September 16, 2010

Dear JEMCO members:

Please find attached, copies of seven resolutions passed unanimously on September 2, 2010 at the JEMCO meeting held in Honolulu, Hawaii.

Sincerely,

[Signature]

Nikolao Pula
Chairman
Joint Economic Management Committee

Attachment: JEMCO Resolutions 2010 02-08
JOINT ECONOMIC MANAGEMENT COMMITTEE (JEMCO)

Annual Meeting
Honolulu, Hawaii
September 2, 2010

Adopted Resolutions

In Resolution 2009-2, JEMCO resolved as follows:

*Sustainability of Sector Grants*

JEMCO resolves that the FSM National and State Governments shall develop plans for managing annual decreases in Compact direct assistance and/or general fund support, and shall use those plans as the basis for Fiscal Year 2012 budget decisions. The plans should include an evaluation of the ability of the health and education sectors to fulfill their strategic outcomes in fiscal years 2012-2014.

JEMCO further resolves that the FSM shall submit its findings and plans to the JEMCO through the Office of Insular Affairs not later than August 1, 2010 and shall demonstrate that it has used the findings and plans as part of its internal budget development process for Fiscal Year 2012.

**US JEMCO members statement regarding non-compliance with Resolution 2009-2**

Notwithstanding Resolution 2009-2, the FSM has not submitted plans for managing annual decreases in Compact direct assistance and/or general fund support and, accordingly, will be unable to use such a plan as the basis for Fiscal Year 2012 budget decisions or evaluate the ability of the health and education sectors to fulfill their strategic outcomes in fiscal years 2012-2014. In light of this and in fulfillment of their obligations under the Fiscal Procedures Agreement, the US JEMCO members propose Resolution 2010-2 for consideration. Resolution 2010-2 specifies the requirement for a report in greater detail covering the remaining period of Amended Compact grant administration through FY2023 and will include the withholding of project-based proposals for the FSM National Government for FY2011 from the outset of the fiscal year, and for the potential withholding of cash flows related to other National Government awards for FY2011 in the event of further non-responsiveness.

**JEMCO Resolution 2010-2¹ Long-Term Fiscal Planning**

JEMCO resolves that the FSM National and State Governments shall develop a report that addresses the broad range of fiscal challenges facing the FSM, which was in part the subject of

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¹ JEMCO Resolution 2010-1 (allocation of funding for the placement of a professional operations and management team at the Chuuk State Public Utility Corporation) was passed unanimously on August 19, 2010
JEMCO Resolution 2009-2. Since efforts to date have not led to the timely submission of such a report prior to the August 1, 2010 deadline, JEMCO hereby specifies the scope of the issues that need to be addressed in such a report for the review of JEMCO at its mid-year meeting to be held in 2011.

In no order of importance, these fiscal challenges include, but are not limited to:

- Unsustainable growth trends in health and education expenditures, including rapid growth of wages in these two sectors;
- Evidence of unmet needs in critical service areas of government, especially in health and education;
- Unsustainable growth in government wage bills, including both Compact-funded areas and all or most other areas;
- Limited progress on broad-based tax reforms and limited increases in other revenue categories (although it is noted that there are some limited exceptions for individual governments);
- Apparent political obstacles to achieving sustained, broad-based tax reform (as opposed to narrow, and potentially inefficient, tax increase measures);
- The decline of Compact funding in real terms, by design, due to the partial inflation adjustment;
- The further decline of Compact funding in real terms, again by design, due to the annual decrement;
- Stagnant or declining economic activity (again, varied by location);
- The inability, to-date, of at least some governments to meet their obligations under the Compact to match contributions to the Infrastructure Maintenance Fund, and the evident need of still greater allocations towards infrastructure maintenance;
- The need to constrain expenditures, increase revenues, and/or find subsequent contributors to increase Compact Trust Fund contributions, in order to be able credibly to adjust to projected levels of support after FY-2023.

The report shall also address other factors of importance, which may either worsen or lessen the evident fiscal challenges. These shall include, but would not be limited to:

- Population trends;
- Demographic and service delivery requirement trends;
- Remittance levels and trends, to the extent such data is available;
- The current and reliable future levels of assistance from other donors; to the extent such data is available.

Finally, the FSM shall demonstrate that the process of developing this report shall be inclusive of policy makers at all levels of government, across sectors. The outcomes of the report relating to
fiscal challenges should link to a specific course of action, including plans and necessary policy reform commitments specific to each government and across governments.

**JEMCO further resolves** that cash for Fiscal Year 2011 Compact Public Sector Capacity Building grant awards for FSM National Government activities (with the exception of the ongoing Financial Management Information System Project) shall be withheld until the submittal by the FSM and the acceptance of the Long Term Fiscal Planning Report by the JEMCO.

**JEMCO further resolves** that, notwithstanding the withholding of Public Sector Capacity Building grant awards for FSM National Government activities, if a proposal for funding for the development of the Long Term Fiscal Planning Report is submitted to OIA, it shall be given due consideration for approval.

**JEMCO Resolution 2010-3 End of Year (Cumulative) Sector Summary Report**

**JEMCO resolves** that a report covering the six Compact-funded sectors shall be submitted by the FSM to the Office of Insular Affairs no later than January 31 of 2011, and every year thereafter until January 31, 2024 and shall include the following:

- Sector accomplishments for the most recently completed fiscal year
- Identification of constraints and specific steps being implemented to correct or adjust to constraints or deficiencies.
- An assessment as to how sector priorities are being met.
- Key Sector Performance Indicators for the most recently completed fiscal year.

**Resolution JEMCO 2010-4 Mid-Year JEMCO Meeting**

**JEMCO resolves** that a mid-year meeting of the JEMCO shall be held no later than February 28, 2011. The purpose of the meeting will be to discuss policy issues affecting Compact implementation, the reports specified under JEMCO Resolutions 2010-2 and 2010-3, and other issues as identified by both the FSM and the US Government and to take action as necessary.

**Resolution JEMCO 2010-5 Infrastructure Program Management**

**JEMCO resolves** that the Office of Insular Affairs shall request the U.S. Army Corps of Engineers to undertake an assessment of the current capability of the FSM Program Management Unit to administer Compact Public Infrastructure Sector grants. The assessment shall consider alternative project administration structures and provide specific recommendations that would optimally lead to contract administration system improvements. The U.S. Army Corps of Engineers shall also be requested to analyze the current capability of the FSM Program
Management Unit in administering the funding received by the FSM under the Public Infrastructure Sector.

JEMCO further resolves that Compact-funded design and associated preliminary engineering work for the following College of Micronesia projects: 1) Chuuk Campus - College of Micronesia Phase 1; 2) Chuuk Campus - College of Micronesia Phase 2; 3) National Campus - College of Micronesia Student Center; 4) Pohnpei Campus – College of Micronesia Vocational Center and Classroom Building; shall be suspended until the FSM submits and the JEMCO accepts the Western Association of Schools and Colleges (WASC) - approved College of Micronesia restructuring plan.

**Resolution JEMCO 2010-6  Special Grant Terms and Conditions**

**JEMCO resolves** that the following special grant terms and conditions shall be added to the Fiscal Year 2011 Sector Grants:

**Education**

a) The FSM National Department of Education Scholarship Program shall convene a meeting of all state scholarship coordinators along with relevant decision-makers and stakeholders, no later than November 2010, to review and update scholarship regulations in order to develop a coordinated strategy for post-secondary education service delivery for the nation. An initial report from FSMNDOE shall be submitted to JEMCO via the Office of S.B.O.C. and the Office of Insular Affairs by January 31, 2011 on the progress made by FSM National Scholarship and the four State Scholarship Programs.

b) The FSM shall develop a comprehensive strategy to improve access to Vocational Education opportunities and a common centralized data collection and analysis system.

c) The Chuuk State Department of Education shall be required to develop a long-range reform plan for review and approval at the mid-term JEMCO meeting. FY 2011 Education Sector Grant funding for Chuuk State shall be made available for six months with the release of the remainder contingent upon the receipt, review and endorsement of the reform plan by JEMCO.

d) The State Departments of Education shall be required to submit action plans to the National Department of Education for the remediation of issues identified in the audits required by JEMCO resolution 2009-05 – Education Job and Management Audits. The action plans shall be submitted no later than January 31, 2011.

e) A sum of $20,000 (from the $3,800,000 provided to the College of Micronesia) shall be allocated to support agriculture extension activities. The specific activities shall be submitted in project-based format to the Office of SBOC and Office of Insular Affairs for review and concurrence prior to the release of funding ($20,000).
**Infrastructure**

a) A sum of $1,000,000 is allocated for the repair and renovation of the Pohnpei State Hospital roof and ceiling. This project will be administered under the terms of the HAFSM agreement.

b) A sum of $360,000 is allocated for the implementation of the FSM ADSL Coverage Expansion Project. Funding provided for this project may be administered by FSM Telecommunications Corporation as a sub-grantee of the FSM National Government.

**Public Sector Capacity Building**

a) Release of funds for the FSM Tax Reform Project is conditioned upon the FSM enacting legislation in support of its long-standing tax reform efforts.

**Resolution JEMCO 2010-7**

**Fiscal Year 2011 Sector Grant Allocations**

JEMCO resolves that the following amounts are approved for use of Fiscal Year 2011 Compact of Free Association grant funding, subject to the terms and conditions of Resolution JEMCO 2010-1 and 2010-6:

- $28,376,673 Education
- $21,003,759 Health
- $2,788,879 Public Sector Capacity Building
- $1,644,867 Environment
- $2,618,701 Private Sector Development
- $24,185,521 Public Sector Infrastructure
- $80,618,400

**JEMCO further resolves** that the detailed breakdown by Sector, government, cost center and project will be included in the sector grant awards.

**JEMCO further resolves** that the following amounts are approved for use of Compact of Free Association grant funding, sourced from “prior year unallocated funding”.

- $517,060 Education
- $922,160 Health
- $975,340 Public Sector Capacity Building
- $15,000 Environment
- $900,563 Public Sector Infrastructure
- $3,330,123*
*Consolidated Cumulative Carryover and Inflation Adjustments by Government*

$389,340 FSM National Government  
$425,000 Chuuk  
$55,000 Kosrae  
$1,046,477 Pohnpei  
$1,414,306 Yap  
$3,330,123

**Resolution JEMCO 2010 -8  Update of National and State Infrastructure Development Plans**

JEMCO encourages the FSM State and National IPIC committees to meet during Fiscal Year 2011 to update the FSM Infrastructure Development to reflect current infrastructure needs in the context of state and national priorities and the overall goals of the Amended Compact.
Education Sector

$ 4,403,240  FSM National Government
$ 9,953,420  Chuuk
$ 2,468,964  Kosrae
$ 7,488,013  Pohnpei
$ 4,063,036  Yap
$ 28,376,673  Education Sector FY 2011 Allocation

The FSM requested an allocation of $28,334,146 from Fiscal Year 2011 Compact Sector funding. JEMCO is approving funding for $28,376,673.

- **FSM National Government - Education**
  - Personnel $ 172,976
  - Travel $ 61,000
  - Contractual $ 301,000
  - OCE $ 3,868,264
  - Fixed Assets $ 0
  TOTAL BUDGET $ 4,403,240

FSM National Government Funded Agencies:
1. Dept. of Education $ 486,729
2. National Scholarship Office $ 116,511
3. College of Micronesia $ 3,800,000

- **Chuuk State Government - Education**
  Personnel $ 7,834,124
  Travel $ 155,628
  Contractual $ 1,066,600
  OCE $ 816,207
  Fixed Assets $ 80,861
  TOTAL BUDGET $ 9,953,420

Chuuk State Government Funded Agencies:
1. Dept. of Education $ 9,953,420
Kosrae State Government - Education

- Personnel $ 1,728,644
- Travel $ 17,756
- Contractual $ 460,798
- OCE $ 246,146
- Fixed Assets $ 15,620

TOTAL BUDGET $ 2,468,964

Kosrae State Government Funded Agencies:
1. Dept. of Education $ 2,222,652
2. Scholarship Board $ 246,312

Pohnpei State Government - Education

- Personnel $ 6,079,879
- Travel $ 17,940
- Contractual $ 303,051
- OCE $ 1,033,605
- Fixed Assets $ 53,538

TOTAL BUDGET $ 7,488,013

Pohnpei Funded Agencies:
1. Dept. of Education $ 7,488,013

Yap State Government - Education

- Personnel $ 2,125,656
- Travel $ 92,633
- Contractual $ 654,900
- OCE $ 1,189,847
- Fixed Assets $ 0

TOTAL BUDGET $ 4,063,036

Yap State Government Funded Agencies:
1. Dept. of Education $ 3,481,074
2. Scholarship Office $ 526,960
3. Public Library $ 37,002
4. Seventh-Day Adventist School $ 18,000
The FSM requested an allocation of and $20,961,233 from Fiscal Year 2011 Compact Sector funding. JEMCO is approving funding for $21,003,759.

### FSM National Government - Health

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<tr>
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<td><strong>Total Budget</strong></td>
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</table>

National Government Funded Agencies:
1. Dept. of Health & Social Affairs $668,276
2. Grants Subsidies and Contribution
   a. Pathologist $100,000
   b. Env./Water Food Lab. Testing $100,000

### Chuuk State Government - Health

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<td>Fixed Assets</td>
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</tbody>
</table>

Chuuk State Government Funded Agencies:
1. Dept. of Health Services $8,875,104
2. Chuuk Red Cross $34,000
Kosrae State Government - Health

Personnel $ 1,091,574
Travel $ 30,129
Contractual $ 279,304
OCE $ 729,279
Fixed Assets $ 28,500

TOTAL BUDGET $ 2,158,786

Kosrae State Government Funded Agencies:
1. Dept. of Health Services $ 2,158,786

Pohnpei State Government - Health

Personnel $ 2,919,800
Travel $ 171,006
Contractual $ 594,319
OCE $ 2,190,666
Fixed Assets $ 5,000

TOTAL BUDGET $ 5,880,791

Pohnpei State Government Funded Agencies:
1. Dept. of Health Services $ 5,880,791

Yap State Government – Health

Personnel $ 1,268,644
Travel $ 81,933
Contractual $ 270,293
OCE $ 1,565,932
Fixed Assets $ 0

TOTAL BUDGET $ 3,186,802

Yap State Government Funded Agencies:
1. Dept of Health Services $ 3,153,791
2. Dept. of Resources and Dev. $ 33,011
Public Sector Capacity Building

$ 371,772  FSM National Government
$ 933,000  Chuuk
$ 484,196  Kosrae
$ 468,069  Pohnpei
$ 531,841  Yap
$ 2,788,879  Public Sector Capacity Building FY 2011 Allocation

The FSM requested an allocation of and $2,793,373 from Fiscal Year 2011 Compact Sector funding. JEMCO is approving funding for $2,788,878.

- National Government – Public Sector Capacity Building
  - Personnel  $175,133
  - Travel  $63,041
  - Contractual  $103,520
  - OCE  $27,078
  - Fixed Assets  $3,000
  TOTAL BUDGET $371,772

  ✓ Projects
  - Financial Advisors  $81,500
  - Tax Reform Program  $116,867
  - Audit Project  $173,405

- Chuuk State Government – Public Sector Capacity Building
  - Personnel  $11,200
  - Travel  $83,560
  - Contractual  $712,338
  - OCE  $60,302
  - Fixed Assets  $65,600
  TOTAL BUDGET $933,000

  ✓ Projects
  - Adm. Svcs - Centralized Planning and Budget  $166,800
  - Public Safety Staff Development  $50,000
  - Attorney Gen. Training of non-Prof. Staff  $158,200
  - PSC - Dev. Of Policies and Proc.  $138,000
  - CFCC - Oversight of Compact Exp.  $420,000
### Kosrae State Government – Public Sector Capacity Building

- **Personnel**: $93,922
- **Travel**: $91,266
- **Contractual**: $272,808
- **OCE**: $14,200
- **Fixed Assets**: $12,000

**TOTAL BUDGET**: $484,196

**Projects**

- Grant Management: $23,000
- Professional Staff Development: $60,567
- Financial Management: $128,100
- State Code Update: $11,700
- Network & Leadership Skills Training: $22,119
- P.S. Readiness and Improvement Project: $55,032
- Judicial Branch Staff Development: $10,000
- Audits and Investigations: $163,667

### Pohnpei State Government – Public Sector Capacity Building

- **Personnel**: $241,078
- **Travel**: $131,972
- **Contractual**: $55,548
- **OCE**: $31,471
- **Fixed Assets**: $8,000

**TOTAL BUDGET**: $468,069

**Projects**

- Accounting & Reporting Project: $74,584
- Manpower Dev. Training Fund: $150,000
- Audit Project: $243,485

### Yap State Government – Public Sector Capacity Building

- **Personnel**: $232,606
- **Travel**: $153,255
- **Contractual**: $104,900
- **OCE**: $41080
- **Fixed Assets**: $0

**TOTAL BUDGET**: $531,841
<table>
<thead>
<tr>
<th>Project Description</th>
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<td>Adm. Website Project</td>
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<td>Media Project</td>
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<td>ARFF</td>
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<td>Disaster Mgt., Env., &amp; Infr. Dev. Project</td>
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<td>Grant Writing Project</td>
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<td>Public Safety Training Project</td>
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<td>Accountability and Performance Project</td>
<td>$196,680</td>
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<td>Skills Training Project</td>
<td>$41,460</td>
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</table>
Environment Sector

$ 0 FSM National Government
$ 662,123 Chuuk
$ 212,131 Kosrae
$ 446,290 Pohnpei
$ 324,324 Yap
$ 1,644,867 Environment Sector FY 2011 Allocation

The FSM requested an allocation of $1,766,979 from Fiscal Year 2011 Compact Sector funding. JEMCO is approving funding for $1,644,867.

➢ Chuuk State Government – Environment
  ● Personnel $ 307,658
  ● Travel $ 40,100
  ● Contractual $ 129,545
  ● OCE $ 123,698
  ● Fixed Assets $ 61,122
  TOTAL BUDGET $ 662,123

✓ Projects
  o Endemic Plants Survey and Monitoring $ 36,726
  o Outer Island Food Supply Survey $ 78,708
  o Terrestrial Forest Project $ 35,026
  o Coral Reef Monitoring $ 88,683
  o Marine Env. Protection and Surveillance $ 73,707
  o Natural Resources Project $ 65,674
  o Public Awareness Project $ 47,229
  o Water and Wastewater Project $ 103,132
  o Solid Waste Management Project $ 133,238

➢ Kosrae State Government – Environment
  ● Personnel $ 113,973
  ● Travel $ 13,300
  ● Contractual $ 44,000
  ● OCE $ 30,858
  ● Fixed Assets $ 10,000
  TOTAL BUDGET $ 212,131
Projects
  o Environmental Protection and Enforcement $ 75,042
  o Environmental Education and Awareness $ 24,088
  o Forestry and Wildlife Management $ 28,019
  o Marine Conservation and Protection $ 28,019
  o Kosrae Solid Waste Management $ 46,558

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**Pohnpei State Government – Environment**

- Personnel $ 190,647
- Travel $ 500
- Contractual $ 200,448
- OCE $ 54,695
- Fixed Assets $ 0

**TOTAL BUDGET $ 446,290**

Projects
  o Pollution Control Project $ 90,227
  o Quarantine Project $ 30,035
  o Food Inspection Project $ 34,165
  o Safe Drinking Water and Monitoring Project $ 41,467
  o Community Health and Climate Change Proj. $ 71,751
  o Public Awareness Project $ 58,645

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**Yap State Government – Environment**

- Personnel $ 191,757
- Travel $ 16,114
- Contractual $ 35,600
- OCE $ 80,853
- Fixed Assets $ 0

**TOTAL BUDGET $ 324,324**

Projects
  o Marine Protected Areas Project $ 17,681
  o Control and Erad. of Inv. Species Project $ 90,022
  o Env. Protection and Pollution Control Project $ 106,734
  o Coral Reef Monitoring Projedt $ 67,820
  o Solid Waste Management $ 42,067
Private Sector

<table>
<thead>
<tr>
<th>State</th>
<th>Amount</th>
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<tbody>
<tr>
<td>FSM National Government</td>
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<tr>
<td>Chuuk</td>
<td>$ 986,847</td>
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<td>Kosrae</td>
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<tr>
<td>Pohnpei</td>
<td>$ 804,726</td>
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<tr>
<td>Yap</td>
<td>$ 2,618,701</td>
</tr>
</tbody>
</table>

The FSM requested an allocation of and $2,577,148 from Fiscal Year 2011 Compact Sector funding. JEMCO is approving funding for $2,618,701.

- **Chuuk State Government – Private Sector**
  - Personnel $367,429
  - Travel $123,369
  - Contractual $312,065
  - OCE $165,630
  - Fixed Assets $18,354
  - **TOTAL BUDGET** $986,847

- **Projects**
  - Food and Livestock Production $61,919
  - Nursery Mgt. and Development Project $117,579
  - Virgin Coconut Oil Project $114,998
  - Sea Cucumber Project $79,306
  - Land Management Project $155,915
  - Tourism Information Directory $27,270
  - Tourism Newsletter $28,770
  - Tourism Quality Standards $34,779
  - Tourism Sales and Marketing $95,924
  - Agro Forestry and Fruit Trees $40,000
  - Culinary Arts and Fruit Preservation $15,500
  - Sewing and Handicraft $36,000
  - Chuuk Small Business Dev. Center $178,887

- **Kosrae State Government – Private Sector**
  - Personnel $417,581
  - Travel $61,114
  - Contractual $223,392
  - OCE $103,000
  - Fixed Assets $22,020
  - **TOTAL BUDGET** $827,107
Projects
- Land Administration Program $149,830
- Aquaculture Development Program $85,827
- Fisheries Extension Program $42,243
- Crablets Propagation and Research $52,000
- Agriculture Development Program $155,879
- Foreign Investment and Export Promotion $94,311
- Kosrae Micro Finance $25,000
- Kosrae Visitors’ Bureau $106,361
- Kosrae Small Business Development Center $63,877
- Preservation of Traditional Knowledge $52,779

Yap State Government – Private Sector
- Personnel $303,109
- Travel $62,861
- Contractual $295,514
- OCE $187,482
- Fixed Assets $0

TOTAL BUDGET $804,746

Projects
- Skills Development Project $28,162
- Giant Clam Project $38,381
- Trochus Project $39,050
- Skills Training and placement Project $96,372
- Land Survey and Titling $145,759
- Entrepreneurial and Business Dev. Project $164,872
- Yap Visitors’ Bureau $292,150
Consolidated Carry-Over

**FSM National Government - Consolidated Cumulative Carryover**

Projects – FMIS

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<td>Fixed Assets</td>
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<td><strong>TOTAL BUDGET</strong></td>
<td><strong>$425,000</strong></td>
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**Chuuk State Government – Consolidated Cumulative Carryover**

- Projects
  - Chuuk Oversight $425,000

**Kosrae State Government – Consolidated Cumulative Carryover**

<table>
<thead>
<tr>
<th>Item</th>
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<tbody>
<tr>
<td>Personnel</td>
<td>$0</td>
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<tr>
<td>Travel</td>
<td>$14,000</td>
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<td><strong>TOTAL BUDGET</strong></td>
<td><strong>$55,000</strong></td>
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</table>

- Projects
  - Kosrae Water Utility Transition Project $55,000

**Pohnpei State Government – Consolidated Cumulative Carryover**

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<td><strong>TOTAL BUDGET</strong></td>
<td><strong>$320,000</strong></td>
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Fixed Assets $ 726,517
TOTAL BUDGET $ 1,046,477

- Projects
  - Hemodialysis Project $ 64,000
  - Physiotherapy Project $ 48,000
  - Laboratory Project $ 31,900
  - X-Ray Project $ 302,000
  - Computer Purchase $ 20,000
  - Purchase of Tilting Pots $ 20,000
  - Purchase of Purifying Machine $ 26,317
  - Purchase of Gas Stove $ 14,260
  - Renovation Projects $ 305,000
  - Purchase of School Bus $ 200,000
  - Marine Conservation $ 15,000

- Yap State Government – Consolidated Cumulative Carryover

<table>
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<tr>
<td>Personnel</td>
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<td>Travel</td>
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<td>OCE</td>
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<td>Fixed Assets</td>
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TOTAL BUDGET $ 1,414,306

- Projects
  - Pharmaceuticals $ 136,660
  - Operational Budget Adjustments $ 35,000
  - Medical Equipment $ 304,600
  - Textbooks $ 136,660
  - Fixed Assets $ 99,823
  - Microfilm Reader and Supplies $ 6,000
  - Economist $ 100,000
  - IDP Projects $ 215,000
  - IMP Projects $ 380,563