



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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Governor

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Testimony of
The Honorable Benigno R. Fitial
Governor of the Commonwealth of the
Northern Mariana Islands

before the
Senate Energy and Natural Resources Committee
on

Impact of increased minimum wages on the economies of American Samoa
and the Commonwealth of the Northern Mariana Islands

February 28, 2008

Mr. Chairman and Members of the Committee: Thank you for the opportunity to appear before you today to testify regarding the minimum wage levels in the Commonwealth of the Northern Mariana Islands. We appreciate your prompt attention to this matter in light of the second increase currently scheduled for May 28, 2008. This is a matter of critical importance to the CNMI.

The CNMI economy is in the third year of a serious depression. We believe that a second increase in minimum wage level will seriously impede our efforts to rebuild our economy over the next 12-18 months. We ask this Committee to support deferral of this increase and to advocate an alternative legislative approach more realistic and flexible than is presently incorporated in Public Law No. 110-28.

We have reviewed the recently completed U.S. Department of Labor's "Impact of Increased Minimum Wages on the Economies of American Samoa and the Commonwealth of the Northern Mariana Islands". We commend the U.S. DOL for their effort, and strongly agree with the report. We believe that the Members of this Senate Committee should carefully consider the U.S. DOL report regarding the impact of higher wage costs on the CNMI.

We concur with the concerns as stated in the U.S. DOL's Executive Summary (pp. iv-v):

"The scheduled minimum wage increases for the CNMI are expected to add further challenges to an already declining economy. With both of its major

industries declining simultaneously, the CNMI economy is in overall decline, and its current economic situation makes it especially vulnerable to additional shocks. While data are not readily available to precisely quantify the impact of the recent and scheduled increases in the minimum wage, it seems likely that the current economic decline may be made worse. General experience in the U.S. and elsewhere has shown that potential adverse employment effects of minimum wage increases can be masked or offset to some degree by an expanding economy that is generating net employment growth. In a declining economy, any adverse effects on employment will not be offset.”

The Department of Labor acknowledged – and we agree – that the six months since the first fifty-cents increase did not provide a long enough period to generate comprehensive data that might document more specifically the adverse impacts on the CNMI economy resulting from the first increase.

We believe, as suggested by U.S. DOL’s report, that the past increase did have serious adverse effects on the CNMI’s declining economy. Our Administration has gathered enough additional evidence of its impact to existing industry and business activity to request that the Senate Energy and Natural Resources Committee recommend a delay of the second minimum wage increase scheduled under P.L. No. 110-28 on May 28, 2008.

CNMI Economy Today

The CNMI economy is largely dependent upon its two industries; tourism and apparel manufacturing. This sum total of revenue from the two industries, and service companies' business activity, supply the CNMI government with operational funds. Both industries are in severe decline, with tourism regarded as the only long term industry.

The CNMI had the fastest growing economy in the Pacific from 1978 to 1997, but economic conditions can be best described as in decline since 1998. Business gross revenue reported to the CNMI Division of Revenue and Taxation peaked at \$2.6 billion in 1997. The Asian economic crisis of 1998 resulted in a 30% decrease in tourist arrivals overnight, and reported business gross revenues dropped by \$400 million to \$2.2 billion in 1998. Without a healthy apparel manufacturing base, the CNMI would have suffered more.

Reported business growth revenue stayed at this level through 2001. A combination of the aftermath of the 9/11 terrorist attacks and war in Afghanistan and Iraq, as well as a regional SARS epidemic, reduced revenue to a \$2 billion level from 2002 – 2005.

Business gross revenue further declined to \$1.9 billion in 2006, and to \$1.7 billion in 2007, as the CNMI's tourism suffered from forces outside our control, and our apparel industry continued its dramatic because of Asia's increased competitiveness and changes in the World Trade Organization's elimination of quota restrictions on WTO Member nations' trade with the United States.

Despite some few positive signs in tourism and educational development, the CNMI's economy may further decline in 2008. Tourism was adversely affected by the pullout of Japan Airlines in October 2005, but we are beginning to see some additional flights added. A steady drop in arrivals has been registered by the Marianas Visitors Authority since the peak year of 1996. The year 1996 saw 736,117 visitors, while 2007 had 389,261 (MVA attachment-I).

The Hotel Association compiled statistics showing that the average occupancy rates for 2007 were slightly above 58%, the worst since the terrorist attacks of 9/11. Average room rates are at \$92/night, off the peak of \$136/night in 1997 (HANMI attachment-II).

There are only seven remaining licensed apparel manufacturing firms certified to export to the United States under the CNMI's special tariff privilege (Factory License Timeline attached-III). From a high of 34 firms with \$1.07 billion in sales in FY 1999, export sales to the U.S. were down to \$362 million in FY 2007. The largest tax paid on production, the user certification fee, was at \$39.6 million in FY 1999, \$13.4 million in FY 2007 and collections are at \$2.9 million in the first third of FY 2008 (User Fee chart attached-IV). The apparel industry accounted directly for 26% of the CNMI's general fund revenue of \$228 million in 2000, 12% of the CNMI's \$163 million in 2007 and will account for an expected 8% of the \$160 million in projected 2008.

The CNMI's annual general fund revenue of debt service has followed the same trend as business gross revenue, peaking at \$242 million in FY 1997, with a continual decline since to \$193 million in FY 2006 and \$163 million in 2007. FY 2008 general fund revenues net of debt service are projected to decline to \$160 million under current revenue laws due to continuing decline in the apparel sector's contributions and lower tourism levels as lower airline capacity from the Japan Airline pullout has not been replaced. The CNMI Government currently has a cumulative deficit approaching \$200 million and has had increasing difficulty funding critical public health, public safety and education services, which account for 60% of annual expenditures, at the current revenue levels.

The CNMI Department of Commerce's Economic Indicator quarterly report reflects across the board decreases in banking activity, remittances from the CNMI, automobile sales, visitor arrivals, hotel occupancy and room rates, business gross revenue, imports and exports, work permits issued, commercial and residential telephone lines, building permits and other consumer and government revenue concerns (CNMI 4th Quarter Economic Indicator attached-V).

Minimum Wage Increase Impact

The inflationary effects of the first minimum wage increase of July 25, 2007 have yet to be fully realized. We know consumer prices have reflected the new wage increase. Rising tariff rates, increasing fuel costs and higher power rates are passed onto the consumer

wherever possible. Increases in minimum wage rates affect consumer goods pricing, as well.

In the case of industry, where a greater number of minimum wage earners are employed, there's a greater risk, or loss, for the CNMI when competing for tourist arrivals and apparel sales. Industry has done everything it can to adjust to their increased costs, but the second increase will force many into situations never seen before. Government revenue from business activity in the retail, wholesale and service companies will fall further.

The CNMI is fast approaching "tipping points" with respect to the cost of doing business for the private sector, while the CNMI Government ultimately loses with unsustainable costs to its private sector.

The Hotel Association of the Northern Mariana Islands (HANMI) stated in a report prepared for the CNMI Administration that of 16 hotels polled (2 have yet to respond) 64% of all hotel employees will be affected by the next minimum wage increase. The estimated impact to the hotels is \$1,655,450.00 (Association report attached-VI).

Hotel corporate responses to the past minimum wage increase include the following:

- cutting employee hours
- cutting employee headcount
- cutting benefits to employees

- increasing costs of benefits to employees
- freezes on hiring
- reduction of hotel guest amenities
- charging for employee staff housing and meals to offset wage increases
- reduction in buffet selection for hotel guests
- elimination of some supervisory and management positions
- conducting cross-training of employees
- discontinuing employee housing due as power costs are enormous (.344/kwh)
- elimination of overtime hours
- rationing of utilities such as air conditioning and water heaters

All of these responses compromise guest comfort and threaten the hotels ability to conduct business.

The largest business organization in the CNMI, the Saipan Chamber of Commerce, has a diverse membership of over 160 businesses. Some of their responses to SCC's survey on minimum wage impact included the following:

- reduction in staff,
- reduction in work hours
- reduction in energy consumption
- discontinuation of food and other benefits,
- eliminating positions currently unfilled and
- putting into place a hiring freeze until the economy improves.

We know our apparel industry is a “sunset” industry. Once again, forces outside the control of the CNMI will dictate the industry’s lifespan and economic benefit to the CNMI. We estimate the withdrawal of half the remaining firms at the outset of any further increase in minimum wage rates. Three of the firms appear to have developed a niche market, for the time being.

In the case of the tourism industry, and the retailers, concession firms and other tourist attraction firms in the CNMI that depend upon the health of the industry, this is where what is effectively managed with cost control can bring back a once vital part of the CNMI economy. We know it takes time, effort and attractive circumstances to re-invent ourselves as a business investment opportunity. However, we must protect what business activity we now have in the CNMI.

This Administration requests that the Senate Energy and Natural Resources Committee remain cautious and prudent in recommending to the appropriate congressional committees that a second increase in minimum wage rates in the Commonwealth of the Northern Mariana Islands be deferred, and flexibility be installed through changes in Public Law No. 110-28.

The CNMI would always support economically sustainable increases in the minimum wage levels as long as measurements are conducted that guarantee saving jobs and rebuilding the CNMI's economy.

We offer attached copies (VII and VIII) of both the December 13, 2007 correspondence to Chairman Robert C. Byrd of the Senate Committee on Appropriations, and the May 18, 2007 correspondence to the Appropriations Committees in the House and Senate where the Energy and Natural Resources Committee states:

“We support increases in the minimum wage but believe that they must be based, not on a fixed schedule, but on a careful analysis of what can be sustained without significant disruption (May 18, 2007).” Also, “We support increases in the minimum wage, but believe they must be based, not on a fixed schedule, but on careful analysis (December 13, 2007).”

This Administration agrees with the Senate Energy and Natural Resources Committee in recommending that the United States Department of Labor make determinations on minimum wage adjustments for the Commonwealth of the Northern Mariana Islands, as well as for American Samoa, based upon careful and thorough analysis.

As outlined in the December 13, 2007 Senate Energy and Natural Resources Committee letter to Appropriations Chairman Robert C. Byrd, and by applying this amendment to the CNMI, our chances to rebuild our economy would be enhanced through the work performed by the U.S. DOL.

We further believe the Department of Labor could utilize the work currently being undertaken by the Government Accountability Office (GAO), requested by the Senate Committee on Energy and Natural Resources, on impact of proposed changes within the CNMI economy. GAO's report, utilized by U.S. DOL, could provide the Congress with a much clearer picture of past and future impact of the substantial minimum wage increases.

Once again, I thank you for this opportunity and for your full consideration of our position and request for additional care when setting minimum wage rates in the CNMI. I fully recognize the long history on this matter, but believe we have an opportunity to carefully move forward on the basis of consensus and good faith from all parties. In that spirit, I look forward to working with your Committee to re-enact wage legislation for the CNMI that will be in the interest of the greatest number of our workers, and will help maintain and support a viable private sector.