



Commonwealth Development Authority

Fiscal Year 2019

Citizen Centric Report

Our Mission

To provide appropriate financial and technical assistance to facilitate the start-up or expansion of private and public enterprise for their success, the benefit of the Commonwealth's economic welfare and the long term sustainability of CDA.

Our Vision

To revitalize and reposition CDA to perform its mission and achieve an overall vision of economic development for the Commonwealth.

ABOUT CDA — Who we are and What we do

The Commonwealth Development Authority (CDA) is a semi-autonomous agency of the government of the Commonwealth of the Northern Mariana Islands (CNMI). Established in 1985, CDA is mandated by Law to stimulate the economic development of the CNMI. Its functions are carried out through its two Divisions:

- Development Banking Division (DBD) that generally shall be engaged in government and public sector activities; and
- Development Corporation Division (DCD) that generally shall be engaged in private sector activities. DCD has two direct loan programs; the Micro Loan Program of up to \$25,000 and the Direct Loan Program of up to \$150,000. Applicants may apply directly to CDA.

In 1994, via Executive Order 94-3, functions of former Mariana Islands Housing Authority, now the Northern Marianas Housing Corporation (NMHC), were transferred to CDA. Since then, NMHC became a subsidiary corporation of CDA; but, from inception, operates on its own.

In 2000, by an act of the 12th Northern Marianas Commonwealth Legislature, the Qualifying Certificate (QC) Program was established to be administered by CDA. It provides for certain tax rebates or tax incentives for business in the CNMI that qualifies under the program in return for their investment in the CNMI.

In 2012, CDA was designated Implementing Agency by the CNMI Department of Commerce, thru the Office of the CNMI Governor, for the State Small Business Credit Initiative (SSBCI) Program, a component of the U.S. Small Business Jobs Act of 2010. CNMI received \$8.2M out of the \$13M allocated by the U.S. Department of Treasury. SSBCI's objectives are to leverage private lending to increase the amount of credit available to small businesses and strengthen the CNMI's capital access programs and other innovative credit support programs for lending. Applicants may apply directly to the SSBCI participating banks; namely, Bank of Guam and City Trust Bank.

In 2018, CDA was designated by the Governor to be the main contact agency to facilitate the Opportunity Zone Program. Investors can defer tax on any prior gains as long as the gains are reinvested in a Qualified Opportunity Fund, a vehicle for investment in Qualified Opportunity Zones.

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Board of Directors & Officers

The CDA is governed by a seven (7) member Board of Directors, appointed by the Governor and confirmed by the Senate of the Commonwealth Legislature. The Board hires an Executive Director who manages and oversees the day-to-day operations of CDA. By Law, CDA is limited to 15 employees, excluding the Executive Director and the Comptroller positions.

CDA & DCD Board of Directors:

Ignacio L. Perez (Tinian)
CDA Chairman; Member DCD Board
Aubry M. Hocog (Rota)
Vice Chairwoman; Member DCD Board
Frank Lee SN. Borja (Tinian)
CDA Secretary; DCD Chairman
Kimo M. Rosario (Saipan)
CDA Board Member; DCD Vice Chairman
Vinney Atalig-Hocog (Rota)
Member, CDA and DCD Board
Rafael S. Demapan (Saipan)
Member, CDA & DCD Board
Joaquin P. Omar (Saipan)
Member, CDA & DCD Board

Officers:

Manuel A. Sablan, Executive Director
Donnie P. Militante, Comptroller

CDA Website: www.developcnmi.com

Facebook: Commonwealth Development Authority

Offices: Rota at Tamara & Seven Brothers Building, Songsong Village, Tinian at Kings Building, San Jose Village and Saipan in Oleai.

PERFORMANCE • WHAT WE DID IN FISCAL YEAR 2019

Development Corporation Division:

Micro Loan & Direct Loan Programs

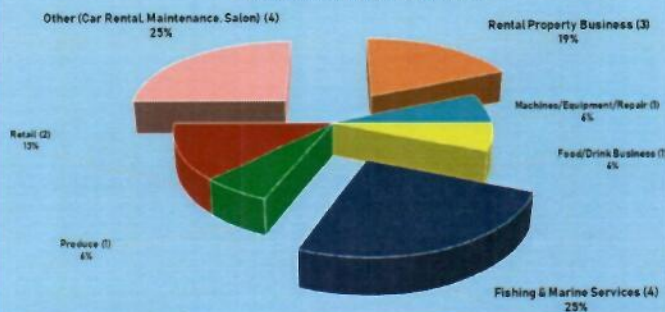
DCD's Microloan Program of up to \$25,000 has interest rates of 4.5% to 9%, with terms of up to seven (7) years. For a complete loan application, the application process has an average loan review and decision time frame of about 5-7 days.

DCD's Direct Loan Program of up to \$150,000 has interest rates of 4.5% to 9%, with terms of up to twenty (20) years and an average loan review of 5-7 days; decisions usually rendered within an average of 30 to 45 days.

Total loans deployed in FY 2019 amount to \$432,000 compared to \$158,000 in FY 2018. Number of applications processed in FY 2019 was 24 versus 15 in FY 2018. Number of loans approved for FY 2019 was 16 versus 10 in FY 2018 and number of loans closed was 12 in FY 2019 versus 10 in FY 2018.

DATE APPROVED	TYPE OF INDUSTRY	DISTRICT	AMOUNT APPROVED
10/12/2018	Machine Shop	Saipan	\$25,000
12/28/2018	Apartment Rental	Saipan	\$25,000
1/10/2019	Marine Activities	Tinian	\$22,000
1/15/2019	Full-Time Fishing	Rota	\$25,000
1/19/2019	Backyard Bar	Rota	\$10,000
3/4/2019	Full-Time Fishing	Saipan	\$25,000
3/12/2019	Car Rental	Rota	\$25,000
5/3/2019	Rental Property	Saipan	\$75,000
5/7/2019	Retail	Rota	\$25,000
7/3/2019	Retail	Saipan	\$20,000
7/19/2019	Fishing	Rota	\$10,000
8/15/2019	Rental Property	Saipan	\$75,000
8/23/2019	General Maintenance	Rota	\$25,000
8/28/2019	Farming/Produce	Rota	\$25,000
8/28/2019	Beauty Salon	Rota	\$5,000
9/12/2019	Beauty Salon	Rota	\$15,000
Total Amount Approved			\$432,000

**Types of Loans Approved in Fiscal Year 2019
(Microloans & Direct Loans)**



Development Banking Division

CDA acts as a financial advisor and coordinator with respect to any public borrowing of the Commonwealth; its departments, autonomous public agencies, municipalities, and public corporations. In 2019, the CDA Board approved the request of Commonwealth Ports Authority to issue Revenue Bonds or borrow loans of up to \$30 Million for the Saipan International Airport Runway Rehabilitation II Project. Also in 2019, CDA continues to work with its Underwriter to issue Pension Obligation Bonds on behalf of the CNMI in the amount not to exceed \$65M. Public Law 18-12 authorizes the issuance of up to \$300M Pension Obligation Bonds. Proceeds will be used to pay the Retirement Fund owed by the CNMI government pursuant to the Settlement Agreement between CNMI and the Settlement Fund.

MICRO LOAN AND DIRECT LOAN PROGRAMS		
	2018	2019
Loan applications processed	15	24
Loans approved	10	16
Loans closed	10	12
Total amount of loans disbursed	\$158,000	\$432,000
Average interest rate	5.50%	6%
Average loan review time	7-10 days	5-7 days
Loans cancelled	0	
Loans approval rate	67%	67%
Performing Loans	101	96
Foreclosures		3
Foreclosed properties sold	-	-

State Small Business Credit Initiative (SSBCI) - A Bank-Driven Program

SSBCI has two programs; the Collateral Support Program (CSP) and the Loan Purchase Participation Program (LPPP). CSP enables small business to acquire necessary financing that might otherwise be unavailable due to collateral shortfall according to the Lender's analysis. CSP supplies pledged cash collateral accounts to lenders for qualified projects. LPPP is designed to assist lenders and borrowers in financing diversification projects. It enables businesses to acquire necessary financing the might otherwise be unavailable due to a cash flow shortage according to the Lender's analysis. LPPP allows for the participation on loans with Lenders for qualified projects.

BANK-DRIVEN SSBCI PROGRAM				
	2018	2019		
Loan applications processed	9	3		
Loans approved	9	3		
Loans closed	9	3		
Total amount of loans disbursed	\$1.36 million	\$1.13 million		
Total amount of collateral support	\$677,800	\$562,500		
Loans cancelled	none	none		
DATE APPROVED	TYPE OF INDUSTRY	DISTRICT	LOAN AMOUNT	COLLATERAL SUPPORT
12/12/2018	Tour Services	Saipan	\$800,000	\$400,000
12/12/2018	Tour Services	Saipan	\$300,000	\$150,000
8/27/2019	Travel Agency	Saipan	\$25,000	\$12,500
Total Amount Approved			\$1,125,000	\$562,500

Qualifying Certificate Program & Other Economic Development Activities

Saipan Globe International Group, Ltd. (SGIG) project is moving forward and still projected to open in the 1st quarter of 2020. SGIG was granted QC in 2017 with capped tax reliefs.

In 2019, CDA provides technical support to the CNMI Department of Commerce on the State Trade Expansion Program (STEP) grant. Thru this grant from SBA, eligible CNMI small businesses attended a trade show to promote export of their products. Target markets are East Asia and Micronesia.

CDA is working with CBO Financials to facilitate investments into projects within low-income communities. CDA could qualify as a Certified Development Entity (CDE) on behalf of the CNMI.

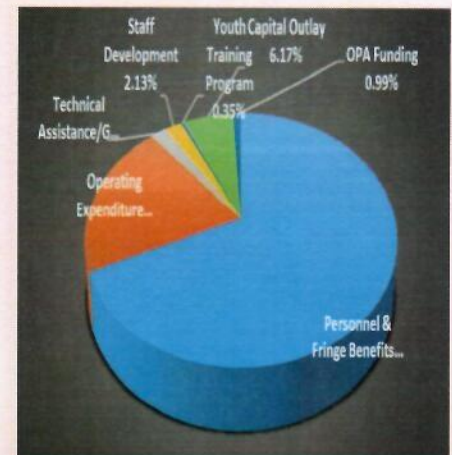
As the designated entity for Opportunity Zone in 2018, CDA in 2019 continues to work with various government and private sectors to implement this program. And in collaboration with other government agencies and via a grant from EDA thru IEDC, CDA joined efforts in overall economic development recovery of the CNMI after the devastation of Super Typhoon Yutu and Typhoon Mangkhut.

FINANCIALS • HOW WE USED OUR RESOURCES

CDA BUDGET 2019

CDA's operation is funded from interest on loans, income from investments, QC annual compliance and application fees, leases and sale of foreclosed properties and rental income from CDA building. CDA's expenditures increased and will increase dramatically in the coming years as we pursue other programs to assist public sector activities. CDA's budget is shown across.

Budget Item	Budget Amount	% of Budget
Personnel & Fringe Benefits 68.36%	\$ 964,549.00	68.36%
Operating Expenditure 20.09%	283,500.00	20.09%
Technical Assistance/Grants 1.91%	27,000.00	1.91%
Staff Development 2.13%	30,000.00	2.13%
Youth Training Program 0.35%	5,000.00	0.35%
Capital Outlay 6.17%	87,000.00	6.17%
OPA Funding 0.99%	13,970.00	0.99%
Total Budget	\$ 1,411,019.00	100.00%



FINANCIAL STATEMENTS SUMMARY Statement of Net Position

	2019	2018
Assets	\$ 29,502,960	\$ 28,724,048
Liabilities	7,893,344	6,583,519
Net Position	21,609,616	22,140,529
Liabilities and Net Position	\$ 29,502,960	\$ 28,724,048

Statement of Revenues, Expenses & Changes in Net Position

	2019	2018
Operating Revenues	\$ 804,561	1,201,537
(Provision for) recovery for loan impairment	64,443	(1,813,745)
Net Operating Revenues	869,004	(612,208)
Operating Expenses	(1,399,917)	(1,442,655)
Operating Loss	(530,913)	(2,054,863)
Non-operating Revenues (Expenses), net	-	(7,228)
Change in Net Position	(530,913)	(2,062,091)
Net Position - beginning	22,140,529	24,202,620
Net Position - ending	\$ 21,609,616	\$ 22,140,529

The Rent-to-Own Home Program by CDA is a work-in-progress. The Program objective is to build affordable, decent, safe, typhoon & seismic proof homes for CNMI residents. This is an investment portfolio using a strategic asset allocation which explores untapped markets for investment with secure and better return on investment (ROI). CDA desires to start building in small-scale and to accomplish this in a very short period of time. In a survey it conducted in 2019, response received overwhelmingly surpasses the proposed number of units to be built; therefore, the CDA Board of Directors allocated an additional \$1.5 million, increasing the budget for this program to \$4.8 million.

Typhoon Mangkhut & Super Typhoon Yutu devastatingly affected most of small businesses in the beginning of fiscal year 2019, thereby, the high demand for additional business loans; from working capital to small and medium repairs and renovations of apartment and building rentals.. In 2019, the CDA Board of Directors approved to increase its \$75,000 Direct Loan Program to \$150,000. CDA's original budget of \$1 million for this loan program was also increased to \$2.5M. Additionally, another \$1M was added to CDA's budget for its Micro Loan Program of \$25,000.

From DBD/CIP Funds, CDA disbursed a total of \$321,250.53 in 2019; \$276,572.38 from the proceeds of the \$140 Bond and \$44,678.15 from the proceeds of the \$60M Bond for various capital improvement projects for Saipan, Rota and Tinian.

CHALLENGES—WHAT TO DO

1. Overlapping and similar missions with respect to economic development and investments whether foreign or domestic. CDA will work with the Governor and the Legislature to

- ▶ appoint and charge CDA to participate in all government-private formed partnerships that deals with CNMI's economic activities; and

- ▶ be placed in a position to take lead rather than to be set aside and only be involved in funding CNMI promotional and economic development planning efforts. CDA will consult and collaborate with Secretary of the Department of Commerce to explore the possible amalgamation or integration of certain functions of the Economic Development and Statistics Division of the Department of Commerce with related CDA functions. A coordinated and centralized economic development office can be best situated within CDA.

2. Two Boards — the CDA Board of Directors and the DCD Board of Directors, were created by the CDA Act (P.L. 4-49). By Law, they must function as separate and independent boards even though same individuals comprise both boards. The management and the Board of Directors find that taking action on matters that related to both the DCD and CDA is time consuming as the process is duplicative of the other. CDA will work with the Legislature in

- ▶ amending the CDA Act to combine meetings of the DCD Board of Directors and the CDA Board of Directors into one meeting for the purpose of saving time and money since the two boards have the same members.

3. Despite being a subsidiary corporation of CDA, the Northern Marianas Housing Corporation (NMHC) functions on its own and manages its own operations. CDA will work with the Governor and the Legislature

- ▶ to separate from NMHC, either via an Executive Order from the Governor or via an act of the Legislature.

4. Difficulties that CDA faces with regards to mortgage or home loan programs. CDA will work with the Legislature and agencies concerned in

- ▶ easing government permitting process with regards to building homes and amend all laws or introduced new legislations that pertain to mortgage and home loan programs. This would allow CDA to move the Rent-to-Own Home Program swiftly.

5. Challenges in foreclosures and after judgement processes. CDA will work with the Legislature and will support legislations

- ▶ that eliminates deficiency balances on judgment debts, after judicial foreclosure and auction of all mortgage assets. Creditors would only be entitled to those proceeds and any deficiency would be eliminated; and

- ▶ that amends the right of redemption on foreclosed properties from one year to three months.

6. CDA promulgates the Rules and Regulations of the QC Program in conformance with the Law that created it (P.L. 12-32, as amended). There are two major challenges that CDA faces in administering this program; one is the reporting deadline that beneficiaries must meet for them to get tax reliefs' benefits. And such requirement is conditioned upon timely submission of participating government agencies indicating that beneficiaries comply. At the most, submission from these agencies are late; thus, affecting the beneficiary's status on compliance. Second, the QC Law was amended to entice prospective investors for Tinian and Rota; both on application and minimum capital investments fees that are reduced by 40%. However, majority of investment inquiries are for Saipan. To potentially be able to spread both investment and economic development equally across all islands, CDA will work with the Legislature

- ▶ reassessing the QC Program in terms of reducing benefits (or place a moratorium) for the island of Saipan, while focusing on ways to promote the islands of Tinian and Rota as equally if not more viable communities for investment. CDA will work with the Legislature on a legislation to achieve this.

7. CDA, via P.L. 20-87, was given full autonomy on personnel hiring and travel. The Law however, overlooked that CDA no longer receives federal grants and therefore must not be limited to conform with federal travel policies. CDA will work with the Legislature in

- ▶ amending P.L. Law 20-87 for CDA to promulgate its own travel regulations closely patterned and consistent with CNMI travel policies instead of the U.S. Federal travel regulations.