



COMMONWEALTH PORTS AUTHORITY

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June 13, 2008

The Honorable Benigno R. Fitial
Governor
Commonwealth of the Northern Mariana Islands
Hon. Juan A. Sablan Administration Building
Capital Hill
Saipan, MP 96950

The Honorable Pete P. Reyes
Senate President
Sixteenth Northern Marianas
Commonwealth Legislature
Saipan, MP 96950

The Honorable Arnold I. Palacios
Speaker, The House of Representatives
Sixteenth Northern Marianas
Commonwealth Legislature
Saipan, MP 96950

Subject: *Second Interim Bond Indenture Compliance Report by the Commonwealth Ports Authority as to its obligations under its 1998 Bond Indenture Agreement for the \$20 Million Airport Revenue Bonds (Emergency Declaration Executive Order No. 08-04).*

Dear Governor Fitial, President Reyes and Mr. Speaker:

Pursuant to your Executive Order and Implementing Instructions, the Commonwealth Ports Authority hereby files its Second Interim Bond Indenture Compliance Report to the Executive Branch and the Legislature. This constitutes the report at 30 days into the Emergency Declaration.

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Since our first report, CPA continues to confer with the Administration, the Bond Trustee and related agencies as to the present challenge: Meeting the Debt Service Coverage Ratio of 1.25 as soon as possible.

Since the Emergency Declaration on May 13th, CPA has carried out the Governor's Directives and they take effect June 13th. These include the following:

- A. The termination of Airline Incentive Program
- B. The increase in Rates for Airlines following the June 2006 Ricondo Rates.
- C. The implementation of Incinerator and Triturator Fees
- D. Self Imposed Austerity Measures which will go in effect on June 22nd (10% reduction in work hours except for critical/essential employees)
- E. Implementing corrections to Salary Rates for Certain CPA Employees to implement prior OPA Audit Reports as affirmed in Public Law 15-81.
- F. Proposed Directive for CPA to adopt current Per Diem Rates of the Executive Branch.

RATE UPDATE BY RICONDO & ASSOCIATES: On June 9th CPA's Bond Consultant representative Ms. Bonnie Deger of Ricondo & Associates arrived on island. Ricondo is undertaking its field work compilation to update the 2006 Rate Report. The work includes reviewing all CPA revenue sources and expense items, which will result in projections of rates of at least five years. In addition to meeting with CPA Management and counsel, Ricondo is also meeting with the airlines and tenants; Deloitte and Touche; the Bond Trustee; MVA (re: offshore marketing efforts/initiatives, etc...) and the Administration. A draft report is due by the end of June.

FY 2007 AUDIT: CPA's auditing firm, Deloitte and Touche, is conducting its field work on its FY 2007 Audit. A draft audit report is expected by the end of June.

PERSONNEL NEEDS: CPA is assessing personnel needs due to resignations and military deployment of current staff. Personnel are needed with CPA Ports Police and AARF to ensure compliance with the homeland security and FAA safety requirements. However, funding remains a challenge. As a result, CPA will continue to consult with the Bond Trustee and the Administration for their concurrence before any hiring.

LEGISLATURE'S REJECTION OF EXECUTIVE ORDER: The Legislature, in House Joint Resolution 16-5, rejected the Governor's Executive Order relating to the 120-day period placing CPA under the Executive Branch. As CPA understands it, the status is that CPA remains under the Administration's supervision and control based on the Emergency Declaration. CPA Management understands that the Governor may need to extend this declaration for a period of time given the resignations of the members of the CPA Board of Directors.

For its part, CPA appreciates the continuing support of the Administration and the Legislature in meeting its challenges as with other agencies of the government today. CPA Management continues to look for possible solutions to the daily challenges facing CPA and its employees.

BOND TRUSTEE CONFERENCES: In consultation with the Bond Trustee and in reviewing the Bond Indenture Agreement, CPA does note that CPA's autonomy over its operations and control of its revenues is a material provision of the Agreement.

The view of the Bond Trustee is that the Emergency Declaration is a temporary interim measure pending the selection of new Board Members. The Governor's Implementing Instructions, despite the Emergency Declaration, maintains fiscal and operational autonomy by CPA. For example, CPA Management remains in day-to-day control over expenditures and procurement and CPA funds remain segregated from that of the General Fund. The Administration has received regular briefings from CPA and its assisting whenever possible as to administrative, legal, and operational challenges.

CPA AT 30 DAYS INTO THE EMERGENCY DECLARATION: CPA anticipates delivery of the Ricondo report in late June, to be finalized in July. It anticipates a report that the debt service coverage continues to be deficient and may require additional increases to meet the coverage within a reasonable period.

At the same time, CPA anticipates that the FY 2007 Draft Audit will also reveal that the debt service coverage ratio for the Seaport will also become deficient. This will require CPA to commission another Bond Consultant as to the Seaport Revenue Bonds and implementation of those rate increases for the Port of Saipan. Contact with a prospective bond consultant, BST & Associates, has commenced.

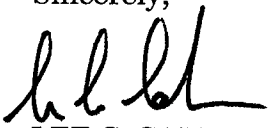
The challenges to CPA continue to be tremendous and serious. Like the Commonwealth Utilities Corporation, the Administration and the Legislature fully understand how critical a role CPA's success plays into the Commonwealth's future.

CPA Management and the Employees very much appreciate the support of the Executive Branch and the Legislature in dealing with the present challenges facing the Authority.

But we continue to need your support in various ways.

Ultimately, we believe that restoring CPA's autonomy with the a functioning Board of Directors, working with the Administration, Legislature and the Bond Trustee, that we can surely change the course toward progress and resolution.

Sincerely,



LEE C. CABRERA
Acting Executive Director

cc: LT. GOVERNOR
ATTORNEY GENERAL
CPA BOARD OF DIRECTORS
CPA ACTING COMPTROLLER
BANK OF GUAM
RICONDO AND ASSOCIATES
FITCH RATINGS
LEGAL COUNSEL ROBERT T. TORRES