

---

A BILL FOR AN ACT

To establish legal guidance, criteria, and procedures for making a request for distributions under Articles 18, 19, and 20 of the 2023 Compact Trust Fund Agreement during the period from Fiscal Year 2024 through Fiscal Year 2043, and for other purposes.

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

1           Section 1. Congressional intent. The purpose of this act  
2 is to establish clear legal guidance, criteria, and the agreed  
3 rules of procedure on requests from the four FSM States and the  
4 FSM National Government for potential distributions to the FSM of  
5 funds under Articles 18, 19, and 20 of the 2023 Compact Trust Fund  
6 Agreement during the period from Fiscal Year 2024 through Fiscal  
7 Year 2043.

8           Section 2. For the purpose of this act, the following terms  
9 shall have the following definitions:

10           (a) "2023 Amended Compact" means the Compact of Free  
11 Association Between the Federated States of Micronesia and the  
12 United States that entered into force on March 18, 2024.

13           (b) "2023 Compact Trust Fund Agreement" means the Compact  
14 Trust Fund Agreement entered into by the Federated States and the  
15 United States that entered into force on March 18, 2024.

16           (c) "President" means the President of the Federated  
17 States of Micronesia.

18           (d) "Resiliency Distribution" shall have the meaning in

1 Article 18 of the 2023 Compact Trust Fund Agreement.

2 (e) "Secretary" means the Secretary of the Department of  
3 Finance and Administration of the National Government of the  
4 Federated States of Micronesia.

5 (f) "Special Needs Distribution" shall have the meaning in  
6 Article 19 of the 2023 Compact Trust Fund Agreement.

7 (g) "State" means any of the states of the Federated  
8 States of Micronesia.

9 (h) "Unspent Economic Assistance Distribution" shall have  
10 the meaning in Article 20 of the 2023 Compact Trust Fund  
11 Agreement.

12 Section 3. As reflected in the 2023 Compact Trust Fund  
13 Agreement, the Compact Trust Fund is intended to be a fundamental  
14 component of the long-term budgetary self-reliance of the  
15 Federated States of Micronesia. The 2023 Compact Trust Fund  
16 Agreement permits distributions for limited purposes during the  
17 twenty-year period beginning in FY 2024 under carefully defined  
18 criteria set forth in the 2023 Compact Trust Fund Agreement. Any  
19 consideration of requests for distributions must therefore be  
20 guided by the long-term goals of the fund, including its role as  
21 a crucial source of funds for the FSM to potentially replace U.S.  
22 sector grants after FY 2043.

23 Section 4. Between FY 2024 and FY 2043 there are three  
24 potential avenues for FSM requests for distributions from the  
25 Compact Trust Fund. These are: (1) Resiliency Distributions

---

1 under Art. 18, (2) Special Needs Distributions under Art. 19, and  
2 (3) Unspent Economic Assistance Distributions under Art. 20.  
3 These three mechanisms for distributions and the accompanying  
4 requirements are described in the corresponding three Articles of  
5 the Compact Trust Fund Agreement. Those provisions are hereby  
6 incorporated by reference. Distributions may only be requested  
7 by the FSM consistent with those requirements.

8 Section 5. This bill addresses the FSM domestic process to  
9 be employed that could lead to requests for distributions under  
10 Articles 18, 19, and 20 of the Compact Trust Fund Agreement.  
11 These three Articles each have their own criteria and present  
12 distinct policy issues. All distribution requests must meet the  
13 criteria in those articles and the framework of long-term  
14 purposes of the fund for the future of the FSM. The following  
15 sub-paragraphs reflect considerations applicable to any of these  
16 potential means of distribution.

17 (a) Requests for distributions may originate in any of  
18 the four States or the National Government. Such requests must  
19 identify the Compact Trust Fund Agreement mechanism at issue and  
20 the reasons for the requested distribution, including an  
21 explanation of why U.S. sector grants or other sources would not  
22 be adequate to meet the needs sought to be addressed through the  
23 proposed distributions. Any request must be signed by (i) the  
24 Governor of an FSM State if the request is coming from an FSM  
25 State, or (ii) the Secretary if the request is coming from the

---

1 FSM National Government. Any request from an FSM State shall be  
2 certified by the Director of Finance of the requesting FSM State.

3 (b) Requests must be directed to the Secretary, with a  
4 copy to the Office of Compact Management. The Secretary shall  
5 ensure that the four FSM states and others in the National  
6 Government are made aware of any requests received by other  
7 jurisdictions.

8 Section 6. Requests for Special Needs Distributions under  
9 Article 19 must meet the criteria of that Article. Among other  
10 things, as noted in Trust Fund Agreement Art. 19(2) Special Needs  
11 Distributions "shall be used only for unforeseen singular  
12 expenses of the Government of the Federated States of Micronesia  
13 relating to projects that cannot reasonably be financed from  
14 other sources of revenue, so long as the projects are to support  
15 the sectors described in Section 261(a) of the 2023 Amended  
16 Compact.

17 Section 7. Requests for Resiliency Distributions under  
18 Article 18 must meet the requirements of that Article and shall  
19 be subject to the following additional criteria.

20 (a) Requests shall specify whether they are being made  
21 under Art. 18(2)(a) (resiliency distributions for any of the  
22 sectors in Section 261 of the 2023 Amended Compact) or under Art.  
23 18(2)(b) (resiliency distributions specific to environment or  
24 infrastructure sectors as described in Section 261(a)(5) and  
25 Section 261(a)(6) of the 2023 Amended Compact.

---

1           (b) In order to provide a framework for potential  
2 requests for resiliency distributions, the Secretary shall  
3 provide the four States and the FSM National Government guidance  
4 with an overall limit on potential Resiliency Distributions for  
5 the following fiscal year, consistent with the annual budget  
6 preparation timelines. The Secretary's guidance shall be based  
7 on the criteria of Art. 18 and consideration of the need to  
8 preserve the sustainability of the Compact Trust Fund for the  
9 long-term budgetary self-reliance of the Federated States of  
10 Micronesia.

11           (c) The Secretary's guidance under subsection 7(B) above  
12 must also include a statement of the amount of funds then  
13 available to the FSM in (i) carryover funding of sector grants  
14 that has not been obligated, plus (ii) funds that are available  
15 in Account 3 of the Compact Trust Fund as the result of being  
16 moved to that account under the provisions of Art. IX of the 2023  
17 Fiscal Procedures Agreement. In its budgeting and planning, the  
18 FSM shall use these two sources of funding to the extent possible  
19 before seeking Resiliency Distributions under the mechanisms of  
20 Art. 18.

21           Section 8. Requests for Unspent Economic Assistance  
22 Distributions under Article 20 must meet the requirements of that  
23 Article, including the Unspent Economic Assistance Distribution  
24 Cap, which equals the undisbursed amounts that have been  
25 transferred to Account 3 of the Compact Trust Fund.

---

1           Section 9. Upon receiving a request for potential  
2 distributions under Sections 6 through 8 above, the Secretary or  
3 the Office of Compact Management may request any additional  
4 information to clarify or amplify the request, if deemed  
5 necessary. If a State law provides that such request for  
6 distribution requires a legislative approval, either by state law  
7 or by resolution, then a copy of the legislative approval shall  
8 likewise be provided. In making a request, a state must provide  
9 information confirming its compliance with its relevant internal  
10 processes in seeking funding under this provision.

11           Section 10. Upon receiving a request for distributions under  
12 Sections 6 through 8 above, the Secretary shall review the  
13 request in conjunction with the Office of Compact Management to  
14 determine whether the request is in compliance with i) the  
15 requirements of FSM law (including requirements at the state  
16 level), ii) with the goals of the 2023 Compact Trust Fund  
17 Agreement, and iii) with the requirements under this act. Any  
18 deficiency in the request shall be immediately brought by the  
19 Secretary to the attention of the requesting FSM State or FSM  
20 National Government for rectification. A request for  
21 distributions that is in compliance with this act shall be  
22 forwarded by the Secretary to the President. If after review the  
23 President determines that the request is justified and consistent  
24 with the goals of the Compact Trust Fund Agreement, the President  
25 shall submit the request to the Compact Trust Fund Committee.

1           Section 11. This act shall become law upon approval by the  
2 President of the Federated States of Micronesia or upon its  
3 becoming law without such approval.

4

5 Date: 5/23/24

Introduced by: /s/ Quincy Lawrence  
Quincy Lawrence  
(by request)

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25