



Legislative Fiscal Bureau

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January 16, 2020

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Tourism: Section 13.10 Request for State Matching Funds for Federal Arts Grants --
Agenda Item V

REQUEST

Transfer \$65,200 in 2019-20 and \$23,700 in 2020-21 from the Joint Committee on Finance's general purpose revenue (GPR) supplemental funding appropriation to the Arts Board, a part of the Department of Tourism, to meet grant matching requirements for federal funding awarded by the National Endowment for the Arts (NEA).

BACKGROUND

The Wisconsin Arts Board, budgeted as part of the Department of Tourism, administers several grant programs in which it distributes state and federal funds to Wisconsin arts organizations. State funding is primarily supported by GPR, as well as program revenue (PR) from tribal gaming receipts. Federal (FED) funding is provided by the NEA.

The Governor's 2019-21 biennial budget proposal would have provided an additional \$71,900 GPR annually in the Arts Board's state aid for the arts appropriation. Funding was intended as a general increase to arts grants, as well as to provide supplements to the Arts Board necessary to meet federal match requirements for NEA state partnership grant awards, which require an equal state match to any awarded federal funding. The Committee considered the Governor's proposal but took no action. Subsequently, on July 15, 2019, the Arts Board submitted to the Committee a s. 13.10 request for \$36,800 GPR over the biennium to cover the anticipated shortfall in state matching funds to federal NEA awards. The Committee did not schedule a meeting to consider the request. The request now before the Committee reflects an updated analysis of the shortfall in state matching funds for federal grants awards generally aligned with the 2018-19, 2019-20 and 2020-21 state fiscal years.

Under 2019 Wisconsin Act 9, the 2019-21 biennial budget act, no changes were made to Arts Board funding other than standard budget adjustments. In the 2019-21 biennium, the Arts Board is budgeted state funding of \$765,100 GPR and \$44,900 PR, with 3.0 GPR and 1.0 FED positions. Funding consists of: (a) \$289,100 GPR and \$20,000 PR annually in general operations funding; (b) \$359,300 annually for general grants, contracts, and aids; (c) \$116,700 GPR annually for the Wisconsin Regranting Initiative; and (d) \$24,900 tribal gaming PR annually for the Woodland Indian Arts Initiative. While Act 9 did not allocate any funding in the Committee's supplemental appropriation associated with the Arts Board's request, the Committee's appropriation includes an unreserved amount of \$133,600 each year, which could be allocated for the Arts Board request.

ANALYSIS

The NEA requires states to provide an equal match to its awards. Prior to being consolidated with the Department of Tourism in 2011, the Board's state funding was \$3.0 million. Current funding levels are intended to provide the minimum amounts necessary to match federal funding provided by the NEA. NEA awards total \$798,900 in 2018-19 and \$813,700 in 2019-20. Table 1 outlines state appropriations and federal awards for state fiscal years 2019, 2020, and 2021, and shortfalls in available state matching funds. Not shown in the table is \$20,000 PR budgeted each year for arts publications and other services, which is not eligible to offer as a state match.

TABLE 1

Wisconsin Arts Board Federal Match Amounts

	<u>Actual</u> <u>2018-19</u>	<u>Budgeted</u> <u>2019-20</u>	<u>Budgeted</u> <u>2020-21</u>
Staff and Operations ^a	\$284,900	\$289,100	\$289,100
Grants	<u>498,400</u>	<u>500,900</u>	<u>500,900</u>
Total State Funding Available	\$783,300	\$790,000	\$790,000
Federal Awards	\$798,900	\$813,700	\$813,700 ^b
Annual State Shortfall	-15,600	-23,700	-23,700 ^b

^a Funding in 2018-19 includes a supplement provided for employee compensation reserves.

^b Estimated.

The components of the requested amount totaling \$88,900 over the biennium are summarized in Table 2. These components are as follows:

- \$25,900 in 2019-20 is requested for a previously unidentified misalignment in state matches to federal funding. The Arts Board typically budgets each state fiscal year's programs with state funds available for the year and federal grants available through the succeeding September 30, or three months after the state fiscal year closes. However, as the federal fiscal year extends three months past the end of the state fiscal year, state appropriations available July 1 each year may be

applied to match the federal grant year ending September 30. In recent years, the Arts Board has covered this obligation by allocating approximately \$25,000 of its appropriation in the fiscal year following the fiscal year aligned with a given NEA grant cycle. For example, in the 2018-19 state fiscal year, \$25,900 in Arts Board funding was applied to the NEA grant expiring September 30, 2018; this grant was otherwise matched with 2017-18 state funding. Previous requests for supplements before the Committee had been based on budgeted state funding in a single fiscal year relative to the most recent NEA award. However, these requests did not account for the ongoing misalignment. This request arises from a review of actual expenditures of state appropriations within federal grant cycles, which identified of this prior year obligation. It is not known at what point this shortfall accumulated, as it precedes a change in accounting conventions associated with conversion to the state's new accounting system.

- \$15,600 in 2019-20 is associated with a shortfall in final state matching expenditures in 2018-19. Appropriations for the 2018-19 fiscal year, which were to match the NEA grant expiring September 30, 2019, were \$13,100 lower than the NEA grant under the Arts Board's July, 2019, request. The difference increased by \$2,500 due to unexpended tribal gaming PR that transferred to the general fund. However, the Arts Board reports it was granted authorization by NEA to allocate 2019-20 appropriations to cover its \$15,600 2018-19 shortfall. Thus, the Arts Board administratively reduced its ability to cover 2019-20 grant obligations and increased the 2019-20 state appropriations shortfall now being reviewed under this request. Arts Board staff report that if the request were not approved, it would be possible to employ a similar practice, using 2020-21 appropriations to cover the 2019-20 shortfall. However, Arts Board staff suggest that increasing the reliance on the next fiscal year's state appropriations may draw additional scrutiny from NEA, which could exercise its authority to audit the Arts Board's budget and grant allocation practices.

- \$23,700 in 2019-20 is associated with a shortfall of 2019-20 state fiscal year appropriations relative to the NEA grant cycle associated with 2019-20.

- \$23,700 in 2020-21 is associated with the anticipated minimum shortfall of 2020-21 budgeted amounts relative to the estimated 2020-21 award. The Arts Board reports that while grant awards have not yet been announced for the grant cycle matching 2020-21, current federal appropriations suggest that the grant award will be at least as much as 2019-20, and perhaps greater. Thus, the submitted request includes an estimated shortfall of \$23,700 in 2020-21.

TABLE 2

Requested Arts Board Funding

2019-20 Appropriations	
2018-19 carryforward	\$15,600
Prior year shortfalls	25,900
2019-20 shortfall	<u>23,700</u>
Subtotal 2019-20	\$65,200
2020-21 Appropriations	<u>23,700*</u>
Total	\$88,900

*Estimated.

In recent years, the Committee has regularly considered one-time supplements to the Arts Board through the biennial budget, miscellaneous legislation, and meetings under s. 13.10 of the statutes to appropriate sufficient state funding to fully match federal NEA awards. These include supplements of \$68,900 in 2011-12, \$10,400 in 2012-13, \$13,800 in 2015-16, \$29,700 in 2016-17, and \$29,800 in 2017-18. Given the need for additional state funding to match NEA awards, the Committee could continue past practice of providing the minimum amount necessary to match federal funding and approve the request [Alternative 1].

It should be noted that in July, 2019, the Arts Board received a supplement of \$22,800 associated with salary and fringe benefit costs from the state's compensation reserves, which decreased its 2018-19 anticipated shortfall. It is possible future pay plan supplements could offset some or all of the anticipated shortfall under the 2019-20 award. However, any future pay plan supplement is not able to be estimated, as such supplements depend on current appropriations and expenditure activity late into the fiscal year. Further, the 2% general wage adjustment in January of 2020 and 2021 will be included in the calculation of pay plan supplements, although some or all of this amount could be offset by existing budget authority and may not require a supplement. Given that the Arts Board could receive a pay plan supplement in 2019-20 and/or 2020-21, the Committee could consider providing \$41,500 associated with the 2018-19 and prior year shortfalls [Alternative 2], and review subsequent requests associated with 2019-20 and 2020-21 NEA grant cycles once final shortfall amounts are determined at fiscal year end.

2011 Wisconsin Act 32 first intended to align state aid for the arts with federal grants, and appropriations generally have been made to maximize federal grants when initial state appropriations are insufficient. However, the state-federal funding alignment is not a statutory directive the Legislature and Governor must follow in considering the Arts Board budget. Further, the Committee recently considered a similar request to increase state aid for the arts during 2019-21 biennial budget deliberations and took no action. Given recent legislative direction to maintain base funding for state aid for the arts, the Committee could deny the request [Alternative 3], which would require the Arts Board to either relinquish unmatched federal awards, or employ the previously described

carryforward process, subtracting a carryforward obligation of \$65,200 from its 2020-21 appropriation.

ALTERNATIVES

1. Approve the request to transfer \$65,200 GPR in 2019-20 and \$23,700 GPR in 2020-21 from the Committee's supplemental funding appropriation [s. 20.865(4)(a) of the statutes] to state aid for the arts [s. 20.380(3)(b) of the statutes] to match federal NEA grant awards.
2. Provide a transfer of \$41,500 GPR in 2019-20 to match the carryforward obligation associated with prior year grant awards.
3. Deny the request.

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