

STANDING COMMITTEE REPORT NO. 15-127

RE: P.C. NO. 15-170/R&D

SUBJECT: FY 2009 BUDGET

May 29, 2008

The Honorable Isaac V. Figir  
Speaker, Fifteenth Congress  
Federated States of Micronesia  
Fourth Regular Session, 2008

Dear Mr. Speaker:

Your Committee on Resources and Development, to which was jointly referred the National Government's proposed FY 2009 budget, begs leave to report as follows:

Presidential Communication No. 15-170 relates to the National Government's proposed budget for Fiscal Year 2009 as set forth in a publication entitled Federated States of Micronesia Fiscal Year 2009 Proposed Budget (the "Budget Book"). Pursuant to rule 7, section 2(b), of the Official Rules of Procedure of the Fifteenth Congress of the Federated States of Micronesia, your Committee has confined its review to those portions of the revised proposed budget relating to matters within its jurisdiction. These are the budgets for:

1. Department of Resources and Development;
2. Office of Environment and Emergency Management
3. National Oceanic Resource Management Authority;
4. Coconut Development Authority;
5. FSM Banking Board;
6. National Fisheries Corporation;
7. Aquaculture Center
8. Grants, subsidies and contributions:
  - a. Pacific Island Development Program (UNDP);
  - b. Forum Fisheries Agency (FFA);
  - c. Coordinating Committee for Offshore Mineral Prospecting;
  - d. Pacific Asian Travel Association (PATA);
  - e. United Nations Development Program (UNDP);
  - f. Seaframe Project;
  - g. Food Agriculture Organization (FAO);
  - h. Western Forestry Leader Coalition;

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- i. FAO/TCP Matching
  - j. National Environment Speech Contest;
  - k. United Nations Framework Convention Climate Change;
  - l. National Association of State Foresters;
  - m. Matching to South Pacific Commission Project;
  - n. Copra Subsidy;
  - o. Pilot Plant Projects;
  - p. Asia Pacific Coconut Community; and
  - q. Quarantine Services Improvement Project
  - r. National Environmental Conference
  - s. 18<sup>th</sup> SPREP Annual Meeting
  - t. Tourism Activities
  - u. NSM Natl. Implementation Strategy Climate Change
  - v. UN Environmental Protection
  - w. SPREP Conv. Annual Membership Fee
  - x. Waigani Convention
  - y. UN Convention to Combat Desertification
  - z. SPREP Annual Membership Fee
  - aa. Tuna Commission Membership
  - bb. National Maritime Boundary/Fy09 Continental Shelf  
Delimitation
8. Capital & Human Resources Development:
- a. FSM Visitor's Bureau
  - b. Crop Production Improvement Program
  - c. FSM Trade & FDI Promotion Project
  - d. Diversification of Energy Resources
  - e. FSM Promotion of Micronesia Owned Business
  - f. Capacity Building for Trade Policy Formulation, Negotiation  
and Implementation

Your Committee conducted a series of public hearings and committee meetings following the convening of the Fourth Regular Session of the 15<sup>th</sup> Congress on May 12, 2008 with the last being held on May 26. The report and recommendations that follow are based upon the information contained in the Budget Book and the input provided by the Secretary, Assistant Secretaries, Directors, Managers and staff of the various departments, agencies and entities during those hearings. Any commentary found in this report should be treated as policy for the guidance of the relevant departments, agencies and entities.

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INTRODUCTORY COMMENTS

The Committee expresses its appreciation to the Secretary of the Department of Resources and Development, members of his staff, the Directors and staff of NORMA and Coconut Development Authority, the Banking Commissioner and his staff, the Banking Board, and the Director and staff of the Office of EEM for their attendance and contribution at the many Committee hearings and meetings leading to this Report. The Committee also acknowledges the fact that the Secretary of the Resources and Development Department of the National Government has served in that capacity for only a short period of time and has had very limited participation in the process that resulted in the Proposed Budget for his Department.

The Resources and Development Department is responsible to accomplish the program objectives identified in the SDP (Strategic Development Plan), which include the following: to create a sound economic policy making environment to support export-oriented or private sector-led growth, to improve the competitiveness of the factors of production to promote private sector development, to improve the environment for direct investment and expand entrepreneurial and business development support services, to reduce the direct role of the government in the economy, to provide efficient and cost-effective economic infrastructure to support competitive private sector development, to make tourism a leading economic activity in the FSM, to integrate the tourism sector into national economic planning and development, to create an attractive and supportive environment for private sector tourism industry investors, to invest in tourism product development in order to diversify and expand the range of attractions and activities for visitors, to develop programs to reduce energy use and convert to renewable energy resources, to establish effective biosecurity (border control, quarantine and eradication) programs to effectively protect the FSM's biodiversity from impacts of alien invasive species, to create sustainable financing mechanisms for environmental and sustainable resource initiatives and to enhance and employ-in-country technical capacity to support environmental programs.

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The mission of the Office of Environment and Emergency Management is to coordinate National Government efforts and assist States to conserve, protect and sustainably use natural resources, to coordinate implementation of the FSM Environmental Protection Act and to prevent, prepare for and recover from natural and human induced disasters.

NORMA is tasked as guardian and manager of the marine resources in the FSM Exclusive Economic Zone to obtain maximum sustainable economic benefit to the FSM from those resources. Similarly, CDA is responsible for development of coconut and copra production, products and markets to provide a sustainable and reliable source of local revenue.

The Banking Board undertakes the licensing and supervision of banks and insurance companies to protect the interests of depositors and policyholders and to promote soundness, stability and development of the banking and insurance systems in the FSM.

The Department is required pursuant to Section 103 of Title 55 of the FSM Code to identify in its annual plan the expected accomplishments for the year. Where possible those planned accomplishments are to be expressed in a form that permits the measurement of actual performance. For the most part the Department's plan for FY09, much like FY07 and FY08 merely describes its day-to-day operations and simply describes the overall responsibilities of the Department. Such statements give no indication of what will actually be accomplished during the coming year.

Your Committee believes that program objectives cannot be achieved without careful planning and strategic direction. It urges that the Strategic Development Plan and unit mission statements be the focus of all existing and future Department, Office, Board, Commission or Authority initiatives.

The findings and recommendations of your Committee with regard to the FY09 Proposed Budget are set out in detail below.

**DISCUSSION OF THE PROPOSED FY 2009 BUDGET**

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The figures shown in the charts below for each department or agency include the total amount appropriated in FY 2008, including any supplemental appropriations; the amount recommended by the EBRC for each entity for FY 2009, as listed in the "2009 Request" column in the Budget Book; and the amount recommended by your Committee for FY 2009 in the last column.

**I. DEPARTMENT OF RESOURCES AND DEVELOPMENT - OVERALL**

	FY 2008 Appropriations	FY 2009 Request	Committee Recommends
Personnel	\$449,290	\$459,360	\$459,360
Travel	\$66,252	\$114,740	\$66,252
Contractual Services	\$50,275	\$275	\$275
Other Current Expenses	\$91,983	\$101,083	\$101,083
Fixed Assets	\$7,700	\$7,000	\$7,000
<b>Total</b>	<b>\$665,500</b>	<b>\$682,458</b>	<b>\$633,970</b>
No. of Employees	30	30	30

The FY08 budget process for the Department of R&D occurred while the President was finalizing his reorganization of the Executive Branch. At the time of final budget hearings the former Department of Economic Affairs had been renamed the Department of Resources and Development. The revised FY08 Budget Book contained itemizations for the Office of the Secretary plus five Divisions identified as "Tourism", "Marine Resources", "Agriculture", "Trade and Investment", and "Energy". Between then and the submission of the FY09 Budget proposal, the number of "Divisions" in the President's organization plan was reduced to three and the former Divisions of Tourism, Marine Resources and Agriculture become "Units" of the newly created "Division of Resource Management and Development."

Because of the foregoing, the FY09 Budget Book contains line itemizations for six, rather than five, subunits of the Department in

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addition to the Office of the Secretary. Aside from "chain of command" considerations, the obvious distinction between Divisions and Units for budget purposes is the title and pay grade of the senior official.

As was the case with the Revised FY08 Proposed Budget, the addition or subtraction of division or units to the line item budget process makes comparisons within individual units or divisions from the prior year more difficult. Comparisons of the combined or "overall" line item appropriations and requests remain valid, however. For example, it can be seen that the total number of authorized positions requested for FY09 remains constant despite the increase in the number of divisions.

The numbers shown below marked "\*" are revised amounts shown in the FY09 Budget book as the FY08 appropriation. The amount shown in parenthesis is the amount actually approved by the Committee as shown by S.C.R. No. 15-32. The differences result from the "reprogramming" necessary to fund the restructured organization of the department implemented after the adoption of the FY08 Budget Law. The totals of both numbers for all units and divisions are the same and are consistent with the actual line item appropriations for FY08 as shown in Public Law No. 15-11.

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**I (a) . Office of the Secretary**

	FY 2008 Appropriations	FY 2009 Request	<b>Committee Recommends</b>
Personnel	\$76,185	\$76,186	<b>\$76,186</b>
Travel	\$17,651* (\$19,651)	\$28,584	<b>\$66,252**</b>
Contractual Services	\$150	\$150	<b>\$150</b>
Other Current Expenses	\$21,170* (\$15,875)	\$16,320	<b>\$16,320</b>
Fixed Assets	3,500	0	<b>-0-</b>
<b>Total</b>	<b>\$118,656* (\$115,361)</b>	<b>\$121,240</b>	<b>\$207,396**</b>
No. of Employees	5	5	<b>5</b>

\*\* All travel for Department Units and Divisions consolidated under the Office of the Secretary.

Your Committee is mindful of the fact that the final budget will reflect only the line item totals for the entire Department and that the actual allocation of appropriations among the various Divisions and Units may be very different from that shown in the Proposed Budget or in this Committee's recommendations.

It is noted that the travel request for the full Department for FY09 is nearly double that of FY08. With the ongoing struggle to find adequate funding for all activities of the National Government, travel is one area that requires constant scrutiny and cost benefit analysis. In the end, Government needs to be able to demonstrate some return for its expenditures. Before your Committee can realistically measure the merit of such an increase, there must be some period of organizational stability and an opportunity for the newly appointed Secretary to develop a cohesive plan for the Department.

The Committee recommends that the line item appropriation for Resources and Development Department travel for FY09 be maintained at the FY08 level at the present time.

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The travel justifications for each Division or Unit of the Department have been reviewed carefully but with the knowledge that actual travel authorization is based on a case-by-case approval by the Secretary during the budget year as need and opportunity arise. The Committee chooses to show the full amount recommended for Department travel under the Office of the Secretary. This is intended to make clear that ultimate responsibility for approval or disapproval of travel requests by the staff of Divisions or Units rests with that Office.

**I (b) . Division of Resource Management and Development**

	FY 2008 Appropriations	FY 2009 Request	Committee Recommends
Personnel	*\$27,527 (0)	\$27,527	\$27,527
Travel	*\$5,731 (\$0)	\$8,770	\$-0-
Contractual Services	\$0	\$0	\$-0-
Other Current Expenses	*\$5,009 (\$0)	\$6,509	\$6,509
Fixed Assets	\$0	\$0	\$-0-
<b>Total</b>	<b>*\$38,267 (0)</b>	<b>\$42,806</b>	<b>\$34,036</b>
No. of Employees	2 (0)	2	2

- As shown in the FY09 Budget book as the FY08 appropriation. The amount shown in parenthesis is the amount actually approved by the Committee as shown by S.C.R. No. 15-32.

Since this division did not exist for purposes of the FY08 budget process, the numbers shown for the "FY08 Appropriations" above are necessarily derived from reallocations of the FY08 Appropriations for the respective line items from other divisions of the Resource and Development Department. The Assistant Secretary and Secretary II listed were both previously listed with the Division of Marine Resources (now a Unit of this Division).

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All travel funds recommended for Divisions or Units of the Department have been consolidated under the Office of the Secretary.

**I(c). Tourism (Unit)**

	FY 2008 Appropriations	FY 2009 Request	<b>Committee Recommends</b>
Personnel	*\$16,779 (\$36,822)	\$16,779	<b>\$16,779</b>
Travel	\$7,948	\$8,770	<b>\$-0-</b>
Contractual Services	\$0	\$0	<b>\$-0-</b>
Other Current Expenses	*\$7,300 (\$9,800)	\$7,300	<b>\$7,300</b>
Fixed Assets	\$1500	\$0	<b>\$-0-</b>
<b>Total</b>	<b>*\$33,527 (\$56,070)</b>	<b>\$32,849</b>	<b>\$24,079</b>
No. of Employees	2	1	<b>1</b>

- As shown in the FY09 Budget book as the FY08 appropriation. The amount shown in parenthesis is the amount actually approved by the Committee as shown by S.C.R. No. 15-32.

The FY08 budget proposed two employees, one designated as an "assistant secretary" because Tourism was then supposed to be a Division, and the other a continuation of the "program manager." The PM position is the only one carried forward into the FY09 proposal.

Last year's Committee Report, S.C.R. No. 15-32, stated:

"To the extent the elevation of the tourism office from a Unit to a Division reflects a new emphasis on this priority sector of the Strategic Development Plan, this Committee approves and will be looking for progress in the development of the tourism industry in the FSM in the near future."

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Your Committee cannot help but be concerned that there now appears to be a "de-emphasis" on National tourism activities. It is noted that the FY09 Proposed Budget includes no tourism funding beyond what is shown above.

During the Committee's budget hearing on May 16, the Tourism Program Manager, observed that Tourism has basically been reduced to a funded staff position with no funding for activities. He worried that the lack of a national initiative allows for a lack of coordinated State efforts with each State going its own way.

Your Committee devoted considerable discussion to the potential for tourism development, specifically including expanded China and Korea marketing, and how efforts are hampered by the inability of the FSM Tourism office to participate in international expositions. In response to a specific question it was pointed out that additional funding had been requested by the Department for FY09 tourism development activities but that it had been deleted from the budget proposal by the EBRC.

Your Committee questions why there even is a tourism unit within the Department if there is to be no funding for its activities.

Your Committee fully agrees with the emphasis placed on tourism development by the Strategic Development Plan. It strongly recommends that Congress remain open to future program or project funding requests by the Department provided that it is first supplied with a detailed development plan that includes a clear statement of how the activities of the National tourism effort will benefit or support individual State tourism efforts.

All travel funds recommended for Divisions or Units of the Department have been consolidated under the Office of the Secretary.

**I(d). Marine Resources (Unit)**

	FY 2008 Appropriations	FY 2009 Request	<b>Committee Recommends</b>
Personnel	*\$27,709 (\$55,236)	\$27,709	<b>\$27,709</b>
Travel	*8,453 (\$14,184)	\$12,996	<b>\$-0-</b>
Contractual Services	\$0	\$0	<b>\$-0-</b>
Other Current Expenses	*\$6,572 (\$11,858)	\$6,572	<b>\$6,572</b>
Fixed Assets	\$0	\$3,500	<b>\$3,500</b>

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<b>Total</b>	<b>*\$42,734 (\$81,278)</b>	<b>\$50,777</b>	<b>\$37,781</b>
No. of Employees	*2 (4)	2	<b>2</b>

- As shown in the FY09 Budget book as the FY08 appropriation. The amount shown in parenthesis is the amount actually approved by the Committee as shown by S.C.R. No. 15-32.

As with the Tourism Unit, no meaningful comparisons exist between the numbers shown as "FY 2008 Appropriations" and FY08 Budget requests. The "Division" was shown with 4 positions for purposes of the FY08 budget but it became a two position "Unit" since that time. Both of the employees listed in the FY08 Budget Book have been transferred to the new Division of Resource Management and Development. The Program Manager position is filled and the Fisheries Management Conservation Officer is shown as vacant.

All travel funds recommended for Divisions or Units of the Department have been consolidated under the Office of the Secretary.

**I (e). Agriculture (Unit)**

	FY 2008 Appropriations	FY 2009 Request	<b>Committee Recommends</b>
Personnel	*\$210,644 (\$211,777)	\$220,644	<b>\$220,644</b>
Travel	*\$12,046 (\$7,462)	\$20,540	<b>\$-0-</b>
Contractual Services	\$0	\$0	<b>\$-0-</b>
Other Current Expenses	*\$36,400 (\$35,700)	\$48,100	<b>\$48,100</b>
Fixed Assets	0	0	<b>-0-</b>
<b>Total</b>	<b>*\$259,090 (\$254,939)</b>	<b>\$289,284</b>	<b>\$268,744</b>
No. of Employees	15	15	<b>15</b>

- As shown in the FY09 Budget book as the FY08 appropriation. The amount shown in parenthesis is the amount actually approved by the Committee as shown by S.C.R. No. 15-32.

As was true in previous years, the proposed budget for personnel includes a request for overtime. The request for FY09 is increased from \$45,000 to \$55,000. The Committee went along with an increase

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for the "Program Manager" position in its FY08 SCR from pay scale 38/4 to 42/1 which is reflected in the difference in the FY08 appropriation numbers for "personnel" shown above. The position is currently shown as vacant and the requested funding is back down to the 38/4 level. The only other vacant position is that of a "Quarantine officer I."

The travel request reflects two "all state trips" for FY09 instead of just one for FY08 and also outer island travel for quarantine inspectors. All travel funds recommended for Divisions or Units of the Department have been consolidated under the Office of the Secretary.

The increase shown for "OCE" is spread across communication, office supplies, POL, printing and reproduction and utilities.

**I(f). Division of Trade and Investment**

	FY 2008 Appropriations	FY 2009 Request	Committee Recommends
Personnel	*\$61,037 (\$39,861)	\$61,106	\$61,106
Travel	*\$9,423 (\$12,007)	\$26,310	\$-0-
Contractual Services	\$0	\$0	\$-0-
Other Current Expenses	*\$10,000 (\$15,000)	\$10,250	\$10,250
Fixed Assets	\$2,700	\$3,500	\$3,500
<b>Total</b>	<b>*\$83,160 (\$69,568)</b>	<b>\$101,166</b>	<b>\$74,856</b>
No. of Employees	*3(2)	3	3

- As shown in the FY09 Budget book as the FY08 appropriation. The amount shown in parenthesis is the amount actually approved by the Committee as shown by S.C.R. No. 15-32.

The FY08 Budget Book proposed only a DAS for Trade and a DAS for Commerce for this Division but since then an Assistant Secretary position was added. The FY08 funding for the created position was derived from reprogramming within the R&D Department personnel line item. The salary for the new position is \$23,399, up from the \$22,130 appropriated for the same position in FY07. The DAS for Commerce position was reduced from Grade 38/2 to 38/1 as a part of the reprogramming within the Department during FY08.

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The travel request reflects one "all state trip" for each of the three positions within the Division at \$8,770 per trip. All travel funds recommended for Divisions or Units of the Department have been consolidated under the Office of the Secretary.

**I(g). Division of Energy**

	FY 2008 Appropriations	FY 2009 Request	<b>Committee Recommends</b>
Personnel	\$29,409	\$29,409	<b>\$29,409</b>
Travel	\$5,000	\$8,770	<b>\$-0-</b>
Contractual Services	\$50,125	\$125	<b>\$125</b>
Other Current Expenses	*\$5,532 (\$3,750)	\$6,032	<b>\$6,032</b>
Fixed Assets	\$0	\$0	<b>\$-0-</b>
<b>Total</b>	<b>*\$90,066 (\$88,284)</b>	<b>\$44,336</b>	<b>\$35,566</b>
No. of Employees	2	2	<b>2</b>

This Division was totally new for FY08. A primary "activity" is to "Manage the traditional energy base and diversify into alternate energy sources." From oversight and budget hearings it is clear the identification and development of alternate energy sources to reduce the nation's reliance on fossil fuels is a substantial emphasis. This Committee continues to urge this Division to pursue every available funding resource in that pursuit with special emphasis on the many foreign aid energy programs available.

The FY09 budget requests are substantially similar with the exception of the elimination of the \$50,000 contractual services request for an "Energy Advisor." The increase shown for travel is not an increase in the amount of travel being proposed but rather the adoption of a "standard" amount of \$8,770 for "All States (1x2x15)" travel proposals within the Department. All travel funds recommended for Divisions or Units of the Department have been consolidated under the Office of the Secretary.

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**II. NATIONAL OCEANIC RESOURCE MANAGEMENT AUTHORITY**

	FY 2008 Appropriations	FY 2009 Request/Pres. Rec.	Committee Recommends
Personnel	\$193,207	\$193,207	\$193,207
Travel	\$60,000	\$80,611	\$60,000
Contractual Services	\$66,900	\$90,500/73,700	\$73,700
Other Current Expenses	\$40,500	\$65,000/40,500	\$40,500
Fixed Assets	\$0	\$0	\$-0-
<b>Total</b>	<b>\$360,607</b>	<b>\$429,318/388,018</b>	<b>\$367,407</b>
No. of Employees	11	11	11

The "Mission" and "Goals" for NORMA as they appear on pages 485-487 of the Budget Book are largely unchanged from the FY08 Budget Book however there are a few noteworthy differences in proposed "Outputs." For FY09, NORMA intends to "implement the Ecosystems Approach to Fisheries Management." It increases its prior goal of 11 million in revenue for FY08 to 12 million for FY09 and its licenses to be issued from 600 to 700. However, the FY09 goal for longline transshipments in FSM ports is reduced from 600 to 400 and the goal for Micronesians employed on purse seiners is reduced from 70 to 50. During the budget hearing on May 21, 2008 your Committee aggressively explored the potential for raising fees or other means of enhancing revenues. It requested that it be provided a written chart comparing of the licensing and access fees charged by other jurisdictions with those charged by the FSM.

The salary request for the fisheries biologist position was increased from the \$37,450 proposed in FY07 to \$38,150 for FY08 and continues at that level for the FY09 request. The "leased housing" allowance for that position in the amount of \$6,800 under "contract services" that was discontinued in the FY08 budget is back for the FY09 budget. That position has now remained vacant for almost five years. Chairman Neth suggested the position may not be essential to the operation of the Authority since it has operated for so long without it. During the hearing Deputy Director Pangelinan described in detail a plan to redefine this position to more of a "research manager" than a science role in order to permit more Micronesians to meet lowered qualification requirements.

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The difference between the "proposed" and the EBRC "recommended" amounts for Contract services is \$16,800. That is the amount that is shown for "office rent" in the NORMA request. The difference between the proposed and recommended amounts for "Other Current Expenses" in the amount of \$24,500 all relates to "Utilities" for a rented office. During the hearing it was learned that plans to relocate NORMA offices from the Capital were abandoned between the time of the initial budget request and the EBRC meeting and that NORMA now agrees with the EBRC recommended amount.

The Travel allowance requested by NORMA for FY08 totaled \$88,623, EBRC recommended \$45,000 and Congress appropriated 60,000. For FY09 the request and EBRC recommendation are identical at \$80,611. Your Committee recommends that Travel be maintained at the FY08 level of \$60,000.

Your Committee agrees with the recommended FY 2009 budget for NORMA

**III. COCONUT DEVELOPMENT AUTHORITY**

	FY 2008 Appropriations	FY 2009 Request/Pres. Rec.	<b>Committee Recommends</b>
Personnel	\$70,043	\$70,043/67,723	<b>\$70,043</b>
Travel	\$7,422	\$18,181/7,422	<b>\$12,722</b>
Contractual Services	\$6,000	\$6,000/-0-	<b>\$-0-</b>
Other Current Expenses	\$10,000	\$10,000	<b>\$10,000</b>
Fixed Assets	\$1,577	\$0	<b>\$-0-</b>
<b>Total</b>	<b>\$95,042</b>	<b>\$104,224/85,145</b>	<b>\$92,765</b>
No. of Employees	4	4	<b>4</b>

Your Committee held its hearing with CDA on May 26, 2008. Manager Namio Nanpei explained the difference between the Personnel amount requested by CDA and the recommended amount exactly as he did for the FY08 budget. The following statements appearing in S.C.R. No. 15-32 continues to be the position of this Committee:

"The amount requested by CDA was based on actual salaries paid plus benefits computed at 11.5% whereas the EBRC uses a 9% allowance. The Committee recommends that the actual costs of salaries plus benefits of the CDA be appropriated."

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Your Committee heard the arguments of Manager Nanpei for a Public Service pay step increase for the assistant manager from 34/4 to 34/7 for an additional cost of \$1,547. He has assumed additional responsibilities relating to the CDA food procession enterprise and has not received a step increase in ten years. The Committee feels, however, that any such action should first be reviewed by the EBRC and Finance. Since the request was not included in the Authority's budget request, it is not being recommended at this time.

Chairman Neth questioned the CDA travel request in detail. Of the travel proposed by CDA in its budget request, the EBRC recommendation eliminates all funding for Board members "to attend meetings" while preserving a request for management to travel to Sri Lanka. It was agreed during the hearing that meetings of the CDA Board should have a higher priority than the Manager's attendance at a meeting in Sri Lanka. The law as currently written requires at least biannual meetings of the board. While the Manager and local Board Members agreed they may be able to get by with one full Board meeting each year that will require a change in the law. Accordingly, the Committee recommends that travel by the manager to Sri Lanka be eliminated and that travel of Board members for meetings required by law be reinstated. A total travel appropriation of \$12,722 is recommended for the CDA.

Subject to the modifications to the Personnel and Travel line items discussed above, the Committee recommends approval of the recommended amounts.

The Committee notes the EBRC recommendation for the elimination of the copra subsidy administered by the CDA. This will be discussed under Grants, Subsidies and Contributions below.

**IV. FSM BANKING BOARD**

	FY 2008 Appropriations	FY 2009 Request/Pres. Rec.	<b>Committee Recommends</b>
Personnel	\$99,313	\$99,314	<b>\$99,314</b>
Travel	\$22,513	\$50,241/36,112	<b>\$48,484</b>
Contractual Services	\$68,100	\$68,100	<b>\$68,100</b>

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Other Current Expenses	\$17,996	\$22,010	\$22,010
Fixed Assets	\$12,000	\$0	\$-0-
<b>Total</b>	<b>\$219,992</b>	<b>\$239,665/225,536</b>	<b>\$237,908</b>
No. of Employees	5	5	5

The budget hearing for the Banking Board was held on May 26, 2008.

Your Committee notes that the original appropriations for FY07 for the Banking Board were modified during the Sixth Special Session of the Fourteenth Congress to accommodate the newly created Insurance Examiner position. FY08 budget included a full year salary of \$23,399 for that position. It continues to be vacant.

The EBRC recommended travel allowance eliminated requested funding for Board meetings in Kosrae, Chuuk and Yap. Your Committee agrees with the Board that these proposed meeting serve a valuable purpose in keeping State governments involved and informed and recommends that funding be included in the FY09 budget. The Committee agrees with the EBRC recommendation eliminating the PNG trip.

The Contractual Services recommendation continues to include \$50,000 for an insurance advisor to aid in implementing the new responsibility of this office for regulation of insurance. It does not appear that an advisor has yet been retained. The Committee was pleased to hear that Leo Querel, a contract consultant with the IMF, has been working closely with Commissioner Wilson Waguk and his staff to develop both insurance and captive insurance regulations. The requested funding for the insurance advisor, on the other hand, will be needed in connection with evaluation of captive insurance applications when they are submitted and will not duplicate the services of Mr. Querel.

With the exception of Travel discussed above, your Committee agrees with the recommended FY09 budget for the FSM Banking Board.

**V. NATIONAL FISHERIES CORPORATION (NFC)**

	FY 2008 Appropriations	FY 2009 Request/Pres. Rec.	Committee Recommends
Contractual Services	\$135,000	\$162,900/0	\$-0-
Other Current Expenses	\$0	\$0	\$-0-
<b>Total</b>	<b>\$135,000</b>	<b>\$162,900/0</b>	<b>\$-0-</b>

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This is the year the President has chosen to recommend ending the operations subsidy to NFC. This action should not be unexpected. In its S.C.R. No. 14-116 this Committee stated that FY07 would be the last funding for NFC and that the Corporation should not assume that further funding would be made available in the future. At that time the Committee urged the NFC to take all steps necessary to collect significant debts owed to NFC that were outstanding as a source of funds. A year later, in SCR 15-32, the Committee acknowledged that debt collection can take a substantial amount of time to process through the court system and consequently recommended approval of funding for FY08. Despite its recommendation, however, this Committee again gave notice that continued funding by the National Government should not be anticipated by management of NFC.

The Committee recalls that earlier this year Congress approved a new two-year fishing access agreement between NORMA and NFC. That agreement should be expected to provide operational income to NFC through its negotiation of foreign fishing licenses with Japan and Taiwan.

The Committee concurs with the recommendation of the President that the time has come to end the subsidy of this operation.

**VI. AQUACULTURE CENTER**

	FY 2008 Appropriations	FY 2009 Request/Pres. Rec.	Committee Recommends
Personnel	\$38,617	\$38,617/0	\$-0-
Travel	\$8,802	\$12,656/0	\$-0-
Contractual Services	\$9,474	\$9,474/0	\$-0-
Other Current Expenses	\$22,389	\$22,389/0	\$-0-
Fixed Assets	\$0	\$0	\$-0-
<b>Total</b>	<b>\$79,282</b>	<b>\$83,136/0</b>	<b>\$-0-</b>
No. of Employees	4	4	

Your Committee's comments in S.C.R. No. 15-32 are recalled:

"Your Committee notes that the SCRs for the FY 2005, FY 2006 and FY07 budget requested that the Department prepare a report detailing the feasibility of operating this center as an

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independent agency, originally beginning in FY 2007. This report has not been forthcoming. In S.C.R. No. 14-116 this Committee expressly stated, it would not recommend any further funding without having had an opportunity to consider the report requested. Nonetheless, because of the transition caused by a new national Administration and the recent reorganization, this Committee has decided to recommend one more year of funding for the Aquaculture Center as set out above."

The Committee is aware that negotiations between the National Government and the State of Kosrae have resulted in a draft "Memorandum of Understanding" whereby the State of Kosrae would take control of the facility and undertake the aquaculture activities. Whatever the reason, this is the year the President has chosen to recommend termination of the subsidy of this operation. The Committee concurs.

**VII. GRANTS, SUBSIDIES & CONTRIBUTIONS**

	FY 2008 Appropriation	FY 2009 Proposed	Committee Recommends
<b>R &amp; D Contributions</b>			
01. Pacific Island Development Program (PIDP)	\$15,000	\$15,000	\$15,000
02. Forum Fisheries Agency (FAA)	\$21,000	\$21,000	\$33,227
03. Coordinating Committee for Offshore Mineral Prospecting	\$15,000	\$15,000	\$15,000
04. Pacific Asian Travel Association (PATA)	\$5,000	\$5,000	\$5,000
05. United Nations Development Program (UNDP)	\$3,000	3,000	\$3,000
06. NFC-OPIC Loan Payment			
07. Seaframe Project	\$0	\$0	\$-0-
08. Food Agriculture Program (FAO)	\$4,700	\$4,700	\$4,700
09. Western Forestry Leadership Coalition	\$500	\$500	\$500
10. FAO/TCP Matching	\$34,508	\$34,508	\$34,508
11. National Association of State Foresters	\$500	\$500	\$500
12. Matching to SPC Projects	\$60,000	\$60,000	\$60,000
13. Quarantine Services*	\$50,000*	\$50,000	\$50,000
UN Environmental Protection (See OEEM below)			
UN Framework Convention on			

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Climate Change (See OEEM below)			
National Speech Contest (See OEEM below)			
<b>Total R&amp;D Contributions</b>	<b>\$209,208*</b>	<b>\$209,208</b>	<b>\$221,435</b>
<b>R&amp;D - Grants</b>			
a. Quarantine Services Improvement Project (Moved to "Contributions)			
b. 2 <sup>nd</sup> National Environmental Conference (See OEEM below)			
c. 18 <sup>th</sup> SPREP Annual Meeting (Moved to OEEM below)			
d. Tourism Activities	0	0	
e. Tuna Commission Membership***	\$16,000	\$16,000	\$49,629
f. National Maritime Boundary FY09 Continental Shelf Delim.***	0	\$160,804	\$160,804
<b>Total R&amp;D Grants</b>	<b>\$16,000</b>	<b>\$176,804</b>	<b>\$210,433</b>
<b>COCONUT DEVELOPMENT AUTHORITY GRANTS, CONTRIBUTIONS &amp; Subsidies</b>			
a. Copra Subsidy	\$50,000	0	\$100,000
b. Pilot Plant Projects	0	0	-0-
c. Asia Pacific Coconut Community	\$15,500	0	\$15,500
<b>Total Coconut Dev. Auth.</b>	<b>\$65,500</b>	<b>0</b>	<b>\$115,500</b>
<b>OFFICE OF ENVIRONMENT AND EMERGENCY MANAGEMENT</b>			
01. 2 <sup>nd</sup> National Environmental Conference	\$13,558	\$13,558	\$13,558
02. 18 <sup>th</sup> SPREP Annual Meeting	\$70,000/120,00 0*	0	-0-
03. NSM Natl. Implementation Strategy Climate Change			
04. UN Environmental Protection	\$600	\$600	\$600
05. 16 <sup>th</sup> Nat. Environmental Speech Contest	\$15,000	\$15,000	\$15,000
06. SPREP Conv. (Annual Membership Fee)	0	\$671	\$671
07. Waigani Convention	0	\$55	\$55
08. UN Convention to Combat	0	\$120	\$120

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Desertification			
<b>09. UN Framework Convention on Climate Change</b>	\$250	\$250	<b>\$250</b>
<b>10. SPREP (Annual Membership Fee)**</b>	\$7,375	\$10,184	<b>\$10,184</b>
<b>TOTAL EEM</b>	<b>\$156,783*</b>	<b>\$40,438</b>	<b>\$40,438</b>
<b>TOTAL GRANTS, CONTRIBUTIONS, SUBSIDIES, COCONUT AUTHORITY, OEEM</b>	<b>\$447,491</b>	<b>\$426,450</b>	<b>\$587,806</b>

\*The \$70,000 shown as the FY08 appropriation for the SPREP Annual Meeting in the Budget Book was increased to \$120,000 by Public Law No. 15-33 after the Budget Book was prepared.

\*\*In the FY08 Budget, item 10, the SPREP Membership Fee appeared under the Department of Health and Social Services section of Grants, Contributions and Subsidies.

\*\*\*These two "grants" are included under the "Other Grants" section of the Budget Book rather than the Department, OEEM or CDA grant sections. The Tuna Commission Membership "grant" shown as item 13(a)(11) at page 569 was included in the TC&I Committee Report for FY08. The National Maritime Boundary/FY09 Boundary Delimitation grant shown as item 13(a)(10) is administered by NORMA and therefore included in this Committee's FY09 budget review.

All R&D "grants" as shown in the R&D Committee Report for FY08 have been removed from the FY09 Budget request. It should be noted, however, the "Quarantine Services Improvement Project" which was previously shown as a "Grant" is now shown as a "Contribution".

The Tuna Commission membership is not a new grant but was not included in this Committee's recommendations for FY08 and the National Maritime Boundary/FY09 Boundary Delimitation grant is also new to this report.

During the Committee's hearing on May 21, Deputy Director Eugene Pangelinan stated that the amount shown in the budget request for the Tuna Commission membership did not reflect the actual assessment for FY09 which will be \$49,629. He explained that each nation's contribution includes a "catch component" in addition to a fixed fee and a "national wealth component." The total FSM contribution represents 1.58% of the Commission budget. He stated the same was true for the Forum Fisheries Agency contribution for which the actual assessment will be \$33,227 rather than the \$21,000 requested. The Committee agrees that the appropriation for these items should equal the actual amount assessed as the FSM share.

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This Committee also heard and agrees with Mr. Pangelinan's request for approval of the "Other Grant, Subsidy or Contribution" for the National Maritime Boundaries and Continental Shelf Project in the amount of \$160,804. This grant will fund the work necessary to support an FSM claim to the United Nations for an extended continental shelf. This claim must be submitted by May, 2009, and if approved, will result in a significant increase to the size of the FSM EEZ.

This year the Office of EEM is shown as a separate division of "Grants, Contributions and Subsidies." Most items that were budgeted in FY08 appeared in the R&D section.

It is noted that both the copra subsidy and the Asia Pacific Coconut Community contribution are eliminated from the FY09 EBRC budget recommendations.

This Committee has long been an advocate for the development of copra production as a source of revenue for the people of the outer islands and well as the main islands of the FSM. It has recommended subsidies for each of the past several years while at the same time urging the CDA to move toward financial independence.

The comments of the Committee in S.C.R. No. 15-32 are recalled:

"One year ago the R&D Committee in its Budget S.C.R No. 14-116 requested the Coconut Development Authority to work with the Department and the States to plan for transitioning out of instead of relying on National Government Subsidies. During the budget hearing on September 14, 2007 the CDA Operations Manager testified that the CDA has not purchased copra for approximately two years and that there was a balance of around \$70,000 in the subsidy account. During the oversight hearing held in May, it was represented that the balance was around \$90,000. It is noted that \$125,000 in subsidies were appropriated during the past two years. It does not currently appear that past appropriations have been effectively used to enhance the price received by producers. Despite this Committee's strong commitment to the development of copra production within the FSM, it will not recommend future subsidies without a full accounting of the past usage of subsidies and a detailed plan for future use. Nonetheless, it recommends a continuation of the FY07 funding level for FY08."

During the budget hearing on May 26, Manager Nanpei and Board members present agreed that the subsidy should not be permanent but urged that this is not the year to terminate it. They all argued that the

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\$200,000 request for FY09 was appropriate and would lead to the financial independence that is the goal. They stated that the existing balance of the subsidy account of approximately \$58,000, not including the FY08 appropriation of \$50,000, would be used in one quarter if they were able to pick the copra up from the producers. One of the biggest problems faced is reaching the outer islands to purchase their production. There is currently no copra in any of the CDA warehouses in the States.

In past years the bulk of the copra purchased by the CDA was exported from the FSM at a loss. The CDA was able to continue buying copra from producers only to the extent that the subsidy covered the loss. Currently CDA is moving toward domestic processing of the copra and selling the products. It is noted that one of the stated goals of CDA is the complete elimination of copra export in favor of local product manufacture and use. The use of coconut oil as a fuel for in vehicles and in electrical generation is expanding and has great potential. Its use in the production of many other consumer products is well documented. In the future, the sale of manufactured copra products is expected to cover the cost of the copra purchases.

As the Board Chairman explained, the subsidy is needed as "seed money for a revolving fund" during the transition from export to domestic use. He stated that the sale of the value added products rather than the sale of the copra at a loss on the international market should eliminate the need for an annual subsidy. He pointed out that the subsidy is the only fund the people on the outer islands have access to and that this is the wrong time to end it if CDA is ever to transition to a private sector enterprise.

The Committee and Congress have become impatient with the apparent inability of the CDA to use the subsidies to reliably improve the economic circumstances of copra producers. Your Committee recognizes, however, that the Coconut Development Authority plays an important role in generating much needed income for outer island communities and the nature of its activities have made it difficult to become fully financially independent. Because of the importance of coconut production to the livelihood of so many of the people of this nation and based on the arguments made during the CDA budget hearing on May 26, the Committee recommends one more year of funding for the copra subsidy in the amount of \$100,000.

The Asia Pacific Coconut Community contribution that was removed from the FY09 proposed budget is considered important in preserving the standing of the FSM among Pacific Island nations. Continuation of that contribution in the amount of \$15,500 is also recommended.

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With the exception of the Forum Fisheries Agency contribution, the Tuna Commission Membership Fees, the Copra Subsidy and the Asia Pacific Coconut Community contribution, your Committee recommends approval of the amounts proposed for the Grants, Subsidies and Contributions listed above.

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**VIII. CAPITAL & HUMAN RESOURCES DEVELOPMENT BUDGET**

	FY 2008 Appropriation	FY 2009 Request	Committee Recommends
a. FSM Visitors' Bureau	0	0	-0-
b. Crop Production Improvement Program	0	0	-0-
c. FSM Trade & FDI Promotion	0	0	-0-
d. Diversification of Energy Resources	0	0	-0-
e. FSM Promotion of Micronesian Owned Businesses	0	0	-0-
f. Capacity Building for Trade Policy Formulation Negotiation and Implementation	0	0	-0-
g. Privatization of Public Enterprises & Corporate Governance Reform - <b>MOVED TO S.B.O.C.</b>			
h. Development of Fisheries Statistics - <b>MOVED TO S.B.O.C.</b>			
i. Economic Policy & Econ. Statistic Cap. Bldg. - <b>MOVED TO S.B.O.C.</b>			
j. FSM Strategic Plan Update - <b>MOVED TO S.B.O.C.</b>			
<b>Total Capital &amp; Hum. Res.</b>	<b>0</b>	<b>0</b>	<b>-0-</b>

All of the Capital and Human Resource Development funding requests that were considered by the Resources and Development Committee for the FY08 budget have been either discontinued for FY09 or have been transferred to S.B.O.C.

In S.C.R. No. 15-32 relating to the FY08 Proposed Budget, this Committee observed that the Capital & Human Resources Development section of the Budget is not to be used as a device to avoid the line item requirement of the "operations" budget and a way obtain unrestricted funding for use by Executive Departments or Divisions. In most cases the FY08 requests required more information to permit this Committee to determine if the proposed grant was, in fact, for a separate "project" or was merely extra funding for an operational activity of the department. This Committee hopes that the requests

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that have been resubmitted for FY09 were not assigned to a different Office in the hope of finding a more lenient Committee review.

It should be noted that the elimination of the "FSM Tourism Bureau" grant leaves the Tourism Division of the Department with no budgeted funding source for its activities other than shown in the operation portion of the budget. Your Committee fully agrees with the emphasis placed on tourism development by the Strategic Development Plan. It strongly recommends that Congress remain open to program or project funding requests by the Department provided that it is first supplied with a detailed development plan that includes a clear statement of how the activities of the National tourism effort benefits or supports individual State tourism efforts.

**IX Office of Environment and Emergency Management (EEM)**

	FY 2008 Appropriations**	FY 2009 Request/Pres. Rec.	Committee Recommends
Personnel	\$67,521	\$154,683	\$117,225
Travel	\$15,828	\$89,097	\$30,000
Contractual Services	0	0	-0-
Other Current Expenses	\$7,673	\$17,076	\$17,076
Fixed Assets	0	\$3,000	\$3,000
<b>Total</b>	<b>\$91,022</b>	<b>\$263,856</b>	<b>\$167,301</b>
No. of Employees	4	9	7

The Budget for FY09 proposes a substantial expansion of this "Office" from 4 to 9 employees. The newest organization plan places the two "divisions" budgeted for in FY08 under a new "Office of the Director" that consists of the Director and an Administrative Officer I. In FY08 the sole employee of the Division of Emergency Management was also the head of the entire office. For FY09 that position would become the Director of the entire Office. The Division of Emergency Planning would then be made up of two "new" program manager positions to be managed by a new Assistant Director. The Division of Environment and Sustainable Development would go from three to four positions with the addition of a new Assistant Director.

**IX(a). Administration(Office of the Director)**

	FY 2008 Appropriations	FY 2009 Request	Committee Recommends
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Personnel		\$43,396	<b>\$43,396</b>
Travel		\$30,658	<b>\$44,548</b>
Contractual Services			
Other Current Expenses		\$9,400	<b>\$9,400</b>
Fixed Assets		\$3,000	<b>\$3,000</b>
<b>Total</b>		<b>\$86,454</b>	<b>\$86,454</b>
No. of Employees		2	<b>2</b>

**IX(b). Division of Environment and Sustainable Development**

	FY 2008 Appropriations	FY 2009 Request	<b>Committee Recommends</b>
Personnel	\$40,271	\$59,000	<b>\$40,271</b>
Travel	\$10,000	\$41,625	\$-0-
Contractual Services	\$-0-	\$-0-	\$-0-
Other Current Expenses	\$5,500	\$5,500	<b>\$5,500</b>
Fixed Assets	\$-0-	\$-0-	\$-0-
<b>Total</b>	<b>\$55,771</b>	<b>\$106,125</b>	<b>\$87,396</b>
No. of Employees	3	4	<b>3</b>

**IX(c). Division of Emergency Management**

	FY 2008 Appropriations	FY 2009 Request	<b>Committee Recommends</b>
Personnel	\$27,250	\$52,287	<b>\$33,558</b>
Travel	\$5,828	\$16,814	\$-0-
Contractual Services	\$0	\$0	\$-0-
Other Current Expenses	\$2,173	\$2,176	<b>\$2,176</b>
Fixed Assets	\$0	\$0	\$0
<b>Total</b>	<b>\$35,251</b>	<b>\$71,277</b>	<b>\$52,548</b>
No. of Employees	1	3	<b>2</b>

On February 15, 2008 this Committee held an oversight hearing for the Office of EEM attended by Chairman Neth and Members Welly, Sitan, Urusemal and Suka. Although the Director was off island traveling with the President at the time, the hearing was well attended by staff from the Office and from other offices and Departments of the National Government. The budget hearing was held on May 21, 2008 with Chairman

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Neth and Members Urusemal, Suka, Welly, Sitan and Paul in attendance. Present by invitation were Director Yatilman and staff members from the Office in addition to Jesse Giltmag from SBOC and Pelsisar Petrus from the Office of the President.

At the February oversight hearing there continued to be a great deal of confusion concerning among staff concerning the responsibilities and areas of jurisdiction of this particular Office, particularly regarding the Division of Environment and Sustainable Development. At the May budget hearing, Director Yatilman provided a history of some of the factors leading to the confusion. He explained that Presidential Order Number One had established three divisions within the office, including "Environmental Health." Subsequent amendments to that Order removed that Division from the office but left ambiguities concerning responsibilities the remaining Divisions in the fields of development, sustainability and the environment. Mr. Yatilman confirmed that "overlap" and "conflicts" exist with the Department of R&D and that details remain to be worked out. He summarized his understanding that his Office is "the focal point" for all international environmental conventions except bio-terrorism.

Your Committee sought explanations for the increase in the number of personnel proposed for this Office from 4 to 9. It learned that the two "new" program manager positions in the Emergency Management Division are really not new but were previously funded by FEMA project reimbursements. The expiration of FEMA project funding requires that the positions now be funded by the Office budget from local revenues for FY09.

The remaining three new positions are an "Administrative Officer I" in Administration and new "Assistant Directors" for each of the Divisions of Environment & Sustainable Development and Emergency Management. The Office chain of command would have the two Assistant Directors supervising a combined total of five other employees, several of whom have been performing their functions competently without the extra layer of supervision for a long time. Your Committee believes that a Director and Administrative Assistant I should have the capacity to provide whatever oversight is necessary for the proper functioning of this Office, especially until a more clear understanding is reached concerning the scope of its duties and responsibilities. Your Committee recommends that funding for the Assistant Director positions in both the Division of Environment and Sustainable Development and the Division of Emergency Management be eliminated in the amount of \$18,729 each.

This Committee is particularly concerned with the nearly \$90,000 travel request for this Office including more than \$65,000 for

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international travel alone. There clearly needs to be more cost benefit analysis done in connection with the trip itemization shown for the Administrator's Office and each of the Divisions and exploration of alternate funding options for those considered essential. The Committee recommends that the travel allowance for this Office be reduced to \$30,000. As with Department of Resources and Development travel, this Committee believes responsibility for all Office travel prioritization and authorization rests with the Director. Although the justifications listed under each of the Divisions are noted, the entire amount of the Travel recommendation for purposes of this report is shown under the Office of the Director.

At the February oversight hearing staff members present at that hearing promised to submit a "role statement" concerning their areas of responsibility. By the time of the budget hearing there continued to be confusion, overlap and conflict, especially with the roles of the Department of R&D. It is reasonable to expect that before a budget proposal nearly tripling the prior year appropriation is submitted, there would be a clarity of purpose and use.

### **CONCLUSION**

The overall proposed budget for your Committee on Resources and Development is \$2,087,157. That amount includes \$633,970 for the Department of Resources and Development, \$698,080 for Agencies and Authorities, \$587,806 for Grants, Contributions and Subsidies and \$167,301 for the Office of Environment and Emergency Management.

Your Committee on Resources and Development has reviewed the proposed FY 2009 Budget and carefully scrutinized all of the information provided by the Executive and the entities within your Committee's jurisdiction. Each of the sums "Recommended by Committee" set forth above reflects this Committee's recommendation for funding for the designated activity, program or project for all of fiscal year 2009.

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 Resources and Development recommends approval of the amounts listed above.

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Respectfully submitted,

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

Setiro Paul, vice chairman

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

/s/ Peter Sitan  
Peter Sitan, member

Joe N. Suka, member

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

Paliknoa K. Welly, member