# BOARD OF COUNTY AND DISTRICT ROAD INDEBTEDNESS

Staff Report

to the

Sunset Advisory Commission

February 20, 1978

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# INTRODUCTION

This report is submitted pursuant to Section 1.06, Subsection (3) of the Texas Sunset Act and contains a review of the operations of the Board of County and District Road Indebtedness. Termination of the Board of County and District Road Indebtedness has been scheduled for September 1, 1979, unless it is continued by law.

The material contained in the report is divided into three major sections: Background, Review of Operations and Conclusions. The Background section contains a history of legislative intent and a discussion of the original need for the Board of County and District Road Indebtedness. The Review of Operations section contains a review of the operation of the agency; however, the review does not use a self-evaluation report since a detailed report was not submitted by the agency. Data were obtained through interviews, review of agency files, and other data sources. The Conclusions section summarizes the import of material developed in the individual criteria from the standpoint of whether or not Sunset criteria are being met and develops approaches relative to these findings.

The review of the Board of County and District Road Indebtedness was restricted to the three criteria of the Act that focus on the following topics: 1) efficiency of agency operations (Criterion 1), 2) needs addressed and objectives accomplished by the agency (Criterion 2); and 3) consolidation of agency operations with the programs of other state agencies (Criterion 4). The remaining criteria have been omitted due to their lack of central relevance to the Board. This situation stems from the Board's unique position as a body which operates without its own separate staff, has no regulatory or licensing function and has only limited remaining responsibilities of an essentially mechanical nature.

This report is designed to provide an objective view of agency operations, based on the evaluation techniques utilized to date. Together with pertinent information obtained from public hearings, a factual base for the final recommendations to the Legislature will be provided.

# BACKGROUND

The Board of County and District Road Indebtedness (BCDRI) was created in 1932 by the Forty-second Legislature, Third Called Session. The agency was originally established for the primary purpose of extending state aid to liquidate certain road indebtedness incurred by counties and road districts of the state. However, the focus and operations of the Board have changed significantly in the 45 years since its creation. These changes are reflected in the history of amendments to the Board's enabling legislation (codified as Article 6674g-7, V.A.C.S.). This statute was modified each biennium from 1933 through 1947.

The purpose of this background section is to explain the evolution of the Board's purpose and operation from its creation to the present date. Before describing these changes, however, it is necessary to briefly outline the historical conditions leading to the creation of the Board of County and District Road Indebtedness. This description will be followed by a discussion of the BCDRI over its 45-year history.

## Historical Developments Preceding Creation of the BCDRI

The original need for creation of the Board of County and District Road Indebtedness is integrally linked with the development of the Texas highway system. For purposes of this discussion, development of the state system prior to creation of the agency can be divided into three different historical periods of action: 1) a period of exclusively local action; 2) a period of initial state action; and 3) a final period of active state participation in Texas highway construction and control.

## Period of Local Action

In the late 1800's, it became apparent that the state's economic growth and well-being was dependent on the development of a system of highways. Prior to 1917, local units of government took the initiative in beginning the development of such a system. In this pre-1917 period, the state's role was limited principally to taking those legislative actions necessary to increase the restricted financial base of local governments.

With respect to this base, ad valorem taxes were first used to finance the construction and maintenance of the state's early highways. To supplement these taxes, in 1887 and again in 1903, counties were granted the authority to issue bonds for bridge construction and for general road improvement. Local units of government were granted additional financial flexibility by a constitutional amendment accepted by Texas voters in 1904. This amendment authorized the formation of special districts and gave these districts the right to: 1) issue bonds for public improvements and 2) levy a tax for principal and interest.

## Period of Initial State Action

In 1917, the state began to take a direct role in Texas highway development. This change in role was brought about largely by federal legislation of 1916. The Federal Aid Road Act appropriated $75,000,000 to be distributed among the states on a matching basis. These funds were to be expended under the supervision of a state highway agency.

In the year following this federal initiative, the legislature established the State Highway Department. With the establishment of the agency came the appointment of the State Highway Engineer. Among other duties, the Engineer was charged with preparation of a comprehensive plan for state highways.

Under this new system, initiative for carrying out the state highway plan remained largely with the county. A county ready to undertake construction of a section of road designated as part of the state highway system would apply for state aid and approval of specifications. Additionally, construction work and arrangements were under the direct control of the county, though subject to state supervision.

In this system, the county continued to bear the brunt of the financial burden in developing the state highway system. The inability of some counties to meet maintenance costs was an indicator of this heavy financial load. Moreover, progress under this system was slow. These problems led to a change of policy in 1923.

## Period of Active State Participation

The legislatures of 1923 and 1925 took action which essentially reversed the operational and financial roles of the state and counties in the area of state highway construction. Construction work for the Texas highway system was placed under the direct control of the State Highway Department. Moreover, responsibility for maintenance of all state highways was transferred from the counties to the state.

In the area of finance, the state significantly increased its share of expenditures on the Texas system. To help finance these expenditures, in 1923 the legislature passed a gasoline tax of one cent a gallon, and dedicated three-fourths of the revenues from this source to the State Highway Fund. Over the next six years, this tax was increased to four cents a gallon.

While state spending on its highway system increased markedly between 1923 and 1930, funds did not keep pace with the pressures for additional state highway development. These pressures stemmed largely from the rapid economic

development of Texas and the sharp rate of growth in motor vehicle traffic. To help finance new state highways, local governments continued to contribute substantially to construction costs and millions of dollars in new bonds were voted and sold by local units between 1920 and 1930.

By 1930, local taxpayers were feeling the burden of the heavy debt they had incurred in support of the state highway system. At the same time, it was recognized that the character of the highway system was changing from one of primarily local benefit to one of statewide importance. As a result, taxpayers began to seek not only tax relief, but also full reimbursement for local debt incurred on the state system.

In 1932, the legislature responded to taxpayer pressure in two major ways. First, the legislature made it absolutely clear that further improvement in the state highway system was under the direct and exclusive control of the Highway Department. In this regard, financial aid from the counties and road districts was prohibited. Second was the creation of the Board of County and District Road Indebtedness, whose purpose and evolution is described below.

## Evolution of the Board of County and District Road Indebtedness

Sensitive to the need for repaying financially troubled counties for their contribution to the Texas highway system, the 1932 legislature enacted legislation to assume such locally-incurred state highway debt and established the BCDRI to administer the act. The Board had, and continues to have, an ex-officio membership consisting of the state highway engineer, the state comptroller and the state treasurer.

As stated previously, the BCDRI has undergone significant changes in purpose and operation since its creation in 1932. This evolution is discussed below in terms of the agency's operations, financing and staffing.

## Agency Operations

Over time, the BCDRI has had three principal activities to accomplish in carrying out its statutory mandates. These tasks are: 1) repayment of "eligible" bonded indebtedness; 2) distribution of "lateral" road funds; and 3) serving as paying agent for certain county obligations. State money to carry out these operations has historically been obtained from a portion of the motor fuel tax dedicated to the agency's County and Road District Highway Fund. A brief discussion of each of the three agency operations follows.

Repayment of Eligible Bonded Indebtedness. As implied earlier, the primary purpose for the BCDRI's establishment was to carry out the legislative decision to reimburse counties and road districts for their expenditures on state-designated highways. Under this legislative program, ultimate responsibility for paying off local debt incurred for such expenditures remained formally with the local governments. The state agreed to assist in the retirement of this state-related debt to the limits of the funds available in the County and Road District Highway Fund. Thus, given sufficient income to the Fund during a year, the state would provide full reimbursement for its "share" of local debt retiring during the period.

The Board's responsibility in this repayment effort has been twofold: 1) to determine the amount of local debt eligible for state participation and 2) to handle administrative matters relative to state payments to counties. With respect to eligibility determination, the 1932 legislation defined eligible debt to be "bonds, warrants, or other evidences of indebtedness" maturing on or after January 1, 1933.

Furthermore, the proceeds from these bonds must have been expended on highways designated as part of the state system as of September 17, 1932.

This definition of eligibility has been changed several times in the Board's history. In 1939, the legislature amended the law to include debt incurred on highways designated as part of the state system after September 17, 1932, and before January 2, 1939; additionally, to be eligible for state participation, such debt must have been incurred prior to the 1939 date. Then, in 1946, the eligibility definition was extended for the last time by constitutional amendment (codified as Article 8, Section 7-a). This amendment pushed back the final date for state highway designation from 1939 to January 2, 1945.

In establishing the amount of local debt eligible for state participation, the BCDRI faced the difficult task of determining the proportion of county and road district bond revenues expended on the state highway system. At the time of the Board's creation in 1932, it was estimated that there was some $202 million in local road debt. Of this amount, approximately $110 million was spent on the state highway system and therefore eligible for participation. This eligible indebtedness was increased in both 1939 and 1946 as a result of the above-mentioned amendments to the law.

From 1933 through 1977, the BCDRI paid eligible debt maturing each year within the limits of its funds. In the first few years of the Board's existence, funds were insufficient to pay all of the state's share of local road debt; however, the motor fuel gasoline tax generated sufficient revenue to provide full state participation from 1938 on.

In 1977, the BCDRI achieved the legislative objective set for the agency 45 years earlier with the payment of the state's last share of local road debt. Attainment of this goal cost the state a total of approximately $200 million,

excluding administrative costs. Historical expenditures of the Board are shown below.

EXPENDITURES TO MEET
THE STATE SHARE OF ELIGIBLE ROAD DEBT

| Year | Expenditure | Year | Expenditure |
|---|---|---|---|
| 1933 | $ 3,446,577 | 1956 | $ 3,228,150 |
| 1934 | 7,319,808 | 1957 | 3,439,571 |
| 1935 | 7,760,485 | 1958 | 2,213,009 |
| 1936 | 8,049,304 | 1959 | 2,309,086 |
| 1937 | 8,625,483 | 1960 | 1,026,272 |
| 1938 | 8,839,766 | 1961 | 670,122 |
| 1939 | 9,481,572 | 1962 | 610,026 |
| 1940 | 10,246,477 | 1963 | 574,089 |
| 1941 | 10,258,742 | 1964 | 516,974 |
| 1942 | 10,893,780 | 1965 | 466,069 |
| 1943 | 10,192,502 | 1966 | 400,820 |
| 1944 | 9,274,391 | 1967 | 338,701 |
| 1945 | 9,542,910 | 1968 | 346,475 |
| 1946 | 10,458,779 | 1969 | 177,948 |
| 1947 | 9,268,680 | 1970 | 63,989 |
| 1948 | 8,195,262 | 1971 | 40,554 |
| 1949 | 7,923,273 | 1972 | 9,661 |
| 1950 | 6,947,245 | 1973 | 2,779 |
| 1951 | 6,129,532 | 1974 | 1,010 |
| 1952 | 5,414,568 | 1975 | 1,146 |
| 1953 | 4,673,057 | 1976 | 1,105 |
| 1954 | 4,246,689 | 1977 | 1,064 |
| 1955 | 3,615,773 | Total | $197,243,275 |

Distribution of Lateral Road Funds. In the last section, it was noted that, for the first few years of the Board's operation, funds accruing to the County and Road District Highway Fund were insufficient to meet the full state share of eligible local debt. However, by 1938 revenues deposited in the fund began to exceed the state's yearly payment obligations. In 1939, the legislature quickly made use of these surplus funds by 1) agreeing to pay previously unmet portions of the state's

share of local debt and 2) establishing a "lateral road" grant program to Texas counties. The Board was charged with administering this program and continues to carry out this function today.

In enacting this program, the state agreed to assist counties in the repayment of state-related right of way debt and in the construction and improvement of county lateral roads (defined as those roads not part of the state highway system). Enabling legislation for the county grants established: 1) guidelines defining surplus funds available for distribution; 2) a formula for determining county shares of total grant funds; and 3) priorities for county expenditure of the money. A description of these provisions follows.

The 1939 legislature provided that any surplus of more than $3 million left in the County and Road District Highway Fund would be distributed as lateral road grants. This allocation was modified in 1941 by an amendment which split away half the surplus above $3 million for deposit in the State Highway Fund. In 1947, provisions for the lateral road grants were made applicable to surplus funds of more than $2 million. Finally, the 1951 legislature modified the grant program by setting a fixed dollar figure of $7.3 million for annual distribution to the counties. The $7.3 million (authorized in Article 9.25, V.A.C.S. Tax) has been allocated yearly to this date.

Since the inception of the grant program, each county's share of available money has been determined by use of a formula. The 1939 formula provided for the following allocation: 1) one-tenth on the basis of county area; 2) two-tenths according to population as determined in the last federal census; 3) three-tenths on the basis of number of motor vehicles registered in the preceding registration year; and 4) four-tenths according to the lateral road mileage of the county as of January 1, 1939.

In 1947, the legislature enacted three fundamental changes in this allocation formula: first, motor vehicle registrations were omitted from the formula; second, rural population replaced general population as a basis for one of the formula factors; and finally, the weights given to formula components were altered. The modified formula thus allocated lateral road funds two-tenths on the basis of county area, four-tenths according to rural population, and the final four-tenths on county road mileage. Lateral road funds continue to be distributed on this formula basis today.

It should be noted that counties are required to spend their portion of the grant funds according to priorities set in the law in 1939 and 1941. First, the allocations must be expended to pay principal and interest on local debt incurred prior to January 2, 1939, for the purpose of right of way acquisition for state highways. Second, remaining funds must then be applied to local debt assumed for the construction and improvement of county roads. After these two priorities are satisfied, any unexpended grant money is to be used for purposes related to general road construction and improvement.

Since 1939, the state has distributed some $220 million in lateral road funds to Texas counties. Annual amounts allocated through this program are shown below.

Lateral Road Allocations
to Texas Counties

| Year | Allocation |
|---|---|
| 1940 | $ 3,991,093 |
| 1941 | 2,600,057 |
| 1942 | 3,514,791 |
| 1943 | -0- |
| 1944 | -0- |
| 1945 | -0- |
| 1946 | 475,000 |
| 1947 | 1,800,779 |
| 1948 | 3,300,000 |
| 1949 | 5,200,000 |
| 1950 | 5,500,000 |
| 1951-77 | 7,300,000each year |
| Total | $ 223,481,720 |

Paying Agent Services for Ineligible Obligations. Soon after its creation, the BCDRI began to provide counties with optional "paying agent" services for any county or road district bond issues not eligible for state participation (and therefore termed "ineligibles"). As paying agent, at a county's request the Board assumed the task of handling the mechanics associated with the payment of principal and interest on designated ineligible bonds. This function is still provided today, although in modified form.

It should be noted that the paying agent operation begun by the Board did not result from legislative mandate; instead, the agency initiated this function as a service to local governments. In keeping with this philosophy, the Board carried on its paying agent operations at no charge to the counties. In the first years of the agency's operations, amounts outstanding on ineligible issues handled by the Board generally were between $3,000,000 and $5,000,000. All debt service expenditures on these ineligibles were made by the issuing counties, who transferred their payments for principal and interest to the BCDRI for distribution to bond holders.

Until fiscal year 1977, these paying agent policies and procedures of the Board remained basically unchanged. In that year, however, the agency began charging a service fee on certain county bond issues. Those ineligibles on which a charge is now levied are: 1) county bonds issued prior to fiscal 1977 for the purpose of raising revenue for non-road uses (e.g., hospital, jail and airport bonds) and 2) any county or road district bonds issued after fiscal 1976. These issues are subject to a charge of 1/20 of one percent on principal and 1/8 of one percent on interest.

In recent years, very few new county bond issues have been presented to the Board for paying agent services. Nonetheless, the agency continues to act as paying agent on more than 50 ineligible county issues on which some $11.4 million was still outstanding as of August 31, 1977. The following schedule indicates total ineligible debt outstanding in each of the last 20 years.

Outstanding Ineligible Debt
Handled by BCDRI

| Year | Amount | Year | Amount |
|---|---|---|---|
| 1958 | $ 60,622,103 | 1968 | $ 32,654,400 |
| 1959 | 61,941,523 | 1969 | 29,425,400 |
| 1960 | 59,095,150 | 1970 | 23,523,000 |
| 1961 | 58,162,850 | 1971 | 22,675,000 |
| 1962 | 56,091,700 | 1972 | 19,957,000 |
| 1963 | 51,712,200 | 1973 | 17,961,000 |
| 1964 | 47,714,050 | 1974 | 16,514,000 |
| 1965 | 41,934,450 | 1975 | 14,249,000 |
| 1966 | 39,590,500 | 1976 | 12,309,000 |
| 1967 | 35,842,900 | 1977 | 11,390,000 |

Historically, the BCDRI has coordinated closely with the Treasury Department in the payment of ineligible debt. This coordination has resulted from the statutory involvement of the Treasury in the other operations of the agency and the traditional role of the Treasury Department as a fiscal agent. Since at least 1939, the Department has been authorized by statute to serve as paying agent on the request of the state's political subdivisions. The statutory fee imposed for this service is 1/20 of one percent on principal and 1/8 of one percent on interest (Article 4379b, V.A.C.S.)

While the Treasury has such fiscal agency authority, in practice the Board appears to have assumed formal paying agent responsibility for all county and road district issues. The Treasury Department, on the other hand, has historically handled the paying agent function for school district bond issues. Additionally, since fiscal 1975, the Department has carried out all staff responsibilities with respect to both Board and Treasury duties as paying agents.

Agency Finances

As was pointed out previously, all operations of the BCDRI have been, and continue to be, financed from the County and Road District Highway Fund. Money flowing into the Fund comes from a statutorily-established portion of the Motor Fuel Gasoline Tax. Since the 1932 establishment of the BCDRI and its fund, both the rate of the tax and its allocation into several recipient funds have been changed. These changes are outlined below.

The Motor Fuel Gasoline Tax was first enacted in 1923 and required payment of a one cent tax per gallon of gasoline. By the time of the establishment of the BCDRI, this tax rate had been raised to four cents a gallon. While a separate tax category for special funds (e.g. diesel) was added in 1941, the gasoline tax was maintained at its four cent level until 1955. In that year, the Fifty-fourth Legislature adjusted the gasoline tax on regular fuels to five cents. This rate is still in effect today.

Since 1955, additional rate categories have been added to the Motor Fuel Gasoline Tax; however, the "basic" five cent tax on regular fuels has always generated almost all gasoline tax revenues. From the establishment of the BCDRI through fiscal 1977, total net receipts from the Motor Fuel Gasoline Tax amounted to an estimated $6.9 billion.

These net receipts from the gasoline tax have historically been divided three ways. At the time of the Board's creation, receipts were split in the following manner: 1) one-fourth to the Available School Fund; 2) one-half to the State Highway Fund; and 3) one-fourth to the County and Road District Highway Fund of the BCDRI. In 1951, this allocation was altered when the Fifty-second Legislature changed the flow of funds to the County and Road District Highway Fund. This modification provided that up to one-fourth of the gasoline tax was available to the Board's fund if required. To determine the level of required funds each year, the Board was to certify to the Comptroller the amount needed to meet the state's portion of principal and interest maturing during the year. Then, an additional $7.3 million was added to that amount for county lateral road grants. Finally, any remaining dollars in the Board's one-fourth portion were to be transferred to the State Highway Fund.

Since 1951, these basic steps for allocating gasoline tax revenues to the County and Road District Highway Fund have remained unchanged. From 1933 through 1977, some $445 million in these tax revenues have been deposited in that fund for distribution by the BCDRI.

## Agency Staff

The staffing history of the BCDRI covers two distinct periods: 1) from creation of the Board through fiscal year 1975 and 2) from fiscal year 1976 to the present. With regard to this first phase, staff operations for the Board began in 1933 with the appropriation of $25,000 for administrative support. The agency continued to be authorized positions and administrative funding throughout the 42 years of this first phase. For most of these years, a majority of the Board's staff was located in facilities of the State Highway Department. Additionally, it appears

that at least two Board employees were housed with the Treasury Department because of the close coordination required between the two agencies.

At its height, the staff of the Board numbered 14 authorized positions. However, this number began to decline in 1952 as the state's part of eligible debt began to diminish. By the end of 1975, the Board was operating with eight positions and a greatly reduced work load.

Noting this situation, the Legislative Budget Board concluded that a separate staff for the BCDRI was unnecessary. The LBB therefore recommended that remaining work of the Board be absorbed by the staff of one of the organizations represented on the BCDRI's three-member policy body. The Governor carried forward on that recommendation by vetoing BCDRI administrative appropriations for the 1976-77 biennium. Arrangements were then made for existing personnel in the Treasury Department to perform the Board's continuing staff work.

In fiscal year 1976, the BCDRI entered this new phase of administrative support. All administrative tasks associated with Board operations have been handled by the Treasury Department from that year forward. The Department has not found it necessary to increase its personnel to absorb the additional work load.

It is interesting to note that, throughout the history of the BCDRI, some $2.5 million have been appropriated to the agency in support of its administrative functions. The Board's yearly operating appropriations and number of authorized personnel are shown in the following chart.

Administrative Appropriations and
Authorized Positions of the BCDRI

| Year | Appropriation | Positions | Year | Appropriations | Positions |
|---|---|---|---|---|---|
| 1933 | $ 25,000 | Unknown | 1957 | $ 16,078 | 11 |
| 1934 | 25,000 | Unknown | 1958 | 53,130 | 10 |
| 1935 | 25,000 | Unknown | 1959 | 53,130 | 10 |
| 1936 | 36,456 | 11 | 1960 | 54,530 | 10 |
| 1937 | 36,456 | 11 | 1961 | 54,530 | 10 |
| 1938 | 39,230 | 13 | 1962 | 58,469 | 10 |
| 1939 | 39,230 | 13 | 1963 | 58,469 | 10 |
| 1940 | 34,530 | 14 | 1964 | 62,754 | 10 |
| 1941 | 34,530 | 14 | 1965 | 62,754 | 10 |
| 1942 | 39,970 | 14 | 1966 | 69,607 | 10 |
| 1943 | 39,970 | 14 | 1967 | 71,006 | 10 |
| 1944 | 39,470 | 14 | 1968 | 88,256 | 10 |
| 1945 | 39,470 | 14 | 1969 | 92,848 | 10 |
| 1946 | 41,918 | 14 | 1970 | 102,671 | 9 |
| 1947 | 41,918 | 14 | 1971 | 104,300 | 9 |
| 1948 | 47,108 | 14 | 1972 | 101,890 | 8 |
| 1949 | 47,108 | 14 | 1973 | 108,670 | 8 |
| 1950 | 53,204 | 14 | 1974 | 116,274 | 8 |
| 1951 | 53,204 | 14 | 1975 | 116,274 | 8 |
| 1952 | 57,908 | 12 | 1976 | 0 | 0 |
| 1953 | 55,908 | 12 | 1977 | 0 | 0 |
| 1954 | 55,548 | 12 | 1978 | 0 | 0 |
| 1955 | 55,548 | 12 | 1979 | 0 | 0 |
| 1956 | 61,078 | 11 | Total | $2,519,505 | |

# REVIEW OF OPERATIONS

## Criterion 1

The efficiency with which the agency or advisory committee operates.

The review under this criterion centered on financial data and other records of the agency. This information was analyzed to determine if funds available to the agency had been utilized in a reasonable manner to achieve the purposes for which the agency was created and to determine if areas existed in which greater efficiency of operations could be achieved.

For ease of presentation, the review is divided into three basic parts. These parts deal with: 1) the procedural steps used by the BCDRI in carrying out its remaining functions; 2) the controls used by the agency to account for and track funds and expenditures; and 3) the general funding framework for agency operations. Each part is presented below.

### Procedural Aspects of BCDRI Operations

As seen in the background section, the BCDRI has two remaining functions it performs: 1) distribution of county (or lateral) road funds and 2) service as paying agent for certain county bond issues. The procedures involved in each of these functional areas are briefly set forth and examined below.

Distribution of County Road Funds. In distributing lateral road funds to the counties, the BCDRI uses the following procedural steps:

1. The portion of the annual $7.3 million in state funds to be flowed to each county for the maintenance and improvement of its county roads is determined. It should be noted, however, that this allocation changes only once every 10 years with the publication of the federal census. At that time, the BCDRI updates its allocation formula to include the most recent rural population statistics for each county.

2. In July of each year, the BCDRI notifies each county of the amount of lateral road funds to be credited to its account on September 1. This notification includes the statement that the funds cannot be forwarded unless the agency has received an order from the county's Commissioners' Court requesting that the funds be released and indicating the purpose for which the funds would be used.

3. The order from the Commissioner's Court is usually received in August and the County's account is credited on September 1 with the amount allotted to it by formula.

4. Warrants are issued not later than September 15 and mailed to each county. All but three counties receive the full amount of their allocation in the warrants. With respect to the three exceptions, Childress, Motley, and Robertson counties have been paying off principal and interest on certain of their county road and bridge bonds through use of their lateral road funds. Since the BCDRI acts as paying agency on these obligations for the counties, the agency holds back that portion of the counties' allocation that is necessary to meet related principal and interest amounts maturing during the year. The following chart shows the remaining principal and interest obligations remaining on these road and bridge obligations and their final payment date.

County Bonds Paid Through
Lateral Road Funds

| County | Principal Outstanding | Interest Obligations Remaining | Final Payment Date |
|---|---|---|---|
| Childress (1 issue) | $ 26,000 | $ 1,080 | 4/1/80 |
| Motley (1 issue) | 6,000 | 360 | 3/10/80 |
| Robertson (2 issues) | 26,200 | 3,096 | 4/10/78 and 4/10/81 |
| Total | $ 58,200 | $ 4,536 | |

5. Also in September, the BCDRI notifies the counties that statutes require submission of a county report showing how the lateral road fund allocation for the previous year had been spent. The Board supplies counties with a format for purposes of this report.

6. Reports generally begin to be returned to the BCDRI in October. The reports are logged in and checked for mathematical accuracy.

In checking these procedures, the steps appeared to be simple and efficient. No problems in the flow of work or in the timeliness of funds distribution were observed. Furthermore, the procedures are designed to conform to statutory requirements concerning the update of the distribution formula, the date for fund distribution, and the submission of reporting documents.

To further verify these observations, the agency's current files were checked for complaints regarding agency efficiency. Additionally, counties were asked in a questionnaire to indicate whether problems of efficiency in lateral fund distribution had been encountered. The review of agency files revealed no complaints concerning timeliness of fund distribution or related problems. This finding was supported by 201 of the 202 counties responding to the survey as of February 6, 1978. The one county not included in this supportive group did not answer this efficiency question.

Paying Agent Services. In the paying agent function of the Board, the following process is used by the Treasury Department:

1. The Treasury Department is named by the county to serve as paying agent for a county bond issue. The county sends the maturity schedule for the issue to the Treasury.

2. The Treasury Department posts this information on its maturity ledger. Then, in July and August the agency sends notices to the counties indicating principal and interest maturing during the upcoming calendar year on each county issue being handled by the state.

3. Throughout the year the agency notifies counties of the amounts of principal and interest about to come due on an issue. These notices are mailed 30 days prior to the maturity date. The notice includes the fiscal agent fee to be charged, if any. (As pointed out in the background section, only county road and bridge bonds are exempted from a fiscal agency fee. Other county issues are charged a fee of 1/20 of one percent on principal and 1/8 of one percent on interest.)

4. The agency then receives from the county those funds necessary to cover maturing principal and interest. These funds are deposited in the Treasury.

5. Three days prior to the maturity date a warrant is drawn for the total amount of funds received from the counties and cleared through the bank. This warrant is deposited to the agency's "paying account" (Fund 930).

6. On or after the maturity date, coupons are presented to the Treasury (usually from banks). Coupons are paid within five days by warrant.

7. Principal and interest payments are then recorded in the books maintained by the Treasury.

8. Finally, coupons are canceled and returned to the issuing county.

As in the case of lateral road funds distribution, no efficiency problems were observed in the procedures used to carry out the agency's paying agent function. Work flowed smoothly and without the development of any significant backlog. These observations were generally supported with information obtained through the questionnaire mentioned previously. Ninety-eight of the 110 counties answering the question concerning paying agent efficiency indicated that BCDRI paying agent services had been efficient and timely since September 1975.

Controls on the Flow and Use of Funds

In determining whether funds have been used efficiently and properly, it is necessary to look at Board controls over: 1) funds entrusted to its care and 2) lateral road fund grants to the counties. With regard to the first of these, the BCDRI's accounting system provides a primary means of monitoring agency handling of funds. Conversations with personnel from the State Auditor's Office indicated that no accounting problems had been encountered in the most recent audit of the agency. This audit, covering fiscal years 1975 and 1976, revealed that accounting records and internal fiscal controls were satisfactory. Additionally, no management letters had been issued to the BCDRI during this two-year period.

With respect to county use of state lateral road grants, the counties' annual expenditure reports serve as a primary means of monitoring local expenditures of lateral road funds. As indicated previously, these reports are checked for completeness and arithmetical accuracy. No further steps are taken to verify that amounts have been accounted for properly and audited by the county.

This lack of verification suggests that this monitoring system should be strengthened. It should be emphasized that conversations with agency staff and a review of recent Board correspondence gave no indication that funds had been misallocated. However, a stronger monitoring system would serve to reduce any potential in that direction.

Efficiency of the Agency's Method of Financing

The BCDRI has historically received all funds for its programs and administration from the County and Road District Highway Fund (Fund 57). This fund is credited annually with $7.3 million for county road distribution and any additional amounts necessary to pay the state's portion of principal and interest on eligible bond issues. Additionally, statutes require that depository interest earned on amounts in Fund 57 accrue back to the fund due to its constitutional status (Article 8, Section 7-a of the Texas Constitution).

In examining the efficiency of the flow of money to and from this fund, it was noted that excess revenues over expenditures increased from $91,819 in fiscal 1975 to $211,578 in fiscal 1976. In fiscal year 1977, excess revenues increased again to a level of $249,364.

These increases can be traced to the staffing history of the BCDRI. Prior to fiscal 1976, the Board's functions were carried out by its own staff. The administrative costs associated with this staff were borne primarily from the interest

accruing to Fund 57 since other revenues deposited in that fund were earmarked for distribution to the counties. In fiscal 1976 all staff work of the Board was transferred to the Treasury Department and absorbed by existing personnel in that agency. This transfer thus eliminated all administrative drain on the interest accruing to the fund.

Given the continuation of the staffing and funding situation existing in 1976-77, it is clear that interest will accumulate unused in Fund 57. Estimates showing the amount of interest being added to the fund in each of the next 10 years follow:

Estimated Depository Interest
Accruing to Fund 57

| Year | Estimated Interest on Deposits | Year | Estimated Interest on Deposits |
|---|---|---|---|
| 1978 | $ 265,800 | 1983 | $ 275,200 |
| 1979 | 265,800 | 1984 | 285,500 |
| 1980 | 265,800 | 1985 | 285,500 |
| 1981 | 275,200 | 1986 | 285,500 |
| 1982 | 275,200 | 1987 | 285,500 |
| | | Total | $ 2,765,000 |

The accumulation of these excess revenues in Fund 57 does not provide an efficient use of state dollars. These funds could be made available for appropriation to other agencies, thereby effectively increasing revenues on hand for budgetary use.

## Criterion 2

> An identification of the objectives intended for the agency or advisory committee and the problem or need which the agency or advisory committee was intended to address, the extent to which the objectives have been achieved and any activities of the agency in addition to those granted by statute and the authority for these activities.

The review under this criterion centered on the needs and objectives which the agency was created to meet and the extent to which these needs and objectives have been satisfied. Additionally, basic features of agency programs are reviewed from the standpoint of their continuing relevance today. In making this review, viewpoints were sought from agency officials and data were obtained from the agency as well as other available information sources.

Over time, the needs and objectives to be addressed by the agency have been expressed in their three major areas of operation: 1) repayment of eligible bonded indebtedness; 2) distribution of lateral road funds; and 3) serving as paying agent for certain county obligations. Each of these areas is discussed below.

### Repayment of Eligible Bonded Indebtedness

As outlined in the background section, the 1932 creation of the BCDRI was stimulated by legislative recognition of the need to repay Texas' financially troubled counties for their fiscal contributions to the state's highway system. The Board's objective was to handle the administrative responsibilities associated with this repayment process.

As noted previously, final payment of the state's share of eligible county indebtedness was made in fiscal year 1977. With this last payment, the need recognized by the 1932 legislature had been fully met and the agency's reimbursement objective accomplished.

## Distribution of Lateral Road Funds

In reviewing the lateral road funds program from the standpoint of needs and objectives, it is first useful to examine the reasons underlying creation of this operation. After this overview, essential features of the operation will be examined. These features include: 1) the statutory allocation limit of $7.3 million annually and 2) the formula used to distribute this amount to the counties.

Creation of the Lateral Road Funds Program. As set forth in the background material, gasoline tax revenue's accruing to the Board's County and Road District Highway Fund began to exceed the agency's bond retirement needs in 1938. The 1939 legislature quickly put these excess revenues to work by establishing a BCDRI grant program to aid counties in the construction and maintenance of county roads.

The basic rationale underlying creation of this program can be found in its authorizing legislation. These statutes indicate that county roads "have been and are and will continue to be beneficial to the State of Texas at large, and have contributed to the general welfare, settlement, and development of the entire state." The legislature went on to point out that, since county roads benefited the state as a whole, the state had a "moral responsibility" to help relieve the counties' heavy road burden.

As shown previously, the BCDRI continues to administer this grant program today. In looking at the current relevance of the program's philosophical basis, conversations with the Texas Department of Highways and Public Transportation indicated that county road networks continue to be of state-wide benefit. These roads serve as important "feeder" routes to the state highway system. This importance is underscored by the statistics that, of the 255,981 total road miles in Texas as of 1975, 136,706 (or 53 percent) were supported by county governments. The continuing benefit of county roads to the state as a whole leads to the

conclusion that the original rationale for a state grant program could still be used today.

Statutory Allocation for County Roads. Since 1951, the annual amount of state lateral road funds distributed to counties has been fixed at $7.3 million. In reviewing the basis for this amount, it is necessary to examine: 1) the method by which the $7.3 million was determined and 2) the overall context associated with the collection and use of this portion of the gasoline tax.

The establishment of the $7.3 million evolved from a historical allocation pattern begun with creation of the program. From its creation through 1951, total amounts to be allocated to counties were dependent on available surplus funds remaining in the County and Road District Highway Fund each year. In turn, these surplus amounts were primarily dependent on gasoline tax revenues accruing to the fund and bond retirement expenditures made from the fund. In 1951, surplus revenues available to the county grant program totalled $7.3 million. Using the most recent figure available as a point of reference, the 1951 legislature fixed $7.3 million as an allocation limit for future years.

From the foregoing, it is seen that the $7.3 million level was derived from an allocation pattern that varied arbitrarily according to surplus funds available. In this same sense, the $7.3 million figure was arbitrarily established. However, while the number itself is arbitrary, this funding level takes on additional meaning when considered as part of a larger design in the use of gasoline tax revenues dedicated historically to BCDRI operations.

Throughout its existence, up to one quarter of the state gasoline tax has been available to fund the operations of the BCDRI. If the full amount of this tax is not needed by the agency, state statutes since 1941 require the transfer of some portion of the surplus revenues to the Highway Department. From 1947 on, the law has specified that revenues accruing to the Department from this funding source be

spent on the state's farm-to-market road system.

From the paragraph above, it is apparent that a "closed" allocation system exists with respect to the division of the one-quarter gasoline tax. Revenues from the tax must be spent either on BCDRI operations or on the farm-to-market road network.

By setting up this system, the legislature insured that a fixed one-quarter portion of the gasoline tax would always be available to assist counties in their transportation needs. Funds not allocated directly to the counties through the bond retirement and lateral road grant programs of the Board would provide assistance for local transportation systems through the farm-to-market program. This program eases the financial burden on county governments through the process of converting local roads to state-maintained highways.

When viewed as part of the closed revenue context described above, it is possible to explain the 1951 establishment of the fixed $7.3 million grant amount in terms of both intent and impact. With regard to intent, it will be recalled that, for several years prior to 1952, surplus revenues available from the Board's one-quarter portion of the gasoline tax were split evenly between the agency's lateral road program and the Highway Department's farm road effort. Through these years, total surplus funds available were increasing. This increase can be seen through the growth of lateral road funding during that period (see tabular information in background material).

By freezing the growth of the lateral road program at its 1951 level of $7.3 million, the legislature created a situation in which future increases in the "surplus" from the gasoline tax would flow only to the farm-to-market system. Thus, the funding priority of the system was increased relative to the lateral road program. Such action was taken to provide additional funds for the expansion of the farm-to-market network.

In looking at the fiscal impact of the legislature's 1951 decision, it is seen that substantial dollar amounts are associated with the change in funding priorities. Since 1951, counties have received approximately $190 million through the annual distribution of the $7.3 million lateral road fund; on the other hand, the farm-to-market road program has been allocated some $1.2 billion from surplus gasoline tax revenues not used by the BCDRI. If the law had not been amended in 1951 to establish the $7.3 million grant limit, the farm-to-market system would not have received some $500 million to date.

In terms of county impact, the $1.2 billion in excess revenues flowing to the farm-to-market program since 1951 have contributed to easing the local road burden. Throughout this period, county roads have been steadily absorbed into the farm road network, thereby reducing mileage to be maintained by the county. This relationship between the county and state systems is reflected in the following historical data:

Trends in

County Road and State Farm Road Mileage

| Year | County Road Mileage | Farm-to-Market Road Mileage |
|---|---|---|
| 1955 | 149,903 | 23,209 |
| 1960 | 140,848 | 30,043 |
| 1965 | 139,251 | 34,056 |
| 1970 | 137,480 | 36,565 |
| 1975 | 136,706 | 37,790 |

As can be seen, county road mileage has been decreasing while the state's farm road mileage has been following an upward trend from 1955 through 1975.

Formula for Grant Distribution. The present formula for distributing the $7.3 million in lateral road funds to the counties was adopted in 1947. This formula flows funds two-tenths on the basis of county area, four-tenths according to rural population, and on the final four-tenths on county road mileage.

It should be noted that the three basic factors of area, population, and mileage used in the lateral road formula have received wide use and acceptance in road allocation formulas for many years. Since 1917, a large portion of federal funds flowing to the states have been allocated through use of these primary formula factors. Additionally, the Texas Department of Highways and Public Transportation uses formulas based on area, mileage, and population statistics to allocate large percentages of state highway funds to its districts.

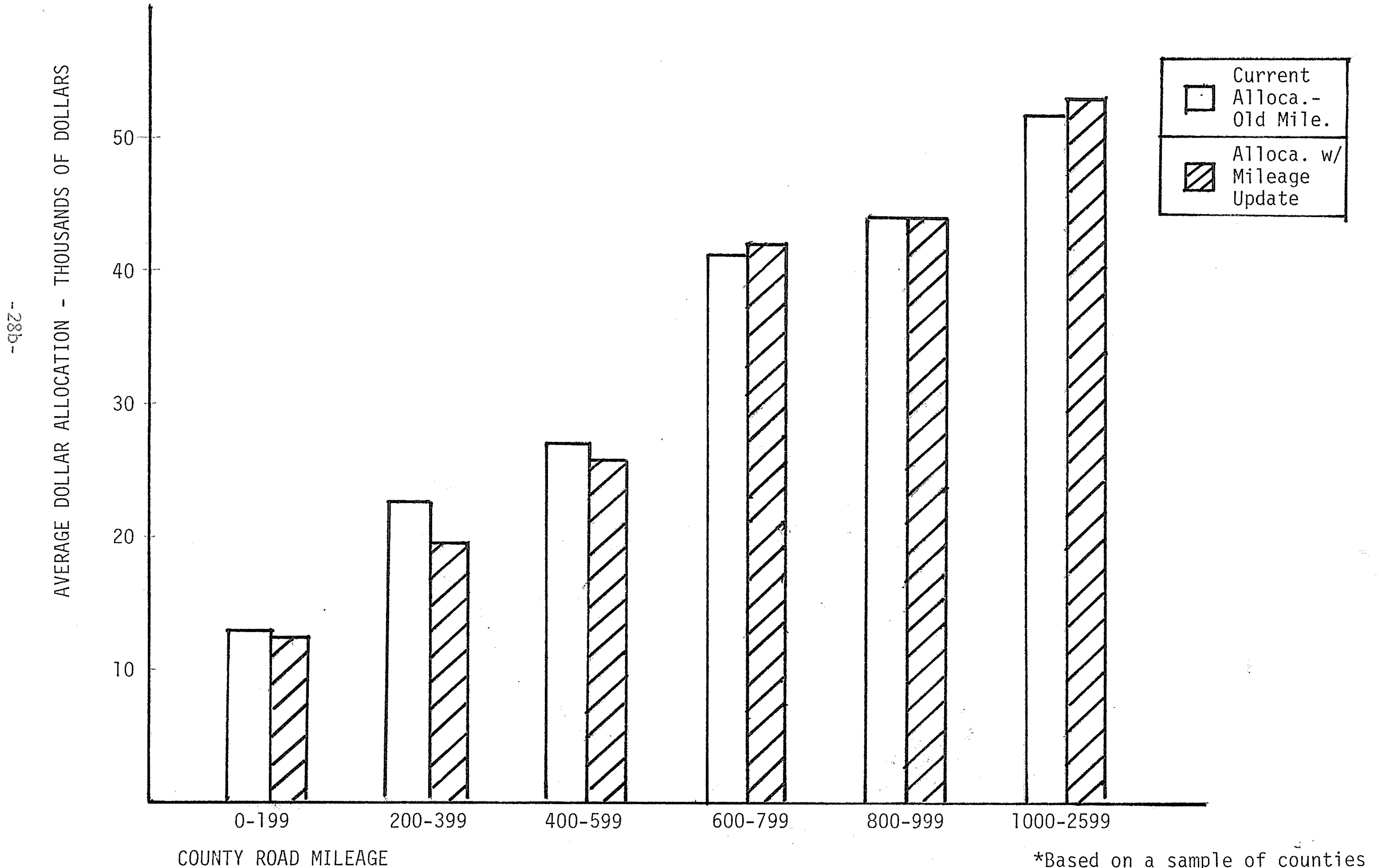
Due to the wide acceptance of these three factors, it was assumed that their use in the lateral road formula was well founded. After making this assumption, it was then possible to look at more specific details in the formula's construction. This review centered on: 1) timeliness of data, 2) type of data used in each factor, and 3) weights given the factors.

In these three areas, different approaches can be found in other formulas. The most common of these approaches were tried in these areas to determine their impact on the distribution of the lateral road funds. These options are listed and described below.

1. Timeliness of Data. While other formulas of this type often use updated mileage figures, the Texas formula uses county road mileage as of January 1, 1939. On that date, there were 166,350 miles of county roads in the state. Today, county road mileage has decreased to approximately 136,500 miles.

   In updating the formula on the basis of current county miles, there appears to be no significant change in the pattern of allocation to the counties. Bar Graph 1 on the following page indicates that the funds that would be allocated through an updated mileage figure is virtually the same as allocations made under the old mileage statistics.

BAR GRAPH 1
MILEAGE UPDATE OPTION*



To demonstrate this point further, it is seen that the 20 Texas counties with smallest county road mileage were allocated an average of $11,494 in 1976 under old mileage figures. Using updated mileage, these 20 counties would receive an average allocation of $10,829. By comparison, the 20 counties with the greatest county mileages received an average of $60,118 during 1977. The updated mileage figure for these counties would be $61,358.

2. Type of Data Used. An examination of the history of the lateral road formula shows that general instead of rural population data were used in the population factor at one time. If the current allocation formula were modified on that basis, a significant change in the pattern of allocation to the counties would result. This change can be seen in Bar Graph 2 on the following page.

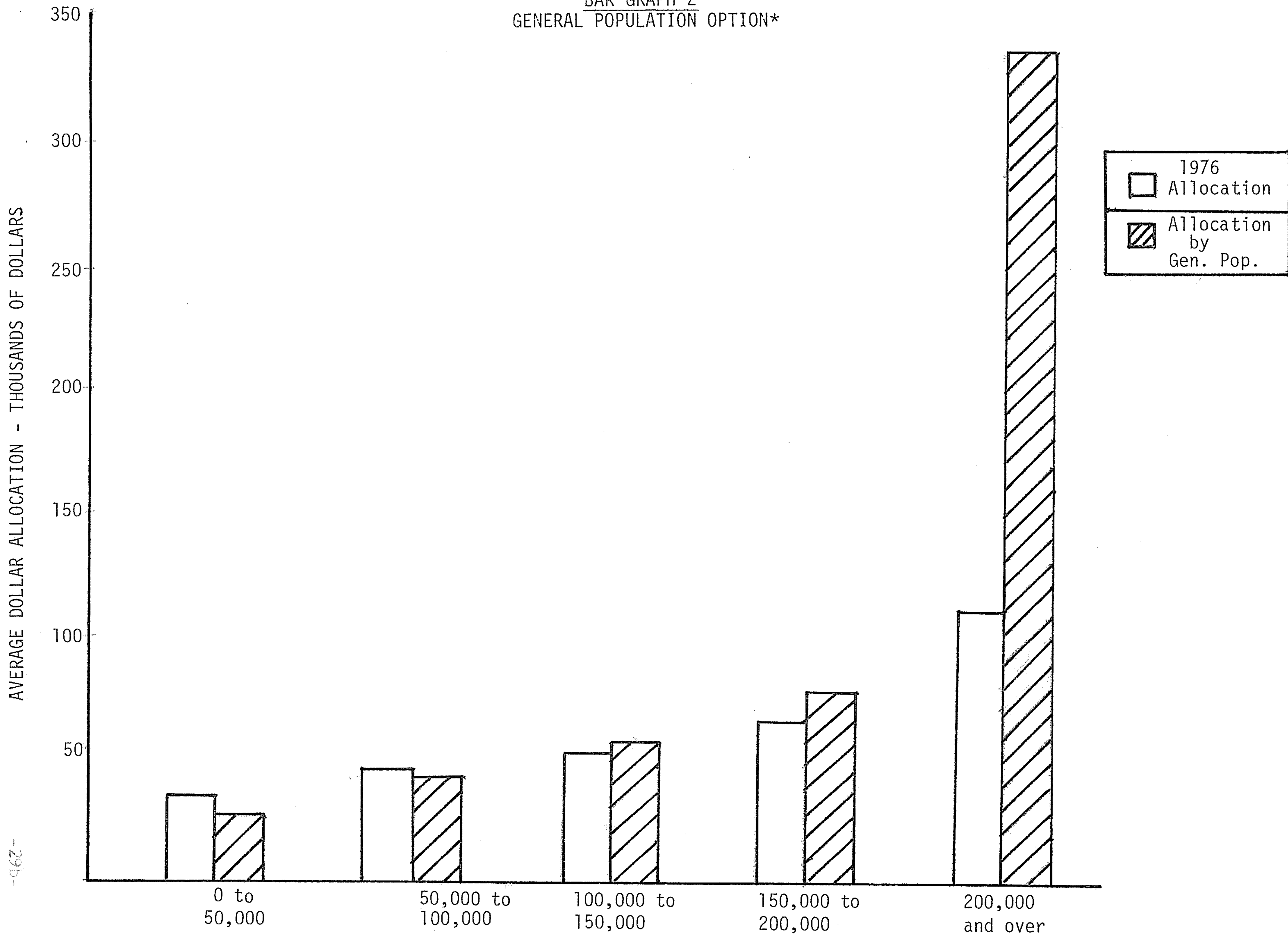
   As seen in this graph, counties with large urban populations would benefit significantly from the use of general population data in the formula. Counties with small populations would tend to receive reduced amounts from the formula.

   To illustrate this pattern, the 20 counties in Texas with the largest general population received an average allocation of $55,961 during 1976. If the formula were modified to incorporate general population figures, these same counties would have received an average allocation of $119,506 during that year. On the other hand, the 20 counties with the smallest general population received an average allocation of $14,972 in 1976. Using the general population figure in the formula, the average allocation to these counties would have decreased to $13,167.

3. Factor Weights. The lateral road formula is weighted two-tenths on area, four-tenths on population, and four-tenths on mileage. In contrast, major federal and state formulas of a similar nature weight the three factors evenly.

   If the factors in the lateral road formula were weighted to receive equal emphasis, the primary effect would be to increase allocations to counties with relatively large areas. Since the largest counties are found in the western half of the state, benefits from such a change would be seen most prominently in West Texas counties.

   To give an idea of the relative change that would occur through the adoption of equal weights, the 15 counties with the greatest area would receive an average increase of $6,825 in their allocation. In comparison, the 15 counties covering the smallest area would receive an average reduction of $3,134 in their allocation. Counties falling between these two extremes in area could be expected to receive approximately the same funding level as under the present formula weights.


BAR GRAPH 2
GENERAL POPULATION OPTION*
AVERAGE DOLLAR ALLOCATION - THOUSANDS OF DOLLARS
350
300
250
200
150
100
50
1976 Allocation
Allocation by Gen. Pop.
0 to 50,000
50,000 to 100,000
100,000 to 150,000
150,000 to 200,000
200,000 and over
GENERAL POPULATION
*Based on a sample of counties

Summary of Lateral Road Grant Program. The review of material under this criterion indicates that while the current allocations of $7.3 million to the lateral road account is an arbitrary amount, the underlying basis for its determination supports a shift in the methods chosen by the state to support local transportation needs. This shift in focus, under which the state began to shape the county road system through development of the farm-to-market network, has continuing relevance today and assures an expanding revenue source for its continuation.

The factors used in the formula for distribution of the $7.3 million do not differ markedly from those used by the state and federal government in the general allocation of transportation funds. Changes to the factors, except in the instance of rural population, would produce little overall change.

Paying Agent Services of the BCDRI

Throughout its history, the BCDRI has acted as paying agent on certain county bond issues as a service to the counties. Work involved in carrying out this service has traditionally been shared between personnel of the Board and the Treasury Department. This connection can be understood, given the Treasury's statutory designation in 1939 as the state's fiscal agent for any political subdivision choosing to use its services (Art. 4379b, V.A.C.S.).

While this close connection exists, an examination of the essential features of the BCDRI paying agent operation indicates a major difference in the two paying agent services. In handling county bond issues, the Board has never charged the issuer a service fee. On the other hand, since 1939, the Treasury has been statutorily mandated to collect "a commission of one-eighth of one percent on interest and one-twentieth of one percent on principal" from any political subdivision using the Department as a fiscal agent.

The above paragraph indicates that the Treasury Department operates under a long-standing legislative mandate to collect a fiscal agent commission from

counties or any other political subdivision using its services. Given this state policy and the similarity in paying agency services performed by the BCDRI and the Treasury, it would appear appropriate for this service charge to be applied to county bond issues traditionally the responsibility of the Board. Establishment of this charge would provide both a uniform policy and additional revenues for the state.

## Criterion 4

> The extent to which the jurisdiction of the agency and the programs administered by the agency overlap or duplicate those of other agencies and the extent to which the programs administered by the agency can be consolidated with the programs of other state agencies.

The review of this criterion was directed at evaluating the extent to which the functions of the agency could be performed by other agencies. The existence of agencies with similar functions was explored and any overlap in carrying out these functions was examined. This information was collected through discussions with Board members and agency personnel, review of applicable statutes, and examination of agency minutes.

In looking at possible consolidation of functions, the operations of the BCDRI can be divided in terms of 1) Board activities and 2) staff responsibilities. Each of these areas is considered separately below.

### Activities of the Three-Member Board

The BCDRI is headed by a three-member statutory Board composed of the State Treasurer, State Comptroller and the State Highway Engineer. Throughout the earlier part of its history, this Board had substantial decision making responsibilities centered primarily around the repayment of eligible bonded indebtedness to the counties. In this regard, the three-member body met several times a year to decide on or arbitrate questions concerning the actual amount of eligible debt incurred by the counties.

As the eligible debt function of the agency became well established and standardized in time, the broad policy making role of the body began to diminish. As this trend progressed, tasks remaining to the Board began to be primarily

administrative or mechanical in nature. Such tasks required only brief and infrequent attention by Board members.

This later nature of the Board's activity is seen in the frequency and purpose of its meetings since 1960. In six of these years, the Board met twice annually. Only one meeting was convened in all other years but 1976 and 1977. In these last two years, no formal meeting was held. Throughout this period, the Board's actions centered almost exclusviely on: 1) staffing decisions; 2) certification of amounts needed for retirement of eligible debt; and 3) authorization for the disbursement of lateral road funds.

Today, only this third area of activity remains as an ongoing Board responsibility. With regard to the area of staffing, it will be recalled that the Governor vetoed all administrative appropriations for the agency in 1975, thereby eliminating all responsibilities of the Board for personnel administration. In the area of debt retirement, any need for Board attention was ended in fiscal 1977 with the termination of the bond repayment operation.

From the above, it is apparent that the three-member Board of the agency is left only with the mechanical task of authorizing the disbursements of the $7.3 million in annual county road funds. It would appear that this routine task could be consolidated with the responsibilities of one administrative official in any of the three agencies represented on the three-member Board.

Staff Responsibilities

As was pointed out previously, prior to 1976 agency functions were carried out by the Board's own staff. However, existence of this separate staff ended in that year as a result of the Governor's veto of the agency's administrative appropriations. Arrangements were then made for existing personnel at the Treasury

Department to carry on the day-to-day staffing requirements of the BCDRI.

From the above, it is seen that BCDRI staff functions were consolidated with those of the Treasury Department in fiscal 1976. Thus, no further consideration of staff consolidation need be given.

# CONCLUSIONS

The material presented in this report has shown that the creation of the Board of County and District Road Indebtedness was integrally tied to the development of the Texas highway system. Prior to the Board's 1932 establishment, the burden for financing road construction and maintenance in the state rested heavily on county governments. This situation began to change, however, with the state's 1917 development of a comprehensive plan for the Texas highway network.

By 1932, the legislature had transferred all responsibility for the construction and maintenance of this system to the state. In taking this action, it was decided that Texas' financially strapped counties should be reimbursed for their expenditures on roads that had been or were to be designated as part of the state highway system. Thus, the 1932 legislature created the BCDRI to administer the repayment of locally incurred state highway debt.

While the BCDRI was established to carry out this reimbursement function, other program responsibilities have also been delegated to the agency. Early in its history, the Board began to serve as a paying agent for various county and road district bond issues, at the request of the issuer. Additionally, the 1939 legislature initiated a county grant program to be administered by the Board. Through this grant program, certain "surplus" funds of the BCDRI were distributed to Texas' 254 counties to assist in the construction and improvement of county lateral roads (defined as those roads not part of the state highway system). These surplus funds were available since revenues generated from the Board's one-quarter portion of the state gasoline tax exceeded funding needs for the repayment of locally-incurred state highway debt.

Through the review of these functions of the Board, it was seen that the operation to reimburse counties for eligible highway debt ended in fiscal year 1977

with the last payment for all assumed obligations. This reimbursement goal of the state was attained at a cost of approximately $200 million in state funds. While the Board's repayment function no longer exists, the lateral road grant program of the agency still continues today. The present features of this program were set by the 1951 legislature. These lawmakers established provisions requiring that a total state grant amount of $7.3 million be distributed annually to Texas counties through the lateral road allocation formula.

In examining the basis for the county road grant program, a principal rationale underlying its creation can be seen in its authorizing legislation. These statutes indicate that county roads "have been and will continue to be beneficial to the State of Texas at large, and have contributed to the general welfare, settlement, and development of the entire state." The legislation further affirms that, since these roads are of statewide benefit, the state has a responsibility to help relieve the counties' road burden. Today, the county road system continues to benefit the state as a whole. As a result, the rationale expressed by the 1939 legislature has continuing relevance.

It should be noted that the current financing and formula features adopted under this rationale also continue to hold relevance today. The establishment of a fixed allocation level for the lateral road program served the dual purpose of: 1) providing an important new source of funds for the state's farm-to-market road priority; and 2) helping to ease the burden on county transportation systems through state assumption of county roads. Furthermore, the formula used to allocate the $7.3 million among counties bears a reasonable relationship to other formulas for road fund distribution used by both the federal and state governments. No significant benefits can be seen in making formula modifications.

From the foregoing, it can be concluded that the functions currently performed by the BCDRI should be continued:

If the legislature determines that the functions of the Board of County and District Road Indebtedness should continue, organizational and operational changes outlined below should be considered to increase the efficiency and effectiveness with which these functions are carried out:

THE REMAINING FUNCTIONS OF THE BCDRI COULD BE CONSOLIDATED WITH THOSE OF THE TREASURY DEPARTMENT.

This conclusion stems primarily from information presented in Criterion 4. In that criterion, it was seen that all BCDRI staff functions for the remaining paying agent and lateral road grant operations were transferred to the Treasury Department in 1976. This transfer resulted from the Governor's 1975 veto of all administrative appropriations for the agency's own separate staff. Additionally, due to the 1977 termination of the bond retirement operation, the only recurring task left the three-member Board is the mechanical duty of authorizing the disbursement of the $7.3 million in annual county road funds. Performance of this routine administrative task does not require the attention of the Board.

Given the Treasury Department's assumption of BCDRI staff responsibilities and the routine administrative duty of the agency's policy body, it appears reasonable to suggest the consolidation of all remaining programs and duties within the Office of the Treasurer. Such consolidation can be accomplished at no expense to the state's taxpayers and would have the beneficial effect of streamlining Texas' statutes and reducing areas of overlapping program responsibilities in the state.

Regardless of whether the BCDRI is eliminated through program consolidation, various other operational changes should be considered if the functions of the agency are to be carried out in a more efficient manner. These changes are outlined below.

DEPOSITORY INTEREST ACCUMULATING IN THE COUNTY AND ROAD DISTRICT HIGHWAY FUND COULD BE APPROPRIATED TO THE TREASURY DEPARTMENT, THEREBY REDUCING THE AMOUNTS REQUIRED BY THAT AGENCY OUT OF THE GENERAL REVENUE FUND.

In Criterion 1, it was shown that the BCDRI has historically received all funds for its programs and administration from the County and Road District Highway Fund (Fund 57). Statutes require that depository interest earned on amounts in Fund 57 accrue back to the fund.

In the recent past, depository interest was used by the Board to support the operations of its own separate staff. Therefore, interest in the fund began to accumulate rapidly when agency staffing responsibilities were absorbed by existing personnel of the Treasury Department in fiscal year 1976. Estimates show that unused depository interest will reach a level of some $2.7 million in the next ten years if the staffing and funding situation existing in 1976 and 1977 continues.

The accumulation of these excess revenues represents an inefficiency in the state's budgetary process. These funds could be used to free up a like amount of General Revenue funds.

Currently, all appropriations for BCDRI operations are handled under the Treasury Department in the Appropriations Act. The interest dollars building in Fund 57 could be appropriated from that fund to finance Treasury operations should the function be carried out there and the current General Revenue appropriation to the Treasury can be reduced by a like amount. This action would free up General Revenue funds for use in other programs of the state.

THE ANNUAL REPORT SUBMITTED BY THE COUNTIES SHOWING COUNTY EXPENDITURES OF LATERAL ROAD FUNDS SHOULD BE SIGNED BY THE COUNTY AUDITOR.

The review in Criterion 1 showed that counties are required to make annual expenditure reports to the state concerning the use of their lateral road funds. These reports serve as the primary means of monitoring local expenditures of such funds. County reports are checked for completeness and arithmetical accuracy; however, no further steps are taken to verify that amounts have been accounted for properly and audited by the county.

While examination of recent agency records gave no indication regarding misallocation of funds, the lack of any state audit verification suggests that the reporting system could be strengthened.

To help insure that some audit consideration has been given the local expenditure of lateral road funds, the county auditor should be required to sign the expenditure report. Such a requirement would provide a greater degree of monitoring control through a simple and inexpensive procedure.

A PAYING AGENT COMMISSION COULD BE CHARGED ON THOSE COUNTY AND ROAD DISTRICT BOND ISSUES HANDLED BY THE BCDRI. THE RATES CHARGED SHOULD BE THE SAME AS THOSE SET STATUTORILY FOR THE TREASURY.

Throughout its history, the BCDRI has acted as paying agent on certain county bond issues as a service to the counties. Work involved in this function has traditionally been shared between staff of the Board and the Treasury Department. This connection can be understood in light of the Treasury's 1939 designation as a fiscal agent for any political subdivision choosing to use its services (Article 4379b, V.A.C.S.).

While the services and tasks associated with the paying agent function of both these agencies are the same, an essential difference exists between the policies followed in the two operations. Traditionally, the BCDRI makes no service charge on the county and road bonds it handles. On the other hand, the Treasury Department is mandated by statute to charge a commission of one-eighth of one percent on interest and one-twentieth of one percent on principal for its services.

Given this long-standing state policy established for the Treasury, it appears appropriate that the same paying agent commission levied by the Department be charged on bonds now handled by the BCDRI. Adoption of this policy would generate additional funds for the state and provide a uniform approach to the paying agent function.