



Gov. Msg. No. 23-89

Arnold I. Palacios
Governor

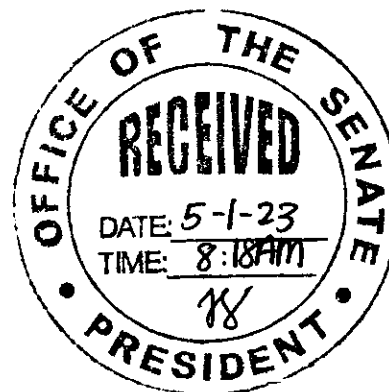
David M. Apatang
Lieutenant Governor

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
OFFICE OF THE GOVERNOR

April 28, 2023

The Honorable Edmund S. Villagomez
Speaker, House of Representatives
23rd Northern Marianas Commonwealth Legislature
Saipan, MP 96950

The Honorable Edith E. Deleon Guerrero
Senate President
23rd Northern Marianas Commonwealth Legislature
Saipan, MP 96950



Dear Mr. Speaker and Madam President:

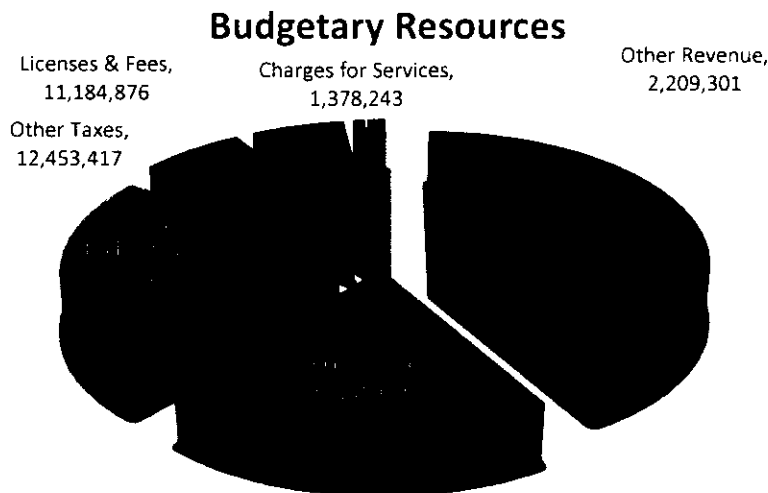
In accordance with Article III, Section 9 of the CNMI Constitution and 1 CMC Section 7201 (a)(1) of the Planning and Budgeting Act, I submit herewith the proposed operating budget for the Commonwealth Government and Related Agencies for Fiscal Year 2024. As mandated by the Constitution, I have presented a balanced budget, where the total amount of proposed expenditures does not exceed total estimated resources available for appropriation.

**OFFICE OF THE
SENATE CLERK**

Signed By:
Date: 5/1/23 Time: 9 AM

Budgetary Resources

The Secretary of Finance has reported that the anticipated gross budgetary resources available for Fiscal Year 2024 is \$172,564,623, as illustrated below:



After adjustments, the net available resources of \$115,407,265, are available for appropriation after deducting debt service obligations, earmarked funds and other legal obligations such as the annual payments due the Settlement Fund.

To supplement the above net resources, this Administration proposes a new revenue stream to address persistent challenges to help sustain our government operations and services. As explained below, we will need the enactment of legislation to generate additional revenues from the Gross Revenue Tax.

1. Reinstatement of suspended earmarks

The proposed budget calls for the reinstatement of the following earmarked funds that were suspended in FY 2023 as they prioritize services and programs to grow our economy, protect the environment, and the welfare of our workforce.

- 1) 2 CMC §3551, Solid waste Management Revolving Fund;
- 2) 4 CMC §1402 (g)(1), Solid Waste Revolving Fund (7% Excise Tax);
- 3) 4 CMC §1402 (g)(3), Group Health and Life Insurance for Employer Share;
- 4) 4 CMC §1803, Marianas Visitors Authority, Hotel Occupancy Tax (80%).

The resumption of Asiana Airlines four weekly flights beginning April 27 and transitioning to daily flights in July is a promising sign for continued recovery of tourism in the Marianas with the Korean Market. This added seating capacity to the Marianas will progressively help us reach pre-pandemic arrivals. With Japan easing entry and departure requirements from the country, we are hopeful the Marianas will be considered a choice destination from this market with direct flights currently operating with United Airlines. The request to reinstate the earmark of the Hotel Occupancy Tax

reserve funding to the Marianas Visitors Authority supports the unified effort to promote and market the Commonwealth within source countries in the region through MVA.

2. Continued suspension of other earmarked funds

For FY 2024, the Administration proposes to maintain the suspension of the following statutory earmarks to support the activities identified in the proposed budget. :

Suspension of Earmarks

- a) Non Resident Worker Fee Fund Fees for NMC and PSS
- b) Tobacco Control - Cigarette Tax, PL 13-38
- c) PSS Technical Education, 4 CMC §1503
- d) Cancer Fund -Cigarette Tax, 4 CMC §1402(g)(2)
- e) NMIRF - Hotel Tax (20%), 4 CMC § 1803b
- f) NMIRF - Alcohol Container (30%), 4 CMC §1803b
- g) MVA - Alcohol Container (20%) 4 CMC §1803b
- h) NMIRF DB Plan Fund - 15% £-gaming, PL 18-30
- i) NMIRF - 60% £-gaming, PL 18-30
- j) 3rd Senatorial District - 15% E-gaming, PL 18-30
- k) 1st & 2nd Senatorial District - 10% £-gaming, PL 18-30
- l) 3rd & 2nd Senatorial District - PL 20-59; 4 CMC §1508

3. Increasing the Business Gross Revenue Tax schedule

For the upcoming fiscal year, this Administration is proposing rate changes to the current schedule of the Business Gross Revenue Tax under to 1 CMC §1301(a). The proposal is to increase the business gross revenue by .5% for gross revenue earnings in excess of \$50,000.01, an increase of one percent for gross revenue earnings in excess of \$250,000.01 to \$750,000, and an increase to six percent for gross revenue earnings in excess of \$750,000.01. I urge the Members of the Legislature to act swiftly on this proposed amendment to the current BGR schedule as this budget anticipates to realize revenues beginning on the first day of the second quarter of Fiscal Year 2024. The information on the proposed increase is presented in Appendix 1.

4. Underlying considerations for FY 2024

Having closely scrutinized the funding requests of the departments and agencies (which exceeded the anticipated resources by \$86.5 million, the enclosed budget worksheets reflect a balanced budget and takes into account only critical activities and the mandatory set asides for debt service payments and the annual payment to the Settlement Fund. In addition, the budget submission incorporates the following underlying constitutional mandates and expenditure restrictions:

- 1) 25% to the Public School System;
- 2) 72 hours biweekly work schedule – Executive Branch;
- 3) allocation of \$577k for participating members to the Defined Contribution Plan;
- 4) allocation of \$7.2m toward Medicaid payments;

- 5) partial allocation of \$1.8 million to pay for central government utilities with the exception of the Judiciary and Legislative Branches; and
- 6) reduced allocation to the Office of the Mayor of Tinian to \$111,231.

Major Expenses

1. Personnel

Personnel is the largest cost category in the CNMI's budget comprising 60% percent of the CNMI's expenditures. The Personnel expense category includes salaries, fringe benefits (Defined Benefit and Defined Contribution Plans, group health and life benefits, and FICA and Medicare). Each major personnel cost category is discussed separately below.

a. Salaries

The budget includes salaries within the Executive Branch based on a 72-hour bi-weekly work schedule continuing from FY 2023 into FY 2024. The exceptions from the shortened work schedule are sworn police and fire fighters including sworn officers in the Department of Corrections and other sworn law enforcement personnel within the central government agencies; these employees are 100% funded.

The salaries and benefits contingency imbedded in this budget is derived from the calculations applied across all positions within the Executive Branch regardless of participation in the group life insurance program. The contingency funds are reserved to cover shortfalls within the respective departments and agencies salaries and benefits allocation such as overtime and other operational needs.

b. Health Benefits

The Commonwealth's two-year agreement with Aetna is up for renewal in 2024 and may require renegotiations that may trigger some changes to our current health benefits plan adjusting Aetna premium rates between employee and employer and active and retirees. Annual Aetna premiums tend to fluctuate considerably and premium rate changes are primarily affected by participating employee' and retirees' prior year's utilization of Aetna service providers. The reinstatement of the earmark pursuant to 2 CMC §3551(a) will make funding available to pay for the employer share for participating in the Group Health Insurance Program for both retirees and active members. The Commonwealth's negotiation with our government health insurance provider to determine the health benefit premium rates every two years is driven by the total number of participating members to the Group Health Insurance program thus less participation translates to higher premiums.

Mandatory benefits for FICA and Medicare are included in this proposal.

c. Pensions (Settlement Fund - Defined Benefit)

The Commonwealth's minimum annual payment for FY 2024 is \$34 million. This funding is adjusted from the anticipated gross budgetary resources to defray the cost of the 75% pension outlay due the Settlement Fund for payment to the retirees. The annual pension payment continues to drop each year with the accelerating mortality rate.

The 25% pension payments needed for the retirees is estimated at \$13 million. Although this program benefit presents a significant funding challenge, the Commonwealth's goal is to continue to protect the retirees' income and pay these promised benefits.

d. Defined Contribution Plan (DCP)

The amount of \$577k is allocated to fund the employer share of the Defined Contribution Plan for participating members. This program provides four percent to participating members who contribute 10.5% of their employee share to the DC Plan.

e. DPL and DLNR personnel

Memorandum of Agreement with Public Lands and Lands and Natural Resources
The Operating Budget in Fiscal Year 2024 extends the continuation of funding the Department of Lands and Natural Resources Parks and Recreation employees pursuant to the MOA signed by DPL and DLNR. We recommend the amendment to the MOA to include Tinian and Rota DLNR Parks and Recreation employees performing grounds and maintenance field work across parks and beaches owned and maintained as public lands.

I request for your consideration to enact legislation amending the salary compensation statute to authorize the annual salary compensation of key Cabinet positions within the range of \$65,175 and not to exceed \$100,000.00. This group of employment workforce were excluded for consideration for a salary adjustment in Public Laws 19-83 or 21-9, and an amendment to update the salary ceiling to be consistent with these statutes will allow a fair and equitable pay adjustment for this group of workforce.

2. Non-Personnel/Operating Expenditures

Non-personnel expenses include utilities, contractual services, repairs and replacement of the Commonwealth's equipment, facilities, and parks, materials and supplies, fuel, communications, rentals and leases, travel and others. Except for utilities, zero funding was allocated to major non-personnel expenses.

3. Public School System

Allocation to the Public School System was calculated at 25% of the Net Identified Budgetary Resources available for general appropriation or \$28.8 million.

4. Central Government Work Schedule

As stated, funding allocation to support the central government workforce is allocated to sustain a work schedule of 72 hours across all three islands and also affecting municipal governments with the exception of the sworn law enforcement personnel and sworn police and fire fighters as such positions are fully funded at 100%. The Judicial and Legislative Branches were kept at the current operating level as Fiscal Year 2023 allocation which provides 100% funding for personnel based on a full work schedule.

5. Medicaid Payments

Allocation to fund the mandatory match towards the Medicaid Reimbursement program is reduced from \$9 million to \$7.2 million for FY 2024. Since matching is only required when an expense is incurred, other sources of funding will need to be identified prior to this funding being exhausted to ensure the program benefits will continue.

6. Government Utilities

Our meager resources are insufficient to fully fund government utilities; however, \$1.8 million is provided in this budget as an assurance of the government's commitment to pay for its utilities consumption. It should be noted that utilities are also part of the federal programs allocation that will pay towards their program's utilization of the facilities they occupy. Furthermore, government agencies have opted to utilize the prepaid meters where energy consumption is effectively controlled and a reduction in the usage and cost of utilities is anticipated.

7. Mayor of the Municipality of Tinian

Allocation to the Office of the Mayor of the Municipality of Tinian and Aguigan is reduced by \$2.7 million which will fund only one position for the Mayor of Tinian at \$111k. The funding to support the Office of the Mayor of Tinian is part of the special revenue fund allocation worksheet amounting \$2.7 million for 124 positions within the Office of the Mayor. The source of funding is derived from the \$3 million the Municipality received via a wire transfer by the CNMI Treasury to the Municipal Treasury's account in December 2022. The funds were identified as ARPA funds that the Municipality has not spent as confirmed with the Mayor during a budget meeting with the Mayor and OMB last April 15, 2023, with the presence of the Secretary of Finance.

8. Contractual Services

The Commonwealth uses contractual services to support essential operations such as fuel, repairs and maintenance, materials and supplies, consultant support, building and grounds maintenance, cleaning, rental spaces and others. The Commonwealth's operating budget did not include funding for contractual services in the general fund; however, the Special Revenue Fund is available to meet essential operational expenses that the department and agencies may need.

Summary

This submission fulfills the Executive Branch's primary responsibility of submitting a balanced budget proposal for each fiscal year as required by the Constitution. The budget submission has received the input and comments of the Mayors of Rota, Tinian and Aguigan, Saipan and the Northern Islands as well as the Executive Assistant for Carolinian Affairs. The Council has reiterated the request for your consideration to allow flexibility to support their operations and activities with limited resources available in Fiscal Year 2024.

The Administration's FY 2024 Proposed Budget includes other funds to support the operations and activities of the government in Fiscal Year 2024 and are found in Volumes I (General Fund and Special Revenue Fund), Volume II (Federal Fund and Capital Projects Fund) and Volume III (Enterprise Fund).

It is critical that any and all revenue generating measures be considered and introduced expeditiously to meet the demands of providing uninterrupted public service to the people of the Commonwealth. This effort will require close consultation with the Administration as well as the private sector, to ensure that we remain focused on resolving the issues facing the Commonwealth in the near future.

We will continue to monitor events and fiscal conditions that might affect the underlying assumptions and consideration of our proposed budget for FY 2024 and will inform the Legislature of any changes and proposed amendments as appropriate.

The Special Assistant for Management and Budget and the Secretary of Finance are available to discuss the details of the proposed Operating Budget for Fiscal Year 2024. Thank you and we look forward to working with you and the members to ensure the timely passage of this proposal.

Sincerely,



ARNOLD I. PALACIOS

Enclosures

cc: Lieutenant Governor
Secretary of Finance
Special Assistant for Management and Budget
Special Assistant for Administration
Special Assistant for Communication and Protocol
Special Assistant for Programs and Legislative Review
All Mayors
All Municipal Councils
Executive Assistant for Carolinian Affairs
Members of the 23rd Northern Marianas Commonwealth Legislature

Business Gross Revenue Tax Schedule

From	To	Current Tax Rate	Proposed Increase	New Tax Rate
0	5,000	0.0%		0.0%
5,000.01	50,000	1.5%		1.5%
50,000.01	100,000	2.0%	0.5%	2.5%
100,000.01	250,000	2.5%	0.5%	3.0%
250,000.01	500,000	3.0%	1.0%	4.0%
500,000.01	750,000	4.0%	1.0%	5.0%
750,000.01	and over	5.0%	1.0%	6.0%

Estimated Budgetary Resources for Fiscal Year 2024	Total
Estimated REVENUE	172,564,623
LESS Earmarks	
Special Earmarks	(11,807,211)
General Earmarks	(649,780)
General Earmarks for Local Appropriation	(108,639)
Total Reduction for Earmarks	(12,565,630)
LESS Debt Service Previously Appropriated	
Appropriated for Bond Payment (2007A, 2007B)	(6,882,375)
Appropriated for 2020 Pension Obligation Note Payment	(2,886,600)
MPLT 2019 Loan	(822,753)
Total Reduction for Appropriated Debt Service	(10,591,728)
LESS Settlement Agreement	
Appropriated for Payment of NMI Settlement Fund	(34,000,000)
Total Reduction for Settlement Agreement	(34,000,000)
TOTAL for EARMARKS/DEBT SERVICE/SETTLEMENT AGREEMENT	<u>(57,157,358)</u>
TOTAL IDENTIFIED BUDGETARY RESOURCES AVAILABLE FOR APPROPRIATION	<u><u>115,407,265</u></u>

Consolidated Budget Allocation

	NOP	P.L. 23-04	Proposed FY 2024	Inc./ (Dec.)
I. Identified Budgetary Resource		116,193,797	115,407,265	(786,532)
II. Budget Allocation				
1) Judicial Branch	127	6,492,148	6,492,148	0
2) Legislative Branch	136	7,162,560	7,162,591	31
3) Executive Branch	1250	36,865,029	47,340,641	10,475,612
4) First Senatorial District	286	7,425,985	7,765,855	339,870
5) Second Senatorial District	275	7,367,654	4,611,526	(2,756,128)
6) Third Senatorial District	103	1,325,575	1,325,648	73
7) All Other Agencies	1328	49,554,846	40,708,856	(8,845,990)
Total Central Government	3505	116,193,797	115,407,265	(786,532)
variance		0	-3	(3)