

STANDING COMMITTEE REPORT NO. 23-15

RE: C.B. NO. 23-33/W&M

SUBJECT: DISTRIBUTION FORMULA FOR COMPACT FUNDS;
FY2024 TRANSITIONAL PROVISIONS; CENTRALIZATION
OF INFRASTRUCTURE SECTOR GRANTS

SEPTEMBER 19, 2023

The Honorable Esmond B. Moses
Speaker, Twenty-Third Congress
Federated States of Micronesia
Second Regular Session, 2023

Dear Mr. Speaker:

Your Committee on Ways and Means, to which was referred Congressional Bill No. 23-33, entitled:

"A BILL FOR AN ACT TO FURTHER AMEND SECTIONS 303 AND 306 OF TITLE 55 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA, AS ENACTED BY PUBLIC LAW NO. 13-72 AND AMENDED BY PUBLIC LAWS NOS. 13-93, 18-12, 18-25 AND 18-57, TO MODIFY THE DISTRIBUTION FORMULA FOR COMPACT FUNDS TO ALLOW THE NATIONAL GOVERNMENT A 12% SHARE OF THE DISTRIBUTION, TO INSERT A NEW SECTION 306A OF TITLE 55 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA CONTAINING TRANSITIONAL PROVISIONS FOR FISCAL YEAR 2024, TO CENTRALIZE THE COMPACT INFRASTRUCTURE SECTOR GRANTS WITHIN THE DEPARTMENT OF TRANSPORTATION, COMMUNICATIONS AND INFRASTRUCTURE, AND FOR OTHER PURPOSES.",

begs leave to report as follows:

The intent and purpose of the bill are expressed in its title.

Congressional Bill No. 23-33 amends title 55 F.S.M.C. §303,

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concerning the Division of Compact Funds among the National and State Governments, and title 55 F.S.M.C. §306, concerning the Plan for the Division of Annual Economic Assistance. C.B. No. 23-33 also proposes a new section 306A of title 55, establishing transitional provisions for the fiscal year 2024.

Division of Compact Funds

As summarized in the purpose section of C.B. No. 23-33, due to recent events this is an appropriate time to review and reconsider the distribution formula for Compact Funds.

The Constitutional Amendment requiring the sharing of fishing access fees with the State Governments will have a substantial impact on the revenue available for National Government operations; grants, subsidies, and contributions; and capital and human resource development; which contribute directly or indirectly to the well-being and the needs of the States and the citizens and residents within. To insure the continued proper functioning of the National Government, and all of the services, programs, and funding it provides, the distribution formula must be revised to increase the National Government share from 0%.

Since FY 2014, funds received under the Supplemental Education Grant (SEG) have been excluded from the distribution formula. SEG funds have historically provided funding for both the National Department of Education and the College of Micronesia. Since FY 2015, the distribution formula has also been applied after JEMCO funds the College of Micronesia (Education Sector Grant). Under the 2023 Amended Compact, former SEG funding is now included as part of the \$140 million sector grant funding.

C.B. No. 23-33 provides for increasing the National Government share of Compact funds from %0 to %12. However, in light of Resolution #1 of the recent Chief Executive Council and Presiding Officers meeting, which suggests the National Government be allocated %8 of Compact

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Funds, after deducting \$500,000 for the mandatory cost for the Single Audit, your Committee recommends a compromise, by adjusting the formula for FY2024 and thereafter to set the National Government share of Compact Funds at a modest 10%.

Your Committee finds that a 10% share to the National Government is appropriate and reflects additional costs that will be borne by the National Government under the 2023 Amended Compact. Funding that was historically provided for the National Department of Education under Supplemental Education grants and excluded from the distribution formula is now part of the Education Compact Sector and subject to the distribution formula. The National Government will also be responsible for appropriating funds for the Single Audit, either from its share of Compact Funds or domestic revenue. Finally, there will be substantial extra costs associated with the enhanced reporting and compliance requirements, including relating to the infrastructure projects as discussed below.

Plan for the Division of Annual Economic Assistance

The 2023 Amended Compact includes enhanced reporting requirements, and the hiring of a third-party to assist in the preparation of the annual performance and financial reports. The National Government will need to compile and consolidate information from the State Governments and the National Government to satisfy the requirements. The 2023 Amended Compact also requires the FSM as a whole to allocate to the Public Infrastructure Sector not less than 25% of the annual Compact Funds (in a three-year moving average).

To insure compliance with these and all requirements relating to infrastructure projects, C.B. No. 23-33 proposes amending title 55 F.S.M.C. §306 regarding the Plan for the Division of Annual Economic Assistance, to provide that each State Government's budget for the infrastructure sector shall be moved to and consolidated with the National Government's for the purposes of the Plan for the Division of Annual Economic Assistance. Infrastructure Sector Grants shall

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then be retained by the National Government and managed by the Department of Transportation, Communications & Infrastructure, and released as sub-grants to the States, on a project-by-project basis.

FY 2024 Transitional Provisions

C.B. No. 23-33 proposes a new section 609A of title 55 to establish transitional provisions for FY 2024. The July 15 deadline for the FY 2024 Annual Implementation Plan passed before ratification of the 2023 Amended Compact; new section 609A provides the President shall request a deferred deadline, and request that JEMCO waive for FY 2024 requirements that sector allocations be tied to specific purposes in the Strategic Development Plan in FY 2023.

Due to the recalculations needed regarding sector grant funding, C.B. No. 23-33 also provides for later dates for FY 2024 for: the President to transmit revised Compact planning estimates to the National and State Governments; the National and State Governments to submit their revised Compact Budget Requests; and the President to transmit a revised Plan for the Division of Annual Economic Assistance to Congress and each State Government.

C.B. No. 23-33, C.D.1

Your Committee recommends the following changes to C.B. No. 23-33:

- (1) Adjust the National Government share of Compact Funds from 12% to 10%; State shares have been adjusted proportionally reflecting their intent under Resolution #1 of the CEC+PO
- (2) Adjust dates for the FY 2024 transitional provisions for certain internal fiscal procedures for Compact implementation in recognition that certain dates have lapsed
- (3) Miscellaneous clarifying language and technical corrections

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Conclusion

Your Committee has carefully reviewed Congressional Bill No. 23-33. Your Committee on Ways and Means is in accord with the intent and purpose of C.B. No. 23-33, and recommends its passage on First Reading and that it be placed on the Calendar for Second and Final reading in the form attached hereto as C.B. No. 23-33, C.D.1.

Respectfully submitted,

/s/ Isaac V. Figir
Isaac V. Figir, chairman

/s/ Perpetua S. Konman
Perpetua S. Konman, vice-chairwoman

/s/ Peter M. Christian
Peter M. Christian, member

/s/ Tiwiter Aritos
Tiwiter Aritos, member

Joseph J. Urusemal, member

/s/ Paliknoa K. Welly
Paliknoa K. Welly, member

/s/ Victor V. Gouland
Victor V. Gouland, member