



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 15, 2003

H.J. Res. 63 **Compact of Free Association Amendments Act of 2003**

As ordered reported by the House Committee on Resources on September 4, 2003

SUMMARY

H.J. Res. 63 would amend the Compact of Free Association Act of 1988 and subsidiary agreements between the United States and the Republic of the Marshall Islands (RMI) and the Federated States of Micronesia (FSM). The compacts with RMI and FSM, together with the subsidiary agreements, govern the political, economic, and military relationship between the United States and these two freely associated states. Although the compact does not expire, certain provisions that authorized federal funding for RMI and FSM expired in 2001. The compact provides that expired provisions be extended until 2003 if negotiations to renew the compact had not concluded by 2001.

H.J. Res. 63 would provide financial assistance for RMI and FSM for the next 20 years. The legislation would make several changes to the compact to increase monitoring of financial assistance, create a joint oversight committee, and establish trust funds to provide funds to RMI and FSM beyond 2023. H.J. Res. 63 also would provide \$30 million a year for costs related to the migration of RMI and FSM nationals to other jurisdictions and about \$31 million annually for additional education grants for RMI and FSM.

Consistent with the baseline construction rules in the Balanced Budget and Emergency Deficit Control Act, CBO's baseline assumes that direct spending for grants to RMI and FSM will continue over the 2004-2013 period—beyond the scheduled expiration date—at an average annual cost of \$157 million a year. We estimate that enacting this legislation would increase direct spending by around \$680 million above the amounts assumed in our baseline projections over the 2004-2013 period.

In addition, the legislation would extend the authority to appropriate funds for certain federal services for RMI and FSM for the next 20 years, for grants to pay for costs related to the migration of RMI and FSM nationals to other jurisdictions, and for costs associated with

medical debt referral claims. Assuming the appropriation of the necessary amounts, CBO estimates that implementing these provisions of H.J. Res. 63 would cost \$850 million over the 2004-2013 period.

H.J. Res. 63 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), but relative to current law, that mandate would impose no costs on state, local, or tribal governments. The resolution contains no private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.J. Res. 63 is shown in the following table. The costs of this legislation fall within budget function 800 (general government).

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
DIRECT SPENDING										
Baseline Spending for Compact of Free Association Under Current Law										
Estimated Budget Authority	156	156	156	156	156	156	158	158	158	158
Estimated Outlays	156	156	156	156	156	156	158	158	158	158
Proposed Changes:										
Estimated Budget Authority	57	59	62	65	67	70	71	74	77	80
Estimated Outlays	57	59	62	65	67	70	71	74	77	80
Spending for Compact of Free Association Under H.J. Res. 63										
Estimated Budget Authority	213	215	218	221	223	226	229	232	235	238
Estimated Outlays	213	215	218	221	223	226	229	232	235	238
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
Federal Program Services for RMI and FSM										
Estimated Authorization Level	60	61	62	64	65	66	68	69	70	72
Estimated Outlays	45	61	62	63	65	66	67	69	70	71
Education Formula Grant Programs										
Estimated Authorization Level	-13	-13	-14	-14	-14	-14	-15	-15	-15	-16
Estimated Outlays	-1	-9	-13	-13	-14	-14	-14	-15	-15	-15

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	<u>By Fiscal Year, in Millions of Dollars</u>									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Compact Expenses										
Estimated Authorization Level	30	31	31	32	32	33	34	34	35	36
Estimated Outlays	30	31	31	32	32	33	34	34	35	36
Medical Referral Claims										
Estimated Authorization Level	4	0	0	0	0	0	0	0	0	0
Estimated Outlays	4	0	0	0	0	0	0	0	0	0
Total Changes										
Estimated Authorization Level	81	79	80	82	83	85	87	88	90	92
Estimated Outlays	78	82	81	82	83	85	87	88	90	92

BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted near the start of fiscal year 2004, that the necessary amounts will be appropriated for each fiscal year, and that outlays will occur at the historical rate for grants to RMI and FSM.

Direct Spending

H.J. Res. 63 would authorize and appropriate federal funds for economic assistance to RMI and FSM over the 2004-2023 period. Grant assistance would be aimed at needs for education, health, infrastructure, private-sector development, and the environment. In addition, the resolution would establish trust funds for RMI and FSM involving annual contributions for 20 years by RMI, FSM, and the federal government. Those trust funds are aimed at providing funds to RMI and FSM after federal grant assistance expires under the bill in 2023.

CBO estimates that direct spending authorized by this legislation would total \$2.3 billion over the 2004-2013 period. However, consistent with the Balanced Budget and Emergency Deficit Control Act, which specifies that certain expiring provisions should be assumed to continue for budget projection purposes, CBO's baseline includes budget authority and outlays for payments to RMI and FSM totaling \$1.6 billion over the 2004-2013 period. Thus, we estimate that H.J. Res. 63 would provide an increase in direct spending of about

\$680 million above the baseline over the 10-period. The following paragraphs discuss the financial assistance that would be provided by this legislation.

Republic of the Marshall Islands. Over the 2004-2013 period, H.J. Res. 63 would provide RMI with grants of \$356 million, \$99 million in trust fund contributions, \$160 million for U.S. defense operations on the Kwajalein Atoll, \$20 million to compensate the Kwajalein landholders and RMI for the use of its territory by the U.S. military, and \$14 million for agricultural programs.

Federated States of Micronesia. Over the 2004-2013 period, H.J. Res. 63 would provide FSM with grants of \$793 million and \$195 million in trust fund contributions.

General Assistance. The legislation would provide \$30 million a year for health, education, social, and infrastructure costs associated with the migration of RMI and FSM nationals to Hawaii, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands (CNMI). This general assistance would cost \$300 million over the 2004-2013 period.

Education. H.J. Res. 63 would make RMI and FSM ineligible to receive grants under any appropriated formula grant programs administered by the Secretary of Education. In place of those grants, the legislation would provide \$29 million adjusted annually for inflation, or a total of \$313 million over the 2004-2013 period, for education assistance.

Debt Forgiveness. Section 104 would allow the President—at the request of the Governors of Guam and the CNMI—to reduce, waive, or release all or part of any amounts owed by the respective governments to the United States. This authority would expire in February 2005. Based on information from the Office of Insular Affairs, Guam, and the CNMI, CBO estimates that the amount of outstanding debt owed to the United States by Guam and the CNMI is approximately \$160 million. This amount consists of debts owed by Guam for telephone infrastructure improvements, disaster assistance, water consumption, and the construction of student housing. Based on information from the Office of Insular Affairs and the Office of Management and Budget, CBO has no expectation that this debt forgiveness authority would be exercised. If any changes were made to a federal loan using this authority, such as the \$105 million loan to the Guam Telephone Authority from the Department of Agriculture for telephone infrastructure improvements, the cost would be recorded in the year that the change was effective, pursuant to the Federal Credit Reform Act, and could exceed \$100 million. No costs for debt forgiveness are included in this cost estimate.

Other Programs and Services. H.J. Res. 63 also would continue to make available services currently provided by the U.S. Postal Service (USPS) and Federal Deposit Insurance

Corporation (FDIC). Spending by these agencies is generally not subject to the annual appropriations process. Based on information from the Office of Insular Affairs, CBO expects that mail service to RMI and FSM costs USPS approximately \$1 million annually; this cost is reimbursed by the Department of the Interior, subject to the availability of appropriations. In addition, CBO expects costs to the FDIC for continuing to insure deposits in the Bank of the Federated States of Micronesia would be offset by fees assessed on the industry, resulting in no net cost to the federal government.

Spending Subject to Appropriation

Federal Programs and Services for RMI and FSM. H.J. Res. 63 would specifically extend the authority to continue services to RMI and FSM provided by the National Weather Service, the Federal Aviation Administration, the Departments of Transportation and Homeland Security, and the Agency for International Development. Based on information from the Departments of State and the Interior, and the General Accounting Office (GAO), CBO estimates that continuing those programs for RMI and FSM would cost approximately \$10 million annually, assuming appropriation of the necessary amounts.

Other federal agencies currently providing programs and services to RMI and FSM include the Departments of Labor, Education, Agriculture, and Health and Human Services. Most of this assistance is provided through those agencies' annual appropriations. Based on information from GAO and the Departments of State, the Interior, and Education, CBO estimates that these other programs and services for RMI and FSM currently cost about \$50 million a year. Section 109 authorizes appropriations to continue federal services and programs to RMI and FSM, so these costs are included in this estimate.

Education Formula Grant Programs. H.J. Res. 63 would make RMI and FSM ineligible to receive grants under any formula grant program administered by the Secretary of Education. Based on information from the Department of Education, CBO estimates that RMI and FSM received about \$13 million under discretionary formula grant programs in 2003. Assuming future appropriation acts discontinue such funding for RMI and FSM, this provision would reduce costs by an estimated \$133 million over the next 10 years, including adjustments for anticipated inflation.

Compact Expenses. The legislation would authorize the appropriation of such sums as are necessary through 2023 for grants to Hawaii, Guam, American Samoa, and CNMI as a result of increased demands for health, education, social, and infrastructure services associated with the migration of RMI and FSM nationals to these areas. Based on information from the GAO, Hawaii, Guam, American Samoa, and CNMI, CBO estimates that the increased demands resulting from the migration of RMI and FSM nationals cost these areas

approximately \$60 million annually. Hence, CBO estimates that implementing this provision would cost an average of \$33 million annually, or \$328 million over the 2004-2013 period, in addition to the \$30 million in annual general assistance payments.

Medical Referral Claims. FMS and RMI nationals are sometimes diagnosed with health conditions that cannot be treated at their local hospitals. In such cases, patients may be referred to hospitals in Hawaii, Guam, CNMI, or American Samoa for treatment. The cost of treatment at hospitals in other jurisdictions can exceed the insurance payment from RMI and FSM nationals. H.J. Res. 63 would authorize the appropriation of such sums as are necessary to compensate hospitals outside RMI and FSM for the cost of services provided to referred RMI and FSM nationals that have not been reimbursed prior to October 1, 2003. Based on information from the embassies of RMI and FSM, CBO estimates this provision would cost \$4 million in fiscal year 2004, subject to the appropriation of the necessary amounts.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.J. Res 63 contains an intergovernmental mandate as defined in UMRA because it would explicitly prohibit states from taxing revenue generated by the trust funds established in the legislation and from treating the funds as anything other than a nonprofit corporation. Since the trust funds do not currently exist, this provision would not affect state budgets relative to current law and the threshold established in UMRA (\$59 million in 2003, adjusted inflation) would not be exceeded.

If H.J. Res. 63 were enacted, affected jurisdictions, including Hawaii, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands, would continue to incur costs for services to migrants; however, such costs would not be the result of enforceable duties imposed by the federal government. The joint resolution would provide \$30 million per year and would authorize the appropriation of additional sums as may be necessary to offset the impacts of migrants on social services and infrastructure of affected jurisdictions.

H. J. Res. 63 also would require affected jurisdictions to report each year on the impact of the compact; the costs of complying with the requirement would be funded from the \$30 million in general assistance. As defined by UMRA, such a requirement is not a mandate because it is a condition for receiving federal assistance. Further, the joint resolution would authorize the President to forgive certain debts owed to the United States by Guam and the Mariana Islands.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.J. Res. 63 contains no private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATES

On September 15, 2003, CBO transmitted a revised cost estimate for H.J. Res. 63 as reported by the House Committee on International Relations on September 4, 2003, and an estimate for H.J. Res. 63 as ordered reported by the House Committee on the Judiciary on September 10, 2003. All three versions of this legislation would amend the Compact of Free Association. The versions approved by the Committees on International Relations and the Judiciary are identical. In contrast, the version of H.J. Res. 63 approved by the Committee on Resources would provide significantly more funding for RMI and FSM. Our estimates for the different versions of the legislation reflect those differences.

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