
**Statement of Anthony M. Babauta,
Assistant Secretary of the Interior for Insular Areas,
Before the House Subcommittee on Insular Affairs, Oceans and Wildlife
Regarding the President's Fiscal Year 2011 Budget Request for the Office of Insular
Affairs**

February 24, 2010

Madam Chair and members of the House Subcommittee on Insular Affairs, Oceans and Wildlife, it is a privilege to appear before you today to present the President's fiscal year 2011 budget request for the Office of Insular Affairs (OIA). OIA is responsible for overseeing, on behalf of the Secretary of the Interior, the Federal Government's relationship with the United States territories of Guam, American Samoa, the United States Virgin Islands (USVI), and the Commonwealth of the Northern Mariana Islands (CNMI), as well as administering the financial assistance for the freely associated states of the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau under the Compacts of Free Association. Due to their isolation and lack of resources, these seven island areas face a variety of unique challenges.

The fiscal year 2011 OIA budget is focused on strategies that empower insular communities. OIA will continue to provide support to help improve quality of life, create economic opportunity, and develop more efficient and effective government through various Assistance to Territories programs. These programs address a variety of needs, including critical infrastructure related to wastewater systems, hospitals, and schools. In fiscal year 2010, OIA received over \$102.5 million in Assistance to Territories funding, of which more than 90 percent has been awarded to the insular areas in the form of grants. OIA intends to continue this aggressive administration of both current discretionary funding, and permanent and indefinite mandatory funding for insular areas that may be appropriated for fiscal year 2011.

Overview of the FY 2011 Budget Request

In his State of the Union address last month, President Obama acknowledged that “families across the country are tightening their belts and making tough decisions. The Federal Government should do the same.” The Office of Insular Affairs has taken direction from the President by crafting a \$457.7 million fiscal year 2011 budget request that demonstrates budgetary restraint yet ensures that the flow of critical assistance to the insular areas continues with minimal interruption and proper oversight.

This amount includes \$87.0 million in current appropriations, which is a net decrease of \$15.5 million from the appropriation for fiscal year 2010. The \$87.0 million, in turn, includes \$253,000 in anticipated savings from efficiencies and \$15.4 million in program and earmark reductions. Fixed cost increases total \$129,000, of which \$96,000 are funded and \$33,000 are absorbed. The current appropriations request includes \$59.3 million in discretionary funding and \$27.7 million in mandatory Covenant funding for Territorial Capital Improvement Program grants to the U.S. territories of Guam, American Samoa, the Virgin Islands, and the CNMI.

In addition to current account appropriations, we estimate \$370.8 million for permanent and indefinite appropriations, including an estimated \$146.0 million for fiscal payments to Guam and the United States Virgin Islands and \$224.8 million for payments under the compacts of free association.

American Samoa Operations (\$22.8 million), the second largest budget activity, is considered discretionary but is a directed appropriation. This essential assistance allows the American Samoa Government to provide basic health care, education, and public safety services to the islands’ residents, as well as support for the judiciary.

While not officially considered a mandatory program, Federal Services assistance (\$2.8 million) is comprised of two subactivities that were negotiated and are defined in law. The first is reimbursement to the United States Postal Service for continuation of mail service to the freely

associated states. Failure to provide this service would be a breach of the negotiated compacts of free association. The second activity provides funding for the Republic of Palau to conduct an annual financial audit.

The only truly discretionary programs are the OIA Salaries and Expenses account (\$9.1 million) and the Technical Assistance activity (\$12.1 million), which account for \$21.2 million, or less than 5 percent of the total OIA budget of \$457.7 million for fiscal year 2011.

Republic of Palau Compact

The OIA budget for 2011 includes a placeholder of \$20.8 million in recognition of the ongoing review of the relationship between the United States and Palau. Legislation is being drafted that would extend the financial assistance provisions of the Palau Compact of Free Association for an additional fifteen years, through 2024, with total funding over the period of \$250 million. Although the review is ongoing and the legislative proposal is still being developed, the Administration expects to propose a program of assistance that ensures the viability of Palau's trust fund, maintains the stability of Palau's government and continues Palau's eligibility for Federal programs and services, including the U.S. Postal Service.

Empowering Insular Communities

As I noted earlier, the President's budget focuses on empowering insular communities by improving quality of life, creating economic opportunity, and developing more efficient and effective government.

Quality of Life

OIA's existing programs will continue to emphasize improvements to the quality of life of insular communities. Capital Improvement Program grants will be used to address a variety of basic but critical infrastructure needs in the U.S. territories, including the delivery of 24 hour potable water to the residents of Saipan. Technical Assistance funds will be used to continue a

number of vital programs, such as the 4 Atoll Healthcare Program in the Republic of the Marshall Islands, that provide support not otherwise available to the insular areas.

Economic Development

While OIA's programs substantially improve the quality of life of island communities, they have only indirectly played a role in island economic development. Because of their geographic isolation and lack of resources, island communities face unique economic development challenges. Little support is dedicated *directly* to economic development goals. Since his arrival at Interior, Secretary Salazar has placed great emphasis on the development of communities that are under his stewardship. Consistent with this aim, the President requests \$5.0 million to implement the Empowering Insular Communities Program, which will focus on economic development.

The Empowering Insular Communities Program is designed to strengthen the foundations necessary for economic development in the islands by addressing challenges preventing the reliable delivery of critical services needed to attract investment. Critical services include power (with an emphasis on sustainable green alternatives), water, sewer, solid waste, healthcare and public safety. Building on these essential services, the program will proactively pursue economic development initiatives that encourage private sector investment in the insular areas.

In fiscal year 2011, Interior intends to use program funds to address two critical public service delivery issues; upgrading civilian infrastructure on Guam in preparation for the relocation of 8,000 Marines to Guam, and the creation and implementation of comprehensive renewable energy strategies in the insular areas. The pursuit of sustainable energy solutions is a high priority for the Department. It is particularly important for the insular areas, which continue to be extremely vulnerable to high oil prices due to their overwhelming dependence on imported fossil fuels.

Efficient and Effective Government

Given the various financial assistance programs under our purview, the Office of Insular Affairs always considers accountability for Federal funds in the insular areas a top priority. OIA is working with all of the territories and freely associated states to help the island governments improve financial policies and procedures, upgrade automated financial management systems, train staff, complete accurate financial statements, and meet Single Audit Act requirements. OIA's sustained effort over the years to achieve island accountability has brought results. For many years, all the islands were several years behind in completing financial statements and annual audits. Now, nearly all are on time in meeting the requirements of the Single Audit Act. OIA will continue to assist in the development of more efficient and effective procedures so that the islands can give good account of both Federal and local dollars.

Conclusion

The insular areas will continue to be faced with tremendous challenges in 2011. President Obama's budget will empower insular communities by allowing OIA to pursue strategies that foster economic development, promote sound financial management, and improve the quality of life for islanders, while respecting and preserving their unique cultures.