

**THIRD CHUUK STATE CONSTITUTIONAL CONVENTION
COMMITTEE ON PUBLIC FINANCE AND REVENUE
CHUUK STATE
FEDERATED STATES OF MICRONESIA**

SCR NO : 3-07
COMMITTEE : PF & R
DATE : 6/30/04
REF. DP.NO. 3-64

The Honorable Camillo Noket
President
Third Constitutional Convention
Chuuk State Government
Weno, Chuuk State, FM 96942

Dear President Noket:

Your Committee on Public Finance and Revenue to which was assigned Delegate Proposal No. 3-64 entitled:

"To amend Section 2, 3, 4, and 6, Article VIII of the constitution amending the certain sections regarding payment of funds, withdrawal, annual budget and appropriation to read as follows"

Begs leave to report as follows:

I. **RECOMMENDATION**

Mr. President, your committee is in full support of the purpose and intent of Delegate Proposal No. 3-64, and would very much like to recommend its adoption and incorporation as part of the State Constitution.

II. ANALYSIS.

1. Purpose

The purpose and intent of Delegate Proposal No. 3-64 is to strengthen and realign the current language of the sections of Article VIII to the realities and financial problems encountered by Chuuk State, since the constitution became effective more than ten years ago.

Over appropriation, overspending and the poor habit of allocating funds to nonessential programs are some of the leading causes of the financial problems for Chuuk State for most if not all the past years under review. As a likely result of these, the State of Chuuk has the highest debts, deficit and many other related problems of all the states in the nation.

It is also the intent of DP No. 3-64 to increase the percentage of both the operation and the development project funds with the State (article 8, Section 6). Currently, at least eight percent of appropriated State Operation fund is distributed to each of the Municipal governments, while at least 40 percent of appropriated development project fund is allocated for the Municipal Government on a formula based both on population and equal distribution on individual municipalities.

It is therefore the purpose of Delegate Proposal No.3-64 to provide some kind of controlling mechanism as far the problem of over-appropriation, overspending and indiscriminate allocation of State funds are concerned. And with a different kind of funding arrangement with the U.S. Government, it's even more important that we make adjustments to conform to the funding structure.

2. History.

Delegates Peter Sitan, Singkoro Harper and Tuter Sirom sponsored Delegate Proposal 3-64, which was introduced on February 3, 2004, with only one of the sponsors' signature.

C. FINDINGS.

During its deliberation on the Proposal, consideration of the usage of appropriate word was given to the selection between "SHALL" and "MAY" in section 2. Mr. President, your Committee has agreed to retain the word "MAY" as used in the constitution therefore, reinstate it in sections 2 and 3 of the Delegate Proposal.

For the word indirect recipient as a new addition to direct recipient, your Committee finds it un-necessary to include such word. To be unlawful to be indirect recipient of public fund, the monitoring and compliance aspect would be almost impossible to manage.

For section 4 Mr. President, your Committee endorses to the proposed amendment thereof in order to reinforce the intent of Delegate Proposal No. 3-64 and restraint over appropriation of State funds once and for all. During a Public Hearing with Staff from the Department of Finance and Administration, it was pointed out that one of the reasons, the State continued to incur deficits is because of different revenue projections by the Executive and the Legislative branches. There have been instances where by the Legislature included new staff on the State budget even though the Executive Branch did not include in the overall State budget proposal.

Finally, Mr. President, your Committee on Public Finance & Revenue endorses the proposed amendments to Section 6, Article VIII. If adopted, it would increase the minimum share of the Municipal Governments in Operation fund from the current 8 percent to 20 percent. However, after further investigation on the financial situation of the State, your Committee finds it difficult to increase the revenue sharing when the funds are declining under the Compact II period.

The second part of the amendment to this section of Article VIII of the constitution deals with the minimum amount 40% allocation of Development Projects. Your Committee is in full support of the idea that instead of giving this amount to the individual Municipal Government, allocation of Development Projects fund dedicated upon the regional needs, where it would involve more than one mayor and one municipal council participating - making sure that such funds are used accordingly. Your committee is equally in full support of the third and final proposed amendment to the same section 6 of Article VIII as proposed by Delegate Proposal NO. 3-64. Your Committee is equally in full support of the third and final proposed amendment to the same section 6 of Article VIII as proposed by Delegate Proposal No. 3-64. Your Committee find that this proposed amendment intend to assure simultaneous development throughout the State without leaving one or two regions far behind. This will in turn assure the growth of the spirit of cooperation and unity among all the five regions of the State.

In reviewing the funding arrangement under Compact II, your committee noted that there are no Development Funds, rather an Infrastructure Fund which must be in accordance with

Plan. Such Plan is subject to the approval joint U.S and FSM reviewing Committee (JEMCO). As such, your Committee would like to recommend that the regional sharing of such infrastructure fund must conform to a Plan, which should be incorporated in the State Plan. Any regions that fail to submit a plan would loose out on its share.

III. AMENDMENTS.

For the sole purpose of clarity and in the absence of the appropriate tool in the adopted Rules of Procedure of the Convention, your Committee has come up with a new Committee Proposal as attached to accommodate all the amendment in Delegate Proposal 3-64.

IV. CONCLUSION.

Mr. President, your Committee on Public Finance & revenue would like to recommend adoption of this Committee Report and the eventual concurrence of the convention with the Committee Proposal as hereunder attached. The Committee Proposal amends Delegate Proposal 3-64 to Committee Proposal No. 3- 07.

Respectfully submitted,

COMMITTEE ON PUBLIC FIANANCE AND REVENUE

/S/
Del. Peter Sitan, Chairman

/S/
Del. Eradio William, V. Chairman

/S/
Del.Willy Williander, Member

/S/
V. Pres. Peter Aten, Member

Charmn. Jack Fritz, Member

/S/
Del.Keiuo William, Member

Del. Tuter Sirom, Member