

CULTURAL AND AESTHETIC GRANT PROGRAM

Program Description

The Cultural and Aesthetic Grant Program (C&A), as provided in Title 22, Chapter 2, part 3, MCA, is administered by the Montana Arts Council (MAC). Interest earnings from a statutory trust, which receives coal severance tax revenues, fund the grant program. By statute, the interest from the cultural trust is to be appropriated for the protection of works of art in the State Capitol and other cultural and aesthetic (C&A) projects, 15-35-108, MCA.

Grant applications for cultural and aesthetic projects are submitted to the MAC on a biennial basis. Eligible applicants include the state of Montana and regional, county, city, town, or Indian tribal governments. A 16-member Cultural and Aesthetic Projects Advisory Committee, with eight members appointed by the Montana Arts Council and eight appointed by the Montana Historical Society, reviews each application. The committee prioritizes the requests and makes funding recommendations to the legislature as part of the executive budget. All grants require legislative approval in accordance with 22-2-306 through 309, MCA.

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Cultural and Aesthetic Trust				
Budget Item	Budget 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	\$12,580,000	\$13,190,000	\$610,000	4.8%
Trust Earnings	1,006,003	960,000	(46,003)	-4.6%
Number of Grants	81	73	(8)	-9.9%
	<u>Appropriated</u>	<u>Proposed</u>		
Grants Cost	\$758,650	\$385,132	(\$373,518)	-49.2%
Capitol Complex Works of Art	30,000	30,000	0	0.0%
Total Costs	\$788,650	\$415,132	(\$373,518)	-47.4%
State Special	\$788,650	\$415,132	(\$373,518)	-47.4%
Total Funds	\$788,650	\$415,132	(\$373,518)	-47.4%

Program Narrative

The executive recommendation for C&A grants will be introduced in HB 9. The first C&A priority recommended for funding is a \$30,000 appropriation to the Montana Historical Society for the care and conservation of capitol complex artwork, in accordance with 2-17-805, MCA. The second priority is 73 C&A grant awards totaling \$385,132. The recommended awards are prioritized within four categories, which include Special Projects costing \$4,500 or less, Special Projects greater than \$4,500, Operational Support Projects, and Capital Expenditure Projects. In the 2017 biennium, appropriations for the C&A program would be 47.4% less that appropriated in the 2015 biennium.

A complete listing of the C&A grants may be seen in figure A5 in the Section F Appendix. The details behind the grants requested for the 2017 biennium C&A, along with a status of grants awarded in the 2015 biennium, are presented in Vol. 7 of the Governor's Executive Budget.

Funding

Funding for the C&A program comes from the interest earnings from the cultural trust. The trust receives a statutorily dedicated 0.63% of coal severance tax revenues. At the end of the 2015 biennium, the cultural trust balance is projected to be approximately \$12.6 million, and the balance is expected to grow by approximately \$610,000 during the 2017 biennium.

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The figure to the right shows the projected balance of the C&A state special fund for the 2017 biennium. The fund is expected to begin the 2015 biennium with a \$0 fund balance. This balance occurs because the interest earnings of the 2015 biennium are projected to be lower than anticipated by the 2013 Legislature and the program will need to reduce the authorized grants in light of the shortfall. The estimates, provided in HJ 2, include interest earnings of \$960,000 for the 2017 biennium. Expenditures for the C&A program are limited by the amount of interest earned from the trust investments. The executive budget proposal includes appropriations of \$322,719 for administrative expenses and \$142,154 for the Folklife program (as appropriated in HB 2). In the 2017 biennium, HB 2 appropriations are almost 48.5% of the total program revenues. Program expenditures also include \$30,000 for a statutorily required appropriation for capitol complex works of art, and grant funding proposals of \$385,132, which are expected to result in a ending fund balance in FY 2017 of \$79,995.

Cultural & Aesthetic Grant Fund (02009) Fund Balance Projection, 2017 Biennium				
Estimated Beginning Fund Balance (7/1/2015)				(\$0)
Revenue Projections¹				
	<u>2016</u>	<u>2017</u>	<u>Bienn</u>	
Interest Earnings	\$487,000	\$473,000	\$960,000	
2017 Biennium Revenues				960,000
Proposed Expenditures				
MAC Administration ²	(163,006)	(159,713)	(322,719)	
Folklife ²	(71,160)	(70,994)	(142,154)	
Capitol Cmplx Works of Art			(30,000)	
Grants			(385,132)	
Total Expenditures				(880,005)
Estimated Ending Fund Balance (6/30/2017)				<u>\$79,995</u>
<small>¹ HJ2 estimates</small>				
<small>² Executive proposal (HB 2)</small>				

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COMMENT**

In past biennia, the C&A grant program has experienced interest earnings that have not kept pace with legislative appropriations. When revenue shortfalls occur, language contained in the C&A appropriation bill has provided for a reduction of grants, those awards greater than \$4,500, on a pro-rata basis.

A shortfall in interest earnings is currently occurring in the C&A grants program. The shortfall is expected to be approximately \$200,000. Consequently, additional grants of \$81,000, as authorized by the 63rd Legislature will not be funded. Also, grants of greater than \$4,500 may be reduced by approximately 20%. While some grant recipients are able to absorb the lower grant terms, in a number of cases program plans for the grant dollars are established and irreversible.

To mitigate the negative effects of interest income shortfalls, past legislatures have provided an ending fund balance in the C&A grants fund. The 2013 Legislature provided an estimated ending fund balance of \$29,312 for the 2015 biennium, but that cushion was not sufficient to cover the serious impact of low interest earnings. For the 2017 biennium, the interest earnings projections are lower than has been projected in past biennia. With more conservative estimates, shortfalls as experienced in the current biennium may be avoided. Furthermore, the cushion of nearly \$80,000 may help to avoid the need to reduce grants in the 2017 biennium.

In the 2015 biennium version of HB 9, language is included to allow for an increase grant awards, should the interest earnings manifest at higher than expected levels. While this language leaves an amount of uncertainty about the exact amount of the appropriation, it provides a mechanism through which the authorized grants could be increased, without creating expectations of higher levels of grants for the recipients. The legislature may consider a discussion about including this language in the 2017 biennium, and may consider reporting requirements for the Arts Council should the interest earnings of the trust permit the increase or reduction of the authorized grants.

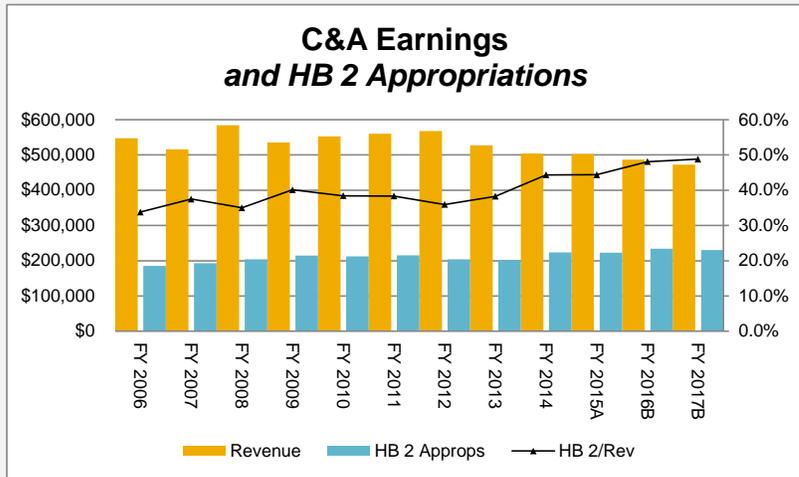
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C&A Impacts of Low Interest Earnings

The C&A grant program is funded with the interest earnings of the cultural trust. In recent years, the trust earnings have been low due to the low yields of the trust investments, primarily consisting of bonds. In the 2017 biennium, interest earnings are expected to be \$960,000, or an average of \$480,000 per fiscal year. After accounting for other obligations of the fund; administrative costs and the Folklife program (HB 2 appropriations), and funding statutorily required for the purchase of works of art in the capitol complex, funds remaining for the C&A grants program are \$465,127, or 48.5% of the total income expected in the fund. The amount of funding available for grants in the 2017 biennium will be lower than ever experienced.

With the reduced income seen in the 2015 biennium and expected in the 2017 biennium, HB 2 appropriations are proposed at \$464,983, or 48.4% of the total funding available and are only slightly less than the amount of funds available for grants. As seen in the accompanying figure, while the appropriations of HB 2 have not increased significantly in nominal terms, they have increased significantly in relation to the total earnings of the fund.



There are options the Legislature could consider in this situation. The Legislature could:

- Move administrative costs out of the C&A fund temporarily (or ongoing)
- Supply additional funding for the grant program
- Do nothing