

STANDING COMMITTEE REPORT NO. 14-117

RE: P.C. NO. 14-190/TC

SUBJECT: FY 2007 BUDGET (C.B. No. 14-167)

SEPTEMBER 18, 2006

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

Dear Mr. Speaker:

Your Committee on Transportation and Communications, to which was jointly referred the National Government's proposed FY 2007 budget (C.B. No. 14-167), begs leave to report as follows:

Pursuant to rule 7, section 6(b) of the Official Rules of Procedure of the Fourteenth Congress of the Federated States of Micronesia, your Committee has limited its review to those portions of the proposed budget relating to matters under its jurisdiction. These are the budgets for:

1. The Department of Transportation, Communication and Infrastructure, which comprises the Office of the Secretary, and the Divisions of Marine Transportation, Civil Aviation, Communications, and Infrastructure (together the "Department");
2. Grants, Subsidies and Contributions:
 - (a) Asia Pacific Telecommunity (APT);
 - (b) International Telecommunications Union (ITU);
 - (c) Micronesian Shipping Commission (MSC);
 - (d) International Civil Aviation Organization (ICAO);
 - (e) Western & Central Pacific Tuna Commission Membership Fee

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- (f) FSM Capital Energy/Utilities
- (g) Initiative in Marine & Aviation Skill Development

3. Capital and Human Resource Development

- (a) Dry-docking of MS Caroline Voyager
- (b) Tuna Commission
- (b) Infrastructure Maintenance Fund (IMF)

Your Committee conducted various public hearings on the Department's FY2007 proposed budget following the convening of Congress on May 11, 2006. The report and recommendations that follow are based upon the information and input provided by the Secretary, Assistant Secretaries, and staff of the Department interviewed during those public hearings. Any commentary found in this report should be treated as policy for the guidance of the relevant departments, agencies and entities.

The findings and recommendations of your Committee are set out in detail below.

Introductory Comments

Your Committee expresses its appreciation to the Secretary, Assistant Secretaries and staff of the Department for their continued dedication and diligence in fulfilling their respective missions. The Committee also commented the Department's justification of its budget and notes that the budget contains increases in the level of funding for contractual services for the Division of Communication and the Division of Marine Transportation. The basis of such changes will be detailed in this report under the appropriate Divisions.

During one of the Committee's oversight hearing with the Department, the Secretary testified that the Department's FY06 supplemental budget request for the last quarter was omitted and not included in the President's supplemental budget request. Later, it was informally submitted to the Chairman of the T&C Committee during a W&M Committee oversight hearing on the President's FY06 supplemental request. The Committee was informed that there was no representative from the Department in the EBRC to justify its supplemental request during each EBRC meeting. The Committee strongly encourages the Secretary and his staff to work cooperatively with the President on the recurrent omission of its supplemental budget requests and also to follow the appropriate procedure of transmitting supplemental request, which is through the Executive Budget Review Committee (EBRC) and not directly to the Committee.

Division of Infrastructure

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The Committee raises concerns on the implementation of the infrastructure projects in the FSM and urges the Secretary and his staff to work cooperatively with the responsible authorities to expedite the implementation of these infrastructure projects that should have already been benefiting the people of this nation. In one of the public hearing with the Department, the Secretary informed the Committee that for the last eleven months, the Project Management Unit (PMU) has certified several infrastructure projects and these were already submitted to the Office of Insular Affairs (OIA). However, the OIA has not drawn down the funding for these projects. The appropriate staff testified that this is hampering the implementation of the infrastructure projects in the FSM, which is a challenge faced by the Department.

Division of Marine

Your Committee inquires with the Department on the status of the Maritime Revolving Fund ("the Fund"). Mr. Wainer Hadley, Assistant Secretary, informed the Committee that the Department could not accurately determine the expenditure of the Fund because the latest audit report on the Fund, which was provided to the Department by the FSM Department of Finance and Administration, contains no substantive data. Nevertheless, your Committee urges the Secretary and his staff to provide accurate reporting on the Fund to the Committee on its next meeting.

On the current operation of the Caroline Voyager, Mr. Hadley commented that there are two objectives of the vessel: to provide services to the people and to generate revenue for the FSM National Government. He further explained to your Committee that initially, the budget book reflected a \$100,000 request for fuel for the Caroline Voyager. But in Presidential Communication No. 14-202, the correct amount requested is \$120,000. With this amount, the Secretary indicated that it is sufficient to fund threetrips of the Caroline Voyager because fueling the vessel from Pohnpei to Yap and return is around \$60,000. If additional run of the Caroline Voyager is requested, the Committee should anticipate supplemental funding for fueling the vessel. Your Committee commented that the scheduling of the Caroline Voyager is not very reliable and consistent and suggested that a private operator should manage the operation of the vessel in order to have reliable and consistent services. Further, the Committee recommends that the Department should amend relevant regulation relating to tariff to increase passengers' fee so revenue can be realized and used to defray the expenses relating to the vessel's operation.

The Committee recognizes the importance of sea and air transportation to the flow of goods into and out of the country and urges the Secretary to explore the possibility of funding the dry-docking of the

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Caroline Voyager and the maintenance of the Caroline Island Air from the Infrastructure Maintenance Fund (IMF). Further, the Committee would like to be informed with the Micronesian Shipping Commission's (MSC) future activities so members can be given an opportunity to make comments on proposed agenda or issues ahead of scheduled meetings of the MSC.

Division of Aviation

The Committee is concerned that the Department fails to fill the 13 positions for the security screeners. According to the Secretary, the President had decided to hold-off on the recruitment of the security screeners but insists that this specific funding in the amount of \$142,335 be included in this year budget.

Further, your Committee inquires with the Secretary on the status of the FSM obligations under the International Civil Aviation Organization (ICAO). The Secretary indicated that June 2006 is the dead line for the FSM Government to comply with the ICAO's mandate and apparently, the FSM National Government is in noncompliance with this treaty. Nevertheless, an arrangement was agreed upon between the FSM National Government and Continental Micronesia for Continental Micronesia to continue providing this security screening function. The transfer of this function to the FSM National Government is possible upon the recruitment of the security screeners. Further, your Committee urges the Department to find out whether Continental Micronesia is receiving compensation from Transportation Security Administration (TSA) for providing such security services at each airport.

Your Committee inquires with the Secretary on the Airport Improvement Project grants and was informed that the total amount of AIP grants already awarded to FSM in the year 2004 and 2005 is around \$18 million. The AIP grant is a source of funding from the Federal Aviation Authority (FAA) and is not included in the Sector grants under the Amended Compact. According to Mr. Master Halbert, the implementation of the AIP projects in the states have been delayed because of certain requirements and conditions that the recipients (each FSM States) of these grants should meet before they start implementing their projects. The responsible staff in the Department is working with its counterparts at the States on these requirements. Further, the Committee recommends that the Department should explore the possibility of funding the outer island airport improvement projects from the AIP grants.

The Committee further questions the Department whether it is possible to fund the other outer island airports of Chuuk State from the available funding of \$505,787 for Ta Airport and was informed that in

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Public Law No. 14-70, the \$505,787 previously appropriated in FY 2006 from Infrastructure Development sector grant under the Amended Compact can not be allotted until such time as the Department of Justice completes an investigation into the findings of the Office of the National Public Auditor in its report entitled "Ta Outer Island Airport Audit Fiscal Years 1990-2004 Audit No. 2005-01" and reports to the Speaker of Congress on the outcome of that investigation.

Your Committee requests that the Secretary confirms whether the \$2 million awarded to the Project Management Unit can be used to develop the capacity building of local staff, particular the staff under the Infrastructure Division of the National Government. It is the understanding of your Committee that the PMU, while obligated to certify projects, should also develop the capacity of local staff. The Secretary indicated that the Committee's request could be raised with OIA.

Division of Communication

Your Committee was informed by the Secretary that the significant increases in the level of funding in the contractual service category for the Division of Communication is to fund an ICT Expert and a Consultant. The Department intends to contract an ICT Expert to establish one T1 line for the whole National Government and a Consultant to assist in the development of the ICT Plan. Mr. Joldon Johnnyboy indicated that with this new T1 line, the FSM Government may cut cost on its telecommunication services.

Your Committee requested the Secretary or his appropriate staff to share information on upcoming Telecommunication conferences to each member of the T&C Committee so members' participation to such conferences may enable them to make well-informed decisions on telecommunication activities. The Committee urges the Secretary to look into the \$40 millions under Infrastructure Development Fund (IDF) to source the needed funding for the Fiber Optic Cable Project. Information revealed that the Fiber Optic Project should be completed by October 2008.

The Committee has noted a number of vacant positions within the Department and urges that they be filled at the earliest possible time if qualified personnel are available. Where positions remain vacant for a considerable period of time, the continuing need for such positions should be carefully re-evaluated.

The Committee has reviewed the requests for annual grants, subsidies, and contributions to the organizations under its jurisdiction. With the regional and international organizations to which our country

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belongs, the Committee urges that better utilization of the technical resources available through these organizations be achieved.

Summary of Major Changes

The President's FY2007 proposed budget for the various divisions under the Department is \$1,485,990. Based on the justification of the FY 2007 proposed budget, your Committee recommends the approval of \$1,485,990, subject to availability of funds and recommendations from the Ways and Means Committee.

The appropriated budget for Grants, Subsidies and Contributions for FY2006 is \$400,690. The proposed FY07 budget under this category is \$416,690 with an increase of \$16,000 for the Tuna Commission Membership Fee. The Committee further recommends a sum of \$50,000 for initiative in Marine & Aviation skill development. Thus, the Committee recommends for approval of **\$466,690**.

The FY07 proposed budget for the Capital and Human Resource Development Programs is \$1,161,500. The Committee disapproves the \$44,000 requested for the Tuna Commission headquarters so the amount recommended is **\$1,117,500**. The source of funding for the Capital and Human Resources Development Programs consists of \$286,158 (domestic revenues) and \$875,342 Infrastructure Sector Grants. However, since the Committee disapproved the \$44,000 for the Tuna Commission headquarters, the source of funding under the domestic revenues decreases to \$242,158.

Following is a detailed presentation of the Committee's findings and recommendations.

I. DEPARTMENT OF TRANSPORTATION, COMMUNICATION AND INFRASTRUCTURE

	FY 2006 Appropriations	FY 2007 Request	Committee Recommends
Personnel	579,125	579,942	579,942
Travel	101,968	103,000	103,000
Contractual Services	611,048	725,048	725,048
Other Current Expenses	70,000	70,000	70,000
Fixed Assets	4,000	8,000	8,000
Total	1,366,141	1,485,990	1,485,990
No. of Employees	40	40	40

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The significant changes apparent in this FY07 proposed budget are in the level of funding in the contractual services for the Division of Communication (\$25,000 for a Consultant and \$35,000 for an ICT Expert), in the level of funding in the contractual services for the Division of Marine (\$120,000 for fuel for the Caroline Voyager), and in the level of funding in the Fixed Assets for the Division of Infrastructure (\$4,000 to purchase Survey Equipment).

A. Office of the Secretary:

	FY 2006 Appropriations	FY 2007 Request	Committee Recommends
Personnel	73,100	73,103	73,103
Travel	24,864	25,000	25,000
Contractual Services	4,000	4,000	4,000
Other Current Expenses	70,000	70,000	70,000
Fixed Assets	4,000	4,000	4,000
Total	175,964	176,103	176,103
No. of Employees	6	6	6

B. Division of Marine Transportation

	FY 2006 Appropriations	FY 2007 Request	Committee Recommends
Personnel	94,552	94,551	94,551
Travel	30,360	30,000	30,000
Contractual Services	514,082	534,083	534,083
Other Current Expenses	0	0	0
Fixed Assets	0	0	0
Total	638,994	658,634	658,634
No. of Employees	5	5	5

In Presidential Communication No. 14-202, the President found some discrepancies in the FY07 Budget Book and wishes to bring them to the attention of the Speaker's Office. In the Division of Marine Transportation, EBRC recommended \$120,000 for steaming POL, but only

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\$100,000 is reflected in the Budget Book on page 217. So, \$20,000 will be added to the \$100,000 requested. The overall request under contractual services for the Marine Division should remain at \$534,083.

C. Division of Civil Aviation

	FY 2006 Appropriations	FY 2007 Request	Committee Recommends
Personnel	191,712	190,431	190,431
Travel	10,000	10,000	10,000
Contractual Services	0	0	0
Other Current Expenses	0	0	0
Fixed Assets	0	0	0
Total	201,712	200,431	200,431
No. of Employees	15	15	15

In FY06 budget, a sum of \$142,982 for new positions (a Manager and 13 Security Screeners) was appropriated but never expended. During an informal discussion with the Secretary, he indicated that the President would submit to Congress official communication requesting the Committee to fund this amount. Nevertheless, the Committee requests the Department to provide a report on how the funds were expended in FY06 appropriated budget. An amount of \$11,225 was appropriated for overtime in FY06 budget, however, the overtime amount is not requested this FY2007 budget.

D. Division of Communication

	FY 2006 Appropriations	FY 2007 Request	Committee Recommends
Personnel	38,456	41,130	41,130
Travel	17,514	18,000	18,000
Contractual Services	25,000	60,000	60,000
Other Current Expenses	0	0	0
Fixed Assets	0	0	0

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Total	80,970	119,130	119,130
No. of Employees	2	2	2

In Presidential Communication No. 14-202, the total amount of FY 2006 appropriation for Contractual Services in the Division of Communication is \$25,000 instead of \$8,000. The \$25,000 was appropriated, but \$17,000 was erroneously excluded from the division and included in the same category for the Division of Infrastructure.

An increase of \$60,000 in the level of funding in contractual service category for this Division is to fund a consultant and an ICT Expert.

E. Division of Infrastructure

	FY 2006 Appropriations	FY 2007 Request	Committee Recommends
Personnel	181,306	180,727	180,727
Travel	19,230	20,000	20,000
Contractual Services	84,966	126,965	126,965
Other Current Expenses	0	0	0
Fixed Assets	0	4,000	4,000
Total	285,502	331,692	331,692
No. of Employees	12	12	12

II. GRANTS, SUBSIDIES AND CONTRIBUTIONS:

The membership fee for APT, ITU and ICAO enables the FSM Government to receive consultative, technical and training supports from these regional and international organizations dealing with shipping, telecommunications, and civil aviation.

	FY 2006 Appropriation	FY 2007 Request	Committee Recommends
Asia Pacific Telecommunity (APT)	7,640	7,640	7,640
International Telecommunication Union (ITU)	55,000	55,000	55,000
International Civil Aviation Organization	28,050	28,050	28,050
Micronesia Shipping	10,000	10,000	10,000

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Commission (MSC) (P.L. No. 14-70 appropriates \$10,000)			
Tuna Commission Membership Fee	0	16,000	16,000
Energy (FSM Utility)	300,000	300,000	300,000
Initiative in Marine & Aviation Skill Development	0	0	50,000
Total	40,690	416,000	466,690

F. Capital and Human Resources Development

Dry-Docking, MS Caroline Voyager	0	880,000	880,000
Tuna Commission Headquarter	0	44,000	0
Infrastructure Maintenance Fund (IMF)	211,136	237,500	237,500
Total	211,136	1,161,500	1,117,500

In Presidential Communication No. 14-190, the amount for the Dry-docking of MS Caroline Voyager Fund is \$880,000. The said amount comes from two different sources (domestic revenue is \$123,408 & infrastructure sector grant is 756,592).

During one of the public hearing, your Committee was informed that the Department has secured other sources of funding for the Tuna Commission headquarters. Therefore, the amount requested for Tuna Commission headquarters in the amount of \$44,000 is no longer needed as recommended above.

In Presidential Communication No. 14-190, the amount for the IMF Fund is \$211,136. The said amount comes from two different sources (domestic revenue is \$118,750 & infrastructure sector grant is 118,750). Your Committee urges the Secretary to meet with the President and find ways to use the IMF funding to fund the dry-docking of the Caroline Voyager and for the maintenance of the Caroline Island Air.

IV. **CONCLUSIONS**

Your Committee carefully reviewed the Department's proposed budget for FY2007 and recommends for approval a total budget of **\$3,114,180**. Each of the sums "**Recommended by Committee**" set forth above reflects

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funding for the designated activity, contributions, and capital and human resource development for all of fiscal year 2007.

Subject to the conditions and limitations set forth herein, and the availability of funds as determined by your Committee on Ways and Means, your Committee on Transportation and Communications recommends approval of the amounts listed above.

Respectfully submitted,

Moses A. Nelson, chairman

/s/ Dion G. Neth
Dion G. Neth, vice chairman

/s/ Resio S. Moses
Resio S. Moses, member

/s/ Ramon Peyal
Ramon Peyal, member

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

/s/ Simiram Sipenuk
Simiram Sipenuk, member

/s/ Peter Sitan
Peter Sitan, member