

**STATEMENT
OF
THOMAS BUSSANICH
DIRECTOR OF BUDGET, OFFICE OF INSULAR AFFAIRS, DEPARTMENT OF THE INTERIOR**

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

**REGARDING THE
DEPARTMENT OF THE INTERIOR, OFFICE OF INSULAR AFFAIRS
FISCAL YEAR 2012 BUDGET REQUEST**

March 2, 2011

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to testify on the President's fiscal year 2012 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.

Mr. Chairman, there are several island issues highlighted in this statement, but first, below is an overview of the President's 2012 budget request for the Office of Insular Affairs.

Overview of the FY 2012 Budget Request

The proposed fiscal year 2012 Insular Affairs budget totals \$474.4 million, an increase of \$23.5 million and two full time equivalent (FTE) positions from the 2010 enacted appropriation. The OIA budget contains two major categories: current and permanent appropriations. For 2012, mandatory commitments include an estimated \$145.0 million for fiscal payments to Guam and the U.S. Virgin Islands and \$232.1 million for payments under compacts of free association to the RMI, FSM and Palau. The request for current appropriations for 2012 is \$97.2 million. This amount is a decrease of \$5.3 million from the 2010 enacted appropriation. Included in this current appropriation request are \$59.5 million in discretionary funding and \$27.7 million in mandatory funding, plus \$10.1 million being transferred from Defense for vehicles and supplies for the transportation of civilian students on Guam.

The fiscal year 2012 OIA budget will focus 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 (\$13.8 million), (5) Maintenance Assistance (\$2.2 million), (6) Brown Treesnake Control (\$3.0 million), (7) Coral Reef Initiative (\$1.0 million), and (8) Empowering Insular Communities (\$4.1 million).

The three largest components of Assistance to Territories are American Samoa Operations, General Technical Assistance, and Covenant capital improvement project grants.

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 basic services of health care, education, and support for the judiciary.

General Technical Assistance, for which OIA requests \$13.8 million in 2012, 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 28 of the 2012 budget justification. Every year OIA provides each territorial government with the detail of their scoring for the 10 criteria and notifies them of the resulting CIP award amount. For 2012, the \$27.7 million will be divided as follows:

CNMI	\$ 9.5 million
American Samoa	\$10.1 million
Guam	\$ 6.1 million
U.S. Virgin Islands	\$ 2.0 million

Building upon our efforts to increase accountability for Covenant CIP funds using the competitive criteria, in 2012 we are proposing legislative language that would allow CIP funding, which has languished in a territory's account with an expenditure rate of less than 50 percent over five years, to be the basis of withholding or redistributing current

year CIP funding 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 territories also receive mandatory funding under the Compacts of Free Association in the form of Compact Impact. Section 104(e) of Title I of the amended Compacts of Free Association provides \$30.0 million annually through 2023 to aid in defraying costs incurred 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 non-immigrants from the RMI, the FSM, or the Republic of Palau. The distribution of this \$30.0 million is done as required by law based on the size of the FAS populations in each affected jurisdictions as calculated by the U.S. Census Bureau once every five years.

Of the full \$474.0 million budget request for Insular Affairs, only \$59.0 million is discretionary.

Highlighted 2012 Budget Changes

Guam Military Build-up

Long-term security interests of the United States in the western Pacific call for the relocation of 8,000 Marines and 9,000 dependents from Okinawa to Guam. This move will create major challenges for Guam's infrastructure in 2012 and subsequent budgets. Guam's population is expected to grow by 20 percent by 2016. In addition to inadequate port, road, power, water, wastewater, and solid waste systems shared by the military and the civilian community, Guam also faces a need to improve its healthcare and educational facilities, and to improve its public sector management. Guam will be forever changed by the military's build-up and its increased strategic visibility. Community support for this endeavor may be undermined if civilian facilities remain inadequate to meet the growing resource needs of the larger population.

For this reason, the President's proposed 2012 budget for the Office of Insular Affairs includes \$2.8 million for activities intended to lessen the socio-economic burdens on Guam that will result from the Marines' relocation from Okinawa to Guam. The 2012 budget would fund the purchase of new public safety equipment and technical assistance projects necessary for Guam to cope with population pressures.

Additionally, the request includes \$330,000 and two FTEs for a Guam field office to monitor and assist Guam with military relocation issues.

The 2012 budget also accounts for a \$10.1 million appropriations transfer from the Department of Defense to OIA for vehicles and supplies for the transportation of civilian students on Guam.

Palau Compact of Free Association

Last year, 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 \$250.0 million in financial assistance to Palau for the period ending in 2024. For its part, Palau is committed to undertaking economic, legislative, financial, and management reforms. Palau has been a steadfast ally of the United States for many years. In the western Pacific, Palau is a strategic partner aiding United States defense interests. The President's 2012 budget includes no current appropriations for the Palau Compact. Once approved by the Congress as proposed in S. 343, the new agreement will be funded and a permanent appropriation of \$250.0 million with a payout to Palau of \$29.3 million in 2012.

Empowering Insular Communities

The President's 2012 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 power, water, sewer, solid waste, healthcare and public safety. The request for this program is \$4.1 million.

In the first year of this program, \$1.1 million would be used to purchase public safety equipment for Guam to help satisfy the new public safety needs occasioned by the military relocation to Guam.

The remaining \$3.0 million would be devoted to implementing sustainable energy strategies. All of the territories and freely associated states suffer acutely because of their dependence on expensive fossil fuels. Territories often are forced to pay 40 cents per kilowatt hour for electricity – four times the rate in the continental United States. Utilizing \$750,000 in general Technical Assistance funding last year, the Office of Insular Affairs entered into an agreement with the Department of Energy's National Renewable Energy Laboratory (NREL) for analyses of the territories' energy needs and prospects. As part of the plan, the territories' governors visited NREL facilities in Colorado. This year, NREL will provide each territory with an energy assessment and initial plans for energy efficiency and renewable energy implementation and deployment. The \$3.0 million budgeted for Empowering Insular Communities would permit follow-on implementation of the NREL energy plans in the territories.

Private Sector

OIA has recognized a need for ongoing continuous linkages between private sector businesses in the territories and freely associated states with potential investors in Hawaii and the United States mainland. Therefore, OIA is perfecting its web-based listing of business opportunities in the islands known as "Island Business Link." In the past, this has been accomplished through conferences, trade missions and our Island Fellows

Program. These events created excitement and identified opportunities but previously they were not continuously available. Now, users of “Island Business Link” register by completing a form describing their business opportunities. A business on the United States mainland or anywhere in the world can then connect with another user through the Internet. The objective is to initiate the connection and facilitate discussion for a possible business relationship. It is then up to the users to communicate and follow-up with opportunities that benefit each other and the island community involved.

Statistics Improvement

Another major OIA initiative has been the establishment of Gross Domestic Product (GDP) statistics for the four United States territories. In 2008, OIA entered into a \$1.6 million agreement with the Bureau of Economic Analysis of the Department of Commerce for the gathering of data to produce GDP statistics. For the years 2002 through 2007, the GDP for the territories was determined to be as follows:

Guam	1.8 percent annual increase
American Samoa	.4 percent annual increase
Virgin Islands	2.9 percent annual increase
Northern Mariana Islands	4.2 percent annual decrease

With the basic data collected, the annual cost of maintaining the statistics is \$600,000, which is provided for in the 2012 OIA budget request. The goal is for the Bureau of Economic Analysis to incorporate this valuable statistics effort in its larger GDP mandate for the Nation.

Federal Responsiveness

Mr. Chairman, while there is no direct budget implication, last April, President Barack Obama signed Executive Order 13537, which strengthened the Interagency Group on Insular Areas (IGIA) by establishing IGIA co-chairs: the Assistant to the President and Director of Intergovernmental Affairs, and the Secretary of the Interior. Co-chair Cecilia Muñoz and Assistant Secretary Anthony M. Babauta, on behalf of the Secretary, welcomed more than twenty Federal agencies to yesterday’s IGIA meeting where numerous territorial issues were discussed with territorial leaders. Strengthening the IGIA has improved agency responsiveness and collaboration on Federal policy issues with respect to the territories. The IGIA looks forward to more direct participation of the White House as we attempt to resolve sometimes difficult and seemingly intractable territorial issues.

Conclusion

I am confident the President’s 2012 budget request for the Office of Insular Affairs will empower insular communities by improving quality of life, creating economic opportunity and promoting efficient and effective governance.