

**STATEMENT  
OF  
NIKOLAO PULA  
DIRECTOR OF THE OFFICE OF INSULAR AFFAIRS**

**BEFORE THE  
HOUSE COMMITTEE ON APPROPRIATIONS**

**REGARDING THE  
DEPARTMENT OF THE INTERIOR, OFFICE OF INSULAR AFFAIRS  
FISCAL YEAR 2008 BUDGET REQUEST**

**March 28, 2007**

Mister Chairman and members of the Committee, thank you for the opportunity to testify on the fiscal year 2008 Office of Insular Affairs budget request. The Office of Insular Affairs 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 U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands, as well as administering the financial assistance provided to the Freely Associated States (the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau) under the Compacts of Free Association.

Mister Chairman, we would like to thank you and the entire committee for the support you have provided to the insular areas by funding economic development initiatives, critical infrastructure, and technical assistance projects which provide invaluable resources to the insular areas. OIA's top two priorities for the insular areas are to promote private sector economic development and accountability for the Federal financial assistance that we provide to the insular areas. We discuss our specific efforts to make progress in these areas later in the testimony, but will begin with an overview of the proposed budget.

**Overview of the FY2008 Budget Request**

The FY 2008 budget request seeks to continue efforts to promote economic sustainability throughout the territories and Freely Associated States.

The proposed FY 2008 budget is \$403.8 million, of which \$79.8 million is requested in current appropriations, which is \$1.7 million below the level funded by the 2007 Joint Resolution.

Over \$200.0 million in Compact of Free Association sector grants are included in the 2008 budget. More than \$18.0 million is requested for a variety of technical assistance programs, including ongoing efforts on Brown Tree Snake control, insular management

controls, coral reef conservation, maintenance assistance, and water and wastewater projects. The 2008 budget request funds \$27.7 million in critical infrastructure projects including: \$3.0 million to support the development of an undersea fiber-optic link to American Samoa, \$3.7 million to support the closure of the Puerto Rico Dump on Saipan, with the area being redeveloped as a public park, \$2.0 million to support the installation of an additional gantry crane at the Port of Guam, and \$2.8 million to support wastewater collection system upgrades throughout the U.S. Virgin Islands.

OIA's budget is broken out 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 (\$324.1 million). Within current appropriations, two activities are considered to be mandatory: covenant grants (\$27.7 million) that provide for capital improvement projects (CIP) in U.S. territories and an annual health and education block grant given to the Republic of Palau (\$2.0 million).

The fixed cost change request totals \$492,000 including full funding for 2008 fixed costs and the component of the 2007 fixed costs that were requested in the 2007 budget and not funded in the 2007 Joint Resolution. The 2008 budget also includes \$200,000 to ensure compliance with the National Environmental Policy Act (NEPA) on federally funded infrastructure projects and \$8,000 for the transition to the Department's Financial and Business Management System. In addition, \$102,000 is included for staff, travel, and other costs associated with oversight of financial assistance provided through the Compact of Free Association and \$1,000 for the Working Capital Fund, both of which were requested in the 2007 President's budget and not funded in the 2007 Joint Resolution. The 2008 budget includes reductions of \$2.1 million in general technical assistance and \$493,000 for Enewetak health care. These programs were reduced in the 2007 President's budget but were not reduced in the 2007 Joint Resolution.

The FY 2008 OIA budget continues to focus on increasing the self-sufficiency of insular areas. OIA will continue to provide assistance to develop more efficient and effective government in the insular areas through the Technical Assistance Program. This assistance includes grant funding that meets a variety of needs, including resources for critical infrastructure like wastewater systems, hospitals, and schools. In FY 2006, OIA received over \$81.0 million in Assistance to Territories funding, providing over 90 percent of these funds to insular areas in the form of financial assistance grants and will continue this effort in the future. The 2008 request is \$79.8 million.

American Samoa Operations (\$22.9 million) is part of OIA's discretionary funding but the requirement to provide funds is included in authorizing language. These funds provide essential assistance to the American Samoa Government to provide basic services of health care, education, public safety, and support for the judiciary.

While not officially considered a mandatory program, Federal Services assistance (\$2.9 million) is comprised of two sub-activities that were negotiated and defined in law. The first is reimbursement to the U.S. Postal Service for continuation of mail service to the

Freely Associated States. The 2008 budget includes an increase of \$42,000 to compensate for an increase in postal service costs in the FAS, which was requested in the 2007 President's budget and not funded in the 2007 Joint Resolution. 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 FY 2009.

The only funding that can be considered truly discretionary are OIA salaries and expenses (\$8.2 million) and the Technical Assistance activity (\$16.1 million), which account for \$24.3 million out of the total OIA budget of \$403.8 million in FY 2008. It should be noted that all but two percent of the total funding received by OIA goes toward direct, financial assistance to the territories.

### **Strengthening the Private Sector**

One of OIA's two 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 subsidy 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.

The Island Fellows Program has been an important part of OIA's efforts to promote private sector economic development in the insular areas. Launched in 2003, the program sends graduate students from business schools such as Wharton, Harvard, Kellogg, and Georgetown to the insular areas to study their economies, identify competitive business advantages, identify industries that could be successful in the insular areas, identify investment opportunities for businesses in the insular areas, facilitate outreach to announce opportunities to mainland companies, and identify ways to improve the business climate. 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 Island Fellows also helped OIA 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 2006, the Island Fellows prepared private sector assessment reports for American Samoa, Guam, the U.S. Virgin Islands and the Commonwealth of the Northern Mariana Islands, following methodologies that the Asian Development Bank has used to produce similar reports for the Freely Associated States. These reports have received a great deal of attention in the insular areas, and are available on OIA's web site. In the coming year, the Island Fellows program will continue to focus on assisting with preparations for the fourth Conference on Business Opportunities in the Islands, which will be held in Guam in the Fall of 2007.

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

### **Promoting Accountability**

OIA's other top 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.

### **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 2008 budget request.