

S.C.R. NO. 13-13

JUNE 3, 2003

COMMITTEE ON HEALTH, EDUCATION AND SOCIAL AFFAIRS

Your Committee on Health, Education and Social Affairs has received the Proposed FY2004 National Government Budget that was transmitted to Congress by the Office of the President on April 29, 2003 as Presidential Communication No. 13-1.

This Presidential Communication No.13-1 (the "Communication") outlines some of the changes in the fiscal procedures that are to be implemented in accordance with the amended Compact of Free Association with the United States of America. Specifically, the communication notes that under the amended Compact, the FSM government is required to submit its annual consolidated budget (as a performance-based budget) to the United States government for review, prior to receiving its grant awards. The communication states that the new process shall comprise the following steps:

1. state governments submit annual performance-based budgets to FSM President; President transmits the National Government budget to Congress;
2. FSM President transmits budget to United States government/JEMCO;
3. JEMCO transmits grant award notices to FSM President;
4. FSM President transmits grant award notices to Congress and State governors;
and
5. FSM Congress and state legislatures convene for budget sessions.

The communication points out that the National and State governments will need to amend their laws to change the annual budget schedule, and it also indicates that the administration will soon transmit to Congress the necessary national government legislation to effect these changes (and as far as your committee knows, this legislation has not yet been transmitted to us).

Your committee is, however, fundamentally concerned about external dictations requiring and/or mandating revision of FSM national laws. Unfortunately, the communication does not clarify what Congress is to do upon receipt of the initial national government proposed budget in step 1. This is the step that we are at now.

Your committee understands (as was outlined in Presidential Communication No. 13-2 and as expressed by the representatives from the executive branch to members of this Congress during briefing sessions) that in addition to the steps outlined above, the budget will also be sent to the US Department of the Interior and that there will be annual

government-to-government budget consultations (between the governments of the FSM and the United States) before final submission of the budget to JEMCO for grant awards. Your committee hopes that the recommendations and policy concerns expressed in this report will be given serious consideration during these important steps in the process.

In the absence of clear directions from the Office of the President as to what it wishes Congress to do with the proposed budget at this early stage, and in the absence of new legislation outlining our new budget procedures, your committee felt that it could best serve the interests of this Nation by conducting a preliminary review of the proposed budget during this May 2003 session and expressing its policy concerns and recommendations to the President about changes that should be made to the budget prior to submission to the US government.

Your committee did conduct this preliminary review and held public hearings to assist in this process. We outline our major policy concerns below.

Your committee reviewed the following areas that fall within its jurisdiction:

1. Department of Health, Education and Social Affairs (HESA), comprising:
 - (a) Office of the Secretary;
 - (b) Division of Social Affairs:
 1. Archives and Preservation Unit;
 2. National Women's Interest Unit; and
 3. Sports and Youth Unit;
 - (c) Division of Health:
 1. Health Systems Support;
 2. Environmental Health Services;
 3. FORMER Compact s.221(b) Programs - Special Block Grant/Health Category;
 4. FORMER Compact s.216(a) (2) Programs - Diagnostic and
Medical Referral Services; and
 5. Foreign Aid Grant (UNFPA);
 - (d) Division of Education:
 1. Education System Support;
 2. FSM History Development Program;
 3. National Education Standards, Standardized Testing and College Admission Testing Programs;
 4. Vocational and Manpower Programs and Education Ties to the Economic; and
 5. FORMER Compact s.221(b) - Education Programs;
2. Board of Regents of the College of Micronesia;

3. Department of HESA Grants, Subsidies and Contributions;
4. Capital and Human Resource Development:
 - (a) College of Micronesia; and
 - (b) Scholarship Programs.

Your committee also looked into the status of the u.s. Federal Health and Education Programs and the Basic Social Services Project loan from the Asian Development Bank.

In addition, your committee has been in the process of collecting information from the Department about all other monies and forms of assistance that it has been receiving that have not been included for information purposes in the FY2004 proposed budget (e.g. grants, gifts, contributions, loans or technical assistance from other foreign countries, non-governmental organizations, the World Health Organization, the U.S. Department of the Interior, etc.) .As has been expressed in the past, your committee believes that it cannot make truly meaningful budget decisions unless and until it has a full and accurate disclosure of all funds and assistance provided to the Department.

Your committee looked briefly at the performance budgets transmitted to us, but looked mainly at the line-item budget. This is because the entities within its jurisdiction have not made a full transition to a performance-based budgeting system, with one notable exception – the College of Micronesia. Your committee notes that the College did an excellent job of producing a meaningful performance-based budget and thanks the President and the Interim Director of Research and Planning and Accreditation Liaison Officer of the College for giving us an excellent and informative presentation about performance-based budgeting methods and requirements under the amended Compact.

Committee's Major Policy Concerns and Recommendations:

After careful consideration of the information gathered at its public hearings and in its review of the proposed budget, your committee has serious policy concerns about the following matters:

1. elimination of Scholarship Programs;
2. reduction of College of Micronesia budget request;
3. elimination of UNESCO membership;
4. 50% reduction in Aid to Non-Public Schools; and
5. elimination of contributions to the Micronesian Red Cross.

Your committee also recommends the insertion of the following item into the budget:

1. funding for 2 positions that are required under the terms of the Basic Social Services Project loan from the Asian Development Bank.

1. Scholarship Programs:

All funding for scholarships has been completely eliminated from the FY004 proposed HESA Department budget (except for \$50,000 in assistance to students studying at Palau Community college and College of the Northern Mariana Islands).

Your committee is not able to ascertain why all scholarship funds have been eliminated, i.e., whether this was strictly an unfortunate budget-cutting measure, or whether it was actually a policy decision against providing such assistance to students.

We note that in the amended Compact there is an entire sector grant devoted to education. This grant is described in Section 211(a)(1) of Title Two, Article I as follows:

"(1) Education. United States grant assistance shall be made available in accordance with the plan described in subsection (c) of this section to support and improve the educational system of the Federated States of Micronesia and develop the human, financial, and material resources necessary for the Government of the Federated States of Micronesia to perform these services. Emphasis

should be placed on advancing a quality basic education system."¹

Further, health and education are considered to be priority areas under the new Compact:

"Section 211 - Sector Grants (a) ... Such grants shall be used for assistance in the sectors of education, health care, private sector development, the environment, public sector capacity building, and public infrastructure, or for other sectors as mutually agreed, with priorities in the education and health care sectors."² [emphasis added]

If scholarship programs were to suddenly cease, many FSM students who are currently studying at colleges and universities overseas could be forced to halt their studies in mid-program.

¹ Amended Compact of Free Association Signed Documents, Title Two, Article I, Section 211 (a)

² Amended Compact of Free Association Signed Documents, Title Two, Article I, Section 211 (a)

In light of the above, your committee believes that this government would be remiss if it failed to promote the continuation of scholarship programs and we believe that the appropriate source of revenue for such programs is, naturally, the education sector grant. The capacity building sector grant may also be an appropriate source of funding, for FSM citizens undertaking specialized courses relating to public administration and building effective, accountable and transparent public sector institutions.

Because education is one of the two priority sectors, your committee believes that as a matter of policy, the President should not only reinstate scholarship programs, but should in fact consider increasing the scholarship program funding. The committee also recommends that the FSM not place geographic restrictions on scholarship awards. Under the former Compact, Compact scholarship funds could only be accessed if students studied at an institution in the United States. There are many excellent educational institutions in other countries. As a hypothetical example, it would be highly unfortunate and illogical, for instance, if one FSM citizen were admitted into an institution such as Oxford University but were not permitted to access scholarship funds, yet another FSM student who is admitted into a small U.S. college were permitted to access scholarship funds.

Your committee strongly urges the President to amend the proposed budget to include scholarship funding at or higher than last year's levels.

2. College of Micronesia:

The College of Micronesia's original request comprised \$4 million for General Operations, \$708,393 for the Fisheries and Maritime Institute and \$350,000 for the Chuuk Campus improvement project. In fact, the College had indicated to the executive a need for funding for several Capital Improvement Projects {many college Capital Improvement Projects were funded last year and in previous years). However, we understand that representatives from the Budget Office told the College that this year, it may request funding for only one of its Capital Improvement Projects. Because of this, the College eliminated all of its Capital Improvement Project requests except for the Chuuk Campus improvement project. This project is considered to be of very high priority. A request was made for only \$350,000 for this project {although the total project cost is significantly higher).

The proposed budget as transmitted to Congress indicates an amount of only \$3 million for General Operations. The Fisheries and Maritime Institute and Chuuk Campus improvement requests were not reduced.

Upon hearing testimony from senior representatives of the College, your committee must strongly urge the President to restore and support the original request.

This government has been encouraging the College to expand its programs, to implement a Bachelor of Education program, and to become accredited as a senior college. Accreditation as a senior college is not only a goal in and of itself, but it is a mandatory prerequisite to the implementation of a Bachelor of Education program. The College is currently accredited only as a junior community college. It is simply impossible for the College to achieve its goals {which are goals that this government has urged it to achieve) with a reduced budget. The College has been working very diligently toward implementing its Bachelor of Education program and becoming accredited as a senior college {which is a major, lengthy task).

During our public hearings, representatives from the College made us aware of several key concerns. One major concern is the fact that a college is put at risk of losing its accreditation status altogether if its revenue from Pell grants approaches the 60% level. For continued accreditation, a college requires another stable, long-term source of funding. Currently, the College of Micronesia's revenue from Pell grants is at the 58% level. If other revenue sources are cut, the Pell grant revenue level will rise and all efforts that the College has already undertaken to become accredited could be jeopardized. It is critical that the College not become more and more heavily reliant on Pell grant funding. It is also essential for accreditation purposes that the College construct a permanent, adequate campus in Chuuk. We understand that the current campus is substandard for accreditation purposes and accreditation will not likely be granted without major improvement.

Again, your committee points out that education has been determined to be one of the two priority sectors under the amended Compact.

To fail to submit the College's original budget request to the U.S. Government at this stage in the process would be inconsistent with the stated purposes and goals of the amended Compact, wherein it is specifically stated that health and education are the priority sectors. All educational needs will suffer if the College's budgetary needs are not met. In particular, implementation of the new Bachelor of Education program will suffer. The purpose of starting a Bachelor of Education program is so that teacher training and certification can improve in the FSM (improvement of teacher quality is key to advancing a quality basic education system).

Your committee urges the President to restore the College's funding request to its original level. Your committee believes that this government would be remiss in its responsibility for post-secondary education if it reduced its request at this early stage in the process, when submission to the U.S. Government and the government-to-government consultations have not yet occurred.

3. UNESCO Membership:

At the request of the Administration, the FSM became a member of UNESCO (United Nations Educational, Scientific and Cultural Organization) in 2000. The FSM is entitled to (and is receiving) many benefits as a result.

In its attempts to cut the FY2004 budget, a decision was made by the HESA Department to eliminate the costs associated with our UNESCO membership. Evidently, this was the only thing that was eliminated from the Division of Social Affairs' budget, even though the Division of Social Affairs consists of 3 units (Sports and Youth Unit, Women's Interests Unit and Archives and Preservation Unit).

Some of the benefits received from UNESCO membership include:

1. Funding support from the UNESCO Participation Program:

The FSM already received \$123,000 USD from this program in the 2000-2002 period. This money was used to fund 8 projects across the nation.

2. Funding and technical assistance through the World Heritage Convention:

The FSM became a signatory to this convention last year. This was only possible as a result of UNESCO membership. Under this convention, the FSM is eligible to receive funding and technical assistance on projects pertaining to potential world heritage sites and other preservation projects. The Archives and Preservation Unit advises that it has already begun looking into receiving such assistance.

3. Other benefits:

Other benefits of UNESCO membership include access to a wealth of knowledge and educational resources and contact with other preservation specialists and experts around the world.

In light of the above, the elimination of this item from our budget does not make financial sense. Further, the elimination of UNESCO membership contradicts the Administration's position when it asked for congressional approval of FSM membership in the organization in 2000. The Department has advised your committee that the amount required for costs associated with UNESCO membership is \$13,941. The committee urges the President to include this in our FY2004 budget.

4. Aid to Non-Public Schools:

Your committee sees that although direction was given to the departments to make 10% cuts to their budgets, the proposed contribution to non-public schools was cut by 50%. Previous years' contributions were in

the amount of \$500,000. This year, the proposed contribution is \$250,000.

The FSM's non-public schools have consistently produced the nation's top students. Many of our students go on to pursue rigorous higher education, and many of our leaders were educated in the non-public schools. Maintaining high quality schools in the FSM is important to the committee. As a matter of policy, your committee recommends that the President restore the original contribution amount of \$500,000.

5. Micronesian Red Cross:

This contribution was completely eliminated from the proposed FY2004 budget.

The National Government has made contributions to the Micronesian Red Cross in past years for its office administration and basic operations, at the request of the Administration.

The elimination of the Micronesian Red Cross contribution contradicts the Administration's position when it asked for congressional approval of this contribution at the time such contributions began.

Your committee would again like to point out that under the amended Compact, health and education are the priority sectors. The Micronesian Red Cross has consistently provided this Nation with important health and health education services that would otherwise not be available in the FSM. While the Red Cross has other sources of funding, it remains underfunded. Its other funding sources are earmarked for projects, but not for office administration and operation. Without our government contribution, Micronesian Red Cross workers would essentially become volunteers and office expenses would not be covered. The Red Cross could therefore not carry out its projects.

During its public hearings, the committee received testimony from senior representatives of the HESA Department. They expressed support for the Micronesian Red Cross and are in favor of the insertion of a contribution to the Red Cross into the HESA Department's total Grants, Contributions and Subsidies request.

The Red Cross has made a written request directly to Congress for the amount of \$64,000, to be used for office administration and operation.

Your committee strongly recommends that this contribution be inserted into the proposed budget and supported by the President prior to submission to the United States. The committee believes that the sector grant is an appropriate source of revenue for this small contribution.

6. Staff associated with the Basic Social Services Loan:

Your committee has learned that the Basic Social Services Project loan from the Asian Development Bank was approved in January 2003. It is now in the implementation stages. It is a requirement of the loan that the FSM hire a Program Manager and an Accountant to manage the projects to be carried out under the terms of the loan. The projects will begin when this project management unit is manned. We are told that individuals have already been recruited for these positions.

In light of the significance and magnitude of this project and the mandatory nature of the positions, the committee stresses the importance of not eliminating these items at a later date.

Summary:

Your committee is aware that under the amended Compact, the final budget shall be in a performance-based budget format. For this reason, your committee feels there is no need to list all line-item budget requests and recommendations in this report (as has been done in previous budget committee reports).

In summary, your committee's urges that the President's budget submission to the United States include the following recommendations:

1. Committee strongly recommends restoration and approval of all scholarship programs
2. Committee strongly recommends restoration and approval of the College of Micronesia's original budget request, in the amount of \$4 million for General Operations and other amounts as requested

for the Fisheries and Maritime Institute and capital improvements
3. Committee strongly recommends restoration and approval of requested costs associated with UNESCO membership, in the amount of \$13,941
4. Committee strongly recommends restoration and approval of the original requested amount of aid to Non-Public Schools, in the amount of \$500,000
5. Committee strongly recommends restoration and approval of the Contribution to the Micronesian Red Cross Society, in the amount of \$64,000
6. Committee strongly recommends the approval of funding for 2 positions that are required under the terms of the Basic Social Services Project loan, in the amount of \$32,000.

Signed by Senators Moses, Aritos, Figir, Kansou, Nelson and Phillip