

On My Mind
3/14/03

After fourteen months in office, and in the absence of any action on the part of the legislature, the governor has finally come up with a plan to address the CNMI's ailing economy - which he has given the unimpressive and nondescript title of "3-Part Integrated Fiscal Plan." The three parts consist of (1) cost-cutting, (2) revenue enhancement, and (3) economic stimulus.

The plan is spelled out in a 23-page letter full of statistical charts and summaries recently sent to the legislature and to the Chamber of Commerce, among others. It is supported by two bills proposed by the governor's office - a "Commonwealth Responsible Government Act" and a "Commonwealth Revenue Enhancement and Economic Stimulus Act of 2003."

Disappointingly, except for aspects of the third part, dealing with economic stimulus, there is little in the plan that hasn't been mentioned before and nothing that is inspiring, creative, helpful or immediate. Moreover, there are several inaccuracies and mis-statements, at least according to the Chamber, which has responded to the governor's letter with a 12-page letter of its own. Worst of all, though, is that the plan studiously avoids what everyone else knows is the biggest problem the CNMI faces - its bloated government and over-extended payroll.

According to government Public Information Officer Peter A. Callaghan, the governor's plan should not be viewed as cast in concrete, but as open to amendment and negotiation. It's a good thing that it is. Not only so that the misstatements can be corrected, but so that plan's shortcomings and inequities can be addressed.

The governor, in his letter acknowledges that the CNMI's expenditure for personnel, and number of employees, is higher than national averages. Yet his "Commonwealth Responsible Government Act" - the cost-cutting part of plan - proposes, instead, to cut employee benefits. The benefits nominated for reduction include paid holidays, lump sum annual leave payments, merit pay, within grade increases and the 30% retirement bonus. This is preferable, his letter weakly reasons, because it would have a "less profound psychological (and thus economic) impact."

In its letter to the governor, the Chamber supports the reduction in other benefits, but it opposes the deletion of merit pay and within-grade increases. However, the Chamber states repeatedly, the more crucial factor is the size of government payroll, which must be cut, not by cutting benefits, but by cutting personnel.

Saying that "we differ with the opinion offered that a reduction in man-hours or jobs will create the net effect of less money entering the economy, and [that it] therefore, is inadvisable" the Chamber counters, "We offer that, should a large number of measures to stimulate the economy be put in place at the same time as a reduction in government payroll, our economy could actually grow. <I>However, realistically the government payroll must decrease as soon as possible.</I> (emphasis added.)

Later in its response, the Chamber says, again, “It is the opinion of the Chamber that the CNMI government needs to reduce its overall size in order to respond to the constraints of current economic conditions. <l>It has become painfully clear that locally generated revenues are not adequate to sustain over 5000 government employees at the current salary and benefit levels that they enjoy.</l> (emphasis added.) A measured reduction over time in Government staffing levels is in order. It is our recommendation that the CNMI Government undertake a plan to reduce its staff by 3% per year over the next 3 years.”

Adds the Chamber, “We also believe there is a real need to seriously reduce more and resolve the salary cap issues with the Legislature or lower all salaries back to within statutory limits until an amenable solution is sought.”

The second bill, the “Commonwealth Revenue Enhancement and Economic Stimulus Act of 2003,” is “self-descriptive” and “incorporates the second and third components of the integrated fiscal package the Administration has assembled,” according to the governor’s letter. Five “revenue enhancement” measures - none of them new - are proposed: a garment industry user’s fee, a hotel occupancy tax, an increase in the non-resident worker’s fee, vehicle-related fees, and a reduction in the income tax rebate.

Here is where the plan is really in trouble. The Chamber’s letter voices strong opposition to all but the vehicle-related fees. In considerable detail, it rebuts most of the governor’s assertions regarding the ability of the garment industry to absorb an increase in user fees. Among other things, the Chamber says that, contrary to the statements in the governor’s letter, the user fee was not assessed instead of the Business Gross Receipts Tax - which stands at 5% - nor do most businesses pay a full 5%, since the tax is on a sliding scale. The governor’s arguments for increasing the user fee to nearly 5% are therefore invalid, asserts the Chamber..

Nor will the hotel industry be able to absorb the proposed 1% increase in the occupancy tax, since contracts with tour wholesalers and agents are negotiated well in advance, and package rates have already been published.. The tax would therefore not be a “pass-through” to customers, as the governor’s letter claims, but would have to be absorbed by the hotels themselves - an additional cost they can ill afford.

In regard to the proposed increase in nonresident worker fees, the Chamber states that since the original purpose of the fees - to provide vocational training for residents - had never been acted upon, any increase in the fee should require specific legislation justifying the increase. The Chamber also offers some alternative approaches for covering the government’s cost of processing worker fee applications.

The Chamber also opposes the reduction in income tax rebate, calling it “the very backbone of many investment decisions in CNMI....The rebate system is still one of the driving forces attracting new investors and is one of the only incentives we have left [of those] that drove our island economy in the early 1990’s.”

In fact, states the Chamber letter, "While the terms "revenue enhancement" sound positive, this section is the opposite: it is about increasing taxes and fees at the worst possible time.... the increasing rates of taxation and fees fall outside the Administration's stated expectation to not raise the cost of doing business where, "...taxation has to be limited by the realities of business economics."....If absolutely essential and justified, which we do not believe it is, then additional money for government expenditures should come from income across the board individually, not out of the already struggling business community."

The stimulus measures include a change in prioritization of and additional support for CIP expenditures, endorsement of Northern Marianas College's plans to become a center of English language instruction for Japanese and other Asian businessmen, support for the Garapan Revitalization Project, and expanding Public Health CIP appropriations, among others.

The Chamber letter offered little opposition to these measures.

This column has made extensive use of the Chamber's comments because Chamber members appear to bear the major impact of the governor's "revenue enhancement" proposals, the Chamber responses are thoughtful and articulate, and on the whole, their position represents a far more sensible approach to the problems of the economy than does the position of the governor.

<center>* * *</center>

Short takes:

<center>*</center>

Wouldn't a much more simple approach to cutting the size of government be to eliminate all double-dippers?

<center>*</center>

Just what are the terms of the settlement that require, apparently, an \$800,000 payment by government - and any revenue collected from the operations of the outer cove marina - to Tony Pellegrino's Marine Revitalization Corporation? Just doesn't seem right that the government - cash-strapped or not - should pay anything to rescue someone from a poor business decision.

<center>*</center>

It's strange that not one voice has been raised in protest against the Boy Scouts being dispossessed, once again, to make way for developers. Now the Scouts have been relegated to an inhospitable site near the former radar site, away from the shore where, one would think, most island Scout activities would logically take place. The drag racers got immediate attention. Yet the Scouts don't get any at all. Sad.

<center>*</center>

The award-winning movie "Chicago" has yet to be shown in the CNMI. The film itself was on island last week, but staff at the theater said it could not be shown because it had arrived late and was no longer on the schedule. Yet the bland "How to lose a guy in 10 days" has been showing for at least a month. Why couldn't it have been dropped and "Chicago" shown instead?

<center>*</center>

Due to an unexpected medical problem in the family, this column will not appear for the next three weeks. Depending on surgery outcome and findings, the column will resume on April 11.