



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

JUN 10 1994

Honorable Joseph F. Ada
Governor of Guam
Agana, Guam 96910

Dear Governor Ada:

I am replying to the letter of April 21, 1994 from Acting Governor Frank Blas regarding reports on the impact of Compact of Free Association.

We began last year to assist Guam in assembling data sets and developing procedures for use by agencies in Guam that will meet the concerns expressed in the June 1993 report by the Interior Department Inspector General. As you know, Dr. Levin spent approximately two months on Guam late last year and early this year, working with various agencies on impact data in addition to other statistical improvement projects. We did not foresee the enormous quantity of data available or the great effort needed to modify data sets for analysis. Attempts to develop accurate and supportable data have progressed slowly due to problems such as incompatibility of various data sets and lack of continuity from year to year.

We are pleased that Guam has submitted an impact report dated May 1994, covering FY 1993. The report shows clearly that there is a large and growing financial impact of the Compact on Guam. We note that some of the problems identified by the Inspector General have been dealt with either by omitting certain data or providing explanations. We also find that some of the impact data are well supported.

In view of the considerable progress made to date, we propose to continue providing technical assistance to Guam agencies, primarily through Dr. Levin of the Census Bureau. We also plan to take the following actions:

1. Revise and transmit guidelines for use by Guam in determining impact costs:

These guidelines are not required by legislation, but were agreed to by this office in response to a recommendation of the Inspector General. Draft guidelines were sent by Richard Miller in January of this year. Susan Ham sent several comments on the guidelines, notably that little methodology for calculating impact costs was included and that an explanation was needed regarding a cost/benefit analysis on taxation and the economic impact of immigration.

We are pleased to enclose guidelines for your use. We note that these do not include formulas or detailed methodology for calculating impact in each area. We agree with the IG's comments that impact should be measured in terms of expenses directly related to "Compact" immigrants. The means of determining these costs vary with each program and will have to be determined by Guam agencies on the basis of the data that are available.

In regard to taxation, we agree that cost/benefit studies would help to identify the net costs of migrants, but we believe that Guam is in the best position to design a study based on its own data. We have seen references to a study by Guam Revenue and Taxation of the impact of Micronesian taxpayers, and we hope that it will help to illuminate the tax impact.

2. Prepare and transmit to Congress a report on the impact of the Compact:

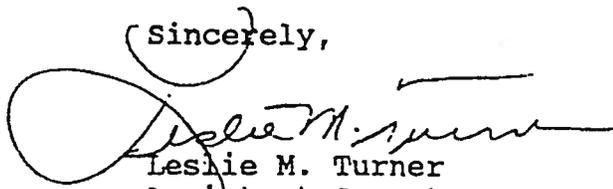
The report required by P.L. 99-239, Section 104(e)(2) must identify adverse consequences and recommend corrective action. Several specific matters are referenced in the law; we will deal with those matters that have been identified as causing a significant negative impact. We will also request the views of the Government of Guam and other insular areas for transmittal to Congress.

3. Transmit to Congress comments on Guam's May 1994 report on the impact of P.L. 99-234:

This report is directed primarily at Section 104(e)(6) of P.L. 99-239, which authorizes an appropriation to cover the costs of increased demands on education and social services by Micronesian immigrants. The report is primarily a listing of costs to Guam of providing these services. Our comments will focus on those costs which appear to be well supported by the report and by the available statistical data.

In closing, I commend the efforts of Guam agencies in quantifying the impact of the Compact of Free Association. I believe that Guam's latest report goes a long way toward providing the kind of data that will help Congressional appropriations committees to make decisions. OTIA and its technical assistance program will continue to assist in improving and supporting impact data.

(Sincerely,



Leslie M. Turner
Assistant Secretary
Territorial and International Affairs

Enclosure

- cc: Chairman J. Bennett Johnston - Senate Committee on Energy and Natural Resources; Chairman Robert C. Byrd - Senate Subcommittee on Interior and Related Agencies - Appropriations; Chairman Ron de Lugo - House Subcommittee on Insular and International Affairs - Committee on Natural Resources; Chairman Sidney Yates - House Subcommittee on Interior and Related Agencies - Appropriations
Mr. Tony Premici, Territorial Desk Officer, Office of the Inspector General

GUIDELINES FOR PREPARATION OF A REPORT ON IMPACT OF THE COMPACT
OF FREE ASSOCIATION

This report is prepared in response to a recommendation of the Department of the Interior Inspector General contained in a Audit Report of June 1993. The report recommended that the Assistant Secretary:

1. Develop and disseminate guidelines and procedures for use in determining Guam's Compact impact costs. Such guidelines and procedures should ensure, minimally, that only costs resulting from increased demands for educational and social services are included and that expenditures from Federal funds are excluded.

LEGISLATIVE REQUIREMENTS:

Section 104(e)(1) of P.L. 99-239 states, "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." Section 104(e)(2) provides for reports by the President that "shall identify any adverse consequences resulting from the Compact and make recommendations for corrective action..." The report is to pay particular attention to "trade, taxation, immigration, labor laws, minimum wages, social systems and infrastructure, and environmental regulation."

Section 104(e)(3) requires the President to include the views of the governments of each insular area. Section 104(e)(4) declares that "the Congress will act sympathetically and expeditiously to redress those adverse consequences."

Appropriations are authorized by Section 104(e)(6) to cover the costs incurred by insular areas from "any increased demands placed on educational and social services by immigrants..." It is in response to this subparagraph that Guam has submitted to Congress several reports on impact of the Compact.

GUAM'S REPORT FOR FY1989 TO FY 1991:

Guam prepared a report claiming impact costs of \$27,129,535 incurred by Government of Guam agencies over the three year period 1989 through 1991. The Office of the Inspector General of the Department of the Interior audited this report and concluded that Guam's impact costs were overstated by at least \$15.9 million and it questioned the methodology used in the calculations.

The Inspector General's Audit Report on Guam's calculation of impact costs recommends that the Governor ensure that impact costs are based only on "expenditures related to increased demands for educational and social services and that such expenditures are fully supported."

OTIA agrees with the IG's report that the measurement of impact costs should be limited to "increased demands placed on educational and social services" as specified by Section 104(e)(6). Measurement of increased demands requires the use of baseline data if such data are available. We also think it is necessary, as the Governor has suggested, to look at increased demand in terms of actual costs rather than simply numbers of people. OTIA has provided and will continue to provide technical assistance for this purpose.

Since the IG report, Guam has prepared two more impact reports. The last is dated May 1994 and covers FY 1989 to FY 1993. This last report contains a reimbursement request for \$49,798,414. Many of the concerns expressed in the IG's report have been addressed. For example, costs for providing services to permanent immigrant aliens from Micronesia have been excluded where appropriate and possible; costs covered by federal funds are excluded; and costs are documented by client lists where possible.

PROPOSED GUIDELINES:

Reports prepared by Guam and enumerating impact costs are based on the authorization contained in P.L. 99-239(e)(6) and are intended to support a request for reimbursement of costs of "increased demands placed on educational and social services".

Thus the purpose of these guidelines and of technical assistance is to help Guam and the CNMI to calculate impact costs as accurately as possible.

Education:

Public primary and secondary education: The cost to the Guam Department of Education is the largest single category of impact costs identified by Guam. The total additional cost stated in Guam's 1994 report covering 1989 to 1993 is \$20,730,903. Because this amount represents nearly half of the total stated impact cost it is worthwhile looking carefully at the methodology used.

Baseline data: What school population can be assumed in the absence of the Compact? Guam uses a figure of 87 students from the FAS enrolled, per the 1980 census. Data are not available

for 1986 immediate pre-Compact enrollment, but enrollment trend data suggest that the figure may be somewhat higher. Since this is an important impact area, an effort should be made to obtain and document more precise baseline data.

Per pupil cost: Do average costs per pupil accurately describe the additional cost to Guam of educating Micronesian immigrant children?

Ideally, the additional cost of educating FAS children would be calculated by adding the extra costs of teachers, books, facilities and equipment needed to teach these children. This is probably impractical. Guam has chosen to use a cost figure developed for the Department of Defense as a basis for reimbursing the cost of educating children of military personnel who live on base. This figure is calculated by the Department of Education, based on per pupil cost of the regular day session, excluding other programs and federal grants and including school bus operations.

The methodology appears to be sound and to state fairly the cost of educating FAS students. There are, however, some ways in which Guam might better support the data presented. The federal program costs omitted should be specified. The fact that the per pupil cost remained identical for three years and then increased by 38% in 1993 suggests that it was a negotiated rate; the actual cost data should be included.

Guam's report includes information and a table on FSM student participation in the Language Other Than English (LOTE) program. No cost impact for this program is included, although it appears that specific cost data should be available. This would appear to be an appropriate additional cost to include in the report as long as care is taken to exclude any costs already included in the general per pupil costs, any costs covered by federal programs, and any other ineligible costs.

Higher education: The cost calculations for FAS students enrolled in both the Guam Community College and the University of Guam are based on significantly different methodologies than the cost of public education:

-Although higher education is available to FSM students, it is not required by law as is the case with public education. Higher education costs are covered to some extent by fees or scholarships. Therefore, there would appear to be considerable discretion in the degree to which these costs are incurred.

-Enrollment by Micronesians in both GCC and UOG is down from the pre-Compact period. It is therefore very difficult to make a case that these represent "increased demands" as required by Section 104(e)(6).

-Stated costs include those covered by federal funding, using the reasoning that the expenditures would otherwise benefit resident students. In other similar cases, the report classifies these costs under "displacement costs" rather than costs eligible for reimbursement.

We believe that the costs shown for Micronesian students in higher education are not clearly covered by Section 104(e)(6) and should be omitted.

Public Safety:

Of the social services referenced in section 104(e)(6), the largest amount identified in Guam's report is for public safety, primarily the Police Department and related Departments of Corrections and Law, as well as the Fire Department.

Police Department: Several problems are presented by the methodology used in assigning the costs of police protection to FAS citizens.

Population served: The number of FAS inhabitants served is based on census and survey data through 1992, then extrapolated and rounded to 7,000 for 1993.

Baseline data: No attempt is made to deduct a baseline pre-Compact population. Since the 1980 census identified 637 persons with mothers born in the future FAS, it could be assumed that at least this number would have been on Guam in 1986.

Per capita cost: The costs resulting from increased demands on police and related services are determined on a per capita basis. While this is not the best way of determining additional costs, the methodology is supported by data showing that calls for service, arrests and other service measures as a percentage of total services are higher than the FSM proportion of the population in general.

If Guam presents the Police Department data on a per capita basis, deducting a baseline number of Micronesians resident before Compact implementation, the resulting costs should conservatively measure the additional costs resulting from the Compact.

Department of Corrections: The increased costs to the Department of Corrections are determined by multiplying the average daily costs by the number of FAS inmate days. The principal difficulty here is that no baseline population is deducted for the pre-Compact period. Apparently it is assumed that FAS inmate days were insignificant prior to the Compact.

Nevertheless, there should be some way of estimating a reasonable baseline to add credibility to the cost figures.

Department of Law: The costs of the Department of Law are limited primarily to the prosecution division, since reporting has not been available from the other divisions. The methodology of calculating cost according to the proportion of FAS cases to total cases appears sound. However, inclusion of administrative and overhead costs is somewhat questionable as a measure of costs of increased demands by FAS immigrants unless it can be shown clearly that these costs increased due to the FAS workload.

It is suggested that data from other divisions be included as it becomes available and that any included administrative and overhead costs be directly related to additional FAS cases.

Public Defender, Superior Court, Youth Affairs, Customs, and Civil Defense: Additional costs identified for these services are minimal. If additional data should justify their inclusion in the future, they should be included under guidelines similar to the above.

The data for customs inspections presents an additional problem. Inspections of all FAS passengers are included, whether of visitors or residents, and most are visitors. It would appear that costs attributable to the Compact should be limited to inspections of resident FSM citizens and that number should be reduced by a baseline percentage for those resident on Guam prior to the Compact. Some cost for inspections is certainly justified; however, the relatively small amounts involved suggest that their inclusion is not crucial to the report.

Fire Department: The calculation of additional costs for fire protection raises the same issues as the Police Department, above. Per capita figures should be corrected to reflect a better estimate of 1993 population and to exclude a pre-Compact population. In addition, fire protection services do not simply reflect changes in population levels, as shown by a more than doubling of operating expenditures from 1989 to 1993, while population increased by 10%. The need for fire protection is influenced by the growth of industry and services as well as the resulting increased urbanization.

If some data are available for fire service calls by ethnicity or citizenship, these could be used as guidelines for estimating the percent of expenditures for FAS service calls. However, expenditures for fire protection of commercial and government establishments should be excluded.

Health, Welfare and Housing:

Department of Public Health and Social Services: The major portion of Compact impact costs in this area are for Medicaid, Medically Indigent Program and other Public Assistance Programs. The stated methodology utilizes data on service visits by FAS citizens multiplied by the average cost of such visits. The impact is clearly large in this area and is probably understated because the costs of some programs are omitted due to lack of data regarding the portion covered by federal funds.

As more data become available, more programs can be included in the total. However, the derivation of average costs and the amount of federal funding excluded should be shown in more detail, at least for Medicaid and the other larger programs.

Department of Mental Health, GMH, Vocational Rehabilitation, and Guam Housing Corporation: These are relative minor cost items at present. Similar guidelines to those stated above would apply in general. It appears that when Guam Memorial Hospital has implemented a computerized patient database, that will permit an accurate accounting of uncollected FAS patient costs. The minor costs shown for the rental program would more appropriately be included under the displacement cost category.

Guam Housing and Urban Renewal Authority: The housing programs on Guam are clearly impacted by the Compact. Since the impact does not occur in the form of additional costs, it is appropriately shown under the category of displacement costs. To deal with this problem, it would be appropriate to investigate how Federally funded programs can better address the needs of both FAS immigrants and the resident population.

Employment Service Agencies:

The relatively minor additional cost of providing employment services to FAS citizens does meet the definition of cost of increased demands on social services. However, it should be kept in mind that employment services benefit employers as well as job-seekers, especially in a labor-short environment such as Guam.

Taxation:

One of the matters to be covered by reports required under Section 104(e)(2) is taxation. However, taxes are not specifically included as "educational and social services" for which an authorization is provided by Section 104(e)(6). For this reason, any cost to the tax system as a result of

immigrants from the freely associated states is not necessary for inclusion in Guam's report.

This is not to suggest that any available data, such as a net tax effect, should be excluded. Such data are useful as general indicators for use in the President's report under Section 104(e)(2).

We understand that Guam's Department of Revenue and Taxation has made considerable progress in identifying the net effect on tax revenues of the increased Micronesian population due to the Compact. The methodology for such a study does not appear difficult, although we understand that taxpayer identification and considerations of confidentiality pose some problems. For consumption taxes such as excise and gross receipts taxes, some estimation based on incomes may be necessary. We understand that the net direct tax effect of the compact immigrant population may be negative due to the effect of the earned income credit. This result would not be surprising.

In addition to these direct tax effects of compact immigrants, there is a secondary effect on tax collections occasioned by the growth of the economy made possible by the addition of Micronesians as workers and consumers. This effect is undoubtedly positive because there is no offsetting tax payment such as the earned income credit. Furthermore the effect is quite significant in view of the fact the primary constraint of Guam's recent economic growth has been a shortage of labor.

It would be possible to construct an economic model to estimate the additional tax revenues caused by the additional residents. The model could be simple, multiplying the share of Micronesian income to total tax receipts in each year, or it could be complex, identifying many linkages and multipliers throughout the economy.

We are not proposing the use of such a model for two reasons: First, the Compact law does not include tax costs as an item eligible for coverage under the authorization of Section 104(e)(6). Second, any model would be incomplete and subject to question or challenge, particularly when much of the baseline information appears to be unavailable.

For these reasons, we are not including guidelines for Guam's report directed the authorization contained in Section 104(e)(6). However, we will treat taxation as one of the matters to be dealt with in the report of the President required by Section 104(e)(2).

CONCLUSION:

A review of the May 1994 Guam analysis of the Impact of P. L. 99-239 shows a substantial fiscal impact on the Government. Some cost data are better supported than others, and could serve as guidelines for improving the supporting data base. The costs presented can be summarized in the following categories:

1. Costs that appear reasonable, but require additional support and analysis:

- Department of Education
- Department of Law
- Department of Public Health and Social Services
- Public Defender
- Employment Services

2. Costs that can be justified at a lower level based on available data:

- Guam Police Department
- Department of Corrections
- Guam Fire Department
- Department of Commerce, Customs Inspection

3. Costs that cannot be supported by available data:

- Guam Community College
- University of Guam

OTIA
 June 13, 1994
 R. Miller