



THE SENATE
Twentieth Northern Marianas Commonwealth Legislature
P. O. Box 500129
Saipan, MP 96950

COPY

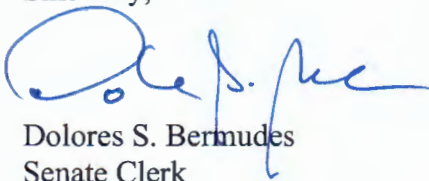
February 9, 2017

The Honorable Rafael S. Demapan
Speaker
House of Representatives
20th Northern Marianas Commonwealth Legislature
Saipan, MP 96950

Dear Speaker Demapan:

I have the honor to transmit for House action S.B. No. 20-23 entitled, "To permit the issuance of Industrial Revenue Bonds/Industrial Development Bond by the Commonwealth of the Northern Mariana Islands government for the benefit of private sector development in alignment with documented CNMI priorities; and for other purposes." The Senate passed on First and Final Reading S.B. No. 20-23 by the unanimous vote, a quorum being present in its 2nd Day, Third Regular Session on February 08, 2018.

Sincerely,



Dolores S. Bermudes
Senate Clerk

Attachment

Transmitted to HOUSE:

Received by: 

Date: 02/09/18

Time: 12:25pm



The Senate
NORTHERN MARIANAS COMMONWEALTH LEGISLATURE
P.O. BOX 500129
SAIPAN, MP 96950

STANDING COMMITTEE REPORT NO. 20-74
Date: January 24, 2018
RE: Senate Bill 20-23

→ Adopted 2/2/18

Honorable Arnold I. Palacios
President of the Senate
Twentieth Northern Marianas
Commonwealth Legislature
Saipan, MP 96950

Dear Mr. President:

Your Committee on Fiscal Affairs, to which was referred Senate Bill 20-23 entitled:

To permit the issuance of Industrial Revenue Bonds/Industrial Development Bond by the Commonwealth of the Northern Mariana Islands government for the benefit of private sector development in alignment with documented CNMI priorities; and for other purposes.

begs leave to report as follows:

I. RECOMMENDATION:

Pursuant to considerable discussion and deliberation, your Committee recommends that S.B. 20-23 be passed without amendments.

II. ANALYSIS:

A.) Purpose:

The purpose of Senate Bill 20-23 is to authorize the issuance of Industrial Development Bonds as permitted under Section 103 of the Internal Revenue Code for specified purposes which meet documented project priorities for economic development centered on the creation of new direct employment opportunities as outlined by the CNMI Government.

B.) Committee Findings:

Your Committee finds that the CNMI's tourism industry and commercial and infrastructure developments are subjected to a variety of external economic factors and market forces which are beyond the control of the Commonwealth. Your Committee recognizes that the CNMI's economy has been affected in the past by unforeseen external factors such as the disruption of telecommunication services due to the break in the undersea cable infrastructure. Following the resumption of telecommunication services in August of 2015, the capital island of Saipan was devastated by Typhoon Soudelor, which not only caused significant structural damage to the island but stalled economic activity due to the disruption in power in the island.

Your Committee finds that the CNMI has slowly recovered from the devastating effects of Typhoon Soudelor and the undersea cable break and is currently experiencing an unprecedented growth in our Gross Domestic Product as a result of all the ongoing developments. However, your Committee finds that the CNMI is yet again facing a potential economic crisis due to the impending CW issue.

The external factors that affect the CNMI's economic condition present the CNMI with the unique challenge of deploying as many economic development tools as possible, with the goal of hardening the economic condition of the islands. Thus, your Committee finds that it is crucial to continue seeking viable options to help sustain the CNMI's economy and continue moving forward. Your Committee finds that there are a variety of financing mechanisms available that promote the required development capital to realize large-scale commercial developments that generate economic activity through job creation and indirect production measures.

Your Committee further finds that an effective way to help the economy is to permit the Commonwealth to issue an Industrial Development Bond for specified purposes which meet documented project priorities for economic development centered on the creation of new direct employment opportunities as outlined by the CNMI Government. Permitting the issuance of an Industrial Development Bond will also help to leverage the CNMI's tax-exempt status for the benefit of private development, and will not hold the CNMI liable for repayment of the bond as long as the requirements set forth in the Internal Revenue Code are met prior to issuance of the bond for private sector benefit. Therefore, your Committee is accord with the intent of this Act.

C.) Legislative History:

Senate Bill 20-23 was introduced by Senator Sixto K. Igisomar on February 22, 2017 and was subsequently referred to the Senate Standing Committee on Fiscal Affairs for disposition.

D.) Public Hearing and Comment:

Your Committee did not conduct a public hearing for Senate Bill 20-23; however your Committee received comments from the Attorney General (see attached comment). In addition, your Committee conducted a committee meeting on January 24, 2018 at 9:30 a.m. in the Senate Chamber and deliberated on the bill.

E.) Estimated Fiscal Cost:

Senate Bill 20-23 permits the issuance of an Industrial Development Bond leveraging the CNMI's tax-exempt status for the benefit of private development, and does not hold the CNMI liable for repayment of the bond. However, all requirements set forth in the Internal Revenue Code must be met prior to issuance of the bond for private sector benefit.

F.) Summary of Committee Amendments:

None

G.) Section by Section Analysis:

Section 2 of this Act outlines the necessary definitions and guidelines to implement the intent of this Act. In addition, it provides promulgation of regulations that must take into consideration the requirements under Internal Revenue Service pertaining to Industrial Development of Industrial Revenue Bonds.

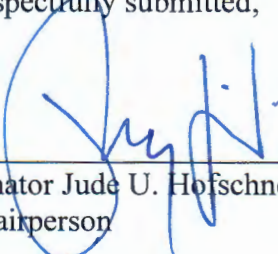
H.) Legal Analysis/Issues:

Senate Bill 20-23 is consistent with the constitution and the laws of the Commonwealth of the Northern Mariana Islands.

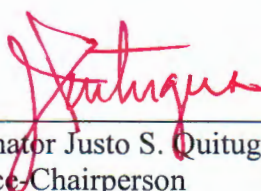
III. CONCLUSION:

Senate Bill 20-23 will allow the CNMI issue an Industrial Development Bond for specified purposes which will meet documented project priorities for economic development centered on the creation of new direct employment opportunities as outlined by the CNMI Government.

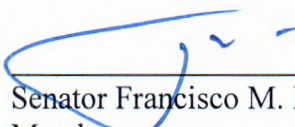
Respectfully submitted,



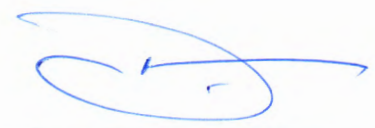
Senator Jude U. Hofschneider
Chairperson



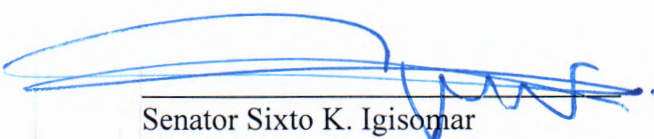
Senator Justo S. Quitugua
Vice-Chairperson




Senator Francisco M. Borja
Member




Senator Francisco Q. Cruz
Member



Senator Sixto K. Igisomar
Member

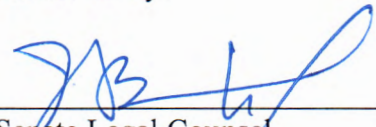


Senator Steve K. Mesngon
Member



Senator Teresita A. Santos
Member

Reviewed by:



Senate Legal Counsel



Commonwealth of the Northern Mariana Islands
Office of the Attorney General

2nd Floor Hon. Juan A. Sablan Memorial Bldg.
Caller Box 10007, Capitol Hill
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Misc. Comm. No. 20-80

EDWARD MANIBUSAN
Attorney General

LILLIAN A. TENORIO
Deputy Attorney General

April 26, 2017

OAGSB: 2017-15

Hon. Jude U. Hofschneider
Chairman, Committees on Fiscal Affairs &
Federal Relations and Independent Agencies
The Senate
Twentieth Northern Marianas Commonwealth
Legislature
P.O. Box 500129
Saipan, MP 96950



Re: Request for Comments on S.B. 20-23

Dear Chairman Hofschneider:

Thank you for requesting comments from the Office of the Attorney General for S.B. 20-23. We have reviewed the version of S.B. 20-23 that your Office transmitted to us on March 22, 2017. Based on our review, we offer the following comments for your consideration.

The bill purports to authorize the Commonwealth to issue industrial development bonds pursuant to § 103 of the Internal Revenue Code (IRC) for targeted economic development projects.

At issue is whether S.B. 20-23 is in compliance with IRC 103 and other Internal Revenue Service (IRS) requirements. These requirements will impact whether the private company is eligible for tax-exempt bonds. In order to be eligible for tax-exempt bonds, the private company and government seeking to issue such bonds must adhere to various IRS requirements. For example, bonds must be registered in order to receive tax exempt status. See 26 U.S. Code § 149(a).

In order to ensure that these requirements are met, the Legislature should thoroughly review IRS Publication 4078, titled "Tax-Exempt Private Activity Bonds." See IRS Publication 4078, *Tax-Exempt Private Activity Bonds* (2017), available at <https://www.irs.gov/pub/irs-pdf/p4078.pdf>. IRS Publication 4078 was published to provide "...state and local governments that issue tax-exempt bonds and to borrowers or other users of bond proceeds (funds derived from the sale of bonds) an overview of the general federal tax law rules that apply to municipal financing arrangements commonly known as "qualified private activity bonds." See IRS Publication 4078, *Tax-Exempt Private Activity Bonds* (2017), available at <https://www.irs.gov/pub/irs-pdf/p4078.pdf>.

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Attorney General's Investigative
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Division Domestic Violence Intervention Center
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The Committee should also consider the following –

1. The definition of “Internal Revenue Code” in the bill should be consistent with the broad definition in 4 CMC § 1702(a). The definition in 4 CMC § 1702(a) does not refer simply to the rules and regulations of the Internal Revenue Service.
2. The definition of “Qualified Project” should be amended to require that the project fulfill IRS requirements. Such an amendment would be consistent with IRS Publication 4078 which outlines various requirements such as what types of projects qualify for tax-exempt bond treatment. It would also be consistent with the definition of “qualified project application” which requires the project to strictly adhere to all compliance requirements in the IRC.
3. The definition of “qualified project applicant” should include language that the applicant must fulfill IRS requirements. It should also provide that an applicant must also fulfill CNMI eligibility requirements to be considered an eligible applicant.
4. The definition of “Volume Cap Limit” should state that all activity bonds must adhere to all IRS requirements.
5. The first sentence of Section 103(e) is a run-on sentence and does not clarify whether, as to industrial development bonds, the CNMI must adhere to existing statute that governs the issuance of bonds.

Please contact my office if you have any questions.

Sincerely,



EDWARD MANIBUSAN
Attorney General

cc: Deputy Attorney General
All Members, The Senate