



Testimony

Before the Committees on Natural Resources and Foreign Affairs, House of Representatives

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# COMPACTS OF FREE ASSOCIATION

## Trust Funds for Micronesia and the Marshall Islands Are Not Likely to Fully Replace Expiring U.S. Annual Grant Assistance

Statement of David Gootnick, Director, International Affairs and Trade

# GAO Highlights

Highlights of [GAO-19-722T](#), a testimony before the Committees on Natural Resources and Foreign Affairs, House of Representatives

## Why GAO Did This Study

In 2003, the United States approved amended compacts of free association with the FSM and RMI, providing a total of \$3.6 billion in economic assistance in fiscal years 2004 through 2023 and access to several U.S. programs and services. Compact grant funding, overseen by the Department of the Interior (Interior), generally decreases annually. However, the amount of the annual decrease in grants is added to the annual U.S. contributions to the compact trust funds, managed by joint U.S.–FSM and U.S.–RMI trust fund committees and chaired by Interior. Trust fund earnings are intended to provide a source of income after compact grants end in 2023.

This testimony summarizes GAO’s May 2018 report on compact grants and trust funds (GAO-18-415). In that report, GAO examined (1) the use and role of U.S. funds and programs in the FSM and RMI budgets, (2) projected compact trust fund disbursements, and (3) trust fund committee actions needed to address the 2023 transition to trust fund income. For this testimony, GAO also reviewed key variables for its trust fund model as of June 2019 to determine whether these variables had substantially changed. In addition, GAO reviewed the status of Interior’s response to GAO’s May 2018 recommendations.

## What GAO Recommends

In its May 2018 report, GAO made three recommendations to Interior regarding each country’s trust fund to address trust fund disbursement risks. Interior concurred with GAO’s recommendations and has continued to discuss actions in response at trust fund committee meetings, with implementation targeted for 2023.

View [GAO-19-722T](#). For more information, contact David Gootnick at (202) 512-3149 or [gootnickd@gao.gov](mailto:gootnickd@gao.gov).

September 2019

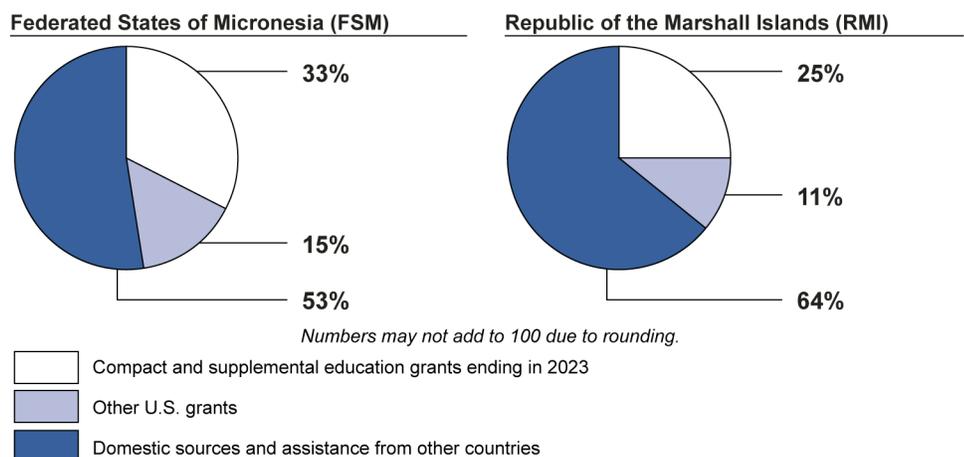
# COMPACTS OF FREE ASSOCIATION

## Trust Funds for Micronesia and the Marshall Islands Are Not Likely to Fully Replace Expiring U.S. Annual Grant Assistance

### What GAO Found

The Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) rely on U.S. grants and programs, including several that are scheduled to end in 2023. In fiscal year 2016, U.S. compact sector grants and supplemental education grants, both scheduled to end in 2023, supported a third of the FSM’s expenditures and a quarter of the RMI’s. Agreements providing U.S. aviation, disaster relief, postal, weather, and other programs and services are scheduled to end in 2024, but some U.S. agencies may provide programs and services similar to those in the agreements under other authorities.

**FSM and RMI Total Expenditures of Government Revenues, Fiscal Year 2016**



Sources: GAO analysis of P.L. 108-188, the RMI Military Use and Operating Rights Agreement (MUORA); and FSM and RMI single audit reports. | GAO-19-722T

GAO’s 2018 report noted that the FSM and RMI compact trust funds face risks and may not provide disbursements in some future years. GAO projected a 41 percent likelihood that the FSM compact trust fund would be unable to provide any disbursement in 1 or more years in fiscal years 2024 through 2033, with the likelihood increasing to 92 percent in 2054 through 2063. GAO projected a 15 percent likelihood that the RMI compact trust fund would be unable to provide any disbursement in 1 or more years in fiscal years 2024 through 2033, with the likelihood increasing to 56 percent in 2054 through 2063. Potential strategies such as reduced trust fund disbursements would reduce or eliminate the risk of years with no disbursement. However, some of these strategies would require changing the trust fund agreements, and all of the strategies would require the countries to exchange a near-term reduction in resources for more-predictable and more-sustainable disbursements in the longer term.

Interior has not yet implemented the actions GAO recommended to prepare for the 2023 transition to trust fund income. The trust fund committees have not developed distribution policies, required by the agreements, which could assist the countries in planning for the transition to trust fund income. The committees have not developed the required fiscal procedures for oversight of disbursements or addressed differences between the timing of their annual determinations of the disbursement amounts and the FSM’s and RMI’s annual budget cycles.

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September 26, 2019

Chairmen Grijalva and Engel, Ranking Members Bishop and McCaul, and Members of the Committees:

Thank you for this opportunity to discuss our prior report on U.S. compacts of free association with the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI). My testimony today will summarize our May 2018 report on (1) the use and role of U.S. funds and programs in the FSM and RMI budgets, (2) projected compact trust fund disbursements, and (3) compact trust fund committee actions needed to address the FSM's and RMI's 2023 transitions to trust fund income.<sup>1</sup>

In 2003, the United States approved amended compacts of free association with the FSM and RMI that provide for a total of \$3.6 billion in compact sector grants, trust fund contributions, and other grants, as well as access to several U.S. programs and services, in fiscal years 2004 through 2023.<sup>2</sup> Compact sector grants, managed by the U.S. Department of the Interior (Interior), generally decrease annually before their scheduled end in 2023. However, the amount of the annual decrease in compact sector grants is added to the annual U.S. contributions to the compact trust fund established for the benefit of each country. Investment earnings from the compact trust funds are intended to provide an annual source of revenue after the compact sector grants are scheduled to end in 2023. As 2023 approaches, questions remain about the FSM's and RMI's ability to successfully transition to greater self-reliance when the 20 years of U.S. compact economic assistance end.

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<sup>1</sup>GAO, *Compacts of Free Association: Actions Needed to Prepare for the Transition of Micronesia and the Marshall Islands to Trust Fund Income*, [GAO-18-415](#) (Washington, D.C.: May 17, 2018). We also testified on these topics before the Senate Committee on Energy and Natural Resources in July 2019. See GAO, *Compacts of Free Association: Trust Funds for Micronesia and the Marshall Islands Are Unlikely to Fully Replace Expiring U.S. Annual Grant Assistance*, [GAO-19-648T](#) (Washington, D.C.: July 23, 2019).

<sup>2</sup>Compact of Free Association Amendments Act of 2003 (Pub. L. No. 108-188). The \$3.6 billion in compact assistance includes compact sector grants, trust fund contributions, audit grants, Kwajalein impact payments and judicial training grants as well as grants provided to the RMI related to the nuclear-affected atolls of Rongelap and Enewetak. The total includes inflation adjustments for prior-year assistance and estimated inflation adjustments for future-year assistance but does not include the cost to the United States to provide programs and services through the compacts' programs and services agreements in fiscal years 2004 through 2023.

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To discuss the use and role of U.S. funds in the FSM and RMI, compact trust fund projections, and trust fund committee actions needed to address the 2023 transition, we relied on our related May 2018 report. Detailed information on the scope and methodology for our prior work summarized in this testimony can be found in appendix I of our May 2018 report. In addition, we reviewed key variables for our trust fund model as of June 2019, such as the fund balances and projected inflation, to determine whether these variables had changed substantially since our original modeling. We found that the updated variables would result in only slight changes to the report's projections of future compact trust fund performance presented in this testimony and do not alter the broader conclusions of our 2018 report with regard to future risks to the compact trust funds. Also, to update the status of Interior's response to our May 2018 recommendations to address compact trust fund issues, we reviewed information provided by Interior and from the compact trust funds' administrator, and observed meetings of the compact trust fund committees in September 2019.

We conducted the work on which this testimony is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

The FSM and RMI are independent countries about 3,000 miles southwest of Hawaii. The FSM is a federation of four semiautonomous states—Chuuk, Kosrae, Pohnpei, and Yap—whose population and income vary widely. Chuuk, the largest state by population, has the lowest per-capita gross domestic product (GDP). Overall, the FSM had a 2016 population of approximately 102,000 and a GDP per capita of about \$3,200. The RMI's 2016 population was approximately 54,000 with a GDP per capita of about \$3,600. The RMI's most recent census, in 2011, found that approximately three-quarters of the population lived in Majuro, the nation's capital, and on the island of Ebeye in the Kwajalein Atoll. Table 1 shows the FSM's, FSM states', and RMI's estimated populations and annual GDP per capita in fiscal year 2016.

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**Table 1: FSM, FSM States, and RMI Estimated Populations and Annual Gross Domestic Product (GDP) per Capita**

Jurisdiction	2016 Population	Fiscal year 2016 GDP per capita (dollars)
Federated States of Micronesia (FSM)	102,453	3,220
FSM states		
Chuuk	46,688	1,994
Kosrae	6,227	3,376
Pohnpei	37,893	4,313
Yap	11,645	4,495
Republic of the Marshall Islands (RMI)	54,153	3,592

Source: Graduate School USA, *FSM FY2016 Economic Brief* (August 2017) and *RMI FY2016 Economic Brief* (August 2017). | GAO-19-722T

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## Compact of Free Association (1986–2003)

U.S. relations with the FSM and the RMI began during World War II, when the United States ended Japanese occupation of the region. Starting in 1947, the United States administered the region under a United Nations trusteeship.<sup>3</sup> In 1986, after a period of negotiations, the United States entered into a compact of free association with the FSM and RMI that provided for economic assistance to the two countries,

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<sup>3</sup>During the 1940s and 1950s, the RMI was the site of 67 U.S. nuclear weapons tests on or near Bikini and Enewetak Atolls.

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secured U.S. defense rights,<sup>4</sup> and allowed FSM and RMI citizens to migrate to the United States.<sup>5</sup>

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## Amended Compacts of Free Association (2004–Present)

### Compact Grants and Trust Fund Contributions

In 2003, after a period of negotiations, the United States approved separate amended compacts with the FSM and the RMI that went into effect on June 25, 2004, and May 1, 2004, respectively.

The amended compacts' implementing legislation authorized and appropriated direct financial assistance to the FSM and the RMI in fiscal years 2004 through 2023, with the base amounts decreasing in most years. The legislation also provided for partial inflation adjustment of the base amount of compact sector grants and trust fund contributions each year.<sup>6</sup> As the base amount of compact sector grants decreases, the trust

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<sup>4</sup>The military use and operating rights agreements (MUORAs) with each country under the amended compacts provide the United States with special and substantial access to, and control of, defense sites in each country. In the RMI, the U.S. Army Garrison-Kwajalein Atoll is home to the Ronald Reagan Ballistic Missile Defense Test Site and its approximately 1,300 U.S. personnel, including military personnel, Army civilians, contractor employees, and family members on Kwajalein and Roi-Namur islands. According to the Department of Defense, the department also pays \$17,021 annually as a retainer fee for the use of Bigen Island, which is located outside Kwajalein Atoll. While the Department of Defense has not used Bigen Island recently, the department continues to pay the retainer fee to secure the site for potential future testing activities. There are no U.S. defense sites in the FSM. See GAO, *Foreign Relations: Kwajalein Atoll Is the Key U.S. Defense Interest in Two Micronesian Nations*, [GAO-02-119](#) (Washington, D.C.: Jan. 22, 2002).

<sup>5</sup>Citizens of the Republic of Palau also received such migration rights through their separate Compact of Free Association in 1994. Section 141 of the FSM and RMI compacts, as amended, permits eligible citizens of the FSM and RMI to enter, reside, and work indefinitely in the United States, including its territories, without regard to the Immigration and Nationality Act's visa and labor certification requirements. The amended compacts' implementing legislation, Pub. L. No. 108-188, appropriated \$30 million annually for 20 years to help defray affected U.S. jurisdictions' costs for migrant services (compact impact). The amended compacts' implementing legislation defined the affected jurisdictions as Guam, Hawaii, the Commonwealth of the Northern Mariana Islands, and American Samoa. Interior allocates the \$30 million as impact grants in proportion to the population of compact migrants enumerated as required every 5 years. We have previously reported on compact migration to U.S. areas; see *Compacts of Free Association: Improvements Needed to Assess and Address Growing Migration*, [GAO-12-64](#) (Washington, D.C.: Nov. 14, 2011).

<sup>6</sup>The base amount is partially inflation-adjusted by the percentage that equals two-thirds of the percentage change in the U.S. gross domestic product implicit price deflator, or 5 percent, whichever is less in any 1 year, using the beginning of 2004 as a base.

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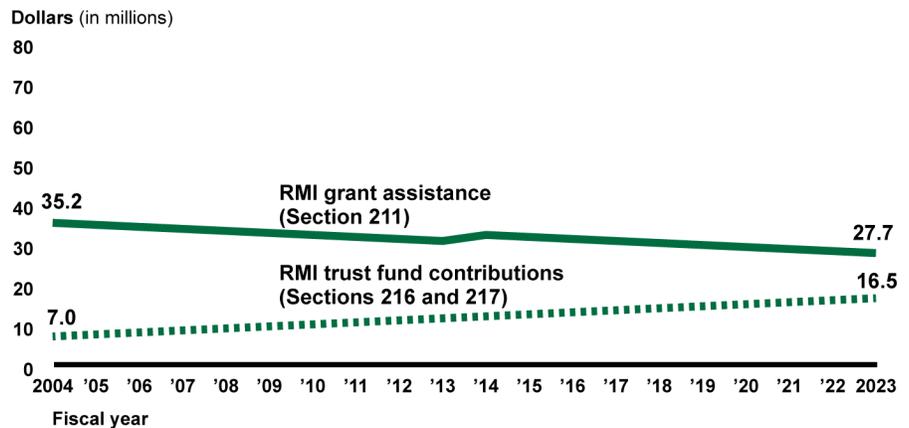
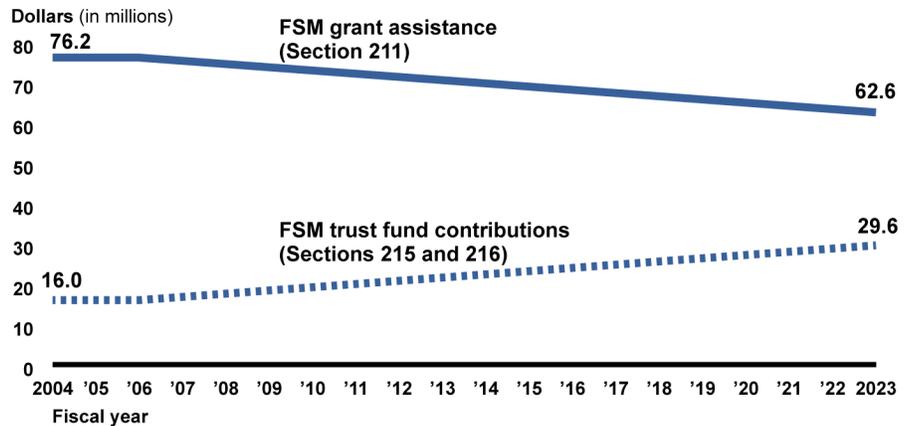
fund contributions generally increase by an equivalent amount.<sup>7</sup> Because the annual inflation adjustment is less than full inflation, the value of compact sector grants declines in real terms. Figure 1 shows the amount of compact sector grants and trust fund contributions each fiscal year from 2004 through 2023.<sup>8</sup>

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<sup>7</sup>The grant decrement and trust fund increment for the FSM is \$800,000 per year; the decrement for the FSM began in 2007. The grant decrement and trust fund increment for the RMI is \$500,000 per year; the decrement for the RMI began in 2005. As a result of these differences, the percentage of total decrement from the initial grants to the final grants will be smaller for the FSM (18 percent) than for the RMI (21 percent).

<sup>8</sup>The U.S. contributions to the trust funds were conditioned on the FSM and the RMI making their own required contributions. The FSM was required to contribute at least \$30 million before September 30, 2004; the FSM made this contribution on October 1, 2004, and the United States made its first contribution on October 5, 2004. The RMI was required to contribute at least \$25 million on the day the amended compact went into effect or on October 1, 2003, whichever was later; \$2.5 million before October 1, 2004; and an additional \$2.5 million before October 1, 2005. The RMI made its initial contribution on June 1, 2004, and the United States made its initial contribution on June 3, 2004.

**Figure 1: U.S. Grants and Trust Fund Contributions to Be Provided to the FSM and RMI under the Amended Compacts, Prior to Partial Adjustments for Inflation, Fiscal Years 2004-2023**



Source: Compacts of Free Association as Amended, Between the Government of the United States of America and the Government of the Federated States of Micronesia (FSM) and the Government of the Republic of the Marshall Islands (RMI), Pub. L. No. 108-188. | GAO-19-722T

Notes: Sections 211 and 216 of the FSM amended compact and sections 211 and 217 of the RMI amended compact detail grants to the FSM and the RMI, while Sections 215 and 216 of the U.S.–FSM compact and sections 216 and 217 of the U.S.–RMI compact detail contributions to the FSM and RMI trust funds. The increase in RMI grants from fiscal year 2013 to fiscal year 2014 is due to a \$2 million increase in payments to be made available for addressing the special needs of the community at Ebeye and other Marshallese communities within the Kwajalein Atoll.

The amended compacts and associated fiscal procedures agreements require that compact sector grants support the countries in six core sectors—education, health, infrastructure, environment, private sector development, and public sector capacity building—with priority given to the education and health sectors. These grants are described in section 211(a) of each compact and are referred to as compact sector grants or

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Compact Trust Fund  
Management and  
Implementation

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211(a) grants. Section 211(b) of the RMI compact further states that the RMI must target a specified amount of grants to Ebeye and other Marshallese communities within Kwajalein Atoll.<sup>9</sup> The RMI military use and operating rights agreement (MUORA) states that the Kwajalein-related funds provided to the RMI in the compacts shall be provided through fiscal year 2023 and thereafter for as long as this agreement remains in effect.<sup>10</sup>

The amended compacts and their subsidiary trust fund agreements provided that each trust fund is to be managed by a compact trust fund committee.<sup>11</sup> Each compact trust fund committee includes representatives from both the United States and the respective country, but the terms of the trust fund agreements require the United States to hold the majority of votes. The Director of Interior's Office of Insular Affairs serves as the chair of each committee. Trust fund committee responsibilities include overseeing fund operation, supervision, and management; investing and distributing the fund's resources; and concluding agreements with any other contributors and other organizations. As part of this oversight, the committees are to establish an investment and distribution policy.<sup>12</sup> The committees are also to determine fiscal procedures to be used in implementing the trust fund agreements on the basis of the fiscal procedures used for compact grant administration, unless otherwise agreed by the parties to the agreement.

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<sup>9</sup>In addition, RMI compact section 212 provides a partially inflation-adjusted \$15 million annually starting in 2004, rising to \$18 million in 2014, and partially inflation adjusted thereafter, for U.S. military use and operating rights. The RMI government uses the section 212 funds to compensate landowners on the Kwajalein Atoll.

<sup>10</sup>*Compact of Free Association Military Use and Operating Rights: Agreement between the United States and the Marshall Islands, Signed at Majuro April 30, 2003, with Agreed Minutes and Annexes and Related Agreement Effected by Exchange of Letters, March 23, 2004.* The agreement extends until 2066, and the United States may renew it for an additional 20 years to 2086. The United States may terminate the RMI MUORA after 2023 with 7 years advance notice. If termination occurs prior to 2053, the United States is required to make a termination payment equivalent to 1 or more years of annual grant assistance.

<sup>11</sup>The amended compacts' implementing legislation required the trust funds to be established as nonprofit corporations incorporated under the laws of the District of Columbia.

<sup>12</sup>Each compact trust fund maintains a portfolio of assets, such as stocks, bonds, or other holdings. As of the end of fiscal year 2018, the FSM compact trust fund portfolio was approximately 66 percent equities, 20 percent fixed-income holdings, 5 percent hedge funds, and 10 percent real estate. The RMI compact trust fund was approximately 76 percent equities and 24 percent fixed-income holdings.

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The U.S.–FSM and U.S.–RMI trust fund agreements allow for the agreements to be amended in writing at any time, with mutual consent of the governments. However, the U.S. legislation implementing the amended compacts requires that any amendment, change, or termination of all, or any part, of the compact trust fund agreements shall not enter into force until incorporated into an act of Congress.

### Compact Trust Fund Structure

The compact trust fund agreements state that no funds, other than specified trust fund administrative expenses, may be distributed from the funds before October 1, 2023. From fiscal year 2024 onward, the maximum allowed disbursement from each compact trust fund is the amount of the fiscal year 2023 annual grant assistance, as defined by the trust fund agreement, with full inflation adjustment.<sup>13</sup> In addition, the trust fund committees may approve additional amounts for special needs.<sup>14</sup> The RMI compact trust fund agreement excludes Kwajalein-related assistance, defined in section 211(b) of the RMI compact, from the calculation of the allowed disbursement. Although the compact trust fund agreements state the maximum allowable disbursement level, they do not establish or guarantee a minimum disbursement level.

Each country’s compact trust fund consists of three interrelated accounts: the “A” account, the “B” account, and the “C” account.

- The A account is the trust fund’s corpus and contains the initial, and any additional, U.S. and FSM or RMI contributions; contributions from other countries; and investment earnings. No funds, other than specified trust fund administrative expenses, may be disbursed from the A account.
- The B account is the trust fund’s disbursement account and becomes active in fiscal year 2023. All income earned in 2023 will be deposited in the B account for possible disbursement in 2024. Each subsequent year’s investment income will similarly be deposited in the B account for possible disbursement the following year. If there is no investment

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<sup>13</sup>Full inflation is defined by the trust fund agreements as the full percent change in the U.S. GDP implicit price deflator in the applicable fiscal year compared to the immediate preceding fiscal year.

<sup>14</sup>Special needs are defined as projects that the FSM or RMI government deems necessary as a supplement to that portion of an annual budget to be financed by the compact trust funds, so long as the projects are for the purposes of Section 211 of the compact, as amended.

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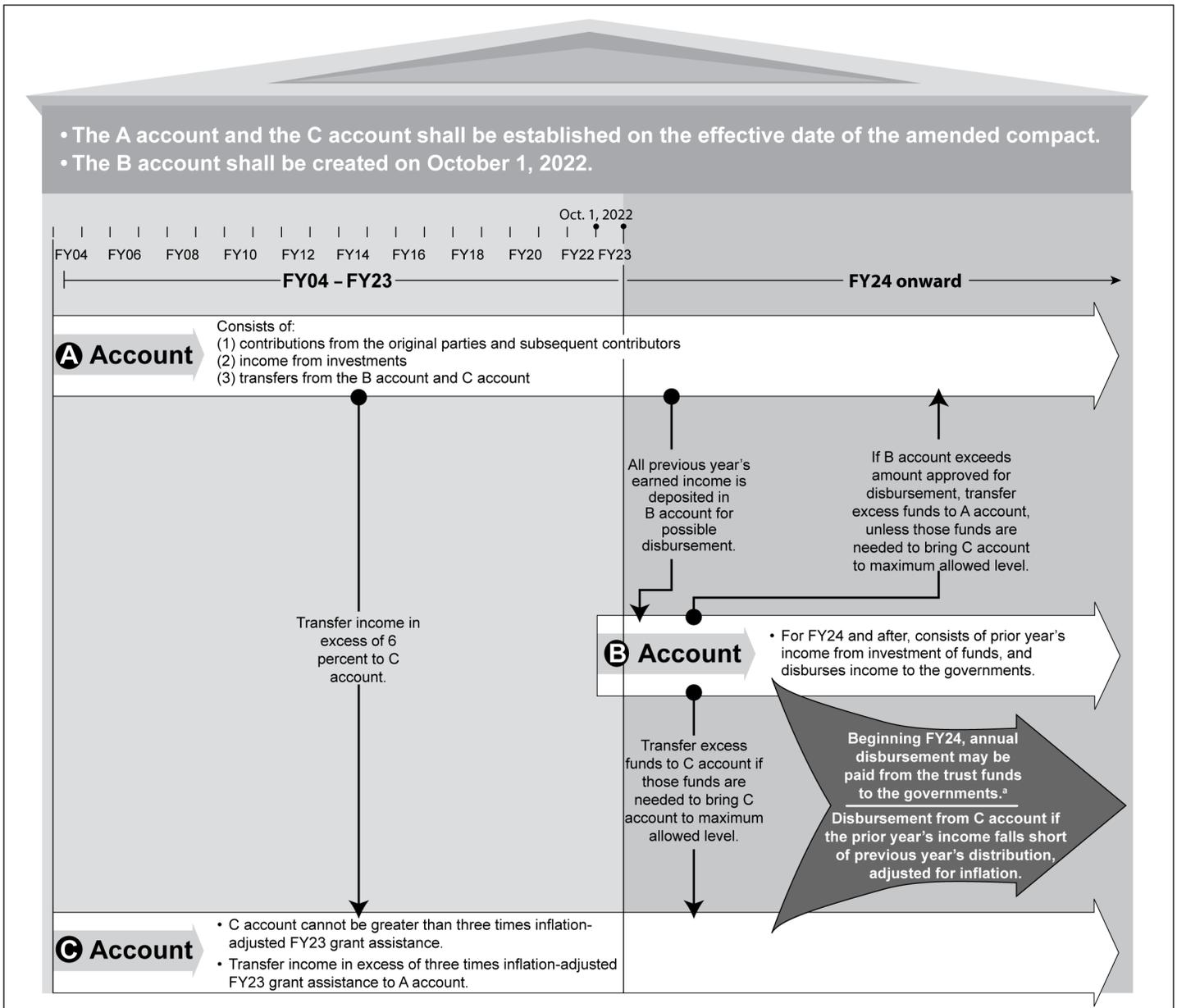
income, no funds will be deposited in the B account for possible disbursement the following year.

- The C account is the trust fund's buffer account.
  - Through 2022, any annual income exceeding 6 percent of the fund balance is deposited in the C account.
  - The size of the C account is capped at three times the amount of the estimated annual grant assistance in 2023, including estimated inflation.
  - From 2023 onward, if annual income from the A account is less than the previous year's disbursement, adjusted for inflation, the C account may be tapped to address the shortfall.
  - After 2023, any funds in the B account in excess of the amount approved for disbursement the following fiscal year are to be used to replenish the C account as needed, up to the maximum size of the account.

If there are no funds in the C account and no prior-year investment income in the B account, no funds will be available for disbursement to the countries the following year.

Figure 2 shows the compact trust fund account structure and associated rules.

**Figure 2: Account Structure and Associated Rules for the Federated States of Micronesia and Republic of the Marshall Islands Compact Trust Funds**



Legend: FY = fiscal year.

Source: GAO analysis of the Federated States of Micronesia and Republic of the Marshall Islands Compact Trust Fund Agreements. | GAO-19-722T

Note: Annual disbursement is limited to inflation-adjusted annual grant assistance in fiscal year 2023 plus any amounts for special needs approved by the Trust Fund Committee.

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According to the U.S. trust fund agreements with the FSM and the RMI, contributions from other donors are permitted. In May 2005, Taiwan and the RMI reached an agreement that Taiwan would contribute a total of \$40 million to the RMI's compact trust fund A account between 2004 and 2023. A "D" account may also be established to hold any contributions by the FSM and the RMI governments of revenue or income from unanticipated sources. According to the trust fund agreements, the D account must be a separate account, not mixed with the rest of the trust fund. Only the RMI has a D account, governed in part by the agreement between Taiwan and the RMI.

Programs and Services  
Provided in Compact-Related  
Agreements

The amended compacts' implementing legislation incorporates, by reference, related agreements extending programs and services to the FSM and RMI. The programs and services agreement with each country identifies the following programs and services as being available to each country: U.S. postal services, weather services, civil aviation, disaster preparedness and response, and telecommunications.<sup>15</sup> Each programs and services agreement extends for 20 years from the compact's entry into force. The agreement with the FSM ends on June 24, 2024, and the agreement with the RMI ends on April 30, 2024.

Programs Authorized by U.S.  
Legislation

The amended compacts' implementing legislation (Pub. L. No. 108-188) and other U.S. legislation authorize other U.S. grants, programs, and services for the FSM and RMI. Pub. L. No. 108-188 authorizes an annual supplemental education grant (SEG) for the FSM and RMI in fiscal years 2005 through 2023, to be awarded in place of grants formerly awarded to the countries under several U.S. education, health, and labor programs. The FSM and RMI are not eligible for the programs replaced by the SEG during these years. Unlike the compact sector grants, the amended compacts' implementing legislation authorized the SEG but did not appropriate funds for it. Funding for the SEG is appropriated annually to the U.S. Department of Education (Education) and is transferred to Interior for disbursement. Other provisions of the amended compacts' implementing legislation, as well as other U.S. law, make the FSM and RMI eligible for a number of additional programs.

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<sup>15</sup>The FSM programs and services agreement additionally makes the services of the Federal Deposit Insurance Corporation available in the FSM to provide deposit insurance for the Bank of the Federated States of Micronesia.

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## The FSM and RMI Rely on U.S. Grants and Programs That End in 2023

As of fiscal year 2016, compact sector grants and the SEG, each of which end in 2023, supported a substantial portion of government expenditures in the FSM and RMI. Compact sector grants and the SEG supported about one-third of all FSM government expenditures. The four FSM states relied on these grants to a greater extent than did the FSM national government. In the RMI, compact sector grants and the SEG supported about one-quarter of all government expenditures. The expiration of the compacts' programs and services agreements in 2024 would also require the FSM and RMI to bear additional costs to provide services currently provided by the United States under the agreements.<sup>16</sup>

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## U.S. Compact Grants and Other Grants Provide Substantial Support to the FSM and RMI Budgets

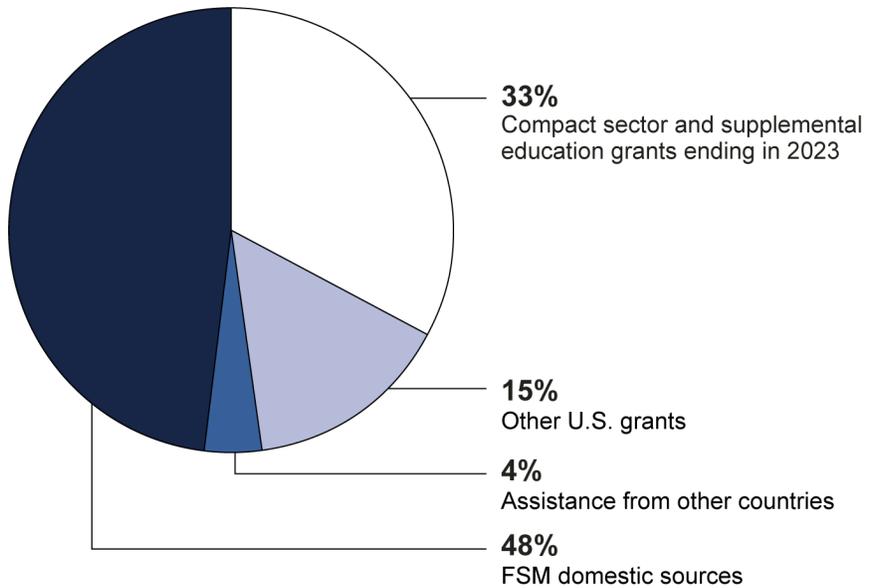
### U.S. Grants Scheduled to End in 2023 Supported About One-Third of Total FSM Government Expenditures in Fiscal Year 2016

Compact sector grants, the SEG, and other U.S. grants supported almost half of FSM national and state government expenditures in fiscal year 2016. Compact sector and supplemental education grants that end in 2023 supported approximately one-third of total FSM national and state government expenditures in fiscal year 2016, while other U.S. grants supported an additional 15 percent of total FSM government expenditures (see fig. 3).

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<sup>16</sup>Throughout this statement, we present conclusions about the status of grants and programs under U.S. law as of May 2018, when we published our most recent related report ([GAO-18-415](#)). Changes to the relevant laws before 2023 could change the eligibility status of the FSM and RMI. The availability of some grants and programs in the future is subject to the availability of appropriations provided for that purpose.

**Figure 3: Total Expenditures of Federated States of Micronesia (FSM) National and State Governments, by Revenue Source, Fiscal Year 2016**



Source: GAO analysis of P.L. 108-188 and FSM single audit reports. | GAO-19-722T

Notes: The percentages shown do not include government component units, such as public utilities and port authorities.

While the supplemental education grant ends in 2023, the FSM would be eligible for some of the programs that the supplemental education grant replaced after 2023. A small number of other U.S. grants also end in 2023. See [GAO-19-722T](#), app. I, for a discussion of grants and programs that do and do not end in 2023.

**FSM States Relied on U.S. Grants Scheduled to End in 2023 to a Greater Extent Than the National Government Did in Fiscal Year 2016**

In fiscal year 2016, compact sector and supplemental education grants that end in 2023 supported a larger proportion of FSM state governments' expenditures than of the FSM national government's expenditures. Compact sector grants and the SEG supported 8 percent of national government expenditures but supported 50 percent or more of each state's government expenditures. Among the FSM states, Chuuk, which has both the largest population and the lowest per-capita income in the FSM, had the highest percentage of expenditures supported by U.S. grants. (See table 2 for a summary of FSM national and state government expenditures supported by compact sector grants and the SEG and by other U.S. grants.)

**Table 2: FSM National and State Government Expenditures of Compact Grants, Supplemental Education Grant (SEG), and Other U.S. Grants in Fiscal Year 2016**

	Expenditures of compact sector grants and SEG <sup>a</sup>			Expenditures of other U.S. grants		Total expenditures of compact sector, SEG, and other U.S. grants	
	Total government expenditures (dollars in millions)	Amount (dollars in millions)	Percentage of total government expenditures	Amount (dollars in millions)	Percentage of total government expenditures	Amount (dollars in millions)	Percentage of total government expenditures
FSM national government	103.6	8.1	8	21.0	20	29.1	28
FSM states							
Chuuk	37.3	26.6	71	2.0	5	28.6	77
Kosrae	14.0	6.9	49	1.7	12	8.6	62
Pohnpei	33.0	16.5	50	3.0	9	19.5	59
Yap	20.1	10.3	51	2.5	12	12.8	63
<b>Total</b>	<b>208.0</b>	<b>68.4</b>	<b>33</b>	<b>30.2</b>	<b>15</b>	<b>98.6</b>	<b>47</b>

Source: GAO analysis of Federated States of Micronesia (FSM) national government and state fiscal year 2016 single audit reports. | GAO-19-722T

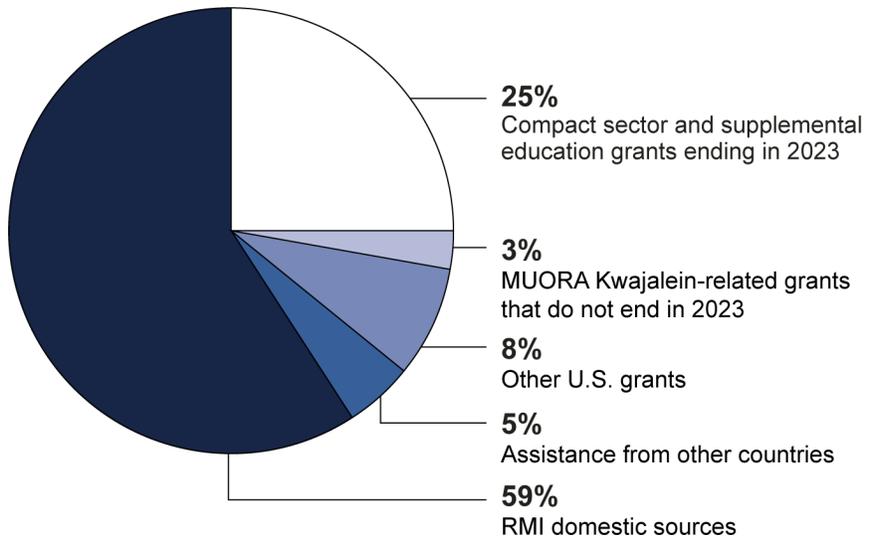
Note: Numbers may not add due to rounding.

<sup>a</sup>The amounts and percentages shown do not include FSM national and state government component units, such as public utilities and port authorities.

### U.S. Grants Scheduled to End in 2023 Supported About One Quarter of RMI Government Expenditures in Fiscal Year 2016

Compact sector and supplemental education grants that end in 2023 supported approximately 25 percent of the RMI's \$123.5 million in government expenditures in fiscal year 2016, while other U.S. grants supported an additional 8 percent. Kwajalein-related compact grants that do not end in 2023 supported an additional 3 percent (see fig. 4).

**Figure 4: Total Expenditures of RMI Government, by Revenue Source, Fiscal Year 2016**



Source: GAO analysis of P.L. 108-188, the Republic of the Marshall Islands (RMI) Military Use and Operating Rights Agreement (MUORA); and RMI single audit reports. | GAO-19-722T

Notes: The percentages shown do not include government component units, such as public utilities and port authorities, and do not include the \$18 million annually, partially adjusted for inflation, provided to the RMI government that the RMI government uses to compensate Kwajalein Atoll landowners for U.S. access to the atoll.

While the supplemental education grant ends in 2023, the RMI would be eligible for some of the programs that the supplemental education grant replaced after 2023. A small number of other U.S. grants also end in 2023. See [GAO-19-722T](#), app. I, for a discussion of grants and programs that do and do not end in 2023.

### FSM and RMI Eligibility for Some U.S. Grants, Programs, and Services Will Change after 2023

FSM and RMI budgets would be further affected if the countries assumed responsibility for providing programs and services currently provided by the United States. The following describes the status after 2023 of U.S. grants, programs, and services in the FSM and RMI under current law:

- Compact sector grants are scheduled to end in 2023, but the RMI MUORA extends the time frame of Kwajalein-related compact grants for as long as the MUORA is in effect.
- The SEG and additional grants identified in the amended compacts' implementing legislation are scheduled to end in 2023. Also, after fiscal year 2023, the FSM and RMI will no longer be eligible for some programs that the SEG replaced, including Head Start (early childhood education, health, and nutrition services for low-income children and their families).

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- The compact-related programs and services agreements with each country will end in 2024. However, some U.S. agencies, such as the National Weather Service, Federal Aviation Administration, and U.S. Agency for International Development, may continue to provide programs and services similar to those provided in the agreement under other authorities.
  - The FSM and RMI will generally remain eligible for other programs identified in the amended compacts' implementing legislation. These programs include U.S. Department of Agriculture (USDA) Rural Utilities Service grant and loan programs and U.S. Department of Education Pell grants for higher education and grants under Part B of the Individuals with Disabilities Education Act for children with disabilities.
  - The FSM and RMI will remain eligible for additional programs we identified that have been provided under other current U.S. laws. Examples of these programs include USDA housing assistance programs and multiple public health, medical, and disease control and prevention grants provided by the U.S. Department of Health and Human Services.

See appendix I for more information about the status after 2023 of U.S. grants, programs, and services in the FSM and RMI under current law.

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## Compact Trust Funds Face Risks to Future Disbursements

Our May 2018 projections for the compact trust funds showed that after fiscal year 2023, the funds are unlikely to provide maximum annual disbursements and may provide no disbursements at all in some years. The risk of disbursements below the maximum and the risk of zero disbursements increase over time for both funds. Potential strategies we analyzed in our May 2018 report would reduce or eliminate the risk of the compact trust funds' experiencing years of zero disbursement. However, all of the potential strategies would require the countries to exchange a near-term reduction in resources for more-predictable and more-sustainable disbursements in the longer term.

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## Projections Show Risks to Compact Trust Fund Disbursements

Our May 2018 projections for the FSM and RMI compact trust funds after 2023 indicated that, given their balance at the end of fiscal year 2017 and current compact trust fund rules—the baseline scenario—the funds will be

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- unable to provide maximum disbursements (equal to the inflation-adjusted amount of annual grant assistance in 2023) in some years<sup>17</sup> and
  - unable to provide any disbursement at all in some years, with the likelihood of zero disbursement in a given year increasing over time.

The compact trust funds' C account—designed as a buffer to protect disbursements from the B account in years when the funds do not earn enough to fund the disbursement—could be exhausted by a series of years with low or negative annual returns. Since current rules do not allow disbursements from the compact trust fund corpus (the A account), exhaustion of the C account would result in zero disbursement in years when fund returns are zero or negative. Thus, there may be no funds available to disburse even if the funds' A accounts have a balance. As a result of low or zero disbursements, the countries could face economic and fiscal shocks and significant challenges in planning programs and budgets.

Since we published our May 2018 report, an additional year of compact trust fund performance data and updated estimates of future inflation have become available; however, the updated information does not alter the conclusions we presented in May 2018.<sup>18</sup> The updated data and inflation estimates change our model's assumptions about the current compact trust fund balance, size of future U.S. contributions to the FSM and RMI compact trust funds, annual grant assistance in fiscal year 2023, and C account balance—each of which are relevant variables for our analysis. However, the updated variables would result in only slight changes to our 2018 report's projections of future compact trust fund

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<sup>17</sup>The relevant trust fund committee may also approve additional funds for special needs, as defined in the compact trust fund agreement. We did not estimate or project the amount of funds approved for disbursements for special needs as part of our analysis. Disbursing additional funds for special needs will, in subsequent years, decrease the likelihood of maintaining maximum disbursements and increase the likelihood of zero disbursements.

<sup>18</sup>The FSM compact trust fund balance was \$565 million at the end of fiscal year 2017 and \$636 million at the end of fiscal year 2018. The RMI compact trust fund balance was \$357 million at the end of fiscal year 2017 and \$402 million at the end of fiscal year 2018. As of June 30, 2019, the FSM compact trust fund had a preliminary and unaudited balance of \$684 million and the RMI compact trust fund had a preliminary and unaudited balance of \$432 million.

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performance presented in this testimony and do not alter our broader conclusions about future risks to the compact trust funds.

**FSM compact trust fund projections.** In May 2018, our model projected that, given the baseline scenario and a 6 percent net return, the FSM compact trust fund will experience declining disbursements relative to the maximum allowable disbursements and an increasing chance of zero disbursements.<sup>19</sup> (See app. I of [GAO-18-415](#) for a full description of our methodology, and see app. V of [GAO-18-415](#) for the baseline results with alternative net returns.)

- **Projected disbursements.** We projected that the FSM compact trust fund will, on average, be able to provide disbursements equal to 82 percent of the maximum allowable disbursement—the inflation-adjusted amount of 2023 annual grant assistance—in its first decade of disbursements. The likely average disbursement falls to 49 percent of the maximum in the next decade and falls further in subsequent decades. In addition, the amount available for disbursement may fluctuate substantially from year to year. Depending on the compact trust fund’s performance in the previous year, disbursements may be higher or lower than the average amount if the balance in the C account is not sufficient to provide additional disbursements.
- **Likelihood of providing zero disbursement.** We projected a 41 percent likelihood that the FSM compact trust fund will be unable to disburse any funds in 1 or more years during the first decade of trust fund disbursements. This likelihood increases over time, rising to 92 percent in fiscal years 2054 through 2063.

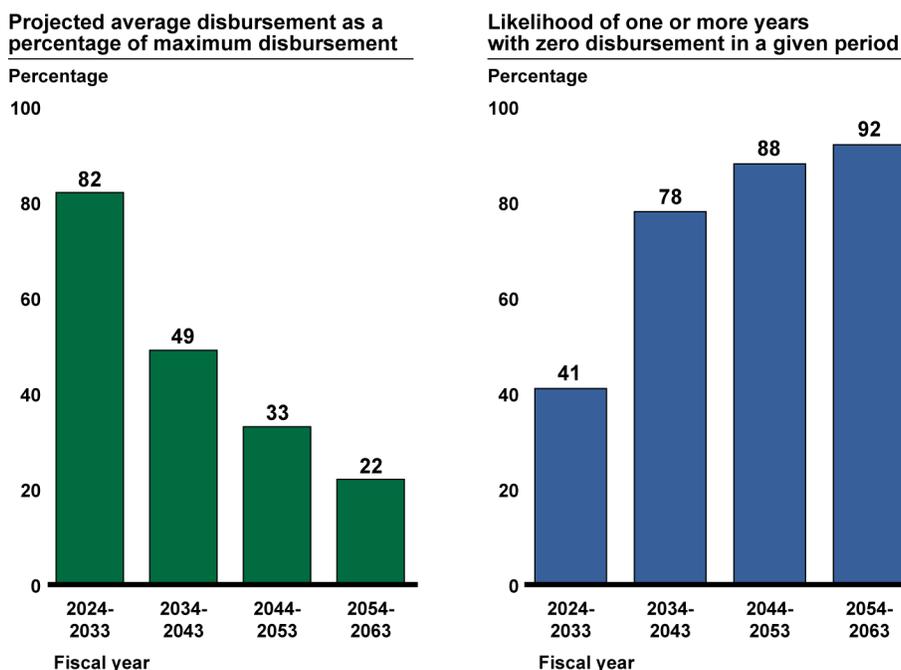
Figure 5 shows our May 2018 projections of the FSM compact trust fund’s average disbursements as a percentage of maximum disbursement and

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<sup>19</sup>We selected a nominal 6 percent projected rate of return, net of management fees, on the basis of our review of the capital market assumptions and projections used by the FSM and RMI compact trust fund money managers for the compact trust funds as well as historical market rates of return. The model approximates a projection based on our set of assumptions and may differ with varying conditions. Since inception, the FSM compact trust fund has had an average annual rate of return of 5.7 percent and the RMI compact trust fund has had an average annual rate of return of 6.2 percent. In addition to projecting the compact trust fund disbursements and balance on the basis of a 6 percent net return, we estimated the trust fund baseline on the basis of alternative return assumptions of 5 percent, 7 percent, and 8 percent. These varying assumptions also show a likelihood that available compact trust fund disbursements will not reach an amount equivalent to maximum disbursements permitted by the compact trust fund agreement and continuing risk of zero disbursements.

the likelihood of 1 or more years of zero disbursement, given the baseline scenario and a 6 percent net return.<sup>20</sup>

**Figure 5: Projected FSM Compact Trust Fund Average Disbursements and Likelihood of Zero Disbursements, Fiscal Years 2024-2063**



Source: GAO analysis of Federated States of Micronesia (FSM) compact trust fund documents. | GAO-19-722T

Notes: The projections shown are based on the current trust fund rules and the compact trust fund's unaudited balance at the end of fiscal year 2017. We assumed that the trust fund's annual net return will have a normal distribution with a mean of 6 percent and a standard deviation of 13 percent.

We calculated the average disbursement as a percentage of the maximum allowable disbursement by averaging, over each 10-year period and over 10,000 simulated cases, the ratio of simulated disbursement to the maximum inflation-adjusted allowable disbursement in the given period.

<sup>20</sup>The FSM also maintains its own trust fund separate from the compact trust fund (see app. VI of [GAO-18-415](#) for additional information). We did not independently project the FSM Trust Fund's future balance or potential disbursements after 2023.

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We calculated the likelihood of zero disbursement by counting cases with 1 or more years of zero disbursement in each of the given periods over 10,000 simulated cases.

**RMI compact trust fund projections.** In May 2018, our model projected that, given the baseline scenario and a 6 percent net return, the RMI compact trust fund will experience declining disbursements relative to the maximum allowable disbursements and an increasing chance of zero disbursements.

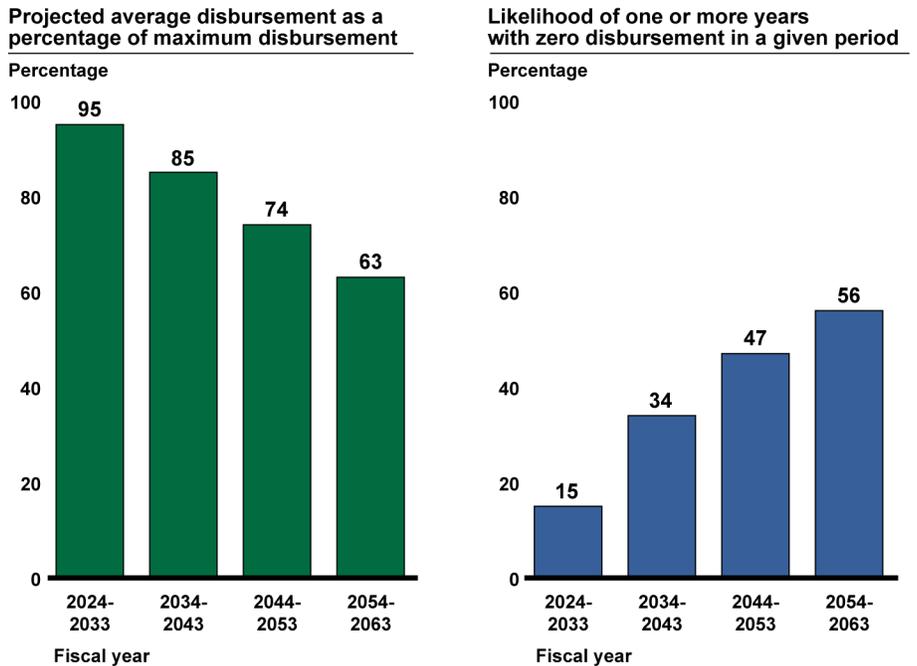
- **Projected disbursements.** We projected that in its first decade of disbursements, the RMI compact trust fund will, on average, be able to provide disbursements nearly equal to the inflation-adjusted amount of 2023 annual grant assistance as defined by the trust fund agreement—the maximum allowable. However, in each subsequent decade, the projected disbursements as a percentage of the maximum disbursements decline by about 10 percentage points. In addition, from year to year, the amount available to disburse may fluctuate substantially. Depending on the compact trust fund’s performance in the previous year, disbursements may be higher or lower than the average amount if the balance in the C account is not sufficient to provide additional disbursements.
- **Likelihood of providing zero disbursement.** We projected a 15 percent likelihood that the RMI compact trust fund will be unable to disburse any funds in 1 or more years during the first decade of trust fund disbursements. This likelihood increases over time, rising to 56 percent in fiscal years 2054 through 2063.

Figure 6 shows our May 2018 projections of the RMI compact trust fund’s average disbursements as a percentage of maximum disbursement and its likelihood of 1 or more years of zero disbursement, given the baseline scenario and a 6 percent net return.<sup>21</sup>

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<sup>21</sup>The RMI also maintains its own D account, separate from the compact trust fund (see app. VI of [GAO-18-415](#) for additional information). We did not independently project the D account’s balance or potential disbursements from the D account after 2023.

**Figure 6: Projected RMI Compact Trust Fund Average Disbursements and Likelihood of Zero Disbursements, Fiscal Years 2024-2063**



Source: GAO analysis of Republic of the Marshall Islands (RMI) compact trust fund documents. | GAO-19-722T

Notes: The projections shown are based on the current trust fund rules and the compact trust fund's unaudited balance at the end of fiscal year 2017. We assumed that the trust fund's annual net return will have a normal distribution with a mean of 6 percent and a standard deviation of 13 percent.

We calculated the average disbursement as a percentage of the maximum allowable disbursement by averaging, over each 10-year period and over 10,000 simulated cases, the ratio of simulated disbursement to the maximum inflation-adjusted allowable disbursement in the given period.

We calculated the likelihood of zero disbursement by counting cases with 1 or more years of zero disbursement in each of the given periods over 10,000 simulated cases.

For our May 2018 report, we conducted a series of simulations to determine the likely effects of potential strategies for improving the outlook of the FSM and RMI compact trust funds. For example, we developed and analyzed potential strategies in which

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- annual disbursements are reduced below the maximum allowable disbursement;
  - additional annual contributions are made to the trust fund prior to the end of fiscal year 2023; and
  - the trust fund agreement disbursement policies are modified to limit the annual disbursement to a fixed percentage of the fund's moving average balance over the previous 3 years, up to the maximum disbursement amount defined by the current trust fund agreement.<sup>22</sup>

All of the potential strategies we analyzed would reduce or eliminate the risk of the compact trust funds experiencing years of zero disbursement. However, some of the potential strategies might require changing the trust fund agreements, and all of the potential strategies would require the countries to exchange a near-term reduction in resources for more-predictable and more-sustainable disbursements in the longer term. (See app. VII of our May 2018 report for detailed results of our analysis.<sup>23</sup>)

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## Compact Trust Fund Committees Have Not Addressed Issues Related to Distribution Policies, Fiscal Procedures, and Disbursement Timing

The compact trust fund committees have not taken the actions we recommended in 2018 to prepare for the 2023 transition to trust fund income. The committees have not yet prepared distribution policies, required by the trust fund agreements, which could assist the countries in planning for the transition to trust fund income. In addition, the committees have not established fiscal procedures for oversight of compact trust fund disbursements as required by the trust fund agreements. Further, the committees have not yet addressed a potential misalignment between the timing of their annual calculation of the amounts available to disburse and the FSM's and RMI's budget timelines, potentially complicating each country's planning and management.

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<sup>22</sup>A moving average balance is continually recomputed as new data become available. For example, the moving average balance at the end of fiscal year 2024 would average the balances at the end of fiscal years 2022, 2023, and 2024, and the moving average balance at the end of fiscal year 2025 would average the balances at the end of fiscal years 2023, 2024, and 2025.

<sup>23</sup>[GAO-18-415](#).

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**Trust Fund Committees  
Have Not Developed  
Distribution Policies  
Required by the Compact  
Trust Fund Agreements**

The compact trust fund committees have not yet developed, as the compact trust fund agreements require, policies to guide disbursements from the trust funds after fiscal year 2023. Under the agreements, each trust fund committee must develop a distribution policy, with the intent that compact trust fund disbursements will provide an annual source of revenue to the FSM and RMI after the scheduled end of compact grant assistance.<sup>24</sup> The trust fund committees could use distribution policies to address risks to each fund's sustainability. For example, the committees have the discretion to disburse an amount below the established maximum. Our analysis of potential strategies for improving the funds' outlook shows that reducing the size of disbursements would improve each compact trust fund's long-term sustainability. Without a distribution policy that provides information about the size of expected disbursements, the FSM and RMI are hampered in their current and ongoing efforts to plan for the potential reduction in U.S. compact assistance after 2023.

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**Trust Fund Committees  
Have Not Established  
Fiscal Procedures  
Required by Compact  
Trust Fund Agreements**

The compact trust fund committees have not yet established fiscal procedures for compact trust fund disbursements after fiscal year 2023. Each trust fund agreement requires the respective committee to determine the fiscal procedures to be used in implementing the trust fund agreement. The committees are to base their procedures on the compact fiscal procedures agreements, unless the parties to the trust fund agreement agree to adopt different fiscal procedures.<sup>25</sup> No compact trust fund disbursements are to be made unless the committee has established such trust fund fiscal procedures. Without fiscal procedures in place, the trust fund committees will not be able to provide disbursements and the United States, the FSM, and the RMI will lack clear guidance to ensure oversight for trust fund disbursements.

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<sup>24</sup>A distribution is defined as the transfer of funds from the compact trust fund to the government of the FSM or the RMI. This statement refers to such transfers as disbursements.

<sup>25</sup>The compact fiscal procedures agreements extend, unless terminated by mutual consent, for as long as the United States provides (1) compact sector grants; (2) grants provided under section 105(f)(1)(B) of the amended compacts' implementing legislation (which includes the SEG); (3) federal programs and services; or (4) in the case of the RMI, any additional grant assistance, services, or programs.

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## Trust Fund Committees Have Not Addressed Issues Related to Disbursement Timing

The timing for the compact trust fund committees' calculation of the amounts available for annual disbursement to the FSM and the RMI after fiscal year 2023 does not align with the countries' budget and planning timelines.<sup>26</sup> The amounts available for disbursement in a given fiscal year cannot be determined until each fund's returns have been determined at the end of the prior year. Further, if the disbursement amounts are calculated from audited fund returns as determined by annual audits required by the trust fund agreements, the amounts may not be determined until as late as March 31, 6 months into the fiscal year for which the disbursement is to be provided.<sup>27</sup> However, both the FSM and the RMI government budget cycles are completed before the annual amounts available for disbursement will be known. As a result, the FSM and RMI would have to budget without knowing the amount to be disbursed, complicating their annual budget and planning processes.

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## Trust Fund Committees Continue to Discuss Potential Actions to Address Our Recommendations

The compact trust fund committees, chaired by Interior, have continued to discuss potential actions to address the recommendations in our May 2018 report.<sup>28</sup> In May 2018, we made six recommendations to Interior—three parallel recommendations regarding each country's trust fund. We recommended that the Secretary of the Interior ensure that the Director of the Office of Insular Affairs work with other members of the trust fund committees to

- develop distribution policies,
- develop the fiscal procedures required by the compact trust fund agreements,<sup>29</sup> and
- address the timing of the calculation of compact trust fund disbursements.

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<sup>26</sup>According to a representative of Graduate School USA, which has studied the compact trust funds in prior years, predictions of the funds' balance before the end of the fiscal year are not reliable. The representative said that the compact trust funds' rates of return as of the end of July—that is, 2 months before the end of the fiscal year—are not a reliable predictor of their rate of return at the end of the fiscal year.

<sup>27</sup>According to the trust funds' administrator, there has never been a significant difference between the preliminary, unaudited compact trust fund balances at the end of the fiscal year and the final, audited balances.

<sup>28</sup>[GAO-18-415](#).

<sup>29</sup>We recommended that the Director of the Office of Insular Affairs also work with the compact joint economic management committees to develop the fiscal procedures.

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Interior concurred with our recommendations and has stated that it plans to implement them before the FSM and RMI transition to trust fund income in 2023. The FSM and RMI also concurred with our recommendations to Interior. According to the Trust Fund Administrator and Interior officials, the distribution policy was discussed at trust fund committee meetings convened since our May 2018 report. At their September 2019 meetings, the FSM and RMI compact trust fund committees did not make any decisions regarding steps to address our recommendations.

The FSM's and RMI's transition to relying on income from the compact trust funds will likely require significant budgetary choices. However, the lack of trust fund distribution policies as well as the lack of alignment between the trust fund committees' annual disbursement calculations and the countries' budget cycles, hampers the countries' ability to plan for the transition. In addition, without the required fiscal procedures governing trust fund actions after 2023, the trust fund committees will be unable to make disbursements and the United States, the FSM, and the RMI will not have assurance of necessary oversight for trust fund disbursements. However, as of September 2019, Interior had not implemented our recommendations to address these issues. Further, while Interior has continued to discuss possible actions to address our recommendations with the trust fund committees, it targeted implementation of our recommendations for 2023.

Chairmen Grijalva and Engel, Ranking Members Bishop and McCaul, and Members of the Committees, this concludes my statement. I would be pleased to respond to any questions you may have.

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## GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact David Gootnick, Director, International Affairs and Trade, at (202) 512-3149 or [gootnickd@gao.gov](mailto:gootnickd@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Emil Friberg (Assistant Director), Ming Chen, Neil Doherty, Mark Dowling, Reid Lowe, Moon Parks, and Michael Simon.

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# Appendix I: Status of U.S. Grants and Programs in the FSM and RMI After 2023

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The amended compacts, compact-related agreements, the amended compacts' implementing legislation, and other U.S. laws provide grants or eligibility for U.S. programs and services for the Federated States of Micronesia (FSM) and Republic of the Marshall Islands (RMI). The amended compacts provide compact sector, Kwajalein-related, and audit grants. Under current law, compact sector and audit grants are each scheduled to end in 2023, but the RMI military use and operating rights agreement (MUORA) extends the time frame of Kwajalein-related compact grants for as long as the agreement is in effect. The amended compacts' implementing legislation provides additional grants, including authorizing a supplemental education grant (SEG), and identifies several specific U.S. programs as available to the FSM and RMI. Under current law, the additional grants end in 2023, but the statutory authorizations for some programs identified in Pub. L. No. 108-188 provide for the continued eligibility of the FSM and RMI to receive benefits under the programs. However, after fiscal year 2023, the FSM and RMI will no longer be eligible under current U.S. law for some programs that the SEG replaced. The compact-related programs and services agreements with each country identify additional programs and services that the United States makes available to the FSM and RMI. While these agreements will end in 2024, under current law, some U.S. agencies may continue to provide programs and services similar to those provided in the agreement under other authorities. Based on the status of current law, the FSM's and RMI's eligibility for other programs we identified that have been provided under other current U.S. laws will not change after fiscal year 2023.

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## Compact Sector and Audit Grants End in 2023, but Kwajalein-Related Grants for the RMI Will Continue

Under current law, compact sector grants provided to the FSM and the RMI under section 211(a) of the amended compacts are scheduled to end in 2023. However, the RMI is scheduled to continue to receive \$7.2 million, partially inflation adjusted, related to the U.S. military base in Kwajalein Atoll and provided under section 211(b) of its compact. Under the terms of the RMI MUORA, the United States agreed to provide these Kwajalein-related grants for as long as the MUORA is in effect. The MUORA continues until 2066 and may be extended at the discretion of the United States until 2086.<sup>1</sup> The amended RMI compact provides for \$18 million, partially inflation adjusted, in annual payments to the RMI government to compensate for impacts from the U.S. Army Garrison–

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<sup>1</sup>The United States may terminate the RMI MUORA after 2023 with 7 years' advance notice. If termination occurs prior to 2053, the United States is required to make a termination payment equivalent to 1 or more years of annual grant assistance.

**Appendix I: Status of U.S. Grants and Programs in the FSM and RMI After 2023**

Kwajalein Atoll. These payments will continue for as long as the MUORA is in effect. Annual compact grants of up to \$500,000 (not inflation adjusted) to each country to pay for required annual audits of compact grants are scheduled to end in 2023. See table 3 for a summary of compact sector, Kwajalein-related, and audit grants.

**Table 3: Status under Current Law of Compact Sector, Kwajalein-Related, and Audit Grants to the FSM and RMI after Fiscal Year 2023**

Country receiving assistance	Compact grant name and reference	Description	Status under current law as of end of fiscal year 2023 <sup>a</sup>
FSM and RMI	§ 211(a) compact sector grants	Economic assistance directed to specific sectors, with a focus on Health and Education. The base amount of the grants declines yearly in fiscal years 2004 through 2023. <sup>b</sup> In 2004, FSM grants totaled \$76.2 million. Grants will decline, before partial inflation adjustment, to \$62.6 million in 2023. In 2004, RMI grants totaled \$35.2 million. Grants will decline, before partial inflation adjustment, to \$27.7 million in 2023.	Grants will end.
RMI	RMI compact § 211(b)(1) Ebeye Special Needs	\$5.1 million annually, partially inflation adjusted, to address the special needs of the community at Ebeye and other Marshallese communities within Kwajalein Atoll. <sup>c</sup>	Grants will continue as long as the MUORA is in effect.
RMI	RMI compact § 211(b)(2) Ebeye Special Needs	\$1.9 million annually, partially inflation adjusted, to address the special needs of the community at Ebeye and other Marshallese communities within Kwajalein Atoll, with emphasis on the Kwajalein landowners.	Grants will continue as long as the MUORA is in effect.
RMI	RMI compact § 211(b)(3) Kwajalein Environmental Grants	\$200,000 annually, partially inflation adjusted, to support increased participation of the RMI Environmental Protection Authority in the U.S. Army Kwajalein Atoll Environmental Standards Survey and to promote the RMI government's capacity for independent analysis of the survey's findings and conclusions.	Grants will continue as long as the MUORA is in effect.
RMI	RMI compact § 212 – Kwajalein Impact and Use	\$18 million annually, partially inflation adjusted, provided to the RMI government to compensate for any impacts of the U.S. military on Kwajalein Atoll. <sup>d</sup>	Payments will continue as long as the MUORA is in effect.
FSM and RMI	Audit grants provided in FSM compact § 212(b) and RMI compact § 213(b)	Annual grant assistance, not adjusted for inflation, equal to the lesser of (1) one half of the cost of the annual audit or (2) \$500,000. <sup>e</sup>	Grants will end.

Legend: FSM = Federated States of Micronesia, MUORA = military use and operating rights agreement, RMI = Republic of the Marshall Islands

Source: GAO analysis of the Compacts of Free Association with the Federated States of Micronesia (FSM) and Republic of the Marshall Islands (RMI). | GAO-19-722T

<sup>a</sup>Status shown is based on current law as of May 2018.

<sup>b</sup>The U.S. Department of the Interior (Interior) estimates that, with partial inflation adjustments, compact sector grants in fiscal year 2023 will total approximately \$81.5 million for the FSM and approximately \$36.0 million for the RMI, including 211(a) and 211(b) funds.

<sup>c</sup>Ebeye Special Needs grants to the RMI under §211(b)(1) provided \$3.1 million annually in fiscal years 2004 through 2013 and \$5.1 million annually thereafter.

<sup>d</sup>Interior estimates that, with partial inflation adjustments, the payment to the RMI for Kwajalein impact and use in fiscal year 2023 will be approximately \$23.4 million.

<sup>e</sup>In each year through fiscal year 2018, the amount provided through audit grants to the FSM and the RMI has been the maximum of \$500,000.

### FSM and RMI Are No Longer Eligible for Many Programs Replaced by the Supplemental Education Grant

The supplemental education grant (SEG) authorized by the amended compacts' implementing legislation is scheduled to end in fiscal year 2023 and, under current law, FSM and RMI eligibility for most programs that the SEG replaced will not resume after fiscal year 2023. Absent changes to current law, the FSM and RMI will not be eligible after fiscal year 2023 for the following programs that the SEG replaced during fiscal years 2005 through 2023: U.S. elementary and secondary education grant programs, adult education and literacy programs, career and technical education programs, job training programs, and Head Start early education programs. However, under other provisions of current law, qualifying individuals in the FSM and RMI will be eligible after fiscal year 2023 for undergraduate education grants and work-study programs that the SEG replaced. See table 4.

**Table 4: FSM and RMI Eligibility under Current Law after Fiscal Year 2023 for Programs Replaced by the Supplemental Education Grant (SEG) Provided in the Amended Compacts' Implementing Legislation, Pub. L. No. 108-188**

Program description	Eligibility under current law as of end of fiscal year 2023 <sup>a</sup>
Department of Education: Supplemental Education Grant (SEG) Authorization of appropriations of \$12.23 million for the Federated States of Micronesia (FSM) and \$6.1 million to the Republic of the Marshall Islands (RMI), adjusted for inflation for each of fiscal years 2005 through 2023 in lieu of eligibility for the various education, health, and labor programs listed below. <sup>b</sup>	SEG ends. Eligibility varies for programs replaced by the SEG after 2023. See below for FSM and RMI eligibility for programs replaced by the SEG.
<b>Programs replaced by the SEG in fiscal years 2005-2023</b>	
Department of Education: Part A of title I of the Elementary and Secondary Education Act of 1965 (Improving Basic Programs Operated by Local Educational Agencies).	Not eligible
Department of Education: Title I of the Carl D. Perkins Vocational and Technical Education Act of 1998 (Career and Technical Education).	Not eligible
Department of Education: Subpart 3 of part A of title IV of the Higher Education Act of 1965 (Federal Supplemental Educational Opportunity Grants).	Eligible

**Appendix I: Status of U.S. Grants and Programs in the FSM and RMI After 2023**

<b>Program description</b>	<b>Eligibility under current law as of end of fiscal year 2023<sup>a</sup></b>
Department of Education: Part C of title IV of the Higher Education Act of 1965 (Federal Work-Study Programs)	Eligible
Department of Education: Title II of the Workforce Investment Act of 1998. <sup>c</sup> (Adult Education and Literacy programs.)	Not eligible
Department of Health and Human Services: Head Start Act (early childhood education, health, and nutrition services for low-income children and their families.)	Not eligible
Department of Labor: Title I of the Workforce Investment Act of 1998. <sup>c</sup> (Statewide and local workforce investment systems, Job Corps, and various national programs such as Native American, migrant, and veterans programs.)	Not eligible

Source: GAO analysis of the U.S. Code, Pub. L. No. 108-188, and other public laws. | GAO-19-722T

<sup>a</sup>Eligibility shown is based on current law as of May 2018. The availability of grants and programs in the future is subject to the availability of appropriations provided for that purpose.

<sup>b</sup>In fiscal year 2017, \$16.7 million was appropriated to the Secretary of Education for the SEG: \$11.1 million for the FSM and \$5.6 million for the RMI. In each country, this amount is lower than the authorized SEG amount and is also lower than the authorized amount after inflation adjustments.

<sup>c</sup>The Workforce Investment Act of 1998 was repealed and replaced by the Workforce Innovation and Opportunity Act (Pub. L. 113-128), which does not include eligibility for the FSM and RMI.

**Some Programs and Services in the Programs and Services Agreement Will End, while Others May Continue under Other Authorities**

Although the programs and services agreements with the FSM and RMI will end in fiscal year 2024, current U.S. law enables U.S. agencies to continue providing some programs and services now provided under the agreements. After the agreements end, no current provisions of U.S. law will enable the Federal Emergency Management Agency (FEMA) to provide disaster response funding, enable the Federal Deposit Insurance Corporation to provide deposit insurance, or enable the U.S. Postal Service to provide the services that it currently provides to the FSM and RMI. However, the National Weather Service, the U.S. Department of Transportation's (DOT) Federal Aviation Administration (FAA), and the U.S. Agency for International Development (USAID) could, under other legal authorities, provide services similar to those they now provide under the programs and services agreements.

- **National Weather Service.** The programs and services agreements authorize the National Weather Service to fund the operations of weather stations in the FSM and RMI, which it can continue to fund

after the end of the agreements under other authorities, according to Department of Commerce officials.

- **Federal Aviation Administration.** The programs and services agreements authorize DOT's FAA to provide technical assistance in the FSM and RMI, which it can continue to provide after the end of the agreements under other provisions of current U.S. law. However, DOT officials stated that FAA would require new bilateral agreements with the FSM and the RMI in order for the countries to continue to receive the civil aviation safety services that FAA currently provides under the programs and services agreements. The FAA would also seek reimbursement for any technical assistance it provides to the FSM and RMI. With regard to the civil aviation economic services provided under the programs and services agreements, DOT officials stated that, while the FSM and RMI could voluntarily decide to allow U.S. air carriers to continue operations in the FSM and RMI, new bilateral agreements would be needed to assure that result.<sup>2</sup>
- **U.S. Agency for International Development.** Following a U.S. presidential disaster declaration, FEMA provides the funding for disaster relief and reconstruction, which is programmed through USAID.<sup>3</sup> Under current law, FEMA funds will no longer be available to the FSM and RMI for this purpose once the agreements end; however, USAID will be able to provide foreign disaster assistance funding to the two countries under the same terms as it provides this assistance to other countries. After the programs and services agreements end, FEMA will be able to support disaster relief efforts only if USAID or the countries request such support on a reimbursable basis.

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<sup>2</sup>An FAA official in the Office of the Airports noted that three FSM and RMI airports (Majuro, Kwajalein, and Yap) are also extended operations sites that provide emergency diversionary landing sites. U.S. Aviation regulations require flight paths to be within a certain range of an airport in case of emergency. Therefore, without the emergency diversionary landing sites at FSM and RMI airports, planes transiting the Pacific would have to fly different and longer routes, increasing airline operating costs, according to DOT.

<sup>3</sup>In recent years USAID has programmed FEMA-provided funds for disaster response and reconstruction in the FSM states of Chuuk and Yap to meet immediate humanitarian needs and facilitate recovery from the impact of Typhoon Maysak in March and April 2015 and for disaster assistance in the RMI in response to a prolonged drought conditions in 2015-2016.

In addition, according to State and Interior officials, telecommunications-related services that the two agencies provide to the FSM and RMI under the programs and services agreements will continue as long as the FSM and RMI provide appropriate authorization for such services. Table 5 shows the status, under current law, of programs and services currently provided to the FSM and the RMI under the programs and services agreements after the agreements end in fiscal year 2024.

**Table 5: Status under Current Law of Programs and Services Identified in U.S.–FSM and U.S.–RMI Amended Compacts’ Programs and Services Agreements after the Agreements End in Fiscal Year 2024**

<b>Country receiving assistance</b>	<b>U.S. agency</b>	<b>Program or service</b>	<b>Description</b>	<b>Status under current law after programs and services agreements end<sup>a</sup></b>
Federated States of Micronesia (FSM) and Republic of the Marshall Islands (RMI)	Department of Commerce National Weather Service	Weather services and related programs	The National Weather Service provides funding for the operation of weather stations in Majuro, RMI and in Pohnpei, Chuuk, and Yap states in the FSM.	According to Department of Commerce officials, the Secretary of Commerce may continue funding if the Secretary determines that maintaining service at these locations is essential to proper execution of Commerce Department duties.
FSM	Federal Deposit Insurance Corporation	Federal deposit insurance	The Federal Deposit Insurance Corporation insures the Bank of the FSM.	According to Federal Deposit Insurance Corporation officials, the corporation will not have authority to insure a foreign-chartered institution in the FSM.
FSM and RMI	Federal Emergency Management Agency (FEMA) and U.S. Agency for International Development (USAID)	Disaster services and related programs	FEMA provides disaster-related preparedness grants and provides USAID with funds to support disaster relief and reconstruction following a U.S. Presidential disaster declaration. The disaster response itself is implemented by USAID.	According to FEMA officials, FEMA will not have the authority to provide assistance directly to the FSM and RMI or to provide funding to USAID for such purposes. FSM and RMI will remain eligible to receive assistance from USAID on the same terms as other foreign countries pursuant to the Foreign Assistance Act.

**Appendix I: Status of U.S. Grants and Programs in the FSM and RMI After 2023**

<b>Country receiving assistance</b>	<b>U.S. agency</b>	<b>Program or service</b>	<b>Description</b>	<b>Status under current law after programs and services agreements end<sup>a</sup></b>
FSM and RMI	Postal Service	Postal services and related programs	The Postal Service provides transportation of mail to and from each country, includes each country in the U.S. zip code system, and has committed to assist each country with the acquisition of membership in international postal unions, upon request. <sup>b</sup> Each country's Postal Administration retains the revenue it receives from postage sales while the U.S. Postal Service pays for all transportation costs of the countries' mail to and from the countries.	According to USPS officials, no current provisions of U.S. law will enable the Postal Service to provide the services it currently provides after the agreements end. According to U.S. Postal Service officials, the postal rates would likely be the international rates applicable for the countries under USPS pricing tables. According to U.S. Postal Service officials, the continuing exchange of mail between each country and the United States will depend on the ability of the FSM and RMI to secure membership in the Universal Postal Union. If they do not, the Postal Service will need to negotiate beneficial bilateral arrangements with the countries.
FSM and RMI	Department of State and Department of the Interior	Telecommunications services and related programs.	Frequency spectrum management within the FSM and RMI and the operation of telecommunication services of the U.S. government necessary to fulfill its obligations under the amended compacts.	According to State and Interior officials, services may continue if the FSM or the RMI provides appropriate authorization to the United States to provide such services.
FSM and RMI	Department of Transportation (DOT) Federal Aviation Administration (FAA)	Civil aviation safety services and related programs	FAA provides assistance with airport navigational and safety services.	According to FAA officials, similar assistance may be provided under various FAA authorities, but FAA would be required to seek reimbursement for these services.

**Appendix I: Status of U.S. Grants and Programs in the FSM and RMI After 2023**

<b>Country receiving assistance</b>	<b>U.S. agency</b>	<b>Program or service</b>	<b>Description</b>	<b>Status under current law after programs and services agreements end<sup>a</sup></b>
FSM and RMI	DOT FAA	Civil aviation economic services and related programs	Permits FSM and RMI airlines to operate between U.S. destinations. Provides technical assistance to the FSM with regulation of air service.	FSM and RMI airlines will no longer be permitted to operate between U.S. destinations. According to DOT, FSM, and RMI officials, no FSM or RMI air carriers provide service to U.S. destinations. According to FAA officials, technical assistance may be provided under various FAA authorities, but FAA would be required to seek reimbursement for these services.

Source: GAO analysis of the compact programs and services agreements, the U.S. Code, and discussions with agency officials. | GAO-19-722T

<sup>a</sup>Status shown is based on current law as of May 2018. The availability of grants and programs in the future is subject to the availability of appropriations provided for that purpose.

<sup>b</sup>As of our May 2018 report, according to the U.S. Postal Service, the United States had received no request for assistance in acquiring membership in international postal unions from either country. The Department of the Interior had provided an average of \$2.5 million to reimburse the costs of the U.S. Postal Service to provide services to the FSM and RMI, but, according to the Postal Service, the reimbursement by the department had not covered its costs in each year that it provided services. In fiscal years 2015 and 2016, according to the U.S. Postal Service, the annual reimbursement shortfall experienced by the U.S. Postal Service averaged \$8.7 million per year. Appendix X of [GAO-18-415](#) provides more information from the U.S. Postal Service regarding the amount of the reimbursement shortfall.

**Programs Identified in Amended Compacts' Implementing Legislation Generally Continue after Fiscal Year 2023**

Although additional grants provided to the FSM and the RMI under the amended compacts' implementing legislation will end in fiscal year 2023, the countries' eligibility for programs now provided under that legislation will generally continue under current U.S. law. Grants provided under the amended compacts' implementing legislation for (1) judicial training in the FSM and the RMI, and (2) agricultural and planting programs on the RMI's nuclear-affected Enewetak Atoll are scheduled to end. However, under current U.S. law, legal authorities permitting the operation of other programs will remain available to the FSM and RMI after fiscal year 2023. Eligibility under these legal authorities continues either because the amended compacts' implementing legislation does not specify an ending date or because other provisions in current U.S. law make the FSM and RMI eligible for the program.

Programs provided in the amended compacts' implementing legislation include U.S. Department of Agriculture Rural Utilities Service grant and loan programs; U.S. Department of Education Pell grants for higher education and grants under Part B of the Individuals with Disabilities Education Act for children with disabilities; programs for nuclear-affected

**Appendix I: Status of U.S. Grants and Programs in the FSM and RMI After 2023**

areas in the RMI; and additional programs provided by the Departments of Commerce and Labor as well as law enforcement assistance provided by the U.S. Postal Service. See table 6 for a summary of the programs identified in the amended compacts' implementing legislation and their status as of the end of fiscal year 2023.

**Table 6: Status under Current Law after Fiscal Year 2023 of Programs and Grants Provided in the U.S.–FSM and U.S.–RMI Amended Compacts' Implementing Legislation, Pub. L. No. 108-188**

<b>Country receiving assistance</b>	<b>U.S. agency</b>	<b>Program or grant</b>	<b>Description</b>	<b>Status under current law as of end of fiscal year 2023<sup>a</sup></b>
Federated States of Micronesia (FSM) and Republic of the Marshall Islands (RMI)	Department of Agriculture	Rural Utilities Service grants and loans	The Rural Utilities Service provides financing and grants to support infrastructure development such as electricity, telecommunications, and water and wastewater systems.	Eligibility will continue.
FSM and RMI	Department of Commerce	Economic programs and services	Programs and Services of the Department of Commerce Economic Development Administration and relating to tourism and to marine resource development.	Eligibility will continue.
FSM and RMI	Department of Education	Pell grants	Grants for postsecondary education expenses to qualifying students on the basis of financial need.	Eligibility will continue.
FSM and RMI	Department of Education	Special education grants	Individuals with Disabilities Education Act grants to local school systems for the education of children with disabilities.	Eligibility will continue.
RMI	Department of Energy	Radiological Health Care Program	Medical care and logistical support thereto for the remaining members of the population exposed to radiation by U.S. nuclear testing.	Program will continue.
RMI	Department of Energy	Runit Island Environment Monitoring	Monitoring of the containment structure and groundwater of Runit island in the nuclear-affected Enewetak atoll at least every 4 years.	Program will continue.
FSM and RMI	Department of the Interior	Judicial training grants	\$300,000 annually, partially adjusted for inflation, for each fiscal year from 2004 through 2023 for the training of judges and officials of the judiciary.	Grants will end unless Congress authorizes and appropriates additional funds.
RMI	Department of the Interior	Planting and Agricultural Maintenance Program on Enewetak	\$1.3 million, partially adjusted for inflation, for each fiscal year from 2004 through 2023 to restore vegetation on Enewetak, a nuclear-affected atoll.	Program will end unless Congress authorizes and appropriates additional funds.

**Appendix I: Status of U.S. Grants and Programs in the FSM and RMI After 2023**

<b>Country receiving assistance</b>	<b>U.S. agency</b>	<b>Program or grant</b>	<b>Description</b>	<b>Status under current law as of end of fiscal year 2023<sup>a</sup></b>
RMI	Department of the Interior	Four Atoll Health Care	Health care for nuclear-affected areas.	Program will continue.
FSM and RMI	Department of Labor	Job Corps <sup>b</sup>	The programs and services of the Department of Labor under subtitle C of title I of the Workforce Investment Act of 1998 (29 U.S.C. 2881 et seq.; relating to Job Corps). <sup>c</sup>	Eligibility will continue.
FSM and RMI	Postal Service	Law enforcement assistance	Technical and training assistance, including training and equipment for postal inspection of illicit drugs and other contraband.	Program will continue.

Source: GAO analysis of Pub. L. No. 108-188, the U.S. Code, and discussions with agency officials. | GAO-19-722T

<sup>a</sup>Status shown is based on current law as of May 2018. The availability of grants and programs in the future is subject to the availability of appropriations provided for that purpose.

<sup>b</sup>According to the U.S. Department of Labor, there are currently no Job Corps activities in either the FSM or the RMI.

<sup>c</sup>The Workforce Investment Act of 1998 was repealed and replaced by the Workforce Innovation and Opportunity Act (Pub. L. 113-128).

**Programs Identified in Other Legislation Generally Continue after Fiscal Year 2023**

In addition to being eligible for the programs provided through the compact, its associated agreements, and the amended compacts' implementing legislation, the FSM and RMI are also eligible for a number of programs under other provisions of current U.S. law. The FSM and RMI have each received funds from the U.S. Department of Agriculture for forestry and rural housing programs, multiple U.S. Department of Health and Human Services public health program grants, U.S. Department of the Interior technical assistance and historic preservation programs, and the DOT FAA airport improvement program, among others. Under current U.S. law, the legal authorities permitting the provision of these programs in the FSM and RMI would not necessarily change after 2023. Table 7 shows the FSM's and RMI's eligibility for these additional grants and programs under current law after fiscal year 2023.

**Appendix I: Status of U.S. Grants and Programs in the FSM and RMI After 2023**

**Table 7: FSM and RMI Eligibility under Current Law after Fiscal Year 2023 for Other U.S. Grants and Programs That Have Been Made Available**

<b>Country receiving assistance</b>	<b>U.S. agency</b>	<b>Type of grant or program</b>	<b>Description</b>	<b>Status under current law as of end of fiscal year 2023<sup>a</sup></b>
Federated States of Micronesia (FSM) and Republic of the Marshall Islands (RMI)	Department of Agriculture	Forestry Service programs	Assistance with forestry planning, forest stewardship and preservation, and wildfire prevention and suppression.	Eligibility will continue.
FSM and RMI, but currently active only in RMI	Department of Agriculture	Mutual Self-Help Technical Assistance Grant	Assistance to lower-income families in rural areas in building their own homes. Funding is provided to an entity that must give technical assistance.	Eligibility will continue, according to Department of Agriculture officials.
FSM and RMI, but currently active only in RMI	Department of Agriculture	Section 502 Single Family Housing Loan and Guaranteed Loan Programs	Assistance to low-income applicants to obtain decent, safe and sanitary housing in eligible rural areas.	Eligibility will continue.
FSM and RMI	Department of Agriculture	Section 504 Housing Repair & Rehabilitation Loans and Grants	Assistance to very low-income applicants 62 years or older to remove health and safety hazards or repair their homes when they are located in rural areas with populations of 20,000 or less.	Eligibility will continue.
FSM and RMI	Department of Education	TRIO Talent Search and TRIO Upward Bound	Outreach and student services programs designed to identify and provide services for individuals from disadvantaged backgrounds such as low-income individuals, first-generation college students, and individuals with disabilities.	Eligibility will continue as long as the FSM or RMI institution receiving the grant remains an approved institution as defined in 20 U.S.C. § 1002(a)(2).
RMI	Department of Energy	Environmental Monitoring Program	Periodic monitoring of the four nuclear-affected atolls—Bikini, Enewetak, Rongelap and Utrik	Program will continue.
FSM and RMI	Department of Health and Human Services	Multiple programs authorized by the Public Health Services Act	Public health, medical, and disease control and prevention grants.	Eligibility will continue according to Health and Human Services officials.
FSM and RMI	Department of the Interior	Historic Preservation Grants in Aid	Historic preservation and community projects focused on heritage preservation.	Eligibility will continue.

**Appendix I: Status of U.S. Grants and Programs in the FSM and RMI After 2023**

<b>Country receiving assistance</b>	<b>U.S. agency</b>	<b>Type of grant or program</b>	<b>Description</b>	<b>Status under current law as of end of fiscal year 2023<sup>a</sup></b>
FSM and RMI	Department of the Interior	Technical assistance grants	Grants for short-term, noncapital projects. Priorities include accountability; financial management; economic development; training and education; energy; life, safety and health issues, among others.	Eligibility will continue to the extent such assistance may be provided to States, territories or units of local government.
FSM and RMI	National Science Foundation grants	Grants to improve science, technology, engineering, and math education	Currently: Advancing Informal Science Learning/Geo-literacy Education in Micronesia and Advanced Technological Education/Partnership for Advanced Marine and Environmental Science Training for Pacific Islanders.	Eligibility will continue.
FSM and RMI	Department of State	Grants to combat trafficking in persons	Current project focuses on raising awareness of trafficking in persons; boosting law enforcement capacity, and establishment of national referral mechanisms for the protection of victims of trafficking.	Eligibility will continue.
RMI	Department of State	Humanitarian demining	Clearance of explosive remnants of war on inhabited areas of Wotje Island, Wotje Atoll, Jaluit Island, and Jaluit Atoll.	Eligibility will continue.
FSM and RMI	Department of Transportation	Airport Improvement Program	Grants to public agencies for the planning and development of public-use airports.	Eligibility will continue.
FSM and RMI	USAID	Pacific-American Climate Fund	Grants to civil society organizations to build funding and management capacity for programs to respond to climate change challenges.	This program will end before 2023, but eligibility for similar programs will continue, according to USAID officials.

Source: GAO analysis of Pub. L. No. 108-188 and the U.S. Code; and discussions with agency officials. | GAO-19-722T

<sup>a</sup>Status shown is based on current law as of May 2018. The availability of grants and programs in the future is subject to the availability of appropriations provided for that purpose.

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