

STANDING COMMITTEE REPORT NO. 18-133

RE: C.B. No. 18-11/J&GO

SUBJECT: COST-OF-LIVING ALLOWANCE (COLA) FOR
NATIONAL GOVERNMENT EMPLOYEES

MARCH 29, 2014

The Honorable Dohsis Halbert
Speaker, Eighteenth Congress
Federated States of Micronesia
Third Special Session, 2014

Dear Mr. Speaker:

Your Committee on Judiciary & Governmental Operations, to which was, jointly referred C.B. No. 18-25, entitled:

"A BILL FOR AN ACT TO FURTHER AMEND SECTION 112 OF TITLE 52 OF THE FEDERATED STATES OF MICRONESIA, AS AMENDED BY PUBLIC LAWS NOS. 11-81 AND 13-64, AND BY INSERTING A NEW SECTION 208 TO CHAPTER 2 OF TITLE 52 F.S.M.C., TO PROVIDE FOR A COST-OF-LIVING ALLOWANCE (COLA) FOR EMPLOYEES COVERED BY THE NATIONAL PUBLIC SERVICE SYSTEM ACT WHOSE EARNINGS FROM NATIONAL GOVERNMENT EMPLOYMENT ARE \$15,000 OR LESS PER ANNUM, AND FOR OTHER PURPOSES,".

begs leave to report as follows:

The intent and purpose of this bill is expressed in its title.

A public hearing was held on October 2, 2013. Representatives from the Department of Finance and Administration, the Office of SBOC, the Office of Personnel, and the President's Office were in attendance.

Your Committee notes that base salaries for Public Service System Employees have remained stagnant since P.L. No. 15-41 was enacted into law in June 2008. The salary increase in P.L. No. 15-41 has been the only salary increase for PSS employees since the Seventh Congress. Yet, cost of living has increased noticeably over this period of time in all essentials: food, clothing, gasoline, power, and so on.

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As such, several bills have been introduced in the Eighteenth Congress seeking to redress the static income for National Government employees. These include C.B. No. 18-11, which proposes a 3 year COLA; C.B. No. 18-25, which proposes a one-time, across the board 5% increase in base salaries for PSS employees; and C.B. No. 18-49, which proposes a one-time step increase for 5 year employees or a one-time two step increase for 10 year employees.

Your Committee observed at the outset that it would be unlikely that Congress would seek to implement all of these proposed measures. Rather, Congress was exploring different approaches to addressing the matter of stagnant incomes. To that end, your Committee sought input from the Department of Finance and Administration, the Office of SBOC, the Office of Personnel, and the President's Office for empirical data regarding the costs and ramifications of each of the bills. An additional public hearing was held on January 30, 2014, where the situation was further explored. Several pages of documents and figures were transmitted to your Committee, most notably on March 13, 2014, when the results of various scenarios were produced.

Your Committee turned its focus towards C.B. No. 18-11, the COLA proposal. The three-year time limit on the COLA in C.B. No. 18-11 eschews concerns over the long-term sustainability of a wage increase in the face of the decrement. Indeed, your Committee has come to view this proposal as something of an economic stimulus package. As the government encourages growth in the public sector, C.B. No. 18-11 will put additional money into the hands of consumers. Considering that so many employees are struggling, the money from the COLA is almost certain to flow immediately back into the private sector economy as it is used to purchase food, clothing, and other essentials. It is part of the reasoning behind making the COLA exempt from taxation and social security contribution. Your Committee further observed that in order to avoid the inequities of an employee with a lower salary from receiving more than one with a higher salary, to extend the COLA to all National Government employees, regardless of salary, including contract and exempt employees. Therefore, the final cost of the measure will be \$801,840.00 per year, beginning on October 1, 2014, through September 30, 2017.

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Thus, your Committee recommends amending the bill as follows:

1. Title, Line 5, insert "all" before "employees"
2. Title, Line 5, delete "covered by the National Public Service System Act whose earnings from national government employment are \$15,000 or less per annum" and insert "of the National Government of the Federated States of Micronesia" in lieu thereof
3. Page 5, Line 18, delete "Employees earning a base salary of \$15,000 per annum or less" and insert "All employees of the National Government of the Federated States of Micronesia (including contract and exempt employees" in lieu thereof.
4. Page 5, Line 24, delete "2012" and insert "2014" in lieu thereof.
5. Page 5, Line 24, delete "2015" and insert "2017" in lieu thereof.

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Your Committee is in accord with the intent and purpose of C.B. No. 18-11 and upon concurrence with your Committee on Ways and Means recommends its adoption in the form attached hereto as C.B. No. 18-11, C.D.1.

Respectfully submitted,

/s/ Wesley W. Simina
Wesley W. Simina, chairman

Berney Martin, vice chairman

/s/ Dohsis Halbert
Dohsis Halbert, member

/s/ Tiwiter Aritos
Tiwiter Aritos, member

/s/ Yosiwo P. George
Yosiwo P. George, member

Isaac V. Figir, member

Bonsiano F. Nethon, member