

STANDING COMMITTEE REPORT NO. 14-123

RE: C.B. NO. 14-167/W&M

SUBJECT: FY 2007 BUDGET

SEPTEMBER 26, 2006

The Honorable Peter M. Christian
Speaker, Fourteenth Congress
Federated States of Micronesia
Fifth Regular Session, 2006

Dear Mr. Speaker:

Your Committee on Ways and Means, to which was referred C.B. No. 14-167, entitled:

"A BILL FOR AN ACT TO ENACT THE FY 2007 BUDGET IN ORDER TO PROVIDE FUNDING FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2007, AND FOR OTHER PURPOSES.",

begs leave to report as follows:

The intent and purpose of the bill are expressed in its title.

The subject bill is based upon the National Government Fiscal Year 2007 Proposed budget as transmitted by the President on March 31, 2006. Your Standing Committees on External Affairs ("EA"); Health Education and Social Affairs ("HESA"); Judiciary and Governmental Operations ("J&GO"); Resources and Development ("R&D"); Transportation and Communication ("T&C"), and Ways and Means ("W&M") have each recommended funding levels for budget requests within their respective jurisdictions, and Congress has adopted each of these reports.

The President's proposed FY 2007 Budget

The President's proposed budget was transmitted on March 31, 2006 as the *National Government Fiscal Year 2007 Proposed Budget* (the "Budget Book").

Your Committee notes that the FY 2007 revenue projections for domestic unrestricted, Compact and carryover funds provided by the Department of Finance and Administration exceed the proposed appropriations contained in the Budget Book.

Subsequent to the transmittal of the Budget Book the President, by PC No. 14-202, submitted a number of requests for changes to the proposed budget.

Your Committee notes that all the requested changes contained in Presidential Communication No. 14-202 have been dealt with by the relevant Standing Committees in their reports except where otherwise indicated in this report.

Standing Committee Reports

STANDING COMMITTEE REPORT NO. 14-123

RE: C.B. NO. 14-167/W&M

SUBJECT: FY 2007 BUDGET

SEPTEMBER 26, 2006

Your Committee has reviewed each Standing Committee Report submitted by each Standing Committee. Each report made recommendations in relation to the budgets of the departments, agencies, offices and programs within their respective jurisdictions. Your Committee concurs with all the recommendations made in the committee reports except for those recommendations explicitly revised by this report.

Your Committee is nevertheless concerned about a number of issues relating to the Strategic Development Plan. In general, as noted by many of the other committees, there has been a failure to harmonize the Budget Book with the framework and objectives of the SDP. There are two examples that, in the view of this Committee, particularly stand out. First, the SDP states that tourism must be treated as a priority sector and shall be integrated into national planning and development so as to create an attractive environment for foreign tourism investment. The budget proposal in relation to tourism appears to be in direct conflict with these objectives. In particular, the staff of the Tourism Unit has been halved, its funding has been cut by 2/3 and there is no viable plan for achieving the, admittedly ambitious, goals set out in the SDP.

Second, your Committee understands that the Department of TC&I is proposing to spend \$60,000 in FY 2007 to develop a communications plan for the FSM amongst other things. During the last discussion on this issue between Congress staff and employees of TC&I it became clear that little or no consideration had been given to how such a plan could be integrated into the broader objectives of the SDP. Good information and communications technology should not be an end in itself, rather, consideration should be given to how improvement of communications in the FSM may facilitate development generally. Your Committee therefore urges the Department to give further consideration to this issue.

After reviewing each of the committee reports, your Committee wishes to make the following minor corrections and clarifications:

1. The EA Committee report incorrectly identifies the President's request for ACP/EU National Authorizing Committee fees under Special Programs as \$15,000. This figure should be \$10,000.
2. The EA Committee report provides no reason for its reduction of the Suva Embassy OCE budget from the requested \$43,134 to \$30,950. Your Committee understands that the basis for this reduction was the EA Committee's wish that funding remain at FY 2006 levels.
3. The T&C Committee report incorrectly identifies the President's request for the Infrastructure Maintenance Fund under Capital and Human Resource Development as \$211,136. This figure should be \$237,500.

RE: C.B. NO. 14-167/W&M

SUBJECT: FY 2007 BUDGET

SEPTEMBER 26, 2006

4. The R&D Committee report incorrectly states that the amount requested for the Coordinating Committee for Offshore Mineral Prospecting has increased from \$15,000 in FY 2006 to \$40,000 in FY 2007. This is not the case and funding has remained the same (\$40,000) from FY 2006 to FY 2007. Your Committee notes that an increase from \$15,000 in FY 2005 to \$40,000 in FY 2006 was justified on the basis that certain arrears had accumulated over a number of years and needed to be discharged. Your Committee surprised that the President has requested the same level of funding for FY 2007 as in FY 2006, since it would be reasonable to assume that all outstanding arrears were paid out of the FY 2006 appropriation.
5. The R&D Committee report incorrectly states that the total approved by the Committee for Grants Subsidies and Contributions is \$237,350 in FY 2007. This figure should be \$326,850.
6. For the avoidance of doubt the R&D Committee recommended \$100,000 for operations and \$0 for air freight subsidies for the FY 2007 budget for the National Fisheries Corporation.
7. The R&D Committee report inadvertently included the individual agency submissions to the Budget Review Committee rather than the President's request as transmitted to Congress in the column entitled "FY 2007 Request" for its consideration of the Agencies and Capital and Human Resources sections of the budget.
8. The J&GO Committee report incorrectly identifies the number of personnel requested in the Budget Book for the Department of Justice as 129. This figure should be 133.
9. The J&GO Committee report incorrectly identifies the total President's FY 2007 personnel request for the National Postal Service as \$409,401. This figure should be \$409,041.
10. The W&M Committee report incorrectly identifies its recommendation for the number of employees in OCM as 4. In fact, the Committee eliminated an economist position, but added an IT systems manager position, so the correct number of employees approved by the Committee is 5.
11. The EA Committee report failed to consider the President's request via PC 14-202 to reinstate \$27,500 for DC Embassy housing allowances. This amount is not approved.
12. The W&M committee report erroneously refers to the "National Authorizing Committee" in the grants subsidies and contributions section. This line item may be disregarded. In addition, the report states that the FY06 appropriation for the Cotonou agreement was "0". This amount should be \$8,000.

W&M recommendations regarding the consolidated budget

Your Committee has carefully considered the President's proposed FY 2007 budget, the submissions made by the various departments,

STANDING COMMITTEE REPORT NO. 14-123

RE: C.B. NO. 14-167/W&M

SUBJECT: FY 2007 BUDGET

SEPTEMBER 26, 2006

agencies and offices and the committee reports. As noted above, your Committee concurs with all the recommendations made in those reports except for the recommendations explicitly revised by this report. Your Committee recommends the following amendments to the proposed FY 2007 budget and CB 14-167.

Funding for two quarters

In light of the current uncertainty in relation to various sector grants under the Amended Compact and current domestic revenue projections your Committee recommends that only the first two quarters of the FY 2007 budget shall be appropriated.

Your Committee notes that in SCR 14-114 we recommended that only 3/4 of members' representation funds should be made available for obligation prior to May 11, 2007 to ensure that incoming members of the Fifteenth Congress receive a proportional share of the annual amount. However, since this budget will only be for the first two quarters of FY 2007 it will not be possible to reflect this proposal. Your Committee therefore recommends that the issue should be revisited when the budget for the second two quarters of FY 2007 is appropriated.

Title

Your Committee recommends that the title of CB 14-167 be amended in accordance with the attached CD1 version of the bill to provide a more detailed description of its purpose.

Other

In addition to the changes set out above, your Committee also recommends the following changes to the President's proposed FY 2007 budget:

1. At the time of writing this report, JEMCO had not yet approved the compact portions of the FSM's FY 2007 budget. However, information had been received from OCM that in all likelihood the health sector grant will be approved in full prior to September 30, 2006. Likewise, it appears likely that the education sector proposal for FY 2007 will be approved with the exception of funding for the FMI. Your Committee therefore recommends funding FMI out of local revenues. For obvious reasons, no allotment or obligation of line items funded by Health and Education sector grants shall take place until such time as they have been formally approved in accordance with the Amended Compact.

Some question remains as to whether infrastructure grant funds will be approved prior to the commencement of the new financial year. The affected budget items are: \$1,500,000 for COM FSM campuses; \$756,592 for the dry-docking of the MS Caroline Voyager; and \$118,750 for the infrastructure maintenance fund. Your Committee recommends that these

STANDING COMMITTEE REPORT NO. 14-123

RE: C.B. NO. 14-167/W&M

SUBJECT: FY 2007 BUDGET

SEPTEMBER 26, 2006

items be included in the FY 2007 budget, but that the funds shall not be available for allotment or obligation until such time as they have been formally approved in accordance with the Amended Compact.

Your Committee understands that the FY 2007 SEG grant (\$1,287,687) is similarly affected. Your Committee therefore recommends no allotment or obligation of the funds until the uses have been formally approved.

2. PC 14-200 submitted a supplemental budget request for FY 2006 and requested that 3 items be included in the budget for FY 2007. However, your Committee understands that the request in relation to the FY 2007 budget is now out of date since, by PC 14-275, the President made a request for a number of similar items to be included in a supplemental appropriation for FY 2006. Your Committee therefore does not recommend approval of the following items for the FY 2007 budget: \$435,222 for the annual single audit; \$50,000 for a special prosecutor for the Department of Justice; and \$78,857 for the voter identification project for the National Election Director's Office.
3. The President's FY 2007 proposed budget includes a large number of travel line items spread across the President's Office, the Department of Foreign Affairs and the Department of Economic Affairs for travel to attend a meeting regarding the UN Framework Convention on Climate Change. Your Committee is satisfied that fewer staff could effectively represent the FSM at the meeting. We therefore recommend that travel for the Secretary of the Department of Economic Affairs (\$1,875) and for the FSM's UN mission (\$5,120) not be approved. In addition, your Committee has been advised that no one from the President's Office will be attending. We therefore recommend that the \$18,331 identified for the President's office for the trip not be appropriated.
4. In SCR 14-114, your Committee recommended the elimination of an economist position from the FY 2007 OCM budget (\$27,250) on the basis that OCM's role should not be substantive economic planning, but rather, acting as a single point of contact for Compact matters. Nevertheless, your Committee recognizes there is an overall need for economic planning skills within the National Government, we therefore recommend that an additional economist position be included in the Department of Economic Affairs' Economic Planning Unit.
5. Your Committee is concerned that a number of unnecessary international trips for the secretary of the Department of

STANDING COMMITTEE REPORT NO. 14-123

RE: C.B. NO. 14-167/W&M

SUBJECT: FY 2007 BUDGET

SEPTEMBER 26, 2006

Finance have been proposed. We recommend no funding for the trip to the IMF conference (\$3,700) and the trip to the ADB meeting (\$7,500).

6. There are two vacant Deputy Assistant Secretary positions within the Division of Asia Pacific American and Multilateral Affairs in the Department of Foreign Affairs. Your Committee recommends the elimination of the two positions and a commensurate reduction in the Department's employment ceiling.
7. The Committee has given careful consideration to the EA Committee's report (SCR 14-115) recommending no funding for contract personnel in the Washington DC Embassy (\$236,000) and no funding for a lobbyist (\$50,000) in the Office of the Secretary's budget for FY 2007. Your Committee agrees with these recommendations, however, we are satisfied that these amounts should be included in the contract services budget for OCM for FY 2007. These funds should not be used to pay salaries or retainers to consultants, but rather for ad hoc contracting as the need arises.
8. The various committee reports on the FY 2007 budget collectively failed to consider four line items in the President's proposed Capital and Human Resources and Special Programs budgets for FY 2007. These items are: \$500,000 for the FSM development loan fund; \$50,000 for postal services; \$60,000 for the construction of 2 fuel tanks; and \$10,000 for travel for the Sustainable Development Council. Your Committee recommends funding for these four items.
9. The Office of Compact Management has asked your Committee to consider appropriating \$700,000 of Amended Compact carryover funds for an ongoing project to improve the FSM's compliance with compact requirements in relation to budgeting and reporting. Unfortunately the current FY 2007 revenue projection prepared by the Department of Finance does not reflect any carryover funds at this stage. It would therefore be impossible to include the amount in the FY 2007 budget at present without exceeding the budget ceiling. Your Committee supports this project in principle and undertakes to give careful consideration to any future request to amend the FY 2007 budget.
10. The Yap delegation has requested that the recommendation of the J&Go committee to direct the monies earmarked for the Yap State Judiciary for Law School scholarships for Yap citizens (SCR 14-112) be amended to direct \$10,000 for Law School scholarships, with the Office of the Public Defender as the allottee, and the remaining \$20,000 for the Yap State

STANDING COMMITTEE REPORT NO. 14-123

RE: C.B. NO. 14-167/W&M

SUBJECT: FY 2007 BUDGET

SEPTEMBER 26, 2006

judiciary. Your committee recommends that this amendment be approved. Your committee also reminds the Yap State judiciary of the requirement to report on its use of the funds.

11. Your Committee recommends an increase of \$15,000 for travel in the Congress' Speaker and Members budget. This money shall be for travel for the W&M Committee to participate in the work of the Tax Reform Task Force.
12. Your Committee recommends that \$500,000 be placed in the trust fund created under the Amended Compact.
13. Your Committee recommends a further cut of \$63,956 to the Department of Economic Affairs' travel budget to eliminate unnecessary international travel. Your committee notes that it recommends against the proposal of the Department of Economic Affairs for its Secretary to attend the UN Framework Convention on Climate Change at point number 3, above. In addition, your committee does not recommend approval of \$3,495 to attend the SPREP Ministerial meeting in Samoa, or \$5,430 to attend the FEMM meeting in Fiji, as proposed by the Office of the Secretary.

Your committee notes that the Office of the Assistant Secretary of the Division of Economic Planning and Statistics also proposes to travel to the FEMM meeting, at a cost of \$5,996. Your committee does not recommend approval of this amount, nor does it recommend approval of the proposed \$2,425 to participate in a Consultative Group meeting. Similarly, your committee does not recommend approval of the proposals of \$412, \$412 and \$826 by the Office of the Assistant Secretary of the Division of Trade and Commerce for travel to Fiji, nor of that office's proposal of \$3,677 for travel to Japan.

Likewise, your committee does not recommend approval of the Office of the Assistant Secretary for the Division of Resources Management and Development's proposals of \$7,210 to attend the SPREP meeting in Samoa, \$6,075 to travel to Montreal, \$520 to travel to Fiji, \$400 for travel to Noumea, \$9,604 for travel to Rome, \$5,366 for travel to Washington D.C. or \$6,361 for travel to USVI. Your committee supports this Office's proposal to attend the UN Framework Convention on Climate Change meeting in South Africa. However, your committee is not in agreement with the proposed \$10,747 submitted for travel. Instead, your committee recommends approval of \$5,000 to attend this meeting.

STANDING COMMITTEE REPORT NO. 14-123

RE: C.B. NO. 14-167/W&M

SUBJECT: FY 2007 BUDGET

SEPTEMBER 26, 2006

14. Your Committee recommends a cut of \$28,409 to the travel budget of the Department of HESA to eliminate unnecessary international travel. Your committee notes that two international trips, proposed to be taken by the Secretary to Manila and Palau, have been recommended against (SCR 14-118). Your committee further recommends against the Office of the Secretary's proposal for \$6,710 for travel to Fiji to attend the South Pacific Ministerial Conference, as well as the proposals for \$9,529 to attend the World Health Assembly meeting in Geneva and \$3,303 to attend the PIHOA meeting in Honolulu. Furthermore, your committee does not recommend approval of the Division of Social Affairs' proposal of \$6,300 to attend the NCSHPO meeting in Washington D.C. nor the proposal of Archives and Historic Preservation of \$2,567 to attend the MEHP meeting in CNMI.
15. Your Committee is concerned that in the past funding for particular line items has been routinely reprogrammed to cover other expenses. We therefore recommend that no reprogramming of any communications or utilities funding shall be permitted. Likewise, we recommend that there shall be no reprogramming out of field office sub-accounts for the Department of Justice and the Department of Finance and Administration.
16. The proposed number of employees for the Executive for FY 2007 is identified as 409 in the Budget Book at page xii. This figure is different to that yielded by adding up the total for each department and office at pages ii to xii of the Budget Book (498). By reviewing the individual Department's numbers in the body of the Budget Book, your Committee believes that the President's request is for 500 employees in the Executive in FY 2007. Overall, the committee reports and this consolidated report recommend a net loss of 2 positions for the Executive, a loss of 1 for Congress, 0 for the Judiciary, an increase of 3 positions for the Public Auditor, 0 for the various agencies and 0 for special projects.

With the foregoing amendments, your Committee on Ways and Means is in accord with the intent and purpose of C.B. No. 14-167 and recommends its passage on First Reading, and that it be placed on the Calendar for Second and Final Reading in the form attached hereto as C.B. No. 14-167 C.D.1.

STANDING COMMITTEE REPORT NO. 14-123

RE: C.B. NO. 14-167/W&M

SUBJECT: FY 2007 BUDGET

SEPTEMBER 26, 2006

Respectfully submitted,

/s/ Isaac V. Figir
Isaac V. Figir, chairman

Roosevelt D. Kansou, vice chairman

/s/ Dohsis Halbert
Dohsis Halbert, member

Peter M. Christian, member

/s/ Manny Mori
Manny Mori, member

Claude H. Phillip, member

/s/ Simiram Sipenuk
Simiram Sipenuk, member