

STANDING COMMITTEE REPORT NO. 13-123

RE: P.C. NO. 13-153

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

The Honorable Peter M. Christian
Speaker, Thirteenth Congress
Federated States of Micronesia
Third Regular Session, 2004

Dear Mr. Speaker:

Your Committee on Health, Education and Social Affairs, to which was jointly referred the National Government's proposed FY2005 Budget, begs leave to report as follows:

Your Committee recognizes that in accordance with the amended Compact of Free Association with the United States of America (the "Amended Compact"), the government of the Federated States of Micronesia is required to submit its annual consolidated budget to the Joint Economic Management Committee ("JEMCO") for review and approval of the proposed uses of Amended Compact funds prior to receiving sector grant funds payable under the Amended Compact. The vast majority of the total FY2005 budget for the Department of Health, Education and Social Affairs ("HESA Department") and HESA-related contributions and capital and human resource development projects is funded by Amended Compact funds and US Federal Programs. As such, the majority of the FY2005 HESA Department Budget is subject to the review and approval by JEMCO.

Your Committee also recognizes the FSM Congress' power and duty to review and make amendments to the President's proposed budget prior to submission of any budget to JEMCO, and to authorize a submission to JEMCO.

Your Committee has carefully reviewed all of the budgets for the entities that fall within its jurisdiction, namely, the following:

1. Department of Health, Education and Social Affairs;
2. Board of Regents of the College of Micronesia;
3. Grants, Subsidies and Contributions relating to Health, Education and Social Affairs;
4. Capital and Human Resource Development Projects relating to Health, Education and Social Affairs, which comprise the national government appropriations for the College of Micronesia and scholarship programs.

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Your Committee also held meetings and public hearings with representatives from the Department, private schools and the College of Micronesia regarding their performance-based and line-item budgets.

Committee's Findings:

Initial Remarks:

It is important to note at the outset that the figures representing the total budget for the Department of HESA contained on page 216 (for the performance budget) and page 217 (for the line item budget) in the FY2005 budget book are somewhat misleading at first glance if one is trying to conduct an assessment of the national government-funded budget. The budget book indicates HESA Department totals of \$3,448,624 for FY2003, \$4,850,932 for FY2004 and \$5,116,455 for FY2005. These figures do not simply represent the amounts appropriated by the national government. The Department has included all the US Federal health and education programs and other foreign aid grant programs in the calculation of these totals, together with national government-funded amounts, even though these U.S. Federal and grant programs are not funded by the FSM national government.

Because the totals appearing on page 216 and 217 of the budget book include both national government-funded and non-national government-funded amounts, they are not an accurate reflection of the amounts and trends in the HESA budget appropriated by the national government. If one looks only at these totals, the HESA budget appears to increase rapidly each year. Yet the increases in the totals appearing on pages 216 and 217 are in fact largely due to increasingly large health and educational grants received from the United States which are separate from the Amended Compact sector grants (e.g. the Teacher Quality Enhancement grant program that began in FY2004, and the Bioterrorism and Public Health Preparedness grant programs in FY2005). In reality, the HESA Department budget that is appropriated by the national government increased only slightly from FY2003 to FY2004 and decreases from FY2004 to FY2005.

Comparison of FY2005 proposed budget to FY2004 appropriations:

The HESA budget as proposed by the President has been cut from FY2004 to FY2005, for all of the three main budget areas within the Committee's jurisdiction (Department of HESA, HESA

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grants/subsidies/contributions, and HESA capital and human resource development projects). Significant cuts were made from amounts that were originally requested by the Department and agencies, bringing total figures proposed for FY2005 to much less than what was originally requested by the Department and other agencies for FY2005, and also to less than the FY2004 appropriated amounts.

For the HESA Department, there is a slight reduction in the national government-funded budget proposed by the President from the FY2004 total. Total national government appropriation for the Department in FY2004 was \$1,412,163. The total national government-funded budget proposed by the President for FY2005 is \$1,399,586.

For HESA Grants, Subsidies and Contributions, the total amount is significantly reduced this year. The FY2004 total was \$927,620. The proposed total amount for FY2005 is \$628,326.

For HESA Capital and Human Resource Development projects (which currently comprise only the COM-FSM appropriations, as no other capital and human resource development projects were proposed in either FY2004 or FY2005) the total has been reduced from \$5,046,393 in FY2004 to \$5,029,427 in FY2005.

Details of cuts and additions to this year's budget:

At the outset of its consultation and public hearings process, your Committee learned that numerous cuts were made by the President and Budget Offices to the original budget that was submitted by the Department and other agencies. Cuts included the following:

1. many items in the COM-FSM original budget request were reduced or eliminated; the total COM budget was reduced from \$6,489,000 requested by COM to the proposed amount of \$5,029,427
2. COM Board of Regents original budget request of \$89,370 was reduced to \$84,460
3. funding for Aid to Non-Public Schools was reduced from the FY2004 amount (and the original FY2005 requested amount) of \$500,000 to the proposed amount of \$300,000
4. funding for one position that is required as a condition of the Basic Social Services loan was eliminated
5. National Board of Nursing budget was reduced from \$38,000 to \$20,000
6. travel budgets for several HESA Department Units (including all

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- Division of Education units) were reduced
7. funding for key WHO meetings for the Office of the Secretary was eliminated
 8. funding for the FSM History Development Program was reduced from the original request of \$19,000 to \$9,000
 9. funding for all Health Planning, Family Health and Nutrition programs was eliminated

In addition to making numerous cuts, the President's Office also shifted some expenditures between expenditure types and categories, and between divisions or units (this resulted in the appearance of budget increases in some areas when in fact there are no true increases, because there are corresponding decreases in other categories or units).¹ The President's Office also proposed a few increases and new budget items.²

The shifts of some items into the HESA Department budget from the Grants, Subsidies and Contributions category and additions of new items by the President are offset by the even greater cuts. The result is a net decrease in the total FY2005 proposed HESA budget over

¹ e.g.: (1) expenses associated with the Basic Social Services loan were listed as a grant/subsidy/contributions in FY2004; in FY2005 they were moved to the Office of the Secretary of the HESA Department (with the exception of the bookkeeper position, which was eliminated), (2) the new Secretary (who was confirmed in FY2004 to replace the former Secretary who recently retired) moved into the Office of the Secretary from the Division of Health, Health System Support Unit; he was and still is entitled to the professional premium, therefore, his higher salary followed him to the Office of the Secretary; this accounts for part of the increase in personnel costs in the Office of the Secretary and a corresponding decrease in the Health System Support unit personnel costs, (3) the new Deputy Secretary moved into this position from the Division of Education, Education System Support Unit; this accounts for part of the increase in the Office of the Secretary personnel costs and a corresponding decrease in Education System Support Unit personnel costs, and (4) some of the Visiting Medical Specialists' travel costs were shifted from the "travel" category to the "contract services" category in the Division of Health, Health System Support Unit, which resulted in a reduction in travel costs and a corresponding increase in contract services costs.

² e.g.: (1) new Financial Specialist position in the Division of Education, Education System Support Unit, (2) necessary new office space rental for the Chuuk Environmental Health - Food Inspection Unit, and (3) an increase in visiting medical specialist services (up \$40,000 from FY2004), consistent with apparent national desire to increase medical services available within the FSM and reduce off-island referral costs.

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FY2004. This is consistent with explanations offered at our public hearing from a key representative of the Budget Office, who testified that this year the HESA budget reflects decisions on the part of the President to "reprioritize" HESA budget items to bring them in line with new goals and priorities for the Department, while reducing overall costs.

Committee Recommendations:

Your Committee agrees with the President's budget cut and reprioritizing decisions, with some exceptions. In light of the current financial situation of the nation, the Committee believes that most of the reductions proposed by the President are necessary and prudent. With limited resources available, budget cuts are required to keep within available resources and to offset the increases proposed in other parts of the HESA Budget by the President because of changing priorities. At our public hearings, some representatives from the HESA Department and the College testified that although funding in the original requested amounts would be welcomed, they will accept the President's and Budget Office's decisions if need be. Some representatives did request, however, that certain key items that were reduced or eliminated by the President be restored to the budget.

Your Committee took into account the various cuts that have already been made, and carefully considered the requests it received for certain key expenditures to be restored. After careful consideration and recognition of the need to balance the fact that financial resources for the nation are quite limited this year with the fact that most of the HESA budget is funded by Amended Compact funding (and is therefore subject to review and approval by JEMCO) and the fact that under the Amended Compact the health and education sectors are considered to be priority sectors³, your Committee recommends that the budgets for (1) Department of HESA, (2) HESA grants, subsidies and contributions, and (3) HESA capital and human resource development projects (namely, the COM-FSM) be submitted to JEMCO in its current

³ Amended Compact of Free Association Signed Documents, Title Two, Article I, Section 211 (a): "Section 211. Sector Grants (a) ... Such grants shall be used for assistance in the sectors of education, health care, private sector development, the environment, public sector capacity building, and public infrastructure, or for other sectors as mutually agreed, with priorities in the education and health care sectors." (emphasis added)

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form as reduced in some areas and proposed by the President *with the following exceptions:*

1. Salary for bookkeeper position required as a condition of receipt of the Basic Social Services loan:

The Basic Social Services loan projects began in FY2004. A condition of receipt of the loan was that two positions (a project manager and a bookkeeper) be filled and funded by the national government. Both positions were filled in FY2004. In FY2004 both positions along with other project expenses were funded as a HESA "grants, subsidies and contributions" item. In FY2005 the Project Manager and other project expenses (namely, travel to the states required for the project) were funded in the Office of the Secretary budget, but the bookkeeper position was eliminated from the budget entirely.

Your Committee recommends that funding be restored for the contract bookkeeper position in the amount of \$12,000.

2. Aid to Non-Public Schools

Contribution to non-public schools for FY2003 and FY2004 was \$500,000. The proposed contribution to non-public schools for FY2005 is only \$300,000. Representatives from private schools testified that the schools are very reliant on this government contribution to help fund essential supplies such as student textbooks. Without this contribution, students will go without essential books and other things, according to school representatives. The Committee was informed that if this contribution is reduced, schools will be forced to raise their tuition fees for the 2005-2006 school year to make up for the shortfall. Tuition increases may be tolerable in a wealthier community but in light of the current economic situation in the FSM, school representatives believe that many families would not be able to absorb additional costs and that tuition increases at this time would force some students to leave the schools. The FSM's non-public schools have consistently produced the nation's top students and future university graduates and leaders. In this critical time in the nation's development, your Committee strongly advises against taking any steps that may jeopardize the education of students enrolled in these schools.

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As a matter of policy, your Committee recommends that the President restore the original contribution amount of \$500,000.

3. Graduate Scholarships:

In FY2004, all scholarship programs were eliminated from the national budget. Your Committee learned that the states have absorbed the costs of the State Scholarships programs that were formerly funded by the national government, but they have not continued and funded the Graduate Scholarships (also known as the "President's Scholarships"). Your Committee believes that this government would be remiss if it failed to continue to assist FSM citizens in pursuing higher education beyond the undergraduate level. As a matter of policy, your Committee recommends the amount of \$100,000 for the Graduate Scholarships program.

4. Funding for the Department of HESA Secretary to attend key World Health Organization ("WHO") meetings:

Your Committee is advised by the Department of HESA that WHO membership rights and privileges can be suspended or terminated if key meetings are not attended. We believe it would not be in the best interest of this nation for WHO membership privileges to be jeopardized because of failure to attend key meetings. Your Committee recommends that funding in the total amount of \$7,273 be restored for the Secretary to attend the annual World Health Assembly ("WHA") meeting and the Regional Pacific Island WHO meeting.

5. FSM History Development Program:

This is a program to produce a comprehensive book about the history of the FSM, to be used in schools. No such comprehensive history book existed before this project began. The Department expects to complete the project in FY2005. The original amount requested to complete the project was \$19,000 (down from over \$28,000 in FY2004), but the amount proposed by the President is \$9,000. The additional \$10,000 requested was intended to fund the publishing costs of the book, without which, the book may be written but unavailable to readers. Your Committee recommends approval of the full amount of \$19,000 for this project.

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6. National Board of Nursing:

The National Board of Nursing has been funded in the amount of \$38,000 for the past several years. This Board is responsible for regulation of the nursing profession in the FSM, including issuance of nursing licenses and enforcement of professional standards rules. FY2005 proposed funding was reduced by the President's Office to \$20,000 without explanation. Your Committee recommends restoration of the full regular annual amount of \$38,000.

7. Health Planning, Family Health and Nutrition Programs:

Your Committee learned that project funding for several family health and nutrition programs that are carried out by the staff nutritionist in the Division of Health was not included in this year's budget. According to representatives from the Department, these are programs that were formerly funded by former Compact s.221(b) funds and which should be continued and funded by Amended Compact health sector grant funds, as were all other important former Compact s.221(b) programs. The requested amount required to continue these programs is \$47,950. Your Committee recommends approval of \$47,950 to fund the Health Planning, Family Health and Nutrition programs.

Summary:

In summary, your Committee approves of the President's submission to JEMCO of the budgets for (1) Department of HESA, (2) HESA grants/subsidies/contributions, and (3) HESA capital and human resource development projects, as already reduced by the President with the exception of the following recommended additions, subject to available funds, in the following order of priority:

1. \$12,000 for the salary for the required bookkeeper position required by the Basic Social Services loan project (to be added to the Office of the Secretary Contract Services budget)
2. \$500,000 in Aid to Non-Public Schools (increase of \$200,000 to be added to HESA grants/subsidies/contributions budget)
3. \$100,000 for the Graduate Scholarships programs (to be added to HESA Capital and Human Resource Development Projects)

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4. \$7,273 for the Department of HESA Secretary to attend the WHA and Regional Pacific Island WHO meeting (to be added to travel budget for Department of HESA, Office of the Secretary)
5. \$19,000 for the FSM History Development Program (increase of \$10,000 to be added to the Division of Education budget)
6. \$38,000 for the National Board of Nursing (increase of \$18,000 to be added to the HESA grants/subsidies/contributions, National Board of Nursing contribution)
7. \$47,950 for the Health Planning, Family Health and Nutrition programs (to be added to the Department of HESA, Health Planning, Family Health and Nutrition unit)

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Respectfully submitted,

/s/ Resio S. Moses
Resio S. Moses, chairman

/s/ Tiwiter Aritos
Tiwiter Aritos, vice chairman

Isaac V. Figir, member

/s/ Dohsis Halbert
Dohsis Halbert, member

Roosevelt D. Kansou, member

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

/s/ Moses A. Nelson
Moses A. Nelson, member