United States Government Accountability Office

Testimony
Before the Committee on Energy and Natural Resources, U.S. Senate

For Release on Delivery
Expected at 10 a.m. ET
Tuesday, April 5, 2016

COMPACTS OF FREE ASSOCIATION

Issues Associated with Implementation in Palau, Micronesia, and the Marshall Islands

Statement of David Gootnick, Director, International Affairs and Trade

Accessible Version

GAO-16-550T

GAO Highlights

Highlights of GAO-16-550T, a testimony before the Committee on Energy and Natural Resources, U.S. Senate.

April 5, 2016

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Why GAO Did This Study

U.S. compacts with the FSM and the RMI entered into force in 1986 and were amended in 2003. A compact with Palau entered into force in 1994. Legislation pending before the Senate would approve, provide funding for, and make modifications to a 2010 agreement between the U.S. and Palau governments regarding their compact.

Under the compacts, the United States provides each country with, among other things, economic assistance—including grants and contributions to a trust fund; access to certain federal services and programs; and permission for citizens of the three countries to migrate to the United States and its territories without regard to visa and labor certification requirements. Guam, Hawaii, the Commonwealth of the Northern Mariana Islands, and American Samoa, which are designated in law as jurisdictions affected by compact migration, receive grants to aid in defraying the cost of services to migrants.

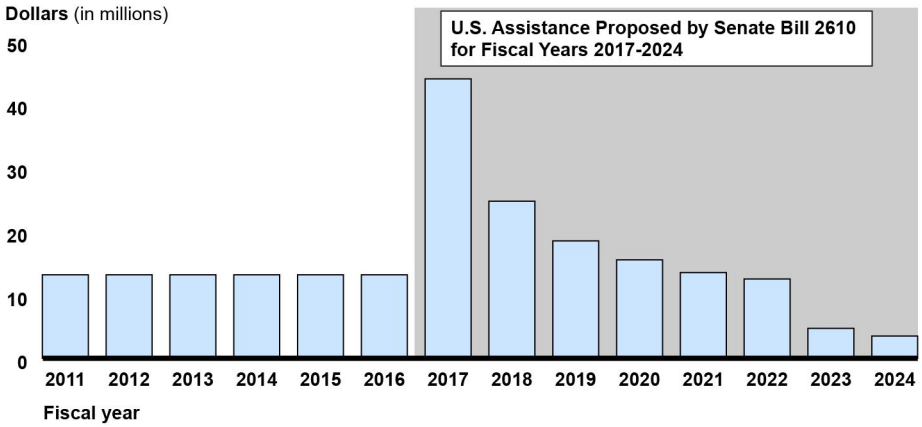
This testimony examines (1) the potential impact of the proposed legislation approving the 2010 Palau agreement, (2) challenges affecting implementation of the FSM and RMI compacts, and (3) migration from the FSM, RMI, and Palau and its impacts on U.S. areas. For this statement, GAO summarized previous reports issued in 2007 through 2013 and incorporated updated information from Palau, the Department of the Interior, and affected jurisdictions. GAO is not making any new recommendations in this testimony. GAO has made recommendations in its prior reports, some of which have not yet been addressed.

View GAO-16-550T. For more information, contact David B. Gootnick at (202) 512-3149 or gootnickd@gao.gov.

What GAO Found

If enacted, Senate Bill 2610 (S. 2610) would change the schedule for U.S. assistance to the Republic of Palau and improve prospects for Palau's compact trust fund. S. 2610 would approve a 2010 agreement between the U.S. and Palau governments and provide annual assistance to Palau through 2024. Congress has not approved legislation to implement the 2010 agreement, which scheduled $216 million in U.S. assistance for fiscal years 2011 through 2024. Since 2011, the United States has provided $79 million in economic assistance to Palau through annual appropriations. However, this amount was less than anticipated under the agreement and has not included trust fund contributions. S. 2610 would modify the agreement schedule to provide the remaining $137 million in fiscal years 2017 through 2024, including a $20 million trust fund contribution in 2017 and smaller contributions in later years (see fig.).

U.S. Assistance to Palau Provided in Fiscal Years 2011-2016 and Proposed by Senate Bill 2610 for Fiscal Years 2017-2024



Source: GAO analysis of Senate bill 2610 (S. 2610), 114th Cong. (2016) (as introduced in the Senate) and Department of the Interior documents. | GAO-16-550T

The Federated States of Micronesia (FSM) and Republic of the Marshall Islands (RMI) face challenges to achieving the compact goals of economic growth and self-sufficiency. GAO previously found that neither country has made significant progress on reforms and compact implementation has been characterized by unreliable performance data and by accountability and oversight challenges.

GAO has previously reported on the growth of migrant populations from Palau, the FSM, and RMI in U.S. areas as well as the reported impacts of these compact migrants. In Guam, Hawaii, and the Commonwealth of the Northern Mariana Islands—areas Congress has deemed affected jurisdictions—compact migrants increased from about 21,000 in 2003 to about 35,000 in 2013. In fiscal years 2004 through 2016, the Department of the Interior provided approximately $409 million to affected jurisdictions to aid in defraying costs, such as for education and health services, attributable to compact migrants. In contrast, affected jurisdictions estimated costs of $2.1 billion for these services in 2003 through 2014. However, GAO has noted that these estimates have limitations related to accuracy, documentation, and comprehensiveness.

Chairwoman Murkowski, Ranking Member Cantwell, and Members of the Committee:

Thank you for this opportunity to discuss our prior work on U.S. Compacts of Free Association with the Freely Associated States (FAS) of the Pacific—the Republic of Palau, the Republic of the Marshall Islands (RMI), and the Federated States of Micronesia (FSM). In recent years, we have testified on several aspects of compact implementation, including analyses of a September 2010 agreement with the Palau government (2010 agreement) to provide assistance to Palau,[1] challenges to FSM and RMI compact progress and management, and the impact of migration from the FAS to U.S. areas.[2] As Congress considers legislation approving the 2010 agreement, my statement today will examine the proposed legislation's potential effects on U.S. assistance outlined in the 2010 agreement, including contributions to a trust fund established for Palau under the U.S.–Palau compact (compact trust fund).[3] I will also summarize and update our previous reporting on challenges in FSM and RMI compact implementation and on migration from the FAS (compact migration) and its impacts on U.S. areas, including updates on the status of actions to address selected prior recommendations.

To examine the proposed legislation's potential effects on U.S. assistance outlined in the 2010 agreement, we reviewed the bill pending before the

[1] *The Agreement between the Government of the United States of America and the Government of the Republic of Palau Following the Compact of Free Association Section 432 Review* (Sept. 3, 2010).

[2] See GAO, *Compacts of Free Association: Action Needed to Improve Oversight and Accountability of U.S. Assistance to Micronesia and the Marshall Islands*, GAO-14-243T (Washington, D.C.: Jan. 7, 2014); *Compacts of Free Association: Guidelines Needed to Support Reliable Estimates of Cost Impacts of Growing Migration*, GAO-13-773T (Washington, D.C.: July 11, 2013); *Compact of Free Association: Proposed U.S. Assistance to Palau through Fiscal Year 2024*, GAO-12-798T (Washington, D.C.: Sept. 10, 2012); *Compact of Free Association: Micronesia Faces Challenges to Achieving Compact Goals*, GAO-08-859T (Washington, D.C.: June 10, 2008); *Compact of Free Association: Implementation Activities Have Progressed, but the Marshall Islands Faces Challenges to Achieving Long-Term Compact Goals*, GAO-07-1258T (Washington, D.C.: Sept. 25, 2007).

[3] See S. 2610, 114th Cong. (as introduced in the Senate) and H.R. 4531, 114th Cong. (as introduced in the House). This testimony discusses only S. 2610.

Senate, Senate Bill 2610 (S. 2610), introduced in March 2016;[4] analyzed U.S. economic assistance to Palau over the past 6 fiscal years; and updated our projections for Palau's compact trust fund. To discuss challenges in compact implementation, we relied primarily on prior reports on FSM and RMI compact trust fund and grant management that we issued from fiscal year 2007 through fiscal year 2013 as well as agency responses to our prior recommendations. To describe the impacts of compact migration on U.S. areas, we primarily relied on our prior report issued in 2011 and updated our previous analysis of reported cost impacts based on subsequent information obtained from the Department of the Interior (Interior), Hawaii, Guam, and the Commonwealth of the Northern Mariana Islands (CNMI). We also reviewed information provided by Interior to update the status of its response to our previous recommendations to address the impact of compact migration. Detailed information on the scope and methodology for our prior work summarized in this testimony can be found in the reports cited.[5]

We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[4]S. 2610 would amend Title I of Public Law 99-658; approve the results of a 15-year review of the compact, including the 2010 agreement; and appropriate funds for the purposes of amended Public Law 99-658, to carry out the agreements resulting from the review. S. 2610 (as introduced in the Senate). S.2610 also extends eligibility of the people, government, and institutions of Palau for certain discretionary programs, including special education and Pell grants, to 2024.

[5]See GAO, *Compacts of Free Association: Micronesia and the Marshall Islands Continue to Face Challenges Measuring Progress and Ensuring Accountability*, GAO-13-675 (Washington, D.C.: Sept. 20, 2013); *Compacts of Free Association: Improvements Needed to Assess and Address Growing Migration*, GAO-12-64 (Washington, D.C.: Nov. 14, 2011); *Compact of Free Association: Palau's Use of and Accountability for U.S. Assistance and Prospects for Economic Self Sufficiency*, GAO-08-732 (Washington, D.C.: June 10, 2008); *Compacts of Free Association: Trust Funds for Micronesia and the Marshall Islands May Not Provide Sustainable Income*, GAO-07-513 (Washington, D.C.: June 15, 2007); *Compacts of Free Association: Micronesia and the Marshall Islands Face Challenges in Planning for Sustainability, Measuring Progress, and Ensuring Accountability*, GAO-07-163 (Washington, D.C.: Dec. 15, 2006); *Compacts of Free Association: Development Prospects Remain Limited for Micronesia and Marshall Islands*, GAO-06-590 (Washington, D.C.: June 27, 2006).

Background

U.S. relations with the FAS began when American forces liberated the islands near the end of World War II. In 1947, the United Nations assigned the United States administering authority over the Trust Territory of the Pacific Islands, which included what are now the Republic of Palau, the FSM, and the RMI. Interior's Office of Insular Affairs (OIA) has primary responsibility for monitoring and coordinating all U.S. assistance to the FAS, and the Department of State is responsible for government-to-government relations. All three compacts give the United States responsibility for the defense of the FAS and provide the United States with exclusive military use rights in these countries. According to the Department of Defense, the compacts have enabled it to maintain critical access in the Asia–Pacific region.[6]

In 2014, Palau had the smallest population of the three nations, but its per capita gross domestic product (GDP) was about four times greater than the FSM's or the RMI's[7] (see table 1). Economic growth has varied among the three nations. After adjustment for inflation, per capita GDP in the FSM was unchanged from 2004 to 2014 but grew by 11 percent in the RMI and 8 percent in Palau.

Table 1: Freely Associated States' Population, Gross Domestic Product (GDP), and Income, 2014

	Federated States of Micronesia	Republic of the Marshall Islands	Republic of Palau
Population	102,166	53,753	17,708
GDP	$318.1 million	$186.7 million	$249.1 million
Per capita GDP	$3,115	$3,474	$14,066

Source: Graduate School USA, Pacific Islands Training Initiative, *Federated States of Micronesia Fiscal Year 2014 Economic Review* (September 2015); *Republic of the Marshall Islands Fiscal Year 2014 Economic Review* (September 2015); *Republic of Palau Fiscal Year 2014 Economic Review* (August 2015). | GAO-16-550T

[6]See testimony before the Senate Committee on Energy and Natural Resources of Vikram J. Singh, Deputy Assistant Secretary of Defense for South and Southeast Asia, Office of the Secretary of Defense for Policy, July 11, 2013.

[7]Historically, Palau's private sector has relied heavily on foreign workers, mostly from the Philippines. For example, we reported in 2008 that since 1994 foreign workers, as registered with Palau's Social Security Office, had grown to account for half of Palau's total labor force. Because many of these foreign workers send wage income back to their home nations, in 2005 the annual net outflow of remittances from Palau equaled an estimated 5.5 percent of its GDP.

Palau Compact

The U.S. and Palau governments concluded their Compact of Free Association in 1986, and the compact entered into force on October 1, 1994. Key provisions of the Palau compact address the sovereignty of Palau, types and amounts of U.S. assistance, security and defense authorities, and periodic reviews of compact terms. (See app. I for a table summarizing the key provisions of the Palau compact.) In fiscal years 1995 through 2009, the United States provided about $574 million in compact assistance to Palau, including $70 million to establish Palau's compact trust fund and $149 million for road construction.[8] In addition, U.S. agencies—the Department of Education, the Department of Health and Human Services (HHS), and Interior, among others—provided assistance to Palau through discretionary federal programs as authorized by U.S. legislation and with appropriations from Congress.

On September 3, 2010, the governments of the United States and Palau reached an agreement to extend U.S. assistance to Palau, totaling approximately $216 million in fiscal years 2011 through 2024.[9] The planned assistance included extending direct economic assistance to Palau, providing infrastructure project grants and contributions to an infrastructure maintenance fund, establishing a fiscal consolidation fund, and making changes to the compact trust fund.[10]

FSM and RMI Compacts

1986 Compact

The 1986 Compact of Free Association between the United States, the FSM, and the RMI provided a framework for the United States to work toward achieving its three main goals: (1) to secure self-government for the FSM and the RMI, (2) to assist the FSM and the RMI in their efforts to advance economic development and self-sufficiency, and (3) to ensure

[8]In this testimony, all dollar amounts are nominal (i.e., not adjusted for inflation) unless otherwise indicated.

[9]Interior reports that the 2010 agreement provides $229 million to Palau for fiscal years 2010 through 2024. The agreement, signed on September 3, 2010, acknowledged that the United States provided $13.25 million in economic assistance to Palau in fiscal year 2010. Actual economic assistance provided by the United States to Palau was $13.147 million in fiscal year 2010. We are reporting the assistance cited in the 2010 agreement for fiscal years 2011 through 2024.

[10]GAO-12-798T.

certain national security rights for all of the parties. The second goal of the compact—advancing economic development and self-sufficiency for both countries—was to be accomplished primarily through U.S. direct financial payments (to be disbursed and monitored by Interior) to the FSM and the RMI. Under the 1986 compact, U.S. assistance to the FSM and the RMI to support economic development was estimated, on the basis of Interior data, at about $2.1 billion in fiscal years 1987 through 2003. In addition, other U.S. agencies provided assistance to the FSM and RMI in the form of grants, services, technical assistance, and loans.

2003 Amended Compacts

In 2003, the United States approved separate amended compacts with the FSM and the RMI.[11] The amended compacts provide for direct financial assistance to the FSM and the RMI in fiscal years 2004 through 2023, decreasing in most years, with the amount of the decrements to be deposited in trust funds for the two nations established under the amended compacts. The amended compacts' enabling legislation authorized and appropriated funds for the compact trust funds. The trust funds are to contribute to the economic advancement and long-term budgetary self-reliance of each government by providing an annual source of revenue after fiscal year 2023. After the grants end in fiscal year 2023, trust fund proceeds are to be used for the same purposes as grant assistance, or as mutually agreed, with priorities in education and health care. (See app. II for further information about planned U.S. trust fund contributions and grants to the FSM and RMI through fiscal year 2023.)

The amended compacts identify the additional 20 years of assistance—primarily in the form of annual sector grants and contributions to the compact trust fund for each country—as intended to assist the FSM and RMI governments in their efforts to promote the economic advancement and budgetary self-reliance of their people. The amended compacts and their subsidiary agreements, along with the countries' development plans, target the grant assistance to six sectors—education, health, public infrastructure, the environment, public sector capacity building, and private sector development—prioritizing two sectors, education and health. Interior projects that it will provide the FSM $2.1 billion under the compact, while economic assistance and trust fund contributions to the

[11]Compact of Free Association Amendments Act of 2003, Pub. L. No. 108-188, December 17, 2003. In this testimony, the act is referred to as "the amended compacts' enabling legislation."

RMI will total $1 billion in fiscal years 2019 through 2023.[12] The amended compacts also provided for a joint economic management committee for the FSM and a joint management and financial accountability committee for the RMI to promote the effective use of compact funding. In practice, the committees allocate grants and attach terms and conditions to grant awards through resolutions, which the committees discuss and vote on at their meetings.

OIA has responsibility for administration and oversight of the FSM and RMI compact grants.[13] The public law implementing the amended compacts required the President to submit annual reports to Congress regarding the FSM and RMI, a reporting requirement that has been delegated to the Secretary of the Interior. Every 5 years, these annual reports are to include additional information, including findings and recommendations, pertaining to reviews that are required by law to be conducted at 5-year intervals.[14]

Compact Migration

The compacts provide for FAS citizens to enter and reside indefinitely in the United States, including its territories, without regard to the Immigration and Nationality Act's visa and labor certification requirements. Since the compacts went into effect, thousands of migrants from the FAS have established residence in U.S. areas, particularly in Guam, Hawaii, and the CNMI. In the 2003 amended compacts' enabling legislation, Congress authorized and appropriated $30 million annually for 20 years for grants to Guam, Hawaii, the CNMI, and American Samoa, which it deemed affected jurisdictions, and authorized additional

[12]The RMI amended compact also continued the U.S. defense relationship with the RMI, including a new agreement providing U.S. military access to Kwajalein Atoll in the RMI through 2086.

[13]OIA is also responsible for overseeing the use of a supplemental education grant that the amended compacts' implementing legislation authorized through 2023. In addition, other federal agencies provide other program assistance to the FSM and RMI.

[14]Under the amended compacts' enabling legislation, the U.S. government is to conduct 5-year reviews of the terms of the compacts and consider the overall nature and development of the U.S.–FSM and U.S.–RMI relationships, including general social, political, and economic conditions; the use and effectiveness of U.S. financial, program, and technical assistance; the status of economic policy reforms; the status of efforts to increase investment; and recommendations on ways to increase the effectiveness of U.S. assistance and to meet overall performance objectives. Compact of Free Association Amendments Act of 2003, Pub. L. No.108-188, § 104(h), December 17, 2003.

appropriations. The $30 million annual appropriation is to aid in defraying costs incurred by these jurisdictions as a result of increased demand for health, educational, social, or public safety services, or for infrastructure related to such services, due to the residence of compact migrants in their jurisdiction.[15] Congress directed Interior to divide the $30 million compact impact grants among the affected jurisdictions in proportion to the most recent enumeration of those compact migrants residing in each jurisdiction. The U.S. Bureau of the Census (Census) conducted these enumerations in 2003, 2008, and 2013.

Proposed Legislation Would Change Palau Assistance Schedule and Improve Prospects for Compact Trust Fund

If enacted, S. 2610 would approve, provide funding for, and make modifications to the September 2010 agreement between the governments of the United States and Palau regarding their compact. S. 2610 would not greatly alter the total U.S. assistance to Palau for fiscal years 2011 through 2024 specified in the 2010 agreement. However, S. 2610 would make changes to the provision of assistance outlined in the agreement in line with the reduction in U.S. assistance in fiscal years 2011 through 2016 from that planned in the 2010 agreement. The annual trust fund contributions and withdrawal conditions that S. 2610 details would improve the fund's prospects for sustaining scheduled payments through fiscal year 2044.

S. 2610 Maintains Assistance to Palau at About $216 Million but Would Modify Assistance Schedule

Under S. 2610, U.S. assistance to Palau would total about $216 million—approximately equal to the amount specified in the 2010 agreement—for fiscal years 2011 to 2024.[16] However, after 2016, larger amounts of assistance would be provided under S. 2610 than the annual amounts scheduled under the 2010 agreement. Under the 2010 agreement, which has not been implemented, annual U.S. assistance to Palau would have declined over

[15]In this testimony, "compact migrants" refers to persons from the FSM, the RMI, and Palau and their children younger than 18 years who, pursuant to the compacts, were admitted to, or have resided in, U.S. areas since 1986 for the FSM and the RMI and 1994 for Palau.

[16]Other provisions in the 2010 agreement would define reporting and auditing requirements and passport requirements. The 2010 agreement would require that, by 2018, Palau resolve all deficiencies identified in annual single audit reports, which are required by the compact's fiscal procedures agreement, such that no single audit report recommendations or deficiencies dating from before 2016 remain. In addition, the 2010 agreement alters the entry procedures for citizens of Palau visiting the United States, requiring them to present a valid machine-readable passport to travel to the United States.

14 years from roughly $28 million in 2011 to $2 million in 2024. The 2010 agreement includes the following:

- *Direct economic assistance* ($107.5 million). The 2010 agreement would provide direct economic assistance—budgetary support for Palau government operations and specific needs such as administration of justice and public safety, health, and education—of $13 million in 2011, declining to $2 million by 2023. The 2010 agreement also calls for the U.S. and Palau governments to establish a five-member Advisory Group to provide annual recommendations and timelines for economic, financial, and management reforms. The Advisory Group must report on Palau's progress in implementing these or other reforms, prior to annual U.S.–Palau economic consultations.[17] These consultations are to review Palau's progress in achieving reforms[18] such as improving fiscal management, reducing the public sector workforce and salaries, reducing government subsidization of utilities, and implementing tax reform. If the U.S. government determines that Palau has not made significant progress in implementing meaningful reforms, direct assistance payments may be delayed until the U.S. government determines that Palau has made sufficient progress.

- *Infrastructure projects* ($40 million). Under the 2010 agreement, the U.S. government would provide U.S. infrastructure project grants to Palau for mutually agreed infrastructure projects—$8 million in 2011 through 2013, $6 million in 2014, and $5 million in both 2015 and 2016. The 2010 agreement requires Palau to provide a detailed project budget and certified scope of work for any projects receiving these funds.

[17]The 2010 agreement requires that Palau undertake economic, legislative, financial, and management reforms giving due consideration to those identified by the International Monetary Fund; the Asian Development Bank; and other creditable institutions, organizations, or professional firms.

[18]The compact requires that the United States and Palau consult annually regarding Palau's economic activities and progress in the previous year, as described in a report that Palau must submit each year. In 2008, we reported that Palau had met reporting conditions associated with direct assistance but that, contrary to compact requirements, the bilateral economic consultations had not occurred on an annual basis; and had been informal and resulted in no written records. See GAO-08-732.

- *Infrastructure maintenance fund ($28 million).* The 2010 agreement stipulates that the United States make contributions to a fund to be used for maintenance of U.S.-financed major capital improvement projects, including the Compact Road and Airai International Airport.[19] From 2011 through 2024, the U.S. government would contribute $2 million annually, and the Palau government would contribute $600,000 annually to the fund.[20]

- *Fiscal consolidation fund ($10 million).* The 2010 agreement states that the United States would provide grants of $5 million each in 2011 and 2012, respectively, to help the Palau government reduce its debts. Unless agreed to in writing by the U.S. government, these grants cannot be used to pay any entity owned or controlled by a member of the government or his or her family, or any entity from which a member of the government derives income. U.S. creditors must receive priority, and the government of Palau must report quarterly on the use of the grants until they are expended.

- *Trust fund ($30.25 million).* The 2010 agreement provides for the United States to contribute $30.25 million to the fund from 2013 through 2023. The government of Palau would reduce its previously scheduled withdrawals from the fund by $89 million.[21] From 2024 through 2044, Palau can withdraw up to $15 million annually, as originally scheduled. Moneys from the trust fund account cannot be spent on state block grants, operations of the office of the President of Palau, the Olibiil Era Kelulau (Palau national congress), or the Palau judiciary. Palau must use $15 million of the combined total of the trust

[19]In 2008, we reported that Palau and U.S. officials had expressed concerns about Palau's ability to maintain the Compact Road in a condition that would allow for the desired economic development. We also reported that Palau made initial efforts to maintain the road, but at levels that would cause the road to deteriorate over time and would not provide the economic development benefits envisioned for the people of Palau. See GAO-08-732.

[20]Under the compact, Palau owes the United States a total of $3 million. Under the 2010 agreement, Palau would deposit $3 million in the infrastructure maintenance fund but not expend it. Any future income derived from the $3 million must be used exclusively for the maintenance of the Compact Road.

[21]Under the 2010 agreement, Palau would withdraw $5 million annually through 2013 and gradually increase its maximum withdrawal from $5.25 million in 2014 to $13 million in 2023.

fund disbursements and direct economic assistance exclusively for education, health, and the administration of justice and public safety.

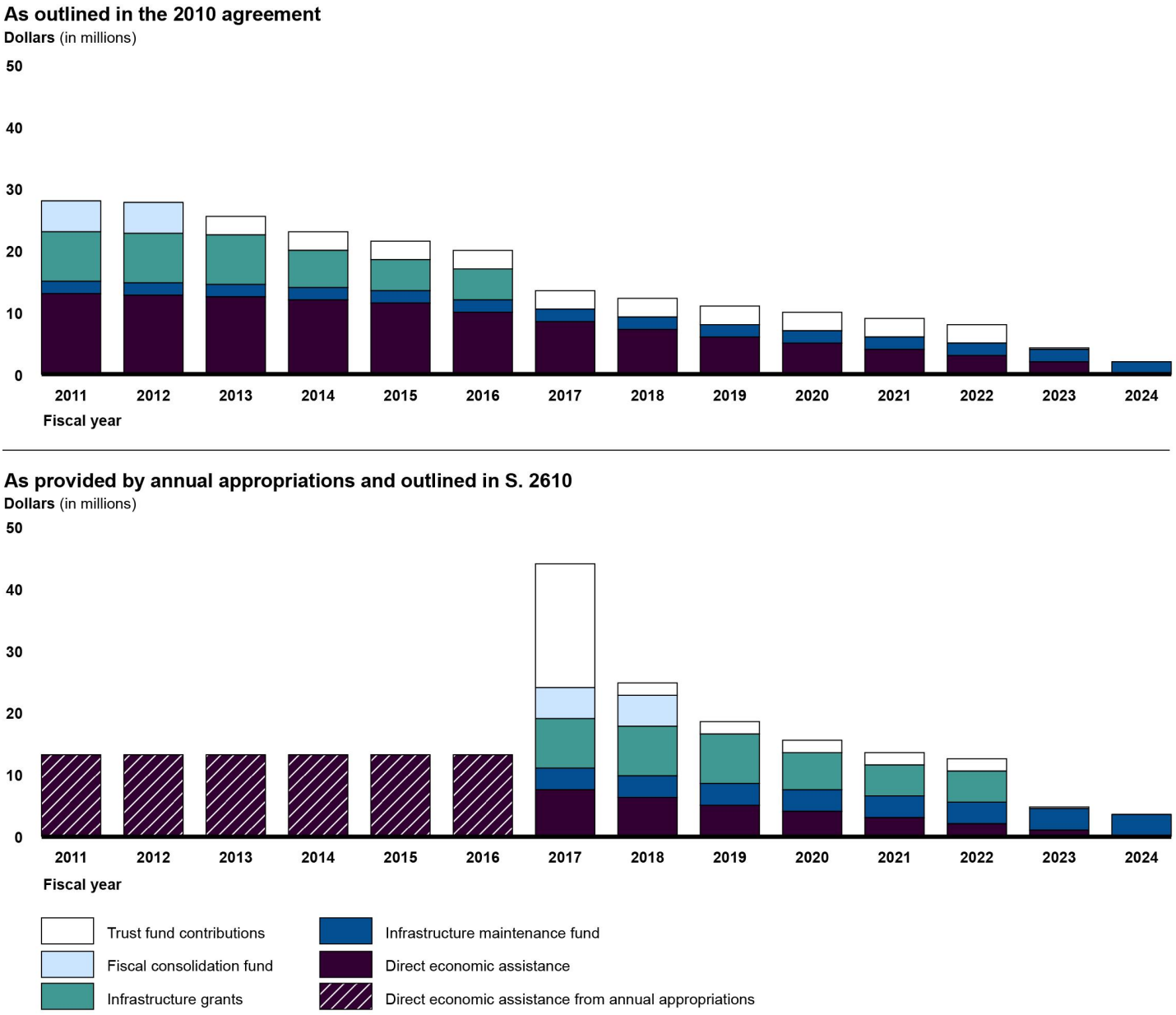
If enacted, S. 2610 would increase the total annual assistance to Palau in fiscal years 2017 through 2024 over that which was scheduled in the 2010 agreement. This increase would be in line with the lower than scheduled amount of annual U.S. assistance that has been provided to Palau since 2011. Specifically, Congress has not passed legislation to approve the agreement, and Interior has provided Palau with a total of $78.88 million in direct economic assistance from annual appropriations—$13.147 million in each fiscal year from 2011 through 2016. The amount provided was approximately $67 million less than the amount outlined for those years in the 2010 agreement, and it included no contributions to the Palau trust fund. S. 2610 outlines changes in the schedule for contributing approximately $137 million with larger total contributions in fiscal years 2017 through 2024, which would amount to approximately the same total assistance specified in the 2010 agreement, $216 million.[22] S. 2610 would make the following changes to the contribution schedule:

- Rescheduling U.S. contributions to Palau's trust fund, with a $20 million contribution in fiscal year 2017, $2 million annually through fiscal year 2022, and $250,000 in fiscal year 2023.
- Rescheduling U.S. contributions to Palau's infrastructure maintenance fund and fiscal consolidation fund, infrastructure project grants, and direct economic assistance.

Figure 1 contrasts the scheduled annual assistance to Palau under the 2010 agreement with the contribution schedule under S. 2610. (See app. III for additional details on the schedule of U.S. assistance to Palau in the 2010 agreement and as modified in the provisions of S. 2610.)

[22]If S. 2610 is enacted, the total amount of direct economic assistance provided to Palau in fiscal years 2011 through 2024, including the $78.88 million of direct economic assistance provided by Interior in fiscal years 2011 through 2016, would total $100,000 more than the amount scheduled in the 2010 agreement for fiscal years 2011 through 2024. According to Interior, the difference between the total direct economic assistance detailed in S. 2610 and the amount scheduled in the 2010 agreement reflects the fact that Palau received $13.147 million in fiscal year 2010, whereas the 2010 agreement indicated that the United States would provide Palau $13.25 in economic assistance in fiscal year 2010.

Figure 1: U.S. Assistance to Palau for Fiscal Years 2011–2024



Source: GAO analysis of Senate bill 2610 (S. 2610), 114th Cong. (2016) (as introduced in the Senate); Department of the Interior documents; and the Agreement between the Government of the United States of America and the Government of the Republic of Palau Following the Compact of Free Association Section 432 Review (Sept. 3, 2010) (the 2010 agreement). | GAO-16-550T

Notes: Years are fiscal (Oct. 1–Sept. 30) and dollar amounts are nominal (i.e., unadjusted for inflation). Compact federal services and discretionary federal programs are not included in this analysis.

S. 2610 would also place conditions on the provision of assistance to Palau. Under the bill, if Palau withdraws more than $5 million from the trust fund in fiscal year 2016 or more than $8 million in fiscal year 2017, additional assistance would be withheld until Palau reimbursed the trust fund for the amounts that exceed the $5 million for fiscal year 2016 or the $8 million for fiscal year 2017.[23] S. 2610 would not otherwise alter the withdrawal schedule outlined in the 2010 agreement. In the 2010 agreement, Palau agreed to a maximum withdrawal of $5 million annually in fiscal years 2011 through 2013, with the maximum subsequently increasing in increments through fiscal year 2023 to $13 million. Under the 2010 agreement, Palau agreed to withdraw up to $6.75 million in fiscal year 2016; under S. 2610, Palau would be able to withdraw up to $5 million in fiscal year 2016 without having assistance withheld.[24] Furthermore, Palau did not commit to a withdrawal schedule beyond 2023 in the 2010 agreement. However, the compact details an annual distribution goal of $15 million for 2024 through 2044 from the trust fund.

Proposed Legislation Would Improve Long-Term Prospects for Palau's Trust Fund

The contributions to, and conditions on withdrawals from, Palau's compact trust fund that S. 2610 outlines would improve the fund's prospects for sustaining payments beyond fiscal year 2044. At the end of fiscal year 2015, the trust fund had a balance of nearly $184 million. With or without the contributions and conditions that S. 2610 would provide, the trust fund would be sustained through fiscal year 2044 if it maintains the 7.6 percent compounded annual rate of return it earned from inception through fiscal year 2015. However, given this historical rate of return, the account balance at the end of fiscal year 2044 would be dramatically lower without the contributions and conditions outlined in S. 2610—about $32 million—than it would be with them—about $521 million.[25] The balances with and without these contributions equal $18 million

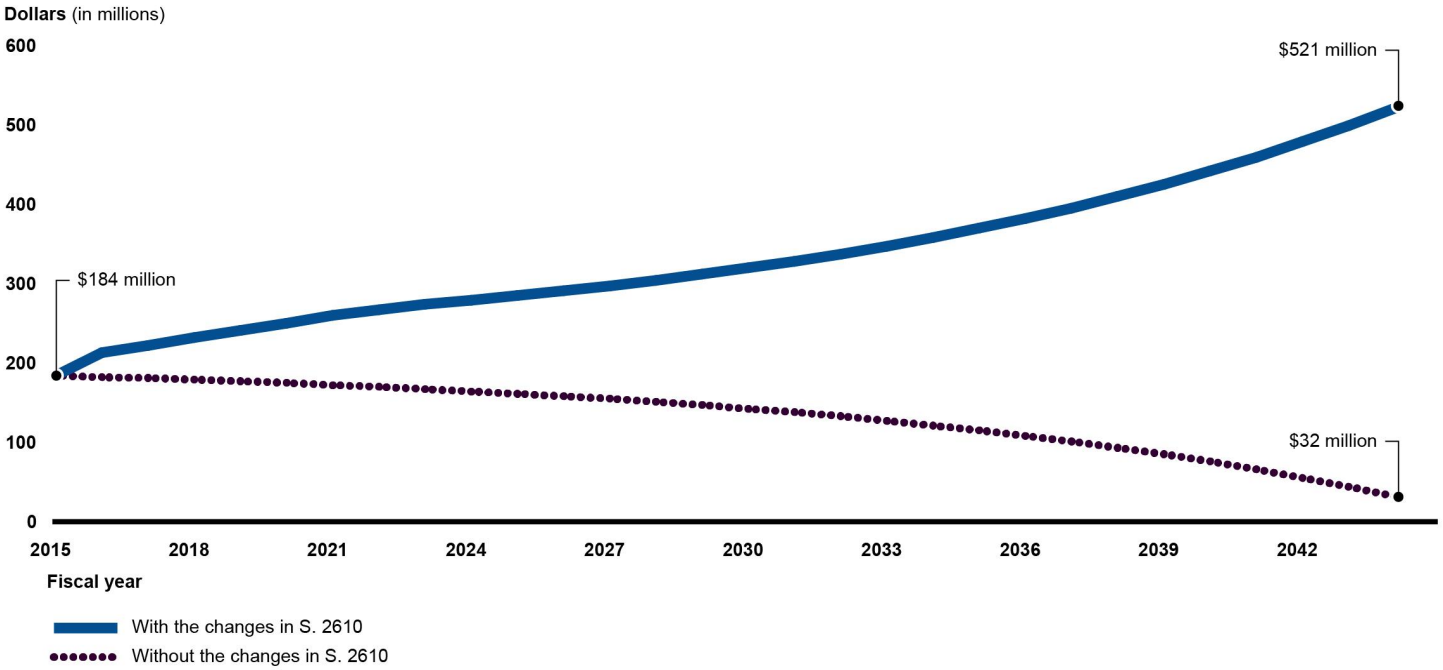
[23]Funding for the trust fund, the infrastructure maintenance fund, the fiscal consolidation fund, and direct economic assistance would be withheld.

[24]Under S. 2610, Palau would be able to withdraw a maximum of $8 million in fiscal year 2017—the same limit specified by the 2010 agreement—without having assistance withheld.

[25]This analysis assumes a rate of return of 7.6 percent, the historical rate that the fund has earned since its inception.

and $292 million, respectively, in 2015 inflation-adjusted dollars.[26] Figure 2 compares the fund balance at the historical rate of return with and without the changes outlined in S. 2610.

Figure 2: Projected Palau Trust Fund Balance in Fiscal Years 2015–2044 at Historical Rate of Return with and without Changes Outlined in S. 2610



Source: GAO analysis of Palau trust fund data and Senate bill 2610 (S. 2610), 114th Cong. (2016) (as introduced in the Senate). | GAO-16-550T

Notes: Years are fiscal (Oct. 1–Sept. 30) and dollars amounts are nominal (i.e., unadjusted for inflation). The historical rate of return is 7.6 percent. The analysis shown is based on the trust fund's balance as of September 30, 2015, and assumes enactment of the provisions of S. 2610.

In addition, with the changes in S. 2610, Palau's trust fund would be able to sustain scheduled payments through 2044 given varying rates of return in fiscal years 2015 through 2044.

[26]For all inflation-adjusted numbers in this report, we calculated the price deflators for fiscal years 2016 to 2026 on the basis of the Congressional Budget Office's gross domestic product price index projection [see Congressional Budget Office, *Budget and Economic Outlook: 2016 to 2026* (January 2016)]. Our calculation for fiscal years 2027 through 2044 assumed that the price deflators would remain unchanged from 2026.

- With its historical 7.6 percent annual compounded return, Palau's trust fund would sustain its annual withdrawal schedule and continue to grow beyond 2044, with a balance of $521 million at the end of fiscal year 2044.[27] (The 2044 balance would be $292 million in 2015 inflation-adjusted dollars.)

- With at least a 6.3 percent annual compounded rate of return, Palau's trust fund would sustain its annual withdrawal schedule, with a balance of $245 million or more at the end of fiscal year 2044. (The 2044 balance would be $137 million in 2015 inflation-adjusted dollars.)

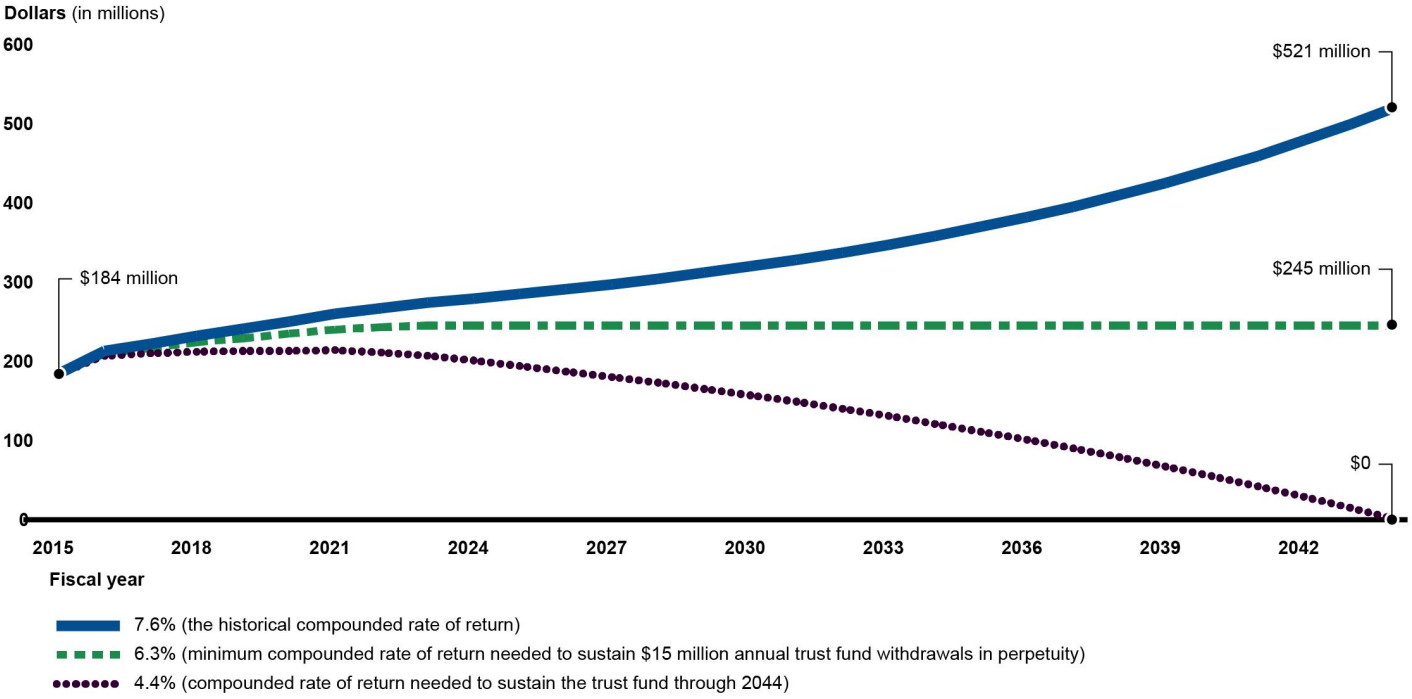
- With a 4.4 percent annual compounded return, Palau's trust fund would sustain its annual withdrawal schedule through 2044, with a balance of $0 at the end of fiscal year 2044.[28]

Figure 3 shows the projected trust fund balances with these varying assumed rates of return.

[27]At its inception, the trust fund's distribution goals were based on the assumption that the fund would have an annual rate of return of 12.5 percent.

[28]If the fund earns a 4.4 percent annual compounded return but does not receive the contributions outlined in S.2610, the fund will be depleted by fiscal year 2033 rather than sustained through fiscal year 2044.

Figure 3: Projected Palau Trust Fund Balances in Fiscal Years 2015–2044 under the Contribution Schedule Outlined in S. 2610, at Varying Assumed Rates of Return



Source: GAO analysis of Palau trust fund data and Senate bill 2610 (S. 2610), 114th Cong. (2016) (as introduced in the Senate). | GAO-16-550T

Notes: Years are fiscal (Oct. 1–Sept. 30) and dollar amounts are nominal (i.e., unadjusted for inflation). The analysis shown is based on the fund's balance as of September 30, 2015, and assumes enactment of the provisions of S. 2610.

FSM and RMI Have Faced Critical Challenges to Achieving Long-Term Development Goals

As we have previously reported, in implementing their amended compacts with the United States, the FSM and RMI have faced a number of critical challenges that could affect their ability to achieve the compacts' long-term development goals.[29] Both countries have historically had limited prospects for achieving economic growth. Moreover, compact implementation by the FSM, RMI, and U.S. governments has displayed weaknesses that have affected their ability to allocate resources appropriately as well as provide accountability for, and oversight of, the use of compact grants, which are scheduled to end in 2023.

[29]GAO, *Compacts of Free Association: Micronesia and the Marshall Islands Continue to Face Challenges Measuring Progress and Ensuring Accountability*, GAO-13-675 (Washington, D.C.: Sept. 20, 2013).

FSM and RMI Prospects for Economic Growth and Self-Sufficiency Are Limited

We previously reported that the FSM's and RMI's economies were largely dependent on government spending of foreign assistance, including U.S. assistance under the amended compacts.[30] Because of the scheduled annual decrements of compact grant funding, annual grant assistance to the FSM and RMI will diminish over the funding period.[31] In addition, neither country had made significant progress in implementing reforms needed to improve tax income or increase private sector investment opportunities. Moreover, tourism and fishing—private sector industries that both countries have identified as having growth potential—faced significant constraints, such as geographic isolation and lack of tourism infrastructure. In 2011, Interior's annual report to Congress regarding the FSM and RMI noted that the FSM faced numerous challenges to private sector economic growth and suggested that a consequence of declining U.S. grant assistance could be a decline in living standards or migration to the United States.[32] At that time, Interior found that economic prospects for the RMI remained uncertain, although the RMI had experienced growth in fisheries and tourism. Interior expected the continuation of migration from the RMI to the United States.

We reported in 2007 that uncertainty existed regarding the sustainability of the FSM's and RMI's compact trust funds as sources of revenue after the amended compacts end.[33] We noted that the countries' compact trust funds' balances in 2023 could vary widely owing to market volatility and choice of investment strategy and that, as a result, the compact trust funds might be unable to generate disbursements in some years, affecting the governments' ability to provide services after U.S. contributions to the trust funds end. More recent analyses of the FSM and RMI trust funds have highlighted the challenge of ensuring trust fund

[30]GAO-07-1258T, GAO-08-859T.

[31]Under the amended FSM and RMI compacts, U.S. direct financial assistance is scheduled to decrease in most years, with the amounts of the decrements to be deposited in the compact trust funds. See app. II for more information about the scheduled decrements in U.S. compact grant funding and increments in U.S. trust fund contributions.

[32]U.S. Department of the Interior, Assistant Secretary for Insular Areas, Office of Insular Affairs, *Report to the Congress on the Compacts of Free Association with the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) for Fiscal Years 2009 and 2010* (Washington, D.C.: November 2011). This is Interior's most recent annual report to Congress regarding the FSM and RMI.

[33]GAO, *Compacts of Free Association: Trust Funds for Micronesia and the Marshall Islands May Not Provide Sustainable Income*, GAO-07-513 (Washington, D.C.: June 15, 2007).

disbursements and proposed technical revisions to trust fund procedures.[34] In 2015, the Asian Development Bank (ADB) projected that the probability of FSM and RMI trust funds' maintaining their value through 2050 was 22 and 49 percent, respectively. The ADB projects significant fluctuations in FSM and RMI annual drawdowns and proposes revised trust fund withdrawal rules.[35] Moreover, 2015 economic reviews of the FSM and RMI compacts funded by Interior have projected that both trust funds will be underfunded and distribution shortfalls will be frequent and have recommended several changes to the distribution mechanism.[36] In its September 2012 comments on the U.S. government's first 5-year review of the amended compact, the RMI government made specific recommendations to improve compact performance, including technical revisions to trust fund procedures.[37]

Implementation of FSM and RMI Compacts Has Shown Weaknesses

During the amended compacts' first 10 years, the FSM and RMI joint management and accountability committees directed the majority of compact grant assistance to the education and health sectors, which the compact agreements prioritized.[38] As we previously reported, weaknesses in

[34]The trust fund agreements between the United States and the FSM and the RMI allowed for the agreements to be amended at any time in writing with mutual consent of the governments. However, the legislation implementing the amended compacts requires that any amendment, change, or termination of the trust fund agreements shall not enter into force until after Congress has incorporated it into an act of Congress.

[35]Asian Development Bank, *Trust Funds and Fiscal Risks in the North Pacific: Analysis of Trust Fund Rules and Sustainability in the Marshall Islands and the Federated States of Micronesia* (Manila, the Philippines: 2015).

[36]Graduate School USA, Pacific Islands Training Initiative, *Federated States of Micronesia Fiscal Year 2014 Economic Review* (September 2015); *Republic of the Marshall Islands Fiscal Year 2014 Economic Review* (September 2015). The reports, prepared under a contract with Interior, acknowledge that implementation of their recommendations requires congressional action.

[37]Government of the United States of America, *First Five-Year Review of the Compact of Free Association, as Amended, Between the Governments of the United States and the Republic of the Marshall Islands: Report to the Congress of the United States of America*. Interior submitted the first 5-year review (fiscal years 2004–2008) of the FSM and RMI compacts to Congress on January 23, 2013. The second 5-year reviews (fiscal years 2009–2013) had not been submitted to Congress as of March 2016.

[38]In fiscal years 2004 through 2013, allocations to the education and health sectors represented about 59 percent of compact grant assistance to the FSM and about 57 percent of compact grant assistance to the RMI. Allocations to the infrastructure sector also represented significant percentages of compact grant assistance during that period—29 percent in the FSM and 33 percent in the RMI. See GAO-13-675, app. V.

FSM, RMI, and U.S. implementation of the compacts have limited the governments' ability to ensure the effective use of grant funds.[39]

- **Lack of reliable performance data.** Ongoing problems with the reliability of data on grant performance in the education and health sectors have prevented both countries from demonstrating and assessing progress toward compact goals for these sectors and from using the data to set priorities and allocate resources to improve performance.[40]

- **Challenges to ensuring accountability for compact grant funding.** The FSM's and RMI's single audits for fiscal years 2006 through 2011 indicated challenges to ensuring accountability of compact and noncompact U.S. funds in the FSM and RMI. For example, these governments' single audits showed repeat findings and persistent problems in noncompliance with U.S. program requirements, such as accounting for equipment.[41] For this hearing, we have updated our prior analysis of audit reports and have found that accountability remains a concern. For example, while the RMI met the single audit reporting deadline for fiscal years 2006 through 2010, it submitted the required reports for fiscal years 2011 through 2014 after the deadline. Moreover, the 2014 reports for both countries identified several material weaknesses, such as an inability to account properly for equipment.[42]

- **Limited oversight of compact grants.** OIA's oversight of grants under the amended compacts has been limited by staffing shortages.

[39]GAO-13-675.

[40]In 2013, we recommended that Interior take all necessary steps to ensure that FSM and RMI produce reliable data to track progress in the education and health sectors. As of April 2015, neither the FSM nor RMI had developed reliable health and education performance data.

[41]In 2013, we recommended that Interior consult with other grantor agencies to determine whether the FSM and RMI meet criteria to be designated as high-risk grant recipients or whether other steps should be taken to improve accountability. As of September 2015, Interior had consulted with other federal agencies about designating the FSM and RMI as high-risk grantees but had not issued such a designation.

[42]Federated States of Micronesia National Government, *Report on the Audit of Financial Statements in Accordance with OMB Circular A-133, Year Ended September 30, 2014*; Republic of the Marshall Islands, *Basic Financial Statements, Additional Information and Independent Auditors' Report, Year Ended September 30, 2014*.

As we have previously reported, OIA officials noted that budget constraints, as well as decisions to use available funding for other hiring priorities, were among factors that prevented OIA from hiring staff that it had projected as necessary to ensure effective oversight for the amended compacts. These staffing shortages have affected OIA's ability to ensure that compact funds are used efficiently and effectively.[43] According to FSM and RMI officials, staffing constraints, as well as a lack of authority to enforce compact requirements, hampered oversight by the FSM and RMI offices responsible for compact implementation.

Compact Migrant Populations and Reported Cost Impacts Are Growing

The population of FAS migrants in U.S. areas has continued to grow. We have previously reported that, while the majority of compact migrants live in three affected jurisdictions—Hawaii, Guam, and the CNMI—migrants are also present in several other U.S. states.[44] The three affected jurisdictions have reported more than $2 billion in costs associated with providing education, health, and social services to compact migrants and have called for additional funding and changes in law to address compact migrant cost impacts.

Thousands of Compact Migrants Live in U.S. Areas, with the Majority in Three Affected Jurisdictions

Since the signing of the Compacts of Free Association, thousands of FAS citizens have migrated to U.S. areas. According to Census enumerations of migrants in three affected jurisdictions—Guam, Hawaii, and the CNMI—the total number of compact migrants in those jurisdictions increased from about 21,000, estimated in the 2003 enumeration, to about 35,000, estimated in the 2013 enumeration[45] (see fig. 4). In 2011, Census estimated that roughly 56,000 compact migrants—nearly a quarter of all FAS citizens—were living in U.S. areas in 2005 to 2009.[46]

[43]In 2013, we recommended that Interior take actions to correct the staffing shortage related to compact grant implementation and oversight. However, Interior has not yet addressed this recommendation.

[44]The amended compacts' enabling legislation defined American Samoa, in addition to Guam, Hawaii, and the CNMI, as an affected jurisdiction. However, because of the small number of compact migrants enumerated by Census in American Samoa—10 in the 2003 enumeration, 15 in the 2008 enumeration, and 25 in the 2013 enumeration—this testimony does not address compact impacts in American Samoa.

[45]We noted in GAO-12-64 that Census approaches to enumerating compact migrants have both strengths and limitations.

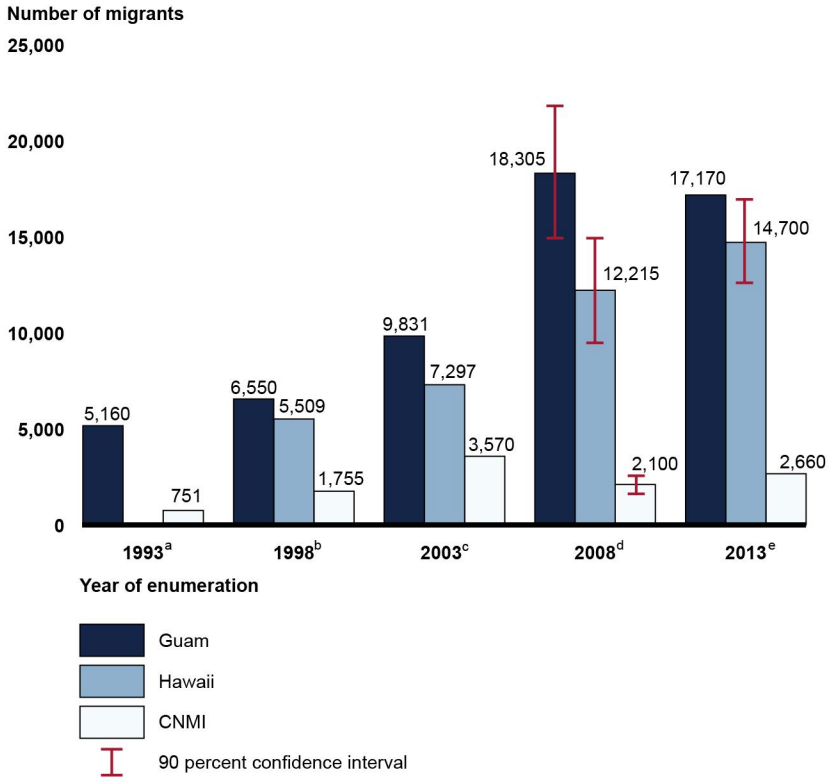
[46]GAO-12-64.

About 58 percent of compact migrants lived in Hawaii, Guam, and the CNMI at that time.[47] Nine mainland U.S. states—California, Washington, Oregon, Utah, Oklahoma, Florida, Arkansas, Missouri, and Arizona—each had an estimated compact migrant population of more than 1,000. (See app. IV for further information about the estimated compact migrant populations.) Approximately 68 percent of compact migrants were from the FSM, 23 percent were from the RMI, and 9 percent were from Palau.[48]

[47]In addition to U.S. government efforts to enumerate the compact migrant population, the government of the FSM contracted for a separate survey of FSM compact migrants that captured population as well as demographic data. The FSM government report differed from our report in its estimate of the number of migrants. However, the report similarly found that more than half of FSM migrants were in affected jurisdictions. The report also found that outmigration from the FSM was ongoing. See Francis X. Hezel and Michael J. Levin, *Survey of Federated States of Micronesia Migrants in the United States including Guam and the Commonwealth of Northern Mariana Islands (CNMI)* (March–July 2012).

[48]GAO-12-64.

Figure 4: Compact Migrant Population Estimated by 1993–2013 Census Enumerations in Guam, Hawaii, and the Commonwealth of the Northern Mariana Islands (CNMI)



Source: GAO analysis of Census surveys. | GAO-16-550T

[a]Census conducted the Guam survey in 1992 and the CNMI survey in 1993; Hawaii was not surveyed at that time. Because the Palau compact did not enter into force until 1994, Palauans are not included in the 1992 or 1993 totals.

[b]Guam and Hawaii were surveyed in 1997, and the CNMI was surveyed in 1998.

[c]The 2003 survey was conducted in the summer of 2003. Census did not use a probability sample for surveys before 2008; therefore, those surveys do not have an associated confidence interval.

[d]Within Census's 90 percent confidence interval, the 2008 estimate for Guam ranges from 14,866 to 21,744; for Hawaii, from 9,479 to 14,951; and for the CNMI, from 1,589 to 2,611. The 2008 Hawaii estimate used 2005-2007 Census American Community Survey data. The Guam and CNMI surveys were conducted in 2008. The decline in compact migrants in the CNMI from 2003 to 2008 mirrored a general decline in the CNMI population overall.

[e]Census's 90 percent confidence interval for the 2013 Hawaii estimate ranges from 12,459 to 16,941.The 2013 enumeration used data from previous years: 2009-2011 Census American Community Survey data from Hawaii and 2010 Census data from Guam and CNMI. Because the 2013 Guam and CNMI figures are derived from a census as opposed to a survey, there is not an applicable margin of error.

Three Affected Jurisdictions Report That Cost Impacts Far Exceed Compact Impact Grants

In fiscal years 2004 through 2016, affected jurisdictions received approximately $409 million in compact impact grants to aid in defraying their costs due to the residence of compact migrants. In fiscal years 2004 through 2016, Interior distributed a portion of the $30 million annual appropriation that was authorized and appropriated in the amended compacts' enabling legislation to each affected jurisdiction according to the size of its compact migrant population. Since fiscal year 2012, as authorized by the amended compacts' enabling legislation, Interior has also provided compact impact grants to affected jurisdictions from annual appropriations,[49] which it has also divided according to the size of their migrant populations. Table 2 shows the compact impact grants that Guam, Hawaii, and the CNMI received in fiscal years 2004 through 2016.

Table 2: Compact Impact Grants to Guam, Hawaii, and CNMI, Fiscal Years 2004–2016

Dollars in millions

	Guam	Hawaii	CNMI	Total
Grants authorized and appropriated by amended compacts' enabling legislation	$199.5	$145.0	$45.2	$389.8
Additional grants, as authorized by amended compacts' enabling legislation	$10.3	$7.4	$1.3	$19.0
Total	**$209.8**	**$152.4**	**$46.5**	**$408.7**

Source: GAO analysis of data from the U.S. Department of the Interior, Office of Insular Affairs. | GAO-16-550T

Legend: CNMI = Commonwealth of the Northern Mariana Islands

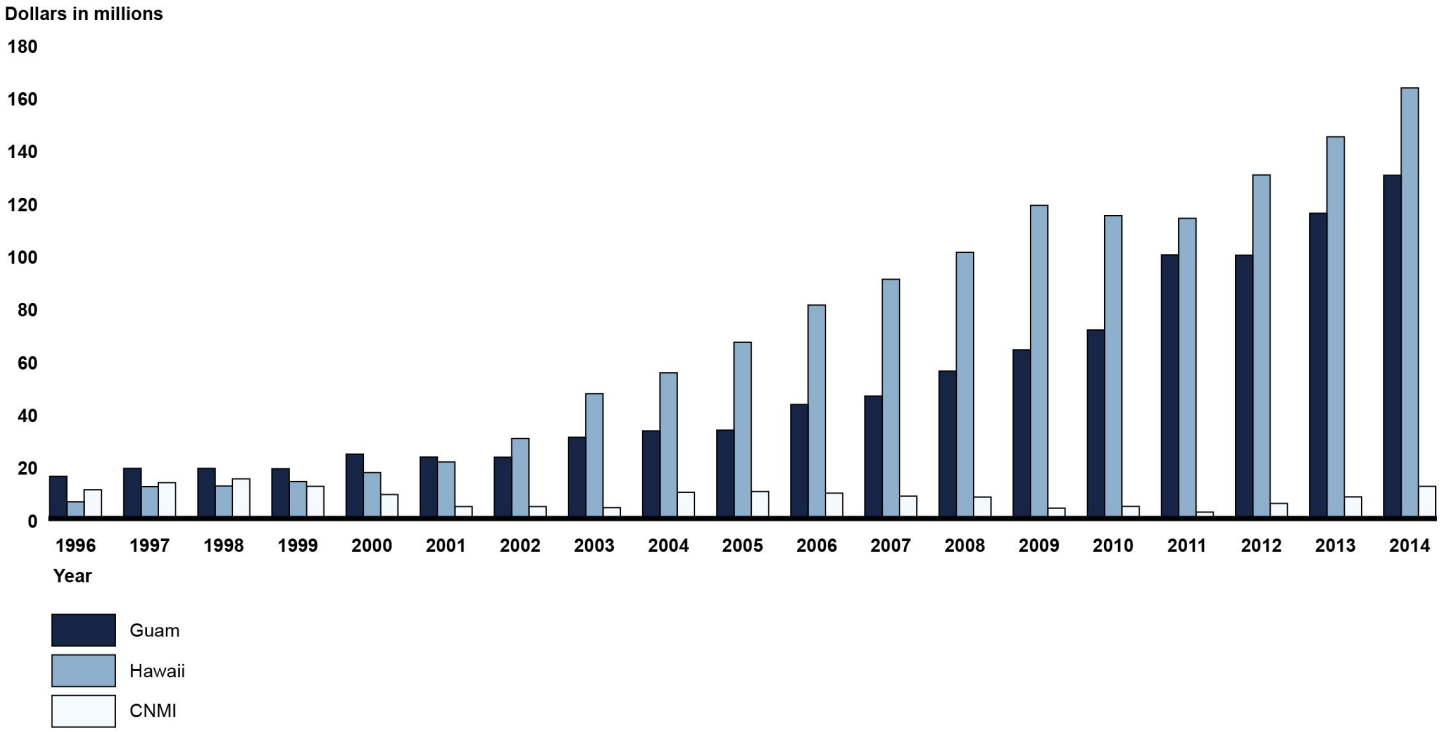
Note: Numbers in columns may not sum to totals because of rounding.

The affected jurisdictions have continued to report to Interior that their cost impacts from compact migrants greatly exceed the amount of the compact impact grants. In 2003 through 2014, Guam reported $825 million in costs, Hawaii reported $1.2 billion, and the CNMI reported $89

[49]The amended compacts' enabling legislation authorized to be appropriated to the Secretary of the Interior, for each of fiscal years 2004 through 2023, such sums as may be necessary for grants to the governments of Guam, the State of Hawaii, the CNMI, and American Samoa, as a result of increased demands placed on educational, social, or public safety services or infrastructure related to service due to the presence in Guam, Hawaii, the CNMI, and American Samoa of compact migrants from the three FAS. Compact of Free Association Amendments Act of 2003, Pub. L. No. 108-188 (Dec. 17, 2003), §104(e)(10).

million.[50] (Fig. 5 shows the affected jurisdictions' reported annual costs of services to compact migrants.) These affected jurisdictions reported costs for the services identified in the amended compacts' enabling legislation: educational, health, public safety, and social services. Education costs accounted for the largest share of reported expenses in all three jurisdictions, and health care costs accounted for the second largest share. Officials in Guam and Hawaii also cited compact migrants' limited eligibility for a number of federal programs, particularly Medicaid, as a key contributor to the cost of compact migration borne by the affected jurisdictions.[51]

Figure 5: Compact Migrant Cost Impacts Reported by Three Affected Jurisdictions, 1996–2014



Source: GAO analysis of affected jurisdictions' reported compact impact costs. | GAO-16-550T

[50]Guam reported an additional $149 million in compact impact costs in 2015, and the CNMI reported an additional $6 million. Hawaii has not reported compact impact costs for 2015.

[51]When the compacts were signed, FAS citizens were eligible for Medicaid; however, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 removed this eligibility. For further information, see GAO, *U.S. Insular Areas: Multiple Factors Affect Federal Health Care Funding*, GAO-06-75 (Washington, D.C.: Oct. 14, 2005).

Note: Guam's January 2016 reporting of compact impact costs includes revisions to data reported in previous years. Data shown for Hawaii and CNMI do not include revisions to data from previous years.

We have previously found that the three affected jurisdictions' cost estimates contained a number of limitations with regard to accuracy, adequate documentation, and comprehensiveness.[52] These limitations affect the reported costs' credibility and prevent a precise calculation of total compact cost impact on the affected jurisdictions. For example, some jurisdictions did not accurately define compact migrants according to the criteria in the amended compacts' enabling legislation, account for federal funding that supplemented local expenditures, or include revenue received from compact migrants. Many local government agencies did not include capital costs in their impact reporting, which may have led to an understatement of costs. We recommended that the Secretary of the Interior disseminate guidelines to the affected jurisdictions that adequately address concepts essential to producing reliable impact estimates and that the Secretary call for their use in developing compact impact reports.[53] In a February 2015 report to Congress on the Governors' compact impact reports,[54] Interior noted that it had concerns about the uniformity of compact impact reports, including the use of different data gathering and formats by Guam and Hawaii. Interior reiterated those concerns in its January 2016 report to Congress.[55] While Interior developed a draft of compact impact reporting guidelines in 2014, it has not disseminated them to affected jurisdictions. In March 2016, Interior stated that OIA, in consultation with the leaders from the affected jurisdictions, would develop guidelines for measuring compact impact and that the guidelines would be completed in December 2016.

Since we reported on compact migration impacts in 2001, the three affected jurisdictions have continued to express concerns that they do not

[52]GAO-12-64.

[53]GAO-12-64.

[54]Department of the Interior, *Report to the Congress: 2014 Compact Impact Analysis* (Feb. 10, 2015). The amended compacts' enabling legislation permits, but does not require, affected jurisdictions to report on compact migrant impact to Interior. If Interior receives such reports, it must submit reports to Congress that include, among other things, the governor's comments and the administration's analysis of any such impacts.

[55]Department of the Interior, *Report to the Congress: 2015 Compact Impact Analysis* (Jan. 7, 2016).

receive adequate compensation for the growing cost of providing government services to compact migrants.[56] For example, in his 2015 State of the Island address, the Governor of Guam noted that compact impact reimbursement had been a topic of disagreement for decades and criticized "the federal government's inability to live up to its promise" to help provide services to the compact migrant population. Similarly, in Hawaii's August 2015 cost impact report to Interior, the Governor of Hawaii noted that Hawaii had consistently advocated for an increase in compact impact assistance to the affected jurisdictions and that providing for direct federal assistance in programs such as Medicaid, Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), and other means-tested public assistance not currently available to compact migrants would significantly reduce Hawaii's impact costs.[57] The Governor further suggested that the governments of the FAS be encouraged to utilize the financial support they receive directly from the United States to contract services in the United States for their citizens who choose to reside in the United States.

In our 2011 report, we recommended that the Secretary of the Interior work with the U.S.–FSM and U.S.–RMI joint management committees to consider uses of sector grants that would address the concerns of FSM and Marshallese migrants and the affected jurisdictions. While Interior took initial steps to implement this recommendation and discuss compact impact at the joint management committee meetings, the discussions have not been continued. In March 2016, Interior OIA stated that the concerns of FSM and RMI migrants and affected jurisdictions will be discussed at future meetings of the joint management committees. In a January 2016 letter accompanying its Report to the Congress: 2015 Compact Impact Analysis, OIA stated that increased oversight and accountability are needed in the use of compact sector grants by the FAS—particularly for infrastructure grants for health and education—and

[56]GAO, *Foreign Relations: Migration from Micronesian Nations Has Had Significant Impact on Guam, Hawaii, and the Commonwealth of the Northern Mariana Islands*, GAO-02-40 (Washington, D.C.: Oct. 5, 2001).

[57]In the 114th Congress, several bills have been introduced to address compact migration and its impact. These bills include S. 2360, the Omnibus Territories Act of 2015; S. 1301 and H.R. 2249, both titled the Restoring Medicaid for Compact of Free Association Migrants Act of 2015; H.R. 854, the Compact-Impact Aid Act of 2015; and H.R. 4370, the Compact Impact Relief Act of 2016.

that improving the quality of life for FAS citizens may help address the migration from the FAS to the United States.

Chairwoman Murkowski, Ranking Member Cantwell, and Members of the Committee, this concludes my statement. I would be pleased to respond to any questions you may have.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact David Gootnick, Director, International Affairs and Trade at (202) 512-3149 or gootnickd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Emil Friberg (Assistant Director), Ashley Alley, Ming Chen, David Dayton, Brian Hackney, Julie Hirshen, Jeff Isaacs, Reid Lowe, Grace Lui, Mary Moutsos, Michael McKemey, Michael Simon, Jena Sinkfield, and Ozzy Trevino.

Appendix I: Key Provisions of the Palau Compact of Free Association and Subsidiary Agreements

Key provisions of the compact and its subsidiary agreements address the sovereignty of Palau, types and amounts of U.S. assistance, security and defense authorities, and periodic reviews of compact terms. Table 3 summarizes key provisions of the Palau compact and related subsidiary agreements.

Table 3: Key Provisions of Palau Compact of Free Association and Subsidiary Agreements

Compact section	Description of key provisions
Title one:	*Sovereignty*
Government Relations	Established Palau as a self-governing nation with the capacity to conduct its own foreign affairs.
	Immigration privileges
	Provided Palauan citizens with certain immigration privileges, such as the rights to work and live in the United States indefinitely and to enter the United States without a visa or passport. This privilege remains in effect as long as the compact agreement is not amended by mutual agreement or mutually or unilaterally terminated.
Title two:	*Compact direct assistance*
Economic Relations	Established 15-year term of budgetary support for Palau, beginning on compact's effective date. This support included direct assistance for current account operations and maintenance and for specific needs such as energy production, capital improvement projects, health, and education.
	Trust fund
	Required the United States to contribute to a trust fund for Palau.
	Compact Road
	Required the United States to construct a road system (the Compact Road).[a]
	Compact federal services
	Required the United States to make available certain federal services and related programs to Palau, such as postal, weather, and aviation. The compact subsidiary agreement implementing such services was in force until Oct. 1, 2009.[b]
	Accountability for compact funds
	Required Palau to report on its use of compact funds and required U.S. government, in consultation with Palau, to implement procedures for periodic audit of all grants and other assistance.

Title three: **Security and Defense Relations**	*U.S. authority for security and defense matters* Established that the United States has full authority and responsibility for security and defense matters in, or relating to, Palau; would take action to meet the danger of an attack on Palau; and may conduct activities on land and water and in airspace as necessary. *Strategic denial* Foreclosed Palau to the military of any nation except the United States, unless they are invited by the United States and under the control of the U. S. armed forces. *U.S. defense sites and operating rights* Established that the United States may establish land and sea defense sites in Palau and has certain military operating rights. The subsidiary agreement implementing this provision provides the United States exclusive use of certain land adjoining the airport and certain submerged land in Malakal Harbor and remains in effect through 2044. *Service in the armed forces* Established eligibility of Palau citizens to serve in the U.S. armed forces. The provisions on U.S. authority for security and defense matters, U.S. defense sites and operating rights, and service in the armed forces remain in effect unless the compact is terminated by mutual agreement or, if the compact is unilaterally terminated, until October 1, 2044, and thereafter as mutually agreed. The strategic denial provision remains in effect through 2044 and thereafter until terminated or otherwise amended by mutual consent.
Title four: **General Provisions**	Established general provisions regarding approval and effective date of the compact, conference and dispute resolution procedures, and compact termination procedures. Required reviews of its terms on the 15th, 30th, and 40th anniversaries of the compact's entry into force—that is, in 2009, 2024, and 2034, respectively.

Source: GAO analysis of the Compact of Free Association between the Government of the United States and the Government of the Republic of Palau. | GAO-16-550T

Notes: The compact's subsidiary agreements relate to specific titles of the compact; in many cases, they contain implementing details of compact provisions. Years cited are fiscal (Oct. 1–Sept. 30).

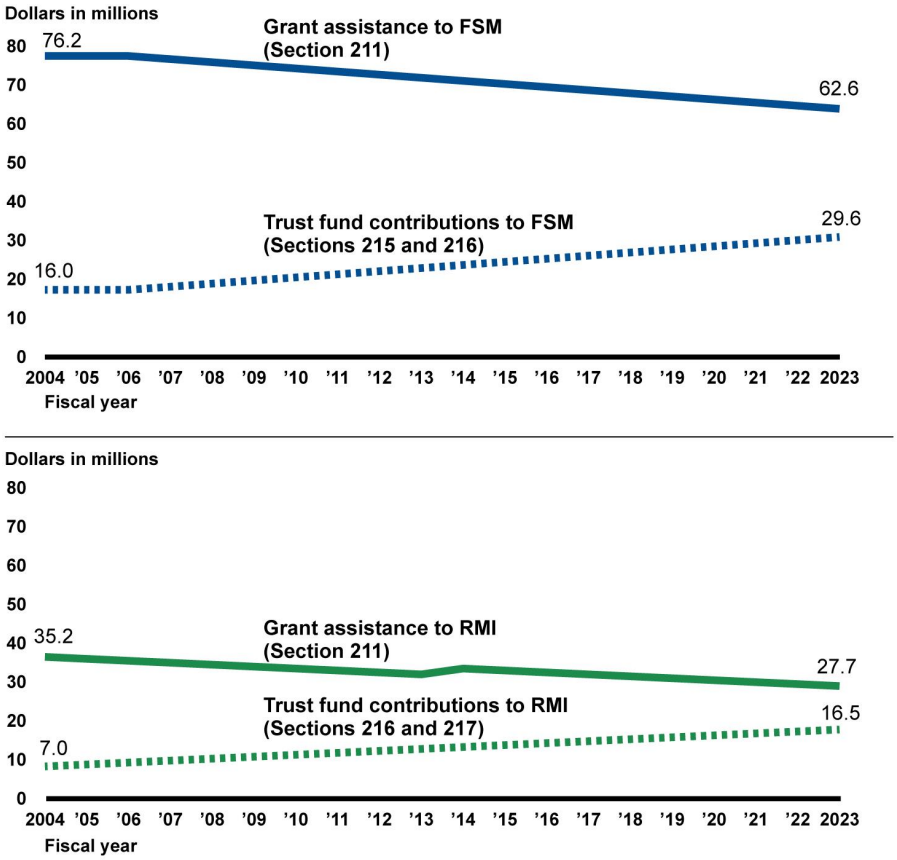
[a]The compact called for the United States to build the Compact Road according to mutually agreed specifications before Oct. 1, 2000. The road was completed and turned over to Palau on Oct. 1, 2007. See GAO-08-732, app. V, for more information.

[b]Federal Programs and Services Agreement Concluded Pursuant to Article II of Title Two and Section 232 of the Compact of Free Association, which took effect in 1995, established the legal status of programs and related services, federal agencies, U.S. contractors, and personnel of U.S. agencies implementing both compact federal services and discretionary federal programs in Palau. Under this agreement, the United States Postal Service (USPS) conveys mail between the United States and Palau and offers other services such as Priority Mail®, Collect on Delivery, and USPS Domestic Money Orders. Palau maintains its own postal service for internal mail delivery. Under this agreement, the National Weather Service reimburses Palau for the cost of operating its weather station in Palau, which performs upper air observations twice daily and as requested for the purpose of Palau's airport operations and the tracking of cyclones that may impact other U.S. territories such as Guam; and the Federal Aviation Administration provides aviation services to Palau, including en-route air traffic control from the mainland United States, flight inspection of airport navigation aids, and technical assistance and training.

Appendix II: U.S. Compact Trust Fund Contributions and Grants to the Federated States of Micronesia and Republic of the Marshall Islands

Figure 6 shows the annually decreasing U.S. grant funding to the Federated States of Micronesia (FSM) and Republic of the Marshall Islands (RMI) and increasing U.S. contributions to the FSM's and the RMI's compact trust funds in fiscal years 2004 through 2023.

Figure 6: U.S. Grant Assistance and Compact Trust Fund Contributions to the FSM and RMI as Scheduled by the Amended Compacts, Fiscal Years 2004–2023



Source: Compacts of Free Association as Amended, Between the Government of the United States of America and the Government of the Federated States of Micronesia (FSM) and the Government of the Republic of the Marshall Islands (RMI), Pub. L. No. 108-188. | GAO-16-550T

Notes: Sections 211 of the amended compacts detail grant assistance to the FSM and the RMI, while Sections 215 and 216 of the U.S.–FSM compact and sections 216 and 217 of the U.S.–RMI compact detail contributions to the FSM and RMI trust funds. See Pub. L. No. 108-188. These dollar amounts shall be adjusted each fiscal year for inflation by the percentage that equals two-thirds of the percentage change in the U.S. gross domestic product implicit price deflator, or 5 percent, whichever is less in any 1 year, using the beginning of 2004 as a base. Grant funding can be fully adjusted for inflation after 2014, under certain U.S. inflation conditions. The increase in RMI grant assistance from fiscal year 2013 to 2014 is due to a $2 million increase in payments to be made available for addressing the special needs of the community at Ebeye and other Marshallese communities within the Kwajalein Atoll.

Appendix III: U.S. Assistance to Palau as Outlined in 2010 Agreement and Proposed in Senate Bill 2610

Senate Bill 2610 (S. 2610) would modify the schedule of U.S. assistance to Palau specified in the 2010 agreement between the U.S. and Palau governments, which has not been implemented.[1] Table 4 shows the assistance schedule for fiscal years 2011 through 2024 outlined in the 2010 agreement.

Table 4: Proposed Assistance to Palau as Outlined in the 2010 U.S.–Palau Agreement

Dollars in millions

Types of assistance	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
Trust fund contributions	$0	$0	$3.00	$3.00	$3.00	$3.00	$3.00	$3.00	$3.00	$3.00	$3.00	$3.00	$0.25	$0	$30.25
Infrastructure maintenance fund	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	28.00
Infrastructure project grants	8.00	8.00	8.00	6.00	5.00	5.00	0	0	0	0	0	0	0	0	40.00
Fiscal consolidation fund	5.00	5.00	0	0	0	0	0	0	0	0	0	0	0	0	10.00
Direct economic assistance	13.00	12.75	12.50	12.00	11.50	10.00	8.50	7.25	6.00	5.00	4.00	3.00	2.00	0	107.50
Total	**$28.00**	**$27.75**	**$25.50**	**$23.00**	**$21.50**	**$20.00**	**$13.50**	**$12.25**	**$11.00**	**$10.00**	**$9.00**	**$8.00**	**$4.25**	**$2.00**	**$215.75**

Source: GAO analysis of *The Agreement between the Government of the United States of America and the Government of the Republic of Palau Following the Compact of Free Association Section 432 Review* (Sept. 3, 2010). | GAO-16-550T

Note: Years are fiscal (Oct. 1–Sept. 30), and dollar amounts are in nominal dollars (i.e., unadjusted for inflation).

Table 5 shows U.S. assistance provided to Palau through discretionary appropriations in fiscal years 2011 through 2016 and the assistance schedule proposed in S. 2610.

[1] *The Agreement between the Government of the United States of America and the Government of the Republic of Palau Following the Compact of Free Association Section 432 Review* (Sept. 3, 2010).

Table 5: U.S. Assistance to Palau through Discretionary Appropriations in Fiscal Years 2011–2016, and Proposed in Senate Bill 2610 for Fiscal Years 2017–2024

Dollars in millions

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
Trust fund contributions	$0	$0	$0	$0	$0	$0	$20.00	$2.00	$2.00	$2.00	$2.00	$2.00	$0.25	$0	$30.25
Infrastructure maintenance fund	0	0	0	0	0	0	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	$28.00
Infrastructure project grants	0	0	0	0	0	0	8.00	8.00	8.00	6.00	5.00	5.00	0	0	$40.00
Fiscal consolidation fund	0	0	0	0	0	0	5.00	5.00	0	0	0	0	0	0	$10.00
Direct economic assistance	0	0	0	0	0	0	7.50	6.25	5.00	4.00	3.00	2.00	.97	0	$28.72
Direct assistance from Interior	13.15	13.15	13.15	13.15	13.15	13.15	0	0	0	0	0	0	0	0	$78.88
TOTAL	**$13.15**	**$13.15**	**$13.15**	**$13.15**	**$13.15**	**$13.15**	**$44.00**	**$24.75**	**$18.50**	**$15.50**	**$13.50**	**$12.50**	**$4.72**	**$3.50**	**$215.85**

Source: GAO analysis of Senate Bill 2610; Department of the Interior documents. | GAO-16-550T

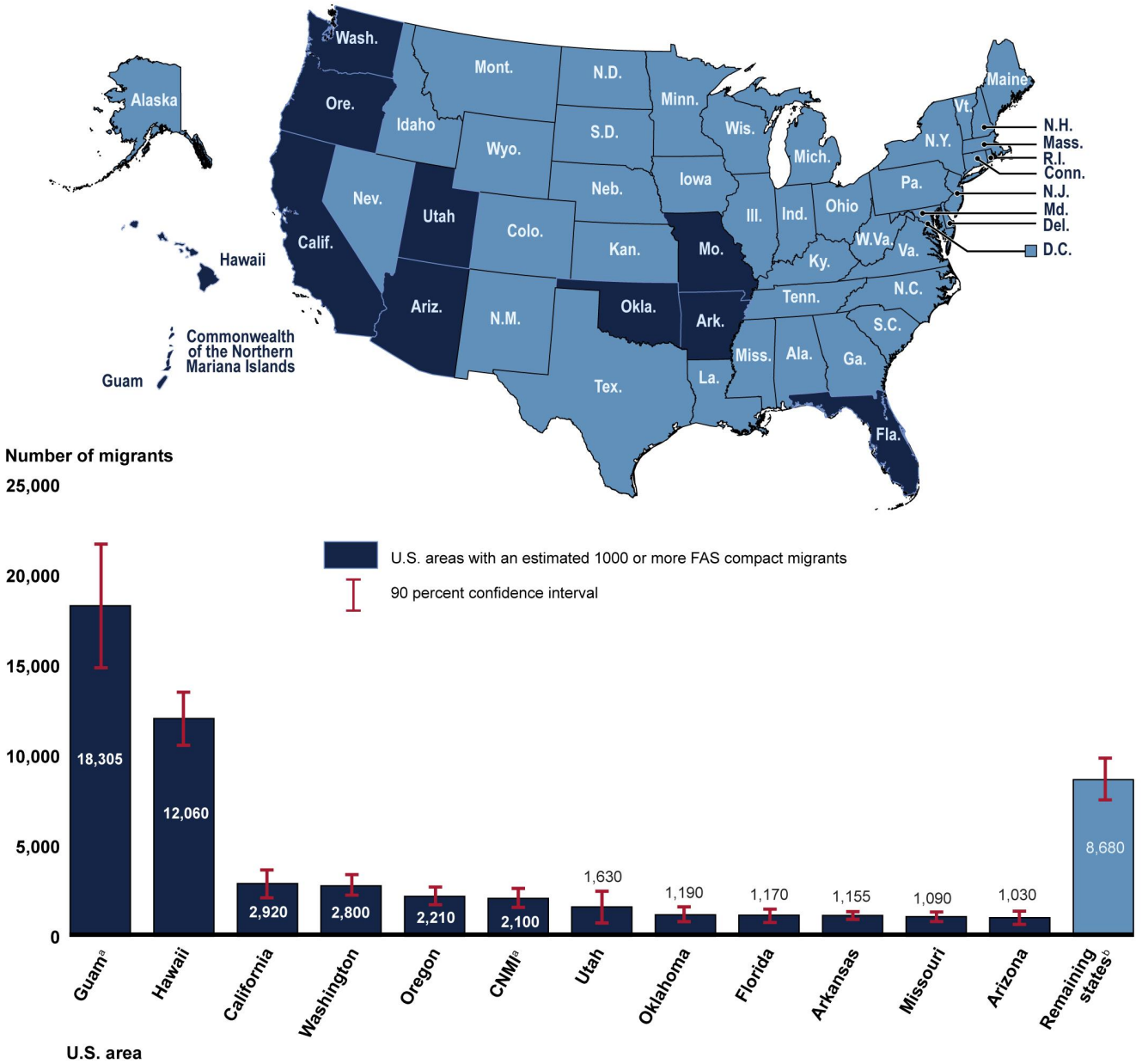
Note: Years are fiscal (Oct. 1–Sept. 30) and dollar amounts are nominal (i.e., unadjusted for inflation).

Appendix IV: Estimated Numbers of Compact Migrants in U.S. Areas, 2005–2009

Compact migrants reside throughout U.S. states and territories. In 2011, we reported that 57.6 percent of all compact migrants lived in affected jurisdictions: 32.5 percent in Guam, 21.4 percent in Hawaii, and 3.7 percent in the Commonwealth of the Northern Mariana Islands (CNMI).[1] According to American Community Survey data, nine mainland states had estimated compact migrant populations of more than 1,000 in 2005 through 2009 (see fig. 7). According to these estimates, the Federated States of Micronesia produced the highest number of migrants but migrants from the Republic of the Marshall Islands predominated in Arizona, Arkansas, California, and Washington.

[1]GAO-12-64.

Figure 7: Estimated Numbers of Compact Migrants in U.S. Areas, 2005–2009



Sources: Map Resources (map); GAO analysis of a special Census tabulation of American Community Survey 2005-2009 data for U.S. states; Census tabulations of 2008 FAS migrant survey data for Guam and the CNMI. | GAO-16-550T

[a]The estimates for Guam and the Commonwealth of the Northern Mariana Islands (CNMI) are from the 2008 enumeration by the U.S. Census Bureau (Census); remaining estimates are from the 2005–2009 American Community Survey.

[b]Census suppressed the estimated values for remaining states to protect the confidentiality of individual respondents. As a result, we are unable to report any other states that contain migrants.

Appendix V: Accessible Data

Data Tables

Data Table for Highlights Figure: U.S. Assistance to Palau Provided in Fiscal Years 2011-2016 and Proposed by Senate Bill 2610 for Fiscal Years 2017-2024

Fiscal Year	Dollars (in million)
2011"	13.1
2012"	13.1
2013"	13.1
2014"	13.1
2015"	13.1
2016"	13.1
2017"	44
2018"	24.8
2019"	18.5
2020"	15.5
2021"	13.5
2022"	12.5
2023"	4.7
2024"	3.5

Data Table for Figure 1: U.S. Assistance to Palau for Fiscal Years 2011–2024

	Direct economic assistance	Infrastructure Maintenance fund	Infrastructure project grants	fiscal consolidation fund	Trust fund contributions
2011"	13	2	8	5	0
2012"	12.75	2	8	5	0
2013"	12.5	2	8	0	3
2014"	12	2	6	0	3
2015"	11.5	2	5	0	3
2016"	10	2	5	0	3
2017"	8.5	2	0	0	3
2018"	7.25	2	0	0	3
2019"	6	2	0	0	3
2020"	5	2	0	0	3
2021"	4	2	0	0	3
2022"	3	2	0	0	3
2023"	2	2	0	0	0.25
2024"	0	2	0	0	0

	Direct economic assistance from annual appr	Direct assistance from S.2610	Infrastructure Maintenance fund	Infrastructure grants	Fiscal consolidation fund	Trust fund contributions
2011"	13.147	0	0	0	0	0
2012"	13.147	0	0	0	0	0
2013"	13.147	0	0	0	0	0
2014"	13.147	0	0	0	0	0
2015"	13.147	0	0	0	0	0
2016"	13.147	0	0	0	0	0
2017"	0	7.5	3.5	8	5	20
2018"	0	6.25	3.5	8	5	2
2019"	0	5	3.5	8	0	2
2020"	0	4	3.5	6	0	2
2021"	0	3	3.5	5	0	2
2022"	0	2	3.5	5	0	2
2023"	0	0.971	3.5	0	0	0.25
2024"	0	0	3.5	0	0	0

Data Table for Figure 2: Projected Palau Trust Fund Balance in Fiscal Years 2015–2044 at Historical Rate of Return with and without Changes Outlined in S. 2610

	With additional contributions as outlines in S.2610	Without additional contributions as outlines in S.2610
2015	183.883	183.883
2016	212.572	182.294
2017	222.335	180.586
2018	231.805	178.749
2019	240.958	176.775
2020	250.287	174.651
2021	259.803	172.369
2022	267.257	169.914
2023	273.993	167.275
2024	279.181	164.437
2025	284.759	161.387
2026	290.756	158.106
2027	297.204	154.579
2028	304.137	150.787
2029	311.592	146.709

	With additional contributions as outlines in S.2610	Without additional contributions as outlines in S.2610
2030	319.607	142.325
2031	328.224	137.611
2032	337.49	132.543
2033	347.453	127.094
2034	358.165	121.235
2035	369.682	114.935
2036	382.065	108.161
2037	395.38	100.878
2038	409.696	93.0479
2039	425.088	84.6284
2040	441.638	75.5759
2041	459.433	65.8426
2042	478.566	55.3773
2043	499.137	44.125
2044	521.255	32.0266

Data Table for Figure 3: Projected Palau Trust Fund Balances in Fiscal Years 2015–2044 under the Contribution Schedule Outlined in S. 2610, at Varying Assumed Rates of Return

	7.6% (the historic compound rate of return)	4.4% (compound rate of return needed to sustain the trust fund through 2044)	6.3% (compound rate of return needed to sustain the trust fund through 2044)
2015	183.883	183.883	183.883
2016	212.572	206.823	210.269
2017	222.335	209.715	217.236
2018	231.805	211.717	223.616
2019	240.958	212.79	229.372
2020	250.287	213.402	234.977
2021	259.803	213.533	240.42
2022	267.257	210.902	243.431
2023	273.993	206.891	245.357
2024	279.181	200.673	245.357
2025	284.759	194.184	245.357
2026	290.756	187.411	245.357
2027	297.204	180.343	245.357
2028	304.137	172.966	245.357
2029	311.592	165.268	245.357

	7.6% (the historic compound rate of return)	4.4% (compound rate of return needed to sustain the trust fund through 2044)	6.3% (compound rate of return needed to sustain the trust fund through 2044)
2030	319.607	157.234	245.357
2031	328.224	148.849	245.357
2032	337.49	140.099	245.357
2033	347.453	130.967	245.357
2034	358.165	121.437	245.357
2035	369.682	111.491	245.357
2036	382.065	101.111	245.357
2037	395.38	90.2786	245.357
2038	409.696	78.9734	245.357
2039	425.088	67.1752	245.357
2040	441.638	54.8622	245.357
2041	459.433	42.0122	245.357
2042	478.565	28.6016	245.357
2043	499.137	14.6061	245.357
2044	521.255	8.1135	245.357

Data Table for Figure 4: Compact Migrant Population Estimated by 1993–2013 Census Enumerations in Guam, Hawaii, and the Commonwealth of the Northern Mariana Islands (CNMI)

	Guam	Hawaii	CNMI
"1993"	5160		751
"1998"	6550	5509	1755
"2003"	9831	7297	3570
"2008"	18305	12215	2100
"2013"	17170	14700	2660

Data Table for Figure 5: Compact Migrant Cost Impacts Reported by Three Affected Jurisdictions, 1996–2014

	Guam	Hawaii	CNMI
"1996	16.0989	6.4	11
"1997	19.0921	12.2	13.7
"1998	19.1025	12.4	15.1
"1999	18.954	14.1	12.3

	Guam	Hawaii	CNMI
"2000	24.4699	17.5	9.2
"2001	23.4213	21.5356	4.58377
"2002"	23.3471	30.417	4.59642
"2003"	30.9	47.4	4.2
"2004"	33.3	55.3	10
"2005"	33.6	66.9	10.3
"2006"	43.3	81	9.7
"2007"	46.5	90.8	8.6
"2008"	56	101	8.2
"2009"	64	118.8	4
"2010"	71.6	114.9	4.7
"2011	100	113.9	2.5
"2012	99.9	130.3	5.8
"2013	115.8	144.8	8.3
"2014	130.2	163.3	12.3

Data Table for Figure 6: U.S. Grant Assistance and Compact Trust Fund Contributions to the FSM and RMI as Scheduled by the Amended Compacts, Fiscal Years 2004–2023

Note: Dollars in millions

Fiscal Year	Grant assistance to FSM (Section 211)	Trust fund contributions to FSM (Section 215 and 216)	Grant assistance to RMI (Section 211)	Trust fund contribution to RMI (Section 216 and 217)
"2004"	76.2	16	35.2	7
"2005"	76.2	16	34.7	7.5
"2006"	76.2	16	34.2	8
"2007"	75.4	16.8	33.7	8.5
"2008"	74.6	17.6	33.2	9
"2009"	73.8	18.4	32.7	9.5
"2010"	73	19.2	32.2	10
"2011"	72.2	20	31.7	10.5
"2012"	71.4	20.8	31.2	11
"2013"	70.6	21.6	30.7	11.5
"2014"	69.8	22.4	32.2	12
"2015"	69	23.2	31.7	12.5
"2016"	68.2	24	31.2	13
"2017"	67.4	24.8	30.7	13.5
"2018"	66.6	25.6	30.2	14

Fiscal Year	Grant assistance to FSM (Section 211)	Trust fund contributions to FSM (Section 215 and 216)	Grant assistance to RMI (Section 211)	Trust fund contribution to RMI (Section 216 and 217)
"2019"	65.8	26.4	29.7	14.5
"2020"	65	27.2	29.2	15
"2021"	64.2	28	28.7	15.5
"2022"	63.4	28.8	28.2	16
"2023"	62.6	29.6	27.7	16.5

Data Table for Figure 7: Estimated Numbers of Compact Migrants in U.S. Areas, 2005–2009

U.S. area	Number of migrants
Guama	18305
Hawaii	12060
California	2920
Washington	2800
Oregon	2210
CNMIa	2100
Utah	1630
Oklahoma	1190
Florida	1170
Arkansas	1155
Missouri	1090
Arizona	1030
Remaining states	8680

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