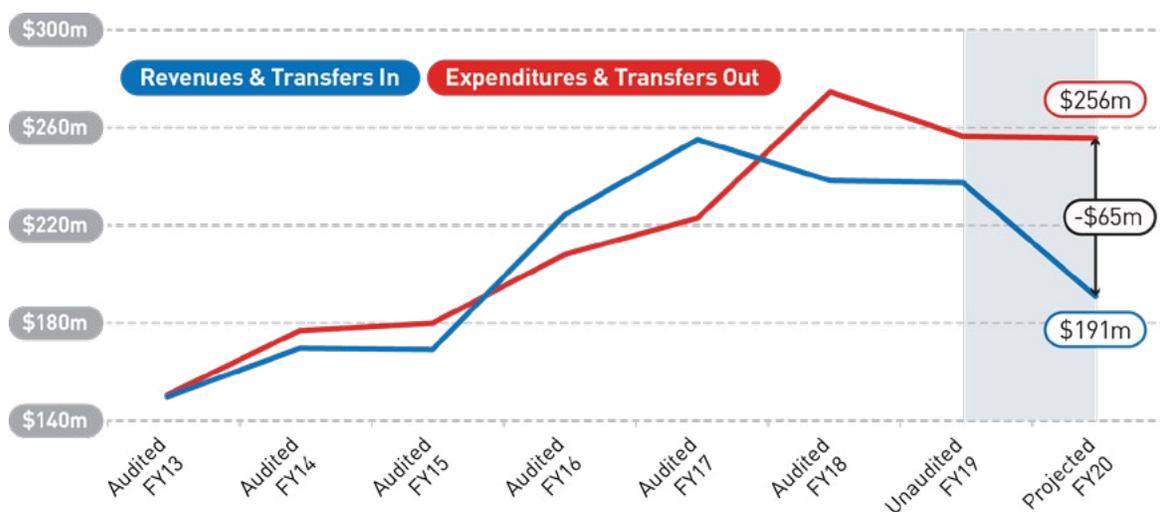
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CNMI General Fund

Total Sources and Uses FY13 to FY20 (Projected)



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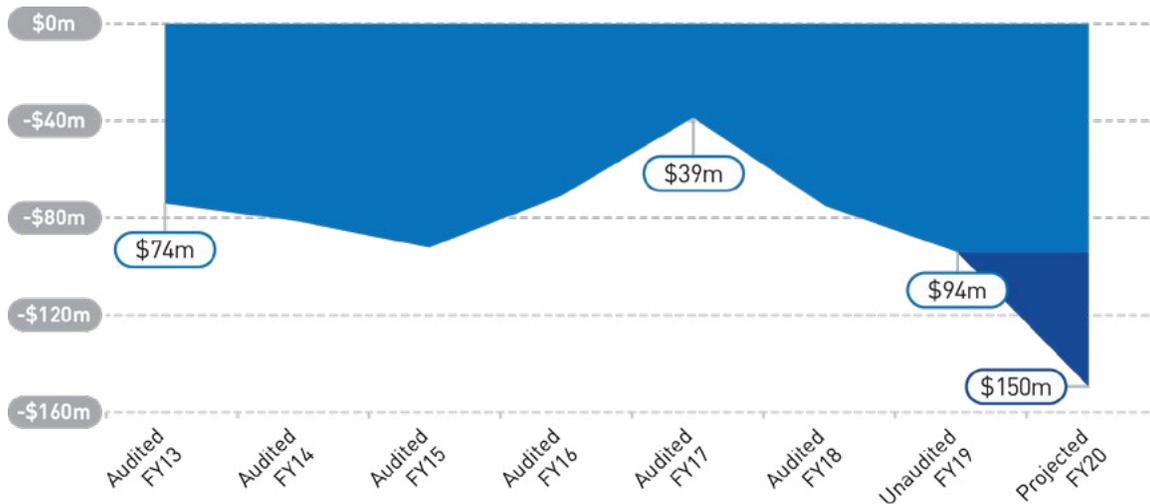
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CNMI General Fund

Accumulated Deficit



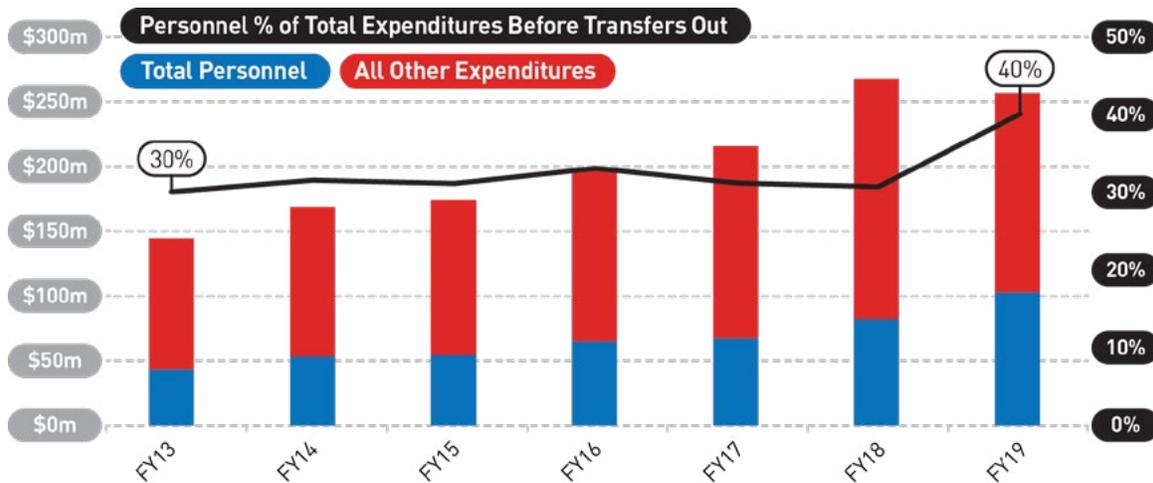
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CNMI General Fund

Expenditure Growth FY13 to FY19



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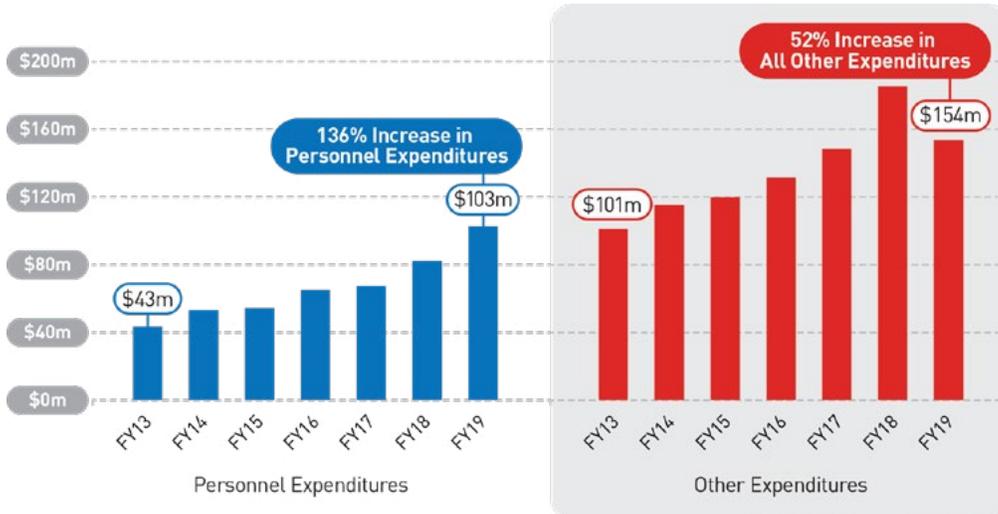
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CNMI General Fund

Personnel Growth FY13 to FY19



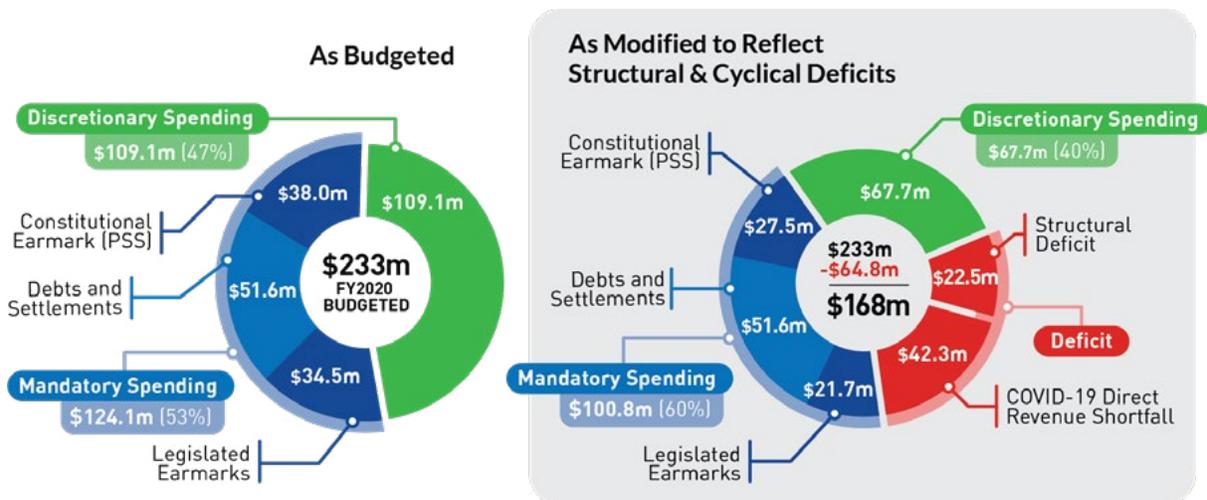
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CNMI FY20 Fiscal Operations

Budgeted vs Modified



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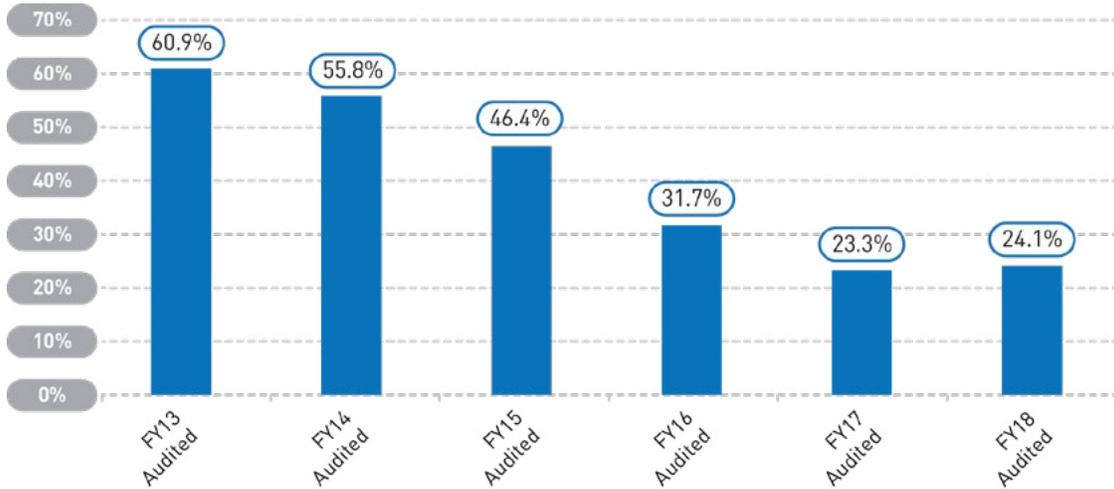
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CNMI Total Liabilities

As a Share of GDP

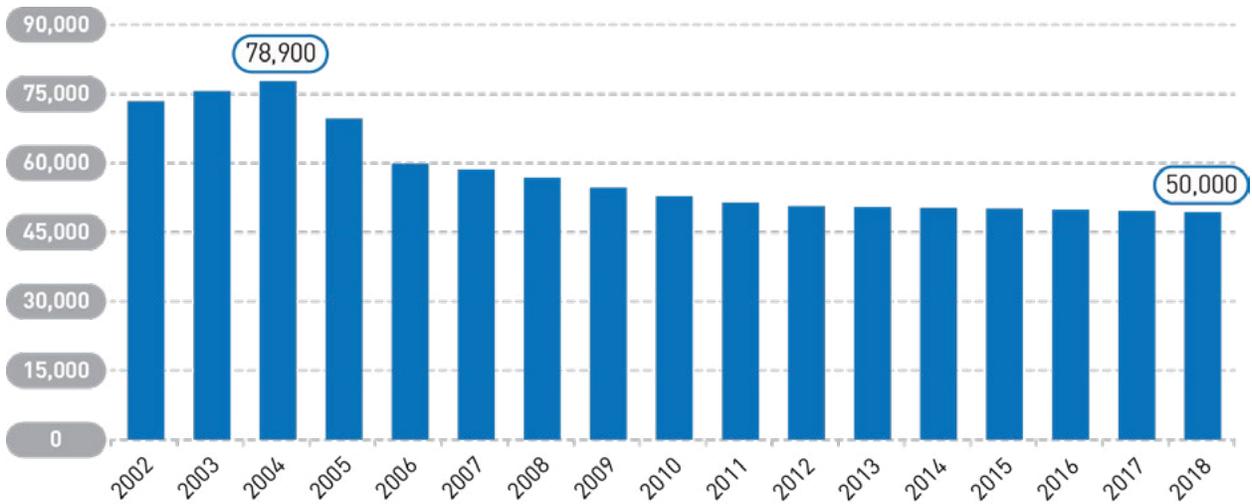


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CNMI Population



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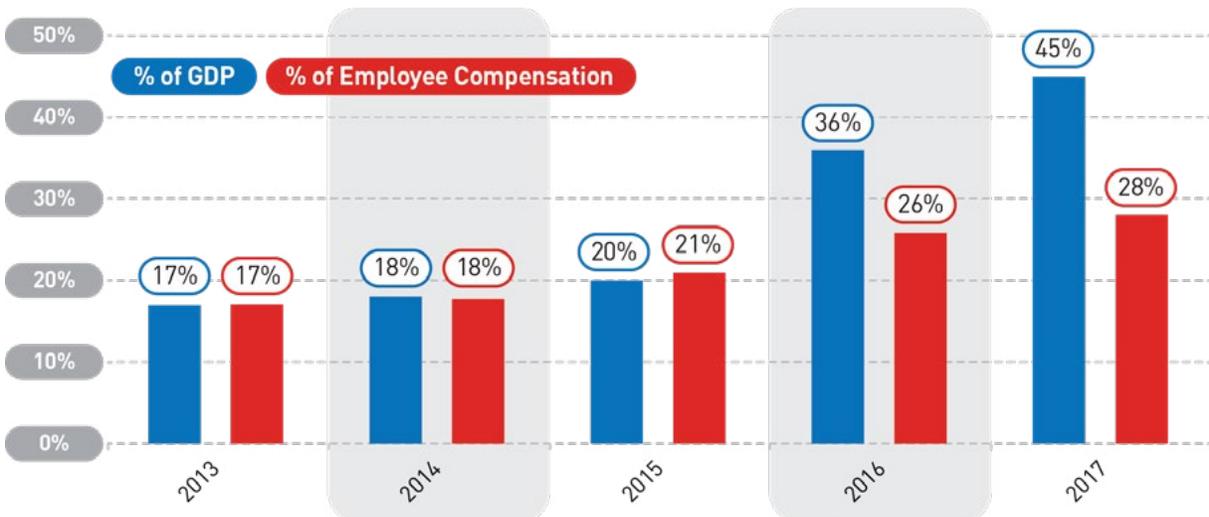
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CNMI

Accommodation and Amusement Sector



20 CNMI Fiscal Response Task Force



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.

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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)

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CNMI Fiscal Deficit, FY2020-FY2022

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

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CNMI Fiscal Response Task Force





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**

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CNMI Fiscal Response Task Force



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

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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**

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CNMI Fiscal Response Task Force



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

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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)

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Commonwealth of the
Northern Marianas Islands

Questions?



April 23, 2020



Q: How liquid is the CNMI government in current assets, to satisfy current obligations?

A: While we don't have access to the CNMI bank account, we can make the point that a lot of money is starting to come in from the federal government, cash included. However, a lot of that is very specific in how it's supposed to be spent. There's one thing that the government certainly does not want to do and that's tap into these funds for expenses that are not in those categories. At the top of my head though I would say that the CNMI is not in good shape to be meeting current obligations with cash.

A: Additionally, I would add that when we were there just three and a half weeks ago, it had already become a chore every two weeks for payroll to be met, and in fact payroll was not being met on Thursday or Friday, it was being met with allotments being released a few days later. So, that's usually the first sign that there's a liquidity crisis. That's also the first sign that the payroll in particular, being the largest cost to government, needs to be very quickly addressed. Now, since then, the 64 hours has gone into effect and the furlough is about to go into effect. So, there are some savings, but the revenue impact was just starting and now is at its most severe.

Q: How does moving locally funded employees to federally funded positions help the underlying issue?

A: When we were taking a look at that, spending some time digging through the data, we found that there were a number of personnel who were wholly or partially working on federal program-type activities, but being paid from the general fund. So, by moving them over to the federally funded program, obviously then you're saving local revenues. The number right now is actually relatively small to the expectations, and the reason for that is that is you can't move someone over to a federal grant without having that position open already or without getting permission from the federal grantor. So, there is a process that has to be followed in order to make that happen.

Q: How is it that we are going to cost in other federally funded activities like the DOD projects that are going on in Tinian and other federal grants?

A: I'm not sure what you mean by costing in, but any infrastructure projects would have a stimulative effect on the on the economy as long as we have people available to work on them, and of course as everyone well knows there's a an issue with immigration and getting enough construction-type workers.

A: Any additional federal spending will offset some of the economic decline that's been cost into our estimates, but right now there are potential delays in infrastructure projects due to materials, required travel of experts, and labor shortages. So, we don't anticipate that the infrastructure spending will be as rapid as it might otherwise be in the absence of the COVID-19 restrictions.

Q: Clarifying the structural deficit on China, why is it assumed that there is a 30% structural deficit in China and no structural deficit for Korea?

A: These are estimates, we have to put in the caveat that we really don't know what's going to happen in the recovery period, whether Asian travelers will quickly go back to travel because there's pent up demand, or whether they will stay at home for a while because of the shock factor that each country has undertaken. What we saw was before COVID-19,



the Chinese arrivals had already started shrinking in November and December, whereas the Korean numbers were growing at a pace right up until the COVID-19 crisis caused the flights to be turned off. So, no guarantee, but there's reason for optimism with Korean visitors coming back, and there's reasons for caution with a portion of the China tourism being reduced.

Q: Regarding the 64 hours on federally funded positions, would keeping them at 80 hours have an impact on the scenarios and the formula?

A: In entirely economic terms, having the federally funded positions operating at the full authorized 80 hours is a benefit to the individuals affected and to the CNMI economy as a whole, and the tax base. The only reason to consider reducing to 64 hours would be if there was an inability to monitor the actual work being done, or if out of a sense of fairness and shared burden there was a goal to have the same burden being shared by all employees. From a purely economic standpoint, it's beneficial to have the full 80 hours being utilized.

Q: What is the impact of a 64 hour week? How much has that saved?

A: That was calculated with all of those employees to which the 64 hours has been applied. So, this does not include sworn officers in public safety or fire. It does not include the legislature, it does not include a few other categories outside of the general fund. But for those that are affected, the number of hours reduced with benefits being kept in full, and a slight negative impact on the tax base as a result of lower wages, was all kind of put into a formula and the estimate for the rest of the 14.3 pay periods in 2020 to which it will apply was to be about \$3.9 million dollars.

Q: Who is the Graduate School USA? Who is paying them and how much do they cost?

A: The Graduate School USA is a nonprofit organization based out of Washington DC. We're fully funded by the US Department of the Interior. We're an extension of their technical assistance arm, and we work not only in the CNMI but across the US affiliated territories and freely associated states. So, our work with the CNMI government is funded through Interior technical assistance, and we're not receiving any direct compensation or any direct funding from the CNMI government itself. We are really working to supplement the Task Force that the governor created on the ground and to work with the CNMI government to support this initiative. So just to be clear, this is not a money-making activity for us or for our organization.

Q: Which government branch accounted for the most increase in personnel costs?

A: That's precisely the kind of question that we anticipate the working groups to ask, and all of the data needed to answer that question will be available to the technical/fiscal analysts that are sitting side by side with the chairs. So, if you're in working group A, or working group B, and that's information you want to help you make decisions, it will be quickly provided.



Q: Does the donut graph on the right side of page 17 in the slides and in the briefing paper take into account federal funds from COVID-19 that have and will be transferred to the CNMI? Does the look into the expenditures and into the revenue account for federal funds from COVID-19 response?

A: No, at the time we did this the Cares Act had not been passed, but even if it had been passed and we knew the precise \$36 million number, I don't think we would have put it in this chart because it can only be used for new expenditures and COVID-19 related expenditures. If we did put it in, we would call it mandated spending.

Q: Can you clarify the difference between furlough savings versus reduction enforced savings?

A: Furlough is just a temporary set-aside of that personnel with the assumption that they would be coming back into the workforce, but both of them, unlike the 64 hour reduction where the government is still paying full benefits to any one of the employees regardless of whether they're working 64, 80, or 106 hours, both the furlough and the reduction enforce do not receive benefits. I think you might also add that a reduction enforce would allow a person to continue and move on in their life rather than waiting for the government to expand again.

Q: Did you factor in the total revenue receivable aging account, and how much is that?

A: The way we calculated many of the dollar amounts in the charts was based upon the audited financial statements up through Fiscal '18 and the completed financial statements but unaudited through Fiscal '19, which should have the full revenue accrual, which would mean that yes, receivables should have been built in if they were by the accounting definition available and within a reasonable period of time expected to be collected. As to any revenues for FY20, we don't have those revenues built in.

Q: Was there any thought or concern put into the now constitutional mandate of 25% of total revenues to the public school system as a general concern operating relatively small government system with so much of its revenue dedicated to one autonomous nonprofit agency of the CNMI?

A: We weren't passing judgment on that, except to consider those earmarks, basically tying the hands of the policymakers to be able to respond to increases or decreases in needs. I think it's a little bit easier to understand the difficulty of those kind of earmarks on a small agency where you know there's a fixed amount that it takes to run that program or run that agency, yet they are subject to a fluctuating revenue stream. A stream that if it fails or falls doesn't necessarily mean that their tasks should be smaller. So, that's a question for I think the people of the CNMI to decide about the percentage, or how the public school system should be funded.

Q: During your time in the field, have you seen any comparable situations, and if so where was it and what was the response to the crisis?

A: The crisis that may be the most similar would be tourism reductions in '97- '98 when there was an Asian financial crisis, and then more recently when there was the bird flu or SARS. Those typically hit places like Palau and the Cook Islands were hit very hard because just like the Commonwealth, those two countries have very high reliance on



tourism and visitors. Though in neither case were there any gambling component to the industry. I would say the Cook Islands had a very major self-inflicted crisis that was nearly as large as what the Commonwealth is currently facing now in the late '90s, having gone through a very irresponsible borrowings spree and borrowing for operations. The kinds of cuts that they had to contemplate were about 30% of their workforce and about 25% of their overall spending, and they had to keep those cuts in place almost permanently. There was a gradual recovery in the size of government over a 10 year period, but that was a very large austerity program that had to be implemented. Palau has never had to implement an austerity program because they've always managed to have fiscal reserves and some support from their donor partners sufficient to get through the down cycles, and that of course is what we would recommend for the Commonwealth is to estimate what the variability is, and the volatility is, and make sure that you can be responsible for a large percentage of the worst case volatility, of course always knowing that there's some reliance upon the federal government, particularly when it's related to climate or a weather event. If this was localized to the CNMI we wouldn't have a Cares Act, and it would be very hard to come up with this large of an appropriation, but because this is a worldwide event and an event that the US government is addressing for all jurisdictions, you've got pretty substantial support from the US government, but you would have wanted to start in this position with a \$94 million surplus rather than a \$94 million debt. And, much of this could be dealt with through your own resources, including the possibility of providing support to the private sector actors that are hurt the worst. That's quite difficult to contemplate if there's not federal funding to support it because the government has both the revenue collapse and an underlying debt.

Q: For DPS and the Department of Fire and Emergency Management Services, and other enforcement agencies, what is the analysis on overtime cost versus actually providing a set number of personnel, so as to prevent the high cost of overtime that agencies seem to continue to incur?

A: That is an analysis which needs to be done. There's an issue with scheduling any function that needs to be manned 24 hours a day, and that analysis has not been done. But I would say that is something that might be built into the implementation plan. That would be a viable thing for cost savings. But to answer the question directly, we have not done that analysis.

Q: What are the biggest earmarks affecting discretionary spending?

A: There are earmarks that go to the Visitors Bureau, for instance the hotel tax. There are some earmarks which are reserved for payments to the retirement fund or to the settlement. Then there are other earmarks that are funding what I would consider basic executive branch functions. So, I'm not sure that it is much of a specific dollar amount as it is a decision on whether those funds should normally go into the general appropriable revenue stream, and then programs budgeted at a level that's appropriate for that program, rather than being subject to the fluctuations of a tax.

A: The only thing I would add is that we are providing to the working groups a detailing of the earmarks that exist and the revolving that exist. So, if that's a task that either working group A or B wants to undertake, the information will be there for them to work with.



Q: How does the CNMI fiscal posture compared with other territories?

A: You're comparing yourself with a bunch of jurisdictions that are in fairly deep fiscal distress, and it's possible that except for this COVID-19 crisis which has hit the CNMI in a uniquely painful way, your score in terms of fiscal health that the Graduate School does on an annual basis was always a little bit higher, a little bit better than the score in Guam and in the Virgin Islands. However, this particular crisis is hitting the CNMI harder than elsewhere. CNMI and the Virgin Islands are both being hit pretty badly. You're not comparing yourself to the best fiscally governed jurisdiction and you're probably no longer at the top of that of that small group.

Q: The Puerto Rico government went through a sort of bankruptcy several years ago. Do you believe the CNMI is close to what that island territory was facing?

A: I would say absent relief from the federal government, that kind of distress would be contemplated. There's not much relief because the CNMI debt to outside bondholders is no longer that great. The mandate to pay your pension obligation is not one that can be waived I presume by any bankruptcy action. And, I'll remind you that the Puerto Rico situation required a Financial Control Commission that created or continues to create a lot of friction because it has virtual control over the fiscal operations of the government, essentially from outside. So, the cost of going through a bankruptcy would be very high in terms of your own control over matters, and the benefit would be reduced because I'm pretty sure the pension obligation would not go away under bankruptcy. Much better to contemplate would be putting together federal support and the kinds of reforms that can get you out of the other end of this crisis in a in a sustainable position. Everybody seems to agree that there's government bloat. We're not the ones that are making those estimations, but if there is, there are sustained persistent cost savings that would allow the CNMI to come out as an affordable going operation.

Q: How are we accounting for the stimulative effects of economic activity as it relates to the deficit, whether or not that's added into the discussions going forward.

A: We've tried to account for the anti-stimulative effects of cutting wages and reducing expenditures, and we would be happy to account for the positive stimulated effects of additional federal spending, but those effects will be very small if it's entirely on equipment and imported supplies. And that will be offsetting, it will be positive, if it's for overtime and local construction. But, we know there are some worrisome bottlenecks to increasing the level of construction that's already embedded in the economy. We'd be happy to be proven wrong that we overestimated the negative effect of the crisis, but I'm more worried about being proven wrong that the crisis is actually somewhat worse. Every month we're probably getting closer to having underestimated the size of the problem.

Q: It appears this financial study (briefing paper) focuses on revenues and expenditures and the general fund. As a whole of Commonwealth approach may be more effective, will there be other studies to examine the opportunities for fiscal improvements within the legislature, judiciary, and within PSS where a substantial portion of general fund revenues are allotted?

A: The answer is yes. Hopefully in working group A and working group B, they're being given the data if they feel that it would be appropriate for other branches of government to take a similar approach, a burden sharing, or a burden spreading approach. There's an immediate costing of the effects or the beneficial effects in solving the problem. The



general fund, of course, is in dire straits, but saving money in non-general fund areas requires some legislative relief to make sure that it can be applied to general fund requirements or general fund needs. So, we would anticipate an implementation plan that had two steps. If spending was being reduced in some restricted area, that would allow those savings to be applied to General Fund expenditures, or to offset the loss of revenues.

A: Just to clarify that the whole of government or the general fund is funding the judiciary and the legislature and they were definitely included in the cost and revenue comparisons, where the rest of the CNMI government with the autonomous agencies, the courts authority and so on, those were not wrapped in but that would be a separate project to be able to do financial analysis on those agencies as well.

A: Just to be clear, if the legislature were to take the same approach of most of the executive branch with 64 hours, that would be a 20% pay cut. Even if they are not reporting hours, that 20% pay cut would this year and next year make a substantial contribution to the size of the deficit. Again, that's for the working groups to consider, and we hope that there is a whole of government approach and thought pattern.

Q: Will removing barriers to telemedicine make a viable solution to reducing off-island referrals?

A: Probably, but we're not doctors. So, that's an example of a question that if it came up in Group A or Group B, we would recommend that the chair call the appropriate medical experts to answer the question. If they think that there is an estimate that they could make to build that into some cost savings, that could be realized. The goal is to have the cost savings that get booked against the problem be credible based on analysis, based on expert review. In supporting the process we would take the expert analysis that if a million dollars a year could be saved on a \$15.5 million spending area, that might be credibly realized, and that would be one more additional item that would help solve the whole problem.

Q: In the CNMI financials there's a notation about "going concerns" from the auditor - what does that mean?

A: A "going concern" is when an auditor includes their opinion or their report on the financial statements, and it's an indication that they feel that that entity has substantial issues with being able to meet their mandated obligations, and in this case in the CNMI, it would be about the cash flow to be able to meet the vendor payments, the settlement payments, the payments to pay their utility bills so CUC can stay in business and so on. So, they're just expressing that. The mention earlier of a government going bankrupt, that really isn't going to happen, so in fact the CNMI government is going to continue, but they do have to put that in there just to indicate that there are substantial financial issues.

Q: From your perspective on the financials, do you see the need for cuts to be spread across the different branches of government along with the executive branch?

A: We've done an exercise like this in all four states of the FSM, in the Marshall Islands, Palau, and the Cook Islands, and we've never seen a result that didn't include a fairly wide, fairly broad inclusion of all parties in the problem solving process. So, I would be very surprised if the other branches were unaffected while the executive branch was deeply affected. On the other hand, the best events have always avoided a completely across the board cutting exercise. The best events have always resulted in strategic cutting where



essential services could be protected, and in particular, recently added positions that may be of lower value in terms of public service were targeted more heavily. But, that was never limited to just one branch, so I'd be surprised if that were the result in the Commonwealth.

Q: Regarding the effects of taxation and the negative impact on future revenue generation, is there a conversation that you could share about the impact of tax increases versus future revenue for the government and overall economic activity?

A: There's always a balance between when tax increases are put in place, and it's always best if it's done during a period of economic growth. Unfortunately, that wasn't done in the CNMI. The CNMI has a very moderate level of tax effort as a whole: about 18% of GDP and sometimes less than that. Typically in island jurisdictions it's closer to 20 - 25% of GDP. So, the tax effort in its totality is not particularly high, and the complicated tax structure of the CNMI with the rebates, credits, and all of that I think probably just adds to the lack of transparency about who's actually paying the taxes. Clearly, the biggest corporations to the BGRT are paying a substantial portion of the taxes, but the BGRT is a particularly poor tax, for example, for taxing professionals. It's a poor tax for taxing brand new businesses with no profits and it's a poor tax in the long run for taxing professionals because it's a very low marginal tax rate. I won't point out any particular professions, but the CNMI is ripe for tax reform modernization with care towards trying to have the incidence of the tax fall more on visitors and less on residents, and more on the wealthier producers and less on the smaller producers. And, that's not the way the tax system is currently. The tax system is currently set up as a kind of a hodgepodge that is all tied back to a territorial tax regime that's 60-70 years old.

Q: There's a movement in the United States and a lot of other jurisdictions about reopening the economy within this fiscal year. Has this model, or is any of the work going forward, taking into account possibly reopening economic activity in the CNMI prior to or earlier than what the model is currently suggesting within the briefing paper?

A: We would be happy to come back and do some analysis if the visitors start coming back sooner, but we just picked a particular set of assumptions and created the model based on that. Obviously, the pain will be lessened if the tourism industry recovery is sooner. The assumptions are built into the current situation, and I think it would certainly be unwise to assume that things are automatically going to get better sooner than the assumptions that are built in there. Right now, Palau for example, is assuming a much longer crisis and so is the Marshall Islands. So are most of the South Pacific countries working with the World Bank and the Asian Development Bank, and most of their assumptions are slightly more pessimistic than the assumptions that are built in the Commonwealth projections. If I were asked to do it again, I would probably be slightly less optimistic at this stage.

Q: What is the plan for the next couple of days? What is your role in the exercise?

A: The Graduate School's role is entirely background analytical support and facilitative support. We are not engaging in making specific recommendations, nor are we involved in the dialogue. We will be available to answer questions, but we will try our best not to influence the final results because the ownership the participants have of the final result is of maximum importance.

**Q: Could you further explain what the pledge from the Casino Commission would entail?**

A: There were two issues with the Casino Commission. One, being the most immediate, was that the Casino Commission which is funded with an earmark and was not included in the 64 hour reduction, had funds available in their revolving fund to the extent of \$2 million, which they granted back to the CNMI central government to assist with the revenue shortfall. The second item is the casino license fee, which is due in August of about \$15 million, and there was a question as to whether that funding could be applied to the revenue shortfall as well. I should mention though that the casino license fee doesn't go directly to the casino commission, it goes to the three delegations. So, the short answer is that the casino gave \$2 million back to the central government.

Q: What savings do you anticipate by merging similar agencies and what are the expectations?

A: The most immediate savings would be in the management personnel. So, rather than having two Directors or two Secretaries, that would get reduced. Those programs would need to be questioned by the committee to get an understanding of exactly what they are doing and to see if there's further overlapping activities that could be combined and accomplish a reduction in force of the staff. Then, of course you would have to get into where are they residing? Are they in rental property or not, and what could be saved from reducing that footprint in terms of rent and utilities and communications and such. So, it could get maybe overly detailed, but it's also something that might be looked at from an efficiency of government perspective too, as well as a cost savings.

A: The one thing I'll add to that is that this anticipates that the chairman taking a recommendation from the working participants is able to call all the different resources of the government. So, if there's a notion of combining two agencies, it's expected that those two agencies would be represented, questions would be asked, and the group with then task their fiscal analysts and our team to, following their instruction, to estimate cost savings this year, next year, and in 2022 from a particular possible course of action.



Overview of Summit Working Team Processes

Group A

*Mr. Alex Sablan, President, Northern Marianas Business
(NMBAC)*

Group B

Hon. Arnold Palacios, Lieutenant Governor, CNMI



Group A
Alex Sablan, President, NMBAC

Thank you, Jason, and I want to thank Governor Torres, Lieutenant Governor Palacios, the Senate President and Speaker, members of the 21st Legislature, members of the private sector who were involved in this, and then the balance of community members and stakeholders within our community who are all completely a part of this process. I believe this was an excellent process in dividing the groups into two to tackle the same issue, the daunting task of a \$65 million shortfall in this fiscal year, and an \$85 million potential shortfall in the following 2021 fiscal year, and going forward depending on how quickly we can get our economy back up and running.

I want all to realize that there was a lot of thought put into this process amongst everyone, some passionate pleas amongst many people relating to things like our retirees and their retirement fund, and the fact that there are going to be furloughs – the furloughs that have already occurred, and the furloughs that possibly will come. This was not easy. Again, there was a lot of passion behind everyone, our leader, our Governor, Senate President, and again individuals that were part of this process on our side: Senator Sixto Igisomar, and Congressmen.

The process allowed us to have a conversation about all of what we're doing within government. The discussion about how we resolve the \$65 million. We attempted to try to find the scenario in doing this so that we can maintain the vital services of public health, public education, and public safety as a main core concern, and ensuring that the government is able to deliver those services to the people. So, we made some very difficult decisions on many sides - whether it be a tax base that's going to be increased, whether it's going to be additional furloughs, as I mentioned, whether there's going to be huge cuts in operating budgets - these measures had to be taken in order to fulfill the dire straits that we are in currently because of COVID-19, which has a global impact.

We're hopeful that there's going to be help from the federal government to subsidize some of the government's cost structure. No state in the Union has gotten that yet, in the sense that direct dollars are going to go to governments. I believe many people have heard other governors of other states and territories arguing this point that they need support, but it hasn't come yet. The initial COVID-19 response, all of that money from what I understand, is going to this response we're dealing with today to ensure we flatten the curve as quickly as possible.

As the governor stated many times in his interviews and discussions with us, he is hopeful that we never have to use the new hospital, the external facility that's at the CHCC, or the



resort facility for that matter, but those are put in place under the basis of the best data that is being put forth right now with FEMA and HHS helping to determine what that curve is going to look like.

So, I want to end by stating that we did our best to try to be as fair as possible. I think the Governor and leadership within the House and members of this committee Group A did their best to try to find a middle ground on many of these. We all didn't agree with everything together, but we did a vote on everything at the end of the day and whether we agree with it or not, we came up with the majority vote on many of these decisions that were brought forward.

This is going to be very difficult for all of us going forward. This community is going to be in a very painful scenario at least over the course of this fiscal year, and probably into the next fiscal year, until we can turn the economy back on and get tourists back in and get our economy flowing again. But with that, I know we are, to use the old adage, a very resilient community. We've been through major disasters over the course of the last few years, and I think we will come out of this one together. And at the end of the day, we're all in this together and we're all trying to fight together to make sure that we have a community that can sustain our needs and ensure that we can deliver the services.

So, I thank you all, Kevin and Jason's team, and everyone who put this together. I think it was an eye-opening approach towards the systemic issues that we've been dealing with the government and processes behind our community. In working out how we find solutions to right size our government and to move services forward, I think Governor Torres and Lieutenant Governor Palacios for the opportunity. On behalf of Group A, we look forward to moving forward a lot of these ideas and the processes that come afterwards. Thank you.



Group B
Hon. Arnold Palacios,
Lieutenant Governor, CNMI

A journey of 1000 Miles starts with a first step, and this is the first step. I want to thank all the participants for giving your time, your efforts, and your talent to this initiative to address some of the systemic problems that we've had over several decades and some immediate needs that needs to be addressed. The Governor and myself and many elected members of our community, as well as those in public and private sectors - I've always talked about addressing some of these issues. And, I am glad that we, despite all the challenges of putting together this summit, were able to sit down, consolidate our thoughts, and with mutual respect of each other's view, come up with what I believe would be the first steps to addressing the institutional fiscal problems that all of us experienced over the years of our own making.

Group B was a very productive these past four days, and we even came in on Saturday for a couple hours. In the beginning, at the start of the working sessions, we struggled with individual views and policies, but I think after the hours of talking about policies and sharing our views on how things should be done, I think we finally agreed that we should put everything on the table and discuss it frankly, because to do nothing is not acceptable. I believe that going forward, we would have served our community very well if we at least implement 50 percent. I'm optimistic that we can do more than 50 percent, but if we can do 50percent of the initiative that has resulted from this summit, I think we would have done well for our community.

I want to thank Governor Torres, because when we first started talking about this earlier in late January and February, he said "let's do it." We were fortunate to have had Jason, Kevin, and Ms. Milks on island, and we talked about it briefly and it took off. I thought that it was going to be delayed until later, after this COVID-19 issue tapers off, but I'm very happy today that our leaders from the public sector and especially our leaders from the private sector have come together to initiate a plan on how we can sustain our community and our fiscal health going forward.

This is something that our Commonwealth should have done a long time ago. Will it happen tomorrow? No. Some of the initiatives are going to have to be initiated through the legislative process and the congressional process. But, we need to keep our eye on the ball. There are a lot of initiatives, proposals, and recommendations that we came up with that require implementations by members of the legislature and members of the judiciary. The hard work that we need to do is ahead of us, and the Governor and I stand ready to work and look at this plan and see how we can implement it. This is not going to be easy, but to the extent that we can, we will work to minimize the impact and the pain. The members of our community, particularly those that are going to be facing furloughs and cut in hours and benefits that they have been used to for decades, we would have to search for a way to make those less painful. But I think in the long run the Commonwealth will be a better place.

So with that, thank you very much.



8.

Working Team Outcomes

Consolidated Results of Working Teams

Working Team A Results

Working Team B Results



Consolidated

	CONSOLIDATED		
	FY2020	FY2021	FY2022
Size of the Fiscal Response Required	(64.8)	(85.2)	(37.0)
\$ Adjustments Identified:	74.8	142.3	104.0
\$ Over (Under) Required Response	9.9	57.1	67.1
2A: Expenditure Adjustments			
2A1: Reduction in hours worked	3.9	7.0	0.0
2A2: Reduction in Personnel			
2A2a: Transition of personnel to federal grant coverage (by fractional FTEs)	0.8	0.0	0.0
2A2b: Reduction of jobs resulting from mergers	0.0	0.0	0.0
2A2c: Temporary reduction of jobs (furlough period to be estimated)	10.0	10.0	0.0
2A2d: Permanent reduction of jobs	0.0	0.0	0.0
2A3: Reduction in Overtime	3.0	3.0	3.0
2A4: Reduction in Travel	1.3	1.1	1.1
2A5: Reduction in Professional Services	0.0	0.0	0.0
2A6: Reduction in All other categories	0.9	9.7	11.5
2A7: Cancel/Postpone Additional 25% pension payments	7.2	14.3	14.3
2A8: Reduction in Medical Referral costs	See item 2C1		
2B: Revenue Adjustments			
2B1: Reform of the BGRT	2.6	9.9	11.1
2B2: Reform of the earnings tax	0.0	1.8	1.8
2B3: Reform of Rebate of NMI/TIT	0.0	2.8	3.1
2Bx: Arrears collection of 2018 BGRT	4.5	0.0	0.0
2By: Enforce tax levy (2008-2019)	4.5	3.0	0.0
2Bz: Alcohol and Tobacco surtax	0.8	2.6	2.6
2B4: A: Sales Tax (3%) B: Various Taxes	0.0	28.5	40.0
2C: Re-Allocation of Public Funds			
2C1: Reform Medical Referral (MOU with CHC)	3.1	5.5	5.5
2C2: Collect GF-funded Payroll Expenses from FEMA	2.0	0.0	0.0
2C3: Collect GF-funded Procurement Expenses from FEMA	6.0	8.0	0.0
2C4: Seek pledge from Commonwealth Casino Commission	0.0	0.0	0.0
2C5: Seek temporary re-allocation from Casino License Fee (Advance of payment)	7.2	0.0	0.0
2C6: Seek removal/relief from various earmarks to broaden participation	2.2	0.0	0.0
2D: Financing options including federal support for fiscal adjustment			
2D1: Seek financing relief from full payment of pension obligation (extend settlement)	0.0	0.0	0.0
2D2: Seek relief from FEMA matching requirement	0.0	0.0	0.0
2D3: Seek temporary authority to use section 702 CIP funds for fiscal adjustment	0.0	10.0	10.0
2D4: Seek federal assistance through COVID-19 relief bill(s)	0.0	0.0	0.0
2Dx: Absorb Community Chest Fund	10.0	20.0	0.0
2D5: Seek community disaster loan program from FEMA	5.0	5.0	0.0



Group Alpha

	GROUP ALPHA		
	FY2020	FY2021	FY2022
Size of the Fiscal Response Required	(64.8)	(85.2)	(37.0)
\$ Adjustments Identified:	73.0	89.4	50.4
\$ Over (Under) Required Response	8.2	4.2	13.4
2A: Expenditure Adjustments			
2A1: Reduction in hours worked	3.9	7.0	0.0
2A2: Reduction in Personnel			
2A2a: Transition of personnel to federal grant coverage (by fractional FTEs)	0.8	0.0	0.0
2A2b: Reduction of jobs resulting from mergers	0.0	0.0	0.0
2A2c: Temporary reduction of jobs (furlough period to be estimated)	10.0	6.0	0.0
2A2d: Permanent reduction of jobs	0.0	0.0	0.0
2A3: Reduction in Overtime	3.0	3.0	3.0
2A4: Reduction in Travel	3.9	6.0	6.0
2A5: Reduction in Professional Services	0.0	0.0	0.0
2A6: Reduction in All other categories	0.833	0.0	0.0
2A7: Cancel/Postpone Additional 25% pension payments	7.15	14.3	14.3
2A8: Reduction in Medical Referral costs	See item 2C1		
2B: Revenue Adjustments			
2B1: Reform of the BGRT	2.4	2.0	0.0
2B2: Reform of the earnings tax	0.0	0.0	0.0
2B3: Reform of Rebate of NMI/TIT	3.4	0.0	0.0
2Bx: Arrears collection of 2018 BGRT	na	na	na
2By: Enforce tax levy (2008-2019)	4.5	3.0	0.0
2Bz: Alcohol and Tobacco surtax	0.8	2.6	2.6
2B4: A: Sales Tax (3%) B: Various Taxes	0.0	13.0	17.0
2C: Re-Allocation of Public Funds			
2C1: Reform Medical Referral (MOU with CHC)	7.5	7.5	7.5
2C2: Collect GF-funded Payroll Expenses from FEMA	2.0	0.0	0.0
2C3: Collect GF-funded Procurement Expenses from FEMA	3.7	0.0	0.0
2C4: Seek pledge from Commonwealth Casino Commission	2.0	0.0	0.0
2C5: Seek temporary re-allocation from Casino License Fee (Advance of payment)	0.0	0.0	0.0
2C6: Seek removal/relief from various earmarks to broaden participation	2.2	0.0	0.0
2D: Financing options including federal support for fiscal adjustment			
2D1: Seek financing relief from full payment of pension obligation (extend settlement)	0.0	0.0	0.0
2D2: Seek relief from FEMA matching requirement	0.0	0.0	0.0
2D3: Seek temporary authority to use section 702 CIP funds for fiscal adjustment	0.0	0.0	0.0
2D4: Seek federal assistance through COVID-19 relief bill(s)	0.0	0.0	0.0
2Dx: Absorb Community Chest Fund	10.0	20.0	0.0
2D5: Seek community disaster loan program from FEMA	5.0	5.0	0.0



Group Bravo

	GROUP BRAVO		
	FY2020	FY2021	FY2022
Size of the Fiscal Response Required	(64.8)	(85.2)	(37.0)
\$ Adjustments Identified:	55.9	121.2	105.6
\$ Over (Under) Required Response	(8.9)	35.9	68.6
2A: Expenditure Adjustments			
2A1: Reduction in hours worked	3.9	7.0	0.0
2A2: Reduction in Personnel			
2A2a: Transition of personnel to federal grant coverage (by fractional FTEs)	0.8	0.0	0.0
2A2b: Reduction of jobs resulting from mergers	0.0	0.0	0.0
2A2c: Temporary reduction of jobs (furlough period to be estimated)	10.0	10.0	0.0
2A2d: Permanent reduction of jobs	0.0	0.3	0.0
2A3: Reduction in Overtime	1.7	1.4	1.4
2A4: Reduction in Travel	1.3	1.1	1.1
2A5: Reduction in Professional Services	0.0	0.0	0.0
2A6: Reduction in All other categories	0.9	9.7	11.5
2A7: Cancel/Postpone Additional 25% pension payments	7.15	14.3	14.3
2A8: Reduction in Medical Referral costs	See item 2C1		
2B: Revenue Adjustments			
2B1: Reform of the BGRT	2.6	9.9	11.1
2B2: Reform of the earnings tax	0.0	1.8	1.8
2B3: Reform of Rebate of NMI/TIT	0.0	2.8	3.1
2Bx: Arrears collection of 2018 BGRT	4.5	0.0	0.0
2By: Enforce tax levy (2008-2019)	na	na	na
2Bz: Alcohol and Tobacco surtax	na	na	na
2B4: A: Sales Tax (3%) B: Various Taxes	0.0	28.5	40.0
2C: Re-Allocation of Public Funds			
2C1: Reform Medical Referral (MOU with CHC)	3.1	5.5	5.5
2C2: Collect GF-funded Payroll Expenses from FEMA	2.0	0.0	0.0
2C3: Collect GF-funded Procurement Expenses from FEMA	6.0	8.0	0.0
2C4: Seek pledge from Commonwealth Casino Commission	0.0	0.0	0.0
2C5: Seek temporary re-allocation from Casino License Fee (Advance of payment)	7.15	0.0	0.0
2C6: Seek removal/relief from various earmarks to broaden participation	0.0	5.7	5.7
2D: Financing options including federal support for fiscal adjustment			
2D1: Seek financing relief from full payment of pension obligation (extend settlement)	0.0	0.0	0.0
2D2: Seek relief from FEMA matching requirement	0.0	0.0	0.0
2D3: Seek temporary authority to use section 702 CIP funds for fiscal adjustment	0.0	10.0	10.0
2D4: Seek federal assistance through COVID-19 relief bill(s)	0.0	0.0	0.0
2Dx: Absorb Community Chest Fund	na	na	na
2D5: Seek community disaster loan program from FEMA	5.0	5.0	0.0



9.

***Closing Plenary Presentation:
The CNMI Fiscal Response Plan***

***Mr. Kevin O'Keefe & Ms. Debbie Milks, CPA
(Graduate School USA)***

(Questions and Answers)



Closing Plenary Presentation: The CNMI Fiscal Response Plan (Questions and Answers)

Mr. Kevin O'Keefe & Ms. Debbie Milks, CPA (Graduate School USA)



Commonwealth of the
Northern Marianas Islands



Facing the Challenge: Addressing the CNMI's Fiscal Crisis



April 23, 2020

CNMI Fiscal Response Summit Agenda

Closing Plenary



TUESDAY 4/28

- **Overview of Team Processes**

Team representatives discuss processes undertaken by each team, challenges faced, breakthroughs and successes, and characterization of the overall experience. **Alex Sablan, President NMBAC** for Team A; **Hon. Arnold Palacios, Lt. Governor** for Team B.

- **The CNMI Fiscal Response Plan**

Presentation of the combined results of work undertaken by Team A and Team B.

- **Implementation of the CNMI Fiscal Response Plan**

Discussion of implementation and next steps to maintain stakeholder engagement.

- **Closing Remarks**

2

CNMI Fiscal Response Task Force





CNMI Fiscal Response Summit

TUESDAY 4/28



Facing the Challenge: Addressing the CNMI's Fiscal Crisis

The CNMI Fiscal Response Plan

Questions?

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

Mute Stop Video Invite Manage Participants Share Screen **Chat** Record More

3 CNMI Fiscal Response Task Force



CNMI Fiscal Response Plan

TUESDAY 4/28

	GROUP A			GROUP B			COMBO		
	FY2020	FY2021	FY2022	FY2020	FY2021	FY2022	FY2020	FY2021	FY2022
1 Size of the Fiscal Response Required	104.00	104.00	112.00	104.00	104.00	112.00	104.00	104.00	112.00
2 Adjustments Identif. - ES&I/Naaso	9.7	9.7	20.4	11.06	20.2	20.8	20.4	20.2	20.4
3 C&I Reduction of Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 C&I Reduction of Hours worked	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
17 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
18 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
19 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
20 C&I Reduction of Personnel to Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
21 2021 Reform of the BGR	2.6	2.6	0.0	2.6	2.6	0.0	2.6	2.6	0.0
22 2022 Reform of the earnings tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
23 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
24 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
25 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
26 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
27 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
28 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
29 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
30 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
31 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
32 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
33 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
34 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
35 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
36 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
37 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
38 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
39 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
40 2021 Reform of the BGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

- Work from **GROUPS A & B** were equal **12 times**.
- Work from **GROUP A** was utilized **7 times**.
- Work from **GROUP B** was utilized **9 times**.
- The **COMBINED** work of the two groups creates the **CNMI Fiscal Response Plan**.

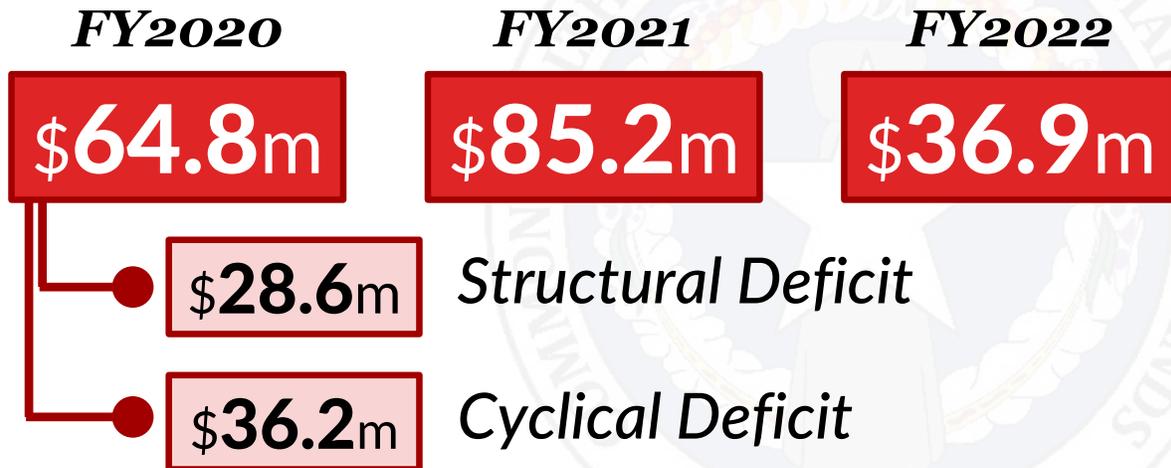
4 CNMI Fiscal Response Task Force





CNMI Fiscal Deficit, FY2020-FY2022

TUESDAY 4/28



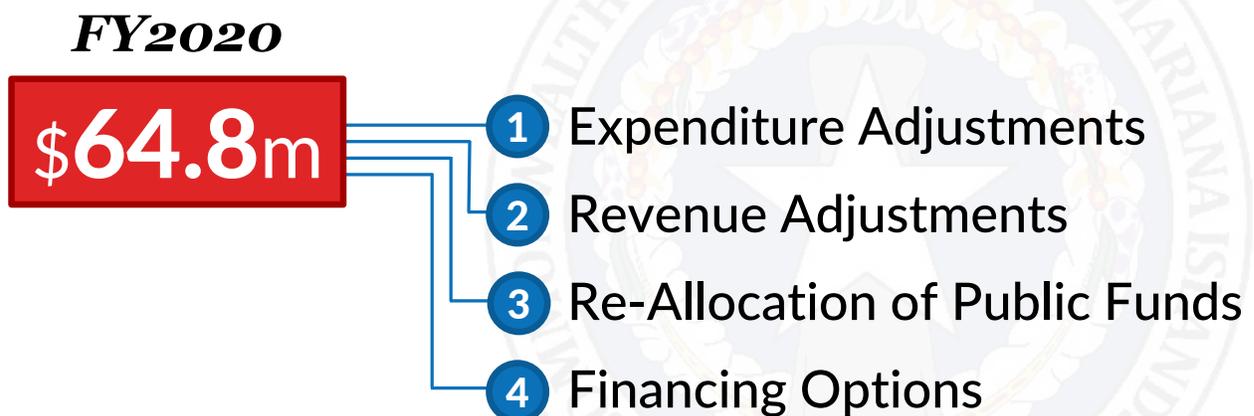
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CNMI Fiscal Response Task Force



CNMI Fiscal Response Plan

TUESDAY 4/28



6

CNMI Fiscal Response Task Force





CNMI Fiscal Response Plan

1 EXPENDITURE ADJUSTMENTS

TUESDAY 4/28

	FY2020	FY2021	FY2022
Reduction in hours worked	3.9	7.0	0.0
Reduction in Personnel			
Transition of personnel to federal grant coverage (by fractional FTEs)	0.8	0.0	0.0
Reduction of jobs resulting from mergers	0.0	0.0	0.0
Temporary reduction of jobs (furlough period to be estimated)	10.0	10.0	0.0
Permanent reduction of jobs	0.0	0.3	1.1

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CNMI Fiscal Response Task Force



CNMI Fiscal Response Plan

1 EXPENDITURE ADJUSTMENTS

TUESDAY 4/28

	FY2020	FY2021	FY2022
Reduction in Overtime	3.0	3.0	3.0
Reduction in Travel	1.3	1.1	1.1
Reduction in Professional Services	0.0	0.0	0.0
Reduction in All other categories	0.8	0.0	0.0
Cancel/Postpone Additional 25% pension payments	7.2	14.3	14.3
Reduction in Medical Referral costs			

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CNMI Fiscal Response Task Force





CNMI Fiscal Response Plan

2 REVENUE ADJUSTMENTS

TUESDAY 4/28

	FY2020	FY2021	FY2022
Reform of the BGRT	2.6	9.9	11.1
Reform of the earnings tax	0.0	1.8	1.8
Reform of Rebate of NMI/TIT	0.0	2.8	3.1
Arrears collection of 2018 BGRT	4.5	0.0	0.0
Enforce tax levy (2008-2019)	4.5	3.0	0.0
Alcohol and Tobacco surtax	0.8	2.6	2.6
A: Sales Tax (3%) + B: Various Taxes	0.0	28.5	40.0

9 CNMI Fiscal Response Task Force



CNMI Fiscal Response Plan

3 RE-ALLOCATION OF PUBLIC FUNDS

TUESDAY 4/28

	FY2020	FY2021	FY2022
Reform Medical Referral (MOU with CHC)	3.1	5.5	5.5
Collect GF-funded Payroll Expenses from FEMA	2.0	0.0	0.0
Collect GF-funded Procurement Expenses from FEMA	6.0	8.0	0.0
Seek pledge from Commonwealth Casino Commission	0.0	0.0	0.0
Seek temporary re-allocation from Casino License Fee (Advance of payment)	7.2	0.0	0.0
Seek removal/relief from various earmarks to broaden participation	2.2	0.0	0.0

10 CNMI Fiscal Response Task Force





CNMI Fiscal Response Plan

4 FINANCING OPTIONS (INCL FEDERAL)

TUESDAY 4/28

	FY2020	FY2021	FY2022
Seek financing relief from full payment of pension obligation (extend settlement)	0.0	0.0	0.0
Seek relief from FEMA matching requirement	0.0	0.0	0.0
Seek temporary authority to use section 702 CIP funds for fiscal adjustment	5.0	10.0	10.0
Seek federal assistance through COVID-19 relief bill(s)	0.0	0.0	0.0
Absorb Community Dev Fund into G/F	10.0	20.0	0.0
Seek community disaster loan program from FEMA	5.0	5.0	0.0

11 CNMI Fiscal Response Task Force


CNMI Fiscal Response Plan

★ FISCAL RESPONSE PLAN SUMMARY

TUESDAY 4/28

	FY2020	FY2021	FY2022
1. Expenditure Adjustments	26.9	35.7	18.4
2. Revenue Adjustments	12.4	48.7	58.6
3. Re-Allocation of Public Funds	20.4	13.5	5.5
4. Financing Options (including Federal)	15.0	35.0	10.0
TOTAL FISCAL RESPONSE PLAN	74.7	132.9	92.5
SIZE OF CNMI DEFICIT	64.8	85.2	36.9

12 CNMI Fiscal Response Task Force




CNMI Fiscal Response Summit

 TUESDAY 4/28

Implementation – Next Steps

- Governor Torres will create a **CNMI Fiscal Response Implementation Team** to monitor progress in implementing the **CNMI Fiscal Response Plan**.
- The initial plan will be **shared with all participants** in the plenary sessions.
- Governor will schedule updates to Groups A and B to ensure their hard work is honored and to provide **transparency** and **accountability**.

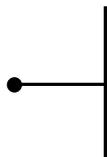
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CNMI Fiscal Response Task Force



CNMI Fiscal Response Summit

 TUESDAY 4/28



Closing Remarks

- **Hon. Ralph DLG Torres**, Governor

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CNMI Fiscal Response Task Force





Commonwealth of the
Northern Marianas Islands



Questions?



April 23, 2020

Q: This question is from the Marianas Business Journal: What for sure will be implemented and what is still up for discussion?

A: That's a very good question, but it's above my pay grade. I believe the governor will answer that question in his closing remarks.

Q: This question is from KUAM News: Are there plans to reopen local business discussed during the summit?

A: We often heard participants in Group A and Group B saying there's an urgency to get the economy going. There's an urgency to get domestic demand back up to what it was before. But, that was entirely deferred to the public health team that's working on the restrictions under the CNMI's operations with respect to the border and with respect to domestic activities. So, the short answer is no, this group was not tasked with that.

Q: Who will be forecasting the anticipated government revenues for budget use each year because typically revenues are well overstated?

A: I don't believe that any suggestions were made on changing the revenue forecasting model, but there is a need for some technical assistance and a need for a better use of the data. One of the outcomes of this exercise, I believe, is a substantial use of data, an enhancement and the ability of all of the players, both to consume data and to produce it. I would say going forward there's every reason to believe that the revenue estimates will be



more closely tied to the prior data and economic forecasts. Looking forward there will be an attempt to avoid over projections that lead to deficit spending.

Q: Do you have an estimate for how many government employees will be terminated or furloughed?

A: Actually, the two groups would have a better idea, but the savings will be somewhere in the area of 600 employees at a minimum. It depends on the salary levels. It could be higher if the salary levels of those furloughed are lower than average, but it's certainly going to be above 600. Nearly 400 have already been identified and notified, so there is an additional or above and beyond that was required for the groups to meet their targets.

Q: This question is from the legislature: When do we begin the work on the ground to implement such, given that the house is reviewing the FY21 budget proposal?

A: I realize that the budget process has its own mandate, probably in law, possibly even Constitution, but I really encourage both houses to pick up the implementation plan that hopefully is going to be delivered to them in the next week, and put a priority on the areas of required action. I think it's important to note that the Governor, Lieutenant Governor, Speaker, and the President did not give up any of their authorities by sitting in and working hard in the summit. All they did is share their authority and seek input from a broad cross section of the community. And it's helped, of course, that they have participated in it. And since the participants were so forthcoming in energy and effort that they would be given priority and that their recommendations, their consolidated response, will be given priority for executive action, for legislative action, and in the long term for other actions.

Q: Was there a specific sales tax rate used to project the \$28.5 million in new sales tax revenue in 2021, and was this new sales tax contemplated to be in addition to BGRT?

A: That number is an accumulation or total of various taxes so that includes alcohol tax, sugary beverage tax, luxury sales tax, tobacco tax, and other things. So, it's the worksheet that Group B used in determining those numbers and is an accumulation of small taxes throughout. It is on top of the BGR taxes that businesses will have to collect in regards to the sales tax and luxury sales tax. These are things that we think could be implemented to help the CNMI, and it requires the legislation to go through, but at the same time taking into account the implementation and the feasibility for these businesses to comply. So, we do understand these potentials and hurdles in associated with these taxes.

Q: Was there any discussion or consideration of performance based budgeting?

A: I can only say that there was consideration of performance based reduction, and that the furloughs might be done more generally. But, when final decisions are made on the right sizing of government, they would require substantial study. But that's substantially different than performance based budgeting, and I'm not aware of any discussion in this crisis modality of that kind of long term institutional improvement.



Q: Were there any discussions about the pandemic and employment assistance as it relates to the furloughs?

A: The two kinds of unemployment insurance that are available in a way are what made it more feasible for Group A and Group B to contemplate the size of furloughs that are being contemplated because this federal program is going to be extremely important to individuals, to households, and the domestic economy.

A: We took into account the obvious need to reduce the overall deficit. Taking into account that we had the pandemic unemployment assistance, we contacted and called in Secretary Benavente, who provided us information on the basis of how the pandemic unemployment assistance would be appropriated and a sense of how it will be disseminated. At the bare end on the unemployment assistance, it's at \$345 a week, which in the math that we did was somewhere around \$16,000 as a baseline payroll. And the \$600 which my understanding is available until July 30 is available to everyone. So, at \$945 a week, which we felt the predominant number of employees within government make at least \$16,000 a year would avail of the full benefit less the \$600. In the brief understanding of what the payroll is in government, while it wouldn't make everyone whole it would sustain people, and it would help many households, and as was earlier stipulated, it is our hope that through the budget process and realignment of government after these furloughs are made, that there are strategic decisions made. Specifically, in the decision to furlough, and again this was a compromise between Group A and B, there was a lower number in one group and a higher number in the other, and the decision was to be made to carry a happy medium. Rest assured that the decision made by everyone was that a way would be available for these individuals and they would be somewhat made whole. We want to get the economy going as quickly as possible, so this is a very temporary fix to the overall situation within the Commonwealth budget dilemma. To make one last stress point, the community has to realize that these issues alluded to by Lieutenant Governor Palacios and many others who had these discussions over the course of the last five days, are systemic issues that have gone decades, years on end. As was mentioned, 24 years of deficit spending over the course of the history of the Commonwealth. So, this is wasn't created this administration. This was not created in this timeline. This is an issue of dealing with systemic problems that have to be dealt with going forward. It is our hope that we can all come together as a community as leadership within the Commonwealth and make those right decisions. I trust in the fact that our leadership within the three branches of government did come to a common ground on many of these things. So, thank you.

Q: Was the savings from personnel reductions in furlough only, or is this on the table for any position reductions to be permanent?

A: There may have been a very small fraction of permanent reductions discussed, but all of the payroll savings is either through the 64 hours, or furloughs with as just indicated the assumption that some of those furloughed positions may be eliminated at some point, or there may be reductions of other positions. But, at the moment it's 64 hours and furloughs.

Q: Were there any captured mergers of departments or agencies recommended within any of the findings? Did any of these groups report a merger of government departments or agencies?

A: There was a lot of discussion about mergers and that's work to be undertaken going forward. There are no final decisions, but a lot of discussion about mergers and efficiency gains at the position level and at the agency level.



Q: In this exercise, did the groups or the briefing papers envision any increases to revenue caused by the COVID-19 or Yutu responses?

A: Most of the economic assumptions assume that the domestic demand going would be kept at its current level due to the expected federal response. What driving the expected decline in economic activity and the expected decline in tax base is primarily the zeroing out of tourism. So, the fact that there is likely to be a substantial federal response, including in areas that the money will be spent in the domestic economy, is sort of like treading water and keeping things from getting even worse than projected. They're a stimulus in the sense that they're replacing demand that was otherwise going to be lost.

Q: Were the economic revenue projections only based on tourism and rebounding tourism or did they discuss new industry creation or diversification?

A: Entirely based on the effect of the tourism zeroing out. Of course the lesson is clear that the reliance on a narrow base creates a lot of risk and also calls for a government that sets aside money in every single good year, and has probably 20 surplus years for every 25 years of economic activity as opposed to nearly the opposite that the CNMI has faced over the past decades.

Q: The temporary reallocation of the casino license fee was mentioned earlier for the retirees. Can you please talk more about that? What happens or what do you recommend should the licensee be unable to pay? What does sort of relationship does the reallocation have with the retirees?

A: I know that the \$15.5 million annually is large enough to meet the \$14.3 million annual number for the 25% commitment. I know that both groups work hard to protect the payments to the pension recipients, including the 25% on top of the mandate, but I cannot make any determination as to the likelihood of the payment of the August license fee.

A: That \$15.5 million dollars would definitely interest the retirees here in the future starting October 1 going forward. But, should the licence fee not be paid that obviously opens up a breach of contract by the licensee, so maybe revisiting Public Law 18-56 and actually opening it up for more competition is the simplest answer to go by.

Q: Did the revenue calculations take into account reimbursements from FEMA that the CNMI is expecting?

A: There were two categories that contemplate it and actually put numbers on the reimbursement of prior expenditures that the general fund was used, and they're expecting reimbursements. I think those added up to more than \$8 million for fiscal year 2020 and they're part of that solution to the \$65 million problem.



10.

Closing Remarks

Hon. Ralph DLG Torres, Governor, CNMI



Closing Remarks

Hon. Ralph DLG Torres, Governor, CNMI

There's a lot of people that I want to thank: The Graduate School USA, Jason, Kevin, and Debbie, thank you for making this a priority since we first met, and addressing our concern of restructuring the government and understanding our challenges here, on top of all the disasters that have happened since 2015 and what we're going through with COVID-19. A lot of the issues raised during the conversation were about where we stand economically here in the CNMI, and issues that are raised throughout the years, bloated government, over expenditure, travel, accountability, and double the positions that needs to be audited... but what is the right size of government?

So, through that process that was the request that we made with the Lieutenant Governor, because I believe this is the right time, although it's difficult. None of us want to furlough anyone, but at the same time we have to live within our means. We can sit here all day and blame each other, or we can address and we acknowledge where we are today with what we are facing.

But more importantly, where do we go from here? Having all the three branches of government, all the stakeholders, our private partners, in the end this is one Commonwealth, one direction, and one community. A lot of the decisions that have been made I'm sure have some reservations, or total disagreement, but at the end of the day, what is the most critical part is how we move forward. Having both teams address the same issues and how do we get to where we need to be, and the actions that we need to move forward in making those decisions – a lot of those decisions again we acknowledge that it's not easy, but a decision needs to be made.

So, where do we go from here? There's a lot of legislation that needs to be done. I want to continue to work with our Speaker, House, Senate President, the Senate, as well as our judicial branch. We have a lot of things that we need to move forward and address, whether it's tax structure, annual leave, rebate, or the community chest funds.

What I want to propose is on May 14 to ask our team to reserve this day and do a follow up on action that needs to be made. I do know that in the executive branch we have a lot of work that needs to be addressed, and we will do this immediately. I would like to continue to work again with the legislature on what action needs to be done, and start implementing those recommendations to the summit.



This summit is not the Governor's summit, it's not the Lieutenant Governor's summit or any of the other branches. This summit is our Commonwealth's summit, because we'll go up when the economy goes up. When there's challenges, I want to also bring in our private partners, not just during the challenging times but when times are going good I want them to also come in on the table and distribute what are the other priorities aside from administration. We furloughed already close to 400 employees. Through this process, unfortunately, more needs to be done to meet the right number of employees and making sure that the government obligation to provide safety, health, as well as education is moving forward on those drastic and hard decisions.

So again, I would like to have a continued discussion and implementation on those that has been requested and advised to do. So, I have a timeline here: May 14, July 14, and September 14, and I hope that every time we meet there is progress on both sides in making sure that we address the concerns, that after this summit there won't be bloated government, there won't be over expenditure on travel or other expenditures, and there is complete accountability.

This summit sets that tone for the next three or four years. So again, Jason, Kevin, and Debbie, Department of the Interior and OIA... I also want to thank Chamber for being here. I know that they have worked so hard. And to be honest, we worked last night until about 11:30 PM. We also worked Saturday from 9 AM – 4 PM. To all the teams and private partners, thank you.

To Lieutenant Governor, Speaker, our Senate President, Chief Justice, all the branches of government, and to everybody that's listening, we are one Commonwealth. This is our government, and one direction. We may disagree, but we have to move forward together and address our differences along the way. So again, thank you.

[Translated from Chamorro]

Thank you (in Chamorro and Carolinian)

I know that the changes ahead will be difficult for the entire CNMI.

I am asking for your continued help and support and that we maintain focus in our journey ahead as we are one Marianas, with the spirit of cooperation (getting along well with others), understanding, love, and patience.

Thank you



11.

CNMI Summit Briefing Paper

Facing the Challenge: Addressing the CNMI Fiscal Crisis



Commonwealth of the
Northern Marianas Islands



Facing the Challenge: Addressing the CNMI's Fiscal Crisis

March 31, 2020



This Commonwealth Fiscal Response Briefing Paper has been prepared by the Governor's designated Fiscal Response Task Force at the invitation of Hon. Governor Ralph DLG Torres. It is intended to serve as a technical input into a fiscal reform process that will be led by CNMI leadership.



Facing the Challenge: Addressing the CNMI's Fiscal Crisis

About This Briefing Paper

This *Commonwealth Fiscal Response Briefing Paper* has been prepared by the Governor's designated Fiscal Response Task Force at the invitation of Hon. Governor Ralph DLG Torres. The Task Force is comprised of:

- 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.



Introduction

It is apparent to all concerned parties that the CNMI is facing an unprecedented fiscal and economic crisis. The recently convened *Fiscal Response Task Force* has undertaken a comprehensive review of the historical and emerging fiscal and economic conditions of the CNMI with the following objectives:

Task 1: Assess the Size and Nature of the Crisis in two parts:

- A. Assess the size of the **structural fiscal deficit**¹ that the CNMI has incurred annually and carried into FY2020, irrespective of any COVID-19 impacts; and
- B. Assess the size of the **cyclical fiscal deficit**² 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 a broad range of **potential fiscal response policy options** available to the government of the CNMI in the following areas:

- Expenditure Reductions
- Revenue Enhancements
- Re-Allocation of Public Funds
- Financing options, including potential federal support for fiscal adjustment

The work of the *Task Force* is presented below in detail and is built into the policy-modeling tools provided to support the policy decision-making process urgently required of the collective leadership of the Commonwealth.

¹ A fiscal deficit occurs when a government spends more than it receives. The deficit is deemed “structural” when it persists year-after-year, even when revenues are stable or growing.

² In contrast to a structural deficit, a cyclical deficit is usually temporary in nature and is commonly caused by a decline in government revenues due to a business cycle or a destructive event.

The analytical and facilitative work of the *Fiscal Response Task Force* does not extend to assigning blame or finding fault for the fiscal position of the Commonwealth; rather, the focus is forward-looking and aimed at identifying viable and timely solutions for consideration of the collective leadership of the Commonwealth.

The fiscal position of the Commonwealth entering the period of the COVID-19 pandemic

It is important to note that the CNMI entered this period of fiscal and economic crisis from a position of financial weakness. That weakness reflects a combination of

- i. rapid growth in expenditures in the period since FY13;
- ii. 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;
- iii. judicially mandated pension obligations;
- iv. expenditures persistently under budgeted, especially for medical referrals, overtime, utilities, and banking fees;
- v. the prevalent practice of earmarking revenue sources—thereby adding binding rigidities to the fiscal operations of the Commonwealth; and,
- vi. moderately high outstanding liabilities relative to the size of the CNMI economy.

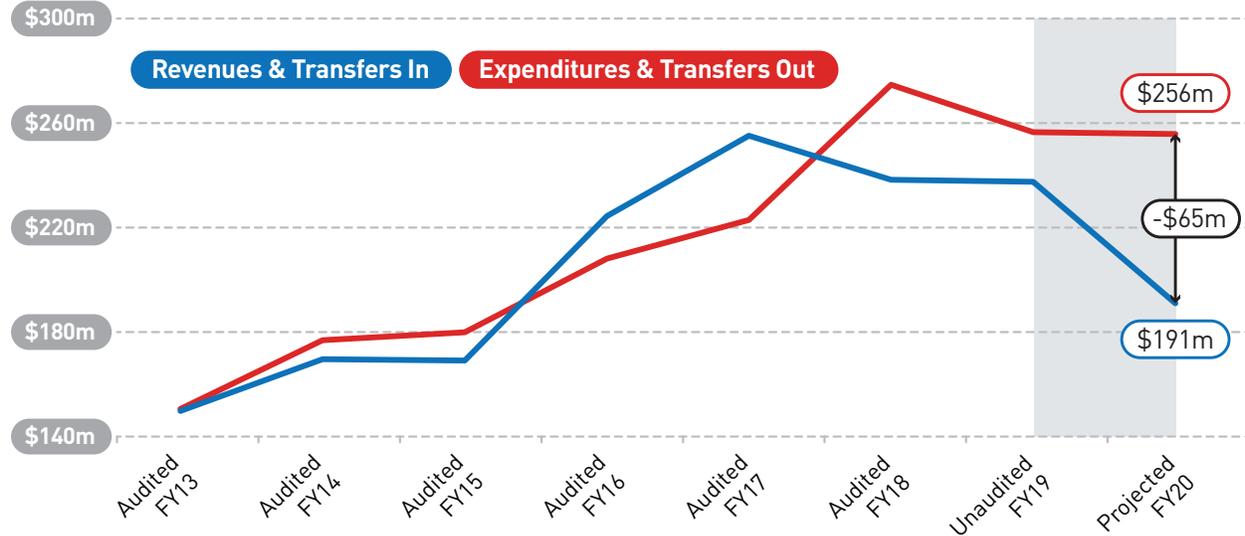
The *Task Force* briefly describes the fiscal and economic factors that will affect the decisions that Commonwealth leadership will need to make to bring the CNMI into near-term fiscal balance and to prepare the CNMI for economic recovery after the COVID-19 pandemic has relented.

Brief Fiscal and Economic Update

Figure 1 shows the pattern of “sources and uses” of the CNMI general fund from FY2013 through projections for FY2020. In CNMI budget terms, sources are equivalent to funds



Figure 1 CNMI General Fund Total Sources & Uses FY13-FY20 projected



Source: CNMI audited financial statements through FY2018 and CNMI Department of Finance and Task Force estimates

available for appropriation in the annual budget, while uses include both expenditures and other outlays appropriated in the annual budget. The general trend over the period is rapid growth in expenditures through FY18 followed by limited, but insufficient restraint on planned and actual spending. Revenues have lagged expenditures in all years but FY2016 and FY2017. Large annual deficits were experienced in FY18 and FY19 at \$36.3 million and \$19 million.

The FY2020 budget was, by definition, a balanced budget, except that it did not account for the persistent practice of over-expenditure in key areas discussed in detail below. The *Task Force* analysis describes this as a structural deficit accounted for by assuming/asserting that an additional \$22.5 million would be spent absent specific, monitored and enforceable policies to control such over-expenditures. The related adjustment is shown in Figure 1 by increasing the “planned actual” spending identified in the budget from \$233 million³ to \$255 million.

³ The \$233 million refers to the original budget as appropriated for FY2020; subsequent adjustments were presented to the legislature in January and March, ultimately reflecting a 48 percent reduction of the operating portion of the budget from \$148.9 million to \$77.2 million.

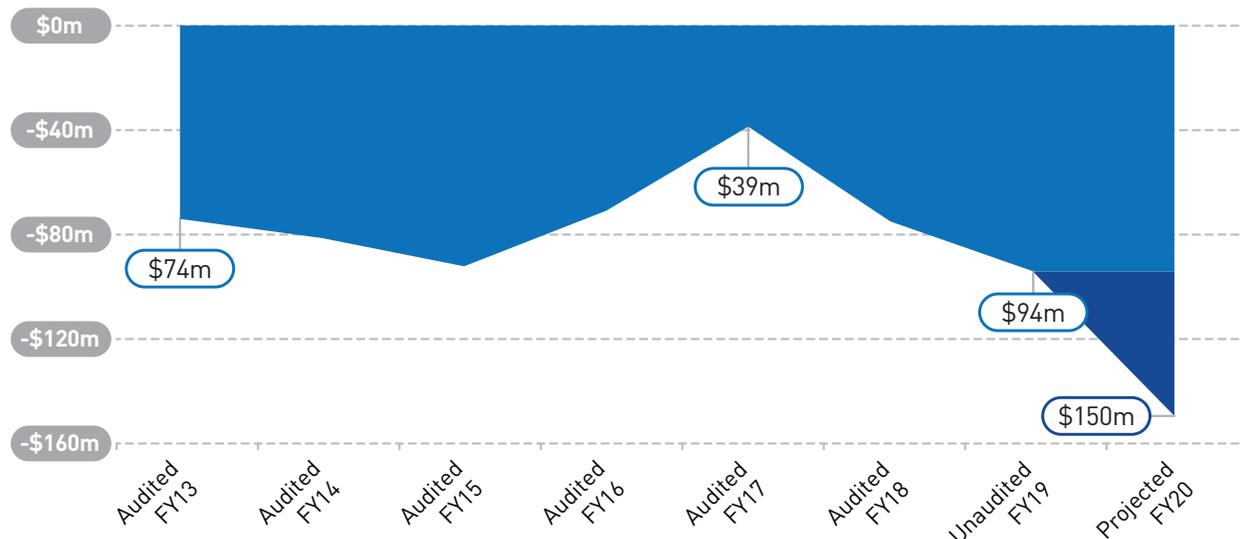
Similarly, the Task Force has adjusted revenues downward by the expected impact in revenues of the loss of Chinese and South Korean tourists for the remainder of FY2020 (\$42.3 million). The projected deficit directly attributed to the coronavirus outbreak is thus \$65 million. As described below, \$65 million is the size of the fiscal challenge faced by the CNMI caused by this global pandemic to CNMI in FY 2020— with only half of the fiscal year remaining to make the adjustment. This estimate of the fiscal impact caused by the coronavirus is based on direct influences to government revenue, and will differ in size against a cumulative accounting of the CNMI’s fiscal portrait.

Figure 2 shows the accumulated impact of the annual fiscal deficits described above. The

\$65 million is the size of the fiscal challenge faced by the CNMI—with only half of the fiscal year remaining to make the adjustment.



Figure 2 CNMI General Fund Accumulated Deficit



Does not include long term debt for the Settlement Fund, Bonds, or Landfill closure

Source: CNMI audited financial statements through FY2018 and CNMI Department of Finance and Task Force estimates

accumulated general fund debt was estimated at \$94 million at the end of FY2019, awaiting confirmation in the audit. If the CNMI were to run a deficit of \$65 million through FY2020, that accumulated debt would grow to nearly \$150 million. However, the CNMI government has no access to fast-disbursing financing that would enable it to grow the general fund debt to such a level. Failure to meet payroll obligations would result in forced financing at the expense of employees, institutions such as social security and health and life insurers, and the creditors to whom employees have made allotments. Such a drastic projected general fund deficit for FY2020 must be avoided through the implementation of a sufficiently-sized fiscal response.

Figure 3 shows the rapid growth in CNMI expenditures from less than \$144 million in FY2013 to over \$255 million in FY2019. Notably, there is an even more rapid rise in personnel expenditures, having grown from \$43 million to \$102 million over the same period. Importantly, the share of total government outlays on personnel also increased from 30 percent to 40 percent. Such a large change in the composition of expenditures is often associated with personnel being employed in jobs for which the availability of goods, services, equipment

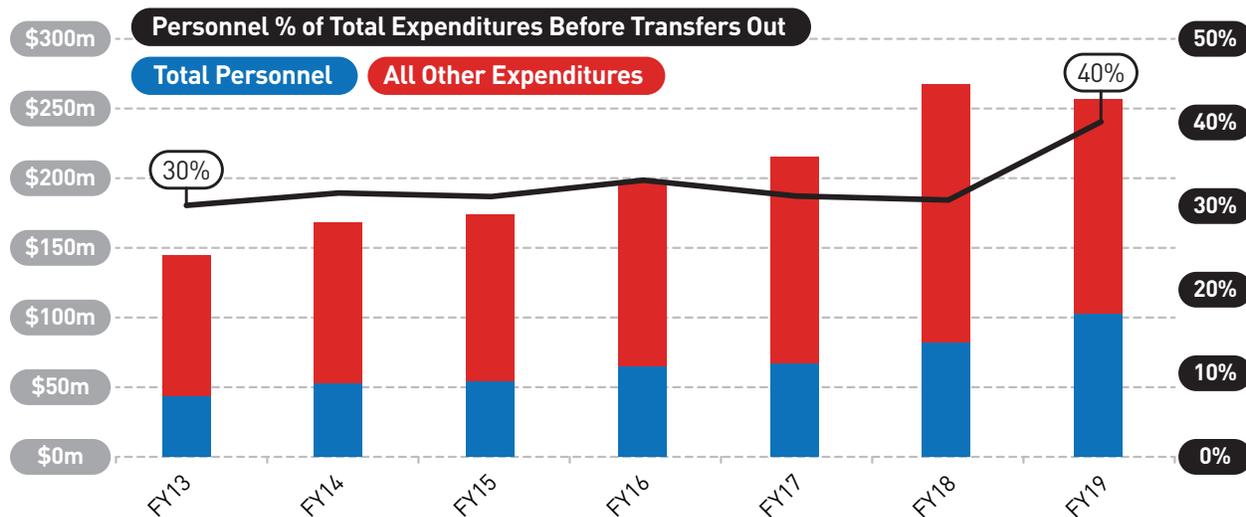
and consumables is insufficient to complete the desired work of the department or agency. **Figure 4** makes a similar point, highlighting personnel growth of 136 percent while all other expenditure categories grew by just 52 percent from FY2013 to FY2019.

Figure 5 is the *Task Force's* attempt to present the unique, perhaps even intractable, challenges facing the CNMI executive and legislative branches in providing for the operations of government, given the complicated array of earmarks and adjudicated commitments applied to available resources. The infographic provides detailed information on the CNMI's fiscal operations for FY2020 as initially planned through the budget process and as modified to reflect both the structural deficit and the impact of the COVID-19 pandemic. Three points are worth highlighting:

- i. the CNMI faces an extraordinary level of rigidities resulting from earmarks and fixed commitments;
- ii. the share of available funds for truly discretionary purposes—to run the government outside of PSS was just 47 percent of the total originally planned for FY2020; and



Figure 3 CNMI General Fund Expenditure Growth FY13 - FY19

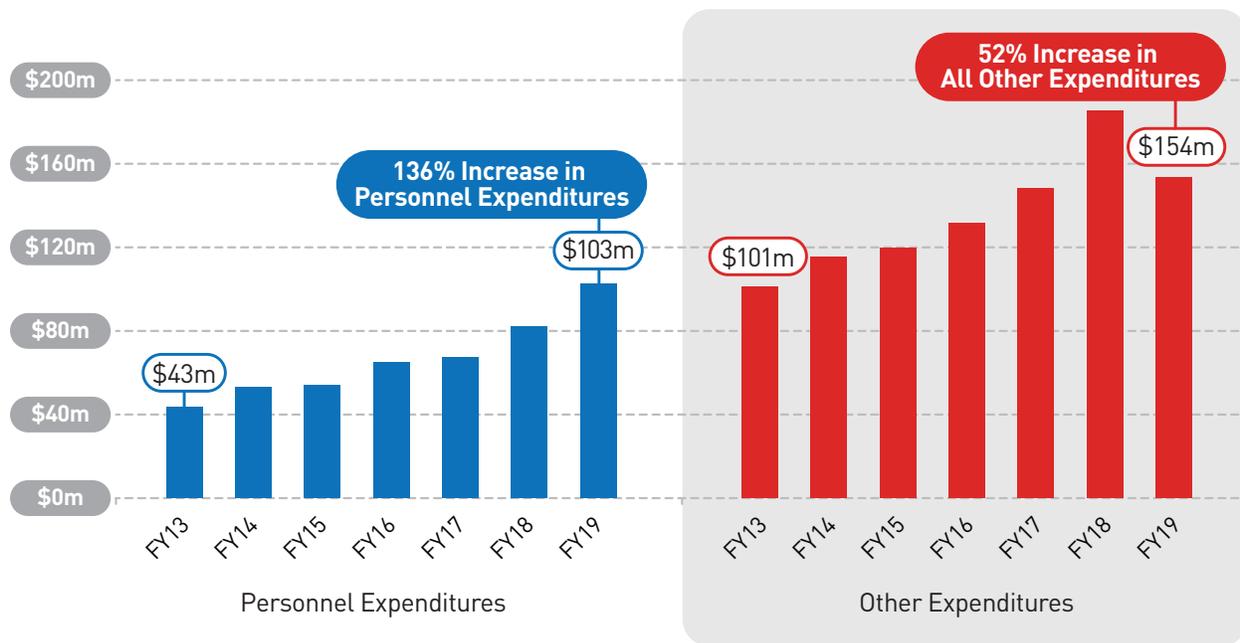


Source: CNMI audited financial statements through FY2018 and CNMI Department of Finance and Task Force estimates

iii. once modifications for structural and cyclical deficits are factored in, the share of funding available for discretionary purposes is just 40 percent of the reduced total available.

Clearly, such rigidities will make a comprehensive fiscal response more complicated and, perhaps, more painful for those parts of the government not favored by earmarks. In the long-run, an improved fiscal policy for the CNMI would necessarily address—and reduce—the role of earmarks.

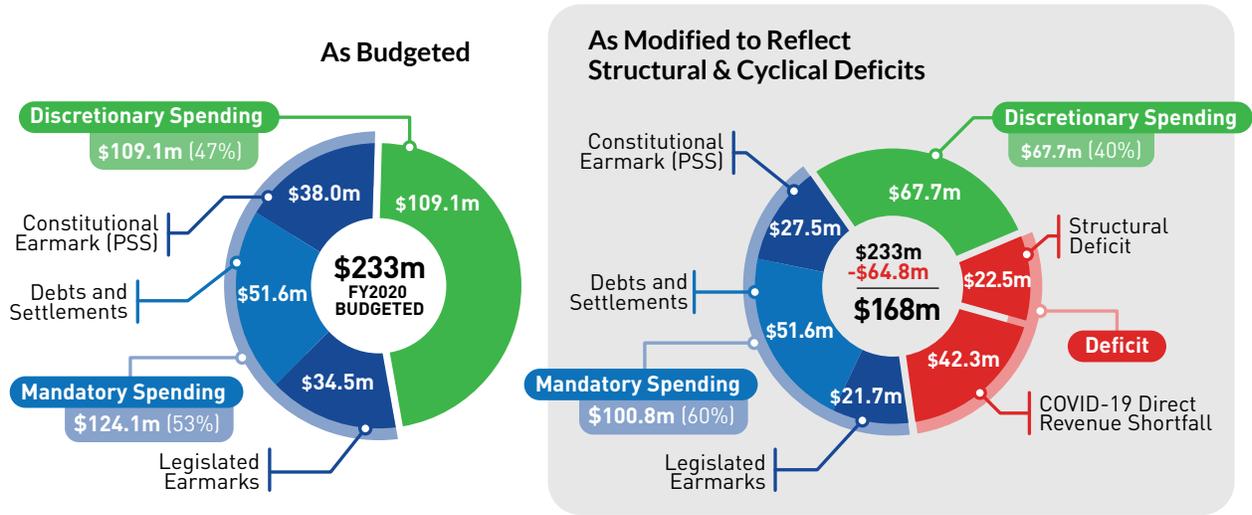
Figure 4 CNMI General Fund Personnel Growth FY13-FY19



Source: CNMI audited financial statements through FY2018 and CNMI Department of Finance and Task Force estimates



Figure 5 CNMI FY2020 Fiscal Operations



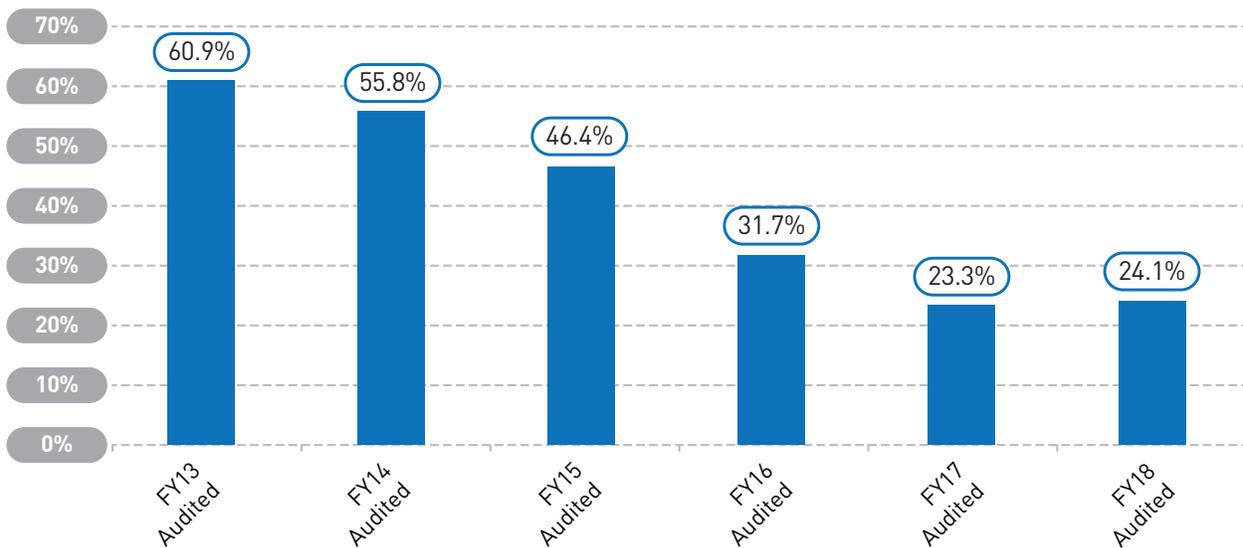
PSS reduction from \$38.0 million to \$27.5 million is based on the assumption that the original budget reflected the 25 percent requirement; this modified figure reflects a revenue base reduced by \$42.3 million (plus expected Compact Impact funds of \$0.2 million). Legislated Earmarks reduced from \$34.5m to \$21.7m to reflect reductions in gross revenue estimates from which the specific earmarks are derived and recent suspensions of certain earmarks.

Source: FY2020 CNMI Budget and subsequent Governor’s communications to the Legislature

Looking at economy-wide factors, **Figure 6** shows that the official debt for which the CNMI is responsible for paying has come down from dangerously high levels—anything above a 30 percent debt to GDP ratio is considered to place the government in “debt-distress” position. Notably, the CNMI has come down from high

levels of debt to a sustainable level of debt. If the core operations of the CNMI government were not structurally imbalanced prior to the COVID-19 pandemic, and if the pandemic’s impact was small and limited in time, one could argue that the CNMI would have been eligible to make an orderly and measured return to the

Figure 6 CNMI Total Liabilities as Share of GDP



Source: CNMI audited financial statements and US Bureau of Economic Analysis



bond markets with institutional quality issues and moderate borrowing costs. Such a return to those markets is out of the question at this time. Neither should a return to borrowing be the primary response of the CNMI even after the worst of the current fiscal crisis is in the rear-view mirror.

Figure 7 shows the population of the CNMI as reported by the US Census Bureau. A striking feature is the rapid decline in population from FY2004-2009 followed by more gradual annual declines through the present. The economy last faced a sustained and deep decline in the five consecutive years from 2005 through 2009. It is hoped that the decline being caused at this moment by the COVID-19 pandemic will be short enough in time to not cause a renewed and sustained period of population decline.

Finally, with respect to this brief summary of fiscal and economic factors that will affect the decisions that Commonwealth leaders will need to make to bring the CNMI into near-term fiscal balance and to prepare the CNMI for economic recovery after the COVID-19 pandemic has relented, the *Task Force* shares **Figure 8**. Clearly the CNMI is a tourism (and gaming) driven economy. With volatility in value-added as measured by the US Bureau of Economic Analysis for the gaming sector, the ratios fluctuate significantly; however, the total amount of employee compensation

...it is estimated that the impact through FY2021 will be a 25-30 percent decline in GDP...

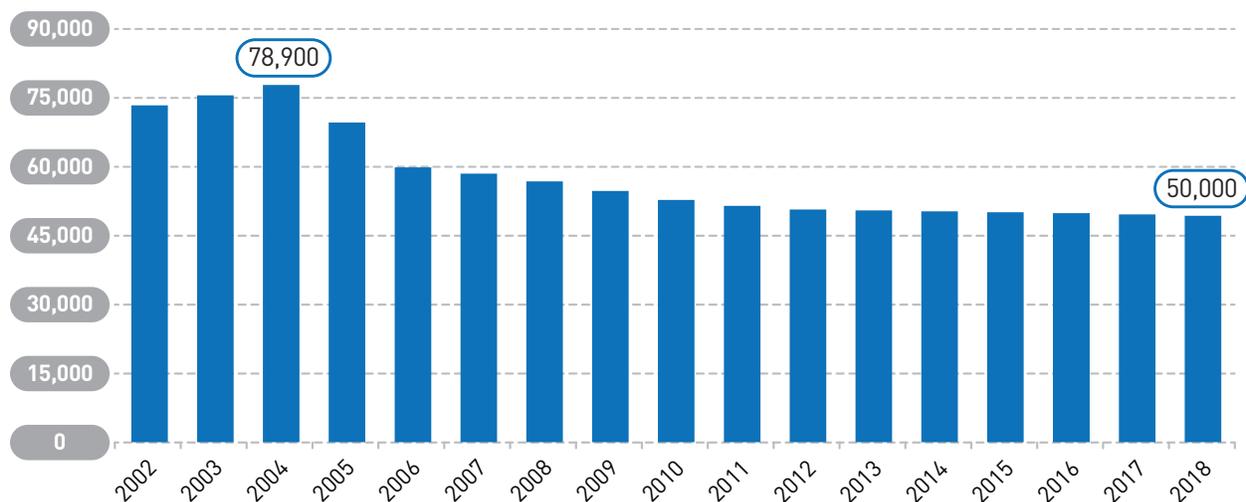
attributed to the sector presents a smooth and increasing trend.

With over a third of the economy based on direct accommodation and gaming businesses, the CNMI needs to be prepared for an extraordinary impact from the COVID-19 pandemic on the economy—and thus on its fiscal operations. The *Task Force* does not have a fully-specified macroeconomic model to project the full impact; however, it is estimated that the impact through FY2021 will be a 25-30 percent decline in GDP on top of the 18 percent decline measured by the US Bureau of Economic Analysis for FY2018 (the last year for which GDP is reported).

The intended use of the analytical/facilitative support of the Fiscal Response Task Force

The work presented in this briefing paper— together with the policy-modeling tools

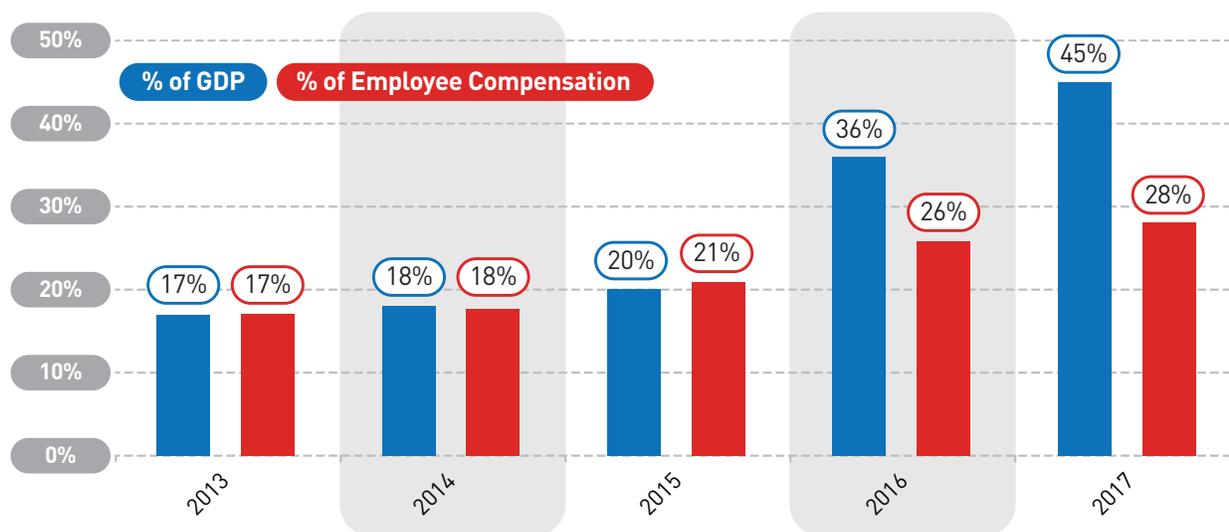
Figure 7 CNMI Population



Source: US Census Bureau



Figure 8 *CNMI Accommodations & Amusement Sector*



Source: US Bureau of Economic Analysis

developed by the Task Force—would best be used to support a broad-based, participatory Leadership Summit. Such a Summit would allow for representatives of all stakeholders in the Commonwealth to (i) fully comprehend and deeply understand the size and nature of the current crisis; (ii) have all of their questions and concerns answered with respect to the underlying fiscal and economic assumptions and findings; and then, (iii) 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.

The Fiscal Response Policy Package that would be expected to emerge from the Summit process outlined above would have two simultaneous benefits of great importance to the Commonwealth. Firstly, the process would allow for a consensus process that brings all parties to an internally designed and endorsed “way forward” that could be implemented in a spirit of cooperation. Secondly, the domestic consensus—and the implementation of painful but necessary fiscal measures—would bolster the credibility of the CNMI when seeking assistance from its potential partners (especially the federal government), other financing sources, and perhaps even the federal court if financing relief is sought as a part of a policy package.

Sensible and necessary COVID-19 precautions preclude the convening of a Summit

Unfortunately, the nature of the crisis that has caused the cyclical component of the current fiscal crisis eliminates the possibility of convening a broad-based, participatory Leadership Summit as originally envisioned and endorsed. The health-related risks to the CNMI posed by such a gathering are simply too great. The analytical and facilitative support of the Fiscal Response Task Force will need to be utilized in another—less than ideal—manner.

Plan B: A smaller, physically dispersed process utilizing Remote Conferencing Technology

The alternative to hosting a Commonwealth-wide public summit would involve the creation of a targeted group of public and private sector leaders gathered under the auspices of an officially chartered Fiscal Response Commission. The creation and makeup of this Commission may be guided by Legislative Resolution submitted to the Governor in an effort to ensure objectivity and shared ownership of the Commission



and its mandates. Care should be given in the formulation of this group toward adhering to local, national and international health guidance which recommends limiting the size of gatherings. Ideally, the total size of the Commission would not exceed twenty (20) individuals.

This Commission will be supported by the *Fiscal Response Task Force* and will be expected to provide an avenue for a broad cross-section of individuals throughout the community to assess the current crisis and begin the iterative process described for the full summit exercise. The Fiscal Response Commission will work toward the development of an Implementation Plan of agreed upon fiscal policy actions.

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The Implementation Plan will be created following the consensus decisions of the Fiscal Response Commission and will be made public with clear delineations of entities responsible for carrying out the action, the timeline for implementation, and the intended result of each action.

To ensure the safety of the assembled members of the Fiscal Response Commission, a large meeting area will be reserved that will allow the recommended physical distancing between individuals. Further, the Commission will be divided into two smaller subgroups that will work through the process with a goal of agreeing on selected policy options.

While not providing the broadest level of participation of stakeholders that a full summit would have achieved, this Commission approach—deemed a necessity for public health—provides (i) a necessary baseline of information of this crisis; (ii) allows for

collaboration across sectors toward possible solutions; and (iii) creates the opportunity for a plan that is endorsed by representatives of the primary stakeholders within the Commonwealth.

Analytical Findings of the Fiscal Response Task Force

TASK 1A: The Structural Deficit

To assess the structural deficit, the Task Force reviewed audited financial statements through FY2018, an unaudited general fund revenues and expenditures report for FY2019, and a financial system report for FY2020 through 29 February (5 months). The Task Force also used visitor arrival data for China to estimate the permanent downturn in Chinese visitors (as distinct from the COVID-19 related temporary losses). Our estimates are that approximately 30 percent of the China visitors will not be recovered even after the COVID-19 pandemic is no longer an issue. The CNMI experienced a decline in the impact of Chinese visitors beginning in the last quarter of CY2019—prior to any COVID-19 impact—due to, decreased demand for travel among Chinese tourists to U.S. destinations, rapid devaluation of the Yuan, and the widespread economic consequences as a result of the ongoing trade dispute between the United States and China.

The components of the structural deficit are detailed (as best current estimates) in [Table 1](#). The impact is partial (from the reduction in Chinese visitors) for FY2020 and of the same size for FY2020-FY2022 for all other components. The Task Force used multi-year data for four categories of consistent over-expenditure to estimate the size of the structural deficit at \$22.5 million annually. Those categories are: medical referrals, overtime, utilities and banking fees.

Solutions to a structural deficit typically require permanent fiscal response policies. A policy adopted mid-year in FY2020, if kept in place, will have a larger impact in the full fiscal years following.

**Table 1: Best Estimate of the Size and Components of the CNMI Structural Fiscal Deficit, FY2020-FY2022**

		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)

Solutions to a structural deficit typically require permanent fiscal response policies.

Task 1B: The Cyclical Deficit

To assess the cyclical deficit, the Task Force used actual visitor numbers for prior fiscal years and data available through 27 February. The subsequent loss of the slowly recovering Japanese market has not been taken into account as of yet—the recovery in Japan visitors was not anticipated in the FY2020 budget process. The components of the cyclical deficit are detailed (as best current estimates) in [Table 2](#). The assumptions used for the length of this crisis differ for the origin of visitors:

- The Task Force assumes travelers from South Korea will begin to return to the CNMI starting in April 2021 and gradually grow through the remainder of FY2021. By the outset of FY2022 it is assumed the numbers of visitors from South Korea will be fully recovered.
- For China, the Task Force assumes the recovery will begin three months later

and the 70 percent of previous visitor numbers will be fully attained by the end of December 2021. The cyclical impact resulting from China visitor reductions is thus projected to spill over into the first quarter of FY2022.

Solutions to a cyclical deficit typically require only temporary fiscal response policies. A policy adopted mid-year in FY2020, may be reduced or even eliminated when the cause of the cyclical fiscal shock has been resolved and revenues have recovered.

Task 1: The Combined Deficit

The Task Force planned to support the Summit participants to address the full deficit—both structural and cyclical—through the development of an appropriately “sized” fiscal response package. Given public health realities, the Task Force will now direct their support to the smaller, but still representative and participatory Commission described above. [Table 3](#) shows the combined total of the deficit. This \$64.8 million is the TARGET size of the needed fiscal response package for the remainder of FY2020. This target assumes the full FY2020 budget and does not account for impact of the budget reduction directives issued by the Governor in February and March. Part of

Table 2: Best Estimate of the Size and Components of the CNMI Cyclical Fiscal Deficit, FY2020-FY2022

		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)



Table 3: Best Estimate of the Size of the Full CNMI Cyclical Fiscal Deficit, FY2020-FY2022

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

Solutions to a cyclical deficit typically require only temporary fiscal response policies.

the work of the task force will be to ensure that core governmental functions can continue while less critical programs are paused until this crisis has passed.

Note that Table 3 includes a “proposed” surplus for FY2022. While this is a notional estimate and entirely subject to the will of CNMI’s decision-makers, it is put forward as a “best effort” goal for fiscal policy in the CNMI. Assuming a return to normalcy in the tourism market, the level of fiscal adjustment that the CNMI might have implemented during the final six months of FY2020 and all of FY2021 would be more than enough to run a surplus budget in FY2022. Such a surplus budget could be the beginning of a fiscal responsibility regime that would be well-suited to the concentrated, tourism-reliant economy of the Commonwealth. The goal of a Commonwealth fiscal responsibility regime would be to be able to support itself without massive fiscal disruptions and without reliance upon external support through the fiscal shocks that can be conservatively modeled—and therefore expected—in terms of size and frequency.

Task 2: Identifying Potential Fiscal Response Policy Options

The Fiscal Response Task Force reviewed the entire fiscal operations of the CNMI government, including all branches and all agencies. The range of fiscal response policy options is meant to be

comprehensive, constrained only by the likely viability of each potential option. The overriding assumption is that the CNMI will consider all options—and seek all relief—that will enable it to continue operations without failing to meet its obligations and without forcing financing onto the private sector or other institutions through any failure to fully meet its bi-weekly payroll including all allotments therein.

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 \$3.8 million in the last half of FY2020)
2. Reduction in Personnel
 - a. Transition of personnel to federal grant coverage (by fractional FTEs)
 - b. Reduction of jobs resulting from mergers or consolidation of units
 - c. Temporary reduction of jobs (furlough period to be estimated)
 - d. Permanent reduction of jobs
3. Reduction in Overtime
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. Seek 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 including potential federal support for fiscal adjustment

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 for use from March 1 - December 31, 2020
5. Seek community disaster loan program from FEMA (\$5 million)

Using the Fiscal Response Policy Modeling Tool

The above-outlined policy response options are will be each fully “costed” to show what level of contribution each area—in specified levels of adjustment—would contribute to solving the

overall size of the fiscal deficit in each fiscal year. If the exercise is undertaken by a participatory and representative group or groups, the Task Force will provide:

- A keynote presentation of the size and nature of the fiscal challenge and an overview of the content of this briefing paper;
- The policy model itself, specified for each of the above policy options;
- Technical support to each group in the form of “operators” of the policy model so that as each of the policy response options is considered, a rolling, cumulative impact on the final solution will be calculated and visible to all parties;
- Informational support in the form of background material to support consideration of each of the policy response options; and
- On-demand analytical support in the event the groups using the tools have new policy options to consider or if additional, detailed calculations that had not been anticipated need to be made.

In conclusion, the Task Force stands ready to support the CNMI leadership in general and the Fiscal Response Commission specifically to achieve consensus on a fiscal response package that hits the target of \$65 million for FY2020 and \$85 million for FY2021. As noted above this will require the Commission members to 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.

...the Task Force stands ready to support the CNMI leadership in general and the Fiscal Response Commission specifically.

This *Commonwealth Fiscal Response Briefing Paper* was prepared by the *CNMI Fiscal Response Task Force* at the invitation of Hon. Governor Ralph DLG Torres. It is intended to serve as a technical input into a fiscal reform process that will be led by CNMI leadership. Composition of the *CNMI Fiscal Response Task Force* includes representatives from the CNMI government, with analytical and technical support provided by the Graduate School USA's Pacific & Virgin Islands Training Initiatives (PITI-VITI). PITI-VITI is funded through technical assistance from the Department of the Interior's Office of Insular Affairs; additional program information is available online at <http://www.pitiviti.org>.



