



March 2014

AMERICAN SAMOA AND THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Economic Indicators Since Minimum Wage Increases Began

GAO Highlights

Highlights of [GAO-14-381](#), a report to congressional committees

Why GAO Did This Study

In 2007, the United States enacted a law incrementally raising the minimum wages in American Samoa and the CNMI until they equal the U.S. minimum wage. American Samoa's minimum wage increased by \$.50 per hour three times, and the CNMI's four times before legislation delayed the increases amid concerns that they would have a detrimental effect on the American Samoa and CNMI economies. The most recent increase in American Samoa occurred on May 25, 2009. The next is scheduled for September 30, 2015, with additional increases every 3 years thereafter. Under current law, the minimum wage in American Samoa's tuna canning industry will equal the current U.S. minimum wage of \$7.25 in 2027. The CNMI's most recent increase occurred on September 30, 2012. The next increase is scheduled for September 30, 2014, with additional increases in 2016 and annually thereafter until it reaches the U.S. minimum wage.

GAO is mandated to report in 2014, and every 3 years thereafter, on the impact of the minimum wage increases. This report updates our previous reports and discusses for each territory (1) changes in employment and earnings and (2) changes in key industries since the most recent federal minimum wage increase and since the increases began. GAO reviewed local and federal earnings information; collected data from employers in key industries through a questionnaire and from employers and workers through discussion groups and interviews during visits to each area.

American Samoa's government said GAO captured the consensus to postpone a 2015 minimum wage increase. CNMI's government said GAO captured the general economic condition of the CNMI.

View [GAO-14-381](#). For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov

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What GAO Found

American Samoa employment and earnings have decreased since 2007, but employment increased slightly from 2011 to 2012. Since 2005, the American Samoa economy has had a flat or declining real gross domestic product (GDP).

American Samoa Employment

Employment	Change
All sectors, 2011-2012	+1.5%
All sectors, 2007-2012	-11%
Tuna canning hourly workers, 2012-2013	-13%
Tuna canning hourly workers, 2007-2013	-58%

Source: GAO analysis of data from GAO tuna canning industry questionnaire and American Samoa tax office data.

Average inflation-adjusted earnings of those employed fell by 5 percent overall from 2007 to 2012 and by 2 percent from 2011 to 2012.

One of American Samoa's two tuna canneries closed in 2009. However, a new company is renovating the closed cannery and plans to re-open it in 2015. Two employers in the tuna canning industry took cost-cutting actions from 2010 to 2013, including labor-saving strategies and reduced overtime. The employers attributed to a moderate or large extent all but one of their actions to minimum wage increases, but also to increased utility and material costs. Two of the three employers planned more cost-cutting actions and attributed those plans to a moderate or large extent to minimum wage increases, but also to other increased costs and business factors.

Commonwealth of the Northern Mariana Islands (CNMI) employment and earnings have decreased overall since 2006, but earnings increased slightly from 2011 to 2012. After falling rapidly from 2005 to 2009, CNMI real GDP remained relatively stagnant from 2009 to 2012.

CNMI Employment

Employment	Change
All sectors, 2011-2012	-6%
All sectors, 2006-2012	-45%
Hotel industry hourly workers, 2012-2013	+3%
Hotel industry hourly workers, 2007-2013	-21%

Source: GAO analysis of data from GAO hotel industry questionnaire and CNMI government tax data.

Average inflation-adjusted earnings of those employed fell by about 2 percent overall from 2006 to 2012 but rose by 1 percent from 2011 to 2012.

CNMI hotel occupancy and room rates have risen in recent years, but industry representatives we spoke with characterized the recent growth as an opportunity to recover and reinvest in their properties. Hotels representing the majority of all workers employed by respondents to GAO's questionnaire attributed past cost-saving strategies and price increases to minimum wage increases. Hotels also attributed their actions to other increased costs and changes to U.S. immigration law, which reduce the number of available permits for foreign workers in the CNMI. Hotels representing 90 percent or more of all workers employed by questionnaire respondents attributed plans for further cost-cutting to minimum wage increases, but also to increasing utility, material, and transportation costs.

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Abbreviations

CBO	Congressional Budget Office
CNMI	Commonwealth of the Northern Mariana Islands
CPI	Consumer Price Index
FICA	Federal Insurance Contributions Act
FLSA	Fair Labor Standards Act of 1938
GDP	gross domestic product
HANMI	Hotel Association of the Northern Mariana Islands
SSA	Social Security Administration

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March 31, 2014

Congressional Committees

For decades, American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI) have had minimum wages below the statutory minimum wage in the United States and in other U.S. territories. In 2007, Congress enacted legislation to increase the minimum wages in American Samoa and the CNMI in periodic increments until each reaches the federal minimum wage, which is currently \$7.25 per hour.¹ In 2009, Congress mandated that GAO report on the impact of these minimum wage increases.² Some incremental minimum wage increases included in the 2007 law have occurred in each territory; however, subsequent legislation delayed further increases amid concerns about their impact on the American Samoa and CNMI economies.³ Both territories experienced economic downturns between 2007 and 2009, including the complete exodus of the CNMI's garment industry and the closure of one of two tuna canneries in American Samoa—a major source of private sector employment. GAO has reported twice in response to this mandate, in 2010 and 2011.⁴

This report updates our previous reports and discusses for each territory (1) changes in employment and earnings and (2) changes in key

¹U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, Pub. L. No. 110–28, § 8103, 121 Stat. 188 (May 25, 2007); 29 U.S.C. § 206(a).

²Pub. L. No. 111-5, § 802(a), 123 Stat. 115, 186 (Feb. 17, 2009), as amended by Pub. L. No. 111-244, § 2(b), 124 Stat. 2618 (Sep. 30, 2010) and Pub. L. No. 112-149, § 4(b), 126 Stat. 1145 (July 26, 2012). Under the current law, GAO is required to report by April 1, 2014, and every 3 years thereafter until the minimum wage in the respective territory meets the federal minimum wage.

³See appendix II for a summary of the minimum wage law and changes to the law for both American Samoa and the CNMI.

⁴GAO, *American Samoa and Commonwealth of the Northern Mariana Islands: Wages, Employment, Employer Actions, Earnings, and Worker Views Since Minimum Wage Increases Began*, [GAO-10-333](#) (Washington, D.C.: Apr. 8, 2010), and *American Samoa and Commonwealth of the Northern Mariana Islands: Employment, Earnings, and Status of Key Industries Since Minimum Wage Increases Began* [GAO-11-427](#) (Washington, D.C.: June 23, 2011).

industries since the most recent federal minimum wage increase and since the increases began.

To identify changes in employment and earnings in American Samoa and the CNMI, we reviewed and analyzed prior GAO reporting covering 2006 through 2009 and information from the American Samoa and CNMI governments for 2010 through 2012. We used CNMI tax data to determine the number of employees and mean wages in the CNMI. We used combined American Samoa tax data and GAO questionnaire data to determine the number of employees and mean wages in American Samoa and compared these data to Social Security Administration (SSA) data on employment and wages. We primarily present the American Samoa tax data in our analysis. While the SSA data cover all types of workers in American Samoa, three large groups of people in the CNMI were not required to report earnings to SSA and thus are excluded from the SSA data—CNMI government workers and immigrant workers from the Philippines and Korea. In 2012, these three groups represented approximately 40 percent of all CNMI workers, according to CNMI government tax data. We have chosen not to report the CNMI SSA data due to these coverage gaps. Our study does not cover workers in the underground economy or identify any workers who may have been unlawfully paid below the minimum wage. We relied on consumer price index (CPI) data from American Samoa and the CNMI to determine inflation-adjusted wages. We reviewed technical documentation and compared available data to other sources, among other steps, and determined that these data sources were sufficiently reliable for our purposes.

To identify changes in key industries, we reviewed prior GAO reporting and analyzed data from the U.S. Department of Commerce, tuna industry representatives, and tourism organizations in the CNMI. We analyzed the results of a questionnaire we sent to employers in the key industries in American Samoa (tuna canning) and the CNMI (hotels). Our questionnaire requested 2011-2013 information on their number of employees and wage rates, as well as past and planned actions in response to the minimum wage.⁵ We received completed questionnaires from all 3 employers in the tuna canning industry and from 11 out of the 13 hotels that we sent questionnaires to in the CNMI. Questionnaire

⁵GAO's questionnaire is reproduced in appendix V of this report.

responses are limited to the American Samoa tuna canning industry and the CNMI hotel industry and may not be representative of all workers and employers in each area. We also met with or obtained data from representatives of the territorial governments, businesses, business groups, and workers. In the CNMI, we held discussion groups on the impact of minimum wage increases with members of the Hotel Association of the Northern Mariana Islands (HANMI) and the Chambers of Commerce of Saipan and Tinian islands. We also held discussion groups with hotel workers on Saipan and Tinian. In American Samoa, we held a discussion group with members of the Chamber of Commerce and with workers employed at the Star-Kist cannery. Views expressed in discussion groups only represent the views of participants in those groups and may not be representative of all workers' and employers' views in each industry or area. We reviewed technical documentation and compared available data with other sources, among other steps, and determined that these data sources were sufficiently reliable for our purposes.

Although our approach yielded information on trends in employment, wages, and earnings in both areas, we were not able to distinguish between the effects of minimum wage increases and the effects of other factors, including the global economy, fluctuations in energy prices, global trade liberalization, and the application of U.S. immigration law to the CNMI.

We conducted this performance audit from July 2013 to February 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. See appendix I for further details of our methodology.

American Samoa Earnings, Employment, and Status of Key Industries

The minimum wage in American Samoa has increased three times since 2007, most recently on May 25, 2009. Unlike the United States, American Samoa has separate minimum wages for 18 separate industries, currently ranging from \$4.18 to \$5.59 per hour. The tuna canning industry, American Samoa's largest source of private sector employment, has a current minimum wage of \$4.76 per hour and mostly employs foreign labor from the neighboring islands of Samoa.⁶ There is currently one operating cannery, Star-Kist, and its associated can manufacturer in American Samoa. An additional fish company has begun limited operations in American Samoa while renovating and planning to re-open the former Chicken of the Sea cannery in 2015. Each minimum wage in American Samoa will next be increased by \$.50 per hour on September 30, 2015, with further increases every 3 years. Under current law, the minimum wage in the tuna canning industry will reach the U.S. minimum of \$7.25 per hour in 2027.

American Samoa Employment and Earnings Declined from 2007 to 2012

- *Economy.* American Samoa's real gross domestic product (GDP) and population have both declined in recent years. American Samoa's 2012 real GDP of \$504 million was 4.5 percent below the 2006 real GDP, and also slightly lower than the 2009 real GDP. Real GDP per capita increased 12.5 percent to \$9,164 from 2006 to 2012. American Samoa's population declined from 57,291 in 2000 to 55,519 in 2010.⁷
- *Employment.* American Samoa tax combined with GAO questionnaire data show that the total number of employees in American Samoa increased 1.5 percent from 2011 to 2012 (from 15,552 to 15,790).⁸ However, from 2007 to 2012, employment declined 11 percent (from

⁶American Samoa operates both its customs and immigration programs independent of the U.S. government. See *American Samoa: Performing a Risk Assessment Would Better Inform U.S. Agencies of the Risks Related to Acceptance of Certificates of Identity*, [GAO-10-638](#) (Washington, D.C.: June 11, 2010).

⁷The American Samoa government believes the 2010 census to be an undercount. See the American Samoa comment letter in Appendix VI of this report for additional detail.

⁸The American Samoa tax data are a count of persons employed during the tax year by the employer. The cannery employment figure, from responses to GAO's questionnaire, is a count of employees at the canneries as of a specific pay period in June of the given year. See appendix I for a full discussion our methodology.

17,677 to 15,790, with a peak of 19,229 in 2008).⁹ Questionnaire responses from the tuna canning industry show that their employment of hourly workers dropped by 13 percent from 2012 to 2013 and by 58 percent from 2007 to 2013.

- *Earnings.* Earnings analysis based on American Samoa tax, GAO questionnaire, and consumer price data show that, from 2011 to 2012, average inflation-adjusted earnings of those employed in American Samoa fell by 2 percent. The decrease resulted from average earnings increasing by 2 percent while prices increased 4 percent. For the overall period from 2007 to 2012, average inflation-adjusted earnings fell by about 5 percent; average annual earnings rose about 27 percent but local prices rose by about 34 percent. Although earnings data do not allow for a direct comparison of average and minimum wage annual earnings or for tracking the earnings of workers who lost their jobs, the hourly wage of minimum wage workers who retained their jobs and work hours has not increased by more than inflation since 2007. The inflation-adjusted earnings of minimum wage cannery workers who retained their jobs and work hours fell by about 4 percent from 2011 to 2012 and by about 5 percent from 2007 to 2012.¹⁰
- *Employer, government, and worker views.* The discussion group of private sector employers we met with generally opposed additional minimum wage increases, citing American Samoa's reliance on the tuna canning industry and fears about the effect of further increases on the industry and the economy.¹¹ The American Samoa government, American Samoa's largest employer, anticipated it would have to cut six employees to offset the 2015 minimum wage increase, with additional budget impacts resulting from any further increases. The Governor of American Samoa has stated that he would pursue

⁹American Samoa tax data from 2013 on total employment are not yet available. If many foreign workers left American Samoa, the impact on the unemployment rate would be smaller than if those workers remained because the foreign workers would no longer be included in the calculation.

¹⁰Although American Samoa has multiple minimum wages, we use the tuna canning industry, American Samoa's largest private sector industry, as an example throughout this report.

¹¹Twenty business representatives participated in the discussion group. Views expressed in discussion groups only represent the view of participants in those groups and may not be representative of all businesses' views in American Samoa.

changes in U.S. law to allow American Samoa to take control of its minimum wage. Star-Kist workers who participated in our discussion group generally opposed further minimum wage increases rather than supported future increases.¹² Workers expressed concerns that any increase would result in lost jobs or a closure of the cannery. Some workers we spoke with also expressed concerns that future increases in the minimum wage would lead to an increase in prices in American Samoa, as they said occurred as a result of previous minimum wage increases.

American Samoa's Tuna Canning Industry Faces Challenges from Minimum Wage Increases and Other Factors.

- *Tuna canning industry wages.* Without a minimum wage increase in American Samoa from 2011 through 2013, there was no increase in the \$4.76 median wage of tuna canning workers in that time. Since 2007, as a result of previous minimum wage increases, the median wage among workers in the tuna canning industry employed by questionnaire respondents has risen from \$3.30 to \$4.76 per hour (44 percent). Based on questionnaire responses about workers' wages as of June 2013, the future minimum wage increases would affect the wages of 92 percent of the current workers in the canning industry by 2018, when the minimum wage reaches \$5.76. Based on the wages workers currently earn, minimum wage increases would increase the average annual cost per worker in 2018 by an average annual cost of \$1,723 per worker. By 2027, when the tuna canning minimum wage reaches \$7.25, 98 percent of current workers in the tuna canning industry would be affected, increasing the average annual cost per worker by \$4,710.¹³
- *Tuna canning employer actions.* Two of the three employers in the tuna canning industry in American Samoa reported that they had taken cost-cutting actions from June 2010 to June 2013 including labor- and cost-saving strategies, and reduced overtime. The third employer, which was just beginning operations in American Samoa at that time, considered the questions not applicable. The two employers attributed all but one of their actions to a moderate or large extent to

¹²Ten Star-Kist workers participated in the discussion group. Views expressed in discussion groups only represent the view of participants in those groups and may not be representative of all workers' views in the tuna canning industry.

¹³This analysis excluded nonwage labor costs due to the minimum wage increases, such as increases in employer payroll tax contributions under the Federal Insurance Contributions Act (FICA).

minimum wage increases. In addition to minimum wage increases, these two employers also attributed their actions to a moderate or large extent to increased utility and material costs. Two of three employers stated that they planned in the next 18 months to introduce labor- and cost-saving strategies, delay business expansion, relocate business, and reduce overtime hours. The two employers attributed all of these plans to a moderate or large extent to the minimum wage increases, but also to increased utility and material costs and business factors.

- *Tuna canning industry analysis.* Cannery officials stated that wage increases are one of many factors affecting the tuna canning industry in American Samoa, but that its labor costs, including the minimum wage increases, place American Samoa at a significant cost disadvantage in comparison with other canned tuna exporting countries. Both canneries cited congressional action to defer the next minimum wage increase to 2015 as encouraging their ability to invest in American Samoa. Cannery officials said that there is a spectrum of possible actions in response to increasing costs. For example, canneries could lower the staffing level or close certain production lines.

See table 1 for key findings and appendix III for detailed findings and tables on American Samoa.

Table 1: American Samoa Key Findings

Employment – all sectors^a	
Percentage change in number employed, 2011-2012	1.5% increase (from 15,552 to 15,790)
Percentage change in number employed, 2007-2012	11% decrease (from 17,677 to 15,790)
Employment – tuna canning industry^b	
Percentage change in number of hourly workers employed, 2012-2013	13% decrease (from 2,193 to 1,915)
Percentage change in number of hourly workers employed, 2007-2013	58% decrease (from 4,593 to 1,915)
Inflation-adjusted earnings – all sectors^a	
Percentage change in average inflation-adjusted earnings of those employed, 2011-2012	2% decrease
Percentage change in average inflation-adjusted earnings of those employed, 2007-2012	5% decrease
Tuna canning industry wages^b	
Percentage of hourly-wage tuna canning workers employed by questionnaire respondents in 2013 with wages affected by a September 2015 minimum wage increase	79%
Percentage of hourly-wage tuna canning workers employed by questionnaire respondents in 2013 who would be affected by minimum wage increases through 2027 (when tuna canning minimum wage reaches \$7.25)	98%
Tuna canning employer actions^b	
<ul style="list-style-type: none">• Tuna canning industry employers reported using labor- and cost-saving strategies, reducing overtime, freezing hiring, and raising prices from 2010 to 2013 and attributed these actions to a moderate or large extent to minimum wage increases.• Two tuna canning industry respondents reported planning to introduce labor- and cost-saving strategies, delay business expansion, relocate business, and reduce overtime hours. All of these planned actions were attributed to a moderate or large extent to the minimum wage increases.	
Tuna canning worker views^c	
Workers who participated in our discussion group generally opposed further minimum wage increases, expressing concerns that any increase would result in lost jobs or a complete closure of Star-Kist.	

Source: GAO analysis of data from GAO tuna canning industry questionnaire, American Samoa Tax office data, American Samoa Consumer Price Index, and American Samoa discussion groups.

Notes: Employers responding to GAO's first questionnaire in 2009 included the two tuna canning employers, as well as other employers with 50 or more employees. Questionnaire updates in 2010 covered the two tuna canning employers and excluded employers in other industries, smaller employers, and employers that had closed between 2007 and the date of our questionnaire. The 2013 questionnaire covered the current three tuna canning industry employers. Based on American Samoa tax data, our respondents represented, in 2012, about 14 percent of the total workforce. American Samoa questionnaire respondents represented 100 percent of the tuna canning-related workforce. Responses are not necessarily representative of all American Samoa workers and employers.

^aGAO analysis of American Samoa Tax data and GAO questionnaire.

^bGAO analysis of responses to GAO's American Samoa tuna canning employer questionnaire.

^cGAO analysis of American Samoa discussion group results.

CNMI Earnings, Employment, and Status of Key Industries

The minimum wage in the CNMI has increased five times since 2007, with the most recent increase on September 30, 2012, bringing the minimum wage to \$5.55 per hour. Under current law, the next minimum wage increase will occur on September 30, 2014, and the CNMI will reach the current U.S. minimum wage on September 30, 2018. The CNMI's sizeable garment industry has left the territory, leaving tourism as its key industry. Tourists are primarily from Japan, Korea, China, and Russia. Chinese and Russian tourism has been supported by the Secretary of Homeland Security's decision to exercise parole authority, allowing tourists from those countries to enter the CNMI.¹⁴ The CNMI economy heavily relies on a foreign workforce to support its economy; as of the 2010 decennial census, noncitizens comprised 43 percent of the CNMI population.¹⁵ Since the 2009 assumption of U.S. control over CNMI immigration, the Department of Homeland Security has annually reduced the number of permits for the CNMI's foreign workforce in keeping with the requirement to bring the number of such permits down to zero by the end of 2014.¹⁶

CNMI Employment and Earnings Declined from 2006 to 2012

- *Economy.* The CNMI's population and real GDP have both declined in recent years. In real terms, CNMI GDP decreased by approximately 36 percent overall from 2006 to 2012 though it has remained relatively flat since 2009. The CNMI's real GDP per capita decreased approximately 24 percent from 2006 to 2012. The CNMI population declined from 69,221 in 2000 to 53,883 in 2010.
- *Employment.* The total number of people employed fell from 25,229 to 23,720 (about 6 percent) from 2011 to 2012 according to CNMI government tax data. For the entire period from 2006 to 2012, the

¹⁴The Guam-CNMI Visa Waiver Program exempts tourism and business visitors from certain countries, who are traveling to the CNMI and Guam for up to 45 days, from the standard U.S. visa documentation requirements (8 C.F.R. § 212.1(q)).

¹⁵During the expansion of the CNMI garment and tourism industries prior to 1995, the CNMI economy became dependent on foreign labor, as the CNMI government used its authority over its own immigration policy to bring in large numbers of foreign workers and investors.

¹⁶Under current law, the Secretary of Labor may extend the transition by an additional 5 years. For additional information, see GAO, *Commonwealth of the Northern Mariana Islands: Additional DHS Actions Needed on Foreign Worker Permit Program*, [GAO-12-975](#) (Washington, D.C.: Sept. 27, 2012).

number employed has fallen from 43,036 to 23,720 (45 percent), with most of the overall decrease occurring from 2006 to 2009.¹⁷

Decreases before 2009 reflect closure of the CNMI's garment factories, which employed many foreign workers.

- *Earnings.* From 2011 to 2012, inflation-adjusted average earnings of those employed rose by 1 percent, according to CNMI government tax data and consumer price data. The increase in earnings resulted from a 3 percent increase in average earnings offset by a 2 percent increase in prices. Over the entire period from 2006 to 2012, average inflation-adjusted earnings fell by about 2 percent, with an about 29 percent increase in average earnings offset by an about 31 percent increase in prices. Although earnings data do not allow for a direct comparison of average and minimum wage annual earnings or for tracking the earnings of workers who lost their jobs, the hourly wage of minimum wage workers who retained their jobs and work hours has increased by more than inflation since 2006. The inflation-adjusted earnings of minimum wage workers who retained their jobs and work hours rose by about 7 percent from 2011 to 2012 and by about 39 percent from 2006 to 2012.
- *Employer, government, and worker views.* CNMI employers we spoke with supported the 2013 postponement of minimum wage increases.¹⁸ Participants in our discussion groups stated that businesses, particularly small businesses, could not absorb another minimum wage increase. However, the minimum wage was not as important a concern for discussion group participants as the potential loss of the foreign labor force. For hotel representatives we spoke with, providing easier access for Russian and Chinese tourists by having the Department of Homeland Security continue to parole these individuals into the CNMI was a greater concern than the minimum wage. According to the CNMI Department of Commerce, the Governor of the CNMI supported the 2013 postponement of the minimum wage increase. Workers we spoke with on Tinian island saw future minimum wage increases as an opportunity to increase the amount

¹⁷If many foreign workers left the CNMI, the impact on the unemployment rate would be smaller than if those workers remained because the foreign workers would no longer be included in the calculation.

¹⁸A total of 24 business representatives participated in one of four discussion groups. Views expressed in discussion groups only represent the views of participants in those groups and may not be representative of all businesses' views in the CNMI.

they could remit to their families living elsewhere. Workers on both Saipan and Tinian islands feared that prices would increase along with the minimum wage, as they said had occurred at the time of previous increases.¹⁹

Hotel Industry Has Rebounded in Recent Years; Most Hotel Workers Will Be Affected by Minimum Wage Increases

- *Hotel industry wages.* From June 2011 to 2013, the median wage among workers employed by CNMI hotel industry questionnaire respondents rose from \$5.33 to \$5.86 (10 percent). Based on questionnaire responses about workers' wages as of June 2013, the future minimum wage increases would affect the wages of 94 percent of current workers in the CNMI hotel industry by the time the minimum wage reaches the U.S. minimum wage of \$7.25 in 2018. Based on the wages workers currently earn, minimum wage increases would increase the average annual cost per worker in 2018 by \$3,051 since June 2013.²⁰ For the hotels that responded to our questionnaire, if observed trends continue, scheduled minimum wage increases will increase the share of hotels' total operating costs attributable to payroll from approximately 26 percent of operating costs in 2012 (with minimum wage increases representing about 1 percent of total operating costs) to 31 percent in 2018 (with minimum wage increases representing about 5 percentage points of the 31 percent increase).
- *Hotel employer actions.* Hotels representing the majority of all workers employed by questionnaire respondents took cost-cutting actions and raised prices from 2010 to 2013. Although employers attributed a number of actions to the minimum wage increases, they also attributed them to other factors, such as increased costs and changes to U.S. immigration law. Hotels representing 90 percent or more of all workers employed by questionnaire respondents stated that they planned to introduce labor or cost-saving strategies and raise prices in the next 18 months, with hotels representing all or almost all workers employed by questionnaire respondents attributing that plan to minimum wage increases to a moderate or large extent. As with their past actions, employers attributed their future plans to a moderate or

¹⁹A total of eight workers participated in one of two discussion groups. Views expressed in discussion groups only represent the views of participants in those groups and may not be representative of all workers' views in the CNMI.

²⁰The analysis excluded nonwage labor costs due to the minimum wage increases, such as increases in employer payroll tax contributions under the Federal Insurance Contributions Act.

large extent to increasing utility, material, and transportation costs in addition to minimum wage increases.

- *Hotel industry analysis.* In 2012 and 2013 hotel occupancy rates increased from previous years. After adjusting for inflation, yearly average room rates increased by 11 percent between 2010 and 2013. In addition, according to the Mariana Visitors Authority, two closed hotels may re-open and there are current proposals for the construction of two new hotels. While acknowledging the recent upturn in tourism, industry representatives characterized the growth as an opportunity to recover from several down years and reinvest in their properties. They attributed the recent growth in tourism to the Chinese and Russian markets and feared the loss of Russian and Chinese market if the parole program for these tourists is not maintained.

See table 2 for key findings and appendix IV for detailed findings and tables on the CNMI.

Table 2: CNMI Key Findings

Employment – all sectors^a	
Percentage change in numbers employed, 2011-2012	6% decrease (from 25,229 to 23,720)
Percentage change in numbers employed, 2006-2012	45% decrease (from 43,036 to 23,720)
Employment – hotel industry^b	
Percentage change in number of hourly workers employed by questionnaire respondents, 2012-2013	3% increase (from 1,715 to 1,763)
Percentage change in number of hourly workers employed by questionnaire respondents, 2007-2013	21% decrease (from 1,590 to 1,252) ^d
Inflation-adjusted earnings– all sectors^a	
Percentage change in average inflation-adjusted earnings of those employed, 2011-2012	1% increase
Percentage change in average inflation-adjusted earnings of those employed, 2006-2012	2% decrease
Hotel industry wages^b	
Percentage of hourly-wage hotel workers employed by questionnaire respondents in 2013 with wages affected by a September 2014 minimum wage increase	84%
Percentage of hourly-wage hotel workers employed by questionnaire respondents in 2010 who would be affected by minimum wage increases through 2018 (when minimum wage reaches \$7.25)	94%
Hotel employer actions^b	
<ul style="list-style-type: none">• Employers representing 30 percent of workers employed by questionnaire respondents laid off hourly-wage workers. Of those, 60 percent attributed layoffs to the minimum wage to a moderate extent; none attributed layoffs largely to the minimum wage increases.• Employers representing 19 percent of workers employed by private sector questionnaire respondents planned additional layoffs of hourly-wage workers. Of those, all attributed their plans to the minimum wage increases.	
Hotel worker views^c	
CNMI workers we spoke with said they would like pay increases but were concerned about losing jobs and work hours.	

Source: GAO analysis of data from GAO hotel industry questionnaire, CNMI government tax data, CNMI Consumer Price Index, and CNMI discussion groups.

Notes: Employers responding to GAO's first questionnaire in 2009 included hotels and other tourism-related employers, as well as other employers with 50 or more employees. Questionnaire updates in 2010 covered hotels and other tourism-related employers and excluded employers in other industries, smaller employers, employers that did not respond to the 2009 questionnaire, and employers that had closed between 2007 and the date of our questionnaire, including garment factories. The 2013 questionnaire covered hotels with more than 50 employees. Based on CNMI tax data, respondents represented about 7 percent of the total CNMI workforce in 2012. CNMI questionnaire respondents provided hourly wage data on a total of 1,249 workers as of June 2013. Responses are not necessarily representative of all CNMI workers and employers. Percentages of employers reporting actions are weighted by each employer's total number of workers in 2013. Percentages of employers that attributed each action largely to minimum wage increases are weighted to reflect those employers' number of workers relative to all workers employed by respondents that reported the action.

^aBased on CNMI tax data.

^bBased on responses to GAO's CNMI hotel industry questionnaire.

^cBased on discussion group results.

^dThe 2007-2013 count differs from the 2012-2013 count because it excludes those hotels that did not respond to our survey in 2009 and provide 2007 data.

Concluding Observations

Both American Samoa and the CNMI have experienced decreases in employment and earnings since minimum wage increases began in 2007. Although minimum wage increases play a role in each economy, factors beyond minimum wage increases will also continue to play a role. Both American Samoa and the CNMI have short-term potential to grow their primary sectors—American Samoa through the opening of a new cannery in 2015 and the CNMI through the opening of new hotels. However, according to cannery officials we spoke with, changes in tariffs applicable to other countries exporting tuna or competition from low-wage foreign competitors could compel the tuna canning industry to leave American Samoa. In the CNMI, the projected decrease in the permitted foreign labor force remains a concern for CNMI employers. In addition, CNMI tourism faces competition from other locations and is susceptible to economic trends in its tourist markets and the continuing use of parole to support Chinese and Russian tourism.

Agency Comments and Our Evaluation

We provided a draft of this report to officials at the Department of Commerce, Department of the Interior, Department of Labor, the Social Security Administration, and the governments of American Samoa and the CNMI for review and comment. We received written comments from the governments of American Samoa and the CNMI, which are reprinted in appendixes VI and VII, respectively. We also received technical comments from the Departments of the Interior, Commerce and Labor; and SSA, which we incorporated as appropriate. We also shared excerpts of the draft with several private sector entities and incorporated their comments as appropriate.

Following are summaries of the written comments from American Samoa and the CNMI, with our responses.

The government of American Samoa noted that our draft report captured the consensus among American Samoan stakeholders to postpone the 2015 minimum wage increase, but expressed a number of concerns about the information sources we used. The government stated that there is significant evidence that the 2010 U.S. census grossly undercounted the American Samoa population. We have edited the footnote in the report to further describe American Samoa's concerns and have reprinted their assertions in the Appendix VI of the report, but the employment

counts we present are not based on Census data and would not be affected by an underestimate in the 2010 decennial census.

The government next expressed concern that, given the challenges to collecting validated data in American Samoa, the data presented in our report did not include a wide enough scope of data from other sources and, as a result, yielded misleading statements and findings. In Appendix I of our report, we reported and evaluated alternative data sources. We have worked with the American Samoa Office of Taxation to review and verify their data and believe that the use of its data, in conjunction with cannery employment data from our questionnaire, is appropriate for determining the changes in employment and earnings in American Samoa.

The government additionally stated that our report failed to capture the multiplier effect of employment cutbacks in other industries in addition to tuna canning and the significant number of business closures during this period. However, each of the data series we present in Appendix I covers employment in all sectors and so would capture employment and earnings throughout the economy.

The government of American Samoa also restated its opposition to further minimum wage increases and proposed that American Samoa set its own minimum wage schedule. In expressing its opposition, the government cited American Samoa's vulnerability to elements of the international and national market place and U.S. international trade and national budget policies. The government additionally stated that tethering the American Samoa minimum wage to that of the United States is misguided; because of the differences between the U.S. and American Samoa economies, American Samoa can never attain equality with the U.S. minimum wage. The government proposed instead that American Samoa be allowed to develop its own minimum wage schedule with appropriate guidance and oversight provided by the U.S. Department of Labor and U.S. Department of the Interior. See the full text of American Samoa's comment in Appendix VI.

The government of American Samoa also provided us with technical comments that included updated CPI data correcting calculation errors made by their staff. Correcting these errors slightly changed the reported CPI. For example, the CPI for the 4th quarter of 2012 increased from 130.5 to 131.1. We have recalculated the inflation-adjusted wages accordingly in this report. Additionally, during the comment period, data reviews by American Samoa Office of Taxation and GAO resulted in

corrections to American Samoa employment and wage data for 2007-2009. We have incorporated this corrected data.

Comments from the Department of Commerce of the CNMI stated that the indicators provided an objective overview of CNMI economic conditions and the report captured the general condition of what is happening in the CNMI. The CNMI comment letter additionally reiterated challenges faced by the CNMI from uncertainty regarding the phase-out of foreign worker permits, the cost of fuel and utilities, and increases in health care costs. The Secretary of Commerce additionally stated that he hoped the report will elevate the CNMI's discussion with federal agency partners regarding baseline assessments and data, and how a wage increase may affect enrollment and eligibility for public assistance programs, such as Medicaid.

We are sending copies of this report to interested congressional committees. We also will provide copies of this report to the U.S. Secretaries of Commerce, the Interior, Labor, to the Commissioner of Social Security, and to the Governors of American Samoa and the CNMI. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staffs have questions about this report, please contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VIII.



David Gootnick
Director, International Affairs and Trade

List of Committees

The Honorable Mary Landrieu
Chairwoman
The Honorable Lisa Murkowski
Ranking Member
Committee on Energy and Natural Resources
United States Senate

The Honorable Tom Harkin
Chairman
The Honorable Lamar Alexander
Ranking Member
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable John Kline
Chairman
The Honorable George Miller
Ranking Member
Committee on Education and the Workforce
House of Representatives

The Honorable Barbara Mikulski
Chairwoman
The Honorable Richard Shelby
Ranking Member
Subcommittee on Commerce, Justice, Science,
and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Jack Reed
Chairman
The Honorable Lisa Murkowski
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Subcommittee on Interior, Environment,
and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Tom Harkin
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The Honorable Jerry Moran
Ranking Member
Subcommittee on Labor, Health and Human Services,
Education, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Frank Wolf
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Subcommittee on Commerce, Justice, Science,
and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable Ken Calvert
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The Honorable Jim Moran
Ranking Member
Subcommittee on Interior, Environment,
and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable Jack Kingston
Chairman
The Honorable Rosa DeLauro
Ranking Member
Subcommittee on Labor, Health and Human Services,
Education, and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable John Fleming
Chairman
The Honorable Gregorio Kilili Camacho Sablan
Ranking Member
Subcommittee on Fisheries, Wildlife, Oceans
and Insular Affairs
Committee on Natural Resources
House of Representatives

Appendix I: Objectives, Scope, and Methodology

This report updates our previous reports on the impact of minimum wage increases in American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI) and discusses for each territory (1) changes in employment and earnings and (2) changes in key industries since the most recent federal minimum wage increase and since the increases began.¹

To describe employment and earnings, we analyzed tax data from the American Samoa and CNMI governments and earnings data from the U.S. Social Security Administration (SSA) through 2012. We adjusted the earnings data using Consumer Price Index (CPI) data for each area. We also analyzed responses from GAO's questionnaire of large employers in the American Samoa tuna canning and CNMI hotel industries. To describe the status of key industries, we collected responses through the industry questionnaire. For both objectives, we conducted discussion groups with employers and workers and interviews with public officials. We provide additional information on each data source below.

In preparing this report, we reviewed data and interviewed officials from the U.S. Departments of the Interior, Commerce, and Labor, as well as from SSA. During visits to American Samoa and the CNMI in November 2013, we conducted interviews and discussion groups with government officials, employers, other private sector representatives, and workers to obtain views and information on the minimum wage increases. We also reviewed U.S. minimum wage laws and other relevant laws and regulations. We did not review the extent to which laws were properly enforced or implemented. The scope of our study also does not include workers in the underground economy, which would include any employers that may not comply with laws, including tax, minimum wage, immigration, and other laws. We did not review compliance with laws as part of this study.

The federal sources generally used to generate data on wages, occupations, and employment status for the United States, including the

¹GAO, *American Samoa and Commonwealth of the Northern Mariana Islands: Wages, Employment, Employer Actions, Earnings, and Worker Views Since Minimum Wage Increases Began*, [GAO-10-333](#) (Washington, D.C.: Apr. 8, 2010), and *American Samoa and Commonwealth of the Northern Mariana Islands: Employment, Earnings, and Status of Key Industries Since Minimum Wage Increases Began* [GAO-11-427](#) (Washington, D.C.: June 23, 2011).

Current Population Survey and the Current Employment Statistics program, do not cover American Samoa or the CNMI. Because these data sources were unavailable, we collected our own data in each area.

Employer Questionnaire

In American Samoa and the CNMI in 2013, we collected updated data on employment, wage structure, and past and planned employer actions covering 2010 through 2013 from the CNMI's hotels and the American Samoa tuna canning industry.

For our 2013 questionnaire, we defined a large hotel as one that employed 50 or more workers in recent years. We sent the questionnaire only to hotels with 50 or more workers because we could contact only a limited number of hotels in each area, given available resources. We confirmed our list of hotels with the Saipan Chamber of Commerce and the Hotel Association of the Northern Mariana Islands. We initially sent the questionnaire to 15 hotels. Two who responded had less than 50 employees and were not included in our analysis, bringing the total number of hotels in our survey to 13. All but 2 hotels responded.

In accordance with other federal employment surveys and with our 2009 and 2010 questionnaires, our 2013 employer questionnaire asked for wage data for the pay period containing June 12 of 2011, 2012, and 2013. The questionnaire asked separately for data regarding workers paid an hourly wage and workers paid an annual salary. The questionnaire also included detailed questions about employers' past and possible future actions, and about the extent to which employers attributed these actions to past and future minimum wage increases. (The questionnaire is reproduced in app. V.)

Before sending the 2009 questionnaire to employers in 2009, we pretested it over the phone with three employers in the CNMI and two in American Samoa to make sure that the questions were clear and comprehensive, the data were readily obtainable, and the questionnaire did not place an undue burden on employers. While we eliminated some questions in our 2010 and 2013 questionnaires, revisions to remaining questions were minor and did not require additional pretesting.

We administered the questionnaire between September 2013 and December 2013. Employers received the questionnaire by e-mail in an attached form that they could return electronically after marking checkboxes or entering responses in open-answer boxes. We conducted nonresponse follow-up while in the CNMI. We also contacted

nonrespondents by e-mail and phone. In addition, we contacted respondents to clarify responses and request any missing data.

Because of the lack of data on the entire workforce, it is difficult to precisely state the percentage of the workforce that our questionnaire represents. In 2013, all three of the American Samoa employers that received our questionnaire provided responses, resulting in a response rate of 100 percent. Based on American Samoa tax data, our respondents represented, in 2012, about 14 percent of the total workforce. Based on CNMI tax data, our respondents represented, in 2012, about 7 percent of the total workforce.

In reporting the percentages for questionnaire responses in the CNMI, we weighted each percentage to reflect the proportion of workers employed by the responding employers relative to all workers employed by all questionnaire respondents. As a result, the responses of larger employers affect our findings more than those of smaller employers. In addition to asking a direct question about number of employees, the questionnaire asked respondents to complete a separate table listing the number of employees at each wage or salary level. Separate tables were required for hourly wage and salaried workers. To apply the weights, we multiplied the number of employees by the employer response, then divided that number by the total number of employees in the sample. For example, if three of five employers attributed an action to the minimum wage to a moderate extent, the unweighted response would be 60 percent. However, if those three employers represented 300 of 400 employees, the weighted response that we report would be 75 percent. Among CNMI employer responses, two hotels accounted for almost half of workers employed by questionnaire respondents, so those hotels' responses substantially affected our questionnaire results.

For our analyses of the effect of minimum wage increases, we obtained information from our questionnaire on employment and earnings for both hourly wage and salaried workers during the pay periods that included June 12, 2011, 2012, and 2013. We analyzed these responses in conjunction with data we collected from the same employers for previous reports regarding the pay periods that included June 12, 2007, 2008, 2009, and 2010. For hourly wage workers, respondents were asked to provide the number of employees paid at each wage rate. For salaried workers, respondents were asked the number of full-time and part-time workers paid at each salary level. Hourly wage workers represented about 98 percent of American Samoan cannery workers and 90 percent of CNMI hotel workers. To determine the number of workers affected by

each minimum wage increase, we assumed that all workers employed by questionnaire respondents were legally required to receive the minimum wage. If some are not covered or are exempt, the minimum wage increases would affect fewer workers. We did not independently verify that the wage and other information provided to us were correct. After recording the questionnaire data, we verified all keypunched records by comparing them with the corresponding questionnaires and corrected the errors we found.

The questionnaire responses cannot be used to make inferences about all employers and workers in the CNMI and American Samoa, or about all employers and workers in the CNMI hotel industry. First, because the lists of employers that received the questionnaire included only those in the American Samoa tuna canning and CNMI hotel industries (with more than 50 employees), the lists were not representative of all employers or of all employers in the CNMI hotel industry. Second, some nonresponse bias may exist in some of the questionnaire responses, since characteristics of questionnaire respondents may differ from those of nonrespondents and nonrecipients in ways that affect the responses (e.g., if those that employ a larger number of workers would have provided different responses than those that employ a smaller number). Last, it is possible that some employers' views of the minimum wage increases may have influenced their responses.

To study CNMI hotel minimum wage and payroll costs in relation to operating costs, we analyzed data provided by CNMI hotel questionnaire respondents on 2012 annual payroll before deductions for taxes and benefits, Social Security and Medicare contributions under the Federal Insurance Contributions Act (FICA), payments for employee benefits, and other operating expenses. For this and other analyses in this report, we excluded nonwage labor costs due to the minimum wage increases, such as increases in employer payroll tax contributions under FICA. In 2011, for example, employers contributed the equivalent of 6.2 percent of employee wages to Social Security and 1.45 percent to Medicare, up to \$106,800 in employee wages.

Employment and Earnings Data

To report on overall employment and earnings, we relied on local government data. The CNMI Department of Finance provided tax data for 2006 to 2012 with counts of the number of individuals in different ranges of earnings for both public and private sector workers and for both citizens and noncitizens. For the CNMI, this data source and use is the same as in the two prior GAO reviews of minimum wage changes. To

calculate mean wages in the CNMI, we divided the total sum of earnings by the number of workers with non-zero wages.

In the case of American Samoa, we used a combination of local government data and business responses to GAO's questionnaire to report on employment and earnings. The American Samoa Office of Taxation provided tax data with the number of workers employed by each employer from 2007 to 2012, and the total sum of earnings over the year. However, the American Samoa tax data excluded cannery employees in some years. To address this gap, we added counts of cannery workers from our questionnaire. The American Samoa tax data has a count of persons employed during the tax year by the employer. The cannery employment figure, from GAO's questionnaire, is a count of employees at the canneries as of a specific pay period in June of the given year. To calculate mean wages for the American Samoa tax data, we divided the total sum of earnings by the number of workers across all employers. To calculate the mean wages for cannery workers, we assumed that all cannery workers earned the minimum wage and worked full-time over the year. To calculate the overall mean wage for American Samoa, we averaged these estimates, weighting by the number of workers in each category.

The initial data provided by the Office of Taxation had a number of gaps, such as missing numbers of employees or wages for several employers. At our request, the Office of Taxation researched and provided updated data that was far more complete, but lacked employee counts for some employers in 2007 and 2010. We used the reported number of employees in the adjacent year or years to estimate these missing values. In 2007, the American Samoa tax data were missing the number of employees for 39 of the 408 employers. We were able to estimate the number of employees in 2007 for 34 of these 39 by using their reported number of employees in other years. This estimation added 391 employees to the 2007 total. Similarly, in 2010, we added 499 employees to the total by interpolating the 2010 number of employees for the American Samoa Community College from the reported number of employees in 2009 and 2011. The data in 2008, 2009, 2011, and 2012 did not require estimation of such missing values.

In addition to the tax data, we obtained SSA data (as of November 15, 2013) on the employment and earnings of individual taxpayers in American Samoa to update our analysis of data for the previous report. While the SSA data cover all types of workers in American Samoa, three large groups of people in the CNMI were not required to report earnings

to SSA and thus were excluded from the SSA data—CNMI government workers and immigrant workers from the Philippines and Korea. In 2012, these three groups represented approximately 40 percent of all CNMI workers, according to CNMI government tax data. We have chosen not to report the CNMI SSA data due to these coverage gaps.

To perform the analysis of SSA data, we first identified American Samoa workers by using the recorded territory or state code for the worker. However, we determined that, in 2011 and 2012, this method resulted in implausibly large counts. After consultation with SSA officials, we found that data entry issues had resulted in a number of extra entries with the American Samoa state code of “AS.” For example, some entries for addresses in Texas had entered the last two letters of the state, “AS” in the state field. Consequently, we additionally checked the American Samoa data to exclude those entries that, though they had an American Samoa state code, had a city or zip code that did not match American Samoa. We performed an additional inspection of the records that had blank city and zip code fields and concluded that the vast majority of persons with an “AS” state code but missing city and zip code entries had characteristically Samoan names. We therefore also included those records that had an “AS” state code and a blank city and zip code field. These additional checks reduced the count for 2011 and 2012 and also slightly reduced the reported count based on SSA data in earlier years. SSA officials attributed these data errors in 2011 and 2012 to intermittent data entry errors by employers and data submitters.

We compared our counts of employees based on American Samoa tax data and GAO questionnaire responses to employment counts based on SSA data. In addition, we compared these series to employment counts in the American Samoa Statistical Yearbook (based on a combination of government sources for public sector employers and business license applications for private sector employers). There are some differences between the data. For example, a person (as counted in the Social Security data) could have multiple positions (as counted in the other sources). As table 3 shows, all three employment counts fell from 2007 to 2012 and also had roughly comparable changes from 2007 to 2009—years covered by our previous report on the minimum wage in American Samoa. However, the trend in the Social Security data was much larger in magnitude overall from 2007 to 2012. Specifically, the drop in employment from 2007 to 2012 was approximately 41 percent based on

SSA data but about 11 percent based on combined American Samoa tax and GAO questionnaire data and 13 percent in the Statistical Yearbook.² The smaller drop was more in keeping with the Bureau of Economic Analysis's calculation of a flat or slightly declining real GDP in those years.

Table 3: Alternative Measures of Employment in American Samoa

	American Samoa tax and GAO questionnaire data	American Samoa Statistical Yearbook	Social Security Administration
2007	17,677	17,047	18,438
2008	19,229	16,990	19,034
2009	16,897	14,108	15,316
2010	17,211	18,862	11,728
2011	15,552	18,028	13,006
2012	15,790	14,806	10,904

Source: GAO analysis of Social Security Administration Data, American Samoa tax data, GAO questionnaire responses, and American Samoa Statistical Yearbook.

We could not determine an explanation for the divergence among the data sources. Because the drop was larger when persons were counted, some of the difference could reflect the loss of cannery workers, who may have been less likely than other workers to hold multiple positions. However, there were also cases where the year-to-year changes differed. For example, from 2011-2012, both the Social Security and the Statistical yearbook show decreases of about 16 percent and 18 percent, respectively, but the figure based on American Samoa tax and GAO questionnaire data remained largely unchanged. We determined that the data from the American Samoa Office of Taxation were more reliable than SSA data for our purpose of describing employment and earning trends in more recent years.

Because the U.S. Bureau of Labor Statistics collects CPI data on the U.S. 50 states but not on American Samoa or the CNMI, we relied on other sources of data to compare changes in earnings or wage rates to changes in prices. We obtained historical data on the CPI from both areas

²As with the count of employment, the drop in inflation adjusted earnings based on SSA data was larger than the drop based on American Samoa tax data. Specifically, inflation-adjusted mean wages in American Samoa based on SSA data showed an 11 percent decrease and based on American Samoa tax and GAO questionnaire data showed a 3.7 percent decrease.

to estimate inflation-adjusted earnings.³ For both American Samoa and the CNMI, we used quarterly CPI data from the first quarter of 2006 to the fourth quarter of 2012. To produce an annual CPI series, we averaged the four quarters in each year. In addition, for American Samoa, because the CPI was rebased in the fourth quarter of 2007, we recalculated the quarterly index series from the fourth quarter of 2008 back to the fourth quarter of 2007 by finding a rebasing factor such that the old and new indexes in the fourth quarter of 2007 were identical. For both CNMI and American Samoa, we interviewed agency officials responsible for producing the quarterly CPI estimates.

Discussion Groups

We conducted structured discussion groups with Chamber of Commerce members in American Samoa and the CNMI to collect information on the impact of the minimum wage increases on employers. For each discussion group, the Chamber of Commerce invited members to participate. In the CNMI, we also held a discussion group with members of the Hotel Association of the Northern Mariana Islands and interviewed hotel human resource managers. The number of participants in each group ranged from 4 to 20 business owners and representatives.

To collect information on workers' views of the minimum wage increases, we conducted structured discussion groups with worker groups in the CNMI and American Samoa. In American Samoa, we arranged, in cooperation with Star-Kist, a worker discussion group at the Star-Kist cannery. In the CNMI, we conducted one discussion group with employees of hotels in Saipan, arranged by Hotel Association of the Northern Mariana Islands and another with employees of the Tinian Dynasty, arranged through that hotel. The number of participants in each group ranged from 3 to 10.

All discussion groups were moderated by a GAO employee following a structured guide with open-ended questions about the minimum wage increases and related topics. Discussion groups are generally designed to obtain in-depth information about specific issues that cannot be easily

³For further information on the CPI, see CNMI quarterly reports on the CNMI Department of Commerce website. <http://commerce.gov.mp/divisions/central-statistics/>, accessed February 24, 2014. For American Samoa quarterly reports, see the American Samoa Department of Commerce website. <http://americansamoa.gov/index.php/2012-04-25-19-44-32/2012-04-25-19-52-04/departments/commerce>, accessed February 24, 2014.

obtained from single interviews. Methodologically, they are not designed to provide results generalizable to a larger population or provide statistically representative samples or quantitative estimates. The views represented are those only of the participants in our groups and may or may not be representative of the population of employers and workers in the CNMI and American Samoa. Therefore, the experiences of other employers and workers may be different from those who participated in our discussion groups. In addition, the groups and participants in the groups were not random samples of employers and workers.

Other Local Data

We also analyzed industry data. For example, to determine hotel room prices and hotel occupancy rates in the CNMI, we collected data from the Hotel Association of the Northern Mariana Islands and conducted related follow-up. In addition, the Marianas Visitors Authority provided data on arrivals by country of residence. We found the data used to be reliable and relevant for the purposes of our report.

Data Reliability and Limitations

In general, to establish the reliability of the data that we used for reporting trends and statistics for both American Samoa and the CNMI, we systematically obtained information about the way in which data were collected and tabulated. When possible, we checked for consistency across data sources. While the data had some limitations, we determined that the available data were adequate and sufficiently reliable for the purposes of our review.

Our review had certain limitations in addition to those already noted. In particular, although our approach yielded information on trends in employment, wages, and earnings in both areas, we were not able to distinguish between the effects of minimum wage increases and the effects of other factors, including the global recession beginning in 2009, fluctuations in energy prices, global trade liberalization, and the application of U.S. immigration law to the CNMI. In addition, our review of minimum wage increases is limited to American Samoa and the CNMI, and we did not study minimum wage increases in the U.S. economy more broadly.

We conducted this performance audit from July 2013 to February 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that

the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Minimum Wage Increases in American Samoa and CNMI

The federal minimum wage was first enacted as part of the Fair Labor Standards Act of 1938 (FLSA). It had repercussions in the U.S. Virgin Islands and Puerto Rico that led the United States, in 1940, to revise the application of the law in those territories; the overarching goal of the FLSA continued to be pursued there, but at a slower pace than in the 50 U.S. states.

As of July 2009, the federal minimum wage was set at \$7.25 per hour.¹ Federal minimum wage laws apply generally to any employee engaged in commerce who meets certain conditions, with limited exemptions.² Certain employees who would otherwise be covered under certain requirements of the FLSA may be exempt. For example, individuals engaged in agriculture, if their employer is an immediate family member, or those catching seafood at sea are exempt from FLSA minimum wage and overtime requirements.³

Application of Federal Minimum Wage Law to American Samoa and CNMI

In 2007, the United States enacted legislation that incrementally applies the U.S. minimum wage to American Samoa and the CNMI.⁴ The legislation raised the federal minimum wage in the 50 U.S. states from \$5.15 to \$7.25 per hour over 3 years and, for the first time, also mandated a series of \$.50 per hour increases beginning in July 2007 to the

¹29 U.S.C. § 206(a)(1)(C).

²The federal minimum wage laws apply to employees engaged in commerce or the production of goods for commerce and to employees who work for enterprises engaged in commerce or the production of goods for commerce (29 U.S.C. § 206(a)). An enterprise is deemed to be engaged in commerce or the production of goods for commerce only if it is an activity of a public agency, if its annual gross volume of business is at least \$500,000, or if it is engaged in the operation of a hospital, health facility, or school (29 U.S.C. § 203(s)). Businesses in which the only regular employees are immediate family members of the owner are not considered to be enterprises engaged in commerce.

³29 U.S.C. § 213(a)(5)-(6). The seafood exemption only applies to these activities when performed at sea, so employees engaged in these activities on shore would not qualify for the exemption. See 29 C.F.R. § 784.130 for definition of “at sea.”

⁴Pub. L. No. 110-28, § 8103, 121 Stat. 112, 188 (May 25, 2007).

minimum wages in both American Samoa and CNMI that would eventually bring them to parity with the federal minimum wage.⁵

The 2007 legislation changed decades of federal law that had allowed both American Samoa and the CNMI to apply minimum wage rates significantly lower than the minimum wage for the 50 U.S. states. Prior to the 2007 law, American Samoa's minimum wages were set for each of 18 industries through biennial reviews by special industry committees established by the U.S. Department of Labor. American Samoa's minimum wages in 2006 ranged from \$2.68 to \$4.09. Under the 2007 law, American Samoa retained its separate minimum wages by industry, with each to be increased by \$.50 per hour until it reaches the U.S. minimum wage. The CNMI had authority to set its own minimum wage under its 1976 Covenant with the United States; its minimum wage in 2006 was \$3.05.⁶

Minimum Wage Law in American Samoa

Since 2007, the minimum wages in American Samoa have increased by \$.50 three times, with the minimum wage of the lowest paid workers now set at \$4.18 and the minimum wage of workers in the tuna canning industry set at \$4.76. The most recent minimum wage increase in American Samoa was on May 25, 2009. In 2010, the U.S. enacted a law delaying the scheduled American Samoa minimum wage increases for 2 years, providing for no increase in 2010 or 2011.⁷ Further changes to the law in 2012 provided for no increases in 2012, 2013, and 2014 and changed the interval of the increases from every year to every 3 years.⁸ Under current law, therefore, the next minimum wage increase will occur on September 30, 2015, and the minimum wage in the American Samoa tuna canning industry will reach the current U.S. minimum wage of \$7.25 on September 30, 2027. Under current law, the minimum wage for

⁵In addition to the mandated GAO reports on the minimum wage in American Samoa and CNMI, the federal government has conducted or funded several reports on minimum wage increases in American Samoa and the CNMI in recent years. For a summary of previous federal reports, see appendix II of [GAO-11-427](#). The Departments of Commerce, Labor, and Interior have not conducted any additional studies of the minimum wage since our previous report.

⁶Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America, §503(b). See 48 U.S.C. §1801 note.

⁷Pub. L. No. 111-244, § 2, 124 Stat. 2618 (Sept. 30, 2010).

⁸Pub. L. No. 112-149, § 4, 126 Stat. 1145 (July 26, 2012).

American Samoa’s lowest-paid workers will reach the U.S. minimum wage on September 30, 2033 (see table 4). If the original 2007 law increasing the minimum wage had not been subsequently amended, the minimum wage in the tuna canning industry would have reached the U.S. minimum wage in May 2014.

Table 4: Past and Scheduled Minimum Wage Increases in American Samoa

Date	Minimum wage (tuna canning industry)	Lowest minimum wage (garment manufacturing)
Before July 25, 2007	\$3.26	\$2.68
July 25, 2007	\$3.76	\$3.18
May 25, 2008	\$4.26	\$3.68
May 25, 2009	\$4.76	\$4.18
September 30, 2015	\$5.26	\$4.68
September 30, 2018	\$5.76	\$5.18
September 30, 2021	\$6.26	\$5.68
September 30, 2024	\$6.76	\$6.18
September 30, 2027	\$7.25	\$6.68
September 30, 2030	\$7.25	\$7.18
September 30, 2033	\$7.25	\$7.25

Source: GAO analysis of American Samoa Industry Committee wage categories, 29 C.F.R. § 697.2, Pub. L. No. 110-28, Pub. L. No. 111-244, and Pub. L. No. 112-149.

Minimum Wage Law in CNMI

Congress raised the CNMI minimum wage from \$3.05 to \$3.55 per hour in July 2007 and required a \$.50 increase every year thereafter until the CNMI minimum wage equals the full federal minimum wage.⁹ In 2010, the U.S. enacted a law delaying the scheduled minimum wage increase for 1 year, providing for no increase in 2011.¹⁰ On September 30, 2012, the scheduled annual increase raised the CNMI minimum wage to the current \$5.55 per hour. In September 2013, additional legislation cancelled the scheduled 2013 and 2015 annual increases.¹¹ Under current law, therefore, the next minimum wage increase will occur on September 30, 2014, and the CNMI will reach the current U.S. minimum wage on September 30, 2018 (see table 5). If the original 2007 law increasing the

⁹Pub. L. No. 110-28, § 8103(b)(1), 121 Stat. 112, 188 (May 25, 2007).

¹⁰Pub. L. No. 111-244, § 2, 124 Stat. 2618 (Sept. 30, 2010).

¹¹Pub. L. No. 113-34, § 2, 127 Stat. 518 (Sept. 18, 2013).

minimum wage had not been subsequently amended, the minimum wage in the CNMI would have reached the U.S. minimum wage in May 2015.

Table 5: Past and Scheduled Minimum Wage Increases in CNMI

Date	Minimum wage
Before July 25, 2007	\$3.05
July 25, 2007	\$3.55
May 25, 2008	\$4.05
May 25, 2009	\$4.55
September 30, 2010	\$5.05
September 30, 2012	\$5.55
September 30, 2014	\$6.05
September 30, 2016	\$6.55
September 30, 2017	\$7.05
September 30, 2018	\$7.25

Source: GAO analysis of Pub. L. No. 110-28, Pub. L. No. 111-244, and Pub. L. No. 113-34.

CBO Study of Options to Increase the Minimum Wage in the United States

In February 2014, the Congressional Budget Office (CBO) issued a study of two options for raising the federal minimum wage.¹² The first option would raise the minimum wage to \$10.10 per hour and the second would raise it to \$9.00 per hour.¹³ To perform its study, CBO identified the number of workers who would be affected by these options from Census data. CBO then reviewed existing research findings on the elasticity of employment and minimum wage increases—that is, the percentage change in employment induced by a percentage change in the minimum wage—and estimated the effect of each option on employment, income, and poverty. CBO chose the value of the elasticity for each option based

¹²Congressional Budget Office, *The Effects of a Minimum-Wage Increase on Employment and Family Income*, (Washington, D.C.: Feb. 2014).

¹³The \$10.10 option would increase the U.S. minimum wage in three steps: to \$8.20 on July 1, 2014; to \$9.15 one year after that; and to \$10.10 after another year. After reaching \$10.10 in 2016, the minimum wage would be adjusted annually for inflation as measured by the consumer price index. The \$9.00 option would increase the U.S. minimum wage from \$7.25 per hour to \$8.10 on July 1, 2015, and to \$9.00 on July 1, 2016. After reaching \$9.00 in 2016, the minimum wage would not be subsequently adjusted for inflation.

on estimates of this elasticity from previous research.¹⁴ However, because there is considerable uncertainty about the effect of minimum wage increases, CBO developed a range of estimates.¹⁵

The two options of the CBO study each assumed increases in the minimum wage that are smaller in size than those that occurred from 2007 to 2009 in American Samoa and the CNMI.¹⁶ CBO also found that the two options would affect a much smaller percentage of U.S. workers than we found would be affected by future minimum wage increases for workers in the key industries of American Samoa and the CNMI.¹⁷

¹⁴We similarly noted in a previous report on the CNMI in August 2008 that, based on a review of economic literature, there may have been consensus that the overall effect of minimum wage increases on employment is negative, but there was no consensus on the size of the effect. See [GAO-08-791](#).

¹⁵At the midpoint of its range of estimates, CBO found that the \$10.10 option would decrease total U.S. employment by about 500,000 workers, but would increase the earnings of about 16.5 million workers and raise 900,000 people above the poverty level. CBO estimated that the \$9.00 option would decrease total U.S. employment by about 100,000 workers, but would increase the earnings of about 7.6 million workers and raise 300,000 people above the poverty level.

¹⁶Under the \$10.10 option the U.S. minimum wage would increase 39 percent in 2 years; under the \$9 option, it would increase 24 percent in one year. Minimum wages in American Samoa for tuna canning workers increased 46 percent in 22 months (between July 24, 2007 and May 25, 2009); there have been no increases since 2009. The CNMI minimum wage increased 49 percent in the same time period and 82 percent from July 24, 2007 to September 30, 2012; there have been no increases since 2012.

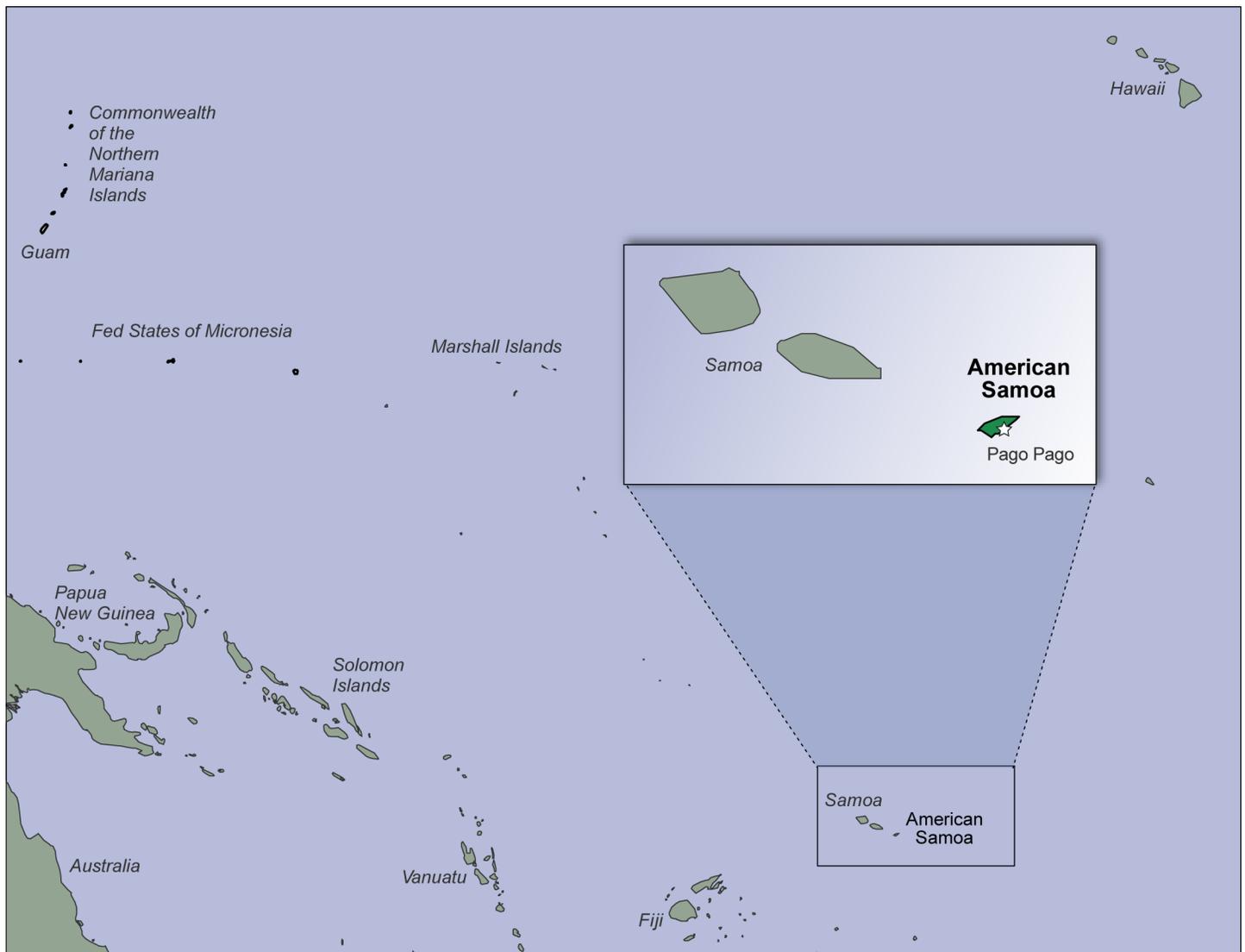
¹⁷CBO found that the next increase under the \$10.10 option would affect about 6 percent of U.S. workers in 2014 and the 2016 increase would affect 14 percent of workers. Under the \$9.00 option, the 2015 increase would affect about 4 percent of U.S. workers and the 2016 increase would affect 8 percent. In contrast, the next 50 cent per hour increase in American Samoa in 2015 would affect 79 percent of current hourly tuna canning workers. All minimum wage increases through 2027, when the American Samoa tuna canning minimum wage reaches \$7.25, would affect 98 percent of current hourly tuna canning workers. See GAO's analysis in Appendix III. The next 50 cent increase in the CNMI, in 2014, would affect 84 percent of current hourly hotel workers. Minimum wage increases through 2018, when the CNMI minimum wage reaches \$7.25, would affect 94 percent of current hourly hotel workers. See GAO's analysis in Appendix IV.

Appendix III: American Samoa

Background

American Samoa comprises five volcanic islands and two coral atolls with a combined land area of 76 square miles—slightly larger than Washington, D.C.—located about 2,600 miles southwest of Hawaii (see fig. 1).

Figure 1: Map of American Samoa



Source: GAO; Map Resources (map).

The 2010 decennial census found American Samoa's population to be 55,519, a decrease of 2.5 percent from its 2000 population.¹ Approximately 98 percent of the population lives on the main island of Tutuila, and most economic activity and government operations take place in and around the harbor of the capital of Pago Pago. Most of Tutuila, however, consists of rugged terrain, with relatively little level land (see fig. 2).

Figure 2: Pago Pago Harbor



Source: GAO.

American Samoa–U.S. Relations

From 1900 through 1904, the U.S. government negotiated control over American Samoa,² and the U.S. Navy subsequently took responsibility for federal governance of the territory. In 1951, governance was transferred

¹The American Samoa government has stated that it believes the 2010 census to be an undercount due to a mismatch between the Census count and American Samoa data on births, deaths, outmigration and other data, as well as the omission of undocumented immigrants who feared deportation. See the American Samoa comment letter in Appendix VI of this report for additional detail.

²Two deeds of cession were initially completed between Samoan chiefs, or matai, and the United States in 1900 and 1904 and were ratified by the federal government in 1929. In these deeds, the United States pledged to promote peace and welfare, establish a good and sound government, and preserve the rights and property of the people. See 45 Stat. 1253, c. 281 (Feb. 20, 1929), codified at 48 U.S.C. §1661.

to the Secretary of the Interior.³ In 1960, American Samoa residents adopted their own constitution. Amendments to the constitution of American Samoa can only be made by the U.S. Congress.⁴ Persons born in American Samoa are U.S. nationals but may apply to become naturalized U.S. citizens.⁵ U.S. noncitizen nationals from American Samoa have the right to travel freely, live, and work throughout the United States.⁶ American Samoa exercises authority over its immigration system and customs through locally adopted laws.⁷

Additionally, the U.S. government has supported American Samoa's economy through trade policies that have provided tariff-free access to the United States for canned tuna and tax policies that have reduced federal taxes on income earned by qualifying U.S. corporations investing in American Samoa. Changes to various free trade agreements within the last decade, however, have lowered U.S. tariffs on tuna exported from several other countries, reducing the American Samoa canneries'

³Transfer of Administration of American Samoa, Exec. Order No. 10,264, 16 Fed. Reg. 6419 (1951). The Secretary exercised broad powers with regard to American Samoa, including "all civil, judicial, and military powers" of government in American Samoa. 48 U.S.C. § 1661(c).

⁴48 U.S.C. § 1662a.

⁵American Samoa residents have many of the rights of citizens of the 50 states but cannot vote in U.S. national elections and do not have voting representation in the final approval of legislation by the full Congress. The congressional delegate from American Samoa has many of the same congressional privileges as other representatives, including a vote in committee, but cannot vote in the House of Representatives.

⁶22 C.F.R. § 53.2, § 41.0. Noncitizen nationals do not have the same preferences as U.S. citizens for sponsoring immediate family members for family-based immigration visas. To qualify for the same preference categories as citizens, noncitizen nationals must become naturalized citizens of the United States, which includes a requirement to reside in the United States for 3 months (8 C.F.R. §325.2). Additionally, individuals who are residents of the U.S. insular areas pay no federal income tax on income from sources within the insular areas; however, their wages are subject to Social Security and Medicare taxes.

⁷American Samoa is the only insular area that operates both its own customs and immigration programs. The U.S. government operates the immigration functions in other insular areas, such as Guam, the CNMI, and the U.S. Virgin Islands; however, each of these insular areas operates under its own customs laws.

competitive advantage.⁸ In addition, the potential Trans-Pacific Partnership includes one tuna producing country, Vietnam, which could pose additional competition if granted tariff-free access to the U.S. market.⁹ Under the Internal Revenue Code, qualifying American Samoa tuna canneries have received a tax credit for U.S. corporate income taxes.¹⁰ Canneries in American Samoa have also benefited from exemptions from local taxes.¹¹

American Samoa Economy

The U.S. Department of Commerce's Bureau of Economic Analysis estimated American Samoa's 2012 gross domestic product (GDP) at \$725 million. In 2005 dollars, the real 2012 GDP was \$504 million, 4.5 percent below the real GDP of 2006, the last full year prior to minimum wage increases and also slightly lower than the 2009 real GDP (see fig. 3). Real GDP per capita has increased, however, as the American Samoa population has declined. American Samoa's 2012 real GDP per capita of

⁸In August 2002, tariffs decreased on pouched tuna exported from countries covered by the Andean Trade Preference Act. The authority to extend duty-free treatment to the remaining eligible Andean Trade Preference Act beneficiary countries expired on July 31, 2013, and has not been renewed. In January 2008, provisions of the North American Free Trade Agreement lifted tariffs imposed on canned tuna and other tuna products exported from Canada and Mexico. Nevertheless, some of American Samoa's foreign competitors still did not qualify for tariff-free access to the U.S. market.

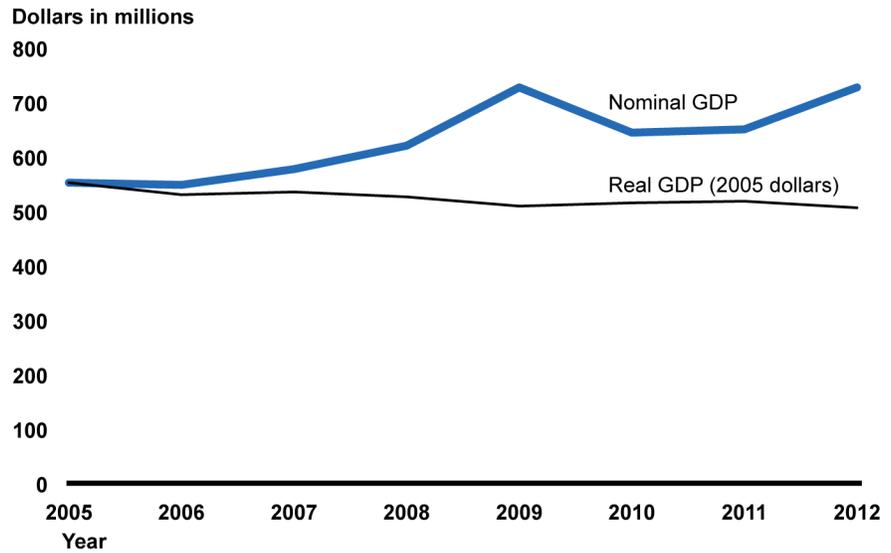
⁹The Trans-Pacific Partnership is a free trade agreement currently being negotiated among 12 countries that aims to liberalize trade in goods and services and remove barriers to foreign investment. Participating countries as of December 2013 are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States.

¹⁰The tax credits under section 936 of the Internal Revenue Code expired for taxable years beginning after December 31, 2005. Section 30A of the Internal Revenue Code extended the Section 936 credits for American Samoa until January 1, 2012, subject to certain limitations. Corporations that were actively conducting business in American Samoa by 1995 who elected Section 936 status in the last taxable year before January 1, 2006, can claim a section 30A tax credit for taxable years that begin before January 1, 2012. See 26 U.S.C. §30A note, as amended by Pub. L. No. 111-312, §756, 124 Stat. 3296, 3322 (Dec. 17, 2010). For tax years beginning January 1, 2012, or later, there are new requirements, including that corporations must meet a "qualified production activities income" requirement.

¹¹On December 20, 2012, the American Samoa government agreed to a new local tax exemption for Star-Kist covering the period from January 1, 2013, to December 31, 2022. On October 5, 2010, Tri Marine received exemption from any taxes from the American Samoa government for 10 years on the condition that it meets minimum requirements for capital investment and employment after 5 years.

\$9,164 was a 12.5 percent increase over the 2006 real GDP per capita of \$8,148.

Figure 3: American Samoa Nominal and Real GDP, 2005-2012



Source: GAO analysis of Bureau of Economic Analysis data.

Personal Income, Poverty, and Unemployment Rates

The 2010 decennial census reported that American Samoa’s median household income remained well below that of the United States, and its poverty rate well above. American Samoa’s 2009 median household income of \$23,892 was 47 percent of that of the United States, a decline from 2004 when it was about 52 percent of that of the United States.¹² American Samoa’s 2009 poverty rate of 57.8 percent far exceeded the U.S. rate of 15.1 percent.¹³ Based on the 2010 decennial census, American Samoa’s unemployment rate was 9.2 percent in April 2010.

¹²Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, Current Population Reports, *Income, Poverty, and Health Insurance Coverage in the United States: 2010* (Washington, D.C.: U.S. Government Printing Office, 2011). For 2004 figures, see American Samoa Government, Department of Commerce, Statistics Division, *Report on the 2005 American Samoa HIES* (draft) and Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, Current Population Reports, *Income, Poverty, and Health Insurance Coverage in the United States: 2009* (Washington, D.C.: U.S. Government Printing Office, 2010).

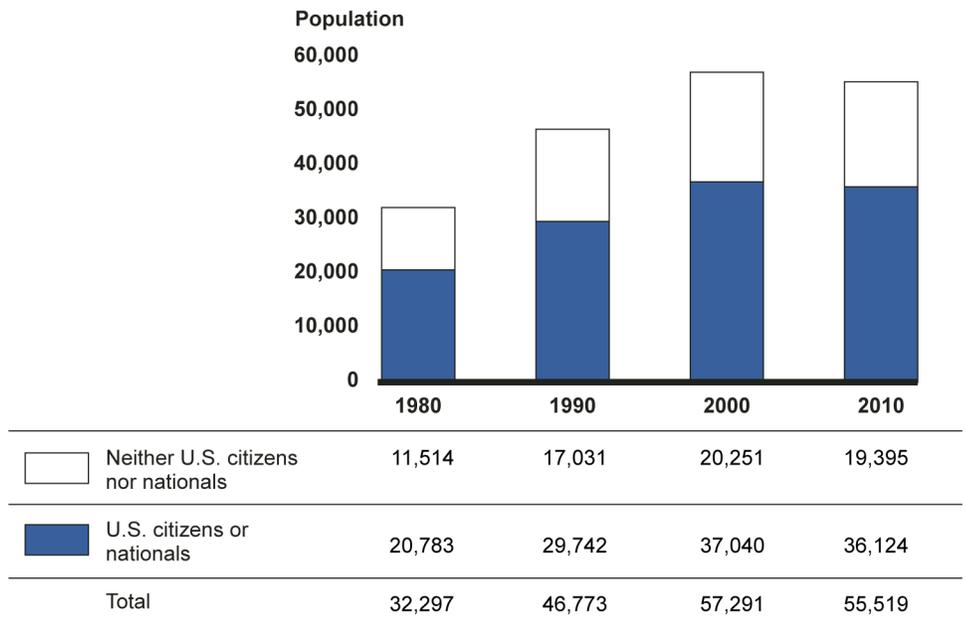
¹³DeNavas-Walt, Proctor, and Smith, 2011.

According to the Bureau of Labor Statistics' Current Population Survey, the U.S. unemployment rate was 9.9 percent at that time.

Key Industries

The tuna canning industry and the government sector have historically employed the most workers in American Samoa. In 2012, about 36 percent of American Samoa's workforce worked in the government sector and about 12 percent worked for the canneries.¹⁴ Noncitizens, mostly from the independent state of Samoa, comprised approximately 36 percent of American Samoa's 2010 population (see fig. 4) and, according to Star-Kist, approximately 85 percent of their labor force. Many citizens of the independent state of Samoa reside in American Samoa on a long-term basis, including spouses and relatives of American Samoans.

Figure 4: Population and Citizenship Status of American Samoa, 1980-2010



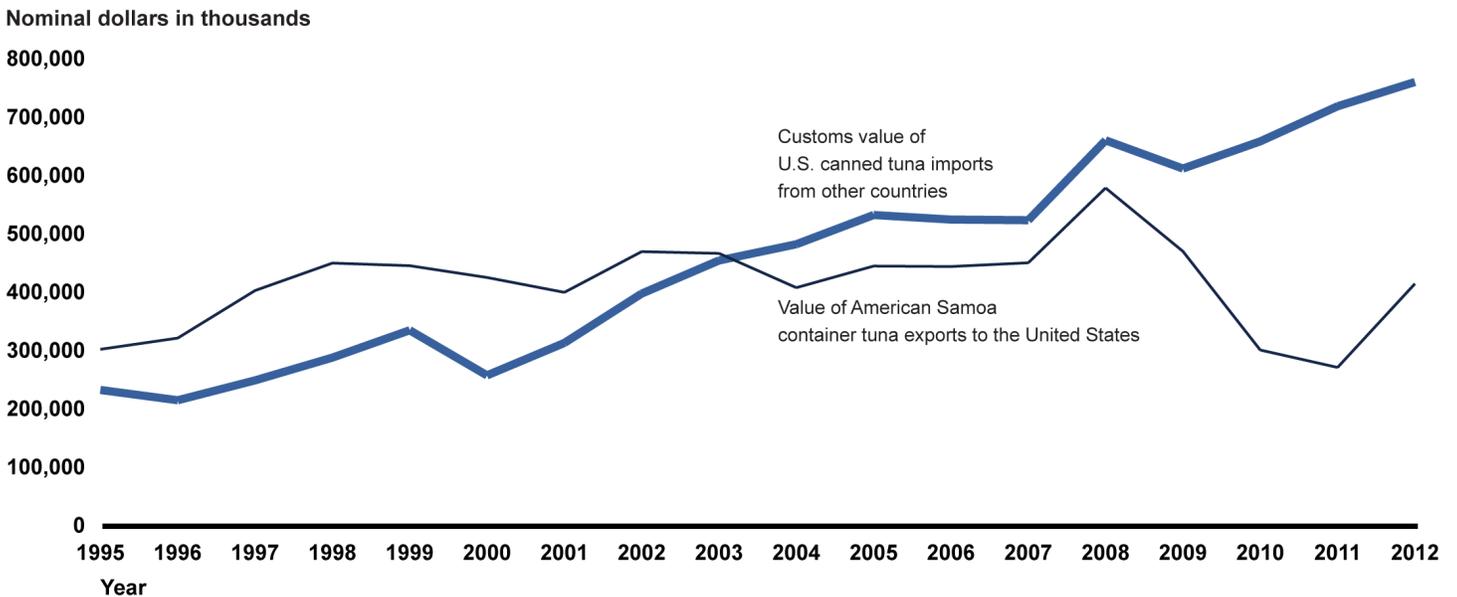
Source: GAO analysis of decennial U.S. Census data.

Note: For 1980, the definition of U.S. citizen includes people born in the United States, the CNMI, Guam, and American Samoa. Persons with places of birth not reported are classified as not U.S. citizens.

¹⁴Department of Commerce, Statistics Division, *American Samoa Statistical Yearbook, 2012*.

Despite recent declines, in 2012 tuna exports represented more than 99 percent of American Samoa’s approximately \$416 million in commodity exports to the United States. However, the tuna canning industry faces competition from other countries. From 1995 to 2003, the value of canned tuna imported into the United States from American Samoa exceeded that of tuna imported from all other countries combined. Since 2003, however, foreign imports have exceeded those from American Samoa. In addition, U.S. per capita consumption of canned tuna fell by 23 percent from 2003 to 2011. From 2008 to 2011, tuna exports from American Samoa to the United States declined, rebounding somewhat in 2012 (see fig. 5).

Figure 5: American Samoa and Foreign Tuna Exports to the United States, 1995-2012

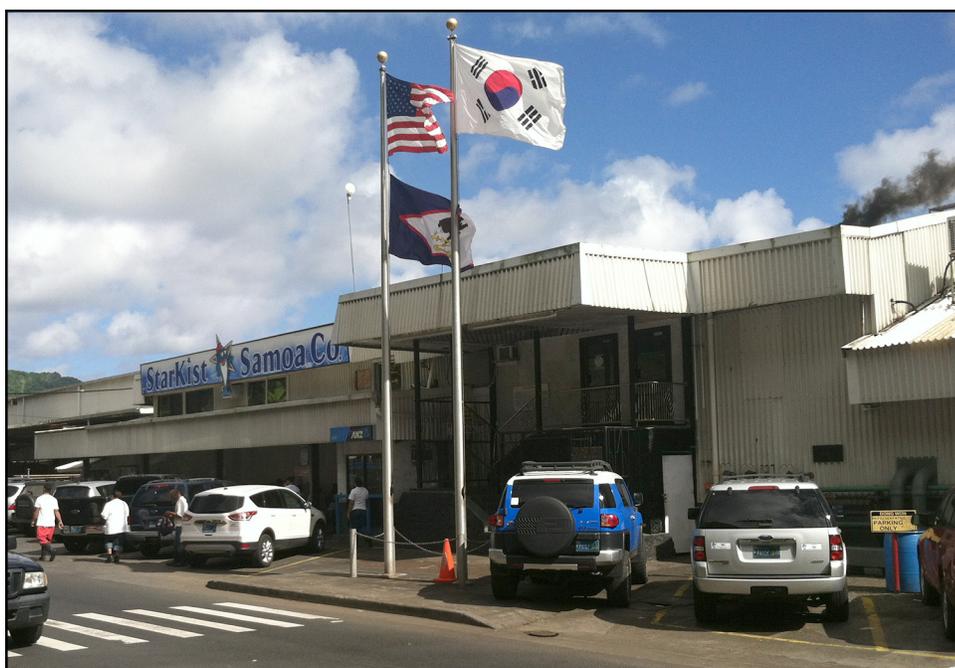


Source: GAO analysis of Bureau of the Census: U.S. Trade with Puerto Rico and U.S. Possessions, 1995 through 2012 and National Oceanic and Atmospheric Administration, Imports and Exports of Fishery Products, 1996 through 2012.

Chicken of the Sea International, which operated one of the two canneries in American Samoa, closed its cannery operations in the territory at the end of September 2009, contributing to the decline of tuna exports that began that year. Chicken of the Sea relocated canning facilities to the U.S. state of Georgia while outsourcing the more labor-intensive processes, including cleaning and cooking the tuna loins (a low-tariff U.S. import), to countries with lower labor costs. While the Star-Kist cannery has been in American Samoa for more than 50 years, it also has

production facilities in place or in process in Ecuador, Senegal, Thailand, and Papua New Guinea (see fig. 6).¹⁵

Figure 6: Star-Kist Cannery, Pago Pago



Source: GAO.

In addition to the closure of Chicken of the Sea in 2009, American Samoa suffered another blow on September 29 of that year when a tsunami following a strong earthquake left 34 people dead. Although the two tuna canneries were mostly spared, the tsunami caused severe damage. The federal government issued a disaster declaration and assisted with tsunami recovery efforts, including providing direct cash assistance to those affected and temporary employment in support of recovery efforts. In 2009 and 2010, other temporary jobs included Census Bureau enumerators and managers assisting with collection of 2010 decennial census data, and workers on infrastructure projects and in other fields

¹⁵Star-Kist Co. is a subsidiary of the South Korean-based Dongwon Group. Dongwon acquired Star-Kist in 2008 from Del Monte Foods, which had acquired Star-Kist from the H.J. Heinz Company in 2002.

supported by funds made available in the American Recovery and Reinvestment Act of 2009.¹⁶

On October 5, 2010, Tri Marine International acquired the former Chicken of the Sea facility in American Samoa, located adjacent to the Star-Kist cannery (see fig. 7).¹⁷ As of November 2013, Tri Marine had completed construction of a new cold-storage facility on the site and is actively constructing other facilities for expanded operations. According to Tri Marine officials, the company plans to begin processing sashimi-grade tuna in early 2014 and to re-open the tuna cannery in 2015. When the cannery becomes operational, Tri Marine expects to employ 1,200 people.

¹⁶Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009). The great majority of those were disaster recovery positions related to the tsunami. In a previous report we estimated that there were from 2,000 to 3,000 temporary jobs funded by the U.S. Census Bureau, the Recovery Act, and tsunami recovery efforts ([GAO-11-427](#)). As a result, counts of the total number employed during this period are higher than the number of long-term positions.

¹⁷Samoa Tuna Processors, Inc., is part of Tri Marine, a privately owned group of companies primarily engaged in fishing, procurement, processing, and trading of tuna and other seafood products, and in supplying tuna and tuna products to various brands.

Figure 7: Tri Marine (former Chicken of the Sea) facility in Pago Pago



Source: GAO.

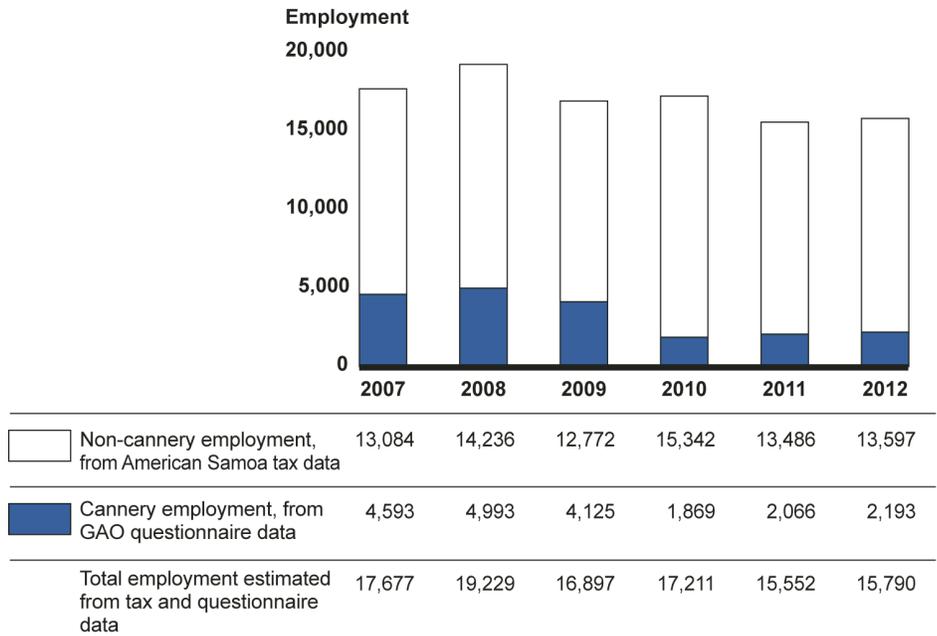
American Samoa Employment and Average Inflation- Adjusted Earnings in 2012 Were Lower Than in 2007

Employment Declined Overall from 2007 to 2012, but Increased in Some Years

Overall American Samoa employment declined from 2007 to 2012; however, employment increased in some years. As shown in figure 8, employment grew from 2007 to 2008 but by 2012 had fallen to a level lower than in 2007. Specifically, the total number of employees in American Samoa increased by 1.5 percent from 2011 to 2012 (from 15,552 to 15,790) but fell over the entire period from 2007 to 2012 by 11 percent (from 17,677 to 15,790, with a peak of 19,229 in 2008).¹⁸ Because American Samoa tax data are not yet available for 2013, we are unable to report on the overall level of employment for that year. However, based on our survey of cannery employers, the number of hourly workers at the canneries fell by about 13 percent from 2012 to 2013 (from 2,193 to 1,915) and 58 percent overall from 2007-2013.

¹⁸Employees at the Chicken of the Sea cannery, which closed September 30, 2009, are included in the 2009 employee count.

Figure 8: American Samoa Employment Based on American Samoa Tax Data and GAO Questionnaire Data, 2007 through 2012



Source: GAO analysis of American Samoa tax and GAO questionnaire data.

Employment figures are based on our analysis of combined employee data from the American Samoa Department of Treasury, Office of Taxation, and responses from tuna canning industry employers to our questionnaire. The American Samoa tax data are a count of persons employed at any point during the tax year by the employer. The cannery employment figure, from GAO’s questionnaire, is a count of hourly employees at the canneries as of a specific pay period in June of the given year.¹⁹ See appendix I for a full discussion our methodology.

¹⁹We also calculated trends in employment in American Samoa using data from the Social Security Administration and the American Samoa Statistical Yearbook. The series were not directly comparable, since a person (as counted in the Social Security data) could have multiple positions (as counted in the other sources). While all of the series showed negative trends, the trend in the Social Security data was much larger in magnitude. See appendix I for additional detail on our methodology.

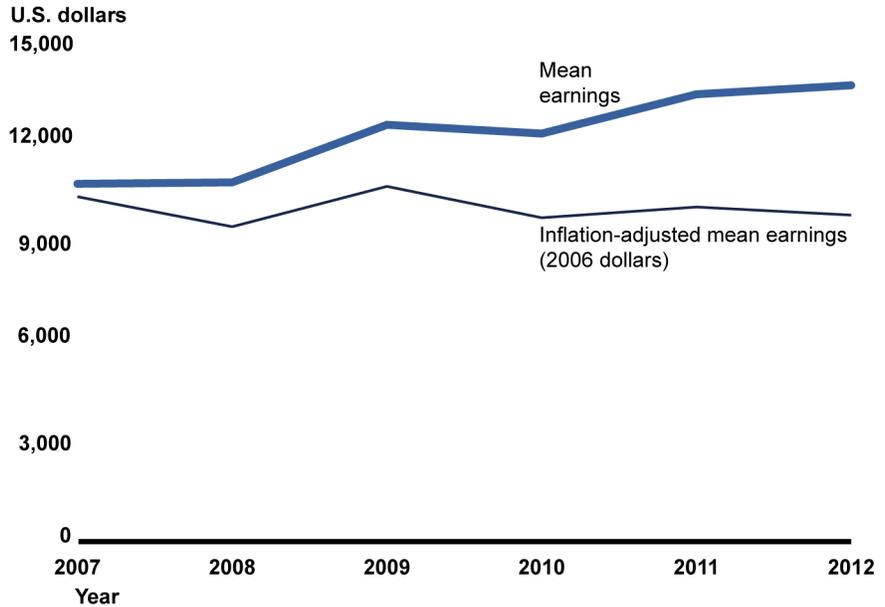
Average Inflation-Adjusted Earnings of Those Employed Have Fallen Since 2007

Average earnings of workers who maintained employment rose from 2007 to 2012, but the increase was not sufficient to overcome the increase in prices.²⁰ As shown in figure 9, based on American Samoa tax and GAO questionnaire data, and consumer price data, from 2011 to 2012, average inflation-adjusted earnings fell by 2 percent. This decline resulted from an increase in average earnings of 2 percent and an increase in prices of 4 percent. For the overall period from 2007 to 2012, average inflation-adjusted earnings fell by about 5 percent due to an increase in average annual earnings of about 27 percent and a 34 percent increase in prices.²¹

²⁰The American Samoa Consumer Price Index increased 4 percent from 2006 to 2007, 10 percent from 2007 to 2008, 3 percent from 2008 to 2009, 7 percent from 2009 to 2010, 6 percent from 2010 to 2011 and 4 percent from 2011 to 2012. In comparison, the U.S. Consumer Price Index increased 2.8 percent from 2006 to 2007 and 3.8 percent from 2007 to 2008, but declined 0.4 percent from 2008 to 2009. The U.S. Consumer Price Index then increased by 1.6 percent from 2009 to 2010, by 3.2 percent from 2010 to 2011, and by 2.1 percent from 2011 to 2012.

²¹As with data on total employment, the trend in inflation-adjusted earnings as measured by Social Security data was also negative but larger in magnitude. See appendix I for additional detail.

Figure 9: American Samoa Nominal Mean Earnings and Inflation-Adjusted Mean Earnings Based on American Samoa Tax Data and GAO Questionnaire Data, 2007 through 2012



Source: GAO analysis of American Samoa tax and GAO questionnaire data.

Although earnings data do not allow for a direct comparison of average and minimum wage annual earnings or for tracking the earnings of workers who lost their jobs, the hourly wage of minimum wage workers who retained their jobs and work hours has not increased by more than inflation since 2007. The inflation-adjusted earnings of minimum wage cannery workers who retained their jobs and work hours fell by about 4 percent from 2011 to 2012 (a period that did not include a minimum wage increase) and also decreased by about 5 percent overall from 2007 to 2012.

Employers, the American Samoa Government, and Workers Generally Oppose Minimum Wage Increases

The discussion group of private sector employers we met with generally opposed additional minimum wage increases and stated that previous minimum wage increases had been harmful to the economy.²² These employers called the minimum wage the most important issue impacting businesses and cited American Samoa's reliance on the tuna canning industry and fears about the effect of further increases on the industry and the American Samoa economy. In addition, these employers said that federal tsunami recovery assistance had cushioned the impact of the 2009 closure of the Chicken of the Sea cannery, so its full impact had not yet been felt. Finally, the business representatives we spoke with expressed frustration with American Samoa's lack of success in attracting alternative businesses to the territory. Business representatives we spoke with said that the American Samoan government had not fostered economic development and that its tax policies had created a poor business environment.

The American Samoan government, American Samoa's largest employer, continues to report that any increases in the minimum wage will result in reduced government employment. The government anticipates that it will reduce staff or hours as part of its response to any future increases. It further stated that the scheduled 2015 increase would raise its wage bill by approximately \$140,000. The government anticipated it would have to cut six employees to offset this increase. Future increases beyond 2015, it stated, would have a drastic budget impact and contribute to the government's already critical cash flow problem. In his January 2014 State of the Territory address, the Governor of American Samoa stated that he had instructed the American Samoa Department of Commerce to prepare and justify a request to Congress to permanently remove American Samoa from the application of the federal minimum wage. According to the Governor, the justification will include a presentation of a locally developed "living wage" to address what it described as congressional fears that the American Samoa minimum wage does not provide for basic living needs in American Samoa.

Star-Kist workers who participated in our discussion group generally opposed further minimum wage increases rather than supported future

²²A total of 20 business representatives representing 18 American Samoa businesses, including two of the three cannery industry employers, participated in the discussion group. Views expressed in discussion groups only represent the views of participants in those groups and may not be representative of all businesses' views in American Samoa.

increases.²³ Workers expressed concerns that any increase would result in lost jobs or a complete closure of Star-Kist. Workers we spoke with said that hours and opportunities for overtime have been reduced at the cannery. In addition, workers we spoke with said that prices for essentials such as rent, food, and utilities are high and difficult for them to afford. Some workers we spoke with expressed concerns that future increases in the minimum wage would lead to an increase in prices in American Samoa, which they said had occurred as a result of previous minimum wage increases.

Minimum Wage Increases through 2018 Would Affect Wages of Almost All Workers Employed in American Samoa's Tuna Canning Industry in 2013

From 2011 to 2013, there was no increase in the median wage of workers in the tuna canning industry—in all years, the median hourly wage for tuna canning workers was \$4.76. During this period, the minimum wage for canning workers also remained unchanged at \$4.76. Since 2007, as a result of previous minimum wage increases, the median wage among workers in the tuna canning industry employed by questionnaire respondents has risen from \$3.30 to \$4.76 per hour (44 percent).

As the minimum wage increases continue, they will affect a growing percentage of workers in American Samoa's tuna canning industry. Based on questionnaire responses about workers' wages as of June 2013, 79 percent of canning industry hourly workers would be affected by the scheduled increase of the minimum wage to \$5.26 in September 2015. Future minimum wage increases would affect the wages of 92 percent of current cannery hourly workers when the minimum wage reaches \$5.76 in September 2018, and 98 percent of current canning industry hourly workers when the minimum wage reaches \$7.25 in 2027. By 2027, the extra annual cost added by minimum wage increases after June 2013 would be \$4,710 per worker (see table 6). We identified the additional cost by calculating the difference between the cost per worker in June 2013 and the cost per hourly worker through 2027, based on the scheduled minimum wage increases and averaged across all workers.

²³Ten Star-Kist workers participated in the discussion group. Views expressed in discussion groups only represent the views of participants in those groups and may not be representative of all workers' views in the tuna canning industry.

Table 6: Distribution and Increased Annual Cost Since June 2013 Per Hourly-wage Worker in the American Samoa Tuna Canning Industry Due to Scheduled Minimum Wage Increases

Date of scheduled minimum wage increase ^a	Percentage of hourly-wage workers in June 2013 at or below the new minimum wage	Minimum wage of cannery workers	Increased average hourly cost since June 2013 per hourly-wage worker	Increased average annual cost since June 2013 per hourly-wage worker ^b
September 30, 2015 (next increase)	79%	\$5.26	\$.37	\$779
September 30, 2018 (second increase)	92%	\$5.76	\$.83	\$1,723
September 30, 2027 (fifth increase)	98%	\$7.25	\$2.26	\$4,710

Source: GAO analysis of June 12, 2013, wage data provided in American Samoa tuna canning industry questionnaire.

Note: To estimate the annual cost of future minimum wage increases, we first calculated the difference between the hourly wage for each worker in June 2013 (reflecting the minimum wage of \$4.76) and all scheduled minimum wage increases through 2027. We multiplied that value by 2,080 (annual hours worked per full-time worker) to obtain an annual estimate for each worker. Finally, we reported the average of that value. For workers in June 2013 paid above a scheduled minimum wage, we assumed that the cost of that minimum wage for those workers would be zero (that they would receive no increase in pay). The average wage of cannery industry workers in June 2013 was \$5.00. We calculated the average cost for all workers, not only workers affected by the minimum wage.

^aThe third and fourth minimum wage increases will occur in 2021 and 2024.

^bThe analysis excluded nonwage labor costs due to the minimum wage increases, such as increases in employer payroll tax contributions under the Federal Insurance Contributions Act.

Tuna Canning Employers Cut Costs Due to Minimum Wage Increases and Other Factors

Two employers in the tuna canning industry in American Samoa reported in our questionnaire that they had taken cost-cutting actions from June 2010 to June 2013 including labor- and cost-saving strategies and reduced overtime.²⁴ All but one of the employer actions were attributed to a moderate or large extent to minimum wage increases by one or both respondents (see table 7).

²⁴The response of the third employer, Tri Marine, to the question was “not applicable” because the company was just beginning operations in American Samoa during that time period.

Table 7: American Samoa Employer Actions from June 2010 to June 2013 and Attribution of Those Actions to Minimum Wage Increases.

Action	Took action ^a	Attributed action to minimum wage increases to a moderate extent	Attributed action to minimum wage increases to a large extent	Total attributing action to either a moderate or large extent ^a
Introduced labor-saving strategies or technology	2	1	1	2
Introduced other cost-saving strategies (e.g., energy-saving technologies)	2	0	2	2
Reduced operating capacity or services offered	1	0	0	0
Delayed expansion of business	1	1	0	1
Relocated business outside of territory	0	Not applicable	Not applicable	Not applicable
Closed establishment temporarily	0	Not applicable	Not applicable	Not applicable
Laid off salaried employees	1	1	0	1
Laid off employees who are paid an hourly wage	1	1	0	1
Reduced regular work hours for employees paid an hourly wage	0	Not applicable	Not applicable	Not applicable
Reduced overtime work hours for employees paid an hourly wage	2	2	0	2
Decreased level of benefits for salaried employees	1	1	0	1
Decreased level of benefits for employees paid an hourly wage	0	Not applicable	Not applicable	Not applicable
Implemented a hiring freeze	2	2	0	2
Raised prices of goods or services	2	2	0	2

Source: GAO analysis of American Samoa tuna canning industry questionnaire responses.

Note: Attribution response choices for questionnaire recipients included “not at all,” “to a small extent,” and “don’t know.” See appendix V for a copy of the GAO questionnaire.

^aTri Marine responded “not applicable” to the question because the company was just beginning operations in American Samoa during that time period.

In addition to minimum wage increases, both respondents from the tuna canning industry who took cost-cutting actions attributed their actions to a moderate or large extent to increased utility and material costs (see table 8).

Table 8: Attribution of American Samoa Employer Actions from June 2010 to June 2013 to Other Factors

Factor	Factor contributed to a moderate extent	Factor contributed to a large extent	Total where factor contributed to either a moderate or large extent ^a
Increased utility costs	1	1	2
Increased costs of materials	0	2	2
Increased transportation/shipping costs	1	0	1
Increased maintenance costs	0	0	0
Decreased numbers of customers	0	1	1
Changes to U.S. immigration law	0	0	0
Changes in business taxes or fees	0	0	0

Source: GAO analysis of American Samoa tuna canning industry questionnaire responses.

Note: Attribution response choices for questionnaire recipients included “not at all,” “to a small extent,” and “don’t know.” See appendix V for a copy of the GAO questionnaire.

^aTri Marine responded “not applicable” to the question because the company was just beginning operations in American Samoa during that time period.

When asked about future planned actions, two of the three tuna canning industry respondents stated that they planned to take future actions to introduce labor- and cost-saving strategies, delay business expansion, and reduce overtime hours. One of the three respondents did not plan to take any of these actions. Both respondents who planned to take these actions attributed them to a moderate or large extent to the minimum wage increases (see table 9).

Table 9: American Samoa Employer Planned Actions and Attribution of Those Plans to Minimum Wage Increases

Future Action	Plan to take action ^a	Attributed planned action to minimum wage increases to a moderate extent	Attributed planned action to minimum wage increases to a large extent	Total attributing action to either a moderate or large extent ^a
Introduce labor-saving strategies or technology	2	0	2	2
Introduce other cost-saving strategies (e.g., energy-saving technologies)	2	0	2	2
Reduce operating capacity or services offered	0	not applicable	not applicable	not applicable
Delay expansion of business	2	2	0	2
Relocate business outside of territory	1	0	1	1
Close establishment temporarily	0	not applicable	not applicable	not applicable
Lay off salaried employees	0	not applicable	not applicable	not applicable
Lay off employees who are paid an hourly wage	0	not applicable	not applicable	not applicable
Reduce regular work hours for employees paid an hourly wage	0	not applicable	not applicable	not applicable

Future Action	Plan to take action ^a	Attributed planned action to minimum wage increases to a moderate extent	Attributed planned action to minimum wage increases to a large extent	Total attributing action to either a moderate or large extent ^a
Reduce overtime work hours for employees paid an hourly wage	2	0	2	2
Decrease level of benefits for salaried employees	0	not applicable	not applicable	not applicable
Decrease level of benefits for employees paid an hourly wage	0	not applicable	not applicable	not applicable
Implement a hiring freeze	0	not applicable	not applicable	not applicable
Raise prices of goods or services	0	not applicable	not applicable	not applicable
Close establishment permanently	0	not applicable	not applicable	not applicable

Source: GAO analysis of American Samoa tuna canning industry questionnaire responses.

Note: The questionnaire asked about planned actions in the next 18 months, which would be by March 2015. Attribution response choices for questionnaire recipients included “not at all,” “to a small extent,” and “don’t know.” See appendix V for a copy of the GAO questionnaire.

^aOne of the three respondents did not plan to take any of these actions.

In addition to the minimum wage increases, the two respondents to the tuna canning industry questionnaire who planned to take future cost-cutting actions attributed their plans to a moderate or large extent to other increased costs and business factors (see table 10).

Table 10: Attribution of Planned American Samoa Employer Actions to Other Factors

Factor	Factor contributed to a moderate extent	Factor contributed to a large extent	Total where factor contributed to either a moderate or large extent ^a
Increased utility costs	1	1	2
Increased costs of materials	0	2	2
Increased transportation/shipping costs	1	0	1
Increased maintenance costs	0	0	0
Decreased numbers of customers	1	1	2
Changes to U.S. immigration law	0	0	0
Changes in business taxes or fees	2	0	2

Source: GAO analysis of American Samoa tuna canning industry questionnaire responses.

Note: Attribution response choices for questionnaire recipients included “not at all,” “to a small extent,” and “don’t know.” See appendix V for a copy of the GAO questionnaire.

^aOne of the three respondents did not plan to take any of these actions.

Tuna Canning Industry Faces Challenges; Relocation Could Reduce Business Costs

Cannery officials stated that wage increases are one of many factors affecting the tuna canning industry in American Samoa.²⁵ Both Star-Kist and Tri Marine cited American Samoa's proximity to Pacific fisheries as a key advantage for the American Samoa tuna canning industry, as well as tariff-free access to the U.S. market. Star-Kist also cited Pago Pago's protected deep-water harbor. However, cannery company officials we interviewed indicated that labor costs, including the minimum wage increases, continued to place American Samoa at a significant cost disadvantage compared with other canned tuna exporting countries. In June 2011, we concluded that the three minimum wage increases to date had further widened the gap between American Samoa and production sites with lower labor costs, such as Thailand.²⁶ Star-Kist estimated the total differential in the annual wage bill between American Samoa and an equivalent number of employees in Thailand at approximately \$17.4 million. In addition, Star-Kist also cited disadvantages for American Samoa from U.S. regulations, high fuel and re-provisioning (net repairs, ship maintenance, crew provisions, and fishing bait) costs, an outdated shipyard, and the lack of sufficient dock space.

Both canneries cited congressional action to defer the next minimum wage increase to 2015 as encouraging their ability to invest in American Samoa. According to Star-Kist officials, deferring the next minimum wage increase helped the company to better plan for future activity at the cannery (to better train its workforce, plan procurement, negotiate supply contracts, and compete for business that requires pricing guarantees for multiple years). Tri Marine stated that it carefully considered all of its current and projected costs before deciding to invest in American Samoa and that its decision to move forward came only after the deferral of increases in the minimum wage.

In our June 2011 report on the minimum wage in American Samoa, we modeled four alternative scenarios for the American Samoa tuna

²⁵Our tuna industry questionnaire asked respondents about the extent to which they attributed each action they took or planned to take to the minimum wage increases, regardless of whether other factors also contributed. In interviews, officials provided more information about contributing factors.

²⁶[GAO-11-427](#).

industry.²⁷ We did not re-run the four models for our current report; however, we discussed them with Star-Kist officials, and Star-Kist and Tri Marine each provided additional written comments on the options available to the tuna industry. Star-Kist officials said that the four options are all still possible, but that there is a spectrum of possible actions in response to increasing costs. For example, Star-Kist could lower the staffing level or close certain production lines. Star-Kist reiterated its position that the cost savings between a fully U.S. manufacturing process and an outsourced manufacturing process is substantial and places American Samoa at a disadvantage. Tri Marine stated that any increase in direct costs, related to wages or not, will erode the competitiveness of American Samoa with a number of low-cost sources, including Thailand, Vietnam, Indonesia, and the Philippines, as a source of canned tuna for the U.S. market.

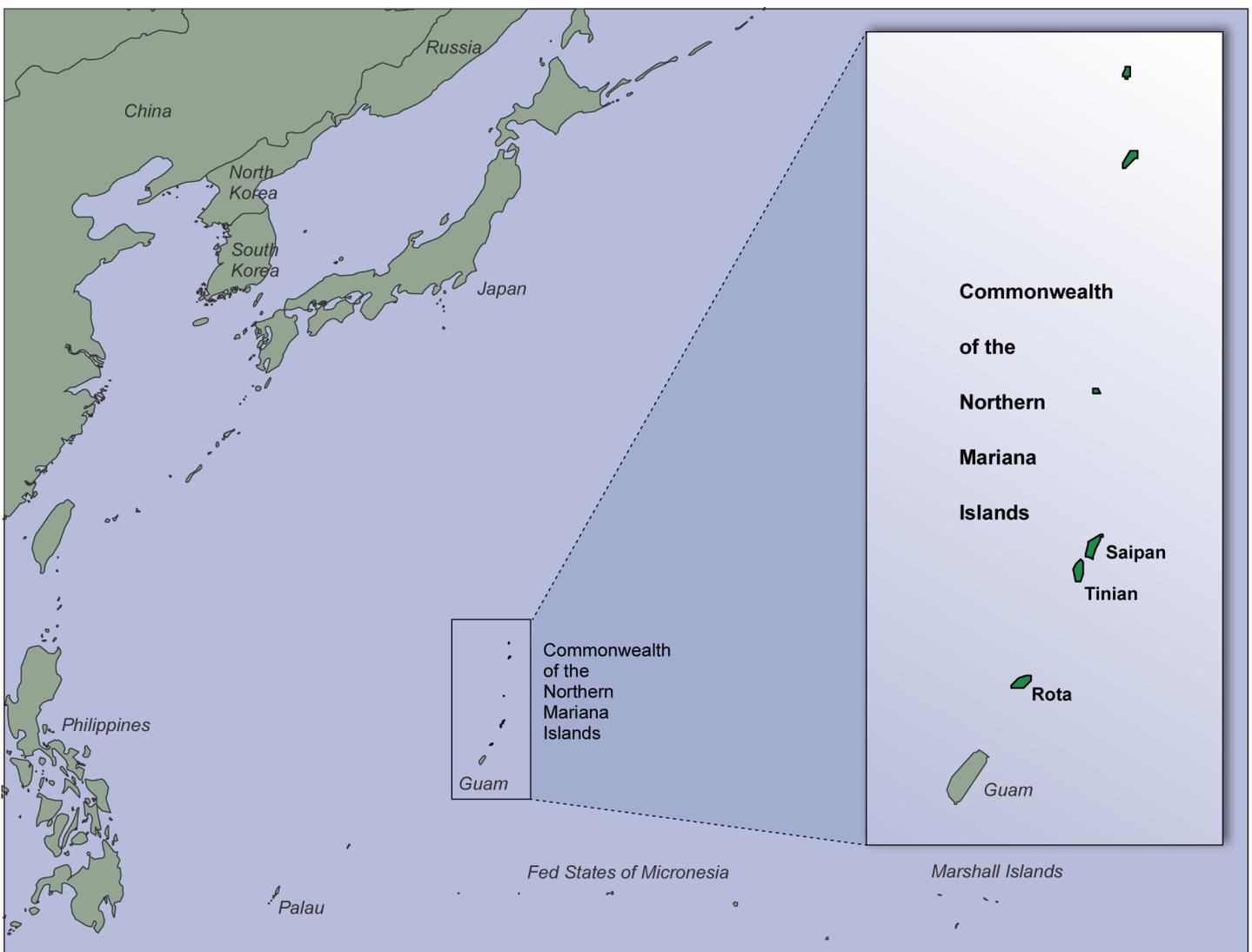
²⁷GAO's model considered only labor costs and tariffs to show the effect of variation in different countries. The models were (A) maintaining loining (the labor-intensive cleaning, cooking, and cutting of the fish) and canning in American Samoa, (B) relocating loining to a lower-wage country and canning to the United States, (C) relocating all loining and canning to a tariff-free country, and (D) a hybrid model with one half of production, including for U.S. government contracts, located in American Samoa and the other half relocated to a tariff-free country. Model A had higher costs than the other alternatives. Model C, relocating operations to a tariff-free country, had the greatest cost savings, but operations under this model may lose eligibility for some U.S. government contracts for canned tuna. In addition, savings from moving the loining operations to a lower-wage country (Model B) also would be partially offset by the loss of U.S. government contracts. Model D would retain eligibility for these contracts. See appendix III of [GAO-11-427](#) for a full discussion of these alternatives.

Appendix IV: Commonwealth of the Northern Mariana Islands

Background

Part of the Mariana Islands Archipelago, the CNMI is a chain of 14 islands in the western Pacific Ocean—just north of Guam and about 3,200 miles west of Hawaii (see fig. 10). Most of the CNMI population resides on the island of Saipan, with additional residents on the islands of Tinian and Rota.

Figure 10: Map of the CNMI



Source: GAO; Map Resources (map).

CNMI–U.S. Relations

The United States took control of the Northern Mariana Islands from Japan during the latter part of World War II and, after the war, the U.S. Congress approved the Trusteeship Agreement making the United States responsible to the United Nations for the administration of the islands.¹ In 1976, the District of the Mariana Islands entered into a covenant with the United States establishing the island territory's status as a self-governing commonwealth in political union with the United States.² This covenant grants the CNMI the right of self-governance over internal affairs and grants the United States complete responsibility and authority for matters relating to foreign affairs and defense affecting the CNMI.³ The covenant initially made many federal laws applicable to the CNMI, including laws that provide federal services and financial assistance programs. However, the covenant preserved the CNMI's exemption from certain federal laws that had previously been inapplicable to the Trust Territory of the Pacific Islands, including federal immigration laws, with certain limited exceptions,⁴ and certain federal minimum wage provisions. However, under the terms of the covenant, the federal government has the right to

¹In 1947, the United Nations gave the United States authority to administer the Trust Territory of the Pacific Islands, which included the Northern Mariana Islands. The trusteeship over the Northern Mariana Islands was formally dissolved in 1986.

²Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America, Pub. L. No. 94-241, § 1, 90 Stat. 263 (Mar. 24, 1976), 48 U.S.C. § 1801 note. See also Howard P. Willens and Deanne C. Siemer, *An Honorable Accord: The Covenant between the Northern Mariana Islands and the United States* (Honolulu, Hawaii: University of Hawaii Press, 2002).

³Under the covenant, the U.S. government may enact legislation in accordance with its constitutional processes that will be applicable to the CNMI. To respect the CNMI's right of self-government under the covenant, certain provisions of the covenant may be modified only with the consent of both the federal government and the CNMI government. These provisions include those relating to the political relationship between the United States and the CNMI; the CNMI constitution, citizenship, and nationality; the application of the U.S. constitution to the CNMI; and the land ownership rights of CNMI citizens. Most other provisions of the CNMI covenant may be modified by the federal government without the consent of the CNMI government, and local CNMI laws that were not inconsistent with federal laws or treaties of the United States when the covenant was enacted remained in effect. In addition, international treaty obligations between the United States and other countries apply to the CNMI through the covenant.

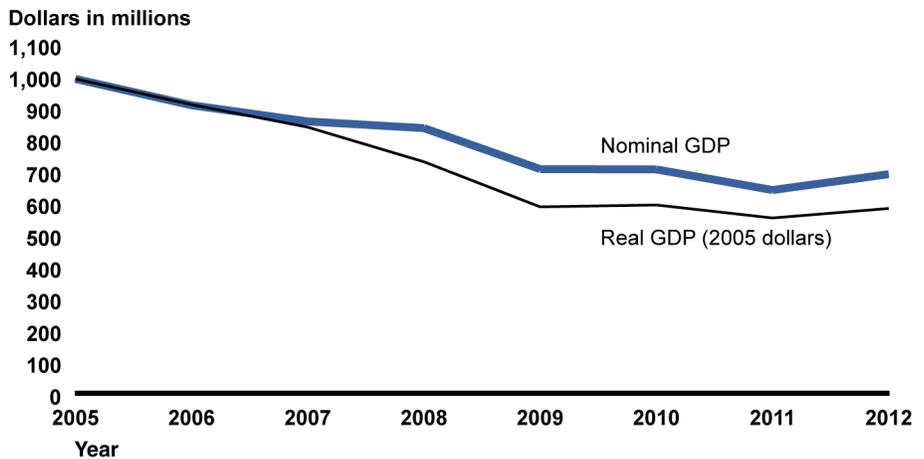
⁴Prior to November 2009, Section 506 of the covenant applied to the CNMI certain provisions of the Immigration and Nationality Act of 1952 (INA) relating to citizenship and family-based permanent immigration. Certain other nonimmigrant provisions of the act, related to victims of human trafficking and other crimes, also applied to the CNMI. See 8 U.S.C. § 1101(a)(15)(T)-(U). In addition, the covenant provided U.S. citizenship to legally qualified CNMI residents.

apply federal law in these exempted areas without the consent of the CNMI government.⁵

CNMI Economy

The U.S. Department of Commerce's Bureau of Economic Analysis estimated CNMI's GDP in 2012 at \$701 million. However, in real terms, GDP decreased by approximately 36 percent from 2006 to 2012. After 4 years of consistent decline, the CNMI real GDP has remained relatively flat since 2009 (see fig. 11). The CNMI's 2012 real GDP per capita of \$11,537 was an approximately 24 percent decrease from the 2006 real GDP per capita of \$15,157.

Figure 11: CNMI Nominal and Real GDP 2005-2012



Source: GAO analysis of Bureau of Economic Analysis data.

Personal Income, Poverty, and Unemployment Rates

The 2010 decennial census reported that CNMI's median household income remained well below that of the United States, and its poverty rate well above. CNMI's 2009 median household income of \$19,958 was 39 percent of that of the United States, approximately the same percentage

⁵The Consolidated Natural Resources Act of 2008 created a nonvoting delegate seat in the U.S. House of Representatives for the CNMI (48 U.S.C. § 1751). In January 2009, the CNMI elected its first representative to the United States Congress. The Delegate from the CNMI has many of the same congressional privileges as other representatives, including a vote in committee, but cannot vote in the House of Representatives.

as in 2004.⁶ CNMI's 2009 poverty rate of 52.3 percent far exceeded the U.S. rate of 15.1 percent.⁷ Based on the 2010 decennial census, CNMI's unemployment rate was 11.2 percent in April 2010. According to the Bureau of Labor Statistics' Current Population Survey, the U.S. unemployment rate was 9.9 percent at that time.

Key Industries

For years, the garment and tourism industries were the mainstay of the CNMI's economy. In 1999, these two industries accounted for about 85 percent of the CNMI's total economic activity and 96 percent of its exports.⁸ However, several developments in international trade caused the CNMI's garment industry to decline dramatically. In January 2005, in accordance with a World Trade Organization 10-year phaseout agreement, the United States eliminated quotas on textile and apparel imports from other textile-producing countries, exposing the CNMI apparel industry's shipments to the United States to greater competition. Subsequently, the value of CNMI textile exports to the United States dropped from a peak of \$1.1 billion in 1998 to \$677 million in 2005 to close to zero in 2010.⁹

After years of decline, fiscal years 2012 and 2013 showed an increase in visitor arrivals. However, total visitor arrivals to the CNMI have dropped from a peak of 726,690 in fiscal year 1997 to 433,925 in fiscal year 2013, a decline of 40 percent, as shown in figure 12.

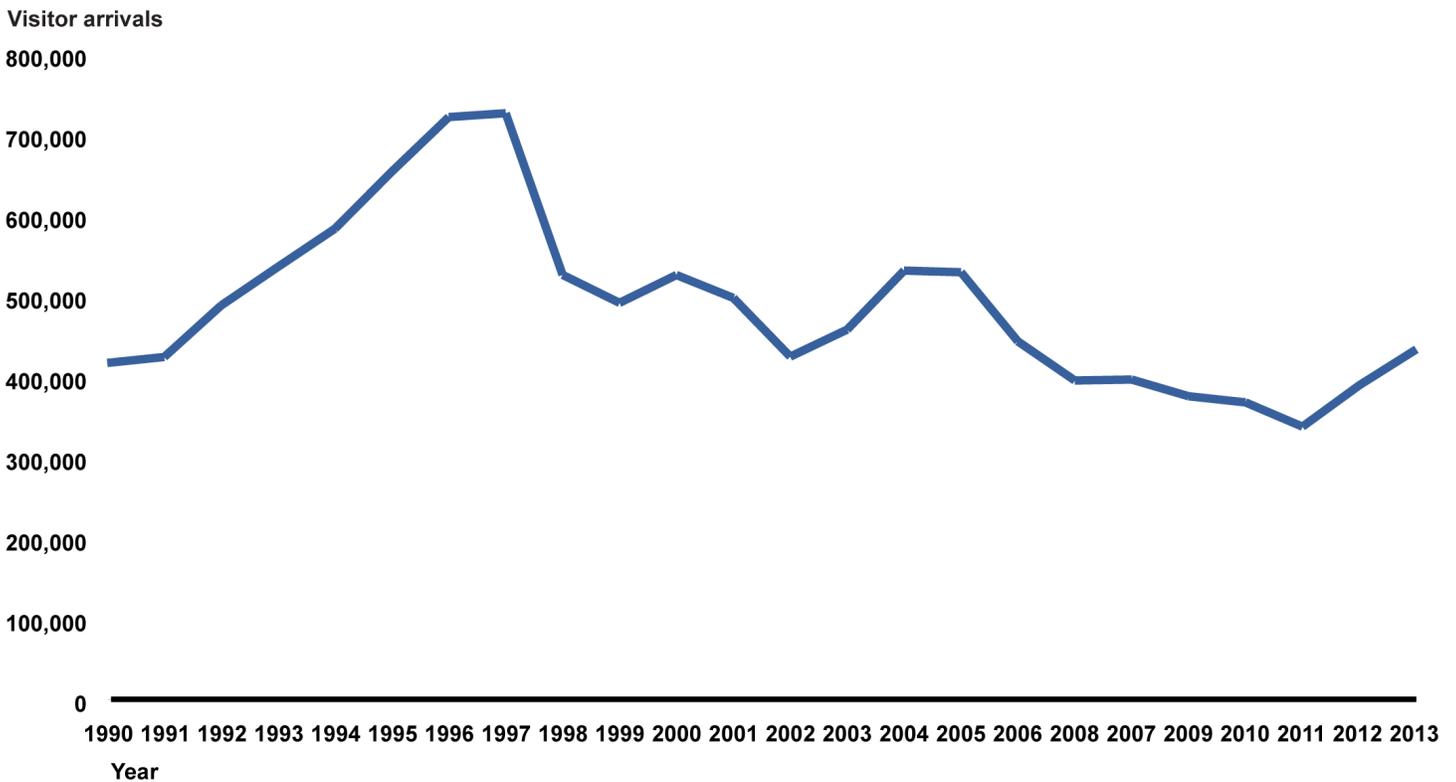
⁶Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, Current Population Reports, *Income, Poverty, and Health Insurance Coverage in the United States: 2010* (Washington, D.C.: U.S. Government Printing Office, 2011). For 2004 figures, see Commonwealth of the Northern Mariana Islands, Department of Commerce, Central Statistics Division, *Report on the 2005 CNMI HIES* (Apr. 1, 2008) and Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, Current Population Reports, *Income, Poverty, and Health Insurance Coverage in the United States: 2009* (Washington, D.C.: U.S. Government Printing Office, 2010).

⁷DeNavas-Walt, Proctor, and Smith, 2011.

⁸Northern Marianas College, Business Development Center, *An Economic Study for the Commonwealth of the Northern Mariana Islands*, with funding provided by the U.S. Department of the Interior, Office of Insular Affairs (Saipan, Commonwealth of the Northern Mariana Islands: October 1999). See also [GAO-08-791](#).

⁹U.S. Department of Commerce, Economic and Statistics Administration, Foreign Trade Division, *U.S. Trade with Puerto Rico and U.S. Possessions 2011* (Washington, D.C.: 2012).

Figure 12: CNMI Visitor Arrivals, Fiscal Years 1990-2013



Source: GAO analysis of Marianas Visitors Authority data.

Japan, Korea, China, and Russia are the CNMI’s primary visitor markets, with Japan representing the largest share of any country and China and Russia representing emerging markets. In fiscal year 2013, 34 percent of visitors were from Japan, 31 percent from South Korea, 26 percent from China, and 3 percent from Russia (see fig. 13). The Department of Homeland Security has exercised parole authority to allow, on a case-by-case basis, eligible nationals of China and Russia to enter the CNMI temporarily as tourists where there is significant public benefit.¹⁰ The

¹⁰Russian and Chinese tourists must (1) be solely entering and staying in the CNMI for a period not to exceed 45 days; (2) be in possession of a round-trip ticket that is nonrefundable and nontransferable and bears a confirmed departure date not exceeding 45 days from the date of entry to the CNMI; (3) be in possession of a completed and signed Guam-CNMI Visa Waiver Information form; (4) be in possession of a completed I-94, Arrival-Departure Record; and (5) be in possession of a valid unexpired, machine-readable passport.

Consolidated Natural Resources Act of 2008 required the establishment of a joint visa waiver program for the CNMI and Guam by amending the authority for an existing visa waiver program for Guam visitors. The Guam-CNMI Visa Waiver Program exempts tourism and business visitors from certain countries who are traveling to the CNMI and Guam for up to 45 days from the standard U.S. visa documentation requirements.¹¹

¹¹8 C.F.R. § 212.1(q).

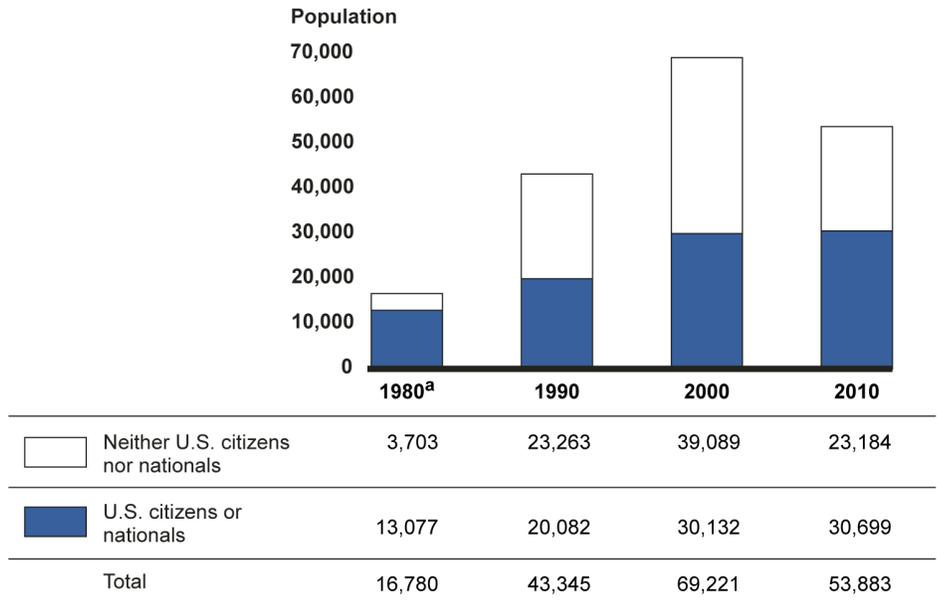
Figure 13: Saipan, CNMI, and Multi-lingual Sign at Hotel in Saipan



Source: GAO.

During the expansion of the CNMI garment and tourism industries prior to 1995, the CNMI economy became dependent on foreign labor, as the CNMI government used its authority over its own immigration policy to bring in large numbers of foreign workers and investors. The number and percentage of noncitizens in the CNMI population have decreased since 2000, when they were 57 percent of the population, to approximately 43 percent as of the 2010 decennial census (see fig. 14).

Figure 14: Citizenship Status of CNMI Population, 1980-2010



Source: GAO analysis of decennial U.S. Census data.

Note:

^aFor 1980, the definition of U.S. citizen includes people born in the United States, CNMI, Guam, and American Samoa. Persons with place of birth not reported are classified as not a U.S. citizen.

In 2008, federal legislation amended the U.S.-CNMI Covenant to establish federal control of CNMI immigration.¹² The law includes several provisions affecting access to the CNMI by foreign workers (using permits referred to as conditional worker, or CW-1, permits), tourists, and foreign investors that were implemented beginning in November 2009.¹³ The law mandated an annual reduction in the number of CW-1 permits that results in zero permits by the end of a transition period, but the law did not mandate specific reductions. The current CW-1 transition period expires December 31, 2014; however, the Secretary of Labor is authorized to extend the program for up to 5 years.¹⁴ The Secretary's decision to extend the program beyond 2014 must be made no later than July 4, 2014.

The Department of Homeland Security annually determines the numerical limitation, terms, and conditions of the CW-1 permits. The department set the numerical limitation at 22,417 for fiscal year 2011; 22,416 for 2012; 15,000 for 2013, and 14,000 for fiscal year 2014.¹⁵ As we concluded in August 2008, although modest reductions in CNMI-only permits for foreign workers would cause minimal impact, any substantial and rapid decline in the availability of work permits for needed workers would have a negative effect on the economy, given foreign workers' prominence in key CNMI industries.¹⁶ As of August 13, 2013, employers in the CNMI

¹²Consolidated Natural Resources Act of 2008, Pub. L. No. 110-229, Title VII, 122 Stat. 754, 853 (May 8, 2008). The legislation's stated intent is to ensure effective border control procedures and to protect national and homeland security, while minimizing the potential adverse economic and fiscal effects of phasing out the CNMI's foreign worker permit program and while maximizing the CNMI's potential for economic and business growth. CNMI immigration law was in effect until the start of the transition period under the federal legislation; however, federal restrictions on the total number of foreign workers in the CNMI applied immediately.

¹³Under the regulations issued by DHS in December 2010, previous long-term business investors with a minimum of \$50,000 in investments; foreign investors with a minimum of \$100,000 in an aggregate approved investment in excess of \$2,000,000, or a minimum of \$250,000 in a single approved investment; and certain retiree investors can remain in the CNMI through the transition period that is scheduled to end in 2014. See 8 C.F.R. § 214.2(e)(23)(iii).

¹⁴48 U.S.C. § 1806(d)(5)(A). For additional information, see [GAO-12-975](#).

¹⁵See Commonwealth of Northern Mariana Islands (CNMI)-Only Transitional Worker Numerical Limitation for Fiscal Year 2014, 78 Fed. Reg. 58867 (Sept. 25, 2013).

¹⁶GAO, *Commonwealth of the Northern Mariana Islands: Managing Potential Economic Impact of Applying U.S. Immigration Law Requires Coordinated Federal Decisions and Additional Data*, [GAO-08-791](#) (Washington, D.C.: Aug. 4, 2008).

had requested a total of 7,323 nonimmigrant transitional worker permits during fiscal year 2013.

In addition, the CNMI's economy may be affected in the future by the planned build-up of the U.S. military in neighboring Guam; however, those impacts will likely be smaller than originally anticipated. Under original plans, the Department of Defense intended to relocate approximately 8,000 Marines and their 9,000 dependents from Okinawa, Japan, to Guam by 2014. Current plans are to relocate approximately 5,000 personnel and 1,300 dependents. DOD is in the process of determining what military and public infrastructure facilities and live-fire training ranges are necessary to support the proposed reduced realignment plan on Guam, as well as Tinian Island in the CNMI.¹⁷

CNMI Employment Fell from 2011 to 2012 and Has Decreased Substantially Since 2006; Average Inflation-Adjusted Earnings Have Declined

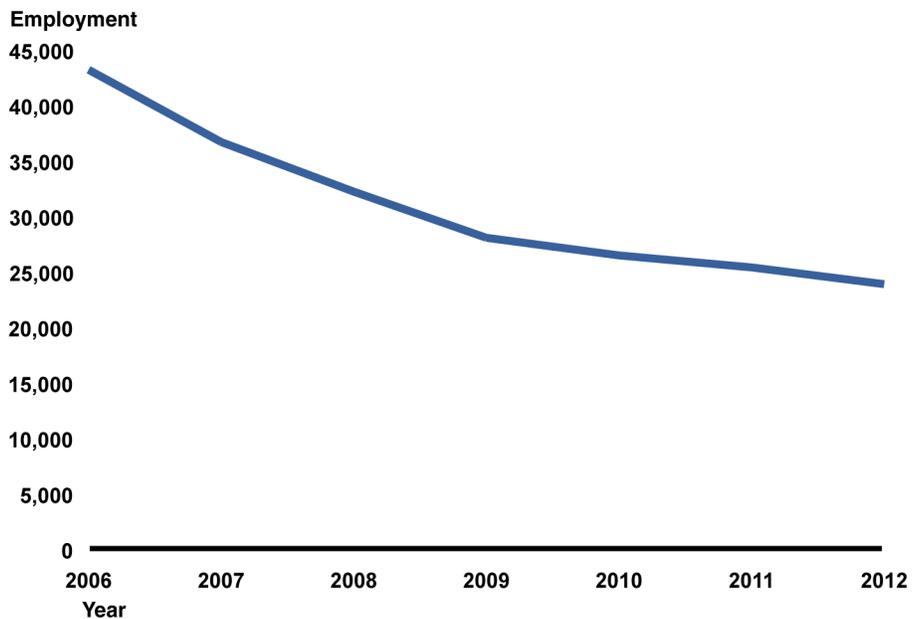
CNMI Employment Decreased Substantially from 2006-2012

Overall CNMI employment dropped every year from 2006 to 2012, according to CNMI tax data. As shown in figure 15, from 2011 through 2012 the total number of employed fell by about 6 percent (from 25,229 to 23,720). For the entire period from 2006 through 2012, the number employed fell 45 percent (from 43,036 to 23,720). A large part of this decline, especially early in this period, is likely attributable to the closure of the CNMI's last remaining garment factories, which employed many

¹⁷GAO, *Defense Management: Further Analysis Needed to Identify Guam's Public Infrastructure Requirements and Costs for DOD's Realignment Plan*, [GAO-14-82](#) (Washington, D.C.: Dec. 17, 2013).

foreign workers. CNMI tax data show that U.S. citizen (combining those that the CNMI tax office labels as “U.S.” or “CNMI”) employment fell by less than 1 percent from 2011 to 2012 (10,006 to 9,934), and by almost 9 percent from 2006 to 2012 (10,882 to 9,934).

Figure 15: CNMI Employment Based on CNMI Government Tax Data, 2006 through 2012



Source: GAO analysis of CNMI annual tax data

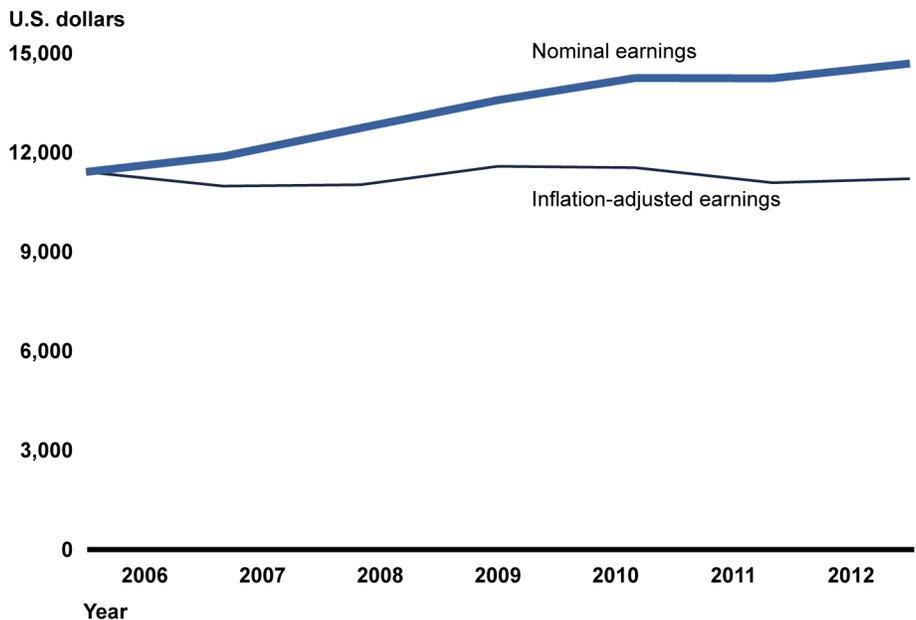
Because CNMI tax data are not available for 2013, we are unable to report on the overall level of employment for the year. Data from the respondents to our 2013 hotel questionnaire show that hourly employment in the responding hotels rose by 3 percent from 2012 to 2013 (from 1,715 to 1,763). Overall hourly employment at hotels that responded to both our first survey in 2009 and our most recent survey in 2013 fell by 21 percent over the period from 2007 to 2013 (from 1,590 to 1,252).¹⁸ This count excludes those hotels that responded to our most recent survey but did not respond to our first survey.

¹⁸This count differs from the 2012-2013 count because it excludes those hotels that did not respond to our first survey and provide 2007 data.

CNMI Average Inflation-Adjusted Earnings of Those Employed Have Fallen Since 2006

Average earnings for those who maintained employment rose from 2006 to 2012, but prices increased by a similar amount. As shown in figure 16, based on CNMI tax and consumer price data, average inflation-adjusted earnings rose by 1 percent from 2011 to 2012. This increase resulted from an increase in average earnings of 3 percent and an increase in prices of 2 percent. For the period from 2006 to 2012, average inflation-adjusted earnings dropped about 2 percent due to a rise in average annual earnings of about 29 percent and a 31 percent increase in prices.¹⁹

Figure 16: CNMI Average Nominal and Inflation-Adjusted Earnings Based on CNMI Government Tax Data, 2006 through 2012



Source: GAO analysis of CNMI annual tax data and CNMI Consumer Price Index data.

¹⁹The CNMI Consumer Price Index increased 8.1 percent from 2006 to 2007, 6.8 percent from 2007 to 2008, 1.5 percent from 2008 to 2009, 5.28 percent from 2009 to 2010, 4 percent from 2010 to 2011 and 2 percent from 2011 to 2012. In comparison, the U.S. Consumer Price Index increased 2.8 percent from 2006 to 2007 and 3.8 percent from 2007 to 2008, but declined 0.3 percent from 2008 to 2009. The U.S. Consumer Price Index then increased by 1.6 percent from 2009 to 2010, by 3.2 percent from 2010 to 2011, and by 2.1 percent from 2011 to 2012.

Although CNMI tax data do not allow for a direct comparison of average and minimum-wage annual earnings or for tracking the earnings of workers who lost their jobs, the hourly wage of minimum wage workers increased by more than inflation. The inflation-adjusted earnings of minimum wage workers who retained their jobs and work hours rose by about 7 percent from 2011 to 2012 and by about 39 percent for the entire period from 2006 to 2012.

Employers and the CNMI Government Supported the 2013 Postponement of the Minimum Wage Increase; Workers Had Mixed Views

CNMI employers we spoke with supported the 2013 deferral of minimum wage increases.²⁰ While participants in our discussion groups stated that businesses in general could not absorb another minimum wage increase, they in particular cited the effect of the increases on smaller businesses rather than the effect on hotels. However, employer discussion group participants also identified minimum wage increases as only one of multiple factors affecting the CNMI economy. The minimum wage was not as important a factor for discussion group participants as the potential loss of the foreign labor force if the conditional worker permit program is not extended. For hotel business representatives we spoke with, the U.S. Department of Homeland Security's continued use of parole to permit access for Russian and Chinese tourists to the CNMI was a greater concern than minimum wage increases. Participants asserted that the CNMI economy is still weak and cited a general uncertainty about future conditions in the CNMI that has caused some businesses to withhold investment. Participants also cited the high costs of utilities, imported goods, and shipping, as well as restrictions on foreign ownership of land, among other factors in expressing their outlook on the CNMI economy.

According to CNMI government payroll data we reviewed, about 177 government workers in the three branches of government and the Commonwealth HealthCare Corporation would have been affected by the postponed 2013 minimum wage increase.²¹ This figure, however, does not include other autonomous or semi-autonomous agencies of the government. According to the CNMI Department of Commerce, the CNMI Governor supported the 2013 postponement of the minimum wage

²⁰A total of 24 business representatives participated in one of four discussion groups. Views expressed in discussion groups only represent the views of participants in those groups and may not be representative of all businesses' views in the CNMI.

²¹The 177 workers were 7.4 percent of the 2,389 workers included in the review.

increase. However, the CNMI Commerce Secretary noted that there could be additional challenges to the CNMI economy from increases in health insurance costs, which could make absorbing future minimum wage increases more difficult for the CNMI.

Workers participating in our CNMI discussion groups expressed mixed views regarding the minimum wage increases.²² Workers we spoke with said they were helped by previous minimum wage increases, but some were concerned about losing jobs and work hours due to future increases, as they had in the past. Workers we spoke with stated that prices for staples in the CNMI were high, citing in particular high costs for electricity and gasoline.²³ Workers we spoke with reported regularly turning off air conditioning in the CNMI's tropical climate and foregoing the use of electric stoves because of the high cost of electricity. There is minimal public bus transportation in Saipan. In Tinian, some workers at the Tinian Dynasty (see fig. 17) we spoke with lived in staff housing, and one saw future minimum wage increases as an opportunity to increase the amount remitted to family living elsewhere. Workers we spoke with in both Saipan and Tinian expressed fear that prices would increase along with the minimum wage, which they said had occurred at the time of previous increases.²⁴

²²A total of eight workers participated in one of two discussion groups. Views expressed in discussion groups only represent the views of participants in those groups and may not be representative of all workers' views in the CNMI.

²³At the time of our site visit, we observed regular gasoline prices in Saipan of \$4.85 or \$4.86 per gallon. The American Automobile Association reported an average U.S. price per gallon of \$3.19 per gallon on November 11, 2013.

²⁴Our discussion groups had eight participants, who were not randomly selected. The views expressed are not generalizable.

Figure 17: Tinian Dynasty Hotel & Casino



Source: GAO.

The 2012 Minimum Wage Increase Increased Median Wage for Hotel Workers; Further Increases Would Affect Wages of Almost All Hotel Workers

From June 2011 to June 2013, the median hourly wage in the CNMI hotel industry rose from \$5.33 to \$5.86, a 10 percent increase, according to our questionnaire responses. During this period, the minimum wage increased from \$5.05 to \$5.55, also an increase of 10 percent.

As the minimum wage increases continue, they will affect a growing percentage of hourly workers in the CNMI's hotel industry. Based on questionnaire responses about hotel workers' wages as of June 2013, at the current distribution of wages, the future minimum wage increases would affect the wages of 84 percent of current hourly wage workers when the minimum wage reaches \$6.05 in September 2014, and 94 percent by the time it reaches \$7.25 in 2018. By 2018, the extra annual cost added by minimum wage increases after June 2013 would be approximately \$3,051 per worker (see table 11).

Table 11: Distribution and Increased Annual Cost since June 2013 per Hourly-wage CNMI Hotel Worker Due to Scheduled Minimum Wage Increases

Date of scheduled minimum wage increase ^a	Percentage of hourly-wage workers in June 2013 at or below the new minimum wage	Minimum wage	Increased average hourly cost since June 2013 per hourly-wage worker	Increased average annual cost since June 2013 per hourly-wage worker ^b
September 30, 2014 (next increase)	84%	\$6.05	\$0.38	\$795
September 30, 2018 (fourth increase)	94%	\$7.25	\$1.46	\$3,051

Source: GAO analysis of June 12, 2013, wage data provided in CNMI hotel industry questionnaire.

Notes: To estimate the annual cost of future minimum wage increases, we first calculated the difference between the hourly wage for each worker in June 2013 (reflecting the 2013 minimum wage of \$5.55) and all scheduled minimum wage increases through 2018. We multiplied that value by 2,080 (annual hours worked per full-time worker) to obtain an annual estimate for each worker. Finally, we reported the average of that value. For workers in June 2013 paid above a scheduled future minimum wage, we assumed that the cost of that minimum wage for those workers would be zero (that they would receive no increase in pay). The average wage of hotel workers in June 2013 was \$5.86. We calculated the average cost for all workers, not only workers affected by the minimum wage.

^aThe second and third and minimum wage increases will occur in 2016 and 2017.

^bThe analysis excluded nonwage labor costs due to the minimum wage increases, such as increases in employer payroll tax contributions under the Federal Insurance Contributions Act (FICA).

If other costs remain stable, payroll will represent an increasing share of total operating costs for hotels in the CNMI, due to the minimum wage increases. We estimate that, for the hotels that responded to our questionnaire, the minimum wage increases from 2013 through 2018 will raise average annual payroll costs by approximately \$527,823 at the average hotel of 173 employees. As a result, payroll costs as a percentage of total operating costs will increase from approximately 26 percent in 2012 to 31 percent in 2018 (with minimum wage increases representing about 5 percentage points of the 31 percent).

Hotels Cut Costs and Raised Prices Due to Minimum Wage Increases and Other Factors

Hotels representing the majority of all workers employed by questionnaire respondents reported in our questionnaire that they had taken cost-cutting actions and raised prices from 2010 to 2013. Hotels representing nearly all workers employed by questionnaire respondents stated that they used cost-saving strategies (99 percent) or raised prices (95 percent) and attributed that action to a moderate or large extent to the minimum wage increases. While hotels representing a smaller proportion of workers employed by questionnaire respondents introduced labor-saving measures (76 percent), decreased regular hours for hourly workers (36 percent), or decreased hourly employee benefits (18 percent), all or nearly all hotels attributed those actions to a moderate or large extent to the minimum wage increases (see table 12).

Table 12: Employee-Weighted CNMI Employer Actions from June 2010 to June 2013 and Attribution of Those Actions to Minimum Wage Increases.

Action	Percentage taking action	Attributed action to minimum wage increases to a moderate extent (percentage)	Attributed action to minimum wage increases to a large extent (percentage)	Percentage attributing action to either a moderate or large extent ^a
Introduced labor-saving strategies or technology	76	67	33	100
Introduced other cost-saving strategies (e.g., energy-saving technologies)	99	56	37	93
Reduced operating capacity or services offered	54	66	0	66
Delayed expansion of business	21	34	0	34
Relocated business outside of territory	0	not applicable	not applicable	not applicable
Closed establishment temporarily	0	not applicable	not applicable	not applicable
Laid off salaried employees	23	0	0	0
Laid off employees who are paid an hourly wage	30	60	0	60
Reduced regular work hours for employees paid an hourly wage	36	78	20	98
Reduced overtime work hours for employees paid an hourly wage	86	39	29	68
Decreased level of benefits for salaried employees	25	0	0	0
Decreased level of benefits for employees paid an hourly wage	18	100	0	100
Implemented a hiring freeze	58	21	31	52
Raised prices of goods or services	95	73	27	99

Source: GAO analysis of CNMI hotel questionnaire responses.

Notes: Percentages are weighted by the respondent's number of employees. Response choices for questionnaire recipients included "not at all," "to a small extent," and "don't know." See appendix V for a copy of the GAO questionnaire.

^aTotals may not add due to rounding.

Though hotels attributed a number of cost-cutting actions to the minimum wage increases, they also attributed their actions to a number of other factors. Hotels representing nearly all workers employed by questionnaire respondents also attributed their cost-cutting actions to a moderate or large extent to increased utility, material, and transportation costs. Employers representing 60 percent or more of workers employed by questionnaire respondents cited other factors, including changes to U.S. immigration law, as contributing to their actions to a moderate or large extent (see table 13).

Table 13: Employee-Weighted Attribution of CNMI Employer Actions from June 2010 to June 2013 to Other Factors

Factor	Factor contributed to a moderate extent (percentage)	Factor contributed to a large extent (percentage)	Percentage where factor contributed to either a moderate or large extent ^a
Increased utility costs	11	89	99
Increased costs of materials	35	64	99
Increased transportation/shipping costs	39	60	99
Increased maintenance costs	21	64	86
Decreased numbers of customers	6	57	63
Changes to U.S. immigration law	83	4	87
Changes in business taxes or fees	38	22	60

Source: GAO analysis of CNMI hotel questionnaire responses.

Notes: Percentages are weighted by the respondent's number of employees. Response choices for questionnaire recipients included "not at all," "to a small extent," and "don't know." See appendix V for a copy of the GAO questionnaire.

^aTotals may not add due to rounding.

Looking to the future, hotels representing 90 percent or more of workers employed by questionnaire respondents stated that they planned to take further actions to introduce labor- or cost-saving strategies and to raise prices, with nearly all of these hotels attributing that plan to minimum wage increases (see table 14). Hotels representing smaller than 90 percent of workers employed by questionnaire respondents planned to reduce operations, delay expansion, lay off hourly employees, reduce hours, or reduce overtime. However, 100 percent of hotels that planned to take these actions attributed that plan to minimum wage increases to a moderate or large extent.

Table 14: Employee-Weighted CNMI Employer Planned Actions and Attribution of Those Plans to Minimum Wage Increases

Action	Percentage planning to take action	Attributed planned action to minimum wage increases to a moderate extent (percentage)	Attributed planned action to minimum wage increases to a large extent (percentage)	Percentage attributing action to either a moderate or large extent ^a
Introduce labor-saving strategies or technology	92	55	45	100
Introduce other cost-saving strategies (e.g., energy-saving technologies)	92	55	45	100
Reduce operating capacity or services offered	14	100	0	100
Delay expansion of business	14	100	0	100
Relocate business outside of territory	0	not applicable	not applicable	not applicable

Appendix IV: Commonwealth of the Northern Mariana Islands

Action	Percentage planning to take action	Attributed planned action to minimum wage increases to a moderate extent (percentage)	Attributed planned action to minimum wage increases to a large extent (percentage)	Percentage attributing action to either a moderate or large extent ^a
Close establishment temporarily	0	not applicable	not applicable	not applicable
Lay off salaried employees	19	0	0	0
Lay off employees who are paid an hourly wage	19	0	100	100
Reduce regular work hours for employees paid an hourly wage	58	54	46	100
Reduce overtime work hours for employees paid an hourly wage	60	27	73	100
Decrease level of benefits for salaried employees	37	37	14	51
Decrease level of benefits for employees paid an hourly wage	37	37	14	51
Implement a hiring freeze	38	2	62	64
Raise prices of goods or services	95	68	20	87
Close establishment permanently	0	not applicable	not applicable	not applicable

Source: GAO analysis of CNMI hotel questionnaire responses.

Notes: The questionnaire asked about planned actions in the next 18 months, which would be by March 2015. Percentages are weighted by the respondent's number of employees. Response choices for questionnaire recipients included "not at all," "to a small extent," and "don't know." See appendix V for a copy of the GAO questionnaire.

^aTotals may not add due to rounding.

As with past actions, employers attributed their future planned actions to a moderate or large extent to factors other than minimum wage increases. All respondent hotels attributed their plans to a moderate or large extent to other increasing costs. Other factors also contributed to the plans of hotels representing 75 percent or more of workers employed by questionnaire respondents to a moderate or large extent (see table 15).

Table 15: Employee-Weighted Attribution of Planned CNMI Employer Actions to Other Factors

Factor	Factor contributed to a moderate extent (percentage)	Factor contributed to a large extent (percentage)	Percentage where factor contributed to either a moderate or large extent ^a
Increased utility costs	10	90	100
Increased costs of materials	35	65	100
Increased transportation/shipping costs	35	65	100
Increased maintenance costs	35	65	100

Factor	Factor contributed to a moderate extent (percentage)	Factor contributed to a large extent (percentage)	Percentage where factor contributed to either a moderate or large extent ^a
Decreased numbers of customers	24	51	75
Changes to U.S. immigration laws	61	32	93
Changes in business taxes or fees	52	22	75

Source: GAO analysis of CNMI hotel questionnaire responses.

Notes: Percentages are weighted by the respondent's number of employees. Response choices for questionnaire recipients included "not at all," "to a small extent," and "don't know." See appendix V for a copy of the GAO questionnaire.

^aTotals may not add due to rounding.

CNMI Hotel Occupancy and Room Rates Have Increased in Recent Years

Data from the Hotel Association of the Northern Mariana Islands (HANMI), which, prior to November 2013, covered 12 CNMI hotels, show that in 2012 and 2013 occupancy rates for its member hotels have increased over average rates between 2006 and 2011. Occupancy rates in the January to March peak season topped 90 percent in 2013 (see table 16).

Table 16: HANMI Monthly Hotel Occupancy Rates

Percentages	2006	2007	2008	2009	2010 ^a	2011	2012	2013 ^a
January	70	72	77	80	74	81	85	91
February	73	74	76	80	83	86	87	94
March	60	63	58	59	71	71	80	93
April	56	49	55	54	51	47	68	76
May	65	52	57	49	50	53	60	73
June	66	55	58	47	57	55	64	78
July	64	57	62	55	62	57	66	83
August	66	65	60	66	69	70	83	94
September	63	49	55	63	60	60	67	75
October	59	49	59	39	54	52	59	72
November	59	59	61	48	62	64	75	81 ^a
December	61	61	62	57	68 ^a	68	85	Not available
12-month average	64	59	62	58	63	64	73	85 through November 2013

Source: GAO analysis of HANMI data.

Note: December 2013 statistics were not yet available at the time of our report.

^aOne hotel did not report statistics to HANMI in December 2010 and November 2013.

As occupancy has increased in recent years, room rates have also risen. After adjusting for inflation, yearly average room rates increased by 11 percent between 2010 and 2013 (see table 17).

Table 17: HANMI Inflation-Adjusted Monthly Room Rates 2010-2013

	2010	2011	2012	2013
January	\$102.65	\$103.83	\$108.62	\$113.09
February	\$89.74	\$90.74	\$92.44	\$103.77
March	\$83.01	\$79.92	\$82.96	\$88.35
April	\$81.42	\$83.58	\$81.76	\$90.69
May	\$87.07	\$81.44	\$85.30	\$92.51
June	\$80.20	\$76.49	\$81.02	\$90.34
July	\$90.05	\$92.03	\$94.36	\$105.64
August	\$104.03	\$106.14	\$108.41	\$115.55
September	\$81.29	\$81.55	\$81.47	\$94.25
October	\$82.81	\$80.28	\$82.49	\$94.05
November	\$80.98	\$79.06	\$81.59	\$93.18
December	\$96.22	\$91.48	\$99.15	not available
12-month average	\$88.29	\$87.21	\$89.96	\$98.31 ^a

Source: GAO analysis of HANMI data and CNMI CPI data.

Note: Data cover HANMI members only.

^aDecember 2013 data were not yet available at the time of our report; therefore, the 2013 yearly average is for 11 months.

According to the Marianas Visitors Authority, CNMI tourism is dependent on the availability of air service and hotel accommodations. According to the Marianas Visitors Authority (citing 2013 data), there is at present a good balance between the number of flight seats and the number of resort hotel rooms in the CNMI. In 2011 Saipan began receiving twice-weekly direct flights from Beijing, China.²⁵ According to tourism industry representatives, there is currently no international jet service to Tinian, making Tinian visitors and residents dependent on “air taxis” that run several daily flights from Saipan, as well as charter flights (see fig. 18). There is no ferryboat service between the two islands. Similarly,

²⁵In the past, flights have been dropped. For example, in September 2005, Japan Airlines discontinued service to the CNMI. Northwest Airlines added routes from Narita and Osaka, Japan, to the CNMI in 2005, but the Osaka flight was suspended the next year.

according to the Marianas Visitors Authority, the island of Rota receives only charter flights from Japan at the end of the calendar year.

Figure 18: Plane Preparing for the Saipan to Tinian Flight



Source: GAO.

According to the Marianas Visitors Authority, there are approximately 667 daily hotel rooms in the CNMI that are currently off-line or closed, which could support an additional 133,400 visitors.²⁶ The Authority is hopeful that the currently closed Palms (see fig. 19) and Riviera Resort Hotels will soon re-open. In addition, there are requests for proposals for development of two tracts of land on Saipan that could, according to the Authority, add 800 to 1,000 daily rooms, accommodating an additional 160,000 to 200,000 annual visitors.

²⁶The Marianas Visitors Authority's calculations assume that each room would support approximately 200 additional visitors per year.

Figure 19: The Palms Resort Hotel



Source: GAO.

While discussing the recent upturn in tourism, industry representatives characterized the growth as an opportunity to recover from several down years and to reinvest in their properties. In addition, they attributed the recent growth in tourism to the Chinese and Russian markets, whose access to the CNMI is aided by the U.S. Department of Homeland Security's current practice of paroling tourists from Russia and China into the CNMI. This makes the CNMI an attractive destination for tourists from China and Russia, which are relatively close to the CNMI. Tourism industry representatives fear that loss of the Russian and Chinese market would be devastating.

Appendix V: GAO Questionnaire



United States Government Accountability Office

2013 Questionnaire Update

Introduction

The U.S. Government Accountability Office (GAO), an agency of the Congress, is mandated under the American Recovery and Reinvestment Act of 2009, as amended, to assess the impact of minimum wage increases in American Samoa and the Commonwealth of the Northern Mariana Islands (CNMI).

As part of our review, we are distributing a questionnaire update to establishments, following our 2009 and 2010 questionnaires of the largest employers. This questionnaire will take several hours to complete and will require you to consult your financial accounting and payroll records for 2010 through 2013. The data you provide in this questionnaire will be a critical input in GAO's report to Congress.

We understand that there are great demands on your time, and we appreciate your time and effort in completing this questionnaire update.

GAO acknowledges that any business sensitive information and non-public information provided to us must be safeguarded against release in accordance with 18 U.S.C. § 1905, or such other law, rule, or regulation as may apply.

GAO Contacts

If you have any questions, please e-mail MinimumWage@gao.gov or fremontj@gao.gov or call Jon Fremont at 202-512-6990 or Michael Simon at 202-512-4808.

Completing and Returning the Questionnaire

Please complete and return this questionnaire as soon as possible, but no later than **October 15, 2013**. After receiving your responses, we may follow up with a brief telephone call or visit to clarify your responses.

This questionnaire can be completed by filling it out onscreen using MS Word, and returned via e-mail to MinimumWage@gao.gov. However, you may also print a copy of the questionnaire, complete it by hand, and fax it to the attention of Minimum Wage Increases at 202-512-2514.

ID: _____

Instructions for Completing the Questionnaire Update Onscreen

- Please use your mouse to navigate, clicking on the field or check box you wish to answer.
- To select a check box or a button, click on the center of the box.
- To change or deselect a check box response, click on the check box and the 'X' will disappear.
- To answer a question that requires that you write a comment, click on the answer box _____ and begin typing. The box will expand to accommodate your answer.

START HERE

NOTE: The reporting unit for this questionnaire is an establishment. An *establishment* is generally (1) a single physical location where business is conducted or where services or industrial operations are performed or (2) a permanent office, payroll office, or other place where business activities are conducted.

PART I. ESTABLISHMENT INFORMATION

These questions cover basic information about this establishment.

1. What is the 9-digit Employer Identification Number (EIN) for this establishment?

*If you or your employer operates establishment with more than one EIN, please fill out one questionnaire per EIN.
(Please enter numerals only)*

2. What is this establishment's name?

PART II. EXPENSES

These questions ask about this establishment's labor and capital expenses in order to better understand this establishment's cost structure and ability to absorb cost increases.

3. The questions in Part II will refer to the 12-month period that includes June 12th in a given year. How does your establishment prefer to provide expense data — for a calendar year (January through December) or for a fiscal year as defined by your establishment?

Calendar year..... → Skip to QUESTION 4
 Fiscal year.....

↓

3a. What is the first and last month of your establishment's fiscal year that includes June 12 th ?	
First month of fiscal year	Last month of fiscal year
(MM)	(MM)

The data reported in questions 4 through 6 will be used to determine this establishment's total costs incurred for its employees. Each question asks you to report a different type of employee cost that most establishments incur—total payroll, FICA contributions, and costs of employee benefits. Specific definitions of each of these three categories are provided below.

4. What was the total U.S. dollar amount of this establishment's payroll before employee deductions for taxes and benefits for the 12-month period for 2010, 2011, and 2012 identified in question 3?

For each year, only include the following as payroll expenses: <ul style="list-style-type: none"> • Wages and salaries, including overtime pay, commissions, and bonuses, paid only to employees of this establishment • Paid holidays, vacation, sick leave, and other paid leave for all employees 	12-month period that includes <u>June 12th</u>		
	<i>If did not incur any expenses, please write in 0. (Please round to the nearest whole dollar)</i>		
	2010	\$, , .00	
	2011	\$, , .00	
	2012	\$, , .00	

5. What was the total U.S. dollar amount of this establishment's FICA contributions for the 12-month period for 2010, 2011, and 2012 identified in question 3?

FICA contributions are those made for <ul style="list-style-type: none"> • Social Security (OASDI) and • Medicare 	12-month period that includes <u>June 12th</u>		
	<i>If did not incur any expenses, please write in 0. (Please round to the nearest whole dollar)</i>		
	2010	\$.00
	2011	\$.00
	2012	\$.00

6. What was the total U.S. dollar amount of this establishment's payments for employee benefits (other than FICA) for the 12-month period for 2010, 2011, and 2012 identified in question 3?

For each year, <u>only include</u> the following as benefits if offered to any employee who earned an annual salary or an hourly wage: <ul style="list-style-type: none"> • Insurance contributions (e.g., health, life) • Payments for health expenses • Pension or 401(k) contributions • Housing or food allowances • Transportation payments for local or international travel • Payments for education expenses • Workers' compensation • Other benefits not listed above 	12-month period that includes <u>June 12th</u>		
	<i>If did not incur any expenses, please write in 0. (Please round to the nearest whole dollar)</i>		
	2010	\$.00
	2011	\$.00
	2012	\$.00

7. Excluding payroll, FICA contributions, and employee benefits, what was the total U.S. dollar amount of this establishment's other operating expenses for the 12-month period for 2010, 2011, and 2012 identified in question 3?

For each year, <u>only include</u> :	12-month period that includes <u>June 12th</u>		
<ul style="list-style-type: none"> • Lease and rental payments • Costs of materials, such as raw materials, packaging, or food • Utilities and telecommunications costs • Advertising services, office supplies, and shipping costs • Services provided by contractors, such as legal, data processing, janitorial, or other • Insurance, storage, repairs, theft, and damage losses • Merchandise purchased for resale • Equipment that was expensed (rather than capitalized) • Depreciation and amortization charges • Business taxes and fees • Other expenses not listed above, <u>except</u> expenses reported in questions 4 through 6 	<i>If did not incur any expenses, please write in 0. (Please round to the nearest whole dollar)</i>		
	2010	\$.00
	2011	\$.00
	2012	\$.00

8. What was the total U.S. dollar amount of this establishment's capital expenditures for the 12-month period for 2010, 2011, and 2012 identified in question 3?

For each year, <u>only include</u> the following as capital expenditures:	12-month period that includes <u>June 12th</u>		
<ul style="list-style-type: none"> • Value of new construction completed • Value of physical improvements made to establishment's facilities that were completed • Equipment that was capitalized (rather than expensed) travel 	<i>If did not incur any expenses, please write in 0. (Please round to the nearest whole dollar)</i>		
	2010	\$.00
	2011	\$.00
	2012	\$.00

PART III. EMPLOYMENT AND WAGES DATA

These questions ask for detailed data about employment and wages for employees at this establishment for 2011 through 2013. These data are necessary to develop a historical time series of comparable employment and wage data for large employers.

NOTE: The questions in Part III ask about employees on this establishment's payroll. When answering, please refer to the following definition of employee:

Include the following in your count of employees:

- Full- and part-time employees, including executives, who earn an hourly wage or annual salary
- Employees on paid leave during any part of the stated pay period

Exclude the following in your count of employees:

- Employees on the payroll of establishments with a different EIN from this establishment
- Proprietors, owners, or partners of unincorporated establishments
- Employees on unpaid leave for the entire stated pay period
- Unpaid family members
- Pensioners

9. Are any of the employees on this establishment's payroll paid an hourly wage instead of an annual salary?

(Please check only ONE box)

- Yes..... → Continue with QUESTION 10
 No..... → Skip to QUESTION 14
 Don't know → Skip to QUESTION 14

10. The reporting period for questions in Part II was either a calendar or fiscal year. The reporting period for the questions in Part III will now be a pay period. A pay period is a recurring length of time over which employee work time is recorded and paid. What length of time defines a pay period for employees paid an hourly wage at this establishment?

(Please check only ONE box)

- 1 week.....
 2 weeks
 1 month
 Other..... → Please specify: _____

11. For employees paid an hourly wage, what were the start and end dates of the pay period including June 12th in 2011, 2012, and 2013?

If this establishment was not in operation during the pay period that included June 12th in any year, please check the appropriate box in the last column of the table.

(Please enter two numerals per answer box)

a. 2011

Start date of pay period that includes <u>June 12, 2011</u>		End date of pay period that includes <u>June 12, 2011</u>		Establishment was not in operation on <u>June 12, 2011</u>
Month	Day	Month	Day	
(MM)	(DD)	(MM)	(DD)	<input type="checkbox"/>

b. 2012

Start date of pay period that includes <u>June 12, 2012</u>		End date of pay period that includes <u>June 12, 2012</u>		Establishment was not in operation on <u>June 12, 2012</u>
Month	Day	Month	Day	
(MM)	(DD)	(MM)	(DD)	<input type="checkbox"/>

c. 2013

Start date of pay period that includes <u>June 12, 2013</u>		End date of pay period that includes <u>June 12, 2013</u>		Establishment was not in operation on <u>June 12, 2013</u>
Month	Day	Month	Day	
(MM)	(DD)	(MM)	(DD)	<input type="checkbox"/>

12. What was the total number of employees paid an hourly wage on this establishment's payroll during the pay period that included June 12th in 2011, 2012, and 2013?

If this establishment was not in operation during the pay period that included June 12th, please enter a "0" in the corresponding box.

(Please enter numerals in each box below)

	Pay period that includes <u>June 12, 2011</u>	Pay period that includes <u>June 12, 2012</u>	Pay period that includes <u>June 12, 2013</u>
Total number of employees paid an hourly wage			

14. Are any of the employees on this establishment's payroll paid an annual salary instead of an hourly wage?

(Please check only ONE box)

Yes..... → Continue with QUESTION 15

No..... → Skip to QUESTION 17

Don't know → Skip to QUESTION 17

15. What was the total number of employees paid an annual salary on this establishment's payroll during the pay period that included June 12th in 2011, 2012, and 2013?

If this establishment was not in operation during the pay period that included June 12th in any year, please enter a "0" in the corresponding box.

(Please enter numerals in each box below)

	Pay period that includes <u>June 12, 2011</u>	Pay period that includes <u>June 12, 2012</u>	Pay period that includes <u>June 12, 2013</u>
Total number of employees paid an annual salary			

16. The next table asks for about the number of full- and part-time employees on this establishment’s payroll that were paid different annual salaries before deductions during the pay period that included June 12th in 2011, 2012, and 2013.

Please **do not** include employees paid an hourly wage. Data for employees paid an hourly wage were reported separately in question 13.

Full-time employees are those who typically worked 35 or more hours per week; part-time employees are those who typically worked less than 35 hours per week. If this establishment was not in operation during the pay period, please enter a 0 for that year in each box.

(Please enter numerals only in each box below)

(A) Annual salary before deductions for taxes and benefits (in U.S. dollars) <i>(Please enter in \$XX,XXX format each salary earned by employees at your establishment)</i>	(B) How many full- and part-time employees earned the annual salary before deductions listed in (A) in each of the pay periods listed below? <i>(If no employees earned a particular annual salary in a given pay period, please enter a “0” in the corresponding box.)</i>					
	Pay period that includes <u>June 12, 2011</u>		Pay period that includes <u>June 12, 2012</u>		Pay period that includes <u>June 12, 2013</u>	
	Number of full-time employees <i>(Please enter only numerals)</i>	Number of part-time employees <i>(Please enter only numerals)</i>	Number of full-time employees <i>(Please enter only numerals)</i>	Number of part-time employees <i>(Please enter only numerals)</i>	Number of full-time employees <i>(Please enter only numerals)</i>	Number of part-time employees <i>(Please enter only numerals)</i>
Example: \$10,250	31	2	30	3	29	0
\$						
\$						
\$						
\$						
\$						
\$						
\$						
\$						
\$						
\$						

PART IV. QUESTIONS ABOUT THE MINIMUM WAGE INCREASES

The questions in this section ask about past and future actions this establishment has taken and what factors contributed to the decisions to implement each action.

17. Between June 2010 and June 2013, did this establishment implement any of the following actions?

(Please check ONE box per action)

	Yes ▼	No ▼	Don't know ▼	Not applicable ▼
a. Introduced labor-saving strategies or technology.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Introduced other cost-saving strategies (e.g., energy-saving technologies)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Reduced operating capacity or services offered	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Delayed expansion of business.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Relocated business outside of territory.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Closed establishment temporarily	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Laid off salaried employees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Laid off employees who are paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Reduced regular work hours for employees paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Reduced overtime work hours for employees paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Decreased level of benefits for salaried employees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
l. Decreased level of benefits for employees paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
m. Implemented a hiring freeze.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
n. Raised prices of goods or services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
o. Others (Please specify):				
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



If you checked YES for ANY of these actions, continue to question 18.

If you did not check YES for any of these actions, skip to question 20.

18. To what extent did the minimum wage increases (past or future) contribute to this establishment's decision to implement each action listed in question 17 for which you checked YES?

(Please check ONE box per action)

	Not at all ▼	To a small extent ▼	To a moderate extent ▼	To a large extent ▼	Don't know ▼
a. Introduced labor-saving strategies or technology.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Introduced other cost-saving strategies (e.g., energy-saving technologies)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Reduced operating capacity or services offered	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Delayed expansion of business.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Relocated business outside of territory.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Closed establishment temporarily	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Laid off salaried employees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Laid off employees who are paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Reduced regular work hours for employees paid an hourly wage...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Reduced overtime work hours for employees paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Decreased level of benefits for salaried employees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
l. Decreased level of benefits for employees paid an hourly wage...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
m. Implemented a hiring freeze	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
n. Raised prices of goods or services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
o. Others (Please specify):					
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

19. To what extent did each of the following factors contribute to this establishment's decision to implement actions listed in question 17?

(Please check ONE box per cost)

	Not at all ▼	To a small extent ▼	To a moderate extent ▼	To a large extent ▼	Don't know ▼
a. Increased utility costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Increased costs of materials.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Increased transportation/ shipping costs...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Increased maintenance costs.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Decreased number of customers.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Changes to U.S. immigration laws.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Changes in business taxes or fees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Others (please specify):	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

20. Do you think this establishment will implement any of the following actions in the next 18 months?

(Please check ONE box per action)

	Yes ▼	No ▼	Don't know ▼	Not applicable ▼
a. Introduce labor-saving strategies or technology.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Introduce other cost-saving strategies (e.g., energy-saving technologies)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Reduce operating capacity or services offered.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Delay expansion of business.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Relocate business outside of territory.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Close establishment temporarily	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Lay off salaried employees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Lay off employees who are paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Reduce regular work hours for employees paid an hourly wage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Reduce overtime work hours for employees paid an hourly wage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Decrease level of benefits for salaried employees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
l. Decrease level of benefits for employees paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
m. Implement a hiring freeze.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
n. Raise prices of goods or services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
o. Close establishment permanently	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
p. Others (Please specify):	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

↓

If you checked YES for ANY of these actions, continue to question 21.

If you did not check YES for any of these actions, skip to question 23.

21. To what extent do you think the minimum wage increases (past or future) will contribute to this establishment's decision to implement each action listed in question 20 for which you checked YES?

(Please check ONE box per action)

	Not at all ▼	To a small extent ▼	To a moderate extent ▼	To a large extent ▼	Don't know ▼
a. Introduce labor-saving strategies or technology.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Introduce other cost-saving strategies (e.g., energy-saving technologies)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Reduce operating capacity or services offered.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Delay expansion of business.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Relocate business outside of territory.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Close establishment temporarily	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Lay off salaried employees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Lay off employees who are paid an hourly wage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Reduce regular work hours for employees paid an hourly wage....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Reduce overtime work hours for employees paid an hourly wage..	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Decrease level of benefits for salaried employees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
l. Decrease level of benefits for employees paid an hourly wage....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
m. Implement a hiring freeze.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
n. Raise prices of goods or services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
o. Close establishment permanently	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
p. Others (Please specify):					
— _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

22. To what extent do you think each of the following factors will contribute to this establishment's decision to implement the actions listed in question 20?

(Please check ONE box per cost)

	Not at all ▼	To a small extent ▼	To a moderate extent ▼	To a large extent ▼	Don't know ▼
a. Increased utility costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Increased costs of materials.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Increased transportation/ shipping costs...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Increased maintenance costs.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Decreased number of customers.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Changes to U.S. immigration laws.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Changes in business taxes or fees.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Others (please specify):	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

23. Do you have any other comments to add that you feel would help us understand (or provide context for):
 - your responses to any specific question(s) in this questionnaire or
 - the impact the increases in the minimum wage or other factors had or will have on this establishment or its employees?

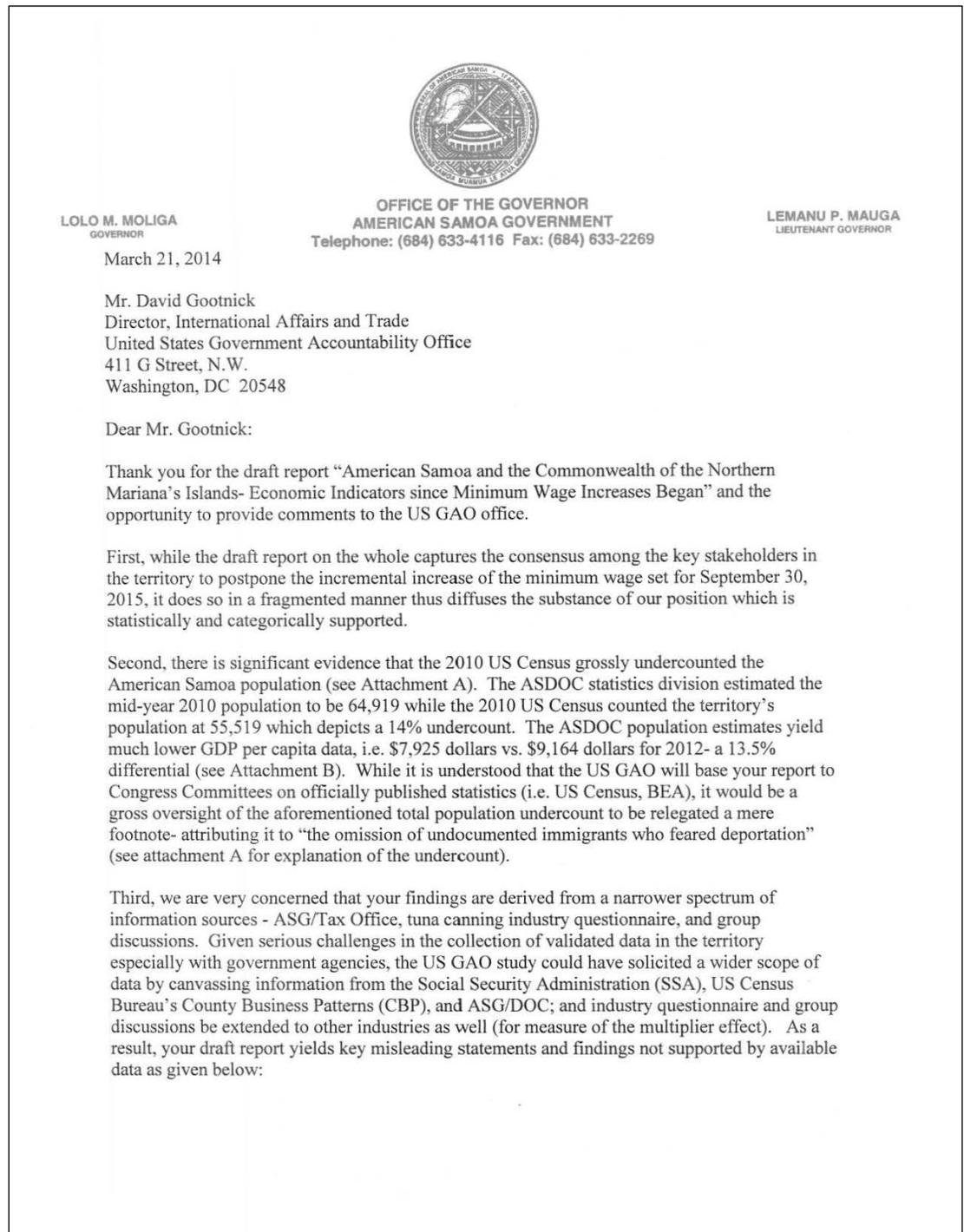
24. What is the name, title, and contact information of the primary person who completed this questionnaire in case GAO needs to follow up on information provided in this questionnaire?

- a. Name of person completing the questionnaire: _____
- b. Title of person completing the questionnaire: _____
- c. E-mail address of person completing the questionnaire: _____
- d. Phone number of person completing the questionnaire: _____
- e. Fax number of person completing the questionnaire: _____

This concludes the questionnaire. Thank you very much for your assistance!

Appendix VI: Comments from the Government of American Samoa

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



See comment 1.

See comment 2.

See comment 3.

- The draft report does not capture the severity of employment decreases since 2007; employment rate decreases an average of 2.4% to 10% annually since 2007 to 2012 according to data from CBP, SSA, and ASG/DOC; ASG/Tax Office is the only source of information that recorded an increase in employment in 2012 (see attachment C). Further, ASDOC estimated the unemployment rate in 2012 to be 18%, up from 12% in 2011. Hence it is highly unlikely employment increased at all in 2012.

See comment 4.

- The draft report puts more stock on the GDP trend from 2007 to 2012 - as flat or slightly declining; whereas more emphasis should be placed on the multiplier effect of percentage changes in GDP, however small to employment. For example, the employment decline implicit in the ASG/Tax Office data is accounted for entirely by the COS Samoa Packing cannery closure in 2009 (2000 jobs), allowing for no multiplier effects and no employment effects on other industries that might not have been able to absorb the minimum wage increases. Hence, the draft report failed to capture employment cutbacks in other industries and the significant number of business closures during this period.

Further, American Samoa's economic base is narrow and fragile, supported primarily by the two pillars of ASG and the tuna industry. The tuna industry is a function of the global market forces of demand and supply and U.S. government policies on trade liberalization; while the American Samoa government cannot operate without U.S. budget allocations and federal grants. Hence, the territory is extremely vulnerable to elements of the international and national market place and U.S. international trade and national budget policies (to which American Samoa has little or no control over). Any move to tilt the already unsteady balance such an increase in the minimum wage would bear dire circumstances which I strongly believe American Samoa cannot recover from in the foreseeable future.

Our new administration is merely 14 months old, and we need about three to five years to diversify the base and grow our economy before we could consider an increase in current minimum wages.

Moreover, tethering the American Samoa minimum wage to the federal minimum wage by law in 2007 with the objective of equaling the US minimum wage at some point in the future is flawed and misguided. Culminating these factors: average median income of about 45% of that of the United States; real GDP per capita of about 16% of that of the United States; poverty rate of about 60% of the population as oppose to 15% in the United States, American Samoa can never attain the objective of equaling the US minimum wage set forth in the 2007 federal minimum wage law.

Undergoing this exercise every two or three years is meaningless and a waste of resources. A better alternative would be to have American Samoa develop its own minimum wage schedule with appropriate guidance and oversight provided by the US Department of Labor and US Department of Interior.

For reasons stated above, I strongly urge you and US GAO to send a clear and strong message to the Congressional Committees to postpone once more the looming minimum wage increase in

**Appendix VI: Comments from the Government
of American Samoa**

2015. Please bear in mind this federal minimum wage set for 2015 is nothing but a prescription for total economic ruin for the territory of American Samoa.

Sincerely,



Eolo M. Moliga
Governor of American Samoa

Cc: Honorable Lemanu P. Mauga, Lieutenant Governor
Honorable Congressman Faleomavaega Eni Hunkin
Michael J. Simon, GAO Senior Analyst
Keniseli Lafaele, ASG DOC Director
Iulogologo J. Pereira, Governor's Executive Assistant

Encl: Attachments A, B and C

Attachment A

**American Samoa Mid-Year Population Estimates for the years 2010 to 2013
(Report)**

Purpose: Purpose of this exercise was to estimate a reasonable population count for American Samoa because it is believed that the 2010 census data is distorted by serious miss-reporting.

Rationale: A cross examination of data available with the various Government agencies indicate that the census 2010 population count should have been more than 55,519. Hence it was of the interest of DOC Statistic Division and Government of American Samoa to re-examine the existing available 2010 data's from various Government agencies and to come up with a reasonable population estimate using a simple calculation: 2010 population = census 2000 Population + inter-censal births - inter censal death +/- net migration.

Following data were used to cross examine:

1. Vital statistics data
 - Inter-censal birth (16,782),
 - IMR Data
 - Inter-censal death (2,912)
 - Census 2010 data shows 13,146 (0 to 10 populations)
2. School enrollment data for the year 2010 from statistical Year Book
 - Total school enrollment was 22,476
 - Census 2010 data shows students enrollment as 18,829
3. Emigration ID issued data for the year by Attorney General's office
 - In 2010 total number of ID issued was 26,687
 - Census 2010 data shows the total number of foreign born population as 19,695.
4. Cross examination of legal resident Indian population at the time of 2010 census
 - In 2010 immigration data shows 34 Indian legal residents
 - Census 2010 data shows 2 Indians
5. Employment count provided by statistical year book for the year 2010
 - Total employed in 2010 was 18,862
 - Census 2010 data shows 16,616 employed
6. GAO report (In 2010 the total employment was 17,211, non-cannery employment 15,342 and cannery 1,869)
7. Migration Data was not accurate as Attorney General's office was not able to provide an accurate data due to missing information for the years 2002, 2003 and 2004, but we can use alternate procedure to estimate net migration using in and out population for a long period of time (10 years or more). Every movement from American Samoa (in or out) is international movement. People can move in and out from American Samoa using sea port or airport and these are recorded.
8. Moreover, a statistical test was conducted to assess the completeness of the 2010 census relative to 2000 census using Mortpack. The analysis shows the completeness of 2010 census compared to 2000 census for the age range 5 to 60 is just 81.8 percent. After adjusting with natural increase and estimated migration to 2010 census population, the completeness of second census went up to 92 percent.

**Appendix VI: Comments from the Government
of American Samoa**

ATTACHMENT B

Estimated mid-year population per ASDOC (row #7); Real Gross Domestic Product in 2005 chained dollars (row #8); Per capita real GDP (chained dollars) based on estimated mid-year population per 2010 US Census and Bureau of Economic Analysis (BEA) releases 2011 and 2012 (row #9); Per capita real GDP (chained dollars) based on estimated mid-year population per ASDOC (row #10).

#		Estimated population 2009	Estimated population 2010	Estimated population 2011	Estimated population 2012	Estimated population 2013
1	2000 census population	57291	57291	57291	57291	57291
2	Total number of birth since 2000 to	15503	16782	18069	19244	20405
3	Total number of death since 2000 to	-2665	-2912	-3195	-3477	-3747
4	Natural increase in the population since 2000 to	12838	13870	14874	15767	16658
5	Net migration [*]	-4786	-6664	-8077	-9954	-11832
6	Estimated Population as on Dec 31	65,343	64,497	64,088	63,104	62,117
7	Estimated mid-year population	65,177	64,919	64,292	63,596	62,610
8	Real Gross Domestic Product taken from Bureau of Economic Analysis (BEA) releases[Millions of chained (2005) dollars]	507	513	516	504	-
9	Per capita real GDP (chained dollars) taken from Bureau of Economic Analysis (BEA) releases[Millions of chained (2005) dollars] based on 2010 census population	8,125	9,243	9,331	9,164	-
10	Per capita real GDP (chained dollars) adjusted based on estimated mid-year population per ASDOC (row #7) and Bureau of Economic Analysis (BEA) releases 2011 and 2012.	7,788	7,904	8,025	7,925	-

^{*} Net Migration estimated for the years 2002, 2003 and 2004 using trend analysis (± 5.00 percent error in the total estimate).

Attachment C

Employment Data from Available Sources

ASG Tax Office (ASG/Tax Office)

Year	Employment	Employment Percent Change	GDP Percent Change
2007	17,791		
2008	19,340	8.7	-1.6
2009	17,001	-12.1	-3.3
2010	17,211	-1.2	1.3
2011	15,552	-9.6	0.5
2012	15,790	1.5	-2.4
Annual Average		-2.4	-1.1

See comment 5.

ASG Department of Commerce (ASG/DOC)

Year	Employment	Employment Percent Change	GDP Percent Change
2007	17,047		
2008	16,990	-0.3	-1.6
2009	14,108	-17.0	-3.3
2010	18,862	33.7	1.3
2011	18,028	-4.4	0.5
2012	14,806	-17.9	-2.4
Annual Average		-2.8	-1.1

Social Security Administration (SSA)

Year	Employment	Employment Percent Change	GDP Percent Change
2007	18,438		
2008	19,034	3.2	-1.6
2009	15,316	-19.5	-3.3
2010	11,728	-23.4	1.3
2011	13,006	10.9	0.5
2012	10,904	-16.2	-2.4
Annual Average		-10.0	-1.1

See comment 6.

US Department of Commerce County Business Patterns (CBP)

Year	Employment	Employment Percent Change	GDP Percent Change
2007	16,851 ¹		
2008	16,014	-5.0	-1.6
2009	16,026	0.1	-3.3
2010	12,860	-19.8	1.3
2011	13,573	5.5	0.5
2012	12,654 ²	-6.8	-2.4
Annual Average		-5.7	-1.1

See comment 7.

¹ 2007 US Economic Census private sector employees (11,247) less unpaid employees (448) plus government employment (6052) = 16,851 total 2007 employment.

² CBP private sector employment in 2011 (7,396) plus 2012 government employment (5,258) = 12,654 total 2012 employment.

The following are GAO's responses to comments from the American Samoa Government dated March 21, 2014.

GAO Comments

1. The government of American Samoa stated that there is significant evidence that the 2010 U.S. Census grossly undercounted the American Samoa population. We have edited the note in the report to expand on the American Samoa government's concern about a population undercount in the census. However, an undercount of the American Samoa population by the Census would not affect the employment counts we include in our report. Our employment counts are not based on Census data but on data from the American Samoa Office of Taxation and from responses to the questionnaire we submitted to tuna canning industry employers.
2. The government of American Samoa stated that it is very concerned that GAO's findings are derived from a narrow spectrum of information sources and, as a result, yield misleading statements and findings not supported by available data. As noted in the report, U.S. territories are not included in some federal data collection that is routinely done for the 50 U.S. states. We have carefully reviewed the available data from the American Samoa Office of Taxation and have worked with the office to review and verify its data. As a result of our review, the office has also reviewed its data for completeness and accuracy. We believe that the use of these data is appropriate for determining the changes in employment and earnings in American Samoa over time. We recognize that different data series can provide different specific numbers because of their varied methodologies or coverage; therefore we have reported other data series to provide full disclosure, and have included a discussion of potential reasons for the differences. Because we reviewed and discussed the alternate data sources, and included our analysis of the GAO questionnaire and interviews with multiple stakeholders in American Samoa, we do not believe that we are presenting a misleading picture of the impact of minimum wage increases in American Samoa.

With the exception of the County Business Patterns data, each of the data sources included in Attachment C of the American Samoa letter was included in our report's Appendix I as part of our discussion of the different data sources and was included in the draft report. County Business Patterns data have limitations in their coverage for American Samoa. For example, County Business Patterns data do not include most government employees. Government employees were approximately 29 percent of total employment in American Samoa in 2012 according to the data from the American Samoa Office of

Taxation. In addition, the County Business Patterns data are currently available for only 2008 to 2011 and are not available for 2007 or 2012. The other series we report are available for 2007 through 2012. The American Samoa government has used the 2007 Economic Census to substitute for the missing County Business Patterns data for 2007, but these data have a different basis. For example, according to Census Bureau officials, the Economic Census includes FICA and non-FICA workers, while County Business Patterns data include only FICA workers. In addition, the 2012 data the American Samoa government presents assume that there was no change in private sector employment from 2011 to 2012.

3. The American Samoa government stated that our report does not capture the severity of employment decreases since 2007 and the government presents an estimation of the 2012 unemployment rate by the American Samoa Department of Commerce stating that the unemployment rate in 2012 was 18 percent, up from 12 percent in 2011. We have added unemployment rates to the report that were calculated based on the 2010 decennial census to the report, for reference. The 2012 unemployment rates calculated by American Samoa are based on an extrapolation of 2000 and 2010 census data, and American Samoa Statistical Yearbook data, and therefore do not include actual data from 2012. Therefore, the American Samoa government's 2012 unemployment calculation may not capture changes in the actual labor force during this period, which would affect the unemployment rate. For example, in their responses to our questionnaire, cannery employers reported a 6 percent increase in hourly employment from 2011 to 2012. Additionally, if some portion of the unemployed individuals leaves American Samoa, the unemployment rate would be less than that estimated by the American Samoa government.
4. The American Samoa government comments that more emphasis should be placed on the multiplier effect of percentage changes in GOP, however small, to employment. Each of the three data series we present in Appendix I covers employment in all sectors, therefore any change in employment and wages that occurred as a result of the 2009 cannery closure would also be captured in data we present. We agree that it is likely that a major closure such as that of the cannery in 2009 will have larger effects on the economy.
5. The American Samoa government presents employment data labeled as from the American Samoa Government Office of Taxation. The Office of Taxation data presented by the American Samoa government are from our draft report and are a combination of data

from that office and from our questionnaire of cannery employers. As a result of data reviews by the American Samoa Office of Taxation and GAO during the report comment period, we made corrections to American Samoa employment and wage data for 2007-2009 that revised these employment data slightly downward for those years in the final report.

6. The American Samoa government presents employment data from the SSA. We prepared these data as part of an analysis of SSA data undertaken specifically for this report. As Appendix I of our report notes, the SSA data had data entry errors for 2011 and 2012 that resulted in implausibly large counts. While we took steps to account for these errors, we determined that the data from the American Samoa Office of Taxation were more reliable than SSA data for our purpose of describing employment and earning trends in those years.
7. The American Samoa government presents employment data labeled as being from the U.S. Department of Commerce County Business Patterns. However, the County Business Patterns data from 2007 are U.S. Economic Census data, which have a different basis for the count than the County Business Patterns data. In addition, the 2012 data presented by the American Samoa government assume no change in private sector employment between 2011 and 2012. However, there is likely to have been a change in total employment between those years. For example, in their responses to our questionnaire, cannery employers reported a 6 percent increase in hourly employment from 2011 to 2012.

Appendix VII: Comments from the Government of the CNMI



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March 7, 2014

David Gootnick
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Subject: Comments on Draft GAO-14-381 "Economic Indicators Since Minimum Wage Increases Began"

Dear Mr. Gootnick:

The CNMI is pleased with the opportunity to comment on this document.

The indicators provide an objective overview of our economic conditions, although we understand that we are missing key data sets that are normally used for minimum wage study – as stated in your report. We also understand that the survey response is from businesses hiring more than 50 employees representing only 7% of the total CNMI labor force. The approach is welcoming in a sense that it attempts to construe our economic conditions with limited data, and it is important to note that this report does capture the general condition of what is happening in our CNMI Territory.

I echo the industry representatives in characterizing the recent growth as an opportunity to recover from several down years and to reinvest into our community. Key challenges faced by our businesses range from uncertainties surrounding the availability of qualified workers or a labor force, pending a decision from U.S. Department of Labor on the Contract Workers' (CW) program extension. The workforce population is mainly supported by non-U.S. citizens and although the CNRA (PL 110-229) intends to phase-out these workers, the opportunity will be cost prohibitive as there is insufficient availability and trained Qualified U.S. Workers to replace the current CW workers. The CNMI continues to work with federal partners in the transition process, but as our Governor had requested from U.S. Secretary of Labor, Mr. Thomas Perez, an extension for the CW is imperative at this time. Furthermore, as this report points out, businesses are predisposed to a high cost of transacting business in an isolated island economy that is dependent on imported goods to operate the lone tourism service industry, amongst others. The cost of fuel locally and globally affects local utility and transportation costs, as well as the opportunity for airlines to service our tourism industry.

Similarly, the cost of living for our residents is exponentially high, relative to other U.S. States. The already meager disposable income of a community whose poverty rate more than triples that

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of the U.S. at 52.5%, is further threatened and compromised by both a reduction in work hours and a diminished workforce in both private and public sector jobs. Although the CNMI does not have a specific disposable income ratio, the average income should negotiate the cost of basic necessities, which it does not. Our residents must cope with the additional burden of high utility and health care costs. This year, the CNMI government and its employees must cover a more than 30% increase in the government employee health insurance plan premiums, while government retirees saw a 25% pension reduction. This hurdle for government employees is dwarfed by the complete lack of health insurance coverage in the private market for new insured lives in the year 2014 – due to implications of the Affordable Care Act.

Although our economy is experiencing positive signs of growth with a 5.2% GDP increase in 2012 and appears to be a favorable environment for a Minimum Wage Increase, it is important that we take into consideration the overall vital statistics of our economy to assist us in our endeavor to provide a self-sustaining government and better living conditions for our people. With the current outlook, an increase in minimum wage may be the most favorable option if we desensitize ourselves from business reinvestment needs. However, as the small businesses are an important fabric within our economic success, we must strike a balance and support our small businesses through this change with a plan for transition. I hope this report will elevate our discussion with federal agency partners to access baseline assessments and availability of key data points for the CNMI, and to explore how a wage increase may affect enrollment and eligibility for public assistance programs, such as Medicaid. Additionally, I hope we are able to learn more about the people who work these low-wage jobs, so that we may effectively prevent the working poor from being pushed further into poverty.

Thank you for working with our government agencies in collecting the data necessary to provide the reported economic indicators, and we hope we can continue to dialogue as we push proactive solutions to weather the outcome of our future decisions.

Sincerely,


SIXTO K. IGISOMAR
Secretary

Cc: The Honorable Eloy S. Inos, Governor
The Honorable Jude U. Hofschneider, Lt. Governor
The Honorable Joey San Nicolas, Attorney General
Edith Deleon Guerrero, Secretary, Dept. of Labor
Esther Fleming, Special Assistant to the Administration
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Appendix VIII: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contacts named above, Emil Friberg, Assistant Director; Ashley Alley; Benjamin Bolitzer; Karen Deans; Jon Fremont; Jill Lacey; Michael Simon; Vanessa Taylor; and Eddie Uyekawa made key contributions to this report. Technical assistance was provided by Lynn Cothorn and C. Etana Finkler.

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