

A BILL FOR AN ACT

To provide for the approval and implementation of the "Agreement on Internal Budget and Finance Procedures under the Compact of Free Association"; to amend the Financial Management Act of 1979, as amended, consistent with such Agreement and the Compact of Free Association; to amend the Budget Procedures Act of 1981, consistent with such Agreement and the Compact of Free Association; and for other purposes.

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

1 Section 1. Approval and Implementation of the Internal Budget and
2 Finance Procedures Agreement.

3 (1) The Agreement on Internal Budget and Finance Procedures
4 under the Compact of Free Association, the text of which follows, is
5 hereby approved and enacted as a public law of the Federated States of
6 Micronesia:

7 "PREAMBLE

8 The purpose of this Agreement is to establish internal budget and
9 finance procedures for the Compact period, including the establishment
10 of a Federated Development Authority. The provisions set forth
11 hereinafter recognize the right of the FSM States and the National
12 Government to appropriate and expend Compact funds in accordance with
13 their own respective laws, plans, policies and prerogatives. The
14 provisions also recognize the necessity of complying with the conditions
15 and restrictions attached to Compact funds, empowering the President
16 with the authority to ensure compliance with such conditions and
17 restrictions, and ensuring accountable financial management of all
18 Compact funds.

19 ARTICLE I

20 Budget Procedures and Policies

21 for Compact Funds

22 1. Three-Year Planning Estimates On January 15 of the year
23 preceding a given fiscal year, the President will transmit two sets of
24 Compact planning estimates to each State Governor, one indicating the
25 detailed levels of Compact and other funding expected to be available to

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1 each respective State for the upcoming fiscal year, and the second
2 indicating general expected levels of Compact and other funding for the
3 two subsequent fiscal years. Both sets of planning estimates will be
4 based on the distribution formulae in the Memorandum of Understanding on
5 the Division of Grant Assistance.

6 2. Budget Allowances

7 2.1 No later than April 15 of the year preceding a given
8 fiscal year, the President will transmit a set of Compact budget
9 allowances to each State Governor indicating the firm levels of Compact
10 funding to be available to each respective State for the upcoming fiscal
11 year, according to the U.S. notification cited in Article II, Section
12 1(b), of the Fiscal Procedures Agreement. The budget allowances will be
13 based on the distribution formulae in the Memorandum of Understanding on
14 the Division of Grant Assistance.

15 2.2 Each government's operating and development budget
16 intended for submission to the respective legislature, may not include
17 proposed expenditures relating to Compact funds exceeding the amounts
18 indicated in the Compact budget allowances. State and National enacted
19 budgets will be balanced in terms of all sources of revenue.

20 3. Executive Budget and Budget Projection Submissions

21 3.1 No later than May 1 of the year preceding a given fiscal
22 year, each State Governor and the FSM Budget Officer for the National
23 Government will submit to the President an executive budget for all
24 sources of funds for the upcoming fiscal year and executive budget
25 projections for each of the two subsequent fiscal years, based on the

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1 planning estimates for each of those years and on local fund sources not
2 included in the planning estimates.

3 3.2 Each executive budget will contain an operations budget
4 and a development budget, and include planned expenditures for all
5 sources of funds. The operations budget in the executive budget will
6 specify for each government branch, department, office and agency or
7 authority, the existing commitment and new expenditure levels of
8 expenditures and staffing.

9 3.3 The executive budget projections for each of the two
10 subsequent fiscal years will specify preliminary budget figures in
11 summary form, including existing commitment levels and estimated new
12 expenditures, by government branch, department, office and agency or
13 authority and a brief description of major new programs or equipment
14 acquisitions planned.

15 3.4 The executive budget will include all expected sources of
16 foreign aid and technical assistance, including funds and assistance
17 provided under Compact Sections 224 and 226. The executive budget will
18 specify how the aid or technical assistance will be used and whether it
19 will require the expenditure of other funds or cause the deployment of
20 new staff or the redeployment of existing staff.

21 3.5 The executive budget will include the annual special
22 block grant program plans for Compact Section 221(b) grant funds
23 required by Article XI, Section 4, of the Federal Programs and Services
24 Agreement. The budgeted use of Section 221(b) funds will be in
25 accordance and consistent with the guidelines and conditions set forth

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1 in the Federal Programs and Services Agreement. The FSM Budget Officer
2 will review the special block grant program plans for consistency with
3 the Federal Programs and Services Agreement.

4 3.6 Each State Governor and the President will include in
5 their executive budget and budget projection submissions an analysis of
6 major trends over the three years budgeted as regards funding sources,
7 spending emphases, staffing levels and program expansions or
8 contractions. The analysis of major trends will also specify the
9 multi-year strategy for meeting any overall funding decrease contained
10 in the issued planning estimates.

11 3.7 The executive budget and budget projections of the States
12 and the National Government shall be as submitted by the Governor or
13 President to the legislature or Congress as the annual budget document
14 for that government.

15 4. Comprehensive Annual Budget

16 4.1 The President will consolidate the executive budget and
17 budget projection submissions into a Comprehensive Annual Executive
18 Budget.

19 4.2 No later than May 15 of the year preceding a given fiscal
20 year, the President will submit the Comprehensive Annual Executive
21 Budget to the Congress of the Federated States of Micronesia and to the
22 State Governors and State legislatures for information purposes. The
23 submission will include a budget message, with a presentation and
24 analysis of trends as regards funding sources, spending emphases, staff
25 levels and program expansions and contractions for the Nation as a

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1 whole. The budget message will evaluate the adequacy of local revenue
2 levels, the preparedness of the Nation as a whole to meet the Compact
3 funding step-downs scheduled for the sixth and eleventh years following
4 the effective date of the Compact and the FSM strategy for foreign aid
5 as it relates to funding needs.

6 4.3 The President may utilize the Comprehensive Annual
7 Executive Budget to support U.S. Government budget requests to the U.S.
8 Congress, as contained in Article III, Sections 1 and 3, of the Fiscal
9 Procedures Agreement. The budget projections section may also be
10 utilized to support FSM requests to the U.S. Government for supplemental
11 funding over and above Compact funding for fiscal years subsequent to
12 the upcoming fiscal year.

13 5. Reprogramming and Redesignation/Amendment to Overall Economic
14 Development Plan (OEDP)

15 5.1 Any reprogramming, redesignation or amendment to the OEDP
16 shall be authorized by the appropriate State or National Government
17 officials according to the specific legal process established by each
18 State government and the National Government.

19 5.2 Reprogramming prior to the beginning of any fiscal year
20 shall be as follows:

21 5.2.1 At any time prior to the beginning of a given
22 fiscal year, major block grant current account funds may be reprogrammed
23 as capital account funds by allocating more major block grant funds to
24 the capital account. The effect of this reprogramming is to devote more
25 major block grant funding to the capital account than the minimum

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1 percentage required allocation for a given State or the National
2 Government as specified in the Memorandum of Understanding on the
3 Division of Grant Assistance. Such a reprogramming shall be executed,
4 if at all, by including the change in the apportionment/allocation
5 certification submitted by each Governor and the President on August 10.

6 5.2.2 At any time prior to the beginning of a given
7 fiscal year, current account program funds may be reprogrammed as
8 capital account program funds. Such a reprogramming shall be executed,
9 if at all, by submission of a Program Account Reprogramming Notification
10 to the President. The President shall review the reprogramming to
11 ascertain conformance of the use of the program funds with the Compact.
12 Reprogrammed use of program account funds will be consistent with
13 conditions on the use of funds specified in the Compact and its related
14 agreements. The effect of this reprogramming is to amend the OEDP. The
15 amendment to the OEDP may be for a single year or for a number of years.

16 5.2.3 At any time prior to August 10 of the year
17 preceding a given fiscal year, capital account program funds may be
18 reprogrammed as current account program funds. Such a reprogramming
19 shall be executed, if at all, by submission before August 10 of a
20 Program Account Reprogramming Notification to the President, for his
21 review in accordance with Section 5.2.2 above. The effect of this
22 reprogramming is to amend the OEDP.

23 5.3 Redesignation during the fiscal year shall be as follows:

24 5.3.1 At any time during a given fiscal year, major
25 block grant current account funds may be redesignated to the capital

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1 account. The effect of this redesignation is to allocate more major
2 block grant funds to the capital account than the minimum allocation for
3 a given State or the National Government, as specified in the Memorandum
4 of Understanding on the Division of Grant Assistance. Such a
5 redesignation may be executed by submission of a Notification of
6 Redesignation by the Governor or the FSM Budget Officer to the
7 President. The Notification or Redesignation will include
8 justification, in accordance with Article II, Section 3(e), of the
9 Fiscal Procedures Agreement. The President will record this
10 notification and issue two Redesignation Allotments showing the increase
11 in capital account and the decrease in current account, for the given
12 State or National Government, with the allotments to be effective on
13 the first day of the fiscal quarter at least ninety (90) days after
14 receipt of such notification by the President.

15 5.3.2 At any time during a given fiscal year, current
16 account program funds may be redesignated as capital account program
17 funds. The effect of such a redesignation is to amend the OEDP. Such a
18 redesignation may be executed by submission of a Notification of
19 Redesignation, as in paragraph 5.3.1 of this subsection.

20 5.4 Reprogrammed use of program account funds will be
21 consistent with conditions on use of such funds specified in the Compact
22 and its related agreements.

23 5.5 No reprogramming or redesignation of major block grant
24 capital account as current account below the minimum percentage set in
25 the Memorandum of Understanding on the Division of Grant Assistance may

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1 occur for any fiscal year, except by mutual agreement to amend the
2 Memorandum of Understanding on the Division of Grant Assistance.

3 5.6 No capital account program funds may be reprogrammed as
4 current account program funds after August 30 of the year preceding the
5 year in which the reprogramming is to be effective.

6 5.7 The project listing in the development section of the
7 executive budget submitted by each State Governor and the FSM Budget
8 Officer for the National Government to the President, in accordance with
9 Section 3 of this Article, will concurrently be the proposed amendment
10 to the OEDP. The development budget on its effective date will
11 constitute an effective amendment to the OEDP.

12 6. Apportionment/Allocation Certification

13 6.1 No later than August 10 of the year preceding a given
14 fiscal year, the Governor of each State and the FSM Budget Officer for
15 the National Government shall submit a copy of the enacted appropriation
16 law and will certify to the President a quarterly apportionment of
17 current account and current account program funds and specify the
18 allocation for capital account and capital program funds for each
19 quarter of the upcoming fiscal year, based on the appropriated budget of
20 each State and the National Government.

21 6.2 The apportionment for the current account and current
22 account program funds will be on a quarterly basis, with each quarterly
23 share comprising at least 20 percent and not more than 30 percent of the
24 total amount available for the fiscal year in question, as specified in
25 Article II, Section 2(c), of the Fiscal Procedures Agreement.

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1 6.3 No later than August 25 of the year preceding a given
2 fiscal year, the FSM Budget Officer will consolidate the State and
3 National Government certifications and produce a nationwide
4 apportionment and allocation document.

5 6.4 The Budget Officer will ensure that the specification of
6 fund used and the level of funds in the nationwide apportionment and
7 allocation document are consistent with the Memorandum of Understanding
8 on the Division of Grant Assistance, the OEDP and any official revisions
9 of the OEDP.

10 6.5 The President will certify the apportionment and
11 allocation contained in the document to the U.S. Government no later
12 than August 30 of the year preceding the subject fiscal year, as
13 specified in Article II, Section 1(b), of the Fiscal Procedures
14 Agreement.

15 6.6 The certification by the President to the U.S. Government
16 will include a designation of a bank or commercial financial institution
17 into which the U.S. Government will transfer Compact funds into the
18 titled and numbered account of the FSM.

19 6.7 The quarterly apportionment schedule cited in paragraph
20 6.1 of this Section may be modified during a given fiscal year by the
21 submission to the FSM President of a Quarterly Apportionment Schedule
22 Change Request, provided that the apportionment after the change is in
23 accordance with paragraph 6.2 of this Section. In accordance with
24 Article II, Section 2(c), of the Fiscal Procedures Agreement, revision
25 in the quarterly apportionment schedule must be made not less than one

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1 fiscal quarter in advance of the quarter for which the revised
2 apportionment is to be effective. The FSM Budget Officer will issue an
3 allotment incorporating the change for the quarter in which the change
4 is to be effective.

5 6.8 If a Governor fails to submit an apportionment schedule
6 by August 29, the President in his overall certification to the U.S.
7 Government will assume a 30/30/20/20 percentage apportionment schedule
8 for the State for the upcoming fiscal year. If a State government or
9 the National Government does not enact a State or National budget prior
10 to August 29 or approve an allocation schedule for the upcoming fiscal
11 year, the President in his overall certification to the U.S. Government
12 shall assume the current fiscal year's allocation schedule.

13 ARTICLE II

14 Financial Management 15 of Compact Funds

16 1. Declaration of Policy

17 1.1 All obligation and expenditure of Compact Funds shall be
18 in accordance with the Compact of Free Association and its related
19 agreements, the Financial Management Act of each respective government,
20 and this Agreement.

21 1.2 The financial reporting systems of each government shall
22 provide full disclosure of the financial positions and results of
23 operations of each accounting fund in accordance with a uniform and
24 standardized format set forth by the Secretary of Finance. The
25 financial information generated from these systems shall include, but

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1 not be limited to, all pertinent information needed to prepare
2 comprehensive annual financial reports as required by the Fiscal
3 Procedures Agreement and Section 211(c) of the Compact.

4 1.3 The Secretary of Finance and the State Finance Officers,
5 together with the Budget Officers of the State and National Governments,
6 shall continuously review accounting and financial reporting systems for
7 the Governments of the Federated States of Micronesia and make
8 recommendations for their improvement.

9 2. Secretary of Finance - Accounting Duties

10 2.1 The Secretary of Finance shall have full and complete
11 oversight over, and at all times full and complete access to all
12 financial records for, all Compact funds of the State and National
13 Governments of the Federated States of Micronesia.

14 3. Compact Financial Assistance Fund

15 3.1 There is hereby created a "Compact Financial Assistance
16 Fund" to be administered by and under the authority of the Secretary of
17 Finance.

18 3.2 The purpose of the Compact Financial Assistance Fund is
19 to account for Compact funds received from the U.S. Government by the
20 FSM National Government on behalf of itself and each of the four States
21 from the time of receipt of such Compact funding and until such funding
22 is drawdown by the respective government to which such funding accrues.

23 3.3 The accounting records and accounts maintained for the
24 Fund shall be in sufficient detail to provide a full and complete
25 accounting of Compact funds accruing to each jurisdiction and within

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1 each jurisdiction to provide a full and complete accounting of current
2 account, capital account, and as may be required, program account
3 funds. The Fund shall also account for funds obligated for investment,
4 investment income earned on behalf of each government, and investment
5 expenses assessed to each government related to such earnings. The
6 Secretary of Finance shall report on the status of the account on a
7 monthly basis.

8 3.4 Upon receipt of Compact funds from the U.S. Government by
9 the President of the FSM on behalf of the National Government and each
10 of the four State governments, the accounting records of the Compact
11 Financial Assistance Fund shall be updated to reflect the amount of
12 Compact funds received. Concurrently, the President shall obligate and
13 transfer to the Federated Development Authority for investment purposes,
14 all capital account funds received and to the extent authorized by each
15 Governor, current account Compact funds, excluding program funds under
16 Section 221(b) of the Compact.

17 3.5 Concurrently with paragraph 3.4 above, the FSM Budget
18 Officer shall verify that the Compact funds approved for transfer to the
19 Federated States of Micronesia from the U.S. Government have been
20 received and recorded in the accounts of the Compact Financial
21 Assistance Fund. Upon such verification, the President shall
22 immediately certify to each Governor the current account, capital
23 account and program account funds received on behalf of each government
24 and the amount of such funding obligated and transferred to the
25 Federated Development Authority for investment purposes.

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1 4. Federated Development Authority - Investment Authority

2 4.1 As provided for in Article III, the Federated Development
3 Authority is the designated agency under which Compact funds available
4 for investment are obligated and placed. All Federated Development
5 Authority investment funds shall be managed by the Secretary of Finance
6 for the Federated Development Authority as provided in Article III.

7 4.2 The Federated Development Authority shall maintain such
8 accounting systems and records as necessary to account for investment
9 funds placed with the Authority by the President on behalf of each
10 government. Such accounts and accounting records shall also include,
11 but not be limited to, records supporting the investment earnings of
12 each government and investment expenses incurred related to such
13 investment earnings.

14 4.3 The Secretary of Finance will ensure that no Compact
15 Section 221(b) program account funds are obligated or transferred to the
16 Federated Development Authority for investment purposes or held in
17 interest bearing instruments by any government of the FSM, as required
18 by the Federal Programs and Services Agreement, Article XI, Section 5(b).

19 5. Allotment of Funds

20 5.1 "Allotment" means the delegation of authority to a person
21 to create legally enforceable financial obligations in accordance with
22 applicable FSM State or National law and the Compact and its related
23 agreements, within the limits specified in a National and State
24 Appropriation Act.

25 5.2 The authority to make allotments of Compact funds shall

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1 be vested in the President or his designee.

2 5.3 Funds shall be allotted as follows:

3 (a) The President shall be allottee of all Compact
4 funds allotted to the National Government under this agreement for
5 subsequent allotment in accordance with National law.

6 (b) The Governor of a State shall be the allottee of
7 all Compact funds allotted to the State under this agreement for
8 subsequent allotment in accordance with State law.

9 5.4 The President shall withhold allotment of Compact funds
10 where allotment would cause obligations, expenditures or disbursements
11 in violation of the terms of the Compact or its related agreements, with
12 particular attention to the listing of qualified capital account uses in
13 Article II, Section (3)(f), of the Fiscal Procedures Agreement.

14 5.5 The President will issue separate allotments for:

15 (a) Each major block grant current account quarterly
16 share;

17 (b) Each current account program fund quarterly share
18 by type, specifying an account number for each;

19 (c) Capital account and capital account program funds
20 in the aggregate or on a project basis as requested at the beginning of
21 the fiscal year or during the fiscal year for projects which (1) have
22 been appropriated, (2) are supported by a Project Control Document and
23 (3) are within the scope of the Compact and its related agreements.

24 5.6 The Project Control Document shall contain information
25 related to the implementation of the project, anticipated or actual

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1 contractual terms with the contractor, if selected, and the name of the
2 inspector assigned to certify progress payments.

3 5.6.1 A Project Control Document shall be amended and
4 resubmitted upon any amendment of the State or National Government
5 appropriation law affecting such document, and capital account funds
6 shall be reallocated by the President accordingly.

7 5.7 All Project Control Documents shall be reviewed by the
8 FSM budget Officer for compliance with the terms of the Compact, its
9 related agreements and applicable appropriation laws prior to allotment
10 of the funds specified in the Project Control Document.

11 5.8 The FSM Budget Officer shall maintain an Allotment
12 Control Ledger.

13 6. Obligations

14 6.1 For the purposes of this Agreement, the term "obligation"
15 shall have the same meaning as that term is used in the respective
16 Financial Management Acts of the governments, as in effect on October
17 12, 1984, unless otherwise mutually agreed upon.

18 6.2 No officer or employee of any government of the FSM, or
19 allottee of funds shall make or otherwise authorize an expenditure from,
20 or create or authorize an obligation pursuant to, any allotment of
21 Compact funds:

22 (a) In advance of availability of funds by allotment;

23 (b) For purposes other than those for which an
24 allotment has been made; or

25 (c) In excess of the sum made available by Compact fund

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1 allotment.

2 6.3 Each State Governor and the FSM Secretary of Finance will
3 immediately report to the President any violation of Section 6.2 above.

4 7. Drawdown Procedures - Cash Management

5 7.1 No later than August 30 of the year preceding a given
6 fiscal year, each State Governor and the Secretary of Finance will
7 submit to the President an Annual Cash Drawdown Schedule for the
8 upcoming fiscal year, detailing by month the anticipated current and
9 capital cash disbursement requirements of the State or National
10 Governments based on appropriated budgets, payroll information,
11 additional data from government officials, and anticipated project
12 contract pay-out schedules.

13 7.2 Cash shall be disbursed by the Secretary of Finance to
14 State Finance Officers and the National Treasury subsequent to
15 allotment, for valid obligations and based upon an Annual Cash Drawdown
16 Schedule, a monthly submission of State cash needs, and a correlated
17 monthly budget execution report from the State government. The monthly
18 submission of State cash needs should be based on the Annual Cash
19 Drawdown Schedule and shall be submitted to the Secretary of Finance by
20 the 21st day of each month. Cash disbursement shall be made not later
21 than the first day of the following month.

22 7.3 It is understood that the Secretary of Finance cannot
23 guarantee availability of cash in excess of the amounts identified in
24 the Annual Cash Drawdown Schedule.

25 In the event of early termination of assets to provide a

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given government with cash in advance of the availability according to the Annual Cash Drawdown Schedule, then that given government will bear any and all penalties and loss of interest incurred.

In case a monthly cash needs submission of a given government specifies more funds for a given period than is specified in the Annual Cash Drawdown Schedule, the submitting government may allow a certain period to elapse before the specified funds can be drawdown without penalty or bear any and all penalties and loss of interest incurred.

7.4 Cash drawdown shall be based on the following procedures:

(a) Current Account: Current account and current account program funds may be drawdown on a monthly reimbursement basis, on a monthly advance cash needs basis, or on a quarterly advance basis.

(b) Capital Account: Capital account and capital account program funds may be drawdown on a monthly reimbursement basis, on a monthly advance cash needs basis, or on an advance basis for valid obligations.

8. Lapsing and Reversion of Current Account Program Funds

8.1 Allotments of Compact current account program funds will specify an expiration date provided by the appropriation laws of the respective State legislature or Congress, upon which unobligated funds previously allotted will lapse.

8.2 Unobligated allotted funds will be available for re-allotment subsequent to:

(a) Determination by the State Finance Officer or

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1 Secretary of Finance of the total level of unobligated funds for each
2 allotment.

3 (b) Further appropriation of unobligated funds by the
4 State legislature or Congress.

5 8.3 Carried-over current account program funds will be
6 allotted by the FSM Budget Officer as current account program funds or
7 capital account program funds as specified by the State Governor or
8 President, in accordance with applicable law. Carried-over current
9 account program funds will be allotted by the FSM Budget Officer for
10 program account uses as specified in appropriation laws.

11 9. Unallotted Current Funds

12 Funds unallotted from current account and current account
13 program funds to a given government will be available for allotment upon
14 appropriation in future fiscal years, and will be included in the annual
15 planning estimates and budget allowances.

16 10. Close-Out of Capital Project Accounts

17 The State Finance Officer will close out Compact capital
18 project accounts upon project completion and ensure that no obligation
19 of funds occurs after project completion. The close-out process will be
20 conducted on a timely basis. The Secretary of Finance will assist in
21 the close-out procedure of capital accounts after three (3) months
22 following project completion, if such close-out has not been conducted
23 by the State Finance Officer. Unused spending authority resulting from
24 project close-out will revert to the unallotted capital account of the
25 respective government and shall be available for reallocation after

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1 appropriation for valid capital account purposes.

2 11. Internal Reporting Requirements

3 11.1 Each Governor and the Secretary of Finance will submit
4 to the President, on a monthly and year-to-date basis, the following
5 reports:

6 (a) Combined Balance Sheet, including all fund types
7 and account groups;

8 (b) Statement of Actual and Estimated Revenues;

9 (c) Statement of Encumbrances and Expenditures compared
10 with budget on a department/office or project basis; and

11 (d) A State's cash drawdown request.

12 11.2 No later than January 1 of each year, each Governor and
13 the Secretary of Finance will submit a Comprehensive Annual Financial
14 Report to the President providing a full accounting of each State or
15 National legislature appropriation, including obligations and
16 expenditures, for all types of funds available to the State or National
17 Government, as of the end of the prior fiscal year. Such reports will
18 conform with the standards established by the Secretary of Finance.

19 12. Annual Report of the President to the U.S. Government

20 No later than April 1 of each year the President will submit
21 the Annual Report to the U.S. Government to the U.S. President and U.S.
22 Congress, in accordance with Article III, Section 2, of the Fiscal
23 Procedures Agreement and Section 211 of the Compact of Free Association.

24 13. Implementation

25 The Secretary of Finance shall be responsible for establishing

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1 procedures for each respective government to comply with the provisions
2 of this Agreement.

3 ARTICLE III

4 Establishment of the

5 Federated Development Authority

6 1. Creation of the Federated Development Authority

7 There is hereby created an entity to be known as the Federated
8 Development Authority, hereinafter referred to as the "Authority."

9 2. Purpose

10 The purpose of the Federated Development Authority is to
11 provide an effective institutional framework for the establishment of
12 overall development goals, policies and strategies for the Nation; the
13 rationalization and coordination of development efforts throughout the
14 Nation, so that State and National development programs will be
15 complementary and mutually supportive, rather than duplicative or
16 competitive; and the sharing of information and technical resources to
17 ensure adequate program and project evaluation, design and
18 implementation.

19 3. Specific Responsibilities of the Authority

20 3.1 To receive funds from the President pursuant to Article
21 II, Section 3.4, of this Agreement, on behalf of the State and National
22 Governments.

23 3.2 To set policy directions and guidelines to be followed by
24 the Secretary of Finance in the administration of the investment of
25 Compact and other funds on behalf of the State and National Governments.

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1 3.3 To provide guidelines, advice, and assistance in the
2 formulation of economic development plans for the Nation.

3 3.4 To provide technical assistance upon request to the State
4 and National Governments on a project-by-project basis.

5 3.5 To provide a means for all the Governments to share
6 information and resource personnel.

7 3.6 To assist in the preparation of the Annual Development
8 Reports required by Section 10 of this Article.

9 3.7 To assist in the coordination and solicitation of aid and
10 technical assistance from foreign governments and international
11 organizations.

12 3.8 To review and provide comments on the development aspects
13 of the budgets prepared pursuant to Sections 3.1, 4.2 and 6.1 of Article
14 I of this Agreement, which shall be submitted to the Authority by the
15 President.

16 4. General Powers of the Authority

17 4.1 To adopt, alter, and use a seal.

18 4.2 To sue and be sued in its own name.

19 4.3 To adopt and amend bylaws governing the conduct of its
20 business and the exercise of its powers.

21 4.4 To enter into and perform such contracts, leases,
22 memoranda of understanding, or other transactions as may be necessary in
23 the conduct of its business and on such terms as it may deem appropriate.

24 4.5 To acquire, in any lawful manner, real, personal, or
25 mixed property, either tangible or intangible; to hold, maintain, use,

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1 and operate such property; and to sell, lease or otherwise dispose of
2 such property.

3 4.6 To retain and terminate the services of employees,
4 agents, attorneys, auditors, and independent contractors, and require
5 bonds for the faithful performance of their duties and to pay the
6 premiums for such bonds.

7 4.7 To determine the character of and the necessity for its
8 obligations and expenditures, subject to the provisions of law,
9 specifically, applicable to the Authority.

10 4.8 To execute all instruments necessary or appropriate in
11 the exercise of its power.

12 4.9 To do all such other things as may be deemed incidental
13 to, or conducive to, the attainment of the responsibilities of the
14 Authority.

15 5. Debts and Liabilities of the Authority

16 The debts or obligations of the Authority shall not be the
17 debts or obligations of the National Government or the State
18 governments, nor shall they be responsible for the same. No action
19 shall be brought in any court in the Federated States of Micronesia
20 against the National Government or the State governments or any
21 political subdivision thereof because of any activities, actions, or
22 omissions of the Authority, its board members, officers, employees or
23 agents.

24 6. Policy Board

25 6.1 The Authority shall be managed and its powers exercised

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1 by the Policy Board. The Policy Board shall consist of the chief
2 executives of the State and National Governments of the FSM. The Policy
3 Board shall appoint a Chairman for a term of one year, who may be
4 reappointed by action of the Board.

5 6.2 Members of the Policy Board will be fiduciaries with
6 respect to the direction of investment policy and supervision of the
7 Secretary of Finance for all investment funds.

8 6.3 The President and each Governor may designate in writing
9 the Vice President or his Lieutenant Governor, respectively, as his
10 alternate.

11 6.4 A quorum shall consist of all members of the Policy
12 Board. No action shall be taken by the Policy Board at any meeting
13 unless a quorum is present. The Policy Board may act only by
14 Micronesian consensus.

15 6.5 Members of the Policy Board shall not be entitled to
16 compensation.

17 7. Annual Directive on Investment Policy

18 7.1 The Policy Board shall issue an Annual Directive on
19 Investment Policy to the Secretary of Finance no later than June 30 of
20 each year for the upcoming fiscal year, providing investment policy
21 guidelines on all Compact and other funds held by the Authority for
22 investment.

23 7.2 The goal of investment policy shall be to maximize
24 investment returns while maintaining adequate liquidity and high
25 standards of safety and quality of assets, and giving due consideration

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1 to the need to stimulate the Nation's economy.

2 7.3 Each member of the Board and each employee, agent, and
3 contractor of the Federated Development Authority shall be considered a
4 "public official" within the meaning of 11 FSMC 1301(2).

5 8. Investments

6 8.1 The Secretary of Finance and staff members designated by
7 him will be fiduciaries with respect to the management of investment and
8 disbursement of funds on behalf of the States, the National Government
9 and the Federated Development Authority.

10 8.2 The Secretary of Finance, with the concurrence of the
11 Authority Policy Board, may select and contract with a public or private
12 sector investment counsel to manage the portfolio of investments. Such
13 investment counsel shall be a fiduciary with respect to services
14 rendered. Such fiduciary relationship shall be specified in a written
15 agreement between the investment counsel and the Secretary of Finance.

16 8.3 Funds invested will include all Compact and other funds
17 prior to drawdown by the Governments except Compact Section 221(b) funds.

18 8.4 The Secretary of Finance will maintain an Investment
19 Control Ledger with one account for each government.

20 8.5 Funds may be invested on an aggregate basis.

21 8.6 Net Earnings on invested funds will be credited to the
22 account of each government based on the proportion and duration of the
23 funds of a given government in the investment portfolio. "Net Earnings"
24 shall be defined as the excess of interest earned over costs of
25 administering the investments.

W&M1 9. Director of the Authority

2 The National Planner shall serve as the Director of the
3 Authority and shall provide necessary administrative support to the
4 Federated Development Authority.

5 10. Utilization of State and National Personnel by the Authority

6 The technical staff of the Authority will be drawn from the
7 existing staffs of the State and National Governments, to the extent
8 practicable. The Director of the Authority may request and assign
9 technical staff from the governments for temporary assignment with the
10 Authority, with the cost allocation of such assignment to be arranged by
11 the Director.

12 11. Annual Development Reports Required

13 No later than January 15 of each fiscal year, each government
14 will submit to the Authority an Annual Development Report for the prior
15 fiscal year, including:

16 (a) Material describing the implementation of the
17 relevant State or National portion of the OEDP in the prior year,
18 including how Compact funds were used in the achievement of the goals,
19 objectives and general and specific programs set forth in the relevant
20 portions of the OEDP; and

21 (b) Material describing amendments to the OEDP by the
22 respective government, and comparing the planned use of Compact funds as
23 projected in the OEDP with the actual use.

24 12. Annual Report on Authority Operations

25 No later than January 1 of each fiscal year, the Authority

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1 shall issue an Annual Report on Authority Operations during the prior
2 fiscal year to the Speakers of the Congress and the four State
3 legislatures. The report shall include:

4 (a) A description of the scope of technical assistance
5 and advice provided to the State and National Governments in the prior
6 fiscal year; and

7 (b) A comprehensive report on the investment activity
8 including net earnings on investments and cost of operations.

9 ARTICLE IV

10 General Provisions

11 1. Delegation of Authority

12 The President and each Governor may designate officials of the
13 National and State Governments, respectively, to act on their behalf
14 with respect to the duties and responsibilities vested in them by this
15 Agreement. Such designation shall be in writing.

16 2. Approval and Effective Date

17 This Agreement shall come into effect subsequent to:

18 (a) Execution by the President of the Federated States
19 of Micronesia and the Governor of each State;

20 (b) Submission, for review, to the Congress of the
21 Federated States of Micronesia and the legislature of each State; and

22 (c) The effective date of the Compact of Free
23 Association.

24 3. Amendment

25 The provisions of this Agreement may be amended at any time by

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1 mutual agreement of the Governments.

2 4. Termination

3 This Agreement may be terminated at any time by mutual
4 agreement of the Governments.

5 5. Duration

6 The provisions of this Agreement relating to the creation,
7 authority, and responsibilities of the Federated Development Authority
8 shall remain in full force and effect for five years after the effective
9 date of the Compact of Free Association, and may be extended thereafter
10 by mutual agreement of the Governments. The remaining provisions of
11 this Agreement shall remain in full force and effect during the
12 effectiveness of Title II of the Compact of Free Association.

13 6. Penalties

14 Any officer or employee of any State or the National
15 Government who shall knowingly and willfully violate paragraphs 6.2 and
16 6.3 of Article II of this Agreement shall, upon conviction, be subject
17 to the penalties specified in 55 FSMC 220.

18 7. Definitions

19 For purposes of this Agreement only, the following terms shall
20 have the following meanings:

21 (a) "Fiscal Procedures Agreement" means the "Agreement
22 concerning Procedures for the Implementation of United States Economic
23 Assistance, Programs and Services Provided in the Compact of Free
24 Association," entered into in June 1983 by the U.S. Government and the
25 FSM Government.

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1 (b) "OEDP" means the "Official Overall Economic
2 Development Plan," as defined in Sections 211(a)(4) and 461(1) of the
3 Compact and as further described in the Fiscal Procedures Agreement.

4 (c) "Memorandum of Understanding on the Division of
5 Grant Assistance" means the "Memorandum of Understanding with respect to
6 the Division of Grant Assistance under the Compact of Free Association
7 among the National and State Governments of the Federated States of
8 Micronesia," entered into in January and February 1984 by the State and
9 National Governments of the FSM.

10 (d) "Current account" means the current account funding
11 defined in Section 461(k) of the Compact and as further defined and
12 described in the Fiscal Procedures Agreement and this Agreement.

13 (e) "Capital account" means the capital account funding
14 defined in Sections 211 and 461(j) of the Compact and as further defined
15 and described in the Fiscal Procedures Agreement and this Agreement.

16 (f) "Program account" means the twelve Compact fund
17 types as specified in Compact Sections 212(b), 213(c), 214(c),
18 215(a)(3), 215(b)(3), 216(a)(1), 216(a)(2), 216(a)(3), 216(b),
19 221(a)(2), 221(b), and 221(c).

20 (g) "Current Account Program Funds" means Program
21 Account funds specified in the OEDP as being programmed for operational
22 type uses, and subject to quarterly drawdown.

23 (h) "Capital Account Program Funds" means Program
24 Account funds specified in the OEDP as being programmed for capital
25 account use, as defined in Article II, Section 3(f), of the Fiscal

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1 Procedures Agreement.

2 (i) "Fiscal year" means the fiscal year of the
3 Government of the United States commencing on the first day of October
4 of one calendar year and ending on the thirtieth day of September of the
5 following calendar year, or as may subsequently be provided by the laws
6 of the United States.

7 (j) "Federal Programs and Services Agreement" means the
8 "Federal Programs and Services Agreement Concluded Pursuant to Article
9 II of Title Two and Section 232 of the Compact of Free Association" as
10 executed on October 1, 1982, by the Government of the Federated States
11 of Micronesia and the Government of the United States.

12 (k) "Federated Development Authority" means an entity
13 with juridical existence organized in accordance with the laws of the
14 Government of the Federated States of Micronesia, subject to the control
15 of the FSM at least insofar as government accounts are concerned,
16 subject to the provisions of the Compact and the Fiscal Procedures
17 Agreement to the extent specified in the Fiscal Procedures Agreement and
18 described, by inclusion of its organization, in the OEDP and as further
19 defined and described in this Agreement.

20 (l) "Annual Report" means the Annual Report of the
21 President to the U.S. Government in compliance with Section 211(c) of
22 the Compact.

23 (m) "Existing commitment level" means the spending
24 level needed in a fiscal year to maintain existing activities and
25 including no new programs, travel or staff, limited equipment

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1 replacement and increases over the prior year based strictly on
2 increases of non-discretionary costs, such as utility cost, air fares,
3 personnel step or grade increases and inflation-driven-cost increases.

4 (n) "New expenditure level" means the spending level
5 requested for any new operational projects, programs, travel, staff,
6 contracts, equipment or other object or expenditure.

7 8. Concluding Provisions

8 (a) It is the solemn obligation of the National and
9 State Governments to uphold the provisions of this Agreement. They
10 pledge that they are so committed.

11 (b) Each of the Governments of the Federated States of
12 Micronesia shall take all necessary steps, of a general or particular
13 character, to ensure, not later than the effective date of the Compact
14 of Free Association, the conformity of its laws, regulations and
15 administrative procedures with the provisions of this Agreement."

16 (2) Compact Financial Assistance Fund. Funds deposited in
17 the Compact Financial Assistance Fund, created by paragraph 3 of article
18 II of the Agreement on Internal Budget and Finance Procedures under the
19 Compact of Free Association, shall be administered, allotted to the
20 State governments, obligated and transferred to the Federated
21 Development Authority, and drawn down by the State governments in
22 accordance with such Agreement, without requirement for an appropriation
23 by the National Government.

24 (3) Amendments to Agreement. Mutual agreement by the
25 Government of the Federated States of Micronesia as provided for in

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1 paragraphs 3, 4, and 5 of the Agreement on Internal Budget and Finance
2 Procedures under the Compact of Free Association which results in the
3 amendment, extension or termination of all or any part of such Agreement
4 shall be effected only by an act of the Congress.

5 (4) Reports. The President shall report immediately to the
6 Congress of the Federated States of Micronesia on any failure to comply
7 with the provisions of the Agreement on Internal Budget and Finance
8 Procedures under the Compact of Free Association and on any withholding
9 or withdrawal of allotment pursuant to paragraph 5.4 of article II of
10 the Agreement or this section.

11 (5) Compliance. If the President of the Federated States of
12 Micronesia determines that any government is not acting in compliance
13 with one or more provisions of the Compact of Free Association or its
14 related agreements, the Agreement on Internal Budget and Finance
15 Procedures under the Compact of Free Association, or rules and
16 regulations promulgated pursuant to such Agreement, he shall confer with
17 the appropriate government in an effort to remedy the effects of such
18 non-compliance and to ensure future compliance with such provisions.
19 The President may withhold or withdraw allotment of Compact financial
20 assistance until such time as such government has taken adequate steps
21 to comply with such provisions.

22 Section 2. Section 209 of title 55 of the Code of the Federated
23 States of Micronesia is hereby amended to read as follows:

24 "Section 209. Deposits to the General Fund.

25 (1) Unless otherwise provided by this act or

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1 other law, the following shall be deposited in the
2 General Fund:

3 (a) All public moneys raised or received by
4 the ~~Government of the~~ Federated States of Micronesia
5 National Government pursuant to laws imposing taxes on
6 income or other taxes, duties, or tariffs based on
7 imports, or other revenues collected based on fines,
8 fees, licenses, interests, rents, or other collections
9 of the Federated States of Micronesia ~~or the Trust~~
10 ~~Territory Government~~ made specifically applicable
11 within the jurisdiction of the Federated States of
12 Micronesia ~~shall be deposited in the General Fund,~~
13 ~~unless otherwise provided by law ;~~

14 (b) All funds allotted to the Federated
15 States of Micronesia National Government from the
16 Compact Financial Assistance Fund; and

17 (c) All other funds received by the
18 Federated States of Micronesia National Government from
19 the United States Government and designated for the
20 Federated States of Micronesia National Government.

21 (2) Compact of Free Association financial
22 assistance shall be accounted for in accordance with
23 financial accounting and reporting requirements of the
24 Compact.

25 (3) All balances of the United States Grant

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1 Special Fund are hereby transferred to, and deposited
2 in, the General Fund of the Federated States of
3 Micronesia."

4 Section 3. Section 210 of title 55 of the Code of the Federated
5 States of Micronesia is hereby repealed in its entirety.

6 Section 4. Section 211 of title 55 of the Code of the Federated
7 States of Micronesia, as established by Public Law No. 2-68, is hereby
8 amended to read as follows:

9 "Section ~~211~~ 210. United States Federal Program Fund.

10 (1) Definitions. The term "United States Federal
11 programs" shall include all funds made available to the
12 Federated States of Micronesia pursuant to sections
13 221(a), 221(c), and 224 (program funds) of the Compact
14 of Free Association and United States statute through
15 categorical, block, consolidated project, or
16 discretionary grants. It shall also include grants
17 received from any international or United Nations
18 organization. It shall not include other funds received
19 pursuant to the Compact of Free Association, or funds
20 received from the United States Department of the
21 Interior derived from its annual departmental budget, or
22 those funds known as transition funds, nor indirect
23 costs received for the administration of Federal
24 programs.

25 (2) Federal program review. Prior to the

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1 submittal of any application, proposal, or
2 preexpenditure report ~~to the Trust Territory~~
3 ~~administration of~~ to any United States Federal agency,
4 the President or his designee shall submit such
5 application, proposal, or preexpenditure report to the
6 Congress of the Federated States of Micronesia for its
7 review and approval by resolution. If Congress is not
8 in session, the appropriate committee shall review and
9 approve the application, proposal, or preexpenditure
10 report. The scope of such review shall be complete,
11 with the ability to approve any aspect of any
12 application, proposal, or preexpenditure. The approval
13 of any application, proposal, or preexpenditure report
14 by the appropriate committee shall not obligate funds
15 from the National Treasury where they were not otherwise
16 appropriated pursuant to law. The Congress or the
17 appropriate committee shall complete its review within
18 30 days of submission.

19 (3) United States Federal Program Fund. There is
20 hereby created within the National Treasury of the
21 Federated States of Micronesia a United States Federal
22 Program Fund into which all funds received by the
23 Federated States of Micronesia from United States
24 Federal program sources, as defined in subsection (1)
25 above, shall be deposited. The President or his

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1. designee shall notify Congress of grant awards and
2. deposits to the fund. Funds shall be administered and
3. withdrawn by the President or his designee. United
4. States Federal program funds shall be accounted for and
5. shall be in accordance with reporting requirements of
6. the United States Government. Initially, the United
7. States Federal Program Fund shall consist of all prior
8. year unobligated balances of United States Federal
9. program funds and all United States Federal program
10. funds designated for the National Government of the
11. Federated States of Micronesia and made available
12. beginning October 1, 1982."

13. Section 5. Section 213 of title 55 of the Code of the Federated
14. States of Micronesia, as amended by Public Laws Nos. 3-28 and 3-81, is
15. hereby further amended to read as follows:

16. "Section ~~211~~ 212. Capital Improvement Program Fund.

17. (1) There is hereby created within the National
18. Treasury of the Federated States of Micronesia a Capital
19. Improvement Program Fund.

20. (2) All United States grant funds, including
21. United States federal program funds, but excluding funds
22. made available pursuant to the Compact of Free
23. Association, allotted to the President of the Federated
24. States of Micronesia by the Trust Territory Government
25.

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1 or other agency of the United States Government
2 specifically for capital improvement projects in the
3 States shall be deposited in the Capital Improvement
4 Program Fund.

5 (3) United States grant funds and federal program
6 funds for the Capital Improvement Program shall include
7 funding for the development of the basic infrastructure
8 of the Federated States of Micronesia in conformance
9 with the intent of the original Capital Improvement
10 Program and other funding transferred under any
11 agreement between the National Government of the
12 Federated States of Micronesia and the Government of the
13 Trust Territory of the Pacific Islands, or other agency
14 of the United States Government, regarding the transfer
15 of capital improvement project funding and
16 administration.

17 (4) The President or his designee shall notify
18 Congress of all grant awards and deposits to the Capital
19 Improvement Program Fund.

20 (5) Any portion of capital improvement funding
21 made available to and accepted by the National
22 Government to cover its costs for the administration of
23 the Capital Improvement Program shall be deposited in
24 *the United States Grant Special Fund and may be*
25 *withdrawn by appropriation laws enacted by the Congress*

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1 of the Federated States of Micronesia in accordance with
2 section 210 of this act/ a Capital Improvement
3 Program Administration Account and shall be administered
4 and withdrawn by the President or his designee as needed
5 to meet costs for the administration of the Capital
6 Improvement Program.

7 (6) Deposits in the Capital Improvement Program
8 Fund shall be made available to and administered by the
9 President or his designee in accordance with written
10 agreements between the National Government of the
11 Federated States of Micronesia and the Trust Territory
12 Government or other agency of the United States
13 Government for the transfer of capital improvement
14 project funding and administration. The funds shall be
15 allocated among the States in accordance with the terms
16 of the appropriation laws of the United States, or by
17 the actions of the High Commissioner or other authorized
18 official of the United States Government pursuant to
19 authority set forth in the appropriation laws of the
20 United States. To the extent that the terms of the
21 appropriation laws of the United States do not allocate
22 such funds specifically to the States, and such laws do
23 not so empower the High Commissioner or an official of
24 the United State Government to act in this regard, or
25 the High Commissioner or official chooses not to act,

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1 such funds shall be allocated by the President in an
2 equitable manner which reflects the needs of each State,
3 subject to the approval of Congress by resolution. If
4 Congress is not in session, the appropriate committee
5 shall review and approve the manner of distribution of
6 the funds. The Congress or the appropriate committee
7 shall complete its review within 30 days of submission.
8 If the Congress or the appropriate committee fails to
9 act within 30 days of submission, the proposed
10 distribution of funds shall be deemed approved. The
11 President shall be the allottee of the funds and shall
12 have the authority to make suballotments to the
13 Governors at such times and in such manner as may be
14 required by sound financial management techniques. All
15 funds which have been allotted to the President or
16 suballotted to the Governors of the States shall be
17 administered, managed and accounted for in accordance
18 with applicable law, including, but not limited to, the
19 Financial Management Act of 1979, and regulations
20 pursuant thereto."

21 Section 6. Sections 211, 212, 213, 214, 215, 216, 217, 218, 219,
22 220, 221, 222, 223, 224, 225, 226, 227, and 228 of title 55 of the Code
23 of the Federated States of Micronesia are hereby renumbered as sections
24 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223,
25 224, 225, 226, and 227, respectively.

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1 Section 7. Section 102 of title 55 of the Code of the Federated
2 States of Micronesia is hereby amended to read as follows:

3 "Section 102. Definitions. When used in this chapter:

4 (1) 'Agency' means any agency, commission, authority,
5 board, bureau, or other organization of the National
6 Government established by law, and not specifically part of
7 one of the three branches of the National Government.

8 (2) 'Annual budget' refers to the annual request for
9 new obligation and expenditure authority during the ensuing
10 fiscal year by all branches and agencies of the National
11 Government for all purposes, including, but not limited to,
12 Government operations, ~~economic~~ development programs and
13 projects, capital improvement projects, special programs,
14 contributions, grants, and subsidies.

15 (3) 'Appropriation' refers to a law enacted by Congress
16 which authorizes the National Government to incur obligations
17 and to make payments out of the National Treasury in
18 accordance with law.

19 (4) 'Congress' refers to the Congress of the Federated
20 States of Micronesia.

21 (5) 'Fiscal year' refers to the twelve-month period
22 from October 1 of one calendar year through September 30 of
23 the succeeding calendar year.

24 (6) 'National Government' refers to the National
25 Government of the Federated States of Micronesia and includes

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1 all branches and agencies of the Government."

2 Section 8. Section 103 of title 55 of the Code of the Federated
3 States of Micronesia is hereby repealed in its entirety and a new
4 section 103 is hereby added to read as follows:

5 "Section 103. Annual budget.

6 (1) No later than May 1 of each year, the President
7 shall submit to the Congress a proposed budget for the
8 National Government for the ensuing fiscal year. The proposed
9 budget shall contain an operations budget and a development
10 budget, and include planned expenditures for all sources of
11 funds. The proposed budget shall set forth the following
12 information in such form and detail as the President may
13 determine or as the Congress may require by law:

14 (a) Planned operational expenditures for each
15 department and office of the executive branch, Congress, the
16 judicial branch, and agencies of the National Government other
17 than agencies or entities which receive National Government
18 appropriations on a subsidy, contribution, or grant basis, and
19 operational budget projections for each of the two subsequent
20 fiscal years;

21 (b) Planned development expenditures for the
22 ensuing fiscal year and development budget projections for
23 each of the two subsequent fiscal years, with details of all
24 development programs or projects to be funded or undertaken by
25 the National Government in the ensuing fiscal year, relating

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1 such programs and projects to specific development goals and
2 objectives set forth in the National Development Plan of the
3 Federated States of Micronesia, as approved by the Congress,
4 and indentifying any amendments to the program and project
5 listings contained in such plan; and

6 (c) Planned subsidies, contributions, or grants
7 for the ensuing fiscal year and projected subsidies,
8 contributions, or grants for each of the two subsequent fiscal
9 years, for the FSM Telecommunications Corporation, the College
10 of Micronesia, international and regional organizations, and
11 such other public and private entities as authorized by law.

12 (2) The President shall submit along with the annual
13 budget the following:

14 (a) A budget message which shall include such
15 supporting financial, statistical, program performance, and
16 other information and data and such recommendations as the
17 President may determine are in the public interest;

18 (b) Proposed legislation to appropriate funds for
19 the National Government during the ensuing fiscal year
20 reflecting the President's recommendations as contained in the
21 proposed budget;

22 (c) Anticipated revenues and other money to be
23 made available to the National Government from all sources in
24 the ensuing fiscal year and each of the two subsequent fiscal
25 years including, but not limited to, taxes, fees, fines,

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1 interest income, revenue from fishing agreements, Compact
2 financial assistance, United States Federal programs, foreign
3 financial and technical assistance, reimbursements, and loans;

4 (d) If the total of the planned expenditures
5 exceeds the total of the funds estimated to be available for
6 appropriation during the ensuing fiscal year, or the two
7 subsequent fiscal years, recommendations as to how the
8 deficiency is to be met, either through additional revenues or
9 reduced appropriations and expenditures;

10 (e) Statements of the balance of the General Fund
11 and any special funds of the National Treasury for the fiscal
12 year last concluded, including the actual revenue by source,
13 all appropriations, and the obligations and expenditures
14 pursuant to each appropriation;

15 (f) Statements of the projected balance of the
16 General Fund and any special funds of the National Treasury
17 for the fiscal year in progress including all appropriations,
18 estimated revenues by source, and anticipated obligations. If
19 the projected balance for any fund indicates a deficit,
20 recommendations as to how the deficiency is to be met;

21 (g) An analysis of major trends over the three
22 years budgeted regarding funding sources, spending emphases,
23 staffing levels, and program expansions and contractions; and

24 (h) Such other financial information and data as
25 may be necessary or desirable in order to make known in

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1 reasonable and practicable detail the financial condition of
2 the National Government.

3 (3) The Congress, the judicial branch, and agencies of
4 the National Government shall transmit to the President on or
5 before April 1 of each year or at such other time as the
6 President may determine, planned operational and development
7 expenditures for the ensuing fiscal year, budget projections
8 for each of the two subsequent fiscal years, and such other
9 information as the President may determine or as may be
10 required by law. The President shall include such planned
11 expenditures and budget projections in the proposed budget
12 without revision, but subject to his recommendations.

13 (4) The President is authorized to extend the date for
14 submission of a proposed budget as set forth in subsection (1)
15 of this section to no later than June 1, by submitting a
16 notification to the Congress with a statement of the reasons
17 for the extension. The Congress, on request of the President,
18 may, by resolution, extend the date for submission of a
19 proposed budget beyond June 1."

20 Section 9. Section 106 of title 55 of the Code of the Federated
21 States of Micronesia is hereby amended to read as follows:

22 "Section 106. Appropriations by Congress.

23 (1) The President shall submit along with the annual
24 budget proposed legislation to appropriate funds for the
25 National Government during the ensuing fiscal year. Such

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1 proposed legislation shall reflect the President's
2 recommendations contained in the annual budget. The Congress,
3 after receipt of the proposed budget from the President and no
4 later than August 29 of each year, shall by act, adopt the
5 annual budget of the National Government of the ensuing fiscal
6 year or adopt a continuing resolution for such fiscal year as
7 provided for in section 108 of this chapter.

8 (2) Congress may alter the budget submitted by the
9 President in any respect.

10 (3) The budget alteration authority of Congress shall
11 be executed by means of appropriations legislation.
12 Appropriations or authorizations for the expenditure of funds
13 shall be made by law, except as provided in section 108 of
14 this chapter.

15 (4) With respect to United States grant funds made
16 available to the National Government, the following additional
17 procedures and restrictions apply:

18 (a) Such funds may only be obligated and expended
19 pursuant to appropriations laws enacted by the Congress,
20 except as provided in section 108 of this chapter;

21 (b) Congress may deviate from the amounts
22 anticipated or provided for activities in grants of United
23 States funds by increasing or decreasing the amount up to the
24 limits of the reprogramming authority for which no prior
25 approval of the High Commissioner is required, as set forth in

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1 the grant and any administrative directives of the High
2 Commissioner. To the extent appropriations entail a
3 reprogramming of funds beyond the limits set by the High
4 Commissioner for reprogramming without prior approval, such
5 funds proposed for reprogramming shall not be allotted,
6 obligated, and expended unless and until such excess
7 reprogramming is approved by the High Commissioner in
8 accordance with United States Federal and Trust Territory
9 reprogramming procedures,

10 (c) The reprogramming effected by legislation
11 pursuant to Section 106(A)(b) plus any additional
12 reprogramming authority granted by law shall not exceed the
13 reprogramming limitations set forth in the grant and any
14 administrative directives of the High Commissioner. To the
15 extent cumulative proposed reprogramming by the National
16 Government exceeds the limits set by the High Commissioner for
17 reprogramming without prior approval, such funds proposed for
18 reprogramming shall not be allotted, obligated, or expended
19 unless and until such excess reprogramming is approved by the
20 High Commissioner in accordance with United States Federal and
21 Trust Territory reprogramming procedures,

22 (b 4) Congress may restrict by law the expenditure of
23 funds for a specific purpose."

24 Section 10. Section 107 of title 55 of the Code of the Federated
25 States of Micronesia is hereby amended to read as follows:

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1 "Section 107. Budget r Requests to the United States
2 Government. The President shall consult with the
3 Congress in the formulation and submission of all budget
4 requests made to the United States Government for
5 additional assistance, services, and programs pursuant to
6 section 211(c) or 224 of the Compact of Free Association."

7 Section 11. Section 108 of title 55 of the Code of the
8 Federated States of Micronesia is hereby amended to read as follows:

9 "Section 108. Continuing resolution. In the event a
10 budget has not become law prior to the beginning of a
11 fiscal year, the head of each branch of Government and
12 the head of each agency established by law may continue
13 to expend funds for National Government operations
14 expenses after the beginning of the fiscal year upon the
15 adoption by Congress of a continuing resolution. Such
16 expenditures shall be in accordance with appropriations
17 laws appropriating funds for the immediately preceding
18 fiscal year. A continuing resolution of the Congress
19 which would authorize the expenditure of United States
20 funds Compact financial assistance is hereby made
21 conditional on such funds being available to the National
22 Government as of the beginning of the relevant fiscal
23 year, either pursuant to a continuing resolution adopted
24 by the United States Congress or pursuant to
25 appropriation acts of the United States Congress."

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1 Section 12. Section 109 of title 55 of the Code of the
2 Federated States of Micronesia is hereby amended to read as follows:

3 "Section 109. Emergency account. In the event of a
4 major natural disaster requiring immediate Governmental
5 action, an emergency account shall be established in the
6 Department of Finance. All Governmental expenses related
7 to such emergency shall be charged to such account. The
8 President is hereby authorized to reprogram up to \$20,000
9 of the funds appropriated from local revenues or other
10 funds not dedicated to specific purposes under the
11 Compact of Free Association or other agreements with
12 foreign governments to such account. The President shall
13 present funding requests to the Congress to cover
14 emergency expenditures."

15 Section 13. Effective date. This act shall become law upon
16 approval by the President of the Federated States of Micronesia or
17 upon its becoming law without such approval and shall take effect
18 upon the effective date of the Compact of Free Association.

Date: 7/23/85Introduced by: John R. HagelgamJohn R. Hagelgam
(by request)