THE IMPACT OF THE COMPACTS OF FREE ASSOCIATION ON THE UNITED STATES TERRITORIES AND COMMONWEALTHS AND ON THE STATE OF HAWAII

Pursuant to Public Law 99-239
Section 104(e)(2)

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1. Background:

a) The Statute:

In 1985, Congress passed Public Law 99-239, approving the Compact of Free Association, which established the Federated States of Micronesia and the Republic of the Marshall Islands as independent nations in free association with the United States. Special benefits for the new freely associated states caused concerns in the Pacific insular areas of the United States and the State of Hawaii. Of greatest concern was the provision in Section 141(a) permitting citizens of the freely associated states to "enter into, lawfully engage in occupations, and establish residence as a nonimmigrant in the United States and its territories and commonwealths..." It was anticipated by Congress that any migration from the freely associated states to the United States would be concentrated, at least initially, in nearby Guam, the Commonwealth of the Northern Mariana Islands and the State of Hawaii. Another provision of concern permitted a limited amount of duty-free importation of canned tuna from the freely associated states, in potential competition with existing canneries in American Samoa.

The Congress expressed its concern by adding language regarding impact as section 104(e) of P.L. 99-239, beginning with a statement of intent:

> (1) STATEMENT OF CONGRESSIONAL INTENT.--In approving the Compact, it is not the intent of the Congress to cause any adverse consequences for the United States territories and commonwealths or the State of Hawaii.

This report to Congress is prepared in response to section 104(e)(2) of P.L. 99-239, which states:

> (2) ANNUAL REPORTS AND RECOMMENDATIONS. --One year after the date of enactment of this joint resolution and at one year intervals thereafter, the President shall report to the Congress with respect to the impact of the Compact on the United States territories and commonwealths and on the State of Hawaii. Reports submitted pursuant to this paragraph (hereafter in this subsection referred to as "reports") shall identify any adverse consequences resulting from the Compact and shall make recommendations for corrective action to eliminate those consequences. The reports shall pay particular attention to matters relating to trade, taxation, immigration, labor laws, minimum wages, social systems and

> infrastructure, and environmental regulation. With regard to immigration, the reports shall include statistics concerning the number of persons availing themselves of the rights described in section 141(a) of the Compact during the year covered by each report. With regard to trade, the reports shall include an analysis of the impact on the economy of American Samoa resulting from imports of canned tuna into the United States from the Federated States of Micronesia and the Marshall Islands.

The above language identified several matters for particular attention but required specific information on only two subjects: statistics on the number of persons migrating as a result of the compact provision permitting entry into the United States and an analysis of the impact on American Samoa of canned tuna imports from the freely associated states.

Section 104(e)(3) required the President to request the views of the government of each affected area and "transmit the full text of these views to the Congress as part of such reports." Appendix B contains a sample letter requesting views of the governments and the full text of those responses received.

Section 104(e)(4) went on to state the Congress's intent, if adverse consequences result, to "act sympathetically and expeditiously to redress those adverse consequences." Section 104(e)(6) also included an authorization for;

> ...such sums as may be necessary to cover the costs, if any, incurred by the State of Hawaii, the territories of Guam and American Samoa, and the Commonwealth of the Northern Mariana Islands resulting from any increased demands placed on educational and social services by immigrants from the Marshall Islands and the Federated States of Micronesia.

When the Congress passed P.L. 99-658, approving the Compact of Free Association for Palau, it applied the same impact provisions to Palau Compact. The Congress did not specify any formula or guidelines for determining an amount to be appropriated to cover these costs. Furthermore, the population whose costs are covered by the authorization is ambiguous. It may refer to all "immigrants" from the freely associated states, only those who migrated after the implementation of their respective compact, or only those whose migration would not have been possible under other non-Compact provisions of the immigration laws. It is not clear whether children born to these Compact migrants are to be included and, if so, up to what age. The answers to these questions have not been provided in any subsequent clarification by the Congress.

b) Federal Government Actions regarding Impact:

Last year's report detailed the reports, testimony, and technical assistance grants by the Department of the Interior regarding Compact impact. Following Interior's report of 1989, which began a major program of impact measurement and mitigation, Interior representatives testified annually before congressional appropriations committees in support of Interior technical assistance funding and programs of other agencies to mitigate the strain that Micronesian migrants were placing on locally funded programs in Guam and the CNMI.

Technical Assistance funding from OIA for impact analysis and mitigation since 1989 now totals $3 million for Guam and $1.3 million for the CNMI. In addition, a grant of $120,000 was made to the Pacific Basin Development Council in Honolulu to perform a census of Micronesians in Hawaii, with the assistance of the Census Bureau.

In addition to technical assistance, the Congress has appropriated funds specifically for impact mitigation. Guam received $2.5 million in fiscal year 1995 and is receiving an additional $27.5 million over six years through fiscal year 2001. The latter appropriation was in response to the Interior Department's budget request for fiscal year 1996 and was supported by testimony from OIA Director Allen Stayman as an attempt to mitigate the impact of migration which "imposed significant costs on local social and education programs". Discussions between Interior officials and members of Congress have continued throughout 1997.

Although no appropriations were made directly for impact mitigation in the CNMI, Congress did earmark $1.6 million of Covenant-related grant funding in fiscal year 1995 for impact costs and has continued to provide Covenant grant funding for infrastructure projects, including $77 million for fiscal years 1996 through 2002.

c) Actions of Other Federal Agencies:

In 1997, new welfare legislation was implemented, restricting access of nonimmigrant aliens, including Compact migrants, to Federal welfare programs. When these changes were implemented on Guam in August 1997, the cost, including local costs, of AFDC (now called TANF) and other welfare programs provided to Micronesian migrants declined substantially. The Department of Housing and Urban Development issued a ruling, which took effect in 1997, making freely associated state citizens ineligible for public and subsidized housing. This ruling, along with stricter enforcement of housing program rules, has nearly eliminated Micronesian occupancy in federal housing programs, freeing such housing for local resident use.

In the CNMI, most Federal welfare programs are inapplicable. Those that do apply include food stamps, WIC, and youth programs that are entirely federally funded and do not impact the local government. In fact, these programs often have a positive effect on the economy because they represent a net addition to local incomes and spending. Unlike Guam. the CNMI, apparently due to a legal suit, has not implemented the HUD ruling excluding freely associated state citizens from housing programs. Thus Micronesians continue to occupy more than half of the public and subsidized housing units on Saipan, creating a significant impact on the availability of this housing to local residents.

2. The Impact:

Following is a discussion of the matters identified for particular attention in the report required by section 104(e)(2):

a) Trade: The concerns of Congress were directed at potential effects on trading patterns that might develop as a result of the Compact's provision for duty-free entry of canned tuna from the freely associated states and for duty-free access for other FAS products under the extension of General Note 3(a)(iv) to the FAS.

Because no freely associated state has established a tuna cannery, there has been no effect of the tuna provision. In regard to duty-free access for other products, the Compact was modified by P.L. 99-239 effectively to nullify this provision and limit duty-free access to certain non-sensitive import products in a fashion similar to the Caribbean Basin Initiative. The FAS have made no use of this provision; therefore there has not been any impact relating to trade.

There continues to be a dispute regarding transshipment through Guam of raw tuna caught in waters of the FSM. Guam contends that FSM incentives for foreign ships to use its own ports have had an unfavorable impact on transshipment through Guam. Although such incentives may have a negative impact on Guam's trade, this does not appear to be a result of a provision of the Compact.

b) Taxation: Congressional concerns about taxation were also related to a Compact provision that would have given special tax treatment to United States citizens residing in the FAS but this provision was removed from the Compact by the Congress. As a result, there have been no impacts related to taxation other than the effect that migration from the FAS has had on tax collections in Guam, the CNMI and Hawaii. These jurisdictions have not studied the effect on local tax collections of Compact migration. Taxes paid by migrants have a positive effect on the fiscal situation in each area, offsetting the costs of providing services to them. The only negative effect of taxation would be

through the earned income credit. However, the credit is paid by the Federal Government to recipients in Hawaii, while in Guam and the CNMI, the tax system does not include the credit. (Note, however, that Guam did apply the credit until recently.) In summary, there has been a positive, although unmeasured, impact of the Compact through taxation.

Recently, a dispute has developed regarding taxation by the FSM Government of Guam businesses selling products in the FSM. The dispute involves whether or not the Compact prohibits FSM taxation of Guam businesses as "United States persons." The Administration is reviewing this matter.

c) Immigration: The Compacts, in section 141(a), permit citizens of the freely associated states to "enter into, lawfully engage in occupations, and establish residence as a nonimmigrant in the United States and its territories..." These migrants are not considered immigrants because they are not given the right to "immigrate" and their right to establish "habitual residence in a territory or possession of the United States may, however, be subjected to nondiscriminatory limitations..." (section 141(b)) Thus such limitations may be applied only to migrants in the insular areas (Guam and the CNMI) and not in Hawaii.

The Compacts also defined "Habitual Residence" to exclude "residence of any person who entered the United States for the purpose of full-time studies...or who has been physically present in the United States...for less than one year." (section 461(g)) In other words, citizens of the freely associated states who enter Guam and the CNMI (or other insular areas, but not States) may be limited to a stay of one year unless they are full-time students. Such limitations have not in fact been put into effect, although section 643 of the Illegal Immigration Reform and Immigrant Responsibility Act of 1996 (P.L. 104-208) instructed the Immigration and Naturalization Services to draft such regulations. These regulations are now in the final review stage and are expected to be issued soon. Unlike Guam, the CNMI may, at any time, implement limitations on habitual residence under its own immigration authority.

Migration from Micronesia has been by far the most significant impact. The number of migrants under the Compact has in fact been quite large, resulting in significant social and economic consequences. These migrants have also been responsible for significant increased demands on social services, the costs of which are the subject of the authorization under section 104(e)(6). There is concern in Guam, CNMI and Hawaii that the termination of Compact assistance to the freely associated states, if not continued after 2001, could stimulate an increased inflow of migrants. A full discussion of the impact of migration follows later in this report and in Appendix A.

d) Labor laws and Minimum Wages: The Compacts do not contain provisions addressing labor laws or minimum wages. There is no indication that the Compacts or migration under the Compacts has had an effect on these laws. There is, however, reason to expect that Compact migration would have some impact on the labor situation in the insular areas and Hawaii as it has in the United States as a whole. Like most migration, movement of FAS citizens to the United States has been strongly influenced by the motivation to work and the availability of jobs.

In the United States, the issue of the effect of migration on the labor market, including availability of jobs and wages of non-migrants, has been the most controversial and hotly debated of any aspect of the already controversial issue of immigration. There are legions of studies showing that immigration to the United States depresses wages and causes unemployment among lower wage native workers and/or creates new jobs and opportunities and raises wages for all workers.

The President's Comprehensive Triennial Report on Immigration, published by the Immigration and Naturalization Service in 1989, recognized in Chapter 6 the difficulty in measuring labor impact:

> The assessment of the effects of immigration on the U.S. economy and labor market is a complex undertaking and a definitive response remains essentially elusive. In addition to difficulties in isolating the labor market behavior of such groups as illegal immigrants and nonimmigrants, larger questions of data adequacy also conspire to make what is a particularly contentious analytical exercise even more so...
>
> The shortage of appropriate data allows the analysts' predispositions to influence the outcome of the research to a significant degree. Differences in academic discipline, for instance, influence the research questions asked an often dictate the choice of both the unit of analysis and the analytical tools used. Furthermore, the level of data aggregation and the focus and location of the investigation, often lead to different findings and influence their interpretation, Finally, theoretical and philosophical differences often intrude to the point of creating an analytical and interpretive morass.

This Report does reach some general conclusions:

> At the aggregate level, the economic literature draws two apparently authoritative conclusions about the effects of immigration on the United States. The first is that immigrants are successfully absorbed into the U.S. labor market... A second conclusion of the

> economic literature is that the overall economic contributions of immigration exceed its economic liabilities.

Another report dealing specifically with labor market effects was "The Labor Market Consequences of U.S. Immigration: A Survey" published in 1990 by the U.S. Department of Labor and prepared by Michael J. Greenwood and John M. McDowell. This study summarizes much additional research but reaches no definitive conclusion, other than that more research is required. It does observe (p.97) that narrowly defined sectors or regions are more likely to show negative consequences of immigrants, while offsets are spread through the economy and thus "difficult to identify and especially to quantify."

The most comprehensive and recent work on the effects of immigration is a book titled The New Americans, Economic, Demographic, and Fiscal Effects of Immigration, Edited by James P. Smith and Barry Edmonston, and published by the National Academy Press in 1997.

The New Americans also summarizes the contradictory effects of immigration on page 10:

> Using a basic economic model, with plausible assumptions, we show that immigration produces net economic gains for domestic residents, for several reasons. At the most basic level, immigrants increase the supply of labor and help produce new goods and services. But since they are paid less than the total value of these new goods and services, domestic workers as a group must gain.

and continues:

> Even when the economy as a whole gains, however, there may be losers as well as gainers among different groups of U.S. residents. Along with immigrants themselves, the gainers are the owners of productive factors that are complementary with the labor of immigrants--that is, domestic, higher-skilled workers, and perhaps owners of capital--whose incomes will rise. Those who buy goods and services produced by immigrant labor also will benefit. The losers may be the less-skilled domestic workers who compete with immigrants and whose wages will fall.

The effect of Micronesian migrants on labor markets in Guam, the CNMI and Hawaii is quite complex, varying with the origin of the migrants, the local labor situation and, over time, with changing economic conditions. The principal negative labor impact of immigrants that has been observed in studies of the United States is the depressing of wages among low-wage local workers. This effect was probably minimal in Guam until recently as

unemployment has increased. The effect is also likely to have increased in Hawaii. In the CNMI, there has been little impact on wages because virtually all low-wage jobs are filled by temporary alien workers.

In the early post-Compact period, Guam experienced a strong boom economy with very low unemployment, thus providing plenty of jobs, including unskilled jobs. Because Guam has access to alien H-2 workers for temporary jobs, mainly in construction, and Micronesians were not trained in construction, Micronesians were recruited for service jobs in hotels and retail trade. In 1990, according to census data, the principle industries employing Micronesians were retail trade, construction and personal service. More recently, Guam's economy has slowed and unemployment has increased, including among Micronesians. In this situation, it could be argued that migrants are taking low-wage jobs from local residents. However, with average hourly earnings of $6.03 per hour (1997 Micronesian census) the migrants are working at jobs that local residents hesitate to accept. The percent working in retail trade has increased as jobs in construction have fallen.

In the CNMI, the situation is different from Guam because of the unlimited access to low-wage alien labor. This probably accounts for the higher rate of unemployment among Micronesians in the CNMI (11.2 percent v 8.8 percent). On the other hand, the booming garment industry has been a major employer of Compact migrants because of government incentives to hire a certain proportion of local (including FAS) labor in the industry. Thus nondurable manufacturing in the CNMI employed 37 percent of the post-Compact migrants, according to the 1995 census. This compares with about 2 percent for Guam and Hawaii. In the CNMI, there is little evidence that Compact migrants take jobs from local residents, in view of the huge and essentially limitless supply of alien workers who can be hired at $3.05 per hour. It is the alien contract workers, rather than Compact migrants who are responsible for much of the 14.2 percent unemployment among local CNMI residents as of the 1995 census.

Finally, in Hawaii, the Compact migrants may better reflect the classic case described in The New Americans by taking some jobs that would otherwise be held by low-skilled workers, especially other immigrant groups, which are well represented in Hawaii. On the other hand, the Compact migrants represent a small part of the population in Hawaii and their influence on the job market is limited.

The labor market characteristics are also strongly influenced by the origin of the migrants. The median household income for Palauans is much higher than for FSM and RMI migrants ($22,758 v. $11,269 and $12,168 in Hawaii; $18,593 v. $16,708 and $12,999 on Guam). It should be kept in mind that these income data from the

1997 censuses cover all Micronesians and thus, for Palau, represent mostly migration prior to Compact implementation. Characteristics of the population and labor force among Compact migrants on Guam and in the CNMI show a significant difference between migrants from the State of Chuuk, whose skills and wages tend to be lower, and those from the other FSM states of Kosrae, Pohnpei and Yap, whose skills and wages are higher and close to those of Palauans. In Hawaii, the lower incomes are largely those of migrants from the Marshall Islands as well as Chuuk. (For comparative data, see Appendix A.)

e) Social Systems and Infrastructure:

Migration under the Compact has inevitably had significant and complex impacts on social systems and infrastructure. Two studies on social impact, mentioned in last year's report, are the "Guam Needs Assessment Study" of June 1994 by the Micronesian Language Institute of the University of Guam, and "New Trends in Micronesian Migration: FSM migration to Guam and the Northern Marianas" by Francis X. Hezel, S.J., and Michael J. Levin, published in Pacific Studies, March 1996.

There has also been a major impact on social infrastructure, primarily public schools, due to the large number of Compact migrant children and children born in the insular areas to Compact migrant parents. These impacts are summarized below under Fiscal Effects.

f) Environmental Regulation:

There has not been any direct impact of the Compacts on environmental regulation, although environmental effects of Micronesian migration has been widely observed.

The migration of citizens of the freely associated states has had noticeable impacts on the environments of the receiving areas. Although the proportion of such migrants in relation to the total population increases of these areas has been small, the substandard conditions under which they live has often been noted by local residents, particularly in Guam and parts of Hawaii, as contributing to pollution and degradation of natural resources. Guam residents, in particular, note that pollution of beaches and "boonie" areas has often been associated with recent migrants from Micronesia.

g) The Number of Compact Migrants:

The Office of Insular Affairs of the Department of the Interior has used significant resources in an effort accurately to quantify "the number of persons availing themselves of the rights described in section 141(a) of the Compact.." Past censuses and surveys were described in last year's impact report. During 1997, Censuses of Micronesians were conducted under OIA technical assistance grants in Guam ($60,000), the CNMI ($35,000) and Hawaii ($120,000) with assistance from Dr. Michael Levin and other Census Bureau officials and OIA funded Micronesian counterparts working through a reimbursable financing agreement from OIA. The full report of Dr. Levin is attached as an appendix to this report.

There are some difficulties in defining the population to be included as persons who migrated under the terms of the Compact. There were communities of Micronesian migrants in the three affected areas prior to the Compacts and some migration would undoubtedly have taken place even without the Compacts. On the other hand, there are U.S. citizen children born of Compact migrants who are not migrants themselves but who have had an impact on local government costs, principally in education.

It is interesting to note that, during the period between the implementation of the Compact with the FSM and RMI in late 1986 and the implementation of the Compact with Palau in late 1994, the rate of migration from Palau to Guam and the CNMI was about the same as that from FSM states other than Chuuk. This suggests that migrants from Chuuk were "availing themselves of the rights" under the Compact to a much greater degree than migrants from other areas where migration rates were little influenced by the Compacts. Since these migrants from Chuuk also tended to be the poorest and least educated of the Compact migrants to Guam and the CNMI, most of the impact of the Compact through migration is probably accounted for by this group. For Hawaii, a similar role is played by the migrants from the Marshall Islands, whose migration appears to be most affected by the Compact.

For purposes of this report, the definition used for "Compact migrants" will be those who entered Guam, the CNMI and Hawaii subsequent to implementation of the Compacts in their home area (1986 for FSM and RMI, and 1994 for Palau) plus children of those migrants living with them. The sources of the data are censuses of Micronesians performed during 1997, the 1995 CNMI census, and estimates based on those and earlier censuses. (See Appendix A for full details on the censuses.)

Numbers of Compact Migrants:

Micronesian Migrants in Guam, Hawaii and CNMI

	GUAM, 1997 (preliminary)	Hawaii. 1997	CNMI, 1995
Compact Migrants	4,568	4,815	1,803
FSM	4,389	2,854	1,463
RMI	105	1,839	88
Palau	74	122	252
Pre-Compact Migrants	596	610	1,689
FSM	215	231	498
RMI	2	185	34
Palau	379	194	1,157
Total Micronesians	5,164	5,425	3,492
Children of Migrants	834	544	1,125
Compact Migrants +Children of Migrants	5,402	5,359	2,928
Migrants 15 and under (includes children)	1,815	1,505	1,268
in Public School (primary and secondary)	1,069	1,109	836

The above table represents a measurement of Micronesian migration designed to show the impact of the Compact migration provisions. Note that the figures for Guam are preliminary and subject to revision upon further review of the data.

The first line, Compact Migrants, shows the number of people in each of the three U.S. areas as of the last available census date, who have entered that area after the effective date of Compact of Free Association for their country. This is the best available measurement of the "number of persons availing themselves of the rights described in section 141(a) of the Compact..." The figures are not limited to those whose motivation for migration was the Compact, but it is reasonable to assume that the great majority of these migrants did make use of

the Compact migration provision to enter U.S. areas. The figures do not include migrants who may have entered the U.S. areas in prior years and then returned to their home country, nor do they include individuals living in the same household as Micronesian migrants, but not themselves Micronesians.

The table demonstrates that, in 1997, there were 4,815 Micronesian migrants in Hawaii, 4,568 in Guam, and (in 1995) 1,803 in the CNMI. The Hawaii figure is the result of the first census of Micronesians to be performed there; it shows considerably more migrants than the rough estimate of 1,200 which was stated in last year's report as "probably too low. The figure for Guam represents a substantial decrease from the estimate of about 8,300 in last year's report. This reduction may be due to several factors: The previously assumed growth rate of about 1,000 per year since the previous census may have been too high; some reverse migration may have taken place, previous censuses may have included some non-migrants living in predominantly migrant households; tabulation of the 1997 data may have omitted some households, a possibility that will be thoroughly investigated. For the CNMI, the 1997 census shows a total of 1,803 compact migrants, an increase from the 1996 estimate of 1,450.

The table also shows that the great majority of migrants to Guam and the CNMI were from the FSM, while Hawaii experienced large migration from the Marshalls as well.

A further breakdown of the figures (see appendix A) shows that the great majority of the FSM migrants were from the State of Chuuk, making the Compact migration impact a largely Chuukese phenomenon. Guam and Hawaii also had similar numbers of pre-Compact migrants, about 600, while the CNMI had about 1,700 pre-Compact migrants, nearly as many as post-Compact migrants. Thus, the character of the migration to the CNMI was different in that many Micronesian families had been established on Saipan when it was headquarters for the Trust Territory of the Pacific Islands, and many of the later migrants were related to previous migrants and joined an already established community.

The total number of Micronesians is the sum of pre- and post-Compact migrants. This number can be compared to previous measurements of the Micronesian population, but it should be kept in mind that previous censuses of Micronesian households included all members of the household, whether or not they were Micronesians.

The table also shows the number of children of Micronesian migrants in an attempt to include them for impact purposes. These figures actually include all children living in a household where at least one Micronesian is present. Thus they include children of both pre- and post-Compact migrants as well as some

non-Micronesian children who may be living in the household, and thus overstate the actual "impact" population. For Guam and Hawaii, the overstatement should be minor because most can be assumed to be children of post-Compact migrants. For the CNMI, due to the large pre-Compact migration, the overstatement of Compact migrant children is larger.

The table then shows the total migrant population age 15 and under; this includes both the previously shown children of migrants and the migrants themselves who are in this age group. This may slightly overstate the young impact population but, again, this is significant only for the CNMI. The next line shows the number of Micronesians enrolled in primary and secondary public schools. This census figure provides a confirmation and check for the figures from each area's school records. The number in public schools differs from the 15 and under population mainly by those too young to go to school and by those few who may not be registered or go to private schools.

3. Fiscal Effects:

For the insular areas and Hawaii the increased net costs to local government due to migration stimulated by the Compacts has been by far the most important issue. This is so for two compelling reasons: (1) the added cost is the largest and most visible impact from the point of view of local governments and (2) the costs of "increased demands placed on education and social services" are covered by a congressional authorization permitting the Congress to appropriate funds.

The issue of increased costs of migration is of course not limited to Compact impact in the insular areas. Many studies have been done on the effect and cost of immigration into the United States, with a concentration on the areas most affected by immigration in general and undocumented immigration in particular. Because most of these studies have been performed under the direction of organizations or jurisdictions with a particular point of view, the results have been extremely varied and inconsistent. The only conclusions that can safely be attributed to most of the studies are that the initial impact of immigrants varies widely depending on the type of immigrant (origin and legal status) and that the impact becomes more positive the longer the immigrant remains.

Possibly the most widely studied area for local government fiscal impact has been Southern California, with an emphasis on undocumented and Mexican immigration. An analysis titled How much do Immigrants Pay in Taxes? Evidence from Los Angeles County, by Rebecca L. Clark and Jeffrey S. Passel was published by the Urban Institute in 1993. This study is largely an

analysis of an earlier study by the Los Angeles County Internal Services Department which "weighed estimated taxes paid by recent immigrants against estimated outlays for these immigrants. The ISD study concludes the county is spending substantially more on these immigrants than it receives from them." This paper found several problems with the ISD study. The most serious were an overstatement of costs due to attributing to immigrants a certain percentage of general costs of providing services and an understatement of revenues due to failure to consider indirect benefits such as taxes paid and jobs created by immigrant owned businesses.

The most significant finding of this analysis based on an study by Los Angeles County is the lack of any definitive conclusion about the fiscal impact of immigrants.

> Notwithstanding the differences between our study and the ISD study, our results support some of the general findings of the ISD study. Specifically, the principal recipient of revenues generated by recent immigrants is the federal government, followed by the state government. It is important to note that this pattern holds for natives and long-term immigrants as well. There is probably an imbalance between the revenues Los Angeles County receives from immigrants and what it spends on services to them. But the "deficit" is not nearly as large as the ISD study contends.

Given the inconclusiveness of this and other studies, it would be extremely speculative to try to apply its results to insular areas and Hawaii. However, two considerations are worth noting. First, measuring fiscal impact of immigrants is an inexact science at best and any definitive results are certain to be challenged. Second, the positive side of the equation, revenues generated by immigrants, go primarily to the federal government, accounting for much of the deficit for local governments. In Guam and the CNMI, no federal taxes are levied on the population, so all taxes paid by immigrants go to local government; thus, the fiscal impact of migration in Guam and the CNMI will be more positive than it is in the states, including Hawaii.

A related factor affecting the economies of areas with Micronesian migrants it that federal programs assisting migrants have a positive economic effect on the community. Federally funded programs such as WIC, food stamps, and Pell grants provide benefits to local economies without cost to local governments, thereby increasing earnings, sales, and local tax collections. For example, about 25% of the $5.1 million federal food stamp grant to the CNMI for fiscal year 1997 was used for benefits to Micronesians. Actual benefits to Compact migrants, after deducting benefits to pre-Compact migrants and administrative costs, probably exceeded $.5 million.

a) Fiscal Effects, Guam:

Fortunately, Guam has prepared an annual report on Compact Impact. The most recent report, published in 1996, is titled "Pacific Immigration Impact, Effect of P.L 99-239 on the Island of Guam, FY 1989 to FY 1995". A report was not published in 1997, due mainly to the expectation that a consultant's report procured with OIA technical assistance funding would cover that period. Guam's report does not look at the whole fiscal picture and attempt to identify a "deficit". Instead, it is directed at the congressional authorization for an appropriation to cover costs of education and social services, and thus it attempts to quantify these costs. It identifies total costs of such services at $18.5 million in FY 1995 and $69.8 million from 1986 to 1995. Guam's 1995 report contains an excellent history of impact reporting and of other impact related matters. Details will be omitted here since the report is available from Guam and has been circulated in the Congress.

Like similar reports for other jurisdictions, this report can be questioned in regard to methodology and completeness. However, many criticisms directed at earlier reports have been dealt with in the latest version. In response to Guam's request for assistance in hiring an outside consultant to calculate the cost of providing educational and social services for Compact migrants, OIA made a technical assistance grant in the amount of $75,000 for this purpose on April 23, 1997. It was hoped that the results would be available for this report, but delays in contracting have postponed the report. We understand that an agreement has now been reached with a consultant and the study will proceed.

Education:

Evidence presented in Guam's impact report and elsewhere leaves little doubt that the costs to the Government of Guam of additional demands placed on education and social services by the Compact migrants are substantial. Guam reported expenditures of $17 to $18 million for each of fiscal years 1994 and 1995.

For 1995-96, Guam calculated expenditures for public education of Micronesian migrants as $9,152,320, based on a Compact migrant public school population of 1,546 multiplied by a cost estimate of $5,920 per pupil. This cost figure is based on a reimbursement rate agreed to by military agencies as a reimbursement for utilization of local public schools by military dependents.

The 1997 census of Micronesians enumerated 1,069 impact children enrolled in public school while Guam Department of Education

enrollment data for 1997-98 shows a total of 2,681 students of Micronesian ethnicity, excluding 600 Palauan students. This large discrepancy will have to be reconciled after the census data have been examined and the cost evaluation by an outside consultant has been completed.

Welfare Programs:

Guam's calculated local impact cost for health and welfare programs was $4 million for FY 1995.

Application of federal welfare guidelines making many Micronesian migrants ineligible for most welfare programs has had a dramatic effect on welfare payments, including locally financed programs, cutting expenditures approximately in half after August 22, 1997, when the new guidelines were implemented on Guam.

b) Fiscal Effects, CNMI:

Education:

Although the CNMI has not submitted an impact report as has Guam, it does keep detailed statistics on public school enrollment by ethnicity. The CNMI Public School System reported the following enrollment of ethnically Micronesian students:

School Year	1997-98:	1995-96:
Chuukese:	353	323
Pohnpeian:	159	147
Yapese:	53	50
Total FSM:	565	520
Marshallese:	35	37
Palauan:	447	441
Total Micronesian	1,047	998

Thus, there were 1,047 students in the public school system in school year 1997-8 who were identified as ethnically Micronesian, up from 998 in 1995-96. Of these, 600 were from FSM families and 35 were Marshallese. The remaining 447 were Palauan, up from 441 in 1995-96, and thus mostly migrants or children of migrants who arrived before Palau Compact implementation in 1994. This suggests that the number of actual Micronesian post-Compact migrants or their children was something in excess of 635 (FSM

plus RMI) but probably not more than 700. The cost per student enrolled, according to the CNMI Public School System (Memorandum of Nov. 29, 1997) is $4,970. Multiplying an annual cost of $5,000 by Compact related enrollment of 700 suggests a local cost of educating the Compact impact students in 1997-98 of $3.5 million. This figure does not include capital expenditures, which are difficult to allocate by student and, in the CNMI, have been covered largely from federal grants.

Other Social Costs:

The CNMI continues to assemble data to quantify impact, with the assistance of OIA. A locally-commissioned study did identify significant local costs, but it failed to identify costs related to Compact migrants as opposed to all Micronesians. As noted above, fully-funded federal programs for migrants had a positive effect on the local economy. In the CNMI, food stamps may be used only for local products, thus amplifying the local benefit.

c) Fiscal Effects, Hawaii:

The collection of data on Compact impact in Hawaii has presented some difficulties because, as a State of the Union, Hawaii is not within the jurisdiction of OIA, nor are technical assistance funds available for programs benefitting Hawaii. OIA has, however, been able to assist by funding censuses of Micronesians in Hawaii at the request of the Governments of the freely associated states.

Education:

Preliminary figures from the Hawaii Department of Education showed enrollment of "Trust Territories" students of 1,053 in school year 1997-98. This fits well with the 1997 Micronesian census figure of 1,109 compact migrants enrolled in school. The Hawaii Department of Education calculates per pupil cost at $5,764, for a total impact cost of $6,069,197. Capital costs are not included.

Other Social Expenditures:

Collection of data on other costs of impact in Hawaii are underway, with some assistance from OIA and the Census Bureau. Preliminary data show state expenditures on welfare for Micronesians migrants at about $71,000 per month and for medicaid at about $279,000 per month, for a total annual cost of about

$4.2 million.

In addition to costs of welfare and social services, Hawaii has incurred costs of medical treatment including treatment for cases of Hansen's disease (Leprosy) among migrants from Micronesia. The cost of dealing with infectious diseases was an estimated $434,000 in fiscal year 1997.

Hawaii also has data showing a significant increase in arrests of Micronesian migrants as a result of the Compacts. Arrests of offenders from the freely associate states increased from 81 in 1986 to 419 in 1997, while convictions increased from 46 to 146 during the same period. More detailed information is contained in the letter from Governor Cayetano in Appendix B.

4. Recommendations:

The migration of citizens of the freely associated states under section 104(a) of each Compact has created a significant burden on the provision of educational and social services by the governments of Guam, the CNMI, and Hawaii. This additional burden has been dealt with through federal grant programs in educational and social services and through congressional appropriations totalling $30 million through fiscal year 2001 for Guam. The CNMI has not received a special appropriation for Compact impact but has received substantial direct assistance for infrastructure serving the local and migrant population.

The additional costs to public education are the largest and best documented of these needs. Other social programs also represent significant costs to local governments. However, these costs show signs of declining with welfare reform. They can also be controlled through implementation of Compact provisions limiting the habitual residence of Compact migrants. We recommend:

1. Continued availability of direct assistance to Guam for impact mitigation, including consideration of extension of such assistance beyond fiscal year 2001 if funding is available and if a need continues to be demonstrated.

2. implementation of nondiscriminatory limitations on habitual residence of citizens of the freely associated states as mandated by P.L. 104-208.

3. Continued cooperation between OIA and the Governments of Guam, the CNMI and Hawaii to better document the impact of the Compacts through migration and its associated costs.

5. Methodology and Sources.

Methodology:

Information for this report was gathered from sources in Federal agencies, insular governments, academic studies, congressional testimony and personal interviews. Most of the data on population was taken from censuses of Micronesians, especially the 1997 Micronesian censuses in Guam and Hawaii and the 1995 CNMI census, which are summarized in Appendix A.

Information on Micronesian utilization of public local government services was obtained from interviews with agencies on Guam and Saipan, and from documents and letters provided by agencies in Guam, the CNMI, and Hawaii.

Published sources:

The sources used for population numbers and characteristics are discussed in the "sources" section of Appendix A on pages 4 to 6. For published sources on Micronesian migration, see the bibliography attached to Appendix A.

Some additional publised sources on the impact of Compact migration and of migration to the United States are listed below:

Insular Area Publications

Pacific Immigration Impact, Effects of P.L. 99-239 on the Islands of Guam, FY 1989 to FY 1995. Office of the Governor, Government of Guam, August 1996.

Public School System Statistics at a Glance, School Year 97-98. (and previous years), CNMI Public School System Research Information and Training Center.

Studies of Migration

The President's Comprehensive Triennial Report on Immigration. Immigration and Naturalization Service, 1989.

The Labor Market Consequences of U.S. Immigration: A Survey. U.S. Department of Labor, 1990

How Much to Immigrants Pay in Taxes? Evidence from Los Angeles County. Rebecca L. Clark and Jeffrey S. Passel; The Urban Institute, 1993.