

STANDING COMMITTEE REPORT NO. 15-35

RE: P.C. NO. 15-55/T&C

SUBJECT: FY 2008 BUDGET (C.B. No. 15-53)

SEPTEMBER 21, 2007

The Honorable Isaac V. Figir  
Speaker, Fifteenth Congress  
Federated States of Micronesia  
Second Regular Session, 2007

Dear Mr. Speaker:

Your Committee on Transportation and Communications, to which was jointly referred the National Government's proposed FY 2008 budget (C.B. No. 15-53), begs leave to report as follows:

Pursuant to rule 7, section 6(b) of the Official Rules of Procedure of the Fifteenth 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) International Civil Aviation Organization (ICAO);
  - (d) FSM Capital Energy/Utilities;
  - (e) Micronesian Shipping Commission;
  - (f) Tuna Commission Membership fee
3. Capital and Human Resource Development
  - (a) FSM Multi-Purpose Building
  - (b) Houk Airport Extension
  - (c) Capitol Road and Drainage Improvement
  - (d) Official Residences, Palikir
  - (e) Auditor's Office Extension
  - (f) Infrastructure Maintenance Fund (IMF)

### **Introductory Comments**

Your Committee on Transportation and Communication conducted various public hearings on the Department's revised FY2008 proposed budget along with several important matters that are under the jurisdiction of the Department following the convening of Congress session on May

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11, 2007. Several subsequent hearings were also conducted following the convening of Congress Second Regular Session on September 12, 2007. All discussions during these hearings centered on the Department's FY2008 proposed budget, the Fiber Optic Cable project, the Contract with the Engineering Contractor-GMP, the future of the Project Management Unit (PMU), the Infrastructure Maintenance Fund (IMF), the Tuna Commission and the Official residences. After the passage of the Reorganization bill, it is important to note that the Department's FY08 budget request, which was transmitted via Presidential Communication No. 15-10 (C.B. No. 15-31) is almost similar to the Department's FY08 budget request transmitted via President Communication No. 15-55 (C.B. No. 15-53). The necessary changes for the Department caused by the Reorganization of the Executive branch are incorporated in this report.

Thus, the report and recommendations that follow are based upon the information and input provided by the key witnesses from the various departments and agencies, the Secretary, Assistant Secretaries, and staff of the Department interviewed during those public hearings.

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

Division of Infrastructure

In your Committee's previous report (SCR No. 14-117), your Committee had raised some concerns on the implementation of the infrastructure projects in the FSM. Your Committee was informed that the GMP-PMU was engaged in services (pre-planning, implementation and monitoring of several projects) that should have been done by the States. Consequently, GMP-PMU has submitted to the Department cost of services on such projects. Thus, the different cost estimates between the States and GMP on several projects has created several problems- shortage of funding for other infrastructure projects and ill feeling toward GMP Associates. The Department's understanding is that GMP-PMU primary responsibility is to certify projects. At the time when the Department received billings from GMP-PMU, the cost-estimates on several projects provided by GMP-PMU exceeded the amount estimated by each State.

Your Committee became aware that the current contract for GMP Associates as PMU expired on June 19, 2007. With GMP Associates exiting, your Committee asked the Secretary what would happen to the infrastructure projects in each State, and whether necessary funding is required to pay other Engineering Contractors to continue with the infrastructure projects in the FSM. Mr. Rob Westerfield, an Engineering Consultant retained by the Department, indicated that to catch-up with the status quo, four Engineering contractors are needed

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with an estimated amount of \$30 million dollars. Mr. Westerfield informed your Committee that the current Engineer Contractor (GMP) is still eligible to bid for future infrastructure projects. Nevertheless, your Committee was assured that if the contract for GMP Associates expired, the Department still has the capability to implement the infrastructure projects in the FSM. The Department proposes to use the PMU funding to fund any recruited qualified engineers and inspectors to be placed in each state.

Currently, the arrangement now is an in-house PMU under the Department. The in-house PMU will have to hire qualified engineers and inspectors and place them in each of the States to support its workload. This recruitment of qualified engineers and inspectors is another challenge for the Department as well as the National Government. As for the current GMP-PMU, the arrangement is for it to continue its work on the infrastructure projects in the States. With the in-house for PMU, the Department will have to use the PMU funding to support the staff under the in-house PMU.

On the Infrastructure Maintenance Fund (IMF), your Committee was informed that all five governments contributed 5% of their infrastructure sector grants to the IMF. The purpose of the IMF is for the maintenance of infrastructure projects in the FSM. However, OIA requires a consolidated Infrastructure Maintenance Plan (IMP). This IMP will effectuate the drawdown of the IMF. Information revealed that GMP-PMU was tasked to finish this IMP. As of now, there has not been one available. Your Committee urges the Department to coordinate with the states or GMP-PMU and expedite the IMP. Further, your Committee reiterated the need to use the IMF for the dry-docking of the Caroline Voyager or airport improvement projects. The Director of OCM, Mr. Epell Ihlon, indicated that any request to use the IMF must be reviewed and approved by JEMCO. With this understanding, the Department is putting together a proposal to OIA in order for the Department to be able to use the IMF for the dry-docking of Caroline Voyager. This task is assigned to the staff at the Division of Infrastructure and the Consultant, Mr. Rob Westerfield. Any request proposal for the drawdown of Sector grants must meet JEMCO's requirements. Apparently, such stringent requirements had delayed the drawdown of IMF for the dry-docking of the Caroline Voyager.

Discussions on the Official Residences revealed that \$10,000 was included in the Presidential supplemental request for FY07. This amount is not to be used to defray cost relating of the Official Residence but to defray any cost relating to the temporary housing for the President and Vice President. Further, your Committee inquired with the Department on the time schedule for the Official Residences' landscaping completion, and also the furniture for the Official

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Residences. The Secretary indicated that the Chinese government will provide furniture for the residences. And it is the hope of the Department that Congress can approve the \$200,000 requested for the official residences comes October 1, 2007. This \$200,000 is included in the Department's FY08 budget request. Apparently, this figure is change from \$200,000 to \$50,000.

Your Committee was informed that an amount of \$400,000 is requested to fund a FSM Multi-Purpose Building. The actual design of this building has not been completed. The purpose for this building is to store artifacts and to be used as a convention center/museum. The building will be located here at the National Government.

#### Division of Marine

The Acting Secretary Mr. Wainer Hadley informed the Committee that JEMCO did not approve the funding for dry-docking of the Caroline Voyager. Apparently, the package proposal formulated by the Department and submitted to JEMCO did not meet the stringent requirements required by JEMCO; therefore, the Department cannot use infrastructure funding for the dry-docking of the Caroline Voyager as anticipated.

With no funding for dry-docking, the Department is faced with a dilemma- a forfeiture of the insurance for the Caroline Voyager if no dry-docking within six months. The Department indicated that they already bid out the contract for the dry-docking of the Caroline Voyager. Since there is no funding, the Department is coordinating with the appropriate contractor for an extension on the dry-docking contract for Caroline Voyager. The position of the Department is to send the Caroline Voyager now, the sooner the better. Thus, the Committee wishes to look into the possibility of tapping any other funding for the dry-docking of the Voyager.

#### Division of Aviation

In the FY08 budget request, the level of funding for the Personnel for Division of Aviation is decreased from thirteen positions to four positions. Eleven positions for the security screeners are not requested for this fiscal year 2008. According to the Secretary, the President only requested two positions, (one security screener and one Manager for Air Navigator) for this fiscal year. The specific decrease is reflected on page 228 of the FY08 budget book, in which the level of funding for Personnel under the Division of Aviation decreases from \$190,431 to \$82,176. The amount of \$143,096 appropriated to fund the security screeners in FY07 fiscal year was later appropriated for POL for the Caroline Voyager. (See Page 5, line 5 of PL No. 15-1)

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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.

Division of Communication

Your Committee conducted an oversight hearing with the management of FSM Telecommunication Corporation (hereinafter called "FSM Telecom"). The Committee met separately with the Secretary and the staff from the Department on May 17, 2007. During this hearing, the fiber optic cable project was discussed. According to Assistant Secretary Joldon Johnnyboy, the Fiber Optic Cable project was delayed due to the request from the other states to be connected to the main trunk. The initial plan (Phase I) of the fiber optic cable project is that Pohnpei State will be hooked up to the main trunk. The Phase II of the project is to have Kosrae and Chuuk hooked up to the branching unit in Pohnpei, and Yap to be hooked up to a branching unit in Guam. Your Committee was told that previous schedule for the fiber optic cable project to become operational is moot. Further, Mr. Johnnyboy indicated that the U.S. military has not designated a third party to manage the cable on its behalf. Mr. Johnnyboy also entertained the Committee with the concept of wind satellite, which offers broadband connectivity. According to Mr. Johnnyboy, a Japanese company initiates this wind satellite.

The CEO for FSM Telecom, Mr. Takuro Akinaga, informed your Committee that his presence in the hearing is to answer any issues relating to the Fiber Optic Cable project. According to him, the initial plan is to connect the Fiber Optic Cable to Pohnpei (the gateway in Micronesia) with an estimated cost of \$50 million. This is Phase I of the project. Your Committee raised the concern on Phase II of the project (the connection of the cable to Chuuk, Kosrae and Yap). The CEO explained that it is possible, however, due to financial capability of FSM Telecom, they cannot afford Phase II of the project. The cost estimate for Phase II is around \$50 to \$55 million. In specific figures, Phase I of the project is around \$12 to \$15 million. Connecting Pohnpei to Chuuk is around \$17 million; Pohnpei to Kosrae is around \$14.9 million; Pohnpei to Yap is around \$21 million. Given the RUS loan of \$40 million, it would take 25 years for FSM Telecom to satisfy this RUS loan. The Committee is concerned that Phase II would not be materialized given the time frame for FSM Telecom to pay back in full the RUS loan.

Your Committee inquired who will own the cable once it is laid. CEO indicated that the U.S. Army will own the portion of cable from Guam and Kwajelein. Such laying of cable is around 150 miles north of Pohnpei. Senator Neth inquired the status of the cable connectivity

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in Madolenwhim. He was told that the FSM Telecom is still negotiating with the cable owner; however, the cable owner is not very receptive and wants to retain the 50/50 ownership. Senator Neth further inquired on any plans by FSM Telecom to develop a cell-phone network in Kittiti. According to John Sohl, the current system can only accommodate 5,000 subscribers, yet almost 20,000 subscribers are currently using the system. In August, FSM Telecom is proposing to set up a system depending on available funding to improve the cellular-system.

A subsequent oversight hearing was conducted with FSM Telecommunication on Thursday, September 13, 2007. During the discussion on the Fiber Optic Cable, John Sohl informed the Committee that because of the military bureaucratic, it caused the delay of the project. According to him, a military representative is assigned to discuss the Fiber Optic project with the FSM and RMI counterparts. In the Chief Executive Conference held in Chuuk State, the leadership concurred with the connectivity between the other three states. Hence, the leadership directed the Department and the FSM Telecom to find costs and alternative source of funding to finance the connectivity in Chuuk, Kosrae and Yap within three months. Your Committee has shown disappointment because such a task is inconceivable. The representatives of FSM Telecom strongly advocating for the implementation of phase I of the Fiber Optic cable project because of the fact that there is nothing much to do now since the military has already proceed with the project as is-meaning the "train has left the station". This saying implicates that FSM Telecom is powerless to do anything once the military proceeds with the project.

#### Summary of Major Changes

The President's FY2008 proposed budget for the various divisions under the Department is \$1,501,865. Based on the justification of the FY 2008 proposed budget, your Committee recommends the approval of \$1,499,024 subject to availability of funds and recommendations from the Ways and Means Committee.

The appropriated budget for Grants, Subsidies and Contributions for FY2007 is \$540,690. The proposed FY08 budget under this category is \$506,690. The item not included under this category but reflected in Other Grants, Subsidies and Contributions is the \$16,000 for Tuna Commission Membership Fee. This is assigned under the T&C Committee's jurisdiction. During the markup meeting of the Committee, the Committee recommended \$16,000 for Micronesian Shipping Commission. Thus, the Committee recommends for approval of \$516,690.

The FY08 proposed budget for the Capital and Human Resource Development Programs is \$1,429,286. The source of funding for the

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Capital and Human Resources Development Programs consists of \$1,314,643 (domestic revenues) and \$114,643 from Infrastructure Sector Grant. Last fiscal year, \$880,000 was appropriated for dry-docking and sourced from the Infrastructure Sector Grant. Thus, the Committee recommends for approval of \$729,286. An amount of \$70,000 requested under this category was slashed by the Committee during its markup hearing, particularly the requests for (a) Multi-purpose building - \$500,000, (b) Capital road & drainage - \$100,000, (c) Official Residences - \$50,000, and (d) Public Auditor's Office - \$50,000.

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

**I. DEPARTMENT OF TRANSPORTATION, COMMUNICATION AND INFRASTRUCTURE**

	FY 2007 Appropriations	FY 2008 Request	Committee Recommends
Personnel	436,846	472,352	<b>462,511</b>
Travel	103,000	86,465	<b>93,465</b>
Contractual Services	1,018,144	865,048	<b>865,048</b>
Other Current Expenses	70,000	74,000	<b>74,000</b>
Fixed Assets	8,000	4,000	<b>4,000</b>
<b>Total</b>	<b>1,635,990</b>	<b>1,501,865</b>	<b>1,499,024</b>
No. of Employees	40	29	<b>28</b>

During the markup meeting, the Committee recommended an increase of \$7,000 in the level of funding for Travel in the Division of Infrastructure and a decrease \$9,841 in the level of funding for Personnel in the Division of Civil Aviation.

The significant change apparent in this FY08 proposed budget is in the level of funding in the Personnel for the Division of Civil Aviation (\$82,176 FY08 budget request compare to \$190,729 FY07 appropriated). For reference purposes, the appropriation for FY07 allows for thirteen new positions for security screeners. Because of the delay in recruitment of highly qualified security screeners, the Executive branch did not expend the requested amount for the screeners. Thus, in the last quarter of FY07, the amount was reprogram for POL for Caroline Voyager. The result is that FY07 appropriation in the level of funding in Contractual increases from \$825,048 to \$968,144 and the level of funding for Personnel decreases from \$579,942 to \$436,846.

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(A) Office of the Secretary:

	FY 2007 Appropriations	FY 2008 Request	<b>Committee Recommends</b>
Personnel	73,100	73,103	<b>73,103</b>
Travel	25,000	22,378	<b>22,378</b>
Contractual Services	4,000	4,000	<b>4,000</b>
Other Current Expenses	70,000	70,000	<b>70,000</b>
Fixed Assets	4,000	4,000	<b>4,000</b>
<b>Total</b>	<b>176,100</b>	<b>173,481</b>	<b>173,481</b>
No. of Employees	6	6	<b>6</b>

During the markup meeting of the Committee, the Committee recommends for approval the total proposed budget for the Office of the Secretary. The Committee is very much appreciative of the practice by the Department in allocating all budget requests for "Other current expenses" under the Office of the Secretary because other departments in the Executive branch are not doing this.

Division of Marine Transportation

	FY 2007 Appropriations	FY 2008 Request	<b>Committee Recommends</b>
Personnel	94,551	94,551	<b>94,551</b>
Travel	30,000	25,386	<b>25,386</b>
Contractual Services	827,180	614,083	<b>614,083</b>
Other Current Expenses	0	0	<b>0</b>
Fixed Assets	0	0	<b>0</b>
<b>Total</b>	<b>951,731</b>	<b>734,020</b>	<b>734,020</b>
No. of Employees	5	5	<b>5</b>

During the markup meeting of the Committee, the Committee questioned the disparity of figures in the FY07 appropriation and FY08 request for contractual services, and was assured that such an increase in FY07 appropriation of \$827,180 is an outcome of the reprogramming of the funding from Personnel in the Division of Civil Aviation to

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Contractual Services in the Division of Marine, particularly the funding for POL of Caroline Voyager.

On the \$614,083 recommended by the Committee, \$414,083 is use to fund contractual services for crews of the MS Caroline Voyager. The remaining \$200,000 is for POL for the MS Caroline Voyager. The Committee recommended what is currently requested, but is of the view that such amount is not sufficient for the entire year because fueling the ship from Pohnpei to Yap is around \$120,000.

(C) Division of Civil Aviation

	FY 2007 Appropriations	FY 2008 Request	<b>Committee Recommends</b>
Personnel	47,336	82,176	<b>72,335</b>
Travel	10,000	9,000	<b>9,000</b>
Contractual Services	0	0	<b>0</b>
Other Current Expenses	0	0	<b>0</b>
Fixed Assets	0	0	<b>0</b>
<b>Total</b>	<b>57,336</b>	<b>91,176</b>	<b>81,335</b>
No. of Employees	15	4	<b>3</b>

The Committee only recommends three positions. The Committee disapproves the budget request for the DAS for Commerce position in the amount of \$9,841. The Committee commented that this position is not very needed because other current staff can still perform their duties and responsibilities without the DAS for Commerce.

(D) Division of Communication

	FY 2007 Appropriations	FY 2008 Request	<b>Committee Recommends</b>
Personnel	41,132	41,130	<b>41,130</b>
Travel	18,000	15,763	<b>15,763</b>
Contractual Services	60,000	60,000	<b>60,000</b>
Other Current Expenses	0	0	<b>0</b>
Fixed Assets	0	0	<b>0</b>

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<b>Total</b>	119,130	116,893	<b>116,893</b>
No. of Employees	2	2	<b>2</b>

During the markup hearing, the Committee questioned the expenditure of the \$60,000 for Contractual Services under this Division, and wanted more follow-ups on the matter. According to Assistant Secretary, Mr. Johnnyboy, two Consultants, Mr. William Cheng and Dr. Norman Okamura were contracted on a case by case basis for consultancy purposes. Mr. William Cheng has been advising the Department on international matters relating to Communication issues. As for Dr. Norman Okamura, he is an ICT expert who advises the Department on the fiber optic cable and other technical aspects on telecommunication matters.

(E) Division of Infrastructure

	FY 2007 Appropriations	FY 2008 Request	<b>Committee Recommends</b>
Personnel	180,728	181,392	<b>181,392</b>
Travel	20,000	13,938	<b>20,938</b>
Contractual Services	126,962	186,965	<b>186,965</b>
Other Current Expenses	0	4,000	<b>4,000</b>
Fixed Assets	4,000	0	<b>0</b>
<b>Total</b>	<b>331,690</b>	<b>386,295</b>	<b>393,295</b>
No. of Employees	12	12	<b>12</b>

During the markup hearing, the Committee recommends an increase of \$7,000 in the level of funding for Travel. Therefore, the level of funding for Travel for the Division of Infrastructure increases from \$13,938 to \$20,938 subject to concurrence of the Committee on Ways and Means. The justification of this increase is for the staff to inspect outer islands airports and to secure land documents in some airports, especially Ta Airport. This land document is needed by JEMCO or OIA.

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.

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	FY 2007 Appropriation	FY 2008 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
Micronesian Shipping Commission (MSC)	10,000	0	10,000
Tuna Commission Membership Fee	16,000	16,000	16,000
Energy (FSM Utility)	390,000	400,000	400,000
Marine & Aviation Ski Upgrading	50,000	0	0
<b>Total</b>	556,690	506,690	516,690

The change that is apparent under the grants, subsidies and contributions is in the level of funding for "Energy (FSM Utility)". In FY07 original appropriation, a figure of \$300,000 was reflected. Congress approved latter part of FY07; a supplemental request from President and the \$300,000 is increase to \$390,000. The FY08 budget request is now \$400,000. During the hearing, the Secretary and his staff informed your Committee that the Division of Infrastructure is handling the billings for all utilities for the National Government. Thus, this figure of \$400,000 is for payment of utilities (billings for power & water usage) for the National Government.

F. Capital and Human Resources Development

Dry-Docking, MS Caroline Voyager	880,000	0	0
Multi Purpose building	0	500,000	0
Infrastructure Maintenance Fund (IMF)	237,500	229,286	0
Cap. Road & Drainage	0	100,000	0
Official Residences	0	50,000	0
Houk Airport	0	500,000	500,000
Public Auditor's Office	0	50,000	0
<b>Total</b>	1,117,500	1,479,286	500,000

After the markup meeting, the Committee did not recommend for approval the budget requests for the following:

1. Multipurpose building - \$500,000

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2. Capital Road & Drainage - \$100,000
3. Official Residences - \$50,000
4. Public Auditor's Office - \$50,000

The Committee indicated that these projects are not very urgent at this point in time, and may be revisited in the near future. Thus, the Committee recommends for approval the \$500,000 for Houk Airport.

In Presidential Communication No. 15-55, the amount for the IMF Fund is \$229,286. The said amount comes from two different sources (domestic revenue is \$114,643 & infrastructure sector grant is 114,643). Further, in Presidential Communication No. 15-10, the proposed budget for the multi purpose building is \$44,000. However, in PC No. 15-55, the proposed budget for the same increase to \$500,000. In PC No. 15-10, the proposed budget for the Official Residences is \$200,000. In PC No. 15-55, the proposed budget for the same decreases to \$50,000.

#### IV. CONCLUSIONS

Your Committee carefully reviewed the Department's proposed budget for FY2008 and recommends for approval a total budget of **\$2,745,000**. Each of the sums "**Recommended by Committee**" set forth above reflects funding for the designated activity, contributions, and capital and human resource development for all of fiscal year 2008.

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.

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Respectfully submitted,

/s/ Moses A. Nelson  
Moses A. Nelson, chairman

/s/ Fredrico O. Primo  
Fredrico O. Primo, vice chairman

Tiwiter Aritos, member

/s/ Dion G. Neth  
Dion G. Neth, member

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

Joe N. Suka, member

/s/ Joseph J. Urusemal  
Joseph J. Urusemal, member