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**BUDGETING IN TEXAS COUNTIES, 1931-1940**

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Division of Farm and Ranch Economics



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The uniform budget law applying to Texas counties was passed in 1931. The law requires that each county, with the exception of Harris County which is governed by a special statute, prepare a budget annually. A copy of the budget must be filed with the county clerk, and a second copy must be filed with the state comptroller of public accounts.

Judging by the number of budgets filed with the state comptroller, 82 per cent of the counties have prepared budgets annually. An analysis of these budgets indicates that many differences of opinion still exist as to the proper content and arrangement. This fact suggests that the use of the budgets should increase in value as these differences of opinion are worked out and the officials gain additional confidence in the possibilities. As a means of assisting in arriving at a common understanding, one section of this bulletin is devoted to a description of the essentials of a good county budget.

Despite the fact that the budget documents have many deficiencies, the counties are making a good budgeting record in terms of living within their available incomes. An analysis of 231 current funds for the budget year 1935 reveals that 83 per cent of these funds lived within their incomes, that is balances plus receipts. An analysis of 100 current funds in 26 of the 60 counties for the budget year 1939 reveals that the results obtained in 1935 were continued and improved upon. In the case of these 26 counties, the percentage of the funds which lived within their incomes increased from 84 to 92 between 1935 and 1939. These results indicate that officials are making real progress in applying budgeting principles to government.

Based on this study the following suggestions are made for the improvement of budgeting:

- (1) State and local officials should continue their efforts to arrive at a common understanding of the law, the forms and the terminology employed in county budgeting. This should make budgeting procedures more understandable and helpful to officials and the public;

- (2) A manual of instructions should be prepared in order to demonstrate the manner of estimating and presenting the information essential to a budget;

- (3) A field force composed of trained and experienced men should be provided in the state comptroller's office. This field force should be charged with the duty of determining the budgeting procedures which are producing the best results and the further duty of making these procedures available to all the counties of the state. In carrying out these duties, the field force should work closely with the various associations of county officers, particularly the county judges and commissioners, the county auditors, and the county clerks.

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# BUDGETING IN TEXAS COUNTIES, 1931-1940

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In 1935 the expenditures of the 254 counties in Texas amounted to \$56,847,000. This amount includes the \$6,983,000 of gasoline taxes used to service county bonds outstanding on state highway construction. The management of so large a sum of money constitutes an important problem of government. If each of the counties spends its proportionate part of this sum wisely, a great deal more can be accomplished than if these resources are carelessly handled. The management of governmental affairs in an economical and efficient manner requires that some form of budgeting be employed. A budget is ordinarily defined as a financial plan covering some future period of time, ordinarily a year. In preparing a budget it is necessary to decide what services are to be provided and how these services are to be financed. These two aspects of budget preparation can hardly be separated, although the amount of expenditures necessarily determines the amount of taxes needed.

The term "budgeting" is generally defined as living within the available income. This is a good definition, but it covers only a portion of the budgeting process. For example, it would be possible under certain circumstances for a county to live within its income even though various services were carelessly or wastefully handled. This might happen when the number of services was limited and the revenue fairly large in comparison to the need. The same thing might occur in another way if the particular county experienced a rapid increase in its assessed valuations and, therefore, in the available revenue. In the latter case, the expanding valuation and revenue would allow a considerable expansion in services without necessitating much attention to operating economies.

The term "budgeting," interpreted in a broader sense, implies far more than merely living within the available income. In its broadest sense, budgeting involves a study of all phases of the governmental work with the purpose of determining the most economical and efficient means of financing all activities. It must be evident that if a particular service can be financed at less cost and without decreasing its efficiency, a saving is made. This saving can be used to finance other services, or it can be used to reduce the tax rate. The truth of the matter is that budgeting is a continuous process involving the application of all the known techniques of good management.

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<sup>1</sup>The author is indebted to many state and county officials for assistance throughout this study. Especial thanks are due P. L. Marquess, county auditor of Wharton County, for his help in reading and criticizing the manuscript.

### Purpose of Study

The purpose of this study is to examine the results which have been obtained by Texas counties under the uniform budget law passed in 1931. Many questions have arisen in connection with this law and many differences of opinion still exist concerning its exact interpretation. Despite these facts, it is admitted by virtually all concerned that the law will permit good budgeting if the officials care to make the effort.

The following points have been kept in mind: (1) The number of counties which have complied with the law by compiling the formal budget document; (2) the accuracy of the estimates from an accounting standpoint; (3) the content and arrangement of budgets; (4) the essentials of a good county budget; and (5) suggestions for improving the administration of county budgeting in Texas.

### Procedure

Information has been secured from official copies of budgets filed with the state comptroller, and from field audits made by accountants of the Highway Planning Survey. After obtaining accounting schedules in this way, a large number of county officials were interviewed. In these interviews every effort was made to ascertain the attitude of the various officials towards the budget law, to determine the results which have been obtained, and to examine the accounting and reporting procedures utilized.

The sample includes 60 counties, or approximately 23 per cent of the 254 counties in the State. A schedule of receipts and disbursements of each of the 60 counties was obtained directly from county accounts by the accountants of the Texas Highway Planning Survey. These accounting schedules were made available for this study of budgeting. Of the 60 counties, 51 had filed budgets, setting forth the anticipated receipts and expenditures for the calendar year 1935. In these 51 counties, the budgeted or estimated receipts and disbursements have been compared with the actual receipts and disbursements realized in 1935. In addition, schedules have been obtained on 26 of the 60 counties for the calendar year 1939.

The location of the 60 sample counties is shown in Figure 1. The characteristics of the 60 counties are shown in Table 1.

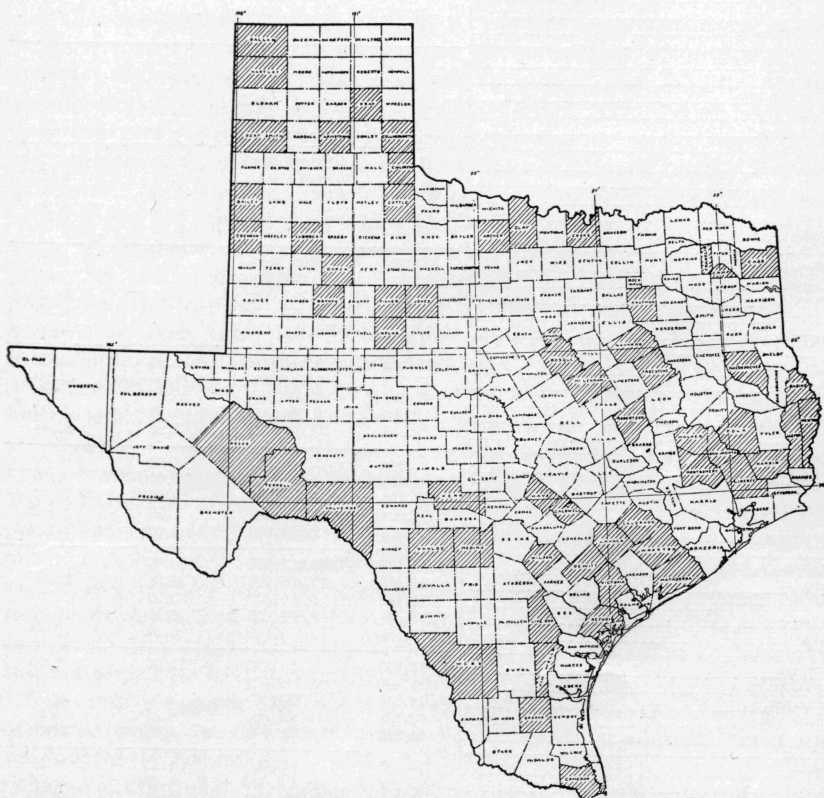


Figure 1. Location of 60 sample counties used in study of county budgeting, 1931-1940, indicated by shading.

**Table 1. Characteristics of 60 counties used in study (Arranged in the order of population—high to low, 1930)**

County	Population 1930	Assessed valuation 1934	Tax Levy per capita	Per cent of current tax levy delinquent
McLennan.....	98,682	\$60,783,000	\$ 3.94	18.07
Cameron.....	77,540	34,828,000	5.53	41.85
Navarro.....	60,507	21,403,000	3.41	13.00
Webb.....	42,128	19,237,000	4.18	41.76
Kaufman.....	40,905	14,674,000	4.17	18.60
Lubbock.....	39,104	21,816,000	2.89	25.00
Caldwell.....	31,397	12,718,000	1.62	13.31
Nacogdoches.....	31,290	12,715,000	4.16	36.30
Cass.....	30,080	6,175,000	1.78	35.20
Wharton.....	29,681	28,715,000	8.61	5.26
Lavaca.....	27,550	13,040,000	2.84	14.25
DeWitt.....	27,441	13,383,000	2.54	16.96
Robertson.....	27,240	12,128,000	3.29	39.00
Jones.....	24,233	12,505,000	2.68	20.00
Cooke.....	24,136	14,948,000	2.91	19.00
Freestone.....	22,589	10,951,000	5.13	29.00
Gray.....	22,090	24,189,000	10.73	9.00
Victoria.....	20,048	14,142,000	5.29	10.36
Liberty.....	19,868	16,568,000	14.17	24.00
Nolan.....	19,323	20,288,000	2.66	17.54
Colorado.....	19,129	12,216,000	4.60	14.00
Walker.....	18,528	5,560,000	4.95	32.00
Matagorda.....	17,678	21,992,000	15.68	10.70
Wilson.....	17,606	9,004,000	4.19	28.00
Polk.....	17,555	10,600,000	7.25	33.40
Jasper.....	17,064	7,740,000	2.99	20.00
Childress.....	16,044	7,967,000	5.66	31.00
Bosque.....	15,750	9,353,000	3.26	12.00
Val Verde.....	14,924	11,784,000	1.58	11.52
Hays.....	14,915	7,599,000	5.60	17.70
Montgomery.....	14,588	60,920,000	44.00	8.30
Clay.....	14,545	10,403,000	4.58	30.00
Collingsworth.....	14,461	6,709,000	3.99	28.19
Medina.....	13,989	9,569,000	6.16	21.00
Hardin.....	13,936	12,511,000	6.20	29.58
Fisher.....	13,563	8,217,000	11.35	27.00
Jim Wells.....	13,456	8,344,000	4.84	33.00
Uvalde.....	12,945	7,650,000	3.55	24.77
Newton.....	12,524	4,855,000	2.98	24.90
Sabine.....	11,998	3,113,000	4.15	32.80
Kerr.....	10,151	5,525,000	4.35	15.50
Camp.....	10,063	2,926,000	4.80	38.00
San Jacinto.....	9,711	3,684,000	9.67	40.90
Archer.....	9,684	11,578,000	14.12	48.00
Cottle.....	9,395	6,306,000	8.87	44.00
Live Oak.....	8,956	6,638,000	12.23	45.00
Franklin.....	8,494	2,247,000	5.69	36.00
Dallam.....	7,830	8,667,000	7.52	35.00
Pecos.....	7,812	47,219,000	45.32	6.00
Refugio.....	7,691	12,609,000	24.68	11.40
Deaf Smith.....	5,979	6,874,000	8.62	36.00
Brooks.....	5,901	4,298,000	4.61	18.00
Garza.....	5,586	3,806,000	4.77	20.00
Bailey.....	5,186	3,955,000	7.97	32.00
Armstrong.....	3,329	3,593,000	9.06	15.00
Somervell.....	3,016	1,367,000	5.98	44.00
Terrell.....	2,660	4,854,000	10.02	24.86
Hartley.....	2,185	4,190,000	14.77	27.00
Cochran.....	1,963	5,089,000	24.63	39.60
Borden.....	1,505	2,130,000	10.47	20.00



### Legal Provisions

The Uniform Budget Act which became effective August 21, 1931, required that the State and each local unit of government prepare an annual budget.<sup>2</sup> The one exception was Harris County which continued to operate under an earlier law applying only to counties having county auditors.

Under the uniform budget law as it applies to counties, the county judge is responsible for the preparation of the budget. The law further provides that the county judge may call upon the county auditor or the county clerk for any help which may be needed. The latter provision does not remove the responsibility from the county judge, but it does provide a method by which necessary aid and assistance can be secured. In practice, this situation has been worked out in a variety of ways. In many cases the county judge has passed the job on to the auditor or clerk. It is also true that in some counties the treasurer has assisted in preparing and administering the county budget. Still another common practice is to employ an independent auditor to make up the county budget. In such cases the preparation of the budget is often included in the price of the independent audit.

Following the preparation of the budget, and before the tax rate can be set, a public hearing must be held. This hearing must be preceded by a notice and a period during which the proposed budget may be inspected by any interested person. The budget which is adopted by the commissioners' court following the hearing must be followed "except that emergency expenditures, in case of grave public necessity, to meet unusual and unforeseen conditions which could not, by reasonably diligent thought and attention, have been included in the original budget, may from time to time be authorized by the court as amendments to the original budget." Any such emergency must be approved by the commissioners' court in the same manner as the original budget.

The budget year is the calendar year. This is according to a ruling of the Attorney General since the law itself did not specifically designate the months to be used.

The county judge is also responsible for the administration of the budget. But here again the duty has often been delegated. The county auditor is often the real budget authority in the 80 or more counties which have county auditors. In the remainder of the counties the observance of the budget does depend largely upon the county judge. These judges have insisted on keeping each county fund on a cash basis and have taken pains to see that the situation was fully explained to both the officials and the public. This is a courageous and forceful attitude which has resulted in improved budgeting in the counties affected. The

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<sup>2</sup>House Bill 768, acts 42nd Legislature, regular session.

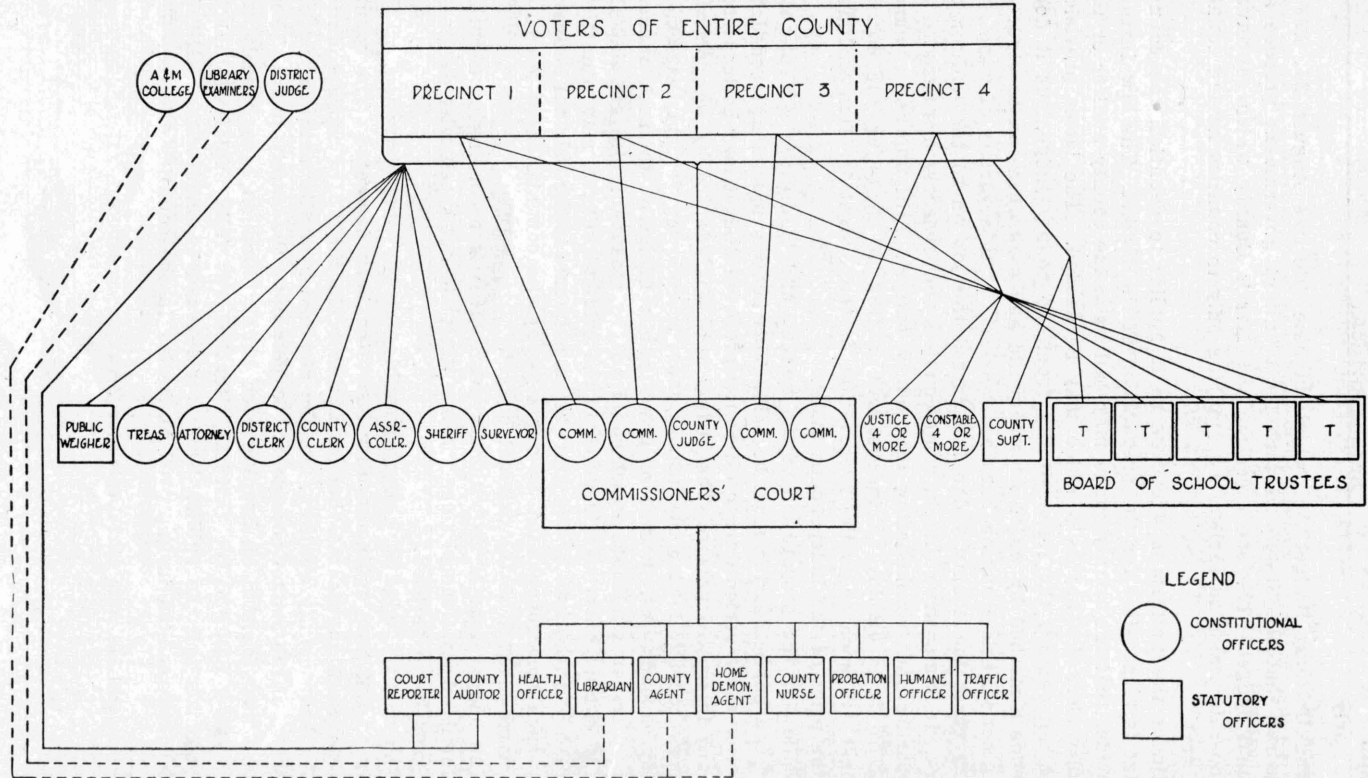


Figure 2. The organization of county government in Texas. As the only member of the commissioners' court elected at large, the county judge is logically the budget officer of the county.

position of the county judge in the organization of county government is clearly revealed by an examination of Figure 2. As the presiding officer of the commissioners' court, and the only member of that "governing board" who is elected at large, the county judge has a great deal of responsibility for the conduct of county government. Although the authority of the county judge does not match his responsibility, he is nevertheless in a position to exercise much control over county affairs.

### The Budget Form

The first standard budget form was prepared by the state comptroller of public accounts and the state auditor and efficiency expert. The second form was designed by the comptroller of public accounts about two years later. The latter form has been used by a majority of the counties, even though various objections have arisen from time to time. This form provides columns for the presentation of complete detail on the receipts and disbursements of the preceding, current, and budgeted years. The form further provides for a statement of outstanding debt, a statement of interest and sinking fund requirements, and a history of ad valorem tax collections over a period of years. From an accounting standpoint both receipts and expenditures are classified in sufficient detail to permit any break-down which may be desired.

It is true, however, that opinions have differed widely regarding the interpretation of the various items entering into the classification. This has meant that the standard classifications have been used differently from one county to another. This subject is discussed later under the heading "The Essentials of a Good County Budget," and an attempt is made to present a uniform interpretation of points which have not been agreed upon.

### Number of Budgets Prepared by Counties

Including the 1940 budget year, at least eight budgets should have been prepared by each of the 253 counties to which the law applies. The

**Table 2. Number of budgets filed with state comptroller by the 254 counties, 1935-1940**

Year	Number filed	Per cent
1935	221	87
1936	217	85
1937	179	70
1938	219	86
1939	194	76
1940	214	84
Average	207	82

law requires that copies of county budgets be filed with the comptroller of public accounts. Consequently, the most readily available indication of observance lies in the number of budgets filed as contrasted with the number of counties in the State. No record is available concerning the number filed during the two-year period 1933-1934. The comptroller's office is required to preserve the budgets for two years only. This fact plus the limited space available makes it inadvisable to maintain complete files. Table 2 shows the number of counties filing budgets for the last six years.

Judging by the six-year period 1935-1940, an average of 207, or 82 per cent of the counties filed budgets annually. One group of 139 counties filed budgets for each of the six years, and a second group of 104 counties filed budgets intermittently during this period. A third group of 11 counties filed no budgets at all during the six-year period. In view of the fact that the counties have been given little encouragement and assistance, the record must be considered a good one.

#### **Majority of County Funds Lived Within Income in 1935**

One of the best measures of the effectiveness of county budgeting is the degree to which counties lived within their income. This measure can be applied to all counties even though some of them did not prepare a budget for the year in question. The budgeting process, or a portion of it, may exist in the fact that both citizens and officials customarily regard personal and public expenditures from a conservative viewpoint. In counties where this attitude is widespread, an excellent job of budgeting will likely be accomplished. The chief reason a budget is prepared anywhere is to achieve the painstaking analysis and control of expenditures which may have been accomplished in some counties without preparing the budget document.

With these explanations in mind, let us examine the record of the 60 sample counties in order to determine how well they lived within their income in 1935. The term income means the total amount available to finance expenditures during the year. It, therefore, includes the balance on hand in the funds which were on a cash basis. In making this analysis, it is necessary to use the fund accounts instead of the county-wide accounts, for the use of county totals would conceal the results obtained in particular funds. It is also well to note that no interest and sinking funds are included. In every case the interest and sinking funds lived within their income in 1935. That is, their receipts and balances exceeded their payments.

Table 3 shows that 83.1 per cent of the current or operating funds in the 60 counties lived within their incomes in 1935. The remainder, or 16.9 per cent of the funds, spent more than was available during the same period. Of the four operating funds shown, the permanent improvement fund had the best record, but the jury fund was almost equally

**Table 3. Number and per cent of current funds living within available income, 1935**

Fund groups	Total No. of funds	Funds living within income	
		Number	Per cent
Jury.....	60	54	90.0
Road and bridge.....	60	48	80.0
General.....	60	44	73.3
Permanent improvement.....	51	46	90.2
Totals and per cent.....	231	192	83.1

good. The road and bridge fund had a considerably poorer record than either the jury or permanent improvement fund. The general fund group had the poorest record of all because only 73 per cent of the 60 general funds lived within the income available.

The foregoing statements do not reveal the entire situation, for some funds which lived within their income already had a deficit which had been created in prior years. In these cases, living within their income meant that the deficit was decreased during the year. Other funds which lived within their income decreased cash balances which had been accumulated in prior years.

Table 4 provides an analysis of the relative record made by the various county funds in terms of living within their available incomes. In 11.6 per cent of the funds, deficits existing on January 1 were reduced during the year. These funds are making progress towards a cash balance. In 7.8 per cent of the funds, a deficit existed at the beginning of the year but was eliminated during the year. This is progress of the best kind. Perhaps the most surprising result is that 42 per cent of the funds actually increased their cash balances, while only 21.6 per cent of the funds decreased their cash balances. These decreases in cash balances are perfectly legitimate in any budgeting system for there is no reason why

**Table 4. Comparison of 231 current funds in terms of living within available income, 1935**

Fund groups	Total number funds	Funds living within income				Funds exceeding income	
		Decreased deficits	Created cash balances	Increased cash balances	Decreased cash balances	Created deficits	Increased deficits
Jury.....	60	5	5	30	14	2	4
Road and bridge.....	60	10	5	23	10	2	10
General.....	60	8	7	17	12	2	14
Permanent Improvement.....	51	4	1	27	14	3	2
Total number.....	231	27	18	97	50	9	30
Per cent.....	100	11.6	7.8	42.0	21.6	3.9	13.0

excessive balances should be carried in any fund. But it goes without saying that the balances should not be eliminated entirely, for it is good policy to have some money available to cover unforeseen items. These items may not be emergencies but simply the ordinary run of small unpredictable expenditures which occur from year to year. A reasonable allowance for such items is good budgeting, and should be set up in the budget adopted.

On the other side of the picture, almost 4 per cent of the funds created deficits during the year. That is, they began with a cash balance but spent more than the balance plus receipts and ended the year with a deficit. It is also important that 13 per cent of the counties had a deficit at the beginning of the year and increased that deficit during the year. These two groups of funds amounting to 17 per cent of the total were farther from a cash basis at the end of the year than they were at the beginning.

In regard to the funds having deficits, several questions remain to be answered. These questions concern the number and seriousness of the deficits as well as the possibility of finally eliminating them. Considering the deficits in the 60 counties as one group, the situation in 1935 may be described as follows. At the beginning of the year, 75 of the 231 funds were on a deficit basis; during the year, 18 deficits were eliminated and nine deficits were created. Consequently, at December 31, the number of deficit funds was 66. This decrease in number is equal to 12 per cent of the funds affected. The 66 deficits existing on December 31 were distributed among 37 of the 60 counties in the following order: 17 counties had one fund deficit per county; 12 counties had two fund deficits per county; 7 counties had three fund deficits per county; and one county had four fund deficits.

The size of the deficit as compared with the annual receipts of the fund is a good measure of its seriousness. If the deficit is small as compared with the annual receipts, it can be retired in one or a few years. If the deficit is equal to a large percentage of the receipts of an average year, then several years will ordinarily be required to reach a cash basis. Certainly it is true that a fund which accumulates a deficit equal to one year's receipts is in a serious condition. The relation of the ending deficits to the annual receipts of the respective funds is shown in Table 5.

**Table 5. Relation of ending deficits to annual fund receipts, in per cent, 1935**

Fund groups	Total deficit funds	Per cent ending deficits were of receipts				
		0-25	26-50	51-75	76-100	101+
Jury.....	11	3	5	1	0	2
Road and Bridge.....	22	7	9	2	1	3
General.....	24	5	6	3	1	9
Permanent improvement.....	9	2	5	0	0	2
Total number funds.....	66	17	25	6	2	16
Per cent.....	100	26	38	9	3	24

Of these 66 funds, 17, or 26 per cent, had ending deficits amounting to 25 per cent or less of their 1935 receipts. At the other extreme, 24 per cent of the funds had ending deficits equal to 100 per cent or more of their 1935 receipts. Within the latter group, the most serious deficits are found in the road and bridge and general fund groups. The ending deficits of the three road and bridge funds in this classification were equal to 186, 179, and 116 per cent of the 1935 receipts of the respective funds. The ending deficits of the nine general funds in this classification were equal to 904, 497, 434, 419, 212, 170, 166, 158, and 135 per cent of the 1935 receipts of the respective funds. This indicates that the general fund group has the most deficits, and that the individual deficits are larger than the deficits in other fund groups.

The ability of the counties to keep the various funds on a cash basis, or to retire deficits which have been created is vitally affected by the available tax rate and the level of expenditures which each fund must support. For example, it is known that the jury fund in most counties does not require the full 15 cent rate which is allowed by the Constitution. The requirements of this fund are light and fairly stable from year to year. Likewise, the permanent improvement fund is restricted to a few uses and the 25 cent rate allowed by the Constitution is seldom needed in its entirety. On the other hand, it is well known that the general fund carries many different expenditures and that many counties have difficulty in living within the 25 cent rate which is the maximum allowed by the Constitution. Road and bridge fund expense is limited to that one purpose, but many counties have need for all the money they can collect, and in addition the fund is subject to emergency expenditures such as those occasioned by severe rains. The road and bridge rate is limited to 30 cents, 15 cents of which must be approved by popular vote.

The evidence indicates that the jury and permanent improvement fund deficits are probably due to failure to set a proper tax rate as expenditures fluctuate from year to year. On the other hand the normal load of expenditures in the road and bridge and the general funds plus the fact that both funds are subject to emergency expenditures means that deficits will inevitably be incurred in some years. The latter statement seems to be especially true of the general fund for while each fund is subject to recurring deficits, they are considerably more severe in the general fund.

#### **More Funds Lived Within Income in 1939 Than in 1935**

Because too much reliance cannot be placed on the record made in any one year, an effort has been made to study the situation at a later date. Schedules have been obtained on 26 counties of the sample group for the budget year 1939. In these 26 counties the deficit situation in 1935 was compared with that in 1939 in order to see if the trend of 1935 has been continued. This method of handling provides a five-year period for these 26 counties.

Table 6 indicates that the percentage of funds living within their income increased from 84 to 92 per cent during the five-year period 1935-1939. This improvement is reflected in each fund group with the exception of the permanent improvement. The general fund shows the most improvement, but this is partially due to the fact that it had the worst record at the beginning of the period.

**Table 6. Number of funds living within income in 1935 as compared with 1939 (100 current funds in 26 counties)**

Fund groups	Total number funds	Number of funds living within income	
		1935	1939
Jury.....	26	24	25
Road and bridge.....	26	21	22
General.....	26	19	25
Permanent improvement.....	22	20	20
Total and per cent.....	100	84	92

Here again it should be observed that some of the funds which lived within their income in 1939 had deficits which had been accumulated in prior years. In these cases "living within income" meant that the deficits were reduced or retired. Of the 67 funds which were on a cash basis at December 31, 1935, 65 were on a cash basis at December 31, 1939. Of the 17 funds in which deficits were reduced in 1935, deficits were eliminated in 10, deficits were reduced in four and deficits were increased in three funds before December 31, 1939. The three deficits created in 1935 were eliminated entirely before the end of 1939. Of the 13 funds in which deficits were increased, deficits were eliminated in four, deficits were reduced in six and deficits were increased in three funds.

It is also significant that the deficit funds in these 26 counties included several of those which had the most severe deficits in 1935. Measured in percentages of the 1939 receipts of the various funds these deficits were considerably less severe than at the end of 1935. This is due, in part, to a decrease in amount of deficit per fund, but it is due in larger degree to an increase in receipts in 1939 as compared with 1935.

On the whole, the counties made good records in 1935 and 1939 in terms of living within available income. This is especially significant when the difficulties of county finance are given proper consideration.

### Small Counties Have Most Fund Deficits

Judging by studies<sup>3</sup> which have been made in the past, it would be expected that the smaller counties having lower assessed valuations would be more apt to have deficits in their funds. The sample counties bear

<sup>3</sup>"Possible Savings Through Changes in Local Government," Texas Agricultural Experiment Station Bulletin No. 540, by H. C. Bradshaw and L. P. Gabbard.



out this conclusion. In the 29 counties having more than \$10,000,000 valuation there were 26 fund deficits in 14 counties. In the 31 counties having less than \$10,000,000 assessed valuation there were 40 fund deficits in 23 counties. In general, there seems to be no definite explanation for the presence or absence of deficits in the counties below \$10,000,000. The same is true of counties above \$10,000,000 assessed valuation. That is, the deficits, while less apt to exist in the larger counties, are fairly evenly distributed among each group above and below \$10,000,000 assessed valuation.

In dollars the three highest county-wide deficits were found in the four counties having the highest assessed valuations. (The county having the second highest assessed valuation had no deficit.) But when a unit of measurement, or a common denominator, is introduced, the situation is reversed. A computation of the county-wide deficit per million dollars of assessed valuation shows that the largest deficits were in the smallest counties. The county-wide deficit is the total of the fund deficits without regard to the cash balances which exist in other funds. This method of computation is used because each fund, under the law, is supposed to support itself and, therefore, balances in another fund are the property of that fund.

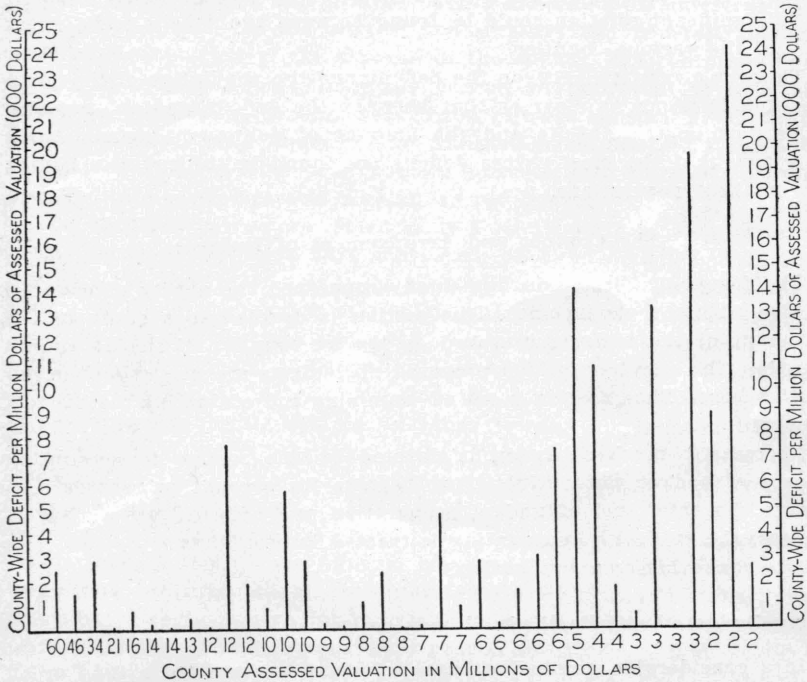


Figure 3. Relation between deficits and size of county as measured by assessed valuation, 1935. The deficits increased in number and in severity as the assessed valuation declined.

The significant break seems to occur around \$6,000,000. In fact seven of the ten highest county-wide deficits per million dollars valuation are found in counties having less than \$6,000,000 valuation. The other three deficits of this group are found in counties having valuations of seven, ten, and twelve million dollars, respectively. The relation between the deficits per million dollars of assessed valuation and the valuations of the counties is shown in Figure 3. It should be noted, however, that only the 37 counties which had deficit funds are shown in this figure.

The two groups of counties above and below 10 million dollars assessed valuation differed very little as regards the percentage of total receipts applied to deficit retirement. On the other hand, the smaller counties increased deficits which continued throughout the year by a larger percentage of receipts than did the larger counties. This is perhaps the only significant difference between the two groups.

There is a definite relation between the percentage of current taxes delinquent and the significance of the deficits. This is illustrated by the fact that the 10 counties having county-wide deficits in excess of \$4,000 per million dollars assessed valuation, each have delinquent taxes equal to 20 per cent or more of the current levy. In general, the number and the severity of fund deficits increases as the tax delinquency increases above 20 per cent.

No significant relation could be found between the deficits and the tax levy of the various counties.

There is a relation between the deficits and the population of the counties, but it is not as clear as that between the deficits and the assessed valuations or the deficits and the amount of delinquent taxes. Again it is true that the most severe deficits are found in the counties having the smallest populations.

### **The Content and Arrangement of Budgets**

The foregoing discussion has chiefly concerned the ability of counties to live within their income. This section is devoted to a study of the adequacy of the budgets prepared by the 51 counties of the 60 county sample. The counties which prepared no budgets are not under consideration here. The question is one of examining and evaluating the budgets prepared.

Necessarily much attention is devoted to this section to accounting phases of budget work. This must be true for accounting records constitute the chief tool of budget preparation and administration. Nevertheless, the subject of accounting is treated indirectly and the reader is left to make his own application.

### **Many Budgets Omit Particular Funds or Items**

In a considerable number of cases a budget has omitted a fund or an item of a fund. The term item refers to one of the four elements of a

fund; namely, opening balances, receipts, expenditures, and closing balances. These omissions were obtained by comparison of the 1935 budgets with the accounting schedules obtained from the county accounts in the same 51 counties. Table 7 shows these omissions in detail.

**Table 7. Funds or items omitted in the 51 county budgets of the 60-county sample, 1935**

Description of omission*	Total	Number of funds affected				
		Interest and sinking	Jury	Road and bridge	General	Permanent improvement
Entire fund omitted.....	6	1	0	0	0	5
Receipts of a fund.....	4	0	0	0	0	4
Expenses of a fund.....	5	0	0	0	0	5
Opening balances only.....	75	11	13	16	21	14
Funds affected.....	90	12	13	16	21	28

\*There is no overlapping between counties omitting entire funds and those omitting items only.

The failure to prepare a budget for interest and sinking fund receipts or expenditures means that a large part of the value of budget preparation has been lost, for the interest and sinking fund generally involves a sizeable proportion of the expense of the county. On the other hand, failure to prepare a budget for the permanent improvement fund may affect the total county budget very little. Unless substantial public improvements are being financed, the transactions of the fund constitute a relatively small portion of a county's business. Of course its omission does indicate carelessness in making up the budget.

The omission of opening balances is a particularly glaring error. If a fund is in use, it must have some cash on hand or a deficit in some amount. At first it was thought that officials would be more apt to omit a deficit than to omit a cash balance. Examination reveals, however, that this was not the case. Of the 75 beginning balances omitted in the budgets, 51 were found to be cash while only 24 or about one-third were deficits. Further, it is apparent that the cash balances omitted were large enough to be important. In other words, the omission of these balances would mean in a good many instances that the available resources presented in the budget were quite incomplete. These computations are shown in Table 8.

Some of the omissions may have been due to the interpretation placed on the budget law. Some officials may have purposely omitted a cash balance in order to present a conservative picture of the money available. But over 75 per cent of the funds budgeted did show the balances, which indicates that omissions were nearer an exception than a general rule.

**Table 8. Number and description of opening balances omitted from 1935 budgets of 51 counties**

Description of omissions	Totals	Funds affected				
		Interest and sinking	Jury funds	Road and bridge	General	Perma- nent improvement
Number of cash balances-----	51	11	9	9	9	13
Number of deficits-----	24	0	4	7	12	1
Total number-----	75	11	13	16	21	14
Range of cash balances						
From -----	54	\$ 1,551	\$ 218	\$ 270	\$ 124	\$ 54
To -----	178,475	178,475	12,044	133,945	10,567	9,281
Average cash balance-----	20,074	51,658	4,235	40,023	3,418	2,033
Median cash balance-----	3,620	5,904	4,229	36,091	3,620	752
Range of deficits						
From -----	103	0	450	103	347	-----
To -----	159,756	0	3,413	159,756	79,829	*
Average deficit-----	25,704	0	4,252	42,370	25,168	-----
Median deficit-----	13,833	0	4,074	15,854	18,665	-----

\*The one deficit in the permanent improvement fund group amounted to \$1,291.00.

Undoubtedly, the best explanation for the omission of opening balances is that many officials dislike to estimate a balance six months ahead of time. Since the budget for 1935 was made up in July 1934, it was necessary to project both receipts and expenditures for six months in order to estimate balances at January 1, 1935. The difficulty involved in making these estimates has probably been over-estimated, for other officials have been able to estimate balances with reasonable accuracy simply by applying their knowledge of conditions together with the experience revealed by their accounts.

#### Estimated and Actual Receipts and Expenditures Vary Widely

The only source of information concerning the degree of accuracy possible in budgeting the receipts and expenditures lies in the results obtained by the most competent officials. It is believed that under ordinary conditions a capable official having fairly adequate accounts should be able to estimate the available resources and the probable expenditures within 5 per cent. Even under unusual conditions he should be able to estimate within 10 per cent of actual results. Of course, it may be objected that in some cases the estimate may have been a good one, but lack of budget control allowed over-spending. In such cases the original amount budgeted, while in line with probable results, would possibly vary more than 10 per cent from the actual results obtained. It is also true that a budget may have been prepared by one official and administered by another.

The tendency to understate both receipts and expenditures is clearly brought out when the number of funds is considered. Of the 239 funds in 51 counties, 72.8 per cent estimated their receipts at less than 100 per cent of the amounts actually realized. The range was from 94 per cent in the road and bridge fund group to 52.8 per cent in the perma-

**Table 9. Percentage of funds budgeting less than or more than 100 per cent of actual receipts and expenditures, 239 funds, 1935**

Fund groups	Receipts		Expenditures	
	Less than 100 per cent	More than 100 per cent	Less than 100 per cent	More than 100 per cent
50 Interest and sinking funds.....	64.0	36.0	48.0	52.0
51 Jury funds.....	62.8	37.2	29.5	70.5
51 Road and bridge funds.....	94.0	6.0	82.3	17.7
51 General funds.....	84.3	15.7	70.5	29.5
36 Permanent improvement funds.....	52.8	47.2	58.2	41.8
Average (Arithmetic).....	72.8	27.2	57.7	42.3

nent improvement funds. On the other hand, only 57.7 per cent of all funds under-estimated expenditures. Two groups of funds, namely, the interest and sinking and the jury, over-estimated expenditures in a majority of the budgets. As a matter of fact, the percentage of funds which over-estimated expenditures in four of the five groups of funds is considerably higher than the percentage of the same fund groups which over-estimated receipts. The permanent improvement fund is an exception.

**Table 10. Variation of budgeted receipts from actual receipts of 239 funds expressed in per cent, 1935**

Variation from actual in per cent	Percentage of funds		
	Total	Underestimated	Overestimated
0-5.....	14.2	9.2	5.0
6-10.....	13.8	8.8	5.0
11-15.....	7.5	6.7	0.8
16-20.....	10.9	9.2	1.7
21-25.....	8.8	7.5	1.3
26-30.....	9.6	7.9	1.7
31-35.....	4.2	2.9	1.3
36-40.....	3.8	3.4	0.4
41-45.....	5.0	4.6	0.4
46-50.....	5.5	3.8	1.7
51 and over.....	16.7	8.8	7.9
Total.....	100.0	72.8	27.2

As yet no indication has been given of the relative variation of the budgets from the actual realized receipts and expenditures. Tables 10 and 11 provide this information for all classes of funds combined. In these tables the variation is shown above and below 100 per cent using an interval of 5 per cent.

The analysis of receipts presented in Table 10 indicates that 14 per cent of the 239 funds were estimated within 5 per cent of the actual. Similarly, 28 per cent of the funds were estimated within 10 per cent and 35.5 per cent of the funds were estimated within 15 per cent of the actual realized receipts. In these same intervals the number of funds estimating receipts from 0 to 15 per cent less than actual was 24.7 per cent. While the number of funds in which receipts were estimated from 1 to 15 per cent more than actual was 10.8 per cent.

The analysis of expenditures reveals a similar picture except that the number of funds which were over-estimated in the budgets is considerably larger. According to this tabulation 11.3 per cent of the funds were estimated within 5 per cent, 26.4 of the funds were estimated within 10 per cent and 39.3 of the funds were estimated within 15 per cent of actual expenditures. These data are shown in Table 11.

**Table 11. Variation of budgeted expenditures from actual expenditures of 239 funds expressed in per cent, 1935**

Variation from actual in per cent	Percentage of funds		
	Total	Underestimated	Overestimated
0-5.....	11.3	6.7	4.6
6-10.....	15.1	8.4	6.7
11-15.....	12.9	7.9	5.0
16-20.....	10.9	7.1	3.8
21-25.....	7.0	5.0	2.0
26-30.....	5.8	3.8	2.0
31-35.....	5.1	3.8	1.3
36-40.....	4.7	2.9	1.8
41-45.....	1.3	1.3	0.0
46-50.....	3.8	2.0	1.8
51 and over.....	22.1	8.8	13.3
Total.....	100.0	57.7	42.3

In fairness to the budget officers it must be stated that a great deal of the variation of budgeted from actual receipts and expenditures is due to the omission of non-revenue receipts such as bond proceeds and the corresponding omission of such disbursements. That is, the budgets for 1935 generally omitted such receipts while the accounting schedules, which were obtained from the county accounts, included them. These two sets of figures were then compared without making adjustments for this difference in handling. An examination of the budgets and a comparison of the budgets with the actual realized receipts and disbursements leads to the conclusion that current receipts and disbursements are estimated with considerably more accuracy than are the non-revenue receipts and their corresponding disbursements.

There is a great deal of justification for the view expressed by many budget officers that the budgeted receipts should omit non-revenue receipts in order to avoid duplication over a period of years. Furthermore, it must be admitted that the budget officers generally have no way of

knowing that non-revenue receipts such as bond proceeds will be received in a future year. Bond issues are voted by the people and the amount voted, if any, can hardly be set up in the budget until it is voted. The requirements of good budgetary procedure could be satisfied without showing such non-revenue items under the receipts schedules at all. All that is necessary is to explain the actual or contemplated use of any such non-revenue receipts in a footnote, a supplementary statement or a letter of transmittal. This method of handling satisfies the need for explaining the combination of revenue and non-revenue receipts which is being used in financing the various services.

The fact that the budget year includes portions of two tax collection years may also influence the comparison of estimated and actual receipts and expenditures a great deal. The budget year is the calendar year while the tax collection year begins October 1 and ends the following June 30th. There is always a possibility that a change in the tax rate which goes into effect on October 1 will increase or decrease the receipts of the calendar year. This is a circumstance which can hardly be foreseen at the time the estimated budget figures are made up some fifteen months earlier.

#### **Accurate Estimates of Receipts and of Expenditures Seldom Occur in Same Counties**

The foregoing analysis has not covered one point adequately. It might still be assumed that if receipts were estimated accurately in a particular county, the expenditures would also be estimated accurately. Further analysis reveals that this was not the case. In a great majority of instances there were wide variations in the degree of accuracy with which receipts and expenditures of the same funds in the same counties were estimated. In order to check this possibility, the budgeted expenditures of the 239 funds were distributed according to their variance from the actual expenditures, using an interval of 5 per cent. Then the receipts of the same funds were distributed in the same manner.

These distributions showed that only 15.5 per cent of the funds had estimated receipts within the same limits of accuracy that expenditures had been estimated. The estimates may have been better or worse, that is, nearer or farther from the actual results, but the degree was not the same. For example, in 27 funds, expenditures were estimated within 5 per cent of actual results. These 27 funds included 9 interest and sinking funds, 6 jury funds, 3 road and bridge funds, 5 general funds, and 4 permanent improvement funds. Of these same 27 funds, only 3 had budgeted their receipts within 5 per cent of the actual receipts. These three included two interest and sinking funds and one general fund.

This point is emphasized by examination of a single fund group. It has been stated that the expenditures of 9 interest and sinking funds

were estimated within 5 per cent of actual results. This means that the budget expenditures ranged from 96 to 105 per cent of the actual. As a matter of fact, all 9 cases fell between 96 and 102 per cent. The percentage which the budgeted receipts were of the actual receipts in these same funds ranged as follows: 66, 86, 100, 72, 34, 83, 89, 102, and 106. Two of these cases fell within the same 5 per cent interval of variance and a third was only 1 per cent removed from that interval.

To state the matter another way, if the correlation had been perfect, each county would have appeared in the distribution but once. But in reality each county appeared in the distribution an average of 4.3 times, expenditures used as a base. In making this distribution the total receipts and expenditures of all funds in each county were used along with the five different funds. Hence, the maximum number of times a county could have appeared would have been six. Thus, on an average, each county required more than four and less than five of the 5 per cent intervals in order to distribute its six classifications of funds.

It, therefore, does not follow that a county which estimates expenditures within a certain degree of accuracy will estimate its receipts within the same approximate degree of accuracy. The reverse is also true.

### **Accuracy of Budget Preparation Not Related to Size of Counties**

The larger counties might be expected to do a better job of estimating receipts and expenditures than would the smaller counties. This possibility was checked in a number of ways, but no significant relation could be discovered between the size of the county, as measured by population, and the accuracy of the estimates. The relative number of counties doing a good job was about the same in each population grouping used. It is true, however, that the counties having auditors tended to do a better job than those having no auditors. This was true regardless of the population of the counties involved. Here again it should be remembered that a good many of the officials have understated receipts and expenditures as a matter of policy. Had the officials thought it wise they could have estimated these figures much more closely on the basis of their accounts.

### **The Essentials of a Good County Budget**

One of the significant facts revealed by this study is that the budget law and the standard budget form are interpreted differently from county to county. In fact, there is considerable difference of opinion among county officials over the definition of a budget. These differing interpretations have a bearing on the estimates made in the budgets as well as the items included. If substantial agreement existed as to what constituted a budget, and how it should be set up, officials would be in a far better position to prepare a budget which would approximate actual



results. Unfortunately, the effect of differing interpretations and methods of presentation are not subject to exact measurement. But their presence is emphasized by the fact that the counties as a whole did an excellent job of living within their income despite the serious deficiencies which existed in their budgets.

In view of this situation, an attempt is made to list the essentials of a good county budget. This list of essentials includes the points which have evidently been most confusing to county officials. Some of these essentials are prescribed by the law but have not been followed in practice. Other essentials have not been explained in the law or in the instructions issued by the comptroller of public accounts. This list of essentials is based upon an examination of a great many county budgets. In addition much assistance was secured from a two-day meeting in May 1939 which was sponsored jointly by George H. Sheppard, State Comptroller, and Curtis Morris, tax director of the East Texas Chamber of Commerce. Following this meeting, P. L. Marquess, county auditor of Wharton County, and the author served as a committee to assist the state Comptroller in preparing a revised budget form suitable for the counties.

1. The budget would show three or more years, including the last year completed, the year in progress at the time the budget is made up, and the year immediately ahead for which the budget is being prepared. The figures for the year in progress should be estimated as accurately as possible on the basis of the six months which have already passed. The working papers should provide three columns for the year in progress; one column for the first six months for which actual figures are available, a second column for the last six months which must be estimated, and a third or total column. The figures from the total column can then be transferred to the budget document itself. This method will provide the estimated balance available January 1 of the year which is being budgeted.

2. The classification of receipts and expenditures in each fund should be in as much detail as the accounting system of the county will permit. For example, the expenditures of each office or activity should be shown apart from those of other officers or activities. The salaries, wages, postage, telephone and other costs under each office should be itemized.

3. The budget should contain a statement of outstanding indebtedness as of January 1 of the year for which the budget is prepared. In addition to outstanding bonds, this statement should show all time warrants. No current warrants outstanding should be shown on the debt statement, however. Any such current warrants must be paid from the fund which issued them.

4. a) The beginning balance of each fund should be the balance remaining after warrants outstanding and bills accrued and unpaid are deducted. This procedure reveals the balance available for expenditures during the coming year. In many instances officials ignore these outstanding commitments and use the cash balance on the grounds that the

amounts involved will be substantially the same at the close of each year. As long as this is true little or no harm is done in ignoring outstanding commitments. But the amounts outstanding should be checked whenever a budget is made up, and it would add to the value of the budget to explain the kind of balances used and how they were derived.

b) Sinking fund investments and changes in the amount of such investments should be shown in the budget. This is necessary in order to reveal all the assets of the county. Such transactions are to be shown as a change in the form of assets and not as a receipt or disbursement. This method avoids the possibility of showing the purchase of bonds for investment purposes as a bond retirement. Bonds owned January 1 would be shown as follows:

Cash balance, January 1	\$ 5,000
Securities owned	10,000
Total balance	\$15,000

If additional bonds were purchased during the year, the budget would show:

	Balance January 1, 1939	Balance January 1, 1940
Cash	\$ 5,000	\$ 2,000
Securities owned	10,000	13,000
Total	\$15,000	\$15,000

This example assumes that the tax collections and the disbursements of the fund were exactly equal and, hence, did not affect the balance. If bonds owned were sold during the year, the cash portion of the balance would be increased and the securities owned would be decreased. This might be shown in skeleton form as follows:

Total receipts	\$25,000
Add balance January 1	5,000
Cash	5,000
Securities	10,000
Total available	\$40,000
Less expenditures	20,000
Balance December 31	\$ 7,000
Cash	7,000
Securities	13,000

c) Cash and securities deposited to the credit of the county with the board of county and district road indebtedness should be shown in the budget. These can be included with the same items held in the county depository or they can be shown separately. If it is desired to split the balance, simply show:

	In Austin	In County	Total
Cash	\$ 100	\$ 4,900	\$ 5,000
Securities	2,000	8,000	10,000
Total	\$2,100	\$12,900	\$15,000

If difficulty is experienced in getting this information in the spaces provided in the budget, simply insert the totals in the budget proper

but make up and attach a "table of balances" showing exactly the composition of the beginning and ending balances involved.

5. a) Since the budget is made in July, the ad valorem tax collections of the various funds must be based on the rendered value as reported by the assessor-collector. This tentative budget serves as a basis of discussion. Later when the commissioners' court has completed its work as the board of equalization, the estimated tax collections may be revised on the basis of the equalized or assessed valuation. At any rate the budget should report both the rendered and the equalized valuations and state which one was used in the computations.

b) In estimating the current ad valorem tax collections of the various funds, the percentage of the current levy which has gone delinquent for the past three to five years should be studied. To the percentage used should be added the percentage of current collections which will be deducted by the tax collector as fees. If, on the average, for the past five years, 97½ per cent of the current taxes have been collected by June 30 and if the tax collector's fees have amounted to 2½ per cent, then the estimated current tax collections of each fund would be 95 per cent of the levy.

In estimating delinquent taxes, the amounts outstanding, the collections of prior years by funds, and the officer's knowledge of the general situation must all be considered. If during the current year, unusually large amounts have been collected, the estimated collections of the coming year must be reduced accordingly.

In order that the budget may reveal the facts, the current and delinquent ad valorem tax collections should be estimated as accurately as possible. That is, they should not be understated or overstated but should be shown at a figure which may honestly be anticipated. In numerous instances, tax collections have been understated in order to secure what is called a conservative budget. It seems reasonable to believe that the budget officer would be in a better position to secure compliance with the budget if the facts were reported to the best of his knowledge and ability.

c) The current and delinquent ad valorem tax collections should be separated in the budget.

d) The gasoline taxes used to retire county bonds for the construction of state highways should be included in the receipts. This is legally a county receipt even though it is used for state purposes. Furthermore the inclusion of gasoline tax money is necessary in order to show the total amounts of interest and principal payments and how these payments are being financed.

6. Transfers among funds should be shown, but should not result in duplication of receipts and disbursements. One method which works well is to apply all transfers against receipts, thereby reaching the sum available for expenditures. For example, assuming one transfer between two of four funds:

	Jury	Road and Bridge	General	Officers' Salary	Total
Total receipts and balance --	\$3,000	\$30,000	\$20,000	\$20,000	\$73,000
Transfers -----			-2,000	+2,000	
Available for expenditures --	\$3,000	\$30,000	\$18,000	\$22,000	\$73,000

When this method is used, transfers do not appear in disbursements at all.

7. a) The expenditures of a fund from a budgetary standpoint are the warrants issued during the year. This is particularly important in the case of funds which are not on a cash basis. In no case should the retirement of current warrants issued in prior years be considered an expense of the year in question. The validity of this reasoning is apparent when the purpose of budgeting is re-called. That purpose is to live within the income and to provide as much service as possible from the tax dollars. In order that a fund which is not on a cash basis may reach that position, the warrants issued must be less than the receipts. The amount by which receipts exceed expenditures represents the amount by which the outstanding current warrants are reduced.

If any fund is not on a cash basis, this fact should be revealed in the budget, together with the plans by which it is expected to bring the fund to a cash basis. This procedure reveals all the facts and insures that this important problem be given proper consideration.

b) The budget should contain all expenditures which have been made. In some cases extraordinary expenses which are not expected to be repeated have been omitted from the prior and current year's expense. A better method is to include but explain any such items.

c) The officers' salary fund should be included in the budget in those counties in which it exists. In some instances, this fund has been consolidated with the general fund because under the law the general fund must make up any deficiency which may be incurred in the officers' salary fund. The provision of a budget for the officers' salary fund makes the situation clear and it also reveals the costs of the various offices involved.

d) Relief expenditures should be budgeted in the general fund. Care should be exercised to separate direct relief expenses from such indirect expenses as contributions to Federal projects.

e) Road and bridge expense should be classified as well as possible between administrative, maintenance, construction, and purchase of right-of-way. The various salaries and other items should be listed under each classification. When this classification cannot be made or is difficult to make, a written explanation detailing the number of bridges built, the miles of road graveled, and the like would add materially to the value of the figures.

8. Defaults on bonded debt should be clearly set forth in the budget. This information might well be placed on a separate statement showing

the issues in default, the total accumulated principal and interest in default, and the amounts applicable to each year. The purpose in showing such defaults is to reveal more accurately the condition of the county finances.

9. In order that the public may be informed regarding the financing of improvements, non-revenue receipts and their disbursements should be shown in the budget. This applies particularly to the use of bond funds. Many county officials object to the inclusion of bond funds because these same amounts must later be collected in taxes, and because the budget officer cannot be sure in any instance that bonds will be voted during the coming year. Because of the latter reason, bond proceeds have generally been shown only in the preceding or the current year and not in the budgeted year. One method of handling which satisfies the need for revealing that bonds are being used to finance certain activities is to omit all such data from the receipts and disbursements and merely place an explanation in the letter of transmittal. An example of an explanation for the 1941 budget might read as follows:

In addition to the sums set up in the budget, the county will also expend the remainder of the road bonds voted in \_\_\_\_\_ to finance the construction of \_\_\_\_\_ miles of road.

Road Bond A sold in 1940.....	\$500,000
Less disbursements in 1940.....	350,000
Estimated balance to be disbursed in 1941.....	\$150,000

10. The tax rates should be grouped according to purpose. If five cents of the twenty-five cent general fund rate is used for debt service, this should be made clear. This can be explained in a footnote or it can be shown by splitting the general fund rate in two parts, thereby showing a 20-cent rate for general fund purposes and a 5-cent rate for general fund debt purposes. This method keys up the debt statement, the statement of requirements, and the fund budgets.

11. The order in which the funds are listed should be the same throughout the budget. If this procedure is followed, the funds appear in the same order in the statement of tax rates, the debt statement, and the fund budgets. This makes for convenience in using the budget.

12. Where fund budgets are broken into several units, a summary of all units should be included. If the road and bridge fund is divided into precinct funds, a summary sheet or sheets should show the combined totals. Similarly after showing the receipts and disbursements of each interest and sinking fund, all interest and sinking funds should be summarized. These summaries are a distinct aid in interpreting the budget to the public as well as in the checking the accuracy and completeness of schedules.

13. Points which are difficult to explain by figures alone should be explained in footnotes or in supporting statements attached to the budget. When the budget officer is undecided as to the best method of presenting

certain figures, the thing to do is to choose one of the possible methods and then attach a written explanation of the transaction. The use of such a written explanation would, in the final analysis, allow the figures to be presented in any one of several ways without misleading anyone.

14. Each county budget should contain a written statement or letter of transmittal explaining and interpreting the budget. The officer who makes up a budget gains an understanding of the detail which figures alone do not transmit to other officers or citizens. The letter of transmittal is a vehicle in which the procedures, the reasoning, the conclusions, and the important points can be presented. It is an opportunity to let others in on the picture. Why not take advantage of that opportunity?

15. An index should be prepared for the completed budget. This index will be of most value if it is placed at the front of the budget form.

16. A useful suggestion which many counties could follow to advantage is that tax collections from October 1 to December 31, of each year, be treated as revenue of the year beginning January 1 following. This procedure makes the tax collections and the budget year coincide. It avoids the variable which is introduced when the budget year includes a portion of two tax collection years. Wharton County follows this procedure, and it is believed that a few other counties have adopted the same practice.

17. The administration of the county budget will be facilitated by checking the status of the various funds each month throughout the year. Such a report will show the receipts and expenditures of each fund in as much detail as may be desired. If tax collections are running behind the amounts anticipated, or if the budgeted expenditures are being exceeded, these facts will be revealed in time to devise solutions.

### SUMMARY AND CONCLUSIONS

The uniform budget law applying to Texas counties has been in effect since 1931. Under this law the first budgets were formulated in 1932 and applied to the calendar year 1933. It is, therefore, apparent that eight budgets should have been prepared by each county during the years 1933-1940, inclusive. Judging by the six-year period 1935-1940, an average of 207 or 82 per cent of the 254 counties have filed budgets annually. At the other extreme, 11 counties filed no budgets at all during this period.

In terms of living within the income available, the counties have done a good job of budgeting. Eighty-three per cent of the current funds of 60 counties lived within their income in 1935. An analysis of 100 current funds in 26 of the 60 counties for the budget year 1939 reveals that these good results were continued and improved upon. In the case of these 26 counties, the percentage of the funds which lived within their

incomes increased from 84 to 92 per cent between 1935 and 1939. These results indicate that counties are striving to apply budgeting principles to government.

The study also reveals that many differences of opinion still exist as to the content and arrangement of a workable budget. This fact suggests that the use of a budget should increase in value as these differences of opinion are worked out and the officials gain additional confidence in the possibilities. As a means of focusing attention on this situation, the content and arrangement of a workable budget is described under the heading: "The Essentials of a Good County Budget."

Agreement on the proper content and arrangement of budgets, acceptable methods of estimating figures and the like should not restrict the initiative of the counties in preparing budgets. Even after substantial agreement was reached concerning the existing differences of interpretation, a great deal of leeway would remain concerning the exact presentation. In fact, officials should be encouraged to display ingenuity in developing workable budgets suited to their communities. If all budgets covered the essential points and adequate explanations were given in individual cases, the exact arrangement would be of minor importance.

There is a real need for an adequate budget manual which illustrates the preparation of a workable budget. Such a manual should describe the purposes of a budget, the statements which must be prepared as a guide in estimating the "budgeted" figures, and the forms which may be used in presenting the detail. Further, the use of written explanations, in support of accounting schedules, should be encouraged. Figures alone offer little information to the average citizen whereas an accompanying explanation makes the situation clear. A letter of transmittal might partially satisfy this need, and the remainder might be satisfied by the use of footnotes and supplementary statements attached to the budget.

The accounting systems of the counties should be improved, for there is no doubt that the maintenance of a good accounting system is vital to the preparation of an adequate budget. Furthermore, the maintenance of proper accounts is the tool by which the budget must be administered. The preparation of monthly control sheets showing the amounts expended to date and the amounts remaining to be expended is dependent on the accounts maintained. While the presence of proper accounts does not insure good budgeting, it does make it possible. Judging by this study, it is believed that the accounts maintained in Texas counties have aided greatly in the administration of the budgets. At the same time it seems reasonable to believe that accounts have not been fully utilized in budgeting work.

One of the important facts brought out in this study is that many counties are applying the budget law to good advantage while others have hardly grasped the purposes involved. This fact emphasizes the need for some means of making the experience of the best officials known

to the remainder of the county officials. The various associations of county officials have carried on some educational work, and many individual county officers have assisted the officers of neighboring counties. These associations have discussed budgeting problems at many of their annual conventions, and have sought in other ways to assist new members. The County Auditors' Association, through its president, has actively assisted in revising the forms and instructions for the preparation of county budgets. These revisions should be ready for use in preparing the 1942 budgets which are made up in July 1941. It is not too much to say that these efforts of county officials to improve the preparation and administration of budgets should be encouraged in every way possible.

In this connection, it is believed that the State of Texas should provide a field force to work with local officials on budgeting and related problems of finance. The state is, or could be, in a position to serve as a clearing house for information.

If a field force were organized under the comptroller's office to assist county officials, much good could be accomplished. In the beginning, emphasis might well be placed on the accumulation of accurate information concerning what is actually being accomplished in the counties which are doing the best job of budgeting. The information so accumulated could then be passed on to other counties. As the inventory proceeded, the major problems would be revealed and the counties most in need of assistance would be disclosed. Then the field force would concentrate its efforts in those counties which were experiencing the most difficult budget problems.

Special consideration should be given those counties which have serious deficits in one or more funds. The uniform budget law merely provided that after the effective date of the law, all counties should operate on a cash basis. While it was impossible for some of these counties to place all funds on a cash basis within the few months allowed them, it would have been possible for the great majority of these counties to set up plans to reach a cash basis within a certain number of years.

It is believed that the state should have no authority to coerce local officials, but that all cooperation should be secured on a voluntary basis. If the situation were properly explained, both state and local officials should see the desirability of working together in solving a mutual problem. Experience has shown that the provision of assistance and leadership is the most effective means of improving local governmental services.

At this point, it must be emphasized that no field force could serve the purpose unless its members were well qualified by reason of training and experience. It is impossible for a state employee to assist a local official unless he understands local conditions and reactions as well as the technical aspects of the job. The field force must be capable of learning from county officials as well as teaching them. Undoubtedly, one



of the best sources of qualified field men would be the county officials themselves. There are many qualified county officials who see far beyond the horizons of their own offices. If such men could be induced to accept the job of imparting their knowledge to others, no better qualified field men could be secured. Certainly the direction of the field force should be intrusted to one who has had first hand experience in the solution of county budgeting problems.