

STANDING COMMITTEE REPORT NO. 14-84

RE: C.B. NO. 14-149/W&M

SUBJECT: SUPPLEMENTAL BUDGET 2006

MARCH 2, 2006

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

Dear Mr. Speaker:

Your Committee on Ways and Means ("W&M"), to which was referred C.B. No. 14-149 entitled,

"A BILL FOR AN ACT TO AMEND PUBLIC LAW NO. 14-21, THE FY 2006 BUDGET, AS AMENDED, IN ORDER TO PROVIDE THE SUPPLEMENTAL FUNDING FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2006, AND FOR OTHER PURPOSES.",

begs leave to report as follows:

This is a supplemental appropriation bill requesting amendments to the comprehensive annual budget act, PL 14-21, to fund certain expenditures. Transmitted along with the bill was a revised revenues estimate which sets the total estimated revenues for FY06 at \$94,651,450, including a carryover from FY05 of \$2.8 million. The total appropriated amount for FY06 so far is \$90,901,393, leaving a fund balance of \$3,750,057 available for appropriation. The supplemental requests amount to \$2,022,230.

It is the strongly held belief of this committee that the basic policy tool of the nation is the comprehensive annual budget, which should reflect a well-thought-out strategy of expenditures prepared well in advance of the need for spending. When the Executive presents its budget request to Congress, the assumption is that all major requests for expenditures have been included. Only that way can Congress evaluate all expenditures in context and allocate the scarce financial resources of the nation in a way that is fair, inclusive, and truly representative of the needs of the nation.

A supplemental budget request should be an exemption that confirms the rules. It should be reserved for expenditures that were unforeseen, such as emergency situations or where the actual spending turned out to be much more than what was budgeted. In the latter case it can be expected that a supplemental appropriation be requested late in the fiscal year, to reflect real needs taking actual spending into account. What a supplemental appropriation should NOT be about is to attempt to correct for sloppy budgeting, failure of planning, and complete lack of respect for the budgetary process and the vision that it implies. It is incumbent on the Executive branch to be mindful of the annual schedule of Congress, and to mold its annual budget request around the regular sessions of Congress. Recently, Congress has amended its rules to add a third regular session in January to facilitate the budget process, when it was felt that it would ease the planning burden on the Executive and reduce substantially any need for supplemental appropriations.

Prior to the January 2006 regular session, Congress received assurance from the President that no supplemental request was forthcoming for that session. Congress went ahead with its deliberations and passed a comprehensive budget bill that appropriated funds for the second half of the fiscal year. Barely days after the bill was signed into law, a supplemental appropriation bill for \$2.02 million

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dollars was transmitted from the President's Office, in percentage about 15% of the operational budget of the national government.

To attempt to argue that such a substantial proportion of the budget was unforeseen would be completely disingenuous. Why the Executive did not take advantage of the January regular session and the opportunity for conducting public hearings in Palikir in conjunction with other bills remains a mystery. To wait for a special session -- called for other purposes -- for non-emergency requests is a distortion of the budget process.

We as a government should wean ourselves from the practice of submitting boilerplate budgets year after year, and submitting our perceived actual needs as supplemental requests. This does not help anyone, neither the decision makers nor the project managers. It is disturbing to find in a supplemental request items that are of a recurring nature, such as fuel for patrol boats, or annual contributions to an international agency. These kinds of expenditures belong in the regular budget request.

Your committee could also not help wondering how the Executive came up with a revenues carry-over of \$2.8 million from FY05 -- almost six months after the beginning of the fiscal year -- just in time for the \$2.02 million supplemental request when for one year the revenues estimates repeatedly indicated flat revenues. Such coincidence may give the impression that the Executive may be hiding revenues until such time that it could think of a way of spending them.

Mindful of the above, your committee now turns its attention to the actual requests. The President is asking for the following:

- Office of the President \$ 91,000
- Department of Foreign Affairs \$223,500
- Department of Finance and Administration \$ 7,280
- Department of Economic Affairs \$ 60,000
- Department of HESA \$185,000
- Department of Justice \$250,000
- Office of Compact Management \$ 30,000
- National Fisheries Corporation \$250,000
- United Nations Development Program \$ 94,800
- Office of the National Election Director \$268,700
- States Joint Law Enforcement \$ 30,000
- FSM Postal Service Money Order Escrow Account \$200,000
- Caroline Island Air \$131,950
- Capital and Human Resources Development \$200,000

Your committee held comprehensive hearings on March 1, 2006. Appearing in front of your committee were all the departments and agencies requesting funding except for National Fisheries Corporation (NFC). At the hearing the Secretary of Justice indicated that there were additional last-minute requests:

- Department of Transportation
- Communications & Infrastructure.....\$ 68,000
- Public Defender..... 65,000
- Fuel Task Force..... 15,000

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In the view of your committee, only the funding for elections needs to be decided at this special session. The Election Director needs assurance of funding for the upcoming March 2007 election one year beforehand. Your committee recommends appropriating the full amount requested of \$268,700. However, the Election Director testified to your committee that this amount covers needs for both FY06 and FY07. Your committee recommends therefore that the funding for election be done by a separate bill from the comprehensive budget act.

All other funding requests will benefit from more deliberation and the opportunity for public hearings. Your committee therefore suggests that the upcoming regular session in May, a little more than two months away, be the more appropriate venue for them.

Respectfully submitted,

/s/ Isaac V. Figir

Isaac V. Figir, Chairman

Roosevelt D. Kansou, Vice Chairman

Claude H. Phillip, member

Manny Mori, member

/s/ Peter M. Christian
Peter M. Christian, member

/s/ Dohsis Halbert
Dohsis Halbert, member

/s/ Simiram Sipenuk
Simiram Sipenuk, member