

GAO Highlights

Highlights of [GAO-16-788T](#), a testimony before the Subcommittee on Indian, Insular, and Alaska Native Affairs, Committee on Natural Resources, House of Representatives

Why GAO Did This Study

The U.S. Compact of Free Association with the Republic of Palau entered into force in 1994. In September 2010, the United States and Palau signed an agreement that would, among other things, provide assistance to Palau and modify its trust fund. Currently there are two bills pending before Congress to implement the 2010 agreement.

The U.S.–Palau compact provided for several types of assistance aimed at promoting Palau’s self-sufficiency and economic advancement. The compact provided 15 years of direct assistance to the Palau government; contributions to a trust fund meant to provide Palau \$15 million each year in fiscal years 2010 through 2044; construction of a road system; and federal services such as postal, weather, and aviation. U.S. agencies also provided discretionary federal programs related to health, education, and infrastructure.

This testimony examines the potential effects of proposed legislation on (1) U.S. assistance outlined in the 2010 agreement and (2) the sustainability of a trust fund established for Palau under the U.S.–Palau compact. For this statement, GAO reviewed H.R. 4531, summarized previous reports and testimonies issued in 2008 through 2016, and incorporated updated information from Palau and the Department of the Interior to update prior projections regarding the Palau trust fund. GAO is not making any new recommendations in this testimony.

View [GAO-16-788T](#). For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

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COMPACT OF FREE ASSOCIATION

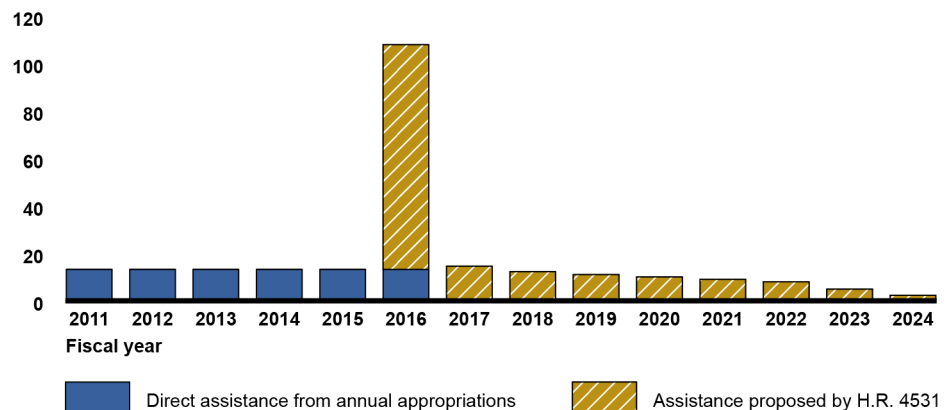
Proposed U.S. Assistance to Palau for Fiscal Years 2016 to 2024

What GAO Found

If enacted, House Bill 4531 (H.R. 4531) would provide funding for, and make modifications to, the September 2010 agreement between the governments of the United States and Palau regarding their Compact of Free Association (the 2010 agreement). Congress has not, to date, approved legislation to implement the 2010 agreement, which scheduled approximately \$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. If H.R. 4531 were enacted, Palau would receive approximately \$30 million more in U.S. assistance through fiscal year 2024 than it would receive under the 2010 agreement. H.R. 4531 would also reschedule U.S. assistance, increasing the amount to be provided in fiscal year 2016 but reducing amounts in subsequent years. Finally, H.R. 4531 proposes that the United States pay for Palau’s future audits of compact assistance required by the 2010 agreement, and certain specified commitments in the 2010 agreement would be backed by the full faith and credit of the U.S. government.

U.S. Assistance to Palau Provided from Annual Appropriations and Proposed in H.R. 4531

Dollars (in millions)



Source: GAO analysis of House Bill 4531 (H.R. 4531), 114th Cong. (2016) (as introduced in the House) and Department of the Interior documents. | GAO-16-788T

The provisions of H.R. 4531 would improve the long-term prospects of Palau’s trust fund. GAO estimates that, including inflation adjustments, H.R. 4531 would provide approximately \$32.85 million in contributions to the Palau trust fund from 2016 to 2023. If the trust fund contributions and withdrawal schedule proposed under H.R. 4531 are enacted, GAO estimates that the changes would improve the fund’s prospects for sustaining payments beyond fiscal year 2044. Without the changes proposed by H.R. 4531, the trust fund would be sustained through fiscal year 2044 if it maintains its historical rate of return, but the account balance would be significantly lower.