

SUNSET ADVISORY COMMISSION

STAFF REPORT

*Texas Commission
on the Arts*

JULY 2012



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Cover photo: The Texas Capitol is a marvel of craftsmanship down to the smallest details. The beautifully carved wood door frames are emphasized with elaborate, custom-designed bronze hinges and hardware produced especially for the building by Sargent and Co. of New Haven, Connecticut, in the late 1880s. The eight inch by eight inch hinges are inscribed with the words "Texas Capitol", decorated with incised designs of geometric and stylized floral motifs, and weigh over seven pounds each.

TEXAS COMMISSION ON THE ARTS

SUNSET STAFF REPORT
JULY 2012

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SUMMARY

SUMMARY

When the Texas Commission on the Arts (TCA) underwent Sunset review six years ago, the agency was struggling with an unstable funding source, grant oversight issues, and high administrative and overhead costs. Since then, the agency brought on new leadership that streamlined its grant programs and reduced administrative costs, and the Legislature abolished its unstable Cultural Endowment Fund. However, with last session's budget constraints, the Legislature cut the agency's budget by more than half to \$3.7 million and reduced its staff from 17 to 12. Thus, in 2012, Sunset found TCA a more efficiently run agency, but one stretched very thin.

Against this backdrop, Sunset staff examined the ongoing need for the agency and its support of nonprofit arts organizations. Unlike most agencies, answering the question of need for TCA involves assessing the intrinsic benefits of the arts, which are inherently difficult to quantify. However, Congress and the Texas Legislature have acknowledged these benefits by providing public support for the arts, and thus need a state agency to distribute grant funds. Despite calls for TCA's abolishment and ample opportunity to do so, the Texas Legislature has consistently chosen to maintain the agency, even if with limited funds during tight budget times.

The Commission's role in disbursing public funds for the arts is worthwhile.

Currently, Texas' public support of the arts draws down more than \$1 million in federal and regional arts funds, leverages additional local and private funds, stimulates economic development, and supports access to the arts all across the state. While the arts may not represent an essential government function in the same way criminal justice or transportation do, Sunset staff concluded these economic and social benefits represent a good investment, and make continuing the agency to administer funding for the arts worthwhile.

Sunset staff also explored the potential benefits of merging TCA with another agency, particularly given its reduced funding. Sunset staff evaluated several options, but found no significant savings or benefits to transferring the agency's functions. Basically, with the cuts to TCA's budget and staff, other agencies would need at least the same number of staff to effectively perform these functions. Further, based on its improved efficiencies, Sunset staff found no problems at the agency significant enough to justify a major change in its structure.

Beyond these larger questions of need and structure, Sunset identified two other areas that could benefit from further improvement. First, TCA's 17-member governing board is unnecessarily large given the agency's size and programs. Second, the agency's grant programs could benefit from clearer statutory authority and the incorporation of some common best practices for grant making.

The following material summarizes Sunset staff's recommendations to continue and further improve the efficiency of the Texas Commission on the Arts.

Issues and Recommendations

Issue 1

The Commission on the Arts Performs Valuable Functions Worth Continuing.

TCA's mission to advance the state economically and culturally by investing in a creative Texas provides economic and social benefits. The Sunset review found the State's public investment in the arts draws down federal and regional arts funds that would not be available without a state arts agency and leverages additional local and private funds. Texas' investment also provides invaluable operating support for nonprofit arts and cultural organizations, supports access to the arts across the state, and stimulates economic development by supporting the arts infrastructure. Sunset staff analyzed the possibility of transferring the agency's functions to other state agencies, but found no significant problems to necessitate such a transfer, as well as no additional benefits or significant cost savings.

Key Recommendation

- Continue the Commission on the Arts for 12 years.

Issue 2

A Seventeen-Member Board Is Unnecessary to Effectively Oversee the Commission on the Arts.

The Commission on the Arts consists of 17 Governor-appointed members that must represent all arts fields and be widely known for their professional competence and experience in connection with the arts. Sunset staff examined the Commission's duties and found no clear ongoing need for maintaining such a large board. Reducing the number of commissioners to nine would allow the agency to more easily and effectively support its oversight body, while not hindering the Commission's policy and oversight functions.

Key Recommendation

- Reduce the size of the governing body of the Texas Commission on the Arts from 17 to nine members.

Issue 3

TCA's Grant Procedures Adhere to Best Practices, but Could Benefit From Additional Improvements.

While TCA's grant programs generally work well and Sunset staff identified no significant problems, clear statutory authority for the agency's grant-making practices would help ensure TCA's grant programs work to help achieve its mission. In addition, incorporating additional best practices into

the agency's grant reporting requirements, risk-based monitoring, and program evaluation procedures would help ensure legislative investments work as anticipated.

Key Recommendations

- Clarify the Commission's statutory authority to award grants to support the arts in Texas.
- TCA should amend its grant guidelines to incorporate reporting requirements for subgrantors and to better link on-site monitoring visits to risk.
- TCA should develop and track additional performance measures to evaluate the impact of its grants.

Fiscal Implication Summary

These recommendations would result in a savings to General Revenue of about \$13,000 per year, as summarized below.

Issue 2 – Reducing the size of the Commission from 17 to nine members would result in savings of about \$9,000 per year, once fully implemented, as a result of reduced travel, lodging, and per diem expenses.

Issue 3 – Directing TCA to better link its on-site monitoring visits to its risk assessment would save about \$4,000 per year.

AGENCY AT A GLANCE

AGENCY AT A GLANCE

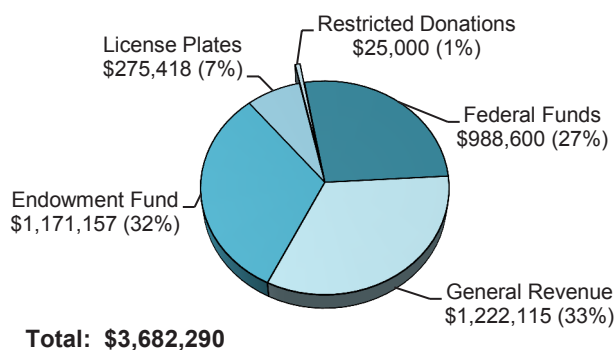
The Texas Commission on the Arts' mission is to advance the state economically and culturally by investing in a creative Texas. To achieve its mission, the agency carries out the following key activities.

- Awards grants to nonprofit organizations throughout the state to develop a receptive climate for the arts.
- Promotes the arts to attract tourists and build audiences for Texas-based arts organizations and events.
- Provides information and assistance to arts and cultural industries and organizations, and the public.

Key Facts

- **Commission on the Arts.** The Commission on the Arts consists of 17 Governor-appointed members who serve six-year terms. The Commission chair is appointed by and serves at the pleasure of the Governor. Members must represent all fields of the arts, be known for their professional competence and experience in connection with the arts, and at least two members must be residents of a county with a population less than 50,000.
- **Funding.** In fiscal year 2011, the agency operated on a budget of \$8.3 million. However, the 82nd Legislature reduced the agency's budget by 56 percent for fiscal year 2012. Thus, TCA now operates on a budget of about \$3.7 million. As shown in the pie chart, *Texas Commission on the Arts Revenues*, general revenue accounts for 33 percent of the agency's total revenues and funds remaining from the recently abolished Cultural Endowment Fund make up another 32 percent. Remaining revenues come from federal funds, sales of *State of the Arts* license plates, and donations.

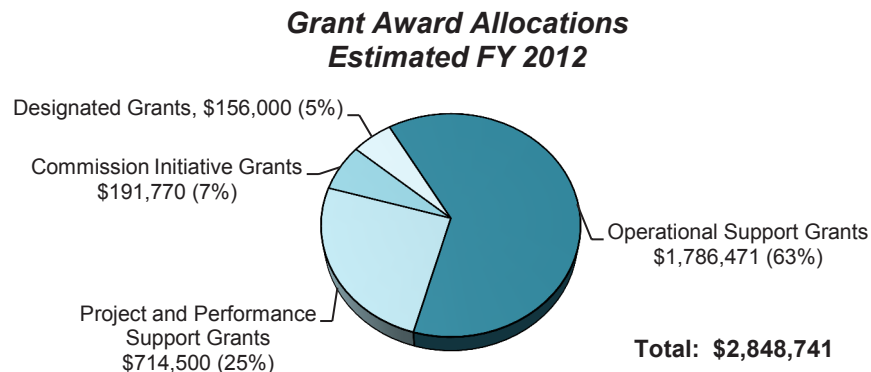
**Texas Commission on the Arts Revenues
FY 2012**



In 2009, the Legislature dissolved the Cultural Endowment Fund and appropriated the agency the remaining interest and income, which it has been using to fund agency operations. By 2014, the agency will have no Endowment Fund money remaining and general revenue will comprise about two-thirds of its budget.

The agency's largest expenditure is through the distribution of grants. In fiscal year 2012, the agency estimates it will distribute \$2.8 million in grants or 76 percent of its total budget, with another 9.5 percent going towards grant administration. The remaining 14.5 percent supports central administration and non-grant activities.

- **Staffing.** The agency currently employs 12 staff, down from 17 in fiscal year 2011.
- **Grants.** The agency awards between 1,000 and 1,300 grants annually, mostly to nonprofit arts and cultural organizations for operational and project support. In fiscal year 2012, the agency expects to award about \$2.8 million in grants, down from \$6.6 million in fiscal year 2011. The agency funds, at some level, about 96 percent of all grant applications and, in response to budget reductions, reduced award amounts across the board to continue funding as many organizations as possible. The pie chart, *Grant Award Allocations*, shows the agency's estimated funding for different grant types in fiscal year 2012.



- **Tourism and Cultural District Designation.** While the Legislature eliminated its tourism budget for the current biennium, the agency continues to perform some tourism-related functions to fulfill statutory obligations. The agency works with four other state agencies in developing a single Strategic Tourism Plan to ensure Texas is a premier tourist destination. The agency also continues to designate cultural districts around the state. To date, the agency has designated 16 such districts. The designation is designed to promote these areas as premier tourism destinations and provide a catalyst for economic development activity in local communities, downtown revitalization programs, and preservation of culture at the local level.
- **Arts Information.** To help cultivate the arts in Texas, the agency serves as a clearinghouse of arts information and expertise for the public and its constituents. The agency offers professional references, direct assistance, educational webinars, and networking opportunities to assist its constituents and the public on a variety of topics. The agency plans to host 20 webinars in fiscal year 2012.
- **State of the Arts License Plates.** Created in 1993, the *State of the Arts* license plate is one of the best selling specialty plates in Texas. The agency receives \$22 of the \$30 cost per license plate with proceeds from sales supporting its grant programs. The agency promotes the license plate on its website and its constituents help market the plate through their organizations.

ISSUES

ISSUE 1

The Commission on the Arts Performs Valuable Functions Worth Continuing.

Background

The Texas Commission on the Arts' (TCA) mission is to advance the state economically and culturally by investing in a creative Texas and developing a receptive climate for the arts in the state. To achieve its mission, the agency awards grants primarily to nonprofit arts and cultural organizations, promotes the arts to increase tourism, and provides support and services to arts organizations and the public. The textbox, *Creative Disciplines*, describes the variety of art forms the agency supports.

In fiscal year 2011, the agency operated on a budget of \$8.3 million. However, the 82nd Legislature reduced the agency's budget by 56 percent for fiscal year 2012. Thus, TCA now operates on a budget of about \$3.7 million and a staff of 12.¹ The agency will distribute 76 percent of these funds through nearly 1,100 grants to 600 individuals and organizations across the state. Because of budget reductions, the agency no longer performs some functions related to arts promotion and tourism, such as marketing its license plate and awarding cultural tourism grants. However, as requirements related to its role in these areas remain in statute, the agency makes an effort to implement some activities in conjunction with its other duties.

Creative Disciplines

Visual Arts: painting, sculpture, photography, graphics, crafts, design arts, fashion

Performing Arts

- Dance: ballet, contemporary, tap, ethnic, folk dance
- Music: band, choral, ethnic, folk music, opera
- Theatre: plays, opera, musical theater, mime

Media: film, video, digital media

Literature: fiction, folk storytelling, poetry

Cultural Art: arts dedicated to community and heritage that are typically multidisciplinary in nature

Findings

Texas benefits from public support of the arts.

Even though the arts may not represent an essential function in the same way as some other government functions, the Sunset review found Texas' public investment in the arts provides both economic and social benefits, as described below.

- **Brings more than \$1 million in federal and regional arts funds to Texas.** To be eligible for federal arts funding, Texas must have state appropriations dedicated to the arts to match federal funds dollar-for-dollar and a designated arts agency to disburse the funds.² In fiscal year 2012, TCA received \$988,600 from the National Endowment for the Arts to promote the arts and arts education, representing 27 percent of TCA's overall funding. Local arts organizations also receive grants from

Federal funds represent 27 percent of TCA's funding.

the Mid-America Arts Alliance (Alliance), a regional arts organization, which would not be possible without a designated state arts agency. In 2011, the Alliance awarded \$227,000 in grants directly to Texas organizations.

TCA grants help leverage funding from private sources and foundations.

- **Leverages local and private funds.** Every dollar the State invests in the arts generates at least another dollar in local match funds as grant recipients must match awards on a dollar-for-dollar basis. TCA grants also assist organizations in leveraging funding from private sources and foundations, as they know the organization has met the state's standards and qualifications for funding. By assisting nonprofit organizations in diversifying their funding base, the State helps ensure the financial viability of these organizations over the long term.
- **Helps fund local arts organizations' operating costs.** Because private donors and foundations generally do not directly fund operating costs — preferring instead to link donations or grants to specific art installations or activities — TCA devotes almost two-thirds of its grant dollars to operational support for local arts organizations. This support helps organizations cover their administrative costs, such as rent, utilities, and salaries, as well as marketing and promotional expenses.
- **Stimulates economic development.** Investment of state funds in the arts helps stimulate economic development across the state. A recent national study by an arts advocacy organization analyzed the economic impact of spending by the nonprofit arts and culture industry in 2010.³ The study examined nonprofit arts and culture organizations and their audiences in 182 communities, including five of Texas' largest metropolitan areas. As detailed in the accompanying table, the nonprofit organizations in these five Texas communities generated more than \$219 million in revenue to state and local governments and helped support more than 55,000 jobs.⁴ These figures focus solely on the economic impact of nonprofit arts, excluding spending by the for-profit arts and entertainment sectors.

***Economic Impact of Nonprofit Arts Organizations in Texas
FY 2010***

Location	Economic Impact	Number of Jobs Supported
Greater Houston Area	\$130,375,000	29,118
Dallas	\$37,579,000	11,227
Austin	\$22,957,000	7,315
San Antonio	\$17,211,000	5,132
Tarrant County	\$11,191,000	3,011
Totals	\$219,313,000	55,803

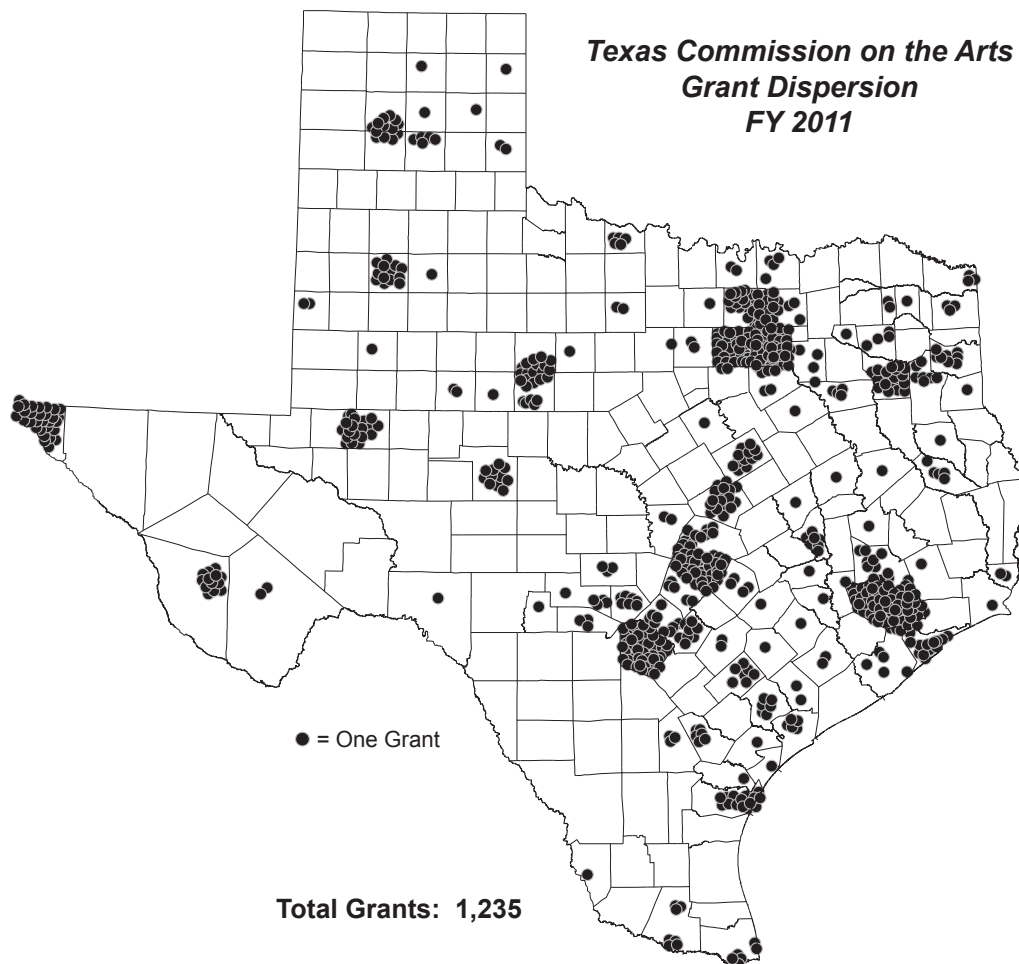
That same year, before recent funding cuts, TCA awarded \$4.5 million in grants to arts organizations in these same five communities. While state grants may represent only a portion of the funding for many of these

organizations, they help support the infrastructure that grows the arts and cultural industries.

The state also benefits economically from TCA's designation of cultural districts — areas engaged in revitalization and redevelopment centered around local art and culture. The designation serves as a catalyst for economic development activity in local communities and downtown revitalization programs. To date, TCA has designated 16 districts, with another six pending approval.⁵

TCA has designated 16 cultural districts, with six more pending approval.

- Supports access to the arts across the state.** State grants reach a broad audience, including many rural areas and people that may not otherwise have access to the arts. The agency reaches underserved areas by providing grants to local organizations to access performers on its Texas Touring Roster, a list of 125 Texas artists, musicians, and other performers. The map, *Texas Commission on the Arts Grant Dispersion*, depicts the geographic distribution of the agency's more than 1,200 grants in fiscal year 2011. Despite recent budget cuts, TCA has maintained its approach to awarding grants to as many qualified applicants as possible so as not to reduce access to the arts. As a result, for fiscal year 2012, the agency reduced grant amounts, but will award a similar number of grants.



- **Serves as a clearinghouse of arts information.** TCA serves as a central clearinghouse of arts information for the arts field and the public, a service likely lost without a state arts entity. The agency's website provides information on art-related job opportunities and career guidance. Staff also offers arts organizations online and direct assistance with professional development, developing arts programs, and other issues.

All 50 states provide public funding to support the arts, most commonly through an independent agency dedicated to the arts.

Although organizational structures vary, every state provides public funding for the arts. The most common structure, as shown in the chart that follows, is an independent state agency much like Texas' current arrangement. Several other states house this function within other entities, such as a cultural resources agency. One exception is Vermont, whose arts entity exists as a nonprofit organization, though it receives state appropriations and follows all state and federal accountability and eligibility procedures.

State Arts Agency Placement

Structure	Number of States
Independent Agency	21
Cultural Resource Department	9
Economic Development Department	7
Tourism Department	4
Department of State	3
Office of the Governor	2
Other State Agency	3
Nonprofit Organization	1

While other organizational options exist, they offer no clear savings or significant benefits over maintaining an independent agency dedicated to the arts.

Sunset staff analyzed the possibility of transferring the agency's functions to other state agencies with functions similar or related to TCA and found that while other agencies could perform TCA's duties, no additional benefits or significant cost savings would result.

- The Office of the Governor performs some functions related to certain aspects of TCA, including economic development, tourism, and film and music promotion. While similar to TCA functions, the Governor's Office focuses primarily on for-profit and commercial industries, while

With no actual overlap, other entities would need a similar number of staff to perform TCA's functions.

TCA targets nonprofit organizations. With no actual overlap of duties or staff expertise, a similar number of staff and resources would still be needed to perform TCA's functions at the Governor's Office. Therefore, while workable, this alternative offers no clear savings or benefits.

- The Texas Historical Commission's role is to protect and preserve the state's historic resources, including its cultural resources. While art and history, along with other state functions, are sometimes combined under a single cultural resources agency in other states, the two agencies in Texas have very different missions and serve different constituencies. As the Historical Commission currently has no staff with arts expertise, a similar number of staff would be necessary for it to perform TCA's functions. Thus, no savings would result from such a transfer.

In addition to finding no benefits or significant cost savings from a transfer of TCA's functions, Sunset staff found no significant problems with the agency's current operations that would necessitate such a move. Since its last Sunset review in 2007, TCA has streamlined its grants processes and reduced administrative costs — a primary concern during the previous review — by closing its field offices and eliminating unnecessary travel and contracted expenses.

Since its last Sunset review, TCA has taken steps to reduce its administrative costs.

Recommendation

Change in Statute

1.1 Continue the Commission on the Arts for 12 years.

This recommendation would continue the Commission as an independent agency responsible for supporting and developing a receptive climate for the arts.

Fiscal Implication

If the Legislature continues the Commission, its annual appropriation of about \$3.7 million, including state and federal funding for the arts, would be needed for grants and operations.

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¹ Fiscal year 2011 budget is based on the agency’s actual operating expenses and fiscal year 2012 is based on its projected expenses. Differences between the agency’s operating budget and appropriation outlined in the General Appropriations Act are due to amounts of federal funds and donations received, and TCA’s ability to transfer funds within a biennium.

² National Endowment for the Arts, *Art Works for America: Strategic Plan, FY 2012-2016*, accessed May 24, 2012, <http://www.nea.gov/about/Budget/NEAStrategicPlan2012-2016.pdf>.

³ Americans for the Arts, *Arts & Economic Prosperity IV: The Economic Impact of Nonprofit Arts and Culture Organizations and their Audiences*, accessed June 8, 2012, http://www.artsusa.org/pdf/information_services/research/services/economic_impact/aepiv/AEP4_NationalSummaryReport.pdf.

⁴ The study used input/output analysis, which traces how many times a dollar is respent within the local economy before it leaks out. The model was customized for each of the participating study regions based on the local dollar flow between 533 finely detailed industries within its economy. Revenue to state and local governments includes revenue from taxes (income, property, or sales) as well as funds from license fees, utility fees, filing fees, and other similar sources.

⁵ The current cultural districts are located in Abilene, Alpine, Austin, Clifton, Dallas, Denison, El Paso, Fort Worth, Houston (the Museum District and Theater District), Huntsville, Lubbock, McAllen, San Angelo, San Antonio, and Winnsboro.

ISSUE 2

A Seventeen-Member Board Is Unnecessary to Effectively Oversee the Commission on the Arts.

Background

The Commission on the Arts (Commission) consists of 17 Governor-appointed members who serve six-year terms. Commission members must represent all arts fields and be widely known for their professional competence and experience in connection with the arts. Additionally, at least two members must be residents of a county with a population less than 50,000.¹ Beyond transportation, lodging, and meal reimbursement, commission members are entitled to per diem as set by legislative appropriation — currently \$30 per day — for each day the member engages in commission business.² The chart below, *Texas Commission on the Arts Members*, provides additional information on each member.

Texas Commission on the Arts Members

Member Name	Residence	Qualification	Term Expires
Patty A. Bryant, Chair	Amarillo	Arts Administration	2017
S. Shawn Stephens, Vice Chair	Houston	Dance Arts Organization Board Member	2015
Dale W. Brock, Treasurer	Fort Worth	Visual Arts Arts Organization Board Member	2013
Paul Kellam McCash, Secretary	Texarkana	Music Arts Organization Board Member	2013
Liza B. Lewis, Parliamentarian	San Antonio	Visual Arts	2015
Rita E. Baca	El Paso	Fashion	2017
Andrew P. Barlow	Austin	Theater	2017
Alphonse A. Dotson*	Voca	Visual Arts, Rural Arts	2013
David C. Garza	Brownsville	Arts Organization Board Member	2017
Mila Gibson*	Sweetwater	Music, Arts Administration	2015
Linda Lowes Hatchel	Woodway	Music Arts Organization Board Member	2015
Molly Hipp Hubbard	Houston	Visual Arts, Theater	2013
Patty Hayes Huffines	Austin	Arts Organization Board Member	2015
Jeanne Parker	Austin	Arts Patron	2013
Marsha Wilson Rappaport	Galveston	Literary Arts, Grant Writing	2013
Cobie Russell	Dallas	Visual Arts	2015
Ronald B. Sanders	San Antonio	Music, Arts Education	2017

* Represents a county with a population of less than 50,000.

Findings

Having 17 commissioners is unnecessary given the agency's size and programs.

Seventeen members constitutes an unusually large board given TCA's relatively small annual budget of \$3.7 million and staff of 12. In general, a state agency board should have enough members to ensure the range of background and experience needed to effectively provide direction and oversight of the agency's operations. Sunset staff examined the duties of the Commission on the Arts and found no clear ongoing need for maintaining such a large board, as discussed below.

A smaller Commission could readily accomplish its planning, budgeting, and grant-making duties.

- **Not necessary for workload.** The Commission's workload does not necessitate such a large board. Its key duties involve approving the agency's strategic plan and budget, adopting policies and rules, and making final decisions on grants. Over the last several years, the Commission has completed these duties by meeting four times a year in one-day meetings. With 17 members, the Commission has set up three smaller standing subcommittees — Executive, Finance, and Grants and Services — but its limited workload rarely requires use of these subcommittees.
- **Not necessary for diversity or expertise.** While diversity across different arts fields is critical on the board, having all arts fields represented, as currently provided for in law, is not necessary to ensure an effective cross-section of the arts on the Commission. Boards typically cannot include representatives of all groups impacted by their actions and instead rely on statutory direction for the Governor to appoint a diversity of members. Boards also use various forms of stakeholder input to help ensure consideration is given to the concerns of different entities impacted by board decisions. Further, for its primary responsibility of awarding grants, the board relies on the use of independent panels of experts to review and evaluate grant applications, minimizing the need for such wide representation of arts fields on the board itself.
- **Administratively inefficient.** If not absolutely critical for accomplishing its work, having a commission that outnumbered agency staff is also administratively inefficient. Preparing 17 notebooks for commission meetings and paying travel and per diem costs for 17 members is not an efficient use of staff time or resources.

Smaller boards effectively oversee many agencies larger and more complex than TCA.

Most state agency governing bodies in Texas have fewer members than the Commission.

Of the nearly 100 governing boards and commissions appointed by the Governor, most have nine members.³ Many of these boards oversee agencies much larger than the Commission and impact a wide range of interests, but do so without the need for such a large board.

Recommendation

Change in Statute

2.1 Reduce the size of the governing body of the Texas Commission on the Arts from 17 to nine members.

This change would reduce the overall size of the board and require that the members represent a diverse cross-section of arts fields, but not all fields of the arts as currently required by law. Statute would continue to require members be widely known for their professional competence and experience in connection with the arts. Statute would also continue to require at least two members be residents of a county with a population of less than 50,000.

To limit disruption to the current structure, this recommendation would be implemented with provisions to allow fewer appointments as current commissioners' terms expire and a reallocation of terms to ensure an equal number of appointments every two years. By phasing in the reduction, no current commission members would have their terms cut short. Reducing the number of commissioners to nine would allow the agency to more easily and effectively support its oversight body, while having minimal impact on the Commission's policy and oversight functions.

Fiscal Implication

While the primary intent of this recommendation is not to achieve savings, reducing the number of members on the Commission on the Arts would — once fully implemented — result in savings of roughly \$9,000 per year to the State due to reduced travel, lodging, and per diem expenses.

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¹ Section 444.003, Texas Government Code.

² In 2003, the Legislature limited the number of days commission members can receive compensation for expenses related to commission business to six.

³ The figure includes only non-advisory boards and commissions with entirely governor-appointed memberships.

ISSUE 3

TCA's Grant Procedures Adhere to Best Practices, but Could Benefit From Additional Improvements.

Background

The Texas Commission on the Arts (TCA) achieves its mission to advance the state economically and culturally through the arts primarily by awarding grants to arts and cultural organizations. TCA provides these grants mainly for operational support, project and performance support, and subgranting in local communities. The chart on the following page, *TCA Grant Programs*, describes the purpose of each grant program, some of the funded activities, and the estimated number of grant awards, average grant award, and funding allocation for each program during fiscal year 2012.

TCA has adopted grant program guidelines, by rule, to govern all aspects of its grant-making process, including applicant eligibility, review criteria, panel evaluation, award determination, and compliance monitoring. Following its 2007 Sunset review, in December 2008, the agency restructured its grant programs to streamline the grant categories and application process, and reduce burdensome reporting requirements. Through this process, TCA revised its program guidelines to help constituents navigate the new requirements and process.

The agency collects a variety of data from its grantees for its performance measures, to fulfill federal reporting requirements, and to aid the National Association of State Arts Agencies' research efforts. TCA's key performance measures track the number of grants awarded to arts and cultural organizations, minority organizations, and rural counties; as well as grants for arts education.

Finding

TCA lacks clear statutory authority for its grant programs and could benefit from incorporating common best practices for grant making in three areas.

Over the past 35 years, Sunset staff has reviewed numerous state agencies that provide grants to individuals, units of government, and other entities, identifying and compiling standard features and best practices that contribute to an efficient, effective, and accountable grant program. These standards serve as guidelines for evaluating agencies' grant programs as part of an overall effort to improve grant-making practices.

While TCA's grant programs generally work well and Sunset staff identified no significant problems, applying common best practices to the agency's grant-making activities helps ensure legislative investments work as anticipated and further strengthen grant programs. The following material describes areas where the Commission's grant-making activities could benefit from these best practices.

TCA's grant programs work well, but could be strengthened.

TCA Grant Programs – FY 2012

Program	Purpose	Funded Activities	Number of Awards	Average Grant Award	Award Allocation
Operating Support	Supports the operations of arts organizations in five categories based on budget size and other select factors.	Administrative costs such as rent, utilities, salaries, information technology, and legal support; marketing and promotional expenses.	346	\$4,718	\$1,632,500
Project Support	Provides short-term assistance to organizations for projects that address one of the state's priorities, including education, health and human services, economic development, public safety and criminal justice, and natural resources and agriculture.	Projects involving various disciplines including visual arts, performing arts, literature, and crafts. For example, the public safety and criminal justice priority is intended for projects that focus on at-risk youth in a community setting or incarcerated populations in juvenile detention centers, prisons, alternative learning centers, or after school programs.	385	\$1,383	\$532,285
Performance Support	Enables schools, libraries, and nonprofit organizations to hire a professional artist from the Texas Touring Roster to do a performance at a reduced fee.	Performances by actors, authors, bands, dancers, poets, singers, and storytellers. For example, a local library can apply for a performance support grant to help pay the cost of children's storytellers.	286	\$637	\$182,215
Subgranting	Allows local government and arts agencies to regrant funds to arts and other service organizations in their communities.	Varies by subgrantor and community, but can include funding for activities in various arts fields.	18	\$8,554	\$153,971
Commission Initiatives	In addition to the set categories above, allows the Commission to select a unique initiative designed to further the arts in Texas.	Since fiscal year 2002, the Commission has initiated several programs on an ongoing basis, such as the Young Masters Program, which helps talented 8th–11th grade artists further their studies in their chosen field, as well as Rural Initiatives to fund individual artists to provide programs and performances in rural counties.	47	\$4,080	\$191,770
Designated Funding	In contrast to other grants designated by the Commission, this funding involves pass-through grants on behalf of an external funder in support of a mutual goal to further the arts in Texas.	The Commission receives private donations each year to award grants as designated by the donors. For instance, since fiscal year 2006, the Texas Cultural Trust has passed funding it receives from the Texas Women for the Arts through TCA for grants designated for arts education programs.	10	\$15,600	\$156,000
Totals			1,092	\$2,609	\$2,848,741

- **Statutory authority.** An agency should have clear authority for issuing grants that links the grants back to its overall purpose.

The Commission's statute gives implied grant-making authority by outlining a few specific requirements related to the grant process, such as provisions for panel reviews and equitable grant distribution.¹ However, statute does not explicitly authorize the Commission to administer grants or link the grants to the purpose of the Commission. Since grant making is the agency's primary focus, clear authority for this function should be in law.

- **Reporting procedures.** An agency should have clear policies governing all aspects of its grants program, including provisions for holding awarding agencies and grantees accountable for properly using funds and achieving agreed-upon results.

Overall, TCA meets basic reporting requirements, but could clarify its requirements for subgranting. Subgrantors are local government or arts agencies that receive and redistribute TCA grants to provide public arts funding in their communities. TCA awards fairly consistent subgrant amounts each year based on the size of the population served by the local arts agency. TCA's program guidelines subject subgrantors to additional reporting requirements, but lack an explanation of the specific requirements and their purpose.

In practice, TCA requires subgrantors to submit a separate statistical report on the number and dollar amount of grants made to certain organizations using TCA dollars, which the agency incorporates into its annual performance measures report. Additionally, TCA staff may observe subgranting organizations' panel processes to ensure adherence to TCA guidelines and general best practices for public grant making. However, the program guidelines do not explain the circumstances under which TCA might interact directly with local subgrantors. While TCA appropriately holds subgrantors accountable for effectively administering grants, having formal reporting procedures in writing would set clear expectations for these entities.

- **Risk-based monitoring.** An agency should routinely monitor grant performance to ensure grant funds are properly expended and accounted for in accordance with grant requirements. An agency should use the results of its formal risk assessment to determine the frequency of on-site monitoring visits and the scope of work performed during these visits.

The Commission has an effective method for assessing risk, but continues to conduct unnecessary and costly on-site monitoring visits in an effort to meet an out-of-date performance measure. TCA requires all grantees to submit a report upon completion of the grant contract detailing the use of funds, income sources, assessment of activities, and program or

TCA reporting requirements lack needed clarity for subgrantors.

Risk assessment results should drive TCA's monitoring activities.

project outcomes. TCA staff review the reports and other supporting documentation as a part of a risk assessment to determine the need for further monitoring.

However, independent of risk assessment results, TCA has maintained an annual target of conducting 130 on-site monitoring visits. This target has become more difficult to meet given budget reductions the agency sustained during the 82nd Legislative Session and efforts to meet this target result in an inefficient use of limited agency resources. Of the 130 grantees monitored on site in fiscal year 2011, 38 percent were considered high or moderate risk. The remaining 62 percent were either low risk or otherwise randomly selected and received on-site monitoring visits for the purpose of meeting the agency's monitoring target. Since most grantees fare well on the risk assessment, the lower risk grantees could be monitored through less costly means, such as desk reviews, using grantees' reporting forms and supporting financial documentation.

- **Program evaluation.** Beyond ensuring compliance with grant requirements, an agency should evaluate actual results to understand the impact of its grants and make necessary adjustments to improve future grant-making activities.

Suggested TCA Measures

- Number of new works created, commissioned, or produced
- Number of artists supported, engaged, or employed
- Number of individuals served by audience (i.e. older adults, at-risk youth, and students)
- Number of applications funded by artistic discipline
- Number of applications funded by organization type (i.e. school, library, museum, theater, community center, etc.)
- Number of newly created organizations receiving support

TCA's key performance measures illustrate basic granting activity, such as the number of applications received from and grants awarded to certain organizations and communities. However, the agency could benefit from tracking additional information to better illustrate the impact its grants have on funded arts entities, audiences, and communities. TCA could use some of the information it collects from grantees through the grant application and reporting processes to develop additional measures to better gauge the performance of the agency's grant programs. The textbox, *Suggested TCA Measures*, gives examples of measures TCA could consider based on available data.

Recommendations

Change in Statute

3.1 Clarify the Commission's statutory authority to award grants to support the arts in Texas.

This recommendation would clearly state in law the Commission's authority to award grants in accordance with its mission to advance the state economically and culturally by investing in the arts in Texas. This change would help ensure TCA's grant programs work to help achieve its mission.

Management Action

3.2 TCA should amend its grant guidelines to incorporate reporting requirements for subgrantors and to better link on-site monitoring visits to risk.

TCA should amend its grant program guidelines to add subgranting reporting requirements, making subgrantors aware of the expectation for submitting statistical data to TCA for incorporation into its annual performance measures report. Additionally, the grant guidelines should explain the circumstances under and the manner in which TCA would observe subgrantors' panel review processes.

TCA should directly link the need for on-site monitoring to risk assessment results, as opposed to predetermining a target for the number of on-site monitoring visits to conduct. Given budget cuts, TCA should no longer conduct on-site monitoring visits of grantees that score low risk on the assessment, except for a small percentage chosen at random. TCA would continue to conduct a risk analysis for all grantees based on final reports.

3.3 TCA should develop and track additional performance measures to evaluate the impact of its grants.

TCA should use data it collects from grant applications and compliance reports to develop additional performance measures that better illustrate the impact of its grants based on the grant's purpose. The agency should explore ways to measure program impact and effectiveness and work with the Legislative Budget Board to report additional performance measures that more fully reflect the impact of its grant programs.

Reporting on performance results would allow TCA to more easily explain the impact of its programs to the Legislature, stakeholders, and the public. TCA should convey these performance results to the public via the agency's website and through any existing agency publications or communications. TCA should also include these measures and their definitions in its program guidelines as a way of communicating the importance of performance measurement to its grantees.

Fiscal Implication

Directing TCA to better link its on-site monitoring visits of grantees to its risk assessment would reduce the need for staff time and travel resources dedicated to on-site monitoring of low-risk grantees, saving about \$4,000 per year.

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¹ Section 444.024, Texas Government Code.

APPENDIX

APPENDIX A

Staff Review Activities

During the review of the Texas Commission on the Arts, Sunset staff engaged in the following activities that are standard to all Sunset reviews. Sunset staff worked extensively with agency personnel; attended Commission meetings; met with staff from key legislative offices; solicited written comments from interest groups and the public; reviewed agency documents and reports, state statutes, legislative reports, previous legislation, and literature; and performed background and comparative research using the Internet.

In addition, Sunset staff also performed the following activities unique to this agency.

- Interviewed numerous nonprofit organizations that receive TCA grants.
- Interviewed several TCA subgrantors who regrant agency funds to local organizations.
- Observed an on-site monitoring visit of a TCA grant recipient.
- Observed a TCA grant review panel discussion.
- Toured the King William Cultural Arts District in San Antonio, Texas.
- Researched the organization and functions of similar state agencies in other states and interviewed six states' arts agencies, selected for their agency structures or similarities to Texas in amount of funding dedicated to the arts.
- Interviewed staff at the Office of the Governor and Texas Historical Commission.

Sunset Staff Review of the *Texas Commission on the Arts*

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