

**THE IMPACT OF THE COMPACTS OF FREE ASSOCIATION  
ON THE UNITED STATES TERRITORIES AND  
COMMONWEALTHS AND ON THE STATE OF HAWAII**

**Pursuant to Public Law 99-239  
Section 104 (e) (2)**

**Submitted by the Office of Insular Affairs  
U.S. Department of the Interior  
March 1999**

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## **1. Background**

This report is submitted pursuant to section 104(e)(2) of Public Law 99-239 of January 14, 1985, which requires the President to report to the Congress at one year intervals "with respect to the impact of the Compact[s] on the United States territories and commonwealths and on the State of Hawaii." The Public Law requires reports that "shall identify any adverse consequences" and "make recommendations for corrective action..." Certain matters are specified for particular attention. But primarily, "the reports shall include statistics concerning the number of persons availing themselves of the rights described in section 141(a) of the Compact..."

The full text of section 104(e)(2) and other relevant parts of the section and a description of adverse consequences and recommendations are contained in previous reports. Instead of repeating material contained in those reports, this report is limited to an update of the status of recommendations and an analysis based on recent censuses of Micronesian migrants to Guam, the CNMI, and Hawaii, including statistics demonstrating their impact on their host areas.

The appendix to this report contains extensive data regarding numbers and characteristics of the Micronesian migrant population including: housing, employment, income, expenditures, families, and reasons for migration. These data should be of considerable value to federal and local agencies providing services to the migrants, and will assist in future efforts to identify migration patterns and impacts.

## **2. Numbers of Migrants:**

The censuses of Micronesians in Guam, the CNMI, and Hawaii covered all households with any Micronesian member. They included:

Micronesians who migrated prior to the effective date of the Compacts for their area (1986 for the FSM and RMI, and 1994 for Palau), Micronesians who migrated after the effective date of their Compacts, children born in the U.S. insular area or state of migrant parents, and non-Micronesian members of the household.

The statute requires that the reports include statistics on the number of persons availing themselves of the rights described in the Compacts, that is, the rights to enter, work, study, and reside (with limitations) in the United States. This group comprises the second category above, referred to in this report as post-Compact migrants. The third category, children born in the U.S. or its territories of Micronesian migrant parents, is also included in the wider category representing those who have had an impact on the host areas; this wider group can be referred to as the "impact population."

It should be noted that both impact population groups, migrants and children, may overstate the actual impact population. The post-Compact migrants are not necessarily people "availing themselves of the rights" under the Compacts to migrate. A large but unmeasurable number would undoubtedly have migrated even in the absence of the Compacts; for example, there has been a continued migration of Palauans, prior to implementation of the Palau Compact in 1994 but after implementation of the other Compacts. Similarly, the category "children of Micronesian migrants" includes some children of pre-Compact migrants -- the censuses could not differentiate whether children were born to pre- or post-Compact migrants.

Table 1 shows the numbers in each category of migrants from each freely associated state (FAS) to each U.S. area. The censuses were undertaken approximately concurrently, but delays in the CNMI census resulted in its completion a year later, in 1998. The totals must thus be considered approximations of the populations over the one year period from mid-1997 to mid-1998. The total number of post-Compact migrants, as identified by the three censuses was 11,445. Guam hosted the largest number, 5,446, followed by Hawaii, a close second with 4,815, and the CNMI with 1,184.

Table 1. Micronesian Migrants to Guam, Hawaii, and the CNMI: 1997/8

Group Freely Associated State	Total	Guam 1997	Hawaii 1997	CNMI 1998
Total	16,346	7,280	6,119	2,947
FSM	11,931	6,595	3,544	1,792
RMI	2,472	125	2,255	92
Palau	1,943	560	320	1,063
Post-Compact and Children	13,814	6,550	5,509	1,755
FSM	11,140	6,325	3,312	1,503
RMI	2,267	123	2,070	74
Palau	407	102	127	178
Post-Compact	11,445	5,446	4,815	1,184
FSM	9,102	5,254	2,853	995
RMI	1,987	105	1,839	43
Palau	356	87	123	146
Children	2,369	1,104	694	571
FSM	2,038	1,071	459	508
RMI	280	18	231	31
Palau	51	15	4	32
Pre-Compact	2,532	730	610	1,192
FSM	791	270	232	289
RMI	205	2	185	18
Palau	1,536	458	193	885

Sources: Censuses of Micronesian Migrants to Guam, Hawaii, and CNMI

This table also shows a great contrast in the ratio of pre-Compact to post-Compact migrants among the three U.S. areas. The CNMI had approximately the same number of pre-Compact as post-Compact migrants. It acquired a large population of Micronesians during its role as host to the headquarters of the Trust Territory of the Pacific Islands but it was relatively

unattractive to post-Compact migrants because unrestricted access to alien labor led to lower wages and fewer job opportunities for Micronesians than offered by Guam and Hawaii.

Guam had a smaller, but significant, pre-Compact Micronesia population than CNMI, many of whom were attracted by the availability of its educational institutions. This population grew rapidly in response to the opportunities offered by a booming economy and the migration provisions of the Compact. Hawaii had the smallest pre-Compact Micronesian population, almost insignificant in relation to its total population, but which grew to nine times its previous size after the Compacts.

The recent censuses permit some general conclusions regarding the primary sources of Compact migration. For both Guam and the CNMI, the great majority of Compact migrants came from the FSM, and most of those migrants were from the State of Chuuk. In fact, an examination of the more detailed data in the appendix shows that there was very little change in the rate of migration to Guam and the CNMI after Compact implementation, except from the State of Chuuk. As the entity with the largest population and fewest job opportunities, Chuuk became particularly susceptible to the lure of jobs and educational opportunities offered by Guam and, to a lesser extent, by the CNMI and Hawaii.

Migration from the Marshall Islands to Guam and the CNMI, on the other hand, was relatively insignificant in both pre and post-Compact periods. Hawaii, however, saw a dramatic increase in its Marshallese population and FSM population after the Compact, as entire communities of Micronesians sprang up over a ten-year period.

Finally, the post-Compact migration from Palau was much less than that from the other areas. This is partly due to the later implementation of the Palau Compact, meaning that Compact migrants from Palau includes only those migrating after September 1994. Other factors in the lower level of Palauan migration are the much smaller population of Palau relative to the other Micronesian entities and the greater prosperity of Palau.

### **3. Impacts:**

It is generally agreed that the impact of the compacts on the United States insular areas and Hawaii has been found primarily in the migration resulting from the entry provisions of the compacts, and in the associated costs to the insular governments and Hawaii in providing public services to these migrants. The impacts on trade, taxation, labor laws, social systems, and environmental regulation have been minor. A discussion of the limited impacts on these areas can be found in previous reports.

The principal information added by this report is the extensive analysis of the three censuses of Micronesians, in Guam and Hawaii in 1997, and in the CNMI in 1998. This analysis can be found in a separate appendix to this report. In addition, Guam and Hawaii have undertaken their own analyses of the fiscal impact of Compact migration. Summaries of these reports follow and both are attached as appendices to this report.

**4. Fiscal Impact, Summary:**

**4a. Guam:**

Previously, the Government of Guam prepared annual reports on fiscal impact; the last being issued in 1996, covering the period from fiscal year 1989 to fiscal year 1995. On April 23, 1997, the Office of Insular Affairs made a grant of \$75,000 to the Government of Guam for the purpose of hiring a consultant to calculate the cost of providing educational and social services to Compact migrants. The completed report is available from the Government of Guam. The following summarizes the conclusions of the Guam report based on a draft copy:

The Guam study covered costs for the Department of Public Education, the Department of Public Health and Social Services and the Department of Corrections. These departments were chosen because they have significant costs of serving Micronesian migrants and because they have records identifying the ethnicity of the population served. The study calculated a total cost to the Government of Guam between \$17.1 million and \$18.0 million for fiscal year 1997. The range is due to the difficulty of determining a precise "baseline" population. Instead of determining whether or not each agency client was post-Compact migrant or the child of a post-Compact migrant, the study included all ethnic Micronesians served and then deducted an estimate of the number that would have been served if migration patterns had continued at pre-Compact rates.

The largest component of the Guam impact is public education. The Guam study calculated the total expenditure for FSM/RMI students at \$11,153,563. This figure was arrived at by multiplying 2,475 FSM/RMI students by an average student cost of \$4,506.49. This total was then reduced by the expenditure for the "baseline" student population, resulting in the range of \$10,409,721 to \$10,549,709.

We believe a more accurate calculation of public educational expenditures is arrived at by taking the 1997 census of Micronesians figure for enrollment in public elementary and high school among post-compact migrants and children of Micronesian migrants (1069, shown in table 2) and multiplying by the above average cost of \$4,506.49. This gives a total expenditure of \$4,817,342. The large discrepancy between the number of students shown in the Guam study and that shown by the census appears to be primarily due to the broader

definition of Micronesians in the Guam study to include all ethnic Micronesians, while the census figure is limited to post-Compact migrants and children.

**4b. CNMI:**

The CNMI has not made periodic estimates of fiscal impact as has Guam. However, Governor Tenorio makes reference in his letter, attached, to a report showing a net cost to the CNMI Government of approximately \$7.5 million in 1996.

A "CNMI Fiscal Impact Report" prepared for OIA by Robert Rudolph and dated January 1999 calculates a total operating cost of \$7,864,684 to provide services to citizens of the freely associated states during the 1997-98 fiscal year. This includes educational operating costs of \$3,533,212, based on enrollment of 1,047 Micronesian students, with an average cost of \$4,970. The Fiscal Impact Report calculated health care costs for freely associated states' citizens of \$3,079,053, based on the assumption that Micronesians accounted for 10 percent of the total CNMI health care budget. All other operating costs for supplying services to freely associated states citizens came to \$1,252,419. Major items are summarized in the table below:

Table 2. Micronesian Migrants Enrolled in Public Elem & High Schools, Guam, Hawaii, and the CNMI: 1997/8

Group		Guam	Hawaii	CNMI
Freely Associated State	Total	1997	1997	1998
Total	3,184	1,360	1,192	632
FSM	2,250	1,291	515	444
RMI	705	43	630	32
Palau	229	26	47	156
Post-Compact and Children	2,972	1,327	1,141	504
FSM	2,202	1,271	507	424
RMI	672	43	598	31
Palau	98	13	36	49
Post-Compact	2,369	1,115	979	275
FSM	1,702	1,067	410	225
RMI	590	39	536	15
Palau	77	9	33	35
Children	603	212	162	229
FSM	500	204	97	199
RMI	82	4	62	16
Palau	21	4	3	14
Pre-Compact	212	33	51	128
FSM	48	20	8	20
RMI	33	0	32	1
Palau	131	13	11	107

Sources: Censuses of Micronesian Migrants to Guam, Hawaii, and CNMI

This study is a good first step in measuring Compact impact costs in the CNMI. One major refinement that needs to be made is to measure the costs of providing services to Compact migrants as opposed to all Micronesian citizens. Since the pre-Compact migrant group in the

Table 3. Operating Costs to Provide Services to FAS Citizens: FY 1997-98

Service	Population Served	Operating Costs
Total Costs	...	\$7,864,704
Public schools	1,047	\$3,533,212
Health Care	3,850	\$3,079,053
Law Enforcement & Fire Protection	3,850	\$1,002,219
All others	3,850	\$250,220

Source: Rudolph, "CNMI Fiscal Impact Report

CNMI is much larger as a percent of total migrants than it is on Guam, this refinement is particularly important. Until completion of the census of Micronesians in 1998, the data were not available to estimate costs based on services to actual Compact migrants. With these data, the CNMI should be able to make better estimates of Compact costs during the coming year.

Looking at educational costs alone, the census showed a total of 504 post-Compact migrants and children enrolled in public school. Multiplying this number by a per student cost of \$4,698 gives a total cost of \$2,367,792 to educate Compact migrants and children in 1998. Similar adjustments should be made in costs of other services, based on Micronesian census data. Another adjustment that should be made to calculate actual costs of providing services to Compact migrants is the deduction of costs paid by Federal grants, which, in health care, are quite substantial. Using a rough adjustment for these factors reduces the non-education impact costs by about one half, providing a total cost of about \$2.2 million for 1997. This figure, when added to the revised cost estimate for education, gives a total of \$4.6 million in fiscal Compact impact in 1997-98.

#### **4c. Hawaii:**

The State of Hawaii has not, until recently, attempted to measure the impact of Micronesian compact migrants. Beginning last year, with the aid of preliminary results of the Census of Micronesians in 1997, the State did make some estimates, which were attached to last year's impact report. A similar report from Hawaii, based on state agency records, is attached to this report. Hawaii's public education costs are based on a Micronesian migrant population of 1,053 in 1997 and 1,212 in 1998. This is a rapid rate of increase and is roughly consistent with the 1997 Micronesian census figure of 1,141.

At a per pupil cost of \$5,764 in 1997 and \$5,962 in 1998, the total cost to provide public education to Compact migrants in Hawaii was \$6.1 million in 1997 and \$7.2 million in 1998. Hawaii notes that an additional \$1.1 million was lost in nonresident tuition payments not paid by Micronesian students. In addition, the local cost of providing Compact migrants with medicaid payments, cash welfare and other services came to about \$2.8 million in 1998.

Hawaii's cost of providing services to Compact migrants is shown in more detail in the letter from Governor Cayetano appended to this report.

**5. Federal Appropriations:**

In the 1998 report, we described Congressional appropriations to the insular areas. Guam was to receive a total of \$30 million in capital improvement funding from fiscal year 1995 through fiscal year 2002. The CNMI had received \$1.6 million in earmarked "Covenant" capital improvement funding in fiscal year 1995, with substantial additional funding in subsequent years, although not specifically earmarked as impact-related. Hawaii has received no impact-related funding, and is not normally included in appropriations to the Department of the Interior for insular areas.

In addition to these special appropriations, the Office of Insular Affairs has expended over \$4 million in technical assistance funding for analysis and mitigation of impact. Reductions in technical assistance funding in recent years have resulted in reductions in such expenditures. However, the fiscal year 2000 budget contains a proposed increase of \$100,000 to permit continued cooperation in measuring Compact impact.

In a major new initiative, President Clinton announced on Guam in December 1998 that Compact impact payments to Guam would be doubled. As a result, the budget for fiscal year 2000 includes \$10 million in capital improvement funding as Compact assistance for Guam. This amount will continue as an annual payment until changed by Act of Congress.

**6. Positive Impacts:**

The reporting requirements of P.L. 99-239 are broad and deal primarily with anticipated negative impacts on insular areas. Moreover, section 104(e)(4), which authorizes Congressional appropriations to cover costs resulting from increased demands on services, makes no mention of offsetting collections of taxes and fees paid by Compact migrants.

Nevertheless, there are offsetting positive impacts of Compact migration that are obvious but very difficult to measure. New migrants -- whether Micronesian or not — tend to take low-paying jobs and gradually progress to higher incomes and increased expenditures and tax payments as time goes on. This is certainly the case with migrants from Micronesia.

According to the recent censuses of Micronesians, the post-Compact migrants to all three areas had total aggregate income of \$45.6 million per year and per capita income of \$3,300 (including children, who tend to depress per capita income). These post-Compact migrants made aggregate expenditures of \$60.4 million and per capita expenditures of \$4,371 (including children) (See Tables 4 and 5). The higher level of expenditures over income probably results from a tendency of respondents to understate income, from other sources of funds for expenditures, such as relatives, and large purchases such as a car or refrigerator, made on credit.



Table 4. Aggregate and Per Capita Income of Post-Compact Migrants, Hawaii, Guam, and CNMI: 1997/8

Place	Total	Hawaii 1997	Guam 1997	CNMI 1998
<b>AGGREGATE INCOME</b>				
Total	\$45,581.2	\$20,709.5	\$18,401.5	\$6,470.2
FSM	\$36,617.4	\$13,951.8	\$17,754.1	\$4,911.5
RMI	\$6,526.5	\$6,162.4	\$264.7	\$99.4
Palau	\$2,437.3	\$595.3	\$382.7	\$1,459.3
<b>PER CAPITA INCOME</b>				
Total	\$3,300	\$3,760	\$2,809	\$3,687
FSM	\$3,287	\$4,212	\$2,807	\$3,268
RMI	\$2,879	\$2,977	\$2,152	\$1,343
Palau	\$5,988	\$4,688	\$3,752	\$8,198

Sources: Censuses of Micronesian Migrants to Guam, Hawaii, and the CNMI

Notes: Aggregate incomes in thousands of dollars

Table 5. Aggregate and Per Capita Expenditures of Post-Compact Migrants, Hawaii, Guam, and CNMI: 1997/8

Place	Total	Hawaii 1997	Guam 1997	CNMI 1998
<b>AGGREGATE EXPENDITURES</b>				
Total	\$60,380.5	\$28,559.6	\$28,397.0	\$3,423.9
FSM	\$50,025.7	\$19,519.8	\$27,444.9	\$3,061.0
RMI	\$9,193.7	\$8,436.3	\$627.3	\$130.1
Palau	\$1,161.1	\$603.5	\$324.8	\$232.8
<b>PER CAPITA EXPENDITURES</b>				
Total	\$4,371	\$5,184	\$4,335	\$1,951
FSM	\$4,491	\$5,894	\$4,339	\$2,037
RMI	\$4,055	\$4,076	\$5,100	\$1,759
Palau	\$2,853	\$4,752	\$3,184	\$1,308

Sources: Censuses of Micronesian Migrants to Guam, Hawaii, and the CNMI

Notes: Aggregate expenditures in thousands of dollars

It is also interesting to note that the pre-Compact migrants from Micronesia had a per capita income three times that of the post-Compact migrants, an average of \$9,884 (higher in Hawaii, lower on Guam). Their expenditures amounted to \$10,744 per capita. It is clear that income and expenditures rise rapidly with the time a migrant spends in the new environment

and that the post-Compact migrants are likely to contribute substantially more to the local economies as time passes.

**7. Summary:**

Analysis of the censuses of Micronesians in Guam the CNMI and Hawaii shows that the migration of citizens of the freely associated states to Guam and the CNMI has slowed considerably from the pace of the early 1990's but migration to Hawaii has increased.

The data also show that the new migrants have a considerable impact on social and educational costs in the three areas and that they lag behind earlier migrants in incomes and contributions to the economy through spending (and presumably in tax payments).

Efforts by the three areas to quantify the additional costs of providing social and educational services have not been entirely successful. The extent of efforts made by Guam and Hawaii demonstrate that useful information can be obtained, although the wide gap between the Guam and Hawaii data shows the difficulty in measuring fiscal impact with any precision.

The table below summarizes the data on fiscal impact of Compact migration as provided by the island government and as estimated in this report. It cannot be emphasized too strongly that these figures are merely illustrative. All data sets exclude many small and indirect costs that are difficult to measure.

Table 6. Fiscal Impact Costs: 1997-1998

Place	Notes	Source	Students	Ave. Cost	Education	Health & Welfare	Total
Guam	1	Guam Study	2,277	\$4,506	\$10.8 m	\$6.7 m	\$17.5 m
Guam	2	Census	1,327	\$4,506	\$6.0 m	\$6.0 m	\$12.0 m
CNMI	3	Fiscal Impact Study	752	\$4,698	\$3.5 m	\$3.1 m	\$6.6 m
CNMI	4	Census	504	\$4,698	\$2.4 m	\$1.5 m	\$3.9 m
Hawaii	5	State agencies	1,212	\$5,962	\$7.2 m	\$2.8 m	\$10.0 m

Sources: See below in notes

- 1 From Dec 23, 1998 draft study by Ernst & Young LLP, using lower alternative figures.
- 2 Using 1997 Micronesian census for numbers of students and adjusting health and welfare costs by ratio of post-Compact to total Micronesians.
- 3 From CNMI Fiscal Impact Report, January 1999 by Robert W. Rudolph, Chapter IV, uses entire Micronesian population of 10 percent of total population.
- 4 Using census data for numbers of students and calculating health and welfare costs for pre-Compact population of 5 percent of total population.
- 5 From letter of February 4, 1999 from Governor Cayetano.

## **Recommendations:**

1. Last year we recommended continued availability of direct assistance to Guam for impact mitigation, including possible extension of such assistance beyond fiscal year 2001. The Administration has now proposed an increase in such funding to \$10 million annually until changed by Congress. We recommend passage of this provision of the budget.
2. Last year, we recommended implementation of nondiscriminatory limitations on habitual residence of citizens of the freely associated states on Guam. The Immigration and Naturalization service has issued proposed regulations. We recommend that they be finalized, implemented and enforced. The regulations should take account of Guam's concerns expressed in an attachment to the letter from Governor Gutierrez (appendix 1).
3. We recommend continued cooperation between OIA and the Governments of Guam, the CNMI, and Hawaii to better document the impact of the Compacts through migration and its associated costs. Much progress has been made with completion of censuses of Micronesians in the three areas and Guam's completion of a study of fiscal costs under a contract financed by OIA. However, we note that there are significant discrepancies among the three areas in methodology for measuring fiscal impact and in the resulting figures. We note that the fiscal year 2000 budget includes \$100,000 as a recurring item to assist in measuring this impact.
4. We recommend that additional analysis be performed on recent census data. Such analysis should include positive impacts of migrants, so that the net impact can be estimated. It is our view that positive impacts should be taken into account in assessing economic impact of Compact migration. A Congressional statement clarifying this issue would be very helpful in focusing future efforts to measure Compact impact.

Appendices:

1. Letter of January 27, 1999 from Pedro P. Tenorio, Governor of the Commonwealth of the Northern Mariana Islands
2. Letter of January 27, 1999 from Carl T.C. Gutierrez, Governor of Guam, with attachments
3. Letter of February 4, 1999 from Benjamin J. Cayetano, Governor of Hawaii
4. The Status of Micronesian Migrants in 1998, Bureau of the Census, March 9, 1999 (available separately)