



COMMONWEALTH PORTS AUTHORITY

Main Office: SAIPAN INTERNATIONAL AIRPORT
P.O. BOX 501055 • SAIPAN • MP 96950-1055
Phone: (670) 664-3500 / 1 Fax: (670) 234-5962
E-Mail Address: cpa.admin@saipan.com
Website: www.cpa.gov.com

May 30, 2008

The Honorable Benigno R. Fitial
Governor
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: First 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 first Interim Bond Indenture Compliance Report to the Executive Branch and the Legislature. This constitutes the first report at 15 days into the Emergency Declaration.

Page 1 of 9

Since the Emergency Declaration on May 13th, CPA has worked with the Administration including the Attorney General's Office (AGO) and Secretary of Finance relating to the matter of compliance with the Governor's Directives 08-01 through 08-03 and the requirements of the Bond Indenture Agreement for the 1998 Airport Revenue Bonds.

PRELIMINARY ADMINISTRATIVE OVERVIEW

Pursuant to the first Implementing Instructions to CPA Management (consisting of the Acting Executive Director; Acting Comptroller; Human Resources Manager; and Lease/Compliance Officer) have worked to ensure the day-to-day operational management of CPA. Managerial control remains with myself as the Acting Executive Director and Acting Comptroller Frances C. Mafnas, including contracting authority. The Governor has reserved the issue of employment contract renewals (contracts are for management or limited-term positions only). All other merit-based or protected class employees remain under CPA authority governed by its own Personnel Service System Rules and Regulations.

During the period since May 13, 2008, no CPA funds have been reprogrammed or diverted to the General Fund. CPA has received no funds from the General Fund.

As previously indicated to the Legislature to comply with the Bond Indenture Agreement, the CPA Board on April 25th commissioned Ricondo & Associates to provide an update to its June 2006 Covenant Rate Review. That contract is ongoing and the report is expected in late June. Representatives of Ricondo & Associates will visit the CNMI from June 9-14, 2008 to conduct their field work and meet with CPA; the airlines; and the Bond Trustee. Before the updated report issues, it is expected that Deloitte &

Touche will issue its Draft Audit for FY 2007 in mid June for review by the Bond Trustee and Bond Consultant. CPA certainly hopes that the Administration and Legislature can meet with our bond consultant to be able to provide any input on assistance that may be forthcoming to CPA so as to minimize the impact of any fee increases or charges.

IMPLEMENTATION OF GOVERNOR'S DIRECTIVES

In CPA's briefing on May 1st it outlined to the Legislature Management's recommendations which the Board Finance Committee had tasked for consideration. Under the Emergency Declaration and to stave off a technical default, Governor Fitial re-issued the draft Board Resolutions into Governor's Directives to carry out measures that the Board and the Bond Trustee believed were necessary and proper.

Directive No. CPA 08-01 directs CPA to impose the rate increases recommended almost two years ago by Ricondo & Associates. CPA has implemented and carried out that Directive giving written notice to the Airlines. These rates will take effect after 30 days' notice to the Airlines, as required by the Airline Use Agreement and Part 12 of CPA's Rules & Regulations. Those interim rates will take effect on June 13, 2008. *See attached, Notice of Rate Increases.*

In particular, there will be rate increases for emplanement charges and landing fees at the Saipan International Airport. As for additional rates or increases on Saipan or the other terminals, CPA will await the updated recommendations by Ricondo & Associates estimated for delivery in late June 2008. CPA thereafter anticipates another round of implementation of recommended rate increases after 30 days' notice which should take effect in late July 2008.

CPA is also increasing rates for its Airport Incinerator charges for incineration of foreign vessel waste (aircraft and vessels) entering the CNMI. These rates were approved by the CPA Board in November, 2006 but were never implemented. Signatory and non-signatory airlines will pay these new charges in 30 days on June 13, 2008. Non-signatory airlines will pay at a factor of 1.5 above the published rate. At the same time, CPA, in consultation with the Office of the Attorney General, has issued emergency regulations for the same rates for those ships or carriers which call on the Port of Saipan and which use the Airport Incinerator. These are in the process of promulgation and publication in the Commonwealth Register.

CPA is also instituting, for the first time, charges for the Airport Triturator services. A Triturator receives the aircraft waste for incoming aircraft and the airlines also replenish their water system through CPA's facilities. CPA spent over \$300,000 of its own funds for the Triturator system a few years ago. CPA has not passed on these costs for recovery and is doing so now. CPA will charge .05 cents per gallon of aircraft waste received and .05 cents per gallon for replacement water for the aircraft. Again, these new charges will take effect on June 13th.

Directive No. CPA 08-02 directs the repeal of CPA Board Resolution No. 2007-004, known as the Airline Incentive Program. CPA has implemented this Directive. The airlines have been given 30 days' notice of the termination of the program on June 13, 2008 at which time the airlines will pay 100% of the fees and charges at the increased rates. There will be no further exemptions from these rates. CPA recognizes that the Legislature is simply unable to commit the funds, as it did in P.L. 14-71, for the airline subsidy. In order to be able to do so CPA Board Chairman Palacios, in his presentation

to the Legislature on May 1st, suggested an annual appropriation of at least \$2 million over several years. Given that such appropriation is impossible, CPA will simply have to recover these proper charges by terminating the discount program.

Directive No. CPA 08-03 directs the Acting Comptroller to impose austerity measures throughout CPA including a freeze on travel; freeze on overtime; hiring freeze; operational cuts; and reduction in work hours. CPA has implemented this Directive and the reduction in work hours will take effect in late June. *See attached.* We have done so with great concern as to the impact of these measures upon CPA Operations and the Employee morale. For example today CPA Employees will have to make sacrifices financially for the greater good of the Authority. We owe these hardworking employees a debt of gratitude for their commitment to our community. However, as stated in that letter to the CPA Employees, we hope that with increased collections and austerity measures that the employees are able to return to their normal work hours as soon as possible.

*CUC-CPA MEMORANDUM OF AGREEMENT FOR OFFSET
REGARDING \$4.7 MILLION DUE FOR AIRPORT ROAD SEWER LINE PROJECT
AND \$3.6 MILLION FOR WHARFAGE FEES*

The Legislature is aware that the Commonwealth Utilities Corporation owes CPA approximately \$8 million dollars. This amount is from the Airport Road Sewer Line Project and the unpaid Wharfage Charges for fuel. Since July 2007, CUC has not paid CPA any of the monthly amounts it agreed to pay under the existing Memorandum of Agreement. That MOA is actually a Promissory Note with terms of payments and

interest at 6% per annum.

Because it cannot pay, CPA has put to CUC a superseding agreement for signature which offsets approximately \$50,000 per month of utilities charges for the Airport, against the \$94,000 per month CUC should be paying to CPA. For the Seaport, the offset is approximately \$6,000 per month, against the \$38,000 CUC should be paying. If CUC does not agree, CPA may enforce the arbitration provision and if the arbitrator rules in CPA's favor, which is likely, then CUC would be forced to increase its rates further to pay for the \$4.7 million to CPA as well as the \$3.6 million for the Wharfage Fees. The Wharfage Fees are the fees for the fuel that CUC imported but for which it never paid to CPA the charges for importing fuel through CPA's premises.

CPA hopes that we can resolve the situation with CUC both as to the Bond Indenture issue and as to the insistence by FAA that revenue diverted for non-airport projects be recovered.

***LEGISLATION TO WAIVE/ DEEM SATISFIED CPA'S \$6 MILLION CIP OBLIGATION
TO THE COMMONWEALTH DEVELOPMENT AUTHORITY***

The Legislature should monitor the information which will be coming forward from the FY 2007 Draft Audit. We expect that report to show the debt service coverage to be deficient. As the Legislature knows by now, when that occurs CPA must commission a new Bond Consultant and those recommendations shall also be implemented as required under the Seaport Revenue Bonds. It is now late May and that draft Audit for FY 2007 will issue in mid June. Without such legislation CPA's debt service coverage for the Seaport Bond will worsen.

However, the situation for CPA Seaport expected to worsen. Revenue is down approximately 60%. The CDA balance of \$6 million, if waived or deemed satisfied, will help CPA as to the Seaport Bond. We hope that CPA can hold the line with the closing or departure of garment factories and an increase in shipping traffic at the Port of Saipan. If that does not occur, then CPA will have to implement the recommendations by the Bond Consultant as to increasing fees, charges and making operational changes.

LSG SKYCHEFS PRESENTATION ON MAY 15, 2008, 1 PM

You may be aware that in 2004 LSG Skychefs brought suit against CPA with respect to CPA's termination of its Food & Beverage Subconcession Agreement. DFS LTD. operates the Master Concession for the retail operations at the airport. LSG operates the food concessions at the East and West Concourses as well as the Touchdown Café below. CPA gave notice of termination of LSG's concession as it was dissatisfied with the quality and the scope of the concessions.

As a result of settlement discussions spanning several months, LSG presented its plan for the major improvements of concessions including a full-service restaurant; a noodle stand; an alcohol beverage lounge; expansion of the VIP facilities in the East Concourse; and the return of a coffee/pastry station. *See attached* LSG PROPOSAL. It is CPA's view that if resolved these concessions will also result in greater traveler satisfaction and increased revenue for both LSG and CPA. CPA certainly appreciates the recently approved legislation from the House allowing for the sale of alcohol 24 hours in the secured departure area of the terminal.

OTHER POSSIBILITIES FOR REVENUE INCREASES

CPA continues to pursue other options for generating revenue to meet its requirements under the Bond Indenture Agreement. CPA is considering imposing fees for security services and for immigration fees at the Saipan International Airport. CPA will also look to increase the parking fees at the Saipan International Airport and the Port of Saipan. CPA will also look to increase fees for grazing permits in the buffer area surrounding the airport to cover security costs and to guard against any unauthorized farming activities by unpermitted persons or entities. Recently, there were executions of new leases as follows: Port of Saipan and Tinian for vessel berthing space; Saipan International Airport for a fuel storage facility and aircraft maintenance facility; Saipan International Airport for office space for aircraft operations; and Tinian International Airport for a cell phone tower.

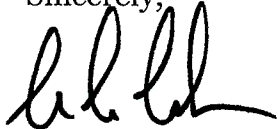
CPA MANAGEMENT CHALLENGES

The Governor and Legislature should be aware of the substantial turn-over in key management personnel. CPA has been without a Comptroller since the resignation of Mr. George Palican in February 2007. CPA has been without an Executive Director since the resignation of Mr. Clyde Norita in May 2007. I have given my notice of resignation to take effect on July 31, 2008 as I will retire from government service.

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. Ultimately we believe that restoring CPA's autonomy with the recommitment

of our Board of Directors will allow for the continual operations and maintenance of all airports and seaports in the CNMI.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lee C. Cabrera', written in a cursive style.

LEE C. CABRERA
Acting Executive Director

cc: LT. GOVERNOR
ATTORNEY GENERAL
CPA BOARD OF DIRECTORS
CPA ACTING COMPTROLLER
BANK OF GUAM
RICONDO AND ASSOCIATES, INC.
FITCH RATING
LEGAL COUNSEL R. T. TORRES