



CONGRESS OF THE  
FEDERATED STATES OF MICRONESIA

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SPECIAL COMMITTEE REPORT NO. 23-07

RE: COMMITTEE TO WAIT ON THE PRESIDENT

MAY 16, 2024

The Honorable Esmond B. Moses  
Speaker, Twenty-Third Congress  
Federated States of Micronesia  
Fourth Regular Session, 2024

Dear Mr. Speaker:

Your Committee to Wait on the President was duly appointed on May 14, 2024. The Committee members appointed were Chairman Johnson Asher, Member Joseph J. Urusemal, Member Merlynn Abello-Alfonso, and Member Julio Marar. The Committee meeting with the President, Vice President and his cabinet was held on May 14, 2024.

The President welcomed the Committee members, and thanked the Committee for the opportunity to meet time and discuss the bills and resolutions for consideration by Congress.

The Committee thanked the President and Vice President for the time to meet, and informed the President that Congress was ready to transact business this session.

**Office of the President Agenda:**

The President's agenda focused on three priority areas: 1) bills pending and bills for reconsideration; 2) nominations; and 3) resolutions - extension of the Declaration of Emergency and resolution extending the COM-FSM Land Grant Treaty.

First, the President asked Congress to consider the following bills for action and congressional acts for reconsideration this session: a) repurpose \$1.5 million from the FSM Consulate in Honolulu to the Embassy in Washington D.C. for the purchase of the embassy office property; b) repurpose the \$2 million for the

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short-term loans made available to the states; c) 2023 Amended Compact resiliency and special needs distribution bill – provide guidelines and procedures for national and state governments – President will submit a revised bill with some changes; d) reduce the National government 2023 Amended Compact share from 10% to 8%; e) constitutional amendment bills: Office of the Independent Prosecutor, dual citizenship, and fishing fee distribution; and f) FY24 supplemental budget, which includes national government Compact share (\$11.1 million based on 8% distribution).

The President explained the original appropriation to the Consulate in Honolulu was to purchase a property for the consulate, but this is no longer possible. Upon clarification sought by the Committee on whether the FSM was prohibited by U.S. law from the future purchase of property for the FSM embassies and consulates in the United States, the Secretary of Foreign Affairs detailed how the United States is citing reciprocity as a means to prohibit the FSM from buying the property in Honolulu, stating that the FSM can only move forward with purchase of property in Honolulu if the U.S. Embassy is able to purchase land for its embassy in Pohnpei. The United States was informed that Pohnpei state law only permits Pohnpeians to own land. The national government's purchase of property for its other embassies and consulates in the United States have proceeded without any reciprocity issue.

The President discussed how the intent of the \$2 million appropriation for short-term loans was to have a safety net for any short falls the states may have in continuing to fund state health and education programs if the 2023 Amended Compact was not ratified by the United States. Fortunately, the state funding levels for those state operations were funded under the U.S. continuing resolutions, so there was no need for the states to use the short-term loans. The President provided that with the 2023 Amended Compact now ratified, the short-term loans are no longer needed and there are some urgent matters that need to be funded, including the establishment of consulate office in central region of the United States, along with funding for the Microgames, Micronesian Expo in Chuuk, FestPAC (festival of pacific arts), and renovation of national government official residences in Palikir, Pohnpei.

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The President asked Congress to reconsider the 2023 Amended Compact distribution share formula under Public Law No. 23-30 and revise the national government's share from 10% to 8%. The President stated that in the spirit of unity and the national government relationship with the states, the Arguel Formula agreed to at the CEC meeting should be upheld.

The Vice President explained that the costs for the single audit and COM are taken off the top of the \$140 million before any national and state sector distribution share. The 2023 Amended Compact authorizes \$500,000 to be used to cover the single audit, but the current costs of the single audit are \$1.4 million. The national government will have to cover the remaining \$900,000 audit costs. The Vice President also asked Congress to reconsider the centralization of the Compact infrastructure sector grants under TC&I in Public Law No. 23-30. The Vice President explained that the states wish to take charge of their own infrastructure, as the states handled their own infrastructure projects at the end of the previous Compact.

In addition, the Vice President raised the President's recent veto of Congressional Act No. 23-68 and asked Congress to reconsider its action. C.A. No. 23-68 would raise the tax exemption on imports up to \$500. The Vice President discussed how the Executive and relevant departments are currently reviewing the national tax structure as part of a larger tax reform, which includes GRT and review of how other taxes may be adjusted. This includes assessment of the impact on the private sector and other aspects of the economy, which should be considered in the decision to raise the tax exemption limit.

The President informed the Committee that the Executive will submit a FY24 supplemental budget for Congress consideration. The Supplemental will free up around \$4.3 million from local revenue by having some of the local revenue funded programs be funded by the Compact Sector grants (around \$3.5 million) and some of the currently local revenue funded state activities be funded by the states. The President provided that the \$4.3 million can then be used to fund some national governmental priorities if Congress passes the supplemental budget. Lastly, the President reported on the FSM Trust Fund corpus, and updated the Committee on the embassies in Geneva and Canberra,

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Australia. The President noted that the Executive is actively working on opening these embassy offices with the current funding provided by Congress. However, the Executive may need to seek more money in order to increase staff and office capacity in Geneva, and open the embassy in Canberra by its summer 2024 target date.

The Vice President added that the supplemental budget request is primarily funding operations, not infrastructure. However, the President has asked for funding for the Civil Aviation Taskforce, whom will produce recommendations that the national government will need to fund (either under the Compact infrastructure sector grants or General Fund). The Vice President explained to the Committee that the process for obtaining the national government Compact share of funding is for the Executive to send a resolution asking Congress to approve the use of a certain amount of Compact funds. Once Congress gives its approval, then the Executive will put together a detailed proposal with budget items the funds will be used for and submit to JEMCO for approval.

The Committee raised concern with the President's Compact sector resolution and FY2025 budget reflecting the national government Compact share at 8%. Committee members expressed that while they understand the President will like Congress to reconsider the Compact sector distribution formula, the distribution formula is set by law (P.L. 23-30) and the law currently states that the national government share is 10%, not 8%.

Second, the President discussed the nominations pending before Congress. The President asked for Congress to consider and support his nominations, as filling these positions are necessary to have a fully functioning cabinet and national government. The President informed the Committee that his Office will be transmitting two communications recalling the two state nominees for JEMCO and resubmitting nominations as appropriate. A related bill changing the JEMCO membership terms will also be submitted to Congress for consideration.

Third, the President discussed non-nomination resolutions pending before Congress. The President asked for Congress to take action on the COM-FSM Land Grant Treaty that needs to be

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extended because the current treaty already expired in September 2023. The President also asked Congress to consider extension of the National Declaration of Emergency based on the prolonged drought facing the FSM, particularly in Yap. The Executive reports it is working on a long-term plan to increase water security and outside funding has already been identified to help with the emergency through ADB and the World Bank.

Lastly, the President reported on the FSM Trust Fund corpus, and updated the Committee on the embassies in Geneva and Canberra, Australia. The President noted that the Executive is actively working on opening these embassy offices with the current funding provided by Congress. However, the Executive may need to seek more money in order to increase staff and office capacity in Geneva, and open the embassy in Canberra by its summer 2024 target date.

**Committee Matters Raised:**

The Committee Chairman expressed appreciation to the President, Vice President and his cabinet for their willingness to discuss matters pending before Congress. The Chairman raised the following matters and questions:

- 1) rationale for reextending the national declaration of emergency when the states have not re-extended the state declarations of emergency;
- 2) Yap and Chuuk have not received the emergency funds decreed for the states in the President declaration on April 2, 2024. When will all the states receive the emergency funding and will Yap receive funds even though the state declaration of emergency expired on April 14, 2024?;
- 3) The FY2024 tax revenue projections shows a significant increase of \$9 million in comparison to FY2023 tax revenue estimates. What is the basis for this increase in tax revenue?;

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- 4) Skills and Employability Enhancement (SEEP) Project Restructuring – restructuring the SDR10 million that was supposed to be used to establish the FSM Skills Academy. This restructuring does not appear to be permissible under the current withdrawal conditions in the World Bank Financing Agreement. Did the Executive receive written authorization or Agreement addendum from World Bank to repurpose the use of the SDR10M (\$13.2 million) subcomponent and instead give the funding directly to the states for use?

First, the President addressed the declaration of emergency questions raised. The President responded that the declaration of emergency is based on information received from the National Weather Service Office in Guam, whom predicts drought will continue in the FSM from a few weeks to a couple of months. Yap and Chuuk have not received the emergency funding due to technical issues, but the Executive intends to have the technical issues resolved by tomorrow where advisory information will be issued to the states to start the funding process. The President added that the declaration of emergency should be extended to make sure the states can still accessed the funds that were decreed on April 2, 2024. The Director of Emergency Management acknowledged that the states have raised this issue with the national government on the ability to receive funds if the declaration is expired. The Director explained that the state declaration of emergency expiring does not mean the emergency actually ends, the emergency still exists. The state declaration merely allows for the state to access the emergency funds easier, because different procedures are applied during a declaration of emergency.

Second, the Secretary of Finance and Administration addressed the tax revenue projection questions raised. The tax revenue projections are based on the taxation actuals collected from the 45% base salary increase to PSS employees and the anticipated Pohnpei state salary increase for state government employees. The Vice President added that the tax revenue projections reflect a conservative approach based on the prior 4 year tax revenue collections. The Vice President noted that outside donor funding is also favorably impacting the economy with some trickle-down economic benefits. It was noted that the Department

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of Finance and Administration will likely adjust the local revenue projections by around \$500,000 in the next few months.

Third, the President addressed the SEEP Project World Bank Grant restructuring matter. The President stated the World Bank advised the Executive on this restructuring in order to avoid losing the SDR10 million under the suspension clause of the World Bank Financing Agreement. The President explained that the World Bank told the Executive that the national government can restructure the subcomponent funding to be awarded to the states for activities that will contribute to enhancing institutional and individual capacities of the career and technical education programs at the state level. The President acknowledged there is no written authorization from the World Bank, but expressed that the will have to agree to the use of funds prior to any withdrawal as the FSM cannot withdraw funds without the World Bank's permission. The President stated that Acting Secretary Wayne Mendiola is actively working on this matter closely with the World Bank and Department.

The Vice President shared that COM backed out of the role to operate the FSM Skills Academy as previously discussed, because taking on the role does not help or add anything to COM's accreditation. COM informed the Executive that in order for COM to operate the academy, COM would have to take control of the entire SDR10 million in funds. The problem is that the World Bank Financing Agreement does not allow this because COM is not an agency or department under the national government. The Vice President stated he directly approached the World Bank on this issue with COM and the World Bank advised them on the proposed restructuring approach.

In addition, the Committee also sought updates and clarification on the following matters:

- 1) \$1.5 million transfer from General Fund to the FSM Embassy in Tokyo that was supposed to be repurposed for the FSM Embassy in Washington D.C. to purchase office property but was already spent and the separate transfer of \$1.5 million to the Embassy in Washington D.C. for the purchase of office property;

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- 2) \$9.5 million dollars appropriated for the PII case;
- 3) Completion and final release of FY2022 Audit;
- 4) completion and final release of 2023 FSM Census; and
- 5) U.S. and FSM obligations under Title 3 of the Compact in terms of military defense.

The President addressed the FSM Embassy in Washington D.C. funding matter. The President reported that the Embassy in Washington D.C. returned \$1.5 million to the Department of Finance and Administration. The President explained that since the funding was already spent, this is the reason why the Executive seeks in the FY2024 Supplemental the Executive to reduce the appropriation to the Consulate in Honolulu by \$1.5 million and appropriate that \$1.5 million to the Embassy in Washington D.C. for the purchase of office property.

The Vice President informed the Committee that the Department of Finance and Administration is still working on the PII matter, but can confirm \$6 million was paid to PII per the court ruling. The Vice President noted that the Department of Finance cannot make any final adjustments or findings without the FY2022 audit. The President stated the FY2022 Audit is being finalized and should be issued in June 2024. The President explained the audit is late due to the change in auditors and the ability of the auditors to get the necessary documents and materials from the Department of Finance and Administration. The President also stated that the Census data collection is complete and the report is expected to be finalized and released with the final data numbers within the next few months.

In closing the meeting, the President informed the Committee that the Executive will send an official communication on any pending matters not addressed during the meeting for Congress review, including some pledges made by the Executive, signed Memorandums of Understanding, bill to appropriate \$500,000 to Palau, and grant resolutions. The President reiterated the Executive and Departments stand ready to work with congressional committees on any information needed for matters pending before



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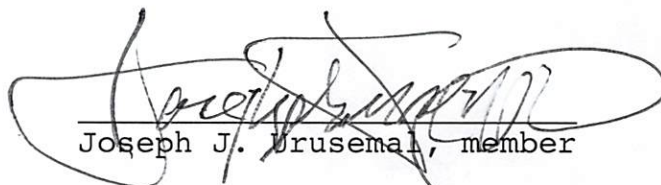
Congress. The Committee thanked the President, Vice President, and his cabinet for their time in consideration.

As your Committee to Wait on the President will be supplementing this report during the Committee's report to Congress, the Committee requests that members address any additional questions during the discussion of the report on the floor of Congress.

Respectfully submitted,



Johnson Asher, Chairman



Joseph J. Brusseau, member



Merlynn Abello-Alfonso, member



Julio Marar, member