



Office of the Secretary
Department of Finance



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December 30, 2022

SFL 2023-076

The Honorable Ralph DLG. Torres
Governor
Commonwealth of the Northern Mariana Islands
Juan A. Sablan Memorial Building
Caller Box 10007, Saipan MP 96950
Telephone: 1-670-237-2200

Subject: The Fiscal Year 2022 Annual Report

Dear Governor Torres,

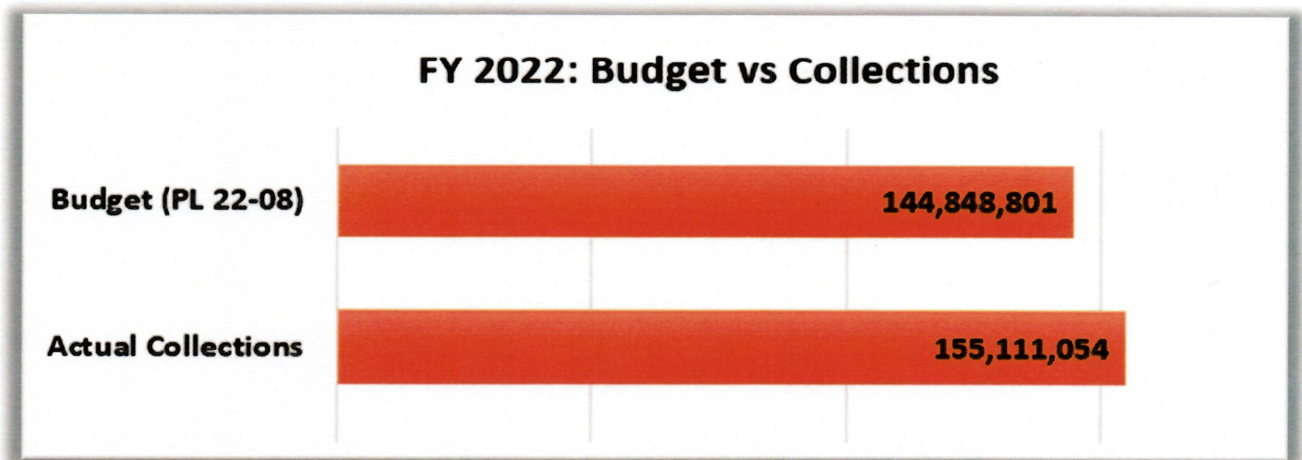
Pursuant to 1 CMC § 7209, the Governor shall submit to the legislature an itemized comparison of amounts appropriated, obligated, and expended, and revenues identified and collected during the previous fiscal year. The Department of Finance hereby submits the Fiscal Year 2022 (FY 22) Annual Report ending September 30, 2022, to provide the Office of the Governor with the required information for this submission to the CNMI Legislature.

Revenues/Resources

The CNMI Government on its continuing efforts to revive the economy persisted with its focus primarily on its tourism industry for FY 22. The tourism industry is the largest sector of the economy that generates a majority of the CNMI's local revenue resources. According to the Marianas Visitors Authority (MVA) CNMI Visitor Arrivals report for FY 22, visitor arrivals started to significantly increase by 1196.1% in comparison to FY 21 arrivals. In the 4th quarter of FY 21, the CNMI established a travel bubble agreement program called the Tourism Resumption Incentive Program (TRIP) with South Korea, which resulted in an increased Korean visitor arrival for FY 22. We also noted a slight increase in the influx of visitor arrivals from Japan, Guam, the United States, and other countries for FY 22 as compared to FY 21 from continued domestic flights and expansion of the tourism markets outside of the travel bubble program. We also noted a slight increase in the CNMI's collection efforts for FY 22, as local businesses are starting to re-open and operate at normal business hours driven by confidence from the increase in tourism arrivals. Despite the CNMI's efforts to improve its tourism industry to pre-pandemic revenue levels, it is still not enough to cover all the CNMI government's expenditures, but this economic contraction is offset by the infusion of federal funding assistance mainly coming from the American Rescue Plan (ARPA) in the amount of \$481,876,521.

The industry was provided vital external funding that our economy needs to support jobs, business growth, and a wide array of public services. This impact to our economy has forced the Department of Finance to report significant reductions in using locally available resources to operate the CNMI government. The necessary response to the economic constraints caused by the pandemic was to mobilize available federal resources in supporting continued income and expenditures throughout the economy. Through proactive cooperation with department heads, and a range of stimulus programs aimed at offsetting the loss of external capital, actual collection efforts surpassed the projected revenue budget for FY 22.

Figure 1.0: Fiscal Year 2022 Budget vs. Collections.



Of the total tax collections made in FY 22, 75% originated from Income Taxes. The primary source of local revenue is derived from Business Gross Revenue Taxes (BGRT) that represented 44% of total tax collections, however, this fell below budgetary estimates due to the prevailing impacts of the pandemic on businesses and commercial activities.

Income tax collections that had derived from personal income in the form of Wage and Salary Tax and Personal Northern Marianas Territorial Income Tax (NMTIT) had nearly reached total BGRT collections. With Wage and Salary collections amounting to \$26,010,810 and NMTIT amounting to \$14,631,689, NMTIT and BGRT collections far exceeded previous budgetary projections by \$13,125,224 and \$12,748,966 respectively. Meanwhile, Excise Tax collection fell short of budgetary projections, with total receipts amounting to \$28,047,522, or 18% of collected revenue resources.

It is important to note that the collections presented in this section do not include casino revenues, and other licenses and fees, also known as earmarked resources pursuant to Public Law 22-08 outlining the fiscal management of FY 22.

For a detailed financial report, please refer to attachment A.

Appropriations and Expenditures

Following debt service payments, and earmarked funds, the remaining resources available for general appropriation is \$98,897,301 for the beginning of FY 23. Despite strong collection efforts, the extent of the required pandemic response necessitated large and continued expenses from the General Fund. Consequently, total spending and obligations for the fiscal year exceeded the appropriated budgetary resources by 28%. Of the total approximate \$37.8 million deficit incurred, \$31.6 million or 84% for Disaster was derived from the COVID-19 threat prevention and mitigation response to safeguard our community from the spread of the deadly virus. The government's rapid response and dedication to combat the spread of the virus within the community has managed to keep the CNMI as one of the safest places in the nation.

Table 1.0: Fiscal Year 2022 Deficit

The table below summarizes the total estimated deficit for FY 2022 after Actual Revenue Collection and Covid-19 Pandemic Disaster (FEMA Reimbursable):		
FY 2022 Deficit	\$37.8	million
FY 2022 Actual Revenue Collection above allotment (after pensions and debt service)	(\$11.6)	million
FY 2022 Covid-19 Pandemic Disaster (FEMA Reimbursable)	(\$4.5)	million
Total FY 2022 Estimated Deficit	\$21.7	million

Source: Commonwealth of the Northern Mariana Islands, General Fund Revenue & Budget v Expenditure Report as of September 30, 2022 (Attachment A & B – Revenues and Expenditures)

Table 1.0 reflects the total estimated deficit for FY 22. The CNMI ended the Fiscal Year with an \$11.6 million revenue surplus above projections. This surplus, in addition to the \$4.5 million in COVID Pandemic Disaster expenses currently pending review for reimbursement with Federal Emergency Management Agency (FEMA), it is estimated that the total deficit of \$37.8 million will be reduced to \$21.7 million.

Figure 1.1: FY 2022 Allotments vs. Expenditures

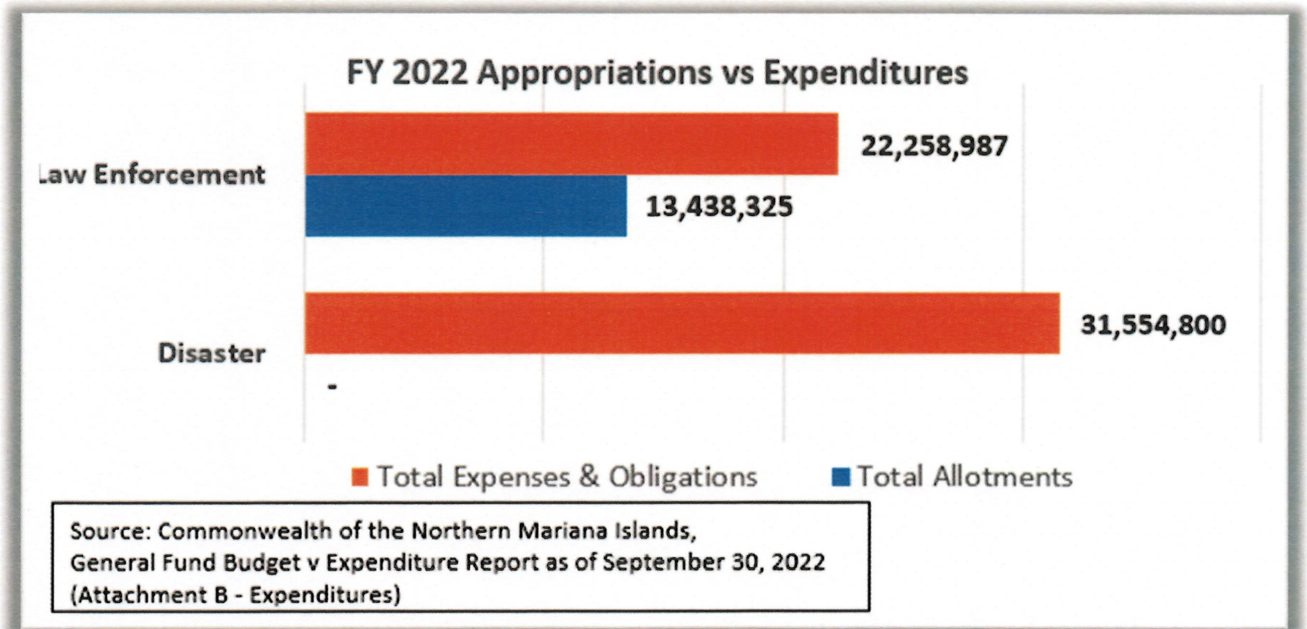


Figure 1.1 illustrates the deficit spending by function, which indicates that most expenditures were attributed to the response of the Disaster and COVID-19 pandemic and law enforcement. Law Enforcement expenditures consisted primarily of overtime for personnel of the Department of Public Safety (DPS), Department of Fire and Emergency Medical Services (DFEMS), Department of Corrections (DOC), and the Department of Finance - Division of Customs Services with an aggregate deficit of \$13,438,325. This Law Enforcement deficit was primarily related in response to the COVID-19 pandemic and was covered by the General Fund. Please refer to Attachment B for a detailed report of appropriations and expenditures for FY 22.

Figure 1.2: FY 2022 Tourism Arrivals

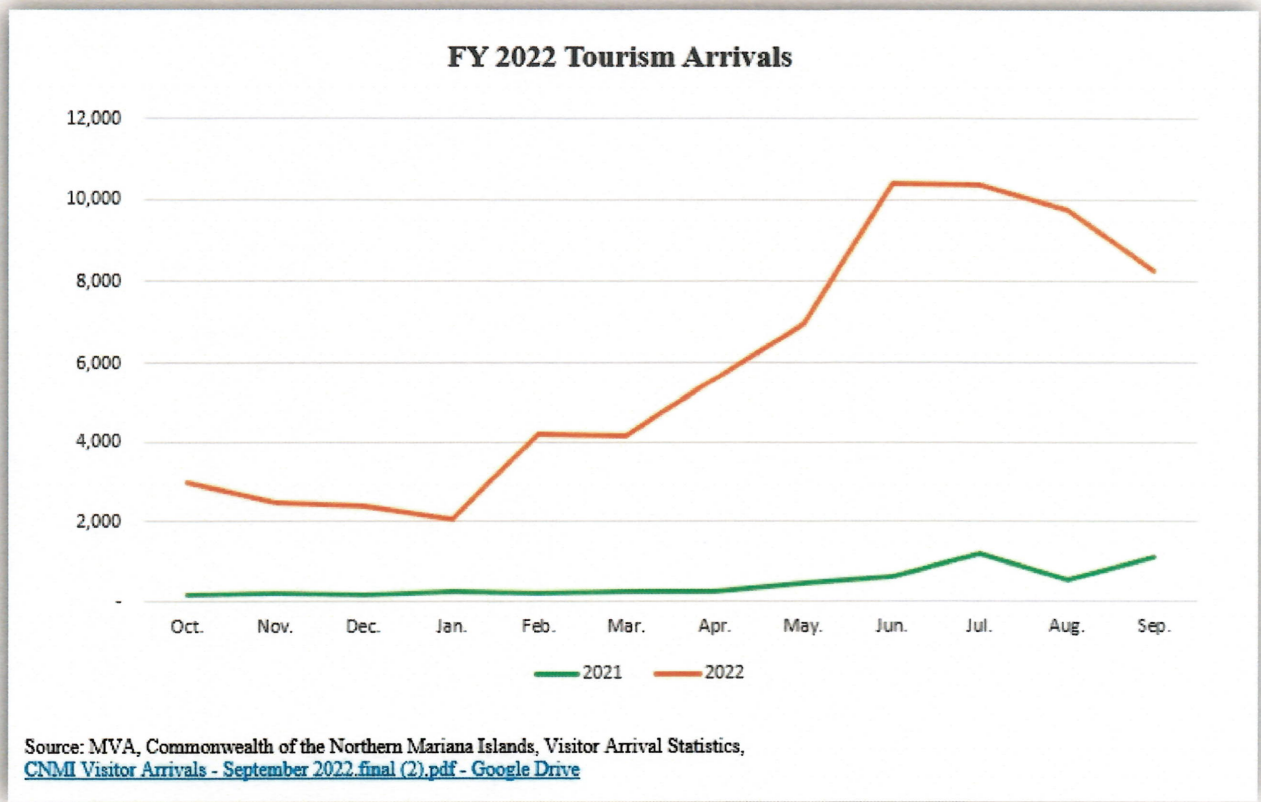


Figure 1.2 above illustrates visitor arrivals for FY 22 in comparison to FY 21. The CNMI economy is continuing to recover from the impact of the Covid-19 outbreak on the tourism industry. The CNMI’s primary tourism markets are from China, Korea, and Japan. In the 4th quarter of FY 21, the CNMI’s tourism industry was able to successfully negotiate the signing of a travel bubble agreement with the South Korean government allowing for the implementation of MVA’s TRIP. Due to the travel bubble, we noted a significant increase in total tourism arrivals from 5,365 tourist arrivals in FY 21 to 69,534 tourist arrivals in FY 22.

Financial Outlook

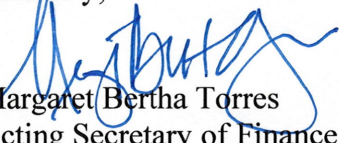
Three years have passed after the COVID-19 pandemic first upended international travel, and many countries have finally returned to pre-pandemic entry requirements by easing travel restrictions, including removing the presentation of vaccination cards and COVID-19 testing mandates; other countries made the process less of a hassle by similarly easing pandemic restrictions. We noted that, in September 2021, Korea opened its borders to travelers, therefore, the number of Korean tourist arrivals in FY 22 significantly increased from 985 Korean visitors in FY 21 to 52,811 Korean visitors. According to the Commonwealth Ports Authority (CPA), there are concerns that T'Way (which scheduled flights are four times a week) and Asiana Airlines (which scheduled flights are two times a week) are set to end in January and March 2023, respectively. There is no official confirmation yet whether these airlines are to renew their services again once their term ends, but this could irreparably impact tourism multiplier effects related to the FY 23 Korean visitor arrivals into the NMI. Also, Japan officially announced in September 2022 about the reopening of its border for both in-bound and out-bound travelers. In addition, Hong Kong and Taiwan have re-opened their borders and will not require the need to undergo quarantine. As of December 2022, for travelers coming from China, there has been no official confirmation on whether China will re-open its borders. However, MVA is looking to resume airline flight services for the China market into the CNMI around the Spring or Summer of 2023. With the re-opening of the borders from Japan, Hong Kong, Taiwan, and the inclusion of the China market, we are cautiously expecting a significant increase in tourist arrivals from these tourism source countries. In line with the projected growth in tourist arrivals, we are also expecting to see an upsurge in local revenues and job opportunities that will result in the corresponding increase in tax collection efforts for the CNMI.

Federal programs, such as ARPA, have provided economic stability and supported commercial activity, while aiding in the fight against the spread and impacts of COVID-19. This direly needed injection of federal resources has further mitigated the shortfall of available resources and allowed for the continued administration of government services. These programs will not be indefinite, however, and timely strategic efforts to pursue larger-scale resummptions in tourism and economic activity will be required to meet government obligations and to cushion against the impending sunset expiration of ARPA funds.

In view of the continued uncertainties for the fragile CNMI economy, therefore, there must be no less than collective leadership resolve to immediately find revenue-generating solutions in order to temper the impending financial havoc in the horizon. These may include but not be limited to strategic legislation and innovative policy pronouncements geared toward generating revenue and encouraging economic diversification to foster resilience of government resources for which the Department of Finance is keenly interested in working with stakeholders to develop these urgent and compelling policies soonest in the months ahead.

On behalf of the CNMI Department of Finance – Office of the Secretary, I thank you for the opportunity to provide this Annual Report for the Fiscal Year 2022. Please do not hesitate to contact me at 1-670-664-1100 or email me via M.Torres@dof.gov.mp if you have any question or need additional information.

Sincerely,



Margaret Bertha Torres
Acting Secretary of Finance

CC: Office of the Lt. Governor

ENCLOSURES:

FY 2022 Financial Schedules

- A. Revenues
- B. Expenditures

Attachment A - Revenues

Commonwealth of the Northern Mariana Islands
 CNMI General Fund Revenue Report
 As of September 30, 2022

	Total FY 2022 Budget	Total FY 2022 Collections	Total FY 2022 Variance
REVENUE SOURCE			
TAXES			
Income tax:			
1 Business Gross Revenue Tax	55,361,345	68,110,311	12,748,966
2 Wage & Salary Tax	25,106,457	26,010,810	904,353
3 Personal NMTIT	1,506,465	14,631,689	13,125,224
4 Corporate NMTIT	2,173,008	3,160,181	987,173
5 Gaming Jackpot Tax	833,551	859,731	26,180
6 Penalties/Interest Delinquent Taxes	369,538	817,049	447,511
Total Income Taxes	85,350,364	113,589,771	28,239,407
Excise Taxes:			
7 Cigarettes (Post P.L. 18-64 eff 9-16-2014)	12,406,711	10,978,247	(1,428,464)
8 Beer & Malt Beverages	3,029,924	2,955,948	(73,976)
9 Other Commodities	19,971,070	14,113,327	(5,857,743)
Total Excise Taxes	35,407,705	28,047,522	(7,360,183)
Hotel/Bar/Beautification Taxes:			
10 Hotel Occupancy Tax	5,079,956	3,165,093	(1,914,863)
11 Bar Tax	711,809	316,199	(395,610)
12 Beautification Tax	1,086,319	1,343,247	256,928
Total Hotel/Bar/Beautification Taxes	6,878,084	4,824,539	(2,053,545)
Liquid Fuel Tax			
13 Non Aviation Fuel	2,297,533	3,785,064	1,487,531
14 Aviation Fuel	294,342	171,784	(122,558)
Total Liquid Fuel Tax	2,591,875	3,956,848	1,364,973
Beverage Container Tax			
15 Soft drinks & Non-Dairy	715,632	800,934	85,302
16 Beer, Ale, Malt, Distilled Alcohol, Wine, and Sake	718,281	628,095	(90,186)
Total Beverage Container Tax	1,433,913	1,429,029	(4,884)
Total Other Taxes	46,311,577	38,257,938	(8,053,639)
TOTAL TAXES	131,661,941	151,847,709	20,185,768
LICENSES AND FEES			
Amusement Machine Licenses			
17 Non-Gambling Machines	-	17,135	17,135
18 Poker Machines	2,711,714	2,738,525	26,811
19 Electronic Gaming Machines	1,880,188	-	(1,880,188)
Total Amusement Machine Licenses	4,591,902	2,755,660	(1,836,242)
Other Licensees and Fees			
20 Business License Fees	856,906	32,496	(824,410)
21 Vehicle Registration Fees	1,709,598	80	(1,709,518)
22 Operator License Fees	369,866	45	(369,821)
23 Admiralty and Maritime Fees	4,460	-	(4,460)
24 Weapons Fees	24,640	-	(24,640)
25 Corporation Fees	139,258	-	(139,258)
26 Building Safety Code Fees	312,610	300	(312,310)
27 Passport Fees	295,686	-	(295,686)
28 Miscellaneous Licenses and Fees	1,593,065	475	(1,592,590)
Total Other Licenses and Fees	5,306,089	33,396	(5,272,693)
TOTAL LICENSES AND FEES	9,897,991	2,789,056	(7,108,935)
Charges for Services			
29 Indirect Cost Reimbursement	788,627	-	(788,627)
30 CIQ Overtime	213,325	258,334	45,009
31 Miscellaneous Charges for Services	208,403	103,348	(105,055)
Total Charges for Services	1,210,355	361,682	(848,673)

Attachment A - Revenues

Commonwealth of the Northern Mariana Islands
 CNMI General Fund Revenue Report
 As of September 30, 2022

	Total FY 2022 Budget	Total FY 2022 Collections	Total FY 2022 Variance
Other Revenue			
32 Interest Income - Treasury	7,669	-	(7,669)
33 Business Privilege Fee	357,959	75,036	(282,923)
34 Lottery Commission Revenue	140,268	-	(140,268)
35 Miscellaneous	259,543	37,571	(221,972)
Total Other Revenue	765,439	112,607	(652,832)
TOTAL FEES, SERVICES, AND OTHER REVENUE	11,873,785	3,263,345	(8,610,440)
TOTAL GENERAL FUND REVENUE	143,535,726	155,111,054	11,575,328
TRANSFERS IN/OTHER INTERNAL SOURCES			
36 MPLT Interest Transfer In	806,505	-	(806,505)
37 OPA Current FY Automatic Agency 1%	506,570	-	(506,570)
38 Other Transfers In	-	-	-
TOTAL TRANSFERS IN/OTHER INTERNAL RESOURCES	1,313,075	-	(1,313,075)
TOTAL REVENUE PRIOR TO TRANSFERS OUT	144,848,801	155,111,054	10,262,253
LESS Debt Service Previously Appropriated			
Appropriated for 2003A \$40 million Bond Payment			
Appropriated for 2007A Refunding Bond Payment	(3,621,250)	(3,626,250)	(3,477)
Appropriated for 2007B Refunding Bond Payment	(3,330,250)	(3,330,340)	-
Total Reduction for Appropriated Debt Service	(6,951,500)	(6,956,590)	(3,477)
LESS Settlement Agreement			
Appropriated for Payment of NMI Settlement Fund	(39,000,000)	(37,700,000)	1,300,000.00
Total Reduction for Settlement Agreement	(39,000,000)	(37,700,000)	1,300,000
TOTAL for DEBT SERVICE/SETTLEMENT AGREEMENT	(45,951,500)	(44,656,590)	1,296,523
TOTAL AVAILABLE FOR GENERAL APPROPRIATION	98,897,301	110,454,464	11,558,776

Attachment B - Expenditures

Commonwealth of the Northern Mariana Islands
 CNMI General Fund FY22 Allotment vs. FY22 Expenses
 As of September 30, 2022

AGENCY		Total FY2022 Allotments	Total FY2022 Expenses	Total FY2022 Variance
GOVERNMENTAL FUND				
EXECUTIVE BRANCH				
10	SAIPAN			
BCC	Boards and Commissions	890,900	1,243,028	(352,128)
CCA	Community & Cultural Affairs	770,802	1,091,437	(320,635)
COR	Department of Corrections	2,793,447	4,438,322	(1,644,875)
FIR	Dept of Fire	3,776,258	5,990,630	(2,214,372)
DPS	Dept. of Public Safety	4,938,876	8,496,564	(3,557,688)
DOC	Dept. of Commerce	905,522	1,061,656	(156,134)
DOF	Dept. of Finance	3,728,830	5,132,557	(1,403,727)
DL	Dept. of Labor	658,022	352,314	305,708
DNR	Dept. of Land & Natural Res.	464,717	556,006	(91,289)
DPW	Dept. of Public Works	2,935,491	2,795,504	139,987
GOV	Office of the Governor	3,807,555	5,280,634	(1,473,079)
DIS	Disaster Expenditures	-	31,554,800	(31,554,800)
LGV	Lt. Governor's Office	404,522	372,074	32,448
MAY	Office of the Mayor	2,084,001	2,176,647	(92,646)
OTH	Other Programs	44,695,049	41,466,836	3,228,213
10	SAIPAN	72,853,992	112,009,008	(39,155,016)
20	ROTA	6,510,754	6,030,242	480,512
30	TINIAN	6,537,168	6,777,214	(240,046)
JUD	Judicial Branch	5,939,857	5,571,690	368,167
LEG	Legislative Branch	6,705,005	5,946,306	758,699
1000	GENERAL FUND	98,546,776	136,334,460	(37,787,684)