ANALYSIS OF THE ECONOMIC IMPACT OF INCLUDING CNMI IN THE U.S. NATIONAL SUPPLEMENTAL NUTRITIONAL ASSISTANCE PROGRAM (SNAP)

Prepared by:

RAS Consulting
Box 5666 CHRB
Saipan, MP 96950
September 2011

ANALYSIS OF THE ECONOMIC IMPACT OF INCLUDING CNMI IN THE U.S. NATIONAL SUPPLEMENTAL NUTRITIONAL ASSISTANCE PROGRAM (SNAP)

BACKGROUND

The Nutrition Assistance Program (NAP) in the Commonwealth of the Northern Mariana Islands (CNMI) is currently funded by a capped block grant negotiated annually with the U.S. Department of Agriculture. All other states and territories are included in the national Supplemental Nutritional Assistance Program (SNAP) which is not capped, issues benefits directly to participants and provides a substantially higher level of benefits to participants than the CNMI capped grant. In times of economic stress resulting in increased participants CNMI's program benefits per family must be reduced to stay within the block grant limits. The most recent data available from the CNMI NAP shows an average monthly benefit of $302 per month for a family of 4. Under SNAP the benefit levels per month for a family of 4 average $668 nationally and $985 on neighboring Guam.

Congressman Gregorio Kilili Camacho Sablan, representing the CNMI has introduced legislation, H.H. 1465, that would require CNMI to be incorporated into the national SNAP program. Also, a recent analysis of the SNAP law by the Congressional Research Service supports the view that the U.S. Secretary of Agriculture has the authority to extend the Department's programs to the CNMI. CRS reports "It appears that the Secretary of Agriculture could, at his discretion and following the notification requirements of 48 U.S.C. §1469(c), enter into a memorandum of understanding with the CNMI to extend the SNAP law to the CNMI in its entirety as it applies to the states, D.C., Guam and the Virgin Islands."

Incorporating CNMI into the national SNAP program has policy implications as well as economic that will need to be considered. This analysis will focus on the economic impact.

ADDITIONAL BENEFITS

The Congressional Budget Office (CBO) has estimated that including CNMI in SNAP would result in additional benefits to CNMI recipients of $19 million in 2013 and $24 million in 2014 with subsequent years through 2021 between $20 and $24 million. The Congressional Research Service (CRS) estimated a range of $12 million to $24 million additional per year. Exhibit 1 uses a range of $12 to $24 million as a basis for calculation as this is inclusive of both the CBO and CRS estimates. While these would be the direct additional dollars spent in the CNMI economy, there are additional indirect economic benefits as well that can be measured by economic multipliers.

MULTIPLIER EFFECT

Multipliers show the additional change in the total economy for each new direct dollar and are always greater than one as the one represents the original direct dollar. Multipliers can be calculated for earnings, outputs and employment. Multipliers can vary widely by industry and area and are estimates based on the assumption that the spending

MULTIPLIER EFFECT Continued

patterns remain the same as in the original calculation. Northern Marianas College conducted an economic study of the CNMI, published in 1999, that included economic multipliers for the apparel and visitor industries. This analysis uses the visitor industry earnings multiplier (2.1) from that study for other CNMI non apparel sectors. An internet search for other multipliers was performed to determine if the CNMI multiplier from the NMC study was reasonable. The USDA website has a report done in October 2010 that calculated a 1.79 national economic multiplier for the SNAP program called the Food Assistance National Input-Output Multiplier (FANIOM). Several states had multiplier tables by industry established. The wholesale/retail sectors appeared most relevant to an increase in SNAP funds. These multipliers for Hawaii, California and Kansas were 1.9, 2.02 and 1.9 respectively. It appears that the NMC study rate, while slightly higher than these states, does not appear unreasonable. Exhibit 1 uses the NMC rate for the high estimate and the national SNAP rate for the low estimate of the economic impact of additional SNAP benefits.

TOTAL ECONOMIC IMPACT

The total economic impact of $12 -$24 million in additional SNAP benefits for CNMI beneficiaries would range from $21.48 to $42.96 million annually using the national SNAP multiplier and $25.2 to $50.4 million using the NMC CNMI specific rate (See Exhibit 1).

CNMI GOVERNMENT REVEUE

An analysis performed by the CNMI Department of Finance in 2001 determined that each dollar of business gross revenue reported generated 10 cents of government revenue. An analysis of the business gross revenue reported and audited local revenues for the period 2006 through 2009 (See Exhibits 2 and 3) showed that this relationship was still essentially the same. Using this rate the additional SNAP benefits would generate an additional $2.148 to $4.296 million annually using the national SNAP multiplier and $2.52 to $5.04 million using the NMC CNMI specific rate (See Exhibit 1).

ADMINISTRATIVE COSTS

Entry into the national SNAP program would require CNMI to assume 50% of the administrative costs of running the program. The current annual administrative cost is $1.3 million according to the CNMI Nutrition Assistance Program office and the USDA Food and Nutrition Service. This would increase CNMI's local expenditures by about $650,000 assuming administrative costs remained about the same. There would be additional administrative costs incurred under SNAP, particularly for implementation of the debit card type system used. However, there would be decreased administrative costs associated with elimination of the paper coupon printing and processing and the coupon paying agent contract. For the purposes of this analysis no rise in administrative costs has been calculated. In any event, the increased government revenues associated with the SNAP program would range from 3.3 times the additional cost at the low estimate to 7.75 times the additional cost at the high estimate.

LOCALLY PRODUCED FOOD PURCHASES

The current NAP program requires that 30% of the coupons be used for purchases of locally produced foods. SNAP has no local purchase requirement but could still be used to purchase local products and could remain at the 30% level or vary either up or down depending on beneficiary purchasing habits. While a drop in local food purchases could result in lower revenues for local farmers and fishermen, imports would be subject to both excise taxes and the Business Gross Revenue Tax (BGRT) at the wholesale and retail level. This analysis has assumed that the overall economic impact would not be significantly affected by changes in beneficiary purchasing habits.

CONCLUSION

CNMI's inclusion in the SNAP program would increase the total amount received by CNMI beneficiaries by $12-24 million resulting in a total economic impact of $21.48 to $42.96 million annually using the national SNAP multiplier and $25.2 to $50.4 million using the NMC CNMI specific rate. CNMI Government revenues would increase $2.148 to $4.296 million annually using the national SNAP multiplier and $2.52 to $5.04 million using the NMC CNMI specific rate. While CNMI would have to match 50% of the administrative costs, the increased government revenues associated with the SNAP program would range from 3.3 times the additional cost at the low estimate to 7.75 times the additional cost at the high estimate. Eliminating the 30% requirement for purchase of locally produced foods would not affect the overall economic benefits but could have an impact on local farmers and fishermen depending on beneficiary purchasing habits. It appears there would be a substantial economic benefit for the CNMI to be included in the SNAP program.

EXHIBIT 1
SCHEDULE OF ESTIMATED ECONOMIC IMPACT
OF INCLUDING CNMI IN THE NATIONAL SNAP PROGRAM

Col A Amount of Increase CBO est	Col B Economic Impact NMC study 2.1 multiplier	Col C CNMI Govt Revenue DOF est NMC	Col D Economic Impact SNAP study 1.79 multiplier	Col E CNMI Govt Revenue DOF est SNAP	**	Col G Current Total Admin Cost	Col H CNMI admin cost under SNAP 50%	Col I Additional Admin cost No estimate	Col J Gain/Loss local food sales
12,000,000	25,200,000	2,520,000	21,480,000	2,148,000		1,300,000	650,000	See note	See note
18,000,000	37,800,000	3,780,000	32,220,000	3,222,000		1,300,000	650,000	See note	See note
24,000,000	50,400,000	5,040,000	42,960,000	4,296,000		1,300,000	650,000	See note	See note

Notes:
Column A: Additional benefits under SNAP estimated by the Congressional Budget Office and Congressional Research Service
Column B - Total economic impact using non garment multiplier from 1999 NMC CNMI economic study
Column C - Total CNMI Government revenue (BGR, income and excise taxes and other fees and services) at NMC rate
Column D- Total economic impact using specific SNAP national multiplier from 2010 USDA publication
Column E - Total CNMI Government revenue at USDA SNAP rate based on CNMI DOF estimate of revenues at 10% of business gross revenue
Columns C and E seem to represent the high and low multipliers; multipliers for retail/wholesale activities were 2.02 in in 2009 California industry multiplier tables, 1.9 the July 2011 Hawaii State Input-Output Study and 1.9 in a 1989 Kansas study.
Column G - Current administrative cost estimated by CNMI NAP and FNS
Column H - Additional cost to CNMI under SNAP 50% administrative cost sharing at current level.
Column I - Additional administrative costs would be incurred under SNAP paticularly for the debit card type system. However, elimination of printing and processing paper coupons would at least partially offset this cost.
Column J - SNAP has no local food purchase requirement while 30% of current funding goes to local food purchases. SNAP could still be used to purchase local products and imports would be subject to both the excise tax and BGR tax at the wholesale and retail level. Consumer behavior would determine the impact on local farmers and fishermen.

EXHIBIT 2
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
DEPARTMENT OF FINANCE
ANNUAL TOTAL BUSINESS GROSS REVENUE REPORTED
CALENDAR YEARS 2006 - 2009 (IN $ MILLIONS)

Code	Industry/Calendar Year	2009	2008	2007	2006
2000	Agriculture	1.67	1.82	2.32	2.37
2005	Fisheries	0.94	0.92		
2010	Mining	1.23	3.10	1.16	0.84
2020	Utilities	0.03			
2030	Construction Contractors	81.00	72.44	57.41	63.60
2040	Manufacturing incl. Garment	24.22	64.61	213.66	360.77
2050	Wholesale Trade	142.39	159.36	171.48	185.83
2060	Retail Trade/Gas Stations	337.11	467.15	429.63	445.10
2070	Transportation	38.86	47.12	45.04	54.97
2080	Media	47.01	44.44	53.28	78.64
2090	Financial Services	90.08	96.01	92.21	78.07
2100	Rentals(2140)/Other Rentals(2100)	53.37	50.39	52.93	56.75
2110	Professional Services	30.07	33.21	34.52	30.96
2120	Other(2150)/Misc. Services(2120)	89.28	91.28	86.91	99.63
2130	Medical Services	25.92	22.74	20.66	20.14
2160	Imports	0.23	0.22	0.26	0.49
2170	Alcohol and Food (incl. restaurants)	65.70	64.02	51.75	60.45
2180	NonProfits	1.73	1.44	1.29	1.00
2190	Pawnshops	1.02	1.11	0.85	0.92
2200	Poker Machines	14.07	14.06	14.23	44.64
2210	Fuel	1.80	10.18		
2230	Unclassified	126.86	97.15	97.07	88.70
2240	Golf Courses	7.12	10.32	9.21	9.95
2260	Hotels and Motels	75.23	98.52	92.26	93.68
	Total Annual Business Gross Revenue	1,256.94	1,451.61	1,528.13	1,777.50
	Audited local revenue - fiscal year basis	137.756	153.414	163.427	192.660
	% of local revenue to BGR	10.96%	10.57%	10.69%	10.84%

EXHIBIT 3
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
GENERAL FUND
STATEMENT OF REVENUES AND EXPENDITURES BY ACCOUNT
AND CHANGES IN FUND BALANCE (DEFICIT) GAAP BASIS
FISCAL YEARS 2006 THROUGH 2009 (000's Omitted)
FY2006 to FY2009 actuals from single audit reports

	FY09 Audited	FY08 Audited	FY07 Audited	FY06 Audited
REVENUES				
Gross Business Revenue Tax	45,132	49,874	49,112	55,207
Personal/Corporate IncomeTaxes	30,791	36,283	36,183	42,662
Excise Taxes	18,086	18,678	21,104	21,977
Customs Certification User Fees	477	5,394	13,412	20,991
Fuel Tax	2,783	2,731	3,531	4,027
Beverage Container Tax	909	1,047	1,073	1,310
Hotel Tax	5,078	5,314	5,100	5,635
Other Taxes (Bar, Beautification, P&I)	2,060	1,974	2,257	3,308
Total Taxes	**105,316**	**121,295**	**131,772**	**155,117**
Amusement Machine License Fees	4,435	5,055	6,475	8,495
Other Licenses and Fees	5,544	5,126	4,754	5,381
Hospital Charges	15,500	16,350	16,384	14,713
Other Charges for Services	1,065	3,195	2,732	2,813
Division of Public Lands	0	0	0	0
Lottery Commission	159	347	379	279
Other Revenue	5,737	2,046	931	5,862
Total Fees,Services & Other Revenue	**32,440**	**32,119**	**31,655**	**37,543**
Total Local Revenue	**137,756**	**153,414**	**163,427**	**192,660**
Operating Transfers In	8,207	6,151	7,067	14,386
Bond Proceeds (PSS, Land Comp, Prison)				
Bond Proceeds-bond refundings + premium			100,657	
Estate Tax coverover		17,204		
Income tax coverover (private) - multiple years		24,407		
U.S. Covenant Funding	0	0	0	0
Total Other Financing Sources	**8,207**	**47,762**	**107,724**	**14,386**
TOTAL REVENUE/OTHER FINANCING SOURCES	**145,963**	**201,176**	**271,151**	**207,046**

EXHIBIT 4

Preliminary estimate of SNAP proposal
SUBJECT TO CHANGE.

DRAFT

August 26, 2011

DIRECT SPENDING EFFECTS

Federal costs in millions of dollars, relative to CBO March 2011 baseline

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
H.R. 1465 Assuring You Uniform Dietary Assistance (AYUDA) Act of 2011												
Treat CNMI in the same manner as Guam in the Supplemental Nutrition Assistance Program, effective October 1, 2012												
Budget Authority	0	19	24	24	23	22	21	21	20	20	**90**	**194**
Outlays	0	19	24	24	23	22	21	21	20	20	**90**	**194**

EXHIBIT 5

ANALYSIS OF THE ECONOMIC IMPACT OF INCLUDING CNMI IN THE U.S. NATIONAL SUPPLEMENTAL NUTRITIONAL ASSISTANCE PROGRAM (SNAP)

Sources economic multipliers used in this analysis:

An Economic Study for the Commonwealth of the Northern Mariana Islands
Business Development Center, Northern Marianas College, 1999
Table I-7 Apparel and Visitor Industry Multipliers, 1995

The Food Assistance National Input-Output Multiplier (FANIOM) Model and Stimulus Effects of SNAP
by Kenneth Hanson (Economic Research Report No. (ERR-103) October 2010

The Hawaii State Input-Output Study: 2007 Benchmark Report
Research and Economic Analysis Division, Department of Business, Economic Development and Tourism, State of Hawaii, July 2011
Table 6.1: 2007 Detailed Output, Earnings, Employment, and Tax Multipliers for Hawaii

Using Multipliers to Measure Economic Impacts
California Economic Strategy Panel, 2009
RIMS II Multipliers (2006/2006) Table 1 Total Multipliers for Output, Earnings, Employment and Value Added by Industry Aggregation, California Annual (Type II)

Economic Impact Multipliers for Kansas
David Burress, Assistant Professor of Economics, University of Kansas
Kansas Business Review, Spring 1989
Table 2 The Complete Multipliers