

STANDING COMMITTEE REPORT NO. 14-132

RE: C.B. NO. 14-226/W&M

SUBJECT: AMENDMENT TO FY 2007 BUDGET

NOVEMBER 07, 2006

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

Dear Mr. Speaker:

Your committee on Ways and Means, to which was referred C.B. No. 14-226, entitled:

"A BILL FOR AN ACT TO AMEND PUBLIC LAW NO. 14-80, BY AMENDING THE TITLE AND SECTIONS 1, 2, 5, 8 AND 9 THEREOF, IN ORDER TO PROVIDE ADDITIONAL 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 the response of the Executive to the completed JEMCO review of the FSM FY 2007 Compact sector grant budget plan and the changes and limitations now being imposed on the expenditure of the sector grant awards. In addition, SEG funds for FY 2006 have become available. Your Committee held a public hearing on Monday 6 November 2006 on the proposed amendments to the FY 2007 budget. The hearing was well-attended by representatives of the Executive, including the Secretary of Finance, the President of the College of the FSM and the Public Auditor. Your committee notes with disappointment that no representative of the Department of Justice was present at the hearing.

Your committee has reviewed the proposed amendments and requests for supplemental funding, considered the testimony of the witnesses and arrived at a number of recommendations with respect to the subject bill.

Your committee's recommendations with respect to each of the requests of the Executive are set out below.

FY 2006 SEG funds

\$785,620 has been appropriated by the US Congress for the Department of HESA's operating expenses. The Executive proposes to increase the amount of SEG funds appropriated for HESA's operations from \$643,843 to the full amount of \$785,620 and to specify that all of these funds come from FY 2006 SEG funds. The subject bill proposes amending

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section 2(6) of Public Law No. 14-80 to reflect this change. Your committee supports this amendment.

In addition, the Executive proposes using the additional \$141,777 in SEG funds for the National Scholarship Fund. Your committee agrees with this proposal and recommends adding a new section 8(4)(q) to Public Law No. 14-80 to reflect this change.

FY 2007 Public Capacity Building Sector Grant Funds - Sub-Office of the Public Auditor in Chuuk

Your committee notes that, in our consideration of the FY 2007 budget proposal, we declined to approve the Executive's proposed appropriation of \$97,994 for the establishment of a branch office of the National Public Auditor in Chuuk (S.C.R No. 14-114). However, your committee did recommend the appropriation of an additional \$36,958 to the Office of the Public Auditor for Personnel and a further additional \$20,000 to that office for travel expenses.

JEMCO has now approved \$261,284 of FY 2007 Public Sector Capacity Building grant funds for the establishment of a branch office of the National Public Auditor in Chuuk. However, the Executive, in its proposed bill, recommends appropriating only \$130,642 of these funds for the establishment of a Chuuk sub-office. Your committee agrees, in this instance, with the decision of JEMCO and recommends the appropriation of \$261,284 of Amended Compact Public Sector Capacity Building grant funds for the establishment of a Chuuk sub-office of the Public Auditor. This is reflected by the amendments at section 5 of Public Law No. 14-80.

Furthermore, in view of the funding provided by the Compact for the Chuuk sub-office, your committee recommends the additional \$56,958 of domestic revenue recommended for personnel and travel expenditures of the Public Auditor be subtracted from its upcoming third and fourth quarter appropriations.

Financial Management Information System

The Executive proposes an appropriation of \$60,000 of domestic revenue to cover the maintenance fee for the Financial Management Information System recently installed in the FSM Department of Finance and Administration. Your committee supports this proposal and recommends the addition of a new section 8(2)(c) to Public Law No. 14-80.

FY 2007 Education Sector Grant Funds

Public Law No. 14-80 appropriates \$359,081 in Compact education sector grant funds for HESA's operating expenses. JEMCO has now awarded an

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additional \$245,068 in education sector grant funds and requires that \$200,000 of these additional funds be used to finance independent professional evaluations, including an evaluation of the national student testing systems and a personnel audit of the Chuuk State school system. JEMCO also requires that these evaluations be approved by the US Office of Insular Affairs. The subject bill proposes amending section 8(4)(n) of Public Law No. 14-80 to reflect this requirement. Your committee supports this amendment.

JEMCO requires that the remaining \$45,068 additional education sector funds be used for fuel, utilities, communications, equipment and contractual services. Furthermore, JEMCO requires the appropriation of the entire \$245,068 by November 2006. The subject bill proposes amending section 8(4)(o) of PL 14-80 to reflect this change. Your committee agrees with this amendment.

JEMCO has awarded an additional \$52,833 to the \$3,800,000 already appropriated from Compact education sector grant funds for the operations, programs and projects of the College of Micronesia. The additional amount is to be used only for fuel, utilities, communication, equipment and contractual services. The subject bill proposes amending section 9(1)(a) of Public Law No. 14-80 to reflect this change. Your committee agrees with this amendment.

FY 2007 Health Sector Grant Funds

JEMCO has awarded an additional \$57,000 in FY 2007 Compact health sector grant funds with the requirement that the additional funds be spent as follows: \$2,000 to cover shortfalls in communications, \$10,000 for drugs and medical supplies for the Mental Health and Substance Abuse Program, \$28,000 to contract with off-island visiting medical specialists, \$3,000 for TB and STD clinic supplies for the State governments and \$14,000 for travel for the off-island visiting medical specialists. Your committee is informed that JEMCO requires the appropriation of the additional \$57,000 by November 2006. The subject bill accordingly proposes amending section 8(4)(p) of PL 14-80 to reflect this change. Your committee supports this amendment.

COM-FSM Work Study Program

The subject bill proposes an appropriation of \$270,000 for the COM-FSM Work Study Program. These funds are proposed to come from domestic revenue with the proviso that once FY 2007 SEG funds are available, the General Fund will be reimbursed in full. Your committee understands that the probability is high that SEG funds will be approved for 2007. The subject bill proposes adding a new section 9(1)(d) to Public Law No. 14-80. In view of the importance of making

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assistance available to our students, your committee supports this amendment.

ADB Fisheries Development Project Loan

The subject bill proposes an appropriation of \$90,000 from domestic revenue to cover the first payment of the Micronesia Longline Fishing Company with the Asian Development Bank. The subject bill proposes adding a new section 8(7)(m) of Public Law No. 14-80. As no representative of the Department of Justice was present at the hearing, and as your committee has on-going reservations regarding the advisability of continuing to repay this loan without first investigating a restructuring plan or the possibility of liability on the part of the ADB, your committee does not recommend this supplemental request.

Office of the President

In response to a request from the President, your committee recommends the following redistribution of the FY 2007 budget already appropriated for the Office of the President: the Personnel budget is reduced by \$20,000 whereas the travel budget is increased by \$10,000 and the President's representation fund is also increased by \$10,000. These changes are reflected by amendments at section 2 of Public Law No. 14-80.

Office of Compact Management

As discussed previously in our consideration of the FY 2007 budget (S.C.R No. 14-123), the Office of Compact Management has asked your committee for an appropriation of \$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. Your committee has now been informed by the Director of the Office of Compact Management that JEMCO has approved a grant of \$300,000 in Amended Compact carryover funds from FY 2005 to be used toward foreign consultant fees. As this amount is within the current budget ceiling, your committee approves this appropriation and amends section 2(9) of Public Law No. 14-80 accordingly.

With these amendments, your committee is in accord with the intent and purpose of C.B. No. 14-226 and recommends its passage on First Reading, and that it be placed on the calendar Second and Final Reading in the form attached hereto as C.B. No. 14-226 CD1.

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Respectfully submitted,

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

/s/ Roosevelt D. Kansou
Roosevelt D. Kansou, vice chairman

/s/ Peter M. Christian
Peter M. Christian, member

/s/ Dohsis Halbert
Dohsis Halbert, member

/s/ Manny Mori
Manny Mori, member

/s/ Claude H. Phillip
Claude H. Phillip, member

/s/ Simiram Sipenuk
Simiram Sipenuk, member