

**STATEMENT
OF
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**BEFORE THE
HOUSE SUBCOMMITTEE ON FISHERIES, WILDLIFE, OCEANS AND INSULAR AFFAIRS**

**REGARDING THE
DEPARTMENT OF THE INTERIOR, OFFICE OF INSULAR AFFAIRS
FISCAL YEAR 2014 BUDGET REQUEST**

April 18, 2013

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to testify on the President's fiscal year 2014 budget request for Insular Affairs. The Office of Insular Affairs (OIA) is responsible for administering the Federal Government's relationship with the territories of Guam, American Samoa, the United States Virgin Islands (USVI), and the Commonwealth of the Northern Mariana Islands (CNMI). OIA also administers the financial assistance provided to the freely associated states (FAS) of the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), and the Republic of Palau under the Compacts of Free Association.

Overview of the FY 2014 Budget Request

The proposed fiscal year 2014 Insular Affairs budget totals \$687.7 million, an increase of \$68.6 million from the 2012 enacted appropriation. The \$68.6 million increase is attributed to increases in permanent appropriations. For 2014, growing mandatory commitments include an estimated \$314.6 million for fiscal payments to Guam and the U.S. Virgin Islands and \$281 million for payments under compacts of free association to the RMI, FSM and Palau. The request for current appropriations for 2014 is \$92 million. This amount is a decrease of \$12.3 million from the 2012 enacted appropriation. Included in this current appropriation request are \$64.3million in discretionary funding and \$27.7 million in mandatory funding.

The fiscal year 2014 OIA budget focuses on strategies that empower insular communities through programs that improve quality of life, create economic opportunity, and promote efficient and effective governance. Assistance to Territories programs include (1) American Samoa Operations (\$22.8

million), (2) Covenant capital improvement projects (\$27.7 million), (3) Office of Insular Affairs (\$9.5 million), (4) General Technical Assistance (\$17.5 million), (5) Maintenance Assistance (\$1.1million), (6) Brown Treesnake Control (\$3.5 million), (7) Coral Reef Initiative (\$1 million), and (8) Empowering Insular Communities (\$3 million). The budget also proposes the appropriation of \$3 million in additional Compact Impact assistance for education in Guam, Hawaii, the Northern Mariana Islands, and American Samoa, supplementing the shared annual \$30 million permanent appropriation for these jurisdictions.

American Samoa Operations, with its budget request of \$22.8 million, is the second largest budget activity in Assistance to Territories. While it is considered a discretionary item, it is a directed appropriation that provides essential assistance to help the American Samoa Government provide the basic services of health care, education, and support for the judiciary.

General Technical Assistance, for which OIA requests \$17.5 million for 2014, allows OIA to provide funding for addressing needs that affect multiple insular areas or specific needs that may require quick action. The islands all benefit and are very supportive of the program.

The largest component of Assistance to Territories is the \$27.7 million for Covenant capital improvement project grants (CIP). These funds are divided among the United States territories of Guam, American Samoa, the U.S. Virgin Islands and the CNMI using a competitive allocation system designed to elicit good-government accountability in the territories. This process uses a set of 10 objective criteria that measure the demonstrated ability of the territorial governments to exercise prudent financial management practices and to meet Federal grant requirements. These criteria include compliance with the Single Audit Act of 1984 and Federal grant project reporting requirements. The scoring process and all 10 criteria are explained on page 30 of the 2014 budget justification. Every year OIA provides each territorial government with the details of their scoring for the 10 criteria and notifies them of the resulting CIP award amount. For 2014, the \$27.7 million will be divided as follows:

CNMI	\$ 8.8 million
American Samoa	\$10.1 million
Guam	\$ 5.9 million
U.S. Virgin Islands	\$ 3 million

Building upon our efforts to increase accountability for Covenant CIP funds using the competitive criteria, in 2014 we are again proposing legislative language that would allow CIP funding that has remained unobligated in a territory's account, with an expenditure rate of less than 50 percent over five years, to be withheld or redistributed to other territories. When implemented, we believe this change in procedure will be a strong incentive for each territory to utilize CIP funding more quickly for its intended purpose. Expenditure rates are calculated annually and shared with the territorial governments as part of the competitive criteria.

The Pacific territories and Hawaii also receive mandatory Compact impact funding under the Compacts of Free Association. Section 104(e) of Title I of the amended Compacts of Free Association provides a \$30 million permanent annual appropriation through 2023 to aid in defraying costs incurred as a result of increased demands placed on health, education, social, or public sector services, or infrastructure related to such services, due to the residence of qualified non-immigrants from the RMI, the FSM, or the Republic of Palau. Also requested for fiscal year 2014 is an additional \$3 million to be dedicated solely to education. The distribution of this \$33 million is based on the size of the FAS populations in each affected jurisdiction as calculated by the U.S. Census Bureau once every five years. A new enumeration of FAS qualified non-immigrants will be completed in 2013.

Of the full \$687.7 million budget request for Insular Affairs, only \$64.3 million is discretionary.

Highlighted 2014 Budget Changes

Empowering Insular Communities

The President's 2014 budget request for Insular Affairs includes an initiative called "Empowering Insular Communities." The program is intended to strengthen the foundations for economic development and investment in the territories, including the critical services of power, water, sewer, solid waste, healthcare and public safety. The request for this program is \$3.0 million.

This funding will be dedicated in 2014 to the energy security critical to the insular areas' future economic development and sustainability. In 2010,

OIA entered into an Inter-Agency Agreement with the U.S. Department of Energy, National Renewable Energy Laboratory (NREL) to help develop long-term strategic energy plans in American Samoa, Commonwealth of the Northern Mariana Islands, and Guam. The NREL plans provided initial energy efficiency and renewable energy assessments, strategic plan implementation, and deployment of technology. OIA will use 2014 funding to help the territories implement actions identified in these strategic energy plans, including exploration for geothermal resources in the CNMI, energy efficiency actions in American Samoa and solar power installations in Guam.

Palau Compact of Free Association

In 2010, the United States and Palau completed their review of the financial provisions of the Compact of Free Association between the two countries. The two nations signed a fifteen-year agreement that includes payment by the United States of \$229.0 million in financial assistance to Palau for the period ending in 2024. Part of that commitment, \$52.6 million, has been appropriated in annual increments of \$13.2 million in fiscal years 2010 through 2013. For its part, Palau is committed to undertaking economic, legislative, financial, and management reforms. In the western Pacific, Palau is a strategic partner aiding United States defense interests, and has been a steadfast ally of the United States for many years. The President's 2014 budget includes no current appropriations for the Palau Compact. Once approved by the Congress, the new agreement will be funded with a permanent appropriation of \$192.9 million, including a payout to Palau of \$64.9 million in 2014.

Statistics Improvement

Another major OIA initiative is the continuation of gross domestic product (GDP) statistics for the four United States territories. Since 2008, OIA has had an agreement with the Bureau of Economic Analysis of the Department of Commerce for the gathering of data to produce GDP statistics. The agreement allows for consistent tracking of economic performance with statistical methods comparable to those used for the fifty states. The data demonstrate the slow recovery from difficult economic circumstances in the islands.

The most recent data show real GDP in American Samoa increased 1.3 percent in 2010 after declining 3.1 percent in 2009. Most of this growth is attributed to money spent recovering from the 2009 tsunami. In the CNMI, the six year downturn in GDP stopped in 2010 as the economy grew by 2.3 percent. This uptick followed a 19.8 percent decrease in 2009. Guam's GDP increased 1.2 percent in 2010 led by increased Department of Defense spending in that territory. The USVI showed an increase in GDP of 2.9 percent in 2010. This may represent the high point of the USVI economy. Figures after 2012 will reflect the closure of the Hovensa oil refinery in St. Croix.

The annual cost of maintaining the statistics is \$750,000 which is included in the 2014 budget request for OIA. The Bureau of Economic Analysis will incorporate this data in its larger GDP mandate for the nation; but more importantly insular officials will be able to judge the impact of the military build-up on Guam as well as the closure of the oil refinery and the opening of the new rum distillery in the USVI.

Conclusion

I am confident the President's 2014 budget request for the Office of Insular Affairs will empower insular communities by improving the quality of life, creating economic opportunity and promoting efficient and effective governance.