

STATEMENT OF JOHN A. CARVER, JR., ASSISTANT SECRETARY OF THE INTERIOR, BEFORE THE SENATE SUBCOMMITTEE ON TERRITORIES AND INSULAR AFFAIRS, OF THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS, UNITED STATES SENATE, ON SEPTEMBER 27, 1963, IN CONNECTION WITH S. 1495, A BILL "TO PROVIDE FOR THE REHABILITATION OF GUAM AND OTHER PURPOSES."

Mr. Chairman and Members of the Committee: I am pleased to have this opportunity to appear before this Committee in connection with the Guam rehabilitation proposal. The suggestion that revenue bonds be issued by the Government of Guam to finance improvements for utilities-- electric power generation, water supply, and telephone -- is before the Committee. This would replace the direct borrowing contemplated by the House-passed bill. The Department's comments, somewhat belatedly, are before you. We do not favor the proposed change.

I visited Guam in January and March in connection with the matter of rehabilitation; the intensive review which the Government of Guam undertook on financing rehabilitation included a study of the alternative of bonding. There is no objection to the approach itself. But the consideration given to it then was premised on pledging the faith and credit of the local government, not that of the United States. This was and is a measure of the determination on the part of these people to do everything in their power to help themselves.

No one could conclude that the Government of Guam could sell bonds on the order of magnitude required, even for the utilities, on its own credit. The Committee print amendment recognizes this, by providing that the United States should guarantee them.

Thus the issue is narrowed, not whether the United States should help, but how.

Guamanians, citizens of the United States, share the interest which this committee and mainland citizens have in keeping the United States budget within bounds, among other ways by using bonding where feasible.

But it should be pointed out that the implications of the choice for bonding are directly adverse to Guam, and the question before the committee is whether the considerations of the United States budget outweigh these factors.

Bonding involves costs not present in the direct treasury loans authorized by the House-passed bill. I think we may assume first that the interest charge of a private company will be higher than the cost of money to the United States which Guam pledges to pay under H. R. 6225; second, that there will be fees for the fiscal agent; third, that there will be administrative costs in setting up the necessary legislative authority; and fourth that there will be delays.

The sum of these factors is a cost which must be added to the rehabilitative expense. It will be paid by the utility users. It will not be insignificant.

I personally think that the amount of treasury borrowing authority -- the net impact on the budget of the United States -- is not worth saddling the utility users of Guam with this extra expense.

In the one case, the Treasury has the asset of the obligation of Guam, interest bearing, with no cost of collection -- merely deducting the payments due from the amounts otherwise to be remitted to Guam under the organic act. In the other situation, the government of the United States has the contingent liability, as only its guaranty makes the bonds marketable.

One other major consideration militates against the bonding approach in the case of the electrical utility. We are not dealing with a power system operated by the Government of Guam, but with a power system operated by the United States Navy. Guam pays for its share of generating increments, and the rehabilitative money requested will go to meet this kind of obligation -- not for Government of Guam to build its own power system.

This merely further emphasizes the anomaly of using bonding in this situation. In a normal bonding operation, a mortgage would cover the physical plant, and a trustee would have the right to take it over on default. I think it unlikely that Navy would ever agree to such an arrangement.

So once again we are back to the fact that the United States government wants to pledge its credit, and have Guam sell bonds on that credit. We can call the operation bonding, but we've departed quite a distance from the normal concepts involved.

The water system is another matter, for here Guam will have an actual physical asset -- a reservoir and distributing system. But to separate the utility systems of Guam -- electrical, water and sewage, or telephone -- between the military and civilian is not good sense. There will always be a measure of integration, as there ought to be.

This leads me to the observation that the real risk to the budget of the United States is not in treasury borrowing, but in not getting on with the rehabilitation promptly. For if we are delayed much further, the military perforce will have to make the expenditures for the necessary expansion. They will have to keep the island a decent, liveable place for their own people, service and dependents.

We would like to keep this a civilian island; we would like to keep the problem before this Committee; we would like to honor the commitment of the Organic Act to the gallant people of Guam.