



**BUDGET** The United States  
Department of the Interior

**JUSTIFICATIONS**

and Performance Information  
Fiscal Year 2018

**OFFICE OF  
INSULAR AFFAIRS**

**NOTICE:** These budget justifications are prepared for the Interior, Environment and Related Agencies Appropriations Subcommittees.

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# I. Bureau-Level Presentation

## General Statement

### 1. Introduction

The Office of Insular Affairs (OIA) carries out the Secretary's responsibilities for U.S.-affiliated insular areas. These include the territories of Guam, American Samoa, the U.S. Virgin Islands (USVI), and the Commonwealth of the Northern Mariana Islands (CNMI), as well as three Freely Associated States (FAS): the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI) and the Republic of Palau (Palau).

Economic challenges, long-term energy security, the protection of natural and cultural resources and national security concerns are the foundations of the 2018 budget request. Data from the Bureau of Economic Analysis (BEA) illustrate the economic challenges facing the insular areas. Utility costs in the islands are three times the national average, making it imperative to find economically viable alternatives to supplement imported fuels. By their geography, the islands are naturally vulnerable to the impacts of typhoons and sea level rise, and face a formidable challenge in adapting and responding to the effects on infrastructure, economic development, food security and natural resource shortfalls.

The economic picture emerging from the most recent territorial gross domestic product (GDP) data is corroborated by population data from the 2010 census. All of the territories, except for Guam, lost population in the previous decade. The CNMI led the territories in population decline, with a 22.2 percent decrease from 2000 to 2010. The census data support the anecdotal observation that many islanders are leaving their homes to seek better opportunities elsewhere. Continued population loss will exacerbate economic troubles as Federal formula grants which are based on population will decrease.

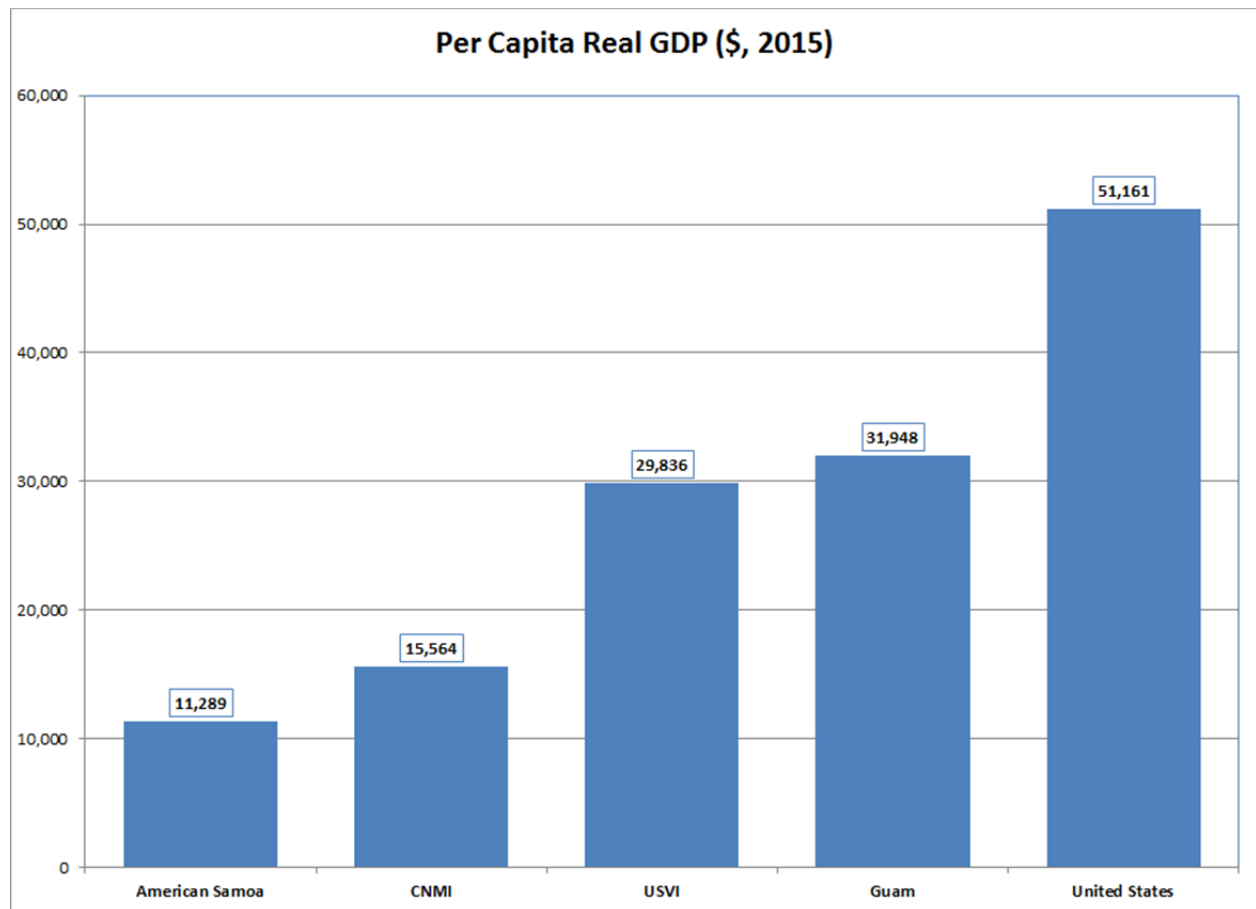
In the face of the physical, institutional and environmental realities of the insular areas, the financial assistance OIA provides is a critical element in stabilizing their economies and fiscal resources, and planning for the future. OIA's assistance helps the areas confront some of their pressing challenges, improve the quality of life, expand economic opportunity and promote efficient and effective governance. What follows is a brief description of the challenges faces by the territories in their economies and energy sectors.

#### *Economic Challenges*

The insular economies are small, isolated and dependent on one or two main sources of income. In most areas, Federal programs and grants represent a major source of government revenues. Federal funds, including rum tax cover-over, were 35.3 percent of government revenues in the USVI in fiscal year 2015, 37.0 percent in Guam, 26.3 percent in the CNMI and 61.9 percent in American Samoa. In three of the four territories, a single industry, tourism, is the major income source that is influenced by global and regional economic forces beyond their control.

The BEA produces official, standardized GDP data for the island territories under a special technical assistance program funded by OIA. The graph below shows per capita GDP of the island territories as

compared to the United States. Among the territories, Guam’s GDP is the closest to the United States and has a more stable economy because of a relatively large national defense infrastructure, which is a major pillar of the island economy, along with a large tourism industry. The information indicates, however, how far behind the islands are in per capita income, demonstrating the impacts of the loss or gain of single industry economies, including the USVI which lost a large multi-national petroleum refinery in 2012, and the difficulty that all of the islands have in generating capital investment.



*Renewable and Conventional Energy*

The islands are beginning to transform their energy sectors from 100 percent reliance on imported fuel energy to a mix of proven alternative energy systems. The islands are highly dependent on imported oil, leaving them vulnerable to global price fluctuations that directly impact the cost of electricity. At present, the insular communities face very high energy costs as residents pay about three times the national average for electricity. Each of the insular governments has established fossil fuel reduction targets and identified comprehensive sustainable energy strategies to achieve those targets. For example, the U.S. Virgin Islands' clean energy goal is to reduce imported fuel-based energy consumption by 60 percent by 2025. OIA is working with the territories towards full utility-scale renewable energy programs that will

reduce reliance on imported fuel and ultimately provide access to other technologies for affordable and reliable energy.

The islands enjoy a relative abundance of renewable energy resources providing ample opportunity for the development of solar, wind, geothermal, waste-to-energy, and other clean energy technologies. To accelerate the deployment of these technologies, OIA is providing technical assistance and engineering support through project development and permitting, financing strategies, integrated resource planning, local capacity building, grid interconnection policies, power distribution system assessments, and energy efficiency improvements. These efforts will help the insular areas transform their energy sectors by diversifying the supply of energy and reducing the cost of electricity.

#### The Freely Associated States (FAS)

The BEA does not produce economic data for the FAS. OIA has collaborated with the Graduate School USA (formerly USDA Graduate School) to produce GDP data for the FSM, the RMI and Palau as a part of a larger technical assistance program to strengthen financial management and fiscal accountability in the insular areas. The smaller and more isolated FAS economies have evolved since the beginning of U.S. engagement in the region during World War II by becoming more dependent on Federal assistance than the territories.

#### Federated States of Micronesia (FSM)

The FSM continues to show lag in economic performance, which leads directly to increased emigration to the United States, particularly to Guam and Hawaii. The most immediate need in the FSM is for the government to organize to use effectively Compact infrastructure funds. This will have an immediate, positive impact on jobs, incomes and GDP.

The FSM also needs to take a fresh look at its overall financial resources. The country is in surplus at the moment. However, this result differs significantly between the FSM national and state governments. The national government runs a surplus, while all states but Kosrae have recorded small deficits. The FSM state governments which deliver services have been constrained by declining Compact grants, while the national government has benefited from rising revenues from fishing fees and the captive insurance market.

#### Republic of the Marshall Islands (RMI)

The RMI's real GDP grew 0.6 percent in 2015, following a decline in 2014 and growth in 2013. The RMI's fiscal operations in 2015 recorded a surplus, as it did in fiscal year 2014. However, despite gains in revenues, expenditures grew with increases in payroll, continued state-owned enterprise (SOE) subsidies and drought in the northern islands.

#### Republic of Palau

Palau's economy has performed well over the last three years. In 2014, real GDP increased 6.9 percent, following a decrease of 4.5 percent during the year before. In 2015, real GDP growth accelerated to 10.6 percent, the highest annual growth rate in almost two decades. In 2016, growth was estimated to be down to 1.6 percent. This apparently volatile growth pattern in Palau's economy reflects its dynamic tourism industry which has grown over the last several years. In 2014, Palau received 125,674 visitors. In 2015,

the number rose to 168,767. The total dropped in 2016, but slightly to 146,634. Despite fluctuations, Palau's tourism is now the main driver of its economy.

## 2. Budget Highlights

The proposed 2018 OIA budget is \$715.8 million, an increase of \$107.9 million from the 2017 CR level inclusive of a Department of Defense transfer for the Palau Compact. Instead of continuing the temporary extension for Palau Compact, the budget proposes \$123.9 million in discretionary Department of Defense appropriations as a transfer to the Department of the Interior to support enactment of the 2010 Compact Review Agreement with Palau. The Compact is an important element of the Pacific national security strategy.

### Total 2018 Budget Request

(Dollars in Thousands)

| <b>Budget Authority</b>          | <b>2016 Actual</b> | <b>2017 CR</b> | <b>2018 President's Budget</b> | <b>2018 Change from 2017</b> |
|----------------------------------|--------------------|----------------|--------------------------------|------------------------------|
| Current Discretionary            | 62,574             | 62,455         | 56,533                         | -5,922                       |
| Current Mandatory                | 40,867             | 40,842         | 27,720                         | -13,122                      |
| <b>Total Current</b>             | <b>103,441</b>     | <b>103,297</b> | <b>84,253</b>                  | <b>-19,044</b>               |
| Permanent                        | 504,854            | 504,570        | 507,620                        | +3,050                       |
| <b>Total OIA</b>                 | <b>608,295</b>     | <b>607,867</b> | <b>591,873</b>                 | <b>-15,994</b>               |
| <i>FTEs</i>                      | 36                 | 36             | 36                             | 0                            |
| DoD Transfer                     | 0                  | 0              | 123,900                        | +123,900                     |
| <b>Total OIA w/ DoD Transfer</b> | <b>608,295</b>     | <b>607,867</b> | <b>715,773</b>                 | <b>+107,906</b>              |

OIA's budget is divided into two major categories of funding – current and permanent appropriations. Most of OIA's budget reflects mandatory commitments to U.S.-affiliated insular areas and is permanently appropriated. In 2018, these commitments include an estimated \$288.0 million for fiscal payments to Guam and the U.S. Virgin Islands and \$219.6 million for payments under the Compacts of Free Association. Excluding the \$123.9 million transfer from the Department of Defense to support enactment of the 2010 Compact Review Agreement with Palau, current appropriations of \$84.3 million are requested in 2018, a decrease of \$19.0 million from the 2017 CR level. The current appropriations request includes \$56.5 million in discretionary funding and \$27.7 million in mandatory funding.



## B. Bureau-Level Tables

## 1.

| <b>FY 2018 Budget at a Glance</b>                       |                |                |                                     |                    |                |
|---|----------------|----------------|-------------------------------------|--------------------|----------------|
| <b>Office of Insular Affairs</b>                        |                |                |                                     |                    |                |
| <i>(Dollars in Thousands)</i>                           |                |                |                                     |                    |                |
|   | 2016 Actual    | 2017 CR        | Fixed Costs<br>& Related<br>Changes | Program<br>Changes | 2018 Request   |
| <u>Assistance to Territories</u>                        |                |                |                                     |                    |                |
| American Samoa Operations                               | 22,752         | 22,709         | 0                                   | -1,180             | 21,529         |
| Capital Improvement Projects                            | 27,720         | 27,720         | 0                                   | 0                  | 27,720         |
| Territorial Assistance                                  |                |                |                                     |                    |                |
| Office of Insular Affairs                               | 9,448          | 9,430          | -204                                | +204               | 9,430          |
| Technical Assistance                                    | 15,504         | 15,475         | 0                                   | -804               | 14,671         |
| Maintenance Assistance                                  | 1,081          | 1,079          | 0                                   | -56                | 1,023          |
| Brown Tree Snake Control                                | 3,500          | 3,493          | 0                                   | -656               | 2,837          |
| Coral Reef Initiative & Natural Resources               | 1,000          | 998            | 0                                   | -52                | 946            |
| Empowering Insular Communities                          | 2,971          | 2,965          | 0                                   | -154               | 2,811          |
| Compact Impact Disc.                                    | <u>3,000</u>   | <u>2,994</u>   | <u>0</u>                            | <u>-2,994</u>      | <u>0</u>       |
| <b>Total, Assistance to Territories</b>                 | <b>86,976</b>  | <b>86,863</b>  | <b>-204</b>                         | <b>-5,692</b>      | <b>80,967</b>  |
| <u>Compact of Free Association - Current</u>            |                |                |                                     |                    |                |
| Federal Services  | 2,818          | 2,813          | 0                                   | 0                  | 2,813          |
| Enewetak  | 500            | 499            | 0                                   | -26                | 473            |
| Palau Compact Extension                                 | <u>13,147</u>  | <u>13,122</u>  | <u>0</u>                            | <u>-13,122</u>     | <u>0</u>       |
| <b>Total, Compact of Free Association - Current</b>     | <b>16,465</b>  | <b>16,434</b>  | <b>0</b>                            | <b>-13,148</b>     | <b>3,286</b>   |
| <b>Total Current Discretionary/Mandatory</b>            | <b>103,441</b> | <b>103,297</b> | <b>-204</b>                         | <b>-18,840</b>     | <b>84,253</b>  |
| <u>Compact of Free Association</u>                      |                |                |                                     |                    |                |
| Marshall Islands Compact                                | 74,598         | 76,065         | 0                                   | +1,213             | 77,278         |
| Federated States of Micronesia Compact                  | 109,176        | 110,135        | 0                                   | +1,844             | 111,979        |
| Compact Impact  | 30,000         | 30,000         | 0                                   | 0                  | 30,000         |
| Judicial Training                                       | <u>365</u>     | <u>370</u>     | <u>0</u>                            | <u>-7</u>          | <u>363</u>     |
| <b>Total Compact (Permanent)</b>                        | <b>214,139</b> | <b>216,570</b> | <b>0</b>                            | <b>+3,050</b>      | <b>219,620</b> |
| <u>Fiscal Payments</u>                                  |                |                |                                     |                    |                |
| Guam Section 30 Income Taxes                            | 79,238         | 79,000         | 0                                   | 0                  | 79,000         |
| VI Rum Excise Taxes                                     | <u>211,851</u> | <u>209,000</u> | <u>0</u>                            | <u>0</u>           | <u>209,000</u> |
| <b>Total, Fiscal Payments (Permanent)</b>               | <b>291,089</b> | <b>288,000</b> | <b>0</b>                            | <b>0</b>           | <b>288,000</b> |
| American Samoa Loan Program Account                     | 115            | 0              | 0                                   | 0                  | 0              |
| American Samoa Loan Financing Account                   | <u>-489</u>    | <u>0</u>       | <u>0</u>                            | <u>0</u>           | <u>0</u>       |
| <b>Total, American Samoa Loan (Permanent)</b>           | <b>-374</b>    | <b>0</b>       | <b>0</b>                            | <b>0</b>           | <b>0</b>       |
| <b>Total, Office of Insular Affairs</b>                 | <b>608,295</b> | <b>607,867</b> | <b>-204</b>                         | <b>-15,790</b>     | <b>591,873</b> |
| Palau Compact DoD Transfer                              | <u>0</u>       | <u>0</u>       | <u>0</u>                            | <u>+123,900</u>    | <u>123,900</u> |
| <b>Total, Office of Insular Affairs w/ DoD Transfer</b> | <b>608,295</b> | <b>607,867</b> | <b>-204</b>                         | <b>+108,110</b>    | <b>715,773</b> |

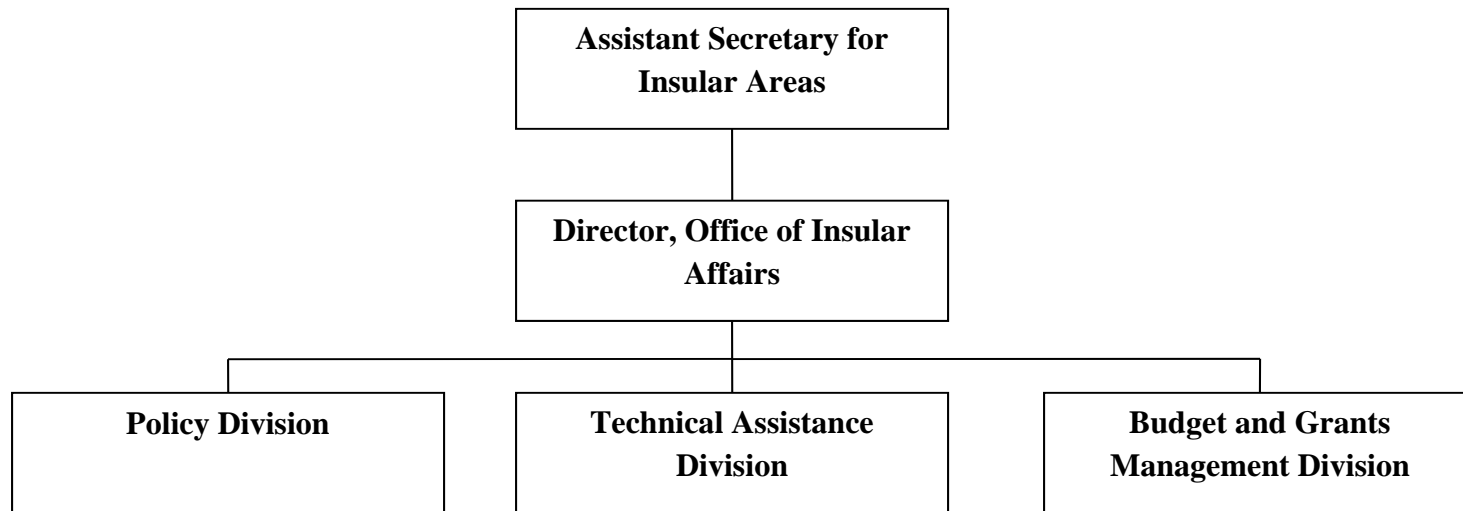
2.

Office of Insular Affairs  
2016 Funding (Budget Authority) by Activity and Insular Area  
\$(000)

| Activity  | Am Samoa      | CNMI          | Guam           | USVI           | FSM            | RMI           | Palau         | Hawaii        | DC           | Other        | Total          |
|---|---------------|---------------|----------------|----------------|----------------|---------------|---------------|---------------|--------------|--------------|----------------|
| <u>Assistance to Territories</u>                    |               |               |                |                |                |               |               |               |              |              |                |
| American Samoa Operations                           | 22,752        |               |                |                |                |               |               |               |              |              | 22,752         |
| Capital Improvement Projects                        | 9,505         | 9,606         | 5,670          | 2,939          |                |               |               |               |              |              | 27,720         |
| Office of Insular Affairs                           | 240           | 119           |                |                | 164            | 129           |               | 2,250         | 5,575        | 971          | 9,448          |
| Technical Assistance                                | 1,541         | 2,314         | 1,478          | 1,601          | 20             | 2,036         | 706           | 3,153         | 750          | 1,905        | 15,504         |
| Maintenance Assistance                              | 250           | 99            | 250            | 269            | 213            |               |               |               |              |              | 1,081          |
| Brown Treesnake Control                             |               | 437           |                |                |                |               |               | 1,935         |              | 1,128        | 3,500          |
| Coral Reef Initiative                               | 124           | 140           | 106            | 131            | 130            | 125           | 0             | 40            |              | 204          | 1,000          |
| Empowering Insular Communities                      | 1,101         | 979           | 0              | 891            |                |               |               |               |              |              | 2,971          |
| Compact Impact Discretionary                        | 2             | 231           | 1,491          |                |                |               |               | 1,276         |              |              | 3,000          |
| <i>Total, Assistance to Territories</i>             | 35,515        | 13,925        | 8,995          | 5,831          | 527            | 2,290         | 706           | 8,654         | 6,325        | 4,208        | 86,976         |
| <u>Compact of Free Association - Current</u>        |               |               |                |                |                |               |               |               |              |              |                |
| Federal Services                                    |               |               |                |                |                |               | 550           |               |              | 2,268        | 2,818          |
| Palau Program Grant Assistance                      |               |               |                |                |                |               | 2,000         |               |              |              | 2,000          |
| Enewetak  |               |               |                |                |                | 500           |               |               |              |              | 500            |
| Palau Compact Extension                             |               |               |                |                |                |               | 11,147        |               |              |              | 11,147         |
| <i>Total, Compact of Free Association - Current</i> | 0             | 0             | 0              | 0              | 0              | 500           | 13,697        | 0             | 0            | 2,268        | 16,465         |
| <b>Total Current Discretionary/Mandatory</b>        | <b>35,515</b> | <b>13,925</b> | <b>8,995</b>   | <b>5,831</b>   | <b>527</b>     | <b>2,790</b>  | <b>14,403</b> | <b>8,654</b>  | <b>6,325</b> | <b>6,476</b> | <b>103,441</b> |
| <u>Compact of Free Association</u>                  |               |               |                |                |                |               |               |               |              |              |                |
| Marshall Islands Compact                            |               |               |                |                |                | 74,598        |               |               |              |              | 74,598         |
| Federated States of Micronesia Compact              |               |               |                |                | 109,176        |               |               |               |              |              | 109,176        |
| Palau Compact                                       |               |               |                |                |                |               |               |               |              |              | 0              |
| Compact Impact                                      | 22            | 2,309         | 14,907         |                |                |               |               | 12,762        |              |              | 30,000         |
| Judicial Training                                   |               |               |                |                |                |               |               |               |              | 365          | 365            |
| <i>Total, Compact (Permanent)</i>                   | 22            | 2,309         | 14,907         | 0              | 109,176        | 74,598        | 0             | 12,762        | 0            | 365          | 214,139        |
| <u>Fiscal Payments</u>                              |               |               |                |                |                |               |               |               |              |              |                |
| Guam Section 30 Income Taxes                        |               |               | 79,238         |                |                |               |               |               |              |              | 79,238         |
| VI Rum Excise Taxes                                 |               |               |                | 211,851        |                |               |               |               |              |              | 211,851        |
| <i>Total, Fiscal Payments (Permanent)</i>           | 0             | 0             | 79,238         | 211,851        | 0              | 0             | 0             | 0             | 0            | 0            | 291,089        |
| <b>Total Permanent Mandatory</b>                    | <b>22</b>     | <b>2,309</b>  | <b>94,145</b>  | <b>211,851</b> | <b>109,176</b> | <b>74,598</b> | <b>0</b>      | <b>12,762</b> | <b>0</b>     | <b>365</b>   | <b>505,228</b> |
| <b>Grand Total - Office of Insular Affairs</b>      | <b>35,537</b> | <b>16,234</b> | <b>103,140</b> | <b>217,682</b> | <b>109,703</b> | <b>77,388</b> | <b>14,403</b> | <b>21,416</b> | <b>6,325</b> | <b>6,841</b> | <b>608,669</b> |

3.

**Organization Chart  
Office of Insular Affairs**



## 4. Goal Performance Table

**Mission Area 2: Strengthening Tribal Nations and Insular Communities**  
**Goal #2: Empower Insular Communities**

| Strategic Plan Performance Measures  | 2012<br>Actual | 2013<br>Actual | 2014<br>Actual | 2015<br>Actual | 2016<br>Target | 2016<br>Actual | 2017<br>Target | 2018<br>Target |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Strategy #1: Improve Quality of Life</b>  |                |                |                |                |                |                |                |                |
| Percent of Community Water Systems (CWS) that receive health-based violation notices from the U.S. Environmental Protection Agency | 13.5%          | 18.9%          | 8.2%           | 12.9%          | 9.5%           | 8.4%           | 9.9%           | 9.2%           |
| CWS In Violation   | 20             | 28             | 12             | 19             | 14             | 11             | 13             | 12             |
| Total CWS  | 148            | 148            | 147            | 147            | 147            | 131            | 131            | 131            |
| Residential cost per kilowatt hour for power in the US territories compared to the national average                                | 3.1X           | 3.1X           | 3.1X           | 3.0X           | 2.0X           | 2.4X           | 2.0X           | 2.0X           |
| Territories Avg Cost kWh   | \$ 0.34        | \$ 0.37        | \$ 0.37        | \$ 0.39        | \$ 0.24        | \$ 0.31        | \$ 0.24        | \$ 0.26        |
| National Avg Cost kWh  | \$ 0.11        | \$ 0.12        | \$ 0.12        | \$ 0.13        | \$ 0.12        | \$ 0.13        | \$ 0.12        | \$ 0.13        |
| Percent of schools in acceptable condition based on specified safety and functionality standards.                                  | N/A            | 38%            | 38%            | 38%            | 38%            | 38%            | 60%            | 60%            |
| Buildings In Acceptable Condition  | N/A            | 701            | 701            | 701            | 701            | 701            | 1,120          | 1,120          |
| Total Buildings  | N/A            | 1,866          | 1,866          | 1,866          | 1,866          | 1,866          | 1,866          | 1,866          |
| <b>Strategy #2: Create Economic Opportunity</b>  |                |                |                |                |                |                |                |                |
| Mean GDP per capita in the 4 US Territories compared to the real GDP per capita for the U.S.                                       | 50.5%          | 47.4%          | 40.6%          | 44.4%          | 60.0%          | 43.2%          | 60.0%          | 60.0%          |
| Avg. Per Capita GDP Territories  | \$21,627       | \$ 20,483      | \$ 19,972      | \$ 22,205      | \$ 29,526      | \$ 22,159      | \$ 29,526      | \$ 30,745      |
| Avg. Per Capita GDP US   | \$42,831       | \$ 43,236      | \$ 49,210      | \$ 50,051      | \$ 49,210      | \$ 51,241      | \$ 49,210      | \$ 51,241      |
| <b>Strategy #3: Promote Efficient and Effective Governance</b>   |                |                |                |                |                |                |                |                |
| Number of insular governments with on-time and unqualified single audits.  | 3              | 3              | 3              | 4              | 4              | 3              | 4              | 4              |

Water, Energy, GDP and Audit goals have a one year lag. For example 2015 data would be reported as the 2016 actual. The next school facility condition assessment is slated to be conducted in fiscal year 2017.

## II. Account-Level Presentation

### A. Summary of Requirements

1.

OFFICE OF INSULAR AFFAIRS  
ASSISTANCE TO TERRITORIES

2018 Summary of Requirements  
(Dollars in Thousands)

| Activity/Subactivity                        | 2016 Actual   |           | 2017 CR       |     | Fixed Costs<br>& Related<br>Changes | Internal<br>Transfers | Program<br>Changes |                | 2018 Request |               | Change from<br>2017 (+/-) |                |
|---|---------------|-----------|---------------|-----|-------------------------------------|-----------------------|--------------------|----------------|--------------|---------------|---------------------------|----------------|
|   | Amount        | FTE       | Amount        | FTE |                                     |                       | Amount             | FTE            | Amount       | FTE           | Amount                    | FTE            |
| <b>ASSISTANCE TO TERRITORIES</b>            |               |           |               |     |                                     |                       |                    |                |              |               |                           |                |
| 1. American Samoa Operations                | 22,752        | 2         | 22,709        |     | -                                   | -                     | -                  | (1,180)        | 2            | 21,529        | -                         | (1,180)        |
| 2. Capital Improvement Project (CIP) Grants |               |           |               |     |                                     |                       |                    |                |              |               |                           |                |
| Northern Mariana Islands Construction       | 9,606         | -         | 9,082         |     | -                                   | -                     | -                  | (958)          | -            | 8,124         | -                         | (958)          |
| American Samoa Construction                 | 9,505         | -         | 9,613         |     | -                                   | -                     | -                  | 708            | -            | 10,321        | -                         | 708            |
| Guam Construction                           | 5,670         | -         | 6,578         |     | -                                   | -                     | -                  | 42             | -            | 6,620         | -                         | 42             |
| Virgin Islands Construction                 | 2,939         | -         | 2,447         |     | -                                   | -                     | -                  | 208            | -            | 2,655         | -                         | 208            |
| <i>Total, CIP Grants</i>                    | 27,720        | -         | 27,720        |     | -                                   | -                     | -                  | -              | -            | 27,720        | -                         | -              |
| 3. Territorial Assistance                   |               |           |               |     |                                     |                       |                    |                |              |               |                           |                |
| Office of Insular Affairs                   | 9,448         | 34        | 9,430         |     | (204)                               | -                     | -                  | 204            | 34           | 9,430         | -                         | -              |
| Technical Assistance                        | 15,504        | -         | 15,475        |     | -                                   | -                     | -                  | (804)          | -            | 14,671        | -                         | (804)          |
| Maintenance Assistance                      | 1,081         | -         | 1,079         |     | -                                   | -                     | -                  | (56)           | -            | 1,023         | -                         | (56)           |
| Brown Tree Snake Control                    | 3,500         | -         | 3,493         |     | -                                   | -                     | -                  | (656)          | -            | 2,837         | -                         | (656)          |
| Coral Reef Initiative & Natural Resources   | 1,000         | -         | 998           |     | -                                   | -                     | -                  | (52)           | -            | 946           | -                         | (52)           |
| Empowering Insular Communities              | 2,971         | -         | 2,965         |     | -                                   | -                     | -                  | (154)          | -            | 2,811         | -                         | (154)          |
| Compact Impact - Discretionary              | 3,000         | -         | 2,994         |     | -                                   | -                     | -                  | (2,994)        | -            | -             | -                         | (2,994)        |
| <i>Total, Territorial Assistance</i>        | 36,504        | 34        | 36,434        |     | (204)                               | -                     | -                  | (4,512)        | 34           | 31,718        | -                         | (4,716)        |
| <b>TOTAL, ASSISTANCE TO TERRITORIES</b>     | <b>86,976</b> | <b>36</b> | <b>86,863</b> |     | <b>(204)</b>                        | <b>-</b>              | <b>-</b>           | <b>(5,692)</b> | <b>36</b>    | <b>80,967</b> | <b>-</b>                  | <b>(5,896)</b> |

2.

OFFICE OF INSULAR AFFAIRS  
COMPACT OF FREE ASSOCIATION - CURRENT APPROPRIATION

2018 Summary of Requirements  
(Dollars in Thousands)

|   | 2016 Actual   |     | 2017 CR       |     | Fixed Costs & Related Changes |           | Internal Transfers |                 | Program Changes |        | 2018 Request |                | Change from 2017 (+/-) |                 |
|---|---------------|-----|---------------|-----|-------------------------------|-----------|--------------------|-----------------|-----------------|--------|--------------|----------------|------------------------|-----------------|
|   | Amount        | FTE | Amount        | FTE | Changes                       | Transfers | FTE                | Amount          | FTE             | Amount | FTE          | Amount         | FTE                    | Amount          |
|   |               |     |               |     |                               |           |                    |                 |                 |        |              |                |                        |                 |
| <b>COMPACT OF FREE ASSOCIATION - CURRENT</b>    |               |     |               |     |                               |           |                    |                 |                 |        |              |                |                        |                 |
| 1. Federal Services                             | 2,818         | -   | 2,813         | -   | -                             | -         | -                  | -               | -               | -      | -            | 2,813          | -                      | -               |
| 2. Enewetak                                     | 500           | -   | 499           | -   | -                             | -         | -                  | (26)            | -               | -      | -            | 473            | -                      | (26)            |
| 3. Palau Compact Extension                      | 13,147        | -   | 13,122        | -   | -                             | -         | -                  | (13,122)        | -               | -      | -            | -              | -                      | (13,122)        |
| <b>TOTAL, COMPACT - CURRENT</b>                 | <b>16,465</b> | -   | <b>16,434</b> | -   | -                             | -         | -                  | <b>(13,148)</b> | -               | -      | -            | <b>3,286</b>   | -                      | <b>(13,148)</b> |
| Palau Compact DoD Transfer                      | -             | -   | -             | -   | -                             | -         | -                  | 123,900         | -               | -      | -            | 123,900        | -                      | 123,900         |
| <b>TOTAL, COMPACT - CURRENT W/ DOD TRANSFER</b> | <b>16,465</b> | -   | <b>16,434</b> | -   | -                             | -         | -                  | <b>110,752</b>  | -               | -      | -            | <b>127,186</b> | -                      | <b>110,752</b>  |

3.

**OFFICE OF INSULAR AFFAIRS  
COMPACT OF FREE ASSOCIATION - PERMANENT APPROPRIATION**

**2018 Summary of Requirements  
(Dollars in Thousands)**

| Activity/Subactivity  | 2016 Actual    |          | 2017 CR        |          | Program Changes                 |                    | 2018 Request |                | Change from 2017 (+/-) |              |
|---|----------------|----------|----------------|----------|---------------------------------|--------------------|--------------|----------------|------------------------|--------------|
|   | Amount         | FTE      | Amount         | FTE      | Fixed Costs and Related Changes | Internal Transfers | FTE          | Amount         | FTE                    | Amount       |
| <b>COMPACT OF FREE ASSOCIATION - PERMANENT</b>                |                |          |                |          |                                 |                    |              |                |                        |              |
| <u>Assistance to the Marshall Islands:</u>                    |                |          |                |          |                                 |                    |              |                |                        |              |
| Sector Grants   | 35,975         |          | 36,505         |          | -                               | -                  | 10           | 36,515         |                        | 10           |
| Audit   | 500            |          | 500            |          | -                               | -                  | -            | 500            |                        | -            |
| Trust Fund  | 15,323         |          | 16,053         |          | -                               | -                  | 874          | 16,927         |                        | 874          |
| Rongelap Resettlement   | -              |          | -              |          | -                               | -                  | -            | -              |                        | -            |
| Kwajalein Lease Payment                                       | 21,217         |          | 21,404         |          | -                               | -                  | 360          | 21,764         |                        | 360          |
| Enewetak  | <u>1,583</u>   |          | <u>1,603</u>   |          | -                               | -                  | <u>-31</u>   | <u>1,572</u>   |                        | <u>-31</u>   |
| Subtotal, Marshall Islands Assistance                         | 74,598         | -        | 76,065         | -        | -                               | -                  | 1,213        | 77,278         | -                      | 1,213        |
| <u>Assistance to the Federated States of Micronesia (FSM)</u> |                |          |                |          |                                 |                    |              |                |                        |              |
| Sector Grants   | 80,387         |          | 80,145         |          | -                               | -                  | 381          | 80,526         |                        | 381          |
| Trust Fund  | 28,289         |          | 29,490         |          | -                               | -                  | 1,463        | 30,953         |                        | 1,463        |
| Audit   | <u>500</u>     |          | <u>500</u>     |          | -                               | -                  | -            | <u>500</u>     |                        | -            |
| Subtotal, FSM Assistance                                      | 109,176        | -        | 110,135        | -        | -                               | -                  | 1,844        | 111,979        | -                      | 1,844        |
| <u>Compact Impact</u>   | 30,000         |          | 30,000         |          | -                               | -                  | -            | 30,000         |                        | -            |
| <u>Judicial Training</u>                                      | 365            |          | 370            |          | -                               | -                  | -7           | 363            |                        | -7           |
| <u>Total FSM/Marshalls Compact (Permanent)</u>                | <u>214,139</u> | -        | <u>216,570</u> | -        | -                               | -                  | <u>3,050</u> | <u>219,620</u> | -                      | <u>3,050</u> |
| <u>Assistance to the Republic of Palau</u>                    |                |          |                |          |                                 |                    |              |                |                        |              |
| Section 211 (Government Operations)                           | -              |          | -              |          | -                               | -                  | -            | -              |                        | -            |
| Section 215 (Inflation Adjustment)                            | -              |          | -              |          | -                               | -                  | -            | -              |                        | -            |
| Palau Legislative Proposal                                    | -              |          | -              |          | -                               | -                  | -            | -              |                        | -            |
| Subtotal, Assistance to the Republic of Palau                 | -              | -        | -              | -        | -                               | -                  | -            | -              | -                      | -            |
| <b>TOTAL, COMPACT, Permanent</b>                              | <b>214,139</b> | <b>-</b> | <b>216,570</b> | <b>-</b> | <b>-</b>                        | <b>-</b>           | <b>3,050</b> | <b>219,620</b> | <b>-</b>               | <b>3,050</b> |

**B. Fixed Costs and Related Changes**

**Office of Insular Affairs**  
**Justification of Fixed Costs and Internal Realignments**  
*(Dollars In Thousands)*

| <b>Fixed Cost Changes and Projections</b>   | <b>2017<br/>Total or Change</b> | <b>2017 to 2018<br/>Change</b> |
|---|---------------------------------|--------------------------------|
| <b>Change in Number of Paid Days</b><br>This column reflects changes in pay associated with the change in the number of paid days between the 2017 and 2018.  | -41                             | +0                             |
| <b>Pay Raise</b><br>The change reflects the salary impact of the 2.1% pay raise for 2017 as signed by the President in December 2016, and the estimated 1.9% pay raise for 2018.  | +104                            | +104                           |
| <b>Departmental Working Capital Fund</b><br>The change reflects expected changes in the charges for centrally billed Department services and other services through the Working Capital Fund. These charges are detailed in the Budget Justification for Departmental Management.   | -120                            | +76                            |
| <b>Worker's Compensation Payments</b><br>The amounts reflect projected changes in the costs of compensating injured employees and dependents of employees who suffer accidental deaths while on duty. Costs will reimburse the Department of Labor, Federal Employees Compensation Fund, pursuant to 5 U.S.C. 8147(b) as amended by Public Law 94-273.  | +0                              | +0                             |
| <b>Unemployment Compensation Payments</b><br>The amounts reflect projected changes in the costs of unemployment compensation claims to be paid to the Department of Labor, Federal Employees Compensation Account, in the Unemployment Trust Fund, pursuant to Public Law 96-499.   | +0                              | +0                             |
| <b>Rental Payments</b><br>The amounts reflect changes in the costs payable to the General Services Administration (GSA) and others for office and non-office space as estimated by GSA, as well as the rental costs of other currently occupied space. These costs include building security; in the case of GSA space, these are paid to the Department of Homeland Security (DHS). Costs of mandatory office relocations, i.e. relocations in cases where due to external events there is no alternative but to vacate the currently occupied space, are also included.   | -258                            | -384                           |
| <b>Baseline Adjustments for O&amp;M Increases</b><br>In accordance with space maximization efforts across the Federal Government, this adjustment captures the associated increase to baseline operations and maintenance (O&M) requirements resulting from movement out of GSA or direct-leased (commercial) space and into Bureau-owned space. While the GSA portion of fixed costs will go down as a result of these moves, Bureaus often encounter an increase to baseline O&M costs not otherwise captured in fixed costs. This category of funding properly adjusts the baseline fixed cost amount to maintain steady-state funding for these requirements. | +0                              | +0                             |
| <b>Total, Fixed Costs OIA</b>   | <b>-315</b>                     | <b>-204</b>                    |



## C. Language Citations

### 1. Appropriation Changes

#### **ASSISTANCE TO TERRITORIES**

*For expenses necessary for assistance to territories under the jurisdiction of the Department of the Interior and other jurisdictions identified in section 104(e) of Public Law 108-188, \$80,967,000, of which: (1) \$71,537,000 shall remain available until expended for territorial assistance, including general technical assistance, maintenance assistance, disaster assistance, coral reef initiative activities, and brown tree snake control and research; grants to the judiciary in American Samoa for compensation and expenses, as authorized by law (48 U.S.C. 1661(c)); grants to the Government of American Samoa, in addition to current local revenues, for construction and support of governmental functions; grants to the Government of the Virgin Islands, as authorized by law; grants to the Government of Guam, as authorized by law; and grants to the Government of the Northern Mariana Islands as authorized by law (Public Law 94-241; 90 Stat. 272); and (2) \$9,430,000 shall be available until September 30, 2019, for salaries and expenses of the Office of Insular Affairs: Provided, That all financial transactions of the territorial and local governments herein provided for, including such transactions of all agencies or instrumentalities established or used by such governments, may be audited by the Government Accountability Office, at its discretion, in accordance with chapter 35 of title 31, United States Code: Provided further, That Northern Mariana Islands Covenant grant funding shall be provided according to those terms of the Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands approved by Public Law 104-134: Provided further, That the funds for the program of operations and maintenance improvement are appropriated to institutionalize routine operations and maintenance improvement of capital infrastructure with territorial participation and cost sharing to be determined by the Secretary based on the grantee's commitment to timely maintenance of its capital assets: Provided further, That any appropriation for disaster assistance under this heading in this Act or previous appropriations Acts may be used as non-Federal matching funds for the purpose of hazard mitigation grants provided pursuant to section 404 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5170c).*

Note.—A full-year 2017 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Further Continuing Appropriations Act, 2017 (P.L. 114–254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution.

#### **COMPACT OF FREE ASSOCIATION**

*For grants and necessary expenses, \$3,286,000, to remain available until expended, as provided for in section 221(a)(2) and 233 of the Compact of Free Association for the Republic of Palau; and section 221(a)(2) of the Compacts of Free Association for the Government of the Republic of the Marshall Islands and the Federated States of Micronesia, as authorized by Public Law 99-658 and Public Law 108-188.*

Note.—A full-year 2017 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Further Continuing Appropriations Act, 2017 (P.L. 114–254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution.

**ADMINISTRATIVE PROVISIONS** (Including transfer of funds)

*At the request of the Governor of Guam, the Secretary may transfer discretionary funds or mandatory funds provided under section 104(e) of Public Law 108-188 and Public Law 104-134, that are allocated for Guam, to the Secretary of Agriculture for the subsidy cost of direct or guaranteed loans, plus not to exceed three percent of the amount of the subsidy transferred for the cost of loan administration, for the purposes authorized by the Rural Electrification Act of 1936 and section 306(a)(1) of the Consolidated Farm and Rural Development Act for construction and repair projects in Guam, and such funds shall remain available until expended: Provided, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974: Provided further, That such loans or loan guarantees may be made without regard to the population of the area, credit elsewhere requirements, and restrictions on the types of eligible entities under the Rural Electrification Act of 1936 and section 306(a)(1) of the Consolidated Farm and Rural Development Act: Provided further, That any funds transferred to the Secretary of Agriculture shall be in addition to funds otherwise made available to make or guarantee loans under such authorities.*

## 2. Authorizations

(1) Guam. Executive Order 10077, dated September 7, 1949, transferred administrative responsibilities for Guam from the Secretary of the Navy to the Secretary of the Interior. Executive Order 10137, of June 30, 1950, amended Executive Order 10077 to make the transfer effective on July 1, 1950. The Guam Organic Act was approved on August 1, 1950 (64 Stat. 384, 48 U.S.C. Sec. 1421 et. seq.) and declared Guam to be an unincorporated territory of the United States and provided that Guam's relationship with the Federal Government shall be under the general administrative supervision of the Secretary of the Interior. As a result of subsequent amendments to the Organic Act, Guam also elects its Governor and a Delegate to the United States Congress.

(2) American Samoa. In 1900, the islands were placed under the administration of the Secretary of the Navy by Executive Order. In the Act of February 20, 1929 (48 U.S.C. 1661), Congress stated that until it shall provide for the Government of the islands of American Samoa, "all civil, judicial, and military powers shall be vested in such manner as the President of the United States shall direct." The President vested these powers in the Secretary of the Interior by Executive Order 10264, dated June 29, 1951. Secretary's Order No. 2657, dated August 29, 1951, set forth the extent and nature of the authority of the Government of American Samoa and the manner in which the authority is to be exercised. Secretarial Order 3009 dated September 24, 1977, provided for an elected Governor and Lt. Governor for American Samoa, and elected officials first took office on January 3, 1978. Pursuant to Public Law 95-556, American Samoa, in November 1980, elected its first Delegate to the United States Congress.

(3) U.S. Virgin Islands. The islands were under the jurisdiction of the Navy Department from March 21, 1917, until March 18, 1931 (48 U.S.C. 1391), when responsibilities were transferred to the Secretary of the Interior pursuant to Executive Order 5566, dated February 27, 1931. Organic legislation was first passed in 1936 (49 Stat. 1812), and was revised by Public Law 83-517, effective July 22, 1954 (48 U.S.C. et. seq.). The latter has since been amended in various respects and the Virgin Islands' elected officials first took office on January 3, 1978.

(4) Northern Mariana Islands. On March 24, 1976, the President signed a joint resolution of Congress approving the "Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America" (Public Law 94-241). The islands remained a part of the Trust Territory of the Pacific Islands under the jurisdiction of the Secretary of the Interior pursuant to Executive Order 11021 of May 7, 1962. Secretarial Order 2989, dated March 14, 1976, and effective January 9, 1978, provided for the separate administration of the Northern Mariana Islands, provided for the elected Government in the Northern Mariana Islands, and activated various sections of the Covenant. By Presidential Proclamation of November 3, 1986, and as a result of a valid act of self-determination pursuant to Section 1002 of the Covenant, the Northern Mariana Islands ceased to be bound by the United Nations Trusteeship Agreement of 1947, and became a commonwealth in political union and under the sovereignty of the United States.

(5) Office of Insular Affairs. Established August 4, 1995, by Secretarial Order No. 3191.

(6) Covenant Grants. Funding under the Northern Marianas Covenant was first established in 1976 under Public Law (P.L.) 94-241, A Joint Resolution to Approve the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America. This was later amended in 1986 by Section 10 of P.L. 99-396 (100 Stat. 840). These provisions were further amended by Public Law 104-134, enacted in 1996, which reduced annual funding to the Northern Mariana Islands and reallocated additional funding to other uses, including capital infrastructure projects in American Samoa, Guam, and the U.S. Virgin Islands.

(7) Compacts of Free Association. The Compact of Free Association Act of 1985 was enacted in January 1986 (P.L. 99-239) and authorized funding over a fifteen-year period for the Federated States of Micronesia and the Republic of the Marshall Islands. In December 2003, the President signed Public Law 108-188, enacting amendments to the Compact of Free Association and providing an additional twenty years of guaranteed annual assistance to the Federated States of Micronesia and the Republic of the Marshall Islands. The Compact of Free Association for the Republic of Palau was enacted on November 14, 1986 as P.L. 99-658, and was implemented on October 1, 1994. While the Compact of Free Association with the Republic of Palau was set to expire on September 30, 2009, P.L. 111-88 extended the terms of the Compact by one year.

These basic legal authorities have been supplemented and modified over the years by various omnibus territory acts and other program legislation.

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### III. Activity/Subactivity-Level Presentation

#### A. American Samoa Operations

| <b>Activity: American Samoa</b>                       |                |               |   |                             |                   |                                 |
|---|----------------|---------------|---|-----------------------------|-------------------|---------------------------------|
| <b>Subactivity: American Samoa Operations \$(000)</b> |                |               |   |                             |                   |                                 |
|   | 2016<br>Actual | 2017 CR       | 2018  |                             |                   | Change<br>from<br>2017<br>(+/-) |
|   |                |               | Fixed<br>Costs &<br>Related<br>Changes<br>(+/-) | Program<br>Changes<br>(+/-) | Budget<br>Request |                                 |
| General Operations                                    | 21,897         | 21,854        | 0   | -1,180                      | 20,674            | -1,180                          |
| High Court  | 855            | 855           | 0   | 0                           | 855               | 0                               |
| <b>Total Requirements</b>                             | <b>22,752</b>  | <b>22,709</b> | <b>0</b>  | <b>-1,180</b>               | <b>21,529</b>     | <b>-1,180</b>                   |
| FTE   | 2              | 2             | 0   | 0                           | 2                 | 0                               |

#### SUMMARY OF 2018 PROGRAM CHANGES

| <b>Request Component</b>  |        |     |
|---------------------------|--------|-----|
| Program Changes           | Amount | FTE |
| American Samoa Operations | -1,180 | 0   |

#### JUSTIFICATION OF 2018 PROGRAM CHANGES

The 2018 budget request for American Samoa Operations is \$21.5 million, a program decrease of \$1.2 million with no change in FTE from the 2017 CR level. The program decrease will limit OIA's assistance to American Samoa operations by reduced funding to American Samoa Department of Education operations.

## PROGRAM OVERVIEW

Each year the Office of Insular Affairs provides grant funds to American Samoa for the operation of the local government, including the judiciary. The American Samoa Government (ASG) does not have sufficient local revenues to fund the entire operating costs of its government. The purpose of this program activity is to fund the difference between budget needs and local revenues. The Department defines “budget needs” as the cost of maintaining current programs and services. Unless mutually agreed upon by the ASG and the Department, new programs are funded from local revenues.

A secondary objective of this program activity is to promote self-sufficiency. In this regard, the Department’s policy is to maintain the operations grant at a constant level, thus requiring American Samoa to absorb the costs of inflation or costs associated with a growth in population. Over the years, American Samoa has assumed an increasing percentage of the total costs of government operations. The American Samoa Operations funding provided currently represents approximately 14 percent of ASG’s General Fund revenue and 9 percent of the LBJ Hospital’s revenue.

*FY 2000 Tobacco Loan and Fiscal Reform Plan:* In response to a proposal from the American Samoa Government, Congress enacted legislation authorizing American Samoa to receive a direct Federal loan up to \$18.6 million. The loan is to be repaid from ASG’s share of the Tobacco Settlement Escrow Fund created for the purpose of paying debts (\$14.3 million) and implementing financial reforms (\$4.3 million). American Samoa identified a list of creditors who were willing to accept less than full dollar on the money they were owed. These creditors have now been paid. As a condition to the loan and requirement of the 1980 legislation, ASG submitted an Initial Fiscal Reform Plan on July 30, 2001. Subsequent to discussions and meetings between ASG and OIA, a Memorandum of Agreement (MOA) was signed by Governor Tauese P. Sunia and Interior Department Deputy Assistant Secretary David B. Cohen on August 2, 2002. The MOA defined the implementation of the fiscal reform plan designed to bring the ASG annual operating expenses into balance with projected revenues for the years 2003 and beyond as required under Public Law 106-113 (H.R. 2466) Part 5, Section 125(b)(3). As authorized by the MOA, OIA released \$4.3 million for expenses incurred by ASG under the Fiscal Reform Plan (FRP). The MOA requires ASG to submit quarterly reports, substantiated by an independent auditor, that provide updated revenue and expenditure information.

## 2018 PROGRAM PERFORMANCE

American Samoa plans to accomplish the following in 2018:

- Provide financial reports for quarter ending September 30, 2017.
- Provide financial reports for quarter ending December 31, 2017.
- Provide financial reports for quarter ending March 31, 2018.
- Provide financial reports for quarter ending June 30, 2018.

The following chart reflects the ASG's operations funding priorities for 2016, 2017 and 2018:

| Funding Category        | 2016                | 2017                | 2018                |
|-------------------------|---------------------|---------------------|---------------------|
|                         | Award               | Proposed Award      | Proposed Award      |
| Basic (DOE) Operations  | \$12,639,000        | \$12,596,000        | \$11,416,000        |
| LBJ Hospital Operations | \$7,900,000         | \$7,900,000         | \$7,900,000         |
| ASCC Operations         | \$1,358,000         | \$1,358,000         | \$1,358,000         |
| High Court              | \$855,000           | \$855,000           | \$855,000           |
| <b>Total</b>            | <b>\$22,752,000</b> | <b>\$22,709,000</b> | <b>\$21,529,000</b> |

*OIA Designated American Samoa as High Risk:* In an effort to improve accountability for Federal funds, OIA designated American Samoa as a “high-risk” grantee as provided for in 43 CFR 12.52, and as recommended by the General Accounting Office (GAO) and the Office of Inspector General (OIG). This designation allows OIA to require American Samoa grantees to comply with special conditions for future or existing grants. The special conditions may include: payment of grant funds on a reimbursable basis, withholding of approval to proceed from one project phase to another until receipt of acceptable evidence of current performance, additional project monitoring, and requiring the grantee to obtain technical or management assistance.

The “high-risk” designation will be removed once the ASG is in compliance with each of the following conditions: (a) the government shall have completed Single Audits by the statutory deadline for the two most recent consecutive years, resulting in opinions that are not disclaimed and do not contain qualifications that OIA determines in its reasonable discretion to be material; (b) the ASG shall have a balanced budget, as confirmed by independent auditors, for the two most recent consecutive years, without regard for nonrecurring windfalls such as insurance settlements; and (c) the ASG shall be in substantial compliance with the MOA and FRP.

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## B. Capital Improvement Project (CIP) Grants Summary

| <b>Activity: Capital Improvement Project (CIP) Grants \$(000)</b> |                        |                |  |                                      |                           |   |
|---|------------------------|----------------|--|--------------------------------------|---------------------------|---|
| <b>SUMMARY TABLE</b>  |                        |                |  |                                      |                           |   |
|   | <b>2016<br/>Actual</b> | <b>2017 CR</b> | <b>2018</b>  |                                      |                           | <b>Change<br/>from<br/>2017<br/>(+/-)</b> |
|   |                        |                | <b>Fixed<br/>Costs &amp;<br/>Related<br/>Changes<br/>(+/-)</b> | <b>Program<br/>Changes<br/>(+/-)</b> | <b>Budget<br/>Request</b> |   |
| CNMI<br>Construction  | 9,606                  | 9,082          | 0  | -958                                 | 8,124                     | -958                                      |
| American<br>Samoa<br>Construction                                 | 9,505                  | 9,613          | 0  | +708                                 | 10,321                    | +708                                      |
| Guam<br>Construction  | 5,670                  | 6,578          | 0  | +42                                  | 6,620                     | +42                                       |
| Virgin Islands<br>Construction                                    | 2,939                  | 2,447          | 0  | +208                                 | 2,655                     | +208                                      |
| <b>Totals</b>   | <b>27,720</b>          | <b>27,720</b>  | <b>0</b>   | <b>0</b>                             | <b>27,720</b>             | <b>0</b>                                  |
| FTEs  | 0                      | 0              | 0  | 0                                    | 0                         | 0   |

Capital Improvement Project (CIP) funds address a variety of infrastructure needs in the U.S. territories including critical infrastructure such as hospitals, schools, wastewater and solid waste systems. Improvements to critical infrastructure not only benefit the current population and businesses, but lay the groundwork to attract new investment to the territories thereby promoting economic development and self-sufficiency.

Beginning with 2005, OIA implemented a competitive allocation system for the \$27.7 million in mandatory CIP grants. It is based on a premise that all funds will be used for capital needs in the U.S. territories. The process offers the U.S. insular area governments an opportunity to compete each year for a portion of the guaranteed funding in addition to other assistance or local funding that might be available.

Base level funding was established on the basis of historic trends in 2005 when the competitive allocation system was implemented. It was adjusted for fiscal years 2012 and again in 2017 based upon the

performance of each of the U.S. territories over the past five years as required by the 2004 Section 702 Funding Agreement between OIA and the CNMI.

FY 2018 Baseline CIP Funding

(\$000)

|                     |              |
|---------------------|--------------|
| CNMI                | 9,249        |
| American Samoa      | 9,780        |
| Guam                | 5,911        |
| U.S. Virgin Islands | <u>2,780</u> |
| TOTAL               | 27,720       |

The determination of the annual allocation is made on the basis of a set of competitive criteria that measure the demonstrated ability of the governments to exercise prudent financial management practices and to meet Federal grant requirements. These criteria were revised in 2009 to strengthen these measures and to ensure that awarded funds are being utilized efficiently and effectively. In addition to the application of these criteria to the allocation of capital improvement assistance, the Office of Insular Affairs may consider the capacity of each insular government to absorb the amount of capital assistance it would otherwise qualify for and any special or extenuating conditions, such as unspent balances, that might require adjustments to the allocation. The competitive criteria are listed below:

Competitive Criteria for the Proposed Allocation of Mandatory CIP Funding

1. The extent to which the applicant is in compliance with completion deadlines established under the Single Audit Act of 1984.
2. The extent to which the applicant's financial statements were reliable.
3. The extent to which the applicant is exercising prudent financial management and is solvent.
4. The extent to which the applicant has demonstrated prompt and effective efforts to resolve questioned costs and internal control deficiencies identified in single audits.
5. The extent to which the applicant has responded to recommendations identified in reviews completed by the Office of Inspector General, the Government Accountability Office and other Federal offices.
6. The extent to which the applicant has demonstrated effective contract administration and compliance with local statutes and regulations regarding procurement practices and processes.
7. The extent to which the applicant's capital improvement application is complete and submitted on time.
8. The extent to which the applicant has complied with all reporting requirements applicable to past and ongoing grants in an accurate manner.
9. The extent to which the applicant dedicates adequate resources to critical offices to help ensure properly functioning internal controls and efficient operations, including the presence of a qualified independent auditor with an adequately funded office and strong safeguards to its independence.

10. The extent to which the applicant is able to successfully expend capital improvement funds within the award period.

While the total available for funding stays constant (\$27.72 million), allocations will vary from year to year depending upon the performance of each insular government with respect to the above competitive criteria. A change in an annual allotment does not necessarily indicate deterioration in performance. It instead recognizes those governments whose performance has increased during a fiscal year. For example, the 2018 request for Guam increased \$709,000 over the baseline funding in the competitive process because it scored above the average of the insular areas on the ten criteria.

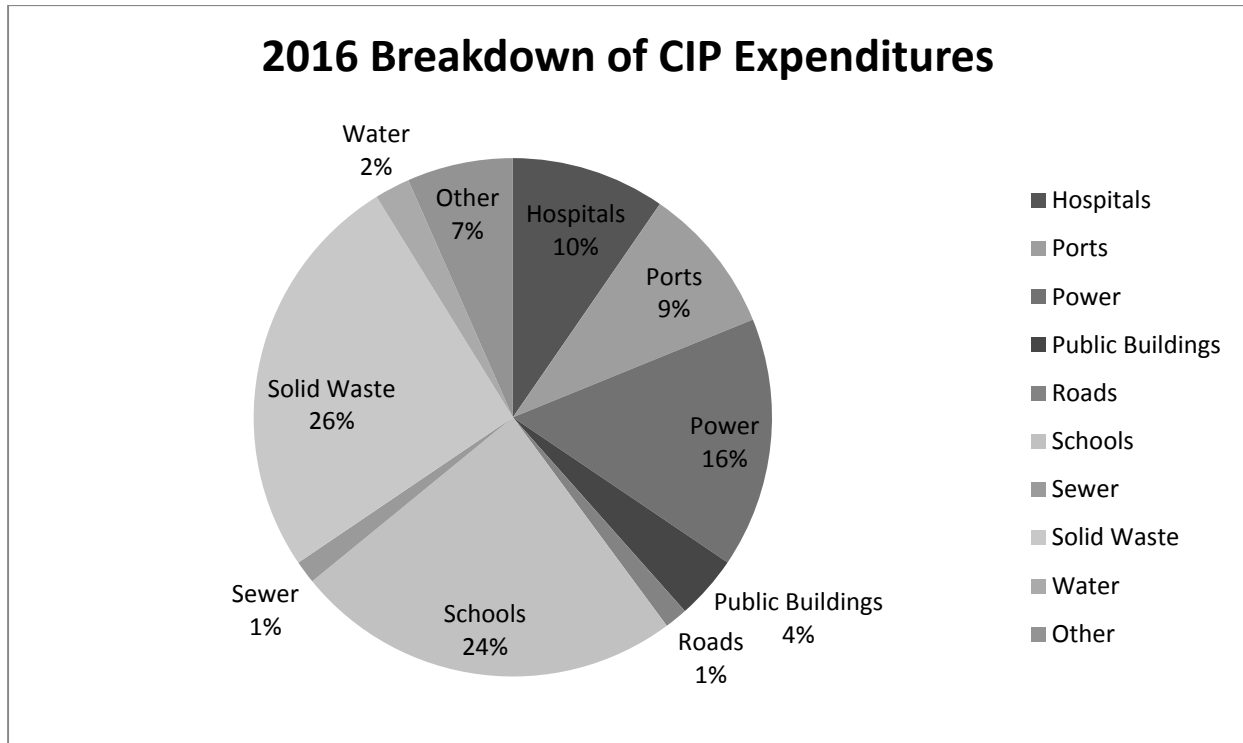
The competitive allocation system is applied to the \$27.72 million in CIP funds using a point method. The territories are given a score on each of the above criteria. The criteria themselves are ranked so that those considered more significant would receive a higher weight than those considered less important in the overall, final score.

The following chart reflects the baseline distribution along with adjustments made to 2017 and 2018 requests based on each insular government's score on the competitive criteria.

CIP Grant Funding Levels  
*Dollars in thousands (000's)*

| <b>Territory</b> | <b>Baseline Funding</b> | <b>FY 2017 +/- Baseline</b> | <b>FY 2018 +/- Baseline</b> | <b>Total FY 2017</b> | <b>Total FY 2018</b> | <b>Diff +/- 2017</b> |
|------------------|-------------------------|-----------------------------|-----------------------------|----------------------|----------------------|----------------------|
| CNMI             | 9,249                   | -167                        | -1,125                      | 9,082                | 8,124                | -958                 |
| American Samoa   | 9,780                   | -167                        | +541                        | 9,613                | 10,321               | +708                 |
| Guam             | 5,911                   | +667                        | +709                        | 6,578                | 6,620                | +42                  |
| Virgin Islands   | <u>2,780</u>            | <u>-333</u>                 | <u>-125</u>                 | <u>2,447</u>         | <u>2,655</u>         | <u>+208</u>          |
| <b>Total</b>     | 27,720                  | 0                           | 0                           | 27,720               | 27,720               | 0                    |

Capital Improvement Project funds address a variety of infrastructure needs in the U.S. territories including critical infrastructure such as hospitals, schools, wastewater and solid waste systems. The pie chart on the following page displays 2016 spending of CIP by category. The expenditures in the chart also include Compact Impact funding spent on infrastructure projects.



1.

| <b>Activity: Capital Improvement Project Grants</b> |                |         |   |                             |                   |                                 |
|---|----------------|---------|---|-----------------------------|-------------------|---------------------------------|
| <b>Subactivity: CNMI Construction \$(000)</b>       |                |         |   |                             |                   |                                 |
|   | 2016<br>Actual | 2017 CR | 2018  |                             |                   | Change<br>from<br>2017<br>(+/-) |
|   |                |         | Fixed<br>Costs &<br>Related<br>Changes<br>(+/-) | Program<br>Changes<br>(+/-) | Budget<br>Request |                                 |
|   | 9,606          | 9,082   | 0   | -958                        | 8,124             | -958                            |
| FTEs  | 0              | 0       | 0   | 0                           | 0                 | 0                               |

**SUMMARY OF 2018 PROGRAM CHANGES**

| <b>Request Component</b> |        |     |
|--------------------------|--------|-----|
| Program Changes          | Amount | FTE |
| CNMI Construction        | -958   | 0   |

**JUSTIFICATION OF 2018 PROGRAM CHANGES**

The 2018 budget request for CNMI Construction is \$8.1 million, a program decrease of \$958,000 with no change in FTE from the 2017 CR level. The budget request was calculated utilizing the CIP selection criteria and methods. The process is described in the beginning of this section (see Activity: CIP Grants summary section).

|                                       |                      |
|---------------------------------------|----------------------|
| CNMI Baseline Funding.....            | \$9,249,000          |
| Results from Competitive Process..... | <u>- \$1,125,000</u> |
| Programmed funding for 2018.....      | \$8,124,000          |

**PROGRAM OVERVIEW**

Section 701 of the Covenant (Public Law 94-241) states, *"The Government of the United States will assist the Government of the Northern Mariana Islands in its efforts to achieve a progressively higher standard of living for its people as part of the American economic community and to develop the economic resources needed to meet the financial responsibilities of local self-government."* Section 701 does not contain a finite standard to measure what is an adequate standard of living or the amount of economic resources necessary to meet the financial responsibilities of local self-government. Instead, it speaks of

achieving progressively higher standards and a commitment by the Federal government to assist the CNMI in making progress.

The Federal government has granted more than \$400 million in Capital Improvement Project (CIP) funding to the CNMI since the program started in 1978. The funding has been used for infrastructure improvements as required by Public Law 104-134. The U.S.-CNMI partnership in capital development has produced tangible results in terms of infrastructure improvements and the resulting economic development, which is especially significant when considering the CNMI's short history as part of the United States.

### 2018 PROGRAM PERFORMANCE

The past year saw progress on many CIP funded infrastructure projects in the CNMI. The HVAC Replacement project at the Commonwealth Health Center, the Commonwealth Utilities Corporation (CUC) Power Plant Fuel Oil Pipeline project, the CUC Geothermal Exploratory Drilling project and the Kalabera Cave Tourism Project were completed in 2016. The Puerto Rico Dump Closure project and the Garapan Revitalization Drainage project will be completed in 2017. Phase III of the Public School System ABC Initiative project is ongoing and CUC continues to make progress on numerous Stipulated Order related projects as required by the U.S. District Court, Justice Department and EPA.

The \$8.1 million for 2018 will be used to continue meeting critical infrastructure needs in the CNMI similar to previous years.

The following chart summarizes the CNMI's funding priorities for 2016 and 2017:

| Funding Category     | 2016               | 2017               |
|----------------------|--------------------|--------------------|
|                      | Award              | Award              |
| Economic Development | \$4,606,000        | \$5,925,026        |
| Solid Waste          | \$3,500,000        | \$2,043,448        |
| Maintenance          | \$500,000          | \$113,526          |
| Education            | \$1,000,000        | \$1,000,000        |
| <b>Total</b>         | <b>\$9,606,000</b> | <b>\$9,082,000</b> |

2.

| <b>Activity: Capital Improvement Project Grants</b>     |                |         |   |                             |                   |                                 |
|---|----------------|---------|---|-----------------------------|-------------------|---------------------------------|
| <b>Subactivity: American Samoa Construction \$(000)</b> |                |         |   |                             |                   |                                 |
|   | 2016<br>Actual | 2017 CR | 2018  |                             |                   | Change<br>from<br>2017<br>(+/-) |
|   |                |         | Fixed<br>Costs &<br>Related<br>Changes<br>(+/-) | Program<br>Changes<br>(+/-) | Budget<br>Request |                                 |
|   | 9,505          | 9,613   | 0   | +708                        | 10,321            | +708                            |
| FTEs  | 0              | 0       | 0   | 0                           | 0                 | 0                               |

**SUMMARY OF 2018 PROGRAM CHANGES**

| <b>Request Component</b>       |        |     |
|--------------------------------|--------|-----|
| Program Changes                | Amount | FTE |
| American Samoa<br>Construction | +708   | 0   |

**JUSTIFICATION OF 2018 PROGRAM CHANGES**

The 2018 budget request for American Samoa Construction is \$10.3 million, a program increase of \$708,000 with no change in FTE from the 2017 CR level. The budget request was calculated utilizing the CIP selection criteria and methods. The process is described in the beginning of this section (see Activity: CIP Grants summary section).

|                                       |              |
|---------------------------------------|--------------|
| American Samoa Baseline Funding.....  | \$ 9,780,000 |
| Results from competitive process..... | + \$ 541,000 |
| Proposed funding for 2018.....        | \$10,321,000 |

**PROGRAM OVERVIEW**

Until 1996, American Samoa received annual discretionary grants for capital improvement needs. These grants averaged approximately \$5.0 million annually. During this time American Samoa fell further and further behind in keeping up with the infrastructure needs of a rapidly growing population. As a

consequence, the people of the territory had been faced with increasing hardship and risk with regard to such basic needs as drinking water, medical services and education. In recognition of these severe problems, Congress enacted legislation in 1996 which directs a portion of the mandatory Covenant CIP funds to be used to pay for critical infrastructure in American Samoa. The legislation required the development of a multi-year capital improvement plan. The plan was prepared by a committee appointed by the Governor of American Samoa. The Army Corps of Engineers served as technical advisors to the committee under an interagency agreement funded through the Office of Insular Affairs. This plan was transmitted to Congress on August 8, 1996. The Capital Improvement Master Plan is updated on an annual basis. All projects have been categorized into three general priority areas. First order priorities include health, safety, education, and utilities. Second order priorities include ports and roads. Third order priorities include industry, shoreline protection, parks and recreation and other government facilities. The objective of this program is to assist American Samoa in providing infrastructure to promote economic development and improve health, education and public safety.

**2018 PROGRAM PERFORMANCE**

Over the past year, several important CIP projects in American Samoa were completed while others made significant progress. The American Samoa Port Administration completed construction of a new ferry boat to provide reliable transportation for passengers and cargo traveling between Tutuila and the Manu'a Islands. The Department of Public Safety completed construction of a new inmate building at the Tafuna Correctional Facility to alleviate overcrowding.

The LBJ Tropical Medical Center made steady progress on the renovation and expansion of the Labor, Delivery and Operating Room while the American Samoa Community College made progress with construction on its new Multipurpose Building that will be finished in the summer of 2017.

The requested \$10.3 million for 2018 will be used to continue meeting critical infrastructure needs in American Samoa similar to previous years.



The following chart reflects the ASG's funding priorities for 2016 and 2017:

| Funding Category | 2016               | 2017               |
|------------------|--------------------|--------------------|
|                  | Award              | Award              |
| Health           | \$2,604,180        | \$1,900,000        |
| Education        | \$2,500,000        | \$1,808,720        |
| Water            | \$250,000          | \$1,800,000        |
| Solid Waste      | -                  | \$250,000          |
| Port             | 2,080,520          | \$2,350,000        |
| Roads            | \$500,000          | -                  |
| Public Buildings | \$1,000,000        | \$950,000          |
| Administration   | \$95,050           | \$96,130           |
| O&M Set-Aside    | \$475,250          | \$480,650          |
| <b>Total</b>     | <b>\$9,505,000</b> | <b>\$9,613,000</b> |

**O&M Set-aside:** Five percent of all grant funds from the mandatory CIP account for American Samoa Construction is set aside for operations and maintenance. ASG provides a 100 percent match to all funds directed to O&M. This maintenance set-aside program requires specific plans from ASG for the use of the money as well as reporting procedures necessary to account for this fund.

3.

| <b>Activity: Capital Improvement Project Grants</b> |                |         |   |                             |                   |                                 |
|---|----------------|---------|---|-----------------------------|-------------------|---------------------------------|
| <b>Subactivity: Guam Construction \$(000)</b>       |                |         |   |                             |                   |                                 |
|   | 2016<br>Actual | 2017 CR | 2018  |                             |                   | Change<br>from<br>2017<br>(+/-) |
|   |                |         | Fixed<br>Costs &<br>Related<br>Changes<br>(+/-) | Program<br>Changes<br>(+/-) | Budget<br>Request |                                 |
|   | 5,670          | 6,578   | 0   | +42                         | 6,620             | +42                             |
| FTEs  | 0              | 0       | 0   | 0                           | 0                 | 0                               |

**SUMMARY OF 2018 PROGRAM CHANGES**

| <b>Request Component</b> |        |     |
|--------------------------|--------|-----|
| Program Changes          | Amount | FTE |
| Guam Construction        | +42    | 0   |

**JUSTIFICATION OF 2018 PROGRAM CHANGES**

The 2018 request for Guam Construction is \$6.6 million, a program increase of \$42,000 with no change in FTE from the 2017 CR level. The request amount was calculated utilizing the CIP selection criteria and methods. The process is described in the beginning of this section (see Activity: CIP Grants summary section).

|                                       |              |
|---------------------------------------|--------------|
| Guam Baseline Funding.....            | \$5,911,000  |
| Results from competitive process..... | + \$ 709,000 |
| Proposed funding for 2018 .....       | \$ 6,620,000 |

**PROGRAM OVERVIEW**

Legislation enacted in 1996 established a minimum six-year Capital Infrastructure Project (CIP) program for Guam as impact aid resulting from Micronesian immigration authorized in the Compacts of Free Association. Beginning in 2004, however, funding for impact aid for Guam is authorized and appropriated under the Compact of Free Association Amendments Act of 2003 (P.L. 108-188).

Therefore, funds provided in 2005 and future years under this sub activity will be utilized for priority capital improvement projects in Guam and are in addition to Guam's allocated share of impact aid.

### 2018 PROGRAM PERFORMANCE

CIP funded infrastructure projects on Guam made substantial progress this past year. The Guam Power Authority Wind Turbine, the new Public Health Mosquito Laboratory, the Public Library and Paseo Stadium renovations and School Bus procurements were completed in 2016. The Department of Public Health Foster Care Facility, the Department of Corrections E-Locking System replacement and the Department of Parks and Recreation Gymnasium renovations will be completed in 2017. In addition, Phase III of the Public Schools ABC Initiative project is going.

In 2018, Guam proposes to use its allocation of \$6.6 million to continue meeting critical infrastructure needs similar to previous years.

The chart below reflects Guam's funding priorities for 2016 and 2017:

| Funding Category | 2016               | 2017               |
|------------------|--------------------|--------------------|
|                  | Award              | Award              |
| Maintenance      |                    | \$ 578,000         |
| Public Health    | \$3,500,000        |                    |
| Public Safety    | \$1,170,000        | \$5,000,000        |
| Education        | \$1,000,000        | \$1,000,000        |
| <b>Total</b>     | <b>\$5,670,000</b> | <b>\$6,578,000</b> |

4.

| <b>Activity: Capital Improvement Project Grants</b>     |                |         |   |                             |                   |                                 |
|---|----------------|---------|---|-----------------------------|-------------------|---------------------------------|
| <b>Subactivity: Virgin Islands Construction \$(000)</b> |                |         |   |                             |                   |                                 |
|   | 2016<br>Actual | 2017 CR | 2018  |                             |                   | Change<br>from<br>2017<br>(+/-) |
|   |                |         | Fixed<br>Costs &<br>Related<br>Changes<br>(+/-) | Program<br>Changes<br>(+/-) | Budget<br>Request |                                 |
|   | 2,939          | 2,447   | 0   | +208                        | 2,655             | +208                            |
| FTEs  | 0              | 0       | 0   | 0                           | 0                 | 0                               |

**SUMMARY OF 2018 PROGRAM CHANGES**

| <b>Request Component</b>       |        |     |
|--------------------------------|--------|-----|
| Program Changes                | Amount | FTE |
| Virgin Islands<br>Construction | +208   | 0   |

**JUSTIFICATION OF 2018 PROGRAM CHANGES**

The 2018 budget request for Virgin Islands Construction is \$2.7 million, a program increase of \$208,000 with no change in FTE from the 2017 CR level. The budget request was calculated utilizing the CIP selection criteria and methods. The process is described in the beginning of this section (see Activity: CIP Grants summary section).

|   |                    |
|---|--------------------|
| U.S. Virgin Islands Baseline Funding..... | \$2,780,000        |
| Results from competitive process.....     | <u>-\$ 125,000</u> |
| Proposed funding for 2017.....            | \$2,655,000        |

**PROGRAM OVERVIEW**

Public Law 104-134, enacted in 1996, allowed Covenant funding, previous provided only to the CNMI, to be disbursed throughout the U.S.-affiliated insular areas.

Over the years each of the territories has received funding through this mandatory Covenant appropriation to fund Capital Improvement Projects (CIP). While, in past years, American Samoa and the Commonwealth of the Northern Mariana Islands received set levels of funding, the U.S. Virgin Islands received irregular funding. Recently though, the needs of the U.S. Virgin Islands have reached a threshold that without further addressing could pose a threat to the health and safety of residents and visitors. Currently, the U.S. Virgin Islands is focused on addressing the health and safety deferred maintenance items identified in OIA's Insular Assessment of Buildings and Classroom (Insular ABCs) initiative. OIA's 2013 assessment of every public school building in the U.S. Virgin Islands identified health and safety deferred maintenance items totaling approximately \$7.0 million. The U.S. Virgin Islands plans to use CIP funds to immediately address these maintenance items to ensure a safe learning environment throughout the territory.

### 2018 PROGRAM PERFORMANCE

CIP-funded infrastructure projects in the U.S. Virgin Islands made substantial progress this past year. The Bureau of Corrections started construction on the interior renovation at the Golden Grove Adult Correctional Facility on St. Croix. The project scope of work includes court-ordered renovations to modernize the kitchen facility and increase the seating capacity of the cafeteria as well as much needed roof repairs.

Construction work started at the Florence Williams Public Library and Athalie McFarlane Petersen Public Library on St. Croix. The libraries are in need of structural renovations to repair cracked walls, masonry, repair roof gutters, fire protection, generator, and install upgrades to the electrical, mechanical, plumbing, and telephone systems.

The Virgin Islands Department of Education made significant progress on the Insular ABCs Initiative by working through the permitting process and designing many school maintenance projects. They currently have numerous maintenance projects out for bid within the procurement process and expect to award multiple design and construction contracts in the near term.

The requested \$2.7 million for 2018 will be used to continue meeting critical infrastructure needs in the U.S. Virgin Islands similar to previous years.

The following chart summarizes the U.S. Virgin Islands' funding priorities for 2016 and 2017:

| Funding Category | 2016               | 2017               |
|------------------|--------------------|--------------------|
|                  | Award              | Award              |
| Education        | \$1,939,000        | \$2,447,000        |
| Public Buildings | \$1,000,000        | --                 |
| <b>Total</b>     | <b>\$2,939,000</b> | <b>\$2,447,000</b> |

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## C. Territorial Assistance

| <b>Activity: Territorial Assistance \$(000)</b> |                        |                |  |                                      |                           |                                       |
|---|------------------------|----------------|--|--------------------------------------|---------------------------|---------------------------------------|
| <b>SUMMARY TABLE</b>                            |                        |                |  |                                      |                           |                                       |
|   | <b>2016<br/>Actual</b> | <b>2017 CR</b> | <b>2018</b>  |                                      |                           | <b>Change<br/>From 2017<br/>(+/-)</b> |
|   |                        |                | <b>Fixed<br/>Costs &amp;<br/>Related<br/>Changes<br/>(+/-)</b> | <b>Program<br/>Changes<br/>(+/-)</b> | <b>Budget<br/>Request</b> |                                       |
| Office of Insular Affairs                       | 9,448                  | 9,430          | -204   | +204                                 | 9,430                     | 0                                     |
| Technical Assistance                            | 15,504                 | 15,475         | 0  | -804                                 | 14,671                    | -804                                  |
| Maintenance Assistance                          | 1,081                  | 1,079          | 0  | -56                                  | 1,023                     | -56                                   |
| Brown Tree Snake Control                        | 3,500                  | 3,493          | 0  | -656                                 | 2,837                     | -656                                  |
| Coral Reef Initiative & Natural Resources       | 1,000                  | 998            | 0  | -52                                  | 946                       | -52                                   |
| Empowering Insular Communities                  | 2,971                  | 2,965          | 0  | -154                                 | 2,811                     | -154                                  |
| Compact Impact Disc.                            | 3,000                  | 2,994          | 0  | -2,994                               | 0                         | -2,994                                |
| <b>Total</b>                                    | <b>35,504</b>          | <b>36,434</b>  | <b>-204</b>  | <b>-4,512</b>                        | <b>31,718</b>             | <b>-4,716</b>                         |
| FTEs  | 34                     | 34             | 0  | 0                                    | 34                        | 0                                     |

The Territorial Assistance activity involves funding for two major functions. The first is salaries and expenses of the Office of Insular Affairs. The Office has oversight responsibility for more than \$600 million in annual financial assistance. Its policy and assistance activities involve dealing with virtually every major Federal agency, as well as seven insular governments. The Office has been able to attain clean audit opinions for all annual financial statements prepared under requirements defined in the Chief Financial Officers Act. Good financial management and effective internal controls are stressed within the

Office; however, in its report entitled “Opportunities Exist to Improve Interior’s Grant Oversight and Reduce the Potential for Mismanagement” (GAO-10-347), GAO noted that OIA would be more effective with additional oversight resources.

The second major function within this program area includes the various technical assistance activities carried out by the office. OIA’s technical assistance activities have always been considered its most effective tool to implement Administration policy, and to achieve mutually desired improvements in the insular areas. Many of the technical assistance activities are evolving from application-based grant programs, which reacted to problems identified, to programs that rely on the implementation of result-oriented plans. OIA asks the governments and assistance providers to form partnerships with us to identify major priorities and then develop and implement long-term action plans.



1.

| <b>Activity:</b>    |                        | <b>Territorial Assistance</b>                  |  |                                      |                           |   |
|---------------------|------------------------|--|--|--------------------------------------|---------------------------|---|
| <b>Subactivity:</b> |                        | <b>Office of Insular Affairs (OIA) \$(000)</b> |  |                                      |                           |   |
|                     | <b>2016<br/>Actual</b> | <b>2017 CR</b>                                 | <b>2018</b>  |                                      |                           | <b>Change<br/>from<br/>2017<br/>(+/-)</b> |
|                     |                        |  | <b>Fixed<br/>Costs &amp;<br/>Related<br/>Changes<br/>(+/-)</b> | <b>Program<br/>Changes<br/>(+/-)</b> | <b>Budget<br/>Request</b> |   |
|                     | 9,448                  | 9,430  | -204   | +204                                 | 9,430                     | 0   |
| FTEs                | 34                     | 34   | 0  | 0                                    | 34                        | 0   |

**SUMMARY OF 2018 PROGRAM CHANGES**

| <b>Request Component</b>  |        |     |
|---------------------------|--------|-----|
| Program Changes           | Amount | FTE |
| Office of Insular Affairs | +204   | 0   |

**JUSTIFICATION OF 2018 PROGRAM CHANGES**

The 2018 budget request for the Office of Insular Affairs (OIA) is \$9.4 million and 34 FTE, unchanged from the 2017 CR level. The 2018 budget request for the Office of Insular Affairs includes a decrease of \$204,000 for fixed costs and related changes as well as a general program increase of \$204,000. The budget request reflects increasing contract costs for professional services.

**PROGRAM OVERVIEW**

The Office of Insular Affairs carries out the Secretary's responsibilities with respect to U.S.-affiliated insular areas. The office is organized into three divisions:

1.) The Policy Division: performs general program, political, and economic analysis. It monitors and tracks Federal programs extended to the insular areas and handles legislative affairs, other than those related to the appropriations process. The Division maintains a field presence in American Samoa and the Commonwealth of the Northern Mariana Islands.

2.) The Technical Assistance Division: manages all Technical Assistance grants and cooperative agreements which provide support not otherwise available to the insular areas to combat deteriorating economic and fiscal conditions. Activities often include, but are not limited to, building institutional capacity in the following critical areas: health care, education, public safety, data collection and analysis, fiscal accountability, energy, transportation, economic development and communication. The division also manages the Brown Tree Snake and Maintenance Assistance programs as well as payments to the U.S. Virgin Islands (rum excise taxes) and Guam (Section 30 income taxes).

3.) The Budget and Grants Management Division: is responsible for budget formulation and presentation, chief financial officer activities, and performance planning. It manages financial assistance under the Compacts of Free Association, operations and capital improvement grants to U.S. territories, Compact Impact grants, and infrastructure-related Territorial Assistance. The division monitors accountability issues and tracks insular area audit resolutions, including Single Audits. The Division maintains an office in Hawaii for Compact oversight in the FSM and the RMI and has a field presence in the FSM, and the RMI.

The Office of Insular Affairs is headed by the Assistant Secretary for Insular Areas, who provides overall policy direction, and a Director, who handles overall management of the Office and acts on behalf of the Assistant Secretary in their absence.

Providing effective and meaningful financial assistance oversight is dependent on having the right mix of personnel skills and a carefully planned use of those skills. OIA is cognizant of the importance of human capital. Any new hiring decisions take into account expertise, diversity, and the long-term potential of new employees. All of the people OIA recruits must have the potential to work in a cross-cultural environment.

## **2018 PROGRAM PERFORMANCE**

In 2018, OIA will continue to pursue the Department's mission of empowering insular communities by executing activities which improve quality of life, create economic opportunity, and promote efficient and effective governance. Improvements to quality of life and economic opportunity are achieved in a variety of ways, including funding critical infrastructure such as schools, hospitals, roads, and environmental facilities. OIA also provides assistance to help the islands identify reforms to improve their business climates. Technical assistance is provided to help the insular areas become better stewards of Federal funds, and a number of grants are awarded according to criteria that reward good fiscal management.

With financial assistance programs exceeding \$600 million per year, OIA requires sufficient personnel resources to provide oversight of grants, including Compact and mandatory CIP funding. At the 2018 level of funding OIA will:

- Improve out-year performance by grantees by continuing to focus on oversight.
- Conduct site visits to grant projects.

- Satisfy outside agencies’ concern (insular governments and the GAO) of appropriate Federal involvement in grant programs.
- Continue to actively work with the U.S. Territories and the Freely Associated States to ensure their compliance with the Single Audit Act and to improve the timeliness of their audit submissions.

**SECTION 403 COMPLIANCE**

**Working Capital Fund**

All of OIA’s overhead and administrative costs that support departmental functions are paid from the Office of Insular Affairs account as assessed through the Department’s Working Capital Fund as follows:

|                                     | <b>2018</b> |
|-------------------------------------|-------------|
| External Administrative Costs       |             |
| WCF Centralized Billings            | \$714,000   |
| WCF Direct Billings/Fee for Service | \$355,300   |

**Department of the Interior  
Office of Insular Affairs  
EMPLOYEE COUNT BY GRADE**

*(Total Employment\*)*

|   | <b>2016 Actual</b> | <b>2017 Estimate</b> | <b>2018 Estimate</b> |
|---|--------------------|----------------------|----------------------|
| SES   | 1                  | 1                    | 1                    |
| SL-0  | 1                  | 1                    | 1                    |
| GS-15   | 5                  | 5                    | 5                    |
| GS-14   | 9                  | 9                    | 9                    |
| GS-13   | 10                 | 11                   | 13                   |
| GS-12   | 8                  | 7                    | 7                    |
| GS-11   | 1                  | 1                    | 0                    |
| GS-10   | 0                  | 0                    | 0                    |
| GS-9  | 0                  | 0                    | 0                    |
| GS-8  | 0                  | 0                    | 0                    |
| GS-7  | 0                  | 0                    | 0                    |
| GS-6  | 0                  | 0                    | 0                    |
| GS-5  | 0                  | 0                    | 0                    |
| GS-4  | 0                  | 0                    | 0                    |
| GS-3  | 0                  | 0                    | 0                    |
| GS-2  | 0                  | 0                    | 0                    |
| <hr/>   |                    |                      |                      |
| Total Employment<br>(actual/projected) at the<br>end of the Fiscal Year | <b>35</b>          | <b>35</b>            | <b>36</b>            |

\*Includes two American Samoa judges (SL-1 & GS-15) which are funded through the American Samoa Operations program not OIA's operations account.

2.

| <b>Activity: Territorial Assistance</b>                |                |         |   |                             |                   |                                 |
|--|----------------|---------|---|-----------------------------|-------------------|---------------------------------|
| <b>Subactivity: Technical Assistance (TAP) \$(000)</b> |                |         |   |                             |                   |                                 |
|  | 2016<br>Actual | 2017 CR | 2018  |                             |                   | Change<br>from<br>2017<br>(+/-) |
|  |                |         | Fixed<br>Costs &<br>Related<br>Changes<br>(+/-) | Program<br>Changes<br>(+/-) | Budget<br>Request |                                 |
| Technical Assistance                                   | 15,504         | 15,475  | 0   | -804                        | 14,671            | -804                            |
| FTEs   | 0              | 0       | 0   | 0                           | 0                 | 0                               |

**SUMMARY OF 2018 PROGRAM CHANGES**

| <b>Request Component</b> |        |     |
|--------------------------|--------|-----|
| Program Changes          | Amount | FTE |
| Technical Assistance     | -804   | 0   |

**JUSTIFICATION OF 2018 PROGRAM CHANGES**

The 2018 budget provides \$14.7 million for Technical Assistance. Technical Assistance decreases \$804,000 from the 2017 CR level of \$15.5 million. Funding for direct grants and projects to the seven insular areas will focus on activities that promote effective governance or address urgent emerging needs.

**PROGRAM OVERVIEW**

The Office of Insular Affairs' (OIA) Technical Assistance program (TAP) was authorized in Section 601 of Public Law 96-597 on December 24, 1980. The law as amended reads:

*The Secretary of the Interior is authorized to extend to the governments of American Samoa, Guam, the Northern Mariana Islands, the Virgin Islands, and the Trust Territory of the Pacific Islands, and their agencies and instrumentalities, with or without reimbursement, technical assistance on subjects within the responsibility of the respective territorial governments. Such assistance may be provided by the Secretary of the Interior through members of his staff, reimbursements to other departments or agencies of the Federal Government under sections 1535 and 1536 of Title 31, grants to or cooperative*

*agreements with such governments, agreements with Federal agencies or agencies of State or local governments, or the employment of private individuals, partnerships, or corporations. Technical assistance may include research, planning assistance, studies, and demonstration projects.*

The purpose of the technical assistance program is to fund priority projects for which there are little to no funds available from other Federal agencies. The program provides the flexibility needed to respond to urgent, immediate needs in the insular areas. This flexibility is not available in any other Federal budget due to the nature of the appropriations process.

The Administration has recognized that some programs are necessary on an ongoing basis for the insular areas; including, but not limited to: ongoing financial management, management, and audit training for all insular areas. The ongoing programs were incorporated into the technical assistance program because there was no other source of funds in the Federal budget for these projects.

The Technical Assistance program provides support not otherwise available to the insular areas to meet immediate needs and to combat deteriorating economic and fiscal conditions and to maintain the momentum needed to make and sustain meaningful systemic changes. The program allows each government to identify pressing issues and priorities, and develop action plans to mitigate these problems. Direct grants and reimbursable agreements with technical assistance providers, both within and outside the Federal government, are keys to implementation. Funded projects are focused to meet immediate needs in the short term and assist the governments in developing longer term solutions.

OIA staff and outside experts provide information on a variety of topics to help improve government operations in areas such as financial management, procurement and contract management, and the administration of Federal grant programs.

## **2018 PROGRAM PERFORMANCE**

In 2018, it is anticipated that approximately \$7.6 million of the TAP funds will be utilized for grants provided directly to each insular area. In 2016, OIA received and considered technical assistance requests totaling approximately \$32 million. OIA technical assistance funds were not sufficient to meet these requests; approximately \$16 million was awarded. Please see the table on the following page.

**Technical Assistance**  
**Grant Awards 2016/Estimate for 2017 & 2018**  
**(Dollars in Thousands)**

| <b>Recipient</b>  | <b>2016 Awards</b> | <b>2017 Estimate</b> | <b>2018 Estimate</b> |
|---|--------------------|----------------------|----------------------|
| <b>Direct Grants to Insular Areas</b>   |                    |                      |                      |
| American Samoa  | 1,541              | TBD                  | TBD                  |
| Northern Mariana Islands (CNMI)   | 1,491              | TBD                  | TBD                  |
| Guam  | 1,478              | TBD                  | TBD                  |
| U.S. Virgin Islands   | 1,601              | TBD                  | TBD                  |
| Federated States of Micronesia (FSM)  | 20                 | TBD                  | TBD                  |
| Republic of the Marshall Islands (RMI)<br>(includes 4 Atoll Healthcare)                                   | 2,036              | TBD                  | TBD                  |
| Republic of Palau   | 706                | TBD                  | TBD                  |
| <b>Total, Direct Grants to Insular Areas</b>  | <b>\$8,873</b>     | <b>\$8,411</b>       | <b>\$7,608</b>       |
| <b>Other TAP (Provides Benefits to Multiple Insular Areas)</b>  | <b>2016 Awards</b> | <b>2017 Estimate</b> | <b>2018 Estimate</b> |
| Grad. School Pacific & Virgin Islands Training Initiatives<br>-Includes FAS Compact area support projects | \$2,371            | \$2,500              | \$2,500              |
| U.S. Department of Commerce, for GDP data   | \$750              | \$750                | \$750                |
| NEPA review and Compliance for OIA grants   | \$315              | \$315                | \$315                |
| Prior Service Benefits Program  | \$1,099            | \$800                | \$800                |
| Civic Education Programs  | \$1,460            | \$1,000              | \$1,000              |
| Other multiple jurisdiction projects  | \$636              | \$1,699              | \$1,699              |
| <b>Total, Multiple Jurisdiction Programs</b>  | <b>\$6,631</b>     | <b>\$7,064</b>       | <b>\$7,064</b>       |
| <b>Total, Technical Assistance</b>  | <b>\$15,504*</b>   | <b>\$15,475</b>      | <b>14,672</b>        |

\*Total 2016 TAP awards \$16,016,148 including carryover funding.

OIA receives Technical Assistance requests through [www.grants.gov](http://www.grants.gov) under CFDA number 15.875.

Review meetings are held with senior staff and the Technical Assistance Division to review, score and discuss submissions made by each insular area. Input is solicited from OIA field staff and others as well. Projects are selected for funding based on the results of these meetings and information provided by the insular area governments.

Technical Assistance funding priorities include, but are not limited to projects which foster the development of the insular areas in the following categories: Accountability, financial management, economic development, education, energy, management control initiatives, disaster assistance, natural and cultural resources, capacity building, health initiatives, and invasive species management.

### **Direct Grants to Insular Areas**

In 2016, \$8.9 million in Technical Assistance funds were provided to directly benefit the seven insular areas. Highlights of some of the awarded financial assistance include:

- Provided \$200,000 to the CNMI for a contract workers transition impact study; \$344,293 for a new public transit system;
- Provided \$210,000 to Big Brothers and Big Sisters of Guam for a Micronesian Resource Center – One Stop Shop; provided \$300,000 for Guam Self Determination Public Outreach;
- Provided \$300,000 to American Samoa to establish Political Status Review Office; \$140,312 to LBJ Tropical Medical Center for training in endoscopy for surgeons;
- Provided \$400,000 to US Virgin Islands for Juan Luis Hospital equipment upgrades; \$250,000 for establishment of Self Determination Office at the University of the Virgin Islands;
- Provided \$1,298,206 for the Republic of the Marshall Islands 4 Atoll Health Care project to provide primary healthcare physicians and nurses and healthcare programs to nuclear affected residents in Enewetak, Bikini, Rongelap and Utrik in the Republic of the Marshall Islands (approximately 3,000 residents); and
- Provided \$686,062 to Palau for an emergency communications system (disaster preparedness).

Examples of TAP crosscutting grants:

- Junior Statesman Foundation - \$360,300 for the Insular Areas Youth Civic Engagement and Leadership Program;
- Close Up Foundation - \$1,100,000 for Insular Areas student civic education;
- Prior Service Trust Fund - \$1,099,244 for Prior Service Benefit Payments to the families of Micronesians who served in the Military between 1944 and 1968, who earned very low wages and did not have the rights to retirement, survivor or disability benefits when serving.
- Graduate School USA - Approximately \$2,371,068 provided for financial management and management training in the 7 insular areas, specific needed financial management assistance



projects (such as compliance with the Single Audit Act), and Compact oversight financial management projects for the FAS.

**Statistical Improvement Program (*GDP Project with U.S. Department of Commerce, Bureau of Economic Analysis (BEA)*)**

One of OIA's goals is to improve the quality and quantity of economic data in the territories. The first place to look for economic data is GDP data and there was no official GDP data for the U.S. Territories. In December 2008, OIA completed a Memorandum of Understanding (MOU) with the Bureau of Economic Analysis (BEA) of the Department of Commerce to develop GDP data for the four U.S. Territories (American Samoa, Guam, Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands). The initial agreement with BEA was structured for a period of 18 months for a total cost of \$1.6 million. Annually, OIA pays \$750,000 to BEA to continue this project.

To calculate U.S. GDP, the BEA collects all the data it needs from other Federal agencies such as the Census Bureau, the Bureau of Labor Statistics (a DOL agency), and the IRS. Because the territories are not included in most of the current data and research work by Federal agencies, the BEA has to collect the data in the territories (hence travel) and put them in a format they use for U.S. GDP calculations. Since territorial data sources are not as extensive as those for the 50 states and DC and not as readily available, it takes more work, time and resources to put them together in the format consistent with the BEA's framework for U.S. GDP.

The GDP estimates for the four territories are available at the BEA web site which can be reached through the link below:

[http://www.bea.gov/national/gdp\\_territory.htm](http://www.bea.gov/national/gdp_territory.htm)

**Republic of the Marshall Islands 4 Atoll Healthcare Program**

The Four Atoll Health Care Program addresses the medical needs of Marshall Islands communities affected by the nuclear weapons testing program which the U.S. Department of Defense carried out in the Marshall Islands between 1946 and 1958. Technical Assistance provides for the primary health care needs of the Enewetak, Bikini, Rongelap and Utrik communities in the Republic of the Marshall Islands. In 2016, the Technical Assistance program funded \$1.3 million for medical professionals and needed medical supplies for the population of the 4 Republic of the Marshall Islands Atolls of Kili/Bikini, Enewetak/Ujelang, Rongelap/Mejatto Utrik, and Ejit.

- The funds provided a full time primary care physician to each of the four atolls to work in collaboration with a full time island based health assistant.
- Improve access to quality and specialty care services; reduce inter-island referrals for secondary care; improve overall health of the communities served; utilize the full potential of our doctors for better delivery of service; conduct drinking water quality test for presence of pathogens.

- Through these goals they were able to replace one primary care physician; begin visual impairment screening by primary care physicians; increase access to specialty clinics for diabetes, hypertension, well baby, and reproductive health; improve maternal and child care programs.

The Marshall Islands Ministry of Health provides local support to this Interior-funded program.

### **Prior Service Benefits Program**

In the last days of World War II, Micronesians started working for the U.S. Military providing essential services to active duty soldiers, sailors and airmen, including care for the wounded and support for the men fighting in places like Iwo Jima and Okinawa. These people were paid very low meager salaries, often as low as 9 cents an hour, with no employee benefits. The Prior Service Benefits Trust Fund provides payments to beneficiaries that are citizens of the Commonwealth of the Northern Mariana Islands, Federated States of Micronesia, the Republic of the Marshall Islands and the Republic of Palau who worked for the U.S. Department of Navy and the U.S. Trust Territory of the Pacific Islands for the period from 1944 through June 30, 1968. The Prior Service Benefits Trust Fund helps ensure the solvency of the Fund so that payments to beneficiaries will continue uninterrupted. Without the funds provided by OIA, the Prior Service Benefits Trust fund will be unable to continue payments to its beneficiaries. Checks are sent out from this fund on a monthly basis. Currently, there are no funds available for any additional payments beyond those funds provided by OIA. Funds are desperately needed in order to allow the Prior Service Benefits Trust Fund to continue to make the monthly payments.

OIA made available \$1,099,244 in 2016 to support the Prior Service Trust Fund Administration (PSTFA).

### **Junior Statesman Foundation**

OIA awarded a technical assistance grant in the amount of \$360,300 in 2016 for Junior Statesmen Foundation (JSF) scholarships for twenty-eight high school students from the insular areas to attend the Junior Statesmen Summer Schools. That was the 25th year that the Junior Statesmen Foundation has worked in partnership with the Office of Insular Affairs to identify, educate and train outstanding insular-area high school students for active, effective and ethical participation in public affairs.

Interior Department grants cover the cost of each scholarship winner's summer school tuition (including room and board on the host university campus and all related costs, as well as transportation to and from the university). The Junior Statesmen Summer School is conducted at Georgetown, Princeton and Stanford Universities.

At the month-long summer schools, students take a Political Science college level course, along with high level instruction in debate and leadership. Seven insular areas will participate in the scholarship program: American Samoa, the Northern Mariana Islands, the Federated States of Micronesia, Guam, Palau, the U.S. Virgin Islands and the Marshall Islands.

The Interior Department grant also funds academic prep programs in colleges in American Samoa, the Northern Mariana Islands, Guam, Palau and the U.S. Virgin Islands to help prepare their students for their summer school experience.

The Junior Statesmen mission is to strengthen American democracy by educating and preparing high school students for life-long involvement and responsible leadership in a democratic society.

**Programs funded by Technical Assistance and jointly managed by the Graduate School**

The U.S. Department of the Interior's Office of Insular Affairs (OIA) assists the U.S.-affiliated islands in "developing more efficient and effective government by providing financial and technical assistance, and help manage Federal islands relations by promoting appropriate Federal policies." As part of OIA's Technical Assistance program, the International Institute of the Graduate School USA (GS/USA) provides training and related services through the Island Training Program (ITP) to assist the insular governments to improve the financial management and program performance of the Pacific and Virgin Islands insular governments. OIA devoted \$2.4 million to this effort in fiscal year 2016.

The Virgin Islands Training Initiative (VITI) and the Pacific Islands Training Initiative (PITI) programs were established in 1991 with the GS/USA to assist OIA in fulfilling their mission by providing training and consultative services to the U.S. Virgin Islands, American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau to assist the insular governments in improving their financial management and program performance. The programs are designed and delivered in a manner that complements and supports insular efforts to implement and maintain sound financial management and program performance practices.

**Strategic Planning and Implementation**

PITI-VITI's vision is to "provide the services that enable insular governments to use resources efficiently and effectively to promote economic growth, achieve fiscal stability, and fulfill citizens' needs."

PITI-VITI's mission is to "provide customized, results-oriented professional and organizational development services that enable insular governments to strengthen financial and program performance and accountability, achieve fiscal stability, and promote economic growth. PITI-VITI works to build trust in insular governments by fostering responsible leadership and financial stewardship of the highest standard."

Based on these vision and mission statements, PITI-VITI works to achieve the following five strategic goals:

1. Improve leadership and management capacity to effectively perform;
2. Improve financial management systems and practices;
3. Increase effectiveness and program results;
4. Institutionalize regional professional organizations and communities of practice;

5. Improve the capacity and capabilities of the public sector work force in critical positions and functions.

Major components of this initiative are described below. Additional program details can be obtained by contacting the Office of Insular Affairs.

#### MAJOR REGIONAL PROGRAM INITIATIVES

##### A. Audit Improvement Project

- Strategic Goal 1: Improve Leadership and Management Capacity to Perform Effectively
- Strategic Goal 2: Improve Financial Management Systems and Practices

Audit improvement is a cornerstone of the financial management improvement efforts launched more than a decade ago by PITI-VITI and DOI-OIA. PITI-VITI continues to provide technical support to improve the timeliness and quality of the insular areas' single audits, building on prior successes. The number of financial statement audit qualifications within the insular areas has decreased dramatically. Timeliness has improved as well. The number of audit reports which were delayed has declined significantly.

By design financial audits do not measure the efficiency or effectiveness of financial operations. The insular governments have a group initiative to improve and report on the accounting cycle areas of reconciliation, cash management and fixed assets. These areas are being tracked with interim performance measures which indicate areas of improvement, well before the audit is issued. The finance offices prepare a performance measurement status report for presentation to their colleagues during their biannual meetings, allowing the group the opportunity to share successes and best practices.

##### B. Executive Leadership Development Program

- Strategic Goal 1: To improve leadership and management capacity to effectively perform.
- Strategic Goal 5: Improve the capacity and capabilities of the public sector work force in critical positions and functions.

The insular governments have a difficult time attracting and retaining qualified individuals to work in core functions of island governments. Many young, educated and promising employees are trained by local governments and then offered higher paying jobs by component units or migrate to the private sector. The Executive Leadership Development Program (ELDP) was designed to assist the insular governments with developing and retaining qualified and skilled staff that will become the future leaders of their respective governments. Program participants meet four times over the course of a year to develop skills in leadership, management, government finance, and project management. Twenty-one (21) participants from throughout the insular areas completed the first year of the ELDP program in 2009, twenty-four (24) participants completed the second year of the ELDP program in 2011, twenty-four (24) participants completed the third year of the ELDP program in 2013, and an additional twenty-six (26) participants were accepted into the 2016-2017 ELDP, including twenty-two (22) participants from the Pacific island governments and four (4) participants from the US Virgin Islands.

Phases I and II of both the Pacific and USVI ELDP programs were completed in 2016. Phase I of the Pacific ELDP program was held on Guam in August 2016 while Phase I for the US Virgin Islands program was held in Norfolk, Virginia in September 2016. Phase II of the Pacific ELDP program was held on Saipan, CNMI in November 2016 while Phase II of the US Virgin Islands program was held in Tampa, Florida in December 2016. All twenty-six of the 2016-2017 ELDP class are expected to graduate from the program in June 2017.

C. Island Government Finance Officers Association (IGFOA)

- Strategic Goal 3: Increase effectiveness and program results
- Strategic Goal 4: Institutionalize regional professional organizations and communities of practice.

Since 2000, PITI-VITI has supported the efforts of the Island Government Finance Officers' Association (IGFOA), a professional organization comprised of the Chief Financial Officers of each insular government and key financial managers within each government. In addition to arranging for IGFOA members to participate in the annual Government Finance Officers Association (GFOA) Conference, PITI-VITI works with IGFOA to highlight best practices in the insular governments and to serve as a conduit for resource sharing. IGFOA gatherings enable the insular government finance community to discuss common challenges they face and identify successful best practices and strategies to address problems. PITI-VITI also takes advantage of IGFOA meetings to deliver professional development seminars on leadership skills and team building in the finance environment.

Two IGFOA conferences were held during 2016. The first 2016 IGFOA conference was held during the week of May 22 – 27 in Toronto, Canada in conjunction with the 2016 Government Finance Officers' Association (GFOA) annual conference. Twenty-eight (28) finance directors and senior accounting and administration officials from throughout the insular governments attended this IGFOA meeting in Toronto. The theme for both conferences was "Sharing Solutions and Strategies." One component of "sharing solutions and strategies" was IGFOA's continuing efforts to highlight insular government best practices around financial management and accountability. Examples of "sharing solutions and strategies" was Guam's development of their CAFR and their efforts to work their way out of High Risk Grantee status, the Marshall Islands recently completed Finance Office Assessment, and Palau's strategies for managing finance office human resources. The Toronto IGFOA meeting also focused on providing training on the OMB Super-Circular for managing federal grants and its impact on finance officers, providing a review of recent GASB announcements and requirements and their application in government finance, and focus on improving the status of each government's single audit, enhancing finance office performance measures and process improvement, and finalizing the insular government's cash management plans.

The second IGFOA conference was held December 6 - 8, 2016 in Honolulu, Hawaii. Thirty-six (36) finance directors and senior accounting and administration officials from the insular governments attended the Honolulu Conference which concentrated on improving the timeliness and reliability of the governments' single audits, finance office performance improvement, financial management information

systems procurement, and grants management improvement. The December IGFOA conference refocused participants on developing Corrective Action Plans (CAPs) that address recurrent audit findings. Participants were also provided an opportunity to review other new GASB accounting principles and standards and to develop a plan for the implementation of those principles.

D. Association of Pacific Islands Public Auditors (APIPA)

- Strategic Goal 3: Increase effectiveness and program results
- Strategic Goal 4: Institutionalize regional professional organizations and communities of practice.

The Association of Pacific Islands Public Auditors (APIPA) is an association made up of public auditors from each of the insular areas. APIPA holds annual conferences to discuss issues related to the field of auditing and to provide practitioners an opportunity to attain continuing professional education training opportunities required by the field. Since its inception in 1991, PITI has provided auditors with the opportunity to attain up to 40 hours of continuing professional education (CPE) credits annually. By providing training during the annual APIPA conference and providing targeted audit training at each insular jurisdiction, PITI-VITI plays a critical role in working with APIPA to strengthen institutional support to the various public audit offices in the region.

PITI provided five (5) Graduate School USA auditing, financial management, and management specialists/instructors who, along with Department of Interior Acting Inspector General Mary Kendall, combined to deliver eighteen (18) courses for the three hundred and twenty-five (325) participants that attended the 27th annual APIPA conference held on Pohnpei during the week of July 25 - 29, 2016. A total of 1,774 course certificates were awarded to conference participants for a total of 11,792 hours of CPE training credit. The number of total participants that attended the 2016 APIPA Conference on Pohnpei was down only slightly from the three hundred and thirty-nine (339) participants that attended the 2015 APIPA Conference on Guam but was significantly higher than the ninety-four (94) participants that attended the 2014 APIPA Conference on American Samoa. Higher participation for the 2016 APIPA Conference on Pohnpei can be attributed to variety of reasons including Pohnpei's central geographic location in Micronesia and the relatively low airline ticket costs between Pohnpei and the rest of Micronesia. In addition to the APIPA Conference, PITI-VITI also provided up to forty (40) hours of customized CPE training to several of the public audit offices in the U.S.-affiliated Pacific region during 2016.

E. Development of Insular Government Performeters and AFTER Analysis

- Strategic Goal 1: To improve leadership and management capacity to effectively perform.
- Strategic Goal 3: Increase effectiveness and program results

The Performeter provides an independent assessment of each insular government's financial health and success, based on their audited financial statements. Using various financial ratios, most governments now have ten years of Performeter data with which to measure financial trends—both positive and negative. New Performeters are developed on an annual basis. Many of the insular governments use

the Performer results to explain their financial status to their Legislatures and Governors, ultimately leading to better-informed fiscal decisions. The accompanying AFTER analysis included at the end of each Performer details the government's efforts to develop timely and accurate financial statements.

F. Training and Technical Assistance Support

- Strategic Goal 1: Improve Leadership and Management Capacity to Perform Effectively
- Strategic Goal 2: Improve Financial Management Systems and Practices
- Strategic Goal 3: Increase effectiveness and program results
- Strategic Goal 5: Improve the capacity and capabilities of the public sector work force in critical positions and functions.

Classroom training courses are delivered each year in the insular areas. Classroom training courses are delivered in Human Resource Management, Grants Management, Leadership and Management, Governmental Accounting, Indirect Costs, Performance Based Management, Auditing, Fraud, Indirect Costs, and Internal Controls.

Thirty-nine (39) classroom training courses were delivered in 2016 for 2,361 course participants. These totals include twenty-one (21) courses that were delivered on site for 587 participants and eighteen (18) courses that were delivered during the 2016 APIPA conference on Pohnpei for 1,774 course participants. Classroom training courses were delivered in Grants Management (with particular attention to the new OMB Super Circular Guidelines), Leadership and Management, Governmental Accounting, Procurement, Auditing, and Fraud. In addition, fourteen (14) consult-training activities were provided that three hundred and twenty-one (321) insular government employees took part in support of various government and site-specific initiatives.

G. FSM and RMI Compact Support

- Strategic Goal 1: Improve leadership and management capacity to effectively perform
- Strategic Goal 3: Increase effectiveness and program results

PITI-VITI provides technical support to both the FSM and RMI on issues relating to Compact implementation. PITI-VITI assists both countries with preparation for technical meetings, preparation for annual bilateral JEMCO & JEMFAC meetings, and budgetary, fiscal, and sector support. Compact-specific activities have included:

- Policy outreach in the FSM and RMI, including presentations to key members of executive and legislative branches regarding fiscal sustainability, Compact implementation, Compact Trust Fund sustainability levels, economic policy, and medium and long-term fiscal planning;
- Education reform in Chuuk, including facilitation of a second high-level leadership meeting and continued quarterly support to the Chuuk Advisory Group on Education Reform;
- Development and maintenance of a Compact Tracking Tool, which accounts for Compact expenditures by distribution formula across FSM states;

- Detailed analysis of the Compact Trust Funds, including likely funding distributions post-2023 and the results and implications of extensive Monte Carlo simulations;
- Development of Decrement Management Plan in the Republic of the Marshall Islands. The RMI DMP was developed using a comprehensive fiscal model, and endorsed through a country-wide leadership conference and subsequent action by the RMI Cabinet. The DMP provided guidance throughout the FY15 and FY16 budget development processes.

In 2016, PITI-VITI worked closely with United States and FSM/RMI officials to develop Draft Ten-Year Reviews of the FSM and RMI Compacts of Free Association. The Ten-Year reviews covered a broad range of Compact-related topics, including:

- **Compact Framework** – topics covered included a description of the Broad Features of the Compact, Transitional Issues of the Amended Compact (FY2004-FY2023), Intent, Mechanisms of the Amended Compact, and Mechanisms Not Included in the Amended Compact;
- **Compact Implementation as a Component of Bilateral Relations** – topics covered included an overview The Past, The Present, The Future (including Ownership and Incentives);
- **Review of Economic Developments**—topics covered included Growth and Employment, Developments in the RMI Economy, Demographics, Incomes, and Income Dispersion, Employment, Earnings, and Wages, Monetary Developments and Prices, Prices, Money and Banking, External Debt, Fiscal Developments, Fiscal Policy Framework, Recent Fiscal Performance, Structure of the Fiscal Accounts, Structure of the RMI Tax and Revenue System, Economic Prospects (FY2014-FY2023), Economic Activity, Fiscal Projections, Policy Reform, Public Sector Reform, Public Sector Payroll, External Debt Management, Public Expenditure and Financial Accountability, The Comprehensive Adjustment Program, Asian Development Bank Public Sector Program Loan, Fiscal Responsibility, Social Security Sustainability, Tax Reform, Private Sector and State-Owned Enterprise Reform, State-Owned Enterprises, Energy Sector Reform, Information and Communications Technology Reform, World Bank’s ‘Ease of Doing Business Survey’, Adjustment to the Amended Compact, Decrement Management, Planning Initiatives, The Medium-Term Budget and Investment Framework, The National Strategic Plan 2015-2017, A Policy Reform Summary and the Expenditure Program;
- **Review of the Compact Trust Funds** – topics covered included Performance of the Compact Trust Fund (FY2004-June 30, 2015), Trust Fund Principles and Market Risk, Trust Fund Mechanics, Trust Fund Principles, Market Risk, Benchmarks and Performance Measures, Trust Fund Simulations, Projected Value of the CTF and Distributions in FY2023 and Thereafter, Trust Fund Performance, Volatility, Moving Adjustment Rule, Trust Fund Performance, Volatility, Defining Sustainable CTF Levels and Drawdown Rates, Defining Sustainable CTF Levels, Defining the Sustainability Adjustment for Enhanced Reliability, or SAFER Rule, Increasing Contributions, RMI Funding through FY2023, Extension of the Amended Compact by an Additional Two Years, Recommendations
- **Additional Issues** – topics covered included Measuring Compact Grant Effectiveness, Budget Allocation and JEMFAC Involvement in Budgetary Decisions, JEMFAC and OIA/HFO’s



Renewed Focus, The SEG and Federal Programs and The FPA: Dates and Definitions/Reporting Requirements.

Draft reviews were submitted to United States officials in September, 2016.

H. Statistical and Economic Reporting for the three Freely Associated States of the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau

- Strategic Goal 1: Improve leadership and management capacity to effectively perform
- Strategic Goal 3: Increase effectiveness and program results

The Department of the Interior's Office of Insular Affairs designed the Economic Monitoring and Analysis Program (EconMAP) to address the need for continued professional expertise to augment existing statistical systems, economic reporting, and analysis in the three Freely Associated States (FAS) of the Republic of the Marshall Islands (RMI), the Federated States of Micronesia (FSM) and the Republic of Palau (ROP). Existing capacity in producing statistical information and economic analysis is limited in the FAS and requires assistance in order for adequate and sufficient information to be made available to enable economic and fiscal monitoring. Since the statistical and economic reporting required across all three FAS are relatively similar, the Graduate School efficiently provides direct external inputs to maintain and develop the existing economic reporting and statistical programs.

Through its EconMAP program, the Graduate School has assisted the FSM, RMI, and ROP with the maintenance and development of the FAS national accounts series (national income, GDP, and economic growth), employment and migration, government finance statistics (fiscal deficit), external statistics (balance of payments, and external debt) and monetary data. An annual economic review is prepared for all three FAS covering an analysis of economic developments, the policy environment, Compact Trust Fund performance, and projections of the economies as they graduate from U.S. external grant assistance in the 2020s. The annual economic reviews help fulfill Compact mandates and, in the cases of the FSM and RMI, help JEMCO and JEMFAC with Compact implementation.

In 2016, in addition to the core components of statistical support and economic monitoring provided to the FAS, the EconMap program assisted both the FAS and the U.S. in key areas of policy support such as developing initial drafts of the FSM and RMI 10-year Compact Reviews, assisting the FSM and RMI in managing the annual reduction in Compact funding incurred through the annual decrement, and projecting and simulating the three FAS Compact Trust Funds and their potential for sustainable replacement of the current existing annual grants. In Palau, EconMap provided support to the government in the generation and analysis of the impact of the rapid growth in tourism. In the RMI, EconMap has support the government with the need for reforms to the failing Social Security System.

High-level briefings have been consistently delivered for US, FSM and RMI JEMCO and JEMFAC members to provide background analysis prior to annual meetings. EconMap also coordinates its program with the major regional donors to the Freely Associated States, including the Asian Development Bank, the International Monetary Fund, the Pacific Finance Technical Assistance Center, and the South

Pacific Commission. Briefings were made to the respective donor groups, and EconMap plays a key supportive role in the annual IMF article IV and staff consultations. In late 2016, EconMAP facilitated a Donor Coordination Meeting for the Office of Insular Affairs, inclusive of the ADB, World Bank, and several federal programs.

EconMap is supported by a long-term regional advisor based in Palau, providing regular support to all the three governments, for ten months of the calendar year. In addition, an economic statistician works across the three FAS for 7 months each calendar year. Finally, annual EconMAP efforts include support from the GS office in Honolulu, as well as other short-term professional advisors.

2016 EconMAP Outputs include:

- FY15 FSM Economic Review and Statistical Appendix;
- FY15 RMI Economic Review and Statistical Appendix;
- FY15 ROP Economic Review and Statistical Appendix;
- Executive, Cabinet and Legislative Presentations in the FSM, RMI and ROP;
- Pre-JEMCO and Pre-JEMFAC briefings to Committee Principals;
- Public Presentations to interested parties with the US, FSM, RMI and ROP.

I. Finance and Audit Office Assessments

- Strategic Goal 1: Improve leadership and management capacity to effectively perform
- Strategic Goal 2: Improve financial management systems and practices
- Strategic Goal 3: Increase effectiveness and program results

PITI-VITI has developed diagnostic tools to measure each insular government's audit and finance offices against a standard, broad set of criteria. A broad level assessment of the Ministry of Finance (MOF) in the Republic of the Marshall Islands (RMI) was conducted by a team of consultants from the Graduate School, USA, from April 16-22, 2016, at the requests of the RMI Ministry and DOI-OIA. Over the last several years the Ministry has been through a period of high turnover and loss of senior level managers, staff and a valued consultant, and has received diminished support from their financial management information system (FMIS) software vendor. As a result, the financial operations and reporting within MOF have suffered. The RMI administration, the United States Department of the Interior's Office of Insular Affairs (OIA), and other donor partners have recognized the need to develop a strategy aimed at rebuilding the MOF through the assistance of donor partners and utilizing in the medium-term external consultants.

The Assessment identified three high risk items within the MOF. Notably, the MOF has already initiated efforts to remediate the three high risk items identified:

1. Management deficiencies, staff turnover/vacancies, and staff morale;
2. Compelling need to ensure a robust and rigorous FMIS acquisition process; and,
3. Slipping deadlines for completion of the single audit.

The Graduate School USA's (GSUSA) recommendations cover three key areas which support nine of the RMI's Public Financial Management (PFM) Reform Roadmap's thirty components:

1. Professional Accounting Strengthening (For which two external consultants are recommended to work in collaboration with key counterparts);
2. HR Development, Training and Process Improvement (For which one external consultant and one designated counterpart are recommended to work within the MOF and with client Ministries and agencies); and,
3. System Improvements (For which one external project manager and one designated counterpart are recommended to support the FMIS acquisition, installation and implementation process).

3.

| <b>Activity: Territorial Assistance</b>                  |                |         |   |                             |                   |                                 |
|--|----------------|---------|---|-----------------------------|-------------------|---------------------------------|
| <b>Subactivity: Maintenance Assistance (MAP) \$(000)</b> |                |         |   |                             |                   |                                 |
|  | 2016<br>Actual | 2017 CR | 2018  |                             |                   | Change<br>from<br>2017<br>(+/-) |
|  |                |         | Fixed<br>Costs &<br>Related<br>Changes<br>(+/-) | Program<br>Changes<br>(+/-) | Budget<br>Request |                                 |
|  | 1,081          | 1,079   | 0   | -56                         | 1,023             | -56                             |
| FTEs   | 0              | 0       | 0   | 0                           | 0                 | 0                               |

**SUMMARY OF 2018 PROGRAM CHANGES**

| <b>Request Component</b> |        |     |
|--------------------------|--------|-----|
| Program Changes          | Amount | FTE |
| Maintenance Assistance   | -56    | 0   |

**JUSTIFICATION OF 2018 PROGRAM CHANGES**

The 2018 budget request for Maintenance Assistance is \$1.0 million, a program decrease of \$56,000 from the 2017 CR level. In the 2018 budget request, the program will reduce its efforts to alleviate health and safety deferred maintenance in insular public schools as well as other efforts to institutionalize infrastructure maintenance practices.

**PROGRAM OVERVIEW**

The Department of the Interior will continue to provide limited assistance for investments in public infrastructure in the insular areas. The Maintenance Assistance fund is used to support, develop, improve, and as much possible, institutionalize infrastructure maintenance practices in the seven insular areas. Funds can also be used for critical repairs to infrastructure.

Historically, the seven insular governments have not prioritized maintenance planning and budgeting, life cycle costing, and training. As a consequence, the usefulness of power plants, roads, ports, water and sewer systems, and public buildings declined prematurely. The maintenance assistance program

addresses this problem by providing expert reviews and recommendations on the general condition of the infrastructure and by providing cost-shared grants to provide long-term solutions to systemic problems.

The maintenance assistance program focuses on changing those conditions that allow poor maintenance practices to exist. The program underwrites training, education, and technical advice related to maintenance. Funding is used to purchase specialized maintenance equipment or information technology related to maintenance. The program also funds the cost of inventories of maintenance needs and the development of maintenance plans.

The maintenance assistance fund also provides funding to address general regional training needs and allows the insular governments to share expertise and develop maintenance practices appropriate to the region. The maintenance assistance program has proven to be an effective method of institutionalizing better maintenance practices throughout the U.S. affiliated islands.

Grants to individual island areas may require a match. This strategy emphasizes the importance of local buy-in to maintenance assistance as a means of building and sustaining local institutions. Regional programs have also been developed for training purposes to emphasize economies of scale.

### **2018 PROGRAM PERFORMANCE**

In 2016, the Maintenance Assistance program received approximately \$5 million in requests and awarded approximately \$1.2 million which was the total amount appropriated for the program plus carryover. Awards included \$225,000 for disaster response training for power linemen from American Samoa, FSM (Yap, Kosrae, and Pohnpei), the RMI and Palau; \$99,000 for telecommunications equipment for the northern islands of the CNMI; \$250,000 to the Guam Department of Corrections for an assessment of the facility and a master plan for future growth; \$125,000 for power lineman apprentice training in American Samoa; \$125,000 for well drillers and operators in American Samoa; \$169,000 to U.S.V.I. Water and Power Authority for equipment to remove and replace water lines; \$100,000 for roof repairs on Juan Luis Hospital U.S.V.I.; and \$100,000 for improvements to the sports complex in YAP utilized by local schools.

4.

| <b>Activity: Territorial Assistance</b>              |                        |                |  |                                      |                           |   |
|--|------------------------|----------------|--|--------------------------------------|---------------------------|---|
| <b>Subactivity: Brown Tree Snake Control \$(000)</b> |                        |                |  |                                      |                           |   |
|  | <b>2016<br/>Actual</b> | <b>2017 CR</b> | <b>2018</b>  |                                      |                           | <b>Change<br/>from<br/>2017<br/>(+/-)</b> |
|  |                        |                | <b>Fixed<br/>Costs &amp;<br/>Related<br/>Changes<br/>(+/-)</b> | <b>Program<br/>Changes<br/>(+/-)</b> | <b>Budget<br/>Request</b> |   |
|  | 3,500                  | 3,493          | 0  | 656                                  | 2,837                     | -656                                      |
| FTEs   | 0                      | 0              | 0  | 0                                    | 0                         | 0   |

**SUMMARY OF 2018 PROGRAM CHANGES**

| <b>Request Component</b> |        |     |
|--------------------------|--------|-----|
| Program Changes          | Amount | FTE |
| Brown Tree Snake Control | -656   | 0   |

**JUSTIFICATION OF 2018 PROGRAM CHANGES**

The 2018 budget request for Brown Tree Snake Control is \$2.8 million, a program decrease of \$656,000 from the 2017 CR level. Interdiction, control and research efforts will be modified to accomplish this program reduction. Funds are anticipated to be awarded with a continued focus on the operational interdiction and control initiatives, including suppression and eradication. Funds may also be awarded to continue research funding and educational outreach dependent upon the availability of funding.

**PROGRAM OVERVIEW**

The invasive Brown Tree Snake (BTS) was introduced to the island of Guam following World War II. Due to an abundant prey base and an absence of natural predators, the BTS' population on Guam grew quickly reaching unprecedented numbers. It was not until the 1980s when researchers began to study the sudden and sharp decline in Guam's bird populations that the environmental and socioeconomic damage caused by the BTS began to be understood.

The BTS is directly responsible for the extinction or local extirpation of 9 of 13 native forest birds and 3 of 12 native lizards on Guam. In addition, the BTS has had significant, negative impacts on Guam's economy. The risk of accidental transport and establishment of the BTS in other locations has impacted regional shipping and transportation through increased bio-security needs.

The BTS caused many power outages. A single island-wide outage can cost over \$3 million in lost productivity, not including repair costs, damage to electrical equipment and lost revenues. Estimates place annual costs of snake-caused outages on Guam at around \$4.5 million, not including personal equipment failures, shorter equipment life span, or increased costs due to purchasing personal power generators.

Since Guam is a major transportation hub in the Pacific, numerous opportunities exist for this invasive species to be inadvertently introduced to other areas in the Pacific. The BTS has already been accidentally transported from Guam to other sites worldwide through infested civilian and military vessels and cargo. Documented sites include: Hawaii, the CNMI, Corpus Christi, Texas; McAlester, Oklahoma; Japan; Anchorage, Alaska; Wake Island; Taiwan; Kwajalein; Diego Garcia; Darwin, Australia; and Rota, Spain. Between 1978 and 2009, approximately 120 snakes have been reported outside of Guam. The majority of those sightings were in the CNMI (93) and on Oahu (10). A live BTS was found in a trap on the fence line surrounding the Rota Seaport as recently as September 2014. There is appropriate concern that the introduction of the BTS to other vulnerable sites, such as Hawaii, will have similarly catastrophic ecological and economic impacts as on Guam. The potential cost of a BTS introduction on Hawaii alone has been estimated between \$593 million to \$2.14 billion annually.

Brown Tree Snake Control is a combination research and operational program designed to prevent the dispersal of BTS from Guam to other vulnerable geographic areas and to ultimately eradicate existing or newly established BTS populations in U.S. areas. Research is conducted to improve existing BTS control tools, such as barriers, traps and baits as well as to develop better control techniques such as toxins, repellents and attractants. Research is also intended to improve our understanding of the basic biology of the BTS and to develop methods enabling large-scale suppression of BTS. It is largely accepted that severe population suppression must be achieved before eradication can be pursued. The operational program utilizes the control tools and techniques developed via the research effort to reduce the risk of BTS dispersal to other Pacific islands, the U.S. mainland, and other vulnerable locations.

The BTS Program is a cooperative effort involving primarily the Office of Insular Affairs (financial assistance and grants management); the U.S. Fish and Wildlife Service (overall program coordination); the U.S. Geological Survey (basic and applied research); the U.S. Department of Agriculture's Animal and Plant Health Inspection Service, Wildlife Services (control, management and applied research); the U.S. Department of Defense (financial assistance, control and management on military facilities); and the Governments of Hawaii, Guam, and the Commonwealth of the Northern Mariana Islands.

**2018 PROGRAM PERFORMANCE**

It is anticipated that the 2017 and 2018 BTS funds will be awarded with a continued focus on the operational interdiction and control initiatives including suppression and eradication; funds may also be awarded to continue research funding and educational outreach dependent upon the availability of funding. Actual BTS awards for 2016 are detailed below:

- \$891,084 The U.S. Department of Agriculture's Animal and Plant Health Inspection Service, Wildlife Services (WS), will continue its Guam-based operational BTS control program on and around commercial facilities operated by the Government of Guam and private entities. Current operations will be maintained at A.B. Won Pat International Airport, Commercial Port of Guam and commercial transportation and cargo facilities, aimed at reducing the risk of BTS dispersal to other Pacific islands, the U.S. mainland, and other locations at risk. WS will incorporate an integrated wildlife damage management approach to BTS containment using the following types of activities: detector dogs, traps, nighttime fence searches, oral toxicants, barriers, prey reduction, and public outreach activities. WS staff will ensure inspection of at least 90 percent of commercial cargo and aircraft departing Guam.
- \$437,271 The CNMI Department of Lands and Natural Resources, Division of Fish and Wildlife (DFW), will continue to operate a BTS interdiction program on the islands of Saipan, Tinian and Rota and ensure that, at the minimum, a 90 percent canine inspection rate of Guam-based cargo arrivals is reached and subsequently maintained. DFW will also maintain BTS traps at CNMI ports of entry and conduct public outreach.
- \$289,457 The Hawaii Department of Agriculture, Plant Quarantine Branch, will continue its BTS interdiction program (currently consisting of visual searches of flights and cargo by trained inspection staff). The Plant Quarantine Branch also plans to increase its rapid response capacity, readiness and capabilities for snake sightings in Hawaii.
- \$200,000 The U.S. Department of Agriculture's Animal and Plant Health Inspection Service, Wildlife Services, National Wildlife Research Center (NWRC) will continue the development, as well as testing, of an aerial bait suppression system intended to reduce BTS populations on a landscape scale.
- \$1,128,002 USGS researchers will continue the development and testing of tools intended to improve BTS interdiction, control, and management. Research will focus on developing better methods for the control and capture of juvenile snakes, as well as landscape-level snake control. The USGS Rapid Response Team will continue to respond to snake sightings and will conduct site response training to snake searchers in the Pacific region.
- \$318,392 USFWS will continue to provide overall BTS program coordination on a regional and national level to ensure continued progress. USFWS will also provide technical assistance to program partners and develop a strategic planning document for the program.



5.

| <b>Activity: Territorial Assistance</b>                                   |                |         |   |                             |                   |                                 |
|---|----------------|---------|---|-----------------------------|-------------------|---------------------------------|
| <b>Subactivity: Coral Reef Initiative &amp; Natural Resources \$(000)</b> |                |         |   |                             |                   |                                 |
|   | 2016<br>Actual | 2017 CR | 2018  |                             |                   | Change<br>from<br>2017<br>(+/-) |
|   |                |         | Fixed<br>Costs &<br>Related<br>Changes<br>(+/-) | Program<br>Changes<br>(+/-) | Budget<br>Request |                                 |
|   | 1,000          | 998     | 0   | -52                         | 946               | -52                             |
| FTEs  | 0              | 0       | 0   | 0                           | 0                 | 0                               |

**SUMMARY OF 2018 PROGRAM CHANGES**

| <b>Request Component</b>                  |        |     |
|---|--------|-----|
| Program Changes                           | Amount | FTE |
| Coral Reef Initiative & Natural Resources | -52    | 0   |

**JUSTIFICATION OF 2018 PROGRAM CHANGES**

The 2018 budget request for Coral Reef Initiative & Natural Resources is \$946,000, a program decrease of \$56,000 from the 2017 CR level. The program will maintain support for regional coral reef initiatives and watershed restoration efforts in the territories.

**PROGRAM OVERVIEW**

Healthy coral reef resources are an integral part of the economy and environment of island communities, from the U.S. Virgin Islands to Guam. Among the most diverse and biologically complex ecosystems on earth, coral reefs protect island communities from coastal erosion and storm damage, provide habitat to numerous species, and support important tourism and recreational industries. Coral reef resources are now threatened by a variety of stresses including poor water quality, over-harvesting of coral, coastal development, disease and bleaching (loss of symbiotic algae). According to recent estimates, more than 25 percent of the world's coral reefs already have been lost or severely damaged.

Executive Order 13089 (June 1998) established the U.S. Coral Reef Task Force (Task Force) to bring together Federal, State, and territorial governments to address the coral reef crisis. In 2001, the freely associated states (FAS) became non-voting members of the Task Force. Co-chaired by the Secretaries of the Interior and Commerce, the Task Force is credited with setting the national and international agenda for long-term management and protection of coral reefs. The insular governors, FAS presidents and the All Islands Coral Reef Committee provide significant guidance and direction to the Task Force.

With the majority of U.S. coral reefs located in the insular areas, the Office of Insular Affairs (OIA) plays a critical role in the national effort to develop effective programs to sustainably manage and protect U.S. coral reef resources. OIA has worked closely with the islands to identify and implement a broad scope of management actions from education and outreach to watershed restoration and the establishment of marine protected areas. Each island has established its own local advisory committee for strategic planning and priority setting. OIA has also supported the development and implementation of pioneering resource management efforts in the FAS, including the development of a blueprint for creating a national system of protected areas for the FSM, support for the Micronesia Challenge, natural resource assessments of the atolls of the Marshall Islands, and protection of critical marine resources in the Republic of Palau.

## **2018 PROGRAM PERFORMANCE**

In 2017, the Coral Reef Initiative program was renamed Coral Reefs Initiative and Natural Resources with the intention of broadening the program to include other natural resource issues in the insular areas. The goal of the Coral Reef Initiative and Natural Resources program is to improve the health of coral reefs in the U.S. insular areas for their long-term economic and social benefit. OIA's primary role is to assist the insular areas in identifying causes for coral reef decline, assessing needs for enhancing local management and protection, and as available, providing technical and financial assistance to meet priority needs. Performance indicators and outputs will focus on the health and management of local coral reefs through assistance provided.

Through financial and technical assistance, OIA has supported the development of several local and regional initiatives. Among these is the Micronesia Challenge, launched at the Coral Reef Task Force meeting in Palau in 2005 by the region's heads of governments. The Micronesia Challenge is a bold initiative to conserve 30 percent of near-shore marine resources and 20 percent of forest resources by 2020. The Challenge far exceeds current goals of international conventions and emphasizes the need for Micronesian leaders to work together to confront environmental and sustainable development issues.

Funds provided by OIA have helped the insular areas develop and implement plans for the restoration of watersheds in Guam, Saipan, American Samoa and the U.S. Virgin Islands. These efforts will alleviate the effects of run-off and other threats to adjacent coral reefs. OIA has also supported development and management of marine protected areas, education and internship opportunities for students, conservation planning for local governments, development of fisheries management plans, assessments and

management of the effects of climate change on reef ecosystems, and development of resource management plans for communities in the Marshall Islands and the Federated States of Micronesia.

The Coastal Studies Outpost (CSO) was completed at Salt River Bay's National Historical Park and Ecological Preserve, St. Croix, USIV, in 2016. The CSO is a small platform for day use that will provide scientists and students the opportunity to study and investigate the rich natural and cultural heritage of the region. It will also "jumpstart" research and education in the park while plans for the proposed Marine Research and Education Center move forward. The MREC will be an innovative facility – "net zero" for energy and water and hurricane and seismic resistant. It will serve as a center of excellence for research and education and provide a model for sustainable development in the insular areas.

Coral Reef program grant awards in 2016 included:

- **Bureau of Environmental & Coastal Quality (Commonwealth of the Northern Mariana Islands, CNMI) - \$73,040** to conduct summer youth environmental stewardship programs on Tinian and Rota and provide regional coordination and capacity building opportunities for CNMI's coral reef managers. Funds will also be used to assess the resilience of seagrass ecosystems on Saipan and to incorporate three-dimensional modeling of reef structural changes into CNMI's long-term coral reef monitoring program.
- **Guam Bureau of Statistics and Planning (Guam) - \$105,600** to raise awareness of island residents about the importance of Guam's coral reef resources to tourism, recreation, fisheries, and protection. Funds will be used to help educational outreach to primary, secondary, and post-secondary students on the effects of climate change and how to minimize negative impacts on coral reefs. Funding also will be used to work with local villages in the Manell-Geus watershed to reduce sediment run-off onto adjacent coral reefs by promoting habitat restoration through fire hazard reduction and eradication of invasive species such as bamboo. The grant also funds opportunities to coordinate with others in the region and nationally on issues related to protection and management of coral reefs.
- **Coral Reef Advisory Group (American Samoa) - \$123,710** to incorporate climate change adaptation principles into efforts to reduce land-based sources of pollution using the Corals & Climate Adaptation Planning Design Tool being developed jointly by The Nature Conservancy, the Environmental Protection Agency, the National Oceanic and Atmospheric Administration, and the Office of Insular Affairs. Funds will also support collaboration between scientists and managers in the islands to increase the extent to which resilience and vulnerability are included in management planning, and to raise awareness among reef stakeholders for resilience-based management to reduce vulnerability to climate change.
- **U.S. Virgin Islands Department of Planning and Natural Resources (U.S. Virgin Islands) - \$131,000** to enhance the effectiveness of local coral reef planning efforts; to create "stewards of the reef" through targeted marine experience and education of local high school students; and to integrate "ocean acidification sentinel" sites into the islands' territorial coral reef monitoring program.
- **The Nature Conservancy (Santa Cruz, California) - \$89,821** to support a project demonstrating the role coral reefs play as effective first-line defenses in protecting coastlines from flooding. The project will identify when, where and how coral reefs provide the most significant flood reduction benefits both socially and economically under current and future climate change scenarios in American Samoa, Commonwealth of the Northern Mariana Islands, Guam and the U.S. Virgin Islands. Coral reefs provide a natural protective defense that is often

not as rigorously evaluated as seawalls and other “grey infrastructure” which may not be cost effective and can have negative impacts on coastal ecosystems.

- **Micronesia Conservation Trust (Pohnpei, Federated States of Micronesia)- \$130,000** to support development of a robust model for sea-level rise projections as part of a mangrove vulnerability assessment on Pohnpei. Healthy fringing mangrove forests provide timber, fuelwood, nursery and fish habitats, as well as filter coastal waters and protect coastal areas from rising seas and erosion. Results from this work will have application across the Pacific. Funds will also support the highly successful Micronesia Challenge Young Champions initiative that will provide five interns with one-year internships at natural resource management and non-governmental agencies across Micronesia. The interns will work to share lessons learned, promote efficiency of conservation efforts, and conduct outreach and information-sharing locally, regionally, internationally, and online.
- **College of the Marshall Islands (Republic of the Marshall Islands) - \$124,963** to develop technical guidelines for assessing the state of the coastline and historic shoreline position and identifying erosion prone areas in support of coastal protection efforts by the Marshall Islands Environmental Protection Agency and Public Works Department. While initial efforts target Majuro, long-term benefits will extend to Ebeye and the outer islands. This project will utilize the GIS database and remote sensing capabilities for conservation and protection of coral reefs in the Marshall Islands that were developed, in part, with previous Office of Insular Affairs funding.
- **Halmos College of Natural Sciences and Oceanography; Nova Southeastern University (Florida) - \$200,000** to support Year 2 of the National Coral Reef Management Assistantship Program for the U.S. territories. The program helps fill current capacity gaps as well as build longer-term capacity by placing qualified young professionals in jurisdictions where their education and work experience meet specific needs.
- **Micronesia Islands Nature Alliance (Commonwealth of the Northern Mariana Islands) - \$66,481** to support the successful Tasi-Watch Program which has been training recent high school graduates to become community conservation rangers since 2010. The word *tasi* in Chamorro means ocean.
- **American Samoa - \$123,710** to incorporate climate change adaptation principles into efforts to reduce land-based sources of pollution using the Corals & Climate Adaptation Planning Design Tool being developed jointly by The Nature Conservancy, the Environmental Protection Agency, the National Oceanic and Atmospheric Administration, and the Office of Insular Affairs. Funds will also support collaboration between scientists and managers in the islands to increase the extent to which resilience and vulnerability are included in management planning, and to raise awareness among reef stakeholders for resilience-based management to reduce vulnerability to climate change.
- **International Society for Reef Studies (Hawaii) - \$40,000** to support the Leaders’ Summit that will be convened as part of the 13<sup>th</sup> International Coral Reef Symposium in June 2016 in Honolulu, Hawaii. The Summit will bring regional leaders together with scientists and government representatives to address the need for improving the science-to-policy bridge.

6.

| <b>Activity: Territorial Assistance</b>                    |                |         |   |                             |                   |                                 |
|--|----------------|---------|---|-----------------------------|-------------------|---------------------------------|
| <b>Subactivity: Empowering Insular Communities \$(000)</b> |                |         |   |                             |                   |                                 |
|  | 2016<br>Actual | 2017 CR | 2018  |                             |                   | Change<br>From<br>2017<br>(+/-) |
|  |                |         | Fixed<br>Costs &<br>Related<br>Changes<br>(+/-) | Program<br>Changes<br>(+/-) | Budget<br>Request |                                 |
| Empowering<br>Insular<br>Communities                       | 2,971          | 2,965   | 0   | -154                        | 2,811             | -154                            |
| FTEs   | 0              | 0       | 0   | 0                           | 0                 | 0                               |

**SUMMARY OF 2018 PROGRAM CHANGES**

| <b>Request Component</b>          |        |     |
|-----------------------------------|--------|-----|
| Program Changes                   | Amount | FTE |
| Empowering Insular<br>Communities | -154   | 0   |

**JUSTIFICATION OF 2018 PROGRAM CHANGES**

The 2018 budget request for Empowering Insular Communities is \$2.8 million, a program decrease of \$154,000 from the 2017 CR level. With energy plans completed in Guam, the Commonwealth of the Northern Marianas Islands, American Samoa, and the U.S. Virgin Islands, funding will assist in the implementation of these energy plans and carry out high priority projects, which boost energy security and infrastructure resiliency. Expected areas of emphasis include power transmission, generation capacity, micro-grids, utility-scale and distributed solar energy generation, consumer efficiency, integrated resource planning, and electrical grid integration studies. All of these activities impact OIA's strategic plan goal of improving quality of life by working to reduce the cost of residential power in the insular areas.

**PROGRAM OVERVIEW**

Insular communities face unique economic growth challenges due to their geographic isolation, finite resources, and dependence on imported oil for their energy needs. To assist the islands in meeting these challenges, the Office of Insular Affairs is working to strengthen the foundations for economic development by addressing energy needs through building reliable and affordable energy strategies.

## 2018 PROGRAM PERFORMANCE

Energy security is critical to the insular areas' future economic development and sustainability. In terms of residential cost per kilowatt hour, the territories on average pay nearly three times the national average for electricity. Public Law 109-58 enacted in 2005 directed the Secretary of the Interior to draft long-term energy plans for the insular areas with the objective of reducing their reliance on energy imports, increase energy conservation and energy efficiency, and use native energy sources.

To combat the high cost of electricity the Office of Insular Affairs (OIA) entered into an Inter-Agency Agreement (IAA) with the U.S. Department of Energy, National Renewable Energy Lab (NREL) in 2010 to help develop long-term strategic energy plans in American Samoa, Commonwealth of the Northern Mariana Islands (CNMI), and Guam. The ultimate goal was to help the insular areas develop advanced energy systems that increase energy independence and energy security.

The governors of the three Pacific territories each established energy task forces that included a variety of energy stakeholders from the territories: colleges and universities, utility companies, energy offices, environmental protection agencies, private sector organizations, etc. The NREL staff worked closely with each territory's energy task force to develop long-term strategic energy plans and short-term energy action plans. These energy plans were finalized and published in July 2013 for the CNMI and Guam and American Samoa's energy action plan was published in August and its strategic energy plan in December 2013. In the end, these energy plans are the result of a tremendous collaborative effort among various energy stakeholders over several months.

Intended to be fluid foundational documents, the strategic energy plans lay out a variety of strategies that should be revisited and updated as appropriate. The strategies include analysis of diesel generation systems and renewable energy systems as well as cost effective energy efficiency improvements. Subsequently, the energy action plans were developed to outline how the strategic energy plans will be implemented. The action plans are meant to be much more detailed and specific, assigning specific tasks to individuals with detailed deadlines. It is intended that the governors' energy task forces will review the status of the energy action plans monthly to report on progress.

The energy action plans select a handful of specific strategies that are achievable in the short term (1-3 years), detail the strategies in feasible incremental steps, identify the stakeholders and desired outcomes, identify the organizations and individuals responsible for implementing the actions, and set a timeline for each step. The action plans are also considered to be living documents that will be regularly updated by the task forces.

OIA's Empowering Insular Communities (EIC) grant program plays a crucial role in helping the territories implement the actions identified in the strategic energy plans and action plans. Each year OIA releases a call letter containing grant application instructions and set criteria for selecting the best

submissions. The greatest weight is given to proposals that reduce a territory's cost of electricity, are identified in the territory's strategic energy plan or energy action plan, and propose to expend the funds within 24 months. Review meetings are held with OIA senior staff, the Budget and Grants Management Division, and others to review and discuss each submission. Projects are selected for funding based on the results of these meetings and information provided by territorial governments.

Since 2013, American Samoa has made significant progress in implementing the strategies identified in its 2013 Energy Action Plan. The American Samoa Renewable Energy Committee updated its Energy Action Plan in 2016 with the assistance of NREL and added new strategies that continue to reduce the cost of electricity and improve energy infrastructure in the territory.

This past year saw substantial progress on several EIC-funded energy projects in the territories. The American Samoa Power Authority completed the installation of solar power system and battery-storage-enabled microgrid on the island of Ta'u of the Manu'a Islands. It is one of the most advanced microgrids in the world. The hybrid energy system, installed by Tesla and SolarCity, can supply 100 percent of the island's power needs from solar energy, providing a cost-saving alternative to imported diesel fuel and removing the hazards of power intermittency and eliminating debilitating power outages. OIA awarded a fiscal year 2016 EIC grant of \$927,500 to help purchase the battery-storage component of the package thereby allowing the island to reach nearly 100% renewable energy. The microgrid, 1.4 megawatts of solar generation capacity and 6 megawatt hours of Tesla battery storage, was implemented within just a one year timeframe. The project is expected to allow the island to save significantly on energy costs. NREL provided technical assistance during the planning and design phases of the project. The American Samoa Power Authority is also nearing completion of a similar microgrid on the islands of Ofu and Olosega of the Manu'a Islands.

In May 2015, the Guam Memorial Hospital was awarded a \$500,000 EIC grant for the installation of a 100 kW solar rooftop system. As a large facility that operates 24 hours a day 7 days a week, the hospital is one of the largest energy consumers on the island. The hospital estimates the project will result in energy cost savings of \$88,559 annually. In addition to cost savings, the project will also improve resiliency since the design incorporates advanced features to enable a future micro grid which will allow solar panels to continue producing power in coordination with the existing backup power system in the event of a loss of utility power. NREL provided technical assistance for the project by helping develop a scope of work and request for proposals. The Guam Memorial Hospital recently selected a contractor and plans to start installation in the spring of 2017.

This past year the Marianas High School in the CNMI made progress on its design and installation of a 100 kW solar panel system. The high school is the largest in the territory with an enrollment of over 1,500 students. The CNMI Department of Education has completed the procurement process and is currently in negotiations with the winning bidder for the project.

In 2016, the Commonwealth Utilities Corporation (CUC) in the CNMI completed an Integrated Resource Plan that identified the optimal mix of demand, supply, and transmission resources to ensure system

adequacy and reliability at reasonable cost over a multi-year planning horizon. The U.S. Virgin Islands Water and Power Authority also completed an Integrated Resource Plan in 2016 and already started implementation. The Integrated Resource Plan identified electricity demand needs and led to a plan to obtain new diesel generation units to replace the existing inefficient and unreliable generating units.



7.

| <b>Activity: Territorial Assistance</b>                    |                |         |   |                             |                   |                                 |
|--|----------------|---------|---|-----------------------------|-------------------|---------------------------------|
| <b>Subactivity: Compact Impact - Discretionary \$(000)</b> |                |         |   |                             |                   |                                 |
|  | 2016<br>Actual | 2017 CR | 2018  |                             |                   | Change<br>from<br>2017<br>(+/-) |
|  |                |         | Fixed<br>Costs &<br>Related<br>Changes<br>(+/-) | Program<br>Changes<br>(+/-) | Budget<br>Request |                                 |
|  | 3,000          | 2,994   | 0   | -2,994                      | 0                 | -2,994                          |
| FTEs   | 0              | 0       | 0   | 0                           | 0                 | 0                               |

**SUMMARY OF 2018 PROGRAM CHANGES**

| <b>Request Component</b>        |        |     |
|---------------------------------|--------|-----|
| Program Changes                 | Amount | FTE |
| Compact Impact<br>Discretionary | -2,994 | 0   |

**JUSTIFICATION OF 2018 PROGRAM CHANGES**

The Compact Impact Discretionary program is eliminated in 2018 in order to prioritize funding for the U.S. territories provided through other OIA financial assistance programs. Additionally, the 2018 budget request maintains permanently appropriated Compact Impact funding, which, like discretionary Compact Impact funding, is authorized to defray costs of qualified nonimmigrants incurred by affected jurisdictions.

**PROGRAM OVERVIEW**

Discretionary Compact Impact grants supplemented the \$30.0 million permanently appropriated for Compact Impact as authorized by Section 104(e) of Title One of the amended Compacts of Free Association. In previous years, OIA used discretionary Compact Impact funding to offset educational service and infrastructure costs incurred by the affected jurisdictions due to the residence of qualified nonimmigrants from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau. OIA also expanded this funding to include community development priorities such as job training and other social services for FAS citizens. The Discretionary Compact Impact program is being proposed for elimination in 2018.

**2018 PROGRAM PERFORMANCE**

Like permanently appropriated Compact Impact, discretionary Compact Impact funding was distributed amongst the affected jurisdictions based on a ratio allocation to the each government on the basis of the results of the most recent enumeration from 2013. In fiscal years 2012 through 2016, discretionary Compact Impact funding was used to offset educational service and infrastructure costs incurred by the affected jurisdictions due to the residence of qualified nonimmigrants from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau.

The State of Hawaii Department of Education used its 2016 allocation of \$1,276,000 to provide educational and educational-related services for Compact of Free Association migrants. The State of Hawaii will likely elect to use its 2017 allocation of \$1,274,000 in a similar manner.

American Samoa received \$2,000 in discretionary Compact Impact funding in 2016 for an operational offset for the American Samoa Department of Education operations budget.

The CNMI received an additional \$231,000 in 2016 for discretionary Compact Impact funding and applied it to educational services. In 2017, the CNMI will receive \$230,000.

In 2016, Guam received an additional \$1,491,000 in discretionary Compact Impact funding for the Guam Department of Education operations. In 2017, Guam will receive \$1,488,000.

## D. Compacts of Free Association

1.

| <b>Activity: Compact of Free Association (Current Appropriation)</b> |                |         |   |                             |                   |                                 |
|--|----------------|---------|---|-----------------------------|-------------------|---------------------------------|
| <b>Subactivity: Federal Services Assistance \$(000)</b>              |                |         |   |                             |                   |                                 |
|  | 2016<br>Actual | 2017 CR | 2018  |                             |                   | Change<br>from<br>2017<br>(+/-) |
|  |                |         | Fixed<br>Costs &<br>Related<br>Changes<br>(+/-) | Program<br>Changes<br>(+/-) | Budget<br>Request |                                 |
|  | 2,818          | 2,813   | 0   | 0                           | 2,813             | 0                               |
| FTEs   | 0              | 0       | 0   | 0                           | 0                 | 0                               |

### PROGRAM OVERVIEW

The Compacts of Free Association guarantee that the freely associated states (FAS) will continue to receive certain Federal services in accordance with negotiated agreements, as is the case for the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI). These services include those of the U.S. Postal Service (USPS).

The United States Postal Service (USPS) provides transportation of mail to and from the freely associated states. Although the freely associated state governments operate their own postal services for internal mail distribution, they have almost no role in the international movement of mail. By agreement, U.S. postal rates are the floors for rates charged by the FAS. U.S. domestic first class postage rates were formerly in effect for mail from the United States to the FAS. Current agreements with the FSM and RMI allow phased increases to reach established international rates. The FAS operate the local post offices and transport mail to and from air and seaports. All proceeds from the sale of FAS stamps and postal indicia are retained by the FAS governments.

The effectiveness of the USPS program, especially for the Republic of the Marshall Islands, is dependent on the availability of commercial air service. To maintain mail service, the USPS in recent years has chartered special flights and purchased additional space on passenger flights to transport mail. The total cost of this service exceeds the subsidy requested by OIA. The additional costs are paid by USPS from its revenues.

**2018 PROGRAM PERFORMANCE**

Despite OIA budget reductions, funding for the USPS contained within the Federal Services activity is kept level in recognition of the Palau Compact Section 432 Review Agreement. OIA will enter into a reimbursable agreement with the USPS for services provided to the FAS.

2.

| <b>Activity: Compact of Free Association (Current Appropriation)</b> |                |         |   |                             |                   |                                 |
|--|----------------|---------|---|-----------------------------|-------------------|---------------------------------|
| <b>Subactivity: Enewetak \$(000)</b>                                 |                |         |   |                             |                   |                                 |
|  | 2016<br>Actual | 2017 CR | 2018  |                             |                   | Change<br>from<br>2017<br>(+/-) |
|  |                |         | Fixed<br>Costs &<br>Related<br>Changes<br>(+/-) | Program<br>Changes<br>(+/-) | Budget<br>Request |                                 |
|  | 500            | 499     | 0   | -26                         | 473               | -26                             |
| FTEs   | 0              | 0       | 0   | 0                           | 0                 | 0                               |

**SUMMARY OF 2018 PROGRAM CHANGES**

| <b>Request Component</b> |        |     |
|--------------------------|--------|-----|
| Program Changes          | Amount | FTE |
| Enewetak                 | -26    | 0   |

**JUSTIFICATION OF 2018 PROGRAM CHANGES**

The 2018 budget request for Enewetak is \$473,000, a program decrease of \$26,000 with no change in FTE from the 2017 CR level. Funding will continue to support agricultural operations and activities, as well as food and commodity purchases; however, agricultural rehabilitation and community support activities will be reduced.

**PROGRAM OVERVIEW**

The natural vegetation of Enewetak Atoll was largely destroyed during World War II and during the subsequent nuclear testing program conducted by the United States. Following the cleanup and resettlement of Enewetak, food bearing trees and root crops had to be replanted. However, the depleted soil of the island environment made it difficult to support sufficient agricultural activity to feed the population. In 1980, the Enewetak Support program was implemented to provide supplemental foods for the community, replant vegetation of the inhabited islands, provide agricultural maintenance training and transport food to the island.

The Enewetak community developed a plan with the assistance of the University of the South Pacific to provide greater amounts of locally produced food and to better integrate necessary imported food into the local diets. A continuing effort is being made to replenish the atoll's soil and agricultural potential. The replanted vegetation is producing at pre-nuclear testing period levels, when the population was about 150 people, but is not sufficient for the current population of about 800 people.

**2018 PROGRAM PERFORMANCE**

The Enewetak program currently uses approximately 40 percent of its funding for operations of the agriculture field station and the agriculture rehabilitation program. Approximately 31 percent of the funding is used to purchase food and commodities for the residents of the atoll. The remaining funds are used to operate the atoll's new vessel and support office in Majuro. OIA will provide grants for Enewetak in 2018 to continue these activities.

3.

| <b>Activity: Compact of Free Association (Current Appropriation)</b> |                |         |   |                             |                   |                                 |
|--|----------------|---------|---|-----------------------------|-------------------|---------------------------------|
| <b>Subactivity: Palau Compact Extension \$(000)</b>                  |                |         |   |                             |                   |                                 |
|  | 2016<br>Actual | 2017 CR | 2018  |                             |                   | Change<br>from<br>2017<br>(+/-) |
|  |                |         | Fixed<br>Costs &<br>Related<br>Changes<br>(+/-) | Program<br>Changes<br>(+/-) | Budget<br>Request |                                 |
|  | 13,147         | 13,122  | 0   | -13,122                     | 0                 | -13,122                         |
| FTEs   | 0              | 0       | 0   | 0                           | 0                 | 0                               |

**SUMMARY OF 2018 PROGRAM CHANGES**

| <b>Request Component</b> |         |     |
|--------------------------|---------|-----|
| Program Changes          | Amount  | FTE |
| Palau Compact Extension  | -13,122 | 0   |

**JUSTIFICATION OF 2018 PROGRAM CHANGES**

The 2018 budget does not fund another Palau Compact Extension, a decrease of \$13.1 million from the 2017 CR level reflecting a new proposal to provide full funding for an enacted Palau Compact as a transfer from the Department of Defense. Instead of continuing the temporary extension for Palau Compact, the budget proposes \$123.9 million in discretionary Department of Defense appropriations as a transfer to the Department of the Interior to support enactment of the 2010 Compact Review Agreement with Palau. The Department of Defense will also propose authorizing language for fiscal year 2018 for the Palau Compact. The Compact is an important element of the Pacific national security strategy.

**PROGRAM OVERVIEW**

Economic assistance provisions under Palau's Compact of Free Association (P.L. 99-658) were set to expire at the end of 2009. The Department of the Interior, Environment, and Related Agencies Appropriations Act, 2010 (Pub. L. No. 111-88 Sec. 122) and subsequent discretionary appropriations acts have continued to extend economic assistance to Palau within OIA current budget authority.

**2018 PROGRAM PERFORMANCE**

2017 Palau Compact Extension funding will be administered as it was under the Compact according to the Fiscal Procedures Agreement for the Republic of Palau.



4.

| <b>Account: Compact of Free Association (Permanent and Indefinite)</b>                          |                |                |   |                             |                   |                                 |
|---|----------------|----------------|---|-----------------------------|-------------------|---------------------------------|
| <b>Activity: Economic Assistance</b>  |                |                |   |                             |                   |                                 |
| <b>Subactivity: Federated States of Micronesia and Republic of the Marshall Islands \$(000)</b> |                |                |   |                             |                   |                                 |
|   | 2016<br>Actual | 2017 CR        | 2018  |                             |                   | Change<br>from<br>2017<br>(+/-) |
|   |                |                | Fixed<br>Costs &<br>Related<br>Changes<br>(+/-) | Program<br>Changes<br>(+/-) | Budget<br>Request |                                 |
| RMI   | 74,598         | 76,065         | 0   | +1,213                      | 77,278            | +1,213                          |
| FSM   | 109,176        | 110,135        | 0   | +1,844                      | 111,979           | +1,844                          |
| Judicial<br>Training  | 365            | 370            | 0   | -7                          | 363               | -7                              |
| <b>Total</b>  | <b>184,139</b> | <b>186,570</b> | <b>0</b>  | <b>+3,050</b>               | <b>189,620</b>    | <b>+3,050</b>                   |
| FTEs  | 0              | 0              | 0   | 0                           | 0                 | 0                               |

**SUMMARY OF 2018 PROGRAM CHANGES**

| <b>Request Component</b> |        |     |
|--------------------------|--------|-----|
| Program Changes          | Amount | FTE |
| RMI                      | +1,213 | 0   |
| FSM                      | +1,844 | 0   |
| Judicial Training        | -7     | 0   |

**JUSTIFICATION OF 2018 PROGRAM CHANGES**

The 2018 budget request for Compact of Free Association - Economic Assistance to the Marshall Islands and Federated States of Micronesia is \$189.6 million, an increase of \$3.1 million with no additional FTEs from the 2017 CR level. The program changes in this account are required inflation adjustments under the amended Compact of Free Association. The increases are based on changes in the United States Gross Domestic Product Implicit Price Deflator but may not exceed 5 percent annually.

**PROGRAM OVERVIEW**

Article I of Title Two of the Compacts of Free Association describes the financial assistance commitment by the United States to the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI). The first period of financial assistance expired on September 30, 2003. Following four years of negotiations led by the Department of State with support from OIA, Congress enacted amendments to the Compact as Public Law 108-188. These amendments also include a new permanent and indefinite appropriation that ensures continuation of direct financial assistance through 2023.

The long term goal of United States' Compact financial support is to assist the freely associated states "in their efforts to advance the economic self-sufficiency of their peoples." The funding provided over the past seventeen years provided the basis for meeting the two primary political goals of the compact, to (1) secure self-government for each country by ending the four decades-old Trusteeship; and (2) ensure national security rights for the United States in the freely associated states. The two primary goals could not have been achieved without the stability compact funding gave the FSM and RMI economies.

The first Compact financial assistance period and related agreements provided funding by category and purpose, and established general guidelines for the use of funds. The local governments, through their own legal processes, allocated funding among self-chosen priorities. Compact funds were disbursed to the FSM and RMI according to negotiated procedures rather than standard Federal practices. All funds dedicated to capital purposes were transferred to the governments the first day of the fiscal year. All operational funding was disbursed in quarterly lump sums. Customary regulations for the use of Federal funds, such as the Common Rule for grant funds, did not apply to Compact funding. The lack of effective enforcement mechanisms over the use of funds was well documented.

During the first Compact period, the FSM and the RMI did not make significant progress toward achieving the long-term Compact goals of self-sufficiency. The U.S. believes part of the reason for poor economic performance over the past seventeen years was in the design of the first Compact itself. The lack of performance standards, measures and monitoring systems allowed poor practices to take root in local government administration.

The amended Compact provides assistance in the form of direct grants in six sectors: education, health care, infrastructure, public sector capacity building, private sector development, and environment. Joint economic management committees, comprised of high ranking officials from the U.S. and the RMI or FSM, meet no less than annually to agree on the allocation of Compact funds among the sectors and to discuss performance, accountability issues and conditions for the use of assistance. OIA serves as the administrator of the financial assistance and ensures enforcement of conditions. An office for monitoring Compact assistance has been established in Honolulu and personnel have also been located in the RMI and FSM capitals. Through a negotiated fiscal procedures agreement, accountability and control standards similar to those which apply domestically to grant agreements between the Federal Government and State and local governments have been implemented.

The amended Compact also requires the United States to make contributions to trust funds for each government. The trust funds are intended to help provide a base for financial self-sufficiency following the conclusion of direct assistance in 2023.

**2018 PROGRAM PERFORMANCE**

OIA will continue to monitor activities in the FSM and the RMI through a combination of site-visits and quarterly review of FSM and RMI-submitted financial and performance reports. It is expected OIA staff will:

- Conduct a minimum of 200 person-days of site visits in the RMI and FSM.
- Collect quantitative and qualitative data on performance objectives and measures.
- Issue and administer all sector grants and the Supplemental Education Grant in the RMI and FSM.
- Convene regular and special meetings of the joint economic management and financial accountability committee for the RMI and the joint economic management committee for the FSM to address major issues as they arise.

Specific information for 2018 is not available at the time of this report due to the nature of the Compact agreement. As agreed to in the Compact, performance plans and budgets for 2018 are not submitted by the FSM and RMI until 90 days before the start of the fiscal year. However, a brief summary of 2017 program performance information for the FSM and RMI sector grants is provided on the next few pages.

**i. Fiscal Year 2017 Sector Allocations for the FSM**

The base amount of Compact of Free Association financial assistance made available to the Federated States of Micronesia (FSM) for 2017 through Section 211 of Public Law 108-88 was \$67,400,000. This amount is adjusted annually by 2/3 of the Gross Domestic Product Implicit Price Deflator. The inflation adjustment for 2017 was \$12,745,340. Combining the base amount and inflation adjustment, the total amount of Section 211 Compact of Free Association financial assistance made available to the FSM was \$80,145,340. From this total, an amount of \$237,820 was provided to the FSM's Disaster Assistance Emergency Fund.

An annual grant, up to \$500,000, was also made available to the FSM to conduct audits required under Article VIII of the Fiscal Procedures Agreement.

The following is a breakdown of 2017 grant allocations for the FSM made by the Joint Economic Management Committee (JEMCO) by sector.

| <b>Sector</b>                        | <b>Funds Allocated</b> |
|--------------------------------------|------------------------|
| Education                            | \$25,646,846           |
| Health                               | \$22,115,289           |
| Infrastructure                       | \$14,971,770           |
| Environment                          | \$1,791,980            |
| Capacity Building                    | \$2,009,511            |
| Private Sector                       | \$1,655,693            |
| Enhanced Reporting & Accountability  | \$1,562,227            |
| Section 211 Sector Grant Allocations | \$69,753,316           |
| <b>Total</b>                         | <b>\$139,506,632</b>   |

\$23,972,256 was reserved for the Public Infrastructure Sector and only partially allocated due to the FSM's inability to sufficiently organize itself to ensure proper implementation of infrastructure projects. Approximately \$10.15 million remained unallocated by JEMCO for 2017.

**Long Term Fiscal Planning Efforts by the FSM**

The Compact of Free Association, as amended, included two provisions that, by design, lead to annual reductions in the real value of the grants made available to the FSM. The first was similar to that which prevailed during the initial Compact period, which is the partial inflation adjustment applied to grants. The FSM receives annual adjustments equal to two-thirds of inflation as measured by annual changes in the US GDP implicit price deflator; thus, the real value of assistance declines in proportion to a broad measure of US inflation from 2005 to 2023. The baseline for this annual calculation is established as the index value at the end of the third quarter of 2003—in other words at the outset of 2004—as the beginning of the amended Compact twenty-year period.

The second provision, although less familiar, is simply a different and larger-in-magnitude version of what was done during the initial Compact period. This is the so-called decrement, whereby from 2007 to 2023 the nominal value of the grants available for award to the FSM is reduced by \$800,000 per year. During the initial Compact period, reductions were done at Year 6 and Year 11 (the so-called “first stepdown” and “second stepdown”). The design shift to an annual decrement was meant to present a less difficult (more gradual) adjustment. The decrement, contrary to the step-downs implemented during the initial Compact period, does not actually represent a reduction in total funding from the US, but rather, represents a redirection of the same \$800,000 as an annual increment in the level of annual US contributions to the Compact Trust Fund.

Taken together—and assuming a 3 percent annual inflation rate—the partial inflation adjustment and the decrement result in approximately a 2 percent loss in the real value of grants each year. Since Compact funds are an important component of revenues for all four states of the FSM, the result is a persistent form of fiscal compression, requiring some combination of reductions in real government services or increases in the real value of tax and fee revenue collections. Of course, the preferred way to offset declines in real resource transfers is sustained and significant economic growth. Such remains the goal of the FSM; however, it would not be prudent to rely upon such growth exclusively in the FSM’s planning fiscal process. The likelihood of such sustained growth is reduced in the face of an increasing level of outward migration.

While the annual real decline was present from the outset of the Compact, as amended, other adjustment problems, and the difficulty of transitioning to the greatly revised grant assistance terms at the outset of the amended Compact period, resulted in limited policy focus on the substantial cumulative impact of the annual decline in the real value of Compact sector grants.

By 2009, a focus on the cumulative, combined impact of the decrement and partial inflation adjustment came to the forefront. In particular, concerned observers both within the FSM and among US government officials noted that the standard response to the declining real value of Compact sector grants was dominated by incremental cuts that did not result from focused deliberations and thus did not tend to reflect explicit or even sensible priorities.

The observed behavior of incremental, un-prioritized expenditure cutting that has prevailed for the state governments within the FSM, would almost certainly be sustainable during short periods of fiscal compression; however, over a long period of fiscal compression, an entirely different and more deliberative approach is needed. The state governments are clearly faced with the latter circumstance of a prolonged period of fiscal compression. As just two examples, priority activities with an impact on human health or public safety may need to be protected entirely or even enhanced, while lower priority activities, even if popular among some interest groups, may need to be eliminated entirely. A phrase used to reflect a needed change in policy approach going forward over the long period of declining real value of Compact sector grants is to “avoid dilution” of truly prioritized governmental activities.

Quite simply, some entire functions or activities of government need to be eliminated or disproportionately reduced, so that other, higher priority activities can be maintained in an efficient and effective manner. Alternatively, all of the adjustment to declining resources could be offset by tax and fee revenue reform; however, only limited progress has been made in this area nationally. Ultimately, a balanced fiscal adjustment is likely to be preferred—with a mix of expenditure cuts and revenue increases.

As a result of this observed common pattern of behavior throughout the FSM, the Joint Economic Management Planning Committee (JEMCO), comprised of three US and two FSM members, adopted a series of increasingly specific and binding resolutions which, taken together and with some delays, resulted in the current robust requirement for “decrement management planning,” that has now come to be known as the Long-Term Fiscal Framework (LTFF). The LTFF is being developed, in the first instance, on a state-by-state basis before its full development with the FSM National Government, to allow it to become an FSM-wide fiscal planning commitment.

The strength of the commitments undertaken for the LTFF development process in the FSM state governments was demonstrated by the inclusion of policy makers at all levels of government. The LTFF process was designed to address a broad range of fiscal challenges including, in no particular order:

- 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—to the detriment of spending on all other expenditure categories—including both Compact-funded areas and all or most other areas funded by local revenues;
- Limited progress on broad-based and FSM-wide tax reforms and limitations on the extent to which its own tax policy can be stretched to raise further revenues without severely distorting incentives for private sector development;
- Apparent political obstacles to achieving sustained, broad-based and FSM-wide 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 combined impact of the partial inflation adjustment and the annual decrement;
- Stagnant or declining economic activity during the early amended Compact period followed by more positive results in the recent few years;
- The inability or perhaps just a delay, to-date, of the FSM to meet its 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 domestic or foreign contributors to increase Compact Trust Fund contributions, in order to be able credibly to adjust to projected levels of sustainable support after 2023.

The LTFF for the FSM was also designed to take into consideration other factors of importance, which may either worsen or lessen the evident fiscal challenge, such as:

- Population trends and the impact of outmigration;
- 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;

Finally, the LTFF and the embedded commitments herein for the FSM were to be reflected in the budgets and policy/planning priorities from 2014 onward. A clear demonstration of this commitment was presented in the monitoring matrix as part of the annual budget preparation process and in budget consultations with OIA staff. An update to the LTFF is due in 2017.

### Education

FSM states have aligned their goals with the following four education goals cited in the FSM Strategic Development Plan:

1. Improve the quality of instructional services to early childhood, elementary and secondary education.
2. Improve the quality of education services and programs.
3. Meet the manpower needs of the nation.
4. Allow FSM students to compete in postsecondary education to assist in the economic and social development of the FSM.

The Compact, Supplemental Education Grants, and Special Education funds from the US Department of Education continue to provide over 90 percent of the budget for Education in the FSM. The FSM has 193 schools – 133 elementary, 21 secondary, 25 Early Childhood Education Centers (ECE), and 14 schools with primary through secondary grades. About a third of these schools are located on remote outer islands more than 200 miles from the population centers of the four states and accessible primarily through a handful of largely unreliable ships. The ECE-12 system serves approximately 29,000 students which is about 78 percent of the total school-aged population.

The geographic isolation of these schools, lack of resources and access to technology, and a limited pool of qualified human resources are major impediments to providing quality education service. As Compact of Free Association assistance continues to decline in real value, state governments, which are responsible for operating schools, will face even greater challenges to maintain and improve education service delivery.

At least half of the FSM's student population tested in the nation's National Minimum Competency Test (NMCT) is performing below the competency level expected for their grades. Most students enrolling in the College of Micronesia spend about one year in remedial courses. The Joint Economic Management Committee (JEMCO) has recommended that the FSM prioritize improving student performance in the

primary and secondary level. More specifically, JEMCO recommended that more Compact funds be allocated for the improvement of results in the NMCT, full implementation of the FSM School Accreditation System, and Teacher/Principal Professional Development and Certification.

In its 2017 budget, the FSM allocated more resources to the three identified initiatives and some improvements are being realized. Nationwide, a remaining 20 percent of teachers are without college degrees (10 percent reduction from 2011 and 45 percent from 2008) and the country is on track to decrease that percentage further. The FSM has also developed a more rigorous testing and accreditation program so that all schools receiving Compact funding are tested on the NMCT and evaluated as part of the FSM School Accreditation System.

### Health

In 2017, the FSM received a Compact health sector grant of \$22.1 million. As has been the case historically, health sector grant funding primarily supported regular recurring operations of the four state in-patient facilities.

All four states complied with JEMCO's resolution requiring funding support for three health initiatives: decreasing recurring diabetes-related hospitalizations, eliminating leprosy, and preventing and controlling Multiple Drug Resistant Tuberculosis.

The annual reduction (decrement) in available financial assistance for the Compact's six sectors has had a profound effect on health care delivery. Although health continues to be second only to education as a priority for Compact support, allocations for all four FSM state health departments have flat-lined or declined. The resulting trend of budget decline, congestion, and ad hoc cuts will continue unabated until the states find workable alternatives to offset the loss of Compact dollars and the health departments earnestly implement programs that trim inefficient and ineffective activities and raise fees for service.

### **The FY 2017 JEMCO Request**

The proposed amount for 2017 was based upon each state government undergoing a planning that can best be characterized as continuing maintenance of effort. It leaves little maneuverability for innovation and growth. Even the phrase "maintenance of effort" is a misnomer. The exclusion of an inflation index and the recurring lack of money for regular medical equipment replacements and upgrades and maintenance from 2004 and on, implies that health has lost considerable ground.

The share of health dollars going to the FSM's four state governments reflects internal state priorities and competing demands for shrinking support.

**JEMCO Mandated Health Initiatives:** All four FSM state health departments complied with *JEMCO 2012-MT-5*, requiring adequate funding in 2016 for MDR TB/TB prevention and control, leprosy



elimination, and the reduction of recurring diabetes-related hospitalizations. The resolution ensures that Pohnpei and Chuuk continue the important activities begun in the current fiscal year and enjoins Kosrae and Yap to improve their prevention and management efforts as well.

**Compact Funding of Medical Referral Operations in Honolulu:** The budgets of the four health departments complied with *JEMCO 2012-MT-6*, a resolution that excludes operating costs for Honolulu-based medical referral coordination and patient housing from Compact funding support.

### **Health Budgets in Jeopardy**

The annual reduction in available financial assistance for the Compact's six sectors has a profound effect on health care delivery. Although health continues to be second only to education as a priority for Compact support, allocations for all four FSM state health departments have flat-lined or declined. The smaller budgets have created an unintended result; that is, the need to cover personnel expenses and rapidly rising utility costs have "crowded out" other important recurring needs such as housekeeping and facilities maintenance, POL, interisland travel by mobile teams, and medical equipment. Staff development and continuing education, both critical elements in maintaining a competent health workforce, have virtually disappeared from state budgets.

This trend of budget decline, congestion, and ad hoc cuts will continue unabated until the states find workable alternatives to offset the loss of Compact dollars and the health departments earnestly implement programs that trim inefficient and ineffective activities and raise fees for service.

The Compact still finances nearly 100 percent of the operating budgets of the four FSM states. Ironically, Pohnpei is the only state that appropriates general funds to its health department, yet its health budget has been the most volatile and lacking in all the FSM. Because the FSM relies almost completely on Compact assistance for its health services, and has not yet committed additional, locally-raised resources, the FSM has not been able to fully address its healthcare needs.

Sustaining improvements and the status quo is difficult enough but the biggest challenge that the states will face in 2018 and onward is the deterioration in the quality, not the quantity of basic health programs and services.

### Public Infrastructure

Approximately \$322 million of Compact Public Sector Infrastructure assistance has been made available to the FSM from October 2003 to present. To-date, \$148 million has been obligated for project construction and construction administration and management. Approximately \$174 million remains unobligated under the Infrastructure sector.

The FSM National Government's Infrastructure Program Management Unit (PMU) has not been established according to the FSM's commitments stated in the FSM Infrastructure Development Plan 2016-2025.

The main obstacle to steady implementation of the infrastructure sector is the refusal of the FSM to establish professional management and oversight of the \$24 million per year program on an ongoing basis.

#### Public Sector Capacity Building

In 2017, the FSM received \$2 million for the capacity building sector. Fiscal year 2017 continued the articulation regarding the uses of funding started in 2013. Clear deliverables and activities are specified in program-oriented proposals. The FSM has not yet developed a medium-term plan to guide how the sector grant may be optimally utilized in order to achieve measurable public sector capacity building gains.

#### Environment

In 2017, the FSM received an allocation of approximately \$1.8 million for its environment sector. Each State received funding for an Environmental Protection Agency or similar agency with a like mission. Financial assistance also supported marine and forestry conservation efforts. Public education programs were a part of all programs funded under this sector. The lack of national goals for the environment sector continued to hamper the evaluation of performance progress.

#### Private Sector Development

In 2017, the FSM received an allocation of \$1.7 million for its private sector development sector grant. This amount funded the basic operations of a number of different agencies to increase tourism, promote agriculture, and support small businesses. The lack of national goals for the private sector development sector grant continued to hamper the evaluation of performance progress.

#### Enhanced Reporting and Accountability

In 2017, the FSM received a grant of \$1.6 million for the sector entitled "Enhanced Reporting and Accountability." This sector is intended to address the additional complexities and costs of compliance inherent in the Compact, as amended, specifically those related to budgeting, financial accountability, and expanded financial and performance reporting requirements.

Priorities are given to achieving and maintaining full and timely compliance with Articles V and VI of this Agreement, the development and operation of a Financial Management Information System that is capable of accurately and efficiently accounting for and reporting on the use of Compact and all other funds available to the national and state governments of the Federated States of Micronesia; the

development and operation of a performance-based budgeting and reporting system for the planned use and expenditure of Compact and all other funds available to each of the national and state governments of the Federated States of Micronesia; and including the development and operation of financial management procedures, practices and internal controls that ensure timely revenue collections, accurate and timely payments, and accurate and timely submission of all required quarterly and annual reports by each of the national and state governments of the Federated States of Micronesia.

## ii. Fiscal Year 2017 Allocations for the RMI

The following is a breakdown of grant allocations to the RMI by sector and Compact of Free Association, Section 211, 212, and 216-mandated funding:

| <b>Sector</b>                          | <b>Funds Allocated</b> |
|--|------------------------|
| Education                              | \$11,080,756           |
| Health                                 | \$7,170,120            |
| Infrastructure                         | \$9,131,950            |
| Environment                            | \$319,220              |
| Ebeye Special Needs                    | \$5,074,009            |
| Kwajalein Environmental Impact         | \$237,820              |
| RMI Trust Fund (Section 216)           | \$16,052,850           |
| Kwajalein Landowner Payments (Sec 216) | \$21,403,800           |
| Disaster Assistance Emergency Fund     | \$237,820              |
| RMI Single Audit (Section 212)         | \$500,000              |
| Kwajalein Impact Fund                  | \$3,605,355            |
| <b>Total</b>                           | <b>\$74,813,700</b>    |

### Education

The RMI continues to utilize Compact education sector funds to make progress in meeting the following education goals:

1. Improve curriculum at all levels.
2. Improve effectiveness of staff and teachers.
3. Improve student performance and learning outcomes.
4. Implement infrastructure development and maintenance plan.
5. Supplement special educational needs of Ebeye.
6. Provide financial assistance to post-secondary students.
7. Improve performance of the College of the Marshall Islands.

Funding from the Compact, Ebeye Special Needs (ESN), Supplemental Education Grants, and Special Education funds from the US Department of Education fund 75 percent of RMI's education system. In School Year 2015-2016, over 15,000 students were enrolled in 95 elementary and 16 secondary schools

including non-public schools which receive financial assistance from the Ministry of Education (MOE). Many of these schools are located on remote atolls over 200 miles from the population centers and accessible only by ship. The geographic isolation of these schools, lack of resources and access to technology, and a limited pool of qualified human resources are major impediments to providing quality education service. As Compact assistance continues to decline in real value, MOE will face even greater challenges to improve education service delivery.

Lack of credentialed teachers and low student achievement continue to be associated and persistent problems. About 35 percent of RMI's teachers still possess only a high school degree. Over the past five years, the RMI has allocated over \$3 million dollars to upgrade its teachers' credentials. Despite this significant investment, the percentage of teachers with only a high school degree has remained roughly the same due to high turnover rates. Many teachers leave for higher paying government jobs once they have received a college degree. As more teachers receive college degrees and a commensurate increase in their salary, personnel costs will rise to unsustainable levels if there is no contribution of additional resources to MOE's budget. The RMI has recently provided additional resources from its General Fund to further support its education system.

Under new leadership, the MOE has set the following actions to improve education outcomes in the RMI:

1. Achieve an annual 5 percent improvement in student performance and in student and teacher attendance levels for every school.
2. Have all students able to read in both English and Marshallese by third grade.
3. Provide vocational and other life skills for students not able to enter high school and college.
4. Establish a new school accreditation system.

### Health

For 2017, the Ministry of Health identified adequate resources for the three special initiatives required by JEMFAC; that is, the continuation of leprosy elimination and MDR TB prevention and management activities, and the institution of steps to reduce recurring diabetes-related hospitalizations.

The Ministry of Health combined a number of revenue resources in developing its global budget. The proposed level of Compact financial assistance in 2017 represents 37 percent of the total budget. A third of the Ministry's annual budget comes from two special revolving accounts allotted to the Ministry by law. The general fund contributes 16 percent.

General funds and Compact financial assistance are the Ministry's only two flexible resources. The remaining budgetary inputs have predetermined uses. Because the Compact's annual decrements are unavoidable and will erode in terms of real value in the future, it behooves the Ministry to maintain fiscal discipline, raise fees for service where appropriate, and institute efficiency and effectiveness measures within its authority. These steps are essential to counteract declining funding for health.

### Public Infrastructure

The RMI allocated reserved \$9.1 million for infrastructure improvements and maintenance in 2017. The RMI consistently adheres with the Amended Compacts' policy that at least 30 percent of all annual United States Compact financial assistance made available through Section 211 of the Amended Compact be directed toward infrastructure development. To guide project selection, the RMI is updating its comprehensive Infrastructure Development and Maintenance Program (IDMP) with complete project descriptions, timelines, financial requirements and measurable project indicators.

#### Environment

In 2017, the RMI received an allocation of \$237,820 for Kwajalein Environmental Impact. This amount is used to support the RMI Environmental Protection Agency (EPA) activities and programs on Ebeye. The RMI also received \$319,220 to support capital needs for the Majuro Atoll Waste Corporation.

5.

| <b>Account: Compact of Free Association (Permanent and Indefinite)</b> |                        |                |  |                                      |                           |   |
|--|------------------------|----------------|--|--------------------------------------|---------------------------|---|
| <b>Activity: Compact Impact \$(000)</b>                                |                        |                |  |                                      |                           |   |
|  | <b>2016<br/>Actual</b> | <b>2017 CR</b> | <b>2018</b>  |                                      |                           | <b>Change<br/>from<br/>2017<br/>(+/-)</b> |
|  |                        |                | <b>Fixed<br/>Costs &amp;<br/>Related<br/>Changes<br/>(+/-)</b> | <b>Program<br/>Changes<br/>(+/-)</b> | <b>Budget<br/>Request</b> |   |
| Hawaii   | 12,762                 | 12,610         | 0  | 0                                    | 12,762                    | 0   |
| Guam   | 14,907                 | 14,729         | 0  | 0                                    | 14,907                    | 0   |
| CNMI   | 2,309                  | 2,282          | 0  | 0                                    | 2,309                     | 0   |
| American<br>Samoa  | 22                     | 21             | 0  | 0                                    | 22                        | 0   |
| Census   | 0                      | 357            | 0  | 0                                    | 0                         | 0   |
| <b>Total</b>   | <b>30,000</b>          | <b>30,000</b>  | <b>0</b>   | <b>0</b>                             | <b>30,000</b>             | <b>0</b>                                  |
| FTEs   | 0                      | 0              | 0  | 0                                    | 0                         | 0   |

## PROGRAM OVERVIEW

Section 104 (e) of Title One of the amended Compacts of Free Association describes the financial assistance committed by the United States to the State of Hawaii, Guam, the Commonwealth of the Northern Mariana Islands and American Samoa. The goal of this financial support is to provide through 2023, \$30.0 million in grants to affected jurisdictions to aid in defraying costs incurred as a result of increased demands placed on health, educational, social, or public safety services, or infrastructure related to such services, due to the residence of qualified nonimmigrants from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau.

The \$30.0 million distribution is based on a ratio allocation to the government of each affected jurisdiction on the basis of the results of the most recent enumeration. At a minimum, enumerations will be conducted every five years. The next enumeration will be completed in 2018 by the U.S. Census Bureau and the results will be used to determine the distribution of the \$30.0 million beginning in 2019. This allocation is in accordance with the provision in Section 104(e)(5) of Title One of the amended Compacts of Free Association.

**2018 PROGRAM PERFORMANCE**

The following 2017 grants will be made to each eligible jurisdiction based on the population of qualified migrants:

- Hawaii: \$12,610,392
- Guam: \$14,729,281
- CNMI: \$ 2,281,880
- American Samoa: \$ 21,446

Compact Impact grant assistance may be used only for health, educational, social, or public safety services, or infrastructure related to such services, specifically affected by qualified nonimmigrants. Each jurisdiction is to provide a spending plan to the Office of Insular Affairs (OIA) for the use of the funds prior to the awarding of the grant. The 2017 spending plans follow:

The State of Hawaii is expected to use the full 2017 amount of its \$12.6 million to supplement state funds to support indigent health care as in past years.

Guam has proposed to use its 2017 Compact Impact grant of \$14.7 million in the following manner:

- DOE/DPW Schools Leaseback \$6,665,250
- Government of Guam General Operations Offset \$8,064,031

The CNMI has proposed to use its 2017 Compact Impact grant of \$2.3 million in the following manner:

- Department of Public Health Operations Offset \$ 919,916
- Division of Youth Services Operations Offset \$ 32,917
- Division of Public Safety Operations Offset \$ 423,029
- Department of Corrections Operations Offset \$ 205,249
- Office of Public Defender Operations Offset \$ 29,631
- Northern Marianas College Operations Offset \$ 74,187
- Public School System Operations Offset \$ 221,603
- Karidat Operations Offset \$ 53,637
- Judiciary Operations Offset \$ 149,686
- Department of Fire and Emergency Services \$ 172,025

American Samoa has proposed to use its 2017 Compact Impact grant of \$21,446 as an operational offset for the American Samoa Department of Education operations budget.

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## IV. Miscellaneous Schedules

### Assistance to Territories

| Line Title   | Line | 2016 Act | 2017 CR | 2018 |
|--|------|----------|---------|------|
| Combined Schedule (X)                                  |      |          |         |      |
| Obligations by program activity:                       |      |          |         |      |
| Office of Insular Affairs                              | 0009 | 9        | 9       | 9    |
| Technical assistance                                   | 0010 | 18       | 16      | 15   |
| Coral reef initiative                                  | 0015 | 1        | 1       | 1    |
| Maintenance assistance fund                            | 0017 | 1        | 1       | 1    |
| American Samoa operations grants                       | 0018 | 23       | 23      | 22   |
| Brown Treesnake  | 0019 | 4        | 3       | 3    |
| Empowering Insular Communities                         | 0021 | 3        | 3       | 3    |
| Compact Impact Discretionary                           | 0031 | 5        | 3       | 0    |
| Direct subtotal, discretionary                         | 0091 | 64       | 59      | 54   |
| Covenant grants, mandatory                             | 0101 | 31       | 28      | 28   |
| Total new obligations, unexpired accounts              | 0900 | 95       | 87      | 82   |
| Budgetary resources:                                   |      |          |         |      |
| Unobligated balance:                                   |      |          |         |      |
| Unobligated balance brought forward, Oct 1             | 1000 | 8        | 4       | 12   |
| Discretionary unobligated balance brought fwd, Oct 1   | 1001 | 5        | 2       |      |
| Recoveries of prior year unpaid obligations            | 1021 | 4        | 8       | 8    |
| Unobligated balance (total)                            | 1050 | 12       | 12      | 20   |
| Budget authority:                                      |      |          |         |      |
| Appropriations, discretionary:                         |      |          |         |      |
| Appropriation  | 1100 | 59       | 59      | 53   |
| Appropriations, mandatory:                             |      |          |         |      |
| Appropriation  | 1200 | 28       | 28      | 28   |
| Budget authority (total)                               | 1900 | 87       | 87      | 81   |
| Total budgetary resources available                    | 1930 | 99       | 99      | 101  |
| Memorandum (non-add) entries:                          |      |          |         |      |
| Unexpired unobligated balance, end of year             | 1941 | 4        | 12      | 19   |
| Change in obligated balance:                           |      |          |         |      |
| Unpaid obligations:                                    |      |          |         |      |
| Unpaid obligations, brought forward, Oct 1             | 3000 | 165      | 136     | 111  |
| New obligations, unexpired accounts                    | 3010 | 95       | 87      | 82   |
| Outlays (gross)  | 3020 | -120     | -104    | -94  |
| Recoveries of prior year unpaid obligations, unexpired | 3040 | -4       | -8      | -8   |
| Unpaid obligations, end of year                        | 3050 | 136      | 111     | 91   |
| Uncollected payments:                                  |      |          |         |      |
| Uncollected pymts, Fed sources, brought forward, Oct 1 | 3060 | -1       | -1      | -1   |
| Uncollected pymts, Fed sources, end of year            | 3090 | -1       | -1      | -1   |
| Memorandum (non-add) entries:                          |      |          |         |      |
| Obligated balance, start of year                       | 3100 | 164      | 135     | 110  |
| Obligated balance, end of year                         | 3200 | 135      | 110     | 90   |

## Budget authority and outlays, net:

|  |      |     |     |    |
|--|------|-----|-----|----|
| Discretionary:                           |      |     |     |    |
| Budget authority, gross                  | 4000 | 59  | 59  | 53 |
| Outlays, gross:                          |      |     |     |    |
| Outlays from new discretionary authority | 4010 | 35  | 41  | 37 |
| Outlays from discretionary balances      | 4011 | 27  | 32  | 29 |
| Outlays, gross (total)                   | 4020 | 62  | 73  | 66 |
| Mandatory:                               |      |     |     |    |
| Budget authority, gross                  | 4090 | 28  | 28  | 28 |
| Outlays, gross:                          |      |     |     |    |
| Outlays from new mandatory authority     | 4100 | 4   | 1   | 1  |
| Outlays from mandatory balances          | 4101 | 54  | 30  | 27 |
| Outlays, gross (total)                   | 4110 | 58  | 31  | 28 |
| Budget authority, net (total)            | 4180 | 87  | 87  | 81 |
| Outlays, net (total)                     | 4190 | 120 | 104 | 94 |

## Object Classification (O)

## Direct obligations:

|   |      |    |    |    |
|---|------|----|----|----|
| Personnel compensation:                       |      |    |    |    |
| Full-time permanent                           | 11.1 | 4  | 4  | 4  |
| Civilian personnel benefits                   | 12.1 | 1  | 1  | 1  |
| Travel and transportation of persons          | 21.0 | 1  | 1  | 1  |
| Other services from non-Federal sources       | 25.2 | 2  | 2  | 2  |
| Other goods and services from Federal sources | 25.3 | 10 | 10 | 10 |
| Grants, subsidies, and contributions          | 41.0 | 77 | 69 | 64 |
| Total new obligations, unexpired accounts     | 99.9 | 95 | 87 | 82 |

## Compact of Free Association

| Line Title                                       | Line | 2016 Act | 2017 CR | 2018 |
|--|------|----------|---------|------|
| Combined Schedule (X)                            |      |          |         |      |
| Obligations by program activity:                 |      |          |         |      |
| Federal services assistance                      | 0001 | 3        | 3       | 3    |
| Enewetak   | 0002 | 1        | 1       | 1    |
| Palau Compact                                    | 0003 | 0        | 0       | 45   |
| Direct program activities, subtotal              | 0091 | 4        | 4       | 49   |
| Palau Compact Extension, mandatory               | 0101 | 13       | 13      | 0    |
| Subtotal   | 0192 | 17       | 17      | 49   |
| Assistance to the Marshall Islands               | 0201 | 83       | 76      | 77   |
| Assistance to the Federated States of Micronesia | 0202 | 95       | 110     | 112  |
| Compact Impact                                   | 0204 | 30       | 30      | 30   |
| Judicial Training/FEMA                           | 0205 | 1        | 1       | 1    |
| Subtotal, permanent indefinite                   | 0291 | 209      | 217     | 220  |
| Total direct obligations                         | 0799 | 226      | 234     | 269  |
| Compact of Free Association (Reimbursable)       | 0801 | 17       | 17      | 17   |
| Total new obligations, unexpired accounts        | 0900 | 243      | 251     | 286  |

## Budgetary resources:

|   |      |     |     |     |
|---|------|-----|-----|-----|
| Unobligated balance:                        |      |     |     |     |
| Unobligated balance brought forward, Oct 1  | 1000 | 180 | 209 | 221 |
| Recoveries of prior year unpaid obligations | 1021 | 25  | 13  | 13  |
| Unobligated balance (total)                 | 1050 | 205 | 222 | 234 |

|  |      |      |      |      |
|--|------|------|------|------|
| Budget authority:  |      |      |      |      |
| Appropriations, discretionary:                                 |      |      |      |      |
| Appropriation  | 1100 | 3    | 16   | 3    |
| Appropriations transferred from other acct [097-0100]          | 1121 | 0    | 0    | 124  |
| Appropriation, discretionary (total)                           | 1160 | 3    | 16   | 127  |
| Appropriations, mandatory:                                     |      |      |      |      |
| Appropriation  | 1200 | 227  | 217  | 220  |
| Spending authority from offsetting collections, discretionary: |      |      |      |      |
| Collected  | 1700 | 17   | 17   | 17   |
| Budget authority (total)                                       | 1900 | 247  | 250  | 364  |
| Total budgetary resources available                            | 1930 | 452  | 472  | 598  |
| Memorandum (non-add) entries:                                  |      |      |      |      |
| Unexpired unobligated balance, end of year                     | 1941 | 209  | 221  | 312  |
| Change in obligated balance:                                   |      |      |      |      |
| Unpaid obligations:  |      |      |      |      |
| Unpaid obligations, brought forward, Oct 1                     | 3000 | 80   | 76   | 76   |
| New obligations, unexpired accounts                            | 3010 | 243  | 251  | 286  |
| Obligations ("upward adjustments"), expired accounts           | 3011 | 2    | 0    | 0    |
| Outlays (gross)  | 3020 | -223 | -238 | -270 |
| Recoveries of prior year unpaid obligations, unexpired         | 3040 | -25  | -13  | -13  |
| Recoveries of prior year unpaid obligations, expired           | 3041 | -1   | 0    | 0    |
| Unpaid obligations, end of year                                | 3050 | 76   | 76   | 79   |
| Memorandum (non-add) entries:                                  |      |      |      |      |
| Obligated balance, start of year                               | 3100 | 80   | 76   | 76   |
| Obligated balance, end of year                                 | 3200 | 76   | 76   | 79   |
| Budget authority and outlays, net:                             |      |      |      |      |
| Discretionary:   |      |      |      |      |
| Budget authority, gross  | 4000 | 20   | 33   | 144  |
| Outlays, gross:  |      |      |      |      |
| Outlays from new discretionary authority                       | 4010 | 3    | 18   | 50   |
| Outlays from discretionary balances                            | 4011 | 16   | 16   | 16   |
| Outlays, gross (total)   | 4020 | 19   | 34   | 66   |
| Offsets against gross budget authority and outlays:            |      |      |      |      |
| Offsetting collections (collected) from:                       |      |      |      |      |
| Federal sources  | 4030 | -17  | -17  | -17  |
| Non-Federal sources  | 4033 | -1   | 0    | 0    |
| Offsets against gross budget authority and outlays (total)     | 4040 | -18  | -17  | -17  |
| Additional offsets against gross budget authority only:        |      |      |      |      |
| Offsetting collections credited to expired accounts            | 4052 | 1    | 0    | 0    |
| Additional offsets against budget authority only (total)       | 4060 | 1    | 0    | 0    |
| Budget authority, net (discretionary)                          | 4070 | 3    | 16   | 127  |
| Outlays, net (discretionary)                                   | 4080 | 1    | 17   | 49   |
| Mandatory:   |      |      |      |      |
| Budget authority, gross  | 4090 | 227  | 217  | 220  |
| Outlays, gross:  |      |      |      |      |
| Outlays from new mandatory authority                           | 4100 | 87   | 87   | 88   |
| Outlays from mandatory balances                                | 4101 | 117  | 117  | 116  |
| Outlays, gross (total)   | 4110 | 204  | 204  | 204  |
| Budget authority, net (total)                                  | 4180 | 230  | 233  | 347  |

|   |      |     |     |     |
|---|------|-----|-----|-----|
| Other goods and services from Federal sources | 25.3 | 3   | 3   | 3   |
| Grants, subsidies, and contributions          | 99.0 | 223 | 231 | 266 |
| Subtotal, obligations, Direct obligations     | 99.0 | 226 | 234 | 269 |

## Reimbursable obligations:

|   |      |     |     |     |
|---|------|-----|-----|-----|
| Grants, subsidies, and contributions      | 41.0 | 17  | 17  | 17  |
| Total new obligations, unexpired accounts | 99.9 | 243 | 251 | 286 |

## Payments to the United States Territories, Fiscal Assistance

| Line Title  | Line | 2016 Act | 2017 CR | 2018 |
|---|------|----------|---------|------|
| Combined Schedule (X)   |      |          |         |      |
| Obligations by program activity:  |      |          |         |      |
| Advance payments to Guam of estimated U.S. income tax collections               | 0001 | 79       | 79      | 79   |
| Advance payments to the Virgin Islands of estimated U.S. excise tax collections | 0002 | 212      | 209     | 209  |
| Total new obligations (object class 41.0)                                       | 0900 | 291      | 288     | 288  |
| Budget authority:   |      |          |         |      |
| Appropriations, mandatory:  |      |          |         |      |
| Appropriation   | 1200 | 291      | 288     | 288  |
| Appropriations, mandatory (total)   | 1260 | 291      | 288     | 288  |
| Total budgetary resources available   | 1930 | 291      | 288     | 288  |
| Change in obligated balance:  |      |          |         |      |
| Unpaid obligations:   |      |          |         |      |
| New obligations, unexpired accounts   | 3010 | 291      | 288     | 288  |
| Outlays (gross)   | 3020 | -291     | -288    | -288 |
| Budget authority and outlays, net:  |      |          |         |      |
| Mandatory:  |      |          |         |      |
| Budget authority, gross   | 4090 | 291      | 288     | 288  |
| Outlays, gross:   |      |          |         |      |
| Outlays from new mandatory authority  | 4100 | 291      | 288     | 288  |
| Budget authority, net (total)   | 4180 | 291      | 288     | 288  |
| Outlays, net (total)  | 4190 | 291      | 288     | 288  |
| Object Classification (O)   |      |          |         |      |
| Direct obligations:   |      |          |         |      |
| Grants, subsidies, and contributions  | 41.0 | 291      | 288     | 288  |

## Assistance to American Samoa Direct Loan Financing Account

| Line Title   | Line | 2016 Act | 2017 CR | 2018 |
|--|------|----------|---------|------|
| Combined Schedule (X)                                      |      |          |         |      |
| Obligations by program activity:                           |      |          |         |      |
| Credit program obligations:                                |      |          |         |      |
| Payment of interest to Treasury                            | 0713 | 1        | 1       | 1    |
| Total new obligations, unexpired accounts                  | 0900 | 1        | 1       | 1    |
| Budgetary resources:                                       |      |          |         |      |
| Financing authority:                                       |      |          |         |      |
| Spending authority from offsetting collections, mandatory: |      |          |         |      |
| Collected  | 1800 | 1        | 1       | 1    |
| Total budgetary resources available                        | 1930 | 1        | 1       | 1    |

|  |      |    |    |    |
|--|------|----|----|----|
| Change in obligated balance:                                 |      |    |    |    |
| Unpaid obligations:  |      |    |    |    |
| Unpaid obligations, brought forward, Oct 1                   | 3000 | 0  | 0  | 1  |
| New obligations, unexpired accounts                          | 3010 | 1  | 1  | 1  |
| Outlays (gross)  | 3020 | -1 | 0  | 0  |
| Unpaid obligations, end of year                              | 3050 | 0  | 1  | 2  |
| Memorandum (non-add) entries:                                |      |    |    |    |
| Obligated balance, start of year                             | 3100 | 0  | 0  | 1  |
| Obligated balance, end of year                               | 3200 | 0  | 1  | 2  |
| Financing authority and disbursements, net:                  |      |    |    |    |
| Mandatory:   |      |    |    |    |
| Budget authority, gross                                      | 4090 | 1  | 1  | 1  |
| Financing disbursements:                                     |      |    |    |    |
| Outlays, gross (total)                                       | 4110 | 1  | 0  | 0  |
| Offsets against gross financing authority and disbursements: |      |    |    |    |
| Offsetting collections (collected) from:                     |      |    |    |    |
| Non-Federal sources - interest payments fr. Am. Samoa        | 4123 | -1 | -1 | -1 |
| Budget authority, net (total)                                | 4180 | 0  | 0  | 0  |
| Outlays, net (total)   | 4190 | 0  | -1 | -1 |

Historical Table

**U.S. DEPARTMENT OF THE INTERIOR  
OFFICE OF INSULAR AFFAIRS  
COMPACT OF FREE ASSOCIATION (PL 99-239)  
MARSHALL ISLANDS AND FEDERATED STATES OF MICRONESIA  
Estimated Payments 1987 - 2003  
\$\$ in 000s**

|   | FY 1987        | FY 1988        | FY 1989        | FY 1990        | FY 1991        | FY 1992        | FY 1993        | FY 1994        | FY 1995        | FY 1996        | FY 1997        | FY 1998        | FY 1999        | FY 2000        | FY 2001        | TOTALS           | FY 2002        | FY 2003        |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|----------------|----------------|
| <b>Republic of Marshall Islands (RMI)</b>   |                |                |                |                |                |                |                |                |                |                |                |                |                |                |                |                  |                |                |
| S.211 Capital and Current                   | 26,100         | 26,100         | 26,100         | 26,100         | 26,100         | 22,100         | 22,460         | 22,460         | 22,100         | 22,100         | 19,100         | 19,100         | 19,100         | 19,100         | 19,100         | 337,220          | 22,433         | 22,433         |
| S.217 Inflation                             | 6,468          | 6,816          | 7,668          | 8,520          | 9,656          | 9,272          | 10,004         | 10,736         | 11,224         | 11,712         | 10,700         | 11,342         | 11,342         | 11,556         | 11,984         | 149,000          | 14,384         | 14,384         |
| S.213 Kwajalein Impact                      | 1,900          | 1,900          | 1,900          | 1,900          | 1,900          | 1,900          | 1,900          | 1,900          | 1,900          | 1,900          | 1,900          | 1,900          | 1,900          | 1,900          | 1,900          | 28,500           | 1,900          | 1,900          |
| S.214 Energy Production                     | 0              | 2,000          | 2,000          | 2,000          | 2,000          | 2,000          | 2,000          | 2,000          | 2,000          | 2,000          | 2,000          | 2,000          | 2,000          | 2,000          | 2,000          | 28,000           | 1,867          | 1,867          |
| S.215 Communications O&M                    | 300            | 300            | 300            | 300            | 300            | 300            | 300            | 300            | 300            | 300            | 300            | 300            | 300            | 300            | 300            | 4,500            | 300            | 300            |
| S.215 Communications Hardware               | 3,000          | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 3,000            | 200            | 200            |
| S.111 Tax & Trade Compensation              | 0              | 6,000          | 0              | 4,000          | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 10,000           | 0              | 0              |
| S.216 Maritime Surveillance/ Med. Ref./ S   | 2,367          | 1,700          | 1,700          | 1,700          | 1,700          | 1,700          | 1,700          | 1,700          | 1,700          | 1,700          | 1,700          | 1,700          | 1,700          | 1,700          | 1,700          | 26,167           | 1,744          | 1,744          |
| Subtotal                                    | 40,135         | 44,816         | 39,668         | 44,520         | 41,656         | 37,272         | 38,364         | 39,096         | 39,224         | 39,712         | 35,700         | 36,342         | 36,342         | 36,556         | 36,984         | 586,387          | 42,828         | 42,828         |
| S.221 Health & Ed. Block Grant              | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 45,000           | 3,000          | 3,000          |
| Military Use and Operating Rights G         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0                | 2,500          | 0              |
| Enewetak Operations                         | 900            | 1,100          | 1,100          | 1,100          | 1,094          | 1,094          | 1,091          | 1,091          | 1,089          | 1,091          | 1,091          | 1,191          | 1,576          | 1,191          | 1,388          | 17,187           | 1,391          | 1,620          |
| Rongelap Resettlement                       | 0              | 0              | 0              | 0              | 0              | 1,975          | 1,983          | 1,983          | 6,979          | 0              | 24,020         | 0              | 0              | 0              | 0              | 36,940           | 0              | 0              |
| Enjebi                                      | 5,000          | 2,500          | 2,500          | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 10,000           | 0              | 0              |
| Bikini Resettlement                         | 0              | 2,300          | 5,000          | 22,000         | 21,000         | 21,000         | 21,000         | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 92,300           | 0              | 0              |
| Section 177 (Nuclear Claims)                | 150,000        | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 150,000          | 0              | 0              |
| Other Construction                          | 0              | 400            | 1,000          | 2,000          | 1,989          | 0              | 0              | 1,000          | 499            | 0              | 0              | 0              | 0              | 0              | 0              | 6,888            | 0              | 0              |
| <b>TOTAL - RMI</b>                          | <b>199,035</b> | <b>54,116</b>  | <b>52,268</b>  | <b>72,620</b>  | <b>68,739</b>  | <b>64,341</b>  | <b>65,438</b>  | <b>46,170</b>  | <b>50,791</b>  | <b>43,803</b>  | <b>63,811</b>  | <b>40,533</b>  | <b>40,918</b>  | <b>40,747</b>  | <b>41,372</b>  | <b>944,702</b>   | <b>49,719</b>  | <b>47,448</b>  |
| <b>Federated States of Micronesia (FSM)</b> |                |                |                |                |                |                |                |                |                |                |                |                |                |                |                |                  |                |                |
| S.211 Capital and Current                   | 60,000         | 60,000         | 60,000         | 60,000         | 60,000         | 51,000         | 51,000         | 51,000         | 51,000         | 51,000         | 40,000         | 40,000         | 40,000         | 40,000         | 40,000         | 755,000          | 50,333         | 50,333         |
| S.217 Inflation                             | 14,652         | 15,504         | 17,442         | 19,380         | 21,964         | 21,128         | 22,797         | 24,464         | 25,576         | 26,688         | 22,300         | 23,638         | 23,638         | 24,084         | 24,976         | 328,231          | 31,940         | 31,939         |
| S.214 Energy Production                     | 0              | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 3,000          | 42,000           | 2,800          | 2,800          |
| S.215 Communications O&M                    | 600            | 600            | 600            | 600            | 600            | 600            | 600            | 600            | 600            | 600            | 600            | 600            | 600            | 600            | 600            | 9,000            | 600            | 600            |
| S.215 Communications Hardware               | 6,000          | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 6,000            | 400            | 400            |
| S.213 Yap Impact                            | 160            | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 160              | 11             | 11             |
| S.111 Tax & Trade Compensation              | 0              | 12,000         | 0              | 8,000          | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 20,000           | 0              | 0              |
| S.216 Maritime/Med. Ref./Scholarships       | 4,335          | 3,669          | 3,669          | 3,669          | 3,669          | 3,669          | 3,669          | 3,669          | 3,669          | 3,669          | 3,669          | 3,669          | 3,669          | 3,669          | 3,669          | 55,701           | 3,713          | 3,713          |
| S.212 Civic Action Teams                    | 0              | 1,000          | 1,000          | 1,000          | 1,000          | 1,000          | 1,000          | 1,000          | 1,000          | 1,000          | 1,000          | 1,000          | 1,000          | 1,000          | 1,000          | 14,000           | 933            | 933            |
| Other Construction                          | 0              | 0              | 0              | 0              | 3,979          | 3,950          | 0              | 500            | 1,497          | 0              | 0              | 0              | 0              | 0              | 0              | 9,926            | 0              | 0              |
| Subtotal, permanent (FSM)                   | 85,747         | 95,773         | 85,711         | 95,649         | 94,212         | 84,347         | 82,066         | 84,233         | 86,342         | 85,957         | 70,569         | 71,907         | 71,907         | 72,353         | 73,245         | 1,240,018        | 90,730         | 90,729         |
| S.221 Health & Ed. Block Grant              | 7,000          | 7,000          | 7,000          | 7,000          | 7,000          | 7,000          | 7,000          | 7,000          | 7,000          | 7,000          | 7,000          | 7,000          | 7,000          | 7,000          | 7,000          | 105,000          | 7,000          | 7,000          |
| <b>TOTAL - FSM</b>                          | <b>92,747</b>  | <b>102,773</b> | <b>92,711</b>  | <b>102,649</b> | <b>101,212</b> | <b>91,347</b>  | <b>89,066</b>  | <b>91,233</b>  | <b>93,342</b>  | <b>92,957</b>  | <b>77,569</b>  | <b>78,907</b>  | <b>78,907</b>  | <b>79,353</b>  | <b>80,245</b>  | <b>1,345,018</b> | <b>97,730</b>  | <b>97,729</b>  |
| <b>Federal Services - FSM/RMI/Palau</b>     | 18,750         | 17,320         | 12,760         | 10,160         | 7,660          | 7,810          | 7,294          | 7,528          | 6,514          | 6,964          | 6,964          | 7,354          | 7,354          | 7,120          | 7,338          | 138,890          | 7,354          | 7,306          |
| <b>GRAND TOTAL, RMI &amp; FSM</b>           | <b>310,532</b> | <b>174,209</b> | <b>157,739</b> | <b>185,429</b> | <b>177,611</b> | <b>163,498</b> | <b>161,798</b> | <b>144,931</b> | <b>150,647</b> | <b>143,724</b> | <b>148,344</b> | <b>126,794</b> | <b>127,179</b> | <b>127,220</b> | <b>128,955</b> | <b>2,428,610</b> | <b>154,803</b> | <b>152,483</b> |

**FSM-RMI Compact Payment Projections  
2004-2008**

*(In thousands of dollars)*

|   | 2004           |                    |                | 2005           |                    |                | 2006           |                    |                | 2007           |                    |                | 2008           |                    |                | Subtotal<br>2004-2008 |
|---|----------------|--------------------|----------------|----------------|--------------------|----------------|----------------|--------------------|----------------|----------------|--------------------|----------------|----------------|--------------------|----------------|-----------------------|
|   | Base           | Inflation<br>0.00% | Total          | Base           | Inflation<br>2.00% | Total          | Base           | Inflation<br>4.35% | Total          | Base           | Inflation<br>6.68% | Total          | Base           | Inflation<br>8.58% | Total          |                       |
| <b>Federated States of Micronesia</b>         |                |                    |                |                |                    |                |                |                    |                |                |                    |                |                |                    |                |                       |
| Annual Grant Section 211                      | 76,200         | -                  | 76,200         | 76,200         | 1,524              | 77,724         | 76,200         | 3,315              | 79,515         | 75,400         | 5,037              | 80,437         | 74,600         | 6,401              | 81,001         | 394,876               |
| Audit Grant Section 212 (b)                   | 500            | -                  | 500            | 500            | -                  | 500            | 500            | -                  | 500            | 500            | -                  | 500            | 500            | -                  | 500            | 2,500                 |
| Trust Fund Section 215                        | 16,000         | -                  | 16,000         | 16,000         | 320                | 16,320         | 16,000         | 696                | 16,696         | 16,800         | 1,122              | 17,922         | 17,600         | 1,510              | 19,110         | 86,048                |
| <i>Total FSM Compact</i>                      | <u>92,700</u>  | <u>-</u>           | <u>92,700</u>  | <u>92,700</u>  | <u>1,844</u>       | <u>94,544</u>  | <u>92,700</u>  | <u>4,011</u>       | <u>96,711</u>  | <u>92,700</u>  | <u>6,159</u>       | <u>98,859</u>  | <u>92,700</u>  | <u>7,911</u>       | <u>100,611</u> | <u>483,424</u>        |
| <b>Republic of the Marshall Islands</b>       |                |                    |                |                |                    |                |                |                    |                |                |                    |                |                |                    |                |                       |
| Annual Grant Section 211                      | 35,200         | -                  | 35,200         | 34,700         | 694                | 35,394         | 34,200         | 1,488              | 35,688         | 33,700         | 2,251              | 35,951         | 33,200         | 2,849              | 36,049         | 178,281               |
| Audit Grant Section 213 (b)                   | 500            | -                  | 500            | 500            | -                  | 500            | 500            | -                  | 500            | 500            | -                  | 500            | 500            | -                  | 500            | 2,500                 |
| Trust Fund Section 216 (a&c)                  | 7,000          | -                  | 7,000          | 7,500          | 150                | 7,650          | 8,000          | 348                | 8,348          | 8,500          | 568                | 9,068          | 9,000          | 772                | 9,772          | 41,838                |
| Kwajalein Impact Section 212                  | 15,000         | -                  | 15,000         | 15,000         | 300                | 15,300         | 15,000         | 653                | 15,653         | 15,000         | 1,002              | 16,002         | 15,000         | 1,287              | 16,287         | 78,242                |
| Rongelap Resettlement Section 103 (f)(4)      | -              | -                  | -              | 1,780          | -                  | 1,780          | 1,760          | -                  | 1,760          | 1,760          | -                  | 1,760          | -              | -                  | -              | 5,300                 |
| Enewetak Section 103 (f)(2)(c)(i)             | 1,300          | -                  | 1,300          | 1,300          | 26                 | 1,326          | 1,300          | 57                 | 1,357          | 1,300          | 87                 | 1,387          | 1,300          | 112                | 1,412          | 6,781                 |
| <i>Total RMI Compact</i>                      | <u>59,000</u>  | <u>-</u>           | <u>59,000</u>  | <u>60,780</u>  | <u>1,170</u>       | <u>61,950</u>  | <u>60,760</u>  | <u>2,545</u>       | <u>63,305</u>  | <u>60,760</u>  | <u>3,908</u>       | <u>64,668</u>  | <u>59,000</u>  | <u>5,019</u>       | <u>64,019</u>  | <u>312,942</u>        |
| <b>Compact-Other</b>                          |                |                    |                |                |                    |                |                |                    |                |                |                    |                |                |                    |                |                       |
| Compact Impact Section 104 (e)                | 30,000         | -                  | 30,000         | 30,000         | -                  | 30,000         | 30,000         | -                  | 30,000         | 30,000         | -                  | 30,000         | 29,700         | (26)               | 29,674         | 149,674               |
| Compact Impact Enumeration Section 104 (e)(4) | -              | -                  | -              | -              | -                  | -              | -              | -                  | -              | -              | -                  | -              | 300            | 26                 | 326            | 326                   |
| Judicial Training                             | 300            | -                  | 300            | 300            | 6                  | 306            | 300            | 13                 | 313            | 300            | 20                 | 320            | 300            | 26                 | 326            | 1,565                 |
| <i>Total Compact-Other</i>                    | <u>30,300</u>  | <u>-</u>           | <u>30,300</u>  | <u>30,300</u>  | <u>6</u>           | <u>30,306</u>  | <u>30,300</u>  | <u>13</u>          | <u>30,313</u>  | <u>30,300</u>  | <u>20</u>          | <u>30,320</u>  | <u>30,300</u>  | <u>26</u>          | <u>30,326</u>  | <u>151,565</u>        |
| <b>GRAND TOTAL</b>                            | <b>182,000</b> | <b>-</b>           | <b>182,000</b> | <b>183,780</b> | <b>3,020</b>       | <b>186,800</b> | <b>183,760</b> | <b>6,569</b>       | <b>190,329</b> | <b>183,760</b> | <b>10,087</b>      | <b>193,847</b> | <b>182,000</b> | <b>12,956</b>      | <b>194,956</b> | <b>947,931</b>        |

**FSM-RMI Compact Payment Projections  
2009-2013**  
*(In thousands of dollars)*

|   | 2009<br>Inflation |               |                | 2010<br>Inflation |               |                | 2011<br>Inflation |               |                | 2012<br>Inflation |               |                | 2013<br>Inflation |               |                | Subtotal<br>2009-2013 |
|---|-------------------|---------------|----------------|-------------------|---------------|----------------|-------------------|---------------|----------------|-------------------|---------------|----------------|-------------------|---------------|----------------|-----------------------|
|   | Base              | 10.51%        | Total          | Base              | 10.94%        | Total          | Base              | 11.97%        | Total          | Base              | 13.40%        | Total          | Base              | 15.71%        | Total          |                       |
| <b>Federated States of Micronesia</b>         |                   |               |                |                   |               |                |                   |               |                |                   |               |                |                   |               |                |                       |
| Annual Grant Section 211                      | 73,800            | 7,756         | 81,556         | 73,000            | 7,986         | 80,986         | 72,200            | 8,642         | 80,842         | 71,400            | 9,568         | 80,968         | 70,600            | 11,091        | 81,691.26      | 406,044               |
| Audit Grant Section 212 (b)                   | 500               | -             | 500            | 500               | -             | 500            | 500               | -             | 500            | 500               | -             | 500            | 500               | -             | 500.00         | 2,500                 |
| Trust Fund Section 215                        | 18,400            | 1,934         | 20,334         | 19,200            | 2,100         | 21,300         | 20,000            | 2,394         | 22,394         | 20,800            | 2,787         | 23,587         | 21,600            | 3,393         | 24,993.36      | 112,609               |
| <i>Total FSM Compact</i>                      | <u>92,700</u>     | <u>9,690</u>  | <u>102,390</u> | <u>92,700</u>     | <u>10,087</u> | <u>102,787</u> | <u>92,700</u>     | <u>11,036</u> | <u>103,736</u> | <u>92,700</u>     | <u>12,355</u> | <u>105,055</u> | <u>92,700</u>     | <u>14,485</u> | <u>107,185</u> | <u>521,153</u>        |
| <b>Republic of the Marshall Islands</b>       |                   |               |                |                   |               |                |                   |               |                |                   |               |                |                   |               |                |                       |
| Annual Grant Section 211                      | 32,700            | 3,437         | 36,137         | 32,200            | 3,523         | 35,723         | 31,700            | 3,794         | 35,494         | 31,200            | 4,181         | 35,381         | 30,700            | 4,823         | 35,523         | 178,258               |
| Audit Grant Section 213 (b)                   | 500               | -             | 500            | 500               | -             | 500            | 500               | -             | 500            | 500               | -             | 500            | 500               | -             | 500            | 2,500                 |
| Trust Fund Section 216 (a&c)                  | 9,500             | 998           | 10,498         | 10,000            | 1,094         | 11,094         | 10,500            | 1,257         | 11,757         | 11,000            | 1,474         | 12,474         | 11,500            | 1,807         | 13,307         | 59,130                |
| Kwajalein Impact Section 212                  | 15,000            | 1,577         | 16,577         | 15,000            | 1,641         | 16,641         | 15,000            | 1,796         | 16,796         | 15,000            | 2,010         | 17,010         | 15,000            | 2,357         | 17,357         | 84,380                |
| Rongelap Resettlement Section 103 (f)(4)      | -                 | -             | -              | -                 | -             | -              | -                 | -             | -              | -                 | -             | -              | -                 | -             | -              | -                     |
| Enewetak Section 103 (f)(2)(c)(i)             | 1,300             | 137           | 1,437          | 1,300             | 142           | 1,442          | 1,300             | 156           | 1,456          | 1,300             | 174           | 1,474          | 1,300             | 204           | 1,504          | 7,313                 |
| <i>Total RMI Compact</i>                      | <u>59,000</u>     | <u>6,148</u>  | <u>65,148</u>  | <u>59,000</u>     | <u>6,400</u>  | <u>65,400</u>  | <u>59,000</u>     | <u>7,002</u>  | <u>66,002</u>  | <u>59,000</u>     | <u>7,839</u>  | <u>66,839</u>  | <u>59,000</u>     | <u>9,190</u>  | <u>68,190</u>  | <u>331,580</u>        |
| <b>Compact-Other</b>                          |                   |               |                |                   |               |                |                   |               |                |                   |               |                |                   |               |                |                       |
| Compact Impact Section 104 (e)                | 30,000            | -             | 30,000         | 30,000            | -             | 30,000         | 30,000            | -             | 30,000         | 30,000            | -             | 30,000         | 29,700            | (47)          | 29,653         | 149,653               |
| Compact Impact Enumeration Section 104 (e)(4) | -                 | -             | -              | -                 | -             | -              | -                 | -             | -              | -                 | -             | -              | 300               | 47            | 347            | 347                   |
| Judicial Training                             | 300               | 32            | 332            | 300               | 33            | 333            | 300               | 36            | 336            | 300               | 40            | 340            | 300               | 47            | 347            | 1,688                 |
| <i>Total Compact-Other</i>                    | <u>30,300</u>     | <u>32</u>     | <u>30,332</u>  | <u>30,300</u>     | <u>33</u>     | <u>30,333</u>  | <u>30,300</u>     | <u>36</u>     | <u>30,336</u>  | <u>30,300</u>     | <u>40</u>     | <u>30,340</u>  | <u>30,300</u>     | <u>47</u>     | <u>30,347</u>  | <u>151,688</u>        |
| <b>GRAND TOTAL</b>                            | <b>182,000</b>    | <b>15,870</b> | <b>197,870</b> | <b>182,000</b>    | <b>16,519</b> | <b>198,519</b> | <b>182,000</b>    | <b>18,075</b> | <b>200,075</b> | <b>182,000</b>    | <b>20,234</b> | <b>202,234</b> | <b>182,000</b>    | <b>23,722</b> | <b>205,722</b> | <b>1,004,420</b>      |



**FSM-RMI Compact Payment Projections  
2014-2018**

*(In thousands of dollars)*

|   | 2014           |                     |                | 2015           |                     |                | 2016           |                     |                | 2017           |                     |                | 2018           |                     |                | Subtotal<br>2014-2018 |
|---|----------------|---------------------|----------------|----------------|---------------------|----------------|----------------|---------------------|----------------|----------------|---------------------|----------------|----------------|---------------------|----------------|-----------------------|
|   | Base           | Inflation<br>16.54% | Total          | Base           | Inflation<br>16.28% | Total          | Base           | Inflation<br>17.87% | Total          | Base           | Inflation<br>18.91% | Total          | Base           | Inflation<br>20.91% | Total          |                       |
| <b>Federated States of Micronesia</b>         |                |                     |                |                |                     |                |                |                     |                |                |                     |                |                |                     |                |                       |
| Annual Grant Section 211                      | 69,800         | 11,545              | 81,345         | 69,000         | 11,233              | 80,233         | 68,200         | 12,187              | 80,387         | 67,400         | 12,745              | 80,145         | 66,600         | 13,926              | 80,526         | 402,637               |
| Audit Grant Section 212 (b)                   | 500            | -                   | 500            | 500            | -                   | 500            | 500            | -                   | 500            | 500            | -                   | 500            | 500            | -                   | 500            | 2,500                 |
| Trust Fund Section 215                        | 22,400         | 3,705               | 26,105         | 23,200         | 3,777               | 26,977         | 24,000         | 4,289               | 28,289         | 24,800         | 4,690               | 29,490         | 25,600         | 5,353               | 30,953         | 141,813               |
| <i>Total FSM Compact</i>                      | <i>92,700</i>  | <i>15,250</i>       | <i>107,950</i> | <i>92,700</i>  | <i>15,010</i>       | <i>107,710</i> | <i>92,700</i>  | <i>16,476</i>       | <i>109,176</i> | <i>92,700</i>  | <i>17,435</i>       | <i>110,135</i> | <i>92,700</i>  | <i>19,279</i>       | <i>111,979</i> | <i>546,950</i>        |
| <b>Republic of the Marshall Islands</b>       |                |                     |                |                |                     |                |                |                     |                |                |                     |                |                |                     |                |                       |
| Annual Grant Section 211                      | 32,200         | 5,326               | 37,526         | 31,700         | 5,161               | 36,861         | 31,200         | 5,575               | 36,775         | 30,700         | 5,805               | 36,505         | 30,200         | 6,315               | 36,515         | 184,182               |
| Audit Grant Section 213 (b)                   | 500            | -                   | 500            | 500            | -                   | 500            | 500            | -                   | 500            | 500            | -                   | 500            | 500            | -                   | 500            | 2,500                 |
| Trust Fund Section 216 (a&c)                  | 12,000         | 1,985               | 13,985         | 12,500         | 2,035               | 14,535         | 13,000         | 2,323               | 15,323         | 13,500         | 2,553               | 16,053         | 14,000         | 2,927               | 16,927         | 76,823                |
| Kwajalein Impact Section 212                  | 18,000         | -                   | 18,000         | 18,000         | 2,930               | 20,930         | 18,000         | 3,217               | 21,217         | 18,000         | 3,404               | 21,404         | 18,000         | 3,764               | 21,764         | 103,315               |
| Rongelap Resettlement Section 103 (f)(4)      | -              | -                   | -              | -              | -                   | -              | -              | -                   | -              | -              | -                   | -              | -              | -                   | -              | -                     |
| Enewetak Section 103 (f)(2)(c)(i)             | 1,300          | 215                 | 1,515          | 1,300          | 212                 | 1,512          | 1,300          | 232                 | 1,532          | 1,300          | 246                 | 1,546          | 1,300          | 272                 | 1,572          | 7,677                 |
| <i>Total RMI Compact</i>                      | <i>64,000</i>  | <i>7,526</i>        | <i>71,526</i>  | <i>64,000</i>  | <i>10,338</i>       | <i>74,338</i>  | <i>64,000</i>  | <i>11,347</i>       | <i>75,347</i>  | <i>64,000</i>  | <i>12,008</i>       | <i>76,008</i>  | <i>64,000</i>  | <i>13,278</i>       | <i>77,278</i>  | <i>374,497</i>        |
| <b>Compact-Other</b>                          |                |                     |                |                |                     |                |                |                     |                |                |                     |                |                |                     |                |                       |
| Compact Impact Section 104 (e)                | 30,000         | -                   | 30,000         | 30,000         | -                   | 30,000         | 30,000         | -                   | 30,000         | 30,000         | -                   | 30,000         | 29,700         | (63)                | 29,637         | 149,637               |
| Compact Impact Enumeration Section 104 (e)(4) | -              | -                   | -              | -              | -                   | -              | -              | -                   | -              | -              | -                   | -              | 300            | 63                  | 363            | 363                   |
| Judicial Training                             | 300            | 50                  | 350            | 300            | 49                  | 349            | 300            | 54                  | 354            | 300            | 57                  | 357            | 300            | 63                  | 363            | 1,772                 |
| <i>Total Compact-Other</i>                    | <i>30,300</i>  | <i>50</i>           | <i>30,350</i>  | <i>30,300</i>  | <i>49</i>           | <i>30,349</i>  | <i>30,300</i>  | <i>54</i>           | <i>30,354</i>  | <i>30,300</i>  | <i>57</i>           | <i>30,357</i>  | <i>30,300</i>  | <i>63</i>           | <i>30,363</i>  | <i>151,772</i>        |
| <b>GRAND TOTAL</b>                            | <b>187,000</b> | <b>22,825</b>       | <b>209,825</b> | <b>187,000</b> | <b>25,397</b>       | <b>212,397</b> | <b>187,000</b> | <b>27,877</b>       | <b>214,877</b> | <b>187,000</b> | <b>29,500</b>       | <b>216,500</b> | <b>187,000</b> | <b>32,620</b>       | <b>219,620</b> | <b>1,073,218</b>      |

**FSM-RMI Compact Payment Projections  
2019-2023**  
*(In thousands of dollars)*

|   | 2019           |                     |                | 2020           |                     |                | 2021           |                     |                | 2022           |                     |                | 2023           |                     |                | Subtotal<br>2019-2023 | Total 2004-<br>2023 |
|---|----------------|---------------------|----------------|----------------|---------------------|----------------|----------------|---------------------|----------------|----------------|---------------------|----------------|----------------|---------------------|----------------|-----------------------|---------------------|
|   | Base           | Inflation<br>22.91% | Total          | Base           | Inflation<br>24.91% | Total          | Base           | Inflation<br>26.91% | Total          | Base           | Inflation<br>28.91% | Total          | Base           | Inflation<br>30.91% | Total          |                       |                     |
| <b>Federated States of Micronesia</b>         |                |                     |                |                |                     |                |                |                     |                |                |                     |                |                |                     |                |                       |                     |
| Annual Grant Section 211                      | 65,800         | 15,075              | 80,875         | 65,000         | 16,192              | 81,192         | 64,200         | 17,276              | 81,476         | 63,400         | 18,329              | 81,729         | 62,600         | 19,350              | 81,950         | 407,221               | 1,610,778           |
| Audit Grant Section 212 (b)                   | 500            | -                   | 500            | 500            | -                   | 500            | 500            | -                   | 500            | 500            | -                   | 500            | 500            | -                   | 500            | 2,500                 | 10,000              |
| Trust Fund Section 215                        | 26,400         | 6,048               | 32,448         | 27,200         | 6,776               | 33,976         | 28,000         | 7,535               | 35,535         | 28,800         | 8,326               | 37,126         | 29,600         | 9,149               | 38,749         | 177,834               | 518,305             |
| <i>Total FSM Compact</i>                      | <i>92,700</i>  | <i>21,123</i>       | <i>113,823</i> | <i>92,700</i>  | <i>22,967</i>       | <i>115,667</i> | <i>92,700</i>  | <i>24,811</i>       | <i>117,511</i> | <i>92,700</i>  | <i>26,655</i>       | <i>119,355</i> | <i>92,700</i>  | <i>28,499</i>       | <i>121,199</i> | <i>587,555</i>        | <i>2,139,082</i>    |
| <b>Republic of the Marshall Islands</b>       |                |                     |                |                |                     |                |                |                     |                |                |                     |                |                |                     |                |                       |                     |
| Annual Grant Section 211                      | 29,700         | 6,804               | 36,504         | 29,200         | 7,274               | 36,474         | 28,700         | 7,723               | 36,423         | 28,200         | 8,153               | 36,353         | 27,700         | 8,562               | 36,262         | 182,016               | 722,737             |
| Audit Grant Section 213 (b)                   | 500            | -                   | 500            | 500            | -                   | 500            | 500            | -                   | 500            | 500            | -                   | 500            | 500            | -                   | 500            | 2,500                 | 10,000              |
| Trust Fund Section 216 (a&c)                  | 14,500         | 3,322               | 17,822         | 15,000         | 3,737               | 18,737         | 15,500         | 4,171               | 19,671         | 16,000         | 4,626               | 20,626         | 16,500         | 5,100               | 21,600         | 98,455                | 276,246             |
| Kwajalein Impact Section 212                  | 18,000         | 4,124               | 22,124         | 18,000         | 4,484               | 22,484         | 18,000         | 4,844               | 22,844         | 18,000         | 5,204               | 23,204         | 18,000         | 5,564               | 23,564         | 114,219               | 380,155             |
| Rongelap Resettlement Section 103 (f)(4)      | -              | -                   | -              | -              | -                   | -              | -              | -                   | -              | -              | -                   | -              | -              | -                   | -              | -                     | 5,300               |
| Enewetak Section 103 (f)(2)(c)(i)             | 1,300          | 298                 | 1,598          | 1,300          | 324                 | 1,624          | 1,300          | 350                 | 1,650          | 1,300          | 376                 | 1,676          | 1,300          | 402                 | 1,702          | 8,249                 | 30,020              |
| <i>Total RMI Compact</i>                      | <i>64,000</i>  | <i>14,548</i>       | <i>78,548</i>  | <i>64,000</i>  | <i>15,818</i>       | <i>79,818</i>  | <i>64,000</i>  | <i>17,088</i>       | <i>81,088</i>  | <i>64,000</i>  | <i>18,358</i>       | <i>82,358</i>  | <i>64,000</i>  | <i>19,628</i>       | <i>83,628</i>  | <i>405,439</i>        | <i>1,424,458</i>    |
| <b>Compact-Other</b>                          |                |                     |                |                |                     |                |                |                     |                |                |                     |                |                |                     |                |                       |                     |
| Compact Impact Section 104 (e)                | 30,000         | -                   | 30,000         | 30,000         | -                   | 30,000         | 30,000         | -                   | 30,000         | 30,000         | -                   | 30,000         | 29,700         | (93)                | 29,607         | 149,607               | 598,572             |
| Compact Impact Enumeration Section 104 (e)(4) | -              | -                   | -              | -              | -                   | -              | -              | -                   | -              | -              | -                   | -              | 300            | 93                  | 393            | 393                   | 1,428               |
| Judicial Training                             | 300            | 69                  | 369            | 300            | 75                  | 375            | 300            | 81                  | 381            | 300            | 87                  | 387            | 300            | 93                  | 393            | 1,904                 | 6,928               |
| <i>Total Compact-Other</i>                    | <i>30,300</i>  | <i>69</i>           | <i>30,369</i>  | <i>30,300</i>  | <i>75</i>           | <i>30,375</i>  | <i>30,300</i>  | <i>81</i>           | <i>30,381</i>  | <i>30,300</i>  | <i>87</i>           | <i>30,387</i>  | <i>30,300</i>  | <i>93</i>           | <i>30,393</i>  | <i>151,904</i>        | <i>606,928</i>      |
| <b>GRAND TOTAL</b>                            | <b>187,000</b> | <b>35,740</b>       | <b>222,740</b> | <b>187,000</b> | <b>38,860</b>       | <b>225,860</b> | <b>187,000</b> | <b>41,980</b>       | <b>228,980</b> | <b>187,000</b> | <b>45,100</b>       | <b>232,100</b> | <b>187,000</b> | <b>48,220</b>       | <b>235,220</b> | <b>1,144,898</b>      | <b>4,170,468</b>    |

U.S. DEPARTMENT OF THE INTERIOR  
 OFFICE OF INSULAR AFFAIRS  
 COMPACT OF FREE ASSOCIATION  
 REPUBLIC OF PALAU  
 Budget Authority 1995 - 2009  
 \$'S IN 000'S

|   | FY<br>1995     | FY<br>1996    | FY<br>1997     | FY<br>1998    | FY<br>1999    | FY<br>2000    | FY<br>2001    | FY<br>2002    | FY<br>2003    | FY<br>2004    | FY<br>2005    | FY<br>2006    | FY<br>2007    | FY<br>2008    | FY<br>2009    | TOTALS         |
|---|----------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| <b>ACTIVITY (P.L. 99-658)</b>                               |                |               |                |               |               |               |               |               |               |               |               |               |               |               |               |                |
| Sect. 211(a) Current Account                                | 12,000         | 12,000        | 12,000         | 12,000        | 7,000         | 7,000         | 7,000         | 7,000         | 7,000         | 7,000         | 6,000         | 6,000         | 6,000         | 6,000         | 6,000         | 120,000        |
| Sect. 211(b) Energy Production                              | 28,000         |               |                |               |               |               |               |               |               |               |               |               |               |               |               | 28,000         |
| Sect. 211(c) Communications                                 | 1,650          | 150           | 150            | 150           | 150           | 150           | 150           | 150           | 150           | 150           | 150           | 150           | 150           | 150           | 150           | 3,750          |
| Sect. 211(d) Maritime Surveillance,<br>Health, Scholarships | 631            | 631           | 631            | 631           | 631           | 631           | 631           | 631           | 631           | 631           | 631           | 631           | 631           | 631           | 631           | 9,465          |
| Sect. 211(e) Start-up for 211(d)                            | 667            |               |                |               |               |               |               |               |               |               |               |               |               |               |               | 667            |
| Sect. 211(f) Investment Fund a/                             | 66,000         |               | 4,000          |               |               |               |               |               |               |               |               |               |               |               |               | 70,000         |
| <b>Subtotal Sec. 211</b>                                    | <b>108,948</b> | <b>12,781</b> | <b>16,781</b>  | <b>12,781</b> | <b>7,781</b>  | <b>7,781</b>  | <b>7,781</b>  | <b>7,781</b>  | <b>7,781</b>  | <b>7,781</b>  | <b>6,781</b>  | <b>6,781</b>  | <b>6,781</b>  | <b>6,781</b>  | <b>6,781</b>  | <b>231,882</b> |
| Sect. 212(b) Capital Account                                | 36,000         |               |                |               |               |               |               |               |               |               |               |               |               |               |               | 36,000         |
| Sect. 213 Defense Use Impact                                | 5,500          |               |                |               |               |               |               |               |               |               |               |               |               |               |               | 5,500          |
| Sect. 215 Inflation Adjustment                              | 35,719         | 5,842         | 6,075          | 6,440         | 3,790         | 3,861         | 4,004         | 4,076         | 4,290         | 4,362         | 3,875         | 3,998         | 4,121         | 4,244         | 4,367         | 99,060         |
| <b>SUBTOTAL</b>   | <b>186,167</b> | <b>18,623</b> | <b>22,856</b>  | <b>19,221</b> | <b>11,571</b> | <b>11,642</b> | <b>11,785</b> | <b>11,857</b> | <b>12,071</b> | <b>12,143</b> | <b>10,656</b> | <b>10,779</b> | <b>10,902</b> | <b>11,025</b> | <b>11,148</b> | <b>372,442</b> |
| Sect. 221(b) Special Block Grant                            | 6,300          | 4,900         | 3,500          | 2,000         | 2,000         | 2,000         | 2,000         | 2,000         | 2,000         | 2,000         | 2,000         | 2,000         | 2,000         | 2,000         | 2,000         | 38,700         |
| <b>DIRECT PAYMENTS</b>                                      | <b>192,467</b> | <b>23,523</b> | <b>26,356</b>  | <b>21,221</b> | <b>13,571</b> | <b>13,642</b> | <b>13,785</b> | <b>13,857</b> | <b>14,071</b> | <b>14,143</b> | <b>12,656</b> | <b>12,779</b> | <b>12,902</b> | <b>13,025</b> | <b>13,148</b> | <b>411,142</b> |
| Federal Services  | 1,340          | 0             | 0              | 0             | 0             | 0             | 0             | 1,539         | 1,539         | 1,539         | 1,539         | 1,539         | 1,539         | 1,539         | 1,539         | 13,652         |
| Sect. 212(a) Palau Road Construction                        | 53,000         |               | 96,000         |               |               |               |               |               |               |               |               |               |               |               |               | 149,000        |
| <b>GRAND TOTAL, PALAU</b>                                   | <b>246,807</b> | <b>23,523</b> | <b>122,356</b> | <b>21,221</b> | <b>13,571</b> | <b>13,642</b> | <b>13,785</b> | <b>15,396</b> | <b>15,610</b> | <b>15,682</b> | <b>14,195</b> | <b>14,318</b> | <b>14,441</b> | <b>14,564</b> | <b>14,687</b> | <b>573,794</b> |

a/ PALAU MAY WITHDRAW \$5 MILLION ANNUALLY FROM THE FUND IN YEARS 5 THROUGH 15.