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State Auditor

# A Review of The Water Development Board's 2003 Fee Structure for the State Participation Program

August 29, 2003

Members of the Legislative Audit Committee:

The fee that the Texas Water Development Board (Board) charges political subdivisions for participating in the State Participation Program (Program) has not been sufficient to recover the costs of administering the Program. We project that over the next five years the Board will spend approximately \$240,000 in General Revenue funds to subsidize the Program. This money cannot be recouped because the Board cannot retroactively increase the fee on previously committed projects. Over the expected term of the existing financial agreements, this subsidy will exceed \$500,000. Through the Program, the Board issues bonds and uses the proceeds to buy an ownership interest in regional water projects. Over time, the local or regional participants repurchase the Board's interest.

Senate Bill 1862 (76th Legislature) authorized the Board to recover certain costs associated with administering the Program, including costs for processing an application, monitoring construction, and long-term auditing and monitoring of projects the Program funds. The Board initially adopted a 0.5 percent administrative fee. In April 2000, we reviewed the 0.5 percent fee and concluded that it was too low to cover all relevant costs. We recommended that the Board revise the fee using the same cost definitions it uses for its other programs (see *A Review of the Water Development Board's Fee Structure for the State Participation Program*, SAO Report No. 00-026, April 2000).

The Board subsequently raised the administrative fee to 0.77 percent, but since then it has not recalculated the rate using complete and actual expenditures. The 0.77 percent fee is not sufficient for the Board to recover its administrative costs primarily because the Board charges its administrative fee account only for direct staff hours and not for employee fringe benefits or indirect costs.

Statute does not require the Board to assess the fee; however, Board rules state, "The board will assess fees for the purpose of recovering administrative costs...." The Board has charged the fee for each of the projects the Program has funded since fiscal year 2001.

To date, the Board has financed approximately \$100 million in state participation projects. From prior bond issuances, the Board has approximately \$25 million remaining to invest in additional projects. It has signed commitments for two projects totaling \$15 million. A potential final project is estimated at \$10 million. Due to the absence of General Revenue support for debt service in the early years of new projects, the Board does not currently plan to issue additional state participation bonds.

## Summary of Objective, Scope, and Methodology

This review was conducted according to Section 16.142 of the Texas Water Code.

Our objective was to review the state participation fees the Board charges to ensure that the fees are sufficient to recover the Board's costs of administering the Program.

We reviewed all Program activity from 1999 through the present—specifically, total project costs, Board funding amounts, fees charged, and revenues collected.

Our approach involved determining the basis for the current fee and comparing historical revenues and expenditures.

The information in this report has not been subjected to the tests and confirmations that would be performed in an audit.

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The Board agrees that it should periodically re-evaluate its fees in order to identify any disparities and make adjustments as necessary. It will re-evaluate the state participation fee if the Program becomes active again in the future because it cannot retroactively increase the fees on previously committed projects. Additionally, because only \$10 million remain in uncommitted funds, increasing the fee now would impose a higher burden on the remaining applicant(s) and would not compensate for the projected unrecovered costs.

We appreciate the Board's cooperation and assistance during this review. If you have any questions, please contact Julie Ivie, Audit Manager, at (512) 936-9500.

Sincerely,

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cc: Members of the Water Development Board  
Mr. J. Kevin Ward, Executive Administrator, Water Development Board