



BUDGET The United States Department of the Interior **JUSTIFICATIONS**

and Performance Information
Fiscal Year 2008

OFFICE OF INSULAR AFFAIRS

NOTICE: These budget justifications are prepared for the Interior, Environment and Related Agencies Appropriations Subcommittees. Approval for release of the justifications prior to their printing in the public record of the Subcommittee hearings may be obtained through the Office of Budget of the Department of the Interior.

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I. Bureau-Level Presentation

A. General Statement

1. Introduction

The proposed FY 2008 budget is \$403.8 million, of which \$79.8 million is requested in current appropriations, an increase of \$560,000 over the FY 2007 President's Budget. The request for current appropriations includes \$352,000 for fixed cost increases, \$200,000 for a program increase for NEPA compliance costs, and \$8,000 for the implementation of the Financial and Business Management System.

The Office of Insular Affairs (OIA) carries out the Secretary's responsibilities for U.S.-affiliated insular areas. These include the territories of Guam, American Samoa, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands, as well as the three Freely Associated States (FAS): the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

All of OIA's programs fall within the mission goal of *Serving Communities – Increase Self-Sufficiency of Insular Areas (Goal 5 of the Department of the Interior's Strategic Plan)*. OIA will achieve its mission by, encouraging private sector economic development, promoting sound financial management practices in the insular governments, and increasing Federal responsiveness to the unique needs of island communities.

The budget request for FY 2008 continues to promote implementation of the management reform initiatives advanced by the President. Developed within the framework of the Department of the Interior's 4 C's Vision – consultation, cooperation and communication – all in the service of conservation – the request reflects the ongoing effort of OIA to adapt to the changing needs of the insular areas. Although the budget request is focused primarily on the upcoming fiscal year, it is framed against serious economic and fiscal problems looming in the U.S. territories: American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), Guam, and the United States Virgin Islands (USVI).

As FY 2008 approaches, three of the four territories are facing economic challenges, and all four are facing fiscal difficulties. In American Samoa, the two tuna canneries that account for 80 percent of the private sector economy are likely to shut down soon as a result of changes in international trade and tariff policies. The CNMI economy has been struck by a change in regional tourism patterns and by the diminishment of its garment industry brought on by free trade agreements affecting clothing and textiles. Both

territories face devastating impacts to their economies and to the local governments' tax bases.

Although the USVI has a relatively more diversified economy than the other territories, it too faces a potentially serious short-term challenge involving a compromised territorial law which created incentives for attracting new businesses to the islands. In contrast to the other territories, present-day regional and global changes seem to be working in Guam's favor. Guam's major business, tourism, is on the rebound, mainly because of the resurgent Japanese economy and the influx of up to 8,000 Marines and their dependents from Okinawa, Japan, over the next several years.

Although each territory's situation is unique, there are challenges they face in common. Each has very limited land and resources. Each has a small population and a limited pool of expertise to address the community's critical needs. Each is located in an area that is highly prone to destructive typhoons, cyclones, or hurricanes.

It is clear the territories will continue to face these and other challenges and they need to significantly strengthen their economies if they are to succeed. Therefore, OIA's top priority for the insular areas is to help them develop their economies by expanding and strengthening the private sector. In FY 2008, OIA will continue its efforts to make private sector companies, in targeted industries, aware of investment opportunities in the U.S.-affiliated insular areas through a Business Opportunities Conference and other efforts.

2. Budget Highlights

The proposed FY 2008 budget is \$403.8 million, of which \$79.8 million is requested in current appropriations, an increase of \$2.0 million over the FY 2007 continuing resolution. The request for current appropriations includes \$352,000 for fixed cost increases, \$200,000 for a program increase for NEPA compliance costs, and \$8,000 for the implementation of the Financial and Business Management System. There is a \$985,000 adjustment for the impact of the continuing resolution. The entire budget request falls within the mission goal of *Serving Communities – Increase Self-Sufficiency of Insular Areas (Goal 5 of the Department of the Interior's Strategic Plan)*.

2008 Budget Request by Interior Mission Goal

(Dollars in Thousands)

Mission Goal	2006 Enacted	2007 CR	2008 Request	2008 Request Change from 2007
Serving Communities	412,398	401,857	403,843	+1,986
Total	412,398	401,857	403,843	+1,986

The current appropriations request includes \$50.1 million in discretionary funding and \$29.7 million in mandatory funding. An additional \$324.1 million for permanent and indefinite appropriations is estimated for FY 2008, including \$119 million estimated for fiscal payments to Guam and the USVI and \$205.1 million for payments under the Compact of Free Association. The following table shows the fiscal year 2007 President's Budget and 2007 Continuing Resolution budget for current and mandatory appropriation activities and the OIA fiscal year 2008 request.

Total 2008 Budget Request

(Dollars in Thousands)

Budget Authority	2006 Enacted	2007 President's Budget	2007 CR	2008 Request	2008 Request Change from 2007 CR
Discretionary	81,473	79,223	80,208	79,783	-425
Mandatory	330,925	321,649	321,649	324,060	+2,411
Total	412,398	400,872	401,857	403,843	+1,986
<i>FTEs</i>	36	39	39	39	0

The FY 2008 OIA budget continues to focus on strategies that contribute to increasing the self-sufficiency of insular areas. OIA will continue to provide assistance to help develop more efficient and effective government in the insular areas through the Technical Assistance Program. This assistance includes grant funding to meet a variety of needs, including resources for critical infrastructure like wastewater systems, hospitals, and schools. In FY 2006, 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 to provide financial assistance. OIA plans to continue this effort in FY 2008.

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 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 million).

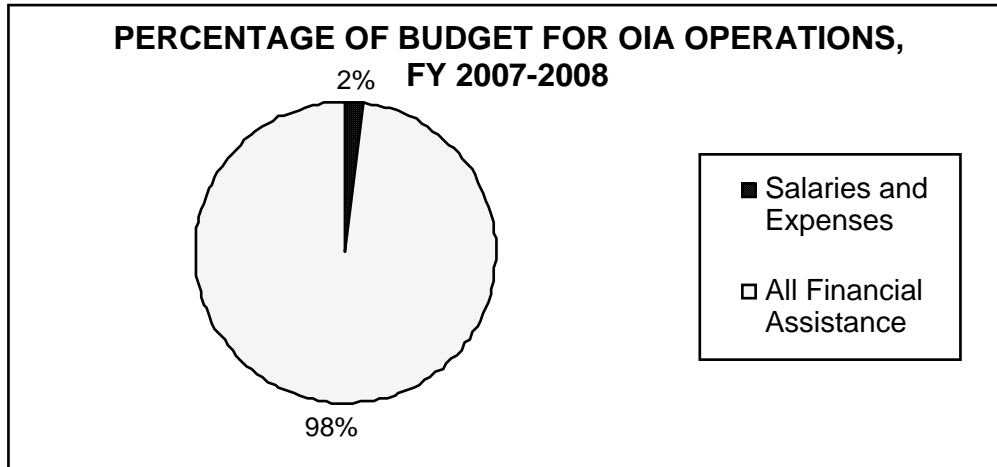
American Samoa Operations (\$22.880 million), the second largest budget activity is considered discretionary but is a directed appropriation that provides essential assistance to help the American Samoa Government provide basic services of health care, education, public safety and support for the judiciary.

While not officially considered a mandatory program, Federal Services assistance (\$2.862 million) is comprised of two subactivities that were negotiated and are defined in law. The first is reimbursement to the U.S. 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 FY 2009.

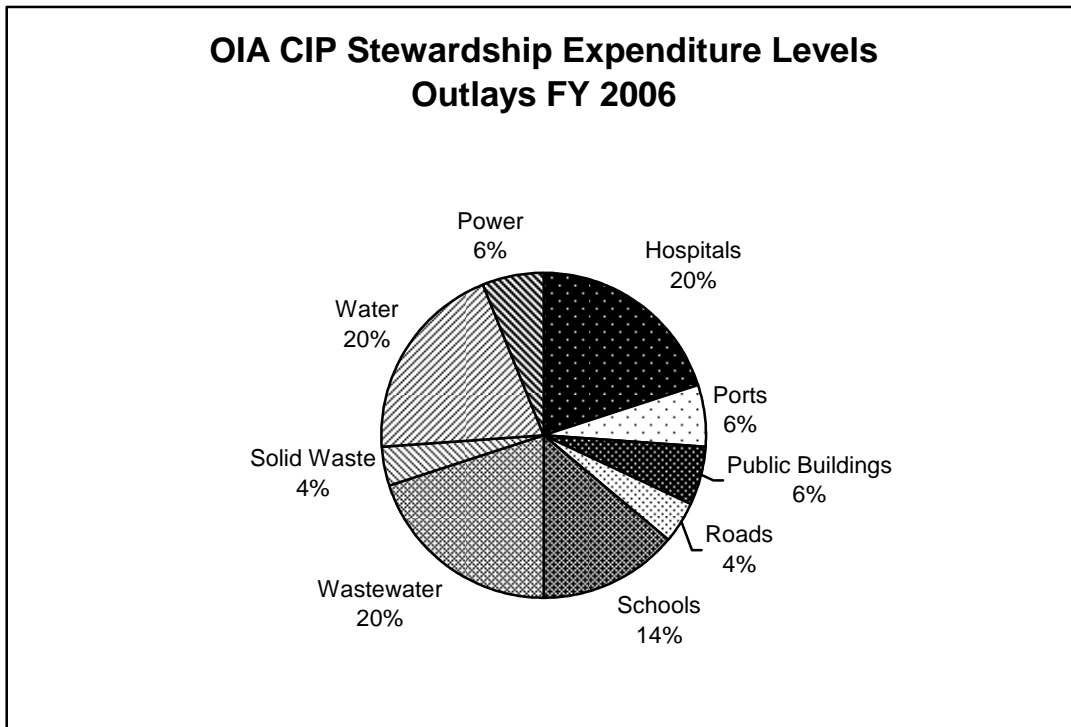
The only true discretionary programs are the OIA Salaries and Expenses account (\$8.2 million) and the Technical Assistance activity (\$16.1 million) which account for \$24.3 million out of a total OIA budget of \$403.8 million in Fiscal Year 2008.

OIA's current appropriation history shows an increase in permanent funding for Compact areas, due to required inflation increases, and a relative decline in current levels for all insular areas.

As seen in the chart on the next page, all but two percent of the total funding received by OIA goes toward assistance to the territories.



High priority projects such as those identified as stewardship expenditures make up a large portion of OIA’s discretionary funding. Stewardship expenditures are investments OIA makes in insular area capital infrastructure (see following table). The total expended in FY 2005 was \$28.4 million. In FY 2006, the islands expended \$34.3 million on capital infrastructure.



3. 2008 Performance Summary

OIA is the principal office responsible for achieving the Department's mission of building quality communities for insular areas. The Department's end outcome goal for this part of the mission is to increase the self sufficiency of insular areas. This goal is measured by examining Federal assistance as a percentage of Gross Domestic Product (GDP) for insular economies. At this time, OIA is unable to gather the appropriate data for the above measure. Instead, the following proxy measure is used: Ratio of Federal revenue to total revenues in insular areas. OIA also has three intermediate outcomes and performance measures:

1. Increase Economic Development

Private Sector Employment: Ratio of private sector jobs to total employment.

2. Improve Insular Governments Financial Management Practices

Timeliness of Financial Statements: Total average months late for all insular general fund financial statements.

3. Increased Federal Responsiveness to Unique Needs of Island Communities
Striving for Economic Self-Sufficiency

Satisfaction and Confidence Rating: Numerical improvement in insular areas satisfaction with and confidence in Interior responsiveness to their needs.

The first intermediate outcome is to increase economic development. Most of the economies of the insular areas are dominated by the public sector, and cannot be sustained without significant subsidy from the Federal Government. OIA's top priority 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. 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. The insular area economies are heavily oriented around the public sector, and some insular area officials have become complacent about their ability to continue to use substantial financial support from the Federal Government as a substitute for private sector economic development. Therefore, OIA perceived a need to educate insular area officials about the importance of promoting private sector economic development, and to provide technical assistance to help them identify and implement the necessary steps to make their economies more sustainable. Specifically, technical assistance is required to help the insular areas to:

- Identify 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, to educate them on the competitive advantages offered by the insular areas;
- Help foster strategic alliances between potential off-island investors and local businesses to ensure that outside investment supports, rather than supplants, the existing insular area business communities;
- Assist insular area businesses and government officials in following up on contacts made with potential investors, including coordinating trips by such potential investors to the insular areas and meetings with such businesses and officials; 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. First, OIA is continuing the Island Fellows Program which was launched in 2003, sending graduate students from business schools such as Wharton, Harvard, Kellogg, and the George Washington University School of Business to the insular areas to study their economies; to identify competitive advantages, industries with potential, and specific investment opportunities; facilitate outreach to mainland companies; help insular area business and government officials to follow up with potential investors; 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 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 FY 2007, the Island Fellows program will again focus on assisting with preparations for the upcoming Business Opportunities Conference.

Second, OIA will continue to work with the Asian Development Bank (ADB) to discuss with FAS government officials ways to improve the business climate in their islands. Using the same methodologies employed by the ADB, OIA's 2006 Island Fellows produced similar analyses for the four territories, where ADB is not able to operate.

The analyses for all seven insular areas will be used to help guide efforts by local policymakers as they continue their efforts to improve the local business climate.

Third, OIA will organize a Business Opportunities Conference on Guam, the first conference to be held in one of the territories. This will be the fourth 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. Major outreach efforts will be focused on Asian and Pacific countries; part of the decision to locate the 2007 Conference on Guam stemmed from a desire to tap into new markets not previously explored in this effort. OIA will also support a similar event in the U.S. Virgin Islands, which will be locally managed.

Fourth, OIA will work actively to assist insular area officials with following up on contacts made at the conferences and missions. In 2005, Deputy Secretary P. Lynn Scarlett led an OIA-organized business opportunities mission in which representatives of 17 potential private sector investors traveled, at their own expense, to Guam, Saipan and Palau. The Deputy Secretary also led an OIA mission to the U.S. Virgin Islands in March of 2006, and USDA Administrator for Rural Development James Andrew accompanied a mission to American Samoa led by the Deputy Assistant Secretary for Insular Affairs in May 2006. OIA designed the missions using well-established models applied by the Department of Commerce and Overseas Private Investment Corporation. We also ensured 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—had a full schedule of site tours and meetings with government officials and potential local business partners. The local governments and business communities were active participants in both the planning and execution of the missions. In the current fiscal year, OIA is not planning additional missions, though follow-up missions are under consideration.

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% of the Assistance to Territories appropriations is spent on private sector development, due to the fact that many 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. Projects which are under way or in the planning stages, stemming from contacts made at the Business

Opportunities Conferences and Missions are listed in Appendix I (which only includes information we have been authorized by the businesses to release).

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.

Despite these successes, it will take patience and sustained commitment in order for our private sector economic development efforts to achieve their full potential.

The second intermediate outcome is to improve insular governments' financial practices. OIA is planning several strategies to accomplish this goal. One is to use budget resources as an incentive for financial improvements. Beginning with the FY 2005 budget, OIA established a competitive process by which Covenant grant funding is allocated in accordance with competitive criteria. The determination of the annual allocation is made on the basis of a set of competitive criteria that measure the demonstrated ability of the governments to exercise prudent financial management practices and to meet Federal grant requirements. Criteria for evaluation include the government's performance on recent audits, financial management practices, and ability to meet established timelines in response to OIA queries and deadlines. OIA continues to review the criteria to ensure items are valid, collectable, and applicable to all insular areas, and the data provided is comparable.

OIA works with all of the territories and freely associated states to help the island governments' improve financial policies and procedures, upgrade automated financial management systems (FMS), train staff, complete accurate financial statements and meet the Single Audit Act requirements. At the start of this comprehensive approach all of the areas were several years behind in completing financial statements and annual audits. Currently, the insular areas are only an average of two months late in submitting annual audits which is an improvement of three months over last years submissions. OIA will continue to assist the areas in obtaining the resources necessary to comply with the Single Audit Act and, when necessary, will impose sanctions if it is deemed to persuade the grantee to prioritize their efforts.

The chart on the following page identifies the progress the insular areas have made in completing delinquent audits, current status and estimated compliance with the

statutory deadlines. The first column lists each of the seven insular areas. The second column refers which fiscal year period was reviewed, the third column lists the date the audit was due, and the fourth column records the date the audit was actually submitted. Finally, the last column displays the number of months late the audit was submitted past the deadline. Over the past four years, the insular areas have decreased the number of months late the financial audits were submitted from an average of 10 months late in FY 2002 to just two months late in FY 2005.

Timeliness of Annual Audits - as of 10/31/2006

Insular Area	Year Ended Audit Period	Timely - per OIA within 1 yr of fiscal year end	Completed Audit	# of Months over Timely
American Samoa	2002	09/30/03	02/28/05	17
	2003	09/30/04	08/16/05	11
	2004	09/30/05	02/28/06	5
	2005	09/30/06	06/30/06	0
Commonwealth of the Northern Marianas Islands	2002	09/30/03	08/09/04	11
	2003	09/30/04	07/06/05	10
	2004	09/30/05	03/15/06	6
	2005	09/30/06	07/19/06	0
Guam	2002	09/30/03	02/05/04	5
	2003	09/30/04	12/03/04	3
	2004	09/30/05	08/05/05	0
	2005	09/30/06	06/30/06	0
US Virgin Islands	2002	09/30/03	07/19/04	10
	2003	09/30/04	05/31/05	8
	2004	09/30/05	06/26/06	9
	2005	09/30/06	none-USDA OIG, est	16
Federated States of Micronesia	2002	09/30/03	01/14/05	16
	2003	09/30/04	08/14/06	23
	2004	09/30/05	08/25/06	11
	2005	09/30/06	09/05/06	0
Republic of the Marshall Islands	2002	09/30/03	10/14/03	1
	2003	09/30/04	07/06/04	0
	2004	09/30/05	07/08/05	0
	2005	09/30/06	06/30/06	0
Republic of Palau	2002	09/30/03	10/20/03	13
	2003	09/30/04	06/06/05	9
	2004	09/30/05	12/23/05	3
	2005	09/30/06	06/30/06	0
All Governments: Fiscal Year under review (fiscal year prior to Departmental Audit)	2002	2003	2004	2005
Average Number of Months Late	10	9	5	2

A second approach to achieve the goal of improving financial practices is to provide technical assistance to carry out specific plans for financial management improvements. To help accomplish this goal, OIA's Technical Assistance Program has contracted with the USDA Graduate School. The Graduate School provides training in a wide variety of financial disciplines. It also provides technical expertise through on-site assistance and advisory services, including development and implementation of long term improvement plans.

A third approach to improving financial practices is to provide assistance to bolster and institutionalize improvements to the local audit capacity. This is carried out through peer reviews, direct classroom training, membership and attendance at audit conferences and coordinated on-the-job training in the Department of the Interior Inspector General's Office.

To help appraise the effectiveness of these approaches to improving the financial practices of the insular areas OIA is planning to use the following performance indicator: "(Targeted reduction) in the total average months late for all insular general fund financial statements."

The third intermediate outcome is to increase Federal responsiveness to 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 over the last two years have focused on alternative sources of financing for large-scale infrastructure needs and health data collection. OIA is also making a strong effort to improve communications with the insular areas and those who do business with them. Particular attention has been placed on improving electronic communications. This is extremely important to the territories and FAS because of their remote locations. Technical assistance and capital funding has been provided to improve undersea cabling, satellite communications, video conferencing, distance learning facilities, and website innovations. Efforts over the next year will also include work on transportation and homeland security (particularly visa) issues in the territories, based on requests presented to the IGIA by territorial representatives.

In keeping with departmental and OMB policy for performance data verification and validation, OIA will review and enhance performance data connected to the DOI Strategic Plan goals and measures as related to the territories and develop additional performance measures for all program areas. OIA's approach to achieving performance data credibility will include contracting with an outside firm to assist the office in reviewing internal goals, enhance, and when necessary create, performance measures for each program activity, and develop ways to collect data to support the performance measures. OIA will also continue to work with the U.S. Bureau of Census, through a reimbursable support agreement, to determine the capability and availability of realistic, measurable economic indicators in the territories that could be collected, compiled and assessed. This approach includes conducting housing, income, and expenditure surveys in the territories, along with training workshops to calculate Gross Domestic Product. Included are compilation and data validation and verification assessments on private and public sector employment ratios for the territories to ensure quality assurance measures are in place and to verify and certify data accuracy.

4. Key Budgetary Changes and 2008 Budget at a Glance

The budget request increases OIA by \$200,000 in discretionary costs to provide stronger National Environmental Policy Act (NEPA) compliance within grant programs. The 2008 budget for includes an increase of \$8,000 in support of Department-wide transition to the FBMS system. Fixed cost increases are fully funded at \$352,000. There is a reduction of \$985,000 adjustment for the impact of the continuing resolution.

OIA provides critical infrastructure funding to the insular areas in order to meet the Department's mission goal of *Serving Communities – Increasing the Self-Sufficiency of Insular Areas*. This past year, the U.S. Department of Justice (DOJ); the White House Council on Environmental Quality (CEQ); the DOI, Office of the Secretary, Office of Environmental Policy and Compliance; and the DOI Office of the Solicitor mandated that OIA improve stronger National Environmental Policy Act (NEPA) compliance within OIA's grants programs. The request for stronger NEPA compliance is a result of ongoing litigation in the insular areas. NEPA is a Federal statute which OIA is required to comply with. Without the \$200,000 in additional funds, OIA would be unable to fully comply with NEPA Federal statutes, due to lack of sufficient expertise, without restricting other core activities. If OIA does not strengthen its NEPA compliance, during litigation, a full stop of OIA's grants projects could be ordered by the courts pending NEPA review. OIA grants fund projects such as critical, health and environmental related EPA Consent Decree ordered improvements that provide safe, 24 hour water supply, improvements to Wastewater Treatment Plants and Sewer Systems, and Solid Waste Systems. A full freeze of these projects due to non-compliance with NEPA could be disastrous for the insular areas.

The estimated amount available for OIA current discretionary accounts under a full year CR in 2007 is \$80.2 million. At the lower levels of the budget structure (Activity, Subactivity, Budget Element, Budget Sub-element), line items are presented at the 2007 President's budget level.

FY 2008 Budget at a Glance						
Office of Insular Affairs						
(Dollars in Thousands)						
	2006	2007	2007	Fixed	2008	
	Enacted	President's	CR	Costs	Program	President's
		Budget		Changes	Changes	Budget
<u>Assistance to Territories</u>						
Office of Insular Affairs	7,273	7,624		+352	+208	8,184
Water & Wastewater	985	990				990
Brown Treesnake	2,660	2,673				2,673
Coral Reef	493	495				495
Maintenance Assistance	2,266	2,277				2,277
Insular Management Controls	1,469	1,476				1,476
Technical Assistance	8,436	8,226				8,226
American Samoa Operations	22,770	22,880				22,880
Covenant Grants	27,720	27,720				27,720
Technical Assistance						
<i>Judicial Training US Territories</i>	315	0				0
<i>Four Atoll Health Care</i>	985	0				0
<i>Prior Service Benefits Trust Fund</i>	788	0				0
Total, Assistance to Territories	76,160	74,361	74,846	352	208	74,921
Total Compact (Current)	5,313	4,862	5,362			4,862
Impact of the CR			[985]		[-985]	-
Total Current Discretionary/Mandatory	81,473	79,223	80,208	352	208	79,783
<u>Compact of Free Association</u>						
Marshall Islands Compact	62,375	63,854			(\$215)	63,639
Federated States of Micronesia Compact	96,157	97,577			+2,434	100,011
Palau Compact	10,717	10,902			+184	11,086
Compact Impact	30,000	30,000				30,000
Judicial Training	308	316			+8	324
Total Compact (Permanent)	199,557	202,649	202,649		+2,411	205,060
Guam Section 30 Income Taxes	51,909	40,000				40,000
VI Rum Excise Taxes	79,459	79,000				79,000
Total, Fiscal Payments (Permanent)	131,368	119,000	119,000			119,000
Grand Total - Office of Insular Affairs	412,398	400,872	401,857	+352	+2,619	403,843

Office of Insular Affairs
2006 Funding by Activity and Insular Area
\$(000)

Activity	Am Sa	CNMI	Guam	US VI	FSM	RMI	Palau	Hawaii	DC	Other	Total
Compact - FSM	\$ -	\$ -	\$ -	\$ -	\$ 96,157						\$ 96,157
Compact - RMI	\$ -	\$ -	\$ -	\$ -		\$ 62,375					\$ 62,375
Compact - Federal Services	\$ -	\$ -	\$ -	\$ -	\$ 1,623	\$ 406	\$ 791				\$ 2,820
Compact - Palau	\$ -	\$ -	\$ -	\$ -			\$ 12,717				\$ 12,717
Enewetak Support	\$ -	\$ -	\$ -	\$ -		\$ 493					\$ 493
Compact Impact	\$ 15	\$ 5,172	\$ 14,242	\$ -				\$ 10,571			\$ 30,000
Compact Judicial Training	\$ -	\$ -	\$ -	\$ -	\$ 205	\$ 103					\$ 308
Technical Assistance ¹	\$ 831	\$ 638	\$ 314	\$ 305	\$ 454	\$ 642	\$ 548			\$ 4,704	\$ 8,436
Judicial Program 9th Circuit	\$ 79	\$ 79	\$ 79	\$ 79							\$ 316
Prior Service Trust Fund	\$ -	\$ 221	\$ -	\$ -	\$ 339	\$ 94	\$ 134				\$ 788
Maintenance Assistance ²	\$ 67	\$ 300	\$ 115	\$ 17	\$ 500	\$ 89	\$ 215			\$ 963	\$ 2,266
Insular Management Controls ³	\$ -	\$ -	\$ 250	\$ -	\$ 500	\$ -	\$ -	\$ -		\$ 719	\$ 1,469
Coral Reef Initiative	\$ 45	\$ 55	\$ 226	\$ -	\$ 73	\$ 45	\$ 34	\$ 15			\$ 493
Office of Insular Affairs ⁴	\$ 128	\$ 305	\$ -	\$ -	\$ 136	\$ 80	\$ -	\$ 1,421	\$ 5,203		\$ 7,273
Article II Compact Healthcare	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 985	\$ -				\$ 985
Brown Treesnake	\$ -	\$ 978	\$ 892	\$ -	\$ -	\$ -	\$ -	\$ 789			\$ 2,659
Am. Samoa Ops	\$ 22,770	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				\$ 22,770
CIP Grants	\$ 9,542	\$ 11,208	\$ 3,402	\$ 3,568	\$ -	\$ -	\$ -				\$ 27,720
Water & Waste Water ⁵	\$ 400	\$ 560	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25	\$ 985
Payments to US Territories	\$ -	\$ -	\$ 51,909	\$ 79,459	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131,368
Total	\$ 33,877	\$ 19,516	\$ 71,429	\$ 83,428	\$ 99,987	\$ 65,312	\$ 14,439	\$ 12,796	\$ 5,203	\$ 6,411	\$ 412,398

1. Amount in Other column represents a combination of reimbursable support agreements with other agencies who provide technical assistance in the insular areas as well as funding for regional programs.
2. Amount in Other column represents funding awarded to regional training programs in the insular areas.
3. Amount in Other was not awarded in FY06.
4. Amount for OIA includes funding for offices in DC and Honolulu, HI.
5. Amount in Other was not awarded in FY06.

5. President's Management Agenda

The President's vision for reform is guided by three principles: it should be citizen-centered; results-oriented; and market based. The President identified five government-wide initiatives to help achieve this vision:

- Budget and Performance Integration;
- Strategic Management of Human Capital;
- Competitive Sourcing;
- Improved Financial Performance; and
- Expanded e-Government.

The Office of Insular Affairs supports the President's Management Agenda and continues to create a citizen-centered organization by implementing strategies to integrate budget and performance; conduct workforce planning; provide assistance to improve greater accountability, and expand e-government opportunities for the island communities.

Budget and Performance Integration

With the advent of the new Interior Strategic Plan and several measures under its results-focused approach, OIA is working with the insular governments on accountability and other measures to ensure that performance data collection and reporting yields reliable information for decision-making. The budget request includes funding to engage the U. S. Census Bureau to work with insular governments to establish reliable, annual economic reporting. OIA is also working with the each insular area to report on the above data annually. Without such information, it is impossible to measure economic status and the impact of OIA programs.

OIA is still working to develop consistent and appropriate methods to cost performance measures. OIA is planning additional efforts to develop methodologies which are in line with the Department's standard approach to costing performance measures. We will conduct an internal review of the office's activities which will help to better align our activities with the performance measures in the Department's Strategic Plan. From this activity, the focus will turn towards developing integrated systems to collect data to be utilized in performance reporting and costing activities.

Program Assessment Rating Tool: OIA programs have been exempted from PART evaluations. OIA programs, such as those under the Compact of Free Association

which constitutes the bulk of its funding, however, have on-going evaluation processes built in.

Strategic Management of Human Capital

As an office under the Assistant Secretary for Policy, Management and Budget, OIA is part of a larger plan for management of human capital and has limited strategic capability. However, OIA is taking advantage of those opportunities it has control over. For a number of years, OIA has hired interns from the U.S. territories and has helped place several in Federal positions. An Asian/Pacific Islander has been hired as a senior economist at a management level in the main office. Recently the office hired an individual from the FSM as the FSM and Palau Desk Officer. Also, a Latino American was hired as the Administrative Officer for the office this past fall. Soon, the vacant Guam and CNMI Desk Officer position/Press Secretary will be filled with an individual from Guam.

Competitive Sourcing

Because of the inherently governmental nature of its program, OIA has not been selected for competitive sourcing studies.

Improving Financial Performance

OIA has a history of clean audit opinions under the Chief Financial Officer Act requirements. Although the FY 2006 Financial Statement Audit identified a noncompliance issue regarding Single Audits of the Insular Governments, management only partially concurred with this finding. OIA continues to make strides in assisting the insular governments to meet their Single Audit responsibilities, reducing the average number of months late for a single opinion from 5 to 2.

Accountability: OIA's most important efforts in the financial performance area are those designed to improve financial performance and accountability in the territories and freely associated states. Among these efforts is the aforementioned paradigm procedures that allocates Capital Improvement Project (CIP) funding based on competitive financial performance criteria. An increased focus is now being placed on bringing the insular governments in full compliance with the requirements of the Single Audit Act.

Expanding Electronic Government

OIA contributes \$2,400 to support the President's E-Government initiatives. This amount is paid into the Department's Working Capital Fund Account, and costs are distributed based upon relative benefits received by each bureau. The Departmental Management budget justification included amounts for each initiative and describes the benefits received from each E-Government activity. E-Government is extremely important to OIA because its constituents are remotely located in the Pacific Ocean and the Caribbean. OIA has funded both technical assistance and capital acquisitions for programs and projects to increase E-Government capacity in the islands. OIA uses the internet to electronically publish business opportunities in the islands and thus increase competition and improve the quality of procurements funded by OIA.

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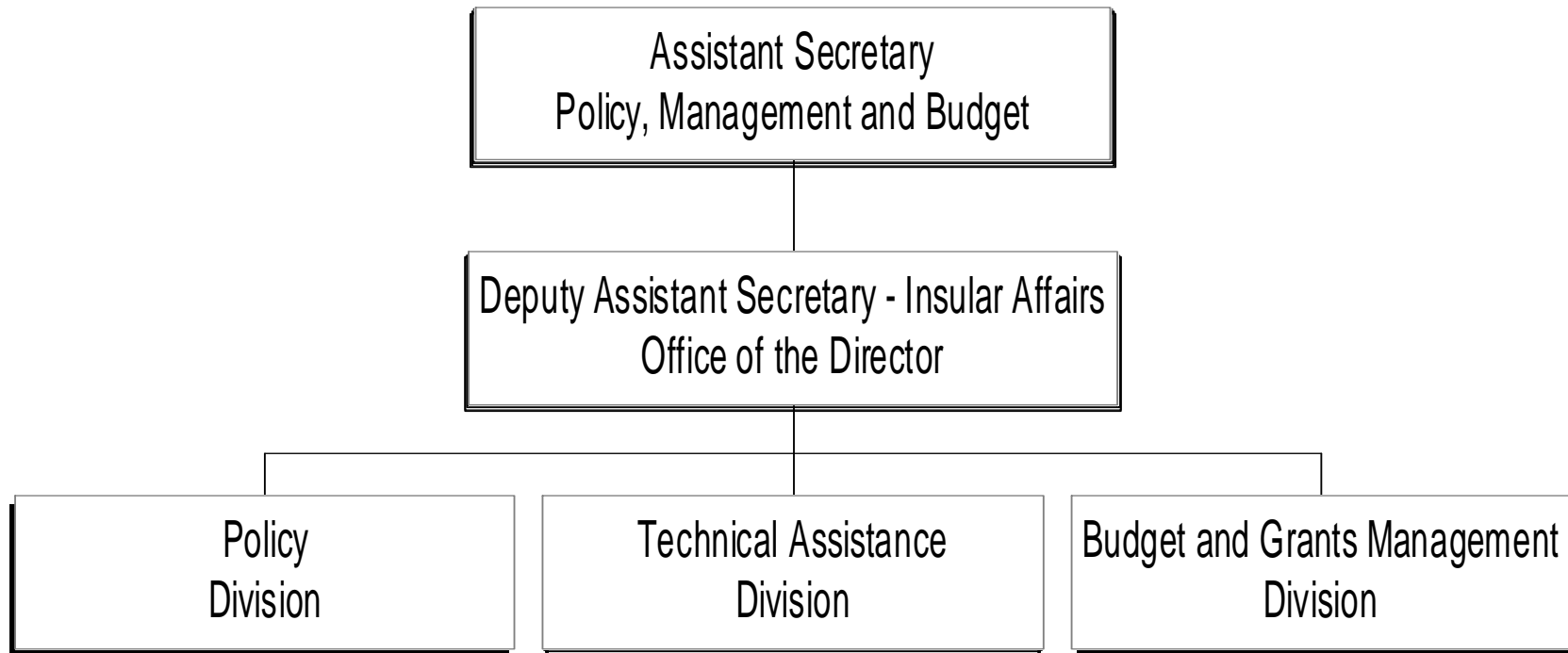
B. Bureau-Level Tables

1. Goal Performance Table

End Outcome Goal 5 Serving Communities: Increase Economic Self Sufficiency of Insular Areas										
End Outcome Goal End Outcome Measure / Intermediate or PART Measure / PART Efficiency or other Outcome Measure	Type	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
End Outcome Measures										
Federal assistance as a percentage of GDP for insular economies – Annual proxy measure: “ratio of Federal Revenue to Total revenues in insular areas.” (SP)	A	26%	25%	33%	28% (\$673m/ \$2,391m)	NT	28%	28%	0	28%
Comments:		This was a new goal in FY 2004. The 2004 Actual, 2005 Actual and 2006 Plan figures were based on estimates from the CIA World Fact Book. Data in the CIA World Fact Book is inconsistently available and inaccurate for all insular areas. As a result of OIA's Single Audit compliance efforts, more accurate and consistent data is now available from the insular areas' annual financial statements. This data is now reflected beginning in the 2006 Actual column of this chart.								
Intermediate Outcomes and Performance Measures										
Improve Insular Governments Financial Management Practices - Timeliness of Financial Statements: Total average months late for all insular general fund financial statements.	A	8	19	12	5	5	5	4	-1	0
Increase Economic Development – Private Sector Employment: Ratio of private sector jobs to total employment.	A	0.76	0.72	UNK	0.71 (138,149/ 193,283)	NA	0.71	0.71	0	72
Increased Federal Responsiveness to Unique Needs of Island Communities Striving for Economic Self-Sufficiency - Satisfaction and Confidence Rating: Numerical improvement in insular areas satisfaction with and confidence in Interior responsiveness to their needs.	A	70%	72%	73%	NA	74%	NA	NA	NA	76
Comments:		The performance measure for Private Sector Employment was new in FY2004. The 2004 Actual figure was based on an estimate from the four U.S. Territories. The insular areas do not consistently collect this data annually. OIA is working to establish ways to collect this data on a regular basis. At this time, OIA is working to receive OMB approval for the Customer Satisfaction Confidence Rating Survey.								
Note: The 2007 plan is the performance level based upon a projection of 2007 likely enacted made during the first quarter of 2007. The 2008 plan and 2012 long-term targets build on the 2007 Plan. To the extent Congress enacts a 2007 appropriation that is different from the 2007 projection, the 2008 plan and 2012 targets may require revision.										

Organization Chart

**ORGANIZATION CHART
OFFICE OF INSULAR AFFAIRS**



II. Assistance to Territories

A. Summary of Requirements Table

Comparison by Activity/Subactivity	FY 2006		FY 2007		Fixed Cost Changes	Program Changes		FY 2008		Incr. (+) or Decr. (-) from 2007 FTE Amount
	FTE	Actual	FTE	CR		FTE	Changes	FTE	Budget	
ASSISTANCE TO TERRITORIES										
(1) American Samoa										
Operations Grants	2	<u>22,770</u>	2	<u>22,880</u>	0	0	2	<u>22,880</u>	0	0
(2) Covenant Grants										
(a) Northern Mariana Islands Construction		11,208		10,629	0	0		10,286		343
(b) American Samoa Construction		9,542		10,543	0	0		10,429		114
(c) Guam Construction		3,402		3,331	0	0		4,169		-838
(d) Law Enforcement, Labor & Immigration Initiative	0	0		0	0	0		0		0
(e) Virgin Islands Construction		3,568		3,217	0	0		2,836		381
		0		0	0	0		0		0
		0		0	0	0		0		0
Subtotal, Covenant Grants		<u>27,720</u>		<u>27,720</u>	<u>0</u>	<u>0</u>		<u>27,720</u>		<u>0</u>
(3) Territorial Assistance										
(a) Office of Insular Affairs (OIA)	33	7,273	36	7,624	352	208	36	8,184		560
(b) General Technical Assistance	1	8,436	1	8,226	0	0	1	8,226		0
<i>Judicial Training U.S Territories</i>		315		0	0	0		0		0
<i>Four Atoll Health Care</i>		985		0	0	0		0		0
<i>Water System Rehab - CNMI</i>		0		0	0	0		0		0
<i>Prior Service Benefits Trust Fund</i>		788		0	0	0		0		0
<i>Insular Measures and Assessments</i>		0		0	0	0		0		0
Subtotal, Technical Assistance		<u>10,524</u>		<u>8,226</u>	<u>0</u>	<u>0</u>		<u>8,226</u>		<u>0</u>
(c) Maintenance Assistance Fund		2,266		2,277	0	0		2,277		0
(d) Brown Tree Snake Control		2,660		2,673	0	0		2,673		0
(e) Insular Management Controls		1,469		1,476	0	0		1,476		0
(f) Coral Reef Initiative		493		495	0	0		495		0
(g) Water and Wastewater projects		985		990	0	0		990		0
Subtotal, Territorial Assistance		<u>24,685</u>		<u>23,761</u>	<u>352</u>	<u>208</u>		<u>24,321</u>		<u>560</u>
SUBTOTAL	36	75,175	39	74,361	352	208	39	74,921		560
IMPACT OF THE CR				+485				[-485]		
TOTAL ACCOUNT				74,846				74,921		560

COMPACT OF FREE ASSOCIATION - CURRENT APPROPRIATION

FY 2008 Summary of Requirements

Comparison by Activity / Subactivity	2006 Actual	2,007 CR	Fixed Cost & Related Changes	Program Changes	FY 2008 Budget Request	Incr. or Decr. from 2007
COMPACT OF FREE ASSOCIATION - CURRENT						
<u>Federal Services Assistance</u>	<u>2,820</u>	<u>2,862</u>	<u>0</u>	<u>0</u>	<u>2,862</u>	<u>0</u>
<i>Includes Postal services reimbursable for FSM/RMI Palau, along with single audit funds for Palau</i>						
<u>Program Grant Assistance</u>						
Section 221(b) (Education/Health Care)	2,000	2,000	0	0	2,000	0
Military Use and Operating Rights Grant	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal, Program Grant Assistance	2,000	2,000	0	0	2,000	0
<u>Other Programs</u>						
Enewetak Support	<u>493</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal, Other Programs	493	0	0	0	0	0
SUBTOTAL, COMPACT, Current	5,313	4,862			4,862	
IMPACT OF THE CR		+500		[-500]		
TOTAL, COMPACT, Current		5,362			4,862	

Note: In accordance with the Amended Compact of Free Association, P.L. 108-188 funds for Enewetak Support are provided under the permanent Compact account.

OFFICE OF INSULAR AFFAIRS
COMPACT OF FREE ASSOCIATION - PERMANENT APPROPRIATION

FY 2008 Summary of Requirements

Comparison by Activity/Subactivity	2006 Actual	2007 President's Budget	Uncont. Changes	Program Changes	FY 2008 Budget Request	Incr. or Decr. from 2007
COMPACT OF FREE ASSOCIATION - PERMANENT						
<u>Assistance to the Marshall Islands:</u>						
Sector Grants	35,144	35,482	0	351	35,833	351
Audit	500	500	0	0	500	0
Trust Fund	8,221	8,950	0	764	9,714	764
Rongelap Resettlement	1,760	1,760	0	-1,760	0	-1,760
Kwajalein Lease Payment	15,414	15,793	0	397	16,190	397
Enewetak	<u>1,336</u>	<u>1,369</u>	<u>0</u>	34	1,403	<u>34</u>
Subtotal, Marshall Islands Assistance	62,375	63,854	0	-214	63,640	-214
<u>Assistance to the Federated States of Micronesia (FSM)</u>						
Sector Grants	79,215	79,388	0	1,128	80,516	1,128
Trust Fund	16,442	17,689	0	1,307	18,996	1,307
Audit	<u>500</u>	<u>500</u>	<u>0</u>	0	<u>500</u>	0
Subtotal, FSM Assistance	96,157	97,577	0	2,435	100,012	2,435
<u>Compact Impact</u>	30,000	30,000	0	0	30,000	0
<u>Judicial Training</u>	308	316	0	8	324	8
<u>Total, FSM/Marshalls Compact (Permanent)</u>	<u>188,840</u>	<u>191,747</u>	<u>0</u>	<u>2,229</u>	<u>193,976</u>	<u>2,229</u>
<u>Assistance to the Republic of Palau</u>						
Section 211 (Government Operations)	6,781	6,781	0	0	6,781	0
Section 215 (Inflation Adjustment)	<u>3,936</u>	<u>4,121</u>	<u>0</u>	184	<u>4,305</u>	184
Subtotal, Assistance to the Republic of Palau	10,717	10,902	0	184	11,086	184
TOTAL REQUIREMENTS, COMPACT, Permanent	199,557	202,649	0	2,413	205,062	2,413
GRAND TOTAL, COMPACT, Permanent & Current	<u>204,870</u>	<u>207,511</u>			<u>209,924</u>	

Summary of Requirements by Object Class
(Dollar amounts in thousand)

Appropriation:	Assistance to Territories	<u>2007 Estimate</u>		<u>Uncontrollable and Related Changes</u>		<u>Program Changes</u>		<u>2008 Request</u>	
		<u>FTE</u>	<u>Amount</u>	<u>FTE</u>	<u>Amount</u>	<u>FTE</u>	<u>Amount</u>	<u>FTE</u>	<u>Amount</u>
<u>Object Class</u>									
11.0 Personnel Compensation:									
11.1	Permanent positions - FTE-P	39	3,530	6		0		39	3,536
11.3	Positions other than permanent		100	-100		0			-
11.5	Other personnel Compensation		100	0		0			100
			<u> </u>	<u> </u>		<u> </u>		<u> </u>	<u> </u>
	Total personnel compensation	39	3,730	-94		0		39	3,636

Other Object Classes

12.1	Personnel benefits		1,076	174		0			1,250
13.0	Benefits to former employees		0	0		0			0
21.0	Travel & transportation of persons		580	0		0			580
22.0	Transportation of things		0	0		0			0
23.1	Rental payments to GSA		174	-114 *		0			60
23.2	Other rent, comm., and utilities		0	0		0			0
24.0	Printing and reproduction		15	0		0			15
25.0	Other services		1,900	435 *		208			2,543
26.0	Supplies and materials		48	2		0			50
31.0	Equipment		76	-26		0			50
41.0	Grants, subsidies & contributions		66,762	-25		0			66,737
			<u> </u>	<u> </u>		<u> </u>		<u> </u>	<u> </u>
99.0	Total requirements	39	74,361	352		208		39	74,921

*This shift is due to the way that GSA Space Rental is billed by the Department. It is now billed via a Reimbursable Agreement and is reflected in Object Class 25. The charges remaining in object class 23 are for utilities and other miscellaneous items.

OIA anticipates continuing at 44 positions, however, due to lapse FTE usage is estimated at 39.

B. Fixed Costs and Related Changes

(* Since no 2007 appropriation has been enacted, 2007 Revised Estimates assume enactment of the 2007 President's budget. Other revisions have been made for changes in estimates.)

	2007 Budget	2007 Revised*	2008 Fixed Costs Change
Additional Operational Costs from 2007 and 2008 January Pay Raises			
1. 2007 Pay Raise, 3 Quarters in 2007 Budget	+\$4,806	+\$4,806	NA
<i>Amount of pay raise absorbed</i>	<i>[\$]</i>	<i>[\$]</i>	NA
2. 2007 Pay Raise, 1 Quarter (Assumed 2.2%)	NA	NA	+\$16
3. 2008 Pay Raise (Assumed 3.0%)	NA	NA	+\$64
These adjustments are for an additional amount needed to fund estimated pay raises for Federal employees.			
Line 1 is an update of 2007 budget estimates based upon an assumed 2.2%.			
Line 2 is the amount needed in 2008 to fund the estimated 2.2% January 2007 pay raise from October through December 2007.			
Line 3 is the amount needed in 2008 to fund the estimated 3.0% January 2008 pay raise from January through September 2008.			

	2007 Budget	2007 Revised*	2008 Fixed Costs Change
Other Fixed Cost Changes			
Two More Pay Days	NA	NA	+\$22
This adjustment reflects the increased costs resulting from the fact that there is two more pay days in 2008 than in 2007.			
Employer Share of Federal Health Benefit Plans	+\$840	+\$840	+\$54
<i>Amount of health benefits absorbed</i>	<i>[\$103]</i>	<i>[\$103]</i>	0
The adjustment is for changes in the Federal government's share of the cost of health insurance coverage for Federal employees. The increase is estimated at 6%, the average increase for the past few years.			
Rental Payments	\$683	\$683	+\$60
<i>Amount of rental payments absorbed</i>	<i>[\$]</i>	<i>[\$]</i>	
The adjustment is for changes in the costs payable to General Services Administration and others resulting from changes in rates for office and non-office space as estimated by GSA, as well as the rental costs of other currently occupied space. These costs include building security; in the case of GSA space, these are paid to DHS. Costs of mandatory office relocations, i.e., relocations in cases where due to external events there is not alternative but to vacate the currently occupied space, are also included.			

	2007 Budget	2007 Revised*	2008 Fixed Costs Change
Departmental Working Capital Fund	\$561	\$561	+136
<i>Amount of WCF payments absorbed</i>	<i>[\$]</i>	<i>[\$]</i>	
<p>The change reflects expected changes in the charges for Department services and other services through the Working Capital Fund. These charges are displayed in the Budget Justification for Department Management. In addition to the fixed cost change, an additional \$8 is requested as a program change for FBMS.</p>			
TOTAL, Fixed Cost Change, OIA			+\$352

C. Language Citations

1. Appropriations Language

For expenses necessary for assistance to territories under the jurisdiction of the Department of the Interior, [\$74,361,000] \$74,921,000 of which: (1) [\$66,737,000] \$66,737,000 shall be available until expended for technical assistance, including maintenance assistance, disaster assistance, insular management controls, coral reef initiative activities, and brown tree snake control and research; grants to the judiciary in American Samoa for compensation and expenses, as authorized by law (48 U.S.C. 1661(c)); grants to the Government of American Samoa, in addition to current local revenues, for construction and support of governmental functions; grants to the Government of the Virgin Islands as authorized by law; grants to the Government of Guam, as authorized by law; and grants to the Government of the Northern Mariana Islands as authorized by law (Public Law 94-241; 90 Stat. 272); and (2) [\$7,624,000] \$8,184,000 shall be available for salaries and expenses of the Office of Insular Affairs: Provided, That all financial transactions of the territorial and local governments herein provided for, including such transactions of all agencies or instrumentalities established or used by such governments, may be audited by the Government Accountability Office, at its discretion, in accordance with chapter 35 of title 3 I, United States Code: *Provided further*, That Northern Mariana Islands Covenant grant funding shall be provided according to those terms of the Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands approved by Public Law 104-134: [*Provided further*, That of the amounts provided for technical assistance, sufficient funds shall be made available for a grant to the Pacific Basin Development Council: *Provided further*, That of the amounts provided for technical assistance, sufficient funding shall be made available for a grant to the Close Up Foundation:] *Provided further*, That the funds for the program of operations and maintenance improvement are appropriated to institutionalize routine operations and maintenance improvement of capital infrastructure with territorial participation and cost sharing to be determined by the Secretary based on the grantee's commitment to timely maintenance of its capital assets: *Provided further*, That any appropriation for disaster assistance under this heading in this Act or previous appropriations Acts may be used as non-Federal matching funds for the purpose of hazard mitigation grants provided pursuant to section 404 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5170c).

2. Authorizations

(1) Guam. Executive Order 10077, dated September 7, 1949, transferred administrative responsibilities for Guam from the Secretary of the Navy to the Secretary of the Interior. Executive Order 10137, of June 30, 1950, amended Executive Order 10077 to make the transfer effective on July 1, 1950. The Guam Organic Act was approved on August 1, 1950 (64 Stat. 384, 48 U.S.C. Sec. 1421 et. seq.) and declared Guam to be an unincorporated territory of the United States and provided that Guam's relationship with the Federal Government shall be under the general administrative supervision of the Secretary of the Interior. As a result of subsequent amendments to the Organic Act, Guam also elects its Governor and a Delegate to the United States Congress.

(2) American Samoa. In 1900, the islands were placed under the administration of the Secretary of the Navy by Executive Order. In the Act of February 20, 1929 (48 U.S.C. 1661), Congress stated that until it shall provide for the Government of the islands of American Samoa, "all civil, judicial, and military powers shall be vested in such manner as the President of the United States shall direct." The President vested these powers in the Secretary of the Interior by Executive Order 10264, dated June 29, 1951. Secretary's Order No. 2657, dated August 29, 1951, set forth the extent and nature of the authority of the Government of American Samoa and the manner in which the authority is to be exercised. Secretarial Order 3009 dated September 24, 1977, provided for an elected Governor and Lt. Governor for American Samoa, and elected officials first took office on January 3, 1978. Pursuant to Public Law 95-556, American Samoa, in November 1980, elected its first Delegate to the United States Congress.

(3) U.S. Virgin Islands. The islands were under the jurisdiction of the Navy Department from March 21, 1917, until March 18, 1931 (48 U.S.C. 1391), when responsibilities were transferred to the Secretary of the Interior pursuant to Executive Order 5566, dated February 27, 1931. Organic legislation was first passed in 1936 (49 Stat. 1812), and was revised by Public Law 83-517, effective July 22, 1954 (48 U.S.C. et. seq.). The latter has since been amended in various respects and the Virgin Islands' elected officials first took office on January 3, 1978.

(4) Northern Mariana Islands. On March 24, 1976, the President signed a joint resolution of Congress approving the "Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America" (Public Law 94-241). The islands remained a part of the Trust Territory of the Pacific Islands under the jurisdiction of the Secretary of the Interior pursuant to Executive Order 11021 of May 7, 1962. Secretarial Order 2989, dated March 14, 1976, and effective January 9,

1978, provided for the separate administration of the Northern Mariana Islands, provided for the elected Government in the Northern Mariana Islands, and activated various sections of the Covenant. By Presidential Proclamation of November 3, 1986, and as a result of a valid act of self-determination pursuant to Section 1002 of the Covenant, the Northern Mariana Islands ceased to be bound by the United Nations Trusteeship Agreement of 1947, and became a commonwealth in political union and under the sovereignty of the United States.

(5) Office of Insular Affairs. Established August 4, 1995, by Secretarial Order No. 3191.

(6) Covenant Grants. Funding under the Northern Marianas Covenant was first established in Public Law (P.L.) 94-241, A Joint Resolution to Approve the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America. This was later amended by Section 10 of P.L. 99-396 (100 Stat. 840). These provisions were further amended by Public Law 104-134, enacted in 1996, which reduced annual funding to the Northern Mariana Islands and reallocated additional funding to other uses, including capital infrastructure projects in American Samoa, Guam, and the U.S. Virgin Islands.

(7) Compacts of Free Association. The Compact Free Association Act of 1985 was enacted in January 1986 (P.L. 99-239) and authorized funding over a fifteen-year period for the Federated States of Micronesia and the Republic of the Marshall Islands. In December 2003, the President signed Public Law 108-188, enacting amendments to the Compact of Free Association and providing an additional twenty years of guaranteed annual assistance to the Federated States of Micronesia and the Republic of the Marshall Islands. The Compact of Free Association for the Republic of Palau was enacted on November 14, 1986 as P.L. 99-658, and was implemented on October 1, 1994.

These basic legal authorities have been supplemented and modified over the years by various omnibus territory acts and other program legislation.

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III. Activity/Subactivity-Level Presentation

Activity: American Samoa						
Subactivity: Operation Grants \$(000)						
	2006 Actual	2007 CR	2008			Change from 2007 (+/-)
			Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
General Operations	21,913	22,023	0	0	22,023	0
High Court	857	857	0	0	857	0
FTE	2	2	0	0	2	0
Total Requirements	22,770	22,880	0	0	22,880	0
FTE	2	2	0	0	2	0

PROGRAM OVERVIEW

Each fiscal year, the Office of Insular Affairs provides grant funds to American Samoa for the operation of the local government, including the judiciary. The American Samoa Government does not have sufficient local revenues to fund the entire operating costs of its government. The purpose of this program activity is to fund the difference between budget needs and local revenues. The Department defines "budget needs" as the cost of maintaining current programs and services. Unless mutually agreed upon by the American Samoan Government and the Department, new programs are funded from local revenues.

A secondary objective of this program activity is to promote self-sufficiency (DOI Strategic Plan Outcome Goal 5 for Serving Communities). In this regard, the Department's policy is to maintain the operations grant at a constant level, thus requiring American Samoa to absorb the costs of inflation or costs associated with the growing population. Over the years, American Samoa has assumed an increasing percentage of the total costs of government operations.

Fiscal Year 2000 Tobacco Loan and Fiscal Reform Plan: In response to a proposal from the American Samoa Government (ASG), Congress enacted legislation authorizing American Samoa to receive a direct Federal loan up to \$18.6 million, to be repaid from their share of the Tobacco Settlement Escrow Fund for the purpose of paying debts (\$14.3 million) and implementing financial reforms (\$4.3 million). American Samoa identified a list of creditors who were willing to accept less than full dollar on the money they were owed. These creditors have now been paid. As a condition to the loan and requirement of the 1980 legislation, ASG submitted an Initial Fiscal Reform Plan on July 30, 2001. Subsequent to discussions and meetings between ASG and OIA, a Memorandum of Agreement (MOA) was signed by Governor Tauese P. Sunia and Deputy Assistant Secretary David B. Cohen on August 2, 2002. The MOA defined the implementation of the fiscal reform plan designed to bring the ASG annual operating expenses into balance with projected revenues for the years 2003 and beyond as required under Public Law 106-113 (H.R. 2466) Part 5, Section 125(b)(3). As authorized by the MOA, OIA released \$4.3 million for expenses incurred by ASG under the Fiscal Reform Plan. The MOA requires ASG to submit quarterly reports, substantiated by an independent auditor, that provide updated revenue and expenditure information.

Revised Fiscal Reform Plan: OIA has been monitoring the ASG's progress on its Fiscal Reform Plan (Revised July 2004) that was submitted in compliance with the 2002 MOA between the ASG and the Department of the Interior. ASG has continued to provide information as required under the MOA and Plan. The fiscal position of the ASG was greatly improved from FY 2002 through FY 2004. However, the major sources of revenue were from nonrecurring activities such as insurance payments, loans, and collections of outstanding taxes and other amounts owed to ASG. Although the ASG has reported a cumulative surplus for FY 2005 (audited) and FY 2006 (unaudited), indications are that problems still exist due to unrealistic budget projections and collection shortfalls. Although the ASG has implemented many of the steps in the Plan, an insufficient impact on the reduction of operational costs will cause the ASG to deplete its cumulative surpluses. It is OIA's goal to assist the ASG in developing and implementing fiscal reforms that will have a long-term effect on ASG's financial management practices and result in a more responsive and accountable government. OIA will continue to monitor the activities of the ASG and will provide technical assistance as necessary. The willingness of the ASG to implement recommendations that are designed to help ensure a healthy financial position is taken into account in OIA's process of allocating grant funds.

2008 PROGRAM PERFORMANCE

American Samoa plans to accomplish the following in FY 2008:

- Provide financial reports for quarter ending September 30, 2007.
- Provide financial reports for quarter ending December 31, 2007.
- Provide financial reports for quarter ending March 31, 2008.
- Provide financial reports for quarter ending June 30, 2008.

The following chart reflects the ASG's operations funding priorities for FY 2008, FY 2007 and FY 2006:

Funding Category	2008	2007	2006
	Proposed Award	Award	Award
Basic (DOE/ASCC) Operations	\$8,759,000	\$8,759,000	\$8,649,000
LBJ Hospital Operations	\$11,264,000	\$11,264,000	\$11,264,000
LBJ Pharmaceuticals & Medical Supplies	\$2,000,000	\$2,000,000	\$2,000,000
High Court	\$857,000	\$857,000	\$857,000
Total	\$22,880,000	\$22,880,000	\$22,770,000

OIA Designated American Samoa as High Risk: In an effort to improve accountability for Federal funds, OIA designated American Samoa as a "high-risk" grantee as provided for in 43 CFR 12.52, and as recommended by the General Accounting Office (GAO) and the Office of Inspector General (OIG). This designation allows OIA to require American Samoa grantees to comply with special conditions for future or existing grants. The special conditions may include: payment of grant funds on a reimbursable basis, withholding of approval to proceed from one project phase to another until receipt of acceptable evidence of current performance, additional project monitoring, and requiring the grantee to obtain technical or management assistance.

The "high-risk" designation will be removed once the ASG is in compliance with each of the following conditions: (a) the government shall have completed Single Audits by

the statutory deadline for the two most recent consecutive years, resulting in opinions that are not disclaimed and do not contain qualifications that OIA determines in its reasonable discretion to be material; (b) the ASG shall have a balanced budget, as confirmed by independent auditors, for the two most recent consecutive years, without regard for nonrecurring windfalls such as insurance settlements; and (c) the ASG shall be in substantial compliance with the MOA and FRP.

Activity: CNMI/Covenant Grants \$(000)						
SUMMARY TABLE						
	2006 Actual	2007 Estimate	2008			Change From 2007 (+/-)
			Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
CNMI Construction	11,208	10,629	0	-343	10,286	-343
American Samoa Construction	9,542	10,543	0	-114	10,429	-114
Guam Construction	3,402	3,331	0	+838	4,169	+838
Virgin Islands Construction	3,568	3,217	0	-381	2,836	-381
Totals	27,720	27,720	0	0	27,720	0
FTEs	0	0	0	0	0	0

Covenant funding addresses a variety of infrastructure needs in the territories including critical infrastructure like hospitals, schools and wastewater systems. The establishment of critical infrastructure not only benefits the current population and businesses, but lays the groundwork to attract new investment to the territories thereby promoting economic development and self-sufficiency.

Beginning with FY 2005, OIA implemented a new competitive allocation system for the \$27,720,000 in mandatory Covenant Capital Improvement Project (CIP) grants. It is based on a premise that all funds will be used for capital needs in the U.S. territories. The territories are asked to submit CIP requests in a range both above and below base (target). The base-level funding amounts were established on the basis of current historic trends with respect to the Commonwealth of the Northern Mariana Islands and American Samoa. With respect to base level funding amounts for Guam and the U.S.

Virgin Islands, OIA divided equally the balance of the funding since these two governments have a greater capacity to locally finance infrastructure and the historical trends are not as clear. In the case of the U.S. Virgin Islands, funding has only been available on an intermittent basis. The new process offers both governments an opportunity to compete each year for a greater portion of the guaranteed funding in addition to other assistance or local funding that might be available. The OIA capital improvement request for each government will be within a range \$2,000,000 above and below these base-levels:

Baseline Covenant Funding

FY 2005 – FY 2010

(\$000)

CNMI	11,000
American Samoa	10,000
Guam	3,360
Virgin Islands	<u>3,360</u>
TOTAL	27,720

The determination of the annual allocation is made on the basis of a set of competitive criteria that measure the demonstrated ability of the governments to exercise prudent financial management practices and to meet Federal grant requirements. In addition to the application of these criteria to the allocation of capital improvement assistance, the Office of Insular Affairs considers the capacity of each insular government to absorb the amount of capital assistance it would otherwise qualify for and any special or extenuating conditions that might require adjustments to the allocation. The competitive criteria measure the governments' demonstrated financial and administrative capabilities. The competitive criteria are listed below:

Competitive Criteria for the Proposed Allocation of Mandatory Covenant Funding

1. The extent to which the applicant is in general compliance with deadlines established under the Single Audit Act of 1984.
2. The extent to which the applicant's financial statements were reliable.
3. The extent to which the applicant is exercising prudent financial management, is solvent, and is current in paying outstanding obligations.
4. The extent to which the applicant has demonstrated prompt and effective efforts to resolve questioned costs and internal control deficiencies identified in single audits.

5. The extent to which the applicant provides timely and comprehensive responses to any follow-up inquiries that OIA and other Federal agencies may have regarding single audits, including those related to questioned costs and those related to internal control deficiencies.
6. The extent to which the applicant has demonstrated effective contract administration and compliance with local statutes and regulations regarding procurement practices and processes.
7. The extent to which the applicant's capital improvement application is complete and submitted on time.
8. The extent to which the applicant has complied with all grant reporting requirements in an accurate manner.
9. The extent to which the applicant has properly functioning internal controls, including the presence of a qualified independent auditor, with an adequately funded office and strong safeguards to ensure the independence of the office.
10. The extent to which the applicant has complied with OIA information requirements resulting from issues outside of single audits.

While the total available for funding stays constant (\$27.7m), allocations will vary from year to year depending upon the performance of each insular government with respect to the above competitive criteria. A change in an annual allotment does not necessarily indicate deterioration in performance. It instead recognizes those governments whose performance has increased during a fiscal year. For example, the FY 2008 request for Guam increased \$809,000 over the baseline funding in the competitive process because it scored above the average of the insular areas on the 10 criteria. However, once every five years, OIA will re-calculate base levels based on the average allocation over the five-year period. Thus, long-term good performance will be rewarded and poor performance in the long-term will be penalized.

The competitive allocation system applied to the \$27.72 million in CIP funds is based on a point method. The territories are given a various score on each of the above criteria. The criteria themselves are ranked so that those considered more significant would receive a higher weight than those considered less important in the overall, final score.

The chart on the next page reflects the baseline distribution along with adjustments made to FY 2007 and FY 2008 requests based on each insular government's score on the competitive criteria.

Covenant Grant Funding Levels
Dollars in thousands (000's)

Territory	Baseline Funding	FY 2007	FY 2008	Total FY 2007	Total FY 2008	Diff +/- FY 2007
		+/- Baseline	+/- Baseline			
CNMI	11,000	-371	-714	10,629	10,286	-343
American Samoa	10,000	+543	+429	10,543	10,429	-114
Guam	3,360	-29	+809	3,331	4,169	+838
Virgin Islands	<u>3,360</u>	<u>-143</u>	<u>-524</u>	<u>3,217</u>	<u>2,836</u>	<u>-381</u>
Total	27,720	0	0	27,720	27,720	0

Activity: CNMI/Covenant Grants						
Subactivity: CNMI Construction \$(000)						
	2006 Actual	2007 CR	2008			Inc (+) Dec(-) From 2007
			Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
CNMI Construction	11,208	10,629	0	-343	10,286	-343
FTEs	0	0	0	0	0	0

SUMMARY OF 2008 PROGRAM CHANGES

CNMI Construction

(-\$343,000) from FY 2007 funding level

(-\$714,000) from FY 2008 baseline funding level

The FY 2008 budget request for the CNMI CIP program is \$10.3 million with no additional FTE's.

Request Component		
Program Changes	Amount	FTE
CNMI Construction	-343	0

JUSTIFICATION OF 2008 PROGRAM CHANGES

The FY 2008 budget request for Covenant CIP funding to the CNMI is \$10.286 million. The CNMI's allocation decreased to slightly below baseline in FY 2007 and FY 2008. The amount was calculated utilizing the CIP selection criteria and methods below. The process is further described in the beginning of this section (see Activity: CNMI/Covenant Grants Summary Table section).

Beginning with FY 2005, OIA implemented a new competitive allocation system for the \$27.720 million in mandatory Covenant CIP grants. It is based on the premise that all

funds will be used for capital improvement needs in the U.S. territories. The territories are asked to submit their requests in a range both above and below the base (target) level of funding. The base-levels were established on the basis of current historic trends with respect to the Commonwealth of the Northern Mariana Islands. The OIA capital improvement requests for each government will be within a range \$2.0 million above and below the base-level.

CNMI Baseline Funding	\$11,000,000
Results from Competitive Process	<u>-714,000</u>
Programmed funding for FY 2008	\$10,286,000

PROGRAM OVERVIEW

Section 701 of the Covenant (Public Law 94-241) states, *"The Government of the United States will assist the Government of the Northern Mariana Islands in its efforts to achieve a progressively higher standard of living for its people as part of the American economic community and to develop the economic resources needed to meet the financial responsibilities of local self-government."* Section 701 does not contain a finite standard to measure what is an adequate standard of living or the amount of economic resources necessary to meet the financial responsibilities of local self-government. Instead, it speaks of achieving progressively higher standards and a commitment by the Federal government to assist the CNMI in making progress.

The Federal government has granted \$385 million in Covenant Capital Improvement Project (CIP) project funding to the CNMI since the program started in 1978. All of the funding has been used for the construction of infrastructure, as required by Public Law 104-134 and the Third Special Representatives Agreement. The US-CNMI partnership in capital development has produced tangible results in terms of infrastructure and economic development, which is especially significant when considering the CNMI's short history as part of the United States. This subactivity supports DOI's Serving Communities Strategic Goal, and is aimed at increasing economic self-sufficiency in the CNMI.

2008 PROGRAM PERFORMANCE

While FY 2006 saw the completion of several CIP funded infrastructure projects, perhaps the year's most notable accomplishments resulted from the CNMI substantially

completing several large-scale CIP funded infrastructure projects intended to meet some of the CNMI's most critical infrastructure needs. Construction of the new Public Health Center, with its state-of-the-art hemodialysis clinic, on Saipan was completed. The Project, which is scheduled to open in early 2007, will provide critical health care to the island's increasing population and will allow the existing Commonwealth Health Center to undergo much needed renovations. On Tinian, FY 2006 saw the much anticipated Tinian High School Phase II project substantially completed. The project added necessary classrooms and science laboratories to the existing building and a track & field to support the island's growing student population.

The requested \$10.3 million for FY 2008 will be used to continue meeting critical infrastructure needs in the CNMI similar to previous years. Funds will be used to continue large-scale improvements to potable water, wastewater treatment, solid waste management, and to continue promoting economic development. The proposed projects to be funded in FY 2008 are briefly explained below.

In order to comply with EPA regulations, the CNMI recently began the necessary steps required to ensure proper closure of the Puerto Rico Dump. The CNMI plans to use \$3.7 million of the proposed FY 2008 CIP funding to ensure that the dump is closed properly. The Project, which is funded over several fiscal years by OIA, will be the site of a public park.

The delivery of potable water to Saipan continues to be a main priority and would receive \$2.3 million of the proposed CIP funding. Currently, the residents of Saipan do not have potable water available twenty-four hours a day. The CNMI formed the Water Task Force to coordinate this important effort for which CIP funds have been allocated since FY 2004.

In addition to the delivery of potable water, the CNMI has put an emphasis on developing the islands' wastewater infrastructure over the last several years. In FY 2008, \$1.7 million will be allocated to the Kagman Wastewater Project which will serve the Kagman Homestead area of Saipan. This project, which has received funding under previous years, is currently undergoing an environmental assessment.

Similarly, the island of Tinian plans to use the proposed FY 2008 funding to continue to its wastewater collection, transmission, treatment, and disposal project. The island of Rota, on the other hand, would like to use the proposed funds for an eco-tourism development project in order to increase tourism and investments on the island. Each island will receive \$1.3 million for these projects.

The following chart reflects the CNMI's funding priorities for FY 2008, FY 2007 and FY 2006:

Funding Category	2008	2007*	2006
	Proposed Award	Award	Award
Economic Development	-	\$1,851,750	\$1,500,000
Solid Waste	\$3,700,000	\$3,000,000	\$2,776,000
Wastewater	\$2,985,750	\$2,657,250	\$1,276,000
Water	\$2,314,500	\$3,120,000	\$5,656,000
Parks	\$1,285,750	-	-
Total	\$10,286,000	\$10,629,000	\$11,208,000

*Please note the FY 2007 CIP grants have not been awarded yet due to the continuing resolution.

Activity: CNMI/Covenant Grants						
Subactivity: American Samoa Construction \$(000)						
	2006 Actual	2007 CR	2008			Inc (+) Dec(-) From 2007
			Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
American Samoa Construction	9,542	10,543	0	-114	10,429	-114
FTEs	0	0	0	0	0	0

SUMMARY OF 2008 PROGRAM CHANGES

American Samoa Construction

(-114,000) from FY 2007 funding level

(+429,000) from FY 2008 baseline funding level

The FY 2008, budget request for the American Samoa CIP program is \$10.4 million with no additional FTE's.

Request Component		
Program Changes	Amount	FTE
American Samoa Construction	-114	0

JUSTIFICATION OF 2008 PROGRAM CHANGES

The FY 2008 recommended funding level for American Samoa construction is \$10.4 million. This is a funding decrease of \$114,000 from FY 2007.

Beginning with FY 2005, OIA implemented a new competitive allocation system for the \$27.72 million in mandatory Covenant CIP grants. It was based on a premise that all funds would be used for capital improvement needs in the U.S. territories. The territories were asked to submit capital improvement requests in a range both above and below base (target) level funding. The base-levels were established on the basis of

current historic trends with respect to American Samoa. The new process offered the U.S. insular area governments an opportunity to compete each year for a portion of the guaranteed funding in addition to other assistance or local funding that might be available. The OIA capital improvement request for each government will be within a range \$2.0 million above and below the base-level.

American Samoa Baseline Funding.....	\$10,000,000
Results from competitive process.....	+ \$429,000
Proposed funding for FY 2008.....	\$10,429,000

The FY 2008 allocation for American Samoa was calculated utilizing the CIP selection criteria and methods above which is further described in the beginning of this section (see Activity: CNMI/Covenant Grants Summary Table section).

PROGRAM OVERVIEW

Until 1996, American Samoa received annual discretionary grants for capital improvement needs. These grants averaged approximately \$5.0 million annually. During this time American Samoa fell further and further behind in keeping up with the infrastructure needs of a rapidly growing population. As a consequence, the people of the territory have been faced with increasing hardship and risk with regard to such basic needs as drinking water, medical services and education. In recognition of these severe problems, Congress enacted legislation in FY 1996 which directs a portion of the mandatory Covenant funds to be used to pay for critical infrastructure in American Samoa. The legislation required the development of a multi-year capital improvement plan. The plan was prepared by a committee appointed by the Governor of American Samoa. The Army Corps of Engineers served as technical advisors to the committee under an interagency agreement funded through the Office of Insular Affairs. This plan was transmitted to Congress on August 8, 1996. The Capital Improvement Master Plan is updated on an annual basis. All projects have been categorized into three general priority areas. First order priorities include health, safety, education, and utilities. Second order priorities include ports and roads. Third order priorities include industry, shoreline protection, parks and recreation and other government facilities. The objective of this program is to assist American Samoa in providing infrastructure to promote economic development and improve health, education and public safety.

2008 PROGRAM PERFORMANCE

Over the past year, several projects were completed and put in to service such as the Tau Police/Fire Substation and the Aasu Road. In addition, large ongoing projects such as the Tafuna Plains Sewer Project and LBJ Hospital's Life Safety and Staff On-Call Housing projects made steady progress towards completion. Towards the end of the fiscal year, OIA gave Authorization to Proceed (ATP) to numerous construction projects planned in American Samoa. Some of the projects that received ATP include the renovation of the Pediatric Ward at LBJ Hospital, the Service Wharf Rehabilitation Design, and a new Tau Dispensary.

Due to the pressing need to foster economic development, \$3.0 million of this fiscal year request will be used to help install a submarine fiber optic cable which could attract potential call centers and other telecommunication driven industries to American Samoa. The fiber optic cable line, an economic development activity, is a top priority of both OIA as well as the current administration in American Samoa. The intent of the fiber optic cable project is to diversify American Samoa's economic base beyond the tuna canaries and government service by attracting call centers to the territory.

Approximately \$2.6 million will be utilized to provide quality education for a growing population of students in American Samoa. \$951,000 of these funds will be used to construct a new multi-purpose building for the American Samoa Community College to serve as an auditorium and student services center.

The \$1.8 million requested for Health will be utilized to allow LBJ Hospital to meet life safety requirements and to improve patient services and comfort. Approximately \$1.0 million is slated for renovations which will create a new Intensive Care Unit, Physical Therapy Unit, Respiratory Therapy Unit and a Social Services Unit.

The following chart reflects the ASG's funding priorities for FY 2008, FY 2007 and FY 2006:

Funding Category	2008	2007	2006
	Proposed Award	Award	Award
Economic Development	\$3,000,000	-	-
Health	\$1,807,550	\$2,415,850	\$1,900,000
Education	\$2,551,000	\$3,325,000	\$2,707,500
Water	\$600,000	\$1,075,000	\$475,000
Wastewater	\$435,500	\$781,500	\$1,676,750
Solid Waste	\$237,500	\$237,500	\$237,500
Port	\$900,000	\$1,250,000	\$1,301,500
Roads	-	\$380,000	\$282,150
Public Safety	\$300,000	\$475,000	\$389,500
Parks	\$76,000	\$76,000	\$95,000
O&M Set-Aside	\$521,450	\$527,150	\$477,100
Total	\$10,429,000	\$10,543,000	\$9,542,000

*Please note that the FY 2007 CIP grants have not been awarded yet due to the continuing resolution.

O&M Set-aside: Five percent (5%) of all grant funds from the mandatory covenant account for American Samoa construction is set aside for operations and maintenance. ASG provides a 100% match to all funds directed to O&M. This maintenance set-aside program requires specific plans from ASG for the use of the money as well as reporting procedures necessary to account for this fund.

Activity: CNMI/Covenant Grants						
Subactivity: Guam Construction \$(000)						
	2006 Actual	2007 CR	2008			Inc (+) Dec(-) From 2007
			Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
Guam Construction	3,402	3,331	0	+838	4,169	+838
FTEs	0	0	0	0	0	0

SUMMARY OF 2008 PROGRAM CHANGES

Guam Construction

(+\$838,000) from FY 2007 funding level

(+\$809,000) from FY 2008 baseline funding level

The FY 2008, budget request for the Guam CIP program is \$4.2 million with no additional FTE's.

Request Component		
Program Changes	Amount	FTE
Guam Construction	+838	0

JUSTIFICATION OF 2008 PROGRAM CHANGES

The FY 2008 recommended level for Guam construction is \$4.2 million with no additional FTE's. This is an increase of \$838,000 from FY 2007.

Beginning with FY 2005, OIA implemented a new competitive allocation system for the \$27.72 million in mandatory Covenant CIP grants. It is based on a premise that all funds will be used for capital improvement needs in the U.S. territories. The territories are being asked to submit capital improvement requests in a range both above and below base (target) level funding. The base-levels have been established on the basis of current historic trends with respect to Guam. The new process offers the U.S. insular area governments an opportunity to compete each year for a portion of the guaranteed

funding in addition to other assistance or local funding that might be available. The OIA capital improvement request for each government will be within a range \$2.0 million above and below base-levels.

Guam Baseline Funding.....	\$3,360,000
Results from competitive process.....	+ \$809,000
Proposed funding for FY 2007.....	\$4,169,000

The FY 2008 allocation for Guam was calculated utilizing the CIP selection criteria and methods above which are further described in the beginning of this section (see Activity: CNMI/Covenant Grants Summary Table section).

PROGRAM OVERVIEW

Legislation enacted in 1996 established a minimum six-year Covenant Capital Infrastructure Project (CIP) program for Guam as impact aid resulting from Micronesian immigration authorized in the Compacts of Free Association. Beginning in FY 2004, funding for impact aid for Guam is authorized and appropriated under the Compact of Free Association Amendments Act of 2003 (P.L. 108-188). Funds provided in FY 2005 and future years under this subactivity will be utilized for priority Capital Improvement Projects in Guam and are in addition to Guam's allocated share of impact aid.

2008 PROGRAM PERFORMANCE

Over the past year, the Ordot Landfill Closure project continued to make steady progress towards completion. During the same period of time, OIA gave Authorization to Proceed (ATP) to both the Hagatna Parks Revitalization project as well as the Gregorio D. Perez Marina project for site investigation.

In Fiscal Year 2008, Guam plans to modernize and improve its solid waste management system using \$1,360,000 for the design of a new Northern Transfer Station. The Port Authority will use \$2,000,000 for a new Gantry Crane Fabrication and Installation at F-Wharves Cabras Island Piti, Guam. The new crane will replace the existing crane that was manufactured in 1969. The remaining \$809,000 will be used for the Design and Construction of a permanent Guam EPA building.

The chart on the following page reflects Guam's funding priorities for FY 2008, FY 2007 and FY 2006:

Funding Category	2008	2007	2006
	Proposed Award	Award	Award
Economic Development	-	-	\$100,000
Health	-	\$1,815,000	-
Solid Waste	\$1,360,000	-	\$2,818,000
Port	\$2,000,000	\$1,516,000	\$484,000
Public Buildings	\$809,000	-	-
Total	\$4,169,000	\$3,331,000	\$3,402,000

*Please note that the FY 2007 CIP grants have not been awarded yet due to the continuing resolution.

Activity: CNMI/Covenant Grants						
Subactivity: Virgin Islands Construction \$(000)						
	2006 Actual	2007 CR	2008			Inc (+) Dec(-) From 2007
			Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
Virgin Islands Construction	3,568	3,217	0	-381	2,836	-381
FTEs	0	0	0	0	0	0

SUMMARY OF 2008 PROGRAM CHANGES

U.S. Virgin Islands Construction

(-\$381,000) from FY 2007 funding level

(-\$524,000) from FY 2008 baseline funding level

The FY 2008 budget request for the Virgin Islands CIP program is \$2.8 million with no additional FTE's.

Request Component		
Program Changes	Amount	FTE
US Virgin Islands Construction	-381	0

JUSTIFICATION OF 2008 PROGRAM CHANGES

The FY 2008 recommended level for U.S. Virgin Islands construction is \$2.8 million. This amount is requested for territory-wide sewer system infrastructure improvements. This is a reduction of \$381,000 from the FY 2007 amount of \$3.2 million. The FY 2008 amount was calculated utilizing the CIP selection criteria and methods below. The process is further described in the beginning of this section (see Activity: CNMI/Covenant Grants Summary Table section).

Beginning with FY 2005, OIA implemented a new competitive allocation system for the \$27.72 million in mandatory Covenant CIP grants. It is based on a premise that all

funds will be used for capital improvement needs in the U.S. territories. The territories are being asked to submit CIP requests in a range both above and below base (target) level funding. The base-levels have been established on the basis of current historic trends with respect to the Commonwealth of the Northern Mariana Islands and American Samoa. With respect to base levels for Guam and the U.S. Virgin Islands, OIA has divided equally the balance of the funding since these two governments have a greater capacity to locally finance infrastructure and the historical trends are not as clear. In the case of the U.S. Virgin Islands, funding has only been available on an intermittent basis. The new process offers the U.S. insular area governments the opportunity to compete each year for a portion of the guaranteed funding in addition to other assistance or local funding that might be available. The OIA capital improvement request for each government will be within a range \$2.0 million above and below base-levels.

U.S. Virgin Islands Baseline Funding.....	\$3,360,000
Results from competitive process.....	- \$524,000
Proposed funding for FY 2008.....	\$2,836,000

PROGRAM OVERVIEW

Public Law 104-134, enacted in 1996, reduced annual funding to the CNMI and allocated other funds for use throughout the U.S.-affiliated insular areas.

Each of the territories over the years have received funding through this mandatory Covenant appropriation to fund Capital Improvement Projects (CIP). While, in past years, American Samoa, Guam and the Commonwealth of the Northern Mariana Islands received set levels of funding, the U.S. Virgin Islands received irregular funding. Recently though, the needs of the U.S. Virgin Islands have reached a threshold that without further addressing could pose a threat to the health and safety of residents and visitors. Currently, the U.S. Virgin Islands is mandated to comply with consent decrees issued for various violations of Federal environmental laws. Recent allocations of CIP funds are being utilized to assist the U.S. Virgin Islands in complying with these Federal mandates.

2008 PROGRAM PERFORMANCE

FY 2006 saw the U.S. Virgin Islands make substantial progress in the construction of two wastewater treatment plants on St. Croix and St. Thomas, which are partially

funded by previous CIP awards. The wastewater treatment plants, which are expected to be operational in FY 2007, are the result of an U.S. Environmental Protection Agency consent decree that the Territory is required to comply with due to violations of the Clean Water Act and various other Federal and local environmental laws. The U.S. Department of Justice, which is working closely with the U.S. Virgin Islands on resolving these violations, mandated territory-wide sewer system infrastructure upgrades are made to ensure that the Territory has the infrastructure to support the new wastewater treatment plants. The FY 2006 and the FY 2007 CIP grants supported upgrades which are currently undergoing environmental reviews.

The \$2.8 million proposed in FY 2008 will be used to continue these territory-wide collection system upgrades in the U.S. Virgin Islands. The continued replacement of force mains on St. Croix will receive \$1.4 while \$500,000 will be utilized to make additional improvements to various pump stations on the island. The U.S. Virgin Islands proposes to use the remaining \$976,000 to make general repairs to the collection and conveyance system.

The following chart summarizes the U.S. Virgin Island's funding priorities for FY 2008, FY 2007, and FY 2006:

Funding Category	2008	2007*	2006
	Proposed Award	Award	Award
Wastewater	\$2,836,000	\$3,217,000	\$3,211,200
Solid Waste	-	-	\$356,800
Total	\$2,386,000	\$3,217,000	\$3,568,000

*Please note that the FY 2007 CIP grants have not been awarded yet due to the continuing resolution.

Activity: Territorial Assistance \$(000)						
SUMMARY TABLE						
	2006 Actual	2007 CR	2008			Change from 2007 (+/-)
			Fixed Costs & Related	Program Changes (+/-)	Budget Request	
Office of Insular	7,273	7,624	+352	+208	8,184	+560
Technical Assistance	10,524	8,226	0	0	8,226	0
Maintenance Assistance	2,266	2,277	0	0	2,277	0
Brown Tree Snake Control	2,660	2,673	0	0	2,673	0
Insular Management Controls	1,469	1,476	0	0	1,476	0
Coral Reef	493	495	0	0	495	0
Water and Wastewater Projects	985	990	0	0	990	0
Total	25,670	23,761	+352	+208	24,321	+560
FTEs	34	37	--	--	37	--

This activity involves funding for two major functions. The first is salaries and expenses of the Office of Insular Affairs. The office has oversight responsibility for over \$400 million in annual financial assistance. Its policy and assistance activities involve dealing with virtually every major Federal agency, as well as seven insular governments. The office has been able to attain clean audit opinions for all annual financial statements prepared under requirements of the Chief Financial Officers Act. Good financial management and effective internal controls are stressed within the office.

The second major function within this program area includes the various technical assistance activities carried out by the office. OIA's technical assistance activities have always been considered its most effective tool to implement Administration policy, and to achieve mutually desired improvements in the insular areas. Many of the technical assistance activities are evolving from application-based grant programs, which reacted to problems identified, to programs that rely on the implementation of result-oriented plans. Significant changes in management are being put into place, as we ask the governments and assistance providers to form partnerships with us to identify major priorities and then develop and implement long-term action plans.

Activity: Territorial Assistance						
Subactivity: Office of Insular Affairs \$(000)						
			2008			Inc (+) Dec(-) From 2007
	2006 Actual	2007 CR	Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
	7,273	7,624	+352	+208	8,184	+560
FTEs	34	37	-	-	37	-

SUMMARY OF 2008 PROGRAM CHANGES

Request Component	Amount	FTE
NEPA Compliance Costs	+200	0
Transition to new accounting system (FBMS)	+8	0
Total	+208	0

JUSTIFICATION OF 2008 PROGRAM CHANGES

The request provides \$8.2 million in funding for the Office of Insular Affairs. This is a program increase of \$208,000 with no additional FTE. The 2008 funding level also provides \$352,000 to fully fund fixed costs.

NEPA Compliance Costs: OIA provides critical infrastructure funding to the insular areas in order to meet the Department's mission goal of *Serving Communities – Increasing the Self-Sufficiency of Insular Areas*. This past year, the U.S. Department of Justice (DOJ); the White House Council on Environmental Quality (CEQ); the DOI, Office of the Secretary, Office of Environmental Policy and Compliance; and the DOI Office of the Solicitor mandated that OIA improve National Environmental Policy Act (NEPA) compliance within grant programs. The \$200,000 in additional funds, would allow OIA to fully comply with NEPA Federal statutes by focusing efforts on consultation and training. OIA grants fund projects that are critical to public health and the

environment. Specifically, projects required by EPA consent decrees such as providing safe, 24 hour water supply, improvements to Wastewater Treatment Plants, Sewer Systems, and Solid Waste Systems are funded with OIA grants.

FBMS: The 2008 budget for the Office of Insular Affairs includes an increase of \$8,000 in support of Department-wide transition to the FBMS system. OIA will transition to FBMS in 2011.

PROGRAM OVERVIEW

The Office of Insular Affairs carries out the Secretary's responsibilities with respect to U.S.-affiliated insular areas. FY 2008 estimated staffing is 39 FTEs including 2 positions for the American Samoa Justices. The office is organized into three divisions and a director's office.

The Office is headed by a Deputy Assistant Secretary for Insular Affairs, who provides overall policy direction. The Director's Office also handles non-financial administrative functions, public information, and correspondence control.

The Policy Division performs general program, political, and economic analysis. It monitors and tracks Federal programs extended to the insular areas and handles legislative affairs, other than those related to the appropriations process. It monitors issues related to the four nuclear-affected atolls in the Marshall Islands, the CNMI Labor, Immigration, and Law Enforcement Initiative, and the Coral Reef Initiative. The division monitors accountability issues and tracks insular area audit resolutions, including Single Audits. It also performs the planning and support activities for the economic development conferences and business opportunity missions presented by OIA. The Division maintains a field presence in the CNMI and American Samoa.

The Technical Assistance Division manages all General Technical Assistance grants and cooperative agreements, as well as the Insular Management Control Initiative (Financial Management Improvement Program).

The Budget and Grants Management Division is responsible for budget formulation and presentation, chief financial officer activities, and performance planning. It manages financial assistance under the Compacts of Free Association, operations and capital improvement grants to U.S. territories, the Brown Tree Snake Control Program, the Operations and Maintenance Improvement Program, and Compact Impact Grants.

The Division maintains an office in Hawaii for Compact oversight in the FSM and the RMI, and has a field presence in the CNMI, Palau, the FSM and the RMI.

The primary vehicles by which OIA implements its mission goal of *Serving Communities* are its financial assistance/grant programs, including the Compact of Free Association grants. The goals of the financial assistance programs are to increase economic development in the islands and promote sound financial management practices in the insular governments. Part of promoting sound financial practices is the oversight provided by OIA staff to ensure that grants are used appropriately for their intended purposes. Sound financial practices are also dependent on OIA sustaining the high workload requirements of grantee monitoring, audit follow-up, budgeting, and performance planning.

OIA will continue to improve its capacity to monitor and administer financial assistance and Compact grants. In addition, it is extremely important that OIA have high visibility in the freely associated states during the first years of the new agreements in order to ensure that institutional structures, such as the joint economic and management committees, are properly staffed and supported and to ensure effective compliance with grant terms and conditions.

Providing effective and meaningful grant oversight is dependent on having the right mix of personnel skills and a carefully planned use of those skills. OIA is cognizant of the importance of human capital. Any new hiring decisions will take into account expertise, diversity, and the long-term potential of new employees. All of the people OIA recruits must have the potential to work in a cross-cultural environment. In the current context, special attention will be paid to Compact oversight. This is a relatively new task, and it will be analyzed to develop an optimum oversight plan.

2008 PROGRAM PERFORMANCE

In FY 2008, OIA will continue to promote the Department's mission of assisting the insular areas to develop quality communities and economic self-sufficiency. OIA's top two priorities for the insular areas are promoting private sector economic development and strengthening accountability for Federal funds. Economic development is promoted in a variety of ways, including funding critical infrastructure such as schools, hospitals, roads and environmental facilities. OIA also provides assistance to the insular areas to make stateside businesses aware of the opportunities that exist in the islands, and help the islands make reforms to improve their business climates. As for accountability, technical assistance is provided to help the insular areas become better

stewards of Federal funds, and a number of our grants are now awarded according to criteria that reward good fiscal management.

With financial assistance programs exceeding \$400 million per year, OIA requires sufficient personnel resources to provide oversight of grants, including Compact and mandatory Covenant funding. At the FY 2008 level of funding OIA will:

- Improve out-year performance by grantees by continuing to focus on oversight.
- Reduce incidence of misuse of grant funds.
- Provide additional site visits to construction grant projects in Guam and the Virgin Islands.
- Satisfy outside agencies concern (insular governments and the GAO) of appropriate Federal involvement in grant programs.
- Hold a Business Opportunities Conference in Guam.
- Spend an estimated 450 days on-site in the FSM and RMI.
- Continue to review and revise its policies related to grants management; including strengthening its policies with regard to compliance with the National Environmental Policy Act (NEPA), the Endangered Species Act (ESA) and the National Historic Preservation Act (NHPA).
- Continue to actively work with the U.S. Territories and the Freely Associated States to ensure their compliance with the Single Audit Act and to improve the timeliness of their audit submissions.
- Work to develop a new Customer Service and Confidence Survey which will be implemented in FY 2008.

All of OIA's overhead and administrative costs that support departmental functions are paid from our Office of Insular Affairs account as assessed through the Department Working Capital Fund. Specific detail itemizing the actual activity billed can be found on the following pages. The tables below identify the OIA costs by activity –broken out as centralized, fee for service and reimbursable billing.

Activity/Office	Direct Billing		
	2006	2007	2008
OEPC - 516 DM Chapters	3.0	0.0	0.0
Census - Single Audit Clearing House	1.8	0.0	0.0
PFM OS Finance Branch	10.2	0.0	0.0
FY 2004 KPMG Audit	2.9	0.0	0.0
FY 2006 KPMG Audit	11.8	1.7	0.0
FY 2007 KPMG Audit	0.0	11.7	1.7
Subtotal Other OS Activities	29.7	13.4	1.7
Facilities Reimbursable Services	0.0	0.2	0.2
Building Alteration Services	2.8	0.0	0.0
Reimbursable Moving Services	0.3	0.0	0.0
Creative Communications	0.0	16.8	26.3
Reimbursable Mail Services	0.0	0.7	0.7
Accounting Operations	0.0	127.3	134.5
Subtotal NBC Activities	3.1	145.1	161.7
Total Direct Bill	32.8	158.5	163.5

Activity/Office	Centralized Billing		
	2006	2007	2008
Invasive Species Program	12.2	21.8	23.0
Invasive Species DOI Coordinator	2.0	3.6	3.8
Departmental News and Information	5.4	2.5	0.0
Departmental Newsletter	0.2	0.2	0.0
Departmental Communications Office	0.0	0.0	0.4
PFM OS Finance Branch	0.0	10.2	10.2
Activity Based Costing/Management	0.5	0.5	0.5
DOI Space Management Initiative	0.1	0.1	0.1
Renewable Energy Certificates	0.0	0.0	0.1
Employee Assistance Programs	0.9	0.9	0.9
Frequency Management Support	17.7	39.3	97.3
Messaging	0.0	0.9	0.0
Active Directory	0.4	0.4	0.0
Web & Internal/External Comm	0.0	0.3	0.3
CFO Financial Statement Audit	53.2	56.2	62.9
E Government Initiatives	1.0	1.0	2.4
NTIA Spectrum Manangement	39.4	72.9	186.7
FBMS Program Change	0.0	0.0	8.0
FBMS Redirection from Enterprise Messaging	0.0	0.0	0.9
Subtotal Other OS Activities	133.1	210.8	397.5
Cultural Resources & Events Management	0.2	0.3	0.3
Departmental Museum	0.8	0.8	0.9
Learning and Performance Center Management	0.2	0.4	0.4
SESCDP & Other Leadership Programs	0.3	0.1	0.1
On-Line Learning	0.3	0.3	0.2
Desktop Services	119.7	121.2	124.8
Telecommunications services	28.6	24.5	25.2
Voice/data switching	7.1	6.1	6.3
Helpdesk Services	24.3	24.6	24.7
Information Mgt. - FOIA and Records Management	0.2	0.2	0.2
Property Accountability Services	9.7	11.8	12.0
Interior Complex Management & Svcs	12.3	12.7	10.9
Family Support Room	0.2	0.4	0.4
Moving Services	3.6	2.7	2.3
Shipping and Receiving	6.0	6.3	5.4
Space Management Services	3.0	3.6	4.4
Security	79.9	84.4	74.7
Accessible Technology Center	0.2	0.2	0.2
Federal Executive Board	0.1	0.1	0.2
Health Unit	3.3	4.1	3.7
Transportation Services (Household Goods)	1.9	3.6	0.0
Mail Policy	0.2	0.2	0.2
Mail and messenger services	52.9	56.2	26.7
Subtotal NBC Activities	355.1	364.9	324.3
Total Centralized Bill	488.2	575.7	721.8

**Department of the Interior
Office of Insular Affairs
EMPLOYEE COUNT BY GRADE**

(Total Employment)

	2006 Actual	2007 Estimate	2008 Estimate
SES	1	1	1
SL-0*	1	1	1
GS-15	7	7	7
GS-14	7	7	7
GS-13	9	12	12
GS-12	4	7	7
GS-11	5	7	7
GS-10	0	0	0
GS-9	0	0	0
GS-8	1	1	1
GS-7	1	1	1
GS-6	0	0	0
GS-5	0	0	0
GS-4	0	0	0
GS-3	0	0	0
GS-2	0	0	0
Total Employment (actual/projected) at the end of the Fiscal Year	36	44	44

*SL=denotes Chief Justice, High Court of American Samoa

Activity: Territorial Assistance						
Subactivity: Technical Assistance \$(000)						
	2006 Actual	2007 CR	2008			Inc (+) Dec(-) From 2007
			Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
	8,436	8,226	0	0	8,226	0
FTEs	0	0	0	0	0	0

PROGRAM OVERVIEW

The technical assistance program provides support not otherwise available to the insular areas, to combat deteriorating economic and fiscal conditions and to maintain the momentum needed to make and sustain meaningful systemic changes. The program allows each government to identify pressing issues and priorities, and develop action plans to mitigate these problems. Direct grants and reimbursable agreements with technical assistance providers, both within and outside the Federal government, are key to implementation. Funded projects are focused to meet immediate needs in the short term and assist the governments in developing longer term solutions.

The islands regularly seek technical assistance to improve the productivity and efficiency of government operations, develop local expertise, and build institutional capacity in critical areas that include: health care, education, public safety, data collection and analysis, fiscal accountability, transportation, and communication. The program is also used to help the insular areas increase private sector economic opportunities, broaden the economic base, conserve energy, and protect fragile ecosystems. OIA and the insular governments have repeatedly found the program to be an excellent means to support policy goals, and to respond quickly and effectively to special emergent insular needs.

Another major focus of the program is training. OIA, in conjunction with the USDA Graduate School, developed a Financial Management Improvement Program, whereby an independent team of financial experts work with each insular government to identify control weaknesses and develop corrective action plans. Funds in this program are

used to evaluate and implement the action plans developed through the independent evaluations.

Additionally, OIA hosts semi-annual conferences to bring together the governments to review progress, issues, and best practices. OIA staff and outside experts also provide information on a variety of topics to help improve government operations in areas such as financial management, procurements and contract management, and the administration of Federal grant programs. Additional resources may be necessary as plans are evaluated and adjusted, and to help the governments with the next level of changes.

2008 PROGRAM PERFORMANCE

In FY 2006, Technical Assistance funding was used to support a number of initiatives. Funding was dispersed through three main devices: direct grants to Insular Governments, grants to other entities for technical support, and Interagency Agreements for Technical Support.

The table on the following page identifies general Technical Assistance grants and the respective amounts by category during FY 2004-2006.

**Office of Insular Affairs General Technical Assistance
FY 2004-2006 Funding History**

Recipient	2004	2005	2006
Direct Grants to Insular Governments			
American Samoa	\$551,737	\$669,556	\$833,911
CNMI	577,100	661,101	305,154
Federated States of	413,368	584,091	392,231
Guam	560,919	902,236	313,672
Republic of the Marshall	956,614	956,641	1,407,738
Republic of Palau	456,685	1,402,837	581,344
U.S. Virgin Islands	1,021,831	522,288	378,921
Subtotal	\$4,538,254	\$5,698,750	\$4,212,971
Interagency Technical Support			
National Park Service	500,000	0	0
USDA Graduate School	1,531,001	1,533,000	1,862,000
U.S. Census Bureau	611,213	1,016,645	700,000
U.S. Court of Appeals (9 th)	100,000	420,000	420,000
U.S. DOI – OIG	11,302	0	20,566
U.S. DOI – Bureau of Recl.	250,000	0	0
U.S. Army	270,000	0	0
Environmental Protection	25,000	119,000	0
U.S. Forest Service, USDA	7,000	0	0
Subtotal	\$3,305,516	\$3,088,645	\$3,002,566
Other Technical Assistance			
Junior Statesmen	145,200	145,200	145,200
Pacific Business Center	231,001	250,000	250,000
PIHOA (Pacific Health Dir.)	218,467	0	0
Closeup Foundation	500,000	750,000	800,000
Asian Development Bank	333,000	24,000	0
College - Marshall Isl Bus.	35,600	136,756	0
Prior Service Benefits	100,000	0	1,034,108
APIPA Peer Review 2004	99,000	0	0
Subtotal	\$1,662,268	\$1,305,956	\$2,229,308
Grand Total	\$9,506,038	\$10,093,351	\$9,444,845

In FY 2006, direct grants were provided to Insular Governments primarily to fund projects that promoted economic development and improved accountability over the use of public funds. In addition, several grants were provided to Insular Governments to help improve specific areas of public service. The projects funded to promote economic development included direct grants to Guam to establish a Regional Distribution Center, FSM and RMI for Fiber Optic Cable Environmental Assessments, and the USVI-UVI to promote participation and attendance in events in coordination with an association of universities and colleges in the U.S. territory of Puerto Rico. The projects funded to promote improved accountability over the use of public funds included direct grants to American Samoa to resolve accountability challenges related to the declaration of "high-risk" grantee status, RMI to help establish a council to resolve audit opinion qualifications, and the CNMI to help improve the processes of the Office of the Public Auditor. The projects funded to help improve specific public services included direct grants to FSM for a study of its medical overseas referral program and Guam to develop a system for the preservation of legal documents.

Funding was granted to the following entities in FY 2006 for technical support: the Junior Statesman Program, the Pacific Business Center, the Closeup Foundation, and the Prior Service Benefits Program.

Training Initiative

The Office of Insular Affairs, through an Interagency Agreement with USDA Graduate School's Virgin Islands and Pacific Islands Training Initiative programs, provides technical assistance to the insular areas to support good governance and financial management initiatives. OIA provides assistance for several general and specialized certificate programs in order to increase the capabilities of the insular governments in the area of accountability and financial management while developing local expertise at the same time. In fiscal year 2006, forty-four weeks of professional development training was provided under the Virgin Islands and Pacific Islands Training Initiative programs in the insular areas.

Below is a description of the training courses and conferences held in FY 2006.

Conferences:

Government Finance Officers Association Conference (all areas)

IGFO Conferences- Financial Management and Procurements (all areas)

Classroom Training:

Procurement and Contract Management (CNMI, Guam, Palau)
Management Internal Controls (CNMI, Guam)
Creative Thinking for Auditors (CNMI,
Auditing (CNMI, Guam, FSM)
Government Accounting and Reporting (Guam, FSM)
Constructive Conflict Resolution & Coaching (VI)
Accounting for Non-Accountants (VI)
Jumpstarting High Performance Teams (VI)
Based Budgeting Initiative (VI)
Contracting Basics (VI)
Computer Training (VI)
Customs Systems Assessments (RMI)
Tax Auditing (RMI)
Financial Statement and Single Audit Support (RMI, FSM, Palau)
Supervisory and Management Training (FSM)

Consult-Training:

Compensation and Job Classification (Guam, Palau)
Human Resources (Guam)
Accounting Processes (Guam)
Indirect Cost Assistance (FSM, Palau)
Audit Peer Review (FSM)
Performance Analysis (FSM, Palau)
Personnel Reclassification/Wage Analysis (Palau)

The table on the following page highlights enrollment from each of the insular areas in the various courses offered to improve insular government operations and build local capacity.

**Total Participants in OIA Funded Financial Management Training
FY 2004- 2006**

<u>Site</u>	<u>FY 2004 Participants</u>	<u>FY 2005 Participants</u>	<u>FY 2006 Participants</u>	<u>TOTALS</u>
American Samoa	12	12	12	36
Republic of the Marshall Islands	8	109	51	168
Federated States of Micronesia	8	54	83	145
Republic of Palau	8	20	192	220
Guam	8	18	322	348
Northern Mariana Islands	8	25	110	143
Virgin Islands	50	388	872	1,310
Regional (APIPA, IGFOA)	226	1,670	1,656	3,552
Totals	328	2,296	3,298	5,922

In FY 2008, Technical Assistance funding will be used to provide financial and technical advice with a focus on training programs for island participants to improve government operations in the areas of financial management, procurements and contract management; and the delivery of necessary public services in such areas as education and health. An additional focus will be to increase coordination with other Federal agencies to help resolve systemic issues to improve the island governments' administration of Federal grant programs and the accuracy and reliability of financial data. OIA will also continue to develop more efficient processes for monitoring and evaluating activities undertaken to help determine their effectiveness and to target resources.

The following is a list of ongoing activities which will continue in FY 2008:

- Reviewing current organization structure, procedures, individually for each program, and, as appropriate, revise current procedures and establish processes that will enhance compliance with federal regulations and increase efficiency and accountability.
- Continue accounting and management assistance related to compliance with the OIA Financial Assistance Manual and the Departmental Management Control and Audit Follow-up Manual.
- Continue development and enhancement of procedures and tracking for rating and analysis of stated eligibility factors for funding.
- Work with the insular areas to help ensure their compliance with the requirements of the Single Audit Act as stated under OMB Circular A-133 (to include the resolution of audit findings and audit opinion qualifications)
- Continue monitoring the progress of actions to resolve the recommendations made by the Office of the Inspector General, the Government Accountability Office, and other Federal governmental agencies.
- Continue to provide training to increase local capacity and to monitor island participation.
- A significant number of courses are provided annually both on-site in a specific insular area and at conferences held in Hawaii and the continental U.S. Each year over 500 island participants take the opportunity to attend courses in a variety of topics such as financial management, Federal grant reporting, general accounting, and auditing.

Financial Statement Reviews

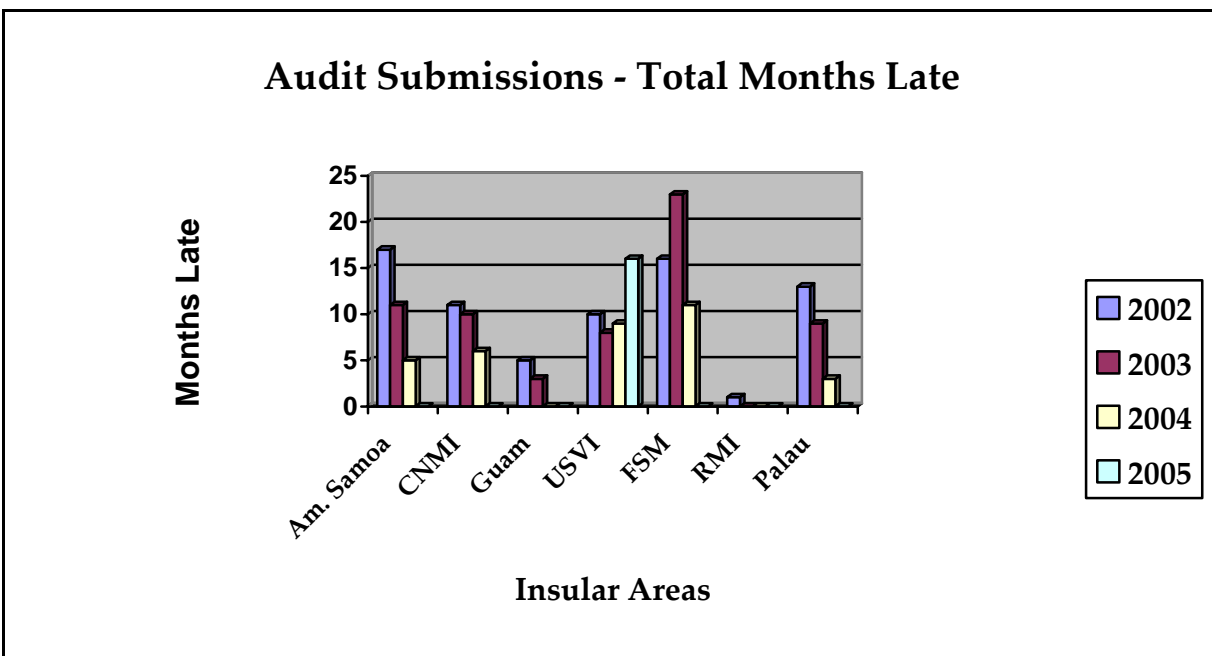
OIA continues to work with each Insular Government to assist in its compliance with the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156 as implemented under OMB Circular A-133. Currently, with the exception of the U.S. Virgin Islands, all of the insular areas are in compliance with the single audit completion deadlines. OIA is not the cognizant agency for audits for the U.S. Virgin Islands and such a designation would greatly enhance OIA's ability to bring the U.S. Virgin Islands into compliance with OMB Circular A-133. Although a request to be designated as the cognizant agency for audits was submitted by the Department's

Office of Inspector General to OMB in August 2006, a determination has not yet been made.

OIA reviews the completed single audit information (independent auditors' reports, financial statements, and Federal award audit findings) to help determine:

1. The financial position of the Insular Government and other financial data that are assessed to determine the levels of OIA funding to be awarded.
2. The extent to which OIA action is required to aid in the resolution of financial statement qualifications and Federal award audit findings.
3. OIA audit follow-up activities required to comply with Federal regulations and Departmental policies.

OIA selected the Single Audits of fiscal year 2004 as a base year for comparison in order to help monitor and evaluate the progress of each of the island governments to resolve audit findings and audit opinion qualifications. By tracking this process, OIA can identify specific areas in which assistance is needed for technical advice, training and outside expertise. The graph below portrays the months late each insular area submitted the annual audit from 2002-2005.



Activity: Territorial Assistance						
Subactivity: Maintenance Assistance (OMIP) \$(000)						
	2006 Actual	2007 CR	2008			Inc (+) Dec(-) From 2007
			Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
	2,266	2,277	0	0	2,277	0
FTEs	0	0	0	0	0	0

PROGRAM OVERVIEW

The Department of the Interior continues to provide assistance for investments in public infrastructure in the insular areas. In order to protect these investments, the maintenance assistance fund was created to stimulate and support the development of maintenance institutions in the island governments.

History demonstrated that the governments had placed little emphasis on maintenance planning and budgeting, life cycle costing, and training. Maintenance was a reaction to crisis, rather than a regular, institutionalized process. As a consequence, the usefulness of power plants, roads, ports, water and sewer systems, and public buildings declined prematurely. The maintenance assistance program addresses this problem by providing expert reviews and recommendations on the general condition of the infrastructure and by providing cost-shared grants to provide long-term solutions to systemic problems.

The maintenance assistance program does not emphasize repair projects. It instead focuses on changing those conditions that allow poor maintenance practices to exist. The program underwrites training, education, and technical advice related to maintenance. Funding can be used to purchase specialized maintenance equipment or information technology related to maintenance. The program also funds the cost of inventories of maintenance needs and the development of maintenance plans. The program provides an ongoing assessment of its effectiveness through annual site visits by teams of engineers and grant managers.

The maintenance assistance fund also provides funding to address general regional training needs efficiently and allows the insular governments to share expertise and develop maintenance practices appropriate to the region. The Micronesian Water and Wastewater Training Program and the Pacific Lineman Training Program make standard water & wastewater maintenance training and power maintenance training easily accessible to all insular areas. Development of two regional organizations has been supported through the program, the Pacific Power Association and the Pacific Water Association. The maintenance assistance program has proven to be an effective method of institutionalizing better maintenance practices throughout the U.S. affiliated islands.

Each discretionary project is analyzed on its merits, including the extent to which the project helps achieve long-term and intermediate goals and strategies. In addition, as a pre-requisite for receiving discretionary technical assistance, OIA has developed a set of threshold criteria that must be met. These criteria have been documented in a financial assistance manual. In addition, OIA uses a contractor-provided metric benchmark system which measures insular infrastructure once every two years and documents the relative status of the condition of infrastructure and maintenance practices.

Maintenance assistance generally uses grants as the primary means to provide insular assistance. However, grants to individual island areas require an equal local financial match. This strategy emphasizes the importance of local buy-in to maintenance assistance as a means of building and sustaining local institutions. Regional programs have also been developed for training purposes to emphasize economies of scale.

2008 PROGRAM PERFORMANCE

In FY 2006, the OMIP program awarded a number of grants for programs to enhance operation and maintenance efforts within each insular area and to sustain a number of regional initiatives.

An example of a direct grant to an insular area was awarded to the CNMI to start the first year of an Environmentally Responsible Regional Solid Waste Training Program. This program will provide site-specific assistance for the groundwork needed to establish effective solid-waste management systems in each insular area. Furthermore, The Republic of Palau was also awarded funding to initiate a prepayment power metering program. This program will reduce the amount of accounts receivable for the power company by 15%. This will assist the power company in meeting long term goals of reliable power services on the island.

Additionally, the OMIP program funded a number of grants to support regional initiatives. One example of such initiative, the OMIP program funded a working group to update the Territorial Energy Assessment report from 1982. The goal of the working group is to develop recommendations to help reduce the dependence of the islands on imported fossil fuels, and develop recommendations to protect or harden key components of the electrical grids of the U.S. affiliated insular areas against typhoons. Another example of a regional effort is the Aircraft Rescue and Fire Fighting Training program. Participants in the training program will receive national level fire certification upon successfully completing certain courses.

In FY 2007 and FY 2008 the OMIP program plans to continue funding immediate needs for maintenance in the insular areas while maintaining support for regional initiatives.

The table on the following page identifies the allocation of maintenance assistance funding from FY 2004 – 2006.

MAINTENANCE ASSISTANCE
FY 2004-2006
 Grant Award Amounts

<u>Insular Area</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
American Samoa	\$238,160	\$448,527	\$66,512
Guam	\$0	\$0	\$115,000
U.S. Virgin Islands	\$0	\$0	\$16,500
Commonwealth of the Northern Mariana Islands	\$85,400	\$493,500	\$299,638
Republic of Palau	\$55,000	\$17,180	\$215,240
Republic of the Marshall Islands	\$408,224	\$10,000	\$88,500
Federated States of Micronesia	\$100,000	\$0	\$75,000
Chuuk	\$0	\$5,000	\$0
Kosrae	\$338,000	\$0	\$294,089
Pohnpei	\$63,864	\$806,323	\$31,371
Yap	\$100,000	\$0	\$49,000
Other Grants* (Other Regional Programs)	<u>\$630,500</u>	<u>\$678,079</u>	<u>\$1,507,934</u>
TOTAL	\$2,019,148	\$2,458,609	\$2,758,784**

* Includes Regional Programs which benefit the islands such as Lineman Training, Aircraft Rescue and Fire Fighting Training, Solid Waste Training, Energy Assessment Report and Training Needs Assessment of the Pacific Island power utilities and partial funding for the Board Members Workshop & Engineers Workshop.

** Total award amount in FY 2006 is higher than budget amount because funds were recovered from closed grants and re-granted during the same year.

Activity: Territorial Assistance						
Subactivity: Brown Treesnake Control \$(000)						
			2008			
	2006 Actual	2007 CR	Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	Inc (+) Dec(-) From 2007
	2,660	2,673	0	0	2,673	0
FTEs	0	0	0	0	0	0

PROGRAM OVERVIEW: Brown Treesnake (BTS) Control is a combination research and operational program designed to prevent the dispersal of this non-indigenous invasive species to other geographic areas and to eradicate existing or newly established BTS populations in U.S. areas. Research is designed to develop better control techniques such as barriers, traps, baits, and toxins and to develop improved methods for integrating these techniques. Research is also intended to improve our understanding of the basic biology of the BTS and ultimately to find a method or methods, such as toxins or biocontrols, to eradicate large populations of BTS over wide areas.

This program is a cooperative effort involving primarily the Office of Insular Affairs (financial assistance and grants management); the U.S. Geologic Survey (basic and applied research); the Fish and Wildlife Service (restoration and Pacific coordination); the U.S. Department of Agriculture (control management); the Department of Defense (financial assistance and control management on military facilities); and the Governments of Hawaii, Guam, and the Commonwealth of the Northern Mariana Islands (control management).

2008 PROGRAM PERFORMANCE

- Guam plans to maintain the current number of BTS traps at 800 in order to expand endangered species recovery efforts. Installation of electrical barriers on trees containing active Mariana Crow nests will be continued. To prevent the establishment of Coqui Frog (prey for BTS) on Guam, the government will continue to monitor high-risk areas and maintain the public awareness

campaign. Guam will continue Swiftlet nest translocation. Starting in FY 2006, Guam began work on a restoration project on Cocos Island. This project will continue through FY 2008.

- The CNMI will maintain approximately 425 BTS traps at CNMI ports of entry, maintain 90% canine inspection of Guam-based cargo received at CNMI ports of entry, maintain the outreach and awareness campaign; and continue to send staff for USGS Rapid Response Training.
- The State of Hawaii will maintain after hours canine searches; continue rapid response training courses for personnel; and inspect a minimum of 92% of arriving flights from Guam.
- USDA Wildlife Services will maintain 800 BTS traps at the Guam International Airport, Commercial Port of Guam, and commercial warehouses in support of BTS interdiction. USDA staff (through OIA funds) will inspect 90% of commercial cargo and aircraft departing Guam; and continue to expand interdiction efforts in the Harmon Industrial Park through cooperative activities. USDA is continually modifying the Harmon Industrial Park effort to account for the dynamic nature of the commercial cargo industry.
- USGS Rapid Response Team (RRT) will continue to respond to snake sightings and will conduct training for snake searchers in the Pacific region. As the team is doing on Saipan in FY 2007, it will continue to provide leadership in organized searches to detect and possible incipient BTS populations on U.S. or U.S. affiliated Pacific islands.
- USGS researchers will continue data collection on snake demographics; conduct field research on the effectiveness of modified trap designs; and continue monitoring prey within the closed population area. Work will be completed on the Dogs-in-the-Woods research program and a decision will be made on whether dog-aided searches are more cost effective than alternate control methods. Efforts will also continue on enhanced barrier development, risk analyses of BTS dispersal, and developing Guam wildlife recovery areas.
- USDA National Wildlife Research Center scientists will complete procedures for operational use of aerial flotation devices, initiate lure/bate development, and conduct public information sessions at the research center.

The program strategies and performance measures for the BTS Control program are provided on the next page. The OIA funding for the BTS control program will allow OIA, working in partnership with the Fish and Wildlife Service, US Geological Survey, and US Department of Agriculture to achieve the strategy results identified below. These strategies and performance measures were created by the BTS Workgroup of the National Invasive Species Council and are used by all government programs working on BTS Control. Target performance outcomes and base levels (when available) for the Office of Insular Affairs are provided on the next page.

Strategy 1

Evaluate new and improve existing BTS control products and their application including toxicants, repellents, fumigants, alternative attractants and sterilants, and associated delivery strategies; and provide science-based operational evaluations to BTS eradication efforts to prevent the accidental spread of the BTS from Guam via the cargo transportation network; protect human health and safety, local agriculture, and fragile ecologic systems.

Performance Measures:	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
1. Number of products tested and evaluated.	8	11	14	8
2. Successful testing of wide-area application of acetaminophen-treated baits.	NA	NA	NA	NA

Strategy 2

To improve methods for detection, monitoring, and control of BTS through activities such as (but not limited to), developing rapid response plans, identifying and controlling potential pathways for infestations, implementing and maintaining control methodologies and practices in programs to reduce impacts of BTS to the human environment. Evaluate and improve efforts to prevent the establishment of BTS on further US insular areas. Throughout all these programs, focus on improving public participation and enhancing cooperation amount affected entities will be emphasized.

Performance Measures:	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
1. Number of detection and monitoring methods evaluated.	1	4	6	5
2. Number of acres subjected to BTS monitoring and control.	92	92	92	97
3. Number of BTS captured on CNMI.	0	0	0	0
4. Number of BTS captured on Hawaii.	0	0	0	0
5. Number of BTS interceptions at ports of exit on Guam. (commercial)	3,000	3,500	3,500	3,500
6. Number of public awareness events executed.	55	93	106	110
7. Number of affected entities enrolled as involved partners.	68	78	92	92

Strategy 3

Create and maintain areas to protect endangered species and other wildlife from BTS predation on occupied islands.

Performance Measures:	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
1. Number of enclosed acres where BTS barriers have been constructed and are being maintained.	NA	NA	NA	50
2. Number of traps maintained in areas in order to protect endangered species from predation.	650	650	800	800

Activity: Territorial Assistance						
Subactivity: Insular Management Controls \$(000)						
			2008			
	2006 Actual	2007 CR	Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	Inc (+) Dec(-) From 2007
	1,469	1,476	0	0	1,476	0
FTEs	0	0	0	0	0	0

PROGRAM OVERVIEW

Significant improvements have been made in accountability by the insular governments since the inception of the technical assistance program in 1983. Early accomplishments included the development and installation of financial management systems throughout the U.S. territories and the freely associated states. This enabled these governments to perform their own accounting operations, produce audited financial statements and provide reasonable assurance to both local citizenry and the Federal Government that controls were in place and funds were being used for intended purposes.

The Management Control Initiative (MCI) is a cooperative effort of the Office of Insular Affairs, each insular government, the audit community and the USDA Graduate School to identify and implement fundamental financial management improvements. The governments, assisted by a team of experts, review the management systems and fiscal practices and develop comprehensive plans of actions. The strategy employed in grant assistance is to pay for long term changes such as new systems or contractual assistance for audits and other financial services. The strategy of using independent expertise is to make quick assessments and recommendations that can be carried out at the local level or to provide training and other short term assistance that has long-term benefits.

2008 PROGRAM PERFORMANCE

MCI funds have been used primarily to assist the island governments to identify internal control weaknesses, develop and implement corrective action plans, and improve automated financial management systems (FMS). In previous years (2002-

2005), MCI funds were used to assist the island governments to complete assessments of the operations of their finance offices under the Financial Management Improvement Project (FMIP), and to assist the island governments to develop and implement controls to resolve weaknesses identified from the FMIP. More recently (fiscal years 2006 and 2007), MCI funds have been used to assist the island governments to complete FMIP assessments for other critical agencies such as the Guam Memorial Hospital and the Guam Department of Education. MCI funds have also recently been used to assist the governments of the freely associated states to implement improvements to their FMS as identified by the FMIP. During fiscal year 2007, OIA intends to evaluate the island governments implementation of the actions related to the FMIPs since the actions are expected to help each of the island governments to improve their operations and result in: increasing the timeliness and accuracy of financial data; improvements in the administration of Federal grant programs; timely annual audits (i.e., Single Audits); and unqualified (“clean”) audit opinions. During fiscal year 2008, OIA expects the focus of the MCI to remain unchanged as assistance is provided to help ensure improvements in management controls to improve governmental operations, increase accountability and improve the delivery of public services and the administration of Federal grant programs.

**Grants for Financial Management Improvement Projects
FY 2004-2006**

Insular Area	2004	2005	2006	Focus Area
American Samoa		\$208,000	\$250,000	Accounting Support
Guam	\$504,632	\$290,000		Financial Management Improvement Project (FMIP)
RMI	\$100,000			FMIP
FSM		\$774,000	\$500,000	FMIP
Palau	\$70,500			Health Information System Improvement
Palau	\$632,712			FMIP
Total	\$1,307,844	\$1,272,000	\$750,000	

Activity: Territorial Assistance						
Subactivity: Coral Reef Initiative \$(000)						
	2006 Actual	2007 CR	2008			Inc (+) Dec(-) From 2007
			Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
	493	495	0	0	495	0
FTEs	0	0	0	0	0	0

PROGRAM OVERVIEW

Healthy coral reef resources are an integral part of the economy and environment of island communities, from the U.S. Virgin Islands to Guam. Among the most diverse and biologically complex ecosystems on earth, coral reefs protect island communities from coastal erosion and storm damage, provide habitat to 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 % of the world's coral reefs already have been lost or severely damaged.

Executive Order 13089 (June 1998) established the U.S. Coral Reef Task Force (Task Force) to bring together Federal, state, and territorial governments (through their chief executives) to address the coral reef crisis. In 2001, the freely associated states (FAS) became non-voting members. Co-chaired by the Secretaries of the Interior and Commerce, the Task Force is credited with setting the national and international agenda for long-term management and protection of coral reefs. The insular Governors, FAS Presidents and the All Islands Coral Reef Committee provide significant guidance and direction to the Task Force.

With the majority of U.S. coral reefs located in the insular areas, the Office of Insular Affairs (OIA) plays a critical role in the national effort to develop effective programs to sustainably manage and protect U.S. coral reef resources. OIA has worked closely with the islands to identify and implement a broad scope of management actions from education and outreach to the establishment of marine protected areas and increased

enforcement. Each island has established its own local advisory committee for strategic planning and priority setting. OIA has also supported the development and implementation of pioneering resource management efforts in the FAS, including the development of a blueprint for creating a national system of protected areas for the FSM, natural resource assessments of the atolls of the Marshall Islands, and protection of critical marine resources in the Republic of Palau.

OIA will continue to work with the insular areas to identify, prioritize and fund local initiatives aimed at improving coral reef management, protection, and restoration in the insular areas. Priority projects are outlined in the *All Islands Coral Reef Initiative Strategy*, the insular areas' *Local Action Strategies*, biodiversity and management plans developed by the FAS and the Task Force's *National Action Plan to Conserve Coral Reefs*, a comprehensive program of research, mapping, monitoring, conservation and management. Local Action Strategies are updated regularly by each of the insular areas and form the basis for a significant portion of the annual grant awards. Members of the Coral Reef Task Force meet semi-annually to evaluate progress and work out specific plans and priorities for the next half-year.

2008 PROGRAM PERFORMANCE

The goal of the Coral Reef program is to improve the health of coral reefs in the U.S. insular areas for their long-term economic and social benefit through enhanced local management and protection. OIA's primary role is that of assisting the insular areas in identifying causes for coral reef decline, assessing needs for improving local management and protection, and as available, provide technical and financial assistance to meet priority needs. Performance indicators and outputs will focus on the health and management of local coral reefs through assistance provided.

Local action plans are being updated for FY 2008. OIA is meeting with local coral reef advisory groups to identify short and long-term priority needs to improve their coral reefs. Once priority needs are updated, funding will be allocated in accordance with specific goals and objectives, with measures identified within the grants.

Through financial and technical assistance, OIA has supported the development of several new initiatives. Among these is the Micronesia Challenge, launched at the Task Force meeting in Palau in FY 2005 by the region's heads of governments. The Micronesia Challenge is a bold initiative to conserve 30% of near-shore marine resources and 20% of forest resources by 2020. The challenge far exceeds current goals

of international conventions and emphasizes the need for Micronesian leaders to work together to confront environmental and sustainable development issues.

Funds provided by OIA, in partnership with NOAA, have helped Guam and the CNMI develop significant plans to restore three watersheds, two on Guam and one on Saipan, that will alleviate the effects of run-off and other threats to the adjacent coral reefs. OIA will work with the local coral reef advisory groups to implement the next phases of these watershed improvement projects.

The Natural Resource Assessment Surveys program of the Marshall Islands has received significant support from OIA's coral reef initiative. Assessments of the coral reefs have been completed with OIA support for Majuro, Rongelap, Namu, Mili, Ailinginae, and Ailuk Atolls. Local communities are using these assessments to develop and carry out marine resource management plans for their atolls. The assessments of Ailinginae Atoll will serve as the basis for declaring it a World Heritage Site.

OIA, in cooperation with other Federal, local and international partners, supported development of "A Blueprint for Conserving the Biodiversity of the Federated States of Micronesia". In the first effort of its kind for this region of the Pacific, the Blueprint captures the collective biological knowledge of regional scientists and local experts and turns that knowledge into priority areas for biodiversity protection. The Blueprint provides a framework for creating the first national system of protected areas for the FSM and serves as a model for the region. OIA is supporting implementation of many of the Blueprint's goals, including the Conservation Action Planning (CAP) process to guide local site conservation actions, establishing partnerships to support and implement conservation interventions, and conducting marine resources assessments in areas with data gaps such as Kosrae and Pohnpei. OIA's support for the Blueprint's goals and objectives has also led to the creation of the Pacific Islands Marine Protected Area Communities (PIMPAC). PIMPAC is working across the region to advance local community support for marine protection and management

Specific ongoing outputs for the Coral Reef program include:

- Support for the Governor Tauese P.F. Sunia Memorial Coral Reef Conservation Internship Award. The Award was established by the Task Force to honor the late Governor's achievements and leadership in coral reef conservation. The award supports a three-month summer internship for an outstanding student

from a U.S. Flag Island to work on coral reef issues with a Federal agency of the Task Force.

- OIA has partnered with the National Park Service and a consortium of universities known as the Joint Institute for Caribbean Marine Studies (Rutgers, University of North Carolina at Wilmington, University of the Virgin Islands and University of South Carolina) to establish a new marine research and education center in St. Croix, USVI. The Salt River Bay Marine Research and Education Center would be a nexus for marine research and education in the Caribbean, supporting science-based decision making for managers throughout the region, providing education and outreach to students and the public, and restoring a world-class facility to the island
- With support from OIA, Conservation Action Planning (CAP) is being used to guide site conservation Actions in Micronesia. The CAP process helps local jurisdictions identify long-term measurable conservation results at the local level; establish partnerships to support and implement conservation actions; and quantitatively and qualitatively measure conservation effects over time. CAP is being used by some jurisdictions to update their Local Action Strategies.
- Publication of results of natural resource surveys for several atolls in the Marshall Islands. The reports not only provide information on the status of local resources, but provide recommendations on resource management actions for local communities.
- Development of watershed management plans for Guam and Saipan that will mitigate impacts to adjacent reefs from sedimentation and storm water run-off.
- Culturally-appropriate primary and secondary education materials on value of coral reefs developed in Guam, American Samoa and the Commonwealth of the Northern Mariana Islands.
- Enhancement of regulatory framework and enforcement to protect Coral Reefs in local jurisdictions.

Activity: Territorial Assistance						
Subactivity: Water & Wastewater \$(000)						
	2006 Actual	2007 CR	2008			Inc (+) Dec(-) From 2007
			Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
	985	990	0	0	990	0
FTEs	0	0	0	0	0	0

PROGRAM OVERVIEW

The territorial assistance activity provides support not otherwise available to the insular areas, to combat deteriorating economic and fiscal conditions and maintain the momentum needed to make and sustain meaningful systemic changes. The program allows each government to identify pressing issues and priorities, and develop action plans to mitigate these problems. Direct grants and reimbursable agreements with technical assistance providers, both within and outside the Federal government, are key to implementation. Funded projects are focused to meet immediate needs in the short term and assist the governments in developing longer term solutions.

Water is a vital, non-manufactured resource. No resource is more essential to health, food supplies, the environment and economic well-being. The increasing frequency of water shortages, droughts, inadequate storage and distribution capacity, and changing water quality requirements and regulations raise the demand for improved water resource management. The solution to managing water resources more efficiently in the insular areas while not simple can be accomplished over time, if appropriately planned.

Funding in the amount of \$990,000 is requested for water and wastewater projects in the U.S. Virgin Islands, Guam, the Commonwealth of Northern Mariana Islands (CNMI) and American Samoa for FY 2008. These territories face a myriad of water problems, including a lack of running water 24 hours a day, wastewater infrastructure deficiencies which have caused violations of Federal environmental laws, and drinking water quality which is not always up to U.S. standards. The territories are trying to address these major issues by working closely with the U.S. Environmental Protection Agency

but they are desperately in need of funding to assist them in modifying their water and wastewater infrastructure in order to comply with Federal regulations. The \$990,000 would be distributed among the U.S. territories to assist them in meeting their highest priority needs in these areas. This funding can provide dramatic improvement in the quality of life for these residents. The resources would provide for increased water reuse, ecosystem resource management, improved water quality, and system standardization.

The importance of improved water and wastewater systems has been heightened in recent years as analysis conducted by local and Federal agencies have indicated deficiencies in the systems meeting environmental requirements. In the case of the Virgin Islands, inadequate wastewater treatment facilities have threatened health and reef environments and have culminated in court-ordered sanctions against the governments. In the case of Guam, contaminated water from the landfill threatens the quality of the ground water supply and recent typhoons and earthquakes have revealed a fragile and tenuous distribution system. The CNMI remains the largest community in the United States without 24-hour water despite annual rainfall well in excess of double the national average. It is a result of poor planning, inadequate funding and a distribution and storage system, which mostly pre-dates World War II. American Samoa still relies heavily on small village systems, sometimes contaminated by poorly constructed septic systems.

2008 PROGRAM PERFORMANCE

The water and wastewater subactivity, now in its third year, has proved to be tremendously useful to the insular areas. The requested \$990,000 in FY 2008 will be used to continue addressing the critical water and wastewater needs of the insular areas in a similar fashion to previous years.

In FY 2006, the first year of this new subactivity, OIA received \$985,000 to distribute among the territories to address their highest priority water and wastewater needs. OIA requested and received proposals from all four territories. Upon review of the submissions, the decision was made to award \$400,000 to the Lyndon B. Johnson (LBJ) Hospital in American Samoa and \$560,000 to the Commonwealth Utilities Corporation (CUC) in the CNMI.

LBJ, American Samoa's only hospital, lacks an independent water supply making the hospital extremely vulnerable to power and water outages. Furthermore, the existing

system does not provide enough water pressure to adequately supply the fire sprinkler system. Inadequate water pressure also impacts the hospital's services, particularly related to dialysis. The \$400,000 award will be used to install a water storage tank and a booster pump at the facility thereby ensuring that the hospital has adequate water pressure and an available water supply at all times.

The CNMI is currently negotiating the terms of a consent decree with the U.S. Department of Justice resulting from violations of the Clean Water Act and the Safe Drinking Water Act. Among the first priorities of the consent decree is to place highly qualified and experienced individuals at CUC to oversee water and wastewater activities, however, the CNMI is in the midst of a severe economic downturn and lacks the local funds for the positions. The \$560,000 awarded to the CNMI in FY 2006 will fund 3 water and wastewater position; Chief Engineer, Water & Wastewater Division Manager, and Operations & Maintenance Engineer, for two years. Lacking qualified applicants, the CUC may also procure consultants with the funds to oversee long term solutions to its water and wastewater problems.

The FY 2007 water & wastewater grant will be used for additional territory-wide sewer system improvements that are of critical need to the U.S. Virgin Islands. The Territory has dedicated the last several years of its CIP funding to this effort which is critical to its ability to fulfill consent decree requirements imposed by the U.S. Environmental Protection Agency and the U.S. Department of Justice.

APPROPRIATION LANGUAGE – COMPACT OF FREE ASSOCIATION

For grants and necessary expenses, \$[4,862,000] *\$4,862,000*, to remain available until expended, as provided for in sections 221(a)(2), 221(b), and 233 of the Compact of Free Association for the Republic of Palau; and section 221(a)(2) of the Compacts of Free Association for the Government of the Republic of the Marshall Islands and the Federated States of Micronesia, as authorized by Public Law 99-658 and Public Law 108-188.

Activity: Compact of Free Association (Current Appropriation)						
Subactivity: Federal Services Assistance \$(000)						
	2006 Actual	2007 CR	2008			Inc (+) Dec(-) From 2007
			Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
	2,820	2,862	0	0	2,862	0
FTEs	0	0	0	0	0	0

PROGRAM OVERVIEW

The Compacts of Free Association guarantee that the freely associated states (FAS) will continue to receive certain Federal services, either at a level equivalent to what was provided in the year preceding the implementation of the Compact, as is the case for Palau; or in accordance with negotiated agreements, as is the case for the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI). These services include those of the U.S. Postal Service (USPS). Public Law 99-658 also provides that the Republic of Palau's annual audits, in accordance with the Single Audit Act of 1984, will be conducted at no cost to it through fiscal year 2009. Single Audits for the FSM and RMI are cost-shared with other Compact funding and are not reflected under this activity.

The United States Postal Service (USPS) provides transportation of mail to and from the freely associated states. Although the freely associated state governments operate their own postal services for internal mail distribution, they have almost no role in the international movement of mail. By agreement, U.S. postal rates are the floors for rates charged by the FAS. U.S. domestic first class postage rates were formerly in effect for mail from the United States to the FAS. Current agreements with the FSM and RMI allow phased increases to reach established international rates. The FAS operate the local post offices and transport mail to and from air and seaports. All proceeds from the sale of FAS stamps and postal indicia are retained by the FAS governments.

The effectiveness of the USPS program, especially for the Republic of the Marshall Islands, is dependent on the availability of commercial air service. To maintain mail service, the USPS in recent years has chartered special flights and purchased additional

space on passenger flights to transport mail. The total cost of this service exceeds the subsidy requested by OIA. The additional costs are paid by USPS from its revenues.

2008 PROGRAM PERFORMANCE

OIA will enter into a reimbursable agreement with the USPS for services provided to the freely associated states. OIA will also provide and administer a grant to the Republic of Palau in order for the government conduct a single audit to be completed by July 1, 2008.

Activity: Compact of Free Association (Current Appropriation)						
Subactivity: Program Grant Assistance \$(000)						
	2006 Actual	2007 CR	2008			Inc (+) Dec(-) From 2007
			Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
	2,000	2,000	0	0	2,000	0
FTEs	0	0	0	0	0	0

PROGRAM OVERVIEW

The Compact of Free Association with the Republic of Palau provides for a special category of funds for health and education activities. The Compact requires the use of funds be described in an annual program plan submitted to the United States. Palau uses these funds solely for education programs within its Ministry of Education.

2008 PROGRAM PERFORMANCE

Administer the section 221(b) program according to the Fiscal Procedures Agreement for the Republic of Palau.

Account: Compact of Free Association (Permanent and Indefinite)						
Activity: Economic Assistance						
Subactivity: Federated States of Micronesia and Republic of the Marshall Islands \$(000)						
			2008			
	2006 Actual	2007 CR	Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	Inc (+) Dec(-) From 2007
RMI	62,375	63,854	0	-215	63,639	-215
FSM	96,157	97,577	0	+2,434	100,011	+2,434
Judicial Training	308	316	0	+8	324	+8
FTEs	0	0	0	0	0	0

JUSTIFICATION OF 2007 PROGRAM CHANGES

The program changes in this account for the FSM and Judicial Training are required inflation adjustments under the amended Compact of Free Association. The increases are based on changes in the United States Gross Domestic Product Implicit Price Deflator but may not exceed 5% annually. While there will be a slight increase in sector grant funding to the RMI due to the above mentioned inflation adjustment, the Compact also ends the grant assistance to the Rongelap community in FY 2008, resulting in an over all decrease in funding to the RMI in the fiscal year.

PROGRAM OVERVIEW

Article I of Title Two of the Compacts of Free Association describes the financial assistance commitment by the United States to the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI). The first period of financial assistance expired on September 30, 2003. Following four years of negotiations led by the Department of State with support from OIA, Congress enacted amendments to the Compact as Public Law 108-188. These amendments also include a new permanent and indefinite appropriation that assures continuation of direct financial assistance through fiscal year 2023.

The long term goal of United States Compact financial support is to assist the freely associated states “in their efforts to advance the economic self-sufficiency of their peoples.” The funding provided over the past seventeen years provided the basis for meeting the two primary political goals of the compact, to (1) secure self-government for each country by ending the four decades-old Trusteeship; and (2) assure national security rights for the United States in the freely associated states. The two primary goals could not have been achieved without the stability compact funding gave the FSM and RMI economies.

The first Compact financial assistance period and related agreements provided funding by category and purpose, and established general guidelines for the use of funds. The local governments, through their own legal processes, allocated funding among self-chosen priorities. Compact funds were disbursed to the FSM and RMI according to negotiated procedures rather than standard Federal practices. All funds dedicated to capital purposes were transferred to the governments the first day of the fiscal year. All operational funding was disbursed in quarterly lump sums. Customary regulations for the use of Federal funds, such as the Common Rule for grant funds, did not apply to Compact funding. The lack of effective enforcement mechanisms over the use of funds was well documented. This was, however, by design. The Compact was consciously negotiated to limit U.S. control over funding given to the newly established democracies.

During the first Compact period, the FSM and the RMI have not achieved their long-term Compact goal of self-sufficiency. The U.S. believes part of the reason for poor economic performance over the past seventeen years was in the design of the first Compact itself. The lack of performance standards, measures and monitoring systems allowed poor practices to take root in local government administration.

The amended Compact provides assistance in the form of direct grants in six sectors: education, health care, infrastructure, public sector capacity building, private sector development, and environment. Joint economic management committees, comprised of high ranking officials from the U.S. and the RMI or FSM, meet no less than annually to agree on the allocation of Compact funds among the sectors and to discuss performance, accountability issues and conditions for the use of assistance. OIA serves as the administrator of the financial assistance and ensures enforcement of conditions. An office for monitoring Compact assistance has been established in Honolulu and personnel have also been located in the RMI and FSM capitals. Through a negotiated fiscal procedures agreement, accountability and control standards similar to those

which apply domestically to grant agreements between the Federal Government and State and local governments have been implemented.

The amended Compact also requires the United States to make contributions to trust funds for each government. The trust funds are intended to help provide a base for financial self-sufficiency following the conclusion of direct assistance in fiscal year 2023.

2008 PROGRAM PERFORMANCE

OIA will continue to monitor activities in the FSM through site-visits. It is expected office staff will:

- Conduct a minimum of 450 person-days of site visits in the RMI and FSM.
- Collect quantitative and qualitative data on performance objectives and measures.
- Issue and administer all sector grants and the Supplemental Education Grant in the RMI and FSM.
- Convene regular and special meetings of the joint economic management and financial accountability committee for the RMI and the joint economic management committee for the FSM to address major issues as they arise.

Specific information for FY 2008 is not available at this time due to the nature of the Compact Agreement. As agreed to in the Compact, performance plans and budgets for FY 2008 are not submitted by the FSM and RMI until four months before the start of the fiscal year. However, a brief summary of FY 2006 program performance information for the FSM and RMI sector grants is provided on the next few pages.

Fiscal Year 2006 Sector Allocations for the FSM

The following is a breakdown of grant allocations to the FSM by sector, and within sectors, by government entity:

	Education	Health	Capacity Building	Private Sector	Environment	Infrastructure
National	4,151,081	764,383	-	-	-	58,703,993*
Chuuk	9,432,618	6,292,745	2,724,099	1,498,616	792,428	-
Kosrae	2,412,498	1,763,553	1,346,976	606,029	335,240	-
Pohnpei	6,978,447	4,898,393	759,254	887,817	665,807	-
Yap	3,149,415	2,675,865	1,345,585	1,046,701	337,977	-
Total	26,132,059	16,394,939	6,175,914	4,039,163	2,137,452	58,703,993

* Combination of 2004-2006 funding

Education

Most FSM states aligned their goals with the following five education goals cited in the FSM Strategic Development Plan:

1. Improve the quality of learning in the FSM.
2. Improve the quality of teaching in the FSM.
3. Consolidate performance monitoring and data based decision-making systems.
4. Strengthen participation and accountability of the education system to communities.
5. Ensure education is relevant to the life and aspirations of the FSM people.

The FSM continued to provide performance data of varying quality. Only 16 out of 20 indicators of educational progress were submitted; however, this information allowed preliminary comparisons to be made among the four states and against last year's baseline data. Difficulties collecting, verifying and analyzing data at the state and national levels were acknowledged by FSM officials.

Health

The FSM received a total Compact health sector grant of \$16.4 million for FY 2006, an amount that was approximately \$1 million less than the previous year's award. Although analysis shows this funding level represented a growth of 6% from fiscal year

to fiscal year, the increase was not evenly applied among the four FSM States and the National Government.

As has been the case historically, health sector grant funding primarily supported regular recurring operations of the four state in-patient facilities. It enabled long-neglected salary adjustments for some categories of health professionals; supported better managed tertiary medical referral management and care; facilitated the purchase of essential equipment; provided resources to hire staff to expand in- and out-patient service capacity and funded minor and/or emergency repairs.

Despite the FSM Strategic Development Plan's espoused emphasis on primary health care, funding continued to follow the path of curative care. This was, in large measure, due to the continuing need to play "catch up" to normalize those services and programs that were adversely affected during the step down phase of the Compact's first financial assistance period. Public health and primary care received comparatively less attention, even though the population of the FSM is far-flung and still vulnerable to both infectious and debilitating chronic disease.

The overall impact of these service and organizational enhancements over the medium and longer terms depends on the safety and adequacy of the health sector's physical infrastructure. Facility repair, renovation, and construction that needed redress years ago are still issues. The likelihood of health projects receiving expedited attention and priority is marginal.

Public Infrastructure

The FSM received a public sector infrastructure grant of \$58.7 million during fiscal year 2006. The \$58.7 million was a combination of fiscal year 2004-2006 funding. Due to internal differences between the FSM National Government and the state governments regarding the process of project implementation and the inability to demonstrate how the funding would be managed in a unified comprehensive method, funds were not approved for expenditure during FY 2004 and FY 2005.

In May 2005, the FSM National Government signed a contract with a professional architectural and engineering design firm to provide the FSM with expertise in managing the formulation and implementation of Compact funded infrastructure projects. Once again, due to delays resulting from internal differences regarding costing of projects and an apparent conflict of interest by the selected engineering design firm no capital projects were completed during FY 2006.

Projects approved for funding during FY 2006 are as follows:

Education

Utwe Elementary School (Kosrae)	\$ 1,665,959
Lelu Elementary School (Kosrae)	2,129,233
Tafunsak Elementary School (Kosrae)	1,190,199
Kolonia Elementary School (Pohnpei)	1,839,170
Madolenihmw High School (Pohnpei)	2,117,439
Yap Early Childhood Education Center (Yap)	1,885,014

Health

Weno Wastewater (Chuuk)	\$ 8,561,032
Pohnpei Water Well Drilling (Pohnpei)	1,074,484

Public Sector Capacity Building

The FSM received \$6.2 million for the capacity building sector. The amount, representing approximately eight percent of all direct Compact financial assistance in FY 2006, was proportionately larger amount than intended or foreseen by the negotiators of the amended Compact but necessitated by the FSM's apparent lack of local revenue to cover a range of government operations.

From the outset of the amended Compact, U.S. delegates to Joint Economic Management Committee (JEMCO) made clear that the purpose of the public sector capacity building grant was to build capacity in certain key functional areas such as accounting, financial management, budgeting, auditing and law enforcement, rather than the maintenance of pre-existing capacity. The funds were not meant to subsidize general government operations. JEMCO recognized, however, that the FSM did not have sufficient local revenue to support certain key public sector functions. It found that preventing the use of public sector capacity grant money for preexisting operating expenses had the real potential to reduce capacity in critical areas. JEMCO consequently allowed operating expenses in core areas but with the proviso that the public sector capacity building grant be subject to a 5-year phase-out period.

Although the grant supports an assortment of true capacity building initiatives, these uses still have not been well articulated by the FSM states and there is no short-term or medium-term plan to guide how the sector grant should be best used.

Environment

The FSM received an allocation of \$2.1 million for its environment sector. The grant continued to fund government operations rather than environmental projects. Each State received funding for an Environmental Protection Agency or similar agency with a like mission. Financial assistance also supported marine and forestry conservation efforts. Public education programs were a part of all programs funded under this sector.

The lack of national goals for the environment sector continued to hamper the evaluation of performance progress. Each state established its own strategic focus at the agency or office level and activities failed to reach overarching national goals for the sector. At its March 2006 meeting, the JEMCO received a report from OIA that the sector has no over-arching goals or performance measures to guide funding at either the national or state level. The majority of funding has gone to personnel, with little left over for other needs. For most of the first two and a half years of the Compact, a number of funded offices were either under-performing or nonperforming, based on reported activities. A major contributor to inefficient program performance has been a lack of cohesiveness and responsible management within the sectors.

OIA consequently recommended that JEMCO: (1) not allocate sector grant funding to these agencies in FY 2007 unless sector grant proposals are submitted in project-based format emphasizing specific deliverables and measurable outcomes (a project-based budget format would include the following sections: Introduction, Objective, Work Plan, Budget, Outcome/Output, Value of the Project to the Sector, and Link to the Strategic Development Plan); and (2) not allocate Compact sector funding in FY 2007 in the event offices cannot demonstrate project-specific outcomes/outputs; and (3) ensure that offices receiving FY 2007 allocations must dedicate no more than 70% of their budgets to salaries and budgets.

JEMCO implemented these recommendations in its FY 2007 allocation of grant funds.

Private Sector Development

The FSM received an allocation of \$4.0 million for its private sector development sector grant. This amount funded the basic operations of a number of different agencies to increase tourism, promote agriculture, and support small businesses.

The lack of national goals for the private sector development sector grant continued to hamper the evaluation of performance progress. Each state established its own strategic focus at the agency or office level and activities failed to reach overarching national goals for the sector. At its March 2006 meeting, the JEMCO received a report from OIA that the sector has no over-arching goals or performance measures to guide funding at either the national or state level. The majority of funding has gone to personnel, with little left over for other needs. For most of the first two and a half years of the Compact, a number of funded offices were either under-performing or nonperforming, based on reported activities. A major contributor to inefficient program performance has been a lack of cohesiveness and responsible management within the sectors.

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Fiscal Year 2006 Allocations for the RMI

The following is a breakdown of grant allocations to the RMI by sector and Compact of Free Association, Section 211-mandated funding:

Sector	Funds Allocated
Education	10,834,083
Health	5,597,181
Environment	202,480
Private Sector	361,943
Capacity Building	103,514
Infrastructure	12,495,679
Total	29,594,488

Ebeye Special Needs	3,185,560
Kwajalein Environmental Impact	205,520
Kwajalein Development Fund	1,952,440
Disaster Assistance Fund	205,520
Total	5,549,040

Education

During FY 2006, the RMI used Compact education sector funds to meet the following four elementary and secondary education goals and three post-secondary education goals:

1. Continue to improve the curriculum at all levels of education in the RMI
2. Improve the effectiveness of all education staff and teachers in the RMI for all areas of education.
3. Improve student performance & learning outcomes through improved/increased program delivery and community involvement.
4. Provide financial assistance to qualified students to pursue educational opportunities.
5. Improve the college curriculum
6. Improve the college campus environment.
7. Provide college sustainable development.

The RMI Ministry of Education (MOE) identified and purchased textbooks and supplies that coordinate with curriculum revisions, which include recently implemented educational standards, benchmarks, and learning expectations. New English language arts and math textbooks were distributed in grades K-8. Math and science textbooks were purchased and distributed to the high schools. A multi-year textbook purchasing plan is now in place. The following initiatives were started in FY 2006:

- Training of teachers on the new teaching materials took place.
- The third year of universal Kindergarten expanded the program to 61 schools.
- The MOE improved its use of the RMI Performance Based Budgeting system. Ministry staff members are developing measurable goals for each indicator.
- The College of the Marshall Islands (CMI) receives only 3% of Compact education sector funding.

Health

Compact funds provided approximately 38% of the total dollars available for health operations in FY 2006. Although the Ministry of Health's basic health sector grant increased by \$741,221 over the previous year, this amount still did not make up for the \$1 million decline seen between 2004 and 2005, the first two years of the Compact as amended. Increased general fund and special health fund appropriations initially offset the negative impact this reduction in Compact sector grant funding would have had on keeping up with inflation and coping with the loss of real dollar capacity. A suspension in general fund spending midway through the fiscal year placed an unexpected added strain on the Ministry's overall budget and consequently on Compact resources.

While the Compact gives the RMI wide latitude in determining how and where to apply its grant resources, it stresses two specific end objectives: (1) establishing funding sustainability to operate community-based services and programs and hospitals that provide appropriate secondary care; and (2) reducing the reliance on out-of-country medical referrals. Judged against these directives, the performance of the Ministry of Health in FY 2006 was mixed at best.

The Ministry began the difficult process of analyzing expenditures associated with certain diseases such as diabetes but, to date, no attention has been given to revising the co-share fee structure that would enable the recouping of a greater share of money spent on health care. Costs are still heavily subsidized by employer-based social insurance payments, general funds, the Compact, and US Federal grants. Although

primary health care is the focus of the Ministry's strategic mission and viewed as the principal means to improve health status, funding still has not followed policy.

In FY 2006, hospital-based outlays for recurring costs and improvements continued to outpace those for public health, prevention, and outer island primary care services. The RMI consciously chose to upgrade its secondary care facilities in Majuro and Ebeye. With these upgrades has come a concomitant need to spend to improve the quality of hospital services. The payoff has been service enhancements and a greater attention to biomedical equipment acquisition that yield a broader range of services ultimately intended to reduce the country's reliance on very expensive out-of-country tertiary care.

Medical referral management underwent important changes. The RMI paid off its debt to Hawaii hospitals, entered into more cost-efficient agreements with Manila health care centers, and improved case management. Its direct referral expenditures decreased from \$5.5 million in 2000, to \$1.7 million in 2004, and \$1.5 million in 2005. Spending has become more efficient and better managed. While these efficiencies have been significant, improved diagnostic capacity paradoxically contributed to a higher number of patients sent out-of-country for specialized care. This trend of sending off more patients at less cost will likely continue until treatment and management capacity in Majuro and Ebeye become firmly established.

Compact grant funding did not affect primary care and public health outcomes to any significant degree in FY 2006. For the most part, funds helped keep community-based disease prevention and control services stable. They were not applied in any new targeted fashion to address the nation's burdensome chronic and infectious disease profile of high rates of diabetes, cancer, leprosy, tuberculosis, and sexually transmitted disease; nor directed to support innovations that decrease teenage pregnancies or improve environmental safeguards to the spread of contagious disease.

The Ministry of Health continued to be a leader in implementing performance budgeting and monitoring in the RMI, and is just now reaping benefits in terms of increased accountability among managers and in information-led decision-making. Compact funds supported internal capacity building to determine the "measurability" of the outcomes; establish timing targets and baselines; evaluate outcomes; and isolate and track progress in such strategic areas as hospital improvements and the delivery of preventive services and primary health care on Ebeye.

Public Infrastructure

The RMI allocated \$12.5 million for infrastructure improvements and maintenance in fiscal year 2006. This allocation is consistent with the government's policy that at least 30% of all annual United States Compact financial assistance be directed toward infrastructure development. To guide project selection, the RMI continued to utilize a comprehensive Infrastructure Development and Maintenance Program (IDMP) with complete project descriptions, timelines, financial requirements and measurable project indicators. Education is the priority sector targeted by Compact infrastructure assistance and has also received the largest portion of infrastructure development and maintenance funding over the past three years.

RMI Infrastructure Development and Maintenance Program projects listed below are for the Health and Education sectors with FY 2004-2006 funding. Projects are mostly multi-year and include construction, maintenance, and purchasing of equipment:

Rita Elementary School Phase I

Construction of two 4-classroom blocks - 240 students

Final cost - \$1,040,000

Completion date – August, 2005

Laura High School Phase I

Construction of one 4-classroom block -120 students

Final Cost - \$605,539

Completion date – March, 2006

Laura Elementary School (renovation)

Construction and retrofit 8 classrooms and a library space -240 students

Final Cost - \$204,193

Completion date – January, 2005

Jaluit High School Phase I

Construction of two 8-classroom blocks and a dormitory – 240 students

Final Cost - \$3,000,000

Completion date – November, 2006

Marshall Islands High School Phase I

Construction of one 8-classroom block – 240 students

Final Cost - \$1,250,000

Completion date - May, 2006

Northern Islands High School Phase I

Construction of an administration building and a dormitory

Final Cost - \$974,313

Completion date – Substantially completed, awaiting power connection

Rita Elementary School Phase 2

Construction of two 4-classroom blocks - 240 students

Estimated Final cost - \$1,450,000

Estimated Completion date – February, 2007

Marshall Islands High School Phase 2

Construction of three 8-classroom blocks and a 4 classroom block – 840 students

Estimated Final Cost - \$4,500,000

Estimated Completion date – September, 2007

Namdrik Elementary School Phase 1

Construction of an eight classroom block – 240 students

Estimated Final Cost - \$885,511

Estimated Completion Date – May, 2007

Rairok Elementary School Phase 1

Building structure retrofit and roofing repairs

Estimate Final Cost - \$626,548

Estimated Completion Date – April, 2007

Jaluit High School Phase 2

Construction of staff housing, library, and various demolition works

Estimated Final Cost - \$1,850,000

Estimated Completion Date – June, 2007

Northern Islands High School Phase 2

Construction of an 8-classroom block, staff housing, and dormitory renovation

Estimated Final Cost - \$2,800,000

Estimated Completion Date – October, 2007

College of the Marshall Islands Capital Improvements - \$324,394

Majuro Hospital Equipment Purchase - \$1,898,537

Ebeye Hospital Equipment Purchase - \$570,000

Outer Island Dispensary Renovations - \$490,000

Majuro Airport Repaving - \$500,000 (Matching funds for FAA Airport Improvement Program)

Kwajalein Atoll Joint Utility Resources - \$1,238,710

The following table identifies the projects funded in each year, from FY 2004 through FY 2006:

FY 2004	<u>Amount</u>
Jaluit H.S Phase 1	\$3,710,270
NIHS	\$1,405,000
Rita Phase 1	\$1,200,000
MIHS	\$1,832,500
Laura HS	\$760,125
Majuro hospital equipment	\$827,410
OI dispensaries	\$490,000
Ebeye Hospital equipment	\$570,000
Ebeye professional housing	\$429,671
Ebeye Power H2O	\$350,000
CMI capital improvements	\$139,888
CMI info network	\$184,506
IMF	\$700,000
	<u>\$12,599,370</u>
 FY 2005	
Rita Phase 2	\$1,210,000
Uliga Elementary School	\$3,695,732
Marshall Islands H.S. Phase 2	\$4,700,000
Ebeye Elementary School	\$1,088,750
Maintenance Fund	\$674,287
Majuro Hospital Equipment	\$1,071,127
Ebeye Sewer	\$288,710
Ebeye Water	\$100,000
Majuro Airport Repaving	\$500,000
Namdrik School Phase 1	\$1,000,000
Majuro Solid Waste	\$250,000
Education Maintenance	\$507,769
KAJUR RO Unit	\$45,000
KAJUR Building	\$80,000
KAJUR Generator Overhaul	\$200,000
KAJUR Guggeegue Underground Power	\$175,000
	<u>\$15,586,375</u>
 FY 2006	
Jaluit H.S. Phase 2	\$1,335,563
NIHS Phase 2	\$2,259,938
Laura HS Phase 2	\$1,067,175
Ebeye Elementary School Phase 2	\$1,380,000
Kwajalein Atoll HS	\$2,162,424
Rairok Elementary	\$1,719,975
IMF	\$546,254
Project Management, Administration, Engineering, Design	\$2,024,350
	<u>\$12,495,679</u>

Public Sector Capacity Building

The RMI received \$103,514 in Compact funds to support the general operations of the Office of the Auditor General. No funds from this allocation were spent.

Private Sector Development

The RMI received an allocation of \$361,943 for its private sector development sector grant. This amount was used to support the following activities: trade and investment promotion, land registration, tourism promotion, and small business development.

- Trade and Investment Promotion: The Trade and Investment Unit focused on conducting trainings for new product developments with virgin coconut oil. Work also began on a website to display Marshallese product information. Outreach sessions were held with some of the foreign embassies in Majuro to develop product packaging specialized for target audiences.
- Tourism Promotion: The RMI has worked to reach potential clients through its Japan office which is partly funded with Compact funds. This year, the main focus of this was to promote and make arrangements for the start of a direct charter flights from Japan to Majuro. Staff worked to disseminate information about local products, tourism opportunities, and fisheries. Funds were also spent on traditional print advertisement and staff training.
- Small Business Development: The Small Business Development Center (SBDC) continued to conduct training and counsel clients on business development plans. The SBDC helped to initiate 22 new business loans totaling more than \$95,000, which created 48 new jobs and retained 9 current jobs. The SBDC also conducted 217 business counseling sessions, 21 training courses which 1,344 people attended.

Environment

The RMI received an allocation of \$404,720 for its environment sector grant. This amount was used to support the following activities under the RMI Environmental Protection Agency (EPA):

- Environmental Health and Water Quality: The RMI continued to collect and test water samples. In 2004, only 23% of the samples collected were deemed safe for drinking. In 2006, 620 samples were collected with 37% deemed safe.
- Land and Coastal Management: The department continues to issue earthmoving permits and held public hearings for development permit requests. Work continues on coastal management plan development for outer island communities.
- Biodiversity: In coordination with outside agencies, trainings were provided on invasive species management, conservation area development, and native species preservation.
- Solid and Hazardous Waste: Solid waste management continues to be problematic in Majuro. Multiple agencies with varying roles are responsible for managing solid waste on Majuro. A draft policy for solid waste management was published in FY 2005; little to no action has come from the draft.
- Education and Awareness: Twenty-eight public education and awareness sessions were conducted with school and community groups. EPA implemented new environment curriculum in the schools and added 261 new publications to its library.

Performance Measures-Compact of Free Association Economic Assistance - FSM and RMI					
Measures	2005 Baseline	2006 Actual	2007 Estimate	2008 Estimate	Changes (+/-)
Site Visits	414	424	450	450	-
Education (Elementary Reading - % at Proficiency Level)					
FSM	50%	39%	50%	55%	+5%
RMI	test revised*	67%	68%	69%	+1%
Health Care (Decrease infant mortality)					
FSM**	17.4/1,000	16/1,000	15/1,000	15/1,000	-
RMI**	24.9/1,000	24/1,000	24/1,000	24/1,000	-
Private Sector Development (Private Sector/Total Employment)					
FSM**	16,349	16,454	16,536	16,619	+83
RMI**	3,112	3,368	3,402	3,436	+34
(Total Visitor Arrivals)					
FSM**	18,954	22,776	23,915	25,111	+1,196
RMI	9,173	5,145	9,439	9,533	+ 94
Environment (Conservation areas - acres)					
FSM	35,229	35,229	35,229	35,229	-
RMI	172,800	172,800	172,800	172,800	-
Infrastructure (% w/ 24 hr. water)					
FSM	42%	42%	42%	46%	+4%
RMI	5%	5%	5%	5%	0

*The test was revised in 2005 and thus not given to the entire student population.

**Because of the lag in reporting, numbers are actually one year behind when reported. For example, the 2005 baseline is the actual number for 2004 which was obtained in 2005.

Account: Compact of Free Association (Permanent and Indefinite)						
Activity: Economic Assistance						
Subactivity: Republic of Palau \$(000)						
			2008			
	2006 Actual	2007 CR	Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	Inc (+) Dec(-) From 2007
Palau	10,717	10,902	0	+184	11,086	+184
FTEs	0	0	0	0	0	0

JUSTIFICATION OF 2008 PROGRAM CHANGES

The program changes in this account are required inflation adjustments required by the Palau Compact of Free Association. The increases are based on changes in the United States Gross National Product Implicit Price Deflator.

PROGRAM OVERVIEW

Article I of Title Two of the Compact of Free Association describes the financial assistance committed to the Republic of Palau by the United States. Backed by the full faith and credit of the United States, the financial assistance established in Article I is the most significant part of the economic relationship with Palau. Compact funding was appropriated on a permanent and indefinite basis in 1986 (Public Law 99-349). However, because of delays in the ratification process by the Republic of Palau, its Compact was not implemented until 1995, eight years after implementation for the other two freely associated states.

There are a number of marked differences between the Compact with Palau and the Compacts with the Federated States of Micronesia and the Marshall Islands, some of which were negotiated during the eight-year interim period in order to help Palau overcome opposition to ratification of the Compact. This includes a trust fund, capitalized at \$70 million by the U.S., which will provide income to Palau for an additional 35 years after direct assistance expires in 2009. Because of the \$70 million investment trust fund, Palau's Compact does not contain any provision for re-negotiating direct financial assistance at the end of the original 15-year period (2009).

Palau also received its capital funding in a substantially different manner. Rather than annual grants for capital needs, Palau received a \$36 million trust fund (adjusted for inflation based on 1981 dollars) in 1995. The United States is also building for the people of Palau, a 53-mile road on Babeldaob Island that, upon completion, will cost the U.S. approximately \$149 million.

2007 PROGRAM PERFORMANCE ESTIMATES

- Meet all requirements under the negotiated Compact.
- Conduct annual economic consultations, in conjunction with the State Department.
- Complete 100% of the 53-mile Palau Road.
- Assist Palau to establish a maintenance program for the Palau Road.

2006 PLANNED PROGRAM PERFORMANCE

- Meet all requirements under the negotiated Compact.
- Conduct annual economic consultations, in conjunction with the State Department.
- Complete 95% of the 53-mile Palau Road.

Account: Compact of Free Association (Permanent and Indefinite)						
Activity: Compact Impact \$(000)						
	2006 Actual	2007 CR	2008			Inc (+) Dec(-) From 2007
			Fixed Costs & Related Changes (+/-)	Program Changes (+/-)	Budget Request	
Hawaii	10,571,277	10,571,277	0	-111,351	10,459,926	-111,351
Guam	14,242,322	14,242,322	0	-150,019	14,092,303	-150,019
CNMI	5,171,914	5,171,914	0	-54,477	5,117,437	-54,477
American Samoa	14,487	14,487	0	-153	14,334	-153
Census	0	0	0	+316,000	316,000	+316,000
Total	30,000,000	30,000,000	0	0	30,000,000	0
FTEs	0	0	0	0	0	0

PROGRAM OVERVIEW

Section 104 (e) of Title One of the amended Compacts of Free Association describes the financial assistance committed by the United States to the State of Hawaii, Guam, the Commonwealth of the Northern Mariana Islands and American Samoa. The goal of this financial support is to provide through 2023, \$30.0 million in grants to affected jurisdictions to aid in defraying costs incurred by affected jurisdictions as a result of increased demands placed on health, educational, social, or public sector services or infrastructure related to such services due to the residence of qualified nonimmigrants from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau.

The \$30.0 million distribution is based on a ratio allocation to the government of each affected jurisdiction, on the basis of the results of the most recent enumeration. At a minimum, enumerations will be conducted every five years. This allocation is in accordance with the provision in Section 104(e)(5) of Title One of the amended Compacts of Free Association.

2008 PROGRAM PERFORMANCE

The following FY 2008 grants will be made to each eligible jurisdiction based on the population of eligible migrants:

○ Hawaii:	\$10,459,926
○ Guam:	\$14,092,303
○ CNMI:	\$ 5,117,437
○ American Samoa:	\$ 14,334

*Please note that the FY 2008 award amounts above are slightly reduced in comparison to FY 2007 to accommodate the cost of conducting the U.S. Census surveys that are necessary to review the ratio allocation as required every five years.

Grant assistance provided may be used only for health, educational, social, or public safety services, or infrastructure related to such services, specifically affected by qualified nonimmigrants. Each jurisdiction will be asked to provide a program plan to the Department of the Interior for the use of the funds prior to the awarding of the grant. Although OIA has not yet received all the FY 2007 and FY 2008 program plans, it is anticipated that the funds will be used in a manner similar to FY 2006 as detailed below:

In FY 2006, the State of Hawaii used the full amount of its \$10.6 million to supplement state funds to support indigent health care.

Guam used its FY 2006 grant of \$14.2 million in the following manner:

○ GMHA Medical Personnel & Equipment	\$2,478,986
○ Diabetes Program	\$150,000
○ GMHA Vendor Payables	\$1,629,014
○ DPW Schools Leaseback	\$6,100,000
○ DPH&SS TB Wing Expansion/Pharmaceuticals	\$1,000,000
○ Public Safety-Stray Animal Enhancement	\$78,000
○ DMH& SA Psychotropic Medication	\$200,000
○ DMH&SA Building Improvement	\$800,000
○ DISID Operations/Building Improvements	\$1,000,000
○ TBD	\$806,322

In FY 2006 The Commonwealth of the Northern Mariana Islands used its Compact Impact grant for \$5.2 million to supplement the budgets of the following operational agencies:

○ Department of Public Health (DPH)- Hospital	\$1,431,914
○ DPH- Mental Health Services	\$40,000
○ Division of Youth Services	\$100,000
○ Department of Public Safety	\$1,200,000
○ Department of Corrections	\$350,000
○ Public Defender's Office	\$50,000
○ Public School System	\$2,000,000

American Samoa used its FY 2006 grant of \$14,487 to fund teacher salaries.

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DEPARTMENT OF THE INTERIOR
OFFICE OF INSULAR AFFAIRS
PAYMENTS TO THE U.S. TERRITORIES, FISCAL ASSISTANCE

Program and Financing (in millions of dollars)

OMB ACCOUNT ID: 010-85-0418-0 14-0418-0-1-806	2006 Actual	2007 Estimate	2008 Estimate
Direct Program:			
Obligations by program activity:			
00.01 Advance payments to Guam of estimated U.S. income tax collections	52	40	40
00.02 Advance payments to the Virgin Islands of estimated U.S. excise tax	79	79	79
09.01 Virgin Island Loan	1	1	1
10.00 Total new obligations	132	120	120
Budgetary resources available for obligation:			
22.00 New budget authority (gross)	133	121	121
22.60 01 Portion applied to repay debt	-2	-1	-1
23.90 Total budgetary resources available for obligation	131	120	120
23.95 Total new obligations	-132	-120	-120
New budget authority (gross), detail:			
60.00 01 Appropriation (Mandatory)	131	119	119
69.00 01 Offsetting collections (cash)	2	2	2
70.00 Total new budget authority (gross)	133	121	121
Change in obligated balances:			
73.10 Total new obligations	132	120	120
73.20 Total outlays (gross)	-132	-121	-121
Outlays (gross), detail:			
86.97 01 Outlays from new mandatory authority	132	121	121
Offsets: Against gross budget authority and outlays:			
88.40 01 Offsetting collections (cash) from Non-Federal sources	3	2	2
Against gross budget authority only:			
88.96 Portion of offsetting collections (cash) credited to expired accounts	-1	--	--
Net budget authority and outlays:			
89.00 Budget authority	131	119	119
90.00 01 Outlays	129	119	119
Cumulative balance of direct loans outstanding			
12.10 Outstanding, start of year	5	3	1
12.51 01 Repayments: repayments and prerepayments	-2	-2	-1
12.90 Outstanding, end of year	3	1	--

DEPARTMENT OF THE INTERIOR
OFFICE OF INSULAR AFFAIRS
TRUST TERRITORY OF THE PACIFIC ISLANDS

Program and Financing (in millions of dollars)

OMB ACCOUNT ID: 010-85-0414-0 14-0414-0-1-806	2006 Actual	2007 Estimate	2008 Estimate
Obligations by program activity:			
00.01 Trust Territory	--	1	1
10.00 Total new obligations (object class 25.2)	--	1	1
Budgetary resources available for obligation:			
21.40 Unobligated balance carried forward, start of year	3	5	4
22.10 Resources available from recoveries of prior year obligations	2	--	--
23.90 Total budgetary resources available for obligation	5	5	4
23.95 Total new obligations	--	-1	-1
24.40 Unobligated balance carried forward, end of year	5	4	3
Change in obligated balances:			
72.40 Obligated balance, start of year	2	--	1
73.10 Total new obligations	--	1	1
73.20 Total outlays (gross)	--	--	-1
73.45 Recoveries of prior year obligations	-2	--	--
74.40 Obligated balance, end of year	--	1	1
Outlays (gross), detail:			
86.93 01 Outlays from discretionary balances	--	--	1
Net budget authority and outlays			
89.00 Budget authority	--	--	--
90.00 01 Outlays	--	--	--
95.02 01 Unpaid obligation, end of year	--	--	1

DEPARTMENT OF THE INTERIOR
OFFICE OF INSULAR AFFAIRS
ASSISTANCE TO AMERICAN SAMOA DIRECT LOAN FINANCING ACCOUNT

Program and Financing (in millions of dollars)

OMB ACCOUNT ID: 010-85-4163-0		2006	2007	2008
14-4163-0-3-806		Actual	Estimate	Estimate
Obligations by program activity:				
00.02	Interest paid to Treasury (6.139 percent on \$19 million)	1	1	1
10.00	Total new obligations	1	1	1
Budgetary resources available for obligation:				
22.00	New financing authority (gross)	--	3	--
23.95	Total new obligations	-1	-1	-1
New financing authority (gross), detail:				
69.00	01 Offsetting collections (cash)	1	4	1
69.47	01 Portion applied to repay debt	-1	-1	-1
69.90	Spending authority from offsetting collections (total mandatory)	--	3	--
Change in obligated balances:				
73.10	Total new obligations	1	1	1
Offsets: Against gross financing authority and financing disbursements:				
Offsetting collections (cash) from:				
88.00	01 Federal Sources	--	3	--
88.40	01 Non-Federal sources - interest payments from American Samoa	1	1	1
88.40	02 Non-Federal sources	--	--	--
88.90	Total, offsetting collections (cash)	1	4	1
Net financing authority and financing disbursements:				
89.00	Financing authority	-1	-1	-1
90.00	01 Financing disbursements	--	-4	-1

DEPARTMENT OF THE INTERIOR
OFFICE OF INSULAR AFFAIRS
ASSISTANCE TO TERRITORIES

Program and Financing (in millions of dollars)

OMB ACCOUNT ID: 01085-0412-0		2006	2007	2008
14-0412-0-1-806		Actual	Estimate	Estimate
Change in obligated balances:				
72.40	Obligated balance, start of year	129	122	111
73.10	Total new obligations	84	78	75
73.20	Total outlays (gross)	-86	-89	-87
73.45	Recoveries of prior year obligations	-3	--	--
Change in uncollected customer payments from				
74.00	01 Federal sources (unexpired)	-2	--	--
74.40	Obligated balance, end of year	122	111	99
Outlays (gross), detail:				
86.90	01 Outlays from new discretionary authority	39	31	31
86.93	01 Outlays from discretionary balances	14	22	22
86.97	01 Outlays from new mandatory authority	1	3	1
86.98	01 Outlays from mandatory balances	32	33	33
87.00	Total outlays (gross)	86	89	87
Offsets: Against gross budget authority and outlays:				
Offsetting collections (cash) from:				
88.00	01 Offsetting collections (cash) from: Federal sources	1	--	--
Against gross budget authority only:				
Change in uncollected customer payments from				
88.95	Federal sources (unexpired)	2	--	--
Net budget authority and outlays				
89.00	Budget authority	76	78	75
90.00	01 Outlays	85	89	87
95.02	01 Unpaid on obligation, end of year	128		

COMPACT PAYMENT PROJECTIONS
10 YEAR TOTAL - FY 2004-2014

(In thousands of dollars)

												FY 2004-2014
												10 Year
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
<u>Federated States of Micronesia</u>												
Sector Grants	76,000	77,099	79,215	79,388	80,516	81,866	83,169	84,423	85,630	86,789	87,899	901,994
Trust Fund	16,000	16,189	16,442	17,689	18,996	20,411	21,875	23,386	24,945	26,553	28,208	230,694
Audit	500	500	500	500	500	500	500	500	500	500	500	5,500
<u>TOTAL</u>	<u>92,500</u>	<u>93,788</u>	<u>96,157</u>	<u>97,577</u>	<u>100,011</u>	<u>102,777</u>	<u>105,543</u>	<u>108,309</u>	<u>111,075</u>	<u>113,841</u>	<u>116,607</u>	<u>1,138,188</u>
<i>Inflation at actual for 2005-2008, then +3% for out years</i>		1.18%	2.76%	5.29%	7.93%	10.93%	13.93%	16.93%	19.93%	22.93%	25.93%	
<u>Republic of the Marshall Islands</u>												
Sector Grants	35,200	35,109	35,144	35,482	35,833	36,274	36,685	37,067	37,418	37,740	40,549	402,501
Rongelap Resettlement		1,768	1,760	1,760	0	0	0	0	0	0	0	5,288
Kwajalein Lease Payments	15,000	15,177	15,414	15,793	16,190	16,640	17,090	17,540	17,990	18,440	18,000	183,271
Enewetak - Section 103 (f)(2)(c)(i)	1,300	1,315	1,336	1,369	1,403	1,442	1,481	1,520	1,559	1,598	1,637	15,961
Trust Fund	7,000	7,588	8,221	8,950	9,714	10,538	11,393	12,278	13,192	14,137	15,112	118,123
Audit Grants	500	500	500	500	500	500	500	500	500	500	500	5,500
<u>TOTAL</u>	<u>59,000</u>	<u>61,457</u>	<u>62,375</u>	<u>63,854</u>	<u>63,639</u>	<u>65,394</u>	<u>67,149</u>	<u>68,904</u>	<u>70,659</u>	<u>72,414</u>	<u>75,798</u>	<u>730,643</u>
<i>Inflation at actual for 2005-2008, then +3% for out years</i>		1.18%	2.76%	5.29%	7.93%	10.93%	13.93%	16.93%	19.93%	22.93%	25.93%	
Grand Total FSM & RMI	151,500	155,245	158,532	161,431	163,651	168,172	172,693	177,214	181,735	186,256	192,406	1,868,832
<u>COMPACT IMPACT</u>												
Section 104	30,000	30,000	30,000	29,684	30,000	30,000	30,000	30,000	29,640	30,000	30,000	329,324
OIA cost reimb.				316					360			676
Judicial Training	300	304	308	316	324	333	342	351	360	369	378	3,684
GRAND TOTAL	181,800	185,549	188,840	191,747	193,974	198,504	203,034	207,564	212,094	216,624	222,783	2,202,515
<i>(includes Compact Impact, Judicial Training)</i>												

COMPACT PAYMENT PROJECTIONS
10 YEAR TOTAL - FY 2015-2023
(In thousands of dollars)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	FY 2015-2023 10 Year Total	20 Year GRAND TOTAL
<u>Federated States of Micronesia</u>											
Sector Grants	88,962	89,976	90,943	91,861	92,732	99,312	101,382	103,452	105,522	864,141	1,766,135
Trust Fund	29,912	31,663	33,463	35,310	26,590	39,149	41,140	43,180	45,267	325,674	556,368
Audit	500	500	500	500	500	500	500	500	500	4,500	10,000
<u>TOTAL</u>	<u>119,373</u>	<u>122,139</u>	<u>124,905</u>	<u>127,671</u>	<u>119,822</u>	<u>138,961</u>	<u>143,022</u>	<u>147,132</u>	<u>151,289</u>	<u>1,194,315</u>	<u>2,332,503</u>
<i>Inflation at actual for 2005-2008, then +3% for out years</i>	28.93%	31.93%	34.93%	37.93%	40.93%	43.93%	46.93%	49.93%	52.93%		
<u>Republic of the Marshall Islands</u>											
Sector Grants	40,871	41,162	41,424	41,655	41,856	42,028	42,169	42,280	42,362	375,806	778,307
Rongelap Resettlement	0	0	0	0	0	0	0	0	0	0	5,288
Lease Payments	23,207	23,747	24,287	24,827	25,367	25,907	26,447	26,987	27,527	228,307	411,578
Enewetak - Section 103 (f)(2)(c)(i)	1,676	1,715	1,754	1,793	1,832	1,871	1,910	1,949	1,988	16,489	32,449
Trust Fund	16,116	17,151	18,216	19,310	20,435	21,590	22,774	23,989	25,233	184,814	302,936
Audit Grants	500	500	500	500	500	500	500	500	500	4,500	10,000
<u>TOTAL</u>	<u>82,371</u>	<u>84,276</u>	<u>86,181</u>	<u>88,086</u>	<u>89,991</u>	<u>91,896</u>	<u>93,801</u>	<u>95,706</u>	<u>97,611</u>	<u>809,915</u>	<u>1,540,558</u>
<i>Inflation at actual for 2005-2008, then +3% for out years</i>	28.93%	31.93%	34.93%	37.93%	40.93%	43.93%	46.93%	49.93%	52.93%		
Grand Total FSM & RMI	201,744	206,415	211,086	215,757	209,812	230,856	236,823	242,837	248,900	2,004,230	3,873,061
<u>COMPACT IMPACT</u>											
Section 104	30,000	30,000	29,595	30,000	30,000	30,000	30,000	29,550	30,000	269,145	598,470
OIA cost reimb.			405					450		855	1,530
Judicial Training	387	396	405	414	423	432	441	450	459	3,805	7,489
GRAND TOTAL	232,131	236,811	241,491	246,171	240,235	261,288	267,263	273,287	279,358	2,278,035	4,480,550
<i>(includes Compact Impact, Judicial Training)</i>											

**U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF INSULAR AFFAIRS
COMPACT OF FREE ASSOCIATION
REPUBLIC OF PALAU
Estimated Payments 1995 - 2009
\$'S IN 000'S**

<u>ACTIVITY (P.L. 99-658)</u>	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>TOTALS</u>
Sect. 211(a) Current Account	12,000	12,000	12,000	12,000	7,000	7,000	7,000	7,000	7,000	7,000	6,000	6,000	6,000	6,000	6,000	120,000
Sect. 211(b) Energy Production	28,000															28,000
Sect. 211(c) Communications	1,650	150	150	150	150	150	150	150	150	150	150	150	150	150	150	3,750
Sect. 211(d) Maritime Surveillance, Health, Scholarships	631	631	631	631	631	631	631	631	631	631	631	631	631	631	631	9,465
Sect. 211(e) Start-up for 211(d)	667															667
Sect. 211(f) Investment Fund a/	66,000		4,000													70,000
Subtotal Sec. 211	108,948	12,781	16,781	12,781	7,781	7,781	7,781	7,781	7,781	7,781	6,781	6,781	6,781	6,781	6,781	231,882
Sect. 212(b) Capital Account	36,000															36,000
Sect. 213 Defense Use Impact	5,500															5,500
Sect. 215 Inflation Adjustment	35,719	5,842	6,075	6,440	3,790	3,861	4,004	4,147	4,147	4,290	3,752	3,936	4,121	4,305	4,490	98,917
SUBTOTAL	186,167	18,623	22,856	19,221	11,571	11,642	11,785	11,928	11,928	12,071	10,533	10,717	10,902	11,086	11,271	372,299
Sect. 221(b) Special Block Grant	6,300	4,900	3,500	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	38,700
<u>DIRECT PAYMENTS</u>	192,467	23,523	26,356	21,221	13,571	13,642	13,785	13,928	13,928	14,071	12,533	12,717	12,902	13,086	13,271	410,999
Federal Services b/	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sect. 212(a) Palau Road Construction	53,000		96,000													149,000
GRAND TOTAL, PALAU	245,467	23,523	122,356	21,221	13,571	13,642	13,785	13,928	13,928	14,071	12,533	12,717	12,902	13,086	13,271	559,999

a/ PALAU MAY WITHDRAW \$5 MILLION ANNUALLY FROM THE FUND IN YEARS 5 THROUGH 15.

b/ Aggregate amount included on the FSM/RMI Compact Estimated Amounts table for federal services for FSM/RMI/Palau.

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APPENDIX I Partial Results from Private Sector Economic Development Efforts

- A global financial services company that provides a wide range of coordinated wealth management services, including commercial banking, real estate development and insurance sent its Director and CFO on one of the 2006 Business Opportunities Missions. Shortly thereafter the CEO of the company decided to move its main global operations to the islands. Although much of the company's operations will remain on the Mainland, the company's global Human Resources and IT operations will be relocated immediately resulting in at least 20 local jobs and an investment of over \$2 Billion. The company has already leased 20 acres near the airport to build a hangar for corporate jets and the CEO has purchased
- A participant in all three Business Opportunities Missions that operates several 34-passenger live-aboard scuba dive ships initiated plans to expand his operations in the Caribbean and the Pacific immediately after the first Mission in 2005. During the summer of 2005 one of the DOI Island Fellows/MBA candidates researched scuba operation throughout the Pacific and presented the finding to the CEO of the company. The CEO is currently planning to begin operations in the U.S. Virgin Islands in the fall of 2007 and is already accepting bookings. In addition, the CEO is planning to travel to Pohnpei in March of 2007 to meet with a prospective partner about initiating operations there. If this project moves forward, the CEO would provide the marketing and assistance attracting the scuba divers and the Pohnpei partner would obtain the financing and control the operations there. If plans move forward as anticipated, this will create at least a dozen local jobs in each location and well as tourism revenues for the destinations.
- A California nursing home company which participated in the 2004 conference and the first Business Opportunities Mission to the Western Pacific has developed a nurse-training facility on Saipan, and has purchased a hotel to house the students. The company has hired five instructors and contracted with the Northern Marianas Community College for space for training. To date they have trained 50 nurses. That same company is planning to open a pharmacy on Saipan and has the paperwork in place. During January of 2007, a group of company-sponsored health care professionals, including pharmacists, will be making their second visit to Saipan.

- A company that participated in the 2004 and 2006 Conferences and the 2005 Business Opportunities Mission has formed a partnership in the CNMI to mine volcanic pozzolan, an essential component of concrete, from the island of Pagan in the CNMI. The company has secured commitments for financing. The supply would be aimed at large construction companies in China, several of which have already made tacit commitments to purchase the material. The company is awaiting final permit approval. If successful, this project would represent the opening of a wholly new industry in the CNMI.
- A Seattle-based financial services company which participated in the first business opportunities mission has received approval to begin operations on Guam from both the local Department of Taxation and the Department of Banking. He is currently discussing his options, and the appropriate scale of operations.
- A group of three members of the President's Advisory Commission on Asian Americans and Pacific Islanders, along with several local partners, have broken ground on a major resort on Tinian. The plans include 204 villas and 100 rooms, a casino, spa, high end retail/restaurants, museum and Water Park. The plan focuses on the strengths of the local culture and history of the island and its people. Their interest in the project began in 2004, after hearing a presentation from OIA during the leadup to the first Business Opportunities Mission.
- Two companies that participated in the Business Opportunities Mission to American Samoa are exploring options to finance and build a fiber-optic cable link between American Samoa and either Fiji or Hawaii, in partnership both with the local telecommunications utility and several private partners. This project will likely be a public-private partnership that will involve partners from the local and mainland private sectors, the government of American Samoa, and the Federal government, and will open up entirely new sectors to the local economy if successful.
- A Honolulu based CPA with experience in American Samoa is planning to set up a call center in American Samoa to serve a large mainland insurance company. If successful, the project would initially create 400 jobs with up to 4,000 more to follow. The CPA participated in the conference and met several times with Deputy Assistant Secretary for OIA. They have already made preliminary plans and are also actively involved in the plans to develop the fiber-optic link.

- As a result of the USVI Business Opportunities Mission, a California construction company owner who has experience building hotels for a nationally known hotel chain is planning to build a 200 room hotel with 100 condominiums attached in the Virgin Islands. He has made several trips to the USVI since the Mission and made an offer on 40 acres of land; negotiations and due diligence are ongoing.
- A Honolulu based university that attended the 2004 Conference and participated in the 2004 Business Opportunities Mission initiated plans to offer MA and PhD-level courses in education on both Guam and Saipan, through a combination of on-site and distance-learning methods. The university President reported in 2007 that they are now offering on-island EDD degrees and Bachelors of Science Completion Degrees in Business. The BSA program has 10 new students on Saipan and nine in the EDD program. Classes are being taught at the Northern Marianas College (NMC). Guam currently has 22 students enrolled in the EDD program.
- Guam utility officials made a presentation on privatization opportunities at the 2003 conference. The privatization of Guam Telecom Authority took place the following year. During the 2003 conference, the Governor of Guam met with the law firm that was eventually hired to prepare the bid request to privatize the Guam Waterworks Authority.
- An American Samoa company and a Palau company, after meeting at the 2004 conference, teamed up to win the bid to design and implement an immigration system for Palau. The American Samoa company, which participated in both conferences and two Business Opportunities Mission, is pursuing three other projects in the Western Pacific in partnership with local companies on Saipan, Palau, and in the RMI. Representatives from each of the companies met at the business development conferences. Projects of interest to the company are in the following areas: local satellite television, computer software and systems, and Voice Over IP phone services. The company has hired additional staff to meet demand for new business.
- A Hawaii-based internet applications firm that attended the business opportunities mission has been retained by a major tour company on Palau for both back office and web services.
- An Atlanta-based storage services company that participated in the USVI Business Opportunities Mission in May 2006 has built a business relationship with three companies on St. Croix and one on St. John. It has created mutually

beneficial relationships that are expanding the services of all four companies in the USVI.

- A specialty cruise line which was visited by OIA officials in connection with the first Business Opportunities Mission has announced plans to run Micronesia cruises in 2007 and is taking bookings.
- A deep water ocean technology company that participated in the 2005 Business Opportunities Mission to the Western Pacific and attended two of the Conferences has secured financing for first-stage work to install a deep-water A/C pipe to serve the tourist districts on Saipan and Guam. The company is sending a team to visit the CNMI Legislature in February 2007. Negotiations are under way for a one year lease of property to enable the required studies. If plans materialize this project could provide a source of much needed fresh water for the CNMI and support aquaculture and agricultural projects.
- A Virginia technology company that attended the 2006 conference is sending two representatives to Guam and Saipan in early 2007 to follow-up on IT and homeland security projects. They plan to meet with representatives of the local power and ports authorities and medical first-responders.
- A Guam businessman who attended the 2006 conference reports that he has engaged an IT service provider he met at the conference to explore how its services can be applied to meet the requirements of Guam's utility organizations. In addition they have invited an environmental and archeological company to provide a briefing to their utility engineering divisions.
- Guam issued a certificate to a California-based company at the 2004 Secretary's Conference on Island Business Opportunities to authorize it to engage in the captive insurance business on Guam. Almost two years later the company remains a Guam domiciled captive. A medical malpractice captive also setup, along three other domestic captives in various stages of development, so the industry is slowly starting to take hold on Guam.
- A company that participated in the first Business Opportunities Mission and the 2004 Conference has started a new newspaper on Saipan; the publication has both print and online editions.
- A financial services, asset management, and real estate development firm based in the U.S. Virgin Islands will be opening a branch in the CNMI, aimed at the

Chinese market. The company attended both Conferences, and would offer international lending, investments, and consulting services. The initial investment is expected to be \$12 million.

- An Ohio-based venture capital firm that attended the 2004 conference is opening a financial services firm in the U.S. Virgin Islands, aimed at the local market.
- A company from Oklahoma which attended the 2004 conference will now be providing insurance actuarial services in Guam.

IN THE PIPELINE

- A company based in Florida was taken out to the islands by a participant in the first Business Opportunities Mission; they are seeking to build power plants that burn a renewable fuel source derived from plant matter to be farmed in the Philippines. The company is already operating in Florida, and would build plants in Palau and Saipan, producing power to be sold under power purchase agreements with the local utilities. Discussions are on going.