

**STATEMENT
OF
NIKOLAO PULA
ACTING DEPUTY ASSISTANT SECRETARY OF THE INTERIOR FOR INSULAR AFFAIRS**

**BEFORE THE
HOUSE SUBCOMMITTEE ON INSULAR AFFAIRS**

**REGARDING THE
DEPARTMENT OF THE INTERIOR, OFFICE OF INSULAR AFFAIRS
FISCAL YEAR 2009 BUDGET REQUEST**

February 28, 2008

Mr. Chairman and members of the Committee, thank you for the opportunity to testify on the President's fiscal year 2009 budget request for Insular Affairs. The Office of Insular Affairs (OIA) is responsible for generally administering, on behalf of the Secretary of the Interior, the Federal Government's relationship with the territories of Guam, American Samoa, the United States Virgin Islands (USVI), and the Commonwealth of the Northern Mariana Islands (CNMI), as well as administering the financial assistance provided to the freely associated states (FAS) of the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau under the Compacts of Free Association.

Mr. Chairman, we would like to thank you and the entire committee for your support of the economic development initiatives, critical infrastructure, and technical assistance projects through which we provide invaluable resources for the insular areas. OIA's top priorities for the insular areas are to promote private sector economic development and accountability for Federal financial assistance, and to increase Federal responsiveness to the unique needs of island communities. I will discuss our specific efforts to make progress in these areas later in my testimony, but will begin with an overview of the proposed budget.

Overview of the FY2009 Budget Request

The fiscal year 2009 budget request seeks to continue efforts to promote economic sustainability throughout the territories and freely associated states.

The proposed fiscal year 2009 budget is \$401.6 million, of which \$79.9 million is requested in current appropriations, a net decrease of \$3.3 million below the fiscal year 2008 enacted appropriation. The request for current appropriations includes \$227,000 for fixed cost increases and a decrease of \$3.5 million for program changes and earmarks. The current appropriations request includes \$50.2 million in discretionary funding and \$29.7 million in mandatory funding. In addition, \$321.7 million for permanent and

indefinite appropriations is estimated for fiscal year 2009, including \$113 million estimated for fiscal payments to Guam and the United States Virgin Islands and \$208.7 million for payments under the Compacts of Free Association.

The fiscal year 2009 OIA budget continues to focus on strategies that contribute to increasing the self-sufficiency of insular areas. OIA will continue to provide support to help develop more efficient and effective government in the insular areas through the various Assistance to Territories programs. This assistance includes grant funding to meet a variety of needs, including resources for critical infrastructure like wastewater systems, hospitals, and schools. In fiscal year 2007, OIA received over \$81 million in assistance to territories funding, providing over 90 percent of these funds to insular areas in the form of grants of financial assistance. OIA plans to continue this effort in fiscal year 2009.

OIA's budget is divided into two major categories of funding – permanent or mandatory and current discretionary. Most of OIA's budget reflects mandatory commitments to U.S.-affiliated insular areas and is permanently appropriated (\$321.7 million). Within current appropriations, two activities are considered mandatory, Covenant grants (\$27.7 million) that provide for Capital Improvement Projects (CIP) in the U.S. territories and an annual Health and Education Block Grant given to the Republic of Palau (\$2.0 million).

American Samoa Operations (\$22.8 million), the second largest budget activity is considered discretionary but is a directed appropriation that provides essential assistance to help the American Samoa Government provide basic services of health care, education, public safety, and support for the judiciary.

While not officially considered a mandatory program, Federal Services assistance (\$2.8 million) is comprised of two subactivities that were negotiated and are defined in law. The first is reimbursement to the United States Postal Service for continuation of mail service to the FAS. Failure to provide this service would be a breach of the negotiated Compact. The second activity provides funding for the Republic of Palau to conduct an annual financial audit. Public Law 99-658 provides that the Republic of Palau's single audit, in accordance with the Single Audit Act of 1984, will be conducted at no cost to Palau through fiscal year 2009.

The only true discretionary programs are the OIA Salaries and Expenses account (\$8.4 million) and the Technical Assistance activity (\$16.1 million) which account for \$24.5 million out of a total OIA budget of \$401.6 million in fiscal year 2009.

National Security

Although the budget request is focused primarily on the upcoming fiscal year, it is framed by long-term security interests of the United States in the western Pacific and Caribbean and serious economic and fiscal problems affecting the United States territories of Guam, American Samoa, the Virgin Islands, and the CNMI.

National security issues related to the relocation 8,000 Marines and 9,000 dependents from Okinawa to Guam will create major challenges for the island's infrastructure in 2009 and subsequent budgets. Guam's population is expected to grow by 20% by 2014. Although financial resources are available for on-base military construction, a funding strategy to improve the inadequate port, roads, power, water, wastewater, and solid waste systems shared by the military and the civilian community has not been developed. Guam also faces a need to improve its healthcare and educational facilities, and to improve its public sector management. Guam will be forever changed by the military's build-up and its increased strategic visibility. Community support for this endeavor may be undermined if civilian facilities remain inadequate to meet the growing resource needs of the larger population.

The three other United States territories are facing economic and fiscal difficulties. In American Samoa, the continued operation of two tuna canneries that account for 80 percent of the private sector economy is threatened by changes in international trade and tariff policies. The CNMI economy has been adversely affected by a change in regional tourism patterns and by international trade rules that have diminished the CNMI garment industry. The economies and tax revenues in both territories are in jeopardy.

Strengthening the Private Sector

One of OIA's top priorities, as noted above, is to help the insular areas expand and strengthen their private sectors, building more sustainable economies to meet the needs and aspirations of their citizens. Most of the economies of the insular areas are currently dominated by the public sector and cannot be sustained without significant support from the Federal government. OIA has historically provided financial and technical assistance for a number of activities that can help strengthen the foundations for economic development, such as developing public infrastructure, improving health care, improving education, and providing expert analysis on issues affecting the economy.

More recently, however, OIA has recognized a need to more directly facilitate private sector economic development. OIA now makes it a priority to provide technical assistance to help the insular areas identify and implement the necessary steps to make their economies more sustainable. For example, OIA has provided technical assistance in recent years to help the insular areas identify their competitive advantages; identify industries that have the most potential for success in bringing prosperity to the insular areas; identify companies in those industries that might consider investing in the insular areas; identify specific investment opportunities for those companies; reach out to as many of those companies as possible; educate companies on the competitive advantages offered by the insular areas; and, assist insular area governments to identify and implement ways to make the insular areas more attractive to private sector investment.

In order to facilitate this process, OIA is working with the insular areas to address their needs. OIA will organize a Business Opportunities Conference in Hawaii. This will be the fifth such Conference since 2003, continuing OIA's effort to focus on increasing awareness in the United States and around the world of business and other opportunities

in all seven insular areas. The format will be similar, though the content and outreach will be somewhat different, reflecting the experiences of the last four years' work. Also, OIA will work actively to assist insular area officials with following up on contacts made at the conferences. We will also ensure that each of the potential investors—which included companies involved in tourism, information technology, environmental technology, defense systems, financial services, health care, education, agriculture and construction—has a full schedule of meetings with government officials and potential local business partners. The local governments and business communities will be active participants in both the planning and execution of the conferences.

OIA has worked to find ways to make progress on economic development without the need for a large commitment of resources. In fact, less than 1 percent of the Assistance to Territories appropriations is spent on private sector development, due to the fact that most of the costs for the major events spearheaded by OIA are borne by participants. This effort is proving to be successful, with business opportunities in the insular areas having been fostered with the help of OIA's facilitation efforts.

OIA is continuing the Island Fellows Program, launched in 2003, which has sent graduate students from business schools such as Wharton, Harvard, Kellogg, Columbia and Georgetown to the insular areas to study their economies; identify competitive advantages, industries with potential, specific investment opportunities, and other business climate-related issues; facilitate outreach to mainland companies; and help insular area business and government officials to follow up with potential investors. The work of the Island Fellows has supported the year-round efforts of OIA full-time staff and contractors in all of these activities. The work of the Island Fellows also helped OIA to organize conferences in 2003, 2004, and 2006, as well as three separate Business Opportunities Missions in 2005 and 2006, which gave island business and government officials the opportunity to meet and market opportunities to businesses from around the country. In calendar year 2008, the Island Fellows program will again focus on assisting with preparations for the upcoming events currently under development.

In addition to conferences, OIA has recognized a need to develop a system to facilitate ongoing continuous linkages between private sector businesses in the United States territories and freely associated states, and potential investors in Hawaii and the United States mainland. Therefore, OIA is planning to introduce a web-based listing of business opportunities in the islands to be known as "Island Link." In the past, this has been accomplished through conferences, trade missions and our Island Fellows Program. These events created excitement and identified opportunities but they were not continuously available. The planned program will be released in phases during 2008, but once complete it will allow islanders and potential business partners to make connections. Users of the system will register and complete a form describing their business opportunities. A business on the United States mainland or anywhere in the world could then connect with another user by simply pressing a computer button. The objective is to initiate the connection and facilitate discussion for a possible business relationship. It is then up to the users to communicate and follow-up with the opportunities.

This program is in response to suggestions OIA received in evaluation forms from the 2007 conference. There were an overwhelming number of requests for on-line business opportunities listings. We believe that we are providing a significant resource that will facilitate economic growth in the insular areas.

One measure of success is to look at the ratio of private sector jobs to total employment with anticipated increases in private sector jobs. OIA's emphasis on economic development is geared to assist the private sector with an anticipated result in the long term of increased private sector job availability to lessen dependence on Federal and local government employment. Increases in local business and income tax revenue are also potential measures.

Promoting Accountability

OIA's second priority is to promote accountability in the insular areas for the Federal funds. Specifically, OIA is working with all of the territories and freely associated states to help the island governments improve financial policies and procedures, upgrade automated financial management systems, train staff, complete accurate financial statements, and meet Single Audit Act requirements. At the start of this comprehensive effort all of the insular areas were several years behind in completing financial statements and annual audits. At this time the insular areas have significantly improved their submission times for the annual audits. OIA will continue to assist the insular areas as they work towards compliance with the Single Audit Act.

Increasing Federal Responsiveness

OIA's third priority is to increase Federal responsiveness to the unique needs of island communities. OIA has developed a number of approaches to advance this goal. The first was the creation, by Presidential Executive Order, of the Interagency Group on Insular Areas (IGIA). This group meets periodically under the Chairmanship of the Secretary to bring together Federal agencies to hear the concerns of the insular governments, identify problems and develop solutions, and create a forum for sharing information. OIA is also a key partner with the State Department in the Interagency Group on Freely Associated States. This group meets periodically to resolve problems and coordinate efforts in the Federated States of Micronesia, the Republics of Palau and the Marshall Islands.

Major efforts are directed toward marshalling Federal agencies and resources to assist the civilian community of Guam meet its serious challenges related to the Department of Defense's plan to move Marines from Okinawa and to increase the presence of the other services on the islands. Guam faces an unprecedented challenge to improve its inadequate infrastructure to meet an anticipated 25 percent increase in its population in the next few years.

Additionally, OIA supports the preservation of coral reefs. From the Virgin Islands to Guam and Palau, healthy coral reef resources are an integral part of the economy and environment of United States-affiliated island communities. Among the most diverse and

biologically complex ecosystems on earth, coral reefs protect island communities from coastal erosion and storm damage, are habitat for numerous species, and support important tourism and recreational industries. Coral reef resources are now threatened by a variety of stresses including poor water quality, over-harvesting, coastal development, disease, and bleaching (loss of symbiotic algae). According to recent estimates, more than 25 percent of the world's coral reefs already have been lost or severely damaged.

Palau Compact

The fiscal year 2009, budget proposal includes the final guaranteed amounts of Compact of Free Association funding to the Republic of Palau that were permanently appropriated. Although the relationship between Palau and the United States under free association will not change, the fifteen-year period of assistance ends with 2009. The United States and Palau will soon begin a legally required review of the terms of the Compact and consider the overall nature of the relationship. Without prejudging the outcomes of this discussion, this committee should note that with the end of the permanent appropriation, any appropriations made to Palau after fiscal year 2009 will be scored against current appropriation levels.

Conclusion

In conclusion, we believe that this budget request supports the continuation of programs to help the insular areas attain self-sufficiency. Towards this ultimate goal, we are committed to promoting sound financial management practices in the insular governments, encouraging private sector-led economic development, and increasing Federal responsiveness to the unique needs of the island communities. We thank you for your continued support of the insular areas as you are considering OIA's 2009 budget request.