



To: House Committee on Natural Resources Republican Members
From: Republican Committee Staff; Ken Degenfelder
(Ken.Degenfelder@mail.house.gov)
Date: May 16, 2022
Subject: Hybrid Oversight Hearing on the President’s Fiscal Year 2023 Budget Request for the Department of the Interior’s Office of Insular Affairs.

The Committee on Natural Resources will hold a full committee hybrid oversight hearing on the President’s Fiscal Year 2023 Budget Request for the Department of the Interior’s Office of Insular Affairs on **Wednesday, May 18, 2022, at 10:00 a.m.** in 1324 Longworth House Office Building and via Cisco WebEx.

Republican Members are encouraged to take advantage of the opportunity to participate in-person from the hearing room.

Member offices are requested to notify Ken Degenfelder (Ken.Degenfelder@mail.house.gov) **no later than 4:30 p.m. on Wednesday, May 17, 2022**, if their Member intends to participate in-person in the hearing room or remotely via his/her laptop from another location. Submissions for the hearing record must be submitted through the Committee’s electronic repository at HNRCDocs@mail.house.gov. Please contact David DeMarco (David.DeMarco@mail.house.gov) or Everett Winnick (EverettWinnick@mail.house.gov) should any technical difficulties arise.

I. KEY MESSAGES

- The President’s FY 2023 budget request for the Department of the Interior’s Office Insular Affairs (OIA) for current appropriations is \$125.72 million, an increase of \$10.56 million over the FY 2022 enacted funding level.
- The largest increase within the request would broadly support the development of renewable energy and grid infrastructure in the Insular areas.
- Republicans support each U.S. territory exercising self-determination, instead of imposing a “federal government knows best” approach on the Insular areas. Federal efforts should be focused first to ensure affordable and reliable energy systems are in place that meet the individual needs of each Insular area, not forcing a federally mandated transition to renewable energy sources that may not be able to meet baseload power needs.



- While this oversight hearing focuses on the general topic of the federal budget needs of the U.S. Insular areas, this is an opportunity for Republican members to highlight the importance of renewing the compacts with the Freely Associated States (FAS) as the People’s Republic of China (PRC) continues aggressive acts in the Indo-Pacific region.¹

II. WITNESSES

- **Mr. Michael Sobolik**, Fellow in Indo-Pacific Studies, American Foreign Policy Council, Washington, D.C. [*Republican Witness*]
- **The Hon. Ralph DLG Torres**, Governor, Saipan, Commonwealth of the Northern Mariana Islands
- **Mr. Jonathan Dunn**, Director of Budget, Office of Insular Affairs, U.S. Department of the Interior, Washington, D.C.
- **The Hon. Lemanu Palepoi Mauga**, Governor, Pago Pago, American Samoa
- **The Hon. Lourdes Aflague Leon Guerrero**, Governor, Hagatna, Guam
- **The Hon. Albert Bryan Jr.**, Governor, St. Thomas, U.S. Virgin Islands

III. BACKGROUND

Office of Insular Affairs Budget Request (Dollars in Thousands)²

Budget Authority	2021 Actual	2022 CR at Annual Rate	2023 Request
Current Discretionary	87,436	87,436	98,000
Current Mandatory	27,720	27,270	27,720
Total Current	115,156	115,156	125,720
Permanent	597,386	607,294	610,414
Total OIA	712,542	722,450	736,134

In general, the economic health of the territories is directly impacted by their relative level of geographic isolation. Territories rely heavily on the funding they receive from

¹ Federated States of Micronesia, Republic of Palau and the Republic of the Marshall Islands.

² FY 2023 OIA Budget Justification at 2. <https://www.doi.gov/sites/doi.gov/files/fy2023-oia-greenbook.pdf>

federal grants and OIA for their economic stability.³ Tourism plays a major economic role in most of the U.S. territories and Freely Associated States, and a strong continued military presence in Guam helps strengthen their local economy.

The Department of the Interior's Office of Insular Affairs (OIA), is charged with carrying out all duties and responsibilities of the Secretary of the Interior regarding the U.S. territories and the Freely Associated States (FAS).⁴ OIA's budget is divided into two major categories of funding: current and permanent appropriations. The FY 2023 OIA budget request for current appropriations is \$125.72 million, a \$10.56 million increase. Most of OIA's budget reflects mandatory commitments to U.S.-affiliated insular areas and is permanently appropriated. For FY 2023, these mandatory commitments are estimated at \$380.0 million for fiscal payments to Guam and the U.S. Virgin Islands and \$230.4 million for payments under the Compacts of Free Association.

The current discretionary funds for OIA are composed of assistance to the U.S. territories and limited discretionary funding for Compact of Free Association related programs. Discretionary assistance provided in the FY 2023 budget to the territories is requested at \$117.26 million (an increase of \$10.18 million), which supports the following primary budget items: American Samoa Operations (\$24.62 million); Capital Improvement Projects (\$27.72 million); Office of Insular Affairs (\$10.22 million); General Technical Assistance (\$21.80 million) and Energizing Insular Communities (15.5 million).⁵

Capital Improvement Projects

Capital Improvement Projects (CIP) are a critical budget account for the U.S. territories as they address a variety of critical infrastructure needs including hospitals, schools, and wastewater and solid waste systems. Improvements to this infrastructure not only benefit the current population and businesses of the Insular areas, but also lay the groundwork to attract new investment in the territories, thereby promoting economic development and self-sufficiency.⁶

In 2005, OIA implemented a competitive allocation system for the \$27.72 million in CIP grants. Based on a premise that all funds will be used for capital needs in the U.S. territories, the determination of the annual allocation is made on the basis of a set of competitive criteria that measure the demonstrated ability of the governments to exercise prudent financial management practices and to meet federal grant requirements.⁷

Many of the U.S. territories believe the CIP program is one of the most successful federal programs for infrastructure projects and has had a significant impact on quality of life in

³ House Committee on Natural Resources Oversight Hearing, Fiscal Year 2021 Budget Request for Department of the Interior's Office of Insular Affairs (Feb. 11, 2020), <https://www.govinfo.gov/content/pkg/CHRG-116hhrg39743/pdf/CHRG-116hhrg39743.pdf> at 28.

⁴ Federated States of Micronesia, Republic of Palau and the Republic of the Marshall Islands.

⁵ FY 2023 OIA Budget Justification. At 5. <https://www.doi.gov/sites/doi.gov/files/fy2023-oia-greenbook.pdf>.

⁶ FY 2018 OIA Budget Justification. At. 62 <https://www.doi.gov/sites/doi.gov/files/uploads/oia-2021-greenbook-final.pdf>.

⁷ Id. At 22.

the territories.⁸ The competitive grant program provides accountability by ensuring a territorial government that receives funding is in compliance with generally accepted financial auditing practices and is also in compliance with statutes and regulations regarding procurement practices and processes. It is unclear whether the majority intends to advocate for increased CIP funding. In general, it is believed that funding infrastructure through this program may be the only way to ensure accountability and transparency in the utilization of federal funds to the Insular areas. Republicans on the Natural Resources Committee have long advocated for increased accountability and transparency in how taxpayer dollars are spent across the federal budget.

Energizing the territories

OIA's largest budget increase request of \$7 million for renewable energy projects and infrastructure in the territories (up to a total of \$15.5 million for FY 2023) is a continuation of one-sided Democrat proposals. This program's requested increase is similar to provisions found in H.R. 2780, the Insular Climate Act,⁹ which mandates the use of solar, wind, hydroelectric, geothermal, and ocean energy in the Insular areas, rather than allowing the territories the autonomy to choose the most reliable and affordable energy sources available that meet their energy needs. As Committee Republicans highlighted during previous hearings, the proven reliability of liquefied natural gas (LNG), nuclear, biomass, and other options should not be ignored, especially when attempting to meet the energy needs of territories prone to severe weather and unstable electricity transmission infrastructure.¹⁰

Efforts by several of the U.S. Territories to transform their electric power grids have been under way for many years. Congress appropriated \$8.5 million to OIA for FY 2022 to implement energy plans and carry out high-priority projects, especially those which boost energy security and infrastructure resiliency. Expected areas of emphasis include power transmission, generation capacity, micro-grids, utility-scale and distributed solar energy generation, consumer efficiency, integrated resource planning, and electrical grid integration studies.

In contrast to the Democrats' strategy of increased spending and expansion of the federal bureaucracy, Republicans are focused on promoting territorial self-determination and decreasing duplicative and burdensome regulations. More work can be done to improve existing programs and functions that support resiliency in Insular areas to support the individual needs of each U.S. territory, promote innovation in their energy sectors and embrace an all of the above approach to meet their energy needs.

⁸ Testimony of Arnold Palacios, Lt. Gov., Commonwealth of the Northern Mariana Islands before the House Committee on Natural Resources (Feb. 11, 2020),

<https://docs.house.gov/meetings/II/II00/20200211/110488/HHRG-116-II00-Wstate-PalaciosA-20200211.pdf>.

⁹ H.R. 2780 (117th Congress), <https://www.congress.gov/117/bills/hr2780/BILLS-117hr2780ih.pdf>.

¹⁰ Discussion Draft of "Insular Area Climate Change Act" (117th Congress), <https://www.govinfo.gov/content/pkg/CHRG-117hrg43630/pdf/CHRG-117hrg43630.pdf>.

Current Compacts of Free Association funding

The total current mandatory Compact of Free Association¹¹ funding request is \$8.46 million. The total permanent funding level for the OIA is \$610.41 million, which includes \$230.41 million in Compact of Free Association funding, which is distributed as follows:¹²

- Marshall Islands (\$81.67 million, a \$1.2 million increase over FY 2022 CR levels)
- Federated States of Micronesia (\$118.36 million, a \$1.8 million increase over FY 2022 CR levels)
- Compact Impact (\$30 million, no change over FY 2022 CR levels)
- Judicial Training (\$373,000, a \$6,000 increase over FY 2022 CR levels)

Mandatory Appropriations

The remaining \$380 million in mandatory appropriations are fiscal payments which reimburse the U.S. Virgin Islands for federal excise taxes collected on rum sales (\$300 million) and reimbursement to Guam for income taxes collected from federal employees and military personnel residing in Guam (\$80 million).¹³

COVID-19

The economies of U.S. territories have and continue to be profoundly impacted by COVID-19. The Insular areas rely heavily on tourism for revenue. With various travel restrictions and lockdowns on the islands, many businesses struggled to stay open.

Congress provided relief to the Insular areas in the Families First Coronavirus Response Act,¹⁴ CARES Act,¹⁵ and the Coronavirus Response and Relief Supplemental Appropriations Act.¹⁶

The Families First Coronavirus Response Act increased Medicaid funding for the territories and lowered the territories' Medicaid match rate. Additional funding for SNAP and supplemental funding for the Islands that utilize block grant funding instead of the traditional SNAP program was also included.

The CARES Act allows all territories to participate in the Pandemic Unemployment Assistance program, regardless of whether they have unemployment insurance programs.

¹¹ Compacts of Free Association provides grant money to: the Republic of Palau, Republic of the Marshall Islands, and the Federated States of Micronesia. Public Law 108-188 and Public Law 111-88.

¹² FY 2023 OIA Budget Justification. At 5. <https://www.doi.gov/sites/doi.gov/files/fy2023-oia-greenbook.pdf>.

¹³ Id.

¹⁴ PL 116-123.

¹⁵ PL 116-136.

¹⁶ PL 116-260.

In addition to financial assistance for governments, \$55 million was authorized as part of a Coronavirus Relief Fund for the territories.

Compacts of Free Association

At the end of World War II, the U.S. began administering authority over the Trust Territory of the Pacific Islands pursuant to United Nations Security Council Resolution 21. At the time of the Resolution's adoption, the Trust Territory included the Federated States of Micronesia (FSM), Republic of the Marshall Islands (RMI), Palau, and the Commonwealth of the Northern Marianas (CNMI). By 1978, the FSM, RMI and Palau rejected the option of U.S. territorial or commonwealth status and instead chose a status of free association with the United States.

In 1982, the FSM and RMI began negotiations with the United States to enter into compacts of free association. The compacts were ratified and signed into law in 1986.¹⁷ The compact with Palau was ratified and signed into law in late 1986.¹⁸ Under the compacts, the U.S. is obligated to militarily defend the FAS, provide economic assistance through grants and contributions to a trust fund for each FAS nation, and treat FAS citizens as non-immigrants. The FAS agree that the United States can establish military facilities on the islands and that the U.S. has the right of strategic denial of entry to another country.

As the civil administration of the Trust Territory of the Pacific Islands was transferred to the Department of the Interior in the 1950's, the compacts with each of the island nations continue to be vested with the Department to carry out its responsibilities of disbursing funding and management of the FAS trust funds.¹⁹

In 2003, Congress amended Compacts with the FSM and RMI by extending the length of the compacts to 2023 and establishing jointly managed trust funds for the FSM and the RMI.²⁰ The Trust Funds were incorporated in 2004 as non-profit corporations under the laws of the District of Columbia. Earnings from the Trust Funds were intended to provide an annual source of revenue for the FSM and RMI Governments after fiscal year 2023 for assistance in education, health care, the environment, public-sector capacity building, private-sector development, and public infrastructure.²¹ Unfortunately, the envisioned health of the trust funds to provide long-term sufficiency for the FSM and RMI has not been realized.²²

¹⁷P.L. 99-239.

¹⁸ P.L. 99-658.

¹⁹ E.O. 10265, Transfer of the Administration of the Trust Territory of the Pacific Islands from the Secretary of the Navy to the Secretary of the Interior (June 29, 1951).

²⁰ P.L. 108-188.

²¹ Statement of Doug Domenech, OIA, before S. Energy & Natural Resource Cmte. July 2019 at <https://www.energy.senate.gov/services/files/78F4BB31-C41F-4A48-9200-4FD10B6EB7E9>.

²² Statement of Dr. David Gootnick, GAO, before S. Energy & Natural Resource Cmte. July 2019 at 16. https://www.energy.senate.gov/public/index.cfm/files/serve?File_id=1A597DE9-1273-461C-9846-B42CEEDA3FBD.

In 2018, the United States conducted a review of the compact of free association with the nation of Palau, extending certain financial provisions through September 2024.²³

Importance of Indo-Pacific

In recent years, China has continued using military and economic coercion to bully its neighbors in the Indo-Pacific region, advance unlawful maritime claims, threaten maritime shipping lanes, and destabilize territory along the periphery of the People's Republic of China (PRC).²⁴

The Congressional Research Service has reported that while China's influence in the Pacific Islands is growing, its engagement is relatively limited in the FAS as a whole, due to the U.S. security and economic presence in the FAS and to the PRC's lack of diplomatic relations with the RMI and Palau.²⁵ Among the FAS, China's engagement is greatest in Micronesia, where it is a major provider of economic assistance and investment (worth roughly \$40 million between 2009 and 2018), and with which it has a "comprehensive strategic partnership." Twenty-five PRC entities have financed and constructed government buildings, a sports facility, a bridge and other infrastructure, and upgraded Chuuk International Airport.²⁶

Recent actions by the PRC underscore the need for continued attention on compact renewal with the FAS before they expire in 2023 and 2024, as they could have wide ranging impacts on the U.S. influence and control in the Indo-Pacific region.

²³ Statement of Doug Domenech, OIA, before S. Energy & Natural Resource Cmte. July 2019 at <https://www.energy.senate.gov/services/files/78F4BB31-C41F-4A48-9200-4FD10B6EB7E9>.

²⁴ U.S. Department of State, China's Military Aggression in the Indo-Pacific Region, [https://2017-2021.state.gov/chinas-military-aggression-in-the-indo-pacific-region/index.html#:~:text=Across%20much%20of%20the%20Indo,Republic%20of%20China%20\(PRC\)](https://2017-2021.state.gov/chinas-military-aggression-in-the-indo-pacific-region/index.html#:~:text=Across%20much%20of%20the%20Indo,Republic%20of%20China%20(PRC)).

²⁵ Joint House Foreign Affairs and Natural Resources Hearing, Sustaining U.S. Pacific Insular Relationships, (Sept. 26, 2019), <https://www.govinfo.gov/content/pkg/CHRG-116hhrg37848/pdf/CHRG-116hhrg37848.pdf>.

²⁶ Id.