



2020 Year End Report

Governor's Council of Economic Advisers
December 2020

Governor Ralph DLG. Torres & Mr. Jerry Tan
Co-Chairman
Governor's Council of Economic Advisers

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Executive Summary

The Governor's Council of Economic Advisers (GCEA) is pleased to provide its End of Year Report covering the historic events of 2020 and the history that has led the CNMI to this point in time. Over the course of the Council's efforts in its first year of existence in the CNMI, much has been accomplished and never has the challenge of fostering a creative, viable, and resilient economy in the Commonwealth been more apparent.

The Council saw its role within the last year as one of cultivating partnerships with the private sector and civic organizations across the CNMI to address the complex issues facing the community. These partnerships provided for a wide array of ideas to support the CNMI government across a spectrum of issues. These ideas translated into recommendations to Governor Ralph DLG. Torres in line with the Council's mandate and a full description of these recommendations are provided in this report.

In brief, the Council, during its monthly meetings of Council members, provided Governor Torres with the following recommendations to aid in the development and recovery of the CNMI economy:

Recommendation 1: Request to foster Public Private Partnerships in the development and maintenance of CNMI parks and tourist sites

Utilizing the community of businesses and civic organizations to develop community ownership over the parks, public facilities, and tourist sites, decentralizing efforts toward destination enhancement and public enjoyment of the CNMI's sites and attractions.

Recommendation 2: To reestablish the American Memorial Park Development Advisory Committee alongside U.S. National Park Service

In recognizing the interest of the CNMI Government to establish stronger ties with the sites and facilities present on the American Memorial Park area, the Council recommends the re-establishment of the park's Development Advisory Committee, which has previously provided local input into park development, use, and upkeep.

Recommendation 3: Pathway toward establishing universal garbage collection

Litter and improper trash disposal have been a long-term challenge for government enforcement efforts, residents with environmental concerns, and stakeholders within the tourism industry. The Council recommends a pathway for addressing the problem of littering and illegal dumping at its source. Utilizing the example of similar jurisdictions, such as American Samoa, a universal garbage collection system can be implemented that supports residential access to garbage collection services, increases scale of commercial garbage collection services, and simplifies the costs associated with solid waste collection and management for residences and government services.

Recommendation 4: Tourism Resumption Blueprint

In the midst of the COVID-19 pandemic and the worldwide shutdown of international travel the path forward for the CNMI only industry – tourism – was uncertain. To complex question of how to resume tourism, build domestic and international trust in the safety of the CNMI as a tourism destination, and the efforts necessary to rebuild the economy and support jobs in the event the COVID-19 threat subsided was one the Council sought to propose a solution. The Tourism Resumption Blueprint produced through dialogue with the COVID-19 Task Force and the Commonwealth Healthcare Corporation, provided a roadmap toward utilizing the existing risk mitigation framework and slowly and cautiously resuming tourism arrivals in a manner that was safe for the CNMI residents and visitors. This Blueprint is now used by the Marianas Visitors Authority in their ongoing efforts to support a partial resumption in 2021.

Recommendation 5: Separation of the Commonwealth Development Authority and the Northern Marianas Housing Corporation

By discussing the necessary role of both the Commonwealth Development Authority and the Northern Marianas Housing Corporation in the rebuilding of our economy and the redevelopment of the CNMI from disaster, it was apparent that, with the increasing responsibilities, two separate Boards of Directors would support these two distinct agencies with greater attention. This recommendation requested that Governor Torres utilize his executive authority to restructure the governance of these organizations.

Recommendation 6: Consideration to revisit and implement the 2015 Integrated Resource Plan

One primary consideration that impacts all committees created within the Governor’s Council of Economic Advisers is the affordability and reliability of power. Over the course of the CNMI’s development as a modern economy, power generation has been consistently considered both a prerequisite of private sector development and a perpetual hurdle toward accomplishing greater levels of economic growth. As a basis for the restructuring of the processes by which CUC provides for the energy needed in the economy, the Council saw merit in revisiting the 2015 Integrated Resource Plan, its findings, and the processes it provided in the acquisition of new energy resources for the Commonwealth.

Recommendation 7: The creation of the Commonwealth Economic Development Authority

The economic development of the Commonwealth can be best served by a targeted approach by the CDA aimed at the needs of the economy and providing CDA with the mandate and resources to support this effort. The renaming and repurposing of CDA will advance the ability of the CNMI to drive economic growth toward a direction that will enhance quality of life for the CNMI residents.

Recommendation 8: Amendments to the Commonwealth Development Authority Qualifying Certificate Program

As a key tool for incentivizing investment in the CNMI is the Qualifying Certificate program. The program, while achieving successes in the past, requires substantial updating to keep the CNMI competitive among locations throughout the world.

Recommendation 9: A pathway toward expanded Public Private Initiatives for the Commonwealth

Many governments have achieved cost reductions and service improvements through the strategic and transparent privatization of previously government services.

Recommendation 10: Marpi Visitors Center

As a pilot endeavor toward implementing the Public Private Initiative, and the Strategic Investment Initiative, the tourist sites in the Marpi area represents an opportunity to maximize these economic resources, combining the visitor experience within a Visitors Center that can support the upkeep and maintenance of these historic sites, while advancing destination enhancement toward making the CNMI a world-class destination. The proposed framework for envisioning this development is the Hanauma Bay State Park that underwent a successful privatization in Hawaii.

Recommendation 11: Institute a branding requirement on all future public land leases for hotel establishments

Branded hotel establishments have tremendous economic potential for a tourism destination. Brands not only bring with them substantial global marketing resources, but also world-class standards on maintenance, upkeep and aesthetic design. Requiring hotel developers who wish to use our limited availability of public lands to support their proposals with a brand is wise and has the potential to dramatically increase the overall marketability of the CNMI around the world.

Recommendation 12: Allowance of Developers Infrastructure Tax Credits for Culturally Appropriate Designs

The CNMI has a rich cultural history that deserves to be showcased to domestic and international markets. An effect method to increase the cultural visibility of the islands within the built landscape of businesses and facilities is to provide a cost incentive that supports the policy of cultural awareness on all new developments.

Recommendation 13: Increase Enforcement Authority for Tour Guide Certification

While the creation of Tour Guide Certification aided in ensuring tour guides in the CNMI were presenting the islands appropriately and managed their tours safely and in accordance with CNMI laws and interests, the law was without penalties or a means to enforce the requirements on tour operators. Recommendation provided by the Council was to institute strict penalties on tour operators who operate in contravention of the law.

Introduction:

After nearly five years of consistent economic growth and expansion under the Torres administration, the economy of the Commonwealth of the Northern Mariana Islands (CNMI) has experienced arguably its worst period of contraction in its history in 2020. Following the outbreak of the novel coronavirus disease of 2019 (COVID-19), the CNMI witness the complete elimination of its tourism industry – the largest single driver of economic activity in the islands. These impacts were not unwarranted given the circumstances and the severity of the disease. The Torres administration should be praised for the decisive action it took to halt the transmission of the virus and save lives throughout our community. Even in light of this, the CNMI must contend with the prolonged impact of this crisis and the manifold implications to the viability of our fragile economy its wake.



In the midst of the COVID-19 pandemic, the administration saw the depth of the impact on the private sector and recognized the need to muster greater resources to chart a path toward an improved system for which the private sector can resume operations and aid in the recovery the islands' resources. In signing Executive Order 2020-11 on May 19, 2020, Governor Torres established the Governor's Council of Economic Advisers and charged its private sector members to aid in the formulation of policy initiatives to encourage economic growth and provide for the prudent and responsible management of the economy among other tasks.

Governor Torres appointed 15 members from a range of industries and experiences within the private sector and appointed Mr. Jerry Tan as the Co-Chairman for the Council's efforts. Following the establishment of the Council, Chairman Tan established three subcommittees and delegated each a responsibility to undertake the Council's charge. The Committees established focused on the Short, Medium and Long-term goals for the economy and segregated these responsibilities among the Tourism Infrastructure, Domestic Policy, and Economic Diversification Committees. These Committees have been supplemented by members of the private sector outside of Council membership who have provided their time in support of recommendations and information sharing for Council consideration.

Domestic Policy	Tourism Infrastructure	Fiscal and Economic Diversification
<p>Michael Sablan Chair</p> <p>Senator Frank Borja Gary Sword Roman “Bo” Palacios</p>	<p>Alex Sablan Chair</p> <p>Representative Joseph Lee Pan Guerrero Warren Villagomez Alex Youn Masato Tezuka Aubry Hocog</p>	<p>Matthew Deleon Guerrero Chair</p> <p>Joe Guerrero Marcie Tomokane Don Power</p>
	<p>Kimberly King-Hinds Gloria Cavanagh Priscilla Iakopo Velma Palacios Kaitlyn Neises-Mocanu Brian Shin Jennifer Tan Ivan Quichocho Aurelia Kretzers Josephine Mesta Carline Sablan Thomas Mayrhofer Marcia Calvo Sean Ficke Keith Stewart Jomari Pico Gordon Marciano</p>	<p>Carline Sablan Manuel Sablan Alex Sablan</p>



This renewed effort to provide direct private sector experience within the economy to the Governor in aiding in the administration of laws governing commercial activity allowed for the Council to lead in the necessary discussions on the alleviation domestic commercial restrictions and the development of the Covid-19 Vulnerability Rating System presently in use, the resumption of tourism activities in the CNMI and the processes toward once more welcoming tourists in a manner that ensured the greatest levels of safety to residents and visitors, and the expansion of industries present in the CNMI to promote diversification to supplement the halted tourism market.

While charged with meeting at least once every three months, the Council recognized the urgency of these tasks and has convened every month since its inaugural meeting on June 16, 2020. Topics discussed and recommendations produced through these meetings constitute much of the findings in this report and is indicative of the intents, interests, and goals of the Council members.

In reflecting on the efforts of the Council this past year and in noting this to be the first such report on the economy from the Council, Section I of this report details the historical and present-day context by which the Council operates. In particular, this context illustrates the progress made in the economy over the course of the Torres administration, and the extent to which the Covid-19 pandemic impacted life for all members of the community.

Section II summarizes the recommendations provided to the Governor in line with Executive Order 2020-11 and the progress made in achieving progress toward these recommendations.

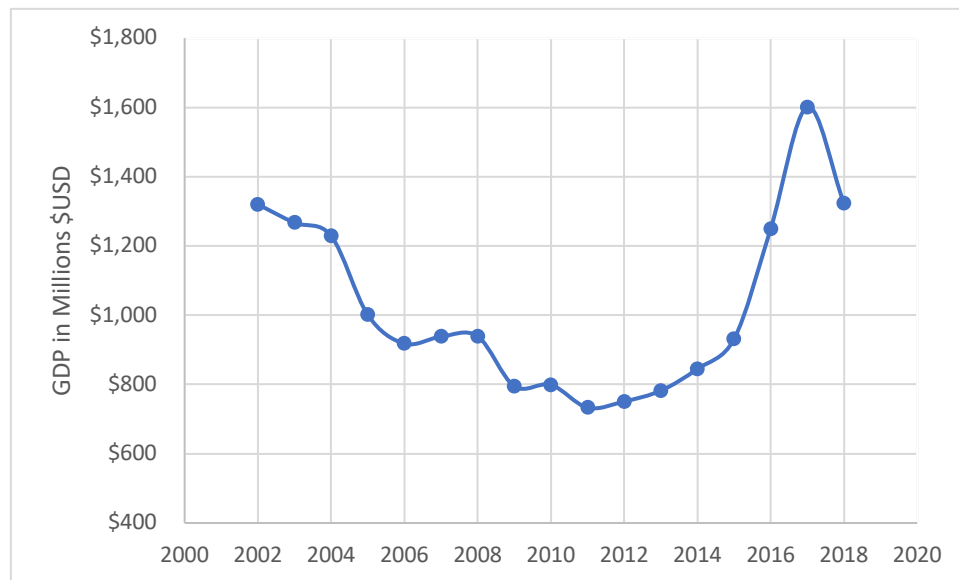
Section III provides the Council's outlook for the economy in the year ahead and lays out the present and prospective challenges facing the administration as the CNMI recovers from the Covid-19 pandemic.



Section I: Economic Recovery and Covid-19

In the period between 2015 and 2018, the CNMI economy grew by a remarkable 29.5%. This period saw the CNMI economy grow above one billion dollars in value since 2007. These changes marked the first real economic recovery of the CNMI following the steady collapse of the manufacturing sector in the early to mid-2000s. The growth in this period was driven by a surge of new private investment, a resurgence of personal consumption throughout the islands and the strengthening tourism market.

Figure 1: CNMI Nominal Gross Domestic Product 2002-2018. Source: U.S. Bureau of Economic Analysis¹



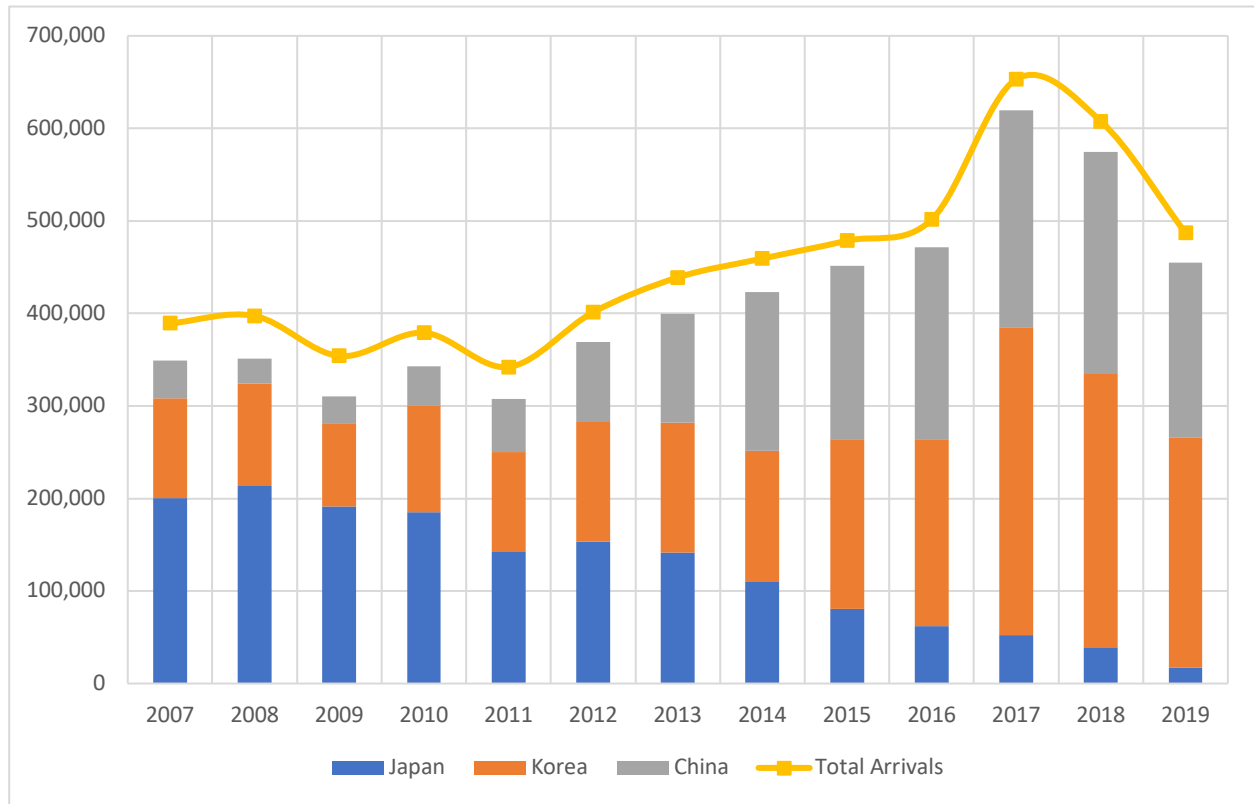
Tourism gained a strong foothold in these years with tourist from South Korea and China representing the bulk of arrivals to the CNMI. Over the course of the economic recovery, between the years 2015 to 2019, the CNMI welcomed on average 252,000 visitors from South Korea, and 212,000 from China annually.² In 2016, total arrivals breached the 500,000-arrival threshold marking the first-time arrivals were exceeded this threshold in 11 years when Japan Airlines ceased service to the CNMI. In 2017, the CNMI tourism industry surged once more with arrivals reaching 653,150, nearing the historical arrival record set in 1997.

Growth in arrivals during this period were bolstered by a renewed demand in the South Korean market and the accessibility of the CNMI to tourist from the Peoples Republic of China through the U.S. Department of Homeland Security's Discretionary Parole program, which permitted Chinese nationals entry into the Commonwealth without a visa.

¹ Typical annual comparisons are best depicted through the listing of Real GDP that accounts for the inflation of value in the dollar and bases that value on a given year for consistency. The presented graph encompasses reported GDP figures from the U.S. Bureau of Economic Analysis in two separate reports that base Real GDP values in two base years. In lieu of replicating the calculations and varying from figures reported in the two reports, nominal GDP is provided as a depiction of peaks and troughs throughout the period.

² For the purposes of these figures, arrivals from Hong Kong are classified as arrivals from China. Data derived from the CNMI Department of Commerce, Economic Indicators and the Marianas Visitors Authority.

Figure 2: Annual Tourism Arrivals to the CNMI by Source Market and Total 2007 - 2019. Source: Marianas Visitors Authority



By this period, tourism represented the primary source of economic activity in the CNMI, and largest driver of private sector employment and government revenue. Tourism represents 51.8% of the CNMI's GDP, 45% of all value added to the economy, and 42% of all private sector employee compensation. The growth of the tourism sector, as a component of overall Gross Domestic Product, within the 2015-2018 period has seen the industry nearly overtake the significance of the, now defunct, manufacturing sector in both share of GDP and in private sector share of overall employee compensation.

Figure 3: Share of GDP for Exports of Goods and Exports of Services 2005 - 2018. Source: U.S. Bureau of Economic Analysis³



Figure 4: Private Sector Employee Compensation by Industry 2005 - 2018. Source: U.S. Bureau of Economic Analysis



³ Tourism revenue from foreign tourists is classified as an Export of Service with the calculation of Gross Domestic Product

2018 signaled the beginning signs of trouble for the tourism industry with the loss of direct air service between the CNMI and Japan through Delta Air Lines in June of that year. This reduction in air service further set back the diminishing Japanese market whose decline was initiated in 2005 with the loss of Japan Airlines. In September, the CNMI experienced an initial disaster in Typhoon Mangkhut, which struck the island of Rota causing destruction on the island and disruptions to services throughout the CNMI. Typhoon Mangkhut was soon followed by the devastation brought by Super Typhoon Yutu on October 24, 2018.

Super Typhoon Yutu was the strongest storm to make landfall in the United States since 1935.⁴ The 180 mile an hour winds destroyed homes, businesses, and public facilities across Tinian and Southern Saipan, causing catastrophic damage to the Saipan International Airport. The level of destruction was immense, and the damages to critical airport facilities effectively halted visitor arrivals to the CNMI for weeks as the CNMI assessed and responded to the impacts.

Total arrivals in November 2018 were 5,595 with 44% of arrivals coming from destinations other than the CNMI's top three markets of Japan, China and Korea. In total, arrivals for the month fell by 88.35% or 42,444, marking the sharpest year-over-year downturn in recent history. Due to the influence of the tourism industry in the CNMI and the scale of the disaster brought by Super Typhoon Yutu, the impacts were wide-ranging and pronounced.

When placing the expenditure estimates and the expenditure multiplier against the mean forecasted arrivals for the months of October through December 2018, the estimated lost economic activity, both direct and indirect, can be calculated and totaled.

In total, based on a conservative outlook for the first quarter of Fiscal Year 2019, the estimated total loss in direct economic activity caused by Super Typhoon Yutu was \$51,586,476.69. The estimated total loss in indirect economic activity within this three-month period is \$83,570,092.23, or 6.3% of 2018 GDP.⁵

⁴ <https://www.washingtonpost.com/energy-environment/2018/10/24/extreme-category-typhoon-yutu-makes-devastating-landfall-northern-mariana-islands-us-commonwealth/>

⁵ Forecasted arrivals produced through a timeseries forecasting model utilizing an autoregressive integrated moving average technique with regressors that include foreign currency variations as measurement of price competitiveness against source country currencies. Data set utilized was arrivals statistics for the CNMI from October 2005 to September 2018. Calculation of table figures performed by the Council of Economic Advisers

		DIRECT ECONOMIC IMPACT	INDIRECT ECONOMIC IMPACT	PROJECTED DIRECT IMPACT	PROJECTED INDIRECT IMPACT	LOST DIRECT IMPACT	LOST INDIRECT IMPACT
CHINA	Oct	\$ 9,442,159.80	\$ 15,296,298.88	\$ 13,740,233.39	\$ 22,259,178.10	\$ 4,298,073.59	\$ 6,962,879.22
	Nov	\$ 1,695,323.20	\$ 2,746,423.58	\$ 13,451,905.80	\$ 21,792,087.39	\$ 11,756,582.60	\$ 19,045,663.81
	Dec	\$ 11,037,998.60	\$ 17,881,557.73	\$ 13,771,155.33	\$ 22,309,271.63	\$ 2,733,156.73	\$ 4,427,713.90
JAPAN	Oct	\$ 253,238.80	\$ 410,246.86	\$ 188,791.80	\$ 305,842.72	\$ (64,447.00)	\$ (104,404.14)
	Nov	\$ 95,533.20	\$ 154,763.78	\$ 210,779.60	\$ 341,462.95	\$ 115,246.40	\$ 186,699.17
	Dec	\$ 714,224.40	\$ 1,157,043.53	\$ 360,145.00	\$ 583,434.90	\$ (354,079.40)	\$ (573,608.63)
KOREA	Oct	\$ 8,844,888.96	\$ 14,328,720.12	\$ 12,852,132.10	\$ 20,820,454.01	\$ 4,007,243.14	\$ 6,491,733.89
	Nov	\$ 301,995.63	\$ 489,232.92	\$ 15,730,673.69	\$ 25,483,691.38	\$ 15,428,678.06	\$ 24,994,458.46
	Dec	\$ 4,052,201.25	\$ 6,564,566.03	\$ 17,429,731.81	\$ 28,236,165.54	\$ 13,377,530.56	\$ 21,671,599.51
OTHER	Oct	\$ 946,000.00	\$ 1,532,520.00	\$ 1,121,320.40	\$ 1,816,539.05	\$ 175,320.40	\$ 284,019.05
	Nov	\$ 980,000.00	\$ 1,587,600.00	\$ 1,056,329.20	\$ 1,711,253.30	\$ 76,329.20	\$ 123,653.30
	Dec	\$ 1,026,000.00	\$ 1,662,120.00	\$ 1,062,842.40	\$ 1,721,804.69	\$ 36,842.40	\$ 59,684.69
Total						\$ 51,586,476.69	\$ 83,570,092.23

With major damage sustained to 11% of the CNMI’s hotel room stock in the months preceding the disaster, tourism arrivals had a slow resumption through calendar year 2019. Korean and Chinese arrivals experienced an unseasonably low first quarter of the year as the effects of Super Typhoon Yutu lingering, but as the months progressed the Korean market saw a resurgence in the fourth quarter as December 2019 arrivals recorded its highest visitor count in the history of the CNMI tourism market.

Shortly following the impacts of Super Typhoon Yutu, the CNMI government and the tourism industry became aware of movement within the Trump administration to end the discretionary parole authority allowing visa free travel of Chinese nationals to the CNMI. This concern prompted Governor Torres in October 2018 to call for formal consultations permitted under Section 902 of the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (Covenant) on the subject of the program.

Through three rounds of consultations with President Trump’s appointed Special Representative to the consultations, Office of International and Insular Affairs Assistant Secretary Douglas Domenech, the CNMI succeed in securing critical agreements that the Chinese tourism market is of vital necessity to the CNMI economy, and established formal recommendations to include China into modifications of the Guam-CNMI Visa Waiver Program to allow for continued access to this important economic market.⁶

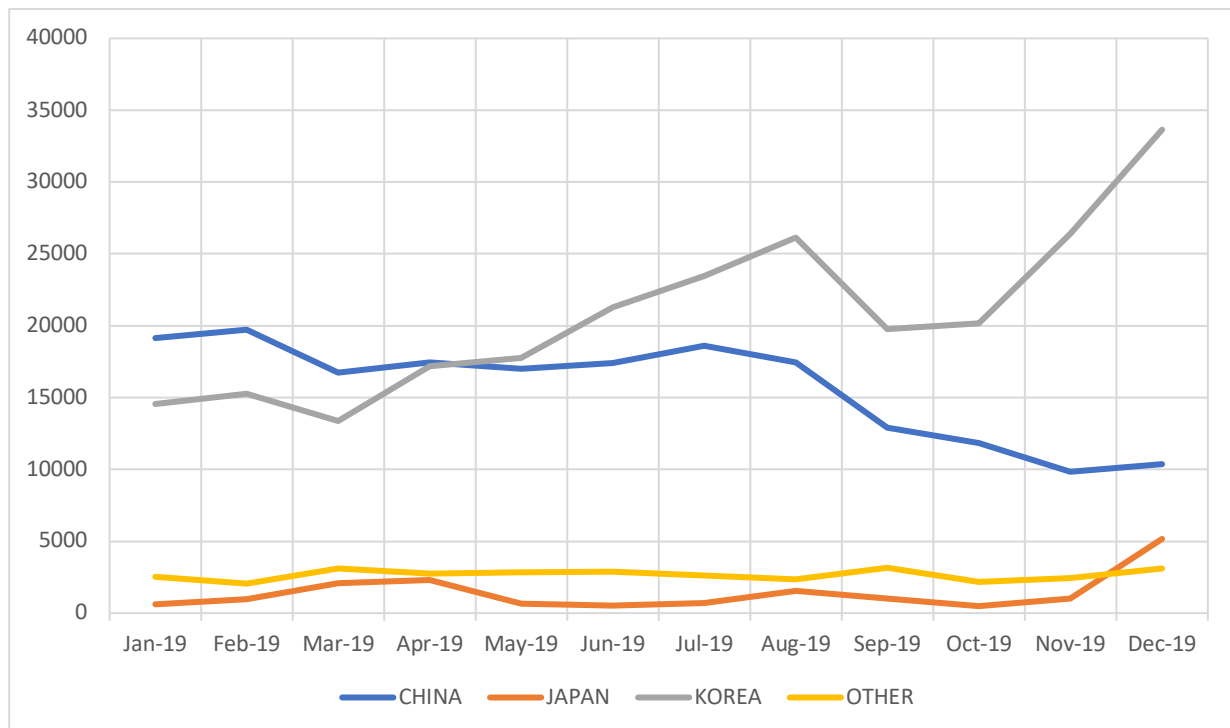
Still, with concerns over revocation of discretionary parole authority subsided, the China market showcased persistent declines versus the prior year’s arrivals, with a noticeable decline in demand beginning in August 2019 that corresponds with a dramatic devaluation of the Chinese Yuan against the dollar and an escalation of the trade conflicts between the United States and China.⁷

⁶ Report to the President on 902 Consultations Related to the DHS Discretionary Parole Program. May 15, 2019

⁷ Difference in Difference analysis of China tourism arrivals showcase statistically significant relationship between impacts of these factors on August 2019. Analysis performed by the Council of Economic Advisers.

These global economic conditions are considered a cyclical downturn in the Chinese tourism market of approximately 30% assumed to be unrelated to impacts caused by natural disasters. December 2019 figures on Chinese arrivals were at a 7-year low for the month.

Figure 5: CNMI Tourist Arrivals – Calendar Year 2019. Source: Marianas Visitors Authority



Due in large part to the proactive engagement of the CNMI government, the Marianas Visitors Authority, and the private sector, the Commonwealth succeeded in reinstating direct service from Japan to Saipan through agreement with Skymark Airlines. This agreement bolstered Japan arrivals through the later third quarter and fourth quarter of calendar year 2019, softening the impact of the decreased demand for Chinese tourism.

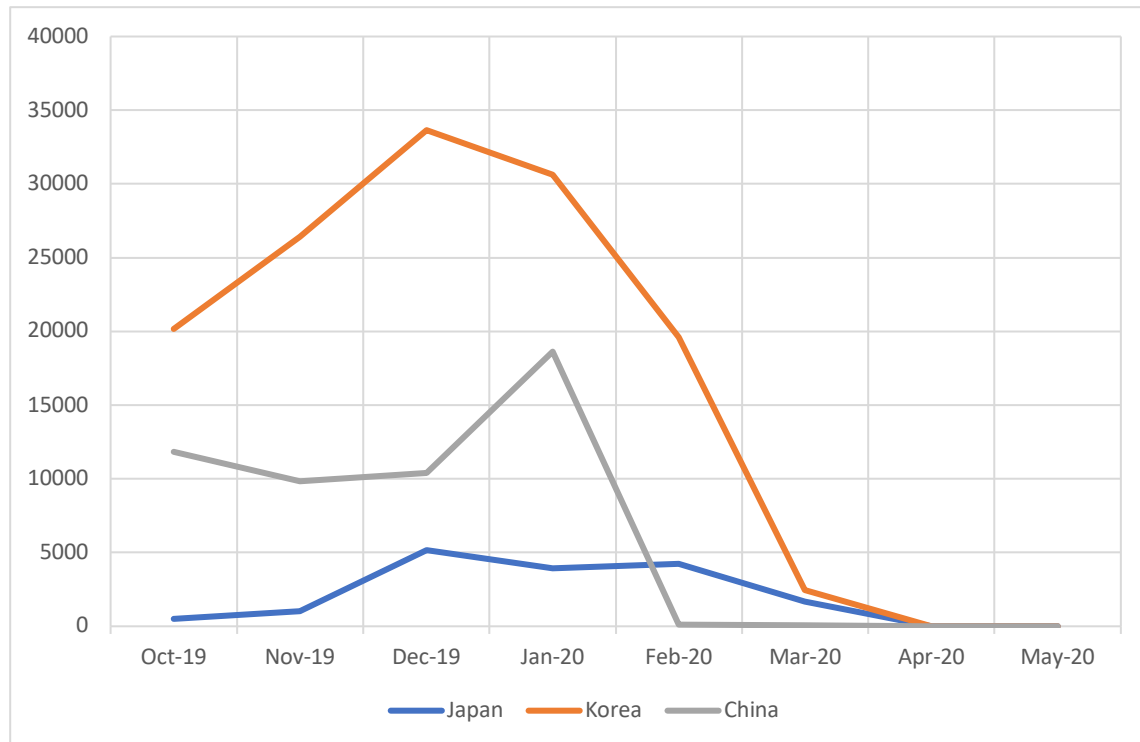
The World Health Organization first learned of a new coronavirus on December 31, 2019 following investigation on a report of a cluster of cases in Wuhan, China.⁸ The virus later classified as the novel Coronavirus Disease 2019 (COVID-19) began its global spread at the start of 2020, with catastrophic impacts to the global economy and international tourism.

In response to concerns of the growing outbreak, on January 29, 2020, Governor Torres issued an emergency declaration to empower the Commonwealth Healthcare Corporation (CHCC) to implement its public health emergency protocols, quarantine measures and other monitoring efforts at all CNMI ports of entry, as well as, directing the Commonwealth Ports Authority (CPA) to seek to suspend travel from mainland China.

⁸ <https://www.who.int/emergencies/diseases/novel-coronavirus-2019>

While CPA found no avenue to mandate the suspension of flights to the Saipan International Airport, shortly thereafter, air service operators to the CNMI ceased flights from China, South Korea, and Japan. By April 2020, all international flights into the Saipan International Airport ceased and the tourism industry effectively ground to a halt.

Figure 6: CNMI Tourism Arrivals by Top Three Market – October 2019 – May 2020. Source: Marianas Visitors Authority



In April 2020, following the first reported cases in Guam, and the first 2 cases in the CNMI, the CNMI government initiated a series of actions to mitigate the risk of infection from the virus through the institution of individual and commercial curfews, limitations on commercial activity, and restrictions on the size of community gatherings. The Federal Emergency Management Administration officially announced that epidemiologic modeling suggested that the total positive case count in the CNMI could reach its peak of 6,000 by June 2020, far exceeding the medical capacity of the CNMI’s healthcare system.⁹

The CNMI government made great effort in preventing this worst-case scenario and, through diligent efforts to secure testing kits from South Korea, instituting strict community protocols, acquiring expanded medical facilities and quarantine sites, and engaging in a wide-spread and effective public information campaign, reduced the threat of the virus throughout the community, undoubtedly saving lives of CNMI residents in the process.

⁹ <https://www.saipantribune.com/index.php/chcc-takes-over-reins-of-ac/>

As of December 8, 2020, the CNMI had a total of 113 confirmed COVID-19 cases, with 2 deaths and 107 individuals released from isolation, and counted 112 consecutive days since the last confirmed report of community transmission. This is a remarkable success when compared to the island of Guam who have tallied 7,052 confirmed COVID-19 cases and 115 deaths in the same time period.¹⁰

During the height of concern over the impacts of COVID-19 on the population and the severe impacts the pandemic brought to the CNMI economy, Governor Torres established the Economic Recovery Task Force consisting of members of the private sector to work with the COVID-19 Task Force and CNMI Public Health officials to establish a pathway to mitigate further harm to the economy while maintaining adequate protections for CNMI residents. Through this effort, the Economic Recovery Task Force aided in the creation of the CNMI's Community Vulnerability rating system and the CNMI Economic Recovery Plan, which created the framework for the alleviation of community restrictions based on levels of reported COVID-19 infections in the community.

At the time of the creation of the Governor's Council of Economic Advisers, it was clear that the impacts of COVID-19 represented the worst economic crisis the CNMI has faced in generations. Presently, tourism arrivals to the CNMI are projected to be the lowest annual arrivals since 1982 where available statistics are available.¹¹ With no other industry present to support employment, commercial activity, and government revenues, the collapse of this single industry will repercussions for the future of the CNMI that will last for years.

In this environment, and through the partnership established between the private sector and the CNMI government in the Council, full efforts have been placed to safeguard the viability of the CNMI economy and aid in implementing a renewed system for economic growth that will see this period as a transformational moment in the development of the Commonwealth.

To aid in the effectiveness of the Council's efforts, regular meetings of the Council sought to engage with key agencies of the CNMI government. Representatives from these agencies presented on their respective programs, goals, and challenges and engaged in dialogue with the Council members to provide answers and critical data that enriched the recommendations of the Council to the Governor. The collaborative sessions with these agencies showcased the immense potential of combining the voices of private sector and governmental leaders in the formulation of policy that will encourage economic growth and enhance the quality of life for the residents of the CNMI. Over the course of the activities in 2020, the following agencies participated in the Council's monthly meetings:

¹⁰ Daily tallies of COVID-19 statistics is presented on the Saipan Tribute "At a Glance" section derived from data provided by the Commonwealth Healthcare Corporation and the Joint Information Center – Guam.

¹¹ Reference derived from data available in the CNMI Tourism Master Plan 2012-2016

Date	Guest Speaker	Agency
July 15, 2020	Esther Muna Chief Executive Officer	Commonwealth Healthcare Corporation
August 13, 2020	Manny Sablan Executive Director Marie Coleman Loan Manager	Commonwealth Development Authority
August 13, 2020	Jesse Palacios Corporate Director	Northern Mariana Housing Corporation
August 13, 2020	Kioshi Cody STEP Project Coordinator	Department of Commerce
August 13, 2020	Secretary David Atalig	Department of Finance
August 13, 2020	Secretary Robert Hunter	Department of Community and Cultural Affairs
September 17, 2020	Vicky Villagomez Patrick Guerrero	Governor's Authorized Representatives
September 17, 2020	Epi Cabrera State Administrator	Office of Grants Management
October 15, 2020	Gary Camacho Executive Director	Commonwealth Utilities Corporation
October 15, 2020	Lorraine Seman Acting Director Henry Bautista Senior Highway Engineer	Department of Public Works
October 15, 2020	Gloria Cavanagh Acting Board Chair Priscilla Iakopo Managing Director Tatiana Babauta Product Development Manager	Marianas Visitors Authority
November 19, 2020	Allen Perez Chief of Staff	Tinian Mayor's Office
November 19, 2020	Aubry Hocog Special Assistant for Programs and Grants	Rota Mayors Office
December 16, 2020	Gloria Cavanagh Acting Board Chair Priscilla Iakopo Managing Director	Marianas Visitors Authority

Going further, the Council sought to engage the organizations in the community that represent the diverse networks of residents to build collaboration and to solicit their sentiments, goals, and objectives for the CNMI. Throughout the year, the Council conducted its community stakeholder outreach with the following organizations:



Business Sector	Ethnic Groups	Non-Governmental Organizations
<ul style="list-style-type: none"> • Hotel Association of the Northern Mariana Islands • Society of Human Resource Management – NMI • Saipan Chamber of Commerce 	<ul style="list-style-type: none"> • Korean Association of Saipan • Chinese Association of Saipan • Japanese Society of NMI • United Filipino Organization • Bangladesh Cultural Group • Thai Community of Saipan 	<ul style="list-style-type: none"> • Lions Club International District 204 Region 2 • Rotary Club of Saipan • Marianas Alliance of Non-Governmental Organizations • Micronesia Islands Nature Alliance • Triathlon Association of CNMI • NMI Cycling Federation • Mariana Islands Basketball Federation • Northern Mariana Islands Football Association • Aqua Connections • Emon Masonic Lodge 179 • Marianas Young Professionals • Saipan Young Professionals

From these engagements, the Council garnered information and support for its recommendations to the Governor, contained in Section II, that were borne from detailed dialogue and cross-sectoral understanding.

The Council greatly appreciates the time and willingness of all the governmental and community organizations who participated in these engagements and subsequent activities of the Council.



Section II: Council Recommendations

Since the establishment of the Council and through work conducted by the Committees of the Council as presented in monthly Council meetings, a series of recommendations have been produced and provided to the Governor in accordance with Executive Order 2020-11. The following section outlines and describes the recommendations provided and the accomplishments of goals to date.

Recommendation 1: Request to foster Public Private Partnerships in the development and maintenance of CNMI parks and tourist sites

The Council of Economic Advisers saw this period of constricted tourism arrivals as an opportunity to reimagine the tourism product the CNMI offers to the world and build synergies between public and private stakeholders of our parks and tourism sites that offers government resources greater efficiencies. This conversation is especially pertinent as government resources are presently burdened by the ongoing response to the COVID-19 pandemic and diminished revenues.

One key collaborative tool used in governments and states across the world is the Public Private Partnership (PPP) model. According to the World Bank's PPP Knowledge Lab, PPPs have offered a powerful policy tool for improving the economic sustainability of parks and enhancing the quality of services. While many forms of PPPs exist, in jurisdictions around the world, the CNMI has yet to fully capture the economic potential and efficiencies possible through formal collaboration with the private sector.

To foster the development of PPPs within the CNMI's tourism products and to greater facilitate tourism destination enhancement and maintenance, the Council of Economic Advisers recommended the following:

1. Establish an official Public Private Partnership policy through Executive Directive that permits agencies of the government to develop plans, Memorandum of Understanding (MOU), and processes for partnering with private sector partners in the administration of their public services.
2. Allow for the creation of a Parks and Tourism Related PPP Advisory Committee, comprised of the Marianas Visitors Authority, Division of Parks and Recreation, and the Department of Public Lands, along with the Council of Economic Advisers, to plan for the adoption, resource sharing and partnership necessary to see enhancements to our island's tourism products.
3. Permit the establishment of private sector adopted tourism sites, under the terms provided by an MOU with relevant agencies to transfer one or more functions of government management of parks and tourism sites to the private sector with clear delineations of the responsibilities of each party to the MOU.
4. Utilize the established Advisory Committee, to work toward the creation of concessionaire arrangements with private operators for tourism sites that have the potential to generate financial returns that can be reinvested in the development, upkeep and maintenance of sites. This model is ubiquitous across the world and is heavily utilized in world class tourism destinations as a method to appropriately target incentives and garner most efficiencies and returns for public parks and tourism sites.

For the Council, a PPP in this context would potentially allow for necessary capital investments to the CNMI's parks and tourism sites, such as lighting, restroom facilities, pathway development, and other amenities that increase the value of the site for potential visitors and residents alike. In partnering with the private sector toward allocating the resources for the development of these products, the government may take on targeted responsibilities for simple maintenance and upkeep



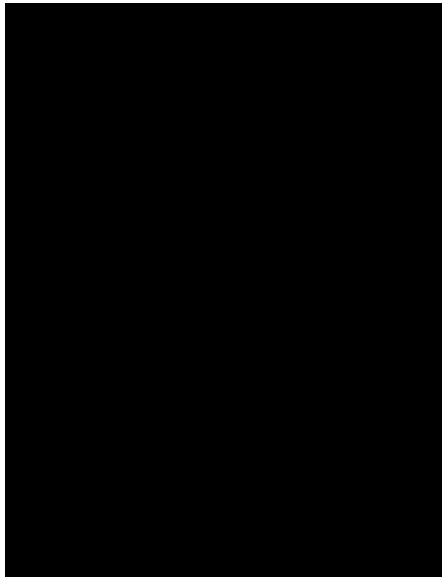
Similarly, concessionaire agreements can be placed on sites with significant tourist traffic, such as, the Grotto, Banzai Cliff, and Bird Island, where the market potential for significant returns can be increased if incentives can be placed toward the continued upkeep and further development of the site's amenities and attractions.

The Council of Economic Advisers noted the important issues that need to be addressed in the development of PPPs for the CNMI's parks and tourism sites. PPP arrangements should adhere to a set of principles to safeguard these precious resources of our community. These principles are: (i) Parks and Tourism sites should be operated with recognition of the need for community inclusion that provide both access to these sites by residents, as well as, opportunities for them to access employment and economic opportunity; (ii) Interests must be balanced to ensure environmental sustainability is compatible with the use and development of these sites; and (iii) concessionaire agreements and financial interests within these public sites be transparent to the public to ensure the government maintains the most efficient use and garners the greatest return from the public resource.

Council noted that in other jurisdictions, PPP programs see greater levels of participation where there is an incentive for private operators to participate. Concessionaire agreements are an example of this incentive structure; however, other mechanisms exist that engage tax incentives and corollary benefits to be offered that strike a balance between increasing government revenue while offsetting inefficient government functions through privatization.



While tax incentives are not envisioned in this recommendation, the Council of Economic Advisers wishes to note this potentiality for future developments of the CNMI's PPP program.



Since initiating the PPP program on public parks and tourist sites, the Council and Chairman Tan actively engaged civic organizations and business leaders across the CNMI to participate in adopting a public site and coordinated collaboration with relevant government agencies to reinvigorate and redevelopment these destinations. The following sites and partner organizations have signed onto this program:

*Public Private Partnership Program
As of January 13, 2021*

	Organization		Site
Rota			
1.	Rota Mayor's Office	1. — 2.	Benita Manglona Buildings, Rota (Songsong Village) Mendiola Park, Rota
2.	Filipino Community of Rota		
3.	Rota Merchandising, DK Brothers		
4.	Hotel Valentino *In partnership with Rota Mayor's Office, FilCorp, Rota Merchandising, DK Brothers for the Benita Manglona Buildings and Mendiola Park. Also, in partnership with CPA-Rota for the Airport Road.	3.	Airport Road, Rota
5.	Commonwealth Ports Authority - Rota		
Tinian			
6.	Triple J Enterprises, Inc.	4.	Jones Beach, Tinian
Saipan			
7.	Marianas Association of Filipino Engineers and Architects		A&E Consulting Services for PPP Construction Projects
8.	International Roller Skates	5.	Grotto
9.	Tasi & the Ali'is		
10.	DIVEWISH		
11.	Loco & Taco Dining Bar		
12.	Bibong Corp. (Mariana Lighthouse)		
13.	P&A Corporation	6.	Korean Peace Memorial
14.	Marianas Racing Association	7.	Cowtown
15.	Tan Holdings/Tan Siu Lin Foundation	8.	Gilbert C. Ada Gymnasium
			Directional and Location Signages
		9.	Bird Island Lookout
		10.	Gov. Froilan C. Tenorio Beach Road Pathway
16.	Kanoa Football Club	11.	Garapan Core Highway Medians
17.	Beach Road Tourism Development, Inc.		
18.	E-Land Group	12.	Pau Pau Beach
19.	Bridge Capital, LLC	13.	Garapan Central Park
20.	Rotary Club of Saipan	14.	Suicide Cliff
21.	Emon Masonic Lodge 179		

22.	Lions Club International District 204, Region 2	15.	Sugar Dock Beach
23.	Commonwealth Ports Authority - Saipan	16.	Airport Access Road, Saipan
24.	Airport Operators Committee		
25.	POI Aviation		
26.	Triathlon Association of CNMI	17.	North Trails
27.	NMI Cycling Federation		
28.	CTSI Logistics	18.	Ladder Beach
29.	Northern Mariana Islands Football Association	19.	Koblerville Village
30.	United Filipino Organization	20.	San Isidro Beach Park / Laly 4
	Triple J Enterprises, Inc. *Organization counted under the Jones Beach adoption.		
31.	Korean Community of Saipan	21.	Micro Beach
32.	Kanoa Resort Saipan	22.	Susupe Beach Park
33.	Chinese Association of Saipan		
34.	Palauan Community Association of the CNMI	23.	Naftan Point
35.	Tasi Tours	24.	Beach Road Flower Garden (National Office Supply to Marianas Lounge)
36.	Micronesia Islands Nature Alliance		

Public Private Partnership In Action: E-Land Adoption of Pau Pau Beach - Before



Public Private Partnership In Action: E-Land Adoption of Pau Pau Beach - After



Public Private Partnership In Action: Tan Holdings/Tan Siu Lin Foundation's Adoption of the Gilbert C. Ada Gymnasium - Before



Public Private Partnership In Action: Tan Holdings/Tan Siu Lin Foundation's Adoption of the Gilbert C. Ada Gymnasium - After



Public Private Partnership In Action: Tan Holdings/Tan Siu Lin Foundation's Adoption of the Gov. Froilan C. Tenorio Beach Road Pathway – Before



Public Private Partnership In Action: Tan Holdings and Tan Siu Lin Foundation's Adoption of the Gov. Froilan C. Tenorio Beach Road Pathway – After



Recommendation 2: To reestablish the American Memorial Park Development Advisory Committee alongside U.S. National Park Service

The Council found that pursuant to Section 803(e) of the Covenant to Establish the Commonwealth of the Northern Mariana Islands in Political Union with the United States of America and Part 5(B) of the Technical Agreement signed by the parties of the Covenant, along with Article XI, Section 6(d) of the Commonwealth Constitution, a portion of the funds held by the Marianas Public Lands Trust (MPLT) is held to produce income for the development and maintenance of American Memorial Park.

The resources provided by this investment of funds have provided for more than \$6.2 million in development projects for the park over the last 29 years, to include the tennis court installation, American Memorial Pavilion, AMP World War II Memorial, bicycle pathways, lighting, and collateral for a loan to build the Cultural/Visitors Center & Memorial Gardens.

As a collaboration between CNMI and National Parks Service officials, the management and development of these attractions over these many years has been a function and success of the American Memorial Park Development Advisory Committee.

Over the years since the creation of the last major development within the American Memorial Park, the Development Advisory Committee has dissolved, leaving the potential developments and management of the park without direct local consultation and involvement in decisions made for the park's future.

American Memorial Park represents a significant aspect of the CNMI's tourism product and the site in which it is located houses prime community, cultural, and historic value for residents and visitors of our islands.

American Memorial Park. Source: National Park Service



In the ongoing efforts to reinvigorate the CNMI's tourism attractions the Council of Economic Advisors recommended that the Office of the Governor formally engage the U.S. Department of Interior to reestablish the American Memorial Park Development Advisory Committee, and the appointments be made to provide the Development Advisory Committee with stakeholders from the CNMI versed in the historic, cultural, and economic importance of the site. The Council further

noted that in the past iteration of the Development Advisory Council, the lead for the CNMI has been a responsibility delegated to the Lieutenant Governor.

The Council of Economic Advisors believed that the reestablishment of this Committee will provide for the necessary redevelopment of the park's assets, a venue to create new additions to the park's attractions and provide a space to host dialogue on the co-use of the park grounds for community activities.

Since providing this recommendation to the Governor, communication has been sent to the U.S. Department of the Interior to formally begin the process toward the re-establishment of the Development Advisory Committee for American Memorial Park.

Recommendation 3: Pathway toward establishing universal garbage collection

Key among the tourism enhancement priorities of the Council of Economic Advisers is the maintenance of the islands' image to our international tourist markets. One consistent hurdle toward establishing the CNMI as a world class destination of choice for tourists from around the world is the proliferation of garbage, waste, and debris that litter the CNMI's beaches and tourism sites.

The Council noted that this issue is not new to the CNMI and has been recurrent throughout the many decades of our growing community, however, despite increased efforts to enforce anti-littering provisions of law, the root cause of much of the islands' waste issues continues to be access to appropriate disposal means.

The Council of Economic Advisers believes that enforcement of anti-littering laws and the establishment of universal garbage collection are the two primary components toward ensuring a destination that is safe, clean, and respectable for both residents and visitors alike.

The Council proposed a pathway for achieving universal garbage collection at homes and within our villages by leveraging existing private sector waste disposal assets toward expanding garbage collection coverage and pooling customers for communal waste disposal locations.

In Council discussions, it was noted that American Samoa transitioned its solid waste management system toward a more universal garbage collection process. Council member Gary Sword provided his experience from his involvement in the American Samoa effort and collaborated in highlighting the best practices derived from the development of that program for the Council's recommendation.

This proposal consists of the following elements:

1. Cost of garbage collection services be included into the billing for each residential customer of the Commonwealth Utilities Corporation

CUC's billing database represents the most consistent and wide-ranging avenue to create a single and simplified garbage collection system. This combination of utility provision and garbage disposal is prolific across communities in the United States. Cities like Orlando, Florida and Walla Walla have combined solid waste collection billings to the monthly utility bill and have successfully operated curb side residential pick up of household garbage.

2. Recognition of the limitations on resources of public agencies

The Council recognizes the impact the creation of this additional service will levy onto a public agency, especially during this period. For this reason, the Council believes that existing garbage collection services present in the CNMI can be leveraged through government contracting to support the operation of collection and disposal. Details of this element is discussed further below.

3. Establish garbage collection zones across Saipan

Saipan's roadways and geographic features make the even application of government services across villages challenging. The establishment of zones that are geographically and demographically collocated will aid in the logistical management of garbage collection. By way of recommendation, the creation of 5 zones that replicate the existing electoral precincts would offer a delineation of areas while maintaining an equal accounting for the population within each zone.

4. Permit a Request for Proposal process to operate garbage collection services for each household with current billing with CUC

The CNMI presently has 3 main garbage collection firms operating throughout the island. No one firm has the capabilities, assets, or personnel to provide coverage for the whole island. The criteria for selection of a firm to manage the collection service for a particular zone should include containing customer costs to the appropriate and equally applied level across all zones, the number of existing customers already contained within a particular zone, and a schedule for collection that will accomplish universal collection for all customers within a month's period.

Further firms should be expected to propose communal garbage transfer stations within each zone that will serve as the respective zone's transfer station.

5. Collect charges for garbage collection through CUC billing processes as a means to fund island-wide garbage collection services procured

In adding garbage collection services to the standardized monthly billing from CUC, the total cost of the bill, should include the cost of procured private services, necessary administrative costs for the agency, and any additional costs required for the establishment of communal transfer stations in the particular zone.

6. Ensure standardized rates, charges and fees across customers and across zones

As the customer base for private garbage collection services increases, along with the respective reduction in administrative costs necessary to manage individual customers, the cost per customer should see noticeable savings that can allow for an affordable and equal cost to customers across zones.

Recommendation 4: Tourism Resumption Blueprint

Amidst the global turmoil surround the COVID-19 pandemic, the Council saw the need to initiate conversation on the eventual resumption of tourism activities in the CNMI. This critical and sensitive issue was aimed at recognizing the concerns of the residents of the CNMI and the international travel community, while attempting to create a new system of travel to the Commonwealth that, to the greatest extent possible, encouraged economic activity while limiting risk to individuals and families.

This long-term project of the Council engaged several meetings and draft iterations through the Council's Committee on Tourism Infrastructure lead by Chairman Alex Sablan toward the development of a Tourism Resumption Blueprint that would assist in the important domestic and international discussions surrounding the resumption of flights to Saipan.

Within the Blueprint, the following principles were provided as the proposed the foundation for the decisions and plans to resume tourism activity with the CNMI:

- The CNMI will continue to utilize the available testing resources to collect infection data among individuals present in the islands.
- This data guides the actions of government and health care officials in determining the extent to which economic and community activity can be safely engaged.
- The resumption of tourism to the CNMI is to be sought in response to testing data that sufficiently provides clear indication of a diminished concern of the threat of infection among the population.
- Tourism activity will be centered on ensuring safety for all stakeholders and participants.

In fulfillment of these principles, the Blueprint proposed the following core elements to enact the plan:

Expansion of CNMI Community Testing Initiative

The CNMI's unique capability to test large proportions of the domestic population is the foundation of efforts to resume commercial activity. The continuation and expansion of the Community Testing Initiative should be leveraged to ensure the safety of tourism stakeholders, employees and visitors to our islands. The lower prevalence of COVID-19 cases in the CNMI creates a safer environment for visitors. Ensuring a robust testing system for employees in direct contact with visitors ensures transmission of the disease can be mitigated both for the visitors and the domestic population.

Presently, the CNMI government, alongside public health care officials, are engaged in a wide-ranging community testing initiative that aims to increase testing coverage among the resident population.

Ensure suitable levels of community safety

The CNMI government has created a phased pathway toward community restrictions and precautions that accounts for community and visitor data on the number, impact, and trends of infection rates throughout the islands.

Under the CNMI Economic Recovery Plan, the CNMI is utilizing its unique ability to perform mass community testing to review the vulnerability of the community to increased outbreaks and health concerns.

The graduated cumulative testing brackets are designed to allow the alleviation of restrictions provided by the government based on advancing through a COVID-19 Rating system discussed

below. Many of the restrictions to be reviewed at the achievement of the respective benchmark are announced publicly through the stages of implementation. This encourages the community to promote testing and collaborate to continue appropriate distancing and hygiene measures to surpass the aggregate volume of negative tests required to alleviate unwanted restrictions.

The activities permitted on a spectrum which can be scaled up or scaled back based on the CNMI's COVID-19 Rating. The CNMI's COVID-19 rating will be based on testing rates and percentage of test positive over the previous 30 days and calculated daily. Hospital capacity, ICU admissions, mortality due to COVID-19, and regional outbreaks may also factor into rating and decision-making.

The following formula is utilized in calculating the COVID-19 rating:

$$\frac{\#Tested}{.20(Population)} + \frac{\#NegativeTests}{.999(\#Tested)} = COVID - 19 Rating$$

Presently, the CNMI remains in Community Vulnerability Level "Blue", which is the 4th safest level on the measurement system. At present rates of testing and infection, the CNMI anticipates reaching the lowest level of vulnerability "Green" in the coming weeks.

Establishment of Safe Tourism Corridors

As much as possible, for the safety of visitors and residents, tourism corridors throughout the CNMI should be identified by health care officials.

Priority should be given to the resumption of activity within self-contained resort establishments as central nodes of the tourism corridor. Hotels with restaurants, entertainment and facilities within their premises will serve to ensure access to quality tourism products.

Tour packages, schedules, and accommodations primarily geared toward the tourism clientele should be cataloged by the CNMI government, and domestic employees of these establishments should be given testing priority to limit any potential infection.

Each element of the corridor should be staffed by employees with proper personal protective equipment.

Connecting Tourism Corridor with Community Monitoring

Each node of the corridor will serve as a monitoring point for the CNMI COVID-19 Task Force. At each establishment thermal monitoring and health screening shall be implemented and, in instances of health concern, the establishment will notify the COVID-19 Task Force of the incident and assist in the efforts to mitigate any harm. The COVID-19 Task Force is responsible for ensuring appropriate channels of communication are established between the separate nodes of the corridor and the appropriate monitoring system, as well as, educating tourism stakeholders of the appropriate safety protocols for containment.

Rapid Response Program

The COVID-19 Task Force and the CNMI Government should establish a rapid response program to respond to incidents of concern that arise from a monitoring point within the tourism corridor. Rapid and timely response to potential health risks will protect domestic employees and residents, as well as other visitors in potential interaction with the disease. The tourism stakeholders will comply with the requirements for rapid response and assist in the containment of any incidents.

If the CNMI encounters an incident in which a visitor showcases symptoms or is found to be positive for COVID-19, the CNMI government will engage its existing protocol for containment and will immediately notify the visitor's country of origin through established channels.

Marketing Safe CNMI Tour Packages

As much as possible, international travel to the CNMI for the purposes of tourism should be marketed and booked through certified CNMI tour operators and progress through approved and safe tour packages. These packages should allow for the experience of the CNMI, while making every effort to mitigate any health concerns. Tour packages should be created in coordination with the Marianas Visitors Authority and the COVID-19 Task Force and can include hotel accommodations, restaurants, tourist attractions, beaches.

Tour and hotel operators are responsible for the monitoring and containment of their visitors and should maintain adequate and up to date records of the names and contact information for tour staff who are in regular contact with visitors.

In line with these elements, the Council attempted to aid in the mitigation of risk through the support of the CNMI's designation of High and Low Risk origin countries that would be permitted entry into the established "Tourism Bubble" with the CNMI.

Since the production of the Blueprint, the Marianas Visitors Authority requested the Council to be the lead agency in implementing the resumption plans for the CNMI. In response to the request from MVA, Chairman Tan supported MVA's efforts and the Council continues to assist in the development of safe travel corridors in the CNMI and the eventual, safe resumption of tourism activities in the Commonwealth.

In 2021, MVA plans on implementing the concepts proposed within the Blueprint to resume a partial resumption to tourism arrivals from South Korea. The framework of this resumption builds upon the safe tourism corridor concept by first requiring valid PCR testing prior to arrival, testing upon entry, and testing after the fifth day on Saipan. This corridor further establishes an initial corridor with a central node at the Pacific Islands Club for the duration of the mandatory quarantine period of five (5) days where a limited corridor will be permitted which excludes contact with the resident population. Following a negative test on the fifth day of the visitor's stay, they will be transferred to a second facility, the Kensington Resort, where the visitor will be able to experience the greater number of attractions and accommodations available in the CNMI. In line with the recommendation of the Tourism Resumption Blueprint, additional precautions are being prepared

to ensure the safety for the resident hotel and tourist industry staff to mitigate the risk of community spread along with guidance and support of the COVID-19 Task Force.

Recommendation 5: Separation of the Commonwealth Development Authority and the Northern Marianas Housing Corporation

In Council discussions, Council member, Marcie Tomokane, highlighted that the new responsibilities entrusted to the Northern Marianas Housing Corporation, in adequately meeting their obligations to administer the Community Development Block Grant – Disaster Recovery program and the timely mobilization of \$240 million in infrastructure resources, required the commitment of a stand-alone governing board, separate from the shared board structure with the Commonwealth Development Authority presently in place.

The Council recommended that the Governor, through his executive powers, allow for the appointment of the Northern Marianas Housing Corporation Board distinct from the membership of the CDA board.

The Council believed that in doing so, greater focus can be given to these two important bodies and their respective roles in securing the economic recovery of the Commonwealth in this important time.

In September 2020, Governor Torres signed Executive Order 2020-21 formally separating the Northern Marianas Housing Corporation from the Commonwealth Development Authority.

Recommendation 6: Consideration to revisit and implement the 2015 Integrated Resource Plan

One primary consideration that impacts all committees created within the Governor’s Council of Economic Advisers is the affordability and reliability of power. Over the course of the CNMI’s development as a modern economy, power generation has been consistently considered both a prerequisite of private sector development and a perpetual hurdle toward accomplishing greater levels of economic growth.

In 1977, the Northern Mariana Islands Government, under the Office of Transition Studies and Planning reported in its Socioeconomic Development Plan for the Northern Mariana Islands 1978 to 1985, that “Power, water, sewer and solid waste disposal... are the service foundations for economic growth and social well-being.” The report found that at the time “Power supply is now uncertain, and power distribution lines are inadequate.” Providing that “This condition will be eliminated by the construction of new power generating facilities.”¹²

¹² Office of Transition Studies Socioeconomic Development Plan for the Northern Mariana Islands 1978 to 1985, page 32

In 1991, the CNMI Office of Planning and Budget published its Economic Development Strategy to provide development strategies for a growing Commonwealth economy. In providing recommendations for the improvement of the availability, reliability and quality of electrical power, the study recommended that the CNMI “Install additional carrying capacity, improve and rehabilitate the existing distribution system bring it up to standards to improve the quality and reliability of power, to reduce line losses from 25% to 7% by 1995 and to allow for growth.”¹³ In 1991, two power generating units were placed in service in Saipan Power Plant 1, with 10 MW capacity respectively. This was the last time new generators were placed in service in Power Plant 1.¹⁴

Since these developments and plans, the 2015 Integrated Resource Plan, funded by the U.S. Office of Insular Affairs for the Commonwealth Utilities Corporation, found that power generating facilities in Saipan, supported fully by the assets in Power Plant 1 is “reaching the end of its useful life expectancy” with eight of the power generating units being between 25 and 35 years old. According to the plan, CUC engineers spend “considerable time and effort on a daily basis maintaining Power Plant 1, often needing to fabricate new replacement parts as needed, because specific replacements are often simply unavailable due to the vintage of the plant.”¹⁵

The Council asserted that the reliability and affordability of power generation has been at the forefront of development planning efforts in the Northern Mariana Islands since before the Commonwealth’s existence. Despite the numerous attempts to justify investment and expansion into islands’ power generating assets, the CNMI economy has been consistently encumbered by a structural inability to finance and procure the needed assets for development.

The Council believed that the 2015 Integrated Resource Plan, in its effort to build efficiencies in power generating planning and procurement, represents the most credible path forward for consideration by the CUC and that the present state of the islands’ power system demands a review and reform to the methods the CNMI generates and distributes power.

The Integrated Resource Plan (IRP) sought to provide a holistic evaluation of supply-side and demand-side power delivery and demand abatement resource options for the utility over a long-term planning horizon, while balancing the benefits of such options with recognition of constraints, most notably cost, commercialization of technologies and associated risks, and the priorities of CUC’s customers.

In implementation of this goal the IRP strategy focused on investigating two core questions

1. What is the domain of plausible resource scenarios that are actually available to CUC of a long-term planning horizon?
2. What are the analytical steps that must be taken to objectively evaluate these IRP Scenarios to arrive at a holistic plan to meet CUC’s long-term resource needs?

¹³ CNMI Office of Planning and Budget Economic Development Strategy, Fiscal Year 1990-1991, page 92

¹⁴ Commonwealth Utilities Corporation 2015 Integrated Resource Plan Final Report, Page 3-9, Table 3-2

¹⁵ Commonwealth Utilities Corporation 2015 Integrated Resource Plan Final Report, Page 2-1

In investigating these questions, Leidos, the contractor hired to develop the IRP, undertook a lengthy process to interview stakeholders, and host workshops and working group sessions and meetings. These efforts culminated in a strategy to develop the IRP scenarios, issuance of energy supply requests for proposals, develop an understanding of the CUC system, development of engineering estimates to supplement the IRP assumptions and the evaluation of a series of potential residential and commercial demand-side management programs.

In the development of the IRP, Leidos supported the development and issuance of Energy Supply Requests for Proposals, which received bids on the range of energy options. The qualified Energy Supply Bids that were submitted in response to this RFP are listed in Table 3-3 of the IRP.

Recommended Actions

The IRP discusses the considerations, actions, and assumptions in detail throughout the report, however in brief, the following are the recommended actions provided by the plan that merits consideration and action.

1. Develop IRP Implementation Plan

CUC should establish an implementation plan for the IRP that include specific milestones. This plan should include:

- a) Procurement Decision on the issued Energy Supply RFP bids and responses made during the IRP development process
- b) Procurement Implementation to execute the require detailed implementation studies to identify technical considerations necessary to develop new generating and demand-side resources and integrate them onto CUC's system
- c) Procurement Negotiations to negotiate contracts for EPC, PPA or a combination of these arrangements

2. IRP Maintenance

CUC should revisit and make revisions onto the IRP to have it remain a viable plan and account for the dynamic nature of the electric industry.

3. Collect and Warehouse Operations Data

CUC should initiate a data collection and retention program to ensure future availability of data on hourly loads, generation, distributed PV penetration, sales, fuel costs, and other key systems parameters that were limited in accessibility during the duration of the IRP's development.

4. Develop a Fuel Price Hedging Program

CUC Should establish a fuel price hedging program to mitigate price swings in world oil markets to safeguard CUC customers from the inherent volatility in fuel prices.

5. Conduct a Cost-of-Service Study

CUC should conduct a Cost-of-Service Study to identify the true costs of service by customer class and quantify administrative and general expenses to determine whether rate design modifications may be appropriate to more accurately recover CUC's true cost of service.

At the time of the recommendation, it was not clear whether any of these recommendations have been acted upon by CUC.

The Council of Economic Advisers found that in the continuing degradation of CUC's current power generating assets, the efficiency of the current assets, and the continual uncertainty and costs of current power generated by CUC, that consideration of the IRP process and a revisiting of its recommendations should be a priority for the Office of the Governor, the management of the CUC and its Board of Directors.

The Council believed that the economic costs of inaction or delay on the support of this crucial infrastructure component of the CNMI economy would be devastating. Energy, the access to it, its affordability, and its reliability, has been and will remain to be an absolute prerequisite to economic growth and viability in the CNMI.

Recommendation 7: The creation of the Commonwealth Economic Development Authority

The Council found that the Commonwealth economy requires a renewed focus on economic development and diversification to provide jobs, and economic opportunity to a community that has beleaguered with natural disasters, global crisis, and the lingering impacts of the wide-spread collapse of the manufacturing sector that has resulted in volatilities inherent within an undiversified economy.

The Council recommended, through the Council's Fiscal and Economic Diversification Committee lead by Matthew Deleon Guerrero, that a targeted focus of a single governmental entity to plan for and implement efforts to cultivate a stronger more diversified economy for the Commonwealth is necessary in establishing competitiveness against locations vying for global investments.

The Commonwealth Development Authority, since its establishment through the Commonwealth Development Authority Act of 1984, has succeeded in its statutory mandate over the course of the last 36 year. However, as global and regional economic landscapes change and industries evolve, we have found a need to amend the statutory language for the challenges of the 21st Century.

The Council recommended the establishment of the Commonwealth Economic Development Authority to take the place of the Commonwealth Development Authority in becoming the primary agency tasked with the economic development of the Commonwealth, and to be empowered to undertake this mandate with the flexibility to become proactive in the pursuit of industries and investments that will strengthen the CNMI economy.

Key components of this change would be to empower the Commonwealth government to have a single entity entrusted with the responsibility to:

- Assist in the development of the economic development plan for the Commonwealth, and control and implement that part of the plan assigned to it by the Governor of the CNMI.
- Be responsible for actively promoting the CNMI as a location for private investment.
- Promote and encourage the CNMI and development of new businesses within the Commonwealth, as well as promote the retention and expansion of existing businesses.
- Promote and encourage the expansion and development of market for the products of the CNMI and to encourage the establishment of commercial linkages of CNMI products within the CNMI tourism industry.
- Coordinate, develop, and participate in off-island investor missions to generate interest and investment in the CNMI, with emphasis on business investments from the United States of America.

Recommendation 8: Amendments to the Commonwealth Development Authority Qualifying Certificate Program

Paramount among governmental efforts to entice new industry development and cultivate the environment for general economic growth is a government's unique ability to provide for tax abatement and reduction in the effort to promote development policy. Taxes, by and large, represent a cost to development, innovation, consumption, and operation, and while representing a necessary source of resources to promote overall public wellbeing, cannot be overlooked as a costs impediment to economic growth among private industry.

It should be noted that the CNMI as a destination for private investment presents significant risk to investors. The regular occurrence of natural disasters in recent years, the limitations on accessible and trained workforce, uncertainties pertaining the application of Federal laws and regulation all amount to a premium on developing in these islands. Yet, competitive advantages exist within the Commonwealth that are worth exploring, promoting and unlocking for the benefit of the public.

Across the United States, cities, counties, states, and regional economic development districts have increased efforts and catalyzed enthusiasm of the use and expansion of local economic development spending through the use of government tax incentives. Over the course of the last three decades, spending by governments across the United States on tax incentive programs has greatly expanded toward the goal of increasing economic activity across distressed and underdevelopment areas. It is in this growing utilization of tax incentives to draw in investment that has created a highly competitive environment between states and local governments to offer

the most enticing opportunity for development, with each state maintaining at least one type of development incentive based on tax alleviation.¹⁶

The CNMI's resources to participate in this competitive national market for new American investment opportunities is limited and finds its strongest resources within the Investment Incentive Act of 2000, which, through subsequent amendment, provide for the Commonwealth Development Authority (CDA) to provide to private sector partners a Qualifying Certificate.

Presently in the CNMI, the Qualifying Certificate (QC) is intended to reduce business start-up and operating costs, geared toward industries the CNMI wished to incentivize to invest. The program grants tax relief through rebates and/or abatements of taxes to qualified investors.

Under the law, contained within 4 CMC § 50201 et seq., specific industries are targeted for qualification for the program. These industries include franchise restaurants, water parks, aquariums, cultural centers, theme parks, resort hotels and condominiums, golf courses, convention centers, dinner theaters, special events such as conventions and sporting events, CNMI based airlines and other aviation related activities, manufacturing or processing of high technology products, and internet related businesses and/or businesses engaged in internet commerce.

Qualified investors are eligible to receive up to 100% in rebates and/or abatements on CNMI taxes which include the business gross revenue tax, income taxes, capital gains taxes, excise taxes, developer infrastructure taxes, and alcoholic beverage taxes for a period of up to 25 years.

Current Status and Success of the Qualifying Certificate Program

Operating under the provisions of the Investment Incentive Act of 2000, there are presently two current beneficiaries of the QC program in the CNMI. However, the last application for a QC in the CNMI was in 2017, with only three total applicants in the last five years.

The Council believes that the Investment Incentive Act of 2000, served an important purpose during the period it was created, and has provided a number of successful outcomes for the economic development of the CNMI. However, the Council sees that there is need to update the program to keep current with changing dynamics in the competitive market for American investment and to provide greater resources to the CNMI's development entity (CDA) to compete with competitors across the nation and provide a more streamlined and targeted effort to use present tools to encourage economic diversification.

Reconceptualizing the purpose of government subsidies

It is important to recognize that inclusion into a tax incentive program is a government subsidy for a particular private sector entity for a particular purpose. For this, thought must be given to conceptualizing what is the CNMI government subsidizing in the provision of tax rebates and/or abatements.

¹⁶ Buss, T. F. (2001). The Effect of State Tax Incentives on Economic Growth and Firm Location Decisions: An Overview of the Literature. *Economic Development Quarterly*, 15(1), 90–105. doi:10.1177/089124240101500108

One viewpoint on this question is that the government is reducing a business's costs therefore it is subsidizing their operations. The Council rejects this interpretation and instead sees tax incentives for the Commonwealth as subsidizing the competitiveness of our location to American investors with a world of options and competitors for their investments. Looking solely at the opportunity costs and relative rates versus the small island economy of the CNMI presents a range of complications that does not take to account the potential of the program. The CNMI must be more competitive for American investments and must be willing to provide a subsidy to encourage our competitiveness for the benefit of economic diversification objectives, positive externalities of increased diverse private sector developments, and the jobs and opportunities new industries can provide to the population. For the purposes of this recommendation, the Council sees the QC program as a strategic investment in our ability to compete globally.

The strengthening and subsidy toward the CNMI's competitiveness in incentive packages, serves as a critical entry point for discussion with potential American investors, but does not solely constitute the entirety of the improvements that are necessary to encourage increased investment and diversification. These recommendations govern solely the process and application of the CNMI's Qualifying Certificate program as a beginning step toward wider economic development reforms. Further considerations related to broader concepts and impediments to growth are contained in the section "Further Considerations" below.

Recommendations for Amendments to the Investment Incentive Act of 2000

1. Targeted Industries List

The Council recommended the removal of the list of qualifying target industries (or business activities) listed in 4 CMC § 50202 in its entirety. In lieu of a statutory list of industries, the Council recommends the granting of authority to the Commonwealth Development Authority to generate and publish a list of target industries that will be in place for at least a 5-year period, with allowances for additions and alterations. CDA in implementing this list of targeted industries should consider the use of North American Industry Classification System (NAICS) codes as classification included into targeted lists.

The Council noted that the list of approved industries contained in the Investment Incentive Act of 2000 is now 20 years old. In the two decades since inception, the global economy has changed and so too has the CNMI economy to a great degree. In envisioning the economic development opportunities of the next 20 years, the law and the QC program should be granted the opportunity to adapt and adjust to both the needs of the global economy and the economic development priorities of the people of the CNMI.

Similarly, the regular adjustments to targeted industries will allow CDA and the Commonwealth government to ensure that incentives do not create an uneven playing field among private sector operators. Should a number of industries develop in the CNMI within a targeted industry, through both incentives and natural investment, the ability to alter eligibility of that industry would ensure fairness in the economy and prevent unnecessary influence in the business environment.

Within this recommendation, further ability should be granted to CDA to delineate Economic Development Zones throughout the Commonwealth that can better target areas or islands in need of specific development in line with the development priorities of the Commonwealth's municipalities and communities.

2. Minimum Capital Investment Requirements

The Council recommends the removal of the statutory provision on the minimum capital investment requirements contained in 4 CMC § 50203. This provision is in line with Recommendation 1. Should CDA be the authority to implement development priorities for the QC program, this dynamic adjustment to the eligible industries cannot be tied to statute. Further, the present minimum capital investment requirements place a consistent bar for investment that presumes industries will rely on capital investments to develop alternative industries. Should a business be willing to develop in the CNMI with minimal capital investment but offer worthwhile benefits toward job growth, domestic consumption, and/or the alleviation of import reliance, then that should be of consideration to the Commonwealth government.

In similar fashion to the generation of targeted industries on a five-year basis, CDA should incorporate the minimum capital investment requirements during the formulation and publication of its economic development priorities.

Further, the capital investment requirements under this amended structure would permit the bifurcation of requirements between investments in Saipan and those within Tinian and Rota, where the overall cost of development is much greater and a lower reliance on higher priced capital investments may warrant greater returns for the CNMI government.

3. Require completion bonds for capital investments granted Qualifying Certificate

The Commonwealth has an unfortunate history of largescale projects failing to reach completion, and developers engaging in large projects without engaging in the necessary due diligence review of the requirements for such an endeavor. The QC program has the capabilities of being structured so that investors are incentivized to obtain a completion guarantee should the project not have the capability of finishing.

The requirement for a completion bond to allow for this guarantee serves a dual purpose. Along with ensuring the completion or removal of a project development, it provides a level of due diligence for the CNMI on the capabilities of the investor as measured by their credit worthiness within the surety bond market.

The QC program should allow for tax rebates and/or abatements tiered by the credit worthiness of the investor seeking a large-scale construction project as a component of their investment, but allow for the cost of the bond to be covered under the rebate and/or abatement schedule.

4. Allow for CDA to negotiate and set fees for QC applications to cover due diligence reviews

Presently, under the current operation of the QC program, application fees are set by statute per targeted industry. With the removal of the statutorily set target industry listing, allowance should be provided to CDA to negotiate and set application fees per interested investor that will cover the cost of either an in-house due diligence review, or for the procurement of a third party to conduct a review of the applicant.

5. Permit a Pre-Application Process for Investors submitting interest in developing in the CNMI

The Council recommended the addition of a Pre-Application procedure in advance of formal submission of the application for a Qualifying Certificate. The Pre-Application Process is recommended to take the following form:

- In the formulation of the targeted industries list, the CDA will host a Pre-Application Consultation meeting with the Chairman of the CDA Board, the Governor, Secretary of Finance, Director of Revenue and Taxation, and, if applicable, the Secretary of Public Lands. In this meeting, the terms and bounds and strategy for negotiation CDA management officials will have in discussing terms and conditions of tax credits, abatements, and community contribution requirements for each targeted industry category.
- Interested investor seeking a Qualifying Certificate, will submit a statement of interest to the CDA, stating their proposed investment in the CNMI, economic impact estimates, employment estimates, and the location for proposed development.
- CDA will be granted authority to negotiate with the investor within the bounds set by the Pre-Application Consultation meeting, and if successful, permit the formal submission of the QC Application for review by the CDA Board of Directors.
- Should the investor be unable to accept the terms as bound by the Pre-Application Consultation Meeting, CDA will justify the alteration from the predetermined bounds for incentives and submit the reasoning for the alteration to the Governor upon recommendation from the Board pursuant to 4 CMC § 50205.

6. Allow for the development of the CNMI Strategic Investment Program

The Council found that there exists, on occasion, the need for Government to take an active partnership in the development of industries that have the potential to greatly advance economic development priorities or policies. The development of alternative industries is one of the most difficult tasks of the CNMI government and attempts to strengthen economic resilience in previous decades has resulted in limited outcomes. These attempts, however, have not been without promise. American investors, seeking opportunities in the CNMI have showcased interest in large-scale positive investments, but have been turned away by regulatory disjunction among CNMI permitting agencies, regulatory hurdles, and a lack of coordination among government bodies.

Nonetheless, the CNMI has over the course of its history, stated in both law and proclamation, interest in specific industries that have constituted the CNMI's economic development policy. The recommendation here is to formalize this policy and provide the ability for CDA to act upon development goals of the Commonwealth.

The Council found that this requires the creation of a CNMI Strategic Investment Program within the Qualifying Certificate structure that will take the following form:

The Council recommended that the CNMI Government, coordinate with CDA to determine private sector economic development priorities that will achieve diversification objectives. A formal study will be performed by CDA to determine the requirements of developing such an industry, the permitting requirements necessary to see through development, and the potential locations within public lands that would be suitable for such development.

This report would then be brought to the Governor and the CNMI Legislature for review, and the Executive Branch will collaborate its departments and agencies toward pre-permitting a set piece of unused or blighted property for the Strategic Investment. Pre-permitting will be the determination of all permitting issues throughout the government's existing permitting structure, to include Fish and Wildlife, BECQ, CRM, HPO, Zoning and Public Lands among others. If no permitting issues are present that would delay or halt development of a Strategic Investment, CDA will be permitted to package both QC incentives discussed in the Recommendation 3, the location, and the Pre-permitting certification to U.S. investors in the targeted industry classification. This will include off-island investor missions, participation in national business investment summits, and the hosting of investment summits in the CNMI.

The Council believed that the CNMI should be engaging in active efforts to entice American investors to establish business in our islands that align with the community's goals and desires. It may be pointed out that in the duration of economic development efforts, the successful outcomes of development have been as a part of pro-active efforts on behalf of the government. CDA should be at the forefront of these efforts and be granted the authority and responsibility to collaborate toward the advancement of CNMI economic development policy.

Form of Amendments

The recommendations of the Council represented large-scale adjustments to the current law authorizing the Qualifying Certificate Program. As such, the Council recommends a collaborative effort among the Executive Branch, CDA, the Legislature, and the Governor's Council of Economic Advisers in devising the statutory language to introduce and enact a new Incentive Act to replace the Investment Incentive Act of 2000.

Further Considerations

In researching, deliberating, and crafting these proposals, the Council wishes to recognize that there are necessary considerations that affect the CNMI's ability to compete for quality investments which should be assessed in future efforts.

Cohesive Government Planning Efforts

The development of goals, plans and strategies should find cohesion among the various agencies and departments of the CNMI government. A unified planning effort to encapsulate the long-term goals for the islands infrastructure, utilities, education, and health care system are all essential

elements in creating an environment enticing to quality investment. A macro-picture of the CNMI's goals and ongoing plans will better guide CDA in establishing the industries that will be targeted for increased investment in the CNMI.

Government Permitting and Ease of Business

The time and effort placed into obtaining the necessary permits to begin development of an investment represents a significant cost to potential investors. The CNMI's present permitting structure is disjointed and in need of dramatic simplification. It should be noted that the current application of permitting and licensure in the CNMI is not up to the standards of communities throughout the United States.

Recommendation 9: A pathway toward expanded Public Private Initiatives for the Commonwealth

The Council, in considering the diminished state of CNMI government resources caused by the COVID-19 pandemic, offered the Governor a proposed pathway for the expansion of private sector resources in the delivery of essential public services.

The concept of utilizing private sector contracts in the pursuit of privatizing public sector initiatives and the advancement of public services is a commonly used throughout communities in the United States and is seen to be an available and worthwhile tool in maintaining public goods at a reduced expense to the Commonwealth government. In this effort, the Council put forward a 12-step methodology toward privatization which was as follows:

1. Consider the idea of contracting out.
2. Select the service
3. Conduct a feasibility study
4. Foster competition
5. Request expression of interest or qualifications
6. Plan the employee transition
7. Prepare bid specifications
8. Initiate a public relations campaign
9. Engage in "managed competition"
10. Conduct a fair bidding process
11. Evaluate the bids and award a contract
12. Monitor, evaluate, and enforce contract performance

Recommendation 10: Marpi Visitors Center

Building upon the previously recommended framework for the development of greater Private Public Partnership initiatives, a pilot of this endeavor was recommended in the pursuit of a

privatization of the management, operation, and the establishment of a fee structure for the primary tourist sites located in Marpi, Saipan.

Facilities in the area, over the course of the development of tourism accommodations in the tourist sites at Banzai Cliff, Suicide Cliff, the Grotto and Bird Island have been in consistent need for maintenance, improvements, and oversight. Further, the sites as they are now, are geographically located in close proximity, however, their economic potential toward the tourism marketplace is segmented not provided the maximum marketing exposure and efficiencies that would otherwise be possible given their potential as a combined product to the tourism market.

The Council explored examples of similar destination's efforts to gain greater efficiencies on the economic potential of their respective tourist sites and found a primary example in the Hanauma Bay tourism site in Hawaii. This facility provides a visitor center to permit cultural and historical education to visitors, facilitate the sale of merchandise, and collect entrance fees to tourists while ensuring visitor number control to preserve the environmental and scenic quality of significant tourism sites.¹⁷ Closer to the CNMI experience, the privatization of the operation and maintenance of the island of Managaha is an example that provides example of the practice, which provides lessons and experience that can be replicated and improved.

Hanauma Bay Nature Preserve



The Council saw an establishment of a unified tourism experience for the sites present in Marpi, through a privatization of the service of visitor management, fee collection, and site maintenance, along with the development of a visitor center and the cultivation of a greater efficiencies for the Commonwealth government.

At present, the maintenance of these sites, is shared by the CNMI Department of Public Lands, the Division of Parks and Recreation and the Marianas Visitors Authority, in partnership with civic organizations in coordination with the Council. There exist no present dedicated employees toward the maintenance and support of these specific sites.

In implementing the privatization framework, the Council recommended that the administration consider the privatization of the totality of the tourism sites located in Marpi into a single effort lead by the sourcing of contracting opportunities by the CNMI Department of Public Lands.

¹⁷ For additional information about Hanauma Bay, please visit <https://hanaumabaystatepark.com/>

Further, and in recognition of the absence of personnel needed to be transitioned, that the framework be implemented in the pursuit of the development of the site to become a singular tourist attraction, that allows for the education of our visitors, the maintenance of the site's facilities and the generation of revenue.

A developed and monetized attraction provides greater value for our visitors and the residents. The enhancement of this destination within the Commonwealth supports the image and marketability of the islands abroad and creates a streamlined process toward packaging the CNMI to potential visitors. In this example, the marketing and exposure provided to the CNMI through the single tourist site of Managaha showcases this value and much like Managaha, greater efficiencies can be garnered through a collaboration with private operators.

In implementing this framework, the Council saw a prime opportunity to pilot a privatization effort that expands the potential of this important site for our residents and our visitors while ensuring adequate and transparent competition in ensuring the most efficient allocation of resources and the best possible development of the site.

[Recommendation 11: Institute a branding requirement on all future public land leases for hotel establishments](#)

The Council found that the simultaneous goal of increasing financial resources derived of public lands and ensuring public land leases are granted to qualified and legitimate investors can be accomplished through a requirement of accompanying hotel land lease and extension proposals with an internationally recognized brand.

Research has found through a study of 21 global tourism destinations, that chain-affiliated hotels perform better than independent hotels in increasing foreign demand for the destination and that since the 1980s the branding of destination hotels has been an institutionalized practice within destinations across the world.¹⁸

Through amendment of the Department of Public Lands regulations regarding the acceptance of proposals for public land leases, initial requirement to demonstrate the development of an internationally recognized brand offers an added layer of confidence in the financial capabilities of the developer to complete the development and allows for the additional return to the CNMI's international marketing efforts through the acquisition of the intangible asset developed through the international brand's global marketing efforts.

Increasing the marketability of the CNMI's hotel and room stock through international branding, increases the potential for higher average room rates, and expands the market of potential travelers, while enriching the overall brand of the CNMI as a world-class tourist destination. The CNMI has witnessed the marketing potential provided by international branding through the success of the

¹⁸ Ribaudó, G., Moccia, S., Orero-Blat, M., & Palacios-Marqués, D. (2020). Comparing chains versus independent hotels based on international sales: an exploratory study. *Economic Research-Ekonomska Istraživanja*, 1–19. doi:10.1080/1331677x.2019.1710719

Hyatt Regency Saipan and is in the process of expanding these benefits through the ongoing development of the Crown Plaza Resort Saipan.

The Council recommends the addition of an internationally recognized branding standard to be a component of the Department of Public Lands' Underwriting Requirements contained in Title 145 § 145-70-120(a) – Qualifying Criteria, by including subsection (4) Branding, which would require evidence of an existing agreement with an internationally recognized brand.

Recommendation 12: Allowance of Developers Infrastructure Tax Credits for Culturally Appropriate Designs

The CNMI is a destination with a rich and cherished historical and cultural background. The Chamorro and Carolinian indigenous cultures are unique in the world and offer the international tourism marketplace an opportunity to expand their cultural experiences while in the Commonwealth. The cultural resources present in the CNMI are, however, underutilized in the marketing of the CNMI to prospective tourists, and their presence here provides limited opportunity to experience the islands' culture. Existing facilities do not represent the cultural art or images inherent within the islands' heritage and culture and designs of privately operated tourist attractions are without signifying characteristics that distinguish them from any other location in the world.

The Council recognizes these factors and recommends providing developers in the CNMI an incentive to incorporate cultural characteristics specific to the CNMI into the development of new structures and tourism amenities through the allowance for developers to offset the costs incurred by incorporating culturally and historically significant features to projects against their Developers Tax. Presently, the Developers Tax Credit provides 4 criteria of acceptable costs that can be credited against the 2% tax on the development cost. The Council recommends that a 5th criterion through an amendment to 4 CMC § 1943 be added to deduct from the total tax liability the costs incurred in including culturally and historically relevant features to the development. These features can be guided by the Department of Public Works, the Historic Preservation Office, and the Commonwealth Arts Council to ensure consistency and accuracy in design.

Incorporating the CNMI's culture into the built tourism infrastructure enhances the uniqueness of the CNMI's tourism product, and through incentivizing its development, increases the presence of the culture in the environment where the community lives. Creating a market for the culture of these islands serves both an economic objective, as well as preserves the culture in the structures and visual environment for generations.

Recommendation 13: Increase Enforcement Authority for Tour Guide Certification

The Council found that the requirement for all tour guides in the CNMI to obtain MVA Tour Guide Certification prior to employment under CNMI Public Law 18-58 (4 CMC § 2173) has an important purpose and should be supported for the quality of our tourist product to visitors and in the protection of visitor safety and preservation of historic and cultural sites. However, a notable exclusion within the act was an enforcement and penalty provision should an operator be employing non-certified tour guides. Without enforcement or penalties, there exist no disincentive

for tour operators to flout the law and put at risk the total tourism experiences the CNMI offers to its visitors.

Throughout CNMI law, certification is required to perform a number of commercial functions and represent qualifications to perform said functions. There exist laws governing the actions and certification of Certified Public Accountants, Notaries Public, and a range of professions contained in the certifications provided by the Board of Professional Licensing. Each of these requirements is accompanied by varying degrees of civil and criminal penalties for violating the terms of the license or in operating within a given professional environment without approval or certification. The Tour Guide Certification is an exemption to this and is without civil or criminal penalties for either operating without certification or being in violation of a previously granted certification.

It should be noted that the tour guides themselves, in operating without certification required by law, are a result of unlawful action by the tour operator who employs them in violation of the law. The tour operators should be held to account for these actions.

The Council recommends an amendment to CNMI Public Law 18-58 to provide for criminal penalties for tour operator (as defined in the statute) the hiring and employment of a tour guide without first obtaining tour guide certification from the Marianas Visitors Authority. Similar provisions contained in CNMI Law provide that “Violation of any regulation promulgated pursuant to this chapter is punishable by up to one (1) year imprisonment and a fine of up to \$2,500.00.” The Council believes that operating in violation of CNMI law in this sensitive area for both public safety and orderly conduct of the economy is severe and warrants criminal prosecution of the tour operator who employs uncertified tour guides.

In the conduct of their operations, tour guides provide services to visitors utilizing both land and sea transportation routes and facilitate access to public property and facilities. In this course of business, tour guides encounter a range of separate authorities enforcing various other laws of the Commonwealth. The Department of Public Safety provides enforcement of the Commonwealth’s traffic laws on roads and marine safety laws in the water. The Division of Coastal Resource Management and the Department of Public Lands shares enforcement authorities over beach concessionaires. The Council does not believe the Marianas Visitors Authority, while being the certifying authority, should be the enforcement arm of this provision, rather that enforcement be shared by existing law enforcement personnel present in the government where interactions with tour guides overlaps with existing enforcement jurisdictions.

Section III: Challenges and Outlook

The CNMI economy is without a doubt in challenging times. While the action and recommendations of the Council have been aimed at addressing systemic issues relating to both the global pandemic and the relationship between the CNMI government and its private sector, there exists many continuing conditions that will make the coming year difficult for commercial activity, employment, and government revenue.

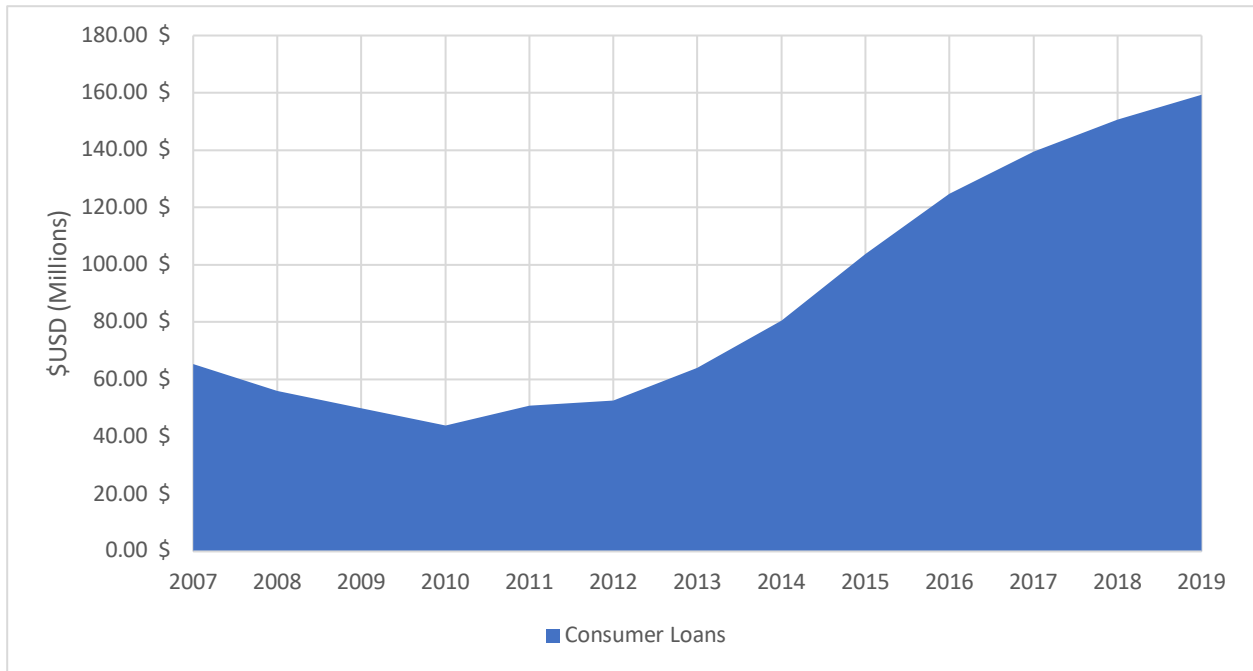
Challenges

Impacts to Personal Consumption

With no clear pathway established for the full resumption of the CNMI's tourism industry, the present government fiscal year will be faced with unprecedented challenges as federal government assistance expires at the end of the first quarter on December 31, 2020. The CNMI has been fortunate to receive funding support from the federal government in response to the COVID-19 pandemic. The initial stimulus payments provided in April 2020, and the ongoing release of Pandemic Unemployment Assistance and Federal Pandemic Unemployment Compensation have supported consumer activity across many commercial sectors of the economy. While not in adequate proportions to compensate for the loss of tourism arrivals, this support has allowed some business to weather the contraction without consideration of closure or large-scale layoffs.

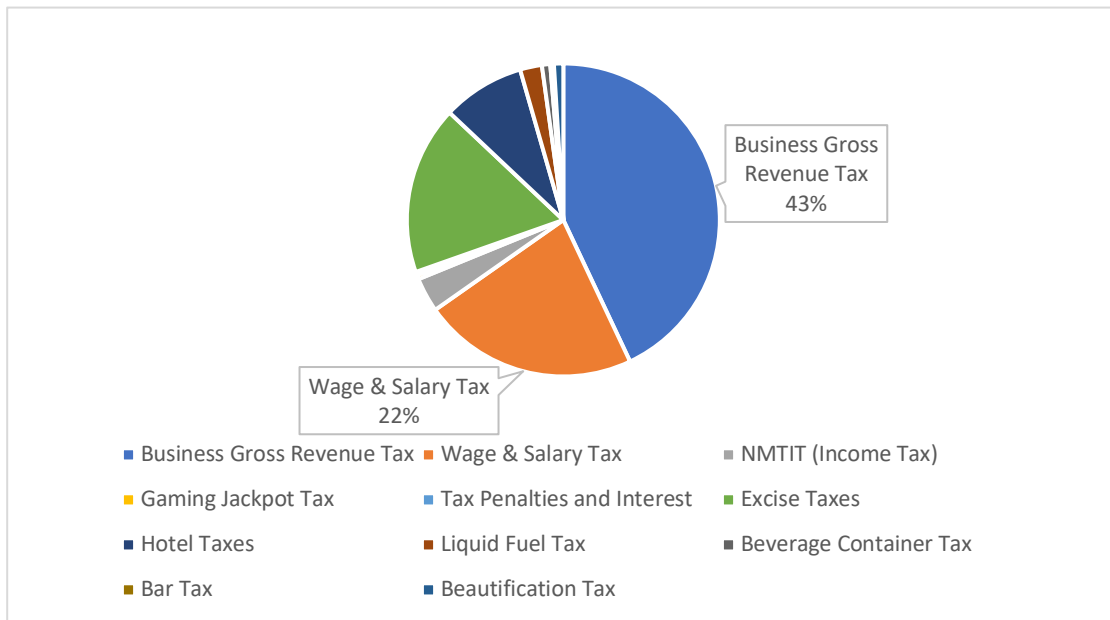
With the expiration of these support programs, and in the absence of a large resumption of tourism to the CNMI, personal consumption throughout the economy will soon ground to a halt. Already, since the onset of Typhoon Soudelor in 2015 and the associated disruptions to the CNMI economy over the following years, the Council has seen an alarming increase in consumer debt. According to the CNMI Central Statistics Division banking data, consumer debt has risen by 53.6% between 2015 and 2019. For perspective, the rate of increase between 2007 and 2014 was only 23.4%. At the present, consumer debt is the highest it has been on available record at \$159.33 million. While there are still many reasons for this dramatic rise, which could include disaster recovery financing, alternative business financing, and fixed autonomous consumption necessitating debt during government austerity measures, the height of this exposure in the community is of concern. Should no further levels of support be provided by the federal government, or no greater levels of economic activity support the resumption of employment in both the public and private sectors, the present levels of indebtedness may pose a significant risk to consumer expenditures, and may lead to greater levels of foreclosures, repossessions, and encumber the community into years of debt penalty repayments that will offset economic growth in future years. These impacts can be expected to be seen in the first quarter of calendar year 2021 should no change in present conditions be achieved.

Figure 7: Consumer Loans 2007-2019. Source: CNMI Central Statistics Division: Economic Indicators



Further it should be noted that business gross revenue taxes and salary and wage taxes, both derived largely from economic activity within the private sector, represent the majority of government revenue.

Figure 8: Fiscal Year 2019 Government Revenue Collection by Income Source. Source: CNMI Department of Finance



Need for Diversification of the Government's Fiscal Resources

As stated previously, fiscal year 2021 is anticipated to witness the lowest annual arrival of tourists to the CNMI since the formation of the Commonwealth government. While not a perfect comparison, in 1980, when CNMI tourist arrivals barely exceed 100,000 annual visitors, the approved budget for the Commonwealth in CNMI Public Law 2-1, was \$32,291,190, which, in adjusting for inflation, equates to \$49,781,420 in 2020.

The CNMI is more diversified today in its economy than it was in the early days of the Commonwealth government, however, the reality remains that without substantial change to the present conditions of the economy, government revenues cannot be anticipated to maintain in levels previously authorized to meet the needs of the public.

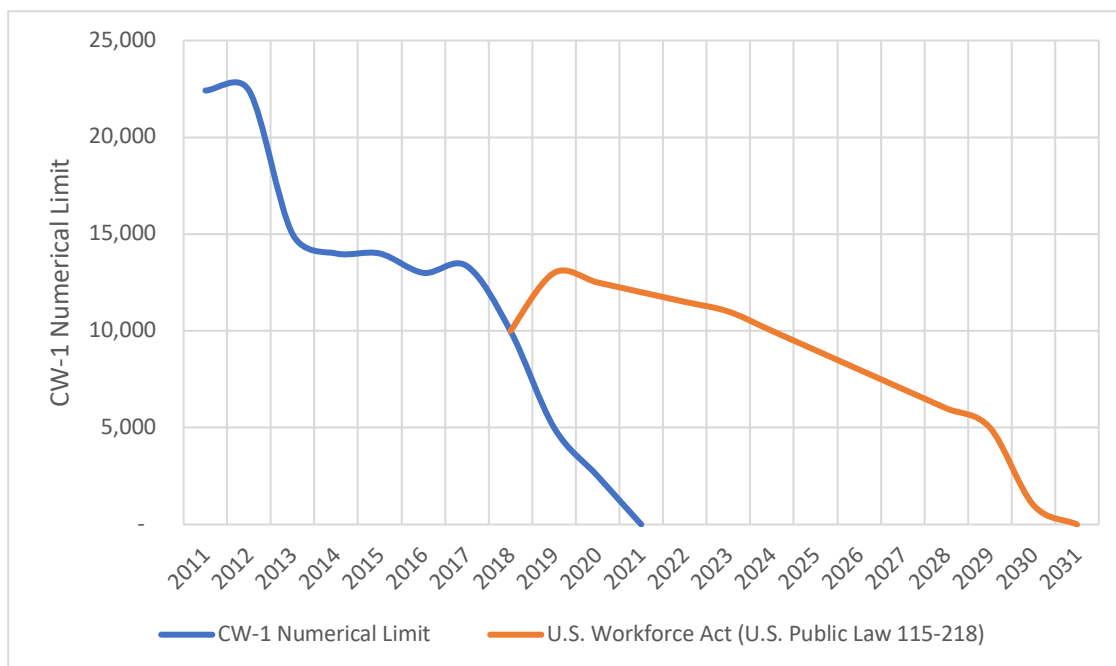
In analysis of the relationship between government revenues and drivers of CNMI economic activity, a strong relationship is present in the number of annual tourist arrivals and net available resources for CNMI government appropriations. If conditions remain as they are presently, and the CNMI anticipates a resurgence of tourism arrivals in fiscal year 2022, government revenue cannot be anticipated to exceed \$90 million in gross available resources for that fiscal year.

The Council wishes to stress that this circumstance is not due to any action or inaction of the Torres administration, rather caused by the global forces that have impacted demand and activity within the Commonwealth. This is an unprecedented circumstance to which no domestic policy could have ameliorated, nonetheless it is the context in which the economy presently operates and therefore must be acknowledged. These realities should be accounted for in the government's projection of anticipated revenues in the upcoming budget preparations for fiscal year 2022, to ensure an accurate depiction of the drivers of government revenue and to allow for the difficult decisions on government priorities to shape a truly balanced budget that reflects conditions within the economy.

Access to Skilled Labor

The Council notes that there are challenges that must be addressed in the coming years that have predated the crises the CNMI has faced in the course of this administration. One primary obstacle to growth in this economy continues to be the access to labor. While the administration has deftly achieved success in the extension of the CNMI's immigration transition period, originally created in U.S. Public Law 110-229 and amended and extended in U.S. Public Law 115-218, the influence these federal laws and regulations have on the CNMI private sector's interaction with the labor force will continue to grow worse and the years toward the new statutory sunset in 2029 progresses.

Figure 9: CW-1 Visa Numerical Limits under U.S. Public Law 110-229 and Amended Limits under U.S. Public Law 115-218. Source: Government Accountability Office GAO-20-305



Despite the tremendous effort of the public and private vocational training programs, the fact remains that the CNMI will not have the domestic workforce large enough in targeted sectors to remain a viable economy while supporting the public services expected of the government. Compounding on this reality, the requirements placed in the acquisition of foreign labor, such as an annual prevailing wage requirement, will steadily and catastrophically impact the affordability of labor in the CNMI, leading to wide-spread inflation of the goods and services necessary for individuals to achieve success in this economy.

Mobilizing Disaster Assistance

There are opportunities present to soften the impact of the present economic contraction and shorten the extent of the current recession. Resources provided to the development and redevelopment of the CNMI’s infrastructure resources following Super Typhoon Yutu presents a unique opportunity to supply the economy with needed financial inflows to offset decreased business and personal income derived from the tourism sector. Through the CNMI Public Assistance, Hazard Mitigation, and Community Development Block Grant Disaster Recovery programs, the CNMI has authorized hundreds of millions in available resources to deploy into the CNMI economy. The realization of these benefits is contingent upon the timely deployment of contracts and work orders within the coming two years to ensure employment increases and available disposable income necessary to support consumer expenditures and employment across primary domestic retail, wholesale, and services sectors.

Housing Support

The CNMI learned many lessons from the aftermath of both Typhoon Soudelor and Super Typhoon Yutu. One paramount area that was unveiled in the wake of the destruction was the need for greater levels of housing support for the residents of the Commonwealth. This is a problem with generations of roots and will take time to resolve, but adequate, safe, and reliable housing is a foundational element of future economic success and the mitigation of the impacts of future natural disasters.

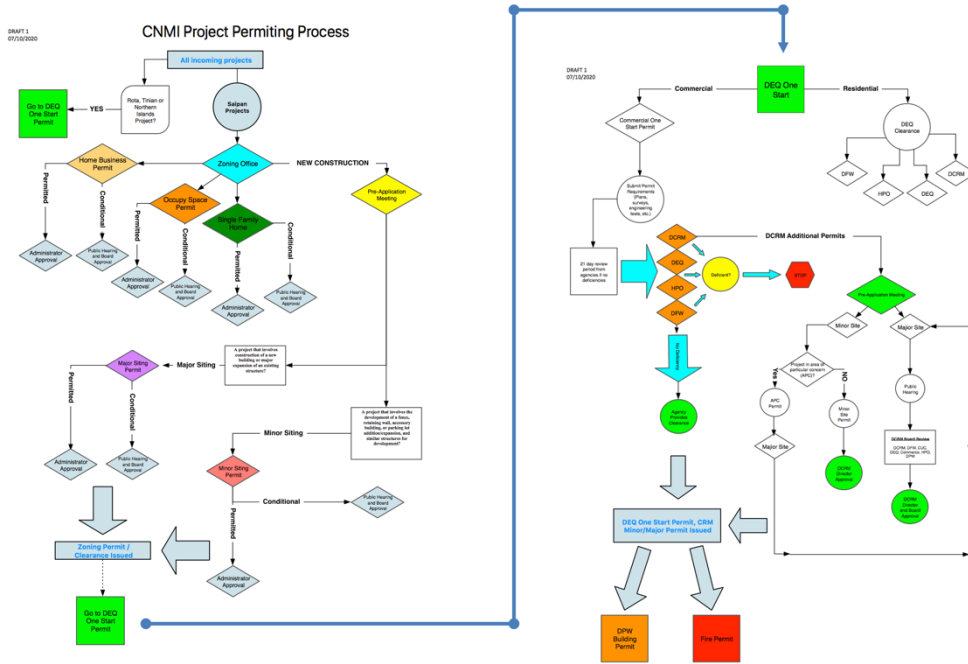
Housing and land rights writ large is a complex challenge for many within the economy. Private property is the cornerstone of modern economic development, but for many whose individual wealth is tied to property assets whose legal basis is tenuous this becomes a challenge. In the aftermath of natural disasters, and in the work of targeting federal resources to rebuild damaged homes, the complications of probates and land titles stymies progress toward efficient utilization of property. In this, the Council sees opportunity to utilize resources catered to landowners contained in the Marianas Public Lands Trust to support the development of a probate court or council that will guide present landowners toward clear titles and create a more efficient property market for disaster recovery and future economic growth.

Next Steps for the CNMI Economy

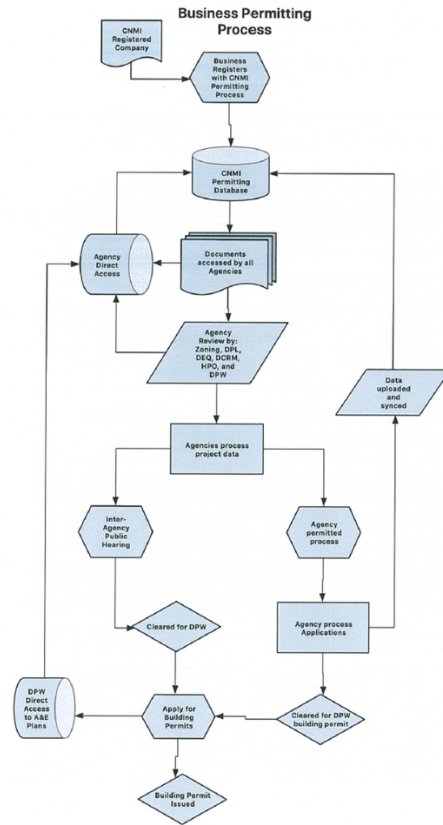
Streamlining Government Permitting

Discussed in Council meetings has been the process by which the CNMI government permits projects and developments. In the next year, the Council, through the Domestic Policy Committee lead by Michael Sablan, intends to support the efforts of the Torres administration in revising its business permitting structure to support a more streamlined acquisition of permits and authorizations to commence project development and the deployment of resources. Within Council discussions, Michael Sablan noted that at the present condition, large-scale projects are projected to take up to three years to finalize the necessary authorizations to begin development. This is caused by a complex web of government permits developed without a comprehensive viewpoint of their entangled impact over decades of CNMI government regulatory development. Further, the government procurement process, intended to provide transparency in the acquisition of goods and services purchased with government resources is convoluted and incentivizes delays at the cost of project implementation. The Council sees these challenges as surmountable and is eager to work with the Torres administration to craft a sensible and streamlined approach to mobilizing and incentivizing needed economic activity in the coming year.

Present Flow of CNMI Project Permitting



Development of Permit Process Streamlining



Tourism Site Rehabilitation

Additionally, this period of diminished tourism arrivals has presented an opportunity for the rehabilitation of dated tourism accommodations. The CNMI's sites, and hotel stock need refurbishment, and the absence of tourist arrivals and heavy utilization of these assets has opened opportunities to invest in necessary upgrades for greater returns as tourism eventually resumes. This effort is bolstered by the wide-ranging support obtained in the PPP initiatives of the Council and, in developing community ownership and pride of our community sites and facilities, the CNMI will have a strengthened support for the continual upkeep and quality of this destination.

Reengaging the Japan Market

With this rehabilitation and the institution of safe tourism corridors to facilitate increasing resumption of tourism arrivals, a historic opportunity is available to make significant gains in the CNMI's long-standing objective to rebuild the Japan market. In the present environment where the world is working toward mitigating the risk of COVID-19 and the dissemination of vaccinations for the disease, populations and traditional markets that cater to the Japanese tourism market do not offer the level of safety that the CNMI has worked diligently to foster. The historic relationship between the CNMI and Japan is showcased in the islands' tourism product, and as the Japanese market seeks opportunities for foreign travel, the CNMI's record of safety and marketable product should be promoted and reinforced by air service development support to capture the opportunities available through this time of unprecedented change. Support should be considered in increased outreach to air service carriers, such as Skymark Airlines, to resume service and plan for providing additional incentives to launch regular direct air service from Japan to Saipan.

Quality, Safe, and Healthy Road Infrastructure

In this time, the CNMI can collaborate fully toward utilizing the wealth of infrastructure resources it has been provided toward creating a built environment that is conducive to higher standards of living for its residents. One primary area that will have economic and societal returns is the redevelopment and reconceptualizing of the islands' road infrastructure. Utilizing the funds available toward the rehabilitation of critical access roads, such as Beach Road, support the urgent need for transportation, but can also provide the opportunity to broaden the use of these significant tracts of public land.

The establishment of designated bike and walking paths, along with design elements that promote healthier lifestyles of the population and mitigate the impacts of a changing climate would serve the interests of the economy and the community for generations. Bike lanes have tremendous potential for the long-term overall development opportunities for the CNMI. Along with promoting healthy lifestyles for residents, and the enhancement of bike safety along the roadways, it provides the additional benefit of granting the visual enhancement of the island's thoroughfares, highlighting the natural beauty of the islands, and increasing the brand of the CNMI as an outdoor, low density population, destination. This product that can be developed increases commercial opportunities in bike rentals and tours, also differentiates regional tourism products, like those available in Guam, who do not offer similar amenities to their visitors and residents.

Recognizing the Healthcare as an Economic Resource

Just as the disaster of Super Typhoon Yutu opened opportunities through federal disaster resources to rebuild our aging infrastructure, so too might the present COVID-19 pandemic provide to the way in which we envision the role of healthcare in our economy. In fiscal year 2020, the U.S. Department of Health and Human Services (HHS) spent more than \$120 million in the CNMI to support the healthcare system and the services provided to Medicare and Medicaid beneficiaries. \$116 million of this was directly provided to the CNMI government in support of healthcare programs and the payment of service providers. The healthcare system supported by federal and local resources is a significant source of both private and public sector employment.

An increased healthcare infrastructure is critically important for maintaining a healthy workforce and developing an ecosystem of public services that entice investment and development. This is especially so for the islands of Tinian and Rota who are in great need for business incentives to support their economic development objectives.

With the increased awareness of critical healthcare conditions in the CNMI in the ongoing process of mitigating the spread of COVID-19 and the expansion of the CNMI's health care infrastructure, further investment and focus on health as a driver of economic activity should be considered.

Expanding Air Service Throughout the CNMI

Development of Tinian and Rota and finding avenues to increase economic opportunity for the people of these islands is of primary interest for the Council in the year ahead. Critical among the impediments to growth in these islands is the affordability, reliability, and accessibility of air transport. Past efforts have neared success in reaching agreement with air service operators to expand their coverage areas to Tinian and Rota, and these past endeavors are indicative of one primary fact – expanding critical air service will require the support and partnership of the government to achieve.

The private sector and the government can find a useful partnership in establishing increase air routes to Tinian and Rota, with the simultaneous ends of providing assurance to air carriers against loss revenue of unfilled seats and the advancement of demand factors to encourage tourist visits to the islands. Further, outreach to the CNMI's federal counterparts is warranted in the achievement of Essential Air Service agreements to support the access of the residents of Tinian and Rota to the wider transportation network.

Importantly in this period, the CNMI and its policy makers should be cognizant of the need for greater governmental support of private sector development and the recognition of the significance the tourism industry plays in wider economic development.

Creating the Means to Lead Economic Growth and Diversification

In public outreach performed by the Council and in prospective efforts to engage the community, the creation of a strong and vibrant economy that provides greater opportunities for individuals within these islands must recognize the extent to which the success or failure of the CNMI's

industries has on the families and residents who call these islands home. As we have seen in the extent to which the present circumstances have impacted our labor force, the benefits of the tourism sector are broad ranging in their support of employment opportunities across the private sector and even the government. As is recognized by this administration, the type of government our community wants, is supported by the economy we have.

While tourism has and will represent the strongest driver the CNMI has in pursuing stronger and more resilient economic growth, the necessary effort toward the targeting of economic policy through the establishment of the Commonwealth Economic Development Authority would allow for the tools and authorization for the CNMI to take control of its economic development trajectory and ensure future development results in a responsible and diversified set of new industries for future generations to build upon.

The tools for leveraging increased investment from American corporations are available. The New Markets Tax Credit program and the Opportunity Zone program are specifically created to support American investment and success in underdeveloped locations like the CNMI. Greater focus and targeting of investment priorities utilizing these tools should be a primary goal of the CNMI's economic development plans going forward. But the CNMI should not be limited to resources provided by the federal government to support the financing of necessary economic development objectives. Greater resources and efforts should be pursued to capitalize on revenue generating elements of the Commonwealth government and leveraging these resources to make the needed capital investments that will encourage greater levels of growth. Revenue streams from the Commonwealth Utilities Corporation, Commonwealth Healthcare Corporation, and the Commonwealth Ports Authority all provide reasonable security to investors and are all in need of significant capital investments to support their critical public services. The CNMI is relatively underleveraged when measured against other states and U.S. territories and the state of its current infrastructure is indicative of this.

Addressing Systemic Obstacles toward Accessing Labor

The Council will continue to recommend and pursue avenues for amendments to the present statute governing the CNMI's access to foreign labor. Within the coming years, the CNMI should pursue Congressional amendments that recognize the CNMI's unique circumstances and support a fixed quota of CW-1 visas, expanded access to construction labor, and the partial return of immigration functions to the CNMI government.

Crafting Policy that Supports Community Growth and Enhances Quality of Life

The CNMI has always been a difficult environment to conduct business. This is due to the geographic isolation from larger markets increasing cost of transport, the limitations on labor placed during the federalization of immigration, and the simple size of the CNMI market not being large enough to realize the benefits of economies of scale on production and availability of consumer goods and services. These must all be put into account when discussing policies affecting business success in the Commonwealth and in deliberations on increasing fees or restricting commercial activity.

Recent history has shown that the expansion of economic opportunities for the population supports domestic jobs and allows individuals within our community to live productive lives here at home. The success of our economy is not isolated to the businesses but provides for the success and security for the community as a whole. With every tourist dollar spent, or every good sold, begins the process of expanding access to individuals across the Commonwealth to expand the horizons of their lives here in the islands. It is through economic growth that the entrepreneur can realize her dreams of opening a restaurant or creates the opportunity for the young graduate to return home or provides the financial resources to support the public servant who is committed to the betterment of this Commonwealth. Success in our islands can be shared by all.

Outlook

Despite the challenges the CNMI has faced in 2020 and the challenges that await the community in the months ahead, there is much to be thankful for. Due to the effort and diligence of the Torres administration, the CNMI community remains one of the safest communities from a disease that has caused great turmoil and heartache across the world. Lives have been saved through the proactive support of the government when it was needed most. These lives will comprise the future successes of our economy and the strength of the community who have come together through this crisis will see our islands to a better future in the years to come.

Together, we can.