



Lawrence F. Alwin, CPA

April 19, 2000

Members of the Legislative Audit Committee:

The fee adopted by the Water Development Board (Board) appears to be too low to recover the costs of administering the State Participation Program (Program).

The Program was developed under Chapter 16, Subchapter E of the Texas Water Code. It allows the Board to take an ownership or co-ownership interest in future regional water projects developed by local governments. Such projects could include storm water retention basins and water treatment facilities. The Program's goal is to allow for the adequate sizing of projects by considering future growth, projects that would not be affordable without State assistance. Ultimately, participants will repay the cost of funding to the Board, on a deferred timetable, when the customer base grows and added capacity is used.

Senate Bill 1862 (76th Legislature) authorized the Board to recover certain costs associated with administering the Program, including those for processing an application, monitoring construction, and long-term auditing and monitoring of the projects. However, not all relevant costs were included in the Board's fee structure:

- The estimate only included staff salaries; it did not include costs such as telephones, office space, and travel.
- The estimate did not consider the potential extra costs associated with funding large projects. The Program will fund large projects, which may incur extra legal, public involvement, and environmental costs.

The 0.5 percent fee is low compared to other Board fees; for example, the Clean Water State Revolving Fund fee currently is set at 1.85 percent, and the Drinking Water State Revolving Fund fee is set at 2.25 percent.

The Board has expressed its willingness to reformulate the cost recovery fee to reflect all appropriate costs associated with the Program. After that change is made and the Program has funded one or two projects, we will reexamine the fee structure to ensure that it recovers the full costs of administering the Program.

We appreciate the Board's cooperation. If you have any questions, please contact Susan Riley at (512) 479-4822.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

cc: Mr. Craig D. Pedersen, Executive Administrator,
Texas Water Development Board
Mr. William B. Madden, Chairman
Members of the Texas Water Development Board

Objective, Scope, and Methodology

Senate Bill 1862 directed the State Auditor's Office to review the Board's State Participation fees to determine whether the fees were consistent with the authorizing legislation.

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