

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	7.00	0.00	0.00	7.00	0.00	0.00	7.00	7.00
Personal Services	314,676	57,744	0	372,420	58,380	0	373,056	745,476
Operating Expenses	237,299	(14,733)	0	222,566	(19,116)	0	218,183	440,749
Grants	392,434	101,257	(31,120)	462,571	101,263	(31,120)	462,577	925,148
Total Costs	\$944,409	\$144,268	(\$31,120)	\$1,057,557	\$140,527	(\$31,120)	\$1,053,816	\$2,111,373
General Fund	339,050	(7,589)	(31,120)	300,341	(6,423)	(31,120)	301,507	601,848
State/Other Special	140,829	17,271	0	158,100	12,394	0	153,223	311,323
Federal Special	464,530	134,586	0	599,116	134,556	0	599,086	1,198,202
Total Funds	\$944,409	\$144,268	(\$31,120)	\$1,057,557	\$140,527	(\$31,120)	\$1,053,816	\$2,111,373

Agency Description

The Montana Arts Council is authorized by Title 22-2-101, MCA to assist public and private institutions with artistic and cultural activities. The council encourages participation in, and appreciation of, the arts. The council fosters interest in the state's cultural heritage, expands state cultural resources, and supports freedom of artistic expression through ongoing programs and projects. The council administers the Cultural and Aesthetic Project grants, other grants approved by the legislature, and makes recommendations to the legislature on arts related issues.

Executive Recommended Legislation

Cultural & Aesthetic Grants - The executive intends to propose legislation establishing priorities and appropriating funding for cultural and aesthetic project grants. For further information, see the Long Range Planning section of this volume.

Agency Discussion

<p>Montana Arts Council Major Budget Highlights</p>
<ul style="list-style-type: none"> o The total agency budget increases \$220,000 over previous biennium funding o The proposed general fund budget decreases \$38,709 in fiscal 2004 and \$37,543 in fiscal 2005 from base year expenditures, eliminating general fund support for the technical assistance program and matching funds for grants to local communities and arts education projects o General fund decreases are offset by increased in federal National Endowment for the Arts (NEA) funding
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> o Increased reliance on general fund over recent biennia o Percent for Arts Program

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

	Base	% of Base	Budget	% of Budget	Budget	% of Budget
Program Funding	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 339,050	35.9%	\$ 300,341	28.4%	\$ 301,507	28.6%
02009 Cultural And Aesthetic Project	140,829	14.9%	158,100	14.9%	153,223	14.5%
03016 Nea Funds-Basic State Grant	419,030	44.4%	542,216	51.3%	542,186	51.4%
03017 Nea Funds-Arts In Education	45,500	4.8%	56,900	5.4%	56,900	5.4%
Grand Total	\$ 944,409	100.0%	\$ 1,057,557	100.0%	\$ 1,053,816	100.0%

The Montana Arts Council is funded with a combination of general fund, state special revenue from Cultural & Aesthetic (C&A) Trust Fund interest earnings, and federal funds from the National Endowment for the Arts (NEA).

Over past biennia, general fund has supported administration, legislative audit costs, and a small portion of grants including artist residencies in schools, local community grants, and Arts are Central grants. The Executive Budget eliminates general fund support of the artist in school and local community grants with \$50,000 general fund remaining for grants through the Arts are Central program.

State special revenue from the C&A project account provides for the administration of C&A grants, the cost of the council as authorized in section 22-2-304, MCA and the folklife program. Federal NEA funding supports education and community grants, honorariums and administration.

Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	7.00	0.00	7.00	7.00	0.00	7.00	7.00	7.00
Personal Services	372,420	0	372,420	373,056	0	373,056	652,896	745,476
Operating Expenses	222,566	0	222,566	218,183	0	218,183	404,746	440,749
Grants	493,691	(31,120)	462,571	493,697	(31,120)	462,577	833,739	925,148
Total Costs	\$1,088,677	(\$31,120)	\$1,057,557	\$1,084,936	(\$31,120)	\$1,053,816	\$1,891,381	\$2,111,373
General Fund	331,461	(31,120)	300,341	332,627	(31,120)	301,507	658,135	601,848
State/Other Special	158,100	0	158,100	153,223	0	153,223	278,245	311,323
Federal Special	599,116	0	599,116	599,086	0	599,086	955,001	1,198,202
Total Funds	\$1,088,677	(\$31,120)	\$1,057,557	\$1,084,936	(\$31,120)	\$1,053,816	\$1,891,381	\$2,111,373

LFD COMMENT

Proposed 2005 biennium changes to Arts Council funding, including budget balancing reductions and increases in non-general funding, have resulted in an overall funding increase but have changed the funding make-up of the council as illustrated in the following figures:

Figure 1

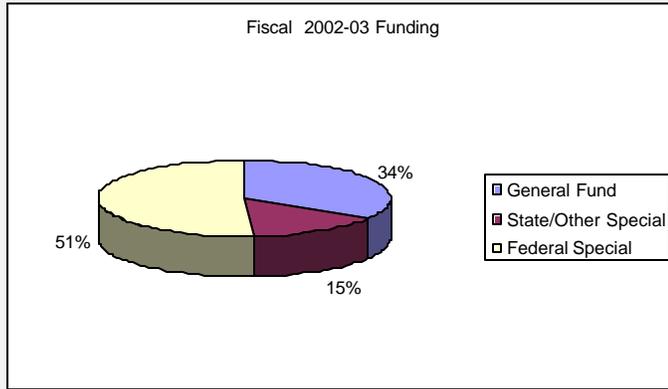
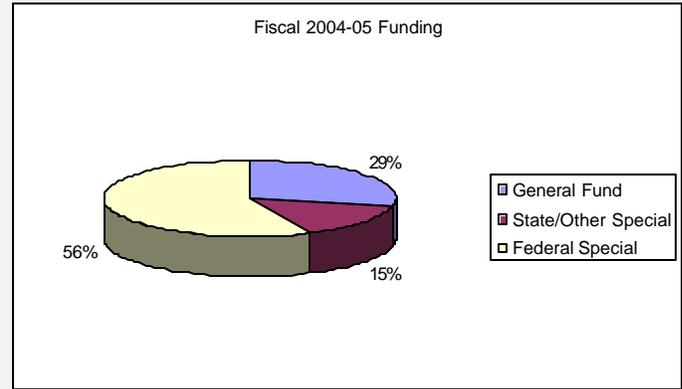


Figure 2



Agency Issues

LFD ISSUE

Increased Reliance on General Fund

Reliance on the general fund has increased since 1997 due to significant reductions in NEA funding at the federal level and increased general fund support for grants and administration, including a policy change by the 1999 legislature to fund a portion of the Cultural & Aesthetic (C&A) project grants with general fund.

The Arts Council promotes cultural and artistic activities. It administers general fund grants appropriated through HB 2, C&A grants which are appropriated by the Long Range Planning Subcommittee in HB 9, and federal special revenue grants (NEA). Prior to the 1999 biennium, general fund was around \$250,000 per biennium supporting less than 15 percent of the overall Arts Council budget. In 1997, Montana's federal funding for the arts decreased approximately 40 percent from fiscal 1994 levels due to fiscal and philosophical changes at the national level resulting in severely reduced federal funding of the NEA. In an effort to adjust to this funding loss, the Arts Council eliminated 3 FTE, streamlined operations to absorb the over \$400,000 loss of operating budget and secured a general fund increase of over 90 percent, approximately \$221,000, from the 1997 legislature. Since then, the Art's Council general fund budget has been about 30 percent or more of total funding.

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In addition, HB 9 (1999) enacted by the 56th Legislature implemented a major change from previous legislatures by appropriating \$600,000 of state general fund in HB 9 to the Montana Arts Council for C&A grant support. Justification for doing so was a result of the 55th Legislature using approximately one-half of the Cultural Trust fund balance (\$3,912,500) to purchase Virginia and Nevada City properties in 1997. This major hit on the fund balance reduced the ability of the cultural trust to earn interest that is transferred to the C&A project account for arts projects.

**Figure 3
Arts Council
Percent Change Per Biennium - Expenditures & Funding**

Biennium	Fiscal 94-95	Fiscal 96-97	Biennial % Change	Fiscal 98-99	Biennial % Change	Fiscal 00-01	Biennial % Change	Fiscal 02-03	Biennial % Change
FTE	9.97	10.00	0.3%	8.00	-20.0%	7.00	-12.5%	7.00	0.0%
Personal Services	\$ 587,913	\$ 626,470	6.6%	\$ 567,820	-9.4%	\$ 567,033	-0.1%	\$ 647,788	14.2%
Operating Expenses	694,615	408,142	-41.2%	258,822	-36.6%	397,209	53.5%	405,113	2.0%
Equipment	1,520	2,300	51.3%	4,600	100.0%	-	-100.0%	16,500	-
Grants	677,051	606,478	-10.4%	738,040	21.7%	678,459	-8.1%	799,884	17.9%
Transfers	(1,270)	-	-100.0%	-	0.0%	-	0.0%	-	0.0%
Total Costs	\$ 1,959,829	\$ 1,643,390	-16.1%	\$ 1,569,282	-4.5%	\$ 1,642,701	4.7%	\$ 1,869,285	13.8%
General Fund	252,728	234,566	-7.2%	456,058	94.4%	537,718	17.9%	636,040	18.3%
State/Other Special	534,840	334,206	-37.5%	238,369	-28.7%	261,839	9.8%	278,245	6.3%
Federal Special	1,202,261	1,074,618	-10.6%	874,855	-18.6%	843,144	-3.6%	955,000	13.3%
Proprietary	-	-	-	-	-	-	-	-	-
Total Funds	\$ 1,989,829	\$ 1,643,390	-17.4%	\$ 1,569,282	-4.5%	\$ 1,642,701	4.7%	\$ 1,869,285	13.8%
Total Fund % Change from 1995 Biennium			-17.4%		-21.1%		-17.4%		-6.1%

**Arts Council
Historical Biennium Funding**

Funding Source	Fiscal 94-95	Percent of Total Funds	Fiscal 96-97	Percent of Total Funds	Fiscal 98-99	Percent of Total Funds	Fiscal 00-01	Percent of Total Funds	Fiscal 02-03	Percent of Total Funds
General Fund	\$ 252,728	12.7%	\$ 234,566	14.3%	\$ 456,058	29.1%	\$ 537,718	32.7%	\$ 636,040	34.0%
State/Other Special	534,840	26.9%	334,206	20.3%	238,369	15.2%	261,839	15.9%	278,245	14.9%
Federal Special	1,202,261	60.4%	1,074,618	65.4%	874,855	55.7%	843,144	51.3%	955,000	51.1%
Proprietary	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Total Funds	\$ 1,989,829	100.0%	\$ 1,643,390	100.0%	\$ 1,569,282	100.0%	\$ 1,642,701	100.0%	\$ 1,869,285	100.0%

The proposed 2005 biennium general fund level is near \$600,000, 28.6 percent of total funding. NEA funding has experienced slight increases over the last three years with the proposed 2005 biennium funding level at \$598,000 per year, just over 1994 actual expenditures of \$588,562.

The issue to consider is whether the legislature wants to support general fund spending through HB 2 and HB 9 at the level it has since the 1999 and 2001 biennia or reduce general fund expenditures through the following options:

Options:

- o Continue fiscal 2003 changes enacted during the 2002 Special Session and through the Governor's reductions into the next biennium. In response to the recent budget deficit the Governor reduced general fund appropriated through HB 9 (2001 legislative session) for C&A projects by \$25,000. Also, during the 2002 Special Session, the legislature approved a funding switch through HB 8 that replaced the remaining \$198,575 general fund for C&A projects with bed tax money. In addition the legislature, through HB 10, diverted \$203,000 in revenue flowing to the cultural and aesthetic trust fund to the general fund reducing interest income earned on the trust by approximately \$6,000. All of these actions were applied to fiscal 2003 only. The executive intends to propose legislation to continue the diversion of revenue flowing to the cultural and aesthetic trust fund. The legislature may also wish to continue the changes related to C&A projects. General fund support of C&A projects is proposed to continue at \$249,575 per year through additional legislation. This option would require legislation outside of HB 2 and coordination with the Long-Range Building Plan Subcommittee

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- Replace HB 2 general fund with bed tax money. MCA 22-1-101 establishes the Montana Art's Council "to provide opportunity for our young people to participate in the arts and to contribute to the great cultural heritage of our state and nation, and of the growing significance of the arts as an element which makes living and vacationing in Montana desirable to the people of other states". The Arts Council's 2001-2006 Strategic Plan contains objectives related to tourism including an increased emphasis on cultural tourism and creating statewide and national market visibility and business opportunities for Montana artists and organizations. Both statute and the council's plan justify the use of bed tax money as an appropriate funding source for this agency. This option would be best accomplished through a change in statute as bed tax funding is appropriated through the Department of Commerce. Refer to Volume 4, Section C-Natural Resources and Commerce under the Department of Commerce Montana Promotions Division for additional information and options regarding the bed tax
- Replace a portion of the general fund with private funding through such activities as fund raising efforts through an arts foundation, the specialty license plate program or a donation check off box on Montana tax forms
- Reduce general fund and not replace with other funding. This would impact services to local communities and schools, and could jeopardize federal funding if match was not obtained through private, local, or other state sources. All of the council's general fund is used to match federal or private grants

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Continuation of the Percent for Art Program

The Percent-for-Art Act authorized by Title 22, Chapter 2, Part 4 of the Montana Codes Annotated (MCA) was established in 1983 to provide acquisition of works of art for state buildings. The statute requires that "all capital project appropriations by the legislature shall include, as part of the appropriation, an amount not to exceed one percent of the amount appropriated" for use by the Montana Arts Council for works of art and administration of the act.

Disbursements from the account have been about \$100,000 per year and the current fund balance is \$147,647. Recent projects funded through the program include art projects at the Billings Women's Prison, Columbia Falls Veteran's Home, Deer Lodge Prison, Pine Hills Youth Correctional Facility, Boulder Montana Developmental Center and MSU/Renne Library. The issue for legislative consideration is whether this program is still a priority of the legislature in light of the current budget deficit.

Options:

- Discontinuing the program
- Temporarily suspending the program through the next biennium or longer
- Utilizing the fund balance to offset general fund within the Montana Arts Council or another general fund program

Language Recommendations

The executive recommends the following language:

“All federal funds in item 1 are biennial appropriations.”

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					52,894					51,705
Vacancy Savings					0					0
Inflation/Deflation					2,847					2,980
Fixed Costs					(8,770)					(24,435)
Total Statewide Present Law Adjustments					\$46,971					\$30,250
DP 1 - Rent Increase										
	0.00	176	255	176	607	0.00	181	263	181	625
DP 2 - Administrative Cost Adjustments										
	0.00	1,304	1,680	4,959	7,943	0.00	6,963	2,855	11,081	20,899
DP 3 - Federal Funds Increase										
	0.00	0	0	115,850	115,850	0.00	0	0	115,856	115,856
DP 7000 - Continue Art Pros Reduction										
	0.00	(27,103)	0	0	(27,103)	0.00	(27,103)	0	0	(27,103)
Total Other Present Law Adjustments	0.00	(\$25,623)	\$1,935	\$120,985	\$97,297	0.00	(\$19,959)	\$3,118	\$127,118	\$110,277
Grand Total All Present Law Adjustments					\$144,268					\$140,527

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Rent Increase - This present law adjustment would fund an increase in rented space at the city-county building of \$607 in fiscal 2004 and \$625 in fiscal 2005 per the agency's recently negotiated rent lease. The lease was negotiated with the City-County Administration by the Department of Administration. The increase is three percent per year for the next three years.

DP 2 - Administrative Cost Adjustments - The executive proposes this present law adjustment to reestablish per diem for the Council and for the Cultural & Aesthetic Projects Citizens' Advisory Panel and allow basic adjustments to professional services, legal fees, printing, in-state lodging, and a state and federal required strategic plan.

LFD COMMENT	General fund increases \$1,304 in fiscal 2004 and \$6,963 in fiscal 2005. Per diem is a zero based item and must be requested each biennium (\$11,525 total biennium increase). Professional services increase five percent per year for production of the newsletter (\$3,110 total biennium increase). A general increase in fiscal 2005 is for costs of developing the FY 2001-2006 Strategic Plan required by the federal and state government to support continuance of National Endowment for the Arts (NEA) funding (\$11,015 in fiscal 2005). The cost is based on 2000-2001 actual expenditures. The remaining increases are for legal fees, printing, postage and lodging (\$3,192 total biennium increase).
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DP 3 - Federal Funds Increase - This proposal requests authority to spend federal NEA funds projected for fiscal 2004 and 2005 based on the current year NEA award. NEA allocates the increased funding for specific purposes including \$11,400 for artists in schools, \$40,000 to local communities for Challenge America purposes, and the balance to increase arts activities in underserved communities.

DP 7000 - Continue Art Pros Reduction - The executive proposes to continue reductions to professional development grants and the art pros consultant program. Professional development grants provide matching funds for Montanans to attend seminars, conferences, and workshops to further improve artistic quality, and community service in the arts. The

art pros consultant program allows artists and art administrators to seek advice for technical, administrative and marketing queries. This level would allow the program to continue in part. These reductions were part of the Governor's 17-7-140, MCA reductions and remaining funds allow a small portion of the program to continue.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 7002 - Reduction in the Arts Education Program										
01	0.00	(15,000)	0	0	(15,000)	0.00	(15,000)	0	0	(15,000)
DP 7003 - Eliminate Local Community Grants										
01	0.00	(16,120)	0	0	(16,120)	0.00	(16,120)	0	0	(16,120)
Total	0.00	(\$31,120)	\$0	\$0	(\$31,120)	0.00	(\$31,120)	\$0	\$0	(\$31,120)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7002 - Reduction in the Arts Education Program - The executive proposes to continue the prior Governor reductions of \$1,200 and further reduce funding for a total decrease of \$15,000 per year which would eliminate general fund support of the Arts Education Program.

LFD COMMENT	This program provides matching funds to schools and non-profit organizations to support artist residencies and other arts education projects. In fiscal 2002, the program served 40,500 children at 67 schools and the average grant was about \$1,200. The impact of this reduction is that matching funds of 17.6 percent for arts education projects would have to come from a local or private source rather than the state. The Governor's fiscal 2003 reductions reduced this program by eight percent. Local organizations can apply directly to NEA for federal grant funds. Competition is high, but last year 18 Montana organizations, including schools, received about \$282,000 in federal funds.
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DP 7003 - Eliminate Local Community Grants - The executive proposes a \$16,120 per year reduction that would eliminate general fund support for grants to local communities.

LFD COMMENT	This proposal will eliminate general fund to local communities provided primarily for touring fee support. In fiscal 2002, approximately 63,000 Montanans in 66 communities were served, and the average grant amount for the six non-profit organizations funded for touring fee support was \$2,160. As in the DP above, local organizations can apply directly to NEA for federal grant funds. Competition is high, but last year 18 Montana organizations received about \$282,000 in federal funds.
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