CURRENT ECONOMIC, SOCIAL, AND SECURITY CONDITIONS OF THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

OVERSIGHT HEARING

BEFORE THE

SUBCOMMITTEE ON INSULAR AFFAIRS

OF THE

COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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OVERSIGHT HEARING ON THE "CURRENT ECONOMIC, SOCIAL, AND SECURITY CONDITIONS OF THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS"

Thursday, April 19, 2007
U.S. House of Representatives
Subcommittee on Insular Affairs
Committee on Natural Resources
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:00 a.m. in Room 1324, Longworth House Office Building, Hon. Donna Christensen [Chairwoman of the Subcommittee] presiding.

Present: Representatives Christensen, Fortuño, Bordallo, and Flake.

Mrs. CHRISTENSEN. The oversight hearing by the Subcommittee on Insular Affairs will now come to order.

The Subcommittee is meeting today to conduct the oversight hearing on the current economic, social, and security conditions in the Commonwealth of the Northern Mariana Islands (CNMI).

Under Committee Rule 4[g], the Chairman and Ranking Minority Member can make opening statements. If any other Members would have statements, they can be included in the hearing record under unanimous consent.

I now recognize myself for my opening statement.

STATEMENT OF THE HON. DONNA CHRISTENSEN, A DELEGATE IN CONGRESS FROM THE VIRGIN ISLANDS

Mrs. CHRISTENSEN. As I said, this morning we are holding the hearing on the current economic, social, and security conditions of the Commonwealth of the Northern Mariana Islands. This hearing is the first in a series of two hearings that the Subcommittee will hold on this issue, and the Subcommittee has invited the CNMI Resident Representative to Washington, The Hon. Pete Tenorio. Welcome, Mr. Tenorio.

As we are all aware, the CNMI is the only U.S. jurisdiction without any formal representation in the House of Representatives. Absent that formal seat, however, the Subcommittee views his elected position as the important voice for CNMI here in Washington, D.C., and in Congress. And we recognize that when the CNMI is given representation, it will be their Resident Representative who will join us on this dais.

In the first hearing we will also hear from the Department of the Interior and the Government Accountability Office. We welcome also those officials, and note that this Administration is fully aware of concerns raised by Congress over the past two decades with regard to the CNMI's control of its immigration and economic policy, which led to great growth during the 1990s.

Such growth, however, was not only limited to revenue and lifting the standard of living for CNMI residents, as has been pointed out in a previous GAO study, the other effect was a population explosion of non-residents that filled the labor-intensive requirements of the developing garment industry.

Within a span of 20 years, the CNMI went from a population of about 15,000 to 70,000, more than half of whom were non-resident guest workers recruited from mainly China and the Philippines to work in the CNMI.

I realize that this period of growth, although argued an economic success by some, is also, on the other hand, a source of criticism, as well. It would also be negligent for us not to acknowledge that non-resident guest workers in the CNMI were, and when I was there in 1997/1998, subjected to labor and human rights abuses. And it was for these very reasons that in 1995, Congress passed an initiative creating a Federal Ombudsman's Office, and increasing the presence of other Federal agencies, such as OSHA, EEOC, and the Department of Labor's Wage and Hour Division to inform and assist non-resident guest workers of their labor rights, and with complaints against their employers.

To a measurable degree, this initiative and the increased Federal presence has helped curtail the incidences of abuse and exploitation, along with the commitment of the Government of CNMI.

There remains, however, a very difficult challenge that the CNMI continues to face. Of course, the lifting of World Trade Organization quotas on exports from China to the U.S. has negated any competitive advantage the CNMI garment industry once held. And as a result, the garment industry is all but shut down.

In addition, tourism, the other pillar of CNMI's economy, is suffering from discontinuation of direct flights, and that reduced capacity has closed hotels and businesses.

The Subcommittee is concerned that along with the negative economic growth, there doesn't seem to be a corresponding decline in the number of non-resident guest workers, or a reliable plan in place for repatriation. And the Subcommittee is also greatly concerned for the security of the Marianas region. The global war on terrorism and growing threat concerns in Asia have caused the U.S. to realign and increase its military presence in the Pacific. We are all aware that plans are in place to increase military infrastructure in Guam, as well as training in the region. The additional military presence makes it even more important that the whole Mariana Islands chain comprising Guam and the CNMI be secure. This seems an impossible task, if CNMI continues to have local control over its borders.

It is clear that the CNMI will have to undergo a transformation to address the problems it now faces. In order to move the CNMI forward, there will be the need to resolve concerns that have been raised in the past, as well as those that continue today.

The Subcommittee looks forward to the testimony from today's witnesses, and we should all understand that, despite all of the problems, there has been progress made in the CNMI, although there seems to have been some steps backward. We need to get the CNMI on the right path, and we look forward in this Subcommittee to working with your leadership, the Administration, and the CNMI community to do just that.

With that, I would now recognize Mr. Fortuño for any statement he may have.

STATEMENT OF THE HON. LUIS G. FORTUÑO, THE RESIDENT COMMISSIONER FROM PUERTO RICO

Mr. FORTUÑO. Madame Chairwoman, thank you for holding another important hearing concerning one of our Federal territories, the Commonwealth of the Northern Mariana Islands.

There are many difficult issues facing the CNMI, and I look forward to exploring them with you. I understand that some of our Committee staff had the opportunity to visit Guam and the CNMI during the recess to examine these many issues firsthand, and that they were very well received by everyone.

It is so important for the residents of our territories to see that the policymakers in Washington, D.C., care about our local issues enough to come out and see for themselves the unique culture of the places they govern.

It is often frustrating for our constituents to be legislated upon without ever seeing where we live and how we live, so I am glad that the Committee staff had this chance to meet with the local leaders and citizens of the CNMI and Guam in preparation for this hearing today.

While I welcome all of our witnesses today, I want to especially welcome The Hon. Pedro Tenorio, the current representative of the CNMI. As you well know, Madame Chairwoman, we both cosponsored, along with Chairman Rahall and Ranking Member Young, H.R. 873 in the 109th Congress, a bill to grant the CNMI a permanent delegate in the House of Representatives. I look forward to the day a delegate from the CNMI joins us up here.

For the many economic, social, and security concerns of the CNMI, I just want to say that while we certainly will not solve them all here today, we begin the process of creating a fresh Congressional record on those issues, and that we will be making our legislative determinations based on the existing facts and conditions as they stand today in the CNMI, and not based on circumstances 10, 20, or 30 years ago.

Again, thank you very much, Madame Chairwoman, for holding this hearing today.

Mrs. CHRISTENSEN. Thank you, Mr. Fortuño. And now, if there are no objections, I would like to take this opportunity to enter into the record the statement of Ambassador Haydn Williams. Hearing no objection, so ordered.

[The statement submitted for the record follows:]

Statement submitted for the record by Ambassador F. Haydn Williams

Madame Chair, I thank you for the invitation to testify before your Subcommittee today. I regret that I cannot be here in person but I request that my written statement be made a part of the record of this hearing.

I have had a long association with the Mariana Islands going back to my Navy days in World War II. Later in the 1950's and 60's, as Deputy Assistant Secretary of Defense for International Security Affairs under Presidents Eisenhower and Kennedy, my office had responsibility for DoD interests in the Pacific Trust Territories including the Northern Marianas. In the 1970's I was the President's Personal Representative for the Micronesian and the Marianas Status Negotiations and on the signing of the CNMI Covenant I was asked by President Ford to see the Covenant through the House and Senate approval process. Frequent visits to Saipan in the 80's and 90's kept alive my interest in the NMI along with my efforts to win Congressional support and funding for building the Memorial to our war dead in the battles of Saipan, Tinian and the Philippine Sea in the American Memorial Park on Saipan.

My message, my hope is a simple one. It is time for the Congress to act, to take a hard critical look at the current situation in the CNMI in the best interests of the ordinary citizens in the Commonwealth and the broader interests of the United States. The Committee is well aware that the CNMI today is in dire economic straits and has turned to Washington for help. With the changes in the House this hearing is very timely. It is my hope that among other things, particular attention will be given to immigration matters and the need to control America's western most borders in the far Pacific.

In addressing current conditions in the NMI, a brief look back at the Covenant negotiations may be useful—to remember the times, the context, the spirit in which the talks were conducted. The goal, the long held desire of the people of the NMI was to become a permanent part of America. Two issues were preeminent: U.S. sovereignty and the rights of internal self-government. Once these critical questions were agreed to in principle, the negotiations turned to what Federal laws would apply to the new commonwealth.

Members of the Marianas negotiating team were especially concerned about the possible impact of U.S. immigration laws on their island culture. They were worried that their Chamorro and Carolinian heritage might be overwhelmed by a heavy influx of peoples from Asia. They wanted protection, assurance that this wouldn't happen. The threat of war refugees streaming into the NMI from Southeast Asia was also on their minds. They thus asked that the control of immigration be in their hands to enable them to restrict the numbers of aliens entering their islands.

While understanding their concerns, the U.S. could not accept this proposal. It agreed however, that in a transition period, awaiting the end of the UN trusteeship and before the coming into force of U.S. sovereignty, the new Commonwealth government would be given transitional responsibility for immigration. Under Section 503 of the Covenant, it was clearly stated and agreed that the U.S. Congress retained the ultimate authority to make U.S. immigration laws applicable to the CNMI.

It was anticipated at the time of the negotiations that such action would be taken quickly by the Congress upon termination of the trusteeship—given the known attitude of leading Members of Congress regarding territories and immigration. But instead of a couple of years of transition, with the CNMI in control of immigration, ten years elapsed between the approval of the Covenant by the United States in 1976 and the UN termination of the Marianas Trusteeship in 1986.

This far, far longer than expected interim period, enabled largely foreign and other non-indigenous investors and entrepreneurs to capitalize on the Covenant's liberal export privileges and wage and immigration exemptions to establish their presence and influence in the CNMI and to begin importing increasingly large numbers of low-paid alien workers for their garment factories.

It was during this transition period that local CNMI political and business opposition to any Federal implementation of Section 503 became institutionalized. This opposition led and largely funded by the garment industry was committed to blocking, with the help of hired Washington K Street lobbyists, any action by the Congress on labor matters, minimum wages, and immigration.

The opposition's success in Washington, especially in the House in recent years is well documented. The results in the CNMI is another story. CNMI immigration policies far from protecting the islands social and cultural heritage has seen a population explosion of over 500% over the past 30 years turning the indigenous people

into a small minority. The impact on the environment, the infrastructure and island life has been equally deleterious.

Three Administrations beginning with President Reagan have each voiced deep concern over these developments. The Senate and some members of the House too, have long recognized the need for Congressional remedial action. In 2001, the CNMI Covenant Implementation Act, authored by Senators Murkowski and Akaka and endorsed by the Clinton Administration called for the extension of U.S. immigration laws to the CNMI with reasonable and orderly transitional measures and exemptions. The Act was passed unanimously by the Senate in 2001 strongly supported by the new Bush Administration. Regretfully this Senate initiative died in the House without even a hearing for reasons that are now well known.

The House, under new leadership, now has an opportunity to act. It is my understanding that legislation regarding the Marianas is moving forward in the Senate. It is my hope that this time the House will consider what comes out of the Senate favorably or similar legislation of their own making which addresses the current situation in the CNMI.

In your Subcommittee Hearing I also hope that the Chair and the members will pay special attention to border security. Today we are no longer living in a soft security environment and it has been reported by the Justice Department that critical security vulnerabilities have existed in the CNMI for several years. Needed control over who enters the CNMI was one of the principal reasons cited by the Bush Administration in support of the Murkowski-Akaka Bill in 2001. Indeed in view of heightened international terrorism and the Marianas strategic location, the Federal government's responsibility for protecting the people of the CNMI and all American citizens has taken on a new and urgent importance.

Lacking an international status the CNMI simply does not have the institutional capacity to adequately pre-screen or screen persons entering the Commonwealth. Border control is an inherently sovereign function, repeat, an inherently sovereign function and in the present threatening world security environment and the expanding reach of global crime syndicates, the responsibility for protecting the nation's borders in the NMI should be in the hands of the Federal government.

U.S. control of immigration in the CNMI should not be seen as a threat to the Islands' economy. As far back as the Covenant negotiations, the U.S. was fully sensitive and sympathetic to the NMI's legitimate need for imported labor to help it reach its goal of economic self-sufficiency. This same understanding was evident in the Murkowski-Akaka Bill. It stated that S. 507 extending U.S. immigration laws to the Marianas Commonwealth would be carried out "in an orderly manner with a commitment...to mitigate any adverse effects...on the local economy." The bill further delineated how the law could help diversify, stabilize, and strengthen the local economy.

The growth of the CNMI economy based largely on unlimited low cost alien labor is like a castle built on sand, a false unsustainable economy. What is needed is a new, more stable, more realistic, sustainable economic foundation for the future. I am confident that with goodwill, open on-going communications, trust and cooperation between Saipan and Washington the current situation can be gradually improved. I also firmly believe that Federal legislation that will call for the orderly application of national immigration laws to the CNMI will have positive long term benefits for the people of the NMI.

Indeed it is time for the Congress to take this long overdue action. Clearly the successful blockage of past legislative action in the House has been detrimental to the CNMI and to U.S. security interests. It is also time for Interior and the Administration to support this latest Congressional initiative to exercise its authority under Section 503 of the Covenant as originally extended.

Thank you Madam Chair for giving me the opportunity of presenting my views on this importance subject matter that is before your Subcommittee.

Mrs. CHRISTENSEN. Now I would like to recognize the first panel. The Hon. Pedro A. Tenorio, Resident Representative of the Commonwealth of the Northern Marianas.

Mr. Tenorio, you will be recognized for five minutes. The timing lights are on the table, and will indicate when your time has concluded. And you may begin.

STATEMENT OF THE HON. PEDRO A. TENORIO, RESIDENT REPRESENTATIVE, COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Mr. TENORIO. Good morning and Hafa Adai, Chairwoman Christensen and Ranking Member Fortuño, Members of this Subcommittee.

This room, this great hearing room, represents to me a very, very pleasant memory, as it was in this room that I, as a member of the Marianas Political Status Commission, first testified in front of the Chairman and good friend, Philip Burton from California. So it is so good to be back here.

The events that have unfolded this past Monday, April 16, at Virginia Tech have affected the entire nation. My people join me in extending our sorrow to the families of the victims, and to the entire community in Blacksburg. We join the rest of the country in prayer and in mourning.

Thank you for inviting me to testify. The people of the Commonwealth appreciate your courtesy in affording me the opportunity to speak on their behalf. As this committee is fully aware, the Northern Marianas is the only territory in the United States without representation in the Congress, so I am very grateful for this opportunity to speak about issues that are important to all of us.

I want to especially acknowledge that if it had been up to the Members of this Subcommittee, the Northern Marianas would have had a delegate years ago. The people of the CNMI are very grateful for your ongoing support and assistance.

I also want to congratulate this Subcommittee on its plan to hold a field hearing in the CNMI. This will be the first ever held by Congress in the Commonwealth, and I applaud you, Madame Chairman, Members, for your desire to hear not only from our various government officials, but also from the people we represent.

Madame Chairwoman, the current economic condition of our islands is very disturbing. It disheartens me to report such findings.

A little more than a decade ago, the CNMI was hailed as an example of a successful young American democracy with an economy well on its way to self-sufficiency and financial independence. I now fear that our economy is swiftly becoming a disaster and a failure.

It is indeed a shame that anyplace in America can be described this way. Our economy needs to be rescued before a total meltdown takes place. Now more than ever, Congress, if it can do something, should exercise its oversight, authorize emergency financial resources, and provide technical assistance to help us avoid economic and social chaos.

The average family in the Northern Marianas is greatly challenged today to not only make ends meet, but to survive. With the highest electrical rates in the country, few can afford hot showers or air conditioning. Some not only unplug microwaves and DVD players when not in use to save a few watts, but also unplug the refrigerators at night. They have stopped cooking on their electric stoves, and now use firewood or propane for cooking.

Food is getting more expensive because the cost of shipping is no longer defrayed by the garment industry, and many families are having a tough time keeping food on the table. The cost of gasoline

is much higher than the national average. And even though our islands are small, a family's only car will drive many miles in a day taking parents to work and children to their schools.

A once idyllic lifestyle—barbecues at the beach and large family gatherings—is now marred by signs of desperation.

It is difficult to document these social problems. We have few safety nets that normally protect society from the adverse consequences of poverty. We do not have unemployment programs or temporary assistance for needy families. We have a small food stamp program that I worry will not be able to expand to meet future needs.

The public health and public safety needs of the community are also in jeopardy because the health insurance and medical services continue to escalate, and many will not seek medical attention because they simply cannot afford it any more. The rate of diabetes and heart disease in the CNMI is among the worst in the world. Rising levels of crime is proof of the growing desperation among those trying to survive.

Our inability to adequately fund both public health and public safety puts many lives at an unnecessary risk. These desperate social and economic conditions have been an impetus for hundreds of Chamorros and Carolinian families to sell or lease their property at extraordinarily low prices just so that they can purchase one-way tickets and relocate to Guam, Hawaii, or the mainland. If this exodus continues, I fear that we will lose many of our highly trained and skilled local people to these other areas.

We are also expecting that our young college graduates who have achieved their higher education at great government expenses will continue the trend of not returning to the CNMI, as there is little opportunity in their homeland.

This should not be happening to our people, but our economic troubles have brought us to this new reality. This is not the Commonwealth I envisioned 30 years ago when they signed the covenant. And as a member of the Political Status Commission, on behalf of our people, this is certainly not the Commonwealth that we should leave behind as a legacy to our children.

If the goal of this committee is to transform CNMI immigration into a Federal framework, I urge Congress to please proceed carefully. Congress must ensure that the outcome is positive and beneficial to both sides.

I look forward to working with you to successfully develop a more lasting framework for the CNMI. I maintain my position on that normalization of our immigration outline on February 8, before the Senate Energy Committee, and I have included it in my written testimony submitted for this hearing.

Last, Madame Chairwoman, I request that the prior work of this Subcommittee and the larger Resources Committee continue. I am speaking of the people of the CNMI's quest for representation in Congress. I think that is a matter of simple democratic principles that the CNMI be afforded the right to representation before Congress proceeds to dismantle and hopefully review the economic framework of the Commonwealth.

The people of the CNMI should not feel that we are at the mercy of our critics, or that we are being punished for mistakes made in

the past. To quote my dear friend, that honorable Congresswoman from Guam, she stated, "Representation in American democracy is an inalienable right for American citizens, and not one that is contingent upon a litmus test."

The well-being of my people is literally at stake. I am greatly concerned about the ongoing reduction of public services in healthcare, basic sanitation, clean and adequate water and public safety. We have been the plaything of political opponents for too many years. I desperately want reason to prevail in any Congressional actions that will affect the CNMI.

Madame Chairwoman, let us proceed in a logical manner. I would prefer that prior to the introduction of any other legislation, that the CNMI Delegate Bill will be reintroduced and acted on first.

Thank you for this opportunity to address you this morning.

[The prepared statement of Mr. Tenorio follows:]

Statement of The Honorable Pedro A. Tenorio,
Resident Representative to the United States

Hafa Adai, Madam Chairwoman, Congressman Fortuño, and Members of the Committee. Thank you for holding this hearing and for this opportunity to share with you my thoughts on issues relating to the current economic, social and security conditions in the Commonwealth of the Northern Mariana Islands. While I understand that the focus of today's hearing is a federal perspective on the issues at hand, we in the Commonwealth appreciate your courtesy and willingness in affording the Resident Representative an opportunity to speak on behalf of the United States citizens residing there. As this committee is fully aware, the Northern Mariana Islands is the only place in the United States without representation in Congress, so I am very grateful that this subcommittee has lent me its ears.

An Historical Perspective:

The Northern Marianas had known almost 400 years of colonial rule and subjugation prior to the 1947 United Nations Mandate which created the Trust Territory of the Pacific Islands. In 1975 when we had the opportunity to vote on our own future, America's global reputation was very low, its foreign relationships weak, and it was losing the respect of its own citizens. Yet we chose overwhelmingly by 78% to become a permanent part of this great nation. As a member of the Marianas Political Status Commission, I worked hard encouraging my people to choose this path as I felt it would be the best option for our future and our children's future. I convinced them that American is a fair and compassionate Nation, one that takes care of its own people; fairly, equally, and without question. I continue to believe in these promises and principles; and the goodness and generosity of America to take care of its diversified population of minorities, immigrants, and Native Americans. So in spite of our enormous and difficult challenges, I believe that Congress can and will help us develop solutions so that we can move forward along a path that will bring us to prosperous future consistent with the American Dream.

While the majority of the American citizens of the CNMI strongly believe in our relationship with the U.S. we have those in our islands who want to re-invent the Covenant and renege on this long established agreement negotiated in good faith.

The Economic Perspective:

Madam Chairwoman, our economy is in dire straits. It disheartens me to report such findings because it was a little over a decade ago, in front of this very committee that the CNMI stood as an example of a successful young American democracy with an economy that was well its way to self-sufficiency and financial independence. I fear now that our economy is swiftly becoming a basket case and a failure. It is indeed a shame when any place in American can be described this way. I am here today to appeal for assistance in getting us out of this serious predicament. Now, more than ever, Congress must and should exercise its oversight, expend its resources and provide technical assistance to help us avoid economic and social chaos.

There are two primary economic engines in the CNMI: apparel manufacturing and tourism. Both are suffering from downturns caused by external factors. Trends in international trade agreements have left our apparel industry less competitive

than those in countries such as China, Vietnam, and India. In 2000 we had 34 operating factories. By the end of this month we will have only 13, and I expect two or three more will close in the near future. The outcome of H.R. 2, The Fair Minimum Wage Act of 2007, and our request to amend General Note 3(a) will determine the longevity of the industry. A primary measure of the health of this industry has been the amount they pay in user fees to the CNMI Government. Chart 1 of the Attachment tracks the demise of this industry since 1999.

The other primary industry in the CNMI is tourism. This has also been adversely affected by circumstances beyond our control such as the price of aviation fuel, unprofitable tour packages, and availability of air service. Arrivals have been on the decline since 1996 as displayed in Chart 2 of the attachment. Japan Air Lines has eliminated flights to the CNMI and Continental Airlines has been reducing flights for some years. We have lost one commuter airline making it more difficult to reach Tinian, Rota, or Guam. Just recently Northwest Airlines has announced a reduction in flights and a conversion to smaller aircraft. Northwest alone will be carrying 169,000 less passengers with these changes. In addition, tourists have decreased their average length of stay and the amount of money they spend while in the CNMI.

Not only do these two industries support much of the other private sector activity, they directly provide a significant share of government revenue. The government reduced its revenue projections last year from $212 million to $193 million last year due to declining revenue collections. It has further reduced its revenue collection projections for FY 2007 to $163 million, or 25% in just two years. As you can see from Chart 3 of the attachment, we have been experiencing this downward trend since 1999.

Governor Benigno Fitial implemented strict austerity measures last year including the implementation of austerity holidays where most government employees receive one day of unpaid leave per pay period. While we finished FY 2006 without adding to the deficit, those cuts are not sufficient to meet the new budget level of $163 million. The government is still trying to determine how to make the additional budget cuts, but will have to either cut salaries more or reduce positions. Either decision will hurt people, and further hamper the economy. We do not anticipate any reversal of this trend in the near future, and in fact expect government revenues to be reduced by an additional $15 million at least for next year.

We are also faced with a significant government operations deficit of $174 million. You will ask yourselves, how a population of less than 70,000 people with limited long term obligations could have over spent their annual budgets by this amount in just 30 years. Our own Retirement Fund is a perfect example of the government's inability to pay obligations.

Our public employees' retirement system is in a mess and is in danger of becoming insolvent, especially if the current government practice of not paying the employers' share continues. With penalties the government debt to the Retirement Fund is close to one hundred twenty million dollars and no payments are predicted for the rest of this fiscal year and possibly not for next fiscal year. The Retirement Fund is forced to dip into its investment revenue and capital to make annuities payments. If this practice continues the Fund will bleed its investments to death. To make the matter worse, many current government employees are withdrawing their contribution to the Fund. The security of all current retirees, as well as those who have yet to reach retirement age is at stake. There is absolutely no excuse for allowing our retirees who have worked hard for our government and our people to be faced with this dilemma. They deserve better treatment and protection from their government.

Madam Chairwoman, the economic situation in the CNMI continues to erode. It is almost impossible to bring in new investors at this time. The uncertainty of minimum wage and availability of workers leaves prospective investors with more questions than answers. How can they develop their business plans if they do not know if they can hire workers, or know what they will be paying those workers? While we have been suffering from this economic downturn for a number of years now, the current interest by Congress to address labor and immigration control is only adding to the problem and making everything much worse.

The Social Perspective:

Madam Chairwoman, it is difficult to document the social problems that are due to our economic condition. We have few safety nets that normally protect society from the adverse consequences of poverty. We do not have unemployment programs or Temporary Assistance to Needy Families (TANF). We have a small food stamp program that I worry will not be able to expand to meet future needs. Fortunately our close knit extended family social structure has been able to mitigate to some

extent. We are seeing one or two breadwinners providing for the needs of all those in a family housing compound. I and other elected officials are asked daily for money so that fathers can feed their children.

As government revenues continue to decline I grow increasingly concerned about our ability to adequately fund public safety. Crime is on the increase. Purse snatching and other crimes against tourists are on the rise. There have been several incidences where people have resorted to stealing copper from telephone lines, power lines, and drop lines which provide power to water wells in order to sell them to recycling centers. We have been successful in prosecuting these crimes but the damages result in over a $100 thousand in replacement and repairs not to mention serious disruptions in basic services.

Declining revenues also have frightening prospects for our public health. You may be already aware that the CNMI has one of the worst rates of diabetes and heart disease in the world. The decline in revenue has forced the government to cut the number of medical referrals thus endangering the lives of patients in need of specialized care. The increase in unemployment has led to an increase in Medicaid eligibility. This committee is all too aware of the problems we face with existing Medicaid caps, and even though Congress has recently increased that cap, we will be playing a game of catch up.

These dire social and economic conditions have been an impetus for hundreds of Chamorro and Carolinian families to sell or lease their homes and lots at extraordinarily low prices just so that they can purchase one-way tickets and relocate to Guam, Hawaii, or the mainland. If this exodus continues, I fear that we will lose many of our highly trained and skilled local people to other areas. We are also expecting that our young college graduates, who have achieved their higher education at great government expense, will continue the trend of not returning to the CNMI as there is little opportunity in their homeland. This should not be happening to our people, but our economic troubles have all brought us to this new reality. This is not the Commonwealth I envisioned thirty two years ago when I signed the Covenant on behalf of our people. This is certainly not the Commonwealth that we should leave behind as a legacy to our children.]

The cost of utilities, food items, fuel, education, shipping, medical services, and other essential amenities increase almost daily. The price of utilities has skyrocketed uncontrollably, so much so that during this last Christmas the normally joyous and festive spirit of the islands displayed by beautiful Christmas lights on businesses, hotels, homes and even the public sidewalks was absent, replaced by empty darkness. Usually a season of love and hope Christmas had become a sobering reminder of just how much our people are suffering.

Madam Chairwoman, I could go on and on with the depressing scenarios people in the CNMI face. We must admit, however, that these challenges are so daunting and tough for us alone to tackle. I feel that we simply cannot survive on our own. I am here to request for your intervention and assistance.

Immigration Initiatives:

Legislation that is developed without due consideration of existing socio-economic conditions in the CNMI will have a profound and negative effect on our economy. A 1997 U.S. Commission on Immigration Reform report stated that "immediate imposition of all parts of the Immigration and Nationality Act would harm the CNMI's economic development. Moving a society that has become so dependent on foreign contract labor towards a more sustainable economy cannot occur overnight."

Those words were true in 1997 and they are even more true today. If the goal of this committee is to normalize CNMI immigration into a federal framework, we urge Congress to proceed carefully as this is a very complicated endeavor. It must be guaranteed that comprehensive economic and social statistics reflecting current conditions and realities are carefully collected and evaluated so as to ensure that the outcome of normalization is positive and beneficial to both the CNMI and the federal government.

At the time of our negotiations, tens of thousands of Southeast Asian refugees were arriving in Guam under U.S. immigration policy, and we were fearful that full implementation of the INA would allow those and other U.S. immigrants to migrate to the CNMI. We felt that the early years of our status as a U.S. Commonwealth should be focused on building a stable economy.

On the other hand, we recognized that we needed a larger labor force than we had to build our infrastructure, hotels, and other business establishments. It was our intent that the need for these workers would be temporary. Though some are critical of how we built our economy through local control of immigration, that criticism does not negate the need for skilled workers that are not readily available from elsewhere in the U.S. or its freely associated partners.

When the Covenant was being negotiated, all sides assumed there would be a significant United States presence in our islands from a buildup by the Department of Defense. One of the more difficult issues to resolve, but one we were willing to accommodate the United States on, was the land requirements that the United States wanted for defense purposes, including use of our main harbor area and the most productive agriculture lands on Tinian. We all anticipated that the buildup would not only jump start our economy as the infrastructure was constructed, but would provide a long term stable base for private sector growth in small businesses as well as local employment. The model we all considered was Guam.

That did not happen and as we continued to develop from the mixed subsistence/cash economy under the Trusteeship, the principal source of employment became the public sector as we struggled to provide services to our residents at mainland standards. Tourism gradually developed, but also took a toll on our resources and demanded workers and skills not available within the local population. Garment manufacturing began in Guam, but found a home in Saipan. In retrospect we probably should have paid closer attention to the demands that industry placed on our services and also on our resources, but nonetheless, the textile and tourism sectors form the backbone of our private sector and the source of the revenues our government requires to provide services to our residents. Hindsight is a wonderful gift, but we need to deal with where we are now rather than with the economy that we anticipated thirty years ago when this Committee considered and approved the Covenant.

We are here to participate in a serious process with the Subcommittee and the Congress to ensure additional mistakes are not made, but more importantly, what can we do to rebuild our local economy and alleviate the burdens of my people. When the Covenant was originally negotiated, as this Committee will recall, a provision was included that provided an annual grant for operations for our local government. The grant was slowly transformed to eliminate any payments for operations and to dedicate the funds exclusively to infrastructure development and for replacement of the aging works installed during Japanese Mandate and Trust Territory of the Pacific Island government times.

I mention this because sometimes in looking at the current problems we forget how much progress has been made since the Covenant first went fully into effect only about twenty years ago. This Committee has been particularly sensitive over the years to how the territories differ from the mainland and in some cases from each other and how mainland standards don't always work in non-contiguous areas. We have been fortunate over the years that this Committee is well represented from these non-contiguous areas and there fore has a greater understanding of our promises and problems. For that reason, if Congress chooses to extend U.S. immigration laws to the CNMI, we will need to look to you to craft the provisions that ensure a smooth transition and strengthen the local economy.

I will be proposing a series of CNMI specific amendments to U.S. immigration policy which will accomplish this. By no means is this list exhaustive or complete, but rather a starting point for further discussion, and is basically the same list that I provided the Senate Energy Committee at their hearing on February 8th.

First, I request that Congress provide us with our own Visa Waiver Program similar yet distinct from Guam's Visa Waiver Program. Much of our tourism planning focuses on new markets in China and Russia. Several years ago with the assistance of the U.S. State Department, we were granted Approved Destination Status by the People's Republic of China. That designation and market as well as the Russian market would be cut off to us without a visa waiver program.

Second, as you know we have a very small indigenous labor pool, and have turned to guest workers to build our economy. Whether it be for doctors, nurses, engineers, cooks, or hotel maids, applying existing H1 and H2 caps to the CNMI would disrupt our health care system, our government and our economy. Therefore I request that special provisions be made outside of standard H1 and H2 caps and rules for the CNMI.

Third, since many of our businesses are owned and operated by foreign corporations and were begun under our own immigration rules, I am concerned that normalizing immigration might disrupt these businesses if they are not grandfathered in to the new system. Likewise, as we are trying to attract new investors into the CNMI, I fear that the existing cumbersome, slow and overly bureaucratic processing system for standard H1 visas would be a deterrent to our economic recovery. Therefore, I request that special provisions for current and future foreign investors be included in any legislation.

Fourth, we have been criticized for building our economy on two labor intensive industries, i.e. apparel and tourism. To change this we will need federal financial assistance and guidance to diversify our economic base beyond these two. However,

the CNMI's indigenous population is still not large enough to provide for an adequately sized labor force to support a sustainable economy and will thus greatly limit our options to widen our economic base. Therefore, immigration policies must be sensitive to the workforce and training needs that will arise from a shift in available jobs required by new industries. A specifically and carefully designed guest worker program to meet the CNMI's workforce requirements must be an integral part of a new immigration framework.

Fifth, our proximity to Asia makes the CNMI an excellent location to provide specialized training such as English for Asian businessmen and students and nursing NCLEX prep classes. We currently provide NCLEX prep classes to Asian nurses, who upon passage come to the U.S. to fill a void created by a severe nursing shortage. I understand that U.S. student visas are now very difficult to acquire. Within a visa waiver program, I request that special consideration be granted to the CNMI for foreign student visas.

Sixth, several years ago the CNMI negotiated an MOU with various federal agencies to provide for the enforcement of U.S. treaty obligations relating to refugees and asylum. Full implementation of the INA in regards to refugees and asylum seekers may have adverse consequences for both the CNMI and the U.S. Careful study of the situation is required and possibly delayed implementation would be best.

Seventh, it was the intent of the Covenant to preserve the Northern Marianas for its indigenous people. Too many times in the history of the U.S. we have seen indigenous peoples displaced and outnumbered leaving them a political and economic minority in their own homeland. I caution the Committee to be careful in the construction of a new immigration framework so as to avoid the political and social alienation of the Chamorro and Carolinian peoples.

Eighth, create an immigration board comprised of both local and federal government for the purpose of periodically reviewing the effectiveness of regulations promulgated under this new law, to make suggestions and amendments.

Ninth, I respectfully recommend that extensive study, deliberation and consultation be included in developing this new framework. I recommend that a joint congressional, administrative, and CNMI study group be formed to thoroughly study all aspects of the CNMI's economy, current immigration laws, and long term economic prospects as a crucial step in developing a new immigration policy for the CNMI. It has taken the CNMI three decades to reach this point in our development. Only through careful consideration can we move the CNMI toward economic recovery and into a new era of prosperity while returning us to a state of self sufficiency and stability that we once enjoyed.

In essence, Madam Chairwoman, this Committee is embarking on a long and difficult voyage. We acknowledge without question that Section 503 of the Covenant specifically allows Congress to extend the immigration and naturalization laws to the CNMI. Furthermore, I respectfully emphasize that Section 701, requires the U.S. to "assist the Government of the Northern Mariana Islands in its efforts to achieve a progressively higher standard of living for its people as part of the American community and to develop its economic resources..." I am looking forward to working with your Subcommittee to successfully merge these two important fundamental principles of our political agreement into a new reality for the Commonwealth.

Call for a Delegate:

The CNMI is currently blessed, though some may say it is cursed, with a great deal of attention by the U.S. Congress. Since the beginning of the year we have been visited by two staff delegations, one from the Senate and more recently one from this subcommittee. This is the second hearing that has been convened to examine our current situation.

This attention has been met with a variety of responses from the CNMI. There are some who welcome Congressional intervention as they believe that we have strayed from our original goals, and that we need help to get back on track. There are others that feel that this attention is unwarranted and unnecessary and that we are doing "just fine, thank you." I however, believe that for the most part, Congresses intentions are honorable and that there is no real desire by any member to destroy us. I honestly believe that Congress would like to see us succeed, but sees a need to alter the rules under which we operate.

Madam Chairwoman, it is my intention to work with this committee and any congressional committee that desires to re-visit the Covenant under which the CNMI was created. I feel that it is much better to be involved and participate in any discussions or legislation that may affect the CNMI.

However, I feel that the manner in which Congress is proceeding is unfair. Not only was it anticipated that the CNMI's control over immigration be terminated at

some point by Congress and that the Immigration and Nationality Act would apply, it was also anticipated that the CNMI would be represented in this esteemed body as all other non-state entities are. Since Congress did not extend the INA to the CNMI in 1986 when the Trusteeship Agreement was terminated, and since local control of immigration has become an essential tool in our economic development, it is easy to interpret Congress' desire to normalize or federalize our immigration now as political, vengeful, or retaliatory.

Even though you have extended to me as the Resident Representative some honorary privileges as if I were a Delegate, it is simply not the same. I cannot sit with you in subcommittee meetings; I am not privy to classified documents that detail how CNMI control of immigration is an alleged threat to national security; I cannot speak for the CNMI on the floor of the House of Representatives; nor can I defend my people except as an invited witness at hearings such as this one.

I think that it is a matter of simple democratic principles that the CNMI be afforded the right of representation before Congress proceeds to dismantle and hopefully rebuild the economic framework of the Commonwealth. The people of the CNMI should not feel that we are at the mercy of our critics or that we are being punished for mistakes made in our past. Neither behavior nor performance should not be used as a litmus test in the granting of a delegate for the CNMI.

The well-being of my people is literally at stake. I am gravely concerned about the ongoing availability of health care, basic sanitation, clean water and public safety. We have been the plaything of political opponents for too many years. I desperately want reason to prevail in any congressional actions that will affect the CNMI. Madam Chairwoman, let us proceed in a logical manner. I respectfully request that prior to the introduction of any other legislation that the CNMI Delegate bill be re-introduced and acted on first.

Thank you.

Chart 1

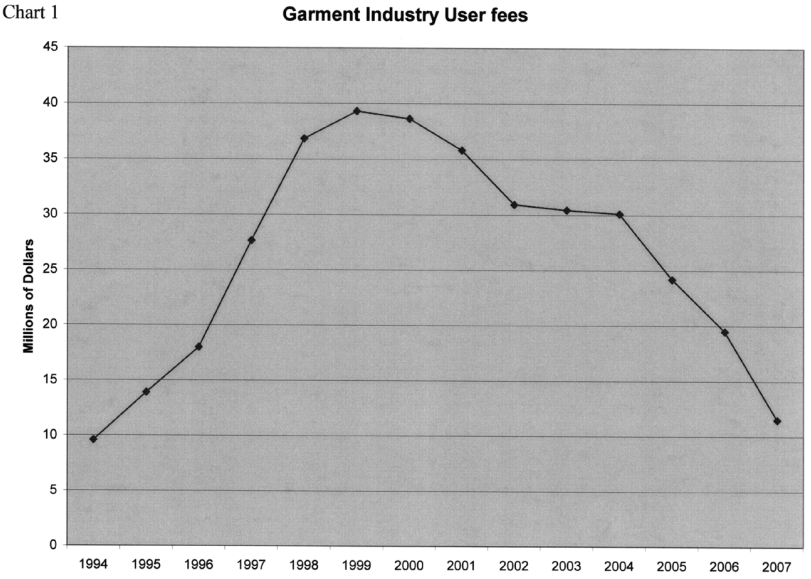


Chart 2

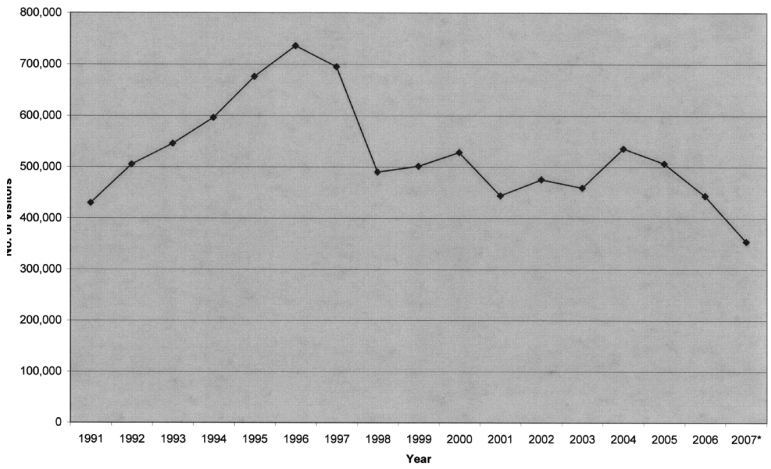
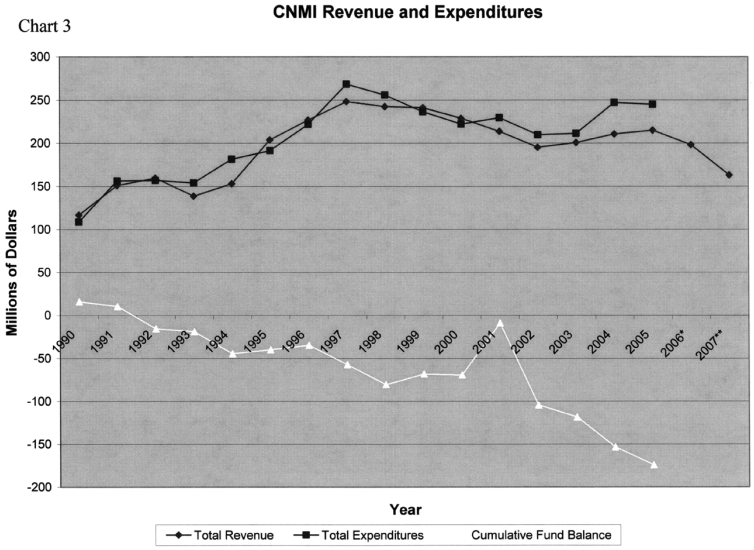


Chart 3



Mrs. CHRISTENSEN. Thank you, Mr. Tenorio.

Reminding the Members that the Committee Rule 3[c] imposes a five-minute limit on questions, the Chairman will now recognize herself for questions, then recognize Members in the order in which they arrived.

I have to tell you that even reading the testimony preparing for this hearing and listening to you this morning, it is very troubling to hear the enormity of the crisis that exists in the CNMI. Having traveled there, I had a very nice trip; it was really in some of the better times for CNMI, even though there were many problems that existed back then, many of which were addressed. And I have

just read that school will also be closing two months later, so that is an additional—or will open two months later. That is an additional issue that tells us just how serious the situation is.

I appreciated your testimony. It contemplates the extending of U.S. immigration policy to the CNMI, and your willingness to work with us to work out a compromise. And your suggestions are very helpful.

Apart from that, with respect to anything immediate that Congress should consider to assist the CNMI, do you have some maybe three specific areas that we should be considering?

Mr. TENORIO. Thank you, Madame Chairwoman. I certainly welcome that question. And I know that you asked for three, but if I may be permitted to add on, to about five priorities.

Mrs. CHRISTENSEN. Sure.

Mr. TENORIO. Just so that the Committee can have some options.

Mrs. CHRISTENSEN. Yes.

Mr. TENORIO. I would say first of all that we can be helped by this committee by revisiting the authorization of the covenant section 702, and that is the financial provision of the covenant. I am sure they are familiar with the history of the covenant itself, and how the funds that was intended originally for capital improvement for government operations and for economic development were reoriented toward just the capital improvement program.

What I am suggesting is for the Committee to revisit that provision, and see whether or not it will be possible to increase the authorization so that the funds that will be made available under that provision of the covenant could possibly be redirected for operations, at least for some timeframe, to help out the immediate need of the government's limited resources.

Second, I would also recommend that the Committee revisit the covenant, I mean the compact funds that this committee, the Members were successful in providing for a larger amount of funds through the reauthorization of the compacts of Micronesia.

We are grateful that the compact funds have been increased from averaging about $800,000 a year since about 10 years ago, 1996 or 1997, to now, the new level of $5.2 million a year, with, of course, a corresponding increase for Guam and Samoa and Hawaii.

I feel that there is an institutionalized mechanism already established where it is possible to increase this compact impact. And the reason that I say this, Madame Chairwoman, is because of the fact that we are, even though the amount that we receive is substantial and has increased substantially over the last 10 years, nevertheless, CNMI, just like Guam, continues to spend more than what has been provided under the compact impact provision.

We are averaging somewhere in the neighborhood of about $9 million a year of public expenditure to take care of the freely associated states' guests that are in our islands. And again, since these funds are being appropriated for operations of government, it would have a direct impact on the current financial shortage that we are experiencing.

Third, I would like to request the Committee to help us accelerate the cover-over of tax revenue that is identified under the covenant section 703[b], mandating that the U.S. Treasury reimburse the CNMI Government for all taxes that has been collected over

the years, inclusive of the estate tax that was, I assume was covered under the 703[b] provision of tax rebating.

We have been successful, and our government has been working closely with Treasury to continue transfer of funds. But there are still substantial amount of funds that have not been covered over yet. So if the Committee can revisit this provision and help us, it would really help our island governments immediately.

I also want to recommend that, through the Federal funds grants under the Work Force Investment Act, that funds be increased for the CNMI, so that that agency that we have, the Work Force Investment Agency, can use these funds to hire those that have lost their jobs because of austerity and other revenue shortfall, but at the same time also the funds could be used to train our local people toward some profession where they can have, eventually in the future, a more permanent job.

The program is working very well in the Commonwealth. I met with a number of the previous and current administrators about the program. But they need more assistance in order to hire more people, and hopefully through that program the implementation of the Federal minimum wage could then be used and experimented on for that agency.

Last, I want to request the Committee to help us pass the amendment to Headnote 3(a). As you know, I acknowledge that you folks, you people have helped us in the past, and we continue to ask for your assistance in having Congress pass the amendment to Headnote 3(a) Act, so that the CNMI, the garment factories can then depend on this assistance to stay in business, and to be more competitive against products that are being imported to the U.S. from other countries.

And again, I want to emphasize that the trade agreements that have been established between the United States and some of these foreign countries actually are much more favorable and advantageous agreements than what the Commonwealth has been subject to under the current situation.

So in order for some of the factories that are there to continue to remain at least for several years during the time that we can try to recover our economy, it would be of great help if the amendment is passed, so that, you know, these factories can take advantage of the new competitive situation that they will be in with the Headnote 3(a) amendment.

Short of that amendment, I fear that, you know, most of the factories, if not all of them, would close down as quickly as possible. And you can see it happening every day.

Thank you, Madame Chairwoman.

Mrs. CHRISTENSEN. Thank you. I now recognize Mr. Fortuño for such questions as he might have for five minutes.

Mr. FORTUÑO. Thank you again. I echo our Chairwoman's concerns, and actually our heart goes out to all the residents, fellow residents of CNMI.

I know in the past there have been different discussions, and certainly the fact that the garment and the tourism industries actually pretty much collapsed for different reasons in the last decade or so, have, to a great degree, created this situation.

There have been discussions regarding minimum wage, immigration policies that have been discussed in the past. You touched upon them in your presentation.

Let me start with immigration. And the question will be, how would the Federalization of immigration policies in the CNMI address these concerns and assist in this situation?

Mr. TENORIO. Well, for one thing, Congressman Fortuño, for one thing, if there is normalization of the immigration policy for the Commonwealth, it will provide for a very stable policy, for one. People, investors that are coming in would then have something to rely on—on a permanent basis.

Right now, with the different strategies and different ways that the immigration provisions are being handled, it does not provide for a stability in terms of the investors that are coming in.

And the same thing goes with minimum wage. Many businesses are closing down because they are worried that they cannot have any reliance on whether or not the minimum wage would increase or decrease, or stay as it is. And especially those that fear that, you know, increasing the minimum wage would impact their business readily. They would rather close their business and uproot and go someplace else, rather than stay on and continue to lose their resources.

So having a permanent policy established, such as immigration and minimum wage, would provide the kind of security that these businesses would need in order to feel comfortable, and to invest on our islands on a long-term basis.

Mr. FORTUÑO. In addition to garment and tourism industries, is there a way, is it realistic to believe that there could be a way to diversify the economy and move into other areas, as well? And what would it take to do that?

Mr. TENORIO. First of all, let me say that, you know, because of our limited resources, and we have gone through this since the establishment of the new government, we have tried, the government has tried to explore all possibilities of diversifying the economy. So that, you know, we wouldn't feel that if one sector of the economy goes down, that we will all be in trouble, just like what is happening right now.

Unfortunately, there are few investors that would want to come to the CNMI for other than tourism and garment, apparel manufacturing. There are some that come there to explore possibilities of a fishing industry, for example. We do have a very large area of ocean, 240,000 square miles of it, that continues to be idle, unexploited, and it is available for people to come in. But for some reason, we just don't get the kind of interest that other places have gotten. So I look at the ocean resources as a major potential for purposes of diversification of the economy.

I don't see resources in the Commonwealth, natural mineral resources that we have, that we can exploit. Most of what we are doing there are on subsistence type of, you know, local economic initiative. For example, subsistence fishing, subsistence farming.

But we don't just sit back and not look at other options. But our options are quite limited, because of land size, and because of the absence of natural resources that other larger countries and states,

for example, have. You know, ore deposits and mineral resources that are abundant in other places.

And we do have a lot of deposits of coral limestone. And you know, it is a useful product, because we use it for construction, but we can't export it. There is a current interest to exploit the value of pozzolan, which is a volcanic product from volcanic eruptions, and it continues to be extruded out of the volcanic vents. But it is a long-term type of economic diversification, because it takes a lot of investment to do it. And not too many interests really is there. There are some that want to try to mine pozzolan for, you know, for profits, but it is not much.

We do have, I believe, fairly rich soil properties in the islands. And to raise some crops that possibly could be exported to Guam, the nearer islands of Guam. We also have the soil is very conducive to production of or planting of coconuts, which at one time was one of the major industries that actually we had in the CNMI. The northern islands, volcanic islands, was, you know, covered with coconuts at one time. And I think that industry can still be revived for purposes of food items, as well as for energy.

There is ongoing interest in some places to use biodiesel and using coconut and other farm product oil as an addition to gasoline. So there is that possibility.

But we continue to look for—and I want to acknowledge also the very great effort that the Department of Interior, through Mr. Cohen's office, the Office of Insular Affairs, in sponsoring business opportunities conferences out in the islands several years ago. It was in the West Coast, in Los Angeles, and here also. And then just last, I believe it was last year, when it was conducted in Honolulu. And there was a lot of people that showed up there with a lot of interests and ideas.

And we understand that it takes time for people to make up their mind as to, you know, investment. But that is another effort that through that Administration, we are getting some positive interest.

Mr. FORTUÑO. Thank you very much.

Mrs. CHRISTENSEN. And thank you. I now recognize Ms. Bordallo for five minutes.

Ms. BORDALLO. Thank you very much, Madame Chairman, and thank you for holding this very important hearing.

I would like to welcome Resident Representative Pete A. Tenorio. And I want to share with not only the people in the audience today, but with the Committee here, that I share an excellent working relationship with Representative Tenorio and the CNMI leaders.

And I want to take this opportunity to again call attention to the fact that the CNMI is the one member of the American family without a voice in this House. And I strongly believe that a Member of Congress to represent the CNMI would help this situation in its review of the many interests, of interests and concern with respect to the application of Federal law in the CNMI. It is simply the right thing to do.

I look forward this morning to the testimony and am interested in learning of the efforts of the Office of Insular Affairs in helping the CNMI Government improve its financial standing, and in fostering greater economic diversification and growth. And I am also

interested in learning of the GAO's assessment of the work underway within the Federal and the CNMI Governments to make needed improvements in the areas of labor, immigration, economic and financial accountability policy.

And finally, I am interested in learning from the witnesses on specific ways the Congress, the Administration, and the CNMI Government can work together to make improvements within the spirit of the covenant relationship.

I do have one question for you, Representative Tenorio. Could you comment for us on the current position or the views of the CNMI's leaders on the question of the application of Federal minimum wage in the CNMI? Given the legislation pending in Congress, what are the views of your government?

Mr. TENORIO. Thank you, Congresswoman Bordallo, and good morning again to you.

I appreciate that question very much, because that is one of the issues that many of our leaders have very different positions on.

But there comes a time when—and I keep informing them that if you don't have a unified position to present to Congress, then you might as well not come to Congress and present something, because you won't be listened to. It is embarrassing for the government to be coming up with so many different ideas, when Congress wants just one. And that has been my advice to our leaders back home.

Finally, after the passage of H.R. 2 in the House, there was a very concerted effort to come up with something so that we can present to Congress. I thought it was too late, but fortunately the bill was still in Congress, and it gives us an opportunity to reaffirm a united position.

So we came up with a position that because the Northern Marianas is a relatively developing territory, and as we understand all the territories have gone through the process of using the Fair Labor Standard Act industry wage base system, we agreed that we would ask Congress to help us to be under that system for a while, so that, you know, we can then learn how best we can manage our local wage system.

So that is the position that the Administration, together with the elected officials, have, is to be subject under the Federal Fair Labor Standards Act provisions, but at the same time be provided the opportunity to use the industry wage system as a base. This way, decisions having to do with the increase of minimum wage on the islands would be based on the information and knowledge and recommendations of those that are mostly affected, and that is the local people.

So we appreciate any more initiative that Congress can do to get us into that system.

Ms. BORDALLO. Thank you. Have you given that position to the U.S. Congress? Have you officially?

Mr. TENORIO. Yes, Congresswoman, we did. We have communicated with the Senate committee. Members of the Senate, through Chairman Bingaman, have been approached by many of our leaders and dismiss people to help us get that system through, yes.

Ms. BORDALLO. Very good. Very good. Madame Chairman, I know my time is up, but I have one quick question.

Inasmuch as this economic situation exists today, how is tourism? Is it up or down?

Mr. TENORIO. Well, the latest information on this is probably not a fair comparison, but the month of April is going to experience something like a 40 percent occupancy in the hotel. And you can translate that into, you know, numbers coming in, tours coming in from Japan basically has been drastically reduced because of the departure of Japan Airlines completely out of the Commonwealth after more than 20 years of operation.

And you know, it was a business decision made by their company, and there is nothing much that the CNMI can do about it, although we appealed many times to try and bring them back.

The overall situation of the garment industry is very disturbing. It continues to decline. And while we try to open up new markets to supplement the losses that we are experiencing through Japan through just the reduction of the flights, as well as reduction of tourist numbers based on economy, we will continue to see this downward trend for a while.

This is what the Marianas Visitors Authority have been projecting. And it doesn't look like there is any light——

Ms. BORDALLO. At the end of the tunnel?

Mr. TENORIO.—at the end of the tunnel for the time being.

Ms. BORDALLO. Thank you. Thank you very much, Madame Chairman.

Mrs. CHRISTENSEN. Mr. Tenorio, we might have another round if you have another question. So I am going to start mine.

Mr. Tenorio, do you have any estimate of how much the cover-over in taxes would be? Is there any kind of——

Mr. TENORIO. Well, we have some rough estimates, Madame Chairwoman Christensen. As of a year ago, for example, where we got figures from our former Governor, they estimated through their own assessment somewhere in the neighborhood of about $50 to $60 million of total tax collected by IRS. That is all the CNMI. A lot of it, a substantial amount of it, has to do with the estate tax.

But you know, that is the estimate that we got. I would be happy to provide you with a more recent estimate, if you give us time to contact the office back home.

Mrs. CHRISTENSEN. Well, it was important to at least get a ballpark figure.

As you were talking about the different possibilities for diversifying the economy, is there any kind of thinking or planning in CNMI, given the military buildup that is starting on Guam, as to how you see that CNMI could perhaps take advantage of that situation to improve your economy?

Mr. TENORIO. Yes. Thank you for that question, and I am glad Congresswoman Bordallo is here, because I intend to come and visit you, Congresswoman, to kind of brainstorm on this subject.

I do have some ideas. They may sound wild to you folks right now, but let me just share them with you.

Many years ago, I guess it was in the fifties, when Saipan was built up by an agency of the Federal government. The CIA was at one time present in Saipan to train Taiwan Chinese to invade

China. This was a big operation. I was very young at that time, but I was of the age of understanding, so I was able to accumulate quite a bit of memory about that presence.

Capitol Hill, for your information, where the government center is located, and where there are a lot of homes over there, if you look closely at those homes, they were actually constructed out of prefabricated concrete slabs that were manufactured in Guam and shipped over to Saipan, because there was no construction company in Saipan.

So there was this very intensive construction in Guam. Guam was greatly helped by that construction, because that agency made use of the slabs and other kind of forms that were manufactured to construct not only the headquarters, where the Governor's office is located, but also the homes of the staffers and the trainers.

And I feel that, you know, if the military would look into this thing, like using now Saipan as a manufacturing point, as a prefabrication point for housing construction and other kind of structures, where Guam at one time did, that would invite quite a bit of activities. It would, you know, regenerate interest in construction and employment. And we do have the manpower there, and perhaps it is very more accessible.

Under the current immigration authority that the Northern Marianas has, it can bring in steel workers in accordance with the military planning specifications of the kind of workers and skills that is needed. Have them temporarily located on Saipan or wherever, or maybe even Rota. And then have them do the construction, and then ship over this prefabbed constructed parts of housing and other facilities to Guam.

Mrs. CHRISTENSEN. May I just interrupt you? I think that is a great idea, and I just want to try to get in some other questions.

Mr. TENORIO. OK.

Mrs. CHRISTENSEN. Do you want to wrap that answer up?

Mr. TENORIO. Yes, I will wrap it up. And also, I think CNMI, everybody says it is a great, nice, beautiful island, group of islands. And again, if the military could consider the island as R&R for the families and even the soldiers that will be located in Guam, Guam is getting overcrowded, perhaps Congresswoman Bordallo, just, you know, Rota is very close to Guam. And that would be one area where perhaps a nice R&R could be developed for, you know, for the families.

Mrs. CHRISTENSEN. OK. Let me see, because we do have another panel and our time is somewhat limited. Because I wanted to ask this very important question.

Clearly, CNMI's current situation is a very serious one, and you know, we look forward to working with you as we move forward.

Given the seriousness of declining government revenue, though, I want to know whether or not you feel your presence—we see what happened with the schools, what is proposed to happen to the schools. But given the declining government revenue, I want to know whether you feel your presence and the representation that you provide as CNMI's elected official here in Washington, D.C., is also threatened by the government's declining revenue.

Mr. TENORIO. Well, I hate to speculate, but you know, looking at things the way it is now, I even have a much more pessimistic

projection of the revenue, simply because there are other businesses that are not counted in the flow of revenue for this year that will be closing down. Many garment industries will close down, and that translates into loss of revenue.

My office here, yes, would be threatened if the government goes only with its plan to reduce additional 40 percent of the current available budget that the agencies of government are now operating under. It would mean a reduction in my staff, and that means a reduction in the people, the provision of people that I utilize to convey the problems and to do things for, you know, on behalf of the Congress requests. So there will be that problem.

Also, imagine then our operations here in terms of the properties we own. We own a house outright fee simple that we use as an office space, essentially just for office space and receptions. And we have obligations toward that house in terms of insurance and other kind of upkeep and maintenance.

I don't think it will come to that, but the prospect for, you know, the overall government not providing vital services to the community is one that really disturbs me. And I think that it would happen sooner than later.

Mrs. CHRISTENSEN. Thank you. It disturbs all of us, as I think everyone has said.

Mr. Fortuño, do you have further questions?

Mr. FORTUÑO. Yes. Yes, I do. First of all, I want to apologize, Mr. Tenorio, for having to walk back and forth.

You mentioned in your opening statement the tragedy that the country has gone through at Virginia Tech. I lost one of my constituents, and I was talking to the widow, so I apologize, for she needed to talk with me, and I hope you understand.

Mr. TENORIO. Yes, sir.

Mr. FORTUÑO. So having said that, I feel it is important that we continue to bring into the record more information on the current situation. Could you give us some data, if the government has data, for example, on employment rates, and whether it has changed dramatically in the last 10 years? What is the rate today, and what it was several years back? The rate of growth of the economy, as well? Do you have any data on that?

Mr. TENORIO. We can provide you, Congressman, with that information. Give us some time to look at our information, and also to convey these requests to our government back home, and we will give you the information.

Mr. FORTUÑO. Thank you. I feel it could be useful for the Committee to understand. Actually, I would say it will be interesting to see what has happened since the compact was entered into until today, what has happened with basic economic statistics and indicators. That will be very useful, if you may, I feel.

Having said that, I also understand, and this is normal, when you have these economic situations, then there are other social and economic conditions that spring up. And actually, as I understand it, the crime rate has been going up. There may be a greater drug trafficking problem than there was before, as well as human trafficking. Could you expand on that, please?

Mr. TENORIO. Yes, Congressman. Yes, definitely. I was there personally for almost a month and a half just last month, in February

and March. And I personally went around, looked around and observed and opened my eyes and talked to so many people about, you know, what the problems they are faced with.

They are faced with the problem of lack of jobs, for example. Some of them lost their jobs. Some of them continue to look for jobs, but couldn't find any meaningful jobs.

There is also the problem with the, because of the lack of government resources, the government employees are being furloughed every other Friday. Meaning that their income has been reduced by 10 percent.

We do have many different crimes there that have been committed that could be directly or indirectly a result of the current economic problems that we face. And I would not hesitate to mention that we do have burglaries throughout many of the homes, including homicide incidents where, you know, poker parlors are being targeted by criminals for robbing workers there, and even hurting workers, at times, you know, fatally, and wounding them.

Mr. FORTUÑO. In terms of human trafficking, perhaps regional human trafficking, are you seeing that kind of activity, as well?

Mr. TENORIO. It comes periodically. I don't know the frequency to that, but I think the representative from OIA, probably through Mr. Benedetto, can provide you with that more detailed information about the frequency of interception, for example. And you know, from our area into Guam, they would be in a better position to provide you with that.

But I just want to emphasize, too, and this is not a joke. But you know that there is a common thing now being spread around the islands that we do have what we call the brass thieves, because these people will go out and daring, daringly, would go out in the open, in the middle of day, and will cut down live electrical wire that is copper wire, that is servicing a deep well. They will climb up the transformers, and from there they will cut off this wire, and then steal the wires for to sell.

This happens not only in the government facilities, but even in private homes. People, you know, before they could open up the house, they hook up the electricity, and they will find the next morning that they have lost the dropped line.

Telephone lines have been vandalized for brass. You know, you can see how—I mean, this, to me, is such great desperation already, too.

Mr. FORTUÑO. Yes.

Mr. TENORIO. So we do have a lot of these crimes I believe are probably associated with, you know, this bad economic situation that we have.

And the social impact of the lack of jobs and revenue, too, is really growing at a disturbing rate. We have broken families, families that don't have jobs and divorce cases are coming up. People are losing or selling their lands, selling their homes to travel someplace else, because they couldn't survive over there in the islands. So it is a real mess.

Mr. FORTUÑO. Unbelievable. Let me tell you, Mr. Tenorio, I am so sorry to hear this, you know, how things have gone down. And I believe that data would be very useful for the understanding of everyone in the Committee.

So I thank you for being here, and I would thank you for providing us with the data, you know, unemployment rate, rate of growth, and so on and so forth. Thank you again.

Mr. TENORIO. Thank you.

Mrs. CHRISTENSEN. I now recognize Ms. Bordallo for five minutes.

Ms. BORDALLO. Thank you, Madame Chairman. I wish to continue questioning the Resident Representative to further what Congressman Fortuño has talked about.

Your testimony outlined some of the austerity measures that have been put in place, and I think you just answered him as to what has been happening in the government.

For government employees whose position may be reduced, what other opportunities are there for employment in the private sector? And also, I know that the CNMI Government has hired non-resident guest workers to fill skilled or professional positions. Are there laws in place which protect their employment, given that they were hired for a specific CNMI Government need that couldn't be filled locally?

Mr. TENORIO. I believe there are laws to protect them, Congresswoman. I do know for a fact that doctors and nurses and health professionals that are hired from the outside, of course, are protected on their own contract. And since they are the most demanded positions for the Commonwealth, they will be there for as long as they want to. And we really have a problem trying to keep them on board, because they all want to leave after a couple of years.

There are also employees in the government sector in the technical areas, in the Commonwealth Utilities Corporation, Public Works, engineers and architects that are there. And they are there as government employees for a certain period of time; I don't know for how long. But those are the workers, the professionals that are subject to being replaced by local people once these local professionals come back for the jobs. But I can tell you now that not too many of them are coming back to work in the CNMI.

But as far as any specific law that protects their presence, I am not really sure, but I could find out for you.

Ms. BORDALLO. In addition to that question, what about the private sector? I mean, someone whose government salary has been reduced. Could he maybe get a part-time job in the private sector stepping up——

Mr. TENORIO. I am sure that the private sector is doing its best. They have had some conference and meeting with the Northern Marianas College, for example, to try and pin down just exactly what can be done by the private sector to begin to mobilize local people into their businesses.

There has been some progress made in that. At the same time, there are existing local workers that are hired by the private businesses there, but mostly for higher-supervisory position than anything else. Those that local people for some reason do not want to work in that lower kind of unskilled categories, like hotel rooms, workers and maintenance.

So we do have a problem, too, because of the fact that the current minimum wage for all industries there, it is not attractive. In

fact, it is discouraging to so many of the local people that wanted to get a job, but not at the rate that is being, you know, that they are being paid, or the salary that is existing right now: $3.05 an hour. That is a discouragement. And that is why I believe that the CNMI should support an increase in the minimum wage, something that is gradual. And especially for those businesses that can afford a little bit more because of their higher profit margin.

And there are, in fact, some businesses that would do that. But in general, throughout the private sector, the local folks are discouraged from seeking private employment because of that.

I mean, especially when they see that the government has such high salaries, three or four times what the private sector pays. So there is that competition there.

Ms. BORDALLO. Thank you very much. Madame Chairman, I just want to go on record as saying, too, that I sympathize with this situation. There have been a number of CNMI leaders, businesspeople, government leaders that have come to my office, so I am quite aware of the situation. And I just want to go on record with Mr. Fortuño to say that we sympathize with you; we certainly hope that we can find some kind of a solution to this problem.

Again, I do have questions, but my questions are for the Administration. So thank you, thank you very much.

Mrs. CHRISTENSEN. We have been joined by Mr. Flake. Mr. Flake, would you like to take five minutes of questions?

Mr. FLAKE. Thank you. I appreciate it. I apologize for getting here late. And I know you covered it in your testimony, but could you elaborate a little—and I apologize if it is ground that has already been plowed—with regard to visa waiver then, and how CNMI needs something quite separate from what we have here? Can you elaborate a little on that? For example, for you to have an agreement with China or other close markets there.

Mr. TENORIO. Yes. Thank you, Congressman Flake, and good morning to you.

Yes, the CNMI is quite unique, as we all know, because it has its own immigration system. And it has two reasons, probably the mainstay, the main economic generator for the islands, we do concentrate in trying to bring as many tourists to the islands as possible.

It is very difficult for us to try to bring, to entice people from the mainland, for example, to come because of distance and expense. But we are located in very, very high-populated areas in Asia. And Japan, that has been our main market. But because Japan now has, you know, has reduced its expresses on the islands, as a matter of fact, the panel has cut off its operation for the CNMI, we have been looking at other markets. And these are the markets that are open for us because of the fact that we administer our own immigration. So we can issue—we don't require a visa from them. Markets, such as China, for example, in which our government has entered into an agreement called approved destination status, where the Government of China permits its people to visit the islands under a memorandum of agreement. And that opens up a new opportunity to resume an industry to really flourish.

Now we are looking into Russia as well. Some of the outlying provinces in the western and southern part of Russia, close, you

know, north of Japan area. Sakhalin Island and those places are now being visited by our visitors' authority to open up a new market, bring in Russian tourists.

And we, as a matter of fact, when I went there last month there was a first charter flight out of Russia that came to Saipan bringing tourists with them. That vantage that we have, as you know, is we do have this ability to use our immigration authority to make it easier for tourists from these countries that cannot go into the U.S., we found visitors' visa through the U.S., you know, applied through the U.S. Embassy or Consulate. But they can some to the Northern Marianas with their passport and their return tickets.

And what you would call an approved, what is it? I am sorry. It is a kind of approval that our government provides to the airlines to board, authorization to board. And that is the system that we use. And we use some standard criteria to make them eligible to come. And that is working out OK, as we see it.

If the new immigration framework is enacted that denies us the ability to continue that operation of visa waiver, then our tourism industry will not flourish as well or as quickly. So that is one of the areas that I requested the Senate, when I testified in the Senate, to include in any framework on immigration that the Congress would enact for the CNMI.

Mr. FLAKE. Thank you.

Mrs. CHRISTENSEN. Thank you, Mr. Flake. I want to thank you, Mr. Tenorio, for your valuable testimony, and thank the Members for their questions. Members of the Subcommittee will have some additional questions for you, I am sure, and we will ask you respond in writing. Some of them have already been raised.

At this point you are excused.

Mr. TENORIO. Thank you. Thank you, Madame Chairwoman and Members.

Mrs. CHRISTENSEN. Thank you again. I would now like to recognize the second panel: Mr. David B. Cohen, Deputy Assistant Secretary of Insular Affairs for the U.S. Department of Interior; and Ms. Jeanette Franzel, Director of Financial Management and Assurance of the Government Accountability Office.

And the Chair now recognizes Mr. Cohen to testify for five minutes.

STATEMENT OF DAVID B. COHEN, DEPUTY ASSISTANT SECRETARY FOR INSULAR AFFAIRS, U.S. DEPARTMENT OF THE INTERIOR

Mr. COHEN. Thank you, Madame Chairwoman and Members of the Committee. Thank you for the opportunity to testify on the CNMI. With me today is the Federal Ombudsman Respondent in Saipan, Jim Benedetto, to answer any questions you might have in his area.

The CNMI's greatest challenge today is how to deal with the deepening economic crisis that has triggered a growing fiscal crisis. Both of the CNMI's major industries, as the Resident Representative has eloquently described, garment manufacturing and tourism, continue to decline rapidly and simultaneously. This has caused government revenues to drop approximately 25 percent since 2004.

Continued declines of this magnitude would cast doubt on the local government's ability to remain solvent and to provide even the most basic critical services.

On labor conditions, we give the CNMI Government a great deal of credit for the progress that has been made in the last several years. However, we continue to have a number of concerns.

For example, many incidents have been reported of young women recruited for non-existent jobs, and then coerced into prostitution. A recent verified account of the number of trafficking victims receiving services in the CNMI puts the number at over 30, a figure that far exceeds the incidence of trafficking victims in the United States per capita.

On the other hand, I commend the CNMI Attorney General's Office for aggressively investigating and winning convictions in the Red Heart Massage case, where club owners pressured foreign workers into prostitution.

The labor situation in the CNMI is inexorably linked to the fiscal and economic situation. The most significant threat to the human rights of foreign workers in the CNMI today is the deteriorating economy. We also remain troubled by the serious structural imbalances in the CNMI economy and in CNMI society, as discussed in my written statement.

I call your attention to the unique situation of the long-term foreign workers that have become an integral part of CNMI society. A number of foreign workers have been working in the CNMI for five, 10, 15 or more years. Many are raising children in the CNMI, and their children are U.S. citizens. These workers were invited to come to the CNMI because they were needed; they came, and have stayed legally, and they have contributed much to the economy. They were essential in building the CNMI economy from the ground up. Long-term foreign workers are integrated into all levels of the CNMI's work force and society.

I hope that the Committee and the CNMI Government will keep the situation of these long-term members of the CNMI community in mind as they consider reforms to the CNMI's immigration system.

The Administration is committed to working with Congress and with the CNMI's representatives to establish a framework that will allow the people of the CNMI to build a strong, prosperous, and just society. We are currently working within the Administration, with Congress, and with the CNMI Government to develop a concept of flexible Federalization through which the Federal government would exert control over the CNMI's immigration system in a manner that would not cause needless economic or fiscal harm.

We believe that any effort to Federalize the CNMI immigration system must be flexible, because of the CNMI's unique history, culture, status, demographic situation, location, and, perhaps most importantly, fragile economic and fiscal condition.

Such an effort should be based upon the following principles. First, national security and homeland security issues must be properly addressed.

Second, we should minimize damage to the CNMI economy, and maximize the potential for economic growth.

Third, the new CNMI economy must not be as conducive to worker exploitation and abuse as was the old CNMI economy.

Fourth, we should carefully analyze the likely impact of major proposals before we implement them. Labeling our efforts as reform does not relieve us of the responsibility to carefully consider the potential consequences of our actions. If we leap before we look, we could needlessly hurt people that we are trying to help.

We should, however, be expeditious in our analysis, and not use the need to study as an excuse to delay. The people of the CNMI are eager to get on with their future.

Finally, we must ensure that the people of the CNMI participate fully in decisions that will affect their future. A better future for the people of the CNMI cannot be imposed unilaterally from Washington, D.C., ignoring the insights, wisdom, and aspirations of those to whom this future belongs.

I was in Saipan last month as the President's special representative for consultations with CNMI Governor Fitial under Section 902 of the U.S.-CNMI Covenant. I heard the Governor's concerns about the effect that Federalization might have under CNMI's precarious economic and fiscal condition. The Governor and I endorsed the five principles that are outlined in my testimony today, although we are still in dialogue about how those principles should be implemented.

While in Saipan I spoke with as many community groups and ordinary people as I possibly could. There is a great diversity of opinion in the CNMI, but a shared sense of anxiety about what the Federal government may or may not do, and a shared desire for their voices to be heard here in Washington.

The anxiety stems from the fact that Congress is developing policy that will profoundly affect a small corner of America that many of your colleagues in Congress know little about.

The Members of this Subcommittee, on the other hand, possess a great deal of knowledge about the CNMI. I commend you all for your commitment to learn as much as you can about what is really happening in the CNMI today. So look beneath the negative, sensationalistic press reports to find the more complicated truth, and to listen to the diverse voices of the people of the CNMI.

One last point. Three years ago I testified on behalf of the Bush Administration in favor of granting the CNMI a non-voting delegate to this body. I spoke of the many men and women from the CNMI who were fighting in Iraq and Afghanistan so that the people of each of those countries could be represented in their national legislatures.

Please allow me to pay tribute to the following sons of Saipan who have been killed in action in Iraq since then.

Army Sergeant Eddie Chen; Army Sergeant Wilgene Lieto; Army Specialist Derrence Jack; Army Sergeant Jesse Castro; Marine Lance Corporal Adam Quitugua Emul; and Army Specialist Leeroy Camacho.

Forgive me for pointing out that these men died so that the people of Iraq could enjoy rights that are still not enjoyed by the loved ones that these men have left behind.

Before considering legislation that would drastically change the lives of the people of the CNMI, we hope that Congress will

consider granting them a seat at the table at which their fate will be decided.

Thank you.

[The prepared statement of Mr. Cohen follows:]

Statement of David B. Cohen, Deputy Assistant Secretary of the Interior for Insular Affairs, U.S. Department of the Interior

Madam Chairwoman and members of the Committee, thank you for the opportunity to testify on the important issues facing the Commonwealth of the Northern Mariana Islands (CNMI). I come before you today wearing at least two hats: As Deputy Assistant Secretary of the Interior for Insular Affairs, I am the Federal official that is responsible for generally administering, on behalf of the Secretary of the Interior, the Federal Government's relationship with the CNMI. I also serve as the President's Special Representative for consultations with the CNMI on any matter of mutual concern, pursuant to Section 902 of the U.S.-CNMI Covenant. In fact, I was in Saipan last month for Section 902 consultations with CNMI Governor Fitial and his team.

I testified before the Senate Committee on Energy and Natural Resources in March 2006 about the very difficult economic and fiscal challenges that the CNMI was facing as its only two major private sector industries, garment manufacturing and tourism, were facing significant declines at the same time. The situation has changed since then. It has gotten worse.

The most compelling challenge that the CNMI faces today is how to deal with a deepening economic crisis that has triggered a growing fiscal crisis. Both of the CNMI's major industries continue to decline rapidly and simultaneously. Between 2000 and 2006, garment sales declined 49.5 percent, from $1 billion to $527 million. According to the CNMI Department of Finance, garment makers contributed, directly and indirectly, 37.9 percent of general fund revenues in Fiscal Year 2000. In Fiscal Year 2006, that share was down to 25.1 percent, and it is headed down still further since garment factory closings continue. In 2000, there were 34 holders of garment making and shipping licenses in CNMI. The closure of Saipan's largest garment factory in December 2006 caused the loss of approximately 1400 jobs, and brought the number of garment factories remaining on Saipan down to 19. Two more garment factories, with a total of approximately 400 employees, closed at the end of last month. We expect two additional factories, with a total of over 550 employees, to close in June or July.

The CNMI's other major industry, tourism, is also experiencing troubling declines. Just as the industry, dependent more heavily on Japan than it is on any other market, was recovering, Japan Airlines (JAL) discontinued flights to the CNMI in October 2005. This was a major setback to the CNMI's tourism industry because JAL carried 40 percent of all Japanese tourists to the CNMI and 29 percent of all tourists to the CNMI. Although Northwest Airlines initially replaced some of the Japan Airlines flights cut in 2005, it recently cut several flights and is planning to downsize the aircraft used for its daily flight from Narita, Japan, by September this year. Tourist traffic was down 16 percent during 2006, and tourist levels will not recover if arrival capacity continues to decline. The tax contribution of tourism to the CNMI treasury cannot be measured as directly as that of garment manufacturers. However, it is reasonable to say that tourism is the only other major source of income and taxes in the CNMI.

The simultaneous decline of the CNMI's only two major industries has caused government revenues to decline sharply, dropping approximately 25 percent from $221.2 million in 2004 to a projected $165.8 million for the current fiscal year. Continued declines of this magnitude would cast doubt on the CNMI government's ability to remain solvent and to provide even the most basic critical services to CNMI residents.

I would like to also address the labor situation in the CNMI. Much has transpired since Congress began to take a hard look at CNMI labor conditions in the 1990s. The following are examples of the significant progress that the CNMI government has achieved in recent years:

- The independent Garment Oversight Board has been in place since 2003 as a result of a class-action lawsuit. The Board monitors compliance by CNMI garment factories with 59 standards relating to working and living conditions. The Board, which is made up of three former judges (including former California Supreme Court Justice Cruz Reynoso and former Washington Supreme Court Chief Justice Richard Guy), engaged, through December 2006, the nonprofit organizations Verité and Global Social Compliance to conduct comprehensive

inspections of each factory twice a year (with additional inspections as necessary). A factory placed on probation as a result of a failed inspection loses its eligibility to sell to 26 major retailers.

- The Federal Ombudsman's Office reports that the number of complaints filed annually had been reduced by over 60% since the inception of the office in 1999: from 1221 complaints per year to 473. In recent years, the complaints generally have concerned matters less grievous in nature than those identified in the early years.
- In 2003, the CNMI government signed a Memorandum of Agreement with the Department of the Interior's Office of Insular Affairs to establish a refugee protection system. Under the guidance of the Department of Homeland Security's (DHS) U.S. Citizenship and Immigration Services, the CNMI amended its immigration statute, promulgated implementing regulations, and established a refugee protection program with financial assistance from the Office of Insular Affairs.
- Under the Memorandum of Agreement with the Office of Insular Affairs, the CNMI also agreed to cooperate with the United States to combat human trafficking. In furtherance of that goal, the CNMI enacted the Anti-Trafficking Act of 2005. That same year, the Federal Ombudsman established the Victims of Trafficking Coalition to identify persons in the community who may come into contact with trafficking victims, share information, identify resources in the community available to assist victims, and assess unmet needs. Additionally, the Catholic non-profit group, Karidat, through its shelter, the Guma Esperansa, applied for and received a $450,000 grant from the U.S. Department of Justice to provide services to trafficking victims. A similar grant was received by the CNMI Department of Public Safety. Last year, my office provided a $45,000 grant to support the Guma Esperansa shelter, and we plan to provide more support in the future. Recently, the U.S. Attorney's Office established the Human Trafficking Intervention Coalition.
- I would like to commend the CNMI Attorney General's Office for aggressively investigating and winning convictions in the Red Heart massage case, where club owners pressured foreign employees into prostitution. I would also like to commend the U.S. Attorney's Office for its successful prosecution of U.S. v. Zheng, a forced prostitution case.
- In 1999, 23 garment factories entered into a strategic partnership with the U.S. Department of Labor's Occupational Safety and Health Administration (OSHA) that requires each participant to maintain a formal, written safety and health management system for each worksite and associated staff housing, and to establish a joint employer/employee safety and health team. OSHA credits this program with reducing the lost workday injury rate in these factories to well below the average for the industry nationwide. OSHA reports that over 44 full time health and safety managers have been hired by the garment factories pursuant to this partnership.
- The U.S. Department of Labor's Wage and Hour Division (WHD) continues to have a strong enforcement program for all applicable provisions of the Fair Labor Standards Act. For the past several years, WHD has conducted annual enforcement strike forces, stepped up litigation, and worked with the Saipan Garment Manufacturers Association to provide training on the monitoring of garment shops to increase compliance in the CNMI. In the last six fiscal years (2001-2006), WHD concluded 274 investigations of employers in the CNMI. The agency collected over $14.6 million in back wages for approximately 10,500 employees. In addition to investigations in the garment manufacturing industry, WHD has had enforcement cases in the construction, hotel/motel and security guard industries.
- The CNMI government has negotiated agreements with the Chinese Economic Development Association to pre-screen Chinese nationals coming to work in the CNMI, limit the fees the workers can be charged by approved recruiters, and intercede on the workers' behalf when a dispute arises; implemented secondary preference for jobless alien workers already present in the CNMI; and completed a comprehensive revision of the alien labor rules and regulations to guarantee due process rights to alien worker complainants. While the pre-screening noted above is not intended to, and does not, substitute for a visa screening process administered as a foreign affairs and national security function of the United States, it does assist in regulating the numbers of nonresident workers who come to work in the CNMI, ensuring that some minimum standards are met with respect to the qualifications of those workers, and in protecting their legal rights.

- We congratulate the CNMI Department of Labor for recently eliminating a backlog of over 3,000 labor cases that had begun to accumulate during prior administrations. This accomplishment could not have occurred without the Governor's strong commitment and a great deal of hard work by local public servants. We are proud that the staff of OIA's Office of the Federal Ombudsman was able to provide important assistance to this effort, including by translating the testimony of hundreds of workers.
- On November 30, 2006, the CNMI held a Workforce Development Summit co-sponsored by the Northern Marianas College Small Business Development Center and the CNMI Workforce Investment Agency. The goals of the Summit were twofold: (1) offer an in-depth discussion of employment issues facing local residents and the public and private sectors, and (2) gather business and government leaders to discuss the CNMI employment needs with a goal of developing the local workforce to fill positions that are currently occupied by foreign employees. The Summit brought together business and government leaders to discuss the CNMI's critical employment needs so that government counseling, training, education, financial assistance, internship and placement programs could unify their efforts and maximize resources to develop the necessary resident labor talent. As a result, the CNMI is creating a demand-driven talent development action plan that will result in a higher percentage of resident workers employed in the private sector. The U.S. Department of Labor's Employment and Training Administration is assisting the CNMI with mapping their public and private resources and assets to begin development of their talent development action plan.

We give the CNMI government a great deal of credit for the progress that has been made in the last several years. A number of others deserve a great deal of credit as well, including Members of Congress who have pushed for reforms, the garment workers and their attorneys who brought the class action suit against the garment industry, international non-profit organizations such as Verité which conduct rigorous inspections of the garment factories, and longtime workers rights advocates such as former California Supreme Court Justice Cruz Reynoso who have worked to oversee the inspection regime. We recognize, however, that the situation remains far from perfect, and we continue to have a number of concerns. For example:

- The CNMI Department of Labor still has too few experienced investigators and hearing officers to deal with the labor complaints that have been generated.
- We believe that enforcement in labor cases is hampered by an insufficient commitment by the CNMI law enforcement authorities to prosecuting or sanctioning repeat offenders.
- We are concerned about foreign attempts to influence the adjudication of particular cases in the CNMI's fledgling refugee protection program.
- We continue to be concerned about foreign nationals in the CNMI engaging in prostitution. Many incidents have been reported of young women recruited for non-existent jobs, and then coerced into prostitution. A recent, verified count of the number of trafficking victims receiving services in the CNMI puts the number at over 30, a figure that far exceeds the incidence of trafficking victims in the United States on a per capita basis.
- The CNMI's current fiscal crisis casts doubt on its ability to ensure the timely repatriation of thousands of garment workers employed by factories who may not have the resources to pay their wages in full and provide them a plane ticket to their point of hire. In addition, of the bonding companies who have a secondary obligation to pay back wages and provide tickets, a majority do not have sufficient assets to meet their obligations.

The labor situation in the CNMI is inextricably linked to the fiscal and economic situation. The most significant threat to the human rights of foreign employees in the CNMI today is the deteriorating economy. This manifests itself in a number of ways, including by depriving the government of the resources that it needs to effectively prevent, investigate and prosecute labor abuse. The closure of large garment factories places significant demands upon the local government, and simultaneously causes the government to lose revenues that it desperately needs to meet those demands and all of its other obligations. This mutually reinforcing negative cycle illustrates that while the departure of the garment industry may be in the long-term best interests of the CNMI, an immediate, abrupt departure is not. Change is necessary, but we should be wary of exacerbating a situation that is already fraught with peril.

In addition to these concerns, we remain troubled by the serious structural imbalances in the CNMI economy and in CNMI society. The CNMI remains a two-tier economy where the private sector is overly reliant on foreign employees, and where

the indigenous population is overly reliant on the public sector for employment. Because of the unique economic structure of the CNMI and the fact that approximately 50% of the residents are foreign employees, the ability to import labor is a factor that tends to depress wages in the private sector, which in turn tends to reinforce the reluctance of U.S. citizens to work outside of the public sector. There have been attempts to address this unique structural problem through local legislation, but the problem persists.

Additionally, having a large alien work force with little economic power and relatively limited legal rights has created a great risk of exploitation and abuse in the CNMI. As noted above, the CNMI has made commendable progress over the last several years in curbing labor abuse. Our experience tells us, however, that excessive reliance within the CNMI on a foreign, low-wage work force creates a risk of abuse. That risk could be overcome with a high level of effort, vigilance and resources, but it would probably be difficult to sustain such efforts under the CNMI's current fiscal and economic conditions. Perhaps we would not all have to work so hard to prevent abuse if the structure of the CNMI's economy did not give rise to such risks. And eliminating the most overt forms of abuse will not necessarily eliminate subtler forms of exploitation that arise when foreign employees have little power and a great deal to lose if they assert even the limited rights they have.

I call to your attention the unique situation of the long-term foreign employees that have become an integral part of CNMI society. A number of foreign employees have been working in the CNMI for five, ten, fifteen or more years. Many are raising children in the CNMI, and their children are U.S. citizens. These employees were invited to come to the CNMI because they were needed, they came and have stayed legally, and they have contributed much to the community. They were essential in building the CNMI economy from the ground up from what it was at the inception of the Commonwealth: a rural economy with little industry, tourism or other commercial activity. Long-term foreign employees are integrated into all levels of the CNMI's workforce and society, serving as doctors, nurses, journalists, business managers, engineers, architects, service industry employees, housekeepers, farmers, construction workers, and in countless other occupations. I hope that the Committee and the CNMI Government will keep the situation of these long-term members of the CNMI community in mind as they consider reforms to the CNMI's immigration system.

We stress, Madame Chairwoman, that the CNMI's situation in general is unique, and our discussion of the CNMI should not be extrapolated to draw observations about other economies, including that of the U.S. as a whole. The CNMI's proportional reliance on foreign labor is overwhelming when compared to that of many other economies, including the U.S. economy as a whole; foreign employees constitute approximately half of the CNMI's population. The CNMI also has the ability to admit foreign employees from low-wage economies in the region without being subject to Federal laws designed to protect opportunities for the U.S. workforce. The sheer scope and scale of the foreign labor situation in the CNMI make the CNMI a special case.

The question is not whether the CNMI's current economic structure is a good one. It is not. The question is how to help the people of the CNMI build a strong, prosperous and just society without causing needless pain and suffering to innocent people—including the foreign employees—in the transition. The Administration is committed to working with Congress and with the CNMI's representatives to establish a framework that will allow the people of the CNMI to build such a society. We are currently working within the Administration, with Congress and with the CNMI government to develop a concept of flexible federalization through which the Federal Government would assert control over the CNMI's immigration system in a manner that would not cause needless economic or fiscal harm. We believe that any effort to federalize the CNMI immigration system must be flexible because of the CNMI's unique history, culture, status, demographic situation, location, and, perhaps most importantly, fragile economic and fiscal condition. Since federalization would constitute a paradigm shift from the current system, we believe that various options for federalization should be considered carefully in order to avoid unintended consequences. We believe that such an effort should be based upon the following principles:

First, we must ensure that national security and homeland security issues are properly addressed. In a post-9/11 world, this principle must take priority over all others. Any proposal should be fully vetted by the experts at the Departments of Homeland Security, State, and Justice to ensure that it provides adequate protections for the CNMI and for the rest of the U.S.

The second principle is that, subject to the need to address compelling national security and homeland security concerns, we should minimize damage to the CNMI

economy and maximize the potential for future economic growth. We must recognize that the CNMI is in a very fragile economic and fiscal condition. The Federal Government must make every effort to avoid imposing measures that could plunge the CNMI even deeper into crisis. The cash-strapped local government, which is struggling to absorb sharp decreases in revenues, is already unable to provide critical services such as water and power in a reliable fashion. If the current crisis is exacerbated, it could endanger the health, safety and welfare of innocent people, threaten the public order, and leave large numbers of foreign workers jobless and stranded.

Once the CNMI gets through the current crisis, it will have to build a sustainable economic future. This is probably an opportune moment in the CNMI's history for the people of the CNMI to engage in a facilitated process to develop a homegrown strategic plan for its economic future. The process should involve all segments of society, and the ultimate product should be one that the large majority of the community is willing to buy in to. If the CNMI were to embark on such a process, there would not necessarily be a need for Congress to delay its effort to establish a framework for a new immigration system. We would suggest that Congress build sufficient flexibility into that framework, however, so that the CNMI's vision for its future could be duly considered and, to the extent possible, accommodated when it is ready.

Regardless of whether such a strategic planning process occurs or what it produces, we should recognize that the CNMI's unique circumstances should be taken into account. By controlling its own immigration system, the CNMI enjoys a competitive access advantage—in other words, it has the ability to make it easier for certain classes of visitors to enter the CNMI than to enter the rest of the U.S. This competitive access advantage enabled the CNMI to reach out to other tourist markets after it lost a significant share of its Japanese market. It has also allowed the CNMI to consider legitimate economic opportunities that might arise from admitting students, retirees, investors and others who might not have easy access to the rest of the U.S. If the CNMI were to lose its competitive access advantage with respect to legitimate foreign visitors, it would significantly restrict the already limited range of options that the CNMI has to build a viable economy.

As part of the bargain through which the CNMI currently retains the flexibility to control its own immigration system, the U.S. seeks to insulate itself from the impact of CNMI immigration decisions by maintaining a "second firewall" between the CNMI and the rest of the U.S. Aliens seeking admission to the CNMI must be processed and inspected through CNMI immigration procedures, which could be thought of as the "first firewall." Admission to the CNMI confers no right of admission to the rest of the U.S. Aliens seeking to travel from the CNMI to the rest of the U.S. must apply separately for admission to the U.S., and all persons traveling from the CNMI to the rest of the U.S. are inspected as if they were arriving from a foreign country (the "second firewall"). While DHS has statutory authority to inspect and determine the admissibility of aliens proceeding from all insular territories to the remainder of the United States, including those territories governed by U.S. immigration law, the "second firewall" authority is broader and more significant in the case of a territory like the CNMI which operates its own immigration system.

Even under an immigration system administered by the Federal Government, the law could provide greater flexibility to admit foreign visitors to the CNMI than is currently allowed under the Immigration and Nationality Act. This greater flexibility could be justified by the fact that the CNMI's economic viability is arguably dependent upon having it. As with the current system, the U.S. could seek to insulate itself from any impact to the rest of the U.S. from granting greater flexibility to the CNMI by maintaining the "second firewall" between the CNMI and the rest of the U.S. Under such a scenario, aliens entering the CNMI after qualifying for special visas or visa waivers would have to qualify separately for admission to the rest of the U.S., and all persons traveling from the CNMI to the rest of the U.S. would continue to be inspected as if they were arriving from a foreign country.

We raise these ideas not as concrete proposals, but as discussion items that Congress, the Administration and the CNMI government could explore together. The underlying point here is that for the CNMI to build a viable new economy, it will likely need to remain readily accessible not only to a reasonable number of workers, but, more importantly, to customers such as tourists and students. Achieving this objective may require some degree of flexibility and creativity.

The third principle is that we must ensure that the new CNMI economy is not as conducive to worker exploitation and abuse as was the old CNMI economy. Since the CNMI has a very limited indigenous labor pool, it is reasonable for its economy to rely to some degree on foreign workers. But the mistakes of the past must not be repeated, with a large class of politically powerless foreign employees populating

the lower tier of a two-tier CNMI economy, regulated by a government without adequate resources to prevent exploitative practices.

The fourth principle is that we should carefully analyze the likely impact of major proposals before we implement them. Just as we would not perform major surgery on a patient without first performing a detailed diagnosis and medical analysis, and just as we do not build even schools or hospitals without conducting an environmental analysis or impact study, neither should be attempt to perform major surgery on the CNMI's economy and society without first analyzing the likely impact. Labeling our efforts as "reform" does not relieve us of the responsibility to carefully consider the potential consequences of our actions before we take them. This is especially true when we are dealing with an economy and society that is as fragile and potentially volatile as that of the CNMI. If we leap before we look, we could inadvertently and needlessly hurt people that we are trying to help. We should, however, be expeditious in our analysis, and not use the need to study as an excuse to delay. The people of the CNMI are eager to get on with their future.

The fifth and final principle is that we must ensure that the people of the CNMI participate fully in decisions that will affect their future. A better future for the people of the CNMI cannot be imposed unilaterally from Washington, D.C., ignoring the insights, wisdom and aspirations of those to whom this future belongs.

I was in Saipan last month as the President's Special Representative for consultations with CNMI Governor Fitial under Section 902 of the U.S.-CNMI Covenant, and heard the Governor's concerns about the effect that federalization might have on the CNMI's precarious economic and fiscal condition. The Governor and I endorsed the five principles that are outlined in my testimony today, although we are still in dialogue about how those principles should be implemented. While in Saipan, I also took the opportunity to speak with as many community groups and ordinary people as I possibly could. There is a great diversity of opinion in the CNMI, but a shared sense of anxiety about what the Federal Government may or may not do and a shared desire for their voices to be heard here in Washington. The anxiety stems from the fact that Congress is developing policy that will profoundly affect a small corner of America that many of your colleagues in Congress know little about. The members of this Subcommittee, on the other hand, possess a great deal of knowledge about the CNMI. I commend you all for your commitment to learn as much as you can about what's really happening in the CNMI today, to look beneath the negative, sensationalistic press reports to find the more complicated truth, and to listen to the diverse voices of the people of the CNMI.

I commend this Subcommittee for its plan to hold a hearing in the CNMI, and hope that some of your colleagues less familiar with the CNMI will be able to attend. Once your colleagues get to know the people of these islands, it will be difficult for them not to care about the future facing the CNMI.

I would like to make one more important point about the need for the CNMI to participate fully in decisions that will determine its future. Three years ago, I testified on behalf of the Bush Administration before the full Committee in favor of granting the CNMI a non-voting delegate to the U.S. House of Representatives. I testified about the many men and women from the Northern Mariana Islands who were fighting in Iraq and Afghanistan so that the people of each of those countries could have a democracy.

Please allow me to pay tribute to the following sons of Saipan who have been killed in action in Iraq:

- Army Sergeant Eddie Chen
- Army Sergeant Wilgene Lieto
- Army Specialist Derrence Jack
- Army Sergeant Jesse Castro
- Marine Lance Corporal Adam Quitugua Emul
- Army Specialist Leeroy Camacho

Please consider their sacrifices while we embrace the need to support the CNMI during a difficult time. The CNMI is prepared to be an active participant in our efforts to assist them in seeking a brighter future. Before considering legislation that would drastically change the lives of the people of the CNMI, we hope that Congress will consider granting them a seat at the table at which their fate will be decided.

Thank you.

Mrs. CHRISTENSEN. Thank you, Mr. Cohen. The Committee now recognizes Ms. Franzel to testify for five minutes.

STATEMENT OF JEANETTE FRANZEL, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Ms. FRANZEL. Thank you. Good morning, Madame Chairwoman and Members of the Subcommittee.

I am pleased to be here today to discuss our recent work on issues impacting CNMI. My comments today will specifically focus on CNMI's economic challenges, its weakened fiscal condition, and its financial accountability issues.

We have updated information from our December 2006 report to include information for Fiscal Years 2005 and 2006, and I will also discuss some current trends being reported by the CNMI Government.

Overall, as we have heard, CNMI is facing serious economic, fiscal, and accountability challenges, and the CNMI economy is going through a drastic transition.

First I will discuss CNMI's economic challenges. As we have heard, CNMI's economy has been dependent on a narrow economic base, including garment manufacturing and tourism, and both of those industries have been in decline. Those economic factors have had a significant impact on the CNMI Government's fiscal condition, which has steadily weakened since 2001.

CNMI's fund balance, which is basically the net worth of the government, went into a deficit or negative balance in 2002, and has steadily declined to a negative balance of $84 million in 2005. In order to finance its activities during that period where revenues were less than expenditures, CNMI has had to increase its debt and stop making required payments to its pension plan. And that is only through 2005. 2006 audited financial statements are not yet available; however, there are many indications that there has been a severe fiscal crisis in 2006, which continues today.

In 2006, for instance, the CNMI implemented drastic cost-cutting and restructuring measures, including the austerity holidays that we have heard about in this hearing, as well as a suspension of payments to the pension plan which provides temporary cash relief. But in the long run, the hole just gets bigger.

Based on unaudited data recently provided to us by CNMI's Secretary of Finance, Mr. Inos, it appears that both revenues and expenditures for Fiscal Year 2006 drastically decreased from 2005 levels, reflecting the decreased government activities and the austerity holidays.

For the current fiscal year, even at that reduced level the government is currently becoming aware of and projecting additional shortfalls for 2007, and they are looking at some more across-the-board budget cuts for 2007.

At this point I would like to issue a cautionary note. It is admirable that the government has been taking such drastic actions to try to balance its budget, but care is really needed. This is not a long-term solution. Care is needed to ensure that these types of emergency austerity measures and across-the-board cuts do not have long-term negative impacts, such as a weakened government infrastructure and an overall negative impact on citizens and the business climate. And so I do congratulate you for having this

hearing today, because these are very important issues, and we seem to be reaching that point.

Mr. Tenorio has recently requested some analysis from the CNMI Government on the effect of the austerity holidays on the Federal grant programs. For instance, if the Federal grant programs have been reduced, there may be some unintended reduction in Federal reimbursements simply because the Federal programs have also been reduced. And so that analysis is ongoing. At a time when local revenues are shrinking, the government really cannot afford to have the Federal reimbursements shrinking.

Finally, I would like to briefly discuss CNMI's accountability challenges. The Government of CNMI, even before this crisis, has had longstanding financial accountability problems, including the inability to achieve clean audit opinions on financial statements due to numerous issues with reporting, financial reporting and compliance.

CNMI has made some progress, but really needs to get to a point where it can pass an audit where reliable financial information is readily available, especially for making decisions in difficult times like this.

According to CNMI's Secretary of Finance, the Fiscal Year 2006 audit is proceeding well, and is anticipated to be submitted on time this year, by June 30 of 2007, which would represent a significant improvement over past history. And I will mention that for Fiscal Year 2005, they had made significant progress in that area, as well. So I am hoping that on the financial side, soon reliable, timely figures will be readily available. But we will have to wait and see when that comes in, and whether there is a clean financial audit opinion on those figures.

Before concluding, I would like to just mention our recommendations from our December 2006 report. Our recommendations were addressed to Department of Interior's Office of Insular Affairs, dealing with the role they play in helping CNMI and the other insular areas to attract potential investors and businesses. And those recommendations mainly focused around measuring the impact and monitoring the impact of those efforts. OIA did agree with our recommendations, and in fact has been taking steps already to address those recommendations.

In summary, strong leadership and commitment will be needed to address CNMI's serious economic, fiscal, and accountability challenges, and to achieve long-term stability and prosperity. The CNMI Government needs to continue to work toward sustainable solutions, and OIA, in response to our recent report, has expressed its commitment to working with CNMI toward that goal.

In addition, I highly encourage the ongoing dialogue between Congress and CNMI officials to arrive at constructive and appropriate solutions for CNMI during this current economic and fiscal transition, and for the long term.

Madame Chairwoman, this concludes my statement. I will be pleased to respond to any questions you or the Subcommittee Members have.

[The prepared statement of Ms. Franzel follows:]

Statement of Jeanette M. Franzel, Director, Financial Management and Assurance, U.S. Government Accountability Office

Madam Chairwoman and Members of the Subcommittee:

I am pleased to be here today to discuss the Commonwealth of the Northern Mariana Islands' (CNMI) serious challenges in strengthening its economy, fiscal condition, and financial accountability. CNMI is a self-governing commonwealth of the United States that administers its own local government functions under its own constitution. CNMI consists of 14 islands in the North Pacific with a total land area about 2.5 times the size of Washington, D.C. In recent years, CNMI has experienced serious economic and fiscal challenges, and several indicators point to a fiscal crisis in Fiscal Year 2006.

Today, I will highlight the recent economic trends in the CNMI economy, its weakening fiscal condition, and its financial accountability challenges. Our conclusions are based on work performed for our December 2006 report[1] on U.S. insular areas and our February 2007 testimony on CNMI before the Senate Committee on Energy and Natural Resources,[2] which was updated to include audited financial information through Fiscal Year 2005 and some recent developments in Fiscal Year 2006 based on information available as of February 2007. Today, we are also including additional information on CNMI's Fiscal Year 2006 status recently provided to us by CNMI's Secretary of Finance. We conducted our work in accordance with generally accepted government auditing standards.

Summary

The government of CNMI faces serious economic, fiscal, and financial accountability challenges. The government's ability to strengthen CNMI's economy has been constrained by CNMI's lack of diversification in industries. CNMI's economy is highly dependent on two industries: garment manufacturing and tourism. The garment manufacturing industry is facing the challenge of remaining internationally competitive against low-wage nations given recent changes in trade agreements. CNMI's tourism sector experienced a sharp decline in the late 1990s, and a series of external events, such as unfavorable economic trends of nearby countries and changes in airline practices, have further hampered the sector. Both the garment and tourism industries employ noncitizen workers who are paid wages lower than the U.S. minimum wage.

The fiscal condition of CNMI's government steadily weakened from Fiscal Year 2001 through Fiscal Year 2005, the most recent year for which audited financial statements for CNMI are available. CNMI's fund balance, which generally reflects the amount of resources available for current government operations, went into a deficit balance during Fiscal Year 2002 and continued to decline through the end of Fiscal Year 2005. CNMI has also shown significant declines and negative balances in its reported net assets, which is another measure of fiscal health. In order to finance its government activities in an environment where expenditures have exceeded revenues, CNMI has increased its debt. In addition, several indicators point to a severe fiscal crisis during Fiscal Year 2006. The CNMI government implemented several drastic cost-cutting and restructuring measures, including "austerity holidays" consisting of biweekly furloughs, during which government workers are not paid and many government operations are closed to reduce personnel and operating costs during Fiscal Years 2006 and 2007. Based on unaudited data recently provided to us by CNMI's Secretary of Finance, it appears that both revenues and expenditures for Fiscal Year 2006 have significantly decreased from Fiscal Year 2005 levels.

The government of CNMI has long-standing financial accountability problems, including the inability to achieve unqualified ("clean") audit opinions on its financial statements, and numerous, long-standing material weaknesses in internal control over financial reporting and compliance with laws and regulations governing federal grant awards. CNMI received $65.6 million in federal grants in Fiscal Year 2005, and its audited financial statements are used by federal agencies for overseeing and monitoring the use of federal grants. With CNMI's continued inability to achieve clean opinions on its financial statements and the continuing material internal control weaknesses over financial reporting, there is limited accountability over its federal grants. Furthermore, the lack of timely and reliable financial information

[1] GAO, U.S. Insular Areas: Economic, Fiscal, and Financial Accountability Challenges, GAO-07-119 (Washington, D.C.: Dec. 12, 2006).

[2] GAO, Commonwealth of the Northern Mariana Islands: Serious Economic, Fiscal, and Accountability Challenges, GAO-07-436T (Washington, D.C.: Feb. 8, 2007).

hampers CNMI's ability to monitor programs and the reliability of financial information, such as revenues and expenditures, in order to make informed decisions.

The U.S. Department of the Interior "s Office of Insular Affairs[3] (OIA) has ongoing efforts to support economic development in CNMI and assist CNMI in addressing its accountability issues. A focused effort is called for where direct and targeted attention is concentrated on the challenges facing CNMI to help CNMI achieve economic and fiscal stability. OIA plays a key role in this effort by helping CNMI and the other insular areas improve their business climates, identify areas of potential for private sector investment, and market insular areas to potential investors. In response to our recent report, OIA expressed its commitments to continuing its comprehensive approach and to implementing other innovative ideas to assist CNMI and the other insular areas to continue to improve financial management and accountability and to support economic development.

Narrow Economic Base and Intrinsic and External Factors Limit Economic Progress in CNMI

Several factors constrain CNMI's economic potential, including the lack of diversification, scarce natural resources, small domestic markets, limited infrastructure, and shortages of skilled labor. The United States exercises sovereignty over CNMI, and in general, federal laws apply to CNMI. However, federal minimum wage provisions and federal immigration laws do not apply.[4] CNMI immigration policies and the demands for labor by the garment manufacturing industry and tourism sector have resulted in rapid population growth since 1980 such that the majority of the population are non-U.S. citizens. (See attachment I.) According to U.S. Census Bureau data for 2000, the most recent census data available, about 56 percent of the CNMI population of 69,221 were not U.S. citizens.

According to U.S. Census Bureau data for 2000, the median household income in CNMI was $22,898, a little more than half of the U.S. median household income of almost $42,000 for 2000. The percentage of individuals in poverty in 2000 was 46 percent, nearly four times the continental U.S. rate of 12 percent in that same year.

CNMI's economy depends on two industries, garment manufacturing and tourism, for its employment, production, and exports. These two industries rely heavily on a noncitizen workforce. This workforce represents more than three quarters of the labor pool that are subject to the CNMI minimum wage, which is lower than the U.S. minimum wage. However, recent changes in trade laws have increased foreign competition for CNMI's garment industry, while other external events have negatively impacted its tourism sector.

Decline in Garment Industry Tied to Trade Law Changes

Recent developments in international trade laws have reduced CNMI's trade advantages, and the garment industry has declined in recent years. Historically, while garment exporters from other countries faced quotas and duties in shipping to the U.S. market, CNMI's garment industry benefited from quota-free and duty-free access to U.S. markets for shipments of certain goods in which 50 percent of the value was added in CNMI. In recent years, however, U.S. agreements with other textile-producing countries have liberalized the textile and apparel trade. For example, in January 2005, in accordance with one of the 1994 World Trade Organization (WTO) Uruguay Round agreements, the United States eliminated quotas on textile and apparel imports from other textile-producing countries, leaving CNMI's apparel industry to operate under stiffer competition, especially from low-wage countries such as China.[5] According to a DOI official, more than 3,800 garment jobs were lost between April 2004 and the end of July 2006, with 10 out of 27 garment factories closing. U.S. Department of Commerce data show that the value of CNMI shipments of garments to the United States dropped by more than 16 percent between 2004 and 2005, from about $807 million to $677 million, and down from a peak of $1 billion in 1998-2000. In 2006, reported garment exports to the United States fell further, by 27 percent compared to 2005, with exports declining to $495 million. The reported level of shipments to the United States in 2006 was comparable to levels

[3] OIA's mission is to promote sound financial management processes, boost economic development, and increase the federal government's responsiveness to the unique needs of the insular areas.

[4] The U.S. House of Representatives and the Senate recently passed H.R. 2, "Fair Minimum Wage Act of 2007" as well as H.R. 1591, "U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007" either of which, if enacted, would make the federal minimum wage provisions applicable to the CNMI with a phased-in implementation.

[5] GAO, U.S.-China Trade: Textile Safeguard Procedures Should Be Improved, GAO-05-296 (Washington, D.C.: Apr. 4, 2005).

of sales in 1995-1996, prior to the significant build-up of the industry. (See attachment II.) In December 2006, the largest and oldest garment factory closed. Given that the garment industry is significant to CNMI's economy, these developments will likely have a negative financial effect on government revenue. For example, reported fees collected by the government on garment exports fell 37 percent from $38.6 million in 2000 to $24.4 million in 2005.

External Events Affect Tourism

CNMI's tourism sector experienced a sharp decline in the late 1990s, and a series of external events have further hampered the sector. Tourism became a significant sector of economic activity in CNMI by the mid-1980s and continued to grow into the 1990s. According to the Marianas Visitors Authority, the number of visitors reached about 736,000 visitors in 1996 then sharply declined in 1998 and has not recovered since then. The Marianas Visitors Authority reported 435,500 visitors in 2006. The reported visitor arrivals in 2006 were 59 percent of the peak level in 1996.

Due to its proximity to Asia, Asian economic trends and other events have a direct effect on CNMI's economy. For example, the Asian financial crisis and the cancellation of Korean Air service to CNMI following an airplane crash on Guam in August 1997 contributed to the decline. Visitors from Korea, the second largest source of tourists, decreased by 85 percent from 1996 to 1998. After a modest recovery in 2000, tourism faltered again with the September 11, 2001, terrorist attacks on the United States. In 2003, according to CNMI officials, tourism slowed—with a double-digit decline in arrivals for several months—in reaction to the SARS epidemic and to the war in Iraq.

Tourism in CNMI is also subject to changes in airline practices. For example, Japan Airlines (JAL) withdrew its direct flights between Tokyo and Saipan in October 2005, raising concerns because roughly 30 percent of all tourists and 40 percent of Japanese tourists arrive in CNMI on JAL flights, according to CNMI and DOI officials. The Marianas Visitors Authority's June 2006 data show that the downward trend in Japanese arrivals is not being offset by the growth in arrivals from other markets such as China and South Korea. At the same time, CNMI has experienced an increase in Chinese tourists in recent years, which offers the potential to rebuild the industry.

CNMI's Reported Fiscal Condition Continues to Weaken

The fiscal condition of CNMI's government steadily weakened from Fiscal Year 2001 through Fiscal Year 2005, the most recent year for which audited financial statements for CNMI are available. In addition, several indicators point to a severe financial crisis in Fiscal Year 2006. CNMI's reported governmental fund balance declined from a positive $3.5 million at the beginning of Fiscal Year 2001 to a deficit of $84.1 million by the end of Fiscal Year 2005, as CNMI's expenditures for its governmental activities consistently exceeded revenues in each year since Fiscal Year 2002. (See attachment III.) Most of CNMI's governmental activities, which include basic services such as public safety, health care, general administration, streets and parks, and security and safety, are reported in its governmental activities, or government funds. The fund balance (or deficit) for these activities reflects the amount of funds available at the end of the year for spending. A significant contributing factor to the gap between expenditures and revenues is that actual expenditures exceeded budgeted expenditures for each fiscal year during the period 2001 through 2005.

Another measure of fiscal health is the measure of net assets for governmental activities, which represents total assets minus total liabilities. The primary difference between the fund balance measure and net assets is that the net assets include capital assets and long-term liabilities, whereas the fund balance figure focuses on assets available for current period expenditures and liabilities that are due and payable in the current period. CNMI has experienced a negative trend in its balance of net assets for governmental activities, going from a reported positive $40.6 million balance at the end of Fiscal Year 2001 to a negative $38 million balance[6] at the end of Fiscal Year 2005. (See attachment IV.)

In order to finance its government activities in an environment where expenditures have exceeded revenues, CNMI has increased its debt and has not made the required contributions to its retirement fund. CNMI's reported balance of notes and bonds payable increased from $83 million in Fiscal Year 2002 to $113 million in

[6] The net asset amount at September 30, 2005, when compared to the fund balance amount as of the same date, includes an additional positive balance of $46 million resulting from capital and deferred assets of approximately $180.8 million less long-term liabilities of $134.8 million.

Fiscal Year 2005, representing an increase of 36 percent. CNMI's balance owed to its pension fund increased from $72 million in 2002 to $120 million in 2005, representing an increase of 67 percent. CNMI has also been incurring penalties on the unpaid liabilities to the pension fund. The total amount of assessed penalties was $24 million as of September 30, 2005.

Although CNMI's audited Fiscal Year 2006 financial statements are not yet available, indicators point to a severe fiscal crisis during Fiscal Year 2006. In a May 5, 2006, letter to CNMI legislative leaders, Governor Benigno R. Fitial stated that "the Commonwealth is facing an unsustainable economic emergency...I regret to say that the nature and extent of these financial problems are such that there is no simple or painless solution." CNMI implemented several significant cost-cutting and restructuring measures during Fiscal Year 2006. For instance, in August 2006, CNMI enacted its Public Law No. 15-24 to implement "austerity holidays" consisting of biweekly furloughs, during which government employees are not paid and many government operations are closed. This measure was taken to help alleviate the financial crisis by saving millions of dollars in both personnel and operational costs. The measure declared one unpaid holiday per pay period for the remainder of Fiscal Years 2006 and 2007, reducing the government's normal pay period to 72 hours every 2 weeks. In June of 2006, CNMI enacted Public Law No. 15-15 to authorize the CNMI government to suspend the government's employer contributions to the retirement fund for the remainder of Fiscal Years 2006 and 2007. In addition, CNMI has passed laws to restructure loans among its component units, reform the rate of compensation for members of boards and commissions, increase the governor's authority to reprogram funds, and extend the date for full funding of the retirement fund's defined benefit plan—the unfunded pension liability was estimated at $552,042,142 as of October 1, 2004. CNMI has also created a defined contribution retirement plan for government employees hired on or after January 1, 2007. These measures are immediate and dramatic, and are indicative of severe financial problems that will likely call for long-term solutions.

Based on unaudited data recently provided to us by CNMI's Secretary of Finance, it appears that both revenues and expenditures for Fiscal Year 2006 have significantly decreased from Fiscal Year 2005 levels. The significant decline in revenues is likely due to declines in the garment manufacturing and tourism industries. Although these unaudited data are showing a balanced budget for the year with no significant changes to the cumulative deficit balance, these data are unaudited and could change due to adjustments identified in the audit process.

CNMI's Financial Accountability Remains Weak

CNMI has had long-standing financial accountability problems, including the late issuance of its single audit reports, the inability to achieve unqualified ("clean") audit opinions on its financial statements, and numerous material weaknesses in internal controls over financial operations and compliance with laws and regulations governing federal grant awards.

CNMI's Compliance with Single Audit Requirements

As a nonfederal entity expending more than $500,000 a year in federal awards, CNMI is required to submit a single audit report each year to comply with the Single Audit Act, as amended.[7] Single audits are audits of the recipient organization—the government in the case of CNMI—that focus on the recipient's financial statements, internal controls, and compliance with laws and regulations governing federal grants. Single audits provide key information about the federal grantee's financial management and reporting and are an important control used by federal agencies for overseeing and monitoring the use of federal grants.

For fiscal years 1997 through 2005, CNMI did not submit its single audit reports by the due date, which is generally no later than 9 months after the fiscal year end. CNMI's single audit submissions were significantly late for fiscal years 1997 through 2004, ranging from 22 months late for Fiscal Year 2004 to 2 months late for Fiscal Year 1998. CNMI's late submission of single audit reports means that the federal agencies overseeing federal grants to CNMI did not have current audited information about CNMI's use of federal grant funds. CNMI made significant progress in 2005 by submitting its Fiscal Year 2005 single audit report less than 1 month late. According to CNMI's Secretary of Finance, the Fiscal Year 2006 single audit is progressing well and it is anticipated that the single audit report will be submitted to the Federal Audit Clearinghouse on time, by June 30, 2007.

[7] 31 U.S.C. Chp. 75.

CNMI Unable to Achieve "Clean" Audit Opinions Due to Persistent, Significant Weaknesses

The CNMI government has been unable to achieve unqualified ("clean") audit opinions on its financial statements, receiving qualified opinions on the financial statements issued for fiscal years 1997 through 2005. Auditors render a qualified opinion when they identify one or more specific matters that affect the fair presentation of the financial statements. The effect of the auditors' qualified opinion can be significant enough to reduce the usefulness and reliability of CNMI's financial statements.

CNMI has made some progress in addressing the matters that resulted in the qualified opinions on its financial statements for Fiscal Years 2001 through 2003. However, some of the issues continued to exist in 2004 and 2005. The auditors identified the following issues in Fiscal Year 2005 that resulted in the most recent qualified audit opinion: (1) inadequacies in the accounting records regarding taxes receivable, advances, accounts payable, tax rebates payable, other liabilities and accruals, and the reserve for continuing appropriations; (2) inadequacies in accounting records and internal controls regarding the capital assets of the Northern Marianas College; and (3) the lack of audited financial statements for the Commonwealth Utilities Corporation, which represents a significant component unit of CNMI.

Auditors for CNMI rendered qualified opinions on CNMI's compliance with the requirements for major federal award programs from 1997 through 2005. In Fiscal Year 2005, the auditors cited noncompliance in the areas of allowable costs, cash management, eligibility, property management, procurement, and other requirements.

CNMI's Secretary of Finance told us that he expects that the single audit report for Fiscal Year 2006 will show improvement from the 2005 reporting in the area of qualifications to the audit opinion.

Weaknesses over Financial Reporting and Compliance with Requirements for Major Federal Programs

CNMI has long-standing and significant internal control weaknesses over financial reporting and compliance with requirements for federal grants. Table 1 shows the number of material weaknesses and reportable conditions for CNMI for Fiscal Years 2001 through 2005. The large number and the significance of reported internal control weaknesses raise serious questions about the integrity and reliability of CNMI's financial statements and its compliance with requirements of major federal programs. Furthermore, the lack of reliable financial information hampers CNMI's ability to monitor programs and financial information such as revenues and expenses and to make timely, informed decisions.

Table 1: Reported Weaknesses Identified in the Auditors' Reports for Fiscal Years 2001 through 2005

	Internal control over financial reporting in accordance with government auditing standards (report on financial statements)			Compliance with requirements applicable to each major program and internal control over compliance with OMB Circular No. A-133 (report on federal awards)		
Fiscal year	Material weaknesses	Reportable conditions	Total	Material weaknesses	Reportable conditions	Total
2001	10	0	10	4	13	17
2002	9	1	10	2	14	16
2003	10	2	12	1	15	16
2004	8	5	13	2	31	33
2005	9	4	13	2	36	38

CNMI's 13 internal control reportable conditions for Fiscal Year 2005, 9 of which were material weaknesses, indicate a lack of sound internal control over financial reporting needed to provide adequate assurance that transactions are properly recorded, assets are properly safeguarded, and controls are adequate to prevent or detect fraud, waste, abuse, and mismanagement. For example, one of the material in-

ternal control weaknesses that the auditors reported for CNMI's government for Fiscal Year 2005 was the lack of audited Fiscal Year 2005 financial statements of the Commonwealth Utilities Corporation (Corporation), a significant component unit of CNMI. Because the Corporation's financial statements were unaudited, the auditors could not determine the propriety of account balances presented in the financial statements that would affect CNMI's basic financial statements. CNMI's auditors also reported other significant material internal control weaknesses that have continued from previous years, such as improper tracking and lack of support for advances to vendors, travel advances to employees, liabilities recorded in the General Fund, and tax rebates payable. Due to the lack of detailed subsidiary ledgers and other supporting evidence, the auditors could not determine the propriety of these account balances. According to the auditors, the effect of these weaknesses is a possible misstatement of expenditures and related advances and liabilities, which also resulted in a qualification of the opinion on the Fiscal Year 2005 CNMI financial statements. Consequently, CNMI's financial statements may not be reliable.

As shown in table 1, auditors also reported 38 reportable conditions in CNMI's compliance with requirements for major federal programs and the internal controls intended to ensure compliance with these requirements for Fiscal Year 2005, 2 of which were material weaknesses. One of the material internal control weaknesses affecting compliance with federal programs related to the failure to record expenditures for the Medical Assistance Program when they were incurred. Specifically, the auditors identified expenditures in Fiscal Year 2005 for billings from service providers for services rendered in previous years. The effect of this weakness is that expenditures reported to the grantor agency, the U.S. Department of Health and Human Services, are based on the paid date and not, as required, the service date. In addition, actual expenditures incurred during the year are not properly recorded and, therefore, current year expenditures and unrecorded liabilities are understated. The other material weakness affecting compliance related to the lack of adherence to established policies and procedures for managing and tracking property and equipment purchased with federal grant funds. As a result, CNMI's government was not in compliance with federal property standards and its own property management policies and procedures. The other 36 reportable conditions concerned compliance with requirements regarding allowable costs; cash management; eligibility; equipment and property management; matching, level of effort, and earmarking; procurement and suspensions and debarment; reporting; subrecipient monitoring; and special tests and provisions that are applicable to CNMI's major federal programs.

Efforts to Assist CNMI in Its Economic and Accountability Challenges

OIA has ongoing efforts to support economic development in CNMI and assist CNMI in addressing its accountability issues. OIA has in the last 3 years sponsored conferences in the United States and business-opportunity missions in the insular areas to attract American businesses to the insular areas.

OIA's efforts in helping to create links between the business communities in the United States and CNMI are key to helping meet some of the economic challenges. In our December 2006 report,[8] we concluded that the insular areas would benefit from formal periodic OIA evaluation of its conferences and business-opportunity missions, including assessments of the cost and benefit of its activities and the extent to which these efforts are creating partnerships with businesses in other nations. We recommended that OIA conduct such formal and periodic evaluations to assess the effect of these activities on creating private sector jobs and increasing insular area income. OIA agreed with our recommendation.

To promote sound financial management processes in the insular area government, OIA has increased its focus on bringing the CNMI government into compliance with the Single Audit Act. For example, OIA created an incentive for CNMI to comply with the act by stating that an insular area cannot receive capital funding unless its government is in compliance with the act or has presented a plan, approved by OIA, that is designed to bring the government into compliance by a certain date. In addition, OIA provides general technical assistance funds for training and other direct assistance, such as grants, to help the insular area governments comply with the act and to improve their financial management systems and environments.

DOI's OIA and IG, other federal inspectors general, and local auditing authorities assist or oversee CNMI's efforts to improve its financial accountability. OIA monitors the progress of completion and issuance of the single audit reports as well as providing general technical assistance funds to provide training for insular area em-

[8] GAO-07-119.

ployees and funds to enhance financial management systems and processes. DOI's IG has audit oversight responsibilities for federal funds in the insular area.

OIA staff members make site visits to CNMI as part of OIA's oversight activities. In our December 2006 report,[9] we recommended that OIA develop a standardized framework for its site visits to improve the effectiveness of its monitoring. We also recommended that OIA develop and implement procedures for formal evaluation of progress made by the insular areas to resolve accountability findings and set a time frame for achieving clean audit opinions. OIA agreed with our recommendations and noted that it had already made some progress during Fiscal Year 2006.

Conclusions

CNMI faces daunting economic, fiscal, and financial accountability challenges. CNMI's economic and fiscal conditions are affected by its economy's general dependence on two key industries, which have experienced significant declines in recent years. In addition, although progress has been made in improving financial accountability, CNMI continues to have serious internal control and accountability problems that increase its risk of fraud, waste, abuse, and mismanagement.

Efforts to meet formidable fiscal challenges in CNMI are exacerbated by delayed and incomplete financial reporting that does not provide officials with the timely and complete information they need for effective decision making. Timely and reliable financial information is especially important as CNMI continues to take actions to deal with its fiscal crisis.

OIA has ongoing efforts to assist CNMI in addressing its accountability issues and to support economic development in CNMI. OIA officials monitor CNMI's progress in submitting single audit reports, and OIA provides funding to improve financial management. Yet, progress has been slow and inconsistent. The benefit to CNMI of past and current assistance is unclear. Federal agencies and CNMI have sponsored and participated in conferences, training sessions, and other programs to improve accountability, but knowing what has and has not been effective and drawing the right lessons from this experience is hampered by a lack of formal evaluation and data collection.

Strong leadership is needed for CNMI to weather its current crisis and establish a sustainable and prosperous path for the future. During 2006, the CNMI government took dramatic steps to reverse prior patterns of deficit spending. The CNMI government will need to continue to work toward long-term sustainable solutions. A focused effort is called for in which direct and targeted attention is concentrated on the challenges facing CNMI, with feedback mechanisms for continuing improvement to help CNMI achieve economic, fiscal, and financial stability. OIA plays a key role in this effort. In its comments on our December 2006 report, OIA pointed out that it provides "a crucial leadership role and can provide important technical assistance" to help CNMI and the other insular areas improve their business climates, identify areas of potential for private sector investment, and market insular areas to potential investors. It also noted that improving accountability for federal financial assistance for CNMI and other insular areas is a major priority. OIA has stated its commitment to continuing its comprehensive approach and to implementing other innovative ideas to assist CNMI and the other insular areas in continuing to improve financial management and accountability. Leadership on the part of the CNMI government and OIA is critical to addressing the challenges CNMI faces and to providing long-term stability and prosperity for this insular area.

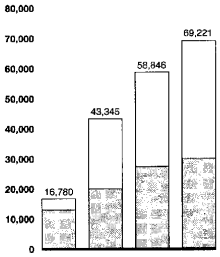
Madam Chairwoman and Members of the Subcommittee, this concludes my statement. I would be pleased to answer any questions that you and other Members of the Subcommittee may have at this time.

[9] GA0-07-119.

Attachment I

Attachment I

Reported CNMI Population by Citizenship



	1980[a]	1990	1995	2000[b]
Not a U.S. citizen	3,709	23,263	31,357	39,089
U.S. citizen	13,071	20,082	27,489	30,132

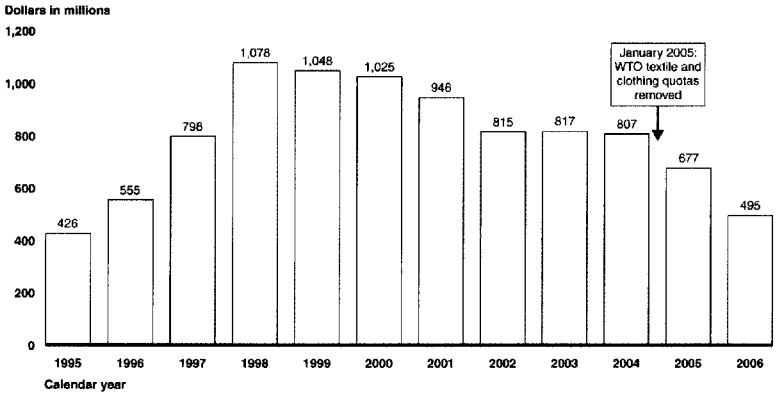
Sources: U.S. Census Bureau; CNMI Central Statistics Division.

[a]U.S. citizenship was not conferred to residents of CNMI until 1986. However, the CNMI Central Statistics Division has classified persons born in CNMI together with persons born in the United States or other territories as "U.S. citizens" for 1980.
[b] The 2000 decennial population census is the most recent population census information available.

Attachment II

Attachment II

Reported U.S. Apparel Imports from CNMI

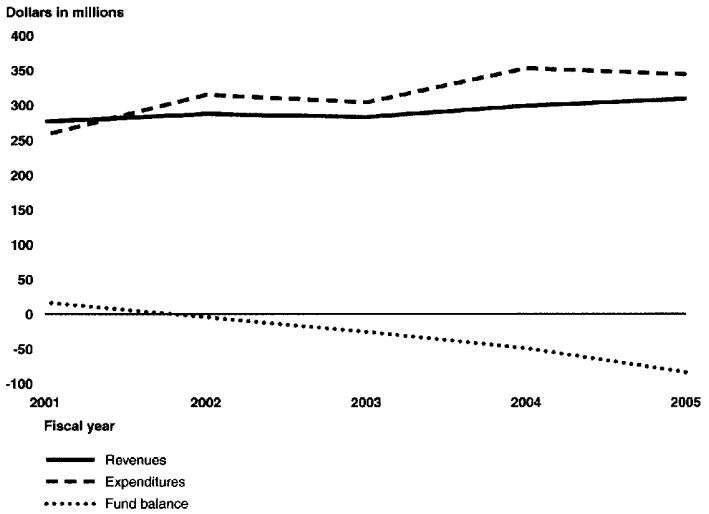


Sources: U.S. Dept. of Commerce, International Trade Administration, Office of Textiles & Apparel.

Attachment III

Attachment III

Reported Revenues, Expenditures, and Fund Balance for CNMI's Government Activities



Source: GAO analysis of single audit reports covering fiscal years 2001, 2002, 2003, 2004, and 2005.

Attachment IV

Attachment IV

CNMI's Fiscal Condition

	Fiscal years ending September 30,				
	2001	2002	2003	2004	2005
Data					
Own source revenues	227,709,651	215,650,986	225,412,808	235,754,891	244,183,778
Federal contributions	49,348,134	71,964,627	57,560,034	63,006,595	64,346,950
Total revenues	$277,057,785	$287,615,613	$282,972,842	$298,761,486	308,530,728
Total expenditures	258,177,431	314,985,333	303,986,379	352,488,419	343,370,293
Revenues less expenditures [Surplus/(deficit)]	18,880,354	(27,369,720)	(21,013,537)	(53,726,933)	(34,839,565)
Total net other financing[a]	6,511,003	3,510,667	0	39,493,350	7,625
Governmental funds beginning year balance[b]	3,540,878	19,609,305[c]	(4,249,748)	(35,011,807)[c]	(49,245,390)
Governmental funds end of year balance	17,219,852	(4,249,748)	(25,263,285)	(49,245,390)	(84,077,330)
Net Assets, end of year[d]	40,575,181	30,760,955[e]	15,596,170	(18,656,437)	(38,131,589)
Change in net assets	--	(9,814,226)	(15,164,785)	(34,252,607)	(19,475,152)
Calculations					
Federal contributions as a percent of revenues	17.8	25.0	20.3	21.1	20.9
Government revenue as percent of GDP[f]	--	.30	--	--	--
Government expenditures as percent of GDP[f]	--	.33	--	--	--

Source: GAO analysis of single audit reports covering fiscal years 2001, 2002, 2003, 2004, and 2005. The estimate of GDP, in the amount of $946,854,877, came from *Final Trip Report on Benchmark Estimates of 2002 Gross Domestic Product in the Commonwealth of the Northern Mariana Islands,* U.S. Census Bureau, Feb. 11, 2005.

Note 1: Financial data reflect CNMI's financial statements for its governmental activities, which include most of CNMI's basic services. These financial data do not include CNMI's component units, which are legally separate but related to CNMI. These financial data also do not include CNMI's fiduciary funds, because those funds cannot be used to finance CNMI operations.

Note 2: CNMI's audited financial statements received qualified opinions from its external auditors and, therefore, these amounts are subject to the limitations cited by the auditors in their opinions and to the material internal control weaknesses identified.

[a]Other financing includes transfers in and out of other funds.

[b]Governmental funds finance most of the basic services provided by the government.

[c]The end-of-year fund balance for the prior fiscal year may not agree with the beginning-of-year fund balance for the succeeding fiscal year due to amounts being restated in subsequent financial statements. We could not readily identify explanations for these restatements because comparative information was not always available or disclosures were not made in subsequent financial statements.

[d]Net assets are capital assets and other assets, such as cash and receivables, less liabilities.

[e]The amount reported is the restated amount from the 2003 single audit report, corrected because of excluded and misstated amounts.

[f]GDP estimates are not available for 2001, 2003, 2004, and 2005.

Attachment V

GAO Contacts

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[NOTE: The GAO report "U.S. Insular Areas: Economic, Fiscal, and Financial Accountability Challenges," GAO-07-119 (Washington, D.C.: Dec. 12, 2006), submitted for the record has been retained in the Committee's official files.]

Mrs. CHRISTENSEN. Thank you, Ms. Franzel. I guess I will begin with you, since you just finished your testimony.

I, too, was impressed with the fact that the CNMI really took some strong measures to bring their budget into balance, as painful as it was and it continues to be. But it shows their commitment to try to do the best they can.

But they have grown, the population has grown to now 70,000, of which 56 percent is the foreign workers. Do you think that they can get out of this crisis without repatriating a large number of those workers?

Ms. FRANZEL. Certainly, if you look at the population figures—and we do have a chart in the written statement that shows the drastic growth in those figures—many of those residents came to work in the apparel industry. And so now that that industry is

shrinking, of course the question becomes what happens to those folks.

I think what is really called for here is a comprehensive type of package. And so this would be one very important factor. But really a comprehensive multi-faceted plan. And I am assuming that in the framework that Mr. Cohen talked about, maybe he can elaborate, you know, that many of these factors would be taken into account.

But you do have the population question. You have got the economic industry question, how can certain areas be grown. The government services question, the solvency question. Multi-faceted issues here that need to be addressed.

Mrs. CHRISTENSEN. Thank you. Mr. Cohen, let me follow up, because you did suggest a strategic plan or something—I may not be using the exact term. And I know that under your leadership, you had hired Dr. Waliosman, the economist formerly with the Bank of Hawaii. You have had the Summer Fellows Program offered to graduate students from schools of business the opportunity to study and to do some research, and to report back to us.

With all of these resources, have they been able to report back to you on some of the better prospects for economic development in this new environment, or identified the areas where tourism might focus to bring back that industry into the CNMI, or any other outcomes from that research?

Mr. COHEN. Madame Chairwoman, we have identified a number of areas that hopefully show some promise. There are no big surprises; we didn't come up with any revelatory magic bullets. But a lot of the areas that people have talked about are areas that are worth looking at.

Certainly tourism, you know, they have traditionally relied primarily on tourism from Japan. And there are a lot of constraints that are beyond their control that have affected tourism from Japan in a negative way, including just the reduction in service from Japan for reasons that go beyond the desirability of the CNMI as a destination. It continues to be a very desirable destination.

But they have looked at diversified tourism to South Korea. They are getting charters now from Taiwan. They are getting charters now from Russia. And as the Resident Representative pointed out, the tourists from Russia tend to stay longer and spend more money, according to the visitor authority's statistics.

And as the Resident Representative pointed out, they are the only jurisdiction in the United States that has approved destination status from the Peoples Republic of China. Now, being able to fully capitalize on that might present a number of challenges that we can discuss in greater detail. But there are opportunities, and there is indeed an imperative to diversify the tourism sector.

People have looked at whether there is a potential for education as a business to offer, you know, revenues for the CNMI. And that continues to be a possibility. There currently isn't the infrastructure in the CNMI in the educational infrastructure to support that fully, and that really depends on the CNMI's continuing to have a competitive advantage over the rest of the U.S. in terms of access. Because if it is just as hard for a student with an F-1 visa, for example, to get into the CNMI as it is for such a student to get into

anywhere else in the United States, it would be very difficult for the CNMI to compete in that industry.

But nonetheless, there is a high demand for certifications, you know, of various types. Nursing exams have been given in the CNMI, but now they are being given in Manila, as well, so the promise—there continues to be promise there, but there are also challenges.

There are opportunities, I think the Resident Representative mentioned, in the northern islands. There are deposits of a very valuable mineral called pozzolan, which some investors have expressed interest in trying to harvest. There are some opportunities we have identified in aquaculture, in specialty agriculture, undersea resources, as the Resident Representative has mentioned. There are a number of things that we have identified, but a lot of them will require a good deal of planning and effort, and also supporting infrastructure, to properly realize, and a stable legal environment, so that potential investors know what they are getting into.

Mrs. CHRISTENSEN. Thank you. Mr. Fortuño, I recognize you for your questions.

Mr. FORTUÑO. Thank you again, Madame Chairwoman. And thank you to the members of the panel for being here this morning with us.

You probably were here when I was asking Mr. Tenorio for any economic data that he may have, and actually I pass that along to both of you, as well. If you think there is any economic data, starting from the date of the compact until today, that may be useful for the Committee to understand the whole situation, we will appreciate getting it from both of you, as well.

I have a question to begin with for Mr. Cohen. We are talking about the Federalization of the immigration policies. We have been discussing here today minimum wage legislation.

I am starting to get a sense that perhaps the pendulum in terms of this relationship, that moved away from territorial status to a free association, may be going back. Could you expand on that?

Mr. COHEN. Sure. Thank you, Mr. Fortuño. I guess historically, when the CNMI, before it was the CNMI, when the Northern Mariana Islands was part of the trust territory of the Pacific Islands, you know, the different island communities in the trust territory, had different views of how they wanted, how they envisioned their future.

So three parts of that old trust territory opted for free association, and now we have the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau. And the Northern Mariana Islands is the only island chain in the old trust territory that opted to join the United States through the covenant as a commonwealth.

So I am not sure if it is accurate to say the pendulum is swinging, although you could certainly——

Mr. FORTUÑO. If I may, there is no spillover to the other territories that compose the whole number of islands of this economic situation at all? There has been none?

Mr. COHEN. Well, that is a very good question. I mean, there is an impact, because the economies of the different islands,

especially in Micronesia, are linked. They are certainly linked when there are negative impacts in, you know, the Federated States of Micronesia, for example. It results in migration to places like Guam and the Northern Mariana Islands.

And then also migration from Saipan to Guam and elsewhere in the United States when, as now, the economy is doing poorly.

But the CNMI situation is fairly unique, because it is part of the United States of America. Under the covenant it was given the opportunity to control its own immigration and set minimum wage. Congress reserved the right to reimpose that at such time and in such manner as it chose.

I don't agree with the observations of those who said that this was inevitable, and it was merely postponed because the trust territory was still in effect. I think a reading of the history shows that that observation is actually not correct.

But what is correct is that Congress has the authority at any time it wants to impose immigration control and apply Federal minimum wage law to the CNMI. And I think the pendulum is swinging in that direction. And indeed, now that that issue has been raised, now that we have had both Houses of Congress pass minimum wage Federalization legislation, and now that there is active discussion of Federalizing immigration, I would suggest that it is very important that these issues be handled with great care and thought, and also expeditiously.

Because, as the Resident Representative pointed out, as long as we have this cloud of uncertainty hanging over the CNMI, and potential investors don't know what the rules are going to be, and hence, they don't know whether they want to commit resources to the CNMI, it has a chilling effect on the economy at precisely the wrong time.

When I was in the CNMI last month, I was told that as a result of our most recent conference in Honolulu, the Secretary's Conference on Business Opportunities in the Islands, that there were at least 12 potential investors—this is according to the knowledge of only one person that was dealing with these companies—that were interested in investing in the CNMI, but wanted to know what the rules of the game were going to be.

So I would urge us all to work together to resolve these issues as expeditiously and as thoughtfully as we can.

Mr. FORTUÑO. Thank you. My time is up, so I yield back.

Mrs. CHRISTENSEN. We should have another round I think, though. Ms. Bordallo, you are recognized.

Ms. BORDALLO. Thank you. Thank you very much, Madame Chairman. I have one question for Mr. Cohen.

What is the Administration's current position on the application of the Immigration and Nationality Act to the CNMI? And can you enlighten us on any evolution in the Administration's position on the Federalization of immigration in the CNMI since 2001, when the Senate considered in past legislation sponsored by Senators Murkowski and Akaka?

Please clarify for us what the Administration's position was at that time on the legislation, and what it is today on the same principles and objectives put forward in that legislation, given the events that have transpired since the Senate passed that bill.

Mr. COHEN. Thank you, Congresswoman Bordallo. In 2001, the Administration expressed its strong support for the Murkowski-Akaka Bill that passed the Senate. That was through the Justice Department, but it was cleared through the Administration, so that was an Administration position strongly in support of that legislation to Federalize immigration in the CNMI, and, as you have said, apply the Immigration and Nationality Act to the CNMI.

We were asked last year whether that was still our position, and our interim response was that a lot has changed since then. So we would like to consider this carefully in light of all the developments that have occurred since then, including the changing state of the economy, including progress that has been made in terms of protecting the rights of workers, and challenges that have arisen since then in terms of protecting the rights of workers, and all of the other factors that go into this mix.

The current position of the Administration is that we are willing to work with Congress on this concept called flexible Federalization. We were given a drafting service by the Senate Committee on Energy and Natural Resources, and we are working very closely with our colleagues on the Senate side to draft legislation.

When we present our product to the Senate, it will not carry with it at that time the endorsement of the Administration. But then we will work within the Administration to formulate a position.

So the Administration will take a position on specific legislation when that legislation is ready, and we are working with the Congress to develop that legislation. But we are going to wait until the legislation is in place.

Ms. BORDALLO. Thank you. Thank you, Secretary Cohen. A report originating within DOJ written after 9/11 spoke of security and border concerns that stem from the CNMI's local control of immigration. And also, the Subcommittee staff recently had briefings in Guam with the Naval and the Air Force bases, where both commanders confirmed that CNMI's local control over immigration caused a security concern, especially considering the plans for increased military presence and relocation of assets in the region.

Given this track record of concern, would you agree that, absent a Federal presence at CNMI's ports of entry, the security risk that has been expressed will continue to be a concern in the Marianas region?

Mr. COHEN. We would agree that a Federal presence at the CNMI's ports of entry could be very beneficial in helping to address these security concerns, and it would give the Federal government a much greater degree of confidence that these concerns are being addressed.

Ms. BORDALLO. One followup, if I could, Madame Chairman. I just want you to know that with the enhancement of the military, the big movement to Guam, the CNMI, especially Saipan, will be considered as a training area. So I want to allay the fears of Representative Tenorio. I know he has been questioning me on that. But that for sure I know, that they are considering CNMI as a training area.

I have one other question for you, Mr. Cohen. It is on a different topic. Does the government, the CNMI Government, enter into an

MOU or something like that with the garment factories as to how they treat their workers upon closing? Such as severance pay or return airline tickets.

I know that right now you currently have 13 factories still in existence, and two are supposed to close. Recently one of the largest factories closed, with 900 factory workers. What has happened to them? Are they leaving the island? Are they going elsewhere illegally?

Mr. COHEN. Thank you, Congresswoman. I am going to start to answer the question, but also, since you have mentioned the arrangements that the government has had, you know, to address garment factory closures, I am going to also get the insights from someone who was directly involved in the discussions that helped formulate that policy, Mr. Benedetto.

But actually, the number of garment factories is always a moving target because when larger garment factories close down, often others spring up that are smaller, perhaps operating much closer to the margin and much closer to the edge of what we would like to think of as best practice.

So that is always a moving target. So there may be more than 13 at this point, but still, employment in the garment industry is rapidly declining.

The CNMI has devoted a great deal of thought to how it will deal with major closures. And since Jim Benedetto was very actively involved in working up an agreement with the government and other interested parties in how to address this, if I could call on him to give you some more insights on that.

Mrs. CHRISTENSEN. No objection.

Mr. BENEDETTO. Thank you. There is a memorandum of agreement in place between the Attorney General's Office, the Department of Labor, the Ombudsman's Office, the Chinese Economic Development Association and other stakeholders in the CNMI with regard to garment factory closures.

Upon receiving notice that there is going to be a garment factory that is going to close its doors, each of the parties that are involved have respective duties which they are supposed to discharge within a certain number of days.

The Attorney General's Office checks to see whether there are wages that might be owed to the workers, or whether there are taxes that might be owed to the CNMI Government, and takes steps to prevent the principals in some cases in those garment factories from leaving the jurisdiction without addressing those issues.

The Department of Labor has the largest role. And what it does is it agrees to open up a compliance agency case, which does a speedy investigation into the causes for the closure, and then holds a transfer hearing for all the garment workers that are displaced. So that if the finding is made that the factory closed due to no fault of the workers, then they are all granted transfer relief within a certain amount of time.

The Ombudsman's Office provides translator assistance so that they can conduct their investigations, and tries to ascertain whether there are going to be any problems with the travel documents of any of the workers that may choose to leave.

And the Chinese Economic Development Association will assist in the speedy reapplication for travel documents that have expired or are close to expiration.

Ms. BORDALLO. Would you say these rules and regs are being followed?

Mr. BENEDETTO. In my observation, yes, they are.

Ms. BORDALLO. So you don't have many workers roaming around on the island without any work, is that correct?

Mr. BENEDETTO. Well, we do have a fair number of workers that are unemployed. And nobody knows how many of those have pending labor cases, or how many are simply overstaying.

But the trend in the past year or so anyway has been, with respect to garment workers, that they are departing in large numbers once they realize that there are no jobs there for them to transfer to.

And I don't have any figures available to give you, but I am told from the Department of Labor that something like 90 percent of those workers that are displaced due to garment factory closures are choosing to go home, and have departed.

Ms. BORDALLO. Thank you. Thank you, Madame Chairman.

Mrs. CHRISTENSEN. Thank you. Mr. Flake, you are recognized for five minutes.

Mr. FLAKE. Thank you. Mr. Cohen, with regard to this flexible Federalization, do you envision really any changes to the current immigration policy that CNMI has in terms of desired destination, with the memorandum of understanding they have with China or the others? Would those things be possible under this flexible Federalization? Is there anything that they are doing now, CNMI, or wish to do that you know of, that would be prohibited by the kind of flexible Federalization you envision?

Mr. COHEN. Congressman, we are actively working now to develop the specific contours of the policy. But we are making every effort to include in that whatever the CNMI is doing now, other than things that, you know, I guess people would largely disapprove of.

But all of the legitimate, you know, tourist markets and other types of visitor markets that they are currently engaging in, and others that have been mentioned to show promise, we are doing our best to see if those can be accommodated. So we are looking at the approved destination status agreement with China. We are looking at Russia, South Korea, Taiwan, the other tourist markets that show promise.

And we are looking at ways to try to provide greater flexibility, in terms of access to the CNMI, than exists for the rest of the United States, and justifying that by maintaining what I call in my written statement the second firewall between the CNMI and the rest of the United States.

In other words, continuing to treat travelers from the CNMI as if they are coming from a foreign country. Say, when they go to Guam or Honolulu. And requiring separate independent travel authorization to get into the rest of the United States.

We are still discussing these. I had a very good meeting with a number of officials from various agencies of the Department of Homeland Security. We are discussing this with our colleagues in

the Senate. But the hope is to find a way to offer as much flexibility as possible, including accommodating all of the activities that are currently ongoing and envisioned.

Mr. FLAKE. Are there any countries that are excluded totally under CNMI immigration policy, that are not excluded by Guam or the mainland?

Mr. COHEN. Yes, there are. In fact, there is a provision in CNMI immigration law that excludes certain countries, and I think at least one province in China from supplying visitors to the CNMI.

Mr. FLAKE. What are the reasons for that?

Mr. COHEN. I think the reasons are that there are concerns about these countries, and perhaps a policy decision by the CNMI that the resources that would be necessary to satisfy all the concerns about visitors from these places, it is not worth committing the resources for the benefit that you would receive by allowing these visitors in.

And at least one or perhaps two—and I will defer to Jim on this—countries that are on the Guam visa waiver list are excluded under CNMI law.

Do you have anything to add to that?

Mr. BENEDETTO. I believe that Malaysia is one.

Mr. COHEN. Malaysia. Indonesia?

Mr. BENEDETTO. And I think Indonesia is another.

Mr. COHEN. And Fujian Province in China.

Mr. FLAKE. With regard to, it was mentioned that there was a point at which it was decided—and I understand on the minimum wage it has been an issue that has percolated and been discussed here quite a bit—when and what prompted the decision to Federalize or have some form of Federalization of immigration policy? What were the concerns? Were there certain incidents that prompted this type of analysis or conclusion that we needed to Federalize it? Can you go into that?

Mr. COHEN. Sure. The concerns were, I guess in this round——

Mr. FLAKE. Or were they just general concerns? You know, after 9/11 we need to be more careful.

Mr. COHEN. Certainly. Well, there was the risk assessment that Congresswoman Bordallo mentioned. That risk assessment was very valuable. It was very rough. I mean, it was more in the spirit of, well, here are horrible scenarios that could possibly happen, and it didn't really get to the level of evaluating the probability that any of those scenarios might happen. But that would be, you know, a logical next step. So it was pretty much painting worst-case scenarios, but it was very valuable, you know, to help us focus on things that could conceivably happen in the CNMI.

From the Senate side, both the Chairman and Ranking Member of the Senate Committee on Energy and Natural Resources have expressed these concerns, and asked us to take a look at it. And we have made every effort to be responsive to those requests.

And the declining economy has prompted us all, in the CNMI, has prompted us all to ask the question, does the CNMI still have the ability to control its borders, even in the manner that it had in the past. And what types of pressures are going to be put on the CNMI in light of the rapid job loss in the garment industry, and

the need to repatriate workers. Is it still going to be able to handle all of these concerns.

We also have concerns about human trafficking. Because there is such a high percentage of aliens in the CNMI, there is a concern that there will be a disproportionate amount of that type of activity in the CNMI. So all of these things have contributed to a renewed interest in the immigration system in the CNMI.

Mr. FLAKE. Thank you.

Mrs. CHRISTENSEN. Thank you, Mr. Flake. Mr. Benedetto maybe, I would like to follow up on the question about China, Indonesia, the other countries. Because one of the examples that the CNMI usually uses to show that they are, their immigration policy is a strong one, is their ability to refuse immigration from localities such as those in China and other places.

What can you tell us about the enforcement, about that policy and how it is being enforced?

Mr. BENEDETTO. Thank you for the question. The Division of Immigration has its own regulations. And under Section 804 they have a list of excluded locations, and these are locations that they have concern about for two reasons.

Number one is the authenticity of travel documents. If they don't have confidence in the authenticity of those documents, then you don't know who you are letting in.

And the second is the return of individuals who have been identified as over-stayers or people who should not be there. And if the country of origin does not want to take back its nationals, then that is also of great concern.

There are about a dozen and a half, I guess, countries on that list. And one of them is the Fujian Province of China. And I believe this is a sound policy that the CNMI Government has adopted.

However, there are some exceptions to it. You can get an Attorney General waiver or a Governor's exemption. And I have in the past written a number of letters to the CNMI Government to complain about the typical scam that we see, where people pay large amounts of money from Fujian Province to a recruiter, and then they are given contract documents and brought to the CNMI for a non-existent job, and then maybe coerced into prostitution or just left there with nothing to do, and a large debt at home.

It is a matter of record that some of these human trafficking victims and these people who have been victimized by these scams have come in from Fujian Province under Governor's exemptions. And so there are obviously some things that need to occur in the followup there.

I have recommended in the letters that I have sent to the government that they do prompt investigations of these cases; that they prosecute or take other enforcement action; and that they undertake a reexamination of their policies and regulations to try and stop those incidents from occurring.

Mrs. CHRISTENSEN. Thank you. Mr. Cohen, I am asking this question because it has been an issue before. So the question is, do you think the question of whether CNMI should have a delegate ought to be tied in any way to fixing these problems that we are discussing this morning?

Mr. COHEN. Thank you, Madame Chairwoman. The answer is no, I don't. And the reason I say that there should be no conditionality on granting the CNMI representation in this body is every single other state and territory has representation in this body, is that we don't apply those standards to any other state and territory.

Mrs. CHRISTENSEN. Right.

Mr. COHEN. We have problems in every single state and every single territory in this great nation. I remember, you know, before I moved out here from southern California, we had a great sweatshop scandal in southern California, where a bunch of people from Thailand were basically held prisoner in barracks in essentially an illegal garment factory. And we all, the authorities took appropriate measures to address that, but no one questioned whether the people of southern California had therefore sacrificed their right to representation in Congress, and were somehow no longer worth of representation in Congress.

In fact, we don't have any sort of fitness test, other than you not be a convicted felon, that we apply to any other community for representation in Congress. And you all on this panel have spoken very eloquently about this subject in the past.

So one would ask why would we apply some sort of fitness test to the CNMI? If certain people disagree with electoral decisions that they have made, or if certain people disagree with policy decisions that they have made, or even disapprove of policy decisions that they have made, that is well and good in the democratic process. We can work those things out.

But for one group of Americans to sit in judgment about the democratic decisions that have been made by another group of Americans, and say therefore, you guys do not deserve to be represented in Congress the way that everybody else in America is represented, to me is not consistent with the principles that those soldiers from Saipan, Tinian, and Rota are fighting and dying for in Iraq and Afghanistan.

Mrs. CHRISTENSEN. Thank you. My last question is to you, Ms. Franzel, because I understand that you have done a lot of work with the D.C. Government, or some work, and so you may be familiar with their establishment of their Chief Fiscal Officer and the effects that that office has had on projecting revenue, keeping within spending limits, accounting for such expenditures, and so forth.

Given the longstanding audit problems associated with the CNMI, would such a position be a positive, a step that you would recommend? Or would a CFO be an essential part of their recovery strategies?

Ms. FRANZEL. The establishment of a CFO with certain responsibilities and reporting requirements was a very important element of the D.C. recovery.

What you refer to as the D.C. situation in the early nineties, where the District of Columbia was literally bankrupt, not paying its bills, and many agencies were in dysfunction, there was a comprehensive reform package put in place which involved a combination of oversight, financial reform, some programmatic reforms where certain agencies were put into receivership; some assistance also from the Federal government, and some very stringent reporting and monitoring-type requirements.

So the CFO was part of all of that. And the establishment of the CFO with those reporting requirements was a very important element.

One of the conditions for coming out of the control period for the District of Columbia did deal with balanced budgets, clean audit opinions, et cetera. And so the District did achieve that, as well as many other factors to come out of the control period. So it was a very important factor, as part of a comprehensive set of reform and assistance.

Mrs. CHRISTENSEN. Thank you. Do you have any further questions?

Mr. FORTUÑO. Just a couple, perhaps. Ms. Franzel, you had mentioned unfunded pension liabilities of the CNMI. Could you expand a little bit about what were you referring to? And could you compare that situation with CNMI with perhaps a couple of the other territories, if you may?

Ms. FRANZEL. The unfunded pension liability situation refers to accumulated promises that workers have earned under the current system. So for instance, they are part of the government retirement system; they have put in certain amounts of years of service. And under the current system, they have earned certain benefits. And funding means that the CNMI Government would be putting away a portion of that for future use.

So for instance, really saving up for the time when those workers retire, and then using those funds to pay the retirees, so that you are really matching the earning of those benefits with the paying of that expense.

There has been a long-term mismatch, OK, in the CNMI between the time period when the workers are earning the benefits, and there is just not enough in the savings account for future pensions. The numbers are very alarming. At September 30, 2005, it was reported as a $552 million shortfall if benefits were to be paid out at the promised amount, based on what people earned.

Now, it could also be that the benefits need to be looked at, also. So you have really got both sides of the equation. Are the benefits being promised too generous? But you have also got the situation where the CNMI Government hasn't been paying into that fund. This is a long-term issue that will need to be dealt with.

Mr. FORTUÑO. Do you have an idea what—you gave the total amount—what is the ratio, cover ratio, in terms of those benefits versus what is available? Is it 50 percent? Is it 40 percent?

Ms. FRANZEL. I do not know the details of their pension plan, but that is certainly something that needs to be looked at in light of this situation.

I will mention that many other local jurisdictions in the mainland are having problems with their unfunded pensions right now. There have been new accounting rules put in place requiring local and state jurisdictions to do these calculations to figure out to what extent our pension plans are underfunded, and many local jurisdictions are starting to look at how generous are those benefits in relation to other benchmarks.

So yes, it should be looked at for CNMI. And I just want to mention that other jurisdictions are going through this same type of analysis.

Mr. FORTUÑO. OK. Well, thank you very much. I yield back the balance of my time.

Mrs. CHRISTENSEN. Thank you. Mr. Bordallo, do you have further questions?

Ms. BORDALLO. Yes, thank you. First I want to clear the record a bit on the movement of the Marines to Guam. I said earlier that they are looking at Saipan, I think, and what I should have said was that they are seriously considering training in Tinian.

And second, Saipan will see some economic results, especially through the port. And that is that they are moving in there for supplies, and there will be embarkation and disembarkation activities going on. So Saipan will see activity with this enhancement of the Marines to Guam, and it is Tinian that is being seriously considered for training. So I just wanted to correct the record.

I have a question here for Secretary Cohen. Is it possible, Secretary, to make a distinction between Federal control and a separate guest worker visa waiver program? Is this something that we can think about?

Mr. COHEN. Thank you, Congresswoman Bordallo. We can certainly think about all sorts of ways to offer the CNMI the flexibility that it needs, first of all to continue to have a proper labor supply. Because when all is said and done, the indigenous work force in the CNMI is still very small. Almost anyone that has looked at this concludes that they are going to continue to need a significant amount of supplementation to their work force from outside; that they probably will not be able to attract from other jurisdictions in the U.S. or the federated states or the freely associated states.

So we are definitely looking at how to continue to provide some degree of flexibility in that regard, as well as flexibility to let visitors in—in ways that visitors cannot access the rest of the U.S.

Ms. BORDALLO. And then I have another question for Ms. Franzel. Your testimony focused a lot around the inability for the CNMI to achieve unqualified audits. And sadly, today it was reported in the Saipan Tribune that due to the expected 15.6 percent budget cut that will be implemented across government agencies, the cash-strapped public school system may have no choice but to start the next school year in October instead of the usual August.

Does this inability on the part of the CNMI Government give any indication as to the overall management of the government and its ability to provide essential services to the community?

Ms. FRANZEL. I will say that financial reporting and accounting is just a basic management function, and it is something that CNMI has struggled with for years.

And so you can say, if CNMI is having troubles with this basic function, perhaps there are problems in other management functions for similar reasons. For instance, CNMI has had difficulty attracting people to the islands who have the financial expertise needed to really help fix the problems. And so it could be that other areas would be suffering from the same issues.

And so these have been longstanding problems. I will say, however, that in times like this, it is extremely important to have a very good management and finance team on board for regular reporting, for decisions like these. You know, did they have timely, accurate financial information and other information available

when making this decision? That is really the key question. And is the management and finance team suffering from the inability to attract and keep qualified people.

Ms. BORDALLO. You said in your statement earlier that things seem to be improving, but you are waiting for the latest audit, is that correct?

Ms. FRANZEL. Things are improving in terms of timeliness. Now, I will tell you that that is for the audit report, and they do have nine months after the fiscal year to complete the audit report.

We have been told by the Secretary of Finance that it will be on time. But those numbers are as of September 30, 2006. So in terms of management decisions, that is still way too late; however, in terms of complying with Federal law for grant recipients, which CNMI is, this might be the first year that CNMI has complied with that deadline.

Ms. BORDALLO. Thank you. Madame Chairman, in closing, this is probably going to be the last round, I just want to again say that I will continue to work very closely with the Resident Commissioner or the Resident Representative from the CNMI, Mr. Tenorio, until such time that U.S. Congress gives them what they deserve; and that is a voting representative to be a Member of the U.S. Congress.

I always keep in mind that the citizens of CNMI are our brothers and sisters. And so until such time we decide to give them a voting representative in the U.S. Congress, I will continue to work with the CNMI Government.

Thank you very much.

Mrs. CHRISTENSEN. Thank you. I wanted to also thank all of the witnesses for their testimony and their thoughtful, insightful answers to our questions.

I think the first step that we need to take in that regard, Ms. Bordallo, maybe both of us need to reintroduce the bill. Because, I was inquiring, it has not yet been reintroduced, so we will move swiftly to do that.

And we have a complex set of issues ahead of us, and the solutions are going to be just as complex. And so I look forward also to working with Mr. Tenorio, the Government of the Northern Mariana Islands, the Department of Interior Office of Insular Affairs, utilizing the expertise of the Government Accountability Office, and working with my colleagues to come up with some solutions to help our brothers and sisters in the CNMI.

So thank you again for taking the time to be here with us this morning, and for your testimony.

Let me just also add that the hearing record will be open for 10 days for responses that we would ask in writing. And if there is no further business before this Subcommittee, the Chairman again thanks the Members. And additional questions will be submitted in writing. We have 10 days for that.

And therefore, if there is no further statement or business, the Subcommittee stands adjourned.

[Whereupon, at 12:02 p.m., the Subcommittee was adjourned.]

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