HOTEL ASSOCIATION OF THE NORTHERN MARIANA ISLANDS

SAIPAN CHAMBER OF COMMERCE

June 3, 2010

The Honorable Gregorio C. Sablan
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Sablan:

As you know, the minimum wage rate applicable to the Commonwealth of the Northern Mariana Islands has risen substantially over the past 34 months. Unfortunately, the balance of the Commonwealth economy has not kept pace with the increases in the minimum wage. We have, during that time, lost our leading industry, witnessed the continued decline of our only remaining industry, weathered exorbitant increases in utility costs and inbound freight prices, and seen the overall revenues of the Commonwealth government dip to lows not experienced in two decades. The Hotel Association of the Northern Mariana Islands ("HANMI") and the Saipan Chamber of Commerce (the "Chamber") request your assistance in mitigating the grave harm that faces not only the business community, but all those employed by the private sector (and ultimately those employed by the government as well) if temporary relief from mandated minimum wage rate increases – a significant component of the cost of doing business – is not obtained.

The Chamber is the largest business organization in the Commonwealth, with approximately 150 members that range from individuals and small companies to some of the largest corporations operating in the Pacific region and which collectively employ thousands of individuals in the Commonwealth. HANMI represents 13 of the largest hotels in the Commonwealth, which collectively employ nearly 1,800 individuals, and is a cornerstone of the only remaining industry in our islands: tourism.

The increase in the minimum wage rate applicable to the Commonwealth was mandated by Public Law 110-28, enacted in May 2007 and which implemented a first 50-cent increase on July 25, 2007. On September 30, 2010, the fourth 50-cent increase will raise the minimum wage in the Commonwealth to $5.05 per hour, or approximately 66 percent above where it stood just more than three years earlier. The impact that continued increases in the minimum wage rate will have on businesses and the economy generally, and the tourism industry in particular, is of considerable concern. The minimum wage increase was signed into law near the peak of a seven-year expansion of the United States economy, and without the benefit of a study of the Commonwealth economy to understand how the increases might impact our small, geographically isolated community.

It is important to understand that the mandated minimum wage increases are not occurring in a vacuum. That the Commonwealth is in the midst of a severe and long-term economic depression is unquestionable. Commonwealth government general fund revenues have shrunk by 37 percent from over $210 million in fiscal year 2005 to an anticipated $132 million in fiscal year 2011 – a government revenue level last seen approximately 20 years ago. Not surprisingly, business gross revenue taxes, the largest component of local government revenues, are also at a 20-year low. From 2005 through 2008, total employment has fallen by approximately 35 percent, from 49,224 to 32,053. Total visitor arrivals have dropped from a 1997 peak of 726,690 to 375,808 in 2009 – a 48 percent decline. Further erosion of our tourist base continues: in fiscal year 2010, 9 percent fewer visitors have entered the Commonwealth than during the same period in fiscal year 2009.

In May 2008, President Bush signed into law the Consolidated Natural Resources Act of 2008 (Pub. L. 110-229), which applies federal immigration laws to the Commonwealth. The CNRA as currently implemented: (1) will reduce to zero, by 2014, the number of foreign workers in the Commonwealth who do not obtain federal employment-based visas; (2) requires the repatriation, by 2014, all foreign investors in the Commonwealth who are unable to obtain federal investor visas; and (3) leaves uncertain the ongoing ability of Russian and Chinese tourists (who collectively represent approximately 11 percent of our annual visitor arrivals) to enter the Commonwealth without obtaining federal tourist visas. The net effect of these changes, in the short-term, will be: a decline in the available workforce, a decline in foreign investment, and continued uncertainty with respect to a large segment of tourist arrivals. Each of these outcomes will have a negative economic impact on the Commonwealth.

Additionally, the planned relocation of United States Marines from Okinawa to Guam will exacerbate both the tightened labor market that will be brought about by the CNRA as well as the decreasing consumer base being caused by out-migration of United States citizens from the Commonwealth as the local economy continues to decline. As is observed in the Draft Environmental Impact Statement for the Guam military buildup, there will likely be little to no economic benefit for the Commonwealth as a result of the buildup, but there is a great likelihood that individuals in the Commonwealth who are legally able to work in the United States will relocate to Guam to take advantage of high-paying jobs fueled by federal contracts. Many businesses will, in the near term, be forced to increase salaries of their most valued and skilled workers in order to effectively compete with the federally-funded opportunities in Guam at the same time that those businesses are experiencing significantly decreased revenues. This represents an additional and unavoidable increase in the cost of doing business.

Businesses in our islands face extraordinarily high costs compared to companies in the mainland, or even other island communities such as Hawaii or Guam. For example, in 2008 the national average for commercial electric utility rates was 10.37 cents per kWh. In the Commonwealth, the average commercial rate in calendar year 2008 was 41.4 cents per kWh, or approximately four times the national average. Likewise, because of a small consumer base, our remote location, and the lack of any meaningful volume of outbound cargo following the demise of the apparel industry, inbound shipping costs have soared. In general, it is approximately three to four times more expensive to ship items from the mainland U.S. to the Commonwealth than, for example, the mainland U.S. to Japan. Although the retail consumer pays for some portion of the high cost of shipping, businesses must also absorb a substantial amount of the shipping costs in the form of lower margins than would be enjoyed in the mainland United States on comparable goods.

Past minimum wage rate increases have been, to a great degree, borne by businesses. It is not possible for this to continue. Profit margins have been eroded to the point of nonexistence. Future minimum wage rate increases will be passed on to the ultimate consumer. In most cases, there are multiple levels of handling before goods are purchased by retail consumers: at the docks, by the distributor, and by the retail store, for example. At each of these levels, minimum wage rate increases will add a further layer of cost to the consumer good. Likewise, past minimum wage rate increases have for the most part only affected the wages of minimum wage earners. Future minimum wage rate increases will necessitate corresponding increases to the wages of employees in the tiers above the minimum wage level in order to maintain some semblance of wage scale parity in the workplace. Absent such increases, skilled workers who are able to legally work in other areas of the United States will do so, further hampering any economic recovery in our islands.

We are cognizant of the congressional intent embodied in Public Law 110-28 and of the need for a fairly-compensated workforce. We do, however, believe that the 66 percent increase in the minimum wage rate over a period of three years represents a tremendous step forward in that direction. It is in nobody's best interests – not workers, not businesses, and not the government – for uncontrolled cost increases to lead to business closures. Wage increases should not come about at the expense of jobs. It is now appropriate to allow the rest of the economy an opportunity to catch up with the increasing minimum wage rate. We ask that you support a one-year moratorium on the annual 50-cent increase scheduled for calendar year

2011, and that the impact of the minimum wage rate increases in the Commonwealth be again studied and reported back to Congress by the General Accountability Office in 2012, prior to the resumption of the increases.

We thank you for your consideration of this matter and would be pleased to answer any questions you may have in this regard.

Sincerely,

HOTEL ASSOCIATION OF THE NORTHERN MARIANA ISLANDS

Nick Nishikawa
Chairman

SAIPAN CHAMBER OF COMMERCE

Douglas A. Brennan
President