



May 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Implementation of Federal Minimum Wage and Immigration Laws

GAO Highlights

Highlights of [GAO-17-437](#), a report to congressional addressees

Why GAO Did This Study

A 2007 law required the minimum wage in the CNMI to rise incrementally to the federal level in a series of scheduled increases. GAO has been periodically required to report on the economic impact of the minimum wage increases in the territory. A 2008 law established federal control of CNMI immigration. It required the U.S. Department of Homeland Security (DHS) to create a transitional work permit program for foreign workers in the CNMI and to decrease the number of permits issued annually, and presently requires that DHS reduce them to zero by December 31, 2019. To implement this aspect of the law, in 2011, DHS created a CW-1 permit program for foreign workers.

In addition to the above statutory provisions, GAO was asked to review the implementation of federal immigration laws in the CNMI. Accordingly, this report examines (1) changes in the CNMI's labor market since the start of the federally mandated minimum wage increases, (2) the potential economic impact of reducing the number of foreign workers to zero, and (3) federal and CNMI efforts to address labor force challenges. GAO reviewed U.S. laws and regulations; analyzed government data; and conducted fieldwork in Saipan, Tinian, and Rota, CNMI. During fieldwork, GAO conducted semistructured interviews and discussion groups with businesses, CW-1 workers, U.S. workers, and current and former job training participants.

What GAO Recommends

GAO is not making recommendations.

View [GAO-17-437](#). For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov. Or contact Oliver Richard at (202) 512-8424 or richardo@gao.gov.

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What GAO Found

The Commonwealth of the Northern Mariana Islands' (CNMI) labor market has begun to grow after years of decline, while continuing to rely on foreign workers. By 2015, the number of employed CNMI workers was about 8 percent higher than in 2013, and inflation-adjusted average earnings had risen by 18 percent from 2007 levels. By 2016, about 62 percent of CNMI workers were directly affected by CNMI's minimum wage hike to \$6.55 per hour. In 2015, foreign workers, who totaled 12,784, made up more than half of the CNMI workforce and filled 80 percent of all hospitality and construction jobs, according to GAO's analysis of CNMI tax data.

If all workers with CNMI-Only transitional worker (CW-1) permits, or 45 percent of total workers in 2015, were removed from the CNMI's labor market, GAO projects a 26 to 62 percent reduction in CNMI's 2015 gross domestic product (GDP)—the most recent GDP available. Demand for foreign workers in the CNMI exceeded the available number of CW-1 permits in 2016—many approved for workers from China and workers in construction occupations. The construction of a new casino in Saipan is a key factor in this demand (see photos taken both before and during construction in 2016). Meanwhile, by 2019, plans for additional hotels, casinos, and other projects estimate needing thousands of new employees. When the CW-1 permit program ends in 2019, available data show that the unemployed domestic workforce, estimated at 2,386 in 2016, will be well below the CNMI's demand for labor. To meet this demand, CNMI employers may need to recruit U.S.-eligible workers from the U.S. states, U.S. territories, and the freely associated states (the Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau).

Construction of New Casino in Saipan, Commonwealth of the Northern Mariana Islands



Source: GAO. | GAO-17-437

Federal and CNMI efforts to address labor force challenges include (1) job training programs offered by Northern Marianas College, Northern Marianas Trades Institute, and the CNMI's Public School System; (2) employment assistance funded by the U.S. Department of Labor and implemented by the CNMI's Department of Labor; and (3) technical assistance provided by the U.S. Department of the Interior. In 2016, a U.S.–CNMI consultative process resulted in a report to Congress with six recommendations, including one to raise the cap on CW-1 foreign worker permits and extend the permit program beyond 2019.

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Abbreviations

CBP	U.S. Customs and Border Protection
Covenant	Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America
CNMI	Commonwealth of the Northern Mariana Islands
CPI	Consumer Price Index
CW-1	CNMI-Only transitional worker classification
CW-2	dependent of a CNMI-Only transitional worker
DHS	U.S. Department of Homeland Security
DOI	U.S. Department of the Interior
DOL	U.S. Department of Labor
FinCEN	Financial Crimes Enforcement Network
GDP	gross domestic product
ICE	U.S. Immigration and Customs Enforcement
State	U.S. Department of State
USCIS	U.S. Citizenship and Immigration Services
WIA	Workforce Investment Act of 1998
WIOA	Workforce Innovation and Opportunity Act of 2014

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May 18, 2017

Congressional Addressees

The 1976 Covenant defining the political relationship between the Commonwealth of the Northern Mariana Islands (CNMI) and the United States exempted the CNMI from certain federal minimum wage provisions and immigration laws but reserved the right of the federal government to apply federal law in these exempted areas without the consent of the CNMI government.¹ In accordance with the Covenant, the CNMI government established a minimum wage until 2007 and operated an immigration system that included foreign worker permits, until the federal government assumed control of this system in 2009.

- A 2007 law included a provision to apply the U.S. minimum wage to the CNMI, increasing CNMI's minimum wage in periodic increments until it reaches the federal minimum wage,² which is currently \$7.25 per hour.³ Subsequent legislation included a provision for GAO to report on the impact of past increases in minimum wages in the CNMI.⁴
- The Consolidated Natural Resources Act of 2008 amended the U.S.–CNMI Covenant to establish federal control of CNMI immigration beginning in 2009. The act established a transition period and special

¹Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (Pub. L. No. 94-241, Mar. 24, 1976), codified as amended at 48 U.S.C. § 1801 note. In this report, we refer to the 1976 Covenant between the United States and the CNMI as the Covenant or the U.S.-CNMI Covenant.

²In this report, “federal minimum wage” refers to the minimum wage required by the Fair Labor Standards Act in the United States, as provided by 29 U.S.C. § 206(a)(1). Currently the federal minimum wage is in effect in the 50 U.S. states, the District of Columbia, and any territory or possession of the United States, subject to certain exceptions.

³U.S. Troop Readiness, Veterans’ Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, Pub. L. No. 110–28, § 8103(a) (May 25, 2007), codified as amended at 29 U.S.C. § 206 note, Applicability of minimum wage to American Samoa and the Commonwealth of the Northern Mariana Islands.

⁴See 29 U.S.C. § 206 note, Report on the impact of past and future minimum wage increases. We have reported three times in response to this requirement—in 2014, 2011, and 2010. See Related GAO Products.

provisions for foreign visitors, investors, and workers.⁵ Specifically, it required the U.S. Department of Homeland Security (DHS) to establish a temporary work permit program for foreign workers and to reduce annually the number of permits issued, reducing them to zero by the end of the transition period—now set to occur on December 31, 2019.⁶ As part of the temporary work permit program, DHS collects a vocational education fee from prospective employers of those applying for special nonimmigrant visas and transfers these fees to the CNMI government for ongoing vocational programs provided by the CNMI educational entities. The act also required that GAO report on the implementation of federal immigration law in the CNMI and its potential impact on the CNMI economy.⁷

In addition to the statutory provisions above, we were asked by the Chair and Ranking Member of the Senate Committee on Energy and Natural Resources and Representative Sablan to review the implementation of federal immigration laws in the CNMI. Accordingly, our objectives were to examine (1) changes in CNMI's labor market since the federally mandated minimum wage increases began, (2) the potential economic impact of reducing the number of foreign workers to zero, and (3) federal and CNMI efforts to address labor force challenges.

We took the following steps to address these objectives (see app. I for further details of our objectives, scope, and methodology):

- To understand changes in the CNMI's labor market since the minimum wage increases began, we reviewed prior GAO reports and analyzed data from the U.S. Department of Commerce (DOC), the CNMI's Departments of Finance and Commerce, and CNMI's tourism organization. We also analyzed the results of the 2014 *CNMI*

⁵Pub. L. No. 110-229, Title VII, 122 Stat. 754, 853-867 (May 8, 2008). The act refers to these individuals as nonimmigrant visitors, investors, or workers, but for the purpose of this report, we refer to them as foreign visitors, investors, or workers.

⁶48 U.S.C. § 1806(d)(2), as most recently amended by the Consolidated and Further Continuing Appropriations Act, 2015, Pub. L. No. 113-235, § 10 (Dec. 16, 2014).

⁷We reported in August 2008 on factors that would affect the legislation's impact in the CNMI, focusing particularly on the law's potential impact on the CNMI's labor market, including foreign workers; the tourism sector; and foreign investment. GAO, *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). We have reported three more times on this issue—in 2012, 2011, and 2010. See Related GAO Products.

Prevailing Wage & Workforce Assessment Study to estimate the proportion of workers directly affected by recent and future minimum wage increases, by industry and occupation.⁸ We also calculated the number of foreign workers by industry and occupation by analyzing CNMI tax records since 2001.⁹ We determined that the data gathered for the 2014 *Prevailing Wage Study* and CNMI tax records since 2001 were sufficiently reliable for our purposes.

- To evaluate the potential economic impact of reducing the number of foreign workers in the CNMI to zero and replacing them with domestic workers, we evaluated DHS data on the annual number of approved CNMI-Only transitional worker (CW-1) permits and created a simulated mathematical model of how the CNMI's gross domestic product (GDP) would change if the number of foreign workers was reduced to zero. To evaluate the possible replacement of CW-1 workers with domestic workers, we analyzed the number of people seeking employment in 2016, in the context of labor requirements for the CNMI's planned development projects as of December 20, 2016.
- To assess federal and CNMI government efforts to address labor force challenges, we reviewed the CNMI's job training programs, grant agreements between the U.S. and CNMI governments, and a report generated through a consultative process specified in section 902 of the U.S.–CNMI Covenant (hereafter, the 902 Report).¹⁰ For job training programs, we analyzed the use of CW-1 vocational education fees that DHS transferred to the CNMI government in fiscal years 2012 through 2016. We interviewed CNMI officials at three

⁸The CNMI's Department of Commerce published the 2014 *CNMI Prevailing Wage & Workforce Assessment Study* in June 2015. When analyzing data from the study, we included citizens of the freely associated states of the Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau in our definition of CNMI domestic workers because U.S. immigration laws provide special status to individuals who are citizens of the freely associated states. See 48 U.S.C. § 1901 note, 1921 note, and 1931 note.

⁹In this report, "foreign workers" refers to workers in the CNMI who are not U.S. citizens or U.S. lawful permanent residents. "Foreign workers" does not refer to workers from the freely associated states—the Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau—who are permitted to work in the United States, including the CNMI, under the Compacts of Free Association (48 U.S.C. §§ 1901 note, 1921 note, and 1931 note).

¹⁰See Special Representatives of the United States and the Commonwealth of the Northern Mariana Islands, *Report to the President on 902 Consultations* (January 2017), accessed March 10, 2017, <https://www.doi.gov/sites/doi.gov/files/uploads/902-consultations-report-january-2017.pdf>.

educational entities that received funding from those fees: Northern Marianas College, Northern Marianas Trades Institute, and the CNMI Public School System. In addition, we interviewed and analyzed data provided by CNMI scholarship organizations that provide funding to students to attend institutions of higher education. To better understand employment and training programs funded through the U.S. Department of Labor (DOL), we interviewed officials from DOL and the CNMI's Department of Labor and analyzed performance data for program years 2012 through 2015. Finally, we also interviewed officials and reviewed documents provided by the U.S. Department of the Interior (DOI) and the CNMI government to better understand grant agreements between the U.S. and CNMI governments and the 902 consultative process (hereafter, 902 Consultations).

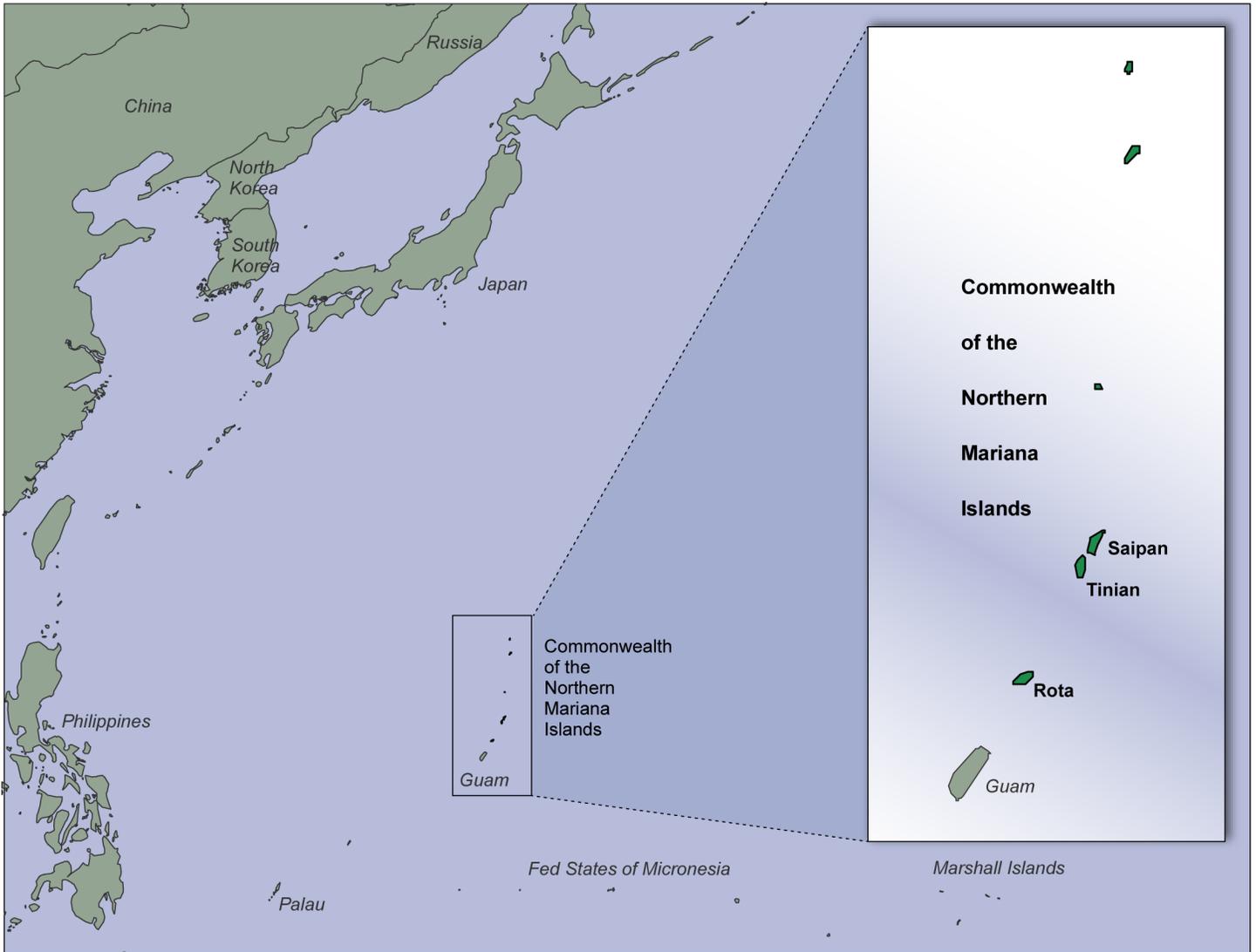
- For all three objectives, we conducted fieldwork in the CNMI and interviewed officials from DHS, DOI, and DOL in Washington, D.C.; San Francisco, California; and Honolulu, Hawaii. Our fieldwork interviews took place on the CNMI islands of Saipan, Tinian, and Rota, and included meetings with the CNMI Governor; the Mayors of Tinian and Rota; and the CNMI Secretaries of Commerce, Finance, and Labor and semistructured interviews and facilitated small-group discussions with representatives of CNMI businesses. In Saipan, we also facilitated small-group discussions with CW-1 workers, U.S. workers currently employed by CNMI businesses, and students or graduates of CNMI job training programs.

We conducted this performance audit from August 2016 to May 2017 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.

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. 1). The CNMI had a total population of 53,890, according to preliminary results of the CNMI's 2016 Household, Income, and Expenditures survey. Almost 90 percent of the population (48,200) resided on the island of Saipan, with an additional 6 percent (3,056) on the island of Tinian and 5 percent (2,635) on the island of Rota.

Figure 1: Map of the Commonwealth of the Northern Mariana Islands



Sources: GAO; Map Resources (map). | GAO-17-437

U.S.–CNMI Relations

The United States took control of the Northern Mariana Islands from Japan during the latter part of World War II. After the war, the U.S. Congress approved a trusteeship agreement making the United States responsible to the United Nations for the administration of the islands.¹¹ In 1976, the District of the Mariana Islands entered into the Covenant with the United States establishing the island territory's status as a self-governing commonwealth in political union with the United States.¹² 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.¹³ 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 certain federal minimum wage provisions and immigration laws, with certain limited exceptions.¹⁴ Under the terms of the Covenant, the federal government has the right to apply

¹¹In 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.

¹²Covenant to Establish Commonwealth of the Northern Mariana Islands in Political Union with the United States of America, Pub. L. No. 94-241 (Mar. 24, 1976), codified as amended at 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: University of Hawaii Press, 2002).

¹³Under 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 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 Covenant may be modified by the federal government without the consent of the CNMI government, and local CNMI laws remained in effect if they were not inconsistent with federal laws or treaties of the United States when the Covenant was enacted. In addition, international treaty obligations between the United States and other countries apply to the CNMI through the Covenant.

¹⁴Prior to November 2009, Section 506 of the Covenant applied to the CNMI certain provisions of the Immigration and Nationality Act of 1952 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.

federal law in these exempted areas without the consent of the CNMI government.¹⁵ Section 902 of the Covenant provides that the U.S. and CNMI governments will designate special representatives to meet and consider in good faith issues that affect their relationship and to make a report and recommendations. These intermittent discussions between the United States and the CNMI are commonly referred to as 902 Consultations.

Several U.S. government programs operate in the CNMI, including programs administered by DHS, DOI, and DOL.

- DHS has three primary components—U.S. Customs and Border Protection (CBP), U.S. Immigration and Customs Enforcement (ICE), and U.S. Citizenship and Immigration Services (USCIS)—that enforce federal immigration laws and maintain border control in the CNMI. CBP inspects travelers at the Saipan and Rota airports and seaports to determine whether to admit them into the CNMI. ICE enforces federal immigration laws in the CNMI, for example, by identifying, apprehending, detaining, and removing criminal foreign nationals and other foreign nationals that threaten the security of the CNMI and the United States. USCIS processes foreign nationals' applications for immigration benefits, that is, the ability to live, and in some cases work, in the CNMI permanently or temporarily.¹⁶
- DOI's Office of Insular Affairs coordinates federal policies and provides technical and financial assistance to the CNMI.¹⁷ The Covenant requires DOI to consult regularly with the CNMI on all matters affecting the relationship between the U.S. government and the islands.¹⁸ In May 2016, President Obama designated the

¹⁵The 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 U.S. 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.

¹⁶The U.S. Department of State (State) also issues visas at U.S. embassies or consulates to foreign nationals who wish to come to the CNMI on a temporary or permanent basis. However, since State does not have any representatives working in the CNMI, we excluded the agency from the scope of our review.

¹⁷Exec. Order No. 12572, Relations With the Northern Mariana Islands, 51 Fed. Reg. 40401 (Nov. 3, 1986).

¹⁸Section 902 of the Covenant to Establish Commonwealth of the Northern Mariana Islands in Political Union with the United States of America, Pub. L. No. 94-241 (Mar. 24, 1976), codified as amended at 48 U.S.C. § 1801 note.

Assistant Secretary for Insular Affairs as the Special Representative for the United States for the 902 Consultations, a process initiated at the request of the Governor of the CNMI to discuss and make recommendations to Congress on immigration and labor matters affecting the growth potential of the CNMI economy, among other topics. The 902 Consultations resulted in a report to the President in January 2017, which we refer to as the 902 Report.

- DOL requires employers to fully test the labor market for U.S. workers to ensure that U.S. workers are not adversely affected by the hiring of nonimmigrant and immigrant workers, except where not required by law. DOL also provides grants to the CNMI government supporting Adult, Dislocated Worker, and Youth programs, which include job search assistance, career counseling, and job training. From 1999 through 2015, DOL provided such grants under the Workforce Investment Act of 1998 (WIA) and the Workforce Innovation and Opportunity Act of 2014 (WIOA).¹⁹

Changes in Application of Federal Minimum Wage and Immigration Laws

Minimum Wage Changes

In 2007, the minimum wage provisions of the Fair Labor Standards Act of 1938 were applied to the CNMI, requiring the minimum wage in the CNMI to rise incrementally to the federal level in a series of scheduled increases. In July 2007, the CNMI minimum wage increased from \$3.05 to \$3.55 per hour and then increased by \$0.50 annually thereafter.²⁰ A 2010 law delayed the scheduled minimum wage increase for 1 year, providing for no increase in 2011.²¹ On September 30, 2012, the scheduled annual increase raised the CNMI minimum wage to \$5.55 per hour. In September 2013, additional legislation canceled the scheduled 2013 and 2015 annual increases.²² Under current law, the next minimum wage increase will occur on September 30, 2017, and the CNMI will reach the current U.S. minimum wage on September 30, 2018 (see table

¹⁹WIOA, Pub. L. No. 113-128 (July 22, 2014), repealed WIA, Pub. L. No. 105-220 (Aug. 7, 1998).

²⁰Pub. L. No. 110-28, § 8103(b)(1) (May 25, 2007).

²¹Pub. L. No. 111-244, § 2(a) (Sept. 30, 2010).

²²Pub. L. No. 113-34, § 2 (Sept. 18, 2013).

1). If the original 2007 law increasing the 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 1: Past and Scheduled Minimum Wage Increases in the Commonwealth of the Northern Mariana Islands, 2007–2018

Nominal U.S. dollars

Date	Minimum hourly 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 (scheduled)	7.05
September 30, 2018 (scheduled)	7.25

Source: GAO analysis of Pub. L. No. 110-28, Pub. L. No. 111-244, and Pub. L. No. 113-34. | GAO-17-437

Immigration Changes

In 2008, the Consolidated Natural Resources Act of 2008 amended the U.S.–CNMI Covenant to apply federal immigration law to the CNMI, following a transition period.²³ Among other things, the act includes several provisions affecting foreign workers during the transition period.²⁴

To provide for an orderly transition from the CNMI immigration system to the U.S. federal immigration system under the immigration laws of the United States, on September 7, 2011, DHS established, and currently administers, the CW permit program. Under this program, foreign workers are able to obtain, through their employers, nonimmigrant CW-1 status that allows them to work in the CNMI.²⁵ Dependents of CW-1 nonimmigrants (spouses and minor children) are eligible for dependent of a CNMI-Only transitional worker (CW-2) status, which derives from and depends on the CW-1 worker's status.²⁶

²³Consolidated Natural Resources Act of 2008, Pub. L. No. 110-229, Title VII (May 8, 2008). The legislation's stated intent is to ensure effective border control procedures and address national and homeland security issues, while minimizing, to the greatest extent practicable, the potential adverse economic and fiscal effects of phasing out the CNMI's nonresident contract worker program and maximizing the CNMI's potential for economic and business growth. Under the act, CNMI immigration law was in effect until the start of the transition period. The act amended U.S. immigration law and replaced the existing Guam visa waiver program with a joint Guam-CNMI visa waiver program. Under this program, eligible visitors from designated countries who travel for business or pleasure to the CNMI for up to 45 days are exempt from the standard federal visa documentation requirements.

²⁴The Consolidated Natural Resources Act of 2008 and its implementing regulations also contain other special provisions, such as establishing (1) a classification for certain foreign investors lawfully admitted under the CNMI's immigration system—called E-2 CNMI Investor Status (or E-2C)—and (2) providing that asylum is inapplicable to those in the CNMI during the course of the transition period.

²⁵DHS deemed CW-1 status to be synonymous with “permit” referenced in the legislation. In this report, “permit” refers to CW-1 status. An employer must petition for a worker to obtain CW-1 status by submitting a Form I-129CW and all necessary fees to DHS. If the employer also requests a “grant of status” in the CNMI, then the foreign worker is allowed to obtain status without departing the CNMI and reentering through a U.S. embassy or consulate. After required security checks, if the Form I-129CW is approved, DHS will mail an approval notice to the employer who should provide a copy to the worker. The approval notice indicates whether the worker has been granted CW-1 status in the CNMI or whether the worker may proceed to a U.S. embassy or consulate abroad to seek visa processing of a CW-1 visa.

²⁶We use “CW” when referring to the program because it covers both CW-1 and CW-2 permits for dependents of CW-1 workers.

In accordance with the Consolidated Natural Resources Act of 2008, DHS, through USCIS, has annually reduced the number of CW-1 permits, and is required to do so until the number reaches zero by the end of a transition period.²⁷ Since 2011, DHS has annually determined the numerical limitation, terms, and conditions of the CW-1 permits (see table 2). The act was amended in December 2014 to extend the transition period until December 31, 2019,²⁸ and eliminate the Secretary of Labor’s authority to provide for future extensions of the CW program.²⁹

Table 2: U.S. Department of Homeland Security Numerical Limits on CW-1 Permits for the Commonwealth of the Northern Mariana Islands (CNMI), Fiscal Years 2011–2017

Fiscal year	CW-1 numerical limit
2011	22,417
2012	22,416
2013	15,000
2014	14,000
2015	13,999
2016	12,999
2017	12,998

Source: U.S. Department of Homeland Security. | GAO-17-437

Note: On September 7, 2011, the U.S. Department of Homeland Security established the CNMI-Only transitional worker (CW) permit program, administered by the U.S. Citizenship and Immigration Services. Under the CW program, qualified nonimmigrant workers are able to obtain, through their employers, nonimmigrant CW-1 status that allows them to work in the CNMI.

²⁷If the Form I-129CW is approved, DHS normally grants CW-1 status for 1 year, according to the USCIS website. The employer may request an extension of status by filing a new Form I-129CW petition. A dependent’s CW-2 status expires on the same day as the worker’s CW-1 status and can be extended when the worker’s CW-1 status is extended.

²⁸See Consolidated and Further Continuing Appropriations Act, 2015, Pub. L. No. 113-235, § 10 (Dec. 16, 2014).

²⁹Previously, the Secretary of Labor was authorized to extend the program for up to 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).

In April 2010, DOI recommended that Congress consider new legislation permitting guest workers who have lawfully resided in the CNMI for a minimum of 5 years—which DOI estimated at 15,816 individuals—to apply for long-term resident status under the Immigration and Nationality Act.³⁰ DOI recommended that Congress consider new legislation allowing these workers to apply for one of the following: (1) U.S. citizenship; (2) permanent resident status leading to U.S. citizenship (per the normal provisions of the Immigration and Nationality Act relating to naturalization), with the 5-year minimum residence spent anywhere in the United States or its territories; or (3) permanent resident status leading to U.S. citizenship, with the 5-year minimum residence spent in the CNMI. Additionally, DOI noted that under U.S. immigration law, special status is provided to individuals who are citizens of the freely associated states (Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau). Following this model, DOI suggested that new legislation could grant foreign workers a nonimmigrant status, like that negotiated for citizens of the freely associated states, and could allow them to live and work either in the United States and its territories or in the CNMI only.³¹ In 2013, the U.S. Senate passed legislation that would have, among other things, established a CNMI-only permanent resident status for aliens who resided in the CNMI as guest workers under CNMI immigration law for at least 5 years before May 8, 2008, and are presently residents under CW-1 status.³² However, this bill never became law.

Changes in Key Industries in the CNMI

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

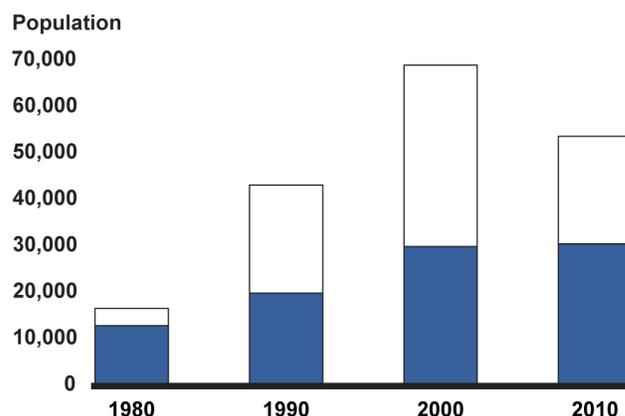
³⁰The Consolidated Natural Resources Act of 2008 required the Secretary of the Interior, in consultation with the Secretary of Homeland Security and the Governor of the Commonwealth, to report to Congress on any recommendations that the Secretary deems appropriate related to whether Congress should consider permitting lawfully admitted guest workers lawfully residing in the Commonwealth on May 8, 2008 (the date of enactment of the act), to apply for long-term status under the immigration and nationality laws of the United States. See 48 U.S.C. § 1806(h)(5).

³¹Department of the Interior, Office of the Secretary, *Report on the Alien Worker Population in the Commonwealth of the Northern Mariana Islands* (Washington, D.C.: April 2010), accessed March 10, 2017, <https://www.doi.gov/sites/doi.gov/files/uploads/2010-Report-on-the-Alien-Worker-Population-in-CNMI.pdf>.

³²Border Security, Economic Opportunity, and Immigration Modernization Act, S. 744, 113th Cong. § 2109 (2013). This provision was entitled “Long-term legal residents of the Commonwealth of the Northern Mariana Islands.”

bring in large numbers of foreign workers and investors. Consequently, from 1980 to 2000, the CNMI population grew rapidly, but the U.S. citizen share of the population fell to less than half of the CNMI population. Since 2000, the percentage of the CNMI's population not made up of U.S. citizens or nationals has decreased, from about 56 percent to about 43 percent as of the 2010 decennial census (see fig. 2).

Figure 2: Number of U.S. Citizens and Nationals in the Population of the Commonwealth of the Northern Mariana Islands (CNMI), at 10-Year Intervals, 1980–2010



	Neither U.S. citizens nor nationals	3,703	23,263	39,089	23,184
	U.S. citizens or nationals	13,077	20,082	30,132	30,699
	Total	16,780	43,345	69,221	53,883

Source: GAO analysis of decennial U.S. Census data. | GAO-17-437

Note: From 1990 through 2010, the decennial U.S. census for the CNMI identified people as U.S. citizens or nationals or as noncitizens (neither U.S. citizens nor nationals). In 1980, the census identified individuals by place of birth. We included people born in the United States, the Northern Mariana Islands, Guam, and American Samoa in the number of U.S. citizens or nationals in 1980. Other persons, including those whose place of birth was not reported, are classified as neither U.S. citizens nor nationals in 1980.

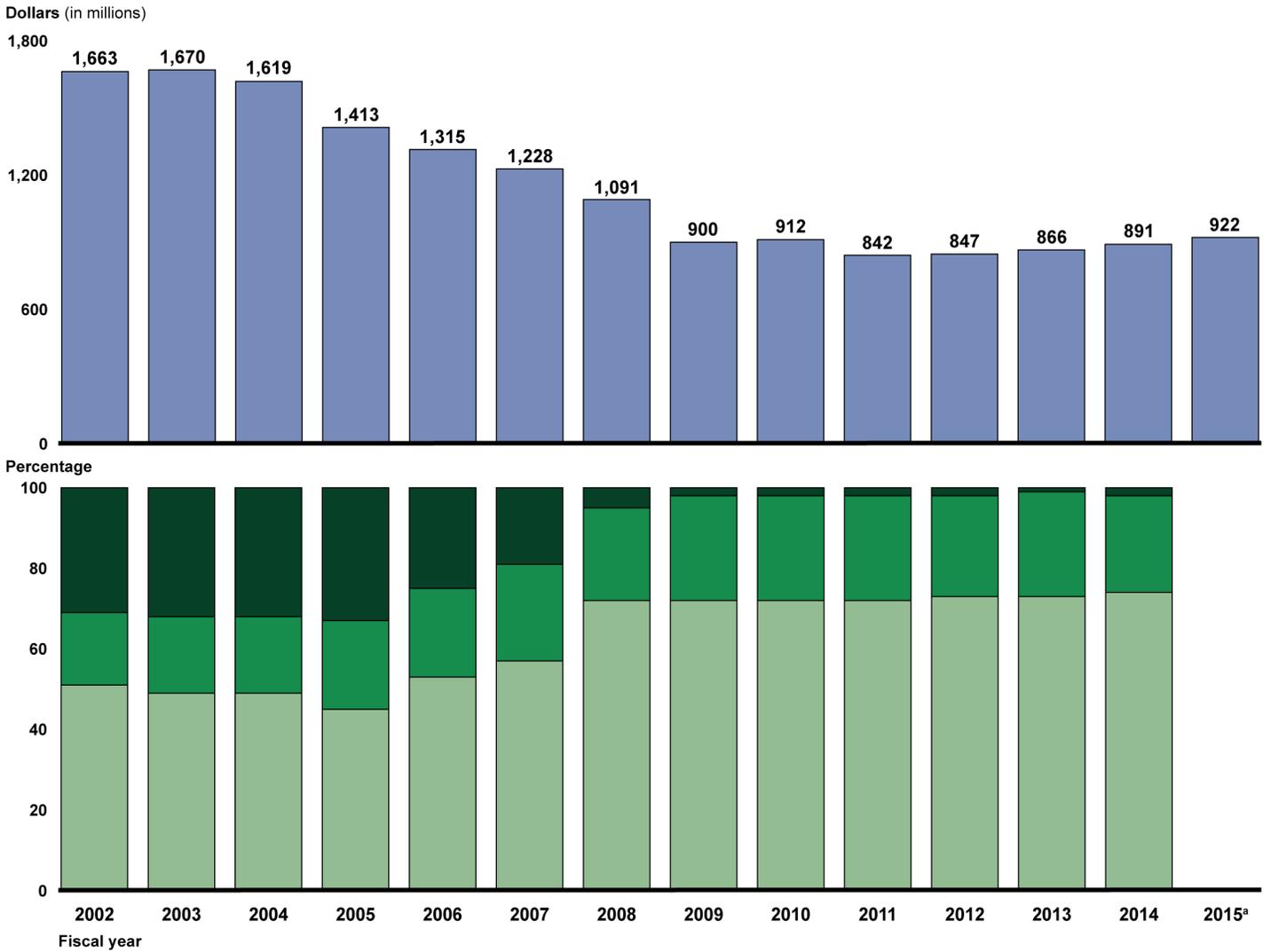
Garment Industry

Although the garment industry was able to flourish in the CNMI by exporting products to other parts of the United States largely unconstrained by import quotas and duties, several developments in international trade caused the industry to decline dramatically. In January 2005, in accordance with a World Trade Organization 10-year phase-out 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 and to close to zero in 2010.³³

After a decade of decline, by 2009, almost all of the garment factories had closed, and the CNMI was in its sixth year of a contracting economy and shrinking GDP. As figure 3 shows, a large part of the GDP decline from 2002 to 2009 reflected the declining garment industry, which dominated the CNMI's manufacturing sector.

³³U.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 3: Commonwealth of the Northern Mariana Islands Real Gross Domestic Product (GDP), 2002–2015, in Millions of 2015 U.S. Dollars and Value Added by Industry as a Percentage of GDP



- Gross Domestic Product (GDP)
- Manufacturing
- Government
- All other private

Source: GAO analysis of U.S. Department of Commerce data. | GAO-17-437

Notes: GDP levels have been adjusted for inflation to 2015 dollars. The value added of an industry is the contribution of a private industry or government sector to overall GDP. Specifically, as defined by the U.S. Department of Commerce Bureau of Economic Analysis, value added equals the difference between an industry's gross output (consisting of sales or receipts and other operating income,

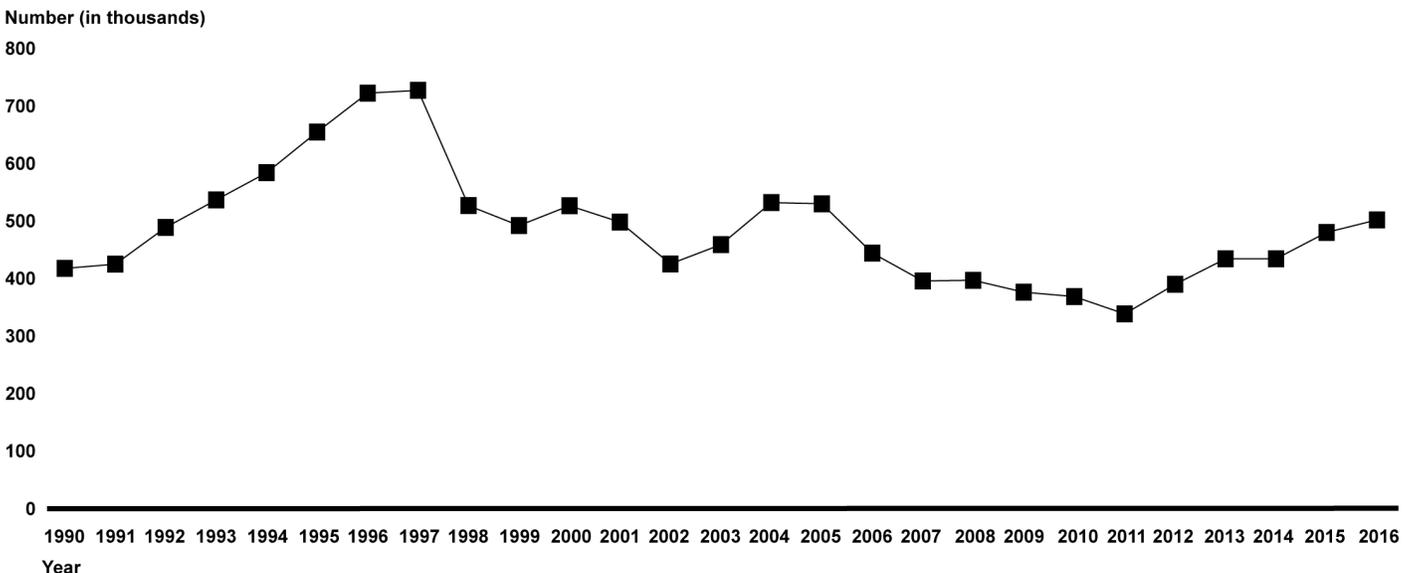
commodity taxes, and inventory change) and the cost of its intermediate inputs (including energy, raw materials, semifinished goods, and services that are purchased from all sources).

^aData to estimate value added by industry as a percentage of GDP for calendar year 2015 were not available in time to include in our report.

Tourism Industry

Since 1990, the CNMI's tourism market has experienced considerable fluctuation, as shown by the total annual number of visitor arrivals (see fig. 4). Total visitor arrivals to the CNMI dropped from a peak of 726,690 in fiscal year 1997 to a low of 338,106 in 2011, a 53 percent decline. Since 2011, however, visitor arrivals have increased by 48 percent, reaching 501,489 in fiscal year 2016.

Figure 4: Commonwealth of the Northern Mariana Islands Annual Visitor Arrivals, Fiscal Years 1990–2016



Source: GAO analysis of Marianas Visitors Authority data. | GAO-17-437

Data from the Marianas Visitors Authority show that the downward trend in Japanese arrivals from 2013 to 2016 was offset by the growth in arrivals from China and South Korea.³⁴ While eligible Japanese and South Korean visitors enter the CNMI under the U.S. visa waiver

³⁴See app. II for more details of tourism trends in the CNMI.

program,³⁵ Chinese visitors are not eligible and are permitted to be temporarily present in the CNMI under DHS's discretionary parole authority, according to DHS officials. DHS exercises parole authority to allow, on a case-by-case basis, eligible nationals of China to enter the CNMI temporarily as tourists when there is significant public benefit, according to DHS data. From fiscal years 2011 to 2016 the percentage of travelers that arrived at the Saipan airport and were granted discretionary parole increased from about 20 percent to about 50 percent of the total travelers allowed to enter, according to our analysis of CBP data.³⁶

CNMI's Labor Market Has Begun to Grow While Continuing to Rely on Foreign and Minimum Wage Workers

According to CNMI tax data, overall employment in the CNMI increased by about 8 percent from 2013 through 2015. Foreign workers remain the majority of employed workers in the CNMI. From 2007 to 2015, inflation adjusted average earnings for those who maintained employment in the CNMI also rose by 18 percent. We estimate that approximately 62 percent (15,818 of 25,657) of the CNMI's wage workers in 2014, assuming they maintained employment, would have been directly affected by the federally mandated 2016 wage increase, which raised CNMI's minimum wage from \$6.05 to \$6.55 per hour.³⁷

³⁵Eligible citizens or nationals of the 38 countries included in the general U.S. Visa Waiver Program may stay for up to 90 days for business or pleasure in the United States without obtaining a nonimmigrant visa. These countries are Andorra, Australia, Austria, Belgium, Brunei, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, the Netherlands, New Zealand, Norway, Portugal, San Marino, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Taiwan, and the United Kingdom.

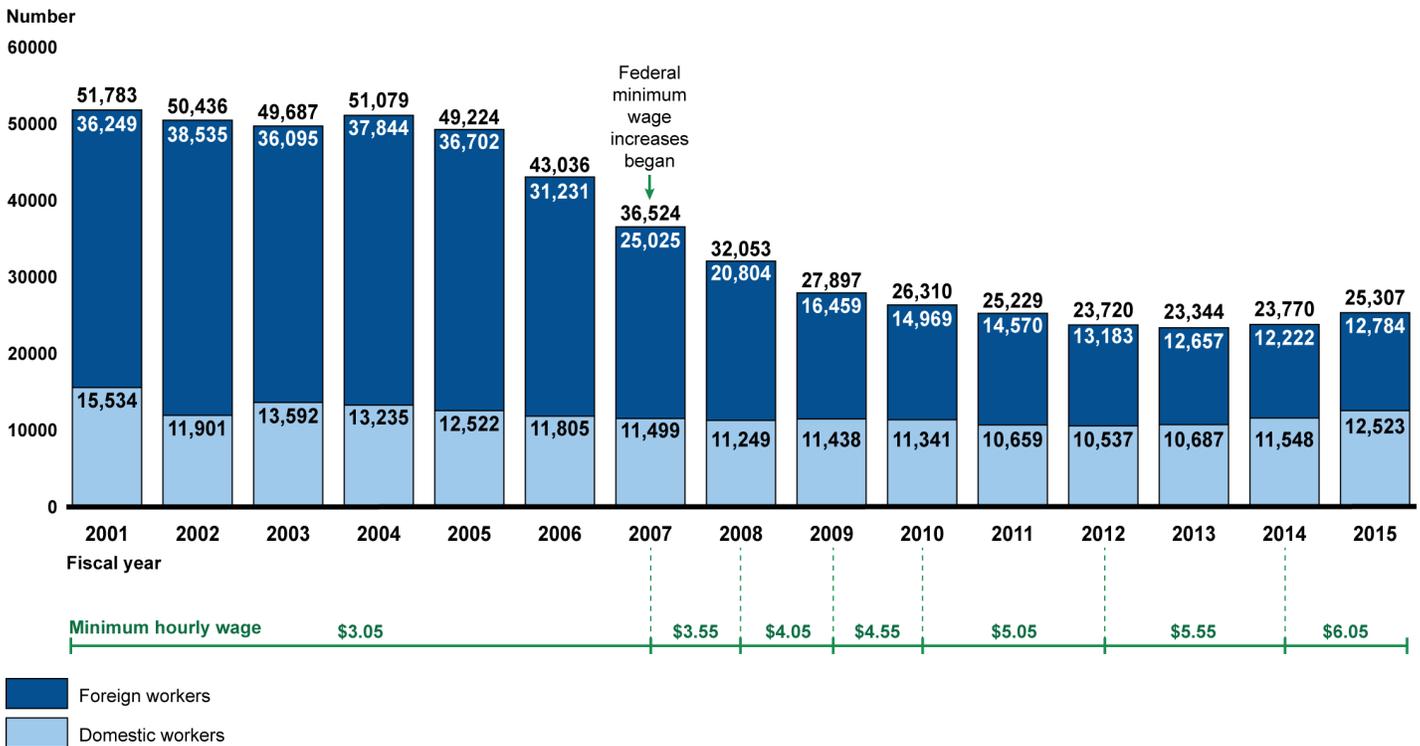
³⁶According to CBP data, 43,485 of 241,537 total travelers to the Saipan airport were granted parole in 2011, and 118,032 of 248,234 total travelers to the Saipan airport were granted parole in 2016.

³⁷We define "directly affected" workers as those who earn a wage that is equal to or rises to the new minimum wage when the increase occurs. Because an increase in the minimum wage would not automatically increase the wage rate of workers earning above that value, a scheduled increase in the minimum wage would not directly affect the wages of these workers. While it is possible that increases in the minimum wage could increase the wages of all workers because of upward pressure on wages, this is not included our calculation.

After Years of Decline, CNMI Employment Has Risen, but Foreign Workers Remain the Majority of Those Employed

Following consecutive annual decreases in the number of employed workers from 2005 to 2013, as garment factory employment numbers fell to zero, CNMI employment started recovering after 2013, according to CNMI tax data. Figure 5 shows the number of employed workers and the number of foreign and domestic workers in the CNMI from 2001 to 2015 based on CNMI tax data. As the figure shows, the number of employed workers increased from the lowest point in 2013 by approximately 8 percent by 2015 (from 23,344 to 25,307). However, the number employed in 2015 (25,307) was still approximately 31 percent less than the number employed in 2007 (36,524).

Figure 5: Employed Workers in the Commonwealth of the Northern Mariana Islands (CNMI), Calendar Years 2001–2015



Source: GAO analysis of CNMI tax data. | GAO-17-437

Notes: Domestic workers include U.S. citizens and citizens of the freely associated states—the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

The dashed vertical line indicates the year (2007) when minimum wage increases began. Reductions in the number of employed workers from 2007 through 2013 were likely a result of many factors, such as the disappearance of the garment industry and decline of the tourism industry. Reductions in the number of employed workers from 2007 through 2013 may not be caused by increases in the minimum wage.

Although the number and percentage of foreign workers have fallen since 2001, foreign workers are still the majority of the CNMI workforce. Of the 25,307 workers in the CNMI in 2015, slightly over half (12,784) were foreign workers, according to CNMI tax data. The number of foreign workers fell from a peak of over 38,500 in 2002 (roughly 76 percent of the employed workers) and was under 13,000 in 2015.³⁸ In contrast, since 2002, the number of domestic workers has fluctuated year to year, ranging from about 10,500 to about 13,500, but increased by 17 percent from 2013 to 2015.

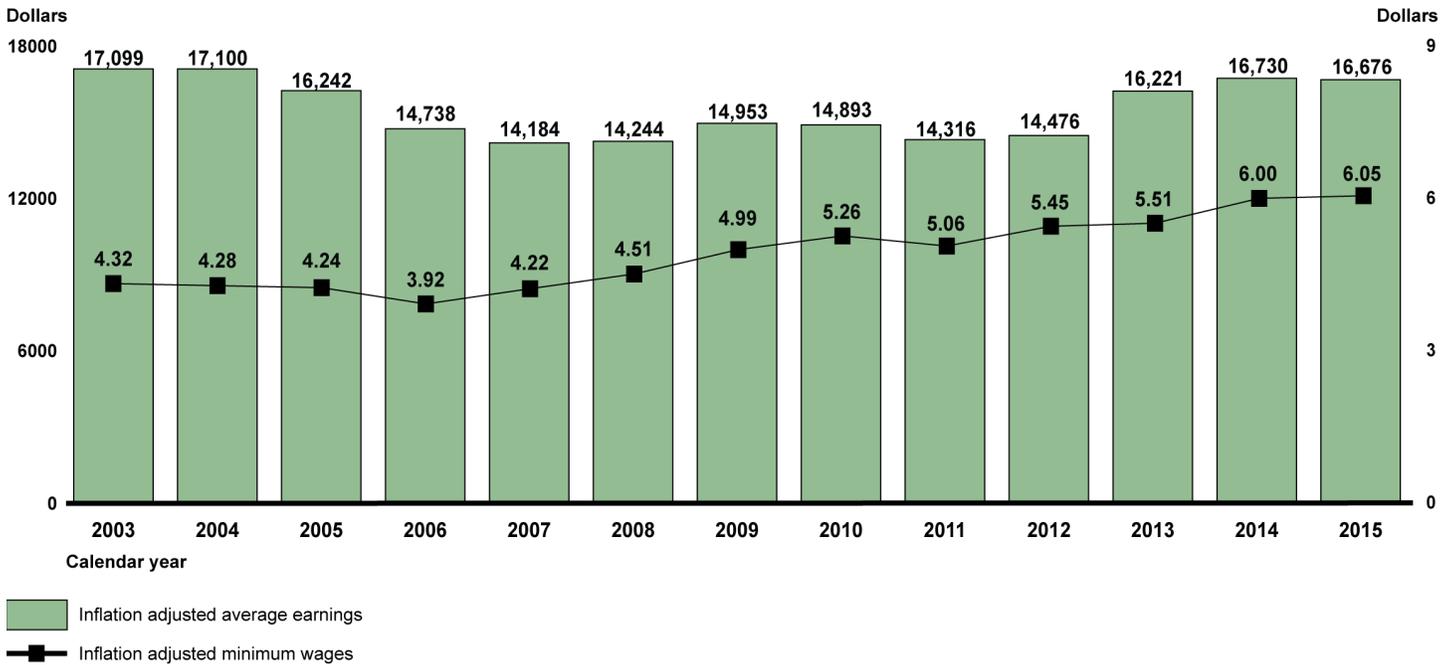
Foreign workers make up a large percentage of certain CNMI industries and occupations. Among industries and occupations with the largest number of CNMI workers, construction and accommodation or food services—or hospitality—had the highest percentage of foreign workers, with 80 percent or more non-U.S. workers, according to data from the CNMI's 2014 Prevailing Wage Study. In contrast, the public administration industry has the lowest percentage of foreign workers, with about 22 percent. See appendix III for more details.

Inflation adjusted average earnings for those in the CNMI who maintained employment rose by 18 percent from 2007 to 2015.³⁹ The increase is attributable to a large increase in earnings from 2012 to 2013, when inflation adjusted average earnings increased from \$14,476 to \$16,221. Using 2015 prices, the inflation adjusted minimum wage rose by 54 percent from its lowest point in 2006 (\$3.93) to its highest point in 2015 (\$6.05). (See fig. 6.)

³⁸CNMI tax office data count workers by calendar year. This CNMI estimate of foreign workers is generally consistent with USCIS's numerical limit of 13,999 CW-1 workers in the CNMI in fiscal year 2015.

³⁹The 2015 CNMI Consumer Price Index was not available at the time of our analysis. We followed a methodology used by DOC's Bureau of Economic Analysis that applied the same inflation rate in Guam to the CNMI.

Figure 6: Inflation Adjusted Average Earnings and Minimum Wages in the Commonwealth of the Northern Mariana Islands (CNMI), Calendar Years 2003–2015



Source: GAO analysis of Commonwealth of the Northern Mariana Islands Department Finance tax data. | GAO-17-437

Note: The 2003 through 2014 dollar values were adjusted to 2015 prices based on the CNMI Department of Commerce's Consumer Price Index (CPI). The 2015 CPI was not available at the time of our analysis. We followed a methodology used by the U.S. Bureau of Economic Analysis that applied the same inflation rate in Guam to the CNMI.

A Majority of CNMI Workers Make the Minimum Wage; Future Wage Increases Will Affect More of Them, Particularly in the Hospitality and Construction Industries

According to our analysis of the CNMI's Department of Commerce data, a majority of CNMI workers made the minimum wage in 2016. On September 30, 2016, the CNMI's minimum wage increased from \$6.05 to \$6.55 per hour. We estimate that approximately 62 percent (15,818 of 25,657) of the CNMI's wage workers in 2014, assuming they maintained employment, would have been directly affected by the federally mandated 2016 wage increase.⁴⁰ Since 72 percent of the total foreign workers made less than or equal to \$6.55 per hour in 2014, they were more likely to

⁴⁰We also assumed the CNMI labor market did not change from 2014 through 2016. If workers with wages over the minimum wage also received pay increases as the minimum wage increased, then the percentage of workers affected would be greater.

have been directly affected by the 2016 wage increase than domestic workers, with only 41 percent making less than or equal to \$6.55.⁴¹

As the minimum wage continues to increase in the CNMI, a growing percentage of wage workers will be directly affected.⁴² By the time the minimum wage reaches \$7.25 in 2018, approximately 68 percent of CNMI's wage workers will be directly affected (see table 3).

Table 3: Estimated Number and Proportion of 2014 Workers in the Commonwealth of the Northern Mariana Islands (CNMI) Directly Affected by Current (2016) and Scheduled (2017–2018) Minimum Wage and Increases

	Number of workers	Current		Scheduled			
		2016 (\$6.55)	2017 (\$7.05)	2017 (\$7.05)	2018 (\$7.25)	2018 (\$7.25)	2018 (\$7.25)
		Number directly affected	Percentage	Number directly affected	Percentage	Number directly affected	Percentage
Total workers in 2014	25,657	15,818	62	17,163	67	17,345	68
Foreign workers in 2014	16,849	12,199	72	13,086	78	13,173	78
U.S. workers in 2014	8,808	3,619	41	4,077	46	4,172	47

Source: GAO analysis of data collected by the CNMI Department of Commerce for the 2014 Prevailing Wage Study. | GAO-17-437

Notes: The number of CNMI workers differs by data source. Data from the CNMI Department of Commerce's 2014 Prevailing Wage Study suggest that the number of wage workers was 25,657, broken out as 16,849 foreign and 8,808 domestic workers. Based on CNMI's 2014 tax data, the number of employed workers was 23,770, broken out as 12,222 foreign and 11,548 domestic workers. This discrepancy may be due to the study's methodology, which used a combination of a census and a random sample approach.

The 2014 Prevailing Wage Study also noted that some workers from the freely associated states had a visa status and were thus counted as foreign workers.

⁴¹According to U.S. Department of Labor data, from 2014 to 2016, officials from DOL's Wage and Hour division investigated 130 cases with confirmed minimum wage violations in the CNMI. With overtime violations, businesses involved in these cases owed their workers back wages of approximately \$1.5 million. DOL investigated 56 cases in 2014, 41 cases in 2015, and 33 cases in 2016, according to data gathered by DOL's Wage and Hour division. For more information on investigative results of minimum wage violations, see <https://enforcedata.dol.gov/homePage.php>, accessed May 8, 2017.

⁴²If the CNMI's minimum wage increases further—to either \$8.25 (Guam's current minimum wage) or \$9.25 (Hawaii's current minimum wage)—an even higher percentage of total CNMI workers will be directly affected.

Our analysis also shows that roughly 80 percent of all jobs in the hospitality and construction industries were directly affected by the 2016 increase in the minimum wage. By 2018, approximately 85 percent of all jobs in these two industries will be directly affected by the scheduled minimum wage increase to \$7.25. See appendix IV for more details.

Opinions about Future Minimum Wage Increases Are Mixed

Some employers we contacted reported that the scheduled increase in the CNMI minimum wage from \$6.55 per hour to \$7.25 per hour in October 2018 would have little or no impact because they already pay equal or higher wages or offer other benefits. One employer reported that increasing the minimum wage would be good for the economy. Another employer stated that a higher minimum wage would attract more domestic workers to work in the CNMI who would otherwise take jobs in Guam or the U.S. mainland, where wages are higher.

Other employers we interviewed expressed concerns about minimum wage hikes because of possible decreases in profits that could require them to downsize. One employer estimated that its costs would increase by almost \$1 million annually the next time the minimum wage increases. Another employer told us that when the minimum wage increases, all wage workers—including those making higher wages—receive pay increases, causing profits to further decline. The Hotel Association of the Northern Mariana Islands also expressed concern about the CNMI bill to raise the minimum wage so soon after the September 2016 federally mandated increase, stating that the increase would be difficult to absorb, particularly for small businesses.⁴³

In 2016, the CNMI legislature considered but did not adopt a bill to raise the local minimum wage to the federal minimum wage of \$7.25 per hour 2 years earlier than would occur under the federal schedule of increases.⁴⁴ To help attract a U.S. workforce and provide more income for families in the CNMI, the CNMI Governor and leading civic business organizations supported the bill, according to the 902 Report. The results of an October 2016 membership survey conducted by the Saipan Chamber of

⁴³For more information about the Hotel Association of the Northern Mariana Islands, see <http://www.saipanhotels.org/>.

⁴⁴See CNMI House Bill 19-187. The bill provided an exception with a different and lower wage rate for garment and constructions businesses and allowed the Secretary of Labor to provide additional exceptions.

Commerce revealed that only 13 out of 36 Saipan businesses responding to the survey did not support this bill.

Eliminating CW-1 Permits Would Negatively Affect the Economy; Current and Planned Demand for Labor Exceeds Supply of U.S. Workers

We analyzed the economic impact of removing all foreign workers with CW-1 permits (or CW-1 workers) from the CNMI's economy using the most recent GDP information available from calendar year 2015. We determined that the CNMI's 2015 GDP would decline by 26 to 62 percent with no CW-1 workers, depending on the assumptions made. Demand for CW-1 workers in the CNMI exceeded the available number of CW-1 permits in 2016, while planned hotels, casinos, and other infrastructure projects estimate needing thousands of new employees. The existing CW-1 permits for foreign workers and the local supply of U.S. workers are insufficient to meet this estimated future demand. CNMI employers face multiple challenges in recruiting and retaining U.S. workers, according to several CNMI employers that participated in our discussion groups and semistructured interviews.

Economic Analysis and Recent Data Show That Ending the CW Program Could Have a Large Negative Effect on the Economy

If all CW-1 workers, or 45 percent of the total workers in 2015, were removed from the CNMI's labor market, we project a 26 to 62 percent reduction in the CNMI's 2015 GDP, depending on the assumptions made.⁴⁵ To estimate the possible effect of a reduction in the number of workers with CW-1 permits in the CNMI to zero—through the scheduled end of the CW program in 2019—we employed an economic method that enabled us to simulate the effect of a reduction under a number of different assumptions.⁴⁶ Available data suggest that predictions based on our model are consistent with the experience of the CNMI during and after the departure of the garment industry, from 2002 through 2015, which also saw a large drop in the number of foreign workers.

⁴⁵The relationship between the production capability of an economy and the number of workers is a standard concept in economics. The quantity of labor, or number of workers, is a key factor in determining the quantity of goods and services that an economy can produce. For the U.S. economy, under certain assumptions, a 10 percent reduction in the number of all workers might be expected to cause a 7 percent decline in production, measured as GDP. See app. V for our assumptions. See Andrew B. Abel and Ben S. Bernanke, *Macroeconomics*, 5th ed. (New York: Addison-Wesley Publishing Co., 2005).

⁴⁶We used a similar model when estimating the effect of reductions in the number of foreign workers in the CNMI in 2008. See [GAO-08-791](#).

Predicting the economic effect of a reduction of CW-1 workers is more challenging than predicting the effect of a reduction of domestic workers in general because of several sources of uncertainty, including that (1) the two groups' economic effects may vary (i.e., they may serve in different types of jobs) and (2) the numbers of domestic workers who enter the CNMI labor market may vary. From 2013 to 2015, the number of domestic workers in the CNMI increased by almost 20 percent.

Given these and other uncertainties, we simulated the effects of a reduction in the number of CW-1 workers that allowed us to vary assumptions based on economic literature as well as available data on the CNMI economy.⁴⁷ In some simulations, for example, we assumed that domestic and CW-1 workers were perfect substitutes—meaning that domestic workers could easily replace foreign workers in production. In other simulations, we assumed that domestic and CW-1 workers were complements, implying that domestic workers would become less productive as the number of CW-1 workers fell. Our analysis assumed that 45 percent of the workforce was made up of CW-1 workers, based on a combination of CNMI tax data and the CNMI's 2014 Prevailing Wage Study data.⁴⁸

The CNMI's actual 2015 GDP—the most recent year for which GDP data were available—was \$922 million. To understand the economic impact of ending the CW program, we analyzed how removing all CW-1 workers would have changed the CNMI's actual 2015 GDP. Our economic model and the results of 10,000 simulations show that had there been no CW-1 workers in 2015, there is a

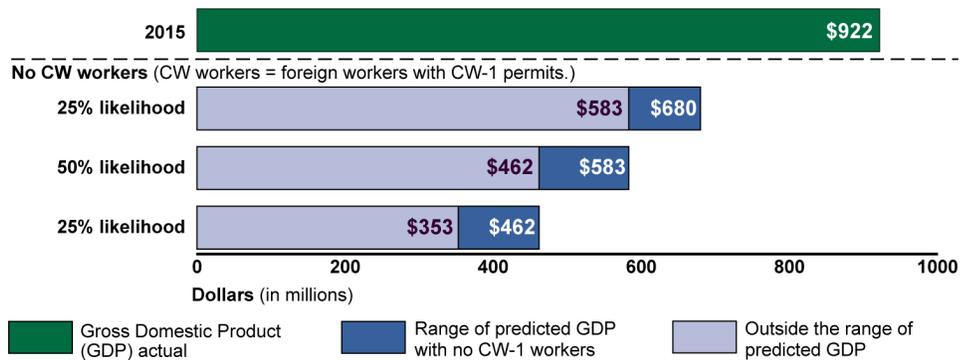
⁴⁷We ran 10,000 different simulations. For more information on the development of this model, see app. V.

⁴⁸According to CNMI tax data, in calendar year 2015 12,784 workers had citizenship in a country that would require a visa to work in the CNMI. According to the CNMI's 2014 Prevailing Wage Study, which is based on a survey of employers, about 90 percent of foreign workers had CW-1 permits. Applying that proportion to the CNMI tax data produces an estimate of approximately 11,369 CW-1 workers in calendar year 2015. Since there were 25,307 workers in the CNMI in 2015, approximately 45 percent of those workers had CW-1 permits. The 2015 tax data include workers with CW-1 permits that were valid for any of the 12 months of calendar year 2015. These valid CW-1 permits were those granted from January 2014 through September 2014 (part of fiscal year 2014), from October 2014 through September 2015 (all of fiscal year 2015), and from October 2015 through December 2015 (part of fiscal year 2016).

- 25 percent likelihood that the CNMI's 2015 GDP would have ranged from \$583 million to \$680 million, which is 26 to 37 percent lower than the actual value;
- 50 percent likelihood that it would have ranged from \$462 million to \$583 million, which is 37 to 50 percent lower than the actual value; and
- 25 percent likelihood that it would have ranged from \$353 million to \$462 million, which is 50 to 62 percent lower than the actual value (see fig. 7).⁴⁹

Across the full range of probable outcomes, the elimination of the CW program would result in a 26 to 62 percent decline in the CNMI's 2015 GDP, a relatively large negative effect on the economy.

Figure 7: Estimated Decline of 2015 Gross Domestic Product of the Commonwealth of the Northern Mariana Islands (CNMI) in Response to Zero CW-1 Permits
2015 U.S. dollars in millions



Source: GAO analysis of U.S. Department of Commerce data. | GAO-17-437

Note: On September 7, 2011, the U.S. Department of Homeland Security established the CNMI-Only transitional worker (CW) permit program, administered by the U.S. Citizenship and Immigration Services. Under the CW program, qualified nonimmigrant workers are able to obtain, through their employers, nonimmigrant CW-1 status that allows them to work in the CNMI.

In a separate retrospective economic analysis, using past CNMI GDP and employment data, from 2002 to 2015, we estimated that a 10 percent decline in the number of workers during this period was associated with an 8.3 percent decline in the size of the economy, on average.⁵⁰ Applying

⁴⁹The fall in population caused by the departure of CW-1 workers from the CNMI would result in a smaller percentage decline in per capita GDP as compared with the decline in GDP.

⁵⁰See app. VI for more details.

this factor to an analysis of the CNMI's current economic situation suggests that a reduction in the number of foreign workers with CW-1 permits to zero—which would be equivalent to reducing the number of total workers by 45 percent, all else unchanged—would lead to a 37 percent contraction in the size of the CNMI economy as measured by GDP. This finding is within the range presented in the simulation model above.⁵¹

Ending the CW Program Is Expected to Negatively Affect CNMI Businesses

The CNMI government stated in the 902 Report that ending the CW program in 2019 would cripple the CNMI economy and dramatically derail economic development.⁵² Employers we contacted generally expect the planned termination of the CW program in 2019 to have negative effects. In all four facilitated discussion groups and five of the seven semistructured interviews, employers reported that the planned termination of the CW permit program would have negative effects. A participant in one discussion group reported that he expects his gross business sales to decline by 30 percent. The owner of the only airline that transports passengers to and from Saipan, Tinian, and Rota told us that 12 of his employees will be affected by the 2017 CW-1 cap next summer. Without them, he did not think he would be able to remain in business.

Some employers told us that they already have been negatively affected when they were unable to renew CW-1 worker permits. In all four facilitated discussion groups and six of seven semistructured interviews, at least one employer reported that reaching the CW-1 cap in fiscal years 2016 and 2017 had negative effects. For example, in one discussion group, a small business employer reported having lost its only videographer because he was unable to obtain a CW-1 permit, resulting

⁵¹However, because reductions in the numbers of workers in other industries are unlikely to have exactly the same effect as the reduction in the garment industry, the results from the simulations represent a range of possible outcomes. To test this, we estimated the relationship between the numbers of workers and the size of the economy separately by different industries. Our analysis showed that the estimated relationship between GDP and the manufacturing industry was very different from the estimated relationship between GDP and the accommodation and food services industry. For more information on our analysis, see app. VI.

⁵²The 902 Report is generated through a consultative process specified in section 902 of the U.S.–CNMI Covenant. See Special Representatives of the United States and the Commonwealth of the Northern Mariana Islands, *Report to the President on 902 Consultations* (January 2017), accessed March 10, 2017, <https://www.doi.gov/sites/doi.gov/files/uploads/902-consultations-report-january-2017.pdf>.

in lost sales. A large employer reported that it would not be able to open at full capacity after learning that 40 workers in one of its units would be affected by the CW-1 cap for fiscal year 2017. The employer also reported having spent more than \$30,000 to purchase flight tickets home for 18 CW-1 workers when their permits expired, as well as \$20,000 to apply for H-1B visas for some employees.

A large employer with which we met individually reported that the biggest hardship it faced was at its restaurants. The employer had to close one of its restaurants for 2 months because of the departure of CW-1 workers unable to renew their permits. A participant in our discussion group with Tinian employers reported that several farms had closed on the island because of the lack of CW-1 workers, requiring costly food imports. In addition, the employer reported that Tinian lost its only boat captain in July 2016 because of the cap on the number of CW-1 permits. As a result, all cargo to the island must arrive by plane. The owner of a construction company told us that six of his CW-1 workers were affected by the fiscal year 2017 cap, which will likely cause his business to pay penalties for not completing scheduled projects. He has already downsized his staff from 40 to 6 CW-1 workers.

Recent and Planned Demand for Labor Exceeds Existing CW-1 Permits and the Supply of Local Workers

Recent Labor Demand

The CNMI economy currently is experiencing growing demand for workers, particularly among occupations in construction and hospitality. Since fiscal year 2013, demand for CW-1 permits has doubled, and in fiscal year 2016, demand exceeded the numerical limit (or cap) on approved CW-1 permits set by DHS. The number of approved CW-1 permits grew from 6,325 in fiscal year 2013 to 13,299 in fiscal year 2016. In 2016, when the cap was set at 12,999, DHS received enough petitions by May 6, 2016, to approve 13,299 CW-1 permits, reaching the cap 5 months prior to the end of the fiscal year.⁵³ On October 14, 2016, 2 weeks

⁵³The number of approved CW-1 permits exceeded the cap in 2016 because DHS made allowances for beneficiaries requesting consular processing whose visas would be refused or otherwise unused.

into fiscal year 2017, DHS announced that it had received enough petitions to reach the CW-1 cap and would not accept requests for new fiscal year 2017 permits during the remaining 11 months.⁵⁴ In interviews, some employers reported being surprised to learn that the cap had been reached when they sought renewals for existing CW-1 workers.⁵⁵ See table 4 for the numerical limit of CW-1 permits and number of permits approved by fiscal year.

Table 4: DHS Numerical Limits on CW-1 Permits for the Commonwealth of the Northern Mariana Islands, with Numbers of CW-1 Permits Approved, Fiscal Years 2011–2017

Fiscal year	CW-1 numerical limit	CW-1 approved
2011	22,417	— ^a
2012	22,416	10,548
2013	15,000	6,325
2014	14,000	9,188
2015	13,999	9,715
2016	12,999	13,299 ^b
2017	12,998	— ^c

Legend: — = Not applicable; CNMI = Commonwealth of the Northern Mariana Islands; CW-1 = CNMI-Only transitional worker classification; DHS = U.S. Department of Homeland Security.

Source: U.S. Department of Homeland Security data. | GAO-17-437

Note: On September 7, 2011, DHS established the CW permit program, administered by the U.S. Citizenship and Immigration Services. Under the CW program, qualified nonimmigrant workers are able to obtain, through their employers, nonimmigrant CW-1 status that allows them to work in the CNMI.

^aIn 2011, DHS did not approve any CW-1 permits.

^bIn 2016, DHS approved more CW-1 permits than allowed by the numerical limit to make up for the expected number of visa denials by the Department of State.

^cBy May 2017, DHS had not finalized the number of CW-1 permits approved for fiscal year 2017.

⁵⁴As of March 31, 2017, DHS had not finalized the number of approved CW-1 permits for fiscal year 2017. As of November 18, 2016, DHS had approved 8,486 permits toward the 2017 cap. According to DHS officials, the remaining CW-1 permits are still pending, some requiring further information from employers.

⁵⁵Following the exhaustion of the fiscal year 2016 cap, DHS announced a short-term solution that it implemented without a regulatory change. According to the 902 report, on August 29, 2016, DHS announced that certain CW-1 workers could apply for deferred action, a discretionary determination that would temporarily defer an action to remove an individual from the CNMI. As of December 13, 2016, 372 individuals had applied for deferred action, according to the 902 Report. The 902 Report also states that a prior DHS regulatory change allows approved CW-1 nonimmigrants up to 240 days of continued employment authorization with the same employer past their visa expiration date as long as they have an extension application pending with DHS.

Based on DHS data on approved CW-1 permits, by country of birth, occupation, and business, from fiscal years 2014 through 2016, the number of permits approved for Chinese nationals increased, the number of permits approved for construction workers increased, and a large number of CW-1 permits were approved for three new businesses.

Chinese nationals. In 2016, DHS approved 4,844 CW-1 permits for Chinese workers, increasing from 1,230 in 2015 and 854 in 2014. This represents a change in the source countries of CW-1 workers, with the percentage of workers from the Philippines declining from 65 to 53 percent during this period, while the share from China rose from 9 to 36 percent (see table 5).

Table 5: Number and Percentage of Approved CW-1 Permits by Country of Birth, Fiscal Years 2014–2016

Country of birth	2014		2015		2016	
	Number	Percentage	Number	Percentage	Number	Percentage
Philippines	5,960	65	7,193	74	7,086	53
China	854	9	1,230	13	4,844	36
South Korea	352	4	487	5	433	3
Bangladesh	157	2	333	3	473	4
Others	1,865 ^a	20 ^a	472	5	463	3
Total	9,188	–	9,715	–	13,299	–

Legend: – = Not applicable; CNMI = Commonwealth of the Northern Mariana Islands; CW-1 = CNMI-Only transitional worker classification.

Source: GAO analysis of U.S. Department of Homeland Security data. | GAO-17-437

Notes: On September 7, 2011, the U.S. Department of Homeland Security established the CW permit program, administered by the U.S. Citizenship and Immigration Services. Under the CW program, qualified nonimmigrant workers are able to obtain, through their employers, nonimmigrant CW-1 status that allows them to work in the CNMI.

^aIn 2014, 1,513 CW-1 permits (or 16 percent) were approved for workers with petitions that did not specify country of birth.

Construction workers. In 2016, DHS approved 3,443 CW-1 permits for construction workers, increasing from 1,105 in 2015 and 194 in 2014 (see table 6).⁵⁶

⁵⁶Because of the number of foreign workers with approved CW-1 permits working in the construction industry, the CNMI government’s Strategic Economic Development Council estimated that reaching the CW-1 cap in fiscal year 2016 resulted in the loss of at least 3,670 foreign workers in other industries, including some long-term guest workers with decades of employment.

Table 6: Number of Approved CW-1 Permits for Construction and Nonconstruction Occupations, Fiscal Years 2014–2016

Occupation	2014	2015	2016
Construction ^a	194	1,105	3,443
Nonconstruction	8,994	8,610	9,856
Total	9,188	9,715	13,299

Legend: CNMI = Commonwealth of the Northern Mariana Islands; CW-1 = CNMI-Only transitional worker classification.

Source: GAO analysis of U.S. Department of Homeland Security data. | GAO-17-437

Notes: On September 7, 2011, the U.S. Department of Homeland Security established the CW permit program, administered by the U.S. Citizenship and Immigration Services. Under the CW program, qualified nonimmigrant workers are able to obtain, through their employers, nonimmigrant CW-1 status that allows them to work in the CNMI.

^aConstruction occupations are those specifically defined by CNMI employers on their Form I-129CW petitions as construction trade. We did not include occupations such as building services; handlers; helpers; laborers; machine operators; technicians; or other occupations in architecture, engineering, and surveying, which may also be considered construction occupations.

New businesses. In 2016, DHS approved 3,426 CW-1 permits for three construction businesses, representing 26 percent of all approved permits.⁵⁷ Two of these businesses had not previously applied for CW-1 permits. The third business was new in 2015 and was granted only 62 CW-1 permits that year.

A key factor in the additional demand for labor in 2016 was the construction of a new casino in Saipan. In August 2014, the CNMI government entered into a casino license agreement with a business to build a phased development project within 8 years with a minimum of 2,004 guest rooms and areas for gaming, food, beverage, retail, and entertainment, among other things. The total investment cost of the project was estimated at \$3.14 billion (2014 dollars). The agreement required that construction of the initial gaming facility be completed no later than 36 months from the date of the license, or by August 2017.⁵⁸ However, in April 2017, the business requested amendments to the license agreement, including an extension of the construction completion and operation start date for the initial gaming facility to August 31, 2018, which was agreed to by the CNMI government. The amendment to the license agreement notes that the business justified these amendments in part based on constraints contained in federal immigration laws in relation

⁵⁷We did not obtain data on the occupations for these businesses.

⁵⁸The original casino license agreement includes the stated objective to have permanent U.S. residents be at least 65 percent of all employees.

to the employment of qualified workers needed to build the facility. See figure 8 for photos showing the initial gaming facility's development site in Saipan both before and during construction.

Figure 8: Construction of New Casino in Saipan, Commonwealth of the Northern Mariana Islands



Source: GAO. | GAO-17-437

The firms contracted to build the new casino under construction in Saipan have primarily employed Chinese workers.⁵⁹ According to the CNMI government, while CNMI law and regulations require businesses operating in the CNMI to attempt to employ at least 30 percent U.S. workers, the casino operator and construction firms received an exemption from this requirement from the CNMI Department of Labor.⁶⁰ The Consolidated Natural Resources Act of 2008 allows CNMI employers to petition for H-2 visas and bring temporary workers, such as construction workers, to the CNMI without counting against the numerical

⁵⁹In March and April 2017, the Federal Bureau of Investigation filed criminal complaints against several individuals. The criminal complaints charged each of these individuals with unlawful employment of aliens (8 U.S.C. § 1324a) and bringing in and harboring certain aliens (8 U.S.C. § 1324(a)(1)A)(iii)). The criminal complaints noted that some of these individuals described themselves or were described by others as employers of entities that, according to the CNMI Casino Commission, are the new casino's construction contractors.

⁶⁰Northern Mariana Islands Administrative Code § 80-30.2-120(c) - Private sector workforce participation objective of 30 percent of those who are a U.S. citizen, CNMI permanent resident, U.S. permanent resident, or an immediate relative of a U.S. citizen, CNMI permanent resident, or U.S. permanent resident.

restriction for such visas.⁶¹ However, China is not listed as an eligible country for H-2 visas.⁶²

Planned Labor Demand

Amid the uncertainty of the future availability of foreign labor, the CNMI government has granted zoning permits to planned projects that will require thousands of additional workers. Twenty-two new development projects, including six new hotels or casinos in Saipan and two new hotels or casinos in Tinian, are planned for construction or renovation by 2019.⁶³ Beyond the construction demand created by these projects, the CNMI's Bureau of Environmental and Coastal Quality estimates that at least 8,124 employees will be needed to operate the new hotels and casinos.⁶⁴

According to data provided by the Environmental Bureau, most of this planned labor demand is for development on the island of Tinian, where two businesses plan to build casino resorts, with an estimated labor demand of 6,359 workers for operations—more than twice the island's

⁶¹In 1952, the Immigration and Nationality Act authorized the H-2 temporary worker program, which established visas for foreign workers to perform temporary services or labor in the United States (see 15 Pub. L. No. 82-414, § 101(a)(15)(H)(ii) (June 27, 1952)). The Immigration Reform and Control Act of 1986 amended the Immigration and Nationality Act and divided the H-2 program into two programs: the H-2A program for agricultural workers and the H-2B program for nonagricultural workers (see Pub. L. No. 99-603, § 301(a) (Nov. 6, 1986)). Both visas are for jobs to fill a temporary or seasonal need, generally defined as lasting not longer than 12 months for H-2A workers and 10 months for H-2B workers (see 19 20 C.F.R. §§ 655.6(c), 655.103(d)). DHS also approves other types of foreign workers in the CNMI, see app. VII.

⁶²On October 26, 2016, DHS announced the H-2B country list for 2017, which does not include China. Asian countries on the list include the Philippines, South Korea, and Thailand, among others. See 81 Fed. Reg. 74,468 (Oct. 26, 2016). Although an employer can still request an H-2B visa for a worker from a country not on that list if the employer shows that it is in the U.S. interest to grant the H-2B status (see 8 C.F.R. § 214.2(h)(6)(i)(E)(2)), from fiscal years 2012 to 2016, no CNMI employers petitioned for any Chinese workers to obtain H-2B visas, according to DHS data. See app. VII for the number of foreign workers approved for all visa-types in the CNMI in fiscal years 2011 to 2016.

⁶³Only development projects that obtained CNMI zoning permits are included in this total. There may be other ongoing and planned development projects that do not require zoning permits because of their distance from the CNMI coastline. See app. VIII for more information on these projects.

⁶⁴This total includes the estimated number of employees needed for operations and excludes the estimated number of employees needed for construction, according to the CNMI Bureau of Environmental and Coastal Quality. By 2021, the direct labor needed for operations of these facilities is estimated at 11,613 workers, according to the 902 Report.

population in 2016.⁶⁵ According to the U.S. Department of the Treasury, the existing casino and hotel on Tinian closed in 2015 after having been fined \$75 million by the department for violations of the Bank Secrecy Act of 1970.⁶⁶ One of the two Tinian developments offers overseas immigration services, including assistance with obtaining employment or investment-based immigration to the United States.⁶⁷ We observed a billboard advertisement in Tinian with Chinese writing indicating that by investing in a new development in Tinian, an investor's family members would all get American green cards. This resort development, whose plans estimate a labor force of 859, has undertaken site preparation, while the other larger resort project, whose plans estimate a labor force of 5,500, had not initiated construction as of December 2016.

Currently, the CNMI government does not have a planning agency or process to ensure that planned projects are aligned with the CNMI's available labor force, according to CNMI officials. In January 2017, a bill was introduced in the CNMI Senate to establish an Office of Planning and Development within the Office of the Governor.

Available Supply of Domestic Labor

The current number of unemployed domestic workers is insufficient to replace the existing CW-1 workers or to fill all the nonconstruction jobs that planned development projects are expected to create once their business operations commence.

- In 2016, 9,856 of the 13,299 CW-1 permits approved by DHS were allocated to workers engaged in nonconstruction-related

⁶⁵One of the businesses shows prospective investors how the resort will look once it is completed in a video on its website (see <http://www.altercitygroup.com/en/col.jsp?id=110>).

⁶⁶According to a news release by the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) on June 3, 2015, FinCEN fined the Tinian Dynasty Hotel and Casino \$75 million for failing to develop and implement an anti-money laundering program. The casino accommodated patrons wanting to conduct financial transactions with large amounts of cash without the casino reporting the transactions as required by U.S. law, according to FinCEN. According to DOL data a 2014 investigation by DOL's Wage and Hour Division found that the Tinian Dynasty had both overtime and minimum wage violations.

⁶⁷According to USCIS, foreign nationals may be eligible for employment-based (EB-1) immigration if they have an extraordinary ability, such as an outstanding professor or researcher, or are a multinational executive or manager, or for investment-based (EB-5) immigration if they make the necessary investment in a commercial enterprise in the United States and plan to create or preserve 10 permanent full-time jobs for qualified U.S. workers.

occupations.⁶⁸ When the CW program ends in 2019, available data show that the unemployed domestic workforce,⁶⁹ estimated at 2,386 in 2016,⁷⁰ will be well below the number of workers needed to replace currently employed CW-1 workers in nonconstruction-related occupations.

- In addition, the unemployed workforce would fall far short of the demand for additional workers in nonconstruction related occupations needed to support the ongoing operations of planned development projects—currently estimated at 8,124 workers by 2019.

Narrowing this gap would require CNMI employers to recruit domestic residents present in the CNMI but not currently in the labor force. Key sources of additional labor force entrants to replace current CW-1 workers or fill new positions are as follows:

- **High school or college graduates.** In 2016, CNMI high schools graduated 678 students and the Northern Marianas College graduated 204 students. In addition, a smaller number of students leave high school or the college without a diploma and join the labor force.
- **Domestic residents not in the CNMI labor force.** According to the CNMI's 2016 Health Survey, there are 9,272 U.S. citizens and permanent residents over the age of 16 who are not currently in the labor force. In addition to students, this group consists largely of homemakers, retired workers, seasonal workers in an off-season, the institutionalized, and those doing unpaid family work, according to the census. Overall, the survey found that labor force participation was lower for the population born in the CNMI (57 percent) compared with the overall population (69 percent).

⁶⁸Nonconstruction-related occupations include all occupations other than construction trade occupations, such as building services; handlers; helpers; laborers; machine operators; technicians; or other occupations in architecture, engineering, and surveying that some may consider construction related.

⁶⁹The domestic workforce includes U.S. citizens, permanent residents, and individuals from the freely associated states (Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau).

⁷⁰While the overall rate of CNMI unemployment was 14 percent, it was 20 percent for the population born in the CNMI. The survey states that "unemployed" consists largely of CNMI residents in the labor force who are not working but are looking for work who are U.S. citizens and permanent residents over the age of 16. The unemployment rate was obtained by dividing those not working but looking for work by the number in the labor force.

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- **Other U.S.-eligible workers.** Workers could be recruited from U.S. states, U.S. territories, and the freely associated states (Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau). For example, in 2003, 1,909 freely associated state workers were employed in the CNMI as compared with 677 of these workers in 2015, according to CNMI tax data. Moreover, many citizens from the freely associated states migrate to the United States each year, including to nearby Guam.⁷¹ Guam and Hawaii, the closest U.S. areas to the CNMI, both have higher local minimum wages than the CNMI, currently at \$8.25 and \$9.25 per hour, respectively, according to DOL.

While Some Employers Report Successes, Others Report Facing Multiple Challenges in Efforts to Recruit and Retain U.S. Workers

Employers in the CNMI are required to attempt to recruit and hire U.S. workers. The CNMI government has a goal that all employers hire at least 30 percent U.S. workers, and employers are generally required to post all job openings to the CNMI Department of Labor's website.⁷² However, the CNMI government can and has granted exemptions to this requirement. From May 8, 2015, to May 27, 2016, seven businesses were granted exemptions, according to data provided by the CNMI Department of Labor. In addition, all employers that apply for CW-1 permits must attest that no qualified U.S. worker is available for the job opening.

At least one employer in all four facilitated employer discussion groups and six of seven employers in semistructured interviews reported on efforts to recruit U.S. workers. One employer told us that by collaborating closely with the local trade institute it had significantly reduced its reliance on foreign workers. Another employer attributed its successful recruitment efforts to an apprenticeship program offered by the CNMI's Public School System. One employer explained how it had successfully developed a flexible work scheduling approach that allowed it to use part-time high school and college students to staff its facilities so that it had very few CW-1 workers. Several business owners told us that they made efforts to recruit workers from the U.S. mainland, Puerto Rico, or the freely associated states (Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau). To identify potential staff, one

⁷¹GAO, *Compacts of Free Association: Improvements Needed to Assess and Address Growing Migration*, GAO-12-64 (Washington, D.C.: Nov. 14, 2011).

⁷²U.S. workers include U.S. citizens, U.S. permanent residents, and CNMI permanent residents and the immediate relatives of citizens, U.S. permanent residents, and CNMI permanent residents.

employer told us that she had entered into a contract with a labor recruiter in Micronesia.

However, other CNMI employers reported that they face the following challenges in recruiting and retaining U.S. citizens, among others:

- **Unsatisfactory results of job postings.** One employer told us that advertisements posted on the CNMI's Department of Labor's website yielded hundreds of unqualified applicants to which the employer must respond individually. An employer looking for workers with a specific license was sent dozens of résumés of applicants lacking such a license. Some of the forwarded résumés had not been updated in 10 years. Another employer continued to receive the résumés of employees who had previously been fired.
- **High costs of recruitment.** One employer that recruited nine workers from the U.S. mainland told us that relocation costs were very expensive. Representatives from one company spent more than \$1 million to recruit and relocate 120 U.S. workers to Saipan, but half of them left after a typhoon in 2015, according to the 902 Report. Another large employer told us that costs of relocation to Saipan are extremely expensive and cannot be circumvented, particularly for middle management positions.
- **High turnover.** The geographical distance and remoteness of the CNMI from Hawaii and the U.S. mainland make it difficult to retain U.S. workers. One employer told us that the U.S. workers successfully recruited from California did not stay with the employer for 3 months because of the long distance from home, among other factors. The four local workers that another employer hired to replace one CW-1 worker did not maintain employment for more than 2 weeks each. Meanwhile, all of the local hires recruited through an apprenticeship program left within 2 years to take higher paying jobs with the CNMI government, according to another employer. A hotel employer told us the turnover rate among workers recruited locally is high because employers in Guam, Hawaii, and other off-island locations offer higher wages.

Federal and CNMI Efforts to Address Labor Force Challenges Include Job Training Programs, Scholarships, Technical Assistance, and a Consultative Process

The federal and CNMI governments support programs seeking to address the CNMI's labor force challenges. These programs include the following:

- job training funded by employers' CW-1 vocational education fees that DHS transfers to the CNMI government,
- CNMI scholarship programs funded by the CNMI government and local license fees for gaming machines,
- employment and training assistance funded by DOL, and
- technical assistance funded by DOI.

In recent years, on average, DHS transferred about \$1.8 million per year in CW-1 vocational education fees and DOL provided about \$1.3 million per year to the CNMI for employment and training programs. Although scholarship entities in the CNMI provide an average of \$1.5 million in financial assistance per year to recipients to attend institutions of higher education or vocational training, according to these entities, from 60 to 90 percent of these recipients default on the terms of their scholarship agreements. In addition, the recently completed 902 Consultations between the U.S. and CNMI governments resulted in several recommendations for congressional and executive actions that seek to alleviate immigration and labor force challenges faced by the CNMI.

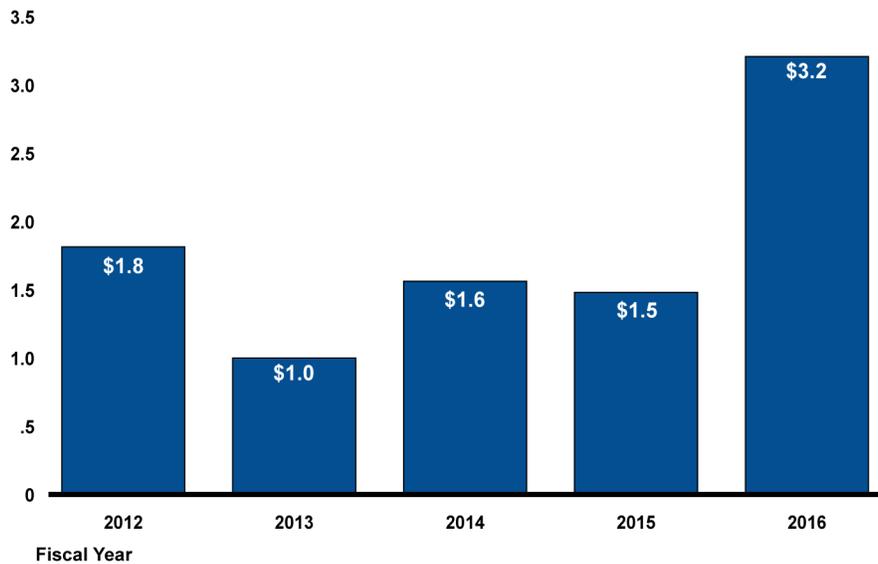
Fees Collected by CW Program Support Job Training

DHS collects the \$150 vocational education fee assessed for each foreign worker on a CW-1 petition and typically transfers the fees to the CNMI government each month. To support vocational education curricula and program development, in fiscal years 2012 through 2016, DHS transferred to the CNMI Treasury about \$9.1 million in CW-1 fees (see fig. 9).⁷³

⁷³DHS collects these supplemental fees and transfers the funds to the CNMI government pursuant to the Consolidated Natural Resources Act of 2008, Pub. L. No. 110-229 § 702(a) (May 8, 2008), codified at 48 U.S.C. § 1806(a)(6).

Figure 9: Annual CNMI-Only Transitional Worker (CW-1) Vocational Education Fees Transferred by the U.S. Department of Homeland Security (DHS) to the Commonwealth of the Northern Mariana Islands (CNMI), Fiscal Years 2012–2016

Dollars (in millions)



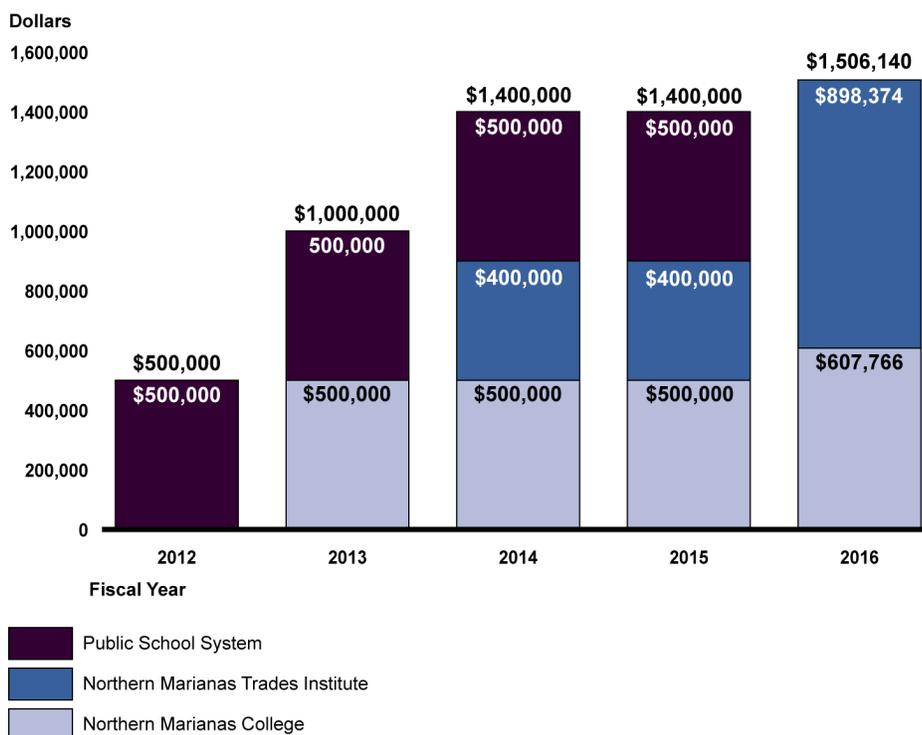
Source: U.S. Department of Homeland Security. | GAO-17-437

Note: DHS collects vocational education fees from prospective employers of those applying for special CW-1 permits and transfers these fees to the CNMI government for the CNMI educational entities' ongoing vocational programs.

In fiscal years 2012 through 2016, the CNMI government allocated about \$5.8 million of the \$9.1 million in CW-1 vocational education fees to three educational institutions (see fig. 10). At present, the CW-1 fees support job training programs at Northern Marianas College and Northern Marianas Trades Institute and in recent years also funded job training provided by CNMI's Public School System. All three institutions reported using a majority of the CW-1 fees to pay the salaries and benefits of faculty and staff members involved in job training programs. The CNMI legislature generally appropriates the CW-1 funding before it is allocated to recipient entities, according to the CNMI. Of the \$9.1 million that DHS

transferred to the CNMI during fiscal years 2012 to 2016, about \$3.3 million remained available for programing in fiscal year 2017.⁷⁴

Figure 10: Annual Allocations of CNMI-Only Transitional Worker (CW-1) Vocational Education Fees to Commonwealth of the Northern Mariana Islands (CNMI) Educational Entities, Fiscal Years 2012–2016



Source: GAO analysis of data provided by the Commonwealth of the Northern Mariana Islands Department of Finance. | GAO-17-437

Note: The U.S. Department of Homeland Security collects a vocational education fee from prospective employers of those applying for special CW-1 permits and transfers these fees to the CNMI government for the CNMI educational entities' ongoing vocational programs.

⁷⁴In addition to providing funding to the three educational entities in fiscal years 2012 through 2016, in fiscal year 2016, according to the CNMI Department of Finance, the CNMI government allocated about \$194,000 to fund a new prevailing wage study and holds the remaining CW-1 funds in a local bank for future allocation.

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- **Northern Marianas College.** In fiscal years 2013 through 2016, the college, the CNMI's only U.S.-accredited institution of higher learning, received \$2.1 million in CW-1 funding and prepared annual reports describing how the funds were used to train the CNMI workforce for occupations in which foreign workers currently outnumber U.S. workers. According to the annual report for fiscal year 2016, the college used its CW-1 funding to provide vocational courses and services in business, nursing, community development, and information technology. The college reported using its CW-1 funding to support 457 students in the fall of 2015, 434 such students in the spring of 2016, and 228 students in the summer of 2016. In fiscal year 2016, 66 students graduated from the business and nursing programs and 33 of them found employment upon graduation, according to the college's annual report. The college reported that CW-1 funding also supported training and services for 891 participants of community-based learning programs offered by the college's Community Development Institute (programs such as continuing education, language training, and customized workforce training for public and private sector organizations). In addition, the college reported using CW-1 funding to conduct an information technology boot camp to prepare local workers for information technology and data management positions. Two boot camp sessions were conducted, training about 45 participants.
 - **Northern Marianas Trades Institute.** In fiscal years 2014 through 2016, the institute—a private, nonprofit facility for vocational education established in 2008—received \$1.7 million in CW-1 funding. The institute specializes in training youths and adults in construction, hospitality, and culinary trades. Training programs range from 4 months to 2 years, and students can earn certificates upon completion of a full course of study. The institute also helps students obtain internships and employment by establishing partnerships with private sector companies. For example, in 2014 the institute established an apprenticeship program with a large hotel in Saipan to enable its students to gain experience working in a restaurant kitchen and to improve their cooking skills. In return, the hotel provides instructors to the institute for its new culinary training facility, according to the human resources manager of the hotel. The institute's senior officers told us that in fiscal year 2016, 300 students were enrolled in the institute's fall, spring, and summer sessions, and as of November 2016, 132 of these students had found employment after completing their training.
 - **CNMI's Public School System.** In fiscal years 2012 through 2015, the Public School System—which consists of 20 public schools,

including 5 high schools that graduated 662 students in the 2014–2015 school year—received \$2 million in CW-1 funds for its cooperative education program designed to prepare high school students for the CNMI’s job market. The program consisted of training taking place both on and off campus. Students completed résumés and applications and completed other professional development activities on campus and gained work experience as trainees in private sector organizations off campus. By the end of the 2014–2015 school year, 452 students were enrolled in the cooperative education program, according to the federal programs officer for the Public School System. According to the Public School System’s federal programs officer, in 2016 the Public School System’s cooperative education program was supported not by CW-1 vocational education fees but by a technical assistance grant provided by DOI.

We facilitated group discussions with current and former students of the CW-1-funded programs at each of the three institutions. Several participants told us that the training had helped them find jobs. Participants also identified specific benefits of the training they received, such as increased familiarity with occupations they intended to enter, learning communication skills tailored for specific work environments, and maintaining and improving skills in a chosen career path.

Job training supported by the CW-1 vocational education fees is generally available on Saipan and to a limited extent on Tinian and Rota. Northern Marianas College reported providing vocational activities on Tinian and Rota in fiscal years 2013, 2014, and 2015, but not in 2016. The college reported using CW-1 funding to help support 88 students on Tinian and 46 students on Rota in fiscal year 2015. Training offered by Northern Marianas Trades Institute is available only on Saipan.

However, the employers we interviewed in the CNMI told us that the benefits of the job training programs supported by the CW-1 vocational education fees were limited to Saipan and that programs run by Northern Marianas College and Northern Marianas Trades Institute were unavailable on Tinian and Rota. For example, in our facilitated discussion with employers in Rota, none of the employers had experience with job training programs supported by CW-1 funding and some did not know about the Public School System’s cooperative education program. One employer in Rota told us that to obtain job training at Northern Marianas College, Rota residents must fly to Saipan and pay for their own travel and housing expenses in addition to tuition. Similarly, a Tinian employer told us that the vocational education fees he pays for CW-1 permits do

not benefit Tinian, since training programs supported by the fees are only offered on Saipan.

Performance or financial reporting of CW-1 fees has not always been available. We reported in September 2012 that according to DHS officials, the CW-1 fees transferred by DHS to the CNMI Treasury were not subject to DHS grant terms or conditions, such as performance or financial reporting requirements, and that the Consolidated Natural Resources Act of 2008, which authorized the CW-1 vocational education fee, did not direct DHS to impose any such requirements on the funds.⁷⁵ In March 2016, the CNMI Department of Labor signed a memorandum of agreement with the two current recipients of the CW-1 funding, Northern Marianas College and Northern Marianas Trades Institute. As part of the memorandum, the CNMI's Department of Labor, through its Secretary, was made responsible for the approval, use, and distribution of funds for job training programs provided by the college and the institute.⁷⁶ The memorandum required each institution to submit an annual audit report to the CNMI Department of Labor for each fiscal year it receives CW-1 funding. The college has submitted an annual report about its use of CW-1 funding each year since fiscal year 2013, when it first obtained such funding. Northern Marianas Trades Institute submitted its first report about the use of CW-1 funding in fiscal year 2016 in March 2017.

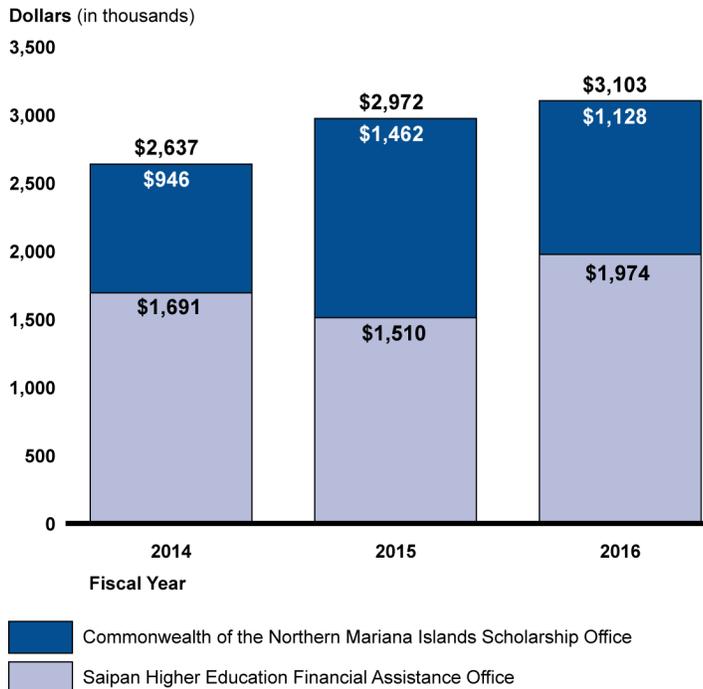
The CNMI and Its Municipalities Provide Scholarships for U.S. Citizens to Attend College or Training

The CNMI government and municipalities offer eligible residents the opportunity to apply for scholarship funds to help pay for higher education or vocational training offered either in the CNMI or elsewhere. Scholarship recipients can obtain financial assistance from either the CNMI Scholarship Office or the Saipan Higher Education Financial Assistance Office. Data provided to us by those offices show that approximately \$3.1 million in financial assistance was provided to recipients in the CNMI to attend institutions of higher education and vocational training in 2016 (see fig. 11).

⁷⁵[GAO-12-975](#).

⁷⁶According to the CNMI government, prior to 2016 the CNMI Department of Finance was responsible for allocating CW-1 funding.

Figure 11: Funding Awarded to Scholarship Recipients in the Commonwealth of the Northern Mariana Islands to Help Pay for Higher Education or Vocational Training, Fiscal Years 2014–2016



Source: GAO analysis of data provided by the Commonwealth of the Northern Mariana Islands Scholarship Office and the Saipan Higher Education Financial Assistance Office. | GAO-17-437

- CNMI Scholarship Office.** In fiscal years 2014 through 2016, this office provided about \$3.5 million to about 655 scholarship recipients each year to enroll in higher education or vocational training programs in priority fields such as science, technology, engineering, math, construction, hospitality, and nursing. Scholarship recipients must sign memorandums of agreement that require them to return to the CNMI within 3 months of graduating from or dropping out of the institution or program for which they are receiving financial assistance. After returning to the CNMI, the students must also provide services by working in the CNMI for a period equal to the period for which they received financial assistance. Data from the CNMI Scholarship Office show that in fiscal years 2014 through 2016 at least 58 percent of the recipients of scholarships from the CNMI Scholarship Office obtained education or training outside the CNMI. Approximately 4,440 of 7,400 of the office’s current and previous CNMI scholarship recipients, or 60 percent of all recipients since the inception of the program, have

defaulted on the terms of their scholarship agreements, according to the scholarship administrator.⁷⁷

- **Saipan Higher Education Financial Assistance Scholarship Office.** In fiscal years 2014 through 2016, this office provided about \$5.2 million in financial assistance to about 1,000 scholarship recipients each year, supported entirely by Saipan’s municipal local license fees for casino poker and other gaming machines.⁷⁸ Scholarship recipients must obtain education or training on Saipan or off-island in priority fields of study, such as accounting, nursing, teaching, and hospitality, among others. Recipients must also return to the island within 3 months of graduation or nonenrollment and take jobs in the CNMI’s private or public sector. In fiscal years 2014 through 2016, data provided by the office show that around 40 percent of all scholarship recipients each year obtained education or training off-island. The office’s Administrator estimated that approximately 90 percent of the 2,759 students who have received financial aid scholarships since the program began have defaulted on the terms of their scholarship agreements, requiring debt repayment. In 2015, the office increased collections of outstanding debt by 55 percent over what it collected in 2014, according to the office’s 2015 annual report.

⁷⁷The 60 percent includes previous scholarship recipients who have returned to the CNMI but have not updated the CNMI Scholarship Office about their education and employment status. Others may have returned or taken jobs but did not notify the office. Following our meeting with the office, officials began researching CNMI tax data to obtain better information about scholarship recipients. CNMI tax data revealed that over 55 percent of 2014, 2015, and 2016 scholarship recipients also filed W2 Wage and Tax Statement forms in the CNMI the same year.

⁷⁸The scholarship office is supported by the Municipality of Saipan, Office of the Mayor. We did not collect information about the scholarship programs offered by the municipalities of Rota or Tinian.

With DOL Funding, the CNMI Government Provides Job Search Assistance, Career Counseling, and Training for Adults, Dislocated Workers, and Youths

From July 2012 through June 2016, DOL provided about \$5.3 million in grants under the Workforce Investment Act of 1998 (WIA) and the Workforce Innovation and Opportunity Act of 2014 (WIOA) to the CNMI Department of Labor's Workforce Investment Agency (see table 7).⁷⁹ That agency carried out WIA programs in the CNMI and now administers programs under WIOA. DOL's Employment and Training Administration conducts federal oversight of these programs.

The CNMI developed a state plan outlining a 4-year workforce development strategy under WIOA and submitted its first plan by April 1, 2016.⁸⁰ The plan and the WIOA performance measures took effect in July 2016. According to its state plan, the CNMI Department of Labor has formed a task force to assess approaches for using workforce programs to prepare CNMI residents for jobs that will be available because of ongoing reductions in the number of foreign workers and the eventual expiration of the CW program.

Providers of DOL-funded worker training include Northern Marianas College, Northern Marianas Trades Institute, CNMI government agencies, and private businesses. Examples of training provided by these entities include courses toward certification as a phlebotomy technician,⁸¹ a nursing assistant, and a medical billing and coding specialist.

⁷⁹WIOA, Pub. L. No. 113-128 (July 22, 2014), repealed WIA, Pub. L. No. 105-220 (Aug. 7, 1998). Among other changes, WIOA established new performance measures; the new measures took effect in July 2016. See GAO, *Workforce Innovation and Opportunity Act: Performance Reporting and Related Challenges*, [GAO-15-764R](#) (Washington, D.C.: Sept. 23, 2015), and *Workforce Innovation and Opportunity Act: Information on Planned Changes to State Performance Reporting and Related Challenges*, [GAO-16-287](#) (Washington, D.C.: Mar. 7, 2016).

⁸⁰Under WIOA, states are required to submit state plans outlining their overall strategy for workforce development and how that strategy will meet identified skill needs for job seekers and employers. All states submitted their first plans under WIOA to DOL and the Department of Education by April 1, 2016. According to DOL and Department of Education officials, they approved all of the state plans with conditions that each state needed to address to meet requirements. In July 2016, these plans and the WIOA performance measures took effect. WIOA requires that states submit state plans to DOL every 4 years and revisit these plans every 2 years, submitting their planned modifications to the relevant federal agencies for approval. For additional information, see GAO, *Workforce Innovation and Opportunity Act: Selected States' Planning Approaches for Serving Job Seekers and Employers*, [GAO-17-31](#) (Washington, D.C.: Nov. 15, 2016).

⁸¹A phlebotomy technician is a healthcare technician who draws blood for tests, transfusions, research, or blood donations.

Under the terms and conditions of DOL grants, the CNMI's Workforce Investment Agency submitted quarterly and annual performance reports to DOL. The quarterly performance reports contained information on the number of program participants; the characteristics and demographics of these participants; and the services provided under the Adult, Dislocated Worker, and Youth programs, including job search assistance, career counseling, and occupational skills training. These programs were implemented on a program year basis, which for program year 2015 began on July 1, 2015, and ended on June 30, 2016. See app. IX for program year 2015 performance measures and negotiated and actual levels of performance reported by the CNMI Department of Labor.

Table 7 presents annual data, as reported by the CNMI's Workforce Investment Agency to DOL, on the number of individuals who received services under the Adult, Dislocated Worker, and Youth programs in each of the last 4 program years. It also presents funding data as reported by DOL.

Table 7: U.S. Department of Labor Funding for and Numbers of Participants in the Adult, Dislocated Worker, and Youth Programs in the Commonwealth of the Northern Mariana Islands (CNMI), July 2012–June 2016

	Program year 2012 (7/1/2012–6/30/2013)	Program year 2013 (7/1/2013–6/30/2014)	Program year 2014 (7/1/2014–6/30/2015)	Program year 2015 (7/1/2015–6/30/2016)
Funding (dollars in millions)	1.2	1.3	1.4	1.4
Program (number of participants)				
Adult	251	188	414	104
Dislocated Worker	47	39	56	48
Youth	474	258	558	195

Source: U.S. Department of Labor and CNMI Department of Labor. | GAO-17-437

Note: Some participants in the Adult program can be co-enrolled in the Youth program, according to both U.S. Department of Labor and CNMI Department of Labor officials. Adults are defined as individuals who are 18 years of age and older; youths are defined as individuals who are 14 to 21 years of age.

DOI Provides Technical Assistance to the CNMI Department of Labor

In September 2016, DOI approved a \$200,000 grant to create a team of labor certification technicians and a statistician at the CNMI Department of Labor to help collect, compile, and analyze data on the CW program, according to DOI. Through the grant, DOI's Office of Insular Affairs Technical Assistance Program, seeks to enable the CNMI to obtain information on job categories currently held by CW-1 workers and monitor losses and gains in particular job fields. Recognizing that the CNMI is in transition and working to build a stronger U.S.-citizen workforce, the grant is also meant to help the CNMI develop a strategic plan to provide real-

time data on the most in-demand job fields and other information needed by decision makers for allocating training and workforce development resources. Under the grant's terms, the CNMI government is expected deliver all required elements by the end of fiscal year 2018.

Recently Completed 902 Consultative Process Resulted in Recommendations to Congress and DHS

On October 2, 2015, and again on January 4, 2016, the prior and current CNMI Governors sent letters to President Obama requesting that he initiate consultations under section 902 of the Covenant to consider two issues affecting the relationship of the CNMI with the federal government.⁸² The first issue involved immigration and labor matters affecting the growth potential of the CNMI economy, and the second issue concerned proposed and ongoing military activities in the CNMI.⁸³ In May 2016, President Obama designated the DOI Assistant Secretary for Insular Areas as the Special Representative for the United States for 902 Consultations. The CNMI Governor was designated the Special Representative for the CNMI. In December 2016, after 8 months of official consultations, informal discussions, and site visits to locations in the CNMI, the Special Representatives transmitted a report to the President that included six recommendations on immigration and labor matters. These recommendations included proposals for legislative amendments, regulatory changes, or DHS actions. On January 17, 2017, the report was submitted to Congress, marking the first known time a 902 Report has been submitted to Congress since the U.S.–CNMI Covenant was fully implemented in 1986, according to DOI. The report's recommendations were as follows:

1. *Extending the CW program beyond 2019 and other amendments, such as raising the CW-1 cap and restoring the executive branch's authority to extend the CW program.* According to the report, Public Law 113-235 repealed the U.S. Secretary of Labor's authority to extend the transition period beyond 2019. The report states that the CNMI seeks to extend the transition period by 10 years from December 31, 2019, to December 31, 2029; to allow the Secretary of Labor to grant a 5-year extension past this date; and to increase the numerical limit of CW-1 visas from 12,998 to 18,000 per fiscal year.

⁸²Pub. L. No. 94-241 (Mar. 24, 1976), § 902, codified as amended at 48 USC 1801 note, Covenant to Establish Commonwealth of the Northern Mariana Islands in Political Union with the United States of America.

⁸³We did not review the recommendations made in relation to military activities in the CNMI because the topic was outside the scope of our review.

The Special Representatives support an extension of the transition period, restoring extension authority, and raising the CW-1 cap.

2. *Providing permanent status for long-term guest workers.* The Special Representatives support congressional action to make long-term guest workers and their families with significant equities in the CNMI eligible for lawful permanent resident status with a path to citizenship. According to the report, it is the CNMI's position that long-term guest workers, through their continued presence and contributions to the CNMI, are intertwined with the economic development and growth of the commonwealth. However, these individuals have no path to lawful permanent residence, according to the report. The report states that the CNMI would like to recognize their important contributions to a place many consider home, in some cases for more than 20 years, by offering them a path to lawful permanent residence.
3. *Soliciting input on suggested regulatory changes to the CW program.* According to the report, the CNMI's position is that DHS's "first-come, first-served" application system for CW-1 permits has resulted in the displacement of current and long-time CW-1 workers by new workers. In addition, long-time guest workers who have built families, homes, and lives in the CNMI are unprotected and are not given priority within the overall numerical allocation of CW-1 permits. The CNMI's position is that its Department of Labor should have a role in determining what employers should be deemed eligible to sponsor foreign labor workers under the CW program. For these reasons, the CNMI suggested several regulatory changes that DHS could implement, such as prioritizing renewals of CW-1 permits over new CW-1 applications, establishing a separate numerical allocation for long-term CW-1 workers, and partnering with the CNMI on the distribution and allocation of available permits. The Special Representatives recommend that DHS publish a Request for Information to solicit input from a variety of parties on various regulatory changes, including those proposed by the CNMI.
4. *Considering immigration policies to address regional labor shortages.* According to the report, the CNMI believes that many of the newer CW-1 applications are for Chinese construction workers, and a CW system with a disproportionate allocation of permits for construction workers could hamper the development of its service sector. For this reason, according to the report, the CNMI calls for making Chinese nationals eligible for H-2B visas for work performed in the CNMI. In addition, because of the special needs of the region, the CNMI calls for amending U.S. immigration laws to create additional Guam or CNMI-Only nonimmigrant visa categories for which current law does

not provide. Finally, because of its geographic distance from Hawaii and the U.S. continent, and its location in the Asia-Pacific region, the CNMI calls for new legislation to expand the current Guam and CNMI-Only Visa Waiver Program, which allows eligible visitors from designated countries to travel to the CNMI for business or pleasure for up to 45 days without standard federal visa documentation. The Special Representatives support Congress's consideration of extending and expanding existing immigration policies or developing new policies to address systemic regional workforce challenges currently being experienced in both Guam and the CNMI.

5. *Extending eligibility to the CNMI for additional federal workforce development programs.* According to the report, unlike the CNMI, several U.S. states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, and the U.S. Virgin Islands are eligible to receive grants to provide for the employment services authorized under the Wagner-Peyser Act. Extending this program to the CNMI (and American Samoa) would ensure that all the territories are treated equally, according to the CNMI. The Special Representatives recommend that DOI's Office of Insular Affairs work cooperatively with DOL to extend the Wagner-Peyser Act to the CNMI.
6. *Establishing a cooperative working relationship between DHS and the CNMI.* According to the report, in recent years, the CNMI Department of Labor has filed Freedom of Information Act requests to obtain information regarding the approved CW-1 permit holders and would like an easier DHS process for obtaining data from USCIS on the CW program. According to the CNMI's Secretary of Labor, the CNMI Department of Labor has a very good working relationship with DHS but could benefit from more coordination on data inquiries. The Special Representatives recommend that DHS and the CNMI work cooperatively to exchange information and continue existing efforts to educate employers about applying for alternative nonimmigrant visas in place of the CW-1 visa when appropriate.

The U.S. Secretary of Homeland Security has the discretion under current law to implement the two recommendations directed at DHS, according to DHS's Acting Deputy Chief Counsel. However, he noted that implementing the other recommendations could require enacting new legislation. DOI's Office of Insular Affairs will, as appropriate, consult with DHS and Congress regarding implementation of the 902 Report recommendations, according to the Acting Assistant Secretary. Table 8 lists the Special Representatives' six recommendations and summarizes proposed next steps toward implementing them that could be taken.

Table 8: Recommendations and Proposed Next Steps of the Special Representatives as Outlined in the Joint 902 Report by the Commonwealth of the Northern Mariana Islands (CNMI) and the U.S. Government

Recommendation	Proposed next steps
(1) Extend the CW program beyond 2019, raise the CW-1 cap, provide DHS authority to extend the CW program further. ^a	Amend the statutory authority for the CW program to provide DHS with the authority to extend the CW program, to raise the CW-1 cap to 18,000, to extend E-2 CNMI Investor Status (or E-2C) investor visa category for the CNMI and Guam, to exempt the CNMI from national caps for H-visas, to analyze the continued ban on asylum claims, and to allow DHS and CNMI stakeholders to comment before a decision is made on this issue.
(2) Provide permanent status for long-term guest workers.	Amend relevant U.S. immigration laws as part of a comprehensive immigration reform bill or as part of a stand-alone bill dealing with CNMI-specific immigration issues to make long-term guest workers and their families with significant equities in the CNMI eligible for lawful permanent resident status with a path to citizenship.
(3) Solicit suggested regulatory changes to the CW program.	Publish a Request for Information to solicit ideas on how various issues that can potentially be addressed by regulatory changes to the CW system, including prioritizing renewals of CW-1 permits over new CW-1 applications, establishing a numerical allocation for long-term CW-1 workers, and allocating set amounts of available permits by industry.
(4) Consider immigration policies to address regional labor shortages.	Consider extending and expanding existing immigration policies or developing new policies to address systemic regional workforce challenges currently being experienced in both Guam and the CNMI. Those to be considered for extension, expansion, or further development are three provisions in the Consolidated Natural Resources Act of 2008 (Pub. L. No. 110-229): (1) a provision that provides an exception to the numerical limitation in section 214(g) of the Immigration and Naturalization Act, or the H-visa category; (2) a provision that allows the Governors of Guam and the CNMI to request that DHS study the feasibility of establishing additional Guam-only or CNMI-Only nonimmigrant visa categories that are not provided for under current immigration law; and (3) the Guam/CNMI Visa Waiver Program.
(5) Extend eligibility to the CNMI for additional federal workforce development programs and the Earned Income Tax Credit and Trade Adjustment Assistance.	Extend Wagner-Peyser assistance to the CNMI, ^b and make the CNMI eligible for the Earned Income Tax Credit and Trade Adjustment Assistance. ^c
(6) Establish a cooperative working relationship between DHS and the CNMI.	DHS and the CNMI work cooperatively to exchange information and continue existing efforts to educate employers about applying for alternative nonimmigrant visas in place of CW-1 visas when appropriate.

Legend: 902 Report = report generated through a consultative process specified in section 902 of the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America; CNMI = Commonwealth of the Northern Mariana Islands; CW-1 = CNMI-Only transitional worker classification; DHS = Department of Homeland Security.

Source: GAO analysis of 902 Report recommendations. | GAO-17-437

^aOn September 7, 2011, DHS established the CW permit program, administered by the U.S. Citizenship and Immigration Services. Under the CW program, qualified nonimmigrant workers are able to obtain, through their employers, nonimmigrant CW-1 status that allows them to work in the CNMI.

^bThe Wagner-Peyser Act of 1933 established a nationwide system of public employment offices collectively known as the Employment Service.

^cAccording to the U.S. Department of the Interior, the CNMI tax code mirrors the U.S. tax code.

On January 30, 2017, the House of Representatives passed The Northern Mariana Islands Economic Expansion Act (H.R. 339), which relates to recommendation 1. The bill, which has been referred to the Senate Committee on Energy and Natural Resources, was introduced by Congressman Sablan of the CNMI on January 5, 2017. The bill would amend Public Law 94-241 to increase the number of CW-1 permits to 15,000 in 2017 and, among other things, would exclude certain construction occupations from eligibility for new CW-1 permits and increase the CW-1 vocational education fee from \$150 to \$200. On April 27, 2017, the Senate Energy and Natural Resources Committee held a hearing to discuss this bill.⁸⁴

Agency Comments

We provided a draft of this report for review and comment to DOC, DHS, DOI, and DOL as well as to the CNMI government. We received technical comments from DOC, DHS, and DOL, which we incorporated as appropriate. We also received written comments from the CNMI Governor. In his letter the Governor stated that the report provides crucial data on the CNMI's progress toward expanding the domestic workforce in line with the mandates of Public Law 110-229. He further stated that the report contains key implications for federal and Commonwealth policy makers to consider. The Governor's letter is reprinted in appendix X.

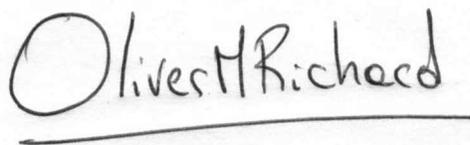
⁸⁴See *Commonwealth of the Northern Mariana Islands: Preliminary Observations on the Implementation of Federal Immigration Laws*, [GAO-17-593T](#) (Washington, D.C.: Apr. 27, 2017).

We are sending copies of this report to the appropriate congressional committees, the Governor of the CNMI, the Secretary of Commerce, the Secretary of Homeland Security, the Secretary of the Interior, the Secretary of Labor, and other interested parties. In addition, this report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov or Oliver Richard at (202) 512-8424 or richardo@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 XI.



David Gootnick, Director
International Affairs and Trade



Oliver Richard, Director
Applied Research and Methods

List of Addresses

The Honorable Lisa Murkowski
Chairman
The Honorable Maria Cantwell
Ranking Member
Committee on Energy and Natural Resources
United States Senate

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

The Honorable Richard Shelby
Chairman
The Honorable Jeanne Shaheen
Ranking Member
Subcommittee on Commerce, Justice, Science, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Lisa Murkowski
Chairman
The Honorable Tom Udall
Ranking Member
Subcommittee on Interior, Environment, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Roy Blunt
Chairman
The Honorable Patty Murray
Ranking Member
Subcommittee on Labor, Health and Human Services, Education, and
Related Agencies
Committee on Appropriations
United States Senate

The Honorable Virginia Foxx
Chairwoman
The Honorable Robert C. "Bobby" Scott
Ranking Member
Committee on Education and the Workforce
House of Representatives

The Honorable Rob Bishop
Chairman
The Honorable Raúl Grijalva
Ranking Member
Committee on Natural Resources
House of Representatives

The Honorable Doug LaMalfa
Chairman
The Honorable Norma Torres
Ranking Member
Subcommittee on Indian, Insular and Alaska Native Affairs
Committee on Natural Resources
House of Representatives

The Honorable John Culberson
Chairman
The Honorable José Serrano
Ranking Member
Subcommittee on Commerce, Justice, Science, and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable Ken Calvert
Chairman
The Honorable Betty McCollum
Ranking Member
Subcommittee on Interior, Environment, and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable Tom Cole
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 Gregorio Kilili Camacho Sablan
Member
House of Representatives

Appendix I: Objectives, Scope, and Methodology

Our objectives were to examine (1) changes in the Commonwealth of the Northern Mariana Islands' (CNMI) labor market since the federally mandated minimum wage increases began, (2) the potential economic impact of reducing the number of foreign workers to zero, and (3) federal and CNMI efforts to address labor force challenges.

For all three objectives, we obtained and analyzed agency data and documents and interviewed officials at the U.S. Departments of Commerce (DOC), Homeland Security (DHS), the Interior (DOI), and Labor (DOL) in Washington, D.C.; San Francisco, California; and Honolulu, Hawaii. In November and December 2016, we conducted fieldwork in Saipan, Tinian, and Rota, CNMI, where we interviewed the CNMI Governor, the Mayors of Tinian and Rota, and the CNMI Secretaries of Commerce, Finance, and Labor. We also conducted discussion groups and semistructured interviews with selected employers, CW-1 workers, U.S. workers currently employed by CNMI businesses, and students or graduates of the CNMI's job training programs. We worked with organizations in the CNMI whose officials we had interviewed prior to our arrival in order to schedule the discussion group sessions, recruit session participants, and obtain space for holding the sessions. For example, we asked the Saipan Chamber of Commerce, Tinian Chamber of Commerce, and the Rota Department of Commerce to help us schedule discussion groups with representatives of various local businesses.¹ Similarly, we asked the Hotel Association of the Northern Mariana Islands to help us schedule semistructured interviews with selected hotel executives.

For background, we described the CNMI's geography, its history, and its political relationship with the United States by reviewing U.S. and CNMI laws, DHS regulations and documents, previous GAO reports, the U.S. Census Bureau's decennial census for the CNMI, and estimates of the CNMI's gross domestic product (GDP) published by DOC's Bureau of

¹Facilitated discussion groups are generally designed to obtain in-depth information about specific issues that cannot be obtained as efficiently from single interviews. Methodologically, they are not designed to provide results that are generalizable to a larger population or provide statistically representative samples or quantitative estimates. Participants in all discussion groups were selected as nonprobability samples of their corresponding populations. The views represented are those only of the participants in our groups and may not be representative of the population of employers, workers, and job training program participants in the CNMI. The experiences of other employers, workers, and job training program participants may be different from those of participants our discussion groups.

Economic Analysis. All GDP levels were adjusted for inflation to 2015 dollars. We also analyzed visitor arrival data gathered by the Marianas Visitor Authority from customs declarations forms for fiscal years 1990 through 2016, which we deemed sufficiently reliable for our purposes. We also obtained and analyzed DHS's U.S. Customs and Border Protection (CBP) data on airport admissions at the Saipan and Rota airports from 2010 through 2016 to understand the number of travelers granted parole. Despite delays in CBP's processing of the CNMI's airport admissions data and CBP officers' gradual adherence to new operational guidance, we determined that CBP data were reliable for our purposes by interviewing CBP data analysts and obtaining answers to our data reliability questions. Finally, we analyzed 2003–2015 data provided by the Hotel Association of the Northern Mariana Islands on hotel occupancy and room rates and adjusted those rates to 2015 prices based on inflation.

To evaluate changes in the CNMI's labor market since the federally mandated minimum wage increases began, we (1) analyzed overall employment data for all domestic and foreign workers in the CNMI, (2) estimated inflation adjusted average earnings, (3) determined the industries and occupations with the highest numbers of CNMI workers affected by the current and scheduled minimum wage increases, and (4) obtained employers' and employees' opinions about the minimum wage increases.

- To analyze overall employment in the CNMI, we relied on tax data provided by the CNMI's Department of Finance for calendar years 2001 to 2015 for citizens and noncitizens. We defined citizens as domestic workers, or anyone that did not require a visa for employment in the CNMI, including citizens of the United States, the CNMI, and the freely associated states (Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau). All noncitizens or nondomestic workers were classified as foreign workers.² We used the same data source for three prior GAO reviews

²In this report, "foreign workers" refers to workers in the CNMI who are not U.S. citizens or U.S. lawful permanent residents. "Foreign workers" does not refer to workers from the freely associated states—the Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau—who are permitted to work in the United States, including the CNMI, under the Compacts of Free Association (48 U.S.C. §§ 1901 note, 1921 note, and 1931 note).

of minimum wage changes in the CNMI.³ We also interviewed CNMI officials who prepared the tax data to understand how the data were prepared and any limitations. We reviewed the data to determine consistency, identified fluctuations, and consulted with CNMI officials to determine possible explanations for fluctuations. We determined that the data were sufficiently reliable for our purposes. Undocumented foreign workers were excluded from the scope of our review.

- To estimate inflation adjusted average earnings, we also relied on CNMI tax data from 2003 through 2015, with counts of the number of individuals in different ranges of earnings. To calculate mean wages in the CNMI, we divided the total sum of earnings by the number of workers with non-zero wages per calendar year from 2003 through 2015. All dollar values were adjusted to 2015 prices based on the CNMI's Consumer Price Index (CPI). Because the U.S. Bureau of Labor Statistics collects CPI data on the 50 U.S. states but not 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 the CNMI's Department of Commerce. To produce an annual CPI series, we analyzed quarterly CPI data from the first quarter of 2003 to the fourth quarter of 2014 and averaged the four quarters in each year. To obtain the CPI for 2015, which was not available from the CNMI's Department of Commerce, we followed a methodology used by DOC's Bureau of Economic Analysis that applied Guam's inflation rate to the CNMI. We also interviewed CNMI officials responsible for producing the quarterly CPI estimates to understand how the data were prepared and any limitations to the data and concluded that the CPI data were sufficiently reliable for the purposes of our review.
- To determine the industries and occupations with the highest numbers and percentages of CNMI foreign and domestic workers affected by the current and scheduled minimum wage increases, we analyzed the

³See GAO, *American Samoa and the Commonwealth of the Northern Mariana Islands: Economic Indicators Since Minimum Wage Increases Began*, [GAO-14-381](#) (Washington, D.C.: Mar. 31, 2014); *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); and *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).

results of the CNMI's 2014 Prevailing Wage Study;⁴ assumed all 2014 workers maintained employment; and projected the numbers and percentages of workers directly affected by the scheduled 2016, 2017, and 2018 wage increases.⁵ We restricted our analysis to scheduled minimum wage increases, not those that could happen under possible future legislation. We then determined the industries and occupations with the largest numbers of workers directly affected by current and scheduled wage increases by counting the number of hourly wage workers in 2014 who earned less than or equal to the level of 2016, 2017, and 2018 minimum wage by industry and occupation.⁶ We determined the data contained in the CNMI's 2014 Prevailing Wage Study to be sufficiently reliable for the purposes of our review by interviewing CNMI officials who gathered and analyzed the original data and obtaining answers to our data reliability questions.

- To obtain local employers' opinions about the minimum wage increase, we reviewed results of a survey conducted in 2016 by the Saipan Chamber of Commerce, gathered survey results, and interviewed board members of the Saipan Chamber of Commerce. We also facilitated four discussion groups and conducted seven semistructured interviews with representatives of 42 employers operating on Saipan, Tinian, and Rota in the CNMI. Discussion groups were held with representatives of selected businesses in Saipan, Tinian, and Rota, with groups ranging in size from 4 to 16 participants. Semistructured interviews were held with selected larger

⁴CNMI's Department of Commerce published the 2014 CNMI *Prevailing Wage & Workforce Assessment Study* in June 2015. When analyzing data from the study, we included citizens of the freely associated states of the Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau in our definition of CNMI domestic workers because U.S. immigration laws provide special status to individuals who are citizens of the freely associated states. See 48 U.S.C. §§ 1901 note, 1921 note, and 1931 note.

⁵Many federal sources generally used to generate data on wages, occupations, and employment status for the United States, including the Current Population Survey and the Current Employment Statistics program, do not cover the CNMI. Because these data sources were unavailable, we used the CNMI's 2014 Prevailing Wage Study for our analysis.

⁶We define "directly affected" workers as those who earn wages that are equal to or rise to the new minimum wage when the increase occurs. Because an increase in the minimum wage would not automatically increase the wage rate of workers earning above that value, a scheduled increase in the minimum wage would not directly affect the wages of these workers. While it is possible that increases in the minimum wage could increase the wages of all workers because of upward pressure on wages, this is not included our calculation.

employers in Saipan. During discussion groups and semistructured interviews, we asked the same two questions about (1) the effect of and business response to the federal minimum wage increase to \$6.55 in October 2016 and (2) the possible future effect of and business response to the federal minimum wage increase to \$7.25 scheduled to occur in October 2018. We selected a nonprobability sample of employers for participation in our discussion groups and semistructured interviews. Therefore, views reported by participants in these groups may not be representative of those of all CNMI employers and for that reason are not generalizable.

To evaluate the potential economic impact of reducing the number of foreign workers in the CNMI to zero and replacing them with domestic workers, we (1) developed an economic model that simulates how the CNMI's GDP would change if the number of CNMI-Only transitional worker (CW-1) permits were reduced to zero, (2) evaluated the local supply and demand for labor, and (3) obtained local employers' and employees' opinions about the past and scheduled reduction in foreign workers.

- To develop an economic model that simulates how the CNMI's GDP would change if the number of CW-1 permits were reduced to zero, we adapted an economic model that we used in a prior GAO report.⁷ The model relied on assumptions regarding the substitutability similarity of the domestic and foreign workforces. In this report, we also relied on reports produced by the Bureau of Economic Analysis on GDP in the CNMI from 2011 to 2015. We presented the change in GDP based from its 2015 value. We examined the possible range of effects from a reduction in foreign workers by calculating the effect on GDP under a range of assumptions. Specifically, we simulated the effect on GDP varying the assumptions regarding the ability of CNMI domestic workers to substitute for foreign workers and the effect of a reduction in labor (see app VI).⁸ To check this analysis, we developed a separate analysis that examined the relationship between GDP and the number of workers in the CNMI from 2002 to 2015. We found that the two factors were indeed related but that relationships differed by industry (see app V).

⁷GAO, *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).

⁸We conducted, overall, 10,000 different simulations.

- To evaluate the local supply and demand for labor in the CNMI, we compared the annual number of CW-1 permits approved by DHS's U.S. Citizens and Immigration Services (USCIS) to the annual numerical limit (or cap) of CW-1 permits set by USCIS from 2011 to 2016. Numbers of approved CW-1 permits are the number of beneficiaries approved for each fiscal year cap, provided by DHS's Office of Performance and Quality, Performance Analysis and External Reporting Branch, based on Form I-129CW petitions for CNMI-Only nonimmigrant transitional workers, as of November 18, 2016. We analyzed the number of approved CW-1 permits by fiscal year (2012 through 2016), month, country of birth, occupation, and tax identification. We determined DHS/USCIS data to be sufficiently reliable for our purposes. We also analyzed the gap between the local supply and demand for labor in the CNMI by comparing the number of approved CW-1 workers to the potential number people seeking employment in 2016, based on a CNMI Behavioral Health Survey and the number of high school and college graduates in 2016, as provided by the CNMI's Public School System. Additionally, we reviewed expected labor requirements outlined by the CNMI's Bureau of Environmental and Coastal Quality as of December 20, 2016.
- To obtain local employers and employees' opinions about the past and scheduled reductions in foreign workers, we conducted discussion groups and semistructured interviews with 42 CNMI employers and 70 workers. In the four discussion groups and seven semistructured interviews with employers, we asked the same two questions regarding reductions in foreign workers:
 1. How did reaching the numerical cap of CW-1 permits in May for fiscal year 2016 and October for 2017 affect your business and how did you respond?
 2. How do you think your business will be affected and will respond by the end of the CW permit program, scheduled for December 31, 2019?

As indicated above, the discussion groups with selected employers ranged in size from 4 to 16 participants. We also conducted eight discussion groups with selected workers in Saipan. We conducted separate discussions with four groups of 41 workers who held CW-1 visas and four groups of 29 workers who were citizens or permanent residents of the United States or the freely associated states. Discussion groups with workers who held CW-1 visas ranged in size from 8 to 16 participants, while discussion groups with workers who were citizens or permanent residents of the U.S. mainland or territories ranged in size

from 5 to 10 participants. In all discussion groups with workers, we asked the same two questions regarding reductions in CW-1 workers:

1. How did reaching the numerical cap of CW-1 permits in May for fiscal year 2016 and October for 2017 affect your job?
2. How do you think the end of the CW permit program, scheduled for December 31, 2019, will affect your job in the future?

Participants in all employer and employee discussion groups were selected using a nonprobability sampling approach. Therefore, the views or experiences reported by individuals in these groups may not be generalizable.

To evaluate federal and CNMI government efforts to address labor force challenges, we (1) collected information about the CNMI's three job training programs supported by CW-1 vocational education fees, (2) assessed the results of the CNMI's two scholarship programs, (3) examined employment programs offered by the CNMI's Department of Labor, (4) reviewed a grant agreement between DOI and the CNMI government, and (5) summarized the results of the 902 consultative process (902 Consultations) that resulted in a report to Congress with several recommendations.

- To collect information about the CNMI's three job training programs, we analyzed financial records showing CW-1 vocational education fees that DHS transferred to the CNMI government in fiscal years 2012 through 2016. We also reviewed the CNMI government's financial records that showed allocations of CW-1 vocational education fees to three education entities in the CNMI: Northern Marianas College, Northern Marianas Trades Institute, and the CNMI's Public School System. We interviewed administrators of these three entities and held discussions with groups of current or former participants of their job training programs. A total of 38 people participated in our three discussion groups, with groups ranging in size from 10 to 16 participants. Participants were asked, among other things, about the goals of the job training programs and their expectations regarding the impact of the programs on them. Participants in these groups represented nonprobability samples, and therefore, the views and experiences they reported may not be generalizable to all participants in CNMI job training programs. Last,

we reviewed a previous GAO report,⁹ an independent audit of the Northern Marianas College for the period 2014 through 2015,¹⁰ and an independent audit of the CNMI's Public School System in 2015, the most recent reports available.¹¹

- To assess the results of the CNMI's two scholarship programs, we interviewed officials, gathered documentation, and analyzed data provided by the CNMI's Scholarship Office and the Saipan Higher Education Financial Assistance Program, the two organizations that provide funding to students to attend higher education and job training programs. The Saipan Higher Education Financial Assistance Program is supported by the Municipality of Saipan, Office of the Mayor. We did not collect similar information about the scholarship programs offered by the municipalities of Rota or Tinian.
- To examine the employment programs offered by the CNMI's Department of Labor under the Workforce Investment Act of 1998 (WIA) and the Workforce Innovation and Opportunity Act (WIOA), we interviewed the CNMI's Secretary of Labor and case officers working at the CNMI's Workforce Investment Agency and officials from DOL's Employment and Training Administration. We also analyzed the CNMI's WIA performance data for program years 2012 through 2015. We limited our scope to those program years because reporting requirements changed in program year 2016, which began on July 1, 2016, as a result of the enactment of WIOA. We also reviewed several GAO reports about WIA and WIOA¹² and the CNMI's 2016 WIOA state plan.¹³

⁹GAO, *Commonwealth of the Northern Mariana Islands: Additional DHS Actions Needed on Foreign Worker Permit Program*, [GAO-12-975](#) (Washington, D.C.: Sept. 27, 2012).

¹⁰Northern Marianas College, *Report on the Audit of Financial Statements in Accordance with OMB Circular A-133; Years Ended September 30, 2015 and 2014* (June 1, 2016).

¹¹Commonwealth of the Northern Mariana Islands, Public School System, *Independent Auditors' Report and Financial Statements, Year Ended September 30, 2015* (March 23, 2016).

¹²GAO, *Workforce Innovation and Opportunity Act: Selected States' Planning Approaches for Serving Job Seekers and Employers*, [GAO-17-31](#) (Washington, D.C.: Nov. 15, 2016); *Workforce Innovation and Opportunity Act: Information on Planned Changes to State Performance Reporting and Related Challenges*, [GAO-16-287](#) (Washington, D.C.: Mar. 7, 2016); and *Workforce Innovation and Opportunity Act: Performance Reporting and Related Challenges*, [GAO-15-764R](#) (Washington, D.C.: Sept. 23, 2015).

¹³The Commonwealth of the Northern Mariana Islands, *WIOA State Plan* (Apr. 1, 2016).

- To review federal grants agreement between the U.S. and CNMI governments, we interviewed officials and reviewed documents provided by DOI and the CNMI Department of Labor.
- To understand the results of the Consultations we reviewed section 902 of the U.S.–CNMI Covenant,¹⁴ and the report published as a result of the process.¹⁵ We also interviewed CNMI government and DOI and DHS officials who participated in the process.

¹⁴Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (Pub. L. No. 94-241, Mar. 24, 1976), codified as amended at 48 U.S.C. § 1801 note. Section 902 of the Covenant provides that the government of the United States and the government of the Northern Mariana Islands “will designate special representatives to meet and to consider in good faith such issues affecting the relationship between the Northern Mariana Islands and the United States as may be designated by either Government and to make a report and recommendations with respect thereto.” These intermittent discussions between the United States and the CNMI have become known as 902 Consultations.

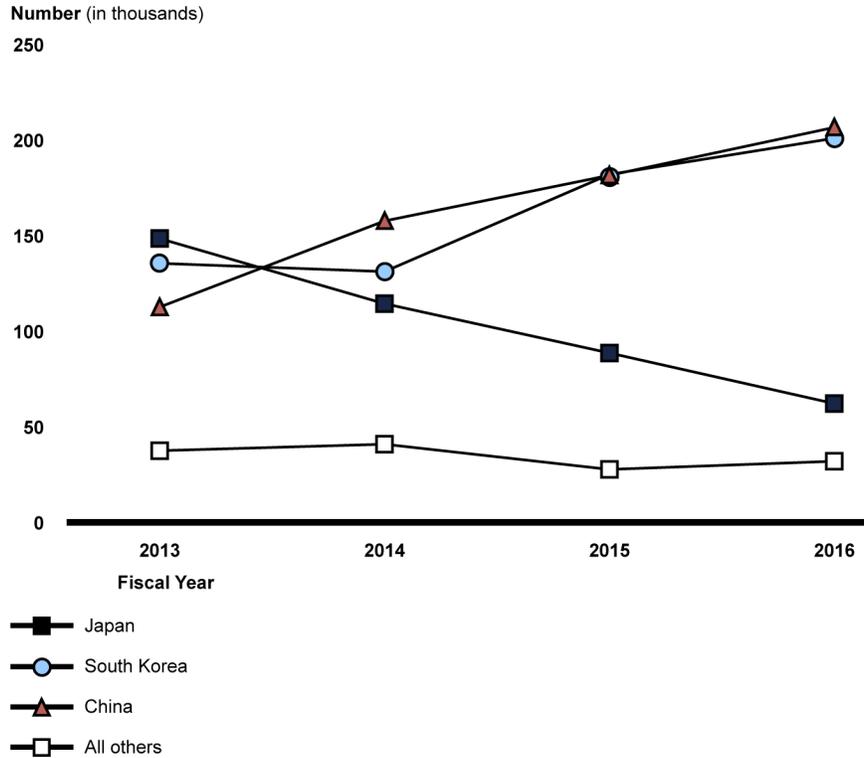
¹⁵See *Report to the President on 902 Consultations by Special Representatives of the United States and the Commonwealth of the Northern Mariana Islands*, January 2017.

Appendix II: Tourism Trends in the CNMI

Data from the Marianas Visitors Authority show that the downward trend in the number of Japanese visitors to the Commonwealth of the Northern Mariana Islands (CNMI) from 2013 through 2016 was offset by the growth in visitors from China and South Korea. From fiscal years 2013 through 2016, the number of visitors from Japan dropped by 58 percent from 148,423 to 62,120 visitors. Meanwhile, the number of Chinese visitors rose by 83 percent (112,570 to 206,538), and the number of South Korean visitors rose by 48 percent (135,458 to 200,875), as shown in figure 12. According to the U.S. Department of Homeland Security (DHS), Chinese visitors are paroled into the CNMI under the department's discretionary parole authority, while eligible South Korean and Japanese visitors enter the CNMI under the U.S. Visa Waiver Program.¹

¹DHS exercises parole authority to allow, on a case-by-case basis, eligible nationals of China to enter the CNMI temporarily as tourists when there is significant public benefit, according to DHS.

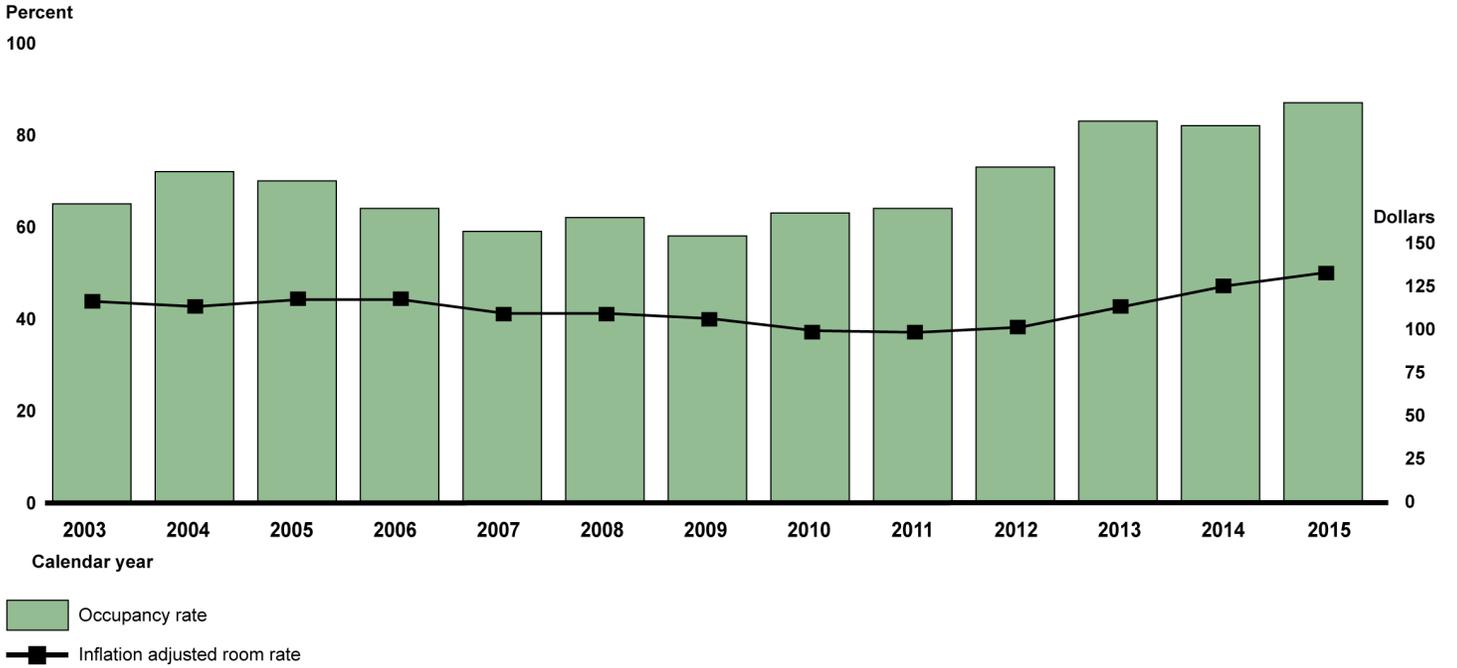
Figure 12: Numbers of Chinese, South Korean, Japanese, and Other Visitors to the Commonwealth of the Northern Mariana Islands, Fiscal Years 2013–2016



Source: GAO analysis of Mariana Visitors Authority data. | GAO-17-437

With the increases in total annual visitor arrivals, hotel occupancy in the CNMI has also risen in recent years. Data from the Hotel Association of the Northern Mariana Islands, which in 2016 represented 12 CNMI hotels, show that from 2011 through 2015, hotel occupancy rates for its member hotels increased from 64 to 87 percent; at the same time, the yearly average inflation adjusted room rate increased by 35 percent from \$98 to \$133 per night (see fig. 13).

Figure 13: Hotel Occupancy Rates in the Commonwealth of the Northern Mariana Islands and Corresponding Yearly Average Room Rates, Calendar Years 2003–2015



Source: GAO analysis of Hotel Association of the Northern Mariana Islands data. | GAO-17-437

Note: Inflation adjusted to 2015 dollars.

Appendix III: Foreign Worker Employment in the CNMI by Industry and Occupation

Table 9 shows the percentage of foreign workers and workers in the Commonwealth of the Northern Mariana Islands (CNMI) in 2014 with CNMI-Only transitional worker (CW-1) permits, by industry. Workers with approved CW-1 permits are a subset of foreign workers. According to the CNMI's 2014 Prevailing Wage Study, which is based on a survey of employers, about 90 percent of foreign workers had CW-1 permits.¹ The table is sorted with the highest percentage of foreign workers first. As the table shows, (1) agriculture, forestry, fishing, and hunting; (2) other services (except public administration); (3) construction; and (4) accommodation and food services industries employed 80 percent or more of non-U.S. citizens, or foreign workers. The public administration industry—where citizenship is sometimes a requirement—has the lowest percentage of non-U.S. citizens, with about 22 percent.

¹The CNMI's 2014 Prevailing Wage Study is the most recent available. According to the CNMI Department of Finance, in fiscal year 2016 the CNMI government allocated about \$194,000 to fund a new prevailing wage study.

**Appendix III: Foreign Worker Employment in
the CNMI by Industry and Occupation**

Table 9: Foreign Worker Employment in the Commonwealth of the Northern Mariana Islands (CNMI) by Industry in 2014

Industry	Number of workers	Percentage of workers with CW-1 permits^a	Percentage of workers who are not U.S. citizens
Agriculture, forestry, fishing, and hunting	224	95	95
Other services (except public administration)	1,877	76	87
Construction	1,194	81	86
Accommodation and food services	3,226	72	80
Arts, entertainment, and recreation	928	69	78
Wholesale trade	945	55	77
Manufacturing	550	72	77
Administrative and support and waste management and remediation services	2,975	69	77
Real estate and rental and leasing	1,272	72	76
Professional scientific and technical services	918	56	72
Retail trade	4,664	61	70
Management of companies and enterprises	30	67	67
Health care and social assistance	618	56	61
Mining, quarrying, and oil and gas extraction	48	56	58
Finance and insurance	625	52	56
Transportation and warehousing	750	47	54
Information	416	35	42
Educational services	1,159	27	29
Public administration	2,885	22	22
Utilities	353	^b	^b

Source: GAO analysis of data collected by the CNMI Department of Commerce for the 2014 Prevailing Wage Study. | GAO-17-437

Notes: Citizens of the freely associated states—the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau—are included in the percentage of workers who are not U.S. citizens.

^aOn September 7, 2011, the U.S. Department of Homeland Security established the CNMI-Only transitional worker (CW) permit program, administered by the U.S. Citizenship and Immigration Services. Under the CW program, qualified nonimmigrant workers are able to obtain, through their employers, nonimmigrant CW-1 status that allows them to work in the CNMI.

^bThe study indicated that approximately 0 percent of utilities jobs were filled by workers with CW-1 permits or who are not U.S. citizens.

Table 10 shows the numbers and percentages of foreign workers and workers with CW-1 permits by occupation in 2014. The table is sorted by the percentage of foreign workers in each occupation, from highest to lowest. As the table shows, production occupations, personal care and service occupations, and building and constructions occupations had percentages of foreign workers, almost 90 percent. On the other hand,

Appendix III: Foreign Worker Employment in the CNMI by Industry and Occupation

only about 40 percent of protective service occupations were made up of foreign workers.

Table 10: Foreign Worker Employment in the Commonwealth of the Northern Mariana Islands (CNMI) by Occupation in 2014

Occupation	Number of workers	Percentage of workers with CW-1 permits^a	Percentage of workers who are not U.S. citizens
Production occupations	1,132	87	90
Personal care and service	1,054	87	89
Building and grounds cleaning and maintenance	1,511	84	87
Construction and extraction	1,259	85	87
Food preparation and serving related	2,092	74	80
Health care support	461	70	77
Farming fishing and forestry	425	76	76
Installation maintenance and repair	1,512	73	75
Arts, design, entertainment, sports, and media	377	63	72
Sales and related	2,810	57	67
Management	3,848	49	65
Architecture and engineering	141	60	62
Business and financial operations	1,203	44	57
Health care practitioners and technical	673	52	56
Transportation and material moving	1,210	46	56
Computer and mathematical	114	39	49
Office and administrative support	3,189	41	49
Protective service	1,182	37	39
Education, training, and library	998	31	34
Legal	158	25	25
Life, physical, and social science	117	22	22
Community and social service	191	17	17

Source: GAO analysis of data collected by the CNMI Department of Commerce for the 2014 Prevailing Wage Study. | GAO-17-437

Notes: Citizens of the freely associated states—the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau—are included in the percentage of workers who are not U.S. citizens.

^aOn September 7, 2011, the U.S. Department of Homeland Security established the CNMI-Only transitional worker (CW) permit program, administered by the U.S. Citizenship and Immigration Services. Under the CW program, qualified nonimmigrant workers are able to obtain, through their employers, nonimmigrant CW-1 status that allows them to work in the CNMI.

Appendix IV: Minimum Wage Increases in the CNMI by Industry and Occupation

As the minimum wage increases continue, they will affect a growing percentage of hourly workers in the Commonwealth of the Northern Mariana Islands. Table 11 shows the numbers and percentages of workers directly affected by the most recent and future scheduled minimum wage increases across different industries. Directly affected workers are CNMI's wage workers in 2014, assuming they maintained employment, that would have been directly affected by the federally mandated 2016–2018 wage increases. The table is sorted by industries with the highest numbers of workers directly affected by the most recent minimum wage increase first. As the table shows, the tourism related industries, such as retail trade and accommodation and food services, are likely to be more directly affected by the most recent and future scheduled minimum wage increases. More than 6,000 (or approximately 77 percent) of workers in these two industries have been directly affected by the most recent minimum wage increase. The minimum wage increases are also likely to have a large impact on the construction industry; these increases have directly affected 79 percent of its workers. Public administration and educational services are less likely to be directly affected by the current and future minimum wage increases, with 9 and 14 percent of those industries' workers directly affected, respectively.

**Appendix IV: Minimum Wage Increases in the
CNMI by Industry and Occupation**

Table 11: Number and Percentage of Workers Directly Affected by the Most Recent and Future Scheduled Minimum Wage Increases in the Commonwealth of the Northern Mariana Islands (CNMI), by Industry

Industry	Number of workers	Current		Scheduled			
		Number affected	Percentage affected	2016		2018	
				\$6.55		\$7.25	
				Number affected	Percentage affected	Number affected	Percentage affected
Retail trade	4,664	3,555	76.2	3,915	83.9	3,944	84.6
Accommodation and food services	3,226	2,542	78.8	2,749	85.2	2,768	85.8
Administrative and support and waste management and remediation services	2,975	2,289	76.9	2,404	80.8	2,416	81.2
Other services (except public administration)	1,877	1,488	79.3	1,546	82.4	1,547	82.4
Real estate and rental and leasing	1,272	951	74.8	1,007	79.2	1,015	79.8
Construction	1,194	946	79.2	1,015	85.0	1,023	85.7
Arts, entertainment, and recreation	928	810	87.3	833	89.8	834	89.9
Wholesale trade	945	624	66.0	685	72.5	698	73.9
Manufacturing	550	458	83.3	464	84.4	467	84.9
Professional scientific and technical services	918	456	49.7	499	54.4	501	54.6
Transportation and warehousing	750	310	41.3	361	48.1	368	49.1
Finance and insurance	625	298	47.7	332	53.1	334	53.4
Health care and social assistance	618	288	46.6	330	53.4	343	55.5
Public administration	2,885	253	8.8	390	13.5	443	15.4
Information	416	192	46.2	199	47.8	199	47.8
Agriculture, forestry, fishing, and hunting	224	161	71.9	181	80.8	181	80.8
Educational services	1,159	156	13.5	208	17.9	216	18.6
Management of companies and enterprises	30	30	100.0	30	100.0	30	100.0
Mining, quarrying, and oil and gas extraction	48	10	20.8	14	29.2	14	29.2
Utilities	353	1	0.3	1	0.3	4	1.1
Total	25,657	15,818	61.7	17,163	66.9	17,345	67.6

Source: GAO analysis of CNMI Prevailing Wage and Workforce Assessment Study, 2014. | GAO-17-437

Similar to industries, certain occupations are also likely to be directly affected more by minimum wage increases than others. Table 12 shows the numbers and percentages of workers directly affected by the most recent and future scheduled minimum wage increases across different occupations. The table is sorted by occupations with the highest numbers of workers directly affected by the most recent minimum wage increase first. As the table shows, sales and related occupations and food preparation and serving related occupations are most likely to be directly affected by the most recent and future scheduled minimum wage increases. More than 4,000 workers (or approximately 85 percent) of workers in these two occupations are likely directly affected by the most recent minimum wage increase. Building and grounds cleaning and maintenance occupations, production occupations, and construction and extraction occupations also are likely to experience relatively large impacts from the most recent and future scheduled minimum wage increases.

**Appendix IV: Minimum Wage Increases in the
CNMI by Industry and Occupation**

Table 12: Number and Percentage of Workers Directly Affected by the Most Recent and Future Scheduled Minimum Wage Increases in the Commonwealth of the Northern Mariana Islands (CNMI), by Occupation

Occupation	Number of workers	Current		Scheduled			
		Number affected	Percentage affected	2016		2018	
				\$6.55		\$7.25	
				Number affected	Percentage affected	Number affected	Percentage affected
Sales and related	2,810	2,257	80.3	2,498	88.9	2,523	89.8
Food preparation and serving related	2,092	1,894	90.5	1,950	93.2	1,957	93.5
Office and administrative support	3,189	1,875	58.8	2,114	66.3	2,144	67.2
Building and grounds cleaning and maintenance	1,511	1,430	94.6	1,455	96.3	1,458	96.5
Management	3,848	1,271	33.0	1,484	38.6	1,502	39.0
Production	1,132	1,054	93.1	1,064	94.0	1,069	94.4
Construction and extraction	1,259	1,028	81.7	1,085	86.2	1,095	87.0
Installation maintenance and repair	1,512	988	65.3	1,120	74.1	1,127	74.5
Personal care and service	1,054	908	86.1	952	90.3	957	90.8
Transportation and material moving	1,210	795	65.7	840	69.4	849	70.2
Protective service	1,182	667	56.4	700	59.2	702	59.4
Farming, fishing, and forestry	425	385	90.6	390	91.8	392	92.2
Business and financial operations	1,203	322	26.8	422	35.1	432	35.9
Health care support	461	298	64.6	321	69.6	325	70.5
Arts, design, entertainment, sports, and media	377	246	65.3	253	67.1	253	67.1
Education, training, and library	998	231	23.1	312	31.3	318	31.9
Health care practitioners and technical	673	52	7.7	57	8.5	67	10.0
Architecture and engineering	141	43	30.5	53	37.6	54	38.3
Community and social service	191	39	20.4	49	25.7	55	28.8
Computer and mathematical	114	33	28.9	37	32.5	37	32.5
Life, physical, and social science	117	2	1.7	6	5.1	28	23.9
Legal	158	0	0.0	1	0.6	1	0.6
Total	25,657	15,818	61.7	17,163	66.9	17,345	67.6

Source: GAO analysis of CNMI's Prevailing Wage and Workforce Assessment Study, 2014. | GAO-17-437

Appendix V: Technical Specifications of the Model for the CNMI Economy

To simulate the effect of a reduction in the number of foreign workers on the Commonwealth of the Northern Mariana Islands (CNMI) economy, we followed a similar approach as in an earlier GAO report that also analyzed the economic effect of a reduction of foreign workers in the CNMI.¹

Specifically, to model the CNMI economy, we employed a standard production function, the Cobb-Douglas, that we modified to allow for both foreign and domestic workers.

$$Y = AK^{\alpha}(\epsilon FW^{-\rho} + (1-\epsilon)RW^{-\rho})^{-(1-\alpha)/\rho}$$

In this model, Y is output, K is capital, A is a constant, FW is the foreign workforce, and RW is the resident workforce. The parameters that control both the substitutability and the factor shares of resident and foreign labor are ρ and ϵ . In addition, the elasticity of output with respect to “total workforce” is given by $(1-\alpha)$.

We chose this function because it allowed us to vary assumptions about the degree to which both foreign and domestic labor act as substitutes for each other. In this model, the less often the foreign workers are close substitutes for domestic workers, the greater the effect of any restriction on foreign workers—because domestic workers are less able to step into the roles occupied by foreign workers. Allowing the substitutability to be less than perfect is consistent with a recent paper suggesting that even when the education level and experience level of immigrant and nonimmigrant workers are identical, they may not be perfect substitutes.²

According to information from the CNMI’s Department of Commerce, foreign and domestic workers have similar levels of education. For example, about 20 percent of each group had a college education or greater in 2014. However, there are stark differences between the two groups in pay. The average wage for a CNMI-Only transitional worker (CW-1) visa holder in 2014 was \$7.54, about 69 percent of the average wage of domestic workers, at \$10.94.

¹GAO, *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).

²See Gianmarco Ottaviano and Giovanni Peri, “Rethinking the Effect of Immigration on Wages,” *Journal of the European Economic Association*, vol. 10, no. 1 (2012).

We chose parameters for the model by examining research in this area and available data. For example, we simulated the effect of greater or less “substitutability.” However, because of the extent of uncertainty, we purposely allowed the parameters to have large ranges. We assumed that capital and technology remained constant. See table 13 for the parameters and inputs used in our analysis.

Table 13: Parameters and Inputs Assumed in GAO’s Analysis of the Economic Effect of a Reduction of Foreign Workers in the Commonwealth of the Northern Mariana Islands (CNMI), by Source

Parameter	Inputs	Source
Number of foreign workers	12,784	2015 CNMI tax data.
Number of non- CNMI-Only transitional worker (CW-1) foreign workers ^a	1,415	Percentage of foreign workers who are not CW-1 workers, based on the CNMI Prevailing Wage & Workforce Assessment Study, 2014, applied to 2015 number of foreign workers.
Number of CW-1 workers	11,369	Percentage of foreign workers who are CW-1 workers, based on the CNMI Prevailing Wage & Workforce Assessment Study, 2014, applied to 2015 number of foreign workers.
Resident workers	12,523	2015 CNMI tax data.
Elasticity of output with reference to labor	.55 to .80, with center at .65	Estimated relationship between gross domestic product (GDP) and the number of foreign workers, range based on selected economic literature and estimates based on data.
Elasticity of substitutability between foreign and domestic labor	(-1) (perfectly substitutable) to .25 (complements)	Range based on the assumption of perfect substitutability or, alternatively, the estimated elasticity between domestic and foreign workers, given their relative wages and numbers. CNMI Prevailing Wage & Workforce Assessment Study, 2014.
Rate of growth of domestic workforce (percentage)	0-10	Based on growth rate of domestic workforce over past 2 years.

Source: GAO analysis of CNMI’s 2015 tax data, CNMI’s Department of Commerce 2014 prevailing wage data, and U.S. Department of Commerce GDP data. | GAO-17-437

Notes: The CNMI’s Department of Commerce published the 2014 CNMI Prevailing Wage & Workforce Assessment Study in June 2015.

^aCW-1 workers are foreign workers with CW-1 permits. On September 7, 2011, the U.S. Department of Homeland Security established the CW permit program, administered by the U.S. Citizenship and Immigration Services. Under the CW program, qualified nonimmigrant workers are able to obtain, through their employers, nonimmigrant CW-1 status that allows them to work in the CNMI.

Determining the number of CW-1 workers required that we combine different data sets, which introduced a potential source of error. As a check on our results, we also ran simulations with different estimates of the CW-1 workers. We found that making different assumptions about the number of CW-1 workers affected our estimates but did not affect the overall message.

- We ran a simulation in which the number of CW-1 workers was assumed to be 9,715, based on the number of CW-1 permits approved by the U.S. Citizenship and Immigration Services in fiscal year 2015. We found that making this change caused the range of gross domestic product (GDP) reduction to change, from 26 to 62 percent under the assumption of 11,370 CW-1 workers to 22 to 45 percent under the assumption of 9,715 CW-1 workers.
- We addressed the possibility that the percentage of visa holders with CW-1 permits, which we based on the CNMI prevailing wage study, might be too low. Specifically, we ran a simulation in which we assumed that the 641 workers from the freely associated states (Federated States of Micronesia, Republic of the Marshall Islands, and Republic of Palau) in the prevailing wage study were incorrectly coded as non-CW-1 visa holders, instead of not requiring a visa at all. This possibility was noted in the methodology section of the prevailing wage study. Making this change increased the number of CW-1 workers to 11,816. This led to a range of simulation results of 28 percent to 68 percent GDP reduction.

Appendix VI: Relationship between Number of Workers and Size of the CNMI Economy

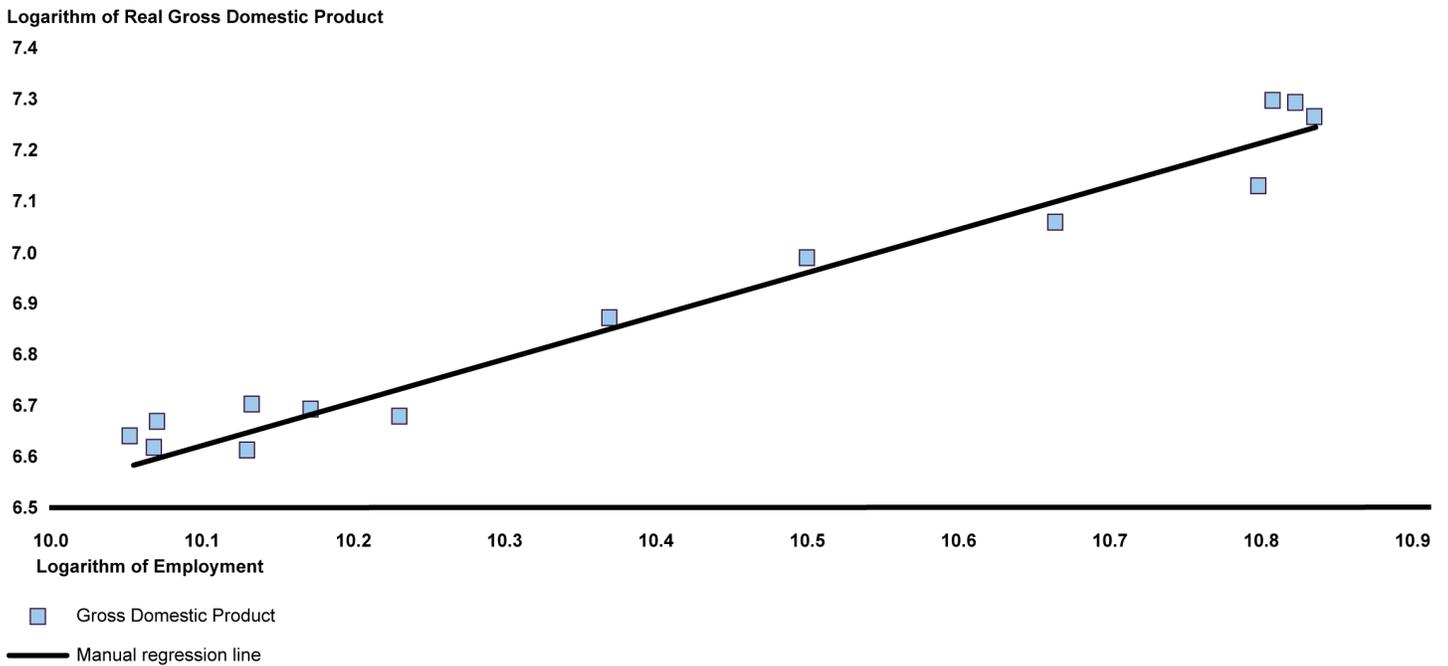
We used the limited data available to produce an estimate of the relationship between gross domestic product (GDP) in the Commonwealth of the Northern Mariana Islands (CNMI) and the number of workers in the CNMI workforce. We relied on data from two sources. For the number of workers, we used data from the CNMI tax system. For information on the size of the economy (GDP), we used the most recent data available from the U.S. Department of Commerce's Bureau of Economic Analysis (BEA). BEA has reported data on GDP in CNMI from 2002 to 2015.

From 2002 to 2015, the CNMI's inflation adjusted GDP fell from \$1.47 billion to \$814 million, according to BEA, a decline of 45 percent. The decline in GDP reflects the departure of the garment industry. Over this same period, CNMI tax data show that the number of total workers fell from 50,436 to 25,307—a decline of about 50 percent—accounted for almost entirely by the reduction of foreign workers.

Because of the lack of other relevant data, our analysis has important limitations. First, it attributes all of the change in GDP to changes in labor and assumes that nothing else in the CNMI changed over this period. It is possible, however, that capital in the island also diminished as labor left, since machinery may have been removed from the island and vacant factories may have been depreciated. Second, the change in GDP also could be attributed to the changes in the global economy, as well as other factors, which are not accounted for in the statistical model.

Given these limitations, we employed a simple linear regression model, where the dependent variables were the natural log of GDP (presented in fig. 14) against the natural log of the number of workers (presented in table 12) and a constant. We used the natural log because that allowed us to interpret the coefficients as an elasticity. We estimated a coefficient of 0.83 that implies that for every 10 percent decrease in the number of workers, there is a decline in GDP of about 8 percent, on average, with the elasticity interpretation. We also ran a version of this regression with a linear time trend. Including a linear time trend yielded a similar estimated relationship between GDP and the number of workers. Figure 14 shows the relationship between these two variables as a scatter plot.

Figure 14: Commonwealth of the Northern Mariana Islands Gross Domestic Product versus Employment



Source: GAO analysis of Bureau of Economic Analysis data on Gross Domestic Product and Commonwealth of the Northern Mariana Islands tax data. | GAO-17-437

In a separate analysis, however, we found that the relationship between GDP and the number of workers differed by industry, which further indicates the degree of uncertainty, and shows that the experience of the garment industry may not be generalizable. We determined this relationship was inconsistent across different industries using data on GDP from BEA by comparing GDP with the number of workers in each industry. However, because of a data limitation, we measured the number of workers not by the number of unique Social Security numbers but by the number of W-2 wage and tax statement forms filed by CNMI employers. A single person can have W-2 forms at multiple employers if he or she holds multiple positions. In addition, GDP by industry is available through 2014 rather than 2015. Because of the inconsistency between industries and the limitations described above, we applied a simulation method to project the effect of reducing the number of CNMI-Only transitional worker permits in the following appendix.

Appendix VII: Descriptions and Numbers of Foreign Workers Approved in the CNMI, by Permit Type, Fiscal Years 2011–2016

Although the majority of foreign workers approved by the U.S. Department of Homeland Security (DHS) in the Commonwealth of the Northern Mariana Islands (CNMI) have CNMI-Only transitional worker (CW-1) permits, DHS also approves other types of permits for foreign workers in the CNMI (see table 14).

Table 14: Descriptions and Numbers of Foreign Nationals Approved by the U.S. Department of Homeland Security (DHS) in the Commonwealth of the Northern Mariana Islands (CNMI) by Permit Type, Fiscal Years 2011–2016

Permit type	Description	2011	2012	2013	2014	2015	2016
CW-1	CNMI-Only transitional worker	—	10,548	6,325	9,188	9,715	13,299 ^a
CW-2	Dependent of a CNMI-Only transitional worker		426	622	799	785	1034
E-2	Treaty investors and dependents	2	7	1	3	2	1
E-2C	CNMI-Only Investors	39	205	17	8	185	55
H-1B	Temporary workers with “specialty occupations”	7	88	19	53	42	32
H-2B	Temporary nonagricultural workers	1	0	0	0	0	0
L-1A	Intracompany transferees executive or manager	1	6	6	0	0	4
O-1	Temporary workers with extraordinary ability or achievement	0	1	0	0	0	0
O-2	Temporary workers accompanying and assisting O-1 visa holders	0	1	0	0	0	0
R-1	Temporary nonimmigrant religious worker	6	4	3	6	0	9
Total	—	56	11,286	6,993	10,057	10,729	14,434

Legend: — = not applicable.

Source: GAO analysis of DHS data. | GAO-17-437

Notes: To address key requirements in the Consolidated Natural Resources Act of 2008, on September 7, 2011, DHS issued a final rule establishing the CW program in the CNMI for foreign workers not otherwise admissible under federal law. DHS did not start processing or approving CW-1 permits until fiscal year 2012.

^aIn 2016, DHS approved more CW-1 permits than allowed by the numerical limit to make up for the expected number of visa denials by the U.S. Department of State.

Appendix VIII: Planned Infrastructure Development Projects in the CNMI, 2015–2019

The Commonwealth of the Northern Mariana Islands (CNMI) Bureau of Environmental and Coastal Quality compiles data from permit applications submitted by developers or their consultants to the CNMI government. These data sets include impacts on infrastructure and workforce needs, among other topics, and are typically incorporated in their Environmental Impact Assessments. The bureau only gathers projected workforce needs for developments—such as resorts or housing developments—that have submitted permit applications to the CNMI government or have made their proposed plans public. These proposed developments are in various stages of planning, permitting, construction, or operation. Table 15 includes all proposed CNMI projects to begin construction from 2015 to 2019 that have the potential to directly and significantly affect the CNMI’s coastal resources and therefore require zoning permits. Eight of the 22 projects—indicated by the table’s shaded rows—are for hotels, resorts, or casinos that together account for 97 percent (7,846) of the estimated total 8,124 employees needed for operation.

**Appendix VIII: Planned Infrastructure
Development Projects in the CNMI, 2015–2019**

Table 15: New Construction or Renovation Projects Planned in 2015 through 2019, by Island, Showing Estimated Number of Employees Needed for Ongoing Operation

Project	Employees needed
Saipan	
Grand Mariana Casino and Hotel Resort (Best Sunshine)	761
Palms Resort	219
Honest Profit Saipan Resort Hotel	312
Ocean Vista Resort	148
Villora Condotel Residence	105
Sugar King Hotel & Dormitories	96
H. S. Lee Commercial Building	42
Surfrider Resort Spa & Beach Club	42
Chalan Laulau Dormitory	12
Saipan Comfort Homes	8
Beach Road Ocean View Resort Complex	5
Ironwood Bluewater Homes	5
Sandy Beach Homes	5
Tasi Homes	5
ATISA Guam-CNMI Fiber Optic Cable System	—
Beach Road Route 33 Improvement Project	—
Tinian	
Plumeria Resort (Alter City Group)	5,500
Tinian Ocean View Resort Casino (Bridge Investment Group)	859
Kanadan Magpo Homestead	—
Tinian Municipal Transfer Station	—
Rota	
Coral Quarry Pit (Mining & Operations)	—
Rota Municipal Dump	—
Total employees needed	8,124

Source: Commonwealth of the Northern Mariana Island's Bureau of Environmental and Coastal Quality, as of December 20, 2016. | GAO-17-437

Notes: Numbers reflect employees needed for operation but do not include those needed for construction. There are two ways that the Bureau of Environmental and Coastal Quality projects employees needed for operation: (1) the developer or consultant provides the information or (2) the bureau estimates the number needed by using the Hotel Association of the Northern Mariana Islands' formula that multiplies the number of proposed rooms by a factor of 0.07.

Shaded rows are projects for hotels, resorts, or casinos that together account for 97 percent (7,846) of the estimated total of 8,124 employees needed for operation.

Appendix IX: Workforce Investment Act Performance Measures Reported by the CNMI Government for Program Year 2015

For program years 2012 through 2015, the Workforce Investment Act (WIA) required grant recipients (1) to use performance measures that gauged outcomes for program participants in the areas of employment, employment retention, and earnings and (2) to negotiate performance levels for each performance measure with the U.S. Department of Labor (DOL).¹ As shown in table 16, the Commonwealth of the Northern Mariana Islands (CNMI) met the negotiated performance levels for two of the nine performance measures in program year 2015. While DOL officials told us that recipients of WIA and Workforce Innovation and Opportunity Act (WIOA) grants are generally required to meet negotiated performance levels in order to receive their full funding allocations, officials said that they do not apply financial sanctions to the CNMI and other outlying areas.

DOL officials noted that the CNMI did not always submit its quarterly and annual performance data on time.² They also stated that the CNMI did not use DOL's electronic performance reporting system, in part because of limitations in the CNMI's physical infrastructure.³ DOL officials said that they have had concerns about the reliability of the performance data submitted by the CNMI, which they have addressed by offering technical assistance sessions at annual regional meetings and through e-mails and conference calls with CNMI Department of Labor officials. In addition, the DOL grant manager visited the CNMI in March 2015 to provide technical assistance on a variety of grant management and performance topics.

¹Although the Workforce Innovation and Opportunity Act, enacted in July 2014, established new performance measures, these performance reporting requirements did not take effect until program year 2016, which began on July 1, 2016.

²For example, according to DOL, the CNMI submitted its program year 2015 WIA annual report after the required deadline and did not submit a WIA annual report for program year 2014. Related to the WIOA grants, the CNMI will continue to be required to provide quarterly and annual performance reports, according to DOL.

³The CNMI submits its data as PDF files e-mailed to the DOL grant manager based in San Francisco.

Appendix IX: Workforce Investment Act
Performance Measures Reported by the CNMI
Government for Program Year 2015

Table 16: Negotiated and Actual Levels of Performance for Workforce Investment Act Performance Measures Reported by the Commonwealth of the Northern Mariana Islands (CNMI) from July 2015 through June 2016

Performance measure and definition	Program year 2015 (7/1/2015–6/30/2016)	
	Negotiated level	Reported performance
Adult program		
Entered employment rate (percentage) Definition: Of those who are not employed at the date of participation, the number of adult participants who are employed in the first quarter after the exit quarter divided by the number of adult participants who exit during the quarter.	30	49.1
Employment retention rate (percentage) Definition: Of those who are employed in the first quarter after the exit quarter, the number of adult participants who are employed in both the second and third quarters after the exit quarter divided by the number of adult participants who exit during the quarter.	65%	44.3%
Average 6-month earnings (dollars) Definition: For those adult participants who are employed in the first, second, and third quarters after the exit quarter, total earnings in the second quarter plus the total earnings in the third quarter after the exit quarter divided by the number of adult participants who exit during the quarter.	6,000	2,832
Dislocated Worker program		
Entered employment rate (percentage) Definition: Same as above.	35	85.7
Employment retention rate (percentage) Definition: Same as above.	85	66.7
Average 6-month earnings (dollars) Definition: Same as above.	6,000	5,057

**Appendix IX: Workforce Investment Act
Performance Measures Reported by the CNMI
Government for Program Year 2015**

Performance measure and definition	Program year 2015 (7/1/2015–6/30/2016)	
	Negotiated level	Reported performance
Youth program		
<i>Placement in employment or education (percentage)</i>	45	12.3
Definition: Of those who are not in postsecondary education or employment, including the military, at the date of participation, the number of youth participants who are in employment (including the military) or enrolled in postsecondary education, advanced training/occupational skills training, or both in the first quarter after the exit quarter divided by number of youth participants who exit during the quarter.		
<i>Attainment of degree or certificate (percentage)</i>	75	67.1
Definition: Of those enrolled in education at the date of participation or at any point during the program, the number of youth participants who attain a diploma, General Educational Development (GED), or certificate by the end of the third quarter after the exit quarter divided by number of youth participants who exit during the quarter.		
<i>Literacy and numeracy gains (percentage)</i>	47	7.7
Definition: Of those out-of-school youth who are basic skills deficient, the number of youth participants who gain one or more educational functioning levels divided by number of youth participants who have completed a year in the program (i.e., 1 year from the date of first youth program service) plus the number of youth participants who exit before completing a year in the youth program.		

Sources: U.S. Department of Labor and CNMI Department of Labor. | GAO-17-437

Note: The Workforce Innovation and Opportunity Act, enacted in July 2014, established new performance measures that took effect in program year 2016, which began on July 1, 2016.

Appendix X – Comments from the Government of the CNMI



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Ralph DLG. Torres
Governor

Victor B. Hocog
Lieutenant Governor

April 25, 2017

Mr. David Gootnick
Director, International Affairs and Trade
United States Government Accountability Office
411 G Street, N.W.
Washington, DC 20548

Dear Mr. Gootnick,

Thank you for providing the Commonwealth of the Northern Mariana Islands (CNMI) opportunity to comment on the draft report "Commonwealth of the Northern Mariana Islands: Implementation of Federal Minimum Wage and Immigration Laws".

The draft report is a timely product that provides crucial data on the progress the CNMI has made toward expanding the domestic workforce in line with the mandates of Public Law 110-229. In these comments I wish to highlight data points critical to use in managing and aligning the priorities of our current transition period.

GAO findings from the draft report provide a number of key implications for Federal and CNMI policy-makers to consider. Primary of which is that economic growth witnessed in recent years has showcased increased potential for the CNMI to hire and retain more US-eligible workers and allow for progressively higher wages without undue economic costs. Furthermore, the draft report outlines that foreign labor continues to play a crucial and positive role in the growth of the overall economy.

As the statutory expiration of the CNMI's transition period approaches in 2019, the findings of the draft report on the economic implications of ending the Commonwealth-only Transitional Worker (CW) Program are dramatic and worthy of serious consideration. The estimated loss to Gross Domestic Product ranging from 26 to 62 percent highlights the fragility of small island economies, but also of the economic necessity of labor access in geographically isolated islands, such as the Northern Mariana Islands.

The draft report finds that with an economy strengthened by foreign labor, US-eligible workers are finding increasing opportunities. Domestic workers in the economy are at their

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highest level since 2004, the economy is able to support continued job growth and rising wages, and the ratio of foreign to domestic workers is at a decades long high.

A critical point to note on the draft report is that unemployment data, much like all data throughout the Pacific region, remains an area of much needed refinement. In the absence of US Bureau of Labor Statistics support or Unemployment Insurance statistics, an unemployment rate comparable to that used by states is nonexistent. While the quality and reliability of unemployment data remains an issue, the CNMI does not contest that there exists a portion of the US citizen population still in need of employment, and effort needs to be made both locally and federally to pursue training programs to support these individuals to obtain the skills and resources to be full participants in the labor market.

Thank you for your effort and diligence in producing a report that presents necessary data to guide the important discussions of the fate of the CNMI economy in the coming years. I appreciate GAO's efforts to work alongside the CNMI government agencies and for the quality of the product presented in this draft.

It is my hope the final report can be a foundation on which productive dialogue can be achieved as we continue our efforts to provide for a greater standard of living for the people of the CNMI in a responsible and proactive manner.

Sincerely,



RALPH DLG. TORRES
Governor

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Appendix XI: GAO Contacts and Staff Acknowledgments

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In addition to the contacts named above, Emil Friberg (Assistant Director), Julia Ann Roberts (Analyst-in-Charge), Sada Aksartova, David Blanding, Benjamin Bolitzer, and Moon Parks made key contributions to this report. Caitlin Croake, David Dayton, Neil Doherty, Mary Moutsos, and Alexander Welsh provided technical assistance.

Related GAO Products

American Samoa: Alternatives for Raising Minimum Wages to Keep Pace with the Cost of Living and Reach the Federal Level. [GAO-17-83](#). Washington, D.C.: December 2, 2016.

American Samoa and the Commonwealth of the Northern Mariana Islands: Economic Indicators Since Minimum Wage Increases Began. [GAO-14-381](#). Washington, D.C.: March 31, 2014.

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