

# Cultural and Aesthetics Grant Program – Revenue and Expenditures

KATY CALLON

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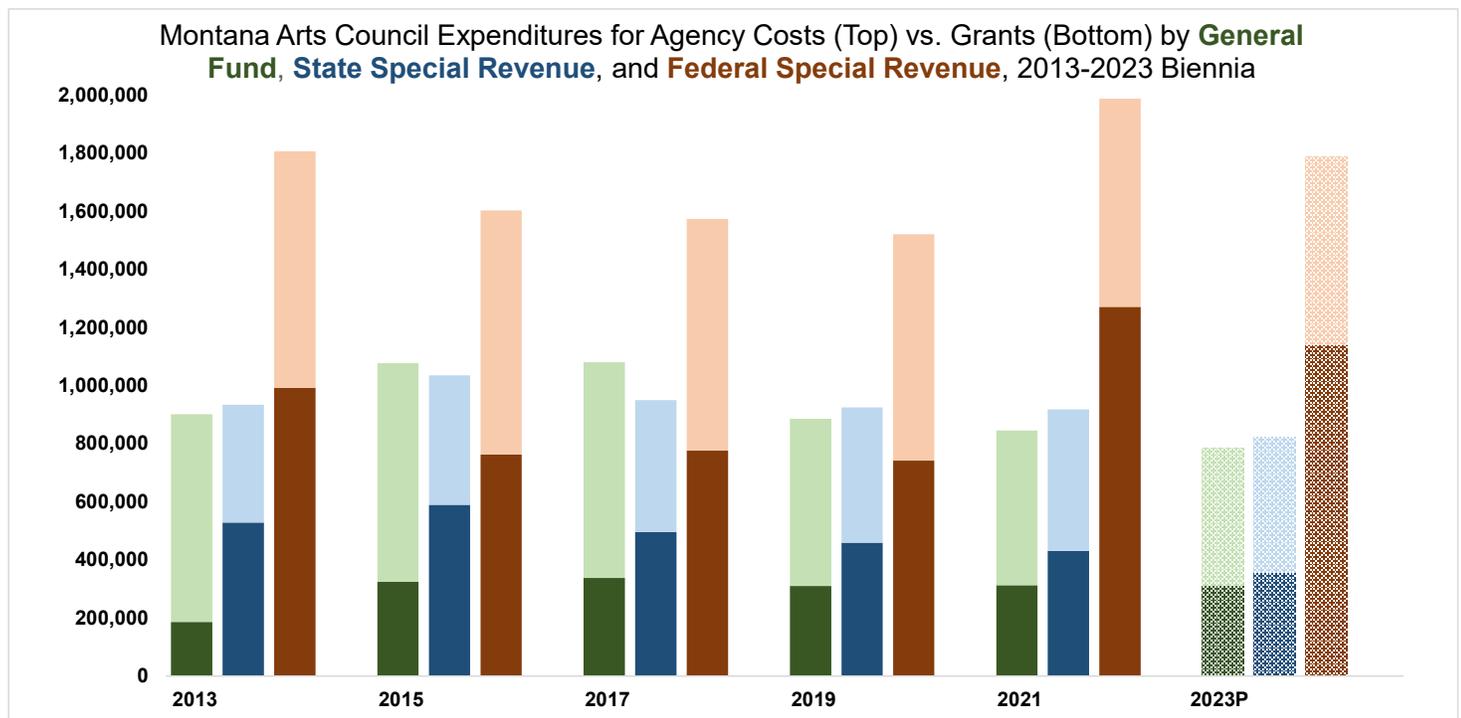
## INTRODUCTION

This report is to provide the Long-Range Planning (Section F) Interim Budget Committee with additional information related to the Cultural and Aesthetic (C&A) Grant Program. Specifically, the information includes a review of overall agency funding and administrative costs for the Montana Arts Council (MAC), revenue and administrative cost and grant expenditures for the C&A grants account over time and projections of future revenue and expenditures. Finally, options related to the Cultural and Aesthetics grants fund revenue and expenditures are provided for the Interim Budget Committee’s consideration.

## MONTANA ARTS COUNCIL FUNDING & EXPENDITURES

The Montana Arts Council administers several different types of art and culture-related grants. These grant programs include but are not limited to artists in schools & communities; artist innovation awards, cultural & aesthetics projects; public value partnerships, strategic investment grants, and statewide service organizations. The agency administers federal grant funding from the National Endowment for the Arts to support arts activities in communities. The agency also receives administrative appropriations for arts-related funding for state building projects.

The following table shows expenditure by fund type for agency and council costs, including personal services, operating expenses, and debt service (the lighter portion at the top of each column) in comparison to grant costs for the 2013 to 2021 biennia (the darker portion at the bottom of each column). The 2023 biennium expenditures are projected based on appropriation. These expenditures are from all sources of authority, excluding administrative appropriations and non-budgeted funds.



State special revenue funding is the investment earnings from the coal severance tax statutory trust for cultural and aesthetic projects. Federal special revenue includes grant funding from the National Endowment for the

Arts (NEA), both formula grant funding and, in the 2021 and 2023 biennia, federal COVID-19-related supplemental funding.

The cultural and aesthetics project state special revenue fund supports overall agency operations, administration of the cultural and aesthetic trust activities, and the preservation of the state's cultural heritage as authorized under 22-2-304, MCA, and grant awards in HB 9 for cultural and aesthetic projects. General fund and some cultural aesthetics project state special revenue are also used as a source of matching funds for federal NEA formula grants. In the 2021 biennium, \$424,000 of additional federal special revenue authority was added for the MAC from the Coronavirus Aid, Relief, and Economic Security (CARES) Act; this additional authority did not require a match from the state.

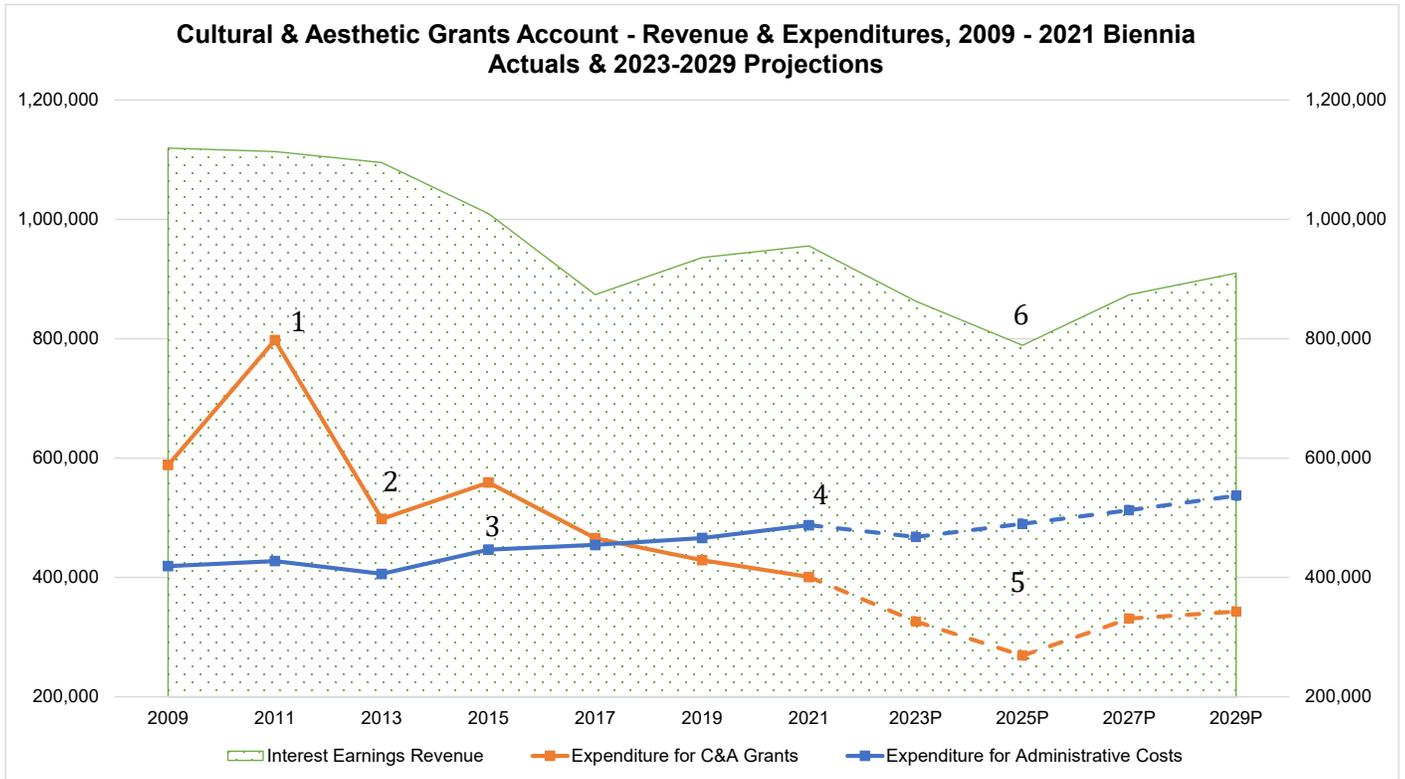
### **CULTURAL & AESTHETICS GRANT PROGRAM - DESCRIPTION & FUNDING DETAILS**

The MAC administers the C&A program, which provides grants for cultural and aesthetic programs across the state. As stated previously, the program is funded with investment earnings from a statutory trust. The trust receives distributions from the coal severance tax. By statute, the interest from the cultural trust is appropriated for the protection of works of art in the Montana State Capitol and other cultural and aesthetic projects (15-35-108, MCA). Grant applications for cultural and aesthetic projects are submitted to the MAC on a biennial basis. In accordance with 22-2-304(2), MCA, appropriations from the income of the trust fund are also to be used for costs incurred by the MAC for accounting, correspondence, project visits, and solicitation of proposals related to cultural and aesthetic project grants and the costs of the advisory committee that oversees the C&A grants.

### **CULTURAL AND AESTHETICS GRANT ACCOUNT - REVENUE & EXPENDITURES**

The three main expenditure categories that occur from the C&A grant account include: cultural and aesthetic project grants, capitol art projects, and agency administrative costs. Expenditures for protection of the works of art in the Montana State Capitol have remained constant at \$30,000 for the past several biennia. The following table shows the statutory trust's interest earnings revenue and the expenditure for C&A project grants and administrative cost expenditure, which have changed over time.

The revenue and expenditures for the 2009 to 2021 biennia are actuals. 2023 is based on projections in revenue and the appropriations authorized by the 67<sup>th</sup> Legislature. The 2025 to 2029 biennia revenue and expenditures are based on projection.



The following discusses in more detail the inflection points included on the chart:

1. The 2011 biennium was the first biennium since 1999 where expenditures were fully funded by state special revenue. From the 1999 to 2009 biennia, general fund was used to support the trust due to the purchase of Virginia and Nevada Cities property prior to that, using funding from the corpus. For the 2009 biennium, the 60<sup>th</sup> Legislature passed a one-time-only general fund transfer of \$1.5 million, replacing the remaining corpus taken for the purchases, and from 2011 forward, no general fund has been used to support the fund.

Also, in the 2011 biennium, the greatest number of C&A project grants were funded in the history of the program; 97 grants were funded, and the appropriation for those grants was \$885,400. The interest earnings revenue was about \$1.1 million, which means to cover the grant expenditures and administrative costs, fund balance was used in addition to the revenue.

2. For the 2013 biennium, the Executive requested a reduction in expenditures due to a lack of fund balance in the account after the higher-than-average expenditures in the 2011 biennium.
3. The administrative costs increased for the 2015 biennium due to pay raises approved by the Legislature. A lump sum appropriation for pay raises was approved, as well as a 10.0% insurance increase for all employees for each year of the biennium.
4. For the 2021 biennium, the Legislature approved the executive budget proposal to increase personal services for the Arts Council for present law adjustments primarily related to restoration of funding that

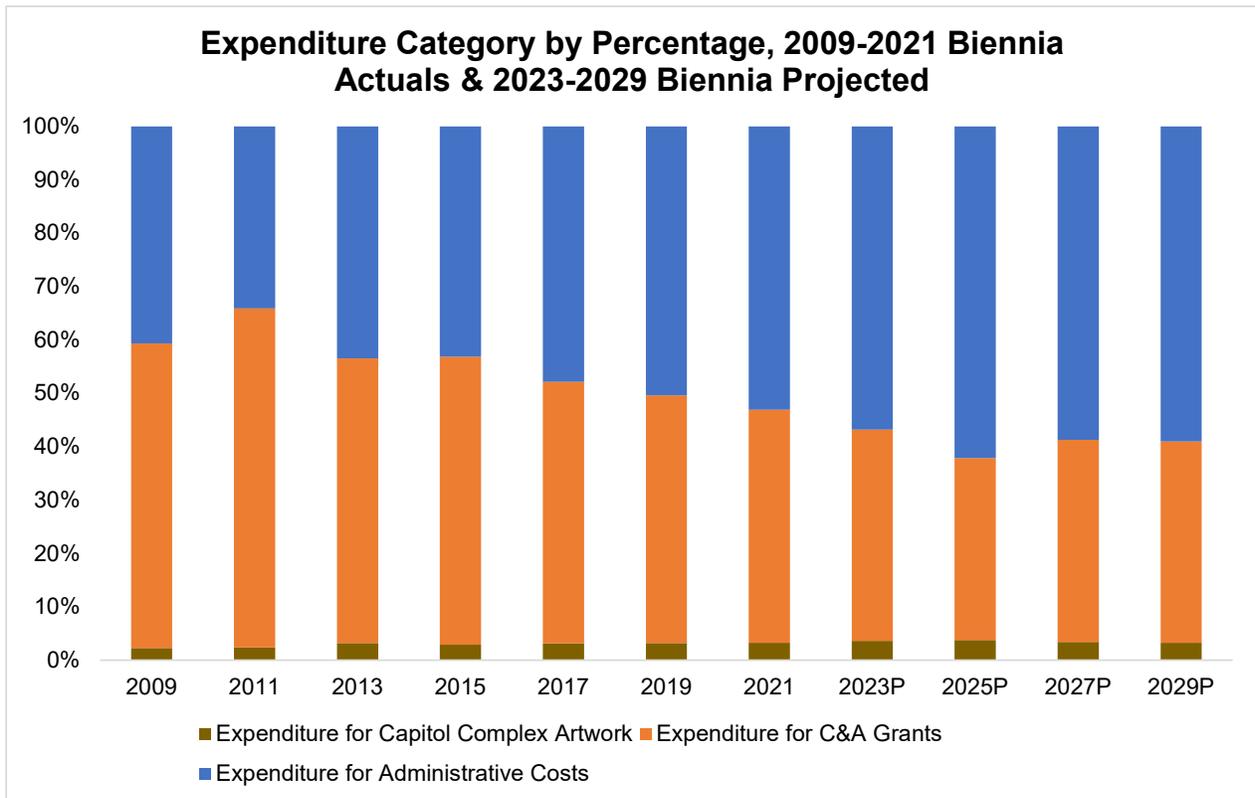
was reduced during the 2017 Special Session. Operating expenses were also increased for the Arts Council due to adjustments for fixed costs. These adjustments caused a slight increase in administrative cost expenditures for the C&A grants fund.

- To project administrative costs, the annual average growth rate for the 2013 to 2021 biennia was calculated to be 4.7%; that percentage was applied to the appropriated administrative cost budget in the 2023 biennium to project forward. Given the current economic situation of high inflation and challenges across the state in staff hiring and retention, an increase in growth rate seems probable.

There is an assumption that the revenue will be fully expended; the C&A project grant projections are based on the administrative cost and capitol art expenditure projections subtracted from the revenue projections.

- The revenue projections show a decline in the 2025 biennium; this is based on the Montana Board of Investments' expected return rates, which show an expected decline in the interest rates for this trust in FY 2024 before returning to a growth in interest rates for FY 2025 through 2029.

In summary, the previous chart shows that revenue has declined over time, particularly during the 2013 to 2017 biennia timeframe. Administrative cost expenditures have grown over time, which results in downward pressure on project grant expenditures. The following chart and table show the composition by percentage of each expenditure category for the 2009 to 2021 biennia (actuals) and the projected composition.



	Administrative Cost Expenditures	% of Total Expenditure	C&A Grant Expenditures	% of Total Expenditure	Capitol Arts Expenditures	% of Total Expenditure	Total Expenditure
<b>2009</b>	419,263	40.6%	588,626	57.1%	23,772	2.3%	<b>1,031,660</b>
<b>2011</b>	427,651	34.1%	797,860	63.5%	30,000	2.4%	<b>1,255,511</b>
<b>2013</b>	406,103	43.5%	498,189	53.3%	30,000	3.2%	<b>934,292</b>
<b>2015</b>	446,699	43.1%	559,233	54.0%	30,000	2.9%	<b>1,035,932</b>
<b>2017</b>	454,678	47.8%	465,853	49.0%	30,000	3.2%	<b>950,531</b>
<b>2019</b>	466,302	50.4%	429,047	46.4%	30,000	3.2%	<b>925,349</b>
<b>2021</b>	487,722	53.1%	401,006	43.6%	30,000	3.3%	<b>918,728</b>
<b>2023P</b>	468,022	56.8%	326,300	39.6%	30,000	3.6%	<b>824,322</b>
<b>2025P</b>	489,948	62.1%	269,052	34.1%	30,000	3.8%	<b>789,000</b>
<b>2027P</b>	512,902	58.7%	331,098	37.9%	30,000	3.4%	<b>874,000</b>
<b>2029P</b>	536,931	59.0%	343,069	37.7%	30,000	3.3%	<b>910,000</b>
<b>Total</b>	<b>5,116,221</b>	<b>49.0%</b>	<b>5,009,333</b>	<b>47.9%</b>	<b>323,772</b>	<b>3.1%</b>	<b>10,449,326</b>

The chart and table show a change in percentage over time for both administrative costs and grant expenditures. The key variable affecting the grant expenditures is the interest earnings revenue. Interest earnings have experienced negative growth over the period of this analysis, declining at an average rate of -2.6%. While the trust account receives 0.63% annual distributions of the coal severance tax, the increases in the trust coupled with low-interest earnings have not kept pace with the growth in costs over time. Consequently, if revenue declines, the percentage of expenditure for grants also declines. This has been the case, particularly starting during the 2017 biennium timeframe. While there is an expectation for interest earnings to increase in future years, projections demonstrate that it will not keep pace with the growth in administrative costs.

As shown in the figures above, the funding for C&A grants has declined. With conditions held constant in future biennia, funding for grants could reach amounts as low as \$269,052 per biennium. This is a decline in grant funding of 48.1% when compared with the 2015 biennium. Starting in the 2019 biennium, administrative costs have exceeded the amount of funding available for grants and that condition is expected to be continued through the 2023 biennium and the future. Without changes to the C&A program, grant funding is expected to continue to decline into the future.

## OPTIONS FOR CONSIDERATION

Some options for consideration concerning the decreasing C&A grant expenditures relative to the administrative costs for the program include:

1. The Legislature may decide to continue as present; there is currently projected to be an increase in the interest earnings revenue in the 2027 and 2029 biennia. That may allow for more project grants to be awarded, but only slightly more than was provided in the 2023 biennium.
2. The Legislature could fund the agency's administrative costs with general fund, rather than state special revenue. In looking at the 2023 biennium appropriations, if the Legislature had funded administrative costs with general fund rather than interest earnings, funding for HB 9 project grants and capitol art appropriations would have totaled about \$824,000, rather than \$356,000.
3. In the case where the revenue declines during any interim period, the Legislature could include HB 9 language that would hold grant awards harmless and reduce administrative costs.
4. The Legislature could cap the administrative costs for administration of the program at a percentage of the interest earnings revenue.

5. The Legislature could also cap the trust at a certain level and direct all subsequent distributions of the coal severance tax to be deposited directly in the C&A grants account to fund future grants. This would stop increases in the trust, impacting the growth in future interest earnings, but would increase revenue to the account.
6. The Legislature could consider depositing other sources of revenue into the C&A trust.