

A BILL FOR AN ACT

To further amend title 54 of the Code of the Federated States of Micronesia, by further amending section 805 to clarify tax revenue distribution, and for other purposes.

BE IT ENACTED BY THE CONGRESS OF THE FEDERATED STATES OF MICRONESIA:

Section 1. Section 805 of title 54 of the Code of the Federated States of Micronesia, as amended by Public Law No. 10-68, is hereby further amended to read as follows:

"Section 805. Distribution of revenues.

(1) The treasurer of the Federated States of Micronesia shall pay eighty percent of the net taxes collected pursuant to section 221(9) of this title [~~and the following shares of all other net taxes collected pursuant to sections 121, 141, and 221 of this title~~] into the treasury of the State government to which the taxes are attributable for appropriation by the State legislature[+].

(2) The treasurer of the Federated States of Micronesia shall pay the shares specified in paragraphs (a) and (b) of this subsection, of the net taxes collected pursuant to sections 121, 141, and 221 of this title (other than subsection (9) of section 221), into the treasury of the State government to which the taxes are attributable for appropriation by the State

legislature, except as provided by paragraph (c) of this subsection:

(a) fifty percent without restriction; ~~and~~

(b) twenty percent, which shall be dedicated by the recipient State ~~[to capital account]~~ for only the following uses related to education and health, including sanitation:

(i) construction or major repair of capital infrastructure including, but not necessarily limited to, new construction, remodeling, and special maintenance programs (but not including normal operations or maintenance);

(ii) feasibility studies;

(iii) project planning;

(iv) architectural, engineering and design work;

(v) the acquisition of real property for capital construction, by purchase or long-term lease of not less than 25 years;

(vi) the acquisition of equipment for use in a completed facility, which equipment has a retail cost to the State of not less than \$25,000 (including shipping, delivery, and installation);

(vii) project administration costs not to exceed 1.5 per cent of the total project cost;

(viii) necessary technical assistance, or for matching funds for necessary technical assistance, for

any of the foregoing uses; and

(ix) the payment of principal, interest and premium, if any, on debts incurred for any of the foregoing uses or for the refunding, repayment or retirement of any debts previously incurred for such uses, including charges, expenses, fees, or penalties incurred in connection with the refunding, retirement or repayment of such indebtedness or the reserve requirements necessary to refinance such indebtedness;

(c) no funds shall be distributed to Chuuk State pursuant to paragraph (b) of this subsection until Chuuk State establishes to the satisfaction of the Secretary of the Department of Finance and Administration:

(i) that it has spent, during the previous calendar quarter for uses that meet the requirements of paragraph (b) of this subsection, an amount at least equal to the funds to be distributed; and

(ii) that the funds spent, as required by paragraph (i) above, were not funds distributed to Chuuk State pursuant to subsection (1)(b) of this section before the effective date of this act, or pursuant to paragraph (b) of this subsection after the effective date of this act.

~~(2)3~~ "Net taxes" as used in subsection (1) of this section means gross collections of taxes, penalties, interest, or other related charges less refunds.

~~(3) "Capital account use" shall be as defined in~~

~~article II, section 3(f) of the Fiscal Procedures Agreement, referred to in section 339 of title 55.]~~

(~~4~~3) Prior to payment of any funds to a State pursuant to paragraph (b) of subsection (~~1~~2) of this section, the State and the Secretary of the Department of Finance and Administration shall ~~have~~ enter~~ed~~ into a memorandum of understanding (MOU) that provides that the State shall:

(a) account for the funds separately and according to generally accepted accounting principles;

(b) ~~[and that the State shall periodically]~~ report on a quarterly basis on the use of the funds to the Secretary of the Department of Finance and Administration and to the Congress of the Federated States of Micronesia; and

(c) adhere to such other terms as determined necessary by the Secretary of the Department of Finance and Administration to implement this act.

(~~5~~4) Periodically, or at the request of the Secretary of the Department of Finance and Administration, the Public Auditor shall inspect and audit transactions, accounts, books, and other financial records relating to the use of funds paid to a State pursuant to paragraph (b) of subsection (~~1~~2) of this section for compliance with the restrictions contained therein. In the event that an audit discloses a violation of a restriction or the MOU, the Secretary may direct withholding from

future payments to the State the amount for which the State was found in violation of a restriction, or that amount which is not verifiable because of noncompliance with the MOU.

(~~6~~4) The revenue office in each State may administer the taxes of the State in which it is located, but those duties shall not interfere with the administration of taxes imposed by the laws of the Federated States of Micronesia. All costs in excess of those funded by appropriations of the Congress of the Federated States of Micronesia required for the administration of State taxes shall be borne entirely by the State."

Section 2. The first \$300,000 of the money paid to Chuuk State following the effective date of this act, shall be used solely for the purchase of hospital equipment that qualifies under subsection (~~1~~2)(b) of this act.

Section 3. This act shall become law upon approval by the President of the Federated States of Micronesia or upon its becoming law without such approval.

Date: \_\_\_\_\_

Introduced by: \_\_\_\_\_

Jack Fritz