

Agency Proposed Budget

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	7.00	0.00	0.00	7.00	0.00	0.00	7.00	7.00
Personal Services	374,214	58,146	0	432,360	58,441	0	432,655	865,015
Operating Expenses	198,491	(13,167)	5,000	190,324	(41,882)	5,000	161,609	351,933
Grants	452,330	10,054	0	462,384	14,747	0	467,077	929,461
Transfers	0	0	40,000	40,000	0	0	0	40,000
Total Costs	\$1,025,035	\$55,033	\$45,000	\$1,125,068	\$31,306	\$5,000	\$1,061,341	\$2,186,409
General Fund	286,250	25,106	45,000	356,356	(345)	5,000	290,905	647,261
State/Other Special	158,801	7,177	0	165,978	8,901	0	167,702	333,680
Federal Special	579,984	22,750	0	602,734	22,750	0	602,734	1,205,468
Total Funds	\$1,025,035	\$55,033	\$45,000	\$1,125,068	\$31,306	\$5,000	\$1,061,341	\$2,186,409

Agency Description

The Montana Arts Council (MAC) 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.

Agency Highlights

Montana Arts Council Major Budget Highlights
<ul style="list-style-type: none"> • The Arts Council’s change to the broadband pay plan: <ul style="list-style-type: none"> • Increases personal services 15 percent over the base year • Decreases operating expenses \$45,000 annually to partially offset salary increases • The Governor recommends two new proposals of: <ul style="list-style-type: none"> • \$10,000 over the biennium for E-Grants and Data Base System • \$40,000 of one-time-only funding, restricted for additional grant resources
Major LFD Issues
<ul style="list-style-type: none"> • Suggestions to reduce use of general fund

Agency Discussion

The total budget for the Arts Council includes \$86,339 in present law adjustments and \$50,000 in new proposals for a net increase over the fiscal 2004 base of \$136,339.

Included in new proposals is \$40,000 of general fund that the executive proposes to use as additional grant money. There is further discussion in the funding section that follows and with DP- 7001.

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.

Program Funding Table						
Promotion Of The Arts						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	\$ 286,250	27.9%	\$ 356,356	31.7%	\$ 290,905	27.4%
02009 Cultural And Aesthetic Project	158,801	15.5%	165,978	14.8%	167,702	15.8%
03016 Nea Funds-Basic State Grant	523,086	51.0%	545,836	48.5%	545,836	51.4%
03017 Nea Funds-Arts In Education	56,898	5.6%	56,898	5.1%	56,898	5.4%
Grand Total	<u>1,025,035</u>	<u>100.0%</u>	<u>1,125,068</u>	<u>100.0%</u>	<u>1,061,341</u>	<u>100.0%</u>

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).

The coal severance tax fund shared account supports the Montana Arts Council’s administration of the cultural trust activities and its Folklife Program, which supports Montana’s traditional and native arts and cultures. Interest earnings from the corpus of the cultural trust support the Cultural and Aesthetic Program projects.

The Arts Council has become increasingly reliant on general fund over the last several years. Use of the general fund has increased 19 percent since 1996, while state special funding has decreased 1.9 percent. As a means to address a substantial drop in federal funding from the National Endowment for the Arts in 1997, the council eliminated 3.00 FTE, streamlined operations, and received a general fund increase of over 90 percent. Since then, the general fund has been about 30 percent of its budget. In FY 2004 it was 38 percent.

**LFD
ISSUE**

Funding Changes for Cultural and Aesthetic Grants

Interest from the cultural and aesthetic trust (C&A Trust) supports grants to local communities and a portion of the administration function of the Montana Arts Council. Prior to the 2001 biennium, no general fund supported grants. In 1997, the 55th Legislature removed approximately one-half of the C&A Trust fund balance of \$3.9 million to purchase Virginia and Nevada City properties. This action reduced the ability of the trust to earn an amount of interest comparable to prior years for arts projects and grants. In order to maintain statutory support of the cultural and aesthetic program, each legislature since has appropriated general fund to replace lost interest revenues as a result of the transfer.

The executive is proposing to:

- Restore the \$3.9 million taken from the trust in the 1997 session to buy Virginia City
- Remove the entire general fund appropriation that had been contained in House Bill 9 for the cultural and aesthetic grant awards in previous biennia.
- Fund, through HB 2, a one-time general fund appropriation of \$40,000 in FY 2006 as additional grant money, to adjust for reduced interest earnings in the C&A Trust Fund (DP-7001)

**LFD
ISSUE**

The Montana Arts Council staff administers cultural and aesthetic grants, which are appropriated by the Long Range Planning Subcommittee in HB 9. The executive recommends a HB 9 appropriation of \$800,553 for the Cultural and Aesthetics Grants Program in the amounts of:

- \$30,000 to fully fund the historical top priority for HB 9, the Montana Historical Society’s appropriation for Capitol Complex works of art
- \$770,553 to fund grant requests out of \$1.3 million as recommended by the advisory committee

The executive also recommends utilizing \$333,680 for administration of C&A projects and the Folklife program.

The fund balance projection for the account is shown in Figure 1. The fund balance reflects assumptions adopted by the Revenue and Transportation Interim Committee (RTIC) in November of 2004.

As shown, the Revenue and Transportation Interim Committee estimate indicates the unallocated interest would total \$157,767 over the biennium. The legislature has a number of options:

- The executive is requesting \$40,000 of additional grants be funded with general fund. These additional grant funds could be funded with C&A Trust funds.
- C&A grants in HB 9 could be increased
- Eligible administration expenses such as accounting, correspondence, project visits, grant proposals, and costs of the advisory committee established in 2-15-1521, MCA, that may now be funded with general fund, could be replaced with C&A Trust, possibly including a portion of the following executive recommendations for the 2007 biennium:
 - \$19,686 for administrative cost adjustments (DP 5)
 - \$10,000 for e-grant and database system costs (DP 3)
 - \$11,330 for equipment replacement (DP 2)

Estimated Beginning Fund Balance	\$0
Revenue Projections ¹	
Fiscal 2006 Interest	351,000
Fiscal 2007 Interest	<u>364,000</u>
Total Funds Available	\$715,000
Proposed Expenditures	
Administration and Folklife	(333,680)
Capitol Complex Works of Art	(30,000)
Grants	<u>(770,553)</u>
Total Expenditures	(1,134,233)
FY 2007 Projected Present Law Ending Fund Balance	<u>(\$419,233)</u>
Executive Proposals:	
General Fund Transfer	40,000
Restore Corpus, \$3.9 million ²	
Fiscal 2006 Interest	269,000
Fiscal 2007 Interest	<u>268,000</u>
Total Funds Available	<u>537,000</u>
	<u>\$157,767</u>

¹ Based on HJR 2 revenue estimates
² Based on transfer of \$3.9 million July 1, 2005

For further information on the grants and related funding, see the Long Range Planning section of this volume.

Biennium Budget Comparison

The following table compares the executive budget request in the 2007 biennium with the 2005 biennium by type of expenditure and source of funding. The 2005 biennium consists of actual FY 2004 expenditures and FY 2005 appropriations.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	Present Law Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Biennium Fiscal 04-05	Total Exec. Budget Fiscal 06-07
FTE	7.00	0.00	7.00	7.00	0.00	7.00	7.00	7.00
Personal Services	432,360	0	432,360	432,655	0	432,655	766,614	865,015
Operating Expenses	185,324	5,000	190,324	156,609	5,000	161,609	387,014	351,933
Grants	462,384	0	462,384	467,077	0	467,077	939,573	929,461
Transfers	0	40,000	40,000	0	0	0	0	40,000
Total Costs	\$1,080,068	\$45,000	\$1,125,068	\$1,056,341	\$5,000	\$1,061,341	\$2,093,201	\$2,186,409
General Fund	311,356	45,000	356,356	285,905	5,000	290,905	576,604	647,261
State/Other Special	165,978	0	165,978	167,702	0	167,702	315,026	333,680
Federal Special	602,734	0	602,734	602,734	0	602,734	1,201,571	1,205,468
Total Funds	\$1,080,068	\$45,000	\$1,125,068	\$1,056,341	\$5,000	\$1,061,341	\$2,093,201	\$2,186,409

Present Law Adjustments

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

Present Law Adjustments										
-----Fiscal 2006-----					-----Fiscal 2007-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					52,996					52,891
Inflation/Deflation					(213)					(205)
Fixed Costs					4,034					(15,208)
Total Statewide Present Law Adjustments					\$56,817					\$37,478
DP 1 - Rent Increase	0.00	158	242	158	558	0.00	1,008	1,602	1,008	3,618
DP 2 - Equipment Replacement	0.00	6,428	0	0	6,428	0.00	4,902	0	0	4,902
DP 4 - Federal Funds Increase	0.00	0	0	10,054	10,054	0.00	0	0	14,747	14,747
DP 5 - Administrative Cost Adjustments	0.00	12,597	2,319	11,260	26,176	0.00	7,089	2,719	5,753	15,561
DP 7000 - Alternative Payplan Conversion	0.00	(15,000)	(15,000)	(15,000)	(45,000)	0.00	(15,000)	(15,000)	(15,000)	(45,000)
Total Other Present Law Adjustments	0.00	\$4,183	(\$12,439)	\$6,472	(\$1,784)	0.00	(\$2,001)	(\$10,679)	\$6,508	(\$6,172)
Grand Total All Present Law Adjustments					\$55,033					\$31,306

**LFD
COMMENT**

The increase in personal services of just over 14 percent from the base year is due to a change from the standard pay plan to the broadband pay plan.

The council employs 7.00 FTE under the broadband pay plan developed by the Personnel Division of the Department of Administration under the authority of 2-18-303, MCA. The broadband pay plan places FTE into fewer position classifications with wider ranges between minimum and maximum pay levels to provide additional compensation flexibility with a goal of providing a tool to retain and/or recruit quality staff.

For the 2007 biennium, the council has given staff pay raises from a minimum of 10 percent to a maximum of 15 percent with a budgetary increase of \$95,800 in FY 2006 and \$94,546 in FY 2007 over the base year. To help offset the increase in salaries, the council decreased unallocated operating expenses \$45,000 each year of the biennium. (see DP – 7000)

As of this writing, the council has not indicated where they would reduce expenditures.

The legislature may want to request a plan showing what services will be reduced and the impact on the Arts Council's customers.

DP 1 - Rent Increase – The executive recommends funding for the present law increase in rent under the negotiated lease with the City-County Administration and the Department of Administration. The increase is projected at 3 percent per year. The \$4,176 cost of rent is split \$1,166 general fund, \$1,844 state special revenue fund, and \$1,166 federal funds over the biennium.

**LFD
COMMENT**

The increase is projected at 3 percent per year and is based on the FY 2004 rent total of \$17,088. The actual increase is less than \$600 per year. The FY 2007 allocation increases by more than 3 percent because the non-budgeted Wallace grant, which has been paying a portion of the rent, terminates in FY 2006.

DP 2 - Equipment Replacement - The executive recommends \$11,330 of general fund for computer replacement of four personal computers, two laptops, and two printers per the state's computer equipment replacement cycle.

**LFD
COMMENT**

According to Arts Council staff, this represents about half of the existing computer equipment. Legislators might want to consider the FY 2006 request as one-time-only since it is for replacement and not for on-going, standard maintenance.

DP 4 - Federal Funds Increase - The executive recommends authority to spend the increase in federal special revenue allocated by the National Endowment for Arts for Challenge America purposes. The Basic State Plan funds decreased while the Challenge America funds increased providing funding over the biennium of approximately \$24,800 federal funds.

DP 5 - Administrative Cost Adjustments - The executive recommends funding of \$19,686 general fund, \$5,038 state special revenue, and \$17,013 federal funds over the biennium for: anticipated cost of per diem for the council, Cultural & Aesthetic Projects and the Citizens Advisory Panel, as well as other basic adjustments such as professional services, legal fees, printing, in-state lodging, and costs associated with updating the council's state and federally required strategic plan. Funding would also provide for mid-tier processing and local area network administration from ITSD for approximately \$9,700 over the biennium.

LFD COMMENT

Each biennium, the council submits standard base adjustments with its budget that represent the overall present law increases for the biennium.

Per diem and lodging for the 15-member Council, panelists, and the 16 member Cultural & Aesthetic Projects Citizens' Advisory Panel would add \$5,150 in FY 2006 and \$5,550 in FY 2007. Per diem is a zero-based item and must be requested in full each biennium. The amount requested is the same as the previous biennium.

Funds are also requested for a 5 percent annual increase for production of the *State of the Arts* Newsletter, including projected annual printing cost increases of 6 percent, and a projected inflation rate of 7.5 percent annually for increased mailing of newsletters.

DP 7000 - Alternative Payplan Conversion - At the end of FY 2004 the agency converted to the broadband pay plan. The annual cost of the conversion is approximately \$45,000 and funding is split evenly between general fund, state special revenue, and federal special revenue. The operating budget for the program is reduced by a like amount to fund the conversion.

New Proposals

The "New Proposal" table summarizes all new proposals requested by the executive.

Program	FTE	Fiscal 2006				Fiscal 2007				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3 - E-Grants and Data Base System										
01	0.00	5,000	0	0	5,000	0.00	5,000	0	0	5,000
DP 7001 - Additional Grant Money for Loss of C&A Interest										
01	0.00	40,000	0	0	40,000	0.00	0	0	0	0
Total	0.00	\$45,000	\$0	\$0	\$45,000	0.00	\$5,000	\$0	\$0	\$5,000

DP 3 - E-Grants and Data Base System - This request is one-time-only, restricted and biennial and would be paid from one-time general fund revenues. ITSD has submitted a proposal on behalf of the Montana Arts Council to develop and design a data base and an e-grants system. The project is expected to enhance the grant submission and review process for the council. The project would cost \$10,000 over the biennium.

DP 7001 - Additional Grant Money for Loss of C&A Interest - This request is a one-time-only, restricted biennial appropriation transfer to the Cultural & Aesthetic (C&A) Project Fund and would be paid from one-time revenues. It provides additional resources for grants for the Montana Arts Council in House Bill 2 to soften the interest earnings reductions in the C&A Trust Fund. The executive budget transfers \$3.9 million of general fund to the C&A Trust Fund and removes all of the general fund that had been contained in HB 9 (C&A Grant Awards) in previous biennia.

There is further information on the grants and related funding in the Long Range Planning section of this volume.

Language

"All federal funds in item 1 are biennial appropriations."