

SPECIAL COMMITTEE REPORT NO. 16-11

RE: COMMITTEE TO WAIT ON THE PRESIDENT

JANUARY 11, 2011

The Honorable Isaac V. Figir
Speaker, Sixteenth Congress
Federated States of Micronesia
Sixth Regular Session, 2011

Dear Mr. Speaker:

Your Committee to Wait on the President, consisting of Chairman Dion G. Neth and Senators Joseph J. Urusemal, Tony H. Otto and Claude H. Phillip, was duly appointed on January 10, 2011.

The Committee met with the President at 3:00 p.m. on Monday, January 10, 2011 in the President's conference room. In attendance were: Vice President Alik L. Alik; Special Assistant to the President, Marcellus Akapito; Chief of Staff, Kasio Mida; Special Assistant to the President, Judy Mahan; Secretary of Resources and Development Marion Henry; Secretary of the Department of Transportation, Communications and Infrastructure Francis Itimai; Acting Secretary of the Department of Finance and Administration Rose Nakanaga; Director of EEM Andrew Yatilman; and Assistant Attorney General Jun Bacalando.

President Mori opened the meeting by welcoming the delegation from Congress and thanking the delegation for the opportunity to discuss items that the Executive wishes to have considered by Congress during the Sixth Regular Session. A list of items for discussion was provided to Committee members and is attached to this report.

Revenue Projections and FY2011 Supplemental

President Mori referenced the most recent revenue projections of approximately \$37.7 million provided to Congress by the Acting Secretary of Finance Rose Nakanaga (Departmental Communication No. 16-83). President Mori stated that he disagrees with those projections, and asks Congress to instead consider the original revenue projections of \$39 million that were submitted with the FY2011 Budget Book. President Mori would like the Executive and Legislative Branches to agree on the projections. The FY2011 Supplemental submitted by the President this Sixth Regular Session of Congress is based on the \$39 million projection. Approximately \$80,000 of the supplemental

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requests are new requests; the remainder are to restore items previously cut by the Congress.

National Economic Summit and Tax Reform

The National Economic Summit is scheduled to be held for one week in Chuuk, beginning on February 7, 2011; all members of Congress are invited to attend. Vice President Alik informed the Committee that the Tax Reform Project was discussed in the State Summits in both Kosrae and Pohnpei, and the proposals sent to Congress endorsed. The Chuuk Economic Summit is scheduled to begin on January 11, 2011, and technical people from the Tax Reform Project will be there to participate in the Summit; technical advisors will also be present at the Yap Economic Summit when it occurs. Vice President Alik expects that Tax Reform will also be an item of discussion at the National Economic Summit.

President Mori stated he would be very appreciative if Congress could hold hearings on the pending Tax Reform legislation this session, in order to lead to eventual passage of the legislation during the May 2011 Session. President Mori stated he is mindful of the enormity of the Tax Reform Project and what is practical to expect to be accomplished, especially if the session is shortened at all. President Mori, if possible and perhaps if the session is extended, would like to see the legislation passed on first reading, as that would indicate to the States that the National Government is serious on making progress on Tax Reform; it may be in the best interest of the National Government to take the first step.

Fisheries Loan

President Mori informed the Committee that he is currently waiting for a formatted loan proposal that can be taken to China Exim Bank. A Committee has been formed to negotiate the loan on behalf of the Executive; clear instructions are needed on terms and conditions before the Committee can embark on negotiations with the Bank.

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Additional Items

There are three pending nominations for the Board of Regents COM-FSM that the President hopes Congress will be able to act on this session.

President Mori informed the Committee that there has been a temporary reallocation of the Personnel Office; the President would like the Office to be staffed by a Chief, and to bring in other supporting staff as early as this month. As for the vacancy of the position of Secretary of the Department of Finance, President Mori states he is pleased with the job being done by Acting Secretary Nakanaga, but the Department does need a Secretary. The President is undecided on whether to retain the Acting Secretary, or install a new Secretary for the short time remaining in the Sixteenth Congress. President Mori is prepared to submit a name if Congress is prepared to confirm the nomination this session.

Finally, President Mori informed the Committee that he has heard that the session may be shortened to ten days. In order for planning purposes, President Mori would appreciate receiving notice from Speaker Figir regarding the expected length of the Sixth Regular Session.

Committee Comments

On behalf of the Committee, Chairman Neth thanked the President, Vice President, and Cabinet Members for the opportunity to meet to discuss the agenda for the Sixth Regular Session. Chairman Neth conveyed that Congress has convened and is ready to transact business. Chairman Neth expressed that the Committee was ready to take back to Congress the issues the President would like covered this session, and thanked the President for relaying to the Committee his top agenda items.

Chairman Neth informed the President that Congress has started to consider the recent revenue projections, but had not yet received the supplemental transmitted that morning. Congress will await the invitation to the National Economic Summit, and the Tax Reform legislation is currently with the Committee on Ways and Means. Regarding the Fisheries Loan, Congress has authorized the Executive to begin negotiations. Chairman Neth states he understands it may be difficult to find a Secretary of Finance to serve for the short time period left.

The Committee asked for clarification on the amount of revenue projections the President would like Congress to act upon. President Mori stated that his preference is for Congress to consider the \$39 million revenue projects originally submitted with the FY2011 Budget. FY2010 closed the year with \$40 million in revenue, and the President expressed his belief that FY2011 will maintain at least that level of revenue. With more of the infrastructure projects on stream, the President is confident that revenues will be increased by taxes paid

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to the National Government. President Mori stated that the issue can be revisited again after the second quarter, and if the \$39 million does not look feasible, adjustments could be made at that time; the National Government has never run a deficit, and the President is certain that a deficit will not occur this year if the \$39 million projection is used. The Committee expressed concern on the issue of overtime and funds being expended in accordance with Congressional intent. President Mori indicated that the Executive Branch has discussed implementing a moratorium on reclassifications until all budget issues are resolved regarding personnel costs and the situation under control.

In response to questions from Committee Members, Secretary Henry offered additional information on the progress of the Fisheries Project and loan negotiations. Since Congress gave the Executive authority to negotiate, negotiations have been taking place and there are about eleven agreements that need to be finalized. Many people have been on vacation, so things stalled for a short time. Luen Thai will be back from vacation on January 15, 2011. Secretary Henry states that time is needed also to visit the States in order to finalize all the agreements. There is a meeting scheduled this week to update the Committee on Resources and Development on the agreements. Secretary Henry summarized that this is a long project bill, even if approved this year, not all components will be fully implemented for three years. In response to questions from the Committee regarding whether Luen Thai will be the operator, Secretary Henry stated his opinion that it would be negligent to go with a newer or less experienced company. Luen Thai is the most experienced and largest in the area, and the only one with guaranteed freight services, which is key to the success of the project.

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Secretary Henry asked that Congress consider the Policy and Grant resolutions that have been transmitted to Congress for approval, specifically a USDA Grant.

Closing Remarks

In closing, President Mori informed the Committee that he will be off-island starting January 11, 2011 and returning the following weekend. Vice President Alik will be attending the inaugurations in Kosrae, departing Palikir on January 24, 2011.

The meeting was brought to a close with mutual expressions of appreciation and good wishes for the New Year.

Respectfully submitted,

/s/ Dion G. Neth
Dion G. Neth, Chairman

/s/ Tony H. Otto
Tony H. Otto, Member

/s/ Joseph J. Urusemal
Joseph J. Urusemal, Member

/s/ Claude H. Phillip
Claude H. Phillip, Member