

STANDING COMMITTEE REPORT NO. 15-130

RE: P.C. NO. 15-170/T&C

SUBJECT: FY 2009 BUDGET

MAY 31, 2008

The Honorable Isaac V. Figir
Speaker, Fifteenth Congress
Federated States of Micronesia
Fourth Regular Session, 2008

Dear Mr. Speaker:

Your Committee on Transportation and Communication, to which was jointly referred Presidential Communication No. 15-170 transmitting the National Government's proposed FY 2009 budget, begs leave to report as follows:

Presidential Communication No. 15-170 concerned the National Government's proposed budget for fiscal year 2009 as set forth in a publication entitled National Government Fiscal Year 2009 Proposed Budget ("original Budget Book"). Pursuant to rule 7, section 1(b), of the Official Rules of Procedure of the Fifteenth Congress of the Federated States of Micronesia, your Committee has limited its review to those portions of the budget relating to matters under its jurisdiction. These are:

Operations Budget for the Department of Transportation, Communications & Infrastructure:

- (a) Office of the Secretary
- (b) Division of Marine Transportation
- (c) Division of Civil Aviation
- (d) Division of Communication
- (e) Division of Infrastructure

Grants, subsidies and contributions

- (f) Asian Pacific Telecommunication
- (g) International Telecommunication Union
- (h) International Civil and Aviation Organization
- (i) Maritime Shipping Commission
- (j) Energy (FSM Utilities)

Capital and human resource development

- (k) Infrastructure Maintenance Fund (IMF)

This report, and all previous and subsequent reports by this Committee, should be treated as policy for this Nation, as defined by the Congress. It is your Committee's intent that any commentary found in this report should be treated as policy for the guidance of the relevant departments, agencies and offices.

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INTRODUCTORY COMMENTS

Following the convening of Congress Fourth Regular Session on May 12, 2008, your Committee conducted a series of hearings with representatives of the Department of Transportation, Communication & Infrastructure, the Project Management Unit (PMU), and the Caroline Islands Air and, in some instances, followed up with additional communications. This Standing Committee Report reflects the recommendations of your Committee on Transportation and Communication regarding the proposed FY 2009 budget based on the consultations outlined above.

Your Committee notes that there are certain increases and decreases in the Department's FY09 budget request, particularly under the categories for Travel, Contractual Services and Fixed Assets. There are no changes to the Personnel and OCE categories.

In understanding the budget, your Committee recognises some errors in the Budget Book, and encourages Staff to be proactive in determining their appropriated amounts. Your Committee's findings and recommendations follow.

Presidential Recommendations

Representatives from the Department testified at the budget hearings that the budget recommended by the Executive Budget Review Committee (ERBC) or by the President is not the budget they had proposed. Your Committee understands that staff may be disappointed if a reduction in funding is recommended, however, the consideration for your Committee and for Congress regarding the Executive is the Budget recommended by the President, unless Congress sees a justifiable reason that must defeat the recommendations by the EBRC or the President.

MEETING COMPACT REQUIREMENTS

Your Committee observed that the Department's budgeting process still lacks the integration of the objectives set out in the Strategic Development Plan as required under the amended Compact. Your Committee understands that this has been a challenge, and still a challenge face by other Departments.

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It is also important to note that there is no telecommunication policy objective integrated in the SDP, and this might be an oversight subject matter.

Travel

The requested amount for travel under the FY09 budget request is a duplication of FY08 appropriation. Your Committee echoed the same concern raised by other Committees that duplication of this effort is a drain on the FSM's limited resources without a commensurate benefit. Your Committee urges the key staff of the Department to work together to ensure that only essential staff attend overseas events and that careful consideration is given in each instance to the value of the proposed trip before an appropriation is requested.

Your Committee, therefore, requested that all international travel as detailed in the budget book (for the Department and Divisions within) be used only for that purpose, instead of redistributed to other travel opportunities.

Use of amended Compact funds

Your Committee urges the Department to continue to seek ways to use amended Compact funds for appropriations where possible. Your Committee recommends that the \$400,000 requested for the Multi-purpose building could be outsourced from either the amended Compact funds or Overseas Development Assistance Funds. Your Committee is very concerned that the infrastructure sector grant funding has not been expended resulting in a four-year backlog. If infrastructure sector funds continue to park, the FSM will not gain any economic activity that would have been stimulated by this spending.

PMU Oversight

The representatives of PMU comprise of Jack Yakana, Rob Westerfield and Dana Smith showed up at the oversight hearing. The discussions centered on the transfer of PMU from the Department of TC&I to the Office of the President. The Committee questioned the legality and efficiency of the transfer of PMU from the DCT&I to the President's Office. Rob Westerfield informed the Committee that the transfer of PMU to the President's Office is by recommendation of the CEC Principals. Further, he indicated that pursuant to amended Presidential Order No. 1, there is no illegality of the transfer of PMU to the President's Office. Your Committee showed great disappointment with PMU because the transfer did not meant anything. The important matter is for PMU to expedite the implementation of infrastructure projects in the FSM. Your Committee requested that PMU submit a status report on all projects in each State.

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Further discussions were mainly on the statement by the President where he said "that the PMU is up and running". Your Committee was not satisfied with the President's statement, thus requested the PMU to comment more on how PMU is up and running yet funding has not been expended resulting in a four-year backlog, and the implementation of infrastructure projects in each state are not moving forward.

Jack Yakana informed the Committee that about \$1.7 million has already been expended for completed projects; about \$10 million is currently used for projects undergoing construction; and about \$35 million is used to pay the design-work for projects. He further indicated that the States may have contributed to the delay of projects when the States over-projected their projects and had to re-evaluate the cost-estimate of their projects. From Jack's own observation, as a former Lt. Governor of Pohnpei, he commented that there was a breakdown of communication somewhere, somehow, which led to the delay of the implementation of projects. He informed the Committee that he will be travelling to the States with the JEMCO staff to do follow ups on projects' implementation and will brief the Committee later.

Dana Smith indicated that one of the problems causing the delay of projects is securing land titles. In Chuuk, this legal requirement by DOI on land title has led to the delays of the implementation of infrastructure project, especially in Chuuk. He stated that this is the major challenge for the PMU.

The issue on capacity building of our local citizens were also discussed. Jack Yakana indicated that by employing local citizens to work on several projects, they can work along side with engineers who were placed in each State at the same time learn, and this possibly can result in capacity building of FSM citizens.

Another concern that was discussed is the ownership of buildings that were constructed using infrastructure sectoral grants. The representative of the Department of Justice is tasked to research on this specific issue of ownership.

Jack Yakana stated that as of now, the PMU has no funding request. That \$64.6 million has already approved by DOI for projects. Some projects were completed, some were under construction and some are on design stage.

It was revealed that all employees under the PMU were on Special Services Contract for two years. The issue on contract beyond one year

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was discussed because funding is available annually. The Department of Justice is, again, tasked to research on the contracts for PMU employees that went beyond two years.

The Committee also learned that \$2.5 million was tapped by PMU without the proper authorization of Congress. This is an issue that Congress came to understand and has requested the Department and PMU to provide specific details on this \$2.5 million that has already been used without Congress blessing.

Your Committee recommends that the EBRC or the President must produce any information in the National Budget to include the PMU budget for each fiscal year. This would allow the Committee to fully understand the source of funding for the operation of the PMU.

CIA Oversight

Your Committee learned during an oversight hearing with the representatives from the Caroline Island Air (CIA) that a supplemental budget request for CIA was not included in the President's supplemental request (PC No. 15-191) because the CEO, by law, must submit the CIA's request to the CIA Board, and the Board transmit the budget request to the Office of the President. While the process is taking place, EBRC has already transmitted the President's supplemental request to Congress.

Your Committee, given the importance of air transportation to the outer islands, requested the CEO to prepare a budget and submit to the Committee prior to the adjournment of Congress this May 2008 session.

An overview of FY2008

Public Law 15-11 is the initial FY08 budget act, which appropriated the full FY08 budget for the National Government. Many supplemental requests were made to Public Law No. 15-11, are reflected in Public Laws 15-18, 15-26 and 15-33.

Department of Transportation, Communications & Infrastructure

The following is an overview of proposed funding for the Department of TC&I in FY 2009.

Overview

	FY08 App.	FY09 proposed	Committee rec.
Personnel	462,511	467,297	446,963
Travel	93,465	108,097	108,097
Contract	915,048	937,287	1,397,287

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OCE	74,000	74,000	104,000
Fixed ass.	4,000	25,000	25,000
Total	1,549,024	1,611,681	2,081,347
Employees	29	28	28

Your Committee recognizes some errors in the figures for the Department's Budget, and two of which are the amounts that are reflected under Contractual Services category and OCE category above. In PL 15-33, an amount of \$865,048 is reflected in the FY09 Budget request for the Department's Contractual Services, and this same amount is the actual figure under the Contractual Services category in PL 15-33. Thus, the amount of \$915,048 reflected above is an error.

Furthermore, in PL 15-33, an amount of \$224,000 is reflected in the OCE category. The original amount of \$74,000 plus the \$150,000 supplemental requests in PL 15-33 changes the figure from the original \$74,000 in PL 15-11 to \$224,000 in PL 15-33. So the figure for OCE category above is another error.

A detailed discussion of each of the division of the Department of Transportation, Communications, and Infrastructure are follows.

Office of the Secretary - DTC&I

	FY08 App.	FY09 proposed	Committee rec.
Personnel	73,103	73,103	73,103
Travel	22,378	22,378	22,378
Contract serv.	4,000	4,000	4,000
OCE	70,000	60,000	60,000
Fixed ass.	4,000	4,000	4,000
Total	173,481	163,481	163,481
Employees	6	6	6

The OCE line item has \$10,000 decreased. The amount reduced was in the FY08 Budget for Maritime Staff upgrading. The reduction of \$10,000 under OCE was requested by the EBRC to be in-line with the budget call of the President.

There were no drastic effect to the operation of the department on this decrease in funding, therefore, your Committee recommends

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approval of the proposed FY 2009 budget for the Office of the Secretary.

Division of Maritime Transportation

	FY08 App.	FY09 proposed	Committee rec.
Personnel	94,551	94,551	94,551
Travel	25,386	24,732	24,732
Contract serv.	614,083	716,322	1,176,322
OCE	0	0	0
Fixed ass.	0	0	0
Total	784,020	835,605	1,235,605
Employees	5	5	5

Your Committee notes that the "Administrative Specialist" position was vacant last year. Your Committee requested the Department to justify the continued need of the "Administrative Specialist", and urges the Secretary to fill the position.

The \$654 reduction in travel is on the decrease number of days from 5 to 3. Your Committee was told that the reduction is to comply with the budget call of the President. Since there is no significant impact to the Division's operation, your Committee agrees with the decrease.

There was a lengthy discussion on the Contractual Services category under the Marine Division, particularly on the funding for POL for the Caroline Voyager. Your Committee is concerned that the \$250,000 requested for POL for the Caroline Voyage for FY09 is not a realistic figure considering the high cost of fuel these days, and has requested the Secretary to provide a realistic figure for the Committee's consideration. On May 26, 2008, the Administrative Office, John Adolph provided a document that detailed the Operation Budget for the crews and the Total Budget for Steaming Fuel of the vessel.

The funding for the MS Caroline Voyager operation budget for three years is as follows: FY2007 - \$414,038; FY2008 - \$414,038; FY2009 request - \$466,322. The FY09 proposed amount to pay the crews increases from \$414,083 to \$466,322, a difference of \$52,284. The Committee requested more justification on the difference of \$52,284 increase.

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The initial funding for Steaming Fuel (POL) for three years is as follows: FY2007- \$120,000; FY2008 - \$200,000; FY2009 request - \$250,000. It is important to note that such appropriated amount for POL for FY2007 and FY2008 were supplemented. Therefore, your Committee understands that the \$250,000 request for POL this year is insufficient, and recommended an increase from \$250,000 to 400,000. The increase is to fuel the regular East-Bound and West-Bound runs for the Caroline Voyager

For informational purposes, in PL 15-26, \$50,000 was appropriated under OCE category for POL for the Caroline Voyager. Again, in PL 15-33, \$150,000 was appropriated under OCE category for POL for the Caroline Voyager. The total amount already appropriated for POL for the Caroline Voyager in FY2008 was \$400,000, and of the \$400,000 about \$90,000 remain available. Again, in Presidential Communication No. 15-191 dated May 15, 2008, the President requested another \$170,329 for POL for the Caroline Voyager; however, Congress has not acted upon this specific request.

Your Committee recommends approval of the proposed FY 2009 budget for the Marine Transportation Division.

Division of Civil Aviation

	FY08 App.	FY09 proposed	Committee rec.
Personnel	72,335	57,001	57,001
Travel	9,000	10,224	10,224
Contract serv.	0	0	0
OCE	0	0	0
Fixed ass.	0	0	0
Total	81,335	67,225	67,225
Employees	3	3	3

The increase of \$1,224 is reflected under Travel category, and the increase is due to increased airfares.

Your Committee notes that the vacant position for "Manager Air Navigator" was vacant for two consecutive years. Your Committee urges the Department to provide documents on how the \$25,000 appropriated for the two consecutive years was spent, and whether the position is still needed this year.

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Your Committee recommends approval of the proposed FY 2009 budget for the Division of Civil Aviation.

Division of Communication

	FY08 App.	FY09 proposed	Committee rec.
Personnel	41,130	41,130	41,130
Travel	15,763	15,763	15,763
Contract serv.	60,000	30,000	30,000
OCE	0	0	30,000
Fixed ass.	0	0	0
Total	116,893	86,893	86,893
Employees	2	2	2

The reduction of \$30,000 from Contractual Services was for one consultant whose service is no longer needed in FY 2009.

With the creation of the Telecommunication Task Force to work on the Submarine Fiber Optics Cable project, your Committee recommends more operational cost to support the Task Force. Therefore, your Committee recommends an increase of \$30,000 under OCE to supplement the work of the Task Force on their work on the three pieces of legislation that are required: The Telecommunication Policy and Regulation Act of 2008, FSM Submarine Fiber Optics Corporation, and Privatization of FSM Telecommunications Corporation.

Your Committee recommends approval of the proposed FY 2009 budget for the Division of Civil Aviation.

Division of Infrastructure

	FY08 App.	FY09 proposed	Committee rec.
Personnel	181,392	181,178	181,178
Travel	20,938	35,000	35,000
Contract serv.	186,965	186,965	186,965
OCE	4,000	14,000	14,000
Fixed ass.	0	21,000	21,000
Total	393,295	438,143	438,143
Employees	12	12	12

The increase of about \$14,000 under Travel category is for staff to travel to each of the States to implement projects. The increase of

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\$10,000 under OCE is to purchase light bulbs and other needed materials. The increase of \$21,000 under Fixed Assets category is for two reasons: (1) \$5,000 is to pay for two computer units, (2) \$16,000 is to purchase a used Pickup Truck.

The slight change in the Personnel category is a decrease of \$214 for the Architect II vacant position from \$17,731 to \$17,517. The Committee requested the Secretary to explain this slight decrease in salary and whether the position is still needed.

Your Committee inquired with the appropriate staff whether they have no problems implementing any projects in the states. Assistant Secretary Phillip the only problem is funding for operation. Your Committee asked the staff whether they are aware about the motor pool policy by the President. Phillip informed the Committee that the request for a vehicle was approved by the EBRC.

Your Committee recommends approval of the proposed FY 2009 budget for the Division of Infrastructure.

GRANTS SUBSIDIES AND CONTRIBUTIONS

	FY08 App.	FY09 proposed	Committee rec.
Asian Pacific Telecommunity (APT)	7,640	7,640	7,640
International Telecommunication Union (ITU)	55,000	55,000	55,000
International Civil Aviation Organization (ICAO)	28,050	28,050	28,050
Energy (FSM Utilities)	400,000	400,000	400,000
Total	490,690	490,690	490,690

Your Committee understands that these funding are contributions to International and Regional treaties that FSM Government is a party or member of. Therefore, your Committee recommends approval of funding for the grants, subsidies and contributions in the amounts set out in the table above.

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CAPITAL AND HUMAN RESOURCE DEVELOPMENT

	FY08 App.	FY09 proposed	Committee rec.
MS. Caroline Voyager	750,000	0	0
Houk Airport Extension	500,000	0	0
Infrastructure Maintenance Fund (IMF)	229,286	243,388	243,388
Total	1,479,286	243,388	243,388

Your Committee notes that there is only one line item requested for this year, which is the IMF funding, and recommends its approval.

Your Committee recommends approval of funding for only the Capital and Human Resource Development line items in the amounts set out above in the column "Committee Rec".

CONCLUSION

Your Committee on Transportation and Communication has reviewed the proposed FY 2009 budget and carefully scrutinized all the information provided by the Department of Transportation, Communication and Infrastructure, the Project Management Unit, including information relating to grants, subsidies and contributions and capital and human resource development which are in your Committee's jurisdiction. Based upon the information and its deliberations, your Committee recommends appropriation of each of the sums set forth above in the column entitled "Committee rec."

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Respectfully submitted,

/s/ Moses A. Nelson
Moses A. Nelson, chairman

/s/ Fredrico O. Primo
Fredrico O. Primo, vice chairman

Tiwiter Aritos, member

/s/ Dion G. Neth
Dion G. Neth, member

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

/s/ Joe N. Suka
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/s/ Joseph J. Urusemal
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