

# A REPORT ON THE STATE OF THE ISLANDS

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## TABLE OF CONTENTS

Introduction 1

Chapter 1. The Department of the Interior's Role in the Insular Areas 2

1.1 The Department's Evolving Role in Insular Affairs. 2

1.2 Fiscal Year 1996 Insular Affairs Budget 3

1.3 Major Issues and Initiatives in Federal-Insular Area Relations 6

Chapter 2. American Samoa 17

2.1 American Samoa 17

2.2 Political Status Developments and Federal Relations 17

2.3 Current Economic Conditions 19

2.4 Government Administration 21

2.5 Infrastructure 23

Chapter 3. Commonwealth of the Northern Mariana Islands 30

3.1 Commonwealth of the Northern Mariana Islands 30

3.2 Political Status Developments and Federal Relations 30

3.3 Current Economic Conditions 32

3.4 Government Administration 35

3.5 Infrastructure 37

Chapter 4. Guam 51

4.1 Guam 51

4.2 Political Status Developments and Federal Relations 51

4.3 Current Economic Conditions 53

4.4 Government Administration 56

4.5 Infrastructure 57

Chapter 5. Virgin Islands 65

5.1 The United States Virgin Islands 65

5.2 Political Developments and Federal Relations 65

5.3 Current Economic Conditions 66

5.4 Government Administration 67

5.5 Infrastructure 67

Chapter 6. Republic of Palau 78

6.1 The Republic of Palau 78

6.2 Political Status Development and Federal Relations 78

- 6.3 Current Economic Condition 79
- 6.4 Government Administration 81
- 6.5 Infrastructure 82
  
- Chapter 7. The Federated States of Micronesia 93
  - 7.1 The Federated States of Micronesia 93
  - 7.2 Population 93
  - 7.3 History 94
  - 7.4 Political status 94
  - 7.5 Government 96
  - 7.6 The Economy 96
  - 7.7 Education and Health 99
  - 7.8 Outlook 100
  
- Chapter 8. Republic of the Marshall Islands 108
  - 8.1 Republic of the Marshall Islands 108
  - 8.2 History 108
  - 8.3 Society 110
  - 8.4 Political System 110
  - 8.5 The Economy 111
  
- Appendix A. Statistical Summary 117
  - Introduction 117
  - Demographic Characteristics 117
  - Social Characteristics 120
  - Economic Characteristics 123
  - Housing Characteristics 137
  - Conclusions 141

## LIST OF TABLES

Table 3-1.	Local Revenues, Commonwealth of the Northern Mariana Islands: 1990 to 1995 47
Table 3-2.	Basic Operational Expenditures by Selected Categories, Commonwealth of the Northern Mariana Islands: 1990 to 1995 47
Table 3-3.	Students Enrolled in School by Grade Level by School, CNMI: 1994 and 1995 48
Table 3-4.	Permits Issued to Non-Resident Workers by Industry and Year, CNMI: 1991 to 1994 48
Table 3-5.	Permits Issued to Non-Resident Workers by Nationality, CNMI: 1991 to 1995 49
Table 3-6.	CNMI Visitor Arrivals by Month, CNMI: 1990 to 1995 49
Table 3-7.	Number of Installed Telephones by Type of Subscribers, CNMI: 1982 to 1995 50
Table 3-8.	Garment Industry Export Value and Export Tax, CNMI: 1987 to 1995 50
Table 3-9.	Crude birth rates, CNMI: 1989 to 1995 50
Table 4-1.	Local Revenues, Guam: FY 1990 to FY 1995 62
Table 4-2.	Basic Operational Expenditures by Selected Categories, Guam: 1990 to 1995 63
Table 4-3.	Employment by Industry, Guam: 1990 to 1995 64
Table 5-1.	Local Revenues, Virgin Islands: 1990 to 1995 76
Table 5-2.	Basic Operational Expenditures by Selected Categories, Virgin Islands: 1990 to 1995 77
Table 5-3.	Employment by Industry, Virgin Islands: 1990 to 1995 77
Table 6-1.	Local Revenues and COFA Funds Revenues, Republic of Palau: 1994 and 1995 91
Table 6-2.	Basic Operational Expenditures by Selected Categories, Republic of Palau: 1990 to 1995 92
Table 6-3.	Employment by Industry, Republic of Palau: 1994 to 1995 92
Table 7.1.	Population Statistics, FSM: 1994102
Table 7-2.	Gross Domestic Product, FSM: 1990 to 1995102
Table 7-3.	Trade Statistics, FSM: 1990 to 1995103
Table 7-4.	Destination of Exports, FSM: 1989 to 1993103
Table 7-5.	Imports by Country of Origin, FSM: 1989 to 1993104
Table 7-6.	Distribution of Labor Force by Occupation, FSM: 1990104
Table 7-7.	Banking Survey, FSM: 1990 to 1994105
Table 7-8.	Consolidated Government Finances, FSM: FY 1989 to 1995106
Table 7-9.	U.S. Grants Under the Compact of Free Association, FSM: FY 87 to FY 2001107
Table 8-1.	All Federal Program Grants to the Marshall Islands Government in FY95115
Table 8-2.	Central Government Finances, Marshall Islands: FY 1991 to FY 1995116
Table A-1.	Demographic characteristics, United States and Insular Areas: 1990 and 1995118
Table A-2.	Migration and Social characteristics, United States and Insular Areas: 1990 and 1995120

Table A-3.	School Enrollment: 1990 to 1995	122
Table A-4.	Economic characteristics, United States and Insular Areas: 1990 and 1995	123
Table A-5.	Commercial Bank Deposits: 1990 to 1995	125
Table A-6.	Commercial Bank Loans: 1990 to 1995	125
Table A-7.	Business Gross Receipts: 1990 to 1995	126
Table A-8.	Business Licenses: 1990 to 1995	126
Table A-9.	Value of Construction Permits: 1990 to 1995	127
Table A-10.	Imports and Exports: 1990 to 1995	128
Table A-11.	Consumer Prices: 1990 to 1995	129
Table A-12.	Visitors: 1990 to 1995	130
Table A-13.	Tourist Expenditures: 1990 to 1995	131
Table A-14.	Tourism Employment: 1990 to 1995	131
Table A-15.	Hotel rooms: 1990 to 1995	132
Table A-16.	Summary Distribution of Federal Funds, U.S. and Insular Areas: Fiscal Year 1995	132
Table A-17.	Historical Summary of Federal Funds, U.S. and Insular Areas: FY 1986-1995	133
Table A-18.	Federal Expenditure for Defense Department & Other Agencies, U.S. and Insular Areas: FY95	134
Table A-19.	Federal Expenditure by Agency, U.S. and Insular Areas: FY95	135
Table A-20.	Department of the Interior Office of Insular Affairs Appropriations by Activity: 1991-1995	136
Table A-21.	Structural and Plumbing characteristics, United States and Insular Areas: 1990 and 1995	137
Table A-22.	Equipment, Facilities, and Value of Housing, United States and Insular Areas: 1990 and 1995	139

## **LIST OF CHARTS**

- Chart 1. Recent OIA Support to Regional Projects 15
- Chart 2. Recent OIA Grants to American Samoa (FY 1993 to 1996) 29
- Chart 3. Recent OIA Grants to the CNMI (FY 1993 to 1996) 45
- Chart 4. Recent OIA Grants to Guam (FY 1993 to 1996) 61
- Chart 5. Recent OIA Grants to the Virgin Islands (FY 1993 to 1996) 75
- Chart 6. Recent OIA Grants to Palau (FY 1993 to 1996) 90
- Chart 7. Recent OIA Grants to the Federated States of Micronesia (FY 1993 to 1996)101
- Chart 8. Recent OIA Grants to the Marshall Islands (FY 1993 to 1996)114

# A Report on the STATE OF THE ISLANDS

## Introduction

This is the fifth annual "State of the Islands" report. The report responds to the Senate Committee on Appropriations' Report 102-122, which requested the Secretary of the Interior to submit annually a report on the state of the United States insular areas. The committee requested that the report include basic economic development information on the U.S. Virgin Islands (U.S.VI), Guam, the Commonwealth of the Northern Mariana Islands (CNMI), American Samoa and the Republic of Palau, as well as "data on direct and indirect Federal assistance, local revenues and expenditures, employment and unemployment, the adequacy of essential infrastructure, an assessment of local financial management and administrative capabilities, and Federal efforts to improve these capabilities."

This report is divided into the following major sections:

Chapter 1: A description of the Department of the Interior's evolving role and responsibilities with regard to the U.S. insular areas, including its current mission.

Chapters 2 through 8: Summaries for each insular area of major political developments, relations with the federal Government, current economic conditions, relevant government administrative issues, and information about the state of basic infrastructure. Each area chapter also contains a listing of Office of Insular Affairs (OIA) grants to the area and statistical tables.

Appendix — Statistical Summary: Tables and graphs comparing insular area demographic, social, economic, and housing characteristics.

The information compiled in this report was obtained primarily from the insular area governments and the Department. Economic indicators and reports of local revenues and expenditures were obtained from the insular governments. The discussions of infrastructure draw also from the field reports of the Operations and Maintenance Improvement Program team, Louis Berger International, Inc., and the Barrett Consulting Group, Inc.

A broad array of information exists on the insular areas, but development of meaningful comparative data has been a gradual process. This year, for the first time, comparative social and economic characteristics have become available through mid-decade censuses and surveys undertaken by the insular areas, with technical assistance provided by the Bureau of the Census under OIA's statistical improvement program. Some basic economic measures, such as gross domestic product and personal income, are not available from all the insular areas.

## Chapter 1. The Department of the Interior's Role in the Insular Areas

### 1.1 The Department's Evolving Role in Insular Affairs.

As a result of the President's National Performance Review, the Department took a major step in 1995 to redefine and restructure its relationship with the U.S. insular areas. In recognition of the political advancement and increased self-government of the insular areas, the Office of Territorial and International Affairs and the positions of Assistant Secretary and Deputy Assistant Secretary were abolished. A new Office of Insular Affairs was created on August 4, 1995, by Secretary's Order No. 3191, and the Secretary's responsibilities for insular affairs were delegated to that office. The new office is headed by a Director who reports to the Deputy Assistant Secretary for Policy under the Assistant Secretary for Policy, Management and Budget.

This streamlining resulted in a reduction of staff from 45 to 25, and a cost savings of \$1.2 million annually. Two of the five field offices were closed. Coordination of international activities was transferred to the Department's Office of Policy Analysis and certain budget activities were transferred to the Office of Budget.

The mission of the Office of Insular Affairs is to build mutually beneficial partnerships between insular areas and federal and other. In the past, the Secretary of the Interior exercised broad authority in the insular areas. Chief executives of the insular governments were appointees of the President or the Secretary, and the Secretary had the legal authority to supervise and give binding directions to them. Since the installation of

sources of assistance and to provide financial and technical assistance to help the insular governments attain locally determined economic, social and political goals. The office also facilitates the development and implementation of federal policies regarding the insular areas.

The streamlining of insular affairs was an appropriate step both in terms of the Administration's reinvention initiative and the evolving nature of the Department's relationship with the U.S. insular areas. That relationship has changed markedly over the last decade. As the insular areas achieved greater degrees of self-government and self-sufficiency, the Department's role has become that of facilitator of federal relations and assistance.

Interior's role began in 1931 with the Navy Department's transfer to the Department of jurisdiction for the United States Virgin Islands (U.S.VI). Guam, which had been under Navy control since its acquisition during the Spanish American War in 1898, was transferred to the Department's jurisdiction in 1950. American Samoa, parts of which had been ceded to the United States as early as 1900, was similarly transferred from the Navy to the Department in 1951.

popularly elected legislatures (Guam 1950, U.S.VI 1954, American Samoa 1961, and the CNMI 1979) and governors (Guam and U.S.VI 1971, American Samoa 1978, and, the CNMI, 1979), each of the U.S. insular areas has become responsible for the administration of local government functions. Although the

Congress has placed with the Secretary certain continuing budget and program coordination authority and responsibility concerning U.S. insular affairs, the local governments are not entities of the Department, nor are they agencies or instrumentalities of the federal Government.

Interior's relationship with other U.S.-affiliated Pacific islands stemmed from a post-World War II trusteeship. The Northern Mariana Islands, the Marshall Islands, and the Caroline Islands were grouped into the Trust Territory of the Pacific Islands (TTPI) by the United Nations in 1947. Under the Trusteeship Agreement with the U.N. Security Council, the United States exercised administrative jurisdiction over the TTPI. The Navy administered the TTPI until 1951, when that authority was given to the Secretary of the Interior. Under the trusteeship, the Secretary had broad legal authority over the trust islands, including the power to appoint governing officials, amend budgets, and veto local laws.

Following an act of self-determination by its voters, the Northern Mariana Islands became a U.S. Commonwealth in 1976. The Covenant between the CNMI and the United States became fully effective by Presidential Proclamation in 1986. The Marshalls and the Federated States of Micronesia became sovereign states in 1986. As the Republic of the Marshall Islands and the Federated States of Micronesia (FSM), these islands are now affiliated with the United States as freely associated states. Palau became a freely associated state on October 1, 1994. As freely associated states, Palau, the Marshalls, and the FSM are sovereign and their relations with the United States are handled by the Department of State. The Secretary of the Interior, For FY 1996, the act provides American Samoa with \$23.046 million for operations. It includes \$24.938 million for Compact of Free Association funding for federal services

however, continues to have federal program coordination and disbursement and monitoring responsibilities for U.S. funds annually provided these island states under the terms of the Compacts of Free Association.

## **1.2 Fiscal Year 1996 Insular Affairs Budget**

In April 1996, the FY 1996 Omnibus Appropriations Act was passed which included funding for insular areas and the new Office of Insular Affairs.

The Act included, as Section 118, the language of the Insular Development Act which was recommended to the Congress by the Administration for enactment in February 1995. Section 118 reallocates \$16.72 million of the \$27.72 million in mandatory Covenant funding. The CNMI will continue to receive \$11 million annually for seven years subject to an equal local match and all other requirements of the December 1992 Agreement of the Special Representatives. Guam will receive \$4.58 million annually for six years to mitigate impacts caused by the Compacts of Free Association. American Samoa will receive \$7.72 million for capital infrastructure projects in FY 1996 and will be eligible for additional funding in future years.

A total of \$4.42 million is allocated for the resettlement of Rongelap in 1996 and additional funds would also be available, if necessary, in future years. In FY 1997, the College of the Northern Marianas will receive \$3 million. For FY 1997 and beyond, up to \$3 million may be allocated for use by federal agencies and the CNMI to address immigration, labor, and law enforcement issues in the CNMI.

assistance (\$6.964 million), health and education grants (\$14.9 million), Enewetak food assistance (\$1.081 million), and Rongelap resettlement (\$1.983 million). With

respect to Rongelap resettlement, the act stipulates that the total of all additional contributions from any federal source may not exceed \$32 million and shall be contingent upon an agreement satisfactory to the President that such contributions are a full and final settlement of all obligations of the United States to assist in the resettlement of Rongelap Atoll.

Technical assistance program funding includes \$5.65 million for general technical assistance, \$2.4 million for maintenance assistance, \$595,000 for brown tree snake eradication, \$750,000 for disaster assistance, and \$1,500,000 for insular management controls. A total of \$3.527 million was included for the smaller, reorganized Office of Insular Affairs.

The OIA workload consists of management of financial and technical assistance grants, and policy responsibilities for seven insular governments. OIA manages and continuously monitors several hundred grants, ranging from major insular government operations and construction funds to small technical assistance awards, to ensure that these grants are used in accord with federal laws and regulations. In addition, mandated audits must be reviewed, answered, and monitored for corrective action.

OIA's program and policy coordination is carried out with numerous federal departments and agencies. This work is often performed through issue specific working groups of federal representatives which meet with insular officials to address issues. Memoranda of understanding and other cooperative agreements are used to set out common goals and courses of action, and to assign responsibilities for accomplishing the aims of the groups. Continuous liaison with The Department has annually budgeted for the construction of needed capital improvements in the insular areas when the lack of local

island officials is maintained. OIA also tracks and analyzes pending federal legislation which could affect insular areas. Frequent requests for information must be answered by OIA staff.

A detailed description of the major insular assistance programs funded and monitored under OIA's FY 1996 budget follows:

#### *Compacts of Free Association*

OIA has responsibility for coordinating and monitoring appropriations made pursuant to the Compacts of Free Association with the FSM, the Marshall Islands, and Palau. The relationship with these governments is defined by the Compact of Free Association Act of 1985 (Public Law 99-239) and the Palau Compact of Free Association Act (P.L. 99-658). Under the compacts, the United States agreed to provide financial assistance for fifteen-years ending in 2001 for the FSM and Marshalls and in 2009 for Palau.

#### *Government Operations Subsidies*

American Samoa's economy is currently unable to generate a level of local revenues to assure that essential public services are provided to its citizens. Therefore, the federal Government annually provides direct support for American Samoa general government operations through OIA. In FY 1996, American Samoa received \$23.046 million under this program. The allocation of the Department's operations grants in American Samoa is made according to American Samoa's administrative and legislative practices.

#### *Capital Improvement Grants*

funding poses a threat to health and safety or when such improvements are essential to economic development. Construction grants

are made subject to terms and conditions that include the insular governments' compliance with the provisions of OMB Circular A-102, OMB Circular A-128 (requirements of the Single Audit Act), and other laws and regulations governing federal grant funds. OIA uses the services of the Army Corps of Engineers, Honolulu Engineer District, to provide engineering expertise in its review and oversight of construction grants in the Pacific insular areas.

#### *Covenant Grants*

Section 702 of the Commonwealth Covenant (P.L. 94-241 as amended by P.L. 99-396) provided multi-year financial support to the CNMI to attain the mutual goals of the U.S. and the CNMI to improve the CNMI's standard of living, develop the CNMI economy, and lessen its dependence on U.S. assistance. The first agreement provided \$192 million from 1978 to 1985 for government operations and capital improvements. The second multi-year agreement, covering the fiscal years 1986 through 1992, provided a total of \$228 million for government operations and capital development.

Congress was not able to reach agreement on the disposition of this program for FY 1992 through FY 1995, and therefore the CNMI continued to receive \$27.7 million in each of those years. Use of these funds is subject to Each year, Guam and the U.S.VI governments estimate these tax collections for the upcoming fiscal year and are given an advance payment (before the fiscal year begins) based on that estimate. The amounts advanced for FY 1996 were \$39.9 million to Guam and \$43.6 million to the U.S.VI. When actual tax collection figures are available from the U.S. Treasury, an adjustment is made to correct any under or over-payment that was made in advance. Figures included in the budget are only preliminary estimates of those advances and do not restrict in any way the

the terms of an agreement made between the CNMI and the Department. These grants are subject to the Department's oversight and audit.

In the FY 1996 Appropriations Act, the Congress reallocated the Covenant funding, with the CNMI to receive \$11 million annually for the next seven years, subject to an equal local match and all other requirements of the December 1992 Agreement of the Special Representatives. In addition, in FY 1997, the College of the Northern Marianas will receive \$3 million. For FY 1997 and beyond, up to \$3 million may be allocated for use by federal agencies or the CNMI to address immigration, labor, and law enforcement issues.

#### *Fiscal Assistance to U.S. Territories*

In FY 1996, OIA has budget authorization for \$92.6 million for fiscal assistance payments to Guam and the U.S.VI. This permanent, indefinite appropriation, authorized under the Guam and U.S.VI organic acts, provides the mechanism to transfer to the island treasuries certain tax revenues collected by the U.S. Treasury. For Guam these funds consist of federal income tax collections, mainly from federal employees on Guam. For the U.S.VI, they are federally collected excise taxes on U.S.VI rum imported into the United States customs territory.

final estimates development by the governments or the amount of the advance payment.

#### *Technical Assistance Program*

A total of \$5.65 million was appropriated for general technical assistance projects in FY 1996. General technical assistance funds are used to provide the insular areas with funding for projects designed to encourage economic development opportunities, to enhance health care and education, to improve government

efficiency, and to assist the economies in becoming self-sufficient.

Technical assistance is provided through grants, reimbursable support agreements with other federal, state and local agencies, contracts with private firms, or through direct assistance by OIA staff. It may be in the form of research, planning and program assistance, studies, demonstration projects or personnel services. A list of recent technical assistance grants is appended to this report.

In addition to the general technical assistance funding, \$595,000 was included for the Brown Tree Snake program; \$750,000 for Disaster Assistance; and, \$1.5 million for Insular Management Controls.

#### *Operations and Maintenance Improvement Program*

In FY 1996, the OIA budget included \$2.4 million for the Operations and Maintenance Improvement Program (OMIP) for the insular areas. These funds, when matched by local government funds, are used to protect federally-funded infrastructure components and to assist the islands in providing consistent and reliable utility services. The islands' geographic isolation, tropical climate, and the frequency of major storms require that construction conform to exacting standards and be optimally maintained.

### **1.3 Major Issues and Initiatives in Federal-Insular Area Relations**

In the report, the Administration noted areas of progress through the combined efforts of the Government of the CNMI and the federal agencies. Governor Tenorio has strongly endorsed the CNMI's actions and the increase of federal law enforcement presence. The federal agencies and the CNMI are working cooperatively, with the Office of Insular Affairs acting as an ombudsman, to address

In carrying out its responsibilities, the Department and the Office of Insular Affairs, at the request of insular governments, and in cooperation with them and Congressional oversight committees, participated in several initiatives aimed at addressing insular area issues. Major FY 1996 projects included:

#### **Federal-CNMI Initiative on Labor, Immigration and Law Enforcement**

This initiative was funded with a \$7 million appropriation by the Congress in Public Law 103-332 for fiscal years 1995 and 1996. Of this amount, \$4 million was allocated by the Department of the Interior for federal agency action and \$3 million for CNMI action. The latter included \$1.5 million for a computer system to track alien workers in the CNMI. In FY 1997, Congress has authorized the Secretary to allocate up to \$3 million for the initiative.

The Congress endorsed the initiative due to concerns about immigration and law enforcement, and allegations of maltreatment of alien workers in the CNMI.

On June 4, 1996, the Administration submitted its second annual report on the federal-CNMI Labor, Immigration, and Law Enforcement Initiative to the U.S. Congress. The report contained two recommendations: 1) to establish in federal law the annual 30-cent the minimum wage contained in the then-existing CNMI law; and 2) to use Covenant funds for prison and detention facilities.

the problems with labor, immigration, and law enforcement in the CNMI.

As a result, the Initiative has brought increased federal resources and staff from the U.S. Departments of Labor, Justice, and Treasury to the CNMI to enforce federal law. Full-time federal staffing in the CNMI increased by eight (six full-time and two

temporary duty personnel). Federal agencies are also providing training to local agency personnel. Caseloads for the federal District Court, the United States Attorney, the U.S. Department of Labor, National Labor Relations Board, and law enforcement agencies have all risen dramatically.

The following areas of concern were highlighted in the report: CNMI difficulty in controlling immigration, lack of consistent CNMI policy on implementing a minimum wage analogous to the federal minimum wage, and infrastructure and social costs of uncontrolled immigration.

The report sets an agenda for the next year, including 1) the possible development of options on an increased federal role in immigration into the CNMI, 2) assurance of payment of unpaid wages to employees and unreimbursed costs to the CNMI government, 3) investigation of shadow contracts that are forced on alien workers, 4) investigation of prostitution activities, 5) development of a construction plan for correction and detention facilities, and 6) continuation of international cooperation to complement federal efforts in

To assist ASG in improving its overall financial management, OIA worked with local leaders to identify and hire a financial planning group to help ASG prepare a long-term financial recovery plan. CORE, Inc. began its work in American Samoa in May 1995 to assist ASG in preparing a long-term financial recovery plan. After their preliminary review, CORE officials concluded that ASG can institute immediate revenue-enhancing measures, including modest increases in local government fees for hospital, court, airport, seaport, telephone, hotel, and golf course services. This enhancement could provide \$3 million in annual additional revenue to the cash-strapped government. CORE also recommended mid and long-term cost containment measures for

the CNMI regarding labor, immigration, and law enforcement policies.

### **American Samoa Fiscal Management and Law Enforcement Improvement**

Over the past several years, the American Samoa Government (ASG) has experienced a deteriorating financial situation. Government spending increased, debts rose, public employment remained high, while revenues decreased or remained flat. Local government mismanagement and corruption exacerbated the problem. In response to an Interior Department Inspector General's audit which indicated ASG's deficit was more than \$60 million, Governor A.P. Lutali and other local leaders requested federal assistance to improve the fiscal management, accountability, and law enforcement capabilities of the ASG. At the direction of Congress, an ASG-Interior Joint Working Group was established two and a half years ago to implement a plan of action to address the problems identified in a 1992 GAO report. OIA concluded several agreements with the ASG and federal agencies to address these problems.

ASG. On October 1995, CORE submitted an immediate-term financial recovery plan to the ASG-Department Joint Working Group. Governor Lutali endorsed the financial plan and committed to support implementing the recommendations of the Joint Working Group.

In addition, CORE and the JWG plan to proceed with Phase II of the financial recovery plan in the fall of 1996. This mid-term plan will include more aggressive cost-cutting and revenue enhancement measures, options for restructuring the current operations of the ASG, opportunities for partial or complete privatization of selected ASG operations, opportunities for additional grant revenues, and a strategy for enhancing

industrial productivity, economic development, and direct foreign investment in the island.

OIA and Interior's Information Resources Management Office have worked with ASG to fully automate ASG's financial accounting systems. OIA signed a grant with Governor Lutali, providing the local government with an additional \$800,000 (bringing the total grant to \$2.4 million) for the purchase and installation of a computerized financial management system. The grant will also be used for procuring auditing and accounting support services. In addition, a team from the Internal Revenue Service set up a training program for local officials in tax collection and enforcement. OIA assisted ASG in improving local government fiscal management practices through the Insular Management Control Initiative, which funds training of local government financial management personnel. The ASG and OIA are also working together to establish a cooperative management and maintenance program to improve medical services in the local hospital.

At Governor Lutali's request, a team from the Department of Justice/FBI, in cooperation with ASG, conducted an assessment of white collar crime involving public funds and the need for investigative and prosecutorial assistance to supplement local capabilities. The Justice report concluded that major local

**Freely Associated State Economic Restructuring**

OIA is working closely with the State Department to review economic development under the Compact. As a part of a three-year-long review, freely associated state (FAS) and Asian Development Bank (ADB) officials recommended refocusing, restructuring, and improving economic performance in the FAS for the second half of the Compact period. The recommendations included continuing the

government fraud, including the theft and misuse of federal funds, is contributing significantly to American Samoa's worsening financial condition and neither local nor federal law enforcement capabilities are adequate to deal with the problem.

One of the recommendations of that report was for the Administration to submit legislation providing limited federal court jurisdiction in American Samoa. This jurisdiction would also provide for the collection of debts owed to the United States by residents of American Samoa. At present, but for a few minor exceptions, no federal court has jurisdiction over American Samoa and this void has made it extremely difficult for the United States to enforce its laws in that territory and to collect debts owed to it by inhabitants of that territory.

The jurisdiction would be limited to civil, criminal, and regulatory statutes of the United States and only at the suit of the United States. This is intended to allow American Samoa to protect its culture and customs, especially the extended family, traditional chiefs (*Matai*), and communal land tenure systems. The legislation would specifically provide that the court not have jurisdiction over litigation that directly affects a *Matai* title or communal property. This limitation stems from the U.S. legal obligations under the Treaties of Cession.

annual bi-lateral consultations, started in 1994, under the Compact, and the establishment of multilateral donor consultative groups and in-country economic advisory teams.

As part of this effort in FY 1996, OIA coordinated an international effort that worked with FSM and Marshalls leaders and representatives of the ADB to develop a systematic plan for comprehensive economic reform in those FAS. The project aims at

helping those islands institute investment, trade, and other economic policy reforms, and thus use U.S. funding more effectively under the Compact and to prepare the islands for the post-Compact era. The goal is to assist the islands in achieving economic growth through greater private sector development, thereby increasing economic self-reliance.

Currently, U.S. Compact funds account for more than 50 percent of the islands' Gross National Product, but have gone primarily to maintain large public sectors. The islands are not achieving the private sector development needed to prepare them for the phase-out of U.S. Compact funding in 2001. All of the major parties to the effort agreed that the ADB would send Policy Advisory Teams to the islands to develop recommendations for achieving these reforms. All major aid donors (U.S., Japan, ADB) agreed to support the reform recommendations developed by the Act included, as Section 118, the language of the Insular Development Act which was recommended to the Congress by the Administration for enactment in February 1995. Section 118 reallocates \$16.72 million of the \$27.72 million in mandatory Covenant funding. The CNMI will continue to receive \$11 million annually for seven years subject to an equal local match and all other requirements of the December 1992 Agreement of the Special Representatives. Guam will receive \$4.58 million annually for six years to mitigate impacts caused by the Compacts of Free Association. American Samoa will receive \$7.72 million for capital infrastructure projects in FY 1996 and will be eligible for additional funding in future years. A total of \$4.42 million is allocated for the resettlement of Rongelap in 1996 and additional funds would also be available, if necessary, in future years. In FY 1997, the College of the Northern Marianas will receive \$3 million. For FY 1997 and beyond, up to \$3 million may be allocated for use by federal

teams. The donors expect the islands to adopt and implement the ADB's recommendations and they have indicated that any post-Compact aid would be tied to the success of these reforms. OIA technical assistance funded the \$666,000 requested for the first year, U.S. share of the reform project's cost. The ADB meetings on the FAS took place in Auckland in May 1995, and in Manila in December 1995, at which time the islands began to present detailed policy reform and public investment programs modelled on the ADB's recommendations.

### **Insular Development Act**

In April 1996, the FY 1996 Omnibus Appropriations Act was passed which included funding for insular areas and the new Office of Insular Affairs.

agencies and CNMI to address immigration, labor, and law enforcement issues.

### **Insular Fisheries Amendment**

An Exclusive Economic Zone fisheries initiative developed in FY 1995 by an OIA-led federal team resulted in the Administration's submission to Congress of an amendment to the Magnuson Fisheries Conservation and Management Act. The amendment would empower the U.S. Pacific insular areas to manage the renewable Exclusive Economic Zone (EEZ) fishery resources in cooperation with the Secretary of Commerce. The legislation would allow the governments of Guam, the Northern Mariana Islands, and American Samoa, where practicable, to benefit from the sustainable exploitation of these resources, while retaining in the federal Government all of its authority over these U.S. EEZ fisheries. Federal fees collected for fishing in the EEZ adjacent to these islands would be transferred from the U.S. Treasury to the island treasuries

under the same federal policy that provides for the cover of other federal taxes and fees to the island governments. The proposal was developed over the past two years with fishery officials from the Pacific insular areas through the auspices of the Western Pacific Regional Fisheries Management Council. Guam Delegate Robert Underwood introduced a modified version of Administration bill as a floor amendment to H.R. 39 — the Magnuson Act reauthorization. Senator Daniel Inouye introduced a similar measure in the Senate.

OIA carries out the Department's responsibilities for overseeing the health and welfare of the people of Rongelap Atoll in the Republic of the Marshall Islands as well as the management of the Rongelap Atoll Resettlement Trust Fund established by the Congress. The Rongelapese left their islands in 1985, expressing concern that the atoll was still unsafe because of the radiological exposure it had received during the U.S. nuclear weapons testing program in the early 1950s. In 1986, the Compact of Free Association Act of 1985 (P.L. 99-239) in section 103(i) provided for the resettlement of Rongelap. From FY 1992 through FY 1995, the Congress appropriated, for the corpus of the trust fund, \$11.7 million (\$6.7 million through OIA and \$5 million through Department of Defense). During that period, the Congress also appropriated \$1.6 million for further radiological studies and related scientific and health monitoring activities. In

## **Disposition of Federal Lands in the Insular Areas.**

*Water Island.* In the U.S.VI, the disposition of Water Island has been an important policy initiative. OIA has been working to dispose of federal title to this 500-acre island, the fourth largest island in the U.S.VI. A 40 year-lease, signed in December 1952, has expired. The Bureau of Reclamation completed an Environmental Assessment of Water Island and issued a Finding of No Significant Impact. The National Park Service will conduct a final cultural assessment of the island in July 1996. OIA sent a letter to the sub-lessees on May 23, 1996, explaining that the Department of the Interior was prepared to sell to the Water Island sub-lessees fee title to their respective tracts for the price prorated to \$17,500 per acre. Other parts of Water Island will be transferred to the Government of the Virgin Islands in phases.

## **Rongelap Resettlement**

FY 1995 Congress also appropriated \$1.2 million for the preparation of the Rongelap resettlement Plan, financial management reform, Rongelap local government institution building and resettlement programs. In FY 1996, the Congress appropriated \$6.403 million for Rongelap.

As a result of radiological studies in 1992 and 1993, and continuing annual monitoring, human habitation may resume but resettlement organization and planning have not moved forward due to problems and unresolved issues among the Rongelapese. In the years 1994, 1995, and 1996, OIA, working with representatives of the Rongelap Atoll Government and the Republic of the Marshall Islands Government, has laid the groundwork for the atoll's resettlement. A comprehensive resettlement plan is under development, emergency needs of the Rongelap community (more than 20% reside on Mejjatto in the

Kwajalein Atoll) have been addressed, and the capabilities of the Rongelap Atoll Government were improved, including the establishment of an annual budget process for the local government. That budget is funded from the interest income of the Rongelap Resettlement Trust Fund.

In June 1996, OIA presented a proposal to Rongelap representatives to resolve the allocation of resettlement funding. OIA is currently awaiting a response to the proposal.

*CNMI Environmental Working Group.* OIA formed a federal interagency partnership with the CNMI government to address environmental issues having impact on the CNMI. Over the last year, the group has worked to resolve conflicts between economic development and the conservation of wet lands, to facilitate the regulation of coastal resources, and to protect endangered species. In addition to OIA officials, the group includes federal representatives from the U.S. Fish & Wildlife Service, U.S. Environmental Protection Agency, U.S. Army Corps of Engineers, National Marine Fisheries Service, and the National Oceanic and Atmospheric Administration/Coastal Resource

### **Additional Insular Agreements/Initiatives**

*CNMI Utility Agreement Signed.* On March 20, 1995, OIA signed an agreement with Governor Froilan Tenorio of the Commonwealth of the Northern Mariana Islands (CNMI) aimed at improving the management and strengthening the autonomy of the CNMI's water and power utility. The ultimate aim of the agreement is to assist the Commonwealth Utility Corporation (CUC) in achieving full cost recovery. Among the major steps to be taken under the agreement are a feasibility study on selling some or all of the utility's operations and assets to the private sector, implementation of audit recommendations, restructuring of the utility's debt, and preventing future political interference in the rate setting and debt collection operations. The agreement, which also contains provisions for monitoring and enforcement, allows the CNMI to use Covenant funding from fiscal years 1993, 1994, and 1995. Those funds had been held by OIA pending resolution of CUC issues. OIA-administered Operations and Maintenance Improvement Program funding can also be released for CUC use, provided satisfactory progress continues to be made on the goals of the agreement.

Management Program. The CNMI participants are from the Governor's office, Attorney General, Historic Preservation, and Departments of Public Works, and Land and Natural Resources.

As a result of this group's efforts, understandings were reached regarding the roles of the CNMI's Coastal Resource Management Office and Department of Land and Natural Resources, and the U.S. Fish and Wildlife Service in gaining compliance with the Federal Endangered Species Act. An agreement was also reached between the CNMI Department of Public Works and the U.S. Environmental Protection Agency. In

addition, an ombudsman position has been established in the CNMI government to facilitate communication with developers on the development permit process. Federal agencies have provided training to enhance the ombudsman's capability. The U.S. Army Corps of Engineers is publishing a brochure for the public explaining the federal environmental laws and regulations and development permit process. The CNMI is working with the federal agencies to create a wet lands bank and in making a determination of high and low value CNMI wet lands.

*Statistical Improvement Initiative.* OIA has undertaken a program through technical assistance to bring the statistical capability of the U.S. insular areas as close as possible to the capabilities of the states. This will make it possible to make meaningful comparisons between the insular areas and the states. Assistance is provided through a reimbursable agreement with the Census Bureau for the services of Dr. Michael Levin and other Census Bureau personnel, and through grants to the insular areas for training and data collection. During FY 1995 and 1996, OIA assisted each insular area with a census or survey designed to establish mid-decade benchmarks for comparisons with the *Coral Reef Initiative.* OIA worked in partnership with the insular areas on an Administration initiative to sustainably manage coral reefs and related ecosystems. The initiative was announced at the UN Small Islands Developing States conference in May 1994 in response to Agenda 21 of the Earth Summit. OIA provided funding for and participated in workshops in the Pacific and Caribbean for the purpose of identifying the major problems affecting coral reef ecosystems in the islands and developing plans of action to address those concerns. OIA also funded Guam's participation as a member of the U.S. Delegation to the International Coral Reef Initiative Workshop held in the Philippines in May-June 1995, and

decennial census. These censuses and surveys have been completed and partially tabulated, providing data for this report. A more complete summary of their results will be prepared later in 1996.

The CNMI is the only U.S. insular area to undertake a full census for 1995. The census, financed from local funds, is necessary to measure the rapidly changing demographic characteristics of the CNMI. Guam conducted a consumer expenditure survey with the objective of revising the market basket for determining the consumer price index and obtaining mid-decade population and housing estimates. Guam also conducted a census of Palauans on Guam to assist in measuring the impact of the Compact of Free Association. The Virgin Islands conducted a population and housing survey. American Samoa conducted a survey of population, housing and expenditures. Each of these surveys benefitted from an OIA technical assistance grant. All insular areas also participated in a State of the Islands workshop in Washington in May 1996 to coordinate processing of censuses and surveys and to facilitate comparison of data among insular areas.

helped fund a videotape on the status of coral reefs worldwide called "The Fragile Ring of Life", which featured the Republic of Palau, among other countries.

Numerous regional workshops have been held since the International Conference to develop regional plans to implement the Call to Action and Framework for Action adopted at the Philippines workshop. In addition, a proposed Coral Reef Research Center is being discussed among the governments of the United States, Japan, and Palau.

*Palau Road Project.* OIA presented to Palau the U.S. Government analysis of the cost of constructing the Palau Compact Road as

described in the Compact of Free Association. The Republic of Palau had sought the construction of a higher quality, wider roadway on Babeldaob island. The United States Government agreed to provide a higher quality road provided it cost no more than the original design. The cost analysis, provided by the U.S. Army Corps of Engineers, estimated the total cost of the original road at \$149 million, including all design, construction, and environmental mitigation costs and the removal of World War II ordnance. This change to the Palau Compact was endorsed in Public Law 104-134. The Palau road will now be constructed with a wider roadway and improved surfaces. The trade-off to Palau is that the road will be shorter than the 53 miles first envisioned.

Project execution began in November 1995. A centerline survey was completed in January 1996. A topographical survey was awarded in April 1996. Design A&E contracts were selected in March 1996. The Corps of Engineers will prepare an Environmental Impact Statement under substantively similar standards as required by the National Environmental Policy Act. Project scoping meetings were held in Palau in April 1996. Republic of Palau officials are serving on selection panels for contracts to help assure *Impact of the Compact*. The Compact of Free Association Act of 1988 (P.L. 99-239), which establishes the relationship between the United States and the Federated States of Micronesia and the Republic of the Marshall Islands, authorized immigration of FSM and RMI citizens into the United States, its territories and possessions. This enabled citizens of these island states to enter Guam and the CNMI and the States to lawfully engage in occupations as nonimmigrant aliens. Guam's habitual resident population of these aliens is estimated to have increased by about 7,000 persons since 1986.

that local interests are represented as the project progresses.

*Bilateral Working Group on Palau Environmental Affairs.* Palau's greatest treasure is its marine environment. Sustainable conservation and sustainable development of this extraordinary resource as envisioned in Palau's National Development Plan are a vital component of preserving Palau's cultural heritage and are critical to ensuring Palau's future economic prosperity. Through an exchange of letters dated July 15, 1994, Secretary Babbitt and President Nakamura agreed to establish the Bilateral Working Group on Palau Environmental Affairs to coordinate the development of policies to protect and to preserve that environment. The Working Group is co-chaired by the U.S. Government and the Government of Palau. The delegations of the U.S. Government and the Government of Palau include, as appropriate, representatives of various departments, agencies and offices. The first meeting of the Working Group took place in Koror, Palau, on April 11, 1995. A further meeting was scheduled for July 1996 in Palau.

The Government of Guam estimates that it has expended at least \$70 million in services to Compact citizens since the Compact was implemented. In FY 1995, \$2.5 million was appropriated as a contribution toward the costs Guam has incurred in providing social services to these Micronesian immigrants. In FY 1996, Congress reallocated \$4.6 million from CNMI Covenant funding to Guam as an additional contribution toward Compact impact costs. This funding will be part of OIA's annual budget to the year 2001, for a total of \$27.5 million. Thus, Congress has committed a total of \$30 million in Compact impact assistance to Guam, in addition to \$2.6 million provided from OIA's technical

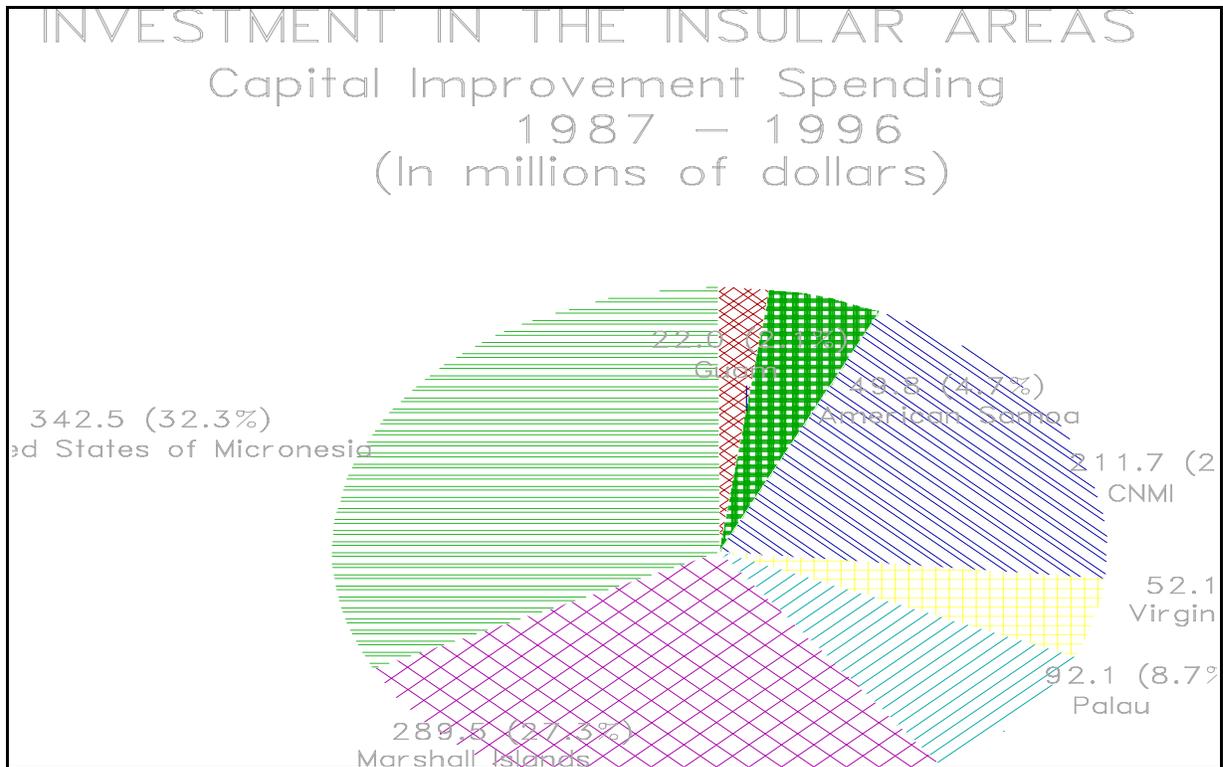
assistance program. OIA has also provided technical assistance in the amount of \$834,000 to the CNMI for measurement and mitigation of Compact impact.

The Government of Guam filed a court action in 1996 seeking preparation of the federal report on the impact of the Compact required under section 104(e)(2) of the Public Law 99-239 and section 102(a) of Public Law 99-658.

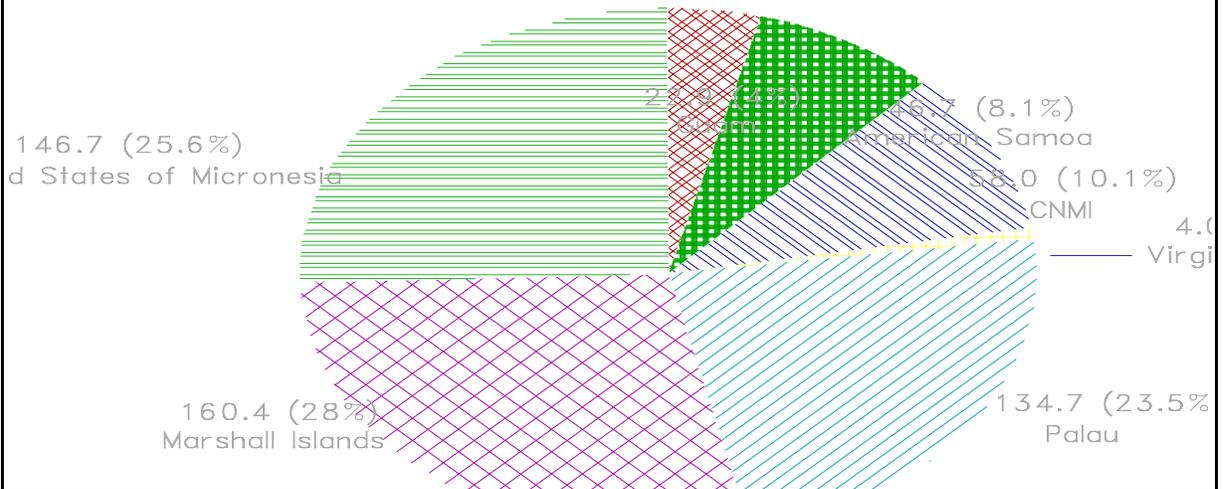
OIA has indicated that it plans to complete and submit such a report to Congress by the end of August 1996.

**Chart 1. Recent OIA Support to Regional Projects**  
**(Reimbursable agreements, interagency transfers, multi-area grants)**

<b>Year</b>	<b>Recipient, Purpose</b>	<b>Amount</b>
	<b>Maintenance Assistance</b>	
	U.S. Army Corps of Engineers: contract management of consulting contract; technical engineering oversight, administrative support	\$3,556,307
	Department of Energy; enhance alternative fuels development	\$100,000
	PPA Conference: for insular representatives to attend conferences	\$40,000
1994 1992 1990	OMIP Conference: for insular representatives to attend Operations and Improvement Program conferences	\$78,280
	<b>General Technical Assistance (major projects since 1994)</b>	
1996	Close up program	\$750,000
1996	Census Bureau: training and technical assistance for statistical programs	\$201,000
1996	Pacific Public Health Training	\$210,280
1996	U.S.DA Graduate School: training	\$755,000
1995	U.S.DA Graduate School training	\$1,635,000
1995	Census Bureau: training and TA	\$200,000
1995	East-West Center: statistical training workshop	\$12,000
1995	Youth-to-Youth program and conf.	\$100,000
1995	U.S. Coast Guard: training	\$286,000
1995	U.S. Geological Service: network	\$48,200
1995	U.S.IA: coral reef documentary	\$30,000
1995	Pacific Business Center: graduate assistance	\$59,950
1995	Dept. of Energy: insular projects	\$27,500
1994	U.S. Coast Guard: training	\$150,000
1994	U.S.DA Graduate School: training	\$1,703,000
1994	Statistical Workshop (processing)	\$18,000
1994	Public Health Service: training	\$43,910
1994	Energy Projects	\$40,000



INVESTMENT IN THE INSULAR AREAS  
 PROJECTED CAPITAL IMPROVEMENT SPENDING  
 1997 - 2001  
 (In millions of dollars)



## Chapter 2. American Samoa

### 2.1 American Samoa

American Samoa is made up of seven islands with a total land area of 76 square miles. Located in the tropics, it is 14 degrees south of the equator and 160-173 degrees west longitude. This island chain is some 2,300 miles southwest of Hawaii and over 4,100 miles southwest of San Francisco. Sydney, Australia is about 2,700 miles further to the southwest, while Auckland, New Zealand is only 1,600 miles southwest. American Samoa is the only United States territory south of the equator.

The seven American Samoan islands are dispersed over 150 miles of water. Tutuila, the main island, is the center of government and business. Its famous Pago Pago harbor is one of the Pacific's deepest and most sheltered harbors. Tutuila has a land area of 56 square miles, with an estimated 95 percent of the 56,000 total population living there. The remaining 20 square miles include the three islands of Ofu, Olosega, and Ta'u of the Manu'a group located 60 miles east of Tutuila; Aunu'u, a small island 1/4 mile off the eastern shore of Tutuila; Rose Atoll, a wildlife refuge 60 miles east of Manu'a; and Swain's Island, 200 miles north of Tutuila.

American Samoa's population is growing rapidly. The mid-year population estimate for 1995 is 56,350. This represents growth of approximately 21% since the 1990 census showed a population of 46,773, a much higher figure than was anticipated. This growth is the result of in-migration and high birth rates, including births to non-residents. As might be expected this rapid population growth places a In April 1900, deeds of cession were signed by the United States and the leading chiefs and orators of Tutuila and Aunu'u. On June

strain on the public infrastructure and on the ASG's ability to provide necessary services.

### 2.2 Political Status Developments and Federal Relations

American Samoa is an unincorporated and unorganized territory of the United States. It is "unincorporated" because not all provisions of the U.S. Constitution apply. It is "unorganized" because Congress has not provided the territory with an organic act, which would provide for the organization of the government and its relationship to the federal Government. Congress has delegated the authority over American Samoa to the Secretary of the Interior, who in turn authorized the territory to draft the constitution under which it operates. American Samoans are nationals of the United States and may become naturalized U.S. citizens.

American Samoans are among the last remaining true Polynesians, along with the Hawaiians, Maori, Tongans and Tahitians. Although there appears to be tremendous blending of Western with traditional ways and strong influences of metropolitan industrial cultures, American Samoa still holds firmly to its ancient traditions. The traditional social structure, built on the *aiga* or extended family system remains the basis of American Samoa's social structure. The *matai* (chiefs) are responsible for the family lands and property and for its general well-being.

1904, Manu'a agreed to cede its authority to the United States. Under the terms of the deeds of cession, the United States agreed that

the chiefs of the villages would be permitted to retain their individual control over their separate villages, provided such control was in accordance with the laws of the United States pertaining to Samoa and provided that such control was not obstructive to the peace of the people and the advancement of civilization. The United States agreed to respect and protect the individual rights of the people, especially in respect to their lands and property. The islands remained under naval administration from 1900 to 1951, when the President of the United States, with executive order 10264, transferred the administration of American Samoa from the Secretary of the Navy to the Secretary of the Interior.

In 1977, the American Samoa people elected for the first time their own Governor and Lieutenant Governor. In 1981 American Samoa sent its first non-voting delegate to the United States Congress. The local legislature is called the *Fono*. Its upper house is comprised of eighteen senators, who are elected by county councils in accordance with traditional Samoan customs. The lower house is made up of 20 representatives who are popularly elected, plus a delegate from Swains Island. The current governor, A.P. Lutali, previously held the office from 1984 to 1988. The Lieutenant Governor is Tauese Sunia. The delegate to congress, reelected to his fourth term in 1992, is Eni Faleomavaega.

The Chief Justice and an Associate Justice are appointed by the Secretary of the Interior. A panel of ten Samoan judges sit with and assist The American Samoa Government continues to have significant financial, budgetary, and internal control problems. The territory's deficit and financial condition are compounded by the high demand for government services from the rapidly growing population, a limited economic and tax base, and recent natural disasters. These factors have limited ASG's ability to reduce the deficit and will continue to plague ASG in the

the Chief and Associate Justice, in deciding the wide range of cases before the High Court.

Court proceedings are conducted, insofar as applicable, in accordance with U.S. Federal Rules of Civil and Criminal Procedure and the Revised Code of American Samoa. Proceedings are conducted in Samoan and English, unless the presiding judge stipulates that the hearing be conducted in one language only.

The major focus of attention in the American Samoa Government's (ASG) relationship with the federal government is working out a partnership which will enable the local government to improve its financial management and budget capabilities. Over the past several years, the ASG has incurred a cumulative operating deficit in excess of \$30 million. A General Accounting Office audit pointed to the lack of adequate fiscal management and budget discipline as the main causes of the government's poor financial condition. In the wake of that report, Congress directed the ASG and the Department of the Interior's Office of Insular Affairs (OIA) to form a joint working group to develop a plan of action to address ASG's fiscal management problems. Progress reports on ASG's plan of action are submitted semi-annually to Congress. OIA entered into several agreements with other federal agencies to provide recommendations and assistance for rebuilding ASG's financial management capabilities and strengthening other government functions.

near future. The ASG has initiated measures aimed at controlling and reducing expenditures, while continuing its program of expanding and diversifying the local economy.

### **2.3 Current Economic Conditions**

American Samoa's economy is still heavily dependent on federal expenditures and the two tuna canneries. In fact, 93 percent of American Samoa's economy is based directly and indirectly on U.S. federal expenditures and the canning industry. The remaining seven percent stems from a small tourism industry and a few small businesses.

Total employment in American Samoa declined from 13,810 in 1991 to 13,627 in 1992 and to 13,543 in 1993. Employment is distributed about equally among the three sectors: government, the canneries, and secondary industries — primarily wholesale and retail trade, transportation and services. Cannery employment continued to decrease, by 2% in 1993. Employment in the rest of the economy increased slightly with the opening of BCTC (a garment manufacturing company) in late 1995. BCTC-Samoa is the Territory's first garment factory, which started operations last year at Tafuna and now employs over 700 people. However, close to 50 percent of the BCTC work force is made up of foreign workers. The overall potential unemployment rate is still at a two digit level (13 percent) in the face of a growing population.

American Samoa has experienced flat or declining real federal revenue for the last decade, except for post-hurricane periods in which federal recovery funds have added substantially to the total. Hurricanes Ofa in 1990 and Val in 1991 caused widespread damage and severe disruption to American Samoa's infrastructure and economic development efforts.

ASG has implemented a program involving "micro-industries" which would focus on exports and import substitution. Several locally owned businesses are in the process of completing lease agreements with ASG for land to construct their facilities. Discussions of a second garment factory between ASG and off-island interested investors took place earlier this year. The administration is

American Samoa's balance of trade reflects the dominance of the tuna canneries and annual changes are heavily influenced by changes in prices and the timing of export shipments. Export data in the last two years reflected a devastated decline in trade with an anticipated deficit of close to \$200 million. In 1994, the level of exports (\$252 million) was about half as much as it was in 1993 (\$488 million) and previous years.

Typically, local businesses are small, owned by independent local operators, and sell exclusively to the local market. They face high costs due to limited access to capital, the need to import most goods and raw materials, and high labor costs compared to the rest of the region. High costs and the distance to markets restrict their ability to export. Thus, local businesses are vulnerable to competition from neighboring islands with lower wage levels, and from larger, more efficient business in the United States.

American Samoa's current narrow economic base is not adequate to meet the demand for employment. The ASG has sought to diversify its economy by seeking outside investment in light industries (particularly garment manufacturing), farming and fishing, tourism, and regional trade and services. However, the disadvantages of a remote location, lack of skilled manpower, limited infrastructure and the lack of significant comparative advantages (such as labor cost) over other Pacific sites have yet to be overcome.

currently collecting data and background information about the company before a firm commitment can be reached. Proposed plans for an expansion to the present operation of the BCTC company at the Industrial park is also considered. ASG is presently undertaking negotiations with a German-based company to start a shoe factory in American Samoa. Another company has also

agreed 'in principle' to set up a watch factory here later this year.

The Economic Development Revolving Loan Fund program was recently developed as a primary alternative to meet inadequate capital financing that must be provided for new ventures in export-based industries. The purpose of this program is to provide finances for existing and start-up businesses which have limited access to investment capital. It will also provide the leverage for capital deficient or marginal risk businesses to obtain loans from banking institutions. A total of \$305,000 worth of loans (creating over 50 new jobs) were disbursed for local business development.

The Special Industry Committee No. 21 conducted minimum wage hearings for American Samoa on June 21, 1995. Testimony was presented by the American Samoa Government, the two canneries — Starkist Samoa, Inc. and Samoa Packing — and various members of the private sector. Both the ASG and the canneries lobbied for wage rates to remain the same. However, the Special Industry Committee Hearing 21 resulted in a recommendation that an increase in the minimum wage be applied to all categories. The ASG's minimum wage was raised by 8 cents, from \$2.37 to \$2.45 an hour. The previous minimum wage for the two canneries of \$3.05 an hour was raised by 5 cents, thus making it \$3.10 an hour. Nevertheless, implementation of the new rate was deferred for a period of one year.

A major step in ecotourism development was the establishment of the National Park of American Samoa in 1993. This is the only national park in which the federal Government does not own the land, but leases it for 50 years from the American Samoa Government on behalf of the eight villages in the park. The National Park of American

Although tourism is not currently a major factor in American Samoa's economy, the development of this sector is a priority. The islands have not shared in the tourism boom experienced in the Western Pacific in the 1980s and have seen a precipitous drop in the 1990s. This drop was due to several factors, including the loss of international airline service, and several typhoons. Tourist arrivals totalled 5,800 in 1995, a decline of about 1,500 from the 1992 figure and about half of the visitor level in 1991. American Samoa has little tourist infrastructure, with only one large hotel (80% government-owned) and a total of 260 hotel/motel rooms in Tutuila and Manu'a. Proposals for additional hotel rooms have been put forward, but have not received the necessary approvals or financing for construction. In addition to its need for upgraded tourist facilities, the tourism industry needs increased promotion, improved skill training, and increased international air travel services.

Development of ecotourism is one of the most promising growth areas. Because of its perceived "gentle" effect on the local population and environment, the concept is supported within the community. Self-initiated development such as the building of hiking trails and the protection of cultural sites is especially appealing. A visitor industry of modest size which focuses on the appreciation of Polynesian culture, the island's natural beauty, and the preservation of the environment can be an engine of economic growth at the grass roots level of villages and families.

Samoa protects the only mixed-species paleotropical rainforest and the only Indo-Pacific coral reef in the national park system. The park's 8,000 acres are spread over three islands and include 1,000 acres of the finest coral reef in the territory. A unique feature of the park is its two species of Flying Fox Fruit

Bat, including one which flies during the day, making it easily seen by Park visitors.

As the Park's master plan is being completed, a brochure is under preparation to be sent to tourism providers around the globe as a major marketing tool for the Park. The Park staff is also encouraging village-based tourism to permit visitors to experience Samoan culture at its best while helping to protect the park by providing an economic incentive to the people of the villages in the Park.

Improvements in air service, privatization and expansion of the Rainmaker Hotel, recent growth in motel rooms and cruise ship calls and expansion of government tourism assistance could make tourism a prime potential growth sector.

The privatization of the Rainmaker Hotel is in progress as the Rainmaker Hotel Sale Task Force works on preparations to sell the hotel. Three interested buyers were selected from a list of 16 respondents to the Request For Qualification (RFQ). The three include the Honolulu-based Outrigger Hotels and Resorts, the Honolulu-based Samoan-owned Spinning Web Corporation, and the Marufuku Group. Request For Proposals (RFP) have been mailed to the three prospective buyers, and are given sixty days to submit their proposals for the review of the Task Force before a recommendation can be submitted to the Governor.

The plan of action developed by the ASG and submitted to Congress on April 12, 1993, provided an outline of activities the ASG would take to implement the recommendations of the GAO. These measures include the improvement of revenue collections, the enforcement of American Samoa law prohibiting the expenditures in excess of appropriated funds, and the implementation of sound practices in procurement and contracting. Besides stating this commitment to accepted management practices, the plan of action calls for

The *Fono* has just endorsed and approved the 55 year lease of the almost six acres of prime government land in which the Rainmaker Hotel stands. The ASG will receive a total of \$1.6 million during the 55-year life lease from the American Samoa Development Corporation.

## 2.4 Government Administration

The ASG's financial statements since 1988 have received opinions qualified only in regard to fixed asset accounting. Management information sufficient to monitor the financial situation continues to be in place. However, the accounting function in the ASG is currently operating at a reduced level due to the loss of key personnel and the adoption of a new computer system.

The General Accounting Office's (GAO) 1992 audit found that the laws prohibiting the expenditure of funds in excess of appropriated amounts have been disregarded, and procurement and contracting regulations have not been implemented. Accountability for such actions by responsible officials has not been enforced. High cost areas such as medical referrals, procurement, and personnel have not been well managed.

reductions in personnel and improved management of medical referrals to reduce government expenditures. The plan also calls for filling vacancies in the Territorial Audit Office.

The Congress then directed the Interior Department to work closely with the ASG to more clearly define specific objectives arising from this general outline and to implement the plan of action. An ASG-Interior Joint Working Group (JWG) was formed and Memoranda of Agreements were signed in

early 1994 to address the goals of the plan of action. These included agreements to have a team of Treasury Department officials make recommendations of financial management improvements and a team of Justice Department officials to recommend improvements in prosecutorial functions.

In 1995, OIA worked with local leaders to identify and hire a financial planning group to help ASG prepare a financial recovery plan. CORE, Inc. began working with the JWG in American Samoa May 8, 1995. In October 27, 1995, CORE provided the JWG with a final report on immediate-term financial recovery plan. The JWG submitted the report to Gov. Lutali in December of 1995. In a January 27, 1996 letter, Gov. Lutali submitted some changes to the final report to the Department of the Interior supporting the recommendations and endorsing the plan. CORE officials concluded that ASG can institute immediate revenue-enhancing measures, including modest increases in local government fees for hospital, court, airport, seaport, telephone, hotel, and golf services. This enhancement could provide \$3 million in annual additional revenues to the government. CORE also recommended mid- and long-term cost containment measures for ASG.

OIA and Interior's Information Resources Office worked with ASG to fully automate ASG's financial accounting systems. On OIA, working with the Justice Department on the issue of federal law enforcement in American Samoa, developed draft legislation that would establish the District Court of American Samoa and confer on it limited jurisdiction for the enforcement of federal statutes in the islands. This jurisdiction would also provide for the collection of debts owed to the United States by residents of American Samoa. At present, but for a few minor exceptions, no federal court has jurisdiction over American Samoa and this void has made it extremely difficult for the United States to

April 8, 1995, OIA officials signed a grant with Governor Lutali, providing the local government with \$1.6 million for the purchase and installation of a computerized financial management system and for procuring auditing and accounting support services. An additional \$800,000 was provided to ASG on April 1996 for this project.

At the same time, a team from the Internal Revenue Service set up a training program for local officials in tax collection and enforcement. OIA also assisted ASG to improve local government fiscal management practices through the Insular Management Control Initiative, which funds training of local government financial management personnel.

At Governor Lutali's request, a team from the Department of Justice/FBI, in cooperation with ASG, conducted an assessment of white collar crime involving public funds and the need for investigative and prosecutorial assistance to supplement local capabilities. The Justice report concluded that major local government fraud, including the theft and misuse of federal funds, is contributing significantly to American Samoa's worsening financial condition, and neither local nor federal law enforcement capabilities are adequate to deal with the problem.

enforce its laws in that territory and to collect debts owed to it by inhabitants of that territory.

The jurisdiction would be limited to civil, criminal, and regulatory statutes of the United States and only at the suit of the United States. This is intended to protect American Samoa's culture and customs, especially the extended family, traditional chiefs (*Matai*), and communal land tenure systems. The legislation would specifically provide that the court not have jurisdiction over litigation that

directly affects a *Matai* title or communal property. This limitation stems from the U.S. legal obligations under the Treaties of Cession.

OIA also has provided technical assistance in a number of other areas since the formation of the joint working groups. These include establishing a cooperative management and maintenance program to improve medical services in the ASG hospital, initiating a Public Health Service evaluation of the off-island medical referral system, and extending Pacific Island Training Initiative programs to provide a long-term training program for ASG officials.

The commitment of the ASG to reform its practices is paramount to the success of the joint working group. The ASG developed financial recovery plans in 1988 and 1990 to deal with its then less daunting deficits. Audit reports indicate that key elements of the plans were not implemented and thus were not effective. Despite the best intentions of plans and technical assistance, the success of the most recent efforts will depend upon ASG's political will.

The modification and expansion of the two wastewater plants at Utulei and Tafuna have been completed and the plants are fully operational. The Tafuna Plains sewer collection system (Phase III) is making significant progress. Nearly 750 residents are connected to the system and about 200,000 linear feet of pipe, including main lines and distribution lines, has been laid. The Department of the Interior has assisted in funding a Hazard Mitigation Project to improve the sewage ocean outfalls. The project is currently under construction. Other Department of the Interior funded Capital Improvement Projects include a new sewer collection system for the island of Aunu'u and a sewer connection program within the Pago Pago Bay area. The latter program has been extremely successful; approximately 720 homes have been connected through this

## **2.5 Infrastructure**

### **Water System**

The American Samoa Power Authority (ASPA) continues to progress toward the goal of providing safe drinking water to all villages in American Samoa. About 10 of the 15 villages which relied on antiquated and poorly maintained surface water catchment systems are now connected to quality water systems built and maintained by ASPA. The remaining 5 villages are included in comprehensive plans to construct satellite water systems. A cornerstone of this effort was the refurbishment and reconditioning of the water well drill rig. The Tafuna Water System Improvements Project which consisted of replacing undersized, old, and corroded distribution pipes and construction of a million gallon storage tank is completed.

### **Waste Water System**

program and another 50 homes will be served when the project is completed.

ASPA has implemented a combined water/wastewater rate charge to compliment the annual subsidy from the American Samoa Government. Unfortunately, the American Samoa Government has not been able to meet their financial obligations to ASPA, which is hampering the ability of the Wastewater Division Operations to perform its responsibilities. ASPA Wastewater is unable to meet the needs of the growing population without capital improvement funds. Re-authorization of the EPA Clean Water Act-Construction Grant funds are necessary if ASPA is to provide for a healthier American Samoa.

### **Solid Waste Disposal**

On March 1, 1995 the Governor of American Samoa, under Executive Order No. 5-1995, transferred the solid waste program to the American Samoa Power Authority. This fulfills a recommendation of the Operations and Maintenance Improvement Program (OMIP) team. The team has also recommended that solid waste disposal should be funded by user fees and not subsidized by other ASPA operations. There are currently still no charges to the consumer for waste disposal.

Other programs and studies underway include a recycling and reutilization study by EPA, a hazardous waste disposal options study (also by EPA), an EPA study to reduce hazardous waste, and a used battery recycling program. In addition, the American Samoa EPA has been working with a firm that is interested in removing and salvaging all scrap metal from the American Samoa Government, including several commercial vessels sunk on the reef in Pago Pago Harbor.

### **Power Generation and Distribution**

The ASPA generates, transmits and distributes electric power throughout American Samoa. The American Samoa highway system consists of 120 miles of federal highway designated roads and another 100 or so miles of paved and unpaved public roads. The designated federal highway roads are eligible for improvement using federal highway aid funds, but other roadways are the responsibility of the ASG Department of Public Works.

The highway system in American Samoa is in generally poor shape, due to the effect of hurricanes, the age of the roads, inadequate maintenance, and past road construction standards that do not meet the present heavy traffic loads. Federal funds are now being used for an extensive program to construct

The over-all operation of the utility is considered a great success. Recently ASPA installed the fourth new high efficiency, low RPM generator. These were financed by savings realized from lower fuel and maintenance costs made possible by new state of the art diesels.

To protect this investment, modern programmed maintenance is being implemented at ASPA. The power infrastructure is also being hardened against natural disasters. Both the Satala and Tafuna power plants have projects under review to make tropical storm resistant modifications to the plants. These will include reduced noise emissions and automation of controls for maximum fuel efficiency and reliability.

The distribution of electric power has also benefitted from completion of upgraded warehouse and shop facilities and from other projects, including underground placement of feeders to the canneries and the Pago Pago business and government district.

### **Roads**

improved roadways that may be expected to last for some 50 years.

Funding for road maintenance comes from a portion of the territory's gasoline tax of 10 cents per gallon. Legislation is being prepared to increase the gasoline tax to reflect national averages to secure adequate funding to meet maintenance needs. However, the OMIP team has found that funds are accumulating in the road maintenance fund without any budget for their utilization. The OMIP team has made specific recommendations of improved road maintenance, including reduction in redundant staff, better planning, rental of equipment, and better training.

## Seaports

The main commercial port facility of American Samoa is located in the harbor of Pago Pago. The facilities at the port are quite extensive since the harbor is used for a number of activities. The general condition of the port continues to deteriorate because of an inadequate maintenance budget according to the OMIP team.

The container storage area needs resurfacing as a result of the fast deterioration in the heavily trafficked areas by local stevedoring companies and the public. Dust and mud are constant problems which add to the cost of operations for the stevedoring companies. These high costs are eventually passed on to the shippers. To date, no funding has been made available for a pavement resurfacing project, although it has been requested from the ASG every year for the past several years.

To help alleviate crowded conditions at the port, the OMIP Fourth Year Review Report also recommends that an off-site container storage area be procured.

A principal OMIP recommendation is for the creation of a Port Authority. The port is also The main runway at the airport is 150 feet by 9,000 feet and is paved with asphaltic concrete (AC). The secondary runway is 3,700 feet long and 75 feet wide. The airport has a tower with an FAA controller. There is an Air Rescue and Fire Fighting station at the airport, and two new fire trucks, each with 1,500 gallons pumping capacity, have been received.

The ASG proposes to build a 1,000 foot extension of the runway in order to promote the Pago Pago Airport as the pre-eminent airport of the South Pacific. Currently, the shorter runway limits the takeoff load of the airplanes, raising the cost to the airlines using American Samoa. The extended runway would allow fully loaded cargo and passenger

in need of considerable technical assistance to better organize its operations. The OMIP team continues to recommend a master plan for all maritime facilities within Pago Pago harbor. The team has reviewed the scope of work for the Port Master Plan and has made several recommendations designed to create a Port Authority that is viable and could run the port efficiently.

A continuing problem has been port security. Fines totalling \$160,000 have now been assessed by the Coast Guard for providing inadequate safety and security. This is an increase of \$110,000 from last year and represents nearly a tenth of the port's budget.

## Airports

The Pago Pago International Airport is owned and operated by the ASG under the Department of Port Administration. The OMIP team finds that the airport is generally well maintained since it has an independent source of funding. Its management is able to make use of opportunities to increase revenues, such as a new parking fee for use in maintaining the parking area.

aircraft to land and take off which, coupled with the lower landing fees and fuel prices in American Samoa, would capture a larger portion of the trans-Pacific airline traffic. For example, Polar Air, a cargo carrier, recently stopped using Pago Pago for 4 flights a week because of weight restrictions on takeoff, but would return with 7 to 10 flights per week if the runway were lengthened.

Although the terminal is relatively spacious, it has difficulty handling the large influx of passengers that arrive on regular flights from Hawaii. The OMIP team continues to recommend improved maintenance of the terminal, including a new baggage conveyor belt, fixing the roofs, and replacing the maintenance shack. A passenger facility

charge of \$3 has been approved by the FAA for collection beginning July 1, 1995. This fee will provide a source of revenue for the terminal improvement project, including the above recommended repairs.

The airfield at Ofu is 2,100 feet by 60 feet and is built of portland cement concrete. There is an 1,800-square foot terminal to handle passengers and cargo. This airfield can handle only light aircraft. Fitiuta Airport on Ta'u with a 2,400-foot by 75 foot-landing strip was completed four years ago. A new terminal building for this field was completed a year ago with funding from FAA grants.

### **Schools**

The twenty-two elementary schools and six public secondary schools are in generally good condition. However, there is a continuing need for a comprehensive maintenance and operation program and there is a need for at least 65 new classrooms immediately and 150 by the year 2000. With a rapidly growing school age population, the territory is falling behind even with an aggressive program that built 24 classrooms in the past year.

Nurses salaries have become more competitive, which should improve recruiting efforts. A Quality Management Program Plan has been completed. Maintenance of the hospital is improved under an OMIP grant. A survey by the Corp of Engineers has found the hospital structurally sound, but recommends major improvements, including a complete fire protection system. A five-year plan has been completed but additional funding for capital improvements will be needed. Maintenance of the facility must not be overlooked or the gains made may be lost. Increases in charges for patient services, including services for non-residents and those covered by insurance can provide significant additional funds.

### **Hospitals**

American Samoa's hospital now operates as the American Samoa Hospital Authority (ASHA), governed by a five-member Board of Directors. ASHA is co-managed under a contract with Mercy International Health Services, funded by a technical assistance grant from the Department of the Interior. The hospital still does not have the level of autonomy needed to gain effective control over its own operations. While the ASHA presently operates under an Executive Order, some members of the local legislature question the legitimacy of that authority. The Governor has submitted legislation to the *Fono* for establishing an ASHA through legislation.

The continued provision of basic health services is threatened by the severe cash flow problems of the ASG. Outstanding debts to vendors and providers have led to curtailed or delayed shipments of essential drugs and supplies, jeopardizing the health of patients and increasing costs. Alternative financing strategies are under review.

The median age of the American Samoa population is 21 years with the average life expectancy being 72 years. The territory has a crude mortality rate of 4.3/1000 population. The 1995 infant mortality rate was 7/1000 live births compared to the most recently calculated U.S. Mainland rate of 8.5/1000 live births in 1992. The number of live births has been relatively stable over the last five years. The annual number of deaths averaged around 225 in the past five years. The five leading cause of death were Heart Diseases, Malignant neoplasms, Cerebrovascular diseases, Nephritis and nephrosis, and Chronic obstructive pulmonary & allied conditions.

Total cases of notifiable diseases reported in 1994 dropped by 3.4 percent from 1993. Influenza & flu syndrome remained the biggest health complaints (87 percent of communicable diseases reported) in 1994, followed by Diarrhea at 6 percent. Dog bites and traffic injuries continued to be the leading non-communicable causes.

Total average annual outpatient visits to the LBJ Medical Center in the past five years was about 146,000. The Emergency Room/OPD continued to receive the most visits (41%), followed by the Dental and Pediatric clinics. There were 4,833 discharges with 16,468 patient days in 1994. The occupancy rate for 1994 was 39 percent about the same as in 1993. The average length of stay at LBJ stood at 3.4 days.

*Developments in Health Infrastructure.*

Despite problems between the present administration and the *Fono*, the ASHA has made significant strides in improving the health situation on island. Most of the projects are being funded with \$1.2 million of federal Capital Improvement Project funds

- TEO also funded the replacement of louver windows with thermal-efficient double-pane windows, provided energy-efficient split air conditioning units installed behind the new windows, and also properly insulated hot and steam pipes for the cost of \$73,000.
- A federal surplus oxygen generating machine has recently been installed by a Georgian firm for \$30,000. The machine itself has a value of \$120,000 provided free of cost to the LBJ. This could save the hospital between \$200,000 to \$300,000 a year.
- A hospital-wide paging system has been put into place by Honor Marine, at a cost of \$20,000.
- A special medical incinerator will be installed at the Futiga land-fill site at a cost of \$60,000.

that have accumulated over the past several years. The following is a list of major projects:

- Upgrading of the Labor/Delivery area into a Birthing Center based on 6 private birthing rooms including new equipment (\$120,000).
- Upgrading of the Operating Room including installation of a new seamless, hospital-standard floor (cost covered from previous project).
- A new X-ray machine to be installed in the expanded Radiology section being installed by General Electric technicians (\$160,000).
- The Radiology section is getting a new ultra-sound machine installed.
- The new Emergency Room opened in August, 1996. (The project will cost about \$420,000 — funds from the American Samoa Petroleum Cooperative).
- New energy-efficient lighting has been installed in the hospital wards (\$50,000 grant from ASPA's Territorial Energy Office [TEO]).
- A new medical vacuum machine was installed in June for the cost of \$25,000. It is connected to the existing piping that serves the Intensive Care Unit and other pre-piped areas.



<b>Chart 2. Recent OIA Grants to American Samoa (FY 1993 to 1996)</b>		
<b>Year</b>	<b>Purpose</b>	<b>Amount</b>
	<b>Operations</b>	
1996	Government Operations	\$22,232,000
1996	High Court	\$579,000
1995	Government Operations	\$22,232,000
1995	High Court	\$814,000
1994	Government Operations	\$22,274,000
1994	High Court	\$816,000
1993	Government Operations	\$21,944,000
1993	High Court	\$746,000
	<b>Capital Improvements</b>	
1995	Tafuna High School	\$479,697
1995	Medical Equipment	\$699,000
1995	Water Improvements	\$200,000
1995	Wastewater Treatment	\$994,000
1995	School Buses	\$299,000
1995	School Fences	\$250,000
1995	Library Building	\$1,098,000
1995	School Bus Garage	\$152,000
1994	Classroom Construction	\$1,027,371
1994	Wastewater Treatment	\$1,200,000
1994	Water Improvements	\$1,800,000
1994	Hospital Improvements, Equipment	\$1,020,414
1994	School Buses	\$100,000
1994	Classroom Construction	\$198,300
	<b>Disaster Assistance</b>	
1995	Hazard Mitigation Projects	\$1,525,000
	<b>Management Control Initiative</b>	
1995	Management Control Initiative	\$2,470,000
	<b>Maintenance Assistance (from start of program, 1991)</b>	
1995	ASPA (Power)	\$1,635,013
1995	Port Plan Operation	\$270,000
1994	ASPA (Water, Power,)	\$596,522
1993	Public Works	\$50,250
1992	ASPA (Power)	\$386,698
1992	TWI Buddy System	\$46,284
1991	ASPA (Power)	\$448,368
1991	Economic Development Planning	\$140,000
	<b>General Technical Assistance</b>	
1996	Hospital Management	\$305,166
1995	Hospital Management	\$305,166
1994	Estimated Statistics Workshop	\$3,700
1993	Census Conference	\$3,600
1993	IRS Agents	\$150,000

## Chapter 3. Commonwealth of the Northern Mariana Islands

### 3.1 Commonwealth of the Northern Mariana Islands

The Commonwealth of the Northern Mariana Islands (CNMI) is a self-governing Commonwealth of the United States. The people of the CNMI chose to join the United States in a 1975 act of self-determination and were granted U.S. citizenship in 1986. Pursuant to a locally-adopted constitution, they elect a Governor, bi-cameral legislature, and a Washington Representative.

The islands' status is based on the *Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States*. The agreement was negotiated by representatives of the United States and the Northern Mariana Islands and signed on February 15, 1975. The Covenant was subsequently signed by the President on March 15, 1976, and approved by the Congress of the United States by joint resolution on March 24, 1976 (Public Law 94-241; 90 Stat. 263). The first constitutional government of the CNMI took office in January 1978.

The Covenant was fully implemented on November 3, 1986, pursuant to Presidential Proclamation No. 5564, which terminated the Trust Territory of the Pacific Islands as it applied to the CNMI. Previous to its Commonwealth status, the CNMI was a member of the Trust Territory, which was *Local control over immigration*. Under the Covenant, the Commonwealth has had local control over its own immigration since 1979. In the past year, however, there has been some discussion in Congress about taking this control back, which under the Covenant, would require an act of Congress. At least one

created in 1947 by the United Nations. The United States was designated the administering authority of the Trust Territory under the terms of a trusteeship agreement.

As a Commonwealth, the islands are under the sovereignty of the United States. In general, federal law applies to the CNMI. However, certain exceptions were provided in the Covenant: 1) the CNMI is not within the customs territory of the U.S.; 2) federal minimum wage provisions do not apply; 3) federal immigration laws do not apply; 4) the CNMI can establish its own tax laws; and, 5) the Jones Act, requiring goods shipped between U.S. ports to be carried on U.S.-registered ships, does not apply to the CNMI.

The CNMI main island of Saipan is located about 100 miles northeast of Guam, about 1,200 miles southeast of Tokyo, and 3,300 miles west of Honolulu. The CNMI consists of 14 islands with a total land area of 183.5 square miles. The 1990 population was 43,345 persons. The 1995 mid decade census preliminary results shows a total population of 58,846 persons. Non-United States citizens make up 54 percent of the population, with local residents who are United States citizens comprising the remaining 46 percent.

### 3.2 Political Status Developments and Federal Relations

bill to this effect has been introduced in the House, where the Committee on Natural Resources has been expressing concern about the CNMI's labor, immigration, and taxation policies. Neither OIA nor the United States Immigration and Naturalization Service supports the bill; the Commonwealth

Government strongly opposes it. This issue appears likely to stay at the forefront of discussions between the two governments in the immediate future.

*Delegate.* The Commonwealth has an elected Resident Representative to the United States. Unlike the Delegates from Guam, American Samoa, and the U.S. Virgin Islands, the Representative is not a member of Congress. CNMI Governor Froilan C. Tenorio has expressed support for an amendment to the CNMI Constitution making the Resident Representative an appointed position. The status of the Resident Representative has been an issue for Section 902 consultations. A bill was introduced in the House of Representatives on January 4, 1996, which would create a position for a non-voting Delegate to the United States Congress. On August 2, 1996, the bill was voted down 13 to 12 by the House Committee on Natural Resources.

*Funding.* Section 702 of the Covenant provides for financial assistance from the federal Government to the Commonwealth. The purpose of this was to develop the economic resources of the CNMI to attain a goal of self-reliance. The first round of Covenant funding lasted seven years (1978-1985) and totaled \$192 million. The second 7-year round (1985-92) totaled \$228 million. The thirteenth round of 902 talks ended in December 1992. In February 1994, CNMI Governor Froilan Tenorio designated Brenda Y. Tenorio and Vicente Salas as his Special Representative and President Clinton designated Edward B. Cohen as his Special Representative to the 902 talks. The fourteenth round began with a meeting in December 1994 and has continued since, with the most recent session being an informal meeting in Washington in March 1996. The Special Representatives held a series of discussions on the role of the Resident Representatives and developed position papers outlining the views of both sides. These discussions were successfully completed with a clarification of the role and

85) and totaled \$192 million. The second 7-year round (1985-92) totaled \$228 million.

Since 1992, funding has been extended one year at a time. The Commonwealth received - \$27.7 million from FY 1993 through FY 1995. In each year, the Commonwealth was required to provide a gradually rising level of matching funds. In FY 1995, Congress specifically designated \$7 million of the 702 funding to be used to address labor, immigration, and law enforcement problems in the CNMI. For FY 1996 through FY 2002, funding of \$11 million will be provided for infrastructure, with an equal local match. In addition, beginning in FY 1997, \$3 million will be appropriated to the Secretary of the Interior for use by federal agencies and the CNMI government to continue to address the labor and immigration issues in the CNMI. Also, \$3 million will be appropriated to the College of the Northern Marianas in FY 1997.

*Section 902 talks.* Section 902 of the Covenant provides for direct discussions between the two governments on "all matters affecting the relationship between them". The Representatives to these discussions are appointed directly by the CNMI Governor and the President of the United States.

an identification of the types of changes that the CNMI and the United States Governments may want to consider. Topics currently under discussion include the ownership and control of the Commonwealth's submerged lands, and whether United States citizenship should continue to be granted to all persons born in the CNMI.

*American Memorial Park.* Interior agencies, primarily the National Park Service and OIA, worked with CNMI leaders on the American Memorial Park to fund park development. This effort was completed in time for the 50th anniversary of the World War II Mariana Islands Campaign in June 1994. On November 11, 1995, the end of the 50th

Anniversary Commemoration of World War II began in Saipan with the tolling of the "Bells of Peace" from the Carillon which was constructed on Saipan for this event. The Park has won praise both as a tasteful memorial, useful, and attractive civic center. Further local planning for the Park continues.

*Federal-CNMI Initiative on Labor, Immigration, and Law Enforcement.* On June 4, 1996, the Administration submitted its second annual report on the federal CNMI Labor, Immigration, and Law Enforcement Initiative to Congress. It reported that through the combined efforts of the Government of the CNMI and the federal agencies progress is being made in addressing the labor, immigration, and law enforcement issues. The CNMI Governor has strongly endorsed the CNMI's actions and the increase of federal law enforcement presence. The federal agencies and the CNMI are working cooperatively, with the Office of Insular Affairs acting as an ombudsman, to address the problems of responding to the consequences of enormous growth in the CNMI. The Administration recommended that 1) Congress finalize enactment of section 2 of S. 638 to establish in federal law the annual 30-cent increase in the minimum wage contained in existing CNMI law and 2) that the Congress direct the CNMI to utilize Covenant funds for prison and detention facilities. The Initiative has brought increased federal resources and staff to the CNMI to enforce federal law. Full-time federal staffing in the CNMI increased. Federal agencies are also providing training to local agency personnel. Caseloads for the federal District. The general trend of growth has not been without interruptions. The Commonwealth economy is tightly linked to that of Japan's. Thus, when Japan went into recession in 1992-93, Japanese investors and tourists became more cautious in their spending habits, and the CNMI economy suffered accordingly. During this period, although

Court, the United States Attorney, the U.S. Department of Labor, National Labor Relations Board, and laws enforcement agencies have all risen dramatically.

### **3.3 Current Economic Conditions**

The CNMI's economy is largely based on tourism, and it has grown enormously since the early 1980's. Tourist entries have steadily increased in the last three years: from 488,000 in 1993 to 583,500 in 1994 to 654,400 in 1995. Total visitor expenditures were \$507 million in 1993, \$464 million in 1994 and \$522 million in 1995. Projections to the year 2000 foresee more than 800,000 visitors to the Commonwealth that year, with spending approaching a billion dollars.

The tourism industry is largely Japanese: 70 percent of the visitors are Japanese and 64 percent of the hotel rooms are owned by Japanese firms. However, the CNMI tourism industry has sought to broaden its base and has met with some success by marketing to Hong Kong, Taiwan, South Korea, and other Asian locations.

The impact of tourism-driven economic growth is illustrated by the local revenues collected by the CNMI government in the past fifteen years. In 1980, local revenue collections were \$10.2 million. By 1990, they had increased ten-fold to \$52.8 million. By 1995, estimated revenues were in excess of \$190 million.

tourist numbers continued to rise, tourist spending leveled off, real estate transactions dropped, and the local construction industry went through a sharp downturn as new construction almost ceased. At the same time, the government went into its first deficit in over a decade, as income fell well short of budget projections.

Since early 1994, the economy has been in a recovery. Although the real estate market remains volatile, both business gross revenues and government collections are up. Tourism numbers have continued to climb throughout.

A 36-hole golf course opened at the end of that year; an 18-hole course on the island of Rota opened in June 1995; and, another 18-hole course on Saipan was finished in early 1996, giving the Commonwealth seven golf courses. Hotel occupancy in 1995 was at 83 percent. Several small hotels have been constructed in recent years and several existing hotels have been expanded, to bring the total number of hotel rooms to 3,561. On Tinian, ground breaking for a new hotel and casino occurred in July, 1996. The Governor signed a lease for a new 400 room hotel on Saipan in July. The rapid rise of the yen against the dollar in late 1994 and early 1995 was a factor in the significant increase in tourist arrivals and tourist spending in the second half of 1995.

The Commonwealth's only other major industry is garment manufacturing, which thrives on a special Covenant-based exemption that allows CNMI garment factories to export into the United States without paying a customs duty. The garment industry engendered controversy in the early 1990s. The current minimum wage is \$2.75 per hour which was to be increased \$0.30 on January 1 by CNMI labor law, but was delayed. The law provided a \$0.30 annual increase until the federal minimum wage level was reached in 2000. The CNMI Legislature in December 1995 voted a six-month delay in implementing the scheduled \$0.30 minimum wage increase. The Governor vetoed the bill which was over-riden by the CNMI legislature just before the January 1 deadline. In July 1996, the Governor signed into law a resolution that establishes a one time \$0.15 wage increase in minimum wage for the garment and construction industries while leaving in place the previously-scheduled

1990s, when reports of labor abuses and poor working conditions brought international attention. The U.S. Department of Labor and OSHA brought several actions, including one that resulted in \$9 million fine on the largest CNMI manufacturer. The worst abuses appear to have been corrected; however, progress still needs to be made in the labor camps, garment, and construction industries.

The total declared export value of CNMI-made garments was \$296.7 million in 1993, \$319.2 million in 1994 and \$419.1 million in 1995. The industry does not pay the business gross revenue tax of up to 5 percent on revenues over \$750,000, but instead pays a "user fee" of 3.5 percent of exports for the use of the customs exemption. The user fee generated \$9.6 million in 1994 and 14.7 million in 1995. The industry paid \$51.7 million in wages in 1994.

Employment in the garment industry is made up almost entirely of non-resident aliens. Non-resident garment workers increased by 29 percent from 1992 to 1995 to a level of 6,609, making up 87.6 percent of the garment labor force. Local employees made up 2.6 percent of garment employment, with the remaining 10 percent consisting of Micronesians and resident aliens.

\$0.30 increase for all other areas. This law also repealed the annual automatic increase which has been in effect for three years in the CNMI.

The newest industry in the Commonwealth is casino gaming, which was legalized on the island of Tinian in 1989, but has taken several years to get off the ground. Rapid expansion is projected, but it is still too soon to tell if the projections are valid.

Development in the CNMI has not been evenly spread throughout the major islands of Saipan, Tinian, and Rota. Yet each requires basic infrastructure, e.g., airports, medical

facilities, telephone, power, water, etc. Rota and Tinian have experienced little development to date, compared to Saipan. This may now be changing with development of casinos on Tinian and the golf course on Rota. The Voice of America will be constructing a small communications facility on Tinian; the contract award is anticipated to be late 1996.

The rapid pace of development in the CNMI, particularly on Saipan, has created jobs that far outnumber the available local labor pool, making the importation of foreign workers an economic necessity, if current growth patterns are to be sustained. For the past several years, resident and non-resident aliens have outnumbered U.S. citizens. In 1995, preliminary census data indicate that 54.1 percent of the population were not United States citizens and 48.2 percent were non-resident aliens. (About 6 percent were resident aliens, including Micronesians, who entered under the terms of the Compact of Free Association.) Non-resident aliens are precluded by law from certain occupations and are clustered in the tourist, construction, garment, and domestic service industries. Approximately 50 percent of the U.S. citizen work force is employed by the CNMI and other local governments which are the employers of first choice for native CNMI residents.

In response to the reports, the Philippines Government banned the movement of certain types of worker to the Commonwealth for a year and lifted it in May 1996. Negative publicity about labor abuse, along with concerns about organized crime, drugs, and prostitution, the cost to the federal and CNMI Governments of uncontrolled immigration, and the rapid rise in duty and quota free garment imports produced with alien labor, has encouraged Congress to consider

In 1994 and 1995, reports of labor abuse in the CNMI received national and international publicity. Abuses of non-resident workers were alleged on all three major islands, but most particularly on the island of Rota.

In response to labor and immigration problems, Congress appropriated \$7 million from 702 funds in FY 1995 (Public Law 103-322) to address the labor, immigration, and law enforcement problems in the CNMI. Of this amount, \$4 million was allocated by the Department of the Interior for federal agency action. The Departments of Labor, Justice, and Treasury were provided funds to increase the federal law enforcement presence in the CNMI and to provide training to their local government counterparts. Federal interagency working groups have been formed in Washington and Saipan to implement this initiative. The remaining \$3 million was awarded to the CNMI through direct grants by the Department of the Interior, including \$1.5 million for local projects and \$1.5 million for a computer system to track aliens in the CNMI. The Commonwealth Government has taken steps to address the problems, including increased enforcement of the labor laws and prosecution of offenders. Governor Tenorio has requested a larger federal presence in the Commonwealth, including more federal prosecutors and enforcement agents. In FY 1997, \$3 million has been authorized to sustain this.

suspending or removing local control over immigration.

In response to its ballooning government deficit, and reductions in federal financing, the Commonwealth passed its first major tax increase in many years in January 1995. Taxes were increased significantly, leading to some controversy and a roll back of some excise tax increases. Taxes remain much lower than on the United States mainland.

The wage and salary tax varies from zero for annual gross wages under 1,000 to 9 percent for wages over \$50,000. An earnings tax equal to the wage and salary tax is levied on earnings sources in the CNMI from other non-business income. The business gross revenue tax begins at 1.5 percent for annual revenue over \$5,000 and goes to 5 percent for over \$750,000 in revenue. These taxes on incomes are credited against the Northern Marianas Territorial Income Tax (NMTIT), which is based on the U.S. internal revenue code. Taxpayers also receive a rebate of 50 percent to 90 percent of any net income tax paid on CNMI sources income based on a sliding scale. These rebates have been scaled back from the original level of 95 percent on all income. There is no property tax in the CNMI. Excise taxes vary from 1 percent on food to 50 percent on tobacco products.

### **3.4 Government Administration**

The Commonwealth government is organized along the standard lines of the United States state model, with a Governor, a bicameral legislature, and a two-tiered judiciary. The CNMI and the local governments on Saipan, Tinian, and Rota employed 4,849 persons in 1995. The CNMI Government's operational budget for FY 1996 was \$190.5 million.

Governor Froilan C. Tenorio was inaugurated in January 1994. His first major action was to attempt a sweeping reorganization of the government by Executive Order. The order A semi-autonomous government agency, the Commonwealth Utilities Corporation (CUC), operates the electrical, water and wastewater systems. The public utility does not receive operating revenue from the government. It is mandated by CNMI Public Law 4-47 to recover all operating expenses through its rate structures. Both the water and wastewater rate structures are inadequate. Thus, the Commonwealth's water and wastewater systems are currently insufficient to meet the needs of the citizen and tourist populations.

was hotly contested both in the Legislature and by litigation, although it was eventually put into effect.

The CNMI faces the dual challenge of responding to and addressing deficiencies resulting from its early economic successes, while at the same time, during the current period of declining foreign investment, continuing to encourage desirable private sector economic growth and investment. The rapid pace of development and the attendant increase in non-resident alien population has created enormous stress upon the CNMI's physical infrastructure and upon the social services provided by the government. Capital costs of infrastructure have been covered by Covenant funds rather than amortized by user fees.

Certain events in 1996 assisted the CNMI to set its course towards expanding its economic development. The recently enacted Telecommunications Act of 1996 will provide universal telecommunications service to the CNMI and Guam. The mandate amounts to domestic rate integration for these island communities which means the residents on these islands will be paying lower long-distance rates. The Federal Communications Commission will soon be issuing a rule for domestic rate integration for the islands. In addition, CNMI and Guam will be integrated into the North American Numbering Plan next year, easing long-distance dialing to and from the islands.

Electrical infrastructure is adequate for the current residential/business community. The Saipan power plant has plenty of generation capacity; however, the field distribution system is constantly in a state of redevelopment. The electrical rate structure of 11 cents per kilowatt hour residential and 16 cents commercial is sufficient to cover operating expenses, but not sufficient for capital expenditures, which have been covered from Covenant funds. Based on population

expectations, the utility will need to build a new power plant during the next four years.

Despite the requirements of PL 4-47, local political pressure precluded the utility from raising rates and reaching full cost recovery. The utility lacked capital, technical expertise, credibility and faced numerous operational problems. To assist the utility, the U.S. Department of Interior (DOI) offered both technical advice and monetary grants through its Operations and Maintenance Improvement Program (OMIP).

Based on the 1987 Covenant Special Representative's Agreement, the Interior Department has the authority to monitor and approve all CIP programs. Since the Commonwealth Utilities Corporation was using Capital Improvement money but failing to achieve recovery, the Interior Department determined it was necessary to take a more aggressive supervisory approach in 1994. The Department entered into a new Partnership Agreement with the CNMI Governor to strengthen the Commonwealth Utilities Corporation. Both the CUC and its primary creditor, the Commonwealth Development Authority (CDA), participated in the Partnership Agreement negotiations.

Concurrently, all parties are implementing the terms of this agreement. The result should be an improved private or public utility which achieves full cost recovery and meets the needs of the islands while operating in a professional, business-like manner. Pending completion of the Partnership Agreement, the Governor appointed to CUC a new Board of Directors. A management audit was completed and implemented. and management has improved. Services are becoming more reliable as the utility struggles to obtain necessary cash and catch up with island development. CUC officers are currently negotiating with CDA officials to restructure its debt through an equity conversion.

The Partnership Agreement, signed on August 11, 1994, requires the following:

- (1) the performance of a feasibility study for privatization of CUC's assets and/or utility operations;
- (2) the implementation of audit recommendations (including those of the Inspector General, Metzler Management Audit, Office of Public Auditor) as well as other management initiatives to improve the efficiency and internal control environment of the CUC and the previous OMIP recommendations;
- (3) a rational restructuring of CUC's debt;
- (4) the resolution and ultimate disposition of utility operations within a privatized or improved public utility; and,
- (5) the resolution and ultimate disposition of utility operations in Rota and Tinian within the context of a privatized or improved public utility. The feasibility study will also provide the utility with a detailed "cost of service" report. Thus, CUC will be able to implement the suggested allocated rate structures in 1996.

The CNMI needs to better coordinate its planning processes and streamline its personnel-heavy government. Public utilities and health service systems continue to receive local government subsidies and should implement more market-oriented user fees. The Commonwealth must also address improvement in management of development funds. The Commonwealth Development Authority has not fully embraced the recommendations of the 1991 Interior Inspector General audit which indicated a need to better manage, account for, and control funds designated for capital projects. The first zoning law in the CNMI's history

was signed into law in 1993 to set a framework for orderly development in Saipan.

However, the Legislature delayed the law's implementation for three years in 1994, effectively killing it at a crucial time.

Improvements in financial and budget management are expected from the installation of a new government computer system. The CNMI's finance and budget functions are already administered by highly qualified management personnel. The CNMI expects to soon complete audits of fiscal years since 1988 to bring the government into full compliance with the Single Audit Act.

The CNMI entered FY 93, FY 94, and FY 95 without a direct operational subsidy from the U.S. Government. Covenant assistance continues to be directed to constructing the infrastructure still needed in the islands.

The Fifth Year Operations and Maintenance Program (OMIP) recommended that the CNMI plan for economic growth through the preparation of master plans and the establishment of a central planning office to update and modify those plans.

As Saipan's population increased, so did the demand for water. The utility responded by drilling more and more water wells which harmed the lens, over produced the wells and resulted in saltier water. Due to these problems and the associated health risks, the Governor declared, on March 22, 1995, a Water State of Emergency. A local Task Force was established and initiated \$9 million in water project improvements, including: the Saipan Water Master Plan, Increased Water rates, Pipeline Replacement Projects, Well Drilling & Maintenance Program, Leak Detection Program, Metering Program and Water Conservation Programs.

With over 110 wells in operation, the Saipan Water Master Plan identified necessary improvements in the area of operations and

### **3.5 Infrastructure**

#### **Water System**

The Commonwealth Utilities Corporation (CUC) operates the public water system. Since 1990, it has completed over \$22.4 million in improvements to the water system. Due to the topography, geology and hydrology of the Northern Mariana Islands, providing adequate tap water remains a problem. Saipan has no rivers and only a few perennial springs. Rainfall is the only source of fresh water. It is recovered through catchments and pumped from the groundwater lens. The water lens is finite and fragile. During the dry season, the water is extremely limited. The system produces approximately 9 million gallons of water per day for a population base of 60,000. However, not all the water is reaching the rate payers. In addition to supply problems, the utility inherited a World War II vintage distribution system. Over 50-percent of the island's pipelines contain cracks and are leaking water before it reaches the users. The utility receives no revenue from lost water.

maintenance. The utility is currently working with representatives from the U.S. Geological Survey and U.S. Bureau of Reclamation to solve operational problems.

#### **Waste Water System**

The utility operates three wastewater treatment systems on the island of Saipan. Residents on Rota and Tinian use septic systems pending sewer infrastructure. Wastewater rates are \$.50 cents per 1000 gallons, with a monthly minimum of \$3.00. Saipan's wastewater collection system consists of 25 miles and contains 25 lift stations. There are two outfall pipes, one of which was rebuilt, upgraded and extended in 1995. The wastewater system currently faces two problems:

- (1) Capital required to build more collection pipelines; and,
- (2) Rainfall leaks into the collection systems. At times of extremely heavy rainfall, the collection system is flooded and waste rises from the system with the rising water. As a result, the treatment facilities end up treating rainwater.

### **Power Generation and Distribution**

The electrical power generation and distribution system is managed by the CUC. Upon commission of two new 13 MW diesel generators in March 1992, the installed capacity on Saipan is 105.0 MW. Rota has a capacity of 5.0 MW, and Tinian has 5.0 MW, making the system total 115.0 MW. Peak loads for Saipan, Tinian and Rota are 55, 2.7, and 2.0 MW, respectively. Saipan has a distribution network of 135 miles of a 13.8 KV system. Under the Operations and Maintenance Improvement Program, the CUC has undertaken an aggressive strategic plan to improve its operations. The plan includes the hiring of a consultant to undertake a management audit to evaluate and make recommendations pertaining to legal status, utility facilities and operations, management systems, procurement, staffing levels, budgetary expenditures, and options for possible rate increases if necessary to enable CUC to become financially self-sufficient. The audit has been substantially completed, with primary recommendations for revisions to CUC's enabling legislation, cost reductions, possible rate increases, and emphasis on customer service. Formal training programs for the CUC Board of Directors continue, further improvements are being made to the financial accounting system, and a Comptroller, a Data Systems Administrator and a Professional Engineer have being hired. In 1996, \$11 million will be spent on Field operations.

KV system. Rota has 25 miles including both 13.8 KV and 4.16 KV power. Tinian has 35 miles of 4.16 KV system. Saipan has seven (feeder) distribution lines originating from the plant at Lower Base to the customers. Less than 3 percent of electric customers are unmetered. Line losses have dropped from 25 percent to 15 to 18 percent as new lines have been added or upgraded.

The CUC has aggressively built up a diesel generator based power system. Unfortunately, the growth in its distribution capacity has not been matched by its financial operations. While CUC has incurred significant amounts of debt to the Commonwealth Development Authority and to Mitsubishi, its generator supplier, the CUC Board has not been permitted by political pressure to set user fees at levels which enable the utility to recover its operating costs.

### **Solid Waste Disposal**

There is only one solid waste disposal area on Saipan at a location known as Puerto Rico on the northwestern lagoon. There is no municipal residential collection service offered by the government, but several contract collection services exist, charging about \$40 monthly. Private contractors collect commercial and industrial waste and dump without charge at the Puerto Rico site. The existing dump site at Puerto Rico continues to be the most unsightly area on Saipan and a health hazard to anyone in the vicinity. Frequent fires which can produce toxic gases, periodically pollute the nearby tourist beaches, and threaten the hospital and a nearby elementary school.

Since 1994 the CNMI has been working to implement an integrated solid waste management plan consisting of the closure of the Puerto Rico Dump, the opening of a new

landfill and operation of incinerators and transfer stations. The designated landfill site is at Kalabera on the northern end of Saipan. Covenant and local funding of \$16,000,000 have been earmarked to date for the plan, and additional funds must be dedicated to the project.

The closure of the Puerto Rico dump site remains a concern of the U.S. Environmental Protection Agency, which issued a Compliance Order to the CNMI government in September of 1994. The U.S. Army Corps of Engineers is reviewing the site as to its eligibility under the Formerly Used Defense Sites environmental program.

There are about 225 miles of roads throughout the CNMI. During the last several years, the Commonwealth has reconstructed and paved about 33 miles of major roadways and about 36 miles of local streets. Additional construction is scheduled throughout the islands. The major thoroughfares of Saipan, particularly the primary highways of Beach Road, from Garapan south to Chalan Kanoa, and Middle Road, are becoming increasingly congested. Average daily traffic on Beach Road in the vicinity of Susupe exceeds 27,000 vehicle trips. To assist in handling the congestion, five traffic lights, the first in the CNMI, were installed on Beach Road and Middle Road in 1993-94 and are now operational. Additional traffic lights are expected to be added over the next two years.

### **Airports**

The Commonwealth Ports Authority (CPA) administers airport facilities in Saipan, Rota and Tinian. Saipan International Airport is the air gateway to the CNMI and serves as the primary airport. Terminal facilities are

### **Roads**

A large percentage of Saipan's and Tinian's roads were paved either during the Second World War or shortly afterward when the islands were under U.S. Navy administration.

The principal road on Rota was only recently paved. The World War II roads are still in reasonably good condition on Tinian but are showing signs of rapid deterioration on Saipan where the traffic levels and axle loadings are much higher. In recent years, Beach Road, the main road on Saipan, was paved to a maximum width of 52 feet over several sections. It has been extended to a total length of about 9 miles. The airport access road has also been paved by overlaying the older pavement built by the Navy during the late 1950's. The remaining primary paved roads are those built by the Navy, which total about 25 miles in length.

modern and well maintained. An air traffic control tower was constructed in 1994 and commissioned in January 1995. The Federal Aviation Administration trained local residents to become certified air traffic controllers. The 8,700-foot runway is capable of handling DC-10 and B-747 aircraft.

Tinian and Rota each have modern terminal facilities. Tinian airfield has a 5,986-foot runway and an apron capable of handling two B-727 aircraft. Tinian airport is equipped with navigational aids and can now support night flights. Rota's airfield has a single 6,000-foot runway and is also equipped with navigational aids. Plans are now being prepared to lengthen the runway to no less than 8,000 feet with parallel runways to address the need of continued economic growth of Rota and Tinian.

### **Ports**

The CNMI's primary seaport on Saipan is undergoing expansion of the old port (built after World War II) to accommodate increases

in ocean cargo arriving at the facility and improve the harbor at an estimated cost of \$37 million. This project expands the existing berthing space of 850 feet to 2,600 linear feet including dredging of the entrance channel and turning basin. This project is 70% complete.

The primary commercial port in the CNMI is Charlie Dock in Saipan's harbor. The harbor and docking area are undergoing extensive renovation and the channel areas of the harbor are being dredged to a depth of minus 35 feet. The CPA, which manages the harbor, entered into a construction contract with the lowest responsible and responsive bidder, Samsung Engineering and Construction of South Korea, to improve the Saipan seaport facility. Ground-breaking occurred in late 1993.

The CPA has authority to use \$10 million appropriated by the U.S. Congress for the harbor project, and a loan of \$13.5 million in Covenant development loan funds through the Commonwealth Development Authority. In Tinian Harbor was constructed by U.S. Naval engineers during World War II. The harbor is the property of the CPA but is 80 percent under lease to the U.S. military. The harbor also is a center for fish transshipment. Facilities include a cold storage center with a capacity of 2,000 tons and new warehouse facilities. The harbor is protected by a 3,500-foot breakwater which needs rehabilitation. The dock is 750 feet long and partially constructed of reinforced concrete. The CPA is exploring funding sources to further improve and update the port and harbor facilities on the two islands.

## **Public Buildings**

*Schools.* There are 25 schools in the Commonwealth — 13 public and 12 private schools. The enrollment in the 1995/1996 school year was 11,198 students, up from 9,015 in 1990/1991. All three inhabited

October 1992, CPA publicly announced a Request for Proposals for construction of the Saipan Harbor Improvement Project. At that time, sufficient funds only for Phase I of the Project were available. In June 1995, the CPA floated a \$22 million tax exempt revenue bond for the needed additional funds to go forward and complete both Phases I and II of the Project.

The facility was outmoded and in a deteriorated condition. Limited shore facilities for dockage and storage created numerous ship delays and increased costs. The channel depths of 28 to 30 feet were insufficient, and so are being increased to safer depths of minus 35 feet. The redevelopment plans were developed in the 1980s by the Corps of Engineers.

Rota has two harbors. The West Harbor is the most modern port facility in the Commonwealth. It has an 800-foot channel leading to a turning basin and wharf.

islands have public schools. Enrollment is expected to grow much more rapidly in the near future as the soaring birthrate since 1990 begins to have an impact on the school age population. Some repairs to schools are contracted to the private sector, although building maintenance is performed by the Public School System maintenance staff.

## Hospitals and Clinics

*Health Status.* The single greatest factor straining the resources of the health care system is the rapid population growth over the past decade. The greatest increases have come from non-resident alien workers with a growth rate of 740% over the decade and the influx of Asians with a growth rate of over 2,400% over the decade. This rapid growth could not be foreseen during the planning phases of the current health care system or for the purposes of strategic public health planning.

The median age of the CNMI population is 17.2 years with the average life expectancy being 72 years. The CNMI has a crude mortality rate of 2.9/1000 population. The 1995 infant mortality rate was 5.3/1000 live births compared to the most recently calculated U.S. Mainland rate of 8.5/1000 live births in 1992.

Table 3-9 gives the total population, live births, and crude birth rates from 1989 to 1995. The number of live births has been relatively stable over the past 5 years. The ethnic makeup of live births continues to shift, with a decreasing proportion of indigenous *Health Infrastructure:* The Department of Public Health is the sole provider of comprehensive health services in the CNMI. There are several small, private medical and dental clinics on Saipan, none on Rota or Tinian. Rota and Tinian have health centers and each of the other inhabited islands has one dispensary. A dispensary has been opened in the heavily populated southern village of San Antonio on Saipan; a full-time nurse provides Public Health services (immunization, prenatal, referral services, etc.)

*Saipan.* The Commonwealth Health Center is located on Saipan and is the principal health care facility in the CNMI. It was completed and opened to the public in 1986. Administration, Public Health, Dental, and

live births and an increasing number of births among non-resident aliens. There is an increasing number of women who come to the CNMI just to deliver their babies, then leave.

The importance of infectious diseases in the CNMI is once again emerging as a major health concern. Of particular concern is HIV, TB, Hepatitis A and B, food borne illnesses, vaccine preventable diseases and sexually transmitted diseases. The rapid influx of contract workers who were poorly screened and monitored in their home countries has contributed to these problems. The incidence of tuberculosis is over 10 times higher than the Mainland U.S. with over half of all cases among non-resident alien workers.

The Division of Public Health has over 4,000 patient encounters per month, an indication of an overburdened system. While the CNMI receives grant and other financial aid and technical assistance from the Centers for Disease Control, National Institutes of Health, and the World Health Organization, it continues to lack adequate staff and other resources to keep up with prevention, control and containment of communicable and non-communicable diseases.

Hospital services are housed at the Center. The hospital is a 64-bed inpatient, full service facility, and has a 10-bed Psychiatric Unit and a 5-unit Hemodialysis service center. A recent expansion project included a respiratory therapy unit and CAT Scan unit. Additional expansion of the Hemodialysis Unit from a 5-unit to a 10-unit center is currently underway.

*Tinian Health Center.* Tinian Health Center was built as a primary health care facility and occupied in 1987. The building is entirely air-conditioned, with Emergency services, Treatment, two holding beds, delivery, laboratory, X-Ray, Pharmacy, Dental and Public Health services being provided. The

morgue and Sanitation Office are located in a separate building.

*Rota Health Center.* The Rota Health Center is quite similar to the Tinian Health Center in design and type of construction, but is slightly larger in size. It provides Emergency services, delivery, minor surgery room, Dental, Laboratory, X-ray, Pharmacy, Public Health, 3 holding beds, kitchen, laundry, and medical records. Other buildings at the Rota Health Center include the administration building and the morgue. An extension of the main building was recently completed to accommodate the cafeteria and the dietary area.

*Developments in Health Infrastructure.* Through local appropriations and assistance from the U.S. Public Health Service and the Department of Interior, the Commonwealth Several developments are in process within the CNMI health system to make the system more cost-effective and cost-efficient without sacrificing quality of health care: 1) The CNMI has begun the process of privatization of otherwise government subsidized health care services; 2) the privatization of medical management for Rota Health Center means that its citizens now have 24-hour medical coverage and OB/Gyn capability (this capability greatly reduces the need to refer pregnant women to the Commonwealth Health); 3) the purchase of a new CAT Scan machine will further reduce the number of medical referrals to off island health facilities, realizing a significant cost savings in the Medical Referral Program; and 4) the Department of Public Health has developed a revised Medical Referral Policy which sets definitive limits on all medical referrals following the U.S. Poverty Guidelines used by Medicaid.

### **Prison Facilities**

Health Center (including Public Health), Rota Health Center and Tinian Health Center are well-run, clean and orderly. However, the CNMI, like most States and Territories, has traditionally had a serious problem with spiraling health care costs. The problem is worsened by the need for frequent and expensive medical referrals off island to Guam and Hawaii. These problems are compounded by a lack of specialists and adequately trained health personnel. It is more expensive to provide quality medical services in the islands than on the Mainland. Further exacerbating these problems is the fact that the health system must, by law, provide health services to everyone, whether or not they are able to pay. Changes must be made if those services are to continue at the present quality level mandated by law.

The CNMI has correctional facilities on Saipan, Tinian, and Rota. These facilities consist of a detention facility, jail, a women's unit, and a work release unit in Saipan and police lock-ups in Tinian and Rota. There is no immigration holding facility. The current facilities are inadequate and are overcrowded. The design and conditions of the facilities make renovations prohibitive.

In the CNMI, adult corrections is located within the Department of Public Safety in the Corrections Division. The population is approximately 130 inmates. Public safety officers are assigned as needed to corrections with none permanently assigned to corrections. The U.S. Marshals Service has a contract with the CNMI to house federal prisoners at the detention facility.

Juvenile offenders are handled by Youth Services. A juvenile facility has been closed for repairs. Although repairs are near completion, the opening may be delayed for lack of operating funds and community resistance. If Youth Services needs to house a

juvenile, the individual is housed in a local hotel.

<b>Chart 3. Recent OIA Grants to the CNMI (FY 1993 to 1996)</b>		
<b>Year</b>	<b>Purpose</b>	<b>Amount</b>
	<b>Capital Improvements</b>	
1995	Covenant Grants Total	<b>\$27,720,000</b>
	Compact Reimbursement	\$1,600,000
	Immigration and Labor	\$108,000
	Labor Administration Judge	\$77,000
	Attorney General/Labor	\$117,045
	Criminal Code Revision	\$230,006
	Criminal Prosecutors	\$30,000
	Deportation Fund	\$30,000
	IIDS Manager	\$10,000
	Informant Fund	\$375,000
	Investigative Unit	\$83,000
	Labor Code Revision	\$75,000
	Protective Services	\$77,000
	Rota Attorney General	\$287,949
	Unallocated	\$1,500,000
	Labor, Immigrations Identification System (LIIDS)	\$19,120,000
	CNMI Construction Projects	
1994	Covenant Grants Total	<b>\$27,720,000</b>
	American Memorial Park	\$3,000,000
	Beach Road Sewer	\$329,893
	Beach/Quartermaster RD Waterline	\$527,760
	Chalan Kiya Waterline	\$439,800
	Chalan Monsignor Guerrero Waterline	\$527,760
	Isley Booster Station	\$439,800
	Kagman II Homestead Waterline	\$769,751
	Marpo Well Renovation	\$30,000
	Marpo Well Waterline	\$60,000
	Oleai Waterline	\$40,320
	Chalan Pale Arnold Waterline	\$1,433,748
	San Jose Waterline	\$90,000
	Tatachog Waterline A&E	\$51,317
	Unallocated funds	\$19,660,996
1993	Covenant Grants Total	<b>\$27,270,000</b>
	Reyes Head Start Building	\$170,000
	Libraries	\$188,000
	School Watertanks	\$400,000
	Sinapalu I Water	\$696,376
	Tanapag Elementary	\$122,480
	Tinian High School	\$3,217,100
	Traffic Signals	\$321,446
	Unallocated	\$22,604,598
<b>Chart 3. Recent OIA Grants to the CNMI (FY 1993 to 1996) – continued</b>		

<b>Year</b>	<b>Purpose</b>	<b>Amount</b>
	<b>Disaster Assistance</b>	
1995	Shelters and Communications	\$1,700,000
	<b>Maintenance Assistance</b> (from start of program, 1991)	
1995	CUC Partnership Agreement	\$900,000
1993	Strengthening CUC	\$331,000
1992	Municipal Advisors	\$216,644
1992	NMI College - O&M Mgr. and Sanitary Sewer Repairs	\$80,000
1991	NMI College - Manpower Needs Assessment	\$61,000
1991	Solid Waste Mgmt. Plan and New Landfill Design	\$219,450
1991	U.S.GS Solid Waste Engineer	\$60,700
	<b>General Technical Assistance</b>	
1995	Statistical Program Travel and per diem	\$25,500
1995	Immigration and Naturalization Meetings	\$20,000
1995	Brown Tree Snake Program	\$120,000
1995	94/95 PIRAAP Block Grant	\$228,000
1994	Melon Fly Eradication	\$44,000
1994	Statistical training (1990 Census Monograph)	\$18,750
1994	Statistical training	\$1,600
1994	Statistical training	\$10,808
1994	Impact of Compact Mitigation	\$400,000
1994	Fisheries Management Project	\$22,350
1993	CHC Computer System Rota & Tinian	\$250,000
1993	Compact Impact Mitigation	\$394,960
1993	Impact of Compact Mitigation	\$396,600
1993	Labor Force Survey Processing	\$9,957
1993	Survey of Micronesians in CNMI	\$39,050
1993	Cost Benefit Study of Alien Labor	\$80,000

	1995	1994	1993	1992	1991	1990
Total	190,377	152,199	138,114	134,575	136,043	110,840
Percent change	25.1	10.2	2.6	-1.1	22.7	...
Income-based Tax	101,743	88,650	76,349	78,217	80,672	63,034
Indiv. Income Tax	45,738	31,019	23,824	18,532	16,862	14,155
Corpor. Income Tax	NA	NA	NA	3,173	3,561	2,521
Gross Receipt Tax	56,005	57,631	52,525	56,512	60,249	46,358
Fees & Reimbursemnts	88,634	63,549	61,765	56,358	55,371	47,806
Excise Tax	24,501	27,827	25,541	22,388	22,765	22,648
Hotel Room Tax	7,313	7,771	6,951	6,479	5,342	4,602
All Other taxes	56,820	27,951	29,273	27,491	27,264	20,556

	1995	1994	1993	1992	1991	1990
Total	190,377	177,872	141,384	157,670	166,051	110,080
Health & Human Services	34,973	38,902	37,484	35,761	28,503	25,835
Education	37,334	36,332	35,630	35,397	30,131	22,779
Public Safety	12,498	13,061	12,686	10,338	8,847	8,104
Public Works	8,139	7,243	5,733	6,037	6,968	5,595
General Government	87,821	74,435	43,016	63,756	85,596	42,061
Judiciary	4,680	2,918	1,990	1,617	1,557	1,293
Legislature	4,932	4,981	4,845	4,764	4,449	4,413
PERCENTS						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Health & Human Services	18.4	21.9	26.5	22.7	17.2	23.5
Education	19.6	20.4	25.2	22.5	18.1	20.7
Public Safety	6.6	7.3	9.0	6.6	5.3	7.4
Public Works	4.3	4.1	4.1	3.8	4.2	5.1
General Government	46.1	41.8	30.4	40.4	51.5	38.2
Judiciary	2.5	1.6	1.4	1.0	0.9	1.2
Legislature	2.6	2.8	3.4	3.0	2.7	4.0
Source: CNMI Government						

Table 3-3. Students Enrolled in School by Grade Level by School, CNMI: 1994 and 1995		
Grade	1995-1996	1994-1995
Total	11,198	10,749
Headstart	802	510
Kindergarten	933	1,127
1st grade	1,024	1,054
2nd grade	1,004	1,011
3rd grade	1,015	873
4th grade	849	845
5th grade	824	786
6th grade	790	776
7th grade	870	803
8th grade	729	734
9th grade	751	685
10th grade	658	556
11th grade	482	513
12th grade	467	476

Source: Public School System.

Table 3-4. Permits Issued to Non-Resident Workers by Industry and Year, CNMI: 1991 to 1994				
Industry	1994	1993	1992	1991
Total	22,560	22,766	23,027	25,871
Agriculture, forestry, fishing	114	70	16	12
Mining and quarrying	2	2	0	2
Construction	2,981	3,749	4,179	3,842
Manufacturing	6,055	7,002	6,258	5,763
Transportation and utilities	278	187	10	13
Wholesale trade	83	73	12	5
Retail trade	2,635	2,975	749	342
Finance, insurance, real estate	63	98	17	1
Services	9,173	6,008	5,115	3,317
Public administration	18	16	3	0
Uncoded (SIC)	1,158	2,586	6,668	12,574

Source: Department of Labor and Immigration.

Table 3-5. Permits Issued to Non-Resident Workers by Nationality, CNMI: 1991 to 1995				
Nationality	1994	1993	1992	1991

Total	22,560	22,766	28,027	26,143
Chinese	5,163	5,991	5,186	4,570
Filipino	15,160	14,858	15,812	18,940
Japanese	628	613	565	584
Korean	450	505	700	1,094
Thai	620	519	5,519	606
Other	539	280	245	349

Source: Department of Labor and Immigration.

Table 3-6. CNMI Visitor Arrivals by Month, CNMI: 1990 to 1995

Month	1995	1994	1993	1992	1991	1990
Total	676,161	596,033	545,803	505,295	429,864	438,454
January	56,453	52,638	50,203	42,798	41,839	38,191
February	55,318	49,044	43,985	41,741	30,120	36,333
March	58,609	51,596	46,716	42,112	32,150	37,529
April	46,732	41,417	36,694	35,529	28,991	31,478
May	56,624	46,582	43,147	43,059	34,903	34,556
June	52,419	43,077	41,053	41,669	35,093	37,616
July	59,583	53,480	48,717	45,131	38,207	38,288
August	65,803	59,124	55,230	44,684	42,239	40,113
September	54,307	50,548	44,007	42,061	36,155	37,090
October	51,691	44,973	44,051	40,134	35,057	32,895
November	57,972	49,949	43,559	39,359	35,018	35,569
December	60,650	53,605	48,441	47,018	40,092	38,796

Source: CNMI Visitors Bureau, Department of Commerce.

Table 3-7. Number of Installed Telephones by Type of Subscribers, CNMI: 1982 to 1995

Year	Residential Subscribers	Business Subscribers

1995	8,038	7,422
1994	7,356	7,002
1993	6,919	6,699
1992	6,999	5,972
1991	6,761	5,479
1990	5,264	4,509
1989	3,826	3,406
1988	3,334	2,300
1987	2,819	2,203
1986	2,870	1,706
1985	1,264	1,125
1984	1,214	1,031
1983	1,012	817
1982	879	724

Source: Central Statistics Division.

Table 3-8. Garment Industry Export Value and Export Tax, CNMI: 1987 to 1995  
[In millions]

Export to U.S. Year	Declared Export Value	Export Tax (User fees)
1995	\$419.10	\$14.67
1994	\$319.20	\$9.58
1993	\$296.70	\$8.90
1992	\$278.70	\$8.36
1991	\$264.40	\$7.93
1990	\$162.50	\$4.88
1989	\$121.70	\$3.65
1988	\$131.30	\$3.94
1987	\$67.30	\$2.02

Source: Department of Finance.

Table 3-9. Crude birth rates, CNMI: 1989 to 1995

Characteristics	1989	1990	1991	1992	1993	1994	1995
Total Population	40,689	43,345	47,458	52,900	55,422	56,656	57,917
Live Births	989	1,186	1,423	1,511	1,603	1,424	1,508
Crude Birth Rate	24.3	27.4	30.0	28.6	29.0	25.1	26.0

## Chapter 4. Guam

### 4.1 Guam

Guam is a United States territory with a locally elected government. The people of Guam elect a Governor, who serves a four-year term, 21 senators who serve two-year terms in a unicameral legislature, and a Delegate to Congress, who also serves a two-year term. The people of Guam became U.S. citizens in 1950 when the Congress enacted the Guam Organic Act, which established institutions of local government and made Guam an organized territory. Guam is an unincorporated territory because not all provisions of the U.S. Constitution apply to the island.

The local judicial system is made up of a Superior Court and a Supreme Court led by judges appointed by the Governor. Local judges are subject to confirmation by the voters every six years. A U.S. District Court for Guam is headed by a District Court Judge appointed by the President.

Guam consists of a single island of approximately 212 square miles. It is located 3,700 miles west-southwest of Honolulu. The population of Guam in 1995 was estimated at 149,249. The annual rate of growth is about 2.3 percent.

### 4.2 Political Status Developments and Federal Relations

#### Guam Commonwealth

Since January of 1996, the bulk of the Commonwealth negotiations have focused on resolving key priority issues rather than all the provisions of the original Commonwealth bill.

Guam's quest for commonwealth status has been on-going since 1982. In 1987, island plebiscites approved the draft Commonwealth Act. The Guam Commonwealth bill, which contains the details of the proposed commonwealth relationship, has been introduced in every Congress since 1988 by the Delegate from Guam. In 1989, Congressman Ron de Lugo (D-VI), then chairman of the House Insular Affairs Subcommittee, directed Guam and the executive branch to work out their differences regarding the bill before Congress would act on it. Under Presidents Reagan and Bush, two Federal Interagency Task Force Reports criticized key provisions on constitutional, legal and policy grounds. Large differences remained unresolved.

In the Clinton Administration, federal review continued under former University of California at Berkeley Chancellor, I. Michael Heyman until February 1995, when he became Secretary of the Smithsonian Institution. The current negotiator for the Administration is John Garamendi, Deputy Secretary for Interior. Mr. Garamendi took over when his immediate predecessor, Stanley Roth, former Special Assistant to the President and Director of Asian Affairs for the National Security Council, resigned in December 1995.

These core issues include: *Chamorro Self-Determination* (desire of the indigenous Chamorro people to determine the ultimate political status of Guam); *Mutual Consent*

(permitting changes in the Commonwealth Act only upon agreement by both parties); *Immigration* (limiting the influx of permanent alien immigrants to Guam while making it easier for Guam to attract temporary workers, investors and tourists); *Taxation* (authorizing Guam to "de-link" from the Internal Revenue Code and enact its own tax code); *Economic Development* (providing Guam with fair treatment in the application of federal laws and regulations); and *Input Into Federal Policies* (process in which Guam seeks input regarding the application or implementation of federal policies which may impact Guam).

This approach has provided Deputy Secretary Garamendi with the first real opportunity since 1988 to bring these negotiations to a successful conclusion. He has moved aggressively in scheduling a series of weekly negotiation sessions with Guam and federal interagency representatives. He plans to complete work on a document by the summer of 1996, with subsequent White House review and transmittal to Congress by late summer.

### **Compact Impact**

Other major issues in federal relations with Guam in 1996 include the Compact of Free Association Act of 1985 (P.L. 99-239), which establishes the relationship between the United States and the FSM and Marshalls, authorized unrestricted immigration of FSM and Marshalls citizens into the United States, its territories and possessions. This enabled citizens of these island states to enter Guam and the CNMI and to lawfully engage in occupations as nonimmigrant aliens. Guam's resident population of these aliens is estimated to have increased by about 7,000 persons. For FY 1996, OIA also began discussions with federal agencies that have social programs in Guam to explore whether such programs may be structured to help mitigate Micronesian impact to the island. In a related development, the Government of Guam filed a court action in 1996 seeking the preparation

since 1986. The Palau Compact (P.L. 99-658), containing identical immigration provisions, came into effect Oct. 1, 1994.

The Government of Guam estimates that it has expended about \$70 million in services to Compact citizens since the Compact was implemented. These costs include \$30 million for primary and secondary education and more than \$10 million in direct benefits for health and welfare programs. The Compact law included an authorization for appropriation of funds to cover the costs of increased demands placed on educational and social services by immigrants from the RMI, FSM and Palau.

The Department of the Interior has provided technical assistance funding of \$848,000 to a Compact Impact Information and Education Program, \$1,787 in technical assistance for mitigation of the costs of Compact impact as well as funding surveys and censuses of Micronesians to help assess the impact.

In FY 1995, \$2.5 million was specifically appropriated as a contribution toward the costs Guam has incurred in providing social services to these Micronesian immigrants. In FY 1996, Congress reallocated \$4.6 million in mandatory funding from the CNMI section 702 Covenant funding to Guam as an additional contribution toward Compact impact costs. This funding will be part of OIA's annual budget to the year 2001, for a total of \$27.5 million. Thus, Congress has appropriated or committed \$30 million for Compact Impact assistance in addition to the \$2.6 million provided from Interior's technical assistance program.

of a federal report on the impact of the Compact. OIA has indicated that it plans to complete and submit such a report by August 1996.

### **Guam Wildlife Refuge**

The establishment of the Guam National Wildlife Refuge by the U.S. Fish and Wildlife Service (FWS) continued to be an issue in 1996. The refuge is the result of several years of effort by the DOI to address concerns of Guam leaders and Guam and national environmental groups for preservation of several endangered bird species on the island.

The refuge consists of 22,873 acres. About 22,502 acres are an "overlay" jurisdiction on DOD-held lands, while the remaining 371 acres at Ritidian Point are held directly by the FWS.

Many Guam leaders, including the current Governor and Delegate to Congress, continue to oppose federal control of the refuge, preferring it be under local control. These leaders also object to the transfer of 371 acres of formerly DOD-held land at Ritidian Point to Interior as part of the refuge establishment.

In 1996, litigation over this and related issues continued among the Government of Guam, certain private parties and the federal government. One case involves, among other things, the ownership of Ritidian Point and the management of the Guam Wildlife Refuge. A second proceeding involves claims by individual land owners and claimants regarding access to private property and the alleged taking of various private property interests.

#### **4.3 Current Economic Conditions**

Guam's economy has recovered from a downturn during the 1993-1994 period following extraordinary growth from 1988 to 1993. The near-term forecast for Guam's economy shows steady, gradual improvement, according to local government projections. The gross island product increased slightly in 1995 and is expected to grow more robustly in 1996. Guam's economic model is currently

1993. The outlook is for sustained growth, led by a resilient visitor industry, although a return to the growth rates of the "boom" years is unlikely.

Guam's gross island product increased by 3.9 percent in 1994 to \$3.030 billion after an increase of 69 percent from \$1,729 million in 1988 to \$2,917 million in 1993, an annual average growth rate of 10 percent. Growth slowed somewhat in 1995 and is expected to pick up in 1996. Total employment fell to 65,130 in December 1995 from 65,800 in 1994 and 68,464 in 1993. Unemployment increased to 7.8 percent in the last quarter of 1995. Total personal income increased from \$1,327 million in 1988 to \$2,241 million in 1993, and to \$2,325 million in 1995. Rapid expansion of the visitor sector was a major driver of overall economic growth. Total visitor arrivals increased from 586,000 in 1988 to 1,362,000 in 1995.

The driving forces behind Guam's growth were outside investment, primarily from Japan, and the island's continuing popularity as a tourist destination. After a decline in Japanese real estate investment from 1990 to 1993 and a series of natural disasters, including six typhoons late in 1992 and a Richter 8.2 earthquake in August 1993, Guam's economy made a strong recovery in 1994 and 1995.

The surge in visitor arrivals is only slowly translating into increased employment, as visitor demand has been met largely through increased utilization of the existing work force and stock of hotels and other facilities.

being updated with revised 1995 figures and projections for 1996 to be published soon. Guam's economy is now larger and more mature than in the 1980s and it is reasonable to expect more moderate rates of growth off

this much larger economic base in the last years of this decade.

Total visitor arrivals are projected to increase at an annual rate of about 10 percent to 1.5 million in 1996, and by 8 percent to 1.62 million in 1997. Guam's future visitor industry will be more diversified. Consistent with the experience of the past several years, growth rates in non-Japanese visitor arrivals are expected to exceed growth rates in Japanese visitors. Non-Japanese visitor arrivals are projected to grow at a higher annual rate, reflecting the continued expansion of tourism from South Korea and Taiwan.

Korean tourists increased by 73 percent in 1994 and 57 percent in 1995, making South Korea the second largest and fastest growing market for Guam's visitor industry. Taiwanese visitors increased 65 percent in 1994 but fell 18 percent in 1995, due to limited room availability. These increases resulted from the establishment of direct air service between Guam and Taiwan/South Korea, tourism promotion in those markets by the Guam Visitors Bureau, and the inclusion of South Korea and Taiwan in the Guam Visa Waiver Program.

Japanese visitors, who account for about 70 to 80 percent of all visitors, are projected to grow at about a 5.5 percent average annual rate, but to drop below 70 percent of the total market by the late 1990's. Retail spending by visitors remains strong, although visitors are. Since the mid-1980s, job creation has outpaced growth in the work force. A beneficial result of this has been low unemployment, but it is apparent that much of the growth in employment is the result of multiple job holdings. Guam has become dependent upon an in-migration of labor from Pacific Rim countries through the H-2 program and from Micronesians immigrating under the provisions of the Compact of Free Association allowing unrestricted entry into

tending to be younger, more budget conscious, and staying for a shorter amount of time.

The number of hotel rooms on Guam in 1994 increased to 6,873 from 6,616 in the previous year. In 1995 the hotel occupancy tax generated \$19.9 million for the local government, up from \$14.6 million in 1993.

Guam's economic expansion has also raised local investment capacity to record highs. Guam's newly increased ability to generate capital from local sources will be important in sustaining the island's growth. Bank deposits on Guam have grown 78 percent since 1987; in 1994, total bank deposits reached \$1.4 billion. Bank loans have increased more dramatically, more than tripling since 1987. Bank loans in 1994 stood at \$2.5 billion. Another indicator of revival — the value of construction permits — totaled \$614 million in 1994, compared to \$431 the previous year.

Tourism generated about 40 percent of direct and indirect employment in the private sector in Guam. The Government of Guam employed 13,850 workers in 1994, a decrease from the 13,973 workers recorded the previous year. Federal employment on the island stood at 7,490 in 1994, down slightly from 7,692 in 1993. Public employees represent about a third of the total work force. The unemployment rate in 1995 was 7.3 percent with an estimated 3,500 workers actively seeking employment.

the U.S. These additions to the labor force from outside Guam are essential to economic growth but have increased demands for local government services as the laborers adjust to Guam's cultural and social modes.

The Guam government reported FY95 General Fund revenues of \$524 million, up from \$501 million in FY 94 but still below FY93's \$561.5 million. However, the slowdown in growth of government revenues

resulted in an operating deficit in the General Fund of \$184.7 million by the end of FY 1994. (See Government Administration, below, for steps to reduce the deficit.)

According to the U.S. Bureau of the Census's *Federal Expenditures by State and Territory for Fiscal year 1994*, direct federal grants to the Government of Guam in FY94 amounted to about \$153 million, up from \$89 million in 1993. These include major grants from the U.S. Departments of Education, Health and Human Service, Transportation, FEMA, etc. Total federal expenditures on Guam, including military spending and payments to individuals, as well as direct grants to the local government, are estimated by the U.S. Census Bureau at \$1,048 million for FY94.

The residents of Guam have seen many improvements in the island's standard of living over the last several years. Guam's economic success, however, has its less beneficial aspects. During the boom years, inflation on Guam had been higher than in the U.S. Mainland, and rents and land prices are much higher than in most mainland communities.

Guam's economic recovery has been complicated by Defense Department cut-backs over the past three years. As U.S. Defense spending and jobs on the island decline, the private sector is attempting to absorb these workers as well as generate. The previous administration on Guam had issued about \$225 million in general obligation bonds, including a 1993 issue of \$175 million for the construction of Southern High School and other educational facilities, and a \$45 million issue in 1994 to pay overdue tax returns to residents. Standard and Poor gave Guam's June, 1995, bond issue a rating of BBB, and estimated that the local government's general fund direct debt to be about \$332.5 million.

employment opportunities for the new workers entering the labor force.

#### **4.4 Government Administration**

In 1993-1994, the downturn in tourism and declining DOD spending on the island lowered Government of Guam revenues, while expenditures remained relatively constant. The local government moved from a surplus of \$52.6 million at the end of FY 1990 to a deficit of \$184.7 million at the end of FY 1994. This deficit has been financed by borrowing from revenues in future years, borrowing internally from special funds and local government agencies, by issuing general revenue bonds, and by delaying payments to vendors. Spending on capital improvement projects over this period has been dramatically constrained.

Governor Carl T.C. Gutierrez, who took office in January, 1995, has taken several steps to bring Government of Guam spending in line with revenues, to pay vendors, and to fund important capital projects. On June 30, 1995 Guam successfully sold \$115 million in general revenue bonds to pay overdue tax refunds to 30,000 local residents (about \$41 million), fund construction of a public high school, and to pay vendors.

Government of Guam autonomous agencies, including the Guam Airport Authority and the Guam Power Authority, also have issued bonds for capital work in the past several years. Total bond indebtedness of Government of Guam line and autonomous agencies is estimated at about \$850 million.

Governor Gutierrez has set six major financial management goals for his administration: 1) Eliminate the General Fund deficit; 2) Pay off the recently-issued Government of Guam bonds; 3) Streamline Government of Guam

operations; 4) Restore public confidence in the Government of Guam as a provider of public services; 5) Maximize the economic benefits of island base closures; and 6) Create a \$30 million cushion in the General Fund.

Gutierrez, who has pledged to work closely with the island's private sector to strengthen the economy, said he would accomplish his goals, in part, by "tightening GovGuam's belt and establishing a "pay-as-you-go" government in which island residents pay the entire cost of the GovGuam services they receive." He also promised that government vendors would be paid promptly and that their faith in the government would be restored. Vowing no new taxes, Gutierrez said his Administration will more aggressively enforce existing tax laws, and collect back taxes. The Government of Guam in 1995 also enacted laws which will increase the property taxes of island residents and charge fees for government trash collection and solid waste dumping at the government landfill.

The Government of Guam also is attempting to improve its audit capability. The government has established an office of an independent auditor, but it is not yet adequately funded or fully staffed. The Guam Government needs to develop a sufficient capability to fully implement the requirements of the Single Audit Act. Audit coverage in Guam has been undertaken by the Department of the Interior's Inspector General and by contracted private CPA firms.

As a result of the August 8, 1993, earthquake, the Governor ordered a \$10 million emergency program to install generators at approximately 146 facilities, water wells, water booster pumps, sewage pump stations, and wastewater treatment plants. This work is currently proceeding under private contract, but it is being administered by the Guam Power Authority (GPA) since GPA will maintain the facilities after completion of the installations. In the aftermath of the earthquake, major water leaks were repaired

## **4.5 Infrastructure**

### **Water System**

Approximately 74 percent of the water produced on Guam is provided by the Public Utility Agency of Guam (PUAG). The remainder is produced by the Air Force and Navy installations on Guam. The Guam government's water sources are groundwater and surface water (Ugum River). The Navy water source is a surface reservoir (Fena Lake) in the southern part of the island. The PUAG water originates primarily in an aquifer known as the northern lens, which is tapped by 94 active wells. According to the PUAG Well Monitoring Report, about 26 million gallons per day (MGD) are currently pumped from the northern lens. The \$12 million Ugum River project at the southern end of the island, completed a few years ago, added an additional 1 to 2 MGD of potable water to Guam's daily supply.

Since 1990 over 300 water leaks on the distribution system have been identified and repaired. The program has saved an estimated 6 million gallons per day. Despite the success, the Water Facilities Master Plan indicates that 30 to 40 percent of daily water production is unaccounted for. Leakage and un-metered use account for much of the total loss.

immediately and a follow-up contract for a leak detection program for the entire water system is approximately 25 percent complete.

The leak detection program is being paid for by funds appropriated by the Guam Legislature.

A Geographical Information System (GIS), the cost for which OIA is sharing under the Operations and Maintenance Improvement Program, is currently underway for both GPA and the PUAG. As-built drawings and plans

for existing utility facilities are being digitized for input into the GIS by both agencies, as well as the Department of Public Works, the Guam Telephone Authority, and others. When completed, the GIS will provide computerized base maps of the island infrastructure which will be an invaluable tool for the Government of Guam in managing growth so that the impacts of development on infrastructure and annual recurring maintenance and repairs costs can be properly planned, budgeted, and executed.

The OMIP Team continues to recommend the formation of an independent Guam Water and Sewer Authority, to incorporate the functions of the PUAG and place the operation and maintenance of Guam water and sewer activities on a more business-like basis. Under this concept, the PUAG would be strengthened by becoming an independent authority with a Board of Directors setting policy for the utilities and appointing a General Manager to operate and administer the water and sewer systems. The Board of Directors would have the authority to set rates, establish its own personnel rules, financial systems, and purchasing procedures.

### **Sewer System**

Improvements have been made in the operation of the wastewater utility during the Guam also enacted legislation in 1995 to charge user fees for the collection and dumping of solid waste at the government landfill. That legislation will free up \$2.7 million in federal funding (provided in FY88 and FY89) to close the Ordot landfill, and develop a new solid waste dump.

In addition, a baseline study for a new site near Apra has also been submitted to the EPA. This new site is on land owned by the Guam government and a new landfill at that location is expected to be privately operated. The establishment of a new site remains of

past year. The North District (ND) and the Agana sewage treatment plants (STP) are about to be released from Administrative Orders issued by the U.S. EPA for not complying with NPDES discharge standards. The transfer of Tumon Bay sewage to the ND plant and the completion of the ND STP rehabilitation have facilitated this change. PUAG has also reached agreement with the U.S. Navy in regard to the relocation of the Agat STP and the joint outfall has been designed and will be put out for bid in the near future. The plant will provide 20 MGD of secondary treatment capacity. The new Agat STP will phase out the Agat STP and the Port treatment facility will be phased out and the effluent pumped to the Agana STP.

The Umatac/Merizo treatment facility which involves land disposal continues under an Administrative Order due to runoff entering the adjacent stream. An inflow/infiltration rehabilitation contract is out for bid which should help mitigate this problem. The Inarajan STP on the southeast side of the island was damaged by last year's typhoons and it is currently in the process of rehabilitation.

### **Solid Waste Disposal**

primary importance because of the depleted capacity at the Ordot landfill site, the remaining useful life of which, without expansion, is now estimated to be approximately one year. The Ordot site remains under an Administrative Order by the U.S. EPA. Guam has submitted to the EPA a feasibility study of four alternative schemes for interim expansion of the Ordot landfill.

A number of other positive developments have occurred during the past few years with regard to solid waste management. Key to these changes is a manager in charge of solid

waste operations. The existing solid waste landfill at Ordot is now being operated more professionally. Waste is covered on a daily basis, the fill has been terraced, the waste stream is now being segregated to remove vehicle tires, scrap metal, aluminum cans, and cardboard. A contractor has also been hired to operate a tire-shredding facility at the landfill, and new legislation requires all cardboard to be bailed prior to delivery to the site. Waste-stream analyses conducted for the Guam government are being used as a guide to reduce waste volume. The Government of Guam has previously received U.S. EPA approval to use a site at Malojloj for the disposal of construction debris and yard waste. The items were banned from disposal at the Ordot landfill and Dededo transfer station in February, 1993.

### **Power Generation and Distribution**

The Guam Power Authority (GPA), an autonomous agency of the Government of Guam, has the responsibility to provide electricity throughout the island. Total power consumption in 1991 was 862.4 million kilowatt hours (KWH) The average KWH per customer increased from 11,127 in 1990 to The estimated length of the road network on Guam was approximately 975 miles at the end of 1992. Of that total, 420 miles of roads are classified as non-public roads. Many of these roads are located on federal government installations located throughout Guam. Of the 550 miles of public road, approximately 144 miles are the primary network (this includes some secondary roads); about half of this mileage is classified as urban roads. There are about 222 miles of streets and 123 miles of local or collector roads. The primary network is paved. In the case of the streets and local roads, 330 miles (80 percent) are paved and the remaining 83 miles (20 percent) are unpaved. There are 27 bridges in the road system.

12,064 in 1991, an increase of 8 percent. Average annual residential power cost per customer in 1991 was \$1070.

The tremendous pace of development on Guam has put a strain on existing power facilities. The island suffered serious inconveniences because of brownouts and load shifting over the past two years. GPA has listed power generating increases of 178 megawatts to be put on line by the end of the decade. Included in the roster is a 23 MW unit recently installed, and a 16 MW unit to be installed by the Navy. GPA installed two 23 MW units in 1993, and plans to install a 23 MW unit in 1994, and additional 35 MW slow speed diesel units in 1995 and 1998.

The balance of \$27 million on GPA's 1980 note with the Federal Financing Bank was prepaid by Guam in January 1993. The payoff was part of a GPA bond refinancing package that provided Guam with capital for financing the additional generating capacity described above.

### **Roads**

The Guam 2010 Highway Master Plan calls for capital investments in the primary road and highway system estimated to cost \$470 million over the next 18 years. A large portion of the funding to construct and maintain these highway improvements will come from bond issues backed by fuel taxes and vehicle registration fees which are allocated to the Department of Public Works (DPW).

Maintenance of the road system is currently divided among the Highway Maintenance and Construction Section of the DPW, the Rapid Response Office, and some Mayors. For this reason, the OMIP Fourth Year Review Report for Guam recommends the creation of a Highway Management System within the DPW to better manage highway construction

and maintenance. In response, DPW authorities have recently submitted an application for maintenance assistance funds to hire a consultant to develop a comprehensive Highway Management System which includes an Information System, Planning and Programming Management, Design/Specification/Contracts Management/Construction Management, Operational Systems and Maintenance Management System.

### **Airport**

The A.B. Won Pat Guam International Air Terminal and surrounding facilities are administered by the Guam Airport Authority (GAA). The airport facilities are first-rate, but the growth in passenger arrivals and cargo warrants increasing the capacity of the facilities. Guam has recently expanded its airport aprons to alleviate the problems of aircraft waiting in the taxiways.

The GAA hopes to triple the size of the airport when the \$253 million program to construct a new terminal at the eastern end of the existing facility is completed later this year. Terminal enlargement would increase the number of passenger gates to seventeen. The closing of the Guam Naval Air Station in 1995 provided additional acreage and The Government of Guam has the ability to acquire and maintain an adequate stock of public facilities. The Government has a lengthy list of capital improvements encompassing high schools, fire stations, youth centers and recreation facilities. The increase in local revenues directly attributable to Guam's economic boom has allowed the Government to fund these projects from its own resources.

facilities for expansion of the airport operations. NAS, which owns the airport's runways, was ordered closed by the Base Realignment and Closure Commission in August, 1993.

Guam authorities expected passenger traffic to reach 3.6 million passengers in 1995. The facility now handles some 1500 flights a month. The airport is a regional aviation hub and base of operations for Continental Micronesia — the regional carrier.

### **Seaport**

The Port Authority of Guam (PAG) administers the commercial port facilities at Apra Harbor. PAG is a public corporation and autonomous agency of the Government of Guam. Guam's port is a major transshipment center of the Western Pacific and is equipped to move containerized, unitized, break-bulk, and tuna cargo efficiently. The port has in recent years seen an average annual increase of 23 percent in cargo growth. The PAG is expanding its container yard and is planning to spend \$100 million in reconstruction activities through the year 2005.

### **Public Buildings**

<b>Chart 4. Recent OIA Grants to Guam (FY 1993 to 1996)</b>		
<b>Year</b>	<b>Purpose</b>	<b>Amount</b>
1996	<b>Special programs</b> Capital Infrastructure (Impact of Compact)	\$4,580,000
1995	Impact of Compact Reimbursement	\$2,495,000
1995	<b>Disaster Assistance</b> High Priority Hazard Mitigation Projects	\$1,700,000
	<b>General Technical Assistance</b>	
	Impact of Compact:	
1996	Compact Impact Information and Education	\$146,489
1995	Compact Impact Information and Education	\$72,000
1995	Baseline Study of Guam's Palauan Residents	\$45,000
1994	Impact of Compact Mitigation	\$60,000
1993	Compact Impact Information and Education	\$179,000
1993	Impact of Compact Mitigation	\$594,900
1993	Impact of Compact Mitigation	\$592,440
1993	Compact Impact Verification	\$80,186
	All other:	
1995	Consumer Expenditure Survey	\$80,000
1995	Statistical Program Regional Travel and Per Diem	\$15,500
1995	Pacific Is Regional Anti-Substance Abuse Program (PIRAAP)	\$315,000
1995	Travel for Coral Reef Workshop	\$2,000
1995	PIALA Annual Conference	\$16,075
1994	Statistical Training Workshop	\$7,500
1994	Estimates Workshop	\$3,700
1994	Guam Aquaculture Development Training Center	\$117,000
1994	Corrections Management Consultant	\$75,000
1994	Police Investigation	\$69,633
1994	Junior Statesman Summer School	\$6,000
1993	Census Conference and Workshop	\$3,600
1993	Supply and Pharmacy Workshop	\$2,722
1993	Junior Statesman Summer School	\$4,600

Table 4-1. Local Revenues, Guam: FY 1990 to FY 1995  
[Amounts in thousands]

	1995	1994	1993	1992	1991	1990
Total	524,345	501,465	561,450	556,507	524,795	450,193
Percent change	4.6	-10.7	0.9	6.0	16.6	...
Total Taxes	466,498	489,829	547,960	544,126	508,411	429,164
Income Tax	466,498	277,858	303,749	314,457	311,683	261,647
Section 30 1/	N/A	54,944	81,247	57,049	36,000	42,000
Gross Receipts	N/A	151,150	147,723	155,936	144,453	110,187
Property Taxes	N/A	N/A	9,005	8,978	8,732	7,759
Other Taxes	N/A	5,877	6,236	7,706	7,543	7,571
Licenses, Fees, etc	1,495	1,542	1,544	1,401	1,397	2,820
Uses of Money/Property	1,462	1,553	3,367	4,518	8,154	11,860
Federal Contributions	51,744	5,530	4,901	3,623	4,092	3,168
Other	3,146	3,011	3,678	2,839	2,741	3,181

1/ Federal income taxes on federal employees. covered over to Guam.

Note: 1992 and 1993 revised, 1994 preliminary.

Source: Executive Budget Gov. Guam; Dept. of Administration General Fund; Comparative Statement of Revenues FY ending 9/30.

Table 4-2. Basic Operational Expenditures by Selected Categories, Guam: 1990 to 1995  
[Amounts in thousands]

	1995	1994	1993	1992	1991	1990
Total	361,431	395,602	414,302	374,175	381,205	234,470
General Government	55,438	53,213	57,294	53,348	45,000	35,208
Protection, Life & Property	74,301	74,785	81,049	68,717	61,139	46,824
Public Health	18,400	18,496	18,880	29,149	37,602	21,615
Community Services	6,181	5,779	4,670	5,154	3,536	3,893
Recreation	5,563	6,038	6,088	6,458	5,588	4,159
Indiv. & Collect Rights	9,042	9,153	9,018	7,189	7,503	5,542
Transportation	1,613	2,117	2,479	1,394	1,820	3,111
Education	158,927	168,330	185,081	153,557	130,460	100,162
Protect of Environment	4,134	4,822	6,060	9,190	4,882	3,339
Economic Development	6,452	9,724	9,615	10,522	8,262	6,509
Transfer to Persons	16,558	20,346	11,392	2,020	65,598	0
Capital Projects	3,944	21,657	21,670	26,508	8,412	3,443
Interest	878	1,142	1,006	969	1,403	665
PERCENTS						
Total	100.0	100.0	100.0	100.0	100.0	100.0
General Government	15.3	13.5	13.8	14.3	11.8	15.0
Protection, Life & Property	20.6	18.9	19.6	18.4	16.0	20.0
Public Health	5.1	4.7	4.6	7.8	9.9	9.2
Community Services	1.7	1.5	1.1	1.4	0.9	1.7
Recreation	1.5	1.5	1.5	1.7	1.5	1.8
Indiv. & Collect Rights	2.5	2.3	2.2	1.9	2.0	2.4
Transportation	0.4	0.5	0.6	0.4	0.5	1.3

Education	44.0	42.6	44.7	41.0	34.2	42.7
Protect of Environment	1.1	1.2	1.5	2.5	1.3	1.4
Economic Development	1.8	2.5	2.3	2.8	2.2	2.8
Transfer to Persons	4.6	5.1	2.7	0.5	17.2	0.0
Capital Projects	1.1	5.5	5.2	7.1	2.2	1.5
Interest	0.2	0.3	0.2	0.3	0.4	0.3

Preliminary for 1993, 1994, and 1995.

Source: Executive Budget Gov. Guam; Dept of Administration General Fund Comparative Statement of Revenues FY ending 9/30.

Table 4-3. Employment by Industry, Guam: 1990 to 1995

	1995	1994	1993	1992	1991	1990
Total	65,660	65,800	68,464	69,627	61,730	56,129
Agriculture & non-classified	280	280	382	420	290	237
Construction & mining	8,110	8,660	9,980	12,476	10,420	8,604
Manufacturing	1,810	1,890	1,771	2,065	1,950	1,871
Transportation	5,040	4,760	4,231	4,346	3,700	3,520
Wholesale/retail	13,730	13,320	14,441	14,105	12,400	11,269
Finance, insurance, real estate	2,720	2,740	2,696	2,722	2,450	2,242
Services	13,890	12,810	13,290	13,534	11,870	10,109
Local & federal Government	20,080	21,340	21,673	19,959	18,650	18,277
Federal Government	6,460	7,490	7,692	7,202	6,730	6,955
Territorial Government	13,620	13,850	13,937	12,708	11,890	11,278
Foreign Government	NA	NA	44	49	30	44

Source: Government of Guam, Annual Census of Establishments, March; Current Employment Report, Dept of Labor.

Note: Data for 1994 and 1995 are preliminary.

## Chapter 5. Virgin Islands

### 5.1 The United States Virgin Islands

The United States Virgin Islands (U.S.VI) is a United States territory with a locally-elected government. Residents born in the U.S.VI are citizens of the United States and they elect a Governor, unicameral (15-member) Legislature, and Delegate to Congress. The U.S.VI is an organized territory because federal legislation — an organic act — has established the institutions of local government. It is an unincorporated territory because not all the provisions of the U.S. Constitution apply to the U.S.VI. The territorial court system has jurisdiction for all local legal issues.

The U.S.VI is located in the eastern Caribbean Sea, approximately 1,000 miles southeast of Miami and 45 miles east of Puerto Rico. The U.S.VI comprises of three main islands, St. Croix, St. John, and St. Thomas, and many small cays and out islands. The capital, Charlotte Amalie, is located on St. Thomas. The estimated 1995 population was about 110,000.

### 5.2 Political Developments and Federal Relations

On January 2, 1995, the Honorable Roy Schneider was inaugurated as Governor of the U.S.VI, while his running mate, Kenneth Mapp, became Lt. Governor. They campaigned as independents and were elected to their four-year terms in a special November 22, 1994 runoff election, defeating the Political status is not a current issue in the U.S.VI, though it was the subject of a vote two years ago. On October 11, 1993, a referendum was held to determine the islands'

Democratic Party candidates, then incumbent Lt. Gov. Derek M. Hodge, and Alfred O. Heath.

In the same runoff election, Victor O. Frazer, who also campaigned as an independent, defeated Democratic Party candidate Eileen Peterson, a former territorial judge, for the position of U.S.VI Delegate to Congress. Frazer, serving a two-year term, is an independent in the House of Representatives.

The runoff contests were required because none of the candidates for these major offices had received the necessary majority of votes during the November 8 general election. In that vote, however, a majority of St. Croix voters approved casino gambling in a poll. That initiative was the basis of legislation that successfully legalized casinos on St. Croix early in 1995.

A major issue in U.S.VI-federal relations is the disposition of Water Island, a federally owned property off the south shore of St. Thomas. The 500-acre island is the fourth largest in the U.S.VI. The December, 1992 expiration of a 40-year lease of the island has focused the federal Government's efforts to dispose of the property. Congressionally mandated surveys have either been completed or are underway. Decisions regarding final disposition are pending, awaiting the outcome of litigation between the master leaseholder and the DOI.

future political status. Of the 39,046 eligible voters, 10,732, or 27.5 percent of the electorate, voted. The options were statehood, incorporated territory, free association,

independence, commonwealth, compact of federal relations, and status quo. The results were to form a basis for status discussions with the federal Government. Of those who voted, 8,629 (80.4 percent) voted for Continued or Enhanced Territorial Status with the United States, 1,421 (13.2 percent) selected Complete Integration with the United States, while 525 (4.9 percent) chose "Removal of United States Sovereignty."

### **5.3 Current Economic Conditions**

#### **General Labor Market Trends**

Following record performance in FY 1993, the labor market slowed dramatically during FY 1995, with recovery still elusive through FY 1995. Employment in 1995, at 45,710, remained more than 4 percent lower than the preceding year. Due to unprecedented construction activity and record tourism levels, 4,200 jobs were added to the U.S.V.I. economy during FY 1993, the biggest annual increase in modern territory history. As construction subsided and tourism (particularly on St. Croix) slowed, civilian employment dropped over 6 percent during FY 1994. FY 1995 labor market conditions cooled further during the last month of the fiscal year when Hurricane Marilyn hit the territory, creating considerable job dislocation. Territory unemployment increased from a low of 3.5 percent in FY 1993 to 5.7 percent in FY 1995, the territory's highest rate of unemployment since 1985.

#### **Tourism**

Hurricane Hugo, the Hess "cat-cracker," a major government capital improvement program and several other large private developments all spurred booming V.I. construction growth in recent years. Industry employment grew rapidly at an annual average rate of nearly 20 percent from FY 1989 to 1993. During FY 1993, employment

U.S.VI cruise passengers arrivals totaled 1,203,000, down 3.0 percent in FY 1995 largely due to a 10 percent over-the-year drop in the last quarter of the fiscal year. The year's total was about 90,000 passengers fewer than the record level achieved in FY 1992.

Air visitors also declined during the fiscal year, dropping 4.4 percent to 653,300. The drop followed a 4.1 percent decline in FY 1994. Arrivals fared worst in the fourth quarter, dropping 17 percent versus the same period one year prior. Due to longer hotel stays and a greater propensity of air visitors to stay in hotels, room nights occupied increased slightly in FY 1995 despite the air visitor decline. Room nights occupied, at 1,125,000, increased one-half of a percent in 1995.

Largely due to the impact of Hurricane Marilyn, total visitor expenditure dropped nearly 11 percent falling from \$920 million in FY 1994 to \$821 million in FY 1995.

#### **Manufacturing**

Employment in manufacturing fell 8.6 percent during FY 1995 after averaging more than 2,900 during FY 1994, the best year for manufacturing employment since 1981. The drop in industry employment was due primarily to the loss of 390 jobs associated with the VIALCO alumina processing plant. The company put the facility on "stand-by" status and phased out 390 of 450 plant jobs by March of 1995.

#### **Construction**

reached an all-time high, averaging about 5,900 workers or more than 11 percent of territory jobs. Subsequently, the industry cooled considerably following the completion of the cat-cracker in September of 1993. Construction jobs averaged just 2,420 during FY 1994 before dropping further to 1,640 in FY 1995. The industry lost more than 4,300

jobs since construction activity peaked in FY 1993. Construction is expected to rebound strongly during FY 1996 due to the massive re-construction effort necessitated by Hurricane Marilyn.

#### **5.4 Government Administration**

Despite recent employment declines, the government remains the largest single source of U.S.VI jobs. Federal and local government accounted for 12,730 jobs or about 28 percent of all territorial civilian employment in FY 1995. Government employment dropped 1.9 percent during FY 1995.

The majority of local government is supported by revenues collected from its General Fund. Reflecting the sluggish economy, General Fund taxes and revenues fell nearly 3.2 percent in FY 1995 to \$332 million. Individual income taxes collected in FY 1995 were \$177.0 million compared to \$191.8 million in FY 1994. Business gross receipt taxes collected decreased 3.1 percent from \$79.2 million in FY 1994 to \$76.7 million in FY 1995. Corporate income taxes, however, increased 10 percent from \$31.5 million in FY 1994 to \$34.6 million in FY 1995.

Federal expenditures, in addition to directly supporting federal activity in the territory, are also an important source of support for local *St. Thomas*. A significant portion of the population rely on roof catchments and water cisterns for potable water. When rainfall is scant or cistern capacity is small, trucks obtain water from the WAPA or wells and haul it to the desired location. The demand on the WAPA distribution system ranged between 3.0 to 3.5 MGD and supplies the town of Charlotte Amalie and the east end of the island. Expansion of the water production facilities was completed on St. Thomas during 1992 with the addition of 1.4 MGD to the system.

government as well as territorial business and individuals. Direct federal expenditures in the territory totaled \$386 million in FY 1994, an increase of 1.6 percent versus FY 1993. Nearly half (49 percent) of these expenditures came in the form of grants to local U.S.VI government entities. Federal grant funding increased 5.1 percent, from \$97.2 million in FY 1994 to \$102.2 million in FY 1995.

#### **5.5 Infrastructure**

##### **Water System**

Because of low annual rainfall, water conservation is of critical concern and requires constant attention. Water is obtained by three systems: catchments with cisterns, saltwater conversion, and wells. The WAPA is responsible for the desalinization plants and distribution system. Production costs for saltwater conversion are significant, consequently system integrity and the efficiency of the meter operations are of paramount importance.

Water distribution rehabilitation and replacement projects are in progress as part of a \$20 million water program on St. Thomas and St. Croix. The DOI has contributed \$8.7 million in capital improvement grants since 1987 for water distribution improvements.

Desalinization produces 4.45 MGD using sea water and waste heat from the electric power plant for the conversion. The distribution system consists of 3,400 metered connections on 50 miles of water mains. The lines have 7 booster pump stations and approximate storage capacity of 50 MG. Funding has been provided for plant expansion through the issuance of water bonds.

The old saltwater flushing system used by the town of Charlotte Amalie has seriously

deteriorated. This has resulted in electrolysis along the potable water lines, causing disintegration of the pipes. According to the recent *Water Loss Reduction Program Study* the 65 percent system loss in 1988 has been reduced to about 45 percent with system leakage identified as being accountable for 90 percent of actual loss. Due to the corrosive nature of the soils on St. Thomas, all piping systems are being replaced with Poly Vinyl Chloride (PVC) material.

*St. John.* A desalination plant completed in 1990 provides 155,000 GPD and eliminates the past practice of barging half of St. John's water supply from St. Thomas. An elevated storage reservoir with an attendant pump station complement this new facility by providing increased service potential. Water service has been provided to the residents of Coral Bay. Storage capacity has been doubled in 1995 from 0.6 to 1.2 million gallons.

*St. Croix.* Groundwater and desalinization are the main potable water sources on St. Croix. The daily water demand is approximately 3.2 MGD. The production is 4.2 MGD with about .5 MGD coming from groundwater (when all well fields are activated).

The distribution system has 140 miles of mains, 6 primary booster pump stations, and 23 million gallons of storage capacity.

*St. Thomas.* Most of the private residences on St. Thomas rely on individual septic systems. There are 8 sewage treatment facilities on St. Thomas, 7 secondary plants, and an anaerobic pond at the airport. The plants do not always attain secondary treatment discharge requirements. The Nadir plant is also treating effluent from the Bovoni plant.

The U.S. EPA awarded a grant for the construction of a regional waste water treatment plant at the solid waste landfill site located on the eastern end of the island. When built, it will initially eliminate five

## **Waste Water System**

All three islands have waste water treatment plants (WWTPs) and sewage collection systems. The extent of the systems vary by island. Many private residences and hotels have their own disposal systems which are not connected to the public system. The former use individual septic systems, while the latter use small private treatment plants. All of the WWTPs discharge effluent to either an inland stream or the ocean. The towns of Charlotte Amalie on St. Thomas and Christiansted on St. Croix use saltwater sewage flushing systems as a potable water conservation measure. The Department of Public Works (DPW) is responsible for operations and maintenance of the public sewer systems on all three islands.

The Government of the Virgin Islands entered into an Amended Consent Decree with the U.S. EPA on January 19, 1996. New treatment plant construction scheduled and existing treatment plant operational improvement schedules for compliance are included. Failure to meet these dates or interim effluent discharge limits and mass loading limits will result in stipulated penalties and sewer connection bans, respectively.

existing plants, and later, the plant at Vessup Bay.

The Mangrove Lagoon Regional Waste Treatment Plant design contract was executed on April 2, 1996. This new secondary treatment facility will serve the Donoe, Old Tutu, Nadir and Bovoni housing areas. Five existing package plants, which do not meet effluent limits, will be replaced and effluent will be discharged through ocean outfall. The Vessup Bay area package plant although out of the study area is proposed to be connected to this facility later. A compliance schedule

for this project is included in the Decree. An EPA Construction grant in the amount of \$10 million is awarded for this project. An additional \$15 million is needed.

The aerated waste water lagoon located at the Cyril E. King Airport serves the town of Charlotte Amalie and surrounding areas. The facility meets effluent limits as proposed in the Section 391 (h) waiver approved by EPA in 1988 (a modified permit has not been issued by EPA yet). However, Marilyn damaged the aeration system which is in the process of being repaired. Aeration system upgrades will be included to address odor problems resulting from long sewer detention times and low oxygen levels.

The Decree includes interim effluent limits for the existing facility and a conditional requirement to construct a secondary treatment plant if the waiver is not approved. The V.I. Port Authority has notified the Department of Public Works that the Airport Master Plan calls for the lagoon to be relocated per Federal Aviation Administration requirements. A site for the new facility at Red Point Peninsular, south of the airport, is proposed. However, funding for the estimated cost of \$22 million needs to be identified.

Sewer lines have been constructed in Estate Contant, Pine Peace and Power Boyd's Plantation in 1995. Emergency generators are currently being installed in housing constructed at each of the sewage lift stations.

*St. Croix.* The island of St. Croix is served by one primary waste water treatment facility. This plant primarily serves the communities of Christiansted and Frederiksted. The treatment plant has an 8,000 foot ocean outfall.

The sewage collection system consists of 87 miles of gravity and force mains with 3 major sewage lift stations and 12 feeder pump

On the west end of the island, one secondary treatment package plant serves the Bordeaux housing area. On the north end of the island, one secondary treatment package plant serves the Brassview housing area. Properties not served by the public sewer system use on site disposal systems or privately owned and operated treatment facilities.

Sewer line replacement for the island of St. Thomas is estimated at \$20 million, including preparatory cleaning and inspection. Emergency generators are currently being installed in housings constructed at each of the sewage lift stations.

*St. John.* The Cruz Bay Waste Treatment Plant serves Cruz Bay and surrounding areas. This secondary treatment facility is overloaded, does not meet interim effluent limits, and discharges into the salt pond. A new secondary treatment plant will replace this facility and discharge effluent through an ocean outfall. The ocean outfall was constructed in 1995. A contractor for construction of the treatment plant was recommended to EPA on March 23, 1996. The bid exceeds the available funds by \$750,000. These funds need to be identified. A TPDES permit application will be submitted by April 30, 1996.

The majority of the system is concrete which is subject to deterioration from hydrogen sulfide gas, which produces sulfuric acid. Because of the long detention time for flows arriving at the WWTP, hydrogen sulfide is sometimes generated from the aged condition of the sewage. This condition has deteriorated the sewer mains to the point of repeated collapse and failure, which frequently requires raw sewage bypass during repairs to mitigate public health hazards and protect the environment.

Sewer line rehabilitation and replacement estimated cost is \$30 million, including preparatory cleaning and inspection.

## **Solid Waste Disposal**

The solid waste operations — collection and disposal — on all three islands are under the direction of the Department of Public Works. Additionally, litter enforcement and training are provided by DPW. Solid waste collection is a combination of curbside collection and roadside garbage bins. Improvements to the collection system include construction of convenience centers which will include redemption centers.

Solid waste collected is disposed of via landfill. Land limitations may adversely affect this method of disposal. Presently, planning studies and cost analyses are being performed to establish the most efficient collection and disposal systems and their associated costs. The establishment of tipping fees will be recommended with proposed rate structures.

The landfill on St. John is closed and a transfer station, which is used to transfer solid waste to St. Thomas, has been in operation for over two years. Bulk waste and junked vehicles are removed regularly by barge. A *The System*. The WAPA serves approximately 47,000 electricity customers on the island of St. Thomas, St. John, Water Island, Hassel Island, and the Island of St. Croix. Major generating facilities are located on St. Thomas and St. Croix, while a standby facility is located on the Island of St. John. Transmission and distribution of power is typically 13,800 volts, 3 phase, 60 Hertz throughout the islands. Billing, collecting and providing customer service are the additional functions carried out by the WAPA organization. WAPA has been commended by the Operations Maintenance and Improvement Program (OMIP) program for its strong management and dedication of its personnel.

*St. Thomas*. The Krum Bay generating plant has a combination of 4 combustion gas

final closure plan has been submitted to the Department of Planning and Natural Resources and EPA for approval.

Recycling programs have been established through redemption centers funded through the Anti-litter and Beautification Commission fund. DPW has recently recommended a program entitled *Management Plans for Scrap Metal* (junk vehicles) and used oil. Also, compacting facilities were also proposed, but funding could not be identified. Diverting components of the waste stream that make up significant percentages will maximize the remaining useful life of the landfills and reduce the financial burden for collection and transportation.

Training and public education, which includes conferences, seminars, courses, public campaigns and educational curriculum, are among the solid waste services provided by the DPW.

## **Power Generation and Distribution**

turbines and 2 conventional steam turbine-generators. Total output is approximately 450 million kilowatt-hours (MKWH) annually with a total of 123 million watts (MW) of installed capacity. The demand for power is increasing steadily. Preparations are presently underway for the installation of a new 36 MW unit in an attempt to keep up with the demand.

Power distribution is by a combination of overhead and underground high-voltage feeders. Typically these operate at 13,800 volts; however, a 34,500 volt feeder is in service to a major substation overlooking the harbor area. Sub-feeders extend to major load centers on the east end of the island and also to a cable termination structure which feeds St. John Island via a submarine cable. Construction is almost completed on a thirty-

four (34) KV substation on the east end of St. Thomas.

*St. John.* St. John has a demand of approximately 7 MW and is served by 2 submarine cables, each rated at 18 MW. A standby diesel-electric generator, rated 2.5 MW, is maintained for use in emergency situations. Management, generation, maintenance, and distribution functions are handled by the St. Thomas staff. Plans have been completed and funding has been requested for the installation of a 34 KV to 15 KV substation on St. John which will allow operation of the cable at 34 KV.

*St. Croix.* Power production at the Richmond Plant consists of 2 steam turbine generators and 4 combustion turbine-generators. In total, these have the capacity to generate 115 MW.

## Seaports

Charlotte Amalie Harbor, St. Thomas. Located on the Waterfront of Charlotte Amalie, St. Thomas is the site of the newly constructed Virgin Islands Port Authority "Edward Wilmoth Blyden IV Marine Facility" which serves as a crucial linkage for passengers travelling between the British and U.S. Virgin Islands. The facility was opened in May 1994 and houses the Port Authority's Marine Division, the federal Inspection Services (Customs, Immigration and Naturalization), and a restaurant.

*St. John.* Cruz Bay. At Cruz Bay, St. John, the Virgin Islands Port Authority *Loredon Lorence Boynes Sr. Dock* was dedicated in May 1994. Named in honor of a native son, *Captain Boynes*, the reconstructed 35 foot dock can accommodate 4 berths for ferry boats traveling to and from Red Hook and Charlotte Amalie Harbor, St. Thomas. Dinghy dock parking is available. The

The Virgin Islands Port Authority, a semi-autonomous governmental agency, owns, operates and maintains 6 seaports and 2 airports in the territory.

*St. Thomas* Crown Bay Cruise Dock. At the Port Authority publicly owned Crown Bay Marina Port in the Sub Base section of St. Thomas, cruise ships have been arriving at the 3 berth facility in ever increasing numbers. Cargo ships are now utilizing the 900 foot cargo bulkhead. A federally funded Economic Development and Agriculture project to pave the roadway, install lighting and a drainage system, has been completed. Little Switzerland built the first warehouse at the Port of Crown Bay to be used as their main Caribbean warehouse facility, and Barbel Enterprises has completed a second warehouse facility. Future phases of the project include additional warehousing and a commercial center that will provide a mixture of tourist and local oriented shops and restaurants.

passenger terminal accommodates the port's dock master's office, a ferry service ticket sales booth and a seated passenger waiting area. The Creek facility, adjacent to the Captain Boynes Dock, continues to be the main port for cargo traffic to St. John. Maintenance dredging of the Creek at the northeast corner of Cruz Bay, has been completed, providing a 7 foot draft for vessels utilizing the facility.

*St. Croix.* Frederiksted. The grand opening and dedication ceremony for the new Virgin Islands Port Authority "Ann E. Abramson Marine Facility" at Frederiksted, St. Croix was held on July 15, 1994. The facility can accommodate 2 large cruise ships and 2 mini cruise ships simultaneously, with a draft of 20 to 50 feet. The facility also accommodates naval vessels, limited cargo operations and local pleasure vessels. Since the opening of this facility, St. Croix has seen a thirty (30)

percent increase in cruise ship port of call over 1989 when the facility was destroyed by Hurricane Hugo.

Christiansted. Located on the eastern end of the island of St. Croix, at the Gallows Bay Port in Christiansted, the Schooner Channel is being utilized by mini cruise ships such as the Renaissance III. The channel was deepened and widened to facilitate mini cruise ships as well as other recreational cargo vessels. The control depth for the channel is 16.5 feet.

Container Port, South Shore. The Krause Lagoon, adjacent to the Port Authority Container Port on the southern shore of St. Croix, accommodates tanker vessels bringing in molasses to the Virgin Islands Rum Distillery, a major source of revenue to the Virgin Islands Government. Plans have been prepared for the development of a new molasses tanker pier on the south shore of St. Croix. This facility will accommodate molasses and other bulk material.

*St. Croix.* The focus of the Virgin Islands Port Authority has shifted to the Alexander Hamilton Airport on St. Croix, where design plans are underway for the renovation and expansion of the terminal facility to serve beyond the year 2010. The current airport runway and parallel taxiway are 7,600 feet and are in excellent condition. An independent lounge for cruise line passengers is included in the design plans.

## **Public Buildings**

*Schools.* As of December 9, 1994, a total of 29,730 students attended U.S.VI public (22,126) and private (6,604) schools. The government's Department of Education administers 32 schools — 16 on St. Thomas, 14 on St. Croix, and 2 on St. John.

General maintenance of the physical facilities is poor and vandalism is a constant problem. The Department of Education reports that improvements have been made to school roofs

## **Airports**

*St. Thomas.* The construction of the Cyril E. King Airport Terminal was completed and opened in October 1990. The new 7,000 foot runway and parallel taxi was commissioned in December 1992. With the extension of the runway and parallel taxiway to 7,000 feet, the system has been classified within the rank of the Federal Aviation Administration (FAA) as a "safe runway". The increased runway length can now accommodate direct jet service from the continental United States. The twenty-year master plan for this facility has been completed. Work on the general aviation apron and construction of a major storm drain has been completed.

and drainage systems. The OMIP program notes that an effective program of preventive maintenance has not been implemented, and continues to recommend (for the past four years) the development and implementation of a Operations and Maintenance Master Plan for the Department of Education.

*Medical Facilities.* The St. Thomas and St. Croix Hospitals were built in the early 1980's and opened to the public in 1982. The St. Thomas Hospital was intended to be a full-service medical center with a 250-bed capacity. The St. Croix Hospital opened at the same time and is of equal capacity. The St. Croix Hospital was closed by the heavy damage inflicted by Hurricane Hugo, and a temporary modular hospital was constructed nearby. The Department of Health and the hospitals on St. Thomas and St. Croix are now all operated as separate entities with separate staffs.

In FY 91 and FY 92, the federal Government appropriated \$15.2 million and \$15.3 million, respectively, to improve health care facilities. These funds coupled with payments from FEMA and local funds are being used to restore existing facilities and fund new construction.

Phases one and two of the St. Thomas Hospital Renovation Project are completed. This includes major repairs to the facilities roof and extensive interior renovations. Phases three and four, the incinerator/stand by generator and the air conditioner chiller replacement are not yet completed.

The Juan F. Luis Hospital and Medical Center (formerly the St. Croix Community Hospital) was rededicated on October 28, 1994. The construction cost of this project totaled \$18 million. Work performed included roof repairs, asbestos abatement, demolition and extensive interior and exterior renovations.

The Eldra L.M. Schulerbrandt Community Health Center, a rehabilitation facility for the The University of the Virgin Islands has awarded a professional contract for the architectural/engineering design of its Sports and Fitness Center. The University anticipated that construction activity on this \$5.3 million project would commence in September of 1995.

psychologically unbalanced, was dedicated on October 26, 1994. The construction cost of this project was approximately \$800,000. Construction of the \$4.7 million Ingeborg Nesbitt Clinic/Urgency Center in Fredericksted, St. Croix is approximately 99 percent complete. The Myra Keating Clinic on St. John is open and operational. The construction cost of this project was \$4.2 million.

### **Correctional Facilities**

*Juvenile Facility.* The U.S.VI government has issued a Request for Proposal (RFP) — A/E — for a Youth Rehabilitation Center at Anna's Hope, St. Croix. This \$1.5 million facility, will house 40 pre- and post-trial juveniles. Construction activity is projected to commence in July of 1995.

### **University Facilities**

<b>Chart 5. Recent OIA Grants to the Virgin Islands (FY 1993 to 1996)</b>		
<b>Year</b>	<b>Purpose</b>	<b>Amount</b>
1993	<b>Capital Improvements</b> University of the Virgin Islands	\$7,474,500
1995	<b>Disaster Assistance</b> Hazard Mitigation Projects	\$1,850,000
1995	<b>Management Control Initiative</b> Management Control Initiative VI Department of Finance VI Bureau of Internal Revenue VI Bureau of Audit & Control	<b>\$727,000</b> 405,000 300,000 22,000
1995 1995 1995 1993	<b>Maintenance Assistance</b> UVI Supervis. Training WAPA Mgmt. Audit/Leak Detect. DPW, Personnel, Education, & Procur. O&M DPW, Personnel, Education, & Procur. O&M	<b>\$1,389,000</b> \$156,500 \$306,000 \$236,000 \$690,500
1995	<b>Special Programs</b> Anti-Crime Initiative 1. Crime Lab Update 2. Computer Upgrade 3. Telephone Upgrade 4. Training 5. Witness Protection Program 6. Expert Witness & Extradition 7. Law Library Upgrades 8. Vehicles and Equipment 9. Shipping and other misc.	<b>\$998,000</b> \$100,000 \$100,000 \$240,000 \$100,000 \$100,000 \$105,000 \$100,000 \$145,000 \$8,000
1996 1995 1995 1995 1995 1995 1994 1994 1994 1994 1994 1992	<b>General Technical Assistance</b> Natural Resource Identification UVI Natural Resource Identification UVI Distance Learning Training UVI Statistical Program Travel and Per Diem Current Population Study (U.S.VI) U.S. IRS Estimates Workshop/State Data Center Meetings IMPS Training and Census Monograph Mapping for Sampling Frames Virgin Islands IMPS Workshops Univ. of Virgin Islands Master Plan	\$258,500 \$308,000 \$70,900 \$16,000 \$120,000 \$66,332 \$4,700 \$8,000 \$56,840 \$28,780 \$82,500

Table 5-1. Local Revenues, Virgin Islands: 1990 to 1995  
[Amounts in thousands of dollars]

	1995	1994	1993	1992	1991	1990
Total	428,074	381,428	420,374	394,967	417,271	354,257
Percent change	20.4	-9.3	6.4	-5.3	17.8	...
Individual Income Tax	177,018	191,781	205,617	193,360	183,885	145,213
Corporate Taxes	34,596	31,505	33,805	30,862	41,533	28,482
Real Property	50,389	35,208	50,142	40,059	27,807	29,289
Excise	12,597	14,867	18,482	15,999	15,207	14,629
Hotel	11,566	10,792	10,249	NA	NA	NA
Gross Receipt Tax	76,671	79,198	88,358	NA	NA	NA
Other Taxes	2,773	2,616	3,810	84,326	81,118	68,241
Tax Refunds	(\$31,009)	(\$22,778)	(\$38,400)	NA	NA	NA
Other Revenues	9,234	10,787	14,077	11,874	37,696	66,383
Contributions from Other	84,238	27,451	34,235	18,487	30,025	2,020

Notes: Data include "mirror" taxes and rebates established by federal law. Revenues generated from hotel taxes are not deposited in the General Fund Account. The hotel tax funds are used exclusively for promoting the Virgin Islands.

Table 5-2. Basic Operational Expenditures by Selected Categories, Virgin Islands: 1990 to 1995  
[Amounts in thousands of dollars]

	1995	1994	1993	1992	1991	1990
Total	502,055	425,679	449,693	402,854	417,922	344,193
General Government	150,686	112,035	115,108	103,674	152,201	101,499
Public Safety	44,139	39,945	44,264	41,192	29,293	20,782
Education	134,900	125,596	136,344	119,442	103,288	99,818
Trans & Communic.	31,666	24,441	24,358	24,276	24,859	23,787
Health & Medical Services	114,996	100,266	102,983	88,573	82,576	69,770
Housing Development	6,825	7,333	7,555	8,338	7,876	9,483
Agricultural Developmt	9,442	7,334	8,565	7,523	9,173	11,248
Comm. & Indust Development	5,705	5,701	6,478	6,048	5,386	5,523
Labor Relations	3,696	3,028	4,038	3,788	3,270	2,283
PERCENTS						
Total	100.0	100.0	100.0	100.0	100.0	100.0
General Government	30.0	26.3	25.6	25.7	36.4	29.5
Public Safety	8.8	9.4	9.8	10.2	7.0	6.0
Education	26.9	29.5	30.3	29.6	24.7	29.0
Trans & Communic.	6.3	5.7	5.4	6.0	5.9	6.9
Health & Medical Services	22.9	23.6	22.9	22.0	19.8	20.3
Housing Development	1.4	1.7	1.7	2.1	1.9	2.8
Agricultural Developmt	1.9	1.7	1.9	1.9	2.2	3.3
Comm. & Indust Devlpmt	1.1	1.3	1.4	1.5	1.3	1.6
Labor Relations	0.7	0.7	0.9	0.9	0.8	0.7

Industry	1995	1994	1993	1992	1991	1990
Total	45,010	46,700	51,800	44,270	45,090	45,990
Agriculture & non-classified	3,110	2,930	3,000	NA	2,850	2,960
Construction & mining	1,140	1,960	5,470	3,800	3,560	4,140
Manufacturing	2,370	2,920	2,910	2,830	2,510	2,420
Transportation	2,560	2,620	2,670	2,510	2,350	2,290
Wholesale/retail	9,740	10,200	10,650	9,850	9,340	9,420
Finance, insurance, real estate	1,830	2,100	2,290	2,050	2,060	2,090
Services	10,490	10,290	11,060	9,350	8,930	9,030
Territorial Government	12,910	12,810	12,920	13,080	12,680	12,690
Federal Government	860	870	830	800	810	950

Source: Government of the Virgin Islands.  
Note: These figures represent the V.I.'s employed labor force as of September 30.

## Chapter 6. Republic of Palau

### 6.1 The Republic of Palau

Palau is a sovereign state associated with the United States through the Compact of Free Association. The three-hundred-mile-long archipelago, made up of more than two hundred islands, is located five hundred miles east of the southern Philippine Islands and eight hundred miles southwest of Guam. Palau's total land area is 196.10 square miles. The largest island — Babeldaob — accounts for one hundred fifty-one square miles of the total. Palau's population in 1995 was estimated at 17,285 persons, concentrated in Koror (the nation's capital), Babeldaob and seven other inhabited islands. The population has grown from 15,122 in 1990 to 17,285 in 1995 or a growth of 14.3 percent in five years.

Palau has a constitutional government, modeled on the United States presidential form, with three coequal branches — executive, legislative and judicial. The head of state and head of government is an elected President, who serves a four-year term. The bicameral, national legislature, the *Olbiil Era Kelulau*, has a sixteen-member House of Delegates (one from each of Palau's states) and a fourteen-member Senate, elected on the basis of population. Members of both houses serve four-year terms. The judiciary is comprised of a Supreme Court, the National Court and the Court of Common Pleas. Judges are appointed by the President from a list of nominees recommended by the Judiciary Nominating Commission. All In eight separate referenda or plebiscites, the voters of Palau cast ballots on the implementation of the Compact of Free Association with the United States. As a consequence of the Constitution of Palau's

judges hold office for life. Palau has a federal system with a national government and sixteen state governments, each of which has a constitution, governmental structure and elected officials.

Prior to becoming a freely associated state, Palau was a district of the Trust Territory of the Pacific Islands (TTPI). Palau was the last TTPI district and was administered by the United States from July 18, 1947 until October 1, 1994. Until 1986 the TTPI included the Marshall Islands, the rest of the Caroline Islands (now the Federated States of Micronesia) and the Northern Mariana Islands (now a United States insular area). Following a 1993 plebiscite, Palau entered into the last phase of ending its status as the last TTPI district and emerged on October 1, 1994, into the community of nations as a sovereign state in free association with the United States.

### 6.2 Political Status Development and Federal Relations

The paramount issue in Palau's relations with the United States during a decade-long political status impasse was resolved democratically in 1994. Although the Government of Palau and that of the United States signed the Compact of Free Association on January 10, 1986, it could not take effect until approved by Palauan voters.

nuclear ban and the U.S. Government's steadfast policy world-wide that it would neither confirm nor deny its use of nuclear-powered vessels, Article XIII, Section 6, of the Constitution of Palau (in effect from

January 1, 1981) mandated a seventy-five percent approval of the Compact.

After six unsuccessful attempts to meet the three-quarters majority vote required for approving the Compact, a proposed amendment to the Constitution of Palau was offered to the voters under Article XIV, Section 2, of the Constitution. The amendment, which would lower the nuclear ban waiver requirement to a simple majority, was approved on November 4-5, 1992, in Palau's regular general election by greater than the required figures, that is, by more than a simple majority of the votes cast on the amendment and in more than three-quarters of Palau's sixteen states. On November 9, 1993, in the eighth plebiscite on the Compact (held pursuant to Palau Public Law No. 4-9), 68 percent of those voting approved the Compact.

The current President of Palau is the Honorable Kuniwo Nakamura, who was elected in the 1992 general election. The Vice President is the Honorable Tommy E. Remengesau, Jr. The Nakamura Administration worked in 1994 with officials of the U.S. Department of the Interior's Office of Insular Affairs and the U.S. Department of State on the political, financial and programmatic transition matters to implement the Compact. The Palauan representatives raised several concerns regarding Compact implementation. Officials of the U.S. Government noted their country's intention not to exercise military use rights during peacetime, to give Palau equivalent consideration regarding federal programs as it has the Marshall Islands and the Federated States of Micronesia and made other Of the \$4,700,000 in grants administered by the Office of Insular Affairs and actually expended in fiscal year 1995, \$4,322,000 were used for capital improvement projects, and, \$296,000 were spent on the Operations and Maintenance Improvement Program of the Office of Insular Affairs and \$82,000 on

assurances related to communications, civil aviation, road construction and nuclear provisions.

Representatives of the U.S. Government believed that Compact issues were best addressed within their context after the agreement took effect. The U.S. Government-Government of Palau transition group set a tentative goal of fiscal year 1994 for ending the trusteeship and establishing Palau as a sovereign state in free association with the United States.

Under the terms of the Compact, the United States will provide more than \$517 million in mandatory, full-faith-and-credit financial assistance to the Government of Palau during fiscal years 1995-2009. The Government of Palau has delegated to the United States the responsibility for Palau's defense.

### **6.3 Current Economic Condition**

Palau's economy remains dependent to a large extent upon the government sector but shows a steady private sector growth. The major source of the Government of Palau's revenues continues to be the annual grants from U.S. Government agencies, Compact of Free Association allocated funds, and locally generated revenues. In fiscal year 1995, the Government of Palau reported a total revenue (actual expenditures) of \$75,695,000, consisting of \$16,447,000 granted by agencies of the U.S. Government (including the Office of Insular Affairs), \$38,357,000 in Compact funds and \$20,891,000 locally derived revenues.

technical assistance. In addition, the Government of Palau received direct Federal assistance grants from other U.S. Government agencies. Of these, the following were, in descending order, the largest amounts received from several federal agencies and actually expended in fiscal year 1995:

Department of Education — \$5,283,000; Department of Health and Human Services — \$2,306,000; Environmental Protection Agency — \$1,430,000; Department of Agriculture— \$1,245,000; other agencies — \$1,483,000.

Of the total \$38,357,000 Compact funds expended in fiscal year 1995, \$36,214,000 were spent on Government of Palau operations, while \$2,143,000 were spent on capital improvement projects.

The Government of Palau's fiscal year 1995 locally derived revenue of \$20,891,000 represents an increase of 14.3 percent over the \$18,283,000 collected as local revenue in fiscal year 1994. The four largest sources from which the major local revenues were derived and their corresponding amounts are as follows: Business Gross Revenue Tax — \$5,025,000; Utility Collections (water, sewer and electricity) \$4,069,000; Salary and Wages Tax — \$3,822,000; and General Impart Tax \$3,136,000. Although relatively much less than the sources shown above, revenues from sources such as airport fees and charges, foreign labor permits and fees, traveler's head tax and licenses and fees showed dramatic increases in fiscal year 1995 over fiscal year 1994. Increases in utility collections in fiscal year 1995 over fiscal year 1994 was 47.2 percent.

Growth in the overall economy is reflected in the increase of fiscal year 1995 total local revenue of \$20,891,000 compared to the fiscal year 1994 local revenue collections of \$18,283,000, an increase of 14.3 percent. Tourism and an accompanying hotel/apartment construction industry are expected to lead Palau's economic growth. In 1995, there were approximately 93 tourism-related business, which comprised 20 hotels and inns, providing 699 rooms; 27 restaurants, 11 of which were attached to hotels; 8 car rental companies and 38 tour companies, of which 16 were involved in diving tours. The

over the next decade. In 1995, Palau had 53,229 visitors, of whom 44,850 were tourists, a 21 percent increase in the number of visitors (28 percent increase in the number of tourists) over 1994. This increase in the number of visitors (tourists plus business-related visitors) caused a 15.5 percent increase in hotel occupancy tax in 1995 over 1994.

Visitor arrivals to Palau have been increasing at an average rate of about 13 percent per year from a base of 32,846 in 1990. In 1995 Japan accounted for 40 percent of the visitors; the Republic of China on Taiwan, 21 percent; the United States, 18 percent; Europe, 5 percent; all others, 16 percent. Tourist and business arrivals made up approximately 88 percent of the total visitor arrivals. The remaining 12 percent of the visitor arrivals came for employment and other purposes. Visitor arrivals in 1995 by country of origin were: Japan — 21,052; Taiwan — 11,163; the United States — 9,848; the Philippines — 3,199; Europe — 2,508; the Republic of Korea — 1,823; all others — 3,636.

The tourist/business visitor's length of stay varied from a short stay of only three nights to a long stay of nine nights. The daily expenditures per visitor have been estimated at a low of \$129 to a high of \$283.

Considering only tourism and business-related arrivals, the peak season for 1994 was the first quarter; however, in 1995 the peak season was the fourth quarter. On a monthly basis, February was the peak month. In a recent survey, close to 60 percent of the respondents indicated that their main purpose for coming to Palau was scuba diving.

sector employed approximately 1,000 individuals, of whom 54 percent were women.

A recent survey conducted by the Palau Visitors Authority, entitled *Tourism in Palau*, estimates that visitors to Palau during the

survey period (October 1994 to June 1995 with a sample size of 1170 seventy visitors) spent approximately 37 percent of their total expenditures while in Palau on accommodations. From fiscal year 1995 local revenue records that some \$826,000 were collected in hotel occupancy taxes. This amount represents ten percent of the total accommodation bill, which is calculated to be \$8,260,000. As the subject survey estimates, this accommodation bill represents 37 percent of the total amount spent by all visitors who came to Palau in fiscal year 1995. Therefore, it could be estimated that visitors to Palau in fiscal year 1995 spent a total of \$22,324,000 in the local economy.

Palau's work force in 1995 was made up of 7,611 employed persons (16 years and over). Approximately 65 percent (4,955 individuals) worked in the private sector as wage/salary employees and self-employed. The remaining 35 percent (2,656 individuals) worked for the government(s) and government organizations, including: Palau National Government — 1,765; 16 state governments — 496; and U.S. Government, other governments and semi-government organizations/agencies — 358.

The industries with the largest number of workers were: services — 2,487 (of whom 1,479 are Palauans, fisheries — 524 (of whom 131 are Palauan), and, retail/wholesale trades — 1,429 (613 Palauan). Of the total private sector work force of 4,189, Palauans accounted for 1,650 (39 percent) with non-Palauans 2,539 (61 percent). The Bureau of Program Budget and Management is developing a plan for performance based budgeting to be used throughout the national government. With the assistance of the Office of Insular Affairs-funded Pacific Island Training Initiative, under the direction of the U.S. Department of Agriculture Graduate School, the Government of Palau has received technical assistance in providing an orientation to the performance-based budgeting concept. Further training in this area through the Pacific Island Training

Palauans, mostly alien workers, making up the rest.

#### **6.4 Government Administration**

With the transition from the status of a TTPI district to free association, the Government of Palau has found it necessary to undertake an intense review of all regulations and administrative procedures. Many documents, including statutes, still contain outdated references to "the Trust Territory Government" and "the High Commissioner" and must be updated.

The Government of Palau has initiated several projects to improve financial management and administrative systems. Currently there are ten "collecting agencies" of the national government. The emphasis is on more timely deposits of revenues into the National Treasury, while at the same time formulating cash forecasting and planning strategies to better monitor and control bank balance levels. The Division of Finance and Accounting is redesigning the documentation flow between the three divisions of the National Treasury and implementing procedures to better serve all users of the Bureau. Property and Supply functions are being carefully reviewed to improve accounting for fixed assets, with a revised/updated Property and Supply Manual nearing completion, including procedures for computerization of fixed assets records.

Initiative is being explored for the coming year.

The national government has implemented an early retirement program allowing employees with a minimum of twenty-five years of service the option to retire regardless of age. Employees' taking early retirement will offer managers an opportunity to reevaluate their staffing requirements.

As a result of legislation transferring many functions of the National Civil Service Board to the Bureau of Public Service System, rules and regulations were developed and are in the process of being given public notice as required by the Administrative Procedures Act. With responsibility for performance evaluation and position classification now assigned to the Director of the Bureau of Public Service System, efforts are underway to develop a complete set of position classification standards to cover all occupations and classes of positions within the Public Service System. A system-wide reclassification effort is expected to result in recommendations for an improved pay scale tied to a merit-based performance evaluation system. At the same time, an employee handbook is being put together based on the new rules and regulations but apart from the more detailed Policies and Procedures Manual.

The Koror-Airai water system consists of: i) two twelve-inch diameter, 3.2 mile long raw water transmission pipelines from the Ngerikiil diversion dam pump station to the Ngerimel Dam; ii) a 16-inch and a 12-inch diameter, 1.10 mile long raw water gravity pipelines (current mode of operation is such that by valving arrangement at the Ngerimel dam, the two raw water mains from Ngerikiii pump station transmits raw water directly through the 1 6-inch diameter gravity main to the Airai water treatment plant) from the dam to the Airai water treatment plant; iii) Airai water treatment plant; iv) a 12-inch diameter, 4.9 mile long potable transmission main from the Airai treatment plant to the Ngermid and Topside tanks, each with a million gallon capacity; v) an 8-inch diameter, 4.3 mile long potable water main from the 12-inch main at Topside to the Arakabesang half-million gallon reservoir; vi) an 8-inch diameter, 1.5 mile long potable water main from the Airai water treatment plant to the Airai one million gallon reservoir; vii) a half-million gallon

## **6.5 Infrastructure**

### **Water System**

The Bureau of Public Works, within the Ministry of Resources and Development, is responsible for operations and maintenance of the Koror-Airai water system. The Koror-Airai water system serving Koror State — Palau's governmental, civic and commercial center of the country — and the neighboring state of Airai, derives its water sources from Ngerimel Dam, with a storage capacity of 20 million gallons, the Ngerikiil River diversion dam and a few deep water wells located in Airai, Koror and Arakebesang. The most important source is the Ngerikiil River with an average daily flow of 20 million gallons, although during the drought of 1983, the river flow was down to slightly more than 800,000 gallons per 24-hour day.

reservoir at Malakal Island; viii) over 20 miles of 6-inch, 8-inch and 12-inch diameter distribution mains throughout Koror and Airai states and five storage tanks with a 4 million gallon storage capacity. There are three deep wells in operation in Koror State, contributing an insignificant amount of water into the system.

The Koror-Airai water system serves a population of about 13,800 persons at present. There are over 2,000 connections, of which over 1,700 are metered. Unmetered customers are charged a flat rate of (\$17/month in Koror and \$5/month in Airai). The water charge for metered customers is 85 cents/1000 gallons. Practically all water consumers in Koror and Airai are now on 24-hour water service. A program of metering all unmetered customers and an aggressive leak detection program are urgently needed.

Due to the treatment process capability of the existing Airai water treatment plant being

limited only to filtration and chlorination of the raw water, the quality of the water produced does not meet U.S. Public Health Service standards for public water systems. The nature of the available water source is such that the raw water must first pass through a chemical pretreatment process prior to filtering and chlorination, in order to meet U.S. Public Health Service standards for maximum turbidity allowance in public water system.

In 1994, a U.S. Government grant was received for the design and construction of a chemical pretreatment facility at the Airai water treatment plant. Design of the facility is completed and the property to site subject facility has recently been acquired and the project has been advertised for bids. Construction contract award was scheduled to be let by June 1996.

Approximately 800 of the 3,500 people living outside the Koror-Airai water system's service area are without public water supplies. The people in such areas without public water supplies must rely on rainwater caught in 55-gallon drums for their water needs. The remaining 2,000 people use several small The Koror Sewer System is a public utility operated by the Palau Bureau of Public Works. The existing system is comprised of over 20 miles of gravity collector sewers, 7.5 miles of sewer force mains, 445 sewer manholes, 3 major pump stations, 35 lift stations and a sewage treatment plant with a designed capacity of 1.0 mgd.

Due to the topography of the service area, the majority of the gravity sewers are arranged in 34 "satellite" or regional collection areas which empty into their own individual sewage pump stations. These satellite pump stations and the three major pump stations pump the collected wastewater into the main sewer line which then conveys the wastewater to the Malakal Sewage Treatment Plant (STP) where it is treated and the effluent goes out through a

village water systems which serve fewer than 100 households each. All of these village systems have surface water sources or shallow wells as their water sources. The best of the surface water systems provide only basic filtration and chlorination of the raw water before being pumped into the distribution system.

There are several small public water systems located in the states on the island of Babeldaob. Four systems were built by Japanese private companies in the states of Melekeok, Ngarchelong (two systems), and Ngaremlengui and serve approximately 800 people. Seven other small water systems were constructed under a U.S. rural water system construction grant in the late 1980's and early 1990's. These small public water systems are located as follows: Aimeiiik (2), Ngatpang (1), Ngaraard (2), Peleliu (1), and Angaur (1). These seven water systems serve about 1,900 people. Five villages, with a combined population of 800 people received individual household rainwater catchment tanks which were constructed under this federal grant.

### **Sewer System**

sewage outfall leading from the plant into 60-foot deep water in the Malakal Harbor.

The Malakal STP was designed as a secondary wastewater treatment facility employing the trickling biofilter treatment process. A monitoring report on the Malakal STP in 1992 indicated consistently higher level of BOD and somewhat higher levels of turbidity in the immediate vicinity of the sewage outfall. This indicates that the Malakal STP is not operating as a secondary treatment plant. This was verified by a consultant firm in 1993.

Wastewater flows received at the Malakal STP during the first three months of 1993 averaged about 1.30 million gallons per day which represents 130 percent of the plant

design capacity. Flows received at the plant during prolonged periods of wet weather have already reached as high as 2.40 mgd. Wastewater flows are expected to continue to increase (a study conducted by a consultant firm indicates a potential average of 1.70 gpd by the year 2000) at the plant due to the continuing effort to connect new homes and other facilities to the system and taking into consideration further sewer collection system expansions presently planned.

To expand the treatment capacity of the Malakal STP, the U.S. Government in fiscal year 1994 granted funds for the expansion of the plant to double its present capacity. The design for expanding the plant is already completed; however, Koror State Government has intervened in the process for tendering the project for bid, arguing that the expansion of plant as designed is an inappropriate technology and is not a guarantee that the effluent from the plant will not have a detrimental impact on the environment. Koror State has not offered a concrete solution to the problem.

Although the wastewater system presently provides service to most of the hamlets in To alleviate the improper disposal of human waste in the rural areas, in fiscal year 1991 and fiscal year 1992, the U.S. Environmental Protection Agency again provided funds to implement a Rural Sanitation Program (RSP).

As a result of the fiscal year 1991 program, practically every household in Kayangel, Peleliu, Angaur, Hatohobei and Sonsorol was provided with a better designed latrine. The fiscal year 1992 program provided Airai residents with 125 septic tank/leaching field systems with 80 more systems installed during Phase 8 of the RSP. Practically all the households in Airai provided with septic tank/leaching field systems have installed western-style plumbing.

### **Solid Waste Disposal**

Koror State, additional satellite systems are needed to serve areas still unsewered. These unsewered areas are also presently experiencing rapid growth. New satellite sewer systems are needed for the hamlets of Echang, lower Ngermid, lower Ngerkesoal, Ngerias, Diberdii, Ngesaol, and the developing commercial areas at Malakal. Short extensions to existing satellite systems are also needed in several places throughout Koror State.

During the past year, water quality sampling by the Palau Environmental Quality Protection Board has shown coastal waters to be contaminated by raw sewage near several of these areas. To ensure that homes, commercial and public facilities are connected to the central sewer system, funds were made available in the early 1980's by the U.S. Environmental Protection Agency which enabled the House Sewer Connection Program to commence. This has been a very successful project. To date, some 1,700 homes, government facilities and commercial establishments have been connected to the sewer system. Unfortunately, funding for the program is no longer being made available.

The primary public dump site for solid waste for Koror and Airai states is on the access to M-Dock on the island of Koror. The site has reached its capacity, and the Government of Palau is contemplating expanding the landfill onto the existing mangrove area. The existing landfill has encroached into the inner harbor waters. Pollution in the harbor is inevitable due to deterioration of organic matter and hazardous waste in the landfill. Minimal amounts of cover material become available only when excess earth material is excavated from construction sites elsewhere and brought to the public dump to be disposed.

The Bureau of Public Works is responsible for operations and maintenance of the public

dump, while Koror State Government is responsible for collection of solid waste from individual households within Koror State. Household waste collection in Koror is often unscheduled, resulting in uncollected rubbish from households throughout the neighborhood. Currently, there is no fee charge for this service, although a local ordinance requires property owners to maintain their properties clear of rubbish. The landfill operations at the public dump do not meet accepted criteria for placement of waste, compaction, cover, drainage control and proper security fencing. A consultant has been recently hired to make a feasibility study for closing the public dump at M-Dock and opening a new public dump somewhere in Babeldaob Island.

The Malakal power plant has currently in operation a complement of one 2,500 kw ALCO, two 1,250 kw ALCO and one 1,400 kw CATERPILLAR sets with a combined rated generating capacity (name plate) of 6,400 kw. However, due to old age and poor condition of all these power generating units, Malakal power plant can only generate at best approximately 5,000 kw. Due to the fact that spare parts are most difficult to obtain and the high cost of mechanical and electrical repairs, three other generating units with a combined rated generating capacity of 3,000 kw are currently out of service. The Malakal power plant remains in poor condition and should be upgraded.

A peak load of over 1,500 kw has been reached as recently as March 1996. With the availability of a combined capacity of the two power plants of only 12,750 kw, including standby reserved capacity, it is highly likely that Palau may be rationing electric power later in 1996. PUC is presently attempting to procure additional self-contained power generating sets with funding from Palau National Congress.

## **Power Generation and Distribution**

Palau Public law No. 4-13 which was signed into law on February 16, 1994 and became effective on March 9, 1994, created the Palau Public Utility Corporation (PUC). PUC took over from the Bureau of Public Works, Ministry of Resources and Development, the operations and management of the Government owned electric power system.

There are two electric power generation sources, namely the Aimeiiik and Malakal power plants. The Aimeliik power plant has a rated capacity of 12.8 mw from four 3.2 Crossly/Bush generator sets manufactured in England. Installation of a fifth set remains to be completed.

The third and last phase of a \$12,000,000 multi-phase, multi-year grant aid assistance from the Government of Japan for upgrading the existing power system and expansion of transmission/distribution system to certain areas in Babeldaob island has recently been completed. The first phase of this project, which was completed back in February 1995, extended the 34.5 kilovolt and 13.8 kilovolt power lines originating from the Airai substation to the Malakal power plant and a 10 mva, 34.5 kv/13.8 kv step down substation at Malakal power plant. This installation has made it possible to operate the Aimeiiik and Malakal power plants in a synchronized manner in addition to making the system more reliable.

The second phase of the project, which was completed in November 1995, extended a 34.5 kv transmission line from the Nekken area of Aimeliik State to the Kokusai area of Ngatpang State where the voltage is stepped down through a 750 kva substation, and a 13.8 kv circuit is extended to Ngchesar and Melekeok States, thus electrifying both states on a 24-hour service basis.

The third phase of the project was most recently completed in March this year. The scope of this phase comprised extending the 34.5 kv electric power transmission line from the Kokusai substation northward to the Yamato area of Ngaremlengui State and appropriate stepdown substations at Ilobang and Yamato, thus enabling 13.8 kv distribution lines to Ilobang village in Ngatpang and the village of Imeyong in Ngaremiengui where the new line was connected to existing power system, thus enabling 24-hour electric power service to the rest of the state.

The Government of Palau is actively seeking grant aid assistance from the Government of Japan for extending the power grid further north and east to electrify the remaining four states in Babeldaob island presently still without 24-hour power service.

Under the supervision of the Department of the Interior, the U.S. Army Corps of Engineers established the cost of the original road at \$124 million. A final alignment of the road has been determined, with the Government of the Palau assigning priorities to the segments to be constructed first. Engineering firms have been selected for design while survey and environmental work has begun.

Practically all the roads, including causeways and streets in the Koror-Airai area, which were initially constructed during the Japanese regime in Palau are still in full use today after having been improved with funds from the U.S. Government through the Trust Territory Capital Improvement Program (CIP). This road improvement program, collectively called Palau Roads Project Phase I-IV was administered by the U.S. Navy's Officer-in-Charge of Construction COICC), and entailed the improvement of approximately 22 miles of asphalt paved primary roads and streets in Koror and Airai from 1974 to 1988. With U.S. CIP grant funds, a two-lane concrete box

## Roads

Land transportation in Palau will soon show major improvement with the construction of the Palau Compact Road project on Babeldaob. Included in the Compact of Free Association as United States assistance to Palau, the road was to be a 53 mile, 18 foot wide road with double bituminous surface treatment. The Government of Palau requested the United States to build a road to a higher quality standard. The United States Government, recognizing that a wider, higher quality road would last longer in Palau's tropical climate, agreed to Palau's request with the proviso that the improved road would cost no more than the original design, and would thus not reach the original 53 mile length.

girder type bridge spanning the Koror-Airai channel was constructed in 1976 connecting Babeldaob island with Koror island. This bridge is presently under repair, having deflected at midspan some 3.7 feet. The repair work is anticipated to be completed by August this year.

The Babeldaob north-south road (West Road) initially built by the Japanese is still in use in certain sections (from Airai to Ngaremlengui). The road will become the West Road, a component of the Compact road project.

Through their own initiative, the state governments of Melekeok, Ngiwal, Ngaremlengui and Ngarchelong constructed a combined total of 13.9 miles of asphalt concrete paved roads within their respective states from 1985 to 1988. These state governments individually contracted with Japanese private construction companies to construct certain segments of road within their respective state. The length of these roads and the respective states within which the roads were built are as follows: Melekeok —

2.5 miles; Ngiwal — 3.4 miles; Ngaremlengui — 3.0 miles; Ngarchelong — 5.0 miles of which approximately a 3-mile segment is surfaced only with crushed stones.

Through the combined efforts of the U.S. Military Civic Action Team, national government and state governments, a considerable number of miles of dirt roads have been constructed (pioneered) in practically all the 10 states in Babeldaob. At present, all but one of the 10 states in Babeldaob are accessible by land from Koror, although during the rainy season, accessibility could only be possible by 4-wheel drive type vehicles. As of April 1996, a contractor is working to repair the many potholes in the existing primary roads in Koror and Airai.

### **Seaport**

The main commercial port facility in Palau is located at Malakal Harbor on Malakal island. In 1995, over 280 commercial, fishing and other vessels called at Malakal commercial port delivering over 6,000 containers and other break bulk cargo totaling over 70,600 tons. Malakal commercial port is extremely congested and must be expanded.

The OMIP Team continues to recommend the creation of a Port Authority to operate and maintain the port and to resolve the dispute over the legal ownership of the port between the National Government and Koror State Government. Past docking facility developments in the states of Ngarchelong, Melekeok, Ngatpang and Angaur mainly for enhancing small scale fishery operations were made possible through grant aid assistance from the Government of Japan.

### **Airport**

The port is operated by a private company — Belau Transfer and Terminal Company — under a lease agreement with Koror State Government. The Seaport Branch of the Division of Transportation of the Bureau of Commercial Development, Ministry of Commerce and Trade, also has responsibility for the port. The wharfs are of pre-World War II Japanese construction. Its quay walls are apparently constructed of concrete blocks. Dimensions of the two faces of the dock currently utilized for cargo vessels are 528 feet by 500 feet. Because of land taken by a commercial fishing operation facility, all but approximately 80 feet of the entire north wharf is under the control of a commercial fishing company. At present, the 80-foot section of the north wharf is dedicated for the use of the Government of Palau's patrol boat. The depth alongside the quay wall varies from 26 feet to 29 feet.

The Palau International Airport, located in Airai State, has one runway which is 150 feet wide by 7,200 feet long. The runway is paved with asphaltic concrete. Although the runway surface was improved with an overlay of 1-inch thick asphaltic concrete over the original pavement a few years ago utilizing high quality aggregates from the Philippines, the entire runway surface needs to be improved. A 75-foot wide taxiway leads from the west-end of the runway to a 350 feet by 500 feet aircraft parking area adjacent to the passenger terminal building.

In fiscal year 1994, a U.S. Federal Aviation Administration (FAA) grant aid assistance was used for the design and construction of improvements to the taxiway and the two aircraft parking aprons. These improvements were completed late in 1995.

Due to the worsening condition of the concrete slab making up the floor of the second story of the existing passenger terminal building, temporary repairs have

been made by installing a false plywood ceiling to act as a buffer to falling pieces of concrete spalling from underneath second story concrete slab floor as well as fixing the leaking roof. In addition, the entire electric power distribution system within the terminal building was haphazardly installed and meets no recognized electric safety code. The system presents a significant hazard for both fire and electric shock.

Additional funds were granted by FAA in fiscal year 1994 for the design of a new terminal building to replace the existing one which has been declared to be structurally deficient through a professionally conducted evaluation study of the structural integrity of building, and therefore should be demolished.

In late 1995, a consulting firm was selected to design a new replacement terminal facility. Work on the design of the new terminal is underway; however, funding for the Renovation of public facilities continued from 1994 to 1995, especially in the area of school buildings. In new construction, the following facilities were completed in 1995: Koror jail; special education building; Airai Elementary School; two-story, B-classroom building at Palau High School; an indoor basketball court (new building built over an existing basketball court); and a public works building at Ngardmau State to be utilized as a repair facility for servicing/repair of heavy construction equipment.

The following facilities are presently under construction: Meyungs Elementary School kitchen/cafeteria building; Aimeiiik Elementary School remodeling; and, expansion of the existing Palau national hospital to provide more space for physical therapy and hemodialysis units.

What is needed is a complete inventory of all public facilities in each state. Each facility should be measured to determine its dimensions, type of structure described, age of

construction of said facility has not been secured.

An agreement has been reached between the Government of Palau and the private company which owns the existing terminal building that the Government will acquire the existing facility(s) for \$1,400,000. The inadequacy of the air transportation infrastructure in Palau is a major constraint to economic development that the Government of Palau is facing today. Without an airport runway with an appropriate length to enable wide bodied aircraft normally used in international flights to enable direct services between Palau and such country as Japan, the tourism industry in Palau will remain poorly developed.

### **Public Buildings**

structure and condition of the building noted, historical construction and maintenance cost noted, schedule routine maintenance actions necessary and budget estimated for such actions recommended.



<b>Chart 6. Recent OIA Grants to Palau (FY 1993 to 1996)</b>		
<b>Year</b>	<b>Purpose</b>	<b>Amount</b>
	<b>Capital Improvements</b>	
1995	Sewer Expansion	\$2,000,000
1994	Bridge Repair	\$1,000,000
1994	Water Treatment	\$3,000,000
1993	Power Improvements	\$1,452,547
1993	School Rehabilitation	\$384,702
1993	Water and Sewer	\$1,983,000
	<b>Disaster Assistance</b>	
1995	Electrical Hardening	\$688,000
	<b>Maintenance Assistance</b> (from start of program, 1991)	
1995	O&M Coordinator NROP	\$40,000
1995	Solid Waste Mgmt. Prog.	\$59,838
1995	ROP College-Voc. Ed.	\$96,000
1995	PUC o&M	\$600,000
1994	Hospital Engineer-Extension	\$58,200
1992	Deletes Hospital Engineer	\$45,000
1992	Hospital Maint. Engineer (Mercy Inter. Health Serv.)	\$116,379
1991	Health Dispensaries O&M	\$64,350
1991	Ministry of Health O&M	\$83,900
1991	Malakal Power Plant O&M	\$60,000
1991	Aimeliik Power Plant O&M and PUC Start-up/Water O&M	\$396,000
1990	MOA with FAA for maintenance/training of NAV aids at Palau airport & upgrade assessment	\$160,000
1994	Marshalls Energy Co. Assit. to ROP PUC (Billy Roberts)	
	(a) Facilities Inv.	\$5,000
	(b) PUC Start-up	\$15,000
1993	Travel Reimbursement for OEK & NROP representatives to attend PPA conference in Rarotonga to Assess PUC benefits	\$10,000
	<b>General Technical Assistance</b>	
1995	Economic Plan	\$100,000
1995	Statistical Program Travel Per diem	\$22,500
1995	FY 94/95 PIRAAP Block Grant	\$194,000
1994	1994 Agricultural Census	\$25,142
1994	1994 Agricultural Census	\$7,200
1994	Statistical Training Workshop-94	\$4,500

Table 6-1. Local Revenues and COFA Funds Revenues, Republic of Palau: 1994 and 1995 [Amounts in thousands]		
Revenues	1995	1994
<b>LOCALLY COLLECTED REVENUES</b>		
Total	20,891	18,283
Percent change	14.3	...
General Import Tax	3,136	2,925
Salary and Wages Tax	3,822	3,556
Business Gross Revenues Tax	5,025	5,006
Hotel Occupancy Tax	826	715
Traveler's Head Tax	636	461
Fishing Rights Fees	207	198
Licenses and Fees	439	334
Postal Revenue	490	416
Court Fines and Fees	92	114
Foreign Labor Permits and Fees	652	466
Utilities Collection	4,069	2,765
Hospital Services	413	338
Airport Fees and Charges	351	112
Other	733	877
<b>COFA FUNDS REVENUES</b>		
Total	38,357	0
COFA Funds (Operations)	36,214	0
COFA Funds (CIP)	2,143	0
Note: COFA is Compact of Free Association. Source: Republic of Palau Government, Bureau of Program, Budget & Management.		

Table 6-2. Basic Operational Expenditures by Selected Categories, Republic of Palau: 1990 to 1995 [Amounts in thousands]						
Agency	1995	1994	1993	1992	1991	1990
Total	53,910	37,138	34,084	29,940	28,003	27,152
Health & Human Services	5,332	4,303	3,984	3,315	2,759	2,842
Education	7,605	6,531	4,161	3,989	3,515	2,892
Public Safety	2,091	1,940	1,595	1,179	934	866
Public Works	4,057	6,487	6,795	6,494	7,348	6,367
General Government	29,760	13,159	13,439	10,988	10,034	10,579
Judiciary	1,644	1,444	1,393	1,305	1,148	1,016
Legislature	3,421	3,274	2,717	2,670	2,265	2,590
<b>PERCENTS</b>						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Health & Human Services	9.9	11.6	11.7	11.1	9.9	10.5
Education	14.1	17.6	12.2	13.3	12.6	10.7
Public Safety	3.9	5.2	4.7	3.9	3.3	3.2

Public Works	7.5	17.5	19.9	21.7	26.2	23.4
General Government	55.2	35.4	39.4	36.7	35.8	39.0
Judiciary	3.0	3.9	4.1	4.4	4.1	3.7
Legislature	6.3	8.8	8.0	8.9	8.1	9.5

Source: Republic of Palau Government, Bureau of Program, Budget & Management.

Table 6-3. Employment by Industry, Republic of Palau: 1994 to 1995

Industry	1995	Percent of workforce	1994	Percent of workforce
Total	10,686	...	6,118	...
Non-subsistence agriculture	1,896	17.7	250	4.1
Construction and mining	7	0.1	984	16.1
Manufacturing	73	0.7	329	5.4
Transportation	490	4.6	260	4.2
Wholesale/retail	845	7.9	436	7.1
Tourism service	1,005	9.4	155	2.5
Finance, insurance, real estate	648	6.1	84	1.4
Services	3,092	28.9	1,566	25.6
Government	2,630	24.6	2,054	33.6

Source: Office of Planning and Statistics.

## Chapter 7. The Federated States of Micronesia

### 7.1 The Federated States of Micronesia

The Federated States of Micronesia (FSM) is a group of 607 small islands in the Western Pacific about 2,500 miles southwest of Hawaii, lying just above the Equator. Generally speaking, FSM comprises what is known as the Caroline Islands. While the country's total land area amounts to only 270.8 square miles, it occupies more than one million square miles of the Pacific ocean, and ranges 1,700 miles from East (Kosrae) to West (Yap). Each of the four States centers around one or more "high islands," and all but Kosrae include numerous atolls.

Chuuk State has a total land area of 49.2 square miles and includes seven major island groups. Pohnpei State has 133.4 square miles of land area, of which 130 is accounted for by Pohnpei island, the largest in FSM. Yap State is made up of 4 large islands, 7 small islands and 134 atolls, with a total land area of 45.6 square miles. Kosrae is essentially one high island of 42.3 square miles.

FSM enjoys a tropical climate, with relatively even, warm temperatures throughout the year. By most recent estimates, the total population of FSM stands at about 105,500, an increase of some 30,000 since the last census in 1980. The State of Chuuk accounts for roughly half the total, at about 50,500; Pohnpei is next at about 35,000. The State of Yap has about 12,000 people, and Kosrae has a population of about 7,500. Since the Compact of Free Association permits FSM citizens to enter the U.S. freely, to maintain "habitual residence" and to pursue education and employment, upwards of 15,000 Micronesians are currently living in U.S.: 7,000 in Guam, 3,000 in CNMI, and the rest in Hawaii or on the

Rainfall is generally plentiful, and Pohnpei reputedly is one of the wettest places on Earth, with up to 330 inches of rain per year. Nevertheless, drought conditions *do* occur periodically throughout FSM, especially when the El Nino condition moves into the Western Pacific. At these times groundwater supplies have dwindled to emergency proportions. Tropical typhoons constitute an annual threat, particularly to the low-lying atolls.

As far as is currently known, the small land areas of FSM possess no significant exploitable natural resources. Historically, copra was an export, but the more recent decline in copra prices has all but wiped out that industry. The resources of the sea, however, are another story — FSM claims well over a million square miles of exclusive economic zone, and that zone straddles the World's richest tuna fishing grounds. In years to come, the development of deep seabed mining techniques also may offer a significant source of income for the Nation.

### 7.2 Population

Mainland. The number who actually emigrate to the U.S., however, remains relatively low as most FSM citizens eventually return to FSM. At least eight major indigenous languages are spoken, as well as many dialects, throughout FSM. The common language of commerce and government is English.

The general ethnic character of the people is Micronesian, with a small number of Polynesian. The influence of European and Japanese contacts is also seen. It can be said that each of the four States exhibits its own

distinct culture and tradition, but there are also common cultural and economic bonds that are centuries old.

### **7.3 History**

In 1525, Portuguese navigators in search of the Spice Islands (Indonesia) came upon Yap and Ulithi. Spanish expeditions later made the first European contact with the rest of the Caroline Islands. Spain claimed sovereignty over the Caroline Islands until 1899. At that time, Spain withdrew from its Pacific insular areas and sold its interests to Germany, except for Guam which became a U.S. insular area.

The German administration encouraged the development of trade and production of copra.

In 1914, the German administration ended when the Japanese navy took military possession of the Marshall, Caroline and Northern Mariana Islands.

Japan began its formal administration under a League of Nations mandate in 1920. During this period, extensive settlement resulted in a Japanese population of over 100,000 throughout Micronesia. The indigenous population was then about 40,000. Sugar cane, mining, fishing and tropical agriculture became the major industries.

The United Nations created the Trust Territory of the Pacific Islands (TTPI) in 1947. Ponape (then including Kusaie), Truk, Yap, Palau, the Marshall Islands and the Northern Mariana Islands, together Upon implementation of the FSM Constitution on May 10, 1979, the former Districts became States of the Federation, and in due course adopted their own State constitutions. Nationwide democratic elections were held to elect officials of the National and four State governments. The Honorable Tosiwo Nakayama, the former President of the Congress of Micronesia, became the first President of the FSM and

constituted the TTPI. The United States accepted the role of Trustee of this, the only United Nations Trusteeship to be designated as a "Security Trusteeship," whose ultimate disposition was to be determined by the UN Security Council.

The President of the United States appointed a High Commissioner of the TTPI, and he, in turn, appointed an administrator for each of the "Districts" mentioned above. The TTPI remained under the civil administration of the U.S. Navy Department until 1962, when authority passed to the Department of the Interior. In 1979, upon implementation of the FSM Constitution, the U.S. recognized the establishment of the FSM national and state governments.

### **7.4 Political status**

On July 12, 1978, following a Constitutional Convention, the people of four of the former Districts of the Trust Territory: Truk (now Chuuk), Yap, Ponape (now Pohnpei) and Kusaie (now Kosrae) voted in a referendum to form a Federation under the Constitution of the Federated States of Micronesia (FSM). United Nations observers certified this referendum as a legitimate act of self-determination. Thereby, the people reasserted their inherent sovereignty which had remained dormant, but intact, throughout the years of stewardship by the League of Nations and the United Nations.

formed his Cabinet. The new Congress of the FSM convened, elected the Honorable Bethwel Henry as Speaker, and began to enact laws for the new Nation. A judicial system was established pursuant to the National and State constitutions. Thereupon, the United States entered upon a period (1979-86) of orderly transfer of governmental functions consistent with the terms and intent of the UN Trusteeship Agreement.

Meanwhile, negotiations conducted with the United States since 1968 on a post-trusteeship relationship continued. A treaty between the two sovereign nations, known as the Compact of Free Association, was signed on October 1, 1982. Thereafter, following a complex period of negotiating, related agreements and the completion of constitutional processes of ratification, the Compact entered into force on November 3, 1986. U.S. Public Law 99-239, January 14, 1986, contains the text of the Compact and related provisions of U.S. law enacted at that time.

The Compact is an innovative adaptation of the status known in international law as, "free association." In previous instances, a sovereign metropolitan power had devolved limited sovereignty upon a non-sovereign entity (typically a colony) existing within its body, reserving to itself whatever governmental functions or attributes, such as citizenship, might be appropriate in the circumstances. The instrument of devolution, necessarily, had been a unilateral act of the metropolitan power, and its terms operated to transfer to the receiving party only such governmental powers as the sovereign power chose to convey. Such instrument thus became organic to the birth of limited self-government in the freely associated entity.

In the case of the FSM, however, the inherent sovereignty of the people and their constitutional government had never been owned by a metropolitan power. The U.S., in accepting the Trusteeship, expressly foreswore any assumption of sovereignty over The FSM Constitution, like that of the U.S., provides for three separate branches of government at the national level — Executive, Legislative and Judicial. It contains a Declaration of Rights similar to the U.S. Bill of Rights, specifying basic standards of human rights consistent with international norms. It also contains a provision protecting traditional rights. Unlike the US system,

the islands. The FSM Constitution is the only document organic to the Nation's sovereign existence.

The FSM Constitution provides, in Article IX, Section 4, for a process by which the delegation of major governmental powers can be accomplished. This process was carefully followed and completed after the nationwide referendum on the Compact in June 1983. Thus, the responsibility for defense and security accepted by the United States under the terms of the Compact is delegated to the United States under the FSM Constitution, and is not reserved by the United States in his own right, but by means of the bilateral Compact, signed by the United States and the Federated States of Micronesia. This crucial distinction undermines the FSM's existence today as a sovereign State within the international community. It is on this basis that the FSM obtained full diplomatic relations with the United States in 1989, and secured membership in the United Nations in September 1991.

The encouragement by the U.S. Government to the people of the FSM throughout the lengthy and complex process outlined above is consistent with the ongoing worldwide commitment of the U.S. to fostering democratic ideals, and provides the foundation for what promises to be a lasting bond between the two countries.

## **7.5 Government**

however, most major governmental functions other than the conduct of foreign affairs and defense are carried out by the State governments. The ownership of land in FSM by non-citizens is constitutionally prohibited.

The Congress of the FSM is unicameral with fourteen senators, one from each state elected for a four-year term, and ten who serve two-

year terms, whose seats are apportioned by population. currently, Chuuk has six seats, Pohnpei four and two each are held by Yap and Kosrae. The President and Vice President are elected to four-year terms by the Congress, from among the four-year Senators, and the vacant seats are then filled in special elections. Currently, the Honorable Bailey Olter (of Pohnpei) is President of the FSM; the Honorable Jacob Nena (of Kosrae) is Vice President; the Honorable Jack Fritz (of Chuuk) is Speaker of the FSM Congress,

The Judicial Branch of the National Government is headed by the FSM Supreme Court, currently comprised of three Justices who sit in trial and appellate Divisions. At this time there are no other National courts. Justices are nominated by the President for a lifetime appointment and confirmed by the Congress. The Honorable Andon Amaraich (of Chuuk) is Chief Justice of the FSM Supreme Court.

The State governments under their Constitutions are structurally similar, all utilizing three branches, Executive, Legislative and Judicial. Their makeups vary according to their different circumstances. Currently the Honorable Sasao Gouland is Governor of the State of Chuuk; the Honorable Del Pangalinen is Governor of the By that time, two irreversible trends had been established: 1) islanders, particularly young islanders, had been introduced to Western lifestyles and the Western imperative of "development", and 2) the need for money to support the maintenance of this process had been instilled, at the cost of traditional values and approaches. This is not a lamentable outcome, but simply a modern reality. If for no other reason, the advent of modern communications and transportation has rendered impossible any thought of returning to "the good old days," and irrelevant any musing over the islands readiness to pursue

State of Pohnpei; the Honorable Vincent Figir is Governor of the State of Yap; and, the Honorable Moses Mackwelung is Governor of the state of Kosrae.

## **7.6 The Economy**

For centuries, the people of the Micronesian islands provided very well for themselves through a subsistence economy. Even today, the traditional skills provide an important backstop as the Nation struggles to cope with the emergence of a money economy, and the demands of an increasing population no longer existing in isolation from the rest of the World.

From about 1962, the U.S., as UN Trustee, began to institute a program of developing a political and physical infrastructure to move the islands in the direction of eventual self-sufficiency in the context of the world at large. By 1986 a great deal had been accomplished in development of public utilities, construction of roads, schools, hospitals, communications, transportation, etc., but locally-generated revenue was still insignificant. The emerging economy was firmly dependent upon US aid.

development along with their neighbors in the region.

The Compact of Free Association was seen by both FSM and the U.S. as a vehicle to secure a responsible level of assistance, financial and otherwise, that would enable the continuation of FSM's progress economically, ensure the solidification of stable democratic government and provide for the maintenance of essential U.S. security interests in the Region,

At this writing, ten years into the Compact relationship, it can be said that the Compact is serving its purpose very well. Much has been

accomplished since 1986. A visitor to FSM today who last saw it in 1986 cannot help but be impressed with the improved transportation services and facilities, one of the best local and international communications systems in the Pacific, reliable power and water in most locations, paved roads, better housing, better schools and hospitals, new hotels and restaurants, well-stocked stores, the showcase new National Capitol facilities and the new College campus, to name only a few.

The complex system of transmitting and monitoring Compact funds has been carefully managed by the U.S. Department of the Interior. The Department of State has coordinated the Compact-related activities of a number of Executive agencies through the Inter-Agency Group, and has encouraged and supported FSM's efforts to establish its role within the international community. The Interior-related committees and subcommittees in the U.S. Congress have made possible many advances through support of programs and projects related to, but not specifically within the terms of the Compact.

While private sector development remains the obvious priority, some important On November 3, 1996, the FSM enters the last five-year cycle of the Compact's package of financial assistance. Levels of grant funding, which started out in 1986 at \$60 million and dropped in 1991 to \$51 million, will decrease to \$40 million annually through 2001. The overall U.S. assistance, however, includes a number of federal programs and technical assistance which, currently, adds a value of approximately \$50 million annually to the package. Locally-generated revenues in FSM have shown an increase each year since FY 1993, when they stood at \$56.5 million. Other foreign country donors, such as Japan, China and Australia, have initiated assistance programs which are specifically targeted and not insignificant, but their scale is, and is likely to remain, minor by comparison to the United States.

accomplishments should not be overlooked. Within the last ten years, 22 private, FSM-owned construction companies have come into being, employing mostly local labor. This accounts for the fact that 50% of all housing in FSM has been constructed in the last ten years, of typhoon-proof materials. All road maintenance in FSM is now performed by private FSM companies. The privatized telecommunications corporation is one of the showcase operations in the Pacific. The Pohnpei Public Utilities Corporation, with the assistance of DOI Maintenance Assistance funding, has brought reliable power and water to Pohnpei, and has eliminated all public subsidies. There are 17 auto repair companies, 3 air conditioning and refrigeration companies, 6 concrete products companies and numerous other private ventures creating local employment.

Of course, this is not to say that all is well. Export earnings, among other things, must be increased, and it is not an easy task. Remote, resource-poor small-island countries present unique challenges in development which make it a slow process.

Seeing that a variety of obstacles were hindering the pace of development, and that dependence on U.S. aid was not diminishing at the rate desired, the United States in 1993 initiated a process through the Asian Development Bank to analyze the FSM's situation and assist in designing and implementing effective economic strategies. As things then stood, a sudden cutoff of Compact assistance in 2002 would produce an overnight drop in per-capita gross domestic product from about \$1445 to around \$300. Obviously, something had to be done.

The Compact mandates that at least 40% of grant funds must be expended in the capital account. The ADB finds that this requirement has been met thus far by FSM, resulting in the

completion of many essential infrastructure projects. The problem lies in the slow pace of economically productive growth in the private sector, and the large government payrolls. This has resulted in a relatively comfortable living environment where most economic activity is in infrastructure development, services and sales of consumer goods, all largely dependent on continued outside financial assistance. In this light, it can be seen that private sector development in and of itself is not the complete answer.

In November 1995, with ADB's assistance, FSM convened a large meeting in Pohnpei of State and National government representatives, as well as businessmen from throughout the country. This "Economic Summit" identified a set of goals and objectives for a range of sectors within FSM, such as Commerce and Trade, Agriculture and Tourism. It was also agreed that National and State governments should be downsized on a priority basis.

Subsequently, Pohnpei, Yap and Kosrae have completed follow-up State "Summits" to translate the national Summit mandates into implementing actions at the State level. A similar Chuuk Summit is to be held soon. These implementing actions will occupy the Tourism has seen significant increases in recent years. A number of new, small hotels have opened in Pohnpei, Yap and Kosrae with support facilities for diving and other tourist activities. At this time, the challenge in terms of larger-scale investment is to overcome limitations of air transportation, land use issues and competition with other island destinations closer to tourist markets.

Recently, a good deal of attention has focused on the State of Chuuk, which is lagging behind in some areas of finance and development. The ADB has found, however, that reports of Chuuk's financial situation reflect a degree of misunderstanding.

close attention of governments at all levels in the FSM for some years to come. It is worth noting that Yap State already has instituted a program to reduce government employment by 371, and Pohnpei State is moving toward a similar action.

The sectors which seem to offer the most potential for near-term income generation are Fisheries and Tourism. Agriculture has some potential, particularly for intra-FSM trade, but the small land area limits large-scale farming for export.

FSM has, for some years, earned \$18 to \$24 million annually in licensing fees paid by foreign vessels for tuna fishing in FSM's Exclusive Economic Zone. More recently, additional earnings have begun to grow as FSM's Fishing Corporation and the Yap Fishing Corporation have initiated their own fishing operations together with onshore processing. Direct exports of sashimi-grade fresh tuna by air to Japan account for increasing traffic at the airports. Farming of giant clams and other marine products has been instituted. Various plans to establish canneries have been discussed, and will be pressed. The outlook for this industry overall is strong.

Sufficient funds remain on deposit there to substantially address Chuuk's problems, and efforts are being brought to bear at the National and State levels to move the situation forward.

The ADB effort also includes coordinating an overall donor program through the mechanism of a Consultative Group of donor countries, including the U.S., through the Office of Insular Affairs of the Interior Department, which is currently conducting a series of meetings. In this group, FSM has called attention initially to the need for donor support in the downsizing-of-government effort.

## 7.7 Education and Health

As Trustee, the U.S. placed early emphasis on basic education for FSM children. The Peace Corps provided an early cadre of teachers, which has been augmented increasingly in recent years by qualified Micronesians. Today, as one indicator, the literacy rate in FSM is quite high. By law, all FSM children are required to attend school through the eighth grade. Although the majority of children attend public schools, private educational facilities, such as the Pohnpei Agricultural and Trade School (PATS) and Xavier High School in Chuuk, are important elements of the overall picture.

In the post-secondary area, FSM students have been supported at the College of Micronesia, the University of Guam and other U.S. colleges through Pell grants and other U.S. education programs. Almost all current government leaders in the FSM are graduates of U.S. colleges. The College of Micronesia in Pohnpei is now opening a new campus constructed with U.S. assistance, and is the beneficiary of Land Grant status through the U.S. Department of Agriculture.

There is every reason to believe that the long-term close relationship with the U.S. envisioned in the Compact will be maintained.

In the first ten years, the commonality of interests between the two countries that gave birth to this relationship has been confirmed in practice, and should grow stronger still as FSM overcomes obstacles through measures such as those discussed above. There are no quick and easy answers to the problems of development in this remote region of the World, but the U.S. has earned a deserved place in the Region as a primary sponsor of democracy and stability. Through this sponsorship the people of the FSM maintain faith in the eventual attainment of their ability

Currently, special attention is being directed to the most effective design of curricula at all levels to address particular needs of FSM in the coming years. An Interior Department funded study by the University of Ohio has been valuable in identifying areas of inappropriate emphasis, and suggesting alternative strategies.

FSM citizens enjoy a level of health care which is high in comparison to the rest of the Pacific Region. The U.S. Public Health Service provides doctors at the four State hospitals, and Micronesians are taking their place in the system through such programs as the Medical Officer Training Program in Pohnpei. Certain emergency cases are referred to hospitals in Guam and Hawaii.

Volunteer groups of physicians in the United States visit on a regular basis to perform specialized services in such areas as reconstructive surgery. Mrs. John McCain, wife of the Senior Senator from Arizona, has been tireless in organizing teams of specialists whose visits have been extremely important and beneficial.

## 7.8 Outlook

to provide for themselves and future generations.



<b>Chart 7. Recent OIA Grants to the Federated States of Micronesia (FY 1993 to 1996)</b>		
<b>Year</b>	<b>Purpose</b>	<b>Amount</b>
	<b>Operations</b>	
1995	Single Audit	\$630,000
1994	Single Audit	\$619,000
1993	Single Audit	\$412,000
	<b>Disaster Assistance</b>	
1995	Pohnpei Electrical Hardening	\$1,100,000
	<b>Maintenance Assistance (from start of program, 1991)</b>	
1995	College of Micronesia - Voc. Ed.	\$112,500
1995	Kosrae Util. Auth. - Yr. 2	\$441,000
1995	Financial Mgmt. Improv. Prog.	\$135,000
1995	Solid Waste Mgmt. Prog.	\$50,000
1995	Road Maint. Mgmt. Prog.	\$130,000
1995	PUC Benchmark Analysis	\$71,000
1995	PUC Power O&M - Yr. 3	\$370,000
1995	PUC Water, Sewer, and Solid Waste O&M - Yr. 3	\$665,000
1995	Financial Mgmt. Improv. Prog.	\$108,500
1995	Hospital O&M - Yr. 2	\$105,000
1995	Seaport/Airport O&M - Yr. 1	\$190,500
1995	Transportation Auth. - Yr. 1	\$450,000
1995	Financial Mgmt. Impro. Prog.	\$70,000
1995	Construct. Mgmt./Prop. Maint.	\$85,000
1994	Kosrae CADD, Police Station/Jail	\$25,000
1994	Yap Multiple O&M Proj.	\$559,931
1994	Kosrae DPW - Yr. 2	\$314,000
1994	PUC Start-up - Yr. 2	\$273,468
1993	PUC Incorp. Water/Sewer - Yr. 1	\$810,000
1993	Kosrae School O&M	\$125,000
1993	Voc. Education Specialist	\$25,000
1991	Kosrae Hospital O&M	\$20,000
1991	Pohnpei Hospital O&M - Yr. 1	\$140,420
1991	KUA Recruitment/Staffing	\$101,500
1991	DPU Reorgan., KUA Start-up, & School O&M	\$506,000
1991	PUC Start-up - Yr. 1	\$430,250
1991	PUC, Education, Roads, Health O&M Projects	\$630,000
	<b>General Technical Assistance</b>	
1995	Vital Statistics Workshop	\$12,269
1995	Yap State Historical Preservation Plan	\$13,000
1995	U.S./FSM Economic Consultation	\$20,000
1994	Multi-Agency Anti-Fraud Project	\$140,557
1994	Medical Epidemiology Training	\$13,232
1994	Tourism Consultant	\$85,596

Place	Population	Percent Population	Median age years	Percent Population (0-14 yrs)	Percent Population (15-64 yrs)
Total FSM	105,506	100.0	18.1	42.7	54.0
Chuuk	53,319	50.5	17.5	44.2	52.6
Kosrae	7,317	7.0	18.9	41.3	55.5
Pohnpei	33,692	31.9	18.3	41.7	55.0
Yap	11,178	10.6	19.7	39.3	56.4

	1995	1994	1993	1992	1991	1990
Compensation of employees						
Wages and salaries	106.9	100.4	94.2	79.5	77.7	73.0
Public	60.4	58.5	57.8	53.3	52.2	48.8
Private	46.5	41.9	36.4	26.2	25.5	24.2
Social Security, employer's contribution	5.5	4.0	2.7	2.5	2.2	1.6
Operating surplus	46.4	44.5	43.4	40.9	37.2	31.7
Non-market production	45.4	44.8	42.7	42.7	42.7	42.7
GDP at factor cost	204.3	193.7	183.0	165.6	159.8	149.0
Net indirect taxes	11.5	11.8	12.0	6.5	8.2	5.7
GDP at market prices	215.8	205.5	195.0	174.1	168.0	154.7
FSM Deflator (1995=100)	100.0	96.2	92.5	87.3	83.1	79.9
FSM Inflation Rate	4.0%	4.0%	6.0%	5.0%	3.9%	3.5%
Real GDP (Base = 1995)	215.8	213.7	210.9	199.5	202.2	193.5
Real GDP Growth Rate	1.0%	1.3%	5.7%	-1.3%	4.5%	-3.9%
Population	105,988	104,724	103,475	102,490	101,505	100,520
Population Growth Rate	1.2%	1.2%	1.0%	1.0%	1.0%	1.9%
Real GDP per capita (1995 U.S.\$)	\$2,036	\$2,041	\$2,038	\$1,947	\$1,992	\$1,925
Real GDP per cap Growth Rate	-0.2%	0.1%	4.7%	-2.3%	3.5%	-5.6%
(In Percent of GDP)						
Public Employee Compensation	28.0%	28.5%	29.6%	30.6%	31.1%	31.5%
Private Employee Compensation	21.5%	20.4%	18.7%	15.0%	15.2%	15.6%
Operating surplus	21.5%	21.7%	22.3%	23.5%	22.1%	20.5%
Non-market production	21.1%	21.8%	21.9%	24.5%	25.4%	27.6%

Note: 1995 are estimates.  
Source: FSM Department of Finance IMF and FMPAT Staff estimates.

Table 7-3. Trade Statistics, FSM: 1990 to 1995 [Millions of dollars]						
Characteristic	1995	1994	1993	1992	1991	1990
Exports, f.o.b.	30	29	28	21	11	5
Imports, f.o.b.	138	141	137	123	122	108
Merchandise trade balance (f.o.b.)	-108	-112	-110	-103	-112	-103
Ratio (imports/exports, f.o.b.)	5	5	5	6	11	23
Exports, goods and non-factor services	64	62	58	44	34	27
Imports, goods and non-factor services	183	187	182	163	161	141
Balance on goods and non-factor services	-119	-125	-125	-120	-127	-115
Ratio (goods and non-factor services)	3	3	3	4	5	5
Memorandum items:						
Exports, f.o.b. as % of GDP	13.9%	14.2%	14.2%	11.8%	6.4%	3.0%
Imports, f.o.b. as % of GDP	64.0%	68.7%	70.4%	70.9%	72.9%	69.6%
Merchandise trade balance as % of GDP	50.1%	54.5%	56.2%	59.0%	66.4%	66.6%
Exports, goods & n-f services as % of GDP	29.8%	30.3%	29.5%	25.2%	20.2%	17.2%
Imports, goods & n-f services as % of GDP	85.0%	91.1%	93.4%	93.9%	95.6%	91.3%
Balance as % of GDP	55.2%	60.8%	63.9%	68.7%	74.4%	74.1%
Note: 1995 are estimates. Source: Office of Planning and Statistics, Trade Bulletin, various years and EMPAT estimates.						

Table 7-4. Destination of Exports, FSM: 1989 to 1993					
Destination	1993	1992	1991	1990	1989
(Percent of total)					
Total	100.0	100.0	100.0	100.0	100.0
United States	22.8	18.8	10.6	28.7	72.0
Guam	12.6	8.3	7.7	18.4	50.2
Saipan	0.9	1.1	1.8	8.1	6.6

Hawaii	0.9	0.5	1.1	2.1	3.6
Mainland	8.3	8.9	0.0	0.2	11.5
Japan	76.7	80.0	88.1	69.6	25.6
Marshall Islands	0.2	0.2	0.4	0.5	1.6
Other*	0.3	1.0	0.9	1.1	0.9

Note: \* Other destinations include Palau, Korea, Singapore, Australia, Italy  
 Source: Office of Planning and Statistics, Trade Bulletin, various issues.

Table 7-5. Imports by Country of Origin, FSM: 1989 to 1993

Country of Origin	1993	1992	1991	1990	1989
(Percent of total)					
Total	100.0	100.0	100.0	100.0	100.0
United States	63.8	69.5	70.2	72.1	65.0
Guam	22.7	29.2	29.7	33.5	27.6
Hawaii	1.7	1.8	1.7	2.3	2.0
Mainland	39.4	38.5	38.8	36.4	35.5
Japan	20.5	20.5	19.3	19.7	23.5
Australia	5.0	3.2	3.7	2.6	3.0
Other	10.7	6.8	6.8	5.6	8.5

Note: Data reflect last port of departure for imports to the FSM; "Other" includes New Zealand, Taiwan, Hong Kong, U.K., Philippines, Saipan, Palau, Fiji, Marshall Islands, India, China, Singapore, Sri Lanka, Malaysia, Tahiti, Netherlands, Indonesia, and Italy.  
 Source: Office of Planning and Statistics, Trade Bulletin, various issues.

Table 7-6. Distribution of Labor Force by Occupation, FSM: 1990

Occupation	FSM	Chuuk	Kosrae	Pohnpei	Yap
Total	100	100	100	100	100
Agriculturists and fishermen	47	48	21	49	54
Technicians	14	11	28	13	18
Sales, services and clerks	13	13	23	13	11
Crafts and operators	13	13	19	12	9
Elementary	9	12	3	7	5
Managers and professionals	4	3	6	6	3

Table 7-7. Banking Survey, FSM: 1990 to 1994  
 [End-of-year, in U.S. \$ 000s]

Characteristic	1994	1993	1992	1991	1990
Assets*	126,251	129,130	121,002	106,175	92,034
Cash	7,424	8,037	8,488	7,621	4,267
Claims on bank board	60,173	62,347	64,834	59,383	57,168

Loans	57,942	58,118	47,027	38,028	29,373
Consumer	37,241	38,362	29,413	25,335	17,865
Commercial	20,701	19,756	17,614	12,693	11,508
Fixed assets	515	379	625	430	385
Other assets	961	1,009	623	713	842
Liabilities*	126,251	129,130	121,002	106,175	92,034
Deposits	113,563	116,662	111,753	99,852	85,614
Demand	24,793	20,968	22,188	20,582	25,044
Savings	40,442	52,621	44,739	35,757	19,740
Time	48,328	43,073	44,826	43,513	40,830
Other**	1,223	2,415	1,054	1,641	1,926
Shareholders' equity	11,465	10,053	8,195	4,681	4,494

Note: \* Reflects assets and liabilities of the three commercial banks.  
 \*\* Includes reserves for possible loan losses.  
 Source: Data provided by the Banking Board of the FSM and IMF Staff Reports.

Characteristic	FY95,est	FY94	FY93	FY92	FY91	FY90	FY89
TOTAL REVENUES AND GRANTS	158.8	159.4	163.0	154.5	167.1	161.9	158.4
Total domestic revenue	51.9	55.5	60.5	54.1	48.2	41.6	43.9
Tax revenue	20.9	20.0	20.5	17.6	16.7	13.5	13.4
Non-tax revenue	31.0	35.5	40.0	36.5	31.5	28.1	30.5
Total external grants	106.9	103.9	102.5	100.4	118.9	120.3	114.5
U.S. Compact	92.2	90.2	89.8	87.7	98.5	101.6	92.1

Other	14.7	13.7	12.7	12.7	20.4	18.7	22.4
TOTAL EXPENDITURE	167.9	168.7	166.4	155.2	175.9	158.7	140.5
Current expenditure	134.6	135.0	137.7	128.8	125.0	109.0	92.2
Wage and salaries	61.5	59.0	57.8	53.3	52.2	48.8	44.9
Goods and services	52.8	55.9	56.1	59.6	63.7	53.0	45.9
Subsidies/transfers	12.5	12.7	15.3	9.2	7.8	7.2	1.4
Interest	7.8	7.4	8.5	6.7	1.3	0.0	0.0
Capital expenditure	33.3	33.7	31.0	31.3	46.3	35.8	51.6
Projects	30.3	30.7	28.0	28.5	33.6	23.0	31.0
Transfers	3.0	3.0	3.0	2.8	12.7	12.8	20.6
Net lending	0.0	0.0	-2.3	-0.9	7.0	15.5	-3.3
Adjust for transfers to States	0.0	0.0	0.0	-4.0	-2.4	-1.6	0.0
OVERALL BALANCE	-9.1	-9.3	-3.4	-0.7	-8.8	3.2	17.9
Change in deferred payments, net		0.0	0.0	0.5	-11.8	1.4	-4.0
Cash balance	-9.1	-9.3	-3.4	-0.2	-20.6	4.6	13.9
FINANCING	-9.1	9.3	3.4	0.2	20.6	-4.6	-13.9
Cash, CD's, and equiv.	-7.1	17.8	-3.0	2.3	0.3	-4.1	-10.9
Investments	0.0	0.0	0.0	7.9	-68.9	-12.8	-1.4
Loan and bank overdrafts	0.0	-6.5	0.0	2.2	2.7	-2.2	-0.9
Net medium-term bonds/notes	-2.0	-2.0	6.4	-12.4	84.1	14.7	0.0
Other	0.0	0.0	0.0	0.2	2.4	-0.2	-0.7

Table 7-8. Consolidated Government Finances, FSM: FY 1989 to 1995-con							
Characteristic	FY95	FY94	FY93	FY92	FY91	FY90	FY89
Memorandum items:							
Expenditures as % of GDP	82%	82%	85%	89%	105%	103%	90%
Revenues as % of GDP	77%	78%	84%	89%	99%	105%	102%
Overall balance as % of GDP	-4%	-5%	-2%	0%	-5%	2%	12%
Domestic revenue as % of GDP	25%	27%	31%	31%	29%	27%	28%
Tax revenue as % of GDP	10%	10%	11%	10%	10%	9%	9%
Non-tax revenue as % of GDP	15%	17%	21%	21%	19%	18%	20%
External grants as % of GDP	52%	51%	53%	58%	71%	78%	74%

Current expenditure as % of GDP	65%	66%	71%	74%	74%	70%	59%
Capital expenditure as % of GDP	16%	16%	16%	18%	28%	23%	33%
Wages and Salaries as % current	30%	29%	30%	31%	31%	32%	29%

Note: FY 95 are estimates.

Compact Section**		First Five Yrs 1986/87- 1990/91			Second Five Yrs 1991/92- 1995/96		Third Five Years 1996/97- 2000-2001		Total 15 years
		annual amount	No. of years	Sub- total	annual amount	Sub- total	annual amount	Sub- total	
	Total			365.8		295.3		242.9	904.0
1.	Sect 211 Block grant	60.0	5	300.0	51.0	255.0	40.0	200.0	755.0
2.	Sect 212 Civic action teams	1.0	4	4.0	1.0	5.0	1.0	5.0	14.0
3.	Sect 213 (b)-Yap Coast Guard station	0.16	1	0.16	-	-	-	-	0.16
4.	Sect 214 (b) Energy grant	3.0	4	12.0	3.0	15.0	3.0	15.0	42.0
5.	Sect 215 (a)(2) Communications Oper	0.6	5	3.0	0.6	3.0	0.6	3.0	9.0
6.	Sect 215 (b)(2) Communications Hardware	6.0	1	6.0	-	-	-	-	6.0
7.	Sect 216 (a)(1) Marine surveillance	0.519	5	2.6	0.519	0.0	0.519	2.6	5.2
8.	Sect 216 (a)(2) Health & medical prog.	1.26	5	6.3	1.26	6.3	1.26	6.3	18.9
9.	Sect 216 (a)(3) Education	1.89	5	9.45	1.89	9.45	1.89	9.45	28.35
10.	Sect 216 (b) Marine surveillance	0.67	1	0.67	-	-	-	-	0.67
11.	Block grants Education/health	0.315	5	1.575	0.315	1.575	0.315	1.575	4.725
12.	Investment development Fund	n/a	-	20.0	-	-	-	-	20.0

Note: \* The fiscal year is from October 1 - September 30.  
 \*\* Section 217 Inflation adjustment) states that the amounts provided in sections 211, 212, 214, and 215 shall be adjusted for each fiscal year by two-thirds of the percentage change in the U.S. implicit GNP deflator, or 7%. whichever is less in anyone year, using the beginning of fiscal year 1981 as the base.

Source: FSM Department of Finance and External Affairs.

## **Chapter 8. Republic of the Marshall Islands**

### **8.1 Republic of the Marshall Islands**

The Marshall Islands is a sovereign state enjoying a special relationship with the United States. The country is made up of five islands and twenty-nine atolls, each consisting of many islands, and has a total land area of about seventy square miles. The mean height of the land is about seven feet above sea level. The islands and atolls making up the Marshall Islands are divided into two separate parallel chains: the eastern is known as the Ratak (Sunrise) Chain; the western, the Ralik (Sunset) Chain. The Ratak Chain consists of fourteen atolls and two islands, while the Ralik Chain consists of fifteen atolls and three islands.

The country is located in the central Pacific about 2,136 miles southwest of Honolulu and about 2,300 miles southeast of Tokyo. The island nation is spread over a sea area of about 750,000 square miles. The country has a year-round warm and humid climate that averages about 81 degrees Fahrenheit during the day and 71 degrees Fahrenheit during the night.

The land is not only very small, but its soil is poor to the extent that only a few tree crops such as coconut and pandanus, and some vegetation such as banana, breadfruit, taro and sweet potato can be grown. These crops have traditionally been the source of livelihood for the people, in addition to fish.

The capital of the Marshall Islands is in Majuro Atoll which is one of the atolls in the The first European contact with the Marshall Islands occurred when Spanish explorers stumbled upon the islands in the sixteenth

Ratak Chain. The other urban area is in the Ralik Chain, Ebeye Island, part of Kwajalein Atoll, many of whose other islands military forces of the U.S. Government have used since 1945. Kwajalein is known to be the largest atoll in the world.

The country is connected to the outside world by regular cargo ships from Hawaii, the West Coast of the United States, Guam, and sometimes Fiji, New Zealand and Australia. Two airlines serve the Marshall Islands — (1) Continental Air Micronesia, which flies between Majuro and Kwajalein and Kosrae to the south and Honolulu to the north, and, (2) Air Marshall Islands, which flies extensively within the Marshall Islands and to Kiribati, Tuvalu and Fiji.

International communications are well-established, and, starting sometime in August 1996, the Internet is expected to be introduced for eventual use by both residential as well as government and commercial customers.

### **8.2 History**

The Marshallese are known to have migrated to these islands about 1000 B.C. from Southeast Asia on rafts and other types of sea craft made mainly of wood and natural materials. However, they were known to have been great seafarers as shown in their navigational skills that led them to venture over long and dangerous distances to come to the islands.

century. However, it took about two centuries for actual European expeditions to take place. For example, in 1776, Captain Samuel

Wallis, who also made the first European contact with the islands now comprising French Polynesia, came upon some of the islands in the northern part of the country. However, the islands were nameless until Captain John Marshall, R.N., made the first, intended European contact in 1797 and named them after himself.

From the early to mid-nineteenth century American whalers often visited the islands for water and food supplies on their whaling expeditions in the Pacific. However, during this period, the Marshallese often repelled incursions from the outside; consequently, some whalers lost their lives. In 1857 the Reverend George Pierson and the Reverend Edward Doane of the American Board of Missions (Congregationalist) from Boston, Massachusetts, arrived to establish in Ebon Atoll in the southern Ralik islands the first Christian mission in the Marshall Islands. Catholic missionaries (Jesuits) first arrived in the Marshall Islands in 1899 and built a church in Jaluit Atoll. German companies were also established at about the same time, dealing and trading mainly in copra (dried coconut meat). The use of whale oil was declining and coconut oil was becoming a popular substitute for whale oil, and businesses sprang around the country to take advantage of the new commodity.

By an 1878 treaty negotiated with the atoll's *iroij* (chiefs), the German Reich secured rights to a coaling station in Jaluit Atoll. At the same time the German Reich appointed a consul resident in the Marshall Islands, stationed in Jaluit. In 1886, by agreement with the United Kingdom, the Marshall At its height, the districts of Trust Territory of the Pacific Islands (TTPI) were the Marshall Islands and Ponape (now Pohnpei), Kosrae, Truk (now Chuuk), Yap, Palau and the Mariana Islands (now the Commonwealth of the Northern Mariana Islands, a U.S. insular area). In 1979, however, the Marshall Islands held a district-wide referendum, whose results

Islands became a German protectorate. As part of its administration of the Marshall Islands, the German Reich located trading stations in Jaluit and Ebon Atolls and carried out a flourishing trade in copra (dried coconut meat). *Iroij* continued to rule under indirect German administration, from 1906 centered in Rabaul, the capital of German New Guinea. The German Reich governed the Marshall Islands until, on behalf of the Allied Powers, military forces of the Japanese Empire occupied Enewetak Atoll on September 29, 1914, and Jaluit Atoll on September 30, 1914. On June 28, 1919, the German Reich renounced in favor of the Principal Allied and Associated Powers all its rights over its Pacific insular areas, including the Marshall Islands.

On December 17, 1920, the Council of the League of Nations confirmed a mandate to the Emperor of Japan for the former German insular areas north of the equator, including the Marshall Islands, to be administered in accordance with article XXII of the Covenant of the League of Nations. This was a period in which both copra production and the presence of Japanese military expanded. In 1944 the Americans drove the Japanese out by military force following some heavy fighting on Kwajalein, Enewetak, Jaluit, Mili and Wotje Atolls. On July 18, 1947, the U.S. Government entered into a trusteeship agreement with the U.N. Security Council and became the administering authority of the Marshall Islands and of the other former German islands north of the Equator whose mandatory power since December 17, 1920, had been the Emperor of Japan.

impelled the district to sever its ties with the rest of the TTPI in order to form its own national government. In 1983 the Marshall Islands and the U.S. Government signed the Compact of Free Association, which went into effective on October 21, 1986, providing the means for the Marshall Islands to gain international recognition as a sovereign state.

The Compact between the Marshall Islands runs from its effective date until October 21, 2001. By October 21, 1999, the U.S. Government and the Marshall Islands Government must commence negotiations regarding those provisions of the Compact which will expire on October 21, 2001. If these negotiations are not concluded by October 21, 2001, the period of negotiations will extend until no later than October 21, 2003. During this two-year extension the provisions of the Compact will remain in full force and effect.

### 8.3 Society

The Marshallese inherit their land rights and titles through their mothers. However, the control and use of land and other resources often fall on Marshallese men, who are looked upon to provide for and to protect:

- (a) the members of the men's immediate and extended families,
- (b) others not generally thought of as the men's relatives but still historically or culturally associated with them, and
- (c) their resources and those of these members and others associated with them.

Women, on the other hand, are looked upon traditionally as caretakers and supporters of their families' needs. Since the late 1960's gender-defined roles have changed, and it is not uncommon to see women doing things that used to be for men only.

Election to the Council of *Iroij* is limited to those recognized by customary law or traditional practice as having rights and obligations analogous to those of *iroijlaplap*. Election to the *Nitijela*, however, is for any natural citizen of the Marshall Islands who is at least eighteen years of age. Elections are carried out on the basis of universal suffrage

## 8.4 Political System

### Form of Government

The Marshall Islands Government follows a combination of both the U.S. form and the Westminster system. It is unitary rather than federal, but the American influence is seen in the importance attached to the committees in the unicameral, thirty-three-member *Nitijela* (Parliament). In addition, there are a *Council of Iroij*, which may:

- (a) consider any matter of concern to the Marshall Islands and may express its opinion thereon to the Cabinet, and
- (b) request the reconsideration of any bill, which the *Nitijela* has adopted on its third reading, affecting the Marshall Islands' customary law or any traditional practice or land tenure or any related matter;

An executive branch, the Cabinet, consisting of those members of the *Nitijela* who are the President and the ministers, and a judiciary, whose powers are vested in the Supreme Court, the High Court, the Traditional Rights Court and such district courts, community courts and other subordinate courts as are created by law. On November 17, 1979, the first and only President of the Marshall Islands was elected, the Honorable Amata Kabua, one of the Marshall Islands' eleven *iroijlapap* (paramount chiefs).

and take place every four years. The members, styled Senators, are elected from all the atolls and islands of the country. When seated, the members elect from among themselves the President, who in turn selects from among the members of the *Nitijela* the members of his cabinet, the ministers.

The Cabinet appoints, with the *Nitijela's* approval, the members of the Supreme Court and the High Court, whose judges serve *quamdiu bene gesserint* until they reach the age of seventy-two years. In the case of a judge not a citizen of the Marshall Islands, the judge may be appointed for a term of years or, in the case of a sitting judge in another jurisdiction, for a particular session of the court. The judges of the Traditional Rights Court are selected according to other criteria. This court is set up to deal with questions relating to titles or to land rights or to other legal interests depending wholly or partly on customary law and traditional practice in the Marshall Islands.

### **International Relations**

*Diplomatic Relations.* The Compact recognizes that the Marshall Islands is a sovereign nation which can conduct its own foreign policy. In 1991, the Marshall Islands joined the United Nations. In its own right the Marshall Islands maintains diplomatic relations with fifty-eight other nations and has established embassies in Fiji, Japan and the People's Republic of China as well as in Washington, D.C., and has a mission at the United Nations.

*Joining the Aid Donors.* After gaining international recognition as a sovereign state, the Marshall Islands joined the World's most important international organizations and financial institutions. For example, the As a small, island country in the middle of the vast Pacific, the Marshall Islands faces the same problems as do most other similarly situated nations. Due to their small size and relative isolation, such nations are unable to exploit economies of scale in the production of goods and services; they are vulnerable to external shocks and natural disasters; they have difficulty receiving private foreign capital; their independence is limited in creating macro-economic policies; they are remote from markets; their labor force is not

Marshall Islands joined the Asian Development Bank in April 1990 and the International Monetary Fund and the World Bank in May 1992. Since joining, these institutions have provided some technical assistance to the Marshall Islands as well as loans for socio-economic development and public sector reforms.

## **8.5 The Economy**

### **Overview**

The Marshall Islands' economy is a mixture of subsistence and monetized economy. In the urban areas of Majuro Atoll and Ebeye Island, a cash economy is predominant. In the rural islands and atolls a subsistence economy predominates. People in the latter use money to buy imported goods, e.g. staples (rice and wheat flour) and other necessities, but depend heavily on taro, breadfruit, coconut and fish, which abound on or near their islands. However, there is high internal migration as people move from the rural islands and atolls to Majuro and Ebeye in search of jobs and better health and educational opportunities. Now the two centers constitute more than two-thirds of the Marshall Islands' population of 56,000 inhabitants. The over-crowding on these urban areas has caused shortages in housing, environmental degradation and problems in the availability of other essential services.

highly skilled; their domestic markets are fragmented; and, they encounter shortages of domestic capital resources for investment. However, the major constraints facing Marshall Islands' economic growth and development are the country's remoteness from major centers of trade, a very small natural resource base, particularly land resources, and a population highly dispersed among numerous, distanced atolls.

The economy is aid-dependent and dominated by the public sector. The bulk of all aid funds goes to the Marshall Islands Government to fund both its recurrent and capital expenditures. The aid makes it possible for the country to import all kinds of manufactured goods and services in excess of domestic resources. In the past three years exports averaged about thirteen million dollars and imports averaged about \$65 million per annum, resulting in a trade deficit of about \$52 million per annum.

### **Relationship with the United States**

*The Compact.* The United States administered the Marshall Islands under the TTPI from July 18, 1947, until October 21, 1986, when the two countries entered into a bilateral agreement, the Compact of Free Association. Under the Compact, the U.S. Government gives and provides the Marshall Islands defense and substantial annual economic assistance, mainly through a series of grants to the Marshall Islands Government. Grants under the Compact totalled about \$53 million for each of the first five years and will decline to about \$49 million for the last five years of the Compact. Over the fifteen years in which the Compact is in effect, the total amount which the Marshall Islands will receive is about \$900 million, adjusted for price changes.

The Marshall Islands' obligation under the Compact is to lease out many of the islands in Kwajalein Atoll to the U.S. Government for its military operations and to allow Americans *Budgetary Reforms.* Due to the decline in Compact funding and increased difficulty in borrowing, the Marshall Islands Government's fiscal situation has deteriorated in recent years. To deal with this serious fiscal situation, a government budget *ad interim* was developed after a consultative group meeting with its aid donors in Manila, The Philippines, in December 1995 and was approved by the

to come into the country without immigration restrictions. The status for Marshallese to enter the United States is the same.

*Federal Programs.* Federal domestic programs provided by the U.S. Government make up the bulk of all the Marshall Islands Government's funding. About forty *per centum* alone go to the direct federal grant. However, from 1994 to 1995 there was a substantial decline in the federal grant contributions to around fifteen to twenty *per centum* in real terms. This is attributable to the winding down of the Compact's available funding.

### **Recent Developments**

*Public Sector Reforms.* The Marshall Islands Government has realized that its present size and dominant role in the economy cannot be sustained in the long term. It has realized that to stay viable, it must reduce its size by cutting down public sector employment and subsidies to public sector enterprises (PSE's).

After several years of review with assistance from U.N. Development Programme and the World Bank, the Marshall Islands Government has decided to trim the size of its civil service, privatize some government activities, increase training for Marshallese to become more technically qualified, eliminate organizational structures which are fragmented and consolidate the activities of its ministries and agencies. The government has begun to implement these measures.

*Nitijela* in early March 1996 with an effective date of early April 1996. Measures incorporated in this budget included the following:

- (a) a five *per centum* reduction in the civil service salaries of those government employees who are making \$10,400 and more *per annum*;

- (b) reduced subsidies to all government PSE's;
- (c) increased import duties on cars and trucks from twenty to thirty-five *per centum* and on cigarettes and alcohol from one hundred to one hundred fifty *per centum*; and
- (d) closing down the Ministries of Public Works and Social Services.

The next step that the Marshall Islands Government is expected to take will be to privatize all shipping services and to phase out the Ministry of Transportation. Important steps are also being taken to improve the financial viability of the government-owned national airline, Air Marshall Islands.

<b>Chart 8. Recent OIA Grants to the Marshall Islands (FY 1993 to 1996)</b>		
<b>Year</b>	<b>Purpose</b>	<b>Amount</b>
	<b>Operations</b>	
1995	Enewetak Support	\$1,089,000
1994	Enewetak Support	\$1,091,000
1993	Enewetak Support	\$1,091,000
	<b>Capital Improvements</b>	
1995	Rongelap	\$1,983,000
1994	Rongelap	\$1,983,000
1993	Rongelap	\$1,983,000
	<b>Disaster Assistance</b>	
1995	Ebeye Hospital	\$4,523,155
	<b>Maintenance Assistance</b> (from start of program, 1991)	
1995	MEC-Utility Mapping/GIS	\$10,000
1995	DPW & Ebeye Hospital (KALGOV)	\$412,500
1995	KAJUR - Year 1 O&M (KALGOV)	\$925,000
1995	O&M for Schools	\$424,236
1995	Training Needs Assessment	\$14,000
1995	Outer Islands Airfield Maint.	\$109,000
1995	Comm. College - Voc. Ed. - Yr. 2	\$42,280
1995	MEC-Jaluit Atoll PUC Start-up	\$115,200
1995	Elem. School Rehab./Renov. (Enewetak)	\$250,000
1991	RMI College - Voc. Ed. - Yr. 1	\$92,000
1991	KALGOV O&M Yr. 1	\$481,997
1991	DPW Reorgan./O&M - Yr. 1	\$443,000
	<b>General Technical Assistance</b>	
1995	Canoes of These Islands	\$10,400
1995	Statistical Program Travel and Per Diem	\$17,500
1995	94/95 PIRAAP Block Grant	\$194,000
1994	Statistical Training Workshop - 94	\$1,800
1994	Rongelap Professional Services	\$45,000
1994	Reconstruction of RALG Financial Records	\$8,333

<b>Table 8-1. All Federal Program Grants to the Marshall Islands Government in FY95</b>	
Total	\$12,472,784
Ministry of Health & Environment	\$2,105,989
Ministry of Education	\$6,859,239
Ministry of Social Services	\$54,173
Ministry of Foreign Affairs	\$1,108,500
Ministry of Internal Affairs	\$157,803
Ministry of Transport and Communications	\$109,000
Ministry of Public Works	\$1,362,700
Attorney General	\$194,000
Auditor General	\$521,380
Ministry of R & D	NA
Source: Ministry of Finance, RMI.	

	FY95	FY94	FY93	FY92	FY91
Revenues and grants	76.4	69.2	73.4	69.2	69.0
Tax revenue	20.2	18.7	19.6	16.7	14.7
Income tax	9.2	8.0	8.1	8.3	7.4
Import duties	6.3	6.6	7.4	5.6	5.9
Other	4.7	4.2	4.0	2.8	1.3
Non-tax revenue	12.4	9.2	8.6	7.7	9.4
Fishing rights	2.1	3.1	2.4	1.5	1.9
Other	10.3	6.1	6.1	6.3	7.5
Grants	43.7	41.3	45.3	44.8	44.8
Compact	34.5	33.7	33.1	32.5	37.0
Other	9.2	7.5	12.2	12.3	7.8
Expenditure	95.4	78.5	84.6	89.0	75.0
Current expenditure		68.0	66.8	63.7	57.3
Wages and salaries		21.2	19.4	18.8	17.6
Goods and services		29.9	26.3	22.4	22.3
Interest	6.1	6.6	10.2	9.6	5.9
Subs and oth curr tfers		10.3	10.8	12.9	11.5
Capital expenditure		10.5	17.8	20.3	13.9
Net lending				5.0	3.9
Overall balance	-19.0	-9.3	-11.1	-19.8	-6.0
Deferred payments(net)	0.0	0.0	0.0	-3.4	-4.3
Cash balance	-19.0	-9.3	-11.1	-23.2	-10.3
Financing	19.0	9.3	11.1	23.1	10.3
Net borrowing	-15.0	18.4	10.7	5.7	39.0
Gross borrowing	0.0	32.8	100.0	22.3	46.5
Repayments	-15.0	-14.4	-89.3	-16.6	-7.5
Use of liquid assets	34.0	-9.1	0.4	17.5	-28.7
Financial holdings(end-y)	3.9	37.9	25.8	26.3	43.7

Note: FY95 are estimates.

## Appendix A. Insular Areas Statistical Summary

### Introduction

This section of the State of the Islands report presents comparative data for the United States and the Insular Areas<sup>1</sup>. These tables continue a series of comparative data from previous State of the Islands reports, but also give a first look at some data collected in the OIA-funded 1995 round of censuses and surveys in the Insular Areas.

This first summary of preliminary data from the 1995 censuses and surveys, of necessity, is merely illustrative since the data from the censuses and surveys are not yet edited and tabulated. A more useful set of tables will appear in the 1997 State of the Islands report. With OIA financial and technical assistance, the Insular Areas have been able to obtain mid-decade statistical information for the first time. The mid-decade censuses and surveys became essential in order to determine the numbers and characteristics of the continuing streams of migrants into and out of the Insular Areas. The data are also important in giving a "snapshot" of the Areas' population at the midpoint of the decade.

### Demographic Characteristics

Demographic characteristics refer to aspects of the population structure. Demographic change occurs in populations as a result of births, deaths, and migration. Governments plan for their populations on the basis of these changes, building schools, medical clinics, and recreational facilities when populations are young, and old age homes and other types of medical facilities as the populations age.

*Median Age.* The median age is the age which divides the population in half — half are older and half are younger than this age. The median age in the United States in 1995 was 33.6 years, an increase of less than one year since the 1990 census. The median age in all the areas was less than the U.S. median, indicating younger populations, with higher fertility, and probably selective migration patterns. The median age for the Marshall Islands in 1994, for example was less than half that of the U.S., and the Federated States of Micronesia median age was only slightly higher than the

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<sup>1</sup> The U.S. Insular Areas include the U.S. Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands (CNMI), and American Samoa. The Federated States of Micronesia and the Republic of the Marshall Islands implemented Compacts of Free Association with the United States in 1986 and the Republic of Palau implemented its Compact in 1994, and both are Freely Associated States. In many places in this report all areas are referred to as the Insular Areas or simply as the Areas.

Marshalls; both of these populations continue to have relatively high fertility, even with increased out migration of high fertility aged females for work in Guam, the CNMI, Hawaii, and the mainland. The median age of 29.7 (down slightly from 1990) in the Virgin Islands was highest of the Insular Areas, followed by Palau (at 28.1), the CNMI (28.0), Guam (26.9), and American Samoa (20.6). Palau's median age increased by about 2 1/2 years during the period, showing the effects of the increase in migration of foreign workers.

In most places, the female median age is higher than males because females live longer than males. The female median age was higher than the average everywhere except in the CNMI and Palau, where selective immigration of foreign males for construction and other work skewed the median in their favor.

Year Area		Median Age		Males per 100 Females	Percent		Persons per household	Children born per 1000 woman 15 to 44 yrs	Percent of Families	
		Total	Females		Under 18 years	65 years and over			Married couple	Female hhlder no husb
		1995								
United States	262,105,000	33.6	34.6	95.6	26.9	11.9	2.67	1,242	77.7	17.6
Puerto Rico	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Virgin Islands	110,000	29.7	30.9	88.5	35.2	8.9	3.05	1,923	57.2	33.8
Guam	140,910	26.9	27.1	99.6	34.6	7.6	3.90	2,568	73.1	18.1
CNMI	58,846	28.0	26.7	98.9	29.5	1.7	3.62	1,150	74.6	15.1
American Samoa	49,775	20.6	21.1	103.2	45.7	3.7	5.88	1,823	77.6	15.7
Palau	17,225	28.1	27.3	103.8	32.7	5.7	4.86	1,446	73.8	19.8
FSMicronesia	105,506	17.8	18.1	104.5	50.9	3.6	6.80	2,254	78.7	13.8
Marshall Islands	42,781	16.2	16.5	107.1	NA	2.3	8.35	2,866	NA	NA
1990										
United States	248,709,873	32.9	34.1	95.1	25.6	12.6	2.63	1,223	78.6	16.5
Puerto Rico	3,522,037	28.4	29.6	93.9	32.8	9.7	3.31	1,512	71.6	23.2
Virgin Islands	101,809	28.2	29.2	93.6	34.8	6.4	3.14	1,662	57.3	33.4
Guam	133,152	25.0	24.9	114.0	35.2	3.9	3.97	1,523	78.1	14.0
CNMI	43,345	27.4	24.9	111.0	27.5	1.8	7.00	1,226	74.3	14.0
American Samoa	46,773	20.9	21.2	105.6	44.0	3.4	4.63	1,757	81.8	12.2
Palau	15,122	25.6	25.1	116.6	36.4	6.1	5.01	1,596	75.5	18.1
FSMicronesia	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Marshall Islands	43,380	14.6	14.7	104.6	56.9	2.9	8.68	3,307	NA	NA
Source:	1988 Marshall Islands Census, 1990 Census reports for the Areas, March 1995 U.S. Current Population Survey and other sources, 1994 Census of the Federated States of Micronesia, 1994 Marshall Islands Household Survey, preliminary data from for 1995 censuses of Palau and the CNMI and 1995 surveys of Guam, American Samoa, and the Virgin Islands									
Notes:	Much of the data from the 1995 surveys (including the U.S.) are not yet edited and tabulated, so the numbers <b>will change</b> and must be considered here only for illustrative purposes; final data will be made available through the respective Areas offices or from OIA when edited and tabulated; "1995" data are from 1994 for Marshalls and FSM; "1990" data for the Marshall Islands are from the 1988 Census.									

*Males per 100 females.* The number of males for every 100 females in a place is often called the "sex ratio". In the United States, the ratio was 96 in 1995 (that is, the U.S. had 96 males for every 100 females), again showing the higher life expectancy of females. All of the former Trust Territory Areas (Palau, FSM, and the Marshall Islands) had male dominated sex ratios, with the rate of 107 in the Marshall Islands being most pronounced. (Sometimes these skewed rates appear when females are missed during census or survey enumeration because male householders — or heads — forget to

report females living in the house, so some of the rates must be considered with caution.) Because of a major change in migration patterns in the CNMI having to do with the thriving garment factories employing many females, the ratio there went from 111 males for every 100 females in 1990, to 99 males for every 100 females in 1995. Guam's ratio decreased from 114 in 1990 to 100 in 1995, perhaps reflecting a decline in military personnel on the island.

*The young and the old.* In 1995, slightly more than 1 in every 4 people in the United States was less than 18 years old; all of the Insular Areas had larger proportions of young people. In the FSM, for example, more than 1 in every 2 people was less than 18 years old. About 1 in every 3 of those in the Virgin Islands, Guam, and Palau fell in this age group, as well as 46 percent of those in American Samoa. The Marshall Islands 1988 census showed 57 percent of the Marshall Islands population less than 18 years old.

On the other hand, about 12 percent of the United States population was 65 years or older. Less than 2 percent of the CNMI's population was elderly (little changed from 1990), and only about 2 percent of the Marshall Islands' population was in this category. The Virgin Islands population (9 percent 65 and over) and Guam (8 percent) were closer to the U.S. average.

*Persons per household.* The average household in the United States in 1995 had about 2.7 persons, up slightly from 1990. All of the Insular Areas had more crowded households. While the Virgin Islands had about 3 persons per household, and Guam and CNMI had about 4 persons, Palau had about 5 persons, American Samoa about 6, the FSM about 7, and the Marshall Islands more than 8. The very crowded conditions in some of the Areas, while culturally appropriate, could be expected to cause some problems in wealth accumulation.

*Children ever born.* The average woman aged 15 to 44 in the United States in 1995 had an average of 1.2 children. Only in the CNMI was the average number of children less, and only because of the very large number of single women in this category coming to Saipan to work in the garment factories. (The rate in 1990 was 1.2, about the same as for the United States, but would have been much higher if only local women were considered.) The rate for Guam remained high, partly because of the continued presence of military wives who traditionally have higher fertility than civilians, and partly because of some traditionally Chamorros and some of the newer immigrants with higher fertility. The Marshall Islands continued to have extremely high fertility, almost 3 children per woman. (This is a U.S. Census Bureau measure of direct fertility, and should not be confused with the Total Fertility Rate.) The rates for the Federated States of Micronesia remained extremely high, and the rates for the Virgin Islands and American Samoa were also high in 1995, based on the preliminary data.

*Type of family.* About 78 percent of all families in the United States were married-couple families. American Samoa and the Federated States of Micronesia had about the same proportions of married-couple families, and the CNMI and Palau were only slightly lower. In the Virgin Islands, however, only 57 percent of the families fell in this category (about the same as in 1990); conversely, more than 1 in every 3 families in the Virgin Islands was headed by a female with no husband present, a situation which continued from the 1990 census, and which is bound to affect educational attainment, job choices, and income levels.

## **Social Characteristics**

Year Area		Percent								
		Born in this Area	Not a Citizen	Persons 5 years and over			Persons 25 years and over			
				Resid. 5 yrs ago		Speak English at home	High school graduate		College graduate	
				This house	Outside Area		Total	Female	Total	Female
1995										
United States	262,105,000	91.2	6.1	NA	NA	NA	87.1	88.2	25.0	24.9
Puerto Rico	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Virgin Islands	100,130	51.0	14.7	62.2	11.7	75.1	58.6	60.1	16.6	17.0
Guam	140,910	58.2	14.4	59.1	16.6	44.7	73.1	70.8	17.7	18.9
CNMI	58,846	37.6	53.3	28.9	46.2	14.1	75.7	70.7	17.7	17.1
American Samoa	49,775	60.6	27.8	79.4	8.6	7.1	61.0	60.8	5.9	4.5
Palau	17,225	72.0	24.3	56.4	25.4	20.7	60.8	58.6	12.2	12.8
FSMicronesia	105,506	96.8	2.6	NA	2.4	1.6	31.8	22.4	4.7	2.1
Marshall Islands	42,781	NA	NA	NA	NA	NA	36.7	29.1	NA	NA
1990										
United States	248,709,873	90.7	4.7	53.3	2.2	86.2	75.2	74.8	20.3	17.6
Puerto Rico	3,522,037	90.9	1.2	68.0	4.6	NA	49.7	50.3	14.3	15.1
Virgin Islands	101,809	49.0	17.2	60.6	12.4	76.1	56.5	58.3	15.1	15.0
Guam	133,152	47.7	15.5	46.3	32.7	37.3	73.3	71.0	17.5	17.5
CNMI	43,345	38.6	53.7	29.3	53.2	4.8	66.3	62.3	15.6	15.5
American Samoa	46,773	54.7	36.4	77.2	15.8	3.0	54.5	53.0	6.9	4.5
Palau	15,122	81.5	14.9	65.9	16.8	3.0	57.6	52.2	10.3	10.1
FSMicronesia	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Marshall Islands	43,380	96.5	3.1	NA	NA	NA	31.9	24.2	NA	NA
<p>Source: 1988 Marshall Islands Census, 1990 Census reports for the Areas, 1995 U.S. Current Population Survey and other sources, 1994 Census of the Federated States of Micronesia, 1994 Marshall Islands Household Survey, preliminary data from for 1995 censuses of Palau and the CNMI and 1995 surveys of Guam, American Samoa, and the Virgin Islands</p> <p>Notes: Much of the data from the 1995 surveys (including the U.S.) are not yet edited and tabulated, so the numbers <b>will change</b> and must be considered here only for illustrative purposes; final data will be made available through the respective Areas offices or from OIA when edited and tabulated; "1995" data are from 1994 for Marshalls and FSM; "1990" data for the Marshall Islands are from the 1988 Census. Virgin Islands population for 1995 excludes group quarters residents.</p>										

*Birthplace.* The census or survey item on birthplace provides information about long-term migration. More than 9 out of every 10 people living in the United States in 1995 was born in the U.S., about the same as in 1990. More than 96 percent of those living in the Federated States of Micronesia and the Marshall Islands were born in the Area. The rate in Palau remained high, also, but has continued decrease because of the large immigration in recent years; Palau's percentage native born decreased from 82 percent in 1990 to 72 percent in 1995.

American Samoa continued to become more native born, climbing from 55 percent native born to 61 percent in 1995. Both Guam and the Virgin Islands increased from less than half foreign born to

more than half in the first 5 years of the decade, while the CNMI remained at less than 2 in 5 native born.

*Citizenship.* About 6 percent of the U.S. population in 1995 were not U.S. citizens, somewhat more than in 1990. For Guam and the Virgin Islands, the percentage of U.S. citizens increased slightly between 1990 and 1995, and were more than twice as high as for the United States. The percentage for the CNMI remained about the same but was more than 8 times the U.S. level as more than half of the people living in the CNMI in 1990 and 1995 were not U.S. citizens.

In American Samoa, the percentage of people being neither national nor citizen decreased from 36 percent in 1990 to 28 percent in 1995. Similarly, in Palau, non-Palauan citizens increased from 15 percent in 1990 to 24 percent in 1995. Only 3 percent of the FSM population in 1994 were not FSM citizens, and 3 percent of the 1988 Marshall Islands census population were not Marshallese.

*Residence 5 years before the census or survey.* Residence 5 years before the census or survey provides information about short term migration; we have two snapshots of the population — at the time of the census or survey and 5 years before. Of the 5 Areas with information for both 1990 and 1995, people in American Samoa were mostly likely to live in the same house in 1990 as 1995; almost 4 out of every 5 people in American Samoa lived in the same house. About 3 in every 5 of those living in the Virgin Islands, Guam, and Palau lived in the same house in 1990 as 1995; the percentage went up for Guam (possibly because of the decline in the military presence) and down for Palau (probably because of the increasing numbers of immigrants). For the CNMI, the population remains extremely mobile, with only 3 in every 10 people living in the same house in 1990 as 1995.

At the other end of the continuum, almost half of the CNMI population in 1995 was living *outside* the CNMI in 1990, but this value decreased from the 1990 census when more than half of the population had lived outside the CNMI in 1985; these numbers probably show a slight decrease in the flow of migrants into the Commonwealth. For 1995, Palau had the second highest percentage of those living outside the Area in 1990, about 1 in every 4 people, up from 1 in 6 in the 1990 census. About 1 in every 3 people in Guam in 1990 had lived outside Guam in 1985, but 5 years later only 1 in every 6 people fell in this category.

*Language Use.* In 1995, 75 percent of the Virgin Islands population 5 years and over spoke English at home, about the same as in 1990. About 45 percent of Guam's population spoke English at home, up from 37 percent in 1990. All the other Areas had smaller but rapidly rising proportions of English speakers. The percentage of persons in Palau speaking English at home increased from 3 percent in 1990 to 21 percent in 1995, while the percentages in American Samoa (7 percent in 1995) and CNMI (15 percent in 1995) were more than double their 1990 percentages. Less than 2 percent of the Federated States of Micronesia population spoke English at home in the 1994 census.

*Educational attainment.* In the United States in 1990, about 3 out of every 4 people were high school graduates, a higher proportion than for any of the insular areas. In 1990 Guam's 73 percent was the highest of the insular areas, but by 1995 the CNMI percentage of 76 was highest (up about 9 percentage points from 1990). This may reflect the component of CNMI immigration of U.S. citizens. Except on Guam, all Areas experienced increases in numbers of high school graduates between 1990 and 1995. In 1995, only the Virgin Islands had a higher percentage of female high school graduates than total high school graduates. About 1 in every 6 persons 25 years and over in

the Virgin Islands, Guam, and the CNMI in 1995 were college graduates. About 1 in every 8 in Palau were in this category, but only about 1 in every 20 for American Samoa and the Federated States of Micronesia.

*School enrollment.* Table A-3 shows school enrollment by level of schooling for the Insular Areas for the last 6 school years. The number of elementary and secondary students increased in all of the areas except the Virgin Islands, which experienced a slight decrease. CNMI's and Guam's elementary and secondary school populations increased by about 25 percent during the period, while American Samoa and Palau's increases were about 6 percent.

Level of schooling Insular Area	1995- 1996	1994- 1995	1993- 1994	1992- 1993	1991- 1992	1990- 1991
<b>Elementary and Secondary:</b>						
American Samoa 1/	15,462	16,640	14,574	15,470	15,646	14,628
CNMI	11,198	10,749	10,239	10,576	9,327	9,015
Guam	39,207	38,657	37,527	36,248	35,139	31,278
Virgin Islands	28,653	29,730	29,880	29,652	29,336	28,691
Republic of Palau	3,771	3,549	3,485	3,463	3,305	3,541
<b>Post-Secondary:</b>						
American Samoa	1,416	1,463	1,277	1,174	1,185	1,235
CNMI	967	901	1,132	1,019	927	737
Guam	5,729	7,097	5,891	5,452	5,109	4,769
Virgin Islands	3,054	3,153	3,103	NA	NA	NA
Republic of Palau	680	480	434	312	NA	NA

Sources: Departments of Education and Colleges in the Insular Areas.  
Note: 1/ Elementary and Secondary includes pre-school enrollment.

For post-secondary students, the annual data jumped around quite a bit. Each of the Areas having data for the whole period saw increases in post-secondary school enrollment, with CNMI seeing the largest increase over the period — more than 30 percent — but with Guam (20 percent) and American Samoa (14 percent) also seeing large increases. The Virgin Islands post-secondary school population changed little, while the number of Palau's college students more than doubled between 1992 and 1995.

## Economic Characteristics

Year Area	Population lation 16 yrs & over	Percent					Median Income		Per capita income	Percent Below Poverty Level
		In the labor force		Private wage & salary workers	Manufac- turing indus- tries	Profes- sional occup.	House- holds	Families		
		Total	Females							
1995 United States	198,022,000	66.2	58.7	76.2	NA	26.9	\$32,264	\$38,782	\$16,555	11.6

Puerto Rico	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Virgin Islands	70,342	61.9	56.5	60.9	7.7	21.4	\$27,422	\$29,501	\$12,748	29.1
Guam	94,535	57.1	47.5	66.8	NA	NA	\$30,035	\$25,745	\$11,552	25.4
CNMI	43,526	85.1	80.7	82.9	22.4	20.3	\$19,117	\$23,344	\$6,984	33.3
American Samoa	29,250	44.6	35.7	57.0	32.2	22.0	\$12,278	\$11,532	\$2,861	67.7
Palau	12,114	68.5	58.8	63.3	1.0	23.8	\$11,810	\$12,791	\$3,508	62.8
FSMicronesia	59,573	43.6	30.1	44.5	3.4	10.1	\$4,494	\$4,473	\$940	91.0
Marshall Islands	22,392	55.3	38.2	29.8	9.6	4.2	NA	NA	NA	NA
1990										
United States	191,829,271	65.3	56.8	77.4	17.7	26.4	\$30,056	\$35,225	\$14,420	13.1
Puerto Rico	2,497,078	47.3	37.2	63.2	16.7	22.8	\$8,895	\$9,988	\$4,177	58.9
Virgin Islands	70,323	67.6	61.4	64.0	6.6	21.5	\$22,050	\$24,036	\$9,440	27.1
Guam	90,990	72.7	59.5	65.3	4.4	23.2	\$30,755	\$31,178	\$9,928	51.3
CNMI	32,522	81.8	75.3	84.8	21.9	19.7	\$20,644	\$21,275	\$7,199	58.6
American Samoa	27,991	50.7	42.4	63.4	33.8	19.7	\$16,114	\$15,979	\$3,039	73.9
Palau	10,238	59.3	48.4	59.3	1.7	24.0	\$8,882	\$9,380	\$2,656	15.0
FSMicronesia	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Marshall Islands	21,224	54.1	30.1	33.5	9.4	16.7	NA	NA	NA	NA

Source: 1988 Marshall Islands Census, 1990 Census reports for the Areas, 1995 U.S. Current Population Survey and other sources, 1994 Census of the Federated States of Micronesia, 1994 Marshall Islands Household Survey, preliminary data from for 1995 censuses of Palau and the CNMI and 1995 surveys of Guam, American Samoa, and the Virgin Islands

Notes: Much of the data from the 1995 surveys (including the U.S.) are not yet edited and tabulated, so the numbers **will change** and must be considered here only for illustrative purposes; final data will be made available through the respective Areas offices or from OIA when edited and tabulated; "1995" data are from 1994 for Marshalls and FSM; "1990" data for the Marshall Islands are from the 1988 Census. Virgin Islands population for 1995 excludes group quarters residents.

**Labor force participation.** About 2 in every 3 persons 16 years and over in the United States were in the labor force in 1995. The percentages were slightly higher in Palau (where the new foreign immigrants were mostly in the labor force), and somewhat lower in the Virgin Islands. The percentages in the labor force in Guam and the Marshall Islands were lower, but still above half, while less than half of American Samoa's and the Federated States of Micronesia's adults were in the labor force. In the CNMI, 85 percent of the adult population was in the labor force, up sharply even from the 82 percent seen in 1990, as a result of the high level of alien workers. For each of the areas, female labor force participation was lower than the males, and in the cases of the Marshall Islands and the Federated States of Micronesia, much lower.

**Private vs Public Sector Workers.** In 1995, about 3 out of every 4 workers in the United States were private wage and salary workers. For the CNMI, however, more than 4 out of every 5 workers were in this category, showing the effects of the many immigrant workers. More than half the workers in the Virgin Islands, Guam, American Samoa, and Palau were private sector workers, but less than half of those in the Federated States of Micronesia and the Marshall Islands were in this category. Only 3 in every 10 workers in the Marshall Islands, in fact, were private sector employees.

**Industry.** The table shows only one industry — manufacturing. For manufacturing, about 32 percent of those working in American Samoa were manufacturing (mostly in the tuna canneries) and about 22 percent of those in CNMI were in this category (many being garment workers). The other Areas did little manufacturing (even 1995 preliminary data are not yet available for Guam).

**Occupation.** The table also show only one occupation — professional workers. For professional workers, none of the Areas has as high a percent as the United States (once again, Guam's 1995 data are not yet available even in preliminary form). About 1 in every 5 workers in the Virgin Islands and CNMI were in this category, as were a slightly higher percentages of American Samoa and

Palau workers. Only about 1 in every 10 FSM workers were Professionals, and only about 1 in every 25 in the Marshall Islands.

*Median income.* Median income is the point where half the households or families earns more and half earns less. None of the Areas had median household income as high as in the U.S., but most have seen increases in median income over the 1990s. (It is important to note that these data are not adjusted for inflation which would show a net loss in real terms for some areas). Income information for the 1995 censuses and surveys is actually income obtained in 1994 since a whole year's information is needed. The median household income for Guam was highest, at \$30,000, and lowest for the Federated States of Micronesia at \$4,500. Median family income was generally higher than median household income because families tend to have more wage earners.

*Per capita income.* Per capita income is obtained by dividing the aggregate income from all sources by the total number of people in a place. The per capita income in the United States in 1995 (based on 1994 income) was much higher than for any of the Areas. The highest per capita incomes were in the Virgin Islands and Guam; The Virgin Islands pulled slightly ahead of Guam in 1995, but this may be corrected when the data are finalized. The CNMI per capita income decreased slightly from just above \$7,000 in 1990 to just below \$7,000 in 1995 continuing a trend noted in the 1980's with the large increase in the alien worker population earning the low CNMI minimum wage. American Samoa's per capita income declined during the period as the economy slumped and Palau pulled ahead with a dramatic increase from \$2,656 in 1990 to \$3,508 in 1995, with the boom in tourism and fishing bringing people into the labor force and in spite of increasing use of low wage alien labor. The per capita income for the Federated States of Micronesia was less than \$1,000 in 1994 (1993 income data).

*Poverty status.* Poverty levels use the U.S. standards, even when they are not comparable to the insular areas' situations. Based on the U.S. standards, about 1 in every 4 people on Guam was living below the poverty line compared to about 3 in 10 in the Virgin islands, and 1 in 3 in the CNMI. For the other Areas, Areas which live partly on subsistence which is *not* considered in poverty determinations, the levels were much higher — about 5 in every 8 people in Palau were below poverty, 2 in 3 in American Samoa, and more than 9 in every 10 in the Federated States of Micronesia.

The following economic statistical data are from insular area sources:

*Commercial bank deposits.* In 1995, Guam had about \$1.3 billion in commercial bank deposits, showing a decline of about \$100 million from 1994 and more from the peak land boom year of 1991. The Virgin Islands also showed a declining trend from \$1.4 billion in 1990 to \$.9 billion in 1995 (Table A-5). Between 1992 and 1995, only Palau had a strong increase in commercial bank deposits. The CNMI and the Marshall Islands showed no trend.

Table A-5. Commercial Bank Deposits: 1990 to 1995 [Millions of dollars]						
Insular Area	1995	1994	1993	1992	1991	1990

CNMI	425.0	411.2	386.1	429.4	480.4	473.0
Guam	1,288.0	1,389.6	1,377.6	1,382.5	1,483.0	1,276.7
Virgin Islands	925.5	1,286.9	1,189.4	1,286.0	1,268.0	1,414.0
Republic of Palau	68.4	55.4	53.7	50.5	NA	NA
Marshall Islands	45.6	51.4	47.8	52.4	NA	NA

Notes: 1993 figures for CNMI are for three quarters  
Sources: For Guam, Quarterly Economic Review, Dept of Commerce, Gov Guam. Various banks, Republic of Palau. Office of Planning and Statistics, Ministry of Finance, Ministry of Education for Marshall Islands.

*Commercial bank loans.* Guam also had the largest amount of commercial bank loans, more than 2 billion dollars in 1995 (Table A-6). Guam was the only insular area with more bank loans than deposits and with one billion dollars more in loans, Guam demonstrated its development on a financial and business center for the Western Pacific area. The CNMI also showed rapid growth in bank loans, while the Virgin Islands loan level fell and Palau and the Marshall Islands showed little trend. American Samoa did not report commercial bank loans in recent years.

Table A-6. Commercial Bank Loans: 1990 to 1995 [Millions of dollars]							
Insular Area	1995	1994	1993	1992	1991	1990	Percent Change 1990-1995
American Samoa	NA	NA	NA	NA	50.5	48.0	NA
CNMI	200.3	120.0	188.6	160.6	148.7	121.5	64.9
Guam	2,294.0	2,281.0	2,358.0	2,296.4	1,749.2	1,271.2	80.5
Virgin Islands	774.8	975.9	960.3	906.1	872.0	817.0	-5.2
Republic of Palau	28.1	27.1	24.7	27.5	NA	NA	NA
Marshall Islands	31.1	38.8	38.4	35.4	NA	NA	NA

Sources: Banks in the Insular Areas

*Business gross receipts.* In 1995, the Virgin Islands had almost \$2 billion in business gross receipts, a slight decrease from 1994 and previous years (Table A-7). Palau's gross receipts grew significantly over the five year period, reflecting rapid growth from a small base. For the other areas, data were incomplete or unavailable.

Table A-7. Business Gross Receipts: 1990 to 1995 [Millions of dollars]							
Insular Area	1995	1994	1993	1992	1991	1990	

CNMI	435.7	1,477.2	1,181.4	1,342.2	1,429.0	1,170.0
Guam	NA	NA	4,728.2	6,996.4	4,488.5	4,109.4
Virgin Islands	1,916.7	1,980.0	2,084.0	2,020.3	1,874.2	1,792.5
Republic of Palau	125.6	125.2	107.0	89.3	82.0	72.0

Sources: Various Insular Area Government Agencies  
Note: Virgin Islands, 1994 is an estimate based on gross receipts collected during FY 1994.

*Business licenses.* The issuance of business licenses in the insular areas varies substantially from year to year showing no clear trend and giving little insight into the economies. The Virgin Islands issued 16,776 business licenses in 1995, by far the largest increase — more than 3,000 over 1994. The other insular areas shown gradual increases over the five year period.

Insular Area	1995	1994	1993	1992	1991	1990
American Samoa	2,448	2,166	2,194	2,163	1,884	1,706
CNMI	4,257	4,859	4,937	4,944	4,200	3,873
Guam	NA	18,361	22,992	14,014	15,104	15,756
Virgin Islands	16,776	13,273	12,208	14,125	24,145	14,795
Republic of Palau	1,320	1,292	1,308	1,308	1,011	773

Sources: Business Licenses, Various Insular Areas Governments.

*Construction permits.* Guam had \$349 million in construction permits in 1995, a large decrease from the \$614 million in 1994 and the lowest level in the period, reflecting completion of major projects and a slowdown in building that has probably ended (Table A-9). The Virgin Islands had \$146 million in 1995, also a large decrease from 1994 and continuation of downward trend. The CNMI saw a quadrupling of construction to \$58 million between 1994 and 1995, while American Samoa and Palau showed little change.

Insular Area	1995	1994	1993	1992	1991	1990	Percent Change 1990-1995
American Samoa	13.0	14.4	11.7	26.0	17.0	14.5	-10.3
CNMI	57.7	13.7	NA	19.0	NA	NA	NA
Guam	349.0	614.0	431.0	363.0	853.0	492.0	-29.1
Virgin Islands	145.5	226.3	237.6	327.1	312.0	380.1	-61.7
Republic of Palau	3.9	3.5	4.5	7.9	5.6	3.9	0.0

Sources: Various Insular Areas Government Agencies.

*Imports and exports.* Table A-10 shows the value of imports and exports of the insular areas. Guam did not report imports and exports for the period. In general, the insular areas tend to run trade deficits as imports of consumption goods exceed exports of local products. Export figures are not very useful in analyzing the economies as they tend to overstate exports by including re-exports and exports of goods with a high import component — petroleum products in the Virgin Islands, canned tuna in the American Samoa, and sewn garments in the Northern Marianas. Of the Areas which report, the Virgin Islands had the highest imports (for a thriving tourist industry) and exports (primarily petroleum products) in 1995, as it did in previous years. Palau's imports increased the most over 5 years, due to rapid growth in tourism, while Palau's export data may be inaccurate. CNMI and FSM imports increased by about 50 percent between 1990 and 1994, reflecting tourism growth in the CNMI and Compact-financed consumption in the FSM. Imports into American Samoa and the Marshalls increased by about one-third.

Table A-10. Imports and Exports: 1990 to 1995 [Millions of dollars]						
Insular Area	1995	1994	1993	1992	1991	1990
<b>IMPORTS:</b>						
American Samoa	461.8	447.7	436.2	418.7	371.9	360.3
CNMI	628.0	513.6	513.0	428.7	392.4	342.1
Virgin Islands	3,300.3	3,108.4	2,625.6	3,550.8	3,118.0	3,294.7
Republic of Palau	62.7	48.6	34.0	34.2	22.3	24.7
Micronesia	NA	129.1	109.5	98.8	88.6	83.9
Marshall Islands	75.1	70.4	61.1	61.8	NA	56.4
<b>EXPORTS:</b>						
American Samoa	271.7	252.2	488.2	317.8	326.9	310.5
CNMI	NA	873.2	803.7	772.7	697.4	584.6
Virgin Islands	3,036.1	2,847.7	2,191.4	2,308.5	2,518.4	2,820.7
Republic of Palau	12.3	NA	10.8	29.7	2.1	NA
Micronesia	NA	105.6	49.3	41.5	28.8	21.7
Marshall Islands	23.1	22.2	7.7	9.2	NA	2.9
Source: Insular Areas governments.						

Only American Samoa saw a decline in the value of its exports, from \$310 million to \$271 million (about 13 percent), due to fluctuations in canned tuna shipments, while exports from the Virgin Islands increased slightly. Between 1990 and 1994, the CNMI saw a 50 percent increase in the value of its exports, due to a rapid increase in garment shipments to the United States (although the table appears to overstate exports). The freely association states saw the biggest percentage increases — about 400 percent for FSM, 500 percent for Palau, and 700 percent for the Marshalls — all consisting primarily of fish, but this increase is from a very small base.

In 1995, all reporting Areas had net deficits, ranging from \$264 million for the Virgin Islands to \$24 million for Micronesia. The CNMI reported exports almost \$400 million greater than its imports in 1994, the only reporting Area with a positive trade balance, but these data are suspect.

*Consumer prices.* Each Area determines its own base for change in consumer prices. Most Areas have used expenditures surveys to determine their market baskets, and these, in turn, are used to determine both the consumer price index, and changes in that index. In the long run, inflation rates tend to mirror those in the United States and other developed countries with economic links to the areas, such as Japan. In the short run inflation rates are more volatile and subject to greater influence from changes in the cost of transportation and energy. Guam did not report prices for 1994 and 1995 as the market basket used to measure the index had become dated and is being replaced following a consumer expenditure survey performed in 1995 with technical assistance from OIA.

Insular Area	1995	1994	1993	1992	1991	1990
<b>Consumer Price Index:</b>						
American Samoa	147.0	143.8	141.4	140.9	135.3	129.6
CNMI	254.5	250.0	247.7	239.3	215.4	206.7
Guam	NA	328.0	372.9	344.2	327.9	287.1
Virgin Islands	152.5	148.3	144.6	140.4	136.2	130.7
Marshall Islands	161.1	150.1	142.0	135.3	NA	122.7
<b>Inflation Rate:</b>						
American Samoa	2.2	1.7	0.4	4.1	4.4	...
CNMI	1.8	0.9	3.5	11.1	4.2	...
Guam	NA	NA	8.3	5.0	14.2	...
Virgin Islands	2.8	2.6	3.0	3.1	4.2	...
Marshall Islands	7.3	5.7	5.0	NA	NA	...
Notes: Base year for Samoa is 1982, for CNMI is 1978, for Guam is 1978, and for Virgin Islands is 1982. No information for Palau. For Guam 1990 to 1993 revised, 1994 preliminary.						
Sources: For Guam, Quarterly Review, Dept of Commerce, Gov. Guam.						

*Tourism.* The visitor industry is the most important private source of income for most of the insular areas. Tables A-12 through A-15 show data for several aspects of the industry. Guam had more than one million visitors in 1995 for the second year and continuing a rapid increase that saw a 75 percent growth since 1990. Visitors to the CNMI also continued to increase, to more than 650,000 in 1995 as new hotel rooms became available, with a growth of 57 percent since 1990. Visitors to Palau topped 50,000 in 1995 and grew 62 percent since 1990. These three rapidly growing tourist destination are benefitting from a rebound in the Japanese economy and a steady growth in tourism from other Asian countries..

The Virgin Islands, with a more mature visitor industry, suffered a decline in 1995, primarily due to Hurricane Marilyn. Unfortunately, the decline has continued in 1996 with a severe fall in air visitors as airlines have reduced seat availability from the Mainland. Although about two-thirds of Virgin Islands visitors are cruise ship passengers, air visitors account for the majority of tourism revenues. Only about 6,000 visitors went to American Samoa during 1995, and about 5,000 to the Marshall Islands. Both areas continued a declining trend in contrast to the other U.S. Pacific insular areas and other countries in the Pacific.

Table A-12. Visitors: 1990 to 1995 [In thousands]						
Insular Area	1995	1994	1993	1992	1991	1990
American Samoa	5.8	7.3	5.4	7.7	11.5	12.8
CNMI	654.4	583.5	536.3	488.3	424.5	417.1
Guam	1,361.8	1,086.7	784.0	876.7	737.3	780.4
Virgin Islands	1,733.3	1,919.9	1,922.8	1,929.7	1,899.5	1,811.5
Republic of Palau	53.2	44.1	40.5	36.1	32.7	32.8
Marshall Islands	5.1	4.9	5.1	5.7	5.9	NA

Sources: Guam Visitors Bureau. Palau Visitors Authority, Republic of Palau. Office of Planning and Statistics, Ministry of Finance, Ministry of Education for the Marshall Islands.

Only three areas reported tourist expenditures in 1995. Tourists spent about \$821 million in the Virgin Islands, about \$522 million in the CNMI, and \$22 million in Palau (Table A-13). All of these values were increased during the 1990s, but the Virgin Islands saw a decrease in 1995, again, showing the effect of hurricanes.

Table A-13. Tourist Expenditures: 1990 to 1995 [In million dollars]						
Insular Area	1995	1994	1993	1992	1991	1990
CNMI	522	464	507	494	433	422
Guam	NA	NA	NA	1,800	NA	NA
Virgin Islands	821	919	902	816	778	697
Republic of Palau	22	NA	18	16	15	15

Sources: Guam Visitors Bureau. Palau Visitors Authority, Republic of Palau. Office of Planning and Statistics, Ministry of Finance, Ministry of Education for the Marshall Islands.

For 1995, only the Virgin Islands (8,980 persons), Guam (5,820), and Palau (1,005) reported numbers working in tourism (Table A-14). The CNMI reported 3,375 working in tourism in 1994. All Areas saw increases in numbers of tourism workers, except in the Virgin Islands in the last two years. However, employment reported in the tourism industry appeared to grow more slowly than did visitor arrivals and expenditures in the Western Pacific destinations. (Palau's 1991 and 1992 data appear to be in error.)

Insular Area	1995	1994	1993	1992	1991	1990
American Samoa	NA	NA	NA	NA	NA	332
CNMI	NA	3,375	2,702	2,705	2,209	1,597
Guam	5,820	5,190	5,060	5,290	5,560	4,160
Virgin Islands	8,980	9,680	9,860	9,110	8,990	8,640
Republic of Palau	1,005	968	931	115	115	NA

Sources: Guam Visitors Bureau. Palau Visitors Authority, Republic of Palau. Office of Planning and Statistics, Ministry of Finance, Ministry of Education for the Marshall Islands.

In 1995, Guam had the largest number of hotel rooms, at 7,140, followed by the Virgin Islands and the CNMI (Table A-15). Between 1990 and 1995, the number of hotel rooms in Palau doubled, increasing from 341 to 699. After Palau, Guam experienced the largest increase in the number of hotel rooms during the 1990s — 44 percent — followed by the CNMI (34 percent).

Insular Areas	1995	1994	1993	1992	1991	1990
American Samoa	260	260	260	233	205	205
CNMI	3,561	3,362	3,362	2,852	2,592	2,651
Guam	7,140	6,873	6,616	6,218	5,894	4,955
Virgin Islands	5,148	5,461	5,406	5,050	4,738	4,520
Republic of Palau	699	580	580	508	456	341
Marshall Islands	175	182	NA	NA	NA	NA

Sources: Guam Visitors Bureau. Palau Visitors Authority, Republic of Palau. Office of Planning and Statistics, Ministry of Finance, Ministry of Education for the Marshall Islands.

*Federal Expenditures.* Tables A-16 to A-20 show Federal Expenditures in the Insular Areas (excluding the Freely Associated States), with Tables A-16 through A-19 showing expenditures in United States and Puerto Rico for comparison.

Table A-16 shows expenditures in fiscal 1995. Federal funds amounting to about \$817 million went to Guam, \$468 million to the Virgin Islands, \$126 million to the Northern Mariana Islands, and \$52 million to the Commonwealth of the Northern Mariana Islands. More than half the funds going to American Samoa and the CNMI were in the form of grants to the local governments, somewhat less than half of the funds to the Virgin Islands were in this category, while a larger proportion of the funds to Guam were in the category of wages and salaries, due to the large military establishment there.

Table A-16. Summary Distribution of Federal Funds, U.S. and Insular Areas: Fiscal Year 1995 [In million dollars. Detail may not add to total due to rounding.]						
Federal Expenditure	United States	Puerto Rico	Amer. Samoa	Guam	CNMI	Virgin Islands
Total	1,363,511	9,939	126	817	52	468
Grants to local governments	228,936	3,535	73	162	41	217
Salaries and wages	168,151	704	3	370	2	45
Direct payments - individuals	717,157	5,143	30	139	4	160
Procurement	202,209	366	18	125	2	34
Other programs	47,058	191	4	20	3	11

Source: U.S. Bureau of the Census, Federal Expenditures by State for Fiscal Year 1995. U.S. GPO, Washington, DC, 1996, table 1.

Table A-17 shows the recent historical record of Federal Funding in the United States, Puerto Rico, and the Insular Areas. The amounts going to the Insular Areas varied considerably from year to year. American Samoa showed substantial growth, while Guam increased to more than one billion dollars in 1994 before declining in 1995, and the CNMI peaked in 1991 with the height of Covenant funding and the Virgin Islands peaked in 1990.

Table A-17. Historical Summary of Federal Funds, U.S. and Insular Areas: FY 1986-1995 [In million dollars. Detail may not add to total due to rounding.]						
Fiscal Year	United States	Puerto Rico	Amer. Samoa	Guam	CNMI	Virgin Islands
1995	1,363,511	9,939	126	817	52	468
1994	1,320,132	9,315	111	1,048	61	386
1993	1,260,212	8,797	98	952	54	381
1992	1,191,087	8,346	137	843	75	313
1991	1,096,493	8,070	86	715	81	417
1990	1,002,703	7,699	103	895	68	527
1989	935,105	6,630	132	625	65	241
1988	884,131	6,231	62	685	61	239
1987	848,163	6,143	66	681	59	302
1986	829,947	6,022	64	621	56	447

Source: U.S. Bureau of the Census, Federal Expenditures by State for Fiscal Year 1995. U.S. GPO, Washington, DC, 1996, table 11.

Table A-18 shows the proportion of Federal Funding in fiscal 1995 which was defense related. The Department of Defense accounted for more than 60 percent of Guam's federal funds. The other areas all had smaller percentages for Defense funding than the United States as a whole. Per capita federal defense expenditures were highest for Guam (\$3,729 per person), and lowest for the CNMI (only \$29 per person). Non-defense per capita expenses ranged from a high of \$4,171 per person for the Virgin Islands, to \$1,185 for the CNMI. (The CNMI figure would be about twice as high if only U.S. citizens were included. Per capita federal expenditures in insular areas are much lower than in the United States as a whole due primarily to much lower disbursements of transfer payments to individuals, such as social security and related programs, in the insular areas.

Federal Expenditures	United States	Puerto Rico	Amer. Samoa	Guam	CNMI	Virgin Islands
Federal expenditures:						
Department of Defense	226,583	590	6	496	1	42
Percent	16.6	5.9	4.8	60.7	1.9	9.0
All other Federal agencies	1,136,928	9,349	120	321	51	425
Per capita Federal expense (\$):						
Department of Defense	858	166	127	3,729	29	416
All other Federal agencies	4,303	2,632	2,561	2,416	1,185	4,171

Source: U.S. Bureau of the Census, Federal Expenditures by State for Fiscal Year 1995. U.S. GPO, Washington, DC, 1996, table 11.

Table A-19 shows federal grants and other payments directly to insular governments during fiscal 1995 (excluding wages and payments to individuals). The Virgin Islands received the largest amount of these payments, at \$217 million, followed by Guam (\$162 million), American Samoa (\$72 million) or the CNMI (\$41 million). On a per capita basis, these grants were; Virgin Islands: \$2,134, American Samoa: \$1,553, Guam: \$1,218, and CNMI: \$951 (again per capita CNMI grants would be about twice as high if only U.S. citizens were counted). This compares to per capita federal payments to all state and local governments of \$874 in 1995. Not included in these payments are the "mirror" income taxes based on the Internal Revenue Code but paid directly to the insular governments.

Table A-19. Federal Expenditure by Agency, U.S. and Insular Areas: FY95 [In thousand dollars. Detail may not add to total due to rounding.]						
Federal Expenditures	United States	Puerto Rico	Amer. Samoa	Guam	CNMI	Virgin Islands
Total	228,935,961	3,535,237	72,651	162,345	41,219	217,218
Dept of Agriculture	16,089,507	1,422,526	8,268	12,938	1,574	16,364
Dept of Commerce	557,151	6,359	2,310	789	108	680
Corp for Public Broadcasting	292,467	2,717	381	405	0	460
Dept of Defense	244,824	53	0	666	0	0
Dept of Education	15,955,128	383,885	11,594	18,638	6,066	18,926
Dept of Energy	254,939	275	0	190	146	0
Environmental Protection Agency	3,352,726	21,000	0	3,648	1,351	215
Fed Emergency Management Agency	1,488,606	6,632	5	4,312	0	7,530
Dept Health & Human Services	126,077,340	494,364	8,321	23,482	3,330	28,561
Dept Housing & Urban Development	25,607,288	566,646	251	18,149	220	55,381
Dept of the Interior	1,889,417	11,546	31,649	49,978	15,411	51,421
Fish and Wildlife Service	415,170	10,965	1,031	1,220	682	846
National Park Service	62,502	560	244	195	266	253
Office of Insular Affairs	167,385	0	30,374	48,562	14,463	50,312
Dept of Justice	1,889,861	10,613	1,631	2,899	722	2,449
Dept of Labor	7,001,049	135,158	1,153	4,189	689	8,481
National Endowment of Arts	45,108	601	291	215	192	218
Dept of Transportation	26,311,190	120,138	6,797	21,846	11,410	22,325
Dept of the Treasury	393,807	344,075	0	1	0	4,196

Source: U.S. Bureau of the Census, Federal Expenditures by State for Fiscal Year 1995. U.S. GPO, Washington, DC, 1996, table 2.

Note: Some agencies with small expenditures in Insular Areas not shown separately.

Table A-20 shows appropriations for the Office of Insular Affairs (OIA) only for fiscal years 1991 through 1995. The amount of appropriations for the OIA decreased in each of the first 4 years of the decade, before rebounding very slightly in 1995. Most of the appropriations are in the form of direct support to the Insular Areas (90 percent in 1995), with a fairly small amount going to administration (10 percent in 1995).



Appropriation	1995	1994	1993	1992	1991
Total Appropriations	192,844	189,135	201,471	206,892	215,357
Support to Insular Areas	174,402	167,638	179,836	186,859	190,585 2,487
Guam	2,495	0	0	0	2,487
Construction Grants	0	0	0	0	0
Impact of Compact	2,495	0	0	0	26,834
American Samoa	28,538	28,190	28,837	26,645	21,885
Operations Grant	23,046	23,090	22,690	22,399	4,949
Construction Grants	5,492	5,100	6,147	4,246	20,393
Virgin Islands	998	4,500	2,975	15,305	20,393
Construction Grants	0	4,500	2,975	15,305	0
Crime Control	998	0	0	0	31,337
Northern Mariana Islands	27,720	27,720	27,720	30,682	11,000
Covenant Operations	0	0	0	10,330	17,850
Covenant Construction	27,720	27,720	27,720	17,390	2,487
Other Construction Grants	0	0	0	2,962	
Trust Territory of the Pacific Islands	19,800	23,838	23,051	24,143	45,591
Administration	1,371	1,374	793	790	12,932
Republic of Palau	*18,429	22,464	22,258	23,353	32,659
Operation Grants	*18,429	18,464	18,438	17,429	16,645
Construction	0	4,000	3,820	5,924	16,014
Income tax payment to Guam	39,872	50,100	66,293	62,565	35,292
Rum tax rebate to Virgin Is.	52,500	33,290	30,960	27,519	28,651
Territorial Administration	18,442	21,497	21,635	20,033	24,772
Territorial & International Affairs	4,269	4,538	4,507	3,979	3,290
Technical Assistance	6,164	7,535	7,535	8,556	6,665
Guam Power Authority Assist	0	0	1,260	1,327	1,387
Maintenance Assistance Fund	4,394	4,462	4,462	4,937	4,974
Substance Abuse Prevention	733	734	734	740	995
Rongelap Studies	0	0	595	0	0
Disaster Fund	1,541	1,983	1,983	0	7,461
Brown Tree Snake Control	594	595	559	494	0
Insular Management Controls	747	1,650	0	0	0

Source: Office of Insular Affairs, Department of the Interior  
Note: \* \$17,438,000 of the 1995 funding for the Republic of Palau's operations was offset against the Compact of Free Association.

## Housing Characteristics

The Virgin Islands had almost 44,000 housing units in 1995, largest of the Insular Areas. The 44,000 units represented an 11 percent increase from 1990. Guam had about 36,500 units in 1995, up slightly from 1990. The Northern Mariana Islands showed the largest percentage increase in units, increasing from about 8,000 units in 1990 to almost 15,000 in 1995, an increase of 82 percent during the first 5 years of the decade. American Samoa increased by about 1,500 units (about 22 percent), while Palau's housing inventory appeared to decrease slightly, a probably error subject to correction.

Year Area	Housing Units	Percent			Median number of rooms	Percent				
		One family house detached	Outside walls concrete	Roof poured concrete		Complete plumbing	Hot and cold water	Flush toilet	Water from public system	Connected to public sewer
1995										
United States	106,611,000	60.3	NA	NA	5.3	97.8	99.9	99.8	84.7	75.8
Puerto Rico	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Virgin Islands	43,707	43.5	NA	NA	4.3	86.5	81.1	99.2	49.2	54.6
Guam	36,505	59.7	91.2	82.9	4.3	97.4	88.1	99.0	99.6	73.8
Northern Marianas	14,927	53.4	71.2	51.6	3.2	80.7	41.4	90.9	91.3	35.6
American Samoa	8,460	84.1	52.0	2.8	4.1	59.0	17.5	95.2	74.1	29.4
Palau	3,235	74.6	35.0	12.8	4.0	45.2	20.5	62.3	92.1	41.3
FSMicronesia	16,609	88.9	42.1	14.8	3.2	8.5	4.0	34.4	17.8	10.7
Marshall Islands	5,126	NA	NA	NA	NA	NA	NA	48.1	22.2	NA
1990										
United States	102,263,678	64.3	NA	NA	5.2	98.9	NA	NA	84.2	74.8
Puerto Rico	1,188,985	71.1	83.6	75.2	4.9	94.6	NA	NA	95.6	59.8
Virgin Islands	39,290	52.3	NA	NA	4.3	94.0	NA	NA	81.0	50.2
Guam	35,223	73.3	85.8	79.2	5.0	60.2	81.1	97.0	99.2	74.0
Northern Marianas	8,210	81.8	66.5	48.1	4.0	72.1	36.3	83.0	93.8	33.6
American Samoa	6,959	94.0	42.5	1.0	4.5	53.2	17.2	93.4	62.7	59.2
Palau	3,312	90.8	26.5	10.5	4.0	32.8	12.1	46.3	86.8	29.5
FSMicronesia	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Marshall Islands	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
<p>Source: 1988 Marshall Islands Census, 1990 Census reports for the Areas, 1993 American Housing Survey, 1994 Census of the Federated States of Micronesia, 1994 Marshall Islands Household Survey, preliminary data from for 1995 censuses of Palau and the CNMI and 1995 surveys of Guam, American Samoa, and the Virgin Islands</p> <p>Notes: Much of the data from the 1995 surveys are not yet edited and tabulated, so the numbers <b>will change</b> and must be considered here only for illustrative purposes; final data will be made available through the respective Areas offices or from OIA when edited and tabulated; "1995" data for the U.S. are for 1993 from the American Housing Survey, data are from 1994 for Marshalls and FSM; "1990" data for the Marshall Islands are from the 1988 Census.</p>										

*Units in structure.* Most islanders live in one family houses, detached from other units. The exception to this general rule is the Virgin Islands, where less than 44 percent of the population lived in these detached units, down from 52 percent in 1990, partly as a result of the hurricanes destroying many single family units. Most of the other areas are also experiencing booms in apartment building. The percentage living in detached units on Guam decreased from 73 percent to 60 percent during the first five years of the decade, in American Samoa from 94 percent to 84 percent, and in Palau from 91 percent to 75 percent. It was in the CNMI, however, where the decline is most pronounced — in 1990, 82 percent of the population lived in single family detached units, but only 53 percent of the 1995 population lived in these units.

*Construction.* Type of materials for walls and roof has been asked in the last few Pacific Islands censuses. The percentage of units with outside concrete walls increased for each of the areas having 1990 and 1995 data, with Guam having more than 9 in every 10 units with concrete walls by 1995.

Similarly, larger percentages of units had poured concrete roofs in 1995 than in 1990 for each of the areas having these data.

*Rooms.* Houses in the areas tend to be smaller than those in the United States. The average unit in most of the Insular Areas had about 4 rooms, one less than in the United States, but the CNMI and the Federated States of Micronesia housing units had only about 3 rooms, on average. Also, the size of the units tended to decrease in the Areas over the first 5 years of the 1990s, partly attributable to the trend towards apartment living.

*Plumbing facilities.* Most of the Areas saw large increases in the numbers of units with complete plumbing during the 1990s. Palau, for example, increased from 33 percent of the units having complete plumbing in 1990 (hot and cold water, a tub or shower, and a flush toilet) to 45 percent in 1995. Similarly, American Samoa and CNMI showed large increases during the 5 years; Guam showed an enormous increase, but this situation is partly explained by definitional problems in the 1990 census. The percentage of Virgin Islands units with complete plumbing decreased between 1990 and 1995, presumably partly as a result of the hurricanes.

The areas tended to show increases in use of hot and cold running water during the period. About 1 in every 5 Palau units in 1995 had hot and cold water, compared to only about 1 in 8 in 1990. Guam and the CNMI also showed comparatively large increases in hot and cold water use (and, consequently, more impact on the electrical systems needed to heat the water). The installation and use of flush toilets also increased rapidly in the 1990s. The percentage of Palau's units with a flush toilet went from 46 percent in 1990 to 62 percent in 1995, and in CNMI, from 83 percent to 91 percent.

*Source of water.* While the percentage of U.S. units obtaining water from a public systems has remained relatively constant, most of the areas increased access to public systems. The one exception to this rule was the Virgin Islands, which saw access to the public system decrease from 81 percent to 49 percent between 1990 and 1995, indicating some problem with the data, even taking the effect of hurricanes into account. The percentage in the CNMI using the public system also decreased, but only slightly during the period. But the percentage of Palau's units increased from 87 to 92 percent, and of American Samoa's units, from 63 to 74 percent.

*Public sewer.* Similarly, increasing numbers of units were connected to public sewers during the 1990s, with Palau showing the largest increase, from 30 to 41 percent.

Year Area	Housing Units	Percent							Median monthly rent paid	Median value of house
		Owner occupied	Compl. kitchen facilities	With Electricity	With Refrigerator	Air conditioning	With Telephone	With Automobile		
1995										
United States	106,611,000	64.7	96.4	100.0	97.4	69.6	6.6	89.7	\$494	\$86,418
Puerto Rico	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Virgin Islands	43,707	52.4	NA	NA	NA	11.5	90.0	74.6	\$412	\$124,400
Guam	36,505	54.6	91.3	99.7	98.8	81.2	94.4	98.5	\$708	\$179,286
CNMI	14,927	33.5	79.5	93.7	84.3	64.1	59.9	86.6	\$449	\$189,020
American Samoa	8,460	81.2	59.5	98.1	84.5	9.6	67.8	53.4	\$321	\$29,670
Palau	3,235	75.7	72.4	99.2	82.0	24.2	53.4	36.5	\$372	\$28,676
FSMicronesia	16,609	73.8	11.3	51.2	23.5	5.4	26.8	23.3	\$467	\$4,968
Marshall Islands	5,126	89.3	NA	53.8	42.3	NA	NA	NA	NA	NA
1990										
United States	102,263,678	64.2	98.9	NA	NA	NA	94.8	88.5	\$372	\$78,300
Puerto Rico	1,188,985	72.1	96.1	NA	NA	15.1	63.7	68.1	\$154	\$36,200
Virgin Islands	39,290	44.6	94.0	NA	NA	NA	81.5	73.2	\$323	\$112,700
Guam	35,223	45.6	93.0	98.5	97.5	68.9	92.1	95.2	\$547	\$130,500
CNMI	8,210	43.4	69.5	91.1	82.9	51.6	39.6	81.5	\$470	\$169,000
American Samoa	6,959	78.1	54.9	94.4	79.5	7.6	37.4	51.4	\$279	\$26,600
Palau	3,312	76.4	61.8	87.5	66.8	13.6	58.1	52.1	\$253	\$23,500
FSMicronesia	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Marshall Islands	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: 1988 Marshall Islands Census, 1990 Census reports for the Areas, 1993 American Housing Survey, 1994 Census of the Federated States of Micronesia, 1994 Marshall Islands Household Survey, preliminary data from for 1995 censuses of Palau and the CNMI and 1995 surveys of Guam, American Samoa, and the Virgin Islands

Notes: Much of the data from the 1995 surveys are not yet edited and tabulated, so the numbers **will change** and must be considered here only for illustrative purposes; final data will be made available through the respective Areas offices or from OIA when edited and tabulated; "1995" data for the U.S. are for 1993 from the American Housing Survey, data are from 1994 for Marshalls and FSM; "1990" data for the Marshall Islands are from the 1988 Census.

*Tenure.* About 65 percent of the housing units in the United States are "owner" occupied, that is, owned outright or with a mortgage; this definition is often problematic in the Pacific areas where land is communal, and families may build units of simple construction, units which would be considered temporary in other cultural situations. Nonetheless, some comparisons can be made. The percentage of owner-occupied units in the Virgin Islands and Guam increased significantly between 1990 and 1995 to over 50 percent. The percentage for CNMI, however, decreased from 43 percent to 34 percent, probably as a result of the large numbers of apartments being built. The percentage for American Samoa increased slightly, and for Palau decreased slightly, but the very large percentage owner occupied is partly due to the building of units on communal land.

*Kitchen facilities.* A unit has complete kitchen facilities when cooking facilities (electric, kerosene, or gas stove, microwave oven and non-portable burners, or cookstove), refrigerator, and a sink with piped water are located in the same building as the living quarters being enumerated. CNMI, American Samoa, and Palau all experienced large increases in percentage of units with complete kitchens. Palau's increase was from 62 percent to 72 percent over the 5 years, the CNMI increased by 10 percentage points (to almost 4 in every 5 units), and American Samoa increased 5 percentage points. Only Guam saw a slight increase over the 5 years.

*Electricity and appliances.* Almost all units in the Insular Areas had electricity by 1995. At 94 percent, the CNMI's units with electricity was lowest of the 4 Areas with 1990 and 1995 data, but even here an increase was found. Palau increased from 88 percent to 99 percent of its units, and American Samoa increased from 94 to 98 percent of its units. It is useful to note that in 1994, only about half of the units in the Federated States of Micronesia and the Marshall Islands had electricity.

The percentage with refrigerator in Palau increased from 67 percent to 82 percent in the first 5 years of the decade, outpacing the increases for American Samoa (a 5 percentage point increase) and CNMI (1.5 percentage points). Increases of this sort imply increased demand on energy in the Area.

Similarly, units with air conditioners increased rapidly during the 1990s. The percentage of units on Guam with air conditioning increased from 69 to 81 percent, and in CNMI from 52 to 64 percent. The percentage increase was even more striking in Palau, where about 1 in every 8 units had air conditioning in 1990, but this changed to about 1 in 4 in 1995. Only about 1 in 10 units in American Samoa and the Virgin Islands was air conditioned, and only 1 in every 20 units in the Federated States of Micronesia. Also, access to a telephone increased sharply during the first part of the 1990s. While the percentage of units in Palau appeared to decrease (subject to revision) during the decade, the percentage of units in American Samoa increased from 37 to 68 percent, and in CNMI from 40 to 60 percent.

*Vehicles.* The percentage of units with a vehicle increased as well. In Guam, by 1995, more than 98 percent of the units had a car or other vehicle, compared to 95 percent in 1990. The CNMI increased from more than 81 percent to 87 percent, and American Samoa increase from 51 to 53 percent.

*Rent.* The median monthly rent in Guam (for those rented homes) was highest in 1995, at \$708 more than \$200 more than the median rent for the U.S., and considerably more than for any of the other Areas. The median rent in Guam increased by about \$150 during the 5 year period between the 1990 census and the survey; rents in Palau and the Virgin Islands also increased considerably during the 5 years.

*Value of house.* The values of houses in the Virgin Islands, Guam, and the CNMI remained much higher than those in the U.S., partly because of increased costs in building in the Areas, and partly because of rising demand. The median value of houses in Guam jumped considerably during the first 5 years of the decade. Values of units in American Samoa and Palau remained low, showing the influence of traditional style housing.

## **Conclusions**

The data presented in this appendix provide useful comparisons between the United States and its Insular Areas. While the series continues comparative data from previous State of the Islands reports, we hope that the direction set here will continue, and that we will be able to provide more comparative data in future years.

This first summary of preliminary data from the 1995 censuses and surveys, while illustrative, will be more useful in the 1997 State of the Islands report when the data have been edited and tabulated. With OIA financial and technical assistance, the insular areas have been able to obtain mid-decade statistical information for the first time. Unlike in the 1980s, when areas had to continue to use 1980

Census data for planning, in the late 1990s, relatively current data will be available for both public and private sector planning and policy formation. Since all of the areas continue to have formidable migration streams, these data will prove especially useful.