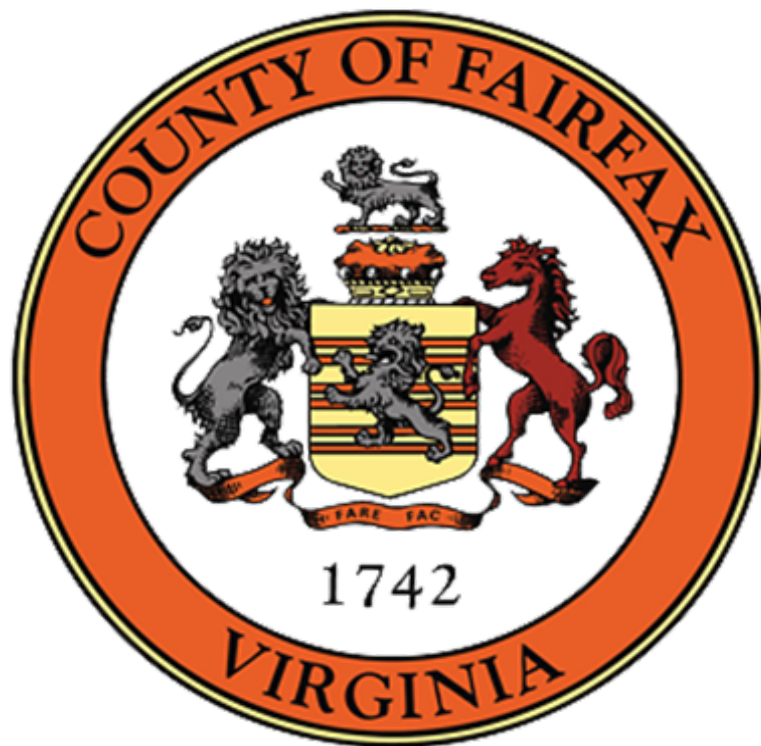


# COUNTY OF FAIRFAX, VIRGINIA OFFICE OF FINANCIAL AND PROGRAM AUDIT

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July 2015

Quarterly Report

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## TAX RECOVERY AND COLLECTION STUDY

### DETAIL OBSERVATIONS AND ACTION PLAN

#### BACKGROUND<sup>1</sup>

##### General Provisions

The Virginia Retail Sales and Use Act establishes a tax on the sale, lease or rental of tangible personal property or the use or consumption of tangible personal property in Virginia, as well as taxable services in Virginia.

A seller is subject to the sales tax imposed on gross receipts from retail sales. The seller is responsible for collecting the tax from the customer on each taxable sale. The general sales tax rate for Virginia is 5.3 percent (4.3 percent state tax and 1 percent local tax). There is an additional 0.7 percent state tax imposed in the localities that make up Northern Virginia and Hampton Roads, making the rate in these areas 6 percent (5 percent state tax and 1 percent local tax).

##### *Northern Virginia Region:*

The additional 0.7 percent regional rate in Northern Virginia applies to the Cities of Alexandria, Fairfax, Falls Church, Manassas and Manassas Park; and in the Counties of Arlington, Fairfax, Loudoun and Prince William.

##### Retail Sales Tax

Generally, in-state dealers (individuals or businesses) are those making Virginia sales while having one or more physical locations in Virginia. Businesses subject to the Virginia Retail Sales Tax must submit a monthly return to the Department, by the 20th of the month after the sales occurred. A return must be filed for each period, even if there are no sales to report.

##### Use Tax

Some dealers make Virginia sales but are physically located outside of Virginia. "Out-of-state dealers" refers to individuals or businesses that, in most cases, are physically located outside of Virginia but make qualified sales, leases or rentals into Virginia.

#### SCOPE AND METHODOLOGY

In March 2009, the Office of Financial and Program Audit conducted a review to assess the County's process for collecting sales and use taxes. During the initial review, it was discovered that some taxpayers were reporting the incorrect Fairfax County Federal Information Processing Standards Code (FIPS) Code, which resulted in sales and use tax being remitted to the wrong jurisdictions.

The approved Audit Committee Work Plan this quarter included a study of the tax recovery and collection process for retail taxpayers reporting sales and use taxes. The focus of the study was to assess if taxpayers were using the Fairfax County FIPS code and review the procedure for allocation of funds.

The scope of this study included:

- Review of policy and procedures for the collection of the sales and use tax.
- Review of procedures resolving issues whereby funds are received through misallocation.
- Review the State Integrated Revenue Management System (IRMS) reporting to assess the accuracy for remittances from taxpayers.

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<sup>1</sup> Website: <http://www.tax.virginia.gov/content/sales-and-use-tax>

**OBJECTIVES AND RESULTS**

This study included reviewing data downloaded from IRMS which detailed taxpayers that reported sales tax to Fairfax County and comparing the information to a file provided by the Department of Tax Administration (DTA) to confirm if all retail customers were registered.

Business Objective	Study Assessment
Policy and procedures for tax recovery and collection.	Satisfactory
Process of handling and documenting misallocated funds.	Satisfactory
Process for monitoring how businesses report the Fairfax County FIPS Code.	Needs Improvement

Control Summary	
Good Controls	Weak Controls
<ul style="list-style-type: none"> <li>• Signatures are required for every transfer request to send/receive misallocation funds.</li> <li>• Research is conducted and documented for every transfer request of misallocations.</li> <li>• Additional funds must be remitted in no more than two installments.</li> <li>• DTA works with the Department of Management &amp; Budget (DMB) to manage large refunds for other jurisdictions.</li> </ul>	<ul style="list-style-type: none"> <li>• Staffing level for verifying reporting and collections of over 6,000 registered retail businesses in Fairfax County.</li> <li>• Maintaining Federal Identification Numbers to facilitate review process.</li> </ul>

**OBSERVATIONS AND ACTION PLAN**

Following are tables detailing observations from the study along with management’s action plan to address these issues.

**Fairfax County  
Office of Financial and Program Audit**

TAX RECOVERY AND COLLECTION STUDY	
Risk Ranking	MEDIUM
<p>The County has over 6,000 businesses which require monthly reviews. The process for reviewing sales tax data is manual which is performed by two employees. Staff manually looks up the taxpayers in the IRMS system to verify that the Fairfax County FIPS Code was reported and the tax return was filed.</p> <p>Research and documentation is gathered on the taxpayer to identify the business locality and amount of tax due. For misallocations, a locality transfer request form is signed by both jurisdictions and sent to the State for review, remittance is made in no more than two installments.</p> <p>The State provides a data download each month from IRMS which details information of payments and refunds which is compared to the retail registered business report. Using a formula to compare the two reports would reduce reliance on the manual process. This would allow staff time to focus on researching companies that do not report or report the FIPS code for the incorrect jurisdiction. For our sample of three periods, we utilized the unique identifier in both reports e.g. Federal Identification Numbers (FEIN) to perform the review.</p>	

## Recommendation

As reported by DTA staff; efforts are made to review all filers over a 36 month period, within the statute of limitations for collections. This process is manual and results in staff continuously working to identify misallocation and refunds for prior periods for a large volume of businesses. As efficiencies could be garnered through the use of excel formula matching of unique identifiers e.g. FEIN in the corresponding files, we recommend that DTA incorporate the practice to enhance the speed of the review process.

DTA has discussed using this technique but at this time no such process has been put in place.

## Action Plan

Point of Contact	Target Implementation Date	Email Address
Kevin Greenlief Juan Rengel Maha Bichay	By August 1, 2015.	Kevin.Greenlief@fairfaxcounty.gov Juan.Rengel@fairfaxcounty.gov Maha.Bichay@fairfaxcounty.gov

### MANAGEMENT RESPONSE:

DTA supports any automation that can be brought to bear in this review and we will work with programming staff to implement the Auditor's recommendation. A substantial amount of manual intervention will still be required, but we will endeavor to increase the automated matching to the extent possible.

## TAX RECOVERY AND COLLECTION STUDY

### Risk Ranking

LOW

The FIPS code is utilized by the State to identify where the one percent sales and use tax for counties should be applied. This is a five digit code that should be included on the State return by the taxpayer. If the taxpayer does not indicate a FIPS code number the funds are held in an account and a portioned to each county in Virginia.

The State requires all sales tax returns to be filed online through the eForms system, Business iFile or Web Upload and provides a FIPS Code Lookup but does not require a taxpayer to indicate a county indicator number, resulting in additional funds portioned out to all counties in Virginia.

## Recommendation

DTA could have the tax auditors review businesses FIPS Code reporting for prior periods when conducting onsite field audits. If FIPS Code is incorrect, efforts should be made to communicate this information to the business. Additionally, the Business Tax Specialist should verify that the FIPS Code have been correctly reported before making the onsite visit to the business. If corrected information is needed we recommend they provide it to the business.

## Action Plan

Point of Contact	Target Implementation Date	Email Address
Kevin Greenlief Juan Rengel Maha Bichay	By October 1, 2015.	Kevin.Greenlief@fairfaxcounty.gov Juan.Rengel@fairfaxcounty.gov Maha.Bichay@fairfaxcounty.gov

### MANAGEMENT RESPONSE:

DTA agrees with the essence of the Auditor's recommendation that additional efforts should be made to ensure that businesses are reporting the correct FIPS code to the State when filing their monthly Sales Tax returns, but DTA recommends a more efficient implementation than field research. While field staff might enhance the process with

the small local business, this is not the source of the majority of revenue or Sales Tax problems. Problems are more apt to come from the major national retailers with locations throughout Virginia. These sales tax returns are often not processed locally, but from corporate tax offices outside of Fairfax. DTA will send letters to all retailers asking to validate FIPS codes being used. While DTA has done this in the past, greater attention will be given to follow-up and cross-matching.

DTA also suggests a state legislative change might be beneficial so that the State Tax Dept. could mandate that businesses input the FIPS code into the State's online Sales Tax reporting system when making monthly reports (i.e., make this a required field for reporting purposes); either that or pursue a State Code change whereby the business is charged an additional service fee if they fail to report their FIPS code. At present there appears to be no disincentive for failure to report the FIPS code. This matter would presumably need to be referred to the Board's Legislative Subcommittee.

## HOUSING CHOICE VOUCHER COMPLIANCE & COLLECTIONS

### DETAIL OBSERVATIONS AND ACTION PLAN

#### BACKGROUND<sup>1</sup>

The Housing Choice Voucher (HCV) program is a Federal Housing Assistance Program for lower income families seeking housing in the private market place. As of FY 2016, the Fairfax County Redevelopment and Housing Authority (FCRHA) has 3,731 authorized vouchers. In FY 2014, the FCRHA was designated as a Moving to Work (MTW) agency. HCV programs excluded from the MTW program are Family Unification Program, Non-Elderly Disabled, and Veterans Affairs Supportive Housing.

The goal of the MTW program is to provide participants with the necessary tools through supportive services that will help them move along the housing continuum to self-sufficiency. For the HCV portion of the program, Housing Urban Development (HUD) provides housing assistance subsidies to pay a portion of the family's rent to a private sector landlord. In most cases, the housing assistance subsidy provided for each tenant is the difference between 35 percent of the eligible family's income and a HUD-approved Fair Market Rent for a housing unit. Housing authorities administer the contract for these subsidy funds on behalf of HUD, which involves making the monthly subsidy payments, verifying that those benefiting from the subsidy are eligible and monitoring compliance with federal regulations.

FY 2016 revenues for the HCV program are projected to be \$58,088,616. The current income limits for most components of the HCV Program as established by HUD, effective December 18, 2013 and currently in effect, are shown below:

Household Size <sup>2</sup>	Maximum Household Income Limits Extremely Low Income (30%)	Maximum Household Income Limits Very Low Income (50%)	Maximum Household Income Limits Low Income (80%)
1	\$22,950	\$38,250	\$47,600
2	\$26,200	\$43,700	\$54,400
3	\$29,500	\$49,150	\$61,200
4	\$32,750	\$54,600	\$68,000
5	\$35,400	\$59,000	\$73,450
6	\$38,000	\$63,650	\$78,900
7	\$40,600	\$67,750	\$84,350
8	\$43,250	\$72,100	\$89,800

#### FY 2016 SUMMARY OF PROJECTS

Consolidated Vouchers <sup>3</sup>	3,731
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NOTE: In the HCV Program, at least 75% of new admissions must be below 30% Washington, DC Metropolitan Statistical Area (MSA), (Extremely Low). Only families that meet one of the following criteria can be admitted with incomes between 50% MSA (Very Low) and 80% MSA (Low):

- A family continuously assisted under the 1937 Housing Act. A family is continuously assisted under the Act if they are already receiving assistance under any 1937 Housing Act Program (including public housing, moderate rehabilitation and project-based vouchers).
- A family that qualifies for voucher assistance as a non-purchasing family residing in a HOPE 1 (HOPE for Public Housing Homeownership) or HOPE 2 (HOPE for Homeownership of Multifamily units) Project.
- A family that is displaced as a result of the prepayment of the mortgage or voluntary termination of an insurance contract on eligible low-income housing.
- A family that qualifies for voucher assistance as a non-purchasing family residing in a project subject to a resident homeownership program.

<sup>1</sup> FY 2016 Advertised Budget (Fairfax County, Virginia)

<sup>2</sup> Website: <http://www.fairfaxcounty.gov/rha/rentalhousingprograms/hcv.htm>

<sup>3</sup> Actual number of vouchers issued may be lower than HUD-approved count due to local market conditions and funding limitations

**SCOPE AND METHODOLOGY**

Effective 1<sup>st</sup> July 2014, for public housing residents, changes were made to; tenant portion of rent, Housing Choice Voucher (HCV) payment standards and recertification and inspection schedules. Staff will assess compliance with these changes and practices for rent assessments and collections.

**OBJECTIVES AND RESULTS**

Business Objective		Study Assessment
Tenant File Maintenance		Satisfactory
Coordination with Landlords on Tenant Late / Non-payments		Needs Improvement
HAP Payments to Landlords Continuing Past Tenant’s Move-out		Needs Improvement
Control Summary		
Good Controls		Weak Controls
<ul style="list-style-type: none"> <li>Maintenance of tenant files for sample selected.</li> <li>Recertifications and inspections performed timely for sample selected.</li> <li>Tenant rents properly calculated for sample selected.</li> </ul>		<ul style="list-style-type: none"> <li>Tracking HAP payments to landlord for units which tenants no longer reside in the unit. Reliance is on the tenants and landlords to self-report. Although the FCHRA – Financial Management Director asserts that this is the “<b>Industry Standard</b>”, self-reporting is not as effective as independent verification.</li> <li>Aging report for Landlord Overpayments (LOP) only reflects &gt; 180 days, collections are referred to the Department of Tax Administration (DTA). These receivables are referred to Nationwide Credit Corporation (NCC) when greater than 180 day.</li> </ul>

**OBSERVATIONS AND ACTION PLAN**

Following table details the observations from the study along with management’s action plan to address these issues.

**Fairfax County  
Office of Financial and Program Audit**

Housing Choice Voucher Compliance & Collections	
Risk Ranking	<b>LOW</b>
<p>Our review revealed no mechanism exists for landlords to formally report or communicate late / non-payment of tenant’s portion of rent. Also, no related information was identified in the tenant files for the sample selected to review.</p> <ul style="list-style-type: none"> <li>It has been communicated by the FCRHA’s staff that HAP overpayments in some cases are made to landlords after a tenant has vacated the premises. Late / non-payment of tenant’s rent monitoring may enable the FCRHA to identify these events, thus reducing landlord overpayments. Secondary benefits to this process would be a reduction of collection efforts and identifying issues for assisting tenants regarding MTV initiatives.</li> <li>For the period under review we noted \$42.3K of overpayments between 0 and 180 days. There are approximately \$260,833 in overpayments greater than 180 days. Total overpayments reported on 25<sup>th</sup> June 2015 were \$303,291. As per the Financial Management for the FCRHA,</li> </ul>	



these receivables are referred to DTA for collections. These receivables are then referred to NCC when greater than 180 days. Upon review; the aging report provided only reflects stratifications past 180 days. Consideration should be given to future stratifying this aging report to assist staff in monitoring and follow-up.

**Recommendation**

As part of the on-boarding process for private property owners (landlords) participating in the HCV program, we recommend that consideration is given to developing a reporting mechanism for landlords to communicate late / non-payment of tenant’s portion of rent. This information could be included in the tenant’s files to assist FCRHA’s management in providing guidance to the landlords and tenants. It could also be utilized, in some cases, to follow-up / detect if tenants that have vacated the premises.

As per the Financial Management Director for the FCRHA, LOP receivables are referred to DTA when they reach an age of 90-120 days. These receivables are referred to NCC when greater than 180 days. To that end, this AR Aging should be further stratified to include both 181 to 365 and > 365 days.

**Action Plan**

Point of Contact	Target Implementation Date	Email Address
Re-initiate periodic landlord briefings: Russell Lee - Robert Easley	October 2015	Russell.Lee@Fairfaxcounty.gov Robert.Easley@Fairfaxcounty.gov
Further stratify the Accounts: Receivable Aging Report: Marijke Hannam - Robert Easley	Awaiting report customization quote. Target of November 2015	Marijke.Hannam@Fairfaxcounty.gov Robert.Easley@Fairfaxcounty.gov

**MANAGEMENT RESPONSE:**

The Department of Housing and Community Development (DHCD) Management appreciates the independent review of tenant files in the Housing Choice Voucher (HCV) program and is pleased that the review indicates strong controls and program compliance.

With respect to the other two business objectives reviewed, Coordination with Landlords on Tenant Late/Non-Payments and HAP Payments to Landlords Continuing Past Tenant’s Move-Out, DHCD agrees with the recommendations, as they will further enhance an already robust set of policies and procedures in place to optimally administer the HCV program. However, DHCD does not concur that there are “weak controls” as DHCD complies with U.S. Department of Housing and Urban Development (HUD) requirements as detailed in the *Code of Federal Regulations, Title 24 - Housing and Urban Development (24 CFR), Part 982 Tenant Based Assistance: Housing Choice Voucher Program*, and has implemented stringent internal procedures, controls and reports to minimize landlord overpayments (LOPs) and maximize the collection of aging receivables. These points are described in greater detail below by business objective identified in this audit report.

**Coordination with Landlords on Tenant Late/Non-Payments**

In the HCV program, each entity - tenant, landlord and public housing authority (PHA) - has obligations defined by HUD. With respect to notification, 24 CFR 982.551(f) specifically states: “The family must notify the PHA and the owner before the family moves out of the unit, or terminates the lease on notice to the owner.” This requirement is reiterated in Form HUD-52641, Housing Assistance Payment (HAP) Contract, Part C - Tenancy Addendum, paragraph 11. Family Move Out. It is worth further noting that the HAP contract term is contingent on the tenant residing in the contract unit (HAP Contract, Part B – Body of Contract, paragraph 4b(3)). Thus, the HAP contract terminates when the tenant moves out of the contract unit and the landlord is not due any additional payment. As a result, responsibility for notification is also borne by the landlord. In

short, notification is designed to be a “shared reliance” on the tenant and the landlord, with the onus being on the tenant. These obligations are communicated to all program participants at initial lease-up and when annual re-certifications take place.

However, tenants and landlords do not always provide timely notification, and landlord overpayments (LOPs) do occur. While undesirable, this is a reality confronting all housing authorities administering the HCV program and it should not be considered a control weakness of DHCD, especially in light of the efforts made to mitigate these occurrences, including:

- Training and information is provided during the initial lease-up process so tenants and landlords clearly understand their respective program roles and obligations. This information is thoroughly reviewed with participants during annual re-certifications.
- The HAP contract, the Family Obligations Agreement, and the lease (with Tenancy Addendum) contractually support the HUD designated roles and obligations.
- Frequent communication between DHCD staff, landlords and tenants.

Additionally, when LOPs do occur, DHCD works hard to swiftly collect outstanding balances. Utilizing the internally developed Landlord Overpayment Tracking Report (LOPTR), for example, facilitates the tracking and monitoring of DHCD’s performance with respect to LOPs. Additionally, the LOPTR can help to identify causes, as well as appropriate action, if necessary, and is distributed monthly to Division Directors and the Senior Housing Services Specialists (SHSS). The SHSS then reviews and analyzes the report with the relevant staff; verifies that an Overpayment Notification Letter has been sent to the landlord; and determines if there was any action that could have prevented the overpayment. The SHSS then follows up, monitors progress, and communicates recommendations regarding future LOP avoidance.

This audit report suggests that coordinating with landlords on tenant late/non-payment of rent may provide information that could be used to prevent LOPs on the HAP portion of the rent payment. While this could provide some useful information, DHCD is not party to the lease agreement between the tenant and the landlord, so there is no formal, or practical given the number of participants in the program, mechanism to gather monthly payment data. As a current practice, though, landlords are encouraged to notify DHCD when there are tenant issues related to late/non-payment of rent. Re-educating landlords regarding this option, as well as their roles and obligations, may help to further mitigate LOPs.

Action: DHCD will re-initiate periodic landlord briefings, including a marketing strategy to bolster attendance, to facilitate enhanced communication with landlords on the roles and responsibilities of all parties involved with the HCV Program in an effort to reduce LOPs.

#### **HAP Payments to Landlords Continuing Past Tenant’s Move-Out**

DHCD has numerous controls in place to insure minimal LOPs and swift collection of outstanding accounts receivable (AR). As mentioned in the report, the outstanding LOP balance as of June 25, 2015 was \$303,291. It should be noted, that this amount reflects an accumulated balance since 2004 and is only 0.06% of the HAP payments made during the period. Much of this balance is associated with accounts that currently exceed the state statutory limit of three years for active collection. Going forward, this balance will grow at an even slower rate, if at all, due to efforts in recent years including:

- Implementation of processes by DHCD staff to reduce LOPs (i.e., development and utilization of the LOPTR) and collect outstanding balances more swiftly;
- Referral of agency accounts 90-120 days old to the Department of Tax Administration (DTA) for centrally coordinated collection; and,
- Involvement of Nationwide Credit Corporation for agency-referred accounts exceeding 180 days old.

While collection efforts have been very successful, tracking and monitoring outstanding AR balances is very important to good corporate stewardship. To this end, DHCD utilizes an AR aging report with data stratified at 30, 60, 90, 180 and 365 days. Having a more discretely stratified aging report, as suggested in the audit report, would be useful. However, in DHCD's opinion, the lack of stratification at particular points does not constitute a control weakness, nor will the new report result in increased collections.

Action: DHCD agrees that an AR aging report with additional data stratification would be informative. In June 2015, HCD requested a cost quote to develop a report with more discretely identified data stratifications. Assuming funding can be identified once the quote is received, it is anticipated that a more detailed report would be available by November 2015.

## LAND DEVELOPMENT SERVICES DIVISION COST RECOVERY

### DETAIL OBSERVATIONS AND ACTION PLAN

#### BACKGROUND

The Department of Public Works and Environmental Services (DPWES) Land Development Services Division (LDS) provides regulatory services for persons who live or work in Fairfax County (County). LDS is divided into two main parts; Community Development Program Area and Public Safety Program Area. Each program area is responsible for maintaining and regulating land development and building construction.

The Community Development Program Area is responsible for; plan review, permitting and inspection of new and existing buildings. The Community Development Program is also responsible for; ensuring buildings meet County building codes, regulations and County ordinances. This code compliance process is accomplished by; the issuance of permits, home improvement contractors' licenses and reviewing building plans.

Additionally, the Community Development Program Area ensures that land development and construction conform to the County codes and polices for such things as; new public infrastructure, drainage, stormwater, tree conversation, resolution building and site code violations.

#### SCOPE AND METHODOLOGY

This quarter's approved Audit Committee Work Plan included a study whereby we would liaise with management to assess if actual costs are recovered by fees for permits and land and use services. Specifically for; building permits and site and subdivision plan submittals. The focus of this study was to assess if the total costs are recovered by revenue generated from building development and site development fees.

The scope of this study includes:

- Reviewing data provided by management to verify the cost recovery rate.
- Review general ledger data in the County's enterprise resource planning system (FOCUS) to obtain revenue and cost associated with LDS.
- Identify cost drivers related to cost recovery percentages.
- Review fees provided by management to analyze revenue sources.

#### OBJECTIVES AND RESULTS

As per management, the established recovery rate of 90 percent is effective as of July 1, 2005. This study included reviewing data to assess if the recovery rate of 90 percent was realized.

For this study, the rate of recovery was determined by comparing revenue to total costs and calculating a percentage of return. All costs and revenues for LDS are recorded and accounted for in the General Fund.

Expenditures were reviewed for the rate of recovery include; compensation, operating expenses, work performed for other agencies, capital outlay, fringe benefits factor and rent. Revenue reviewed for the rate of return includes; building development and site development fees. The categories of the building development and site development fees are:

**Building Development Fees<sup>1</sup>:**

- Standard Fees (This includes items related to; inspections, construction and etc.)
- Various Permits
- Fire Prevention Division (Fire Marshall) Fees
- Amusement Device Permit Fees

**Site Development Fees:**

- Plan and Documentation Review Fees
- Bonding and Agreement Fees
- Site Inspection Fees
- Fire Prevention Division (Fire Marshall) Fees
- Site Permit Fees
- Waiver, Exception Modification and Exemption Fees
- Permits for Discharges of Stormwater from Construction Activity Fees

Rates of recovery were provided for the periods of FY 2010 to FY 2014. The FY 2013 and FY 2014 were tested based on the general ledger total provided. The respective rates of recovery are indicated in the table below:

<b>LDS Rate of Recovery<sup>2</sup></b>					
	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>Total Cost</b>	27,989,613	28,826,170	29,109,588	29,767,563	31,282,942
<b>Revenue</b>	19,726,073	23,360,007	26,958,264	28,323,689	28,939,644
<b>Recovery Rate</b>	<b>70%</b>	<b>81%</b>	<b>93%</b>	<b>95%</b>	<b>93%</b>

**Cost Drivers**

FY 2010 to FY 2016 Adopted Budget Plan narratives for the Community Development Program Area were reviewed to identify cost drivers that impacted the recovery rate of returns. Below are cost drivers identified that impact the rate of recovery:

- Increased permit costs and other fees
- Better align or transfer positions within DPWES
- Decrease expenditures to lower total cost
- Employee Compensation
- Charges for work performed for others agencies
- Management of vacancies

The rate of recovery for FY 2010 and FY 2011 were lower than current years due to economic downturn. During that same period fuel cost increased. LDS started to realize a recovery in the rate of return during FY 2011 by eliminating vacant positions. Our study revealed good controls in the areas of; rates of recovery for the last three fiscal years have been over 90 percent, cost drivers are monitored and adjusted when necessary and alignment of staff to support business needs.

<sup>1</sup> Building & Site Development fees obtained from (Appendix Q – LDS Fee Schedule on the LDS Fairfax County website)

<sup>2</sup> Table provided by LDS.

## POOLED CASH INVESTMENTS PORTFOLIO FOLLOW-UP REVIEW

### **Background**

The Audit Committee Work Plan for this quarter included a follow-up review of the County's pooled cash investments and an update of the Department of Finance's efforts to address negative balances in the pooled cash accounts. We conducted our original review of the County's pooled cash investments in May 2013. At the time our review, the County's Investment Committee had established a maximum investment maturity period of one year.<sup>1</sup> We recommended that the Investment Committee increase the maximum maturity period and consider reallocating a larger portion of the pooled cash investment portfolio to longer maturity periods. We also recommended that the Investment Committee evaluate the use of additional types of investments as permitted by the Code of Virginia.

### **Scope and Methodology**

The purpose of this study was to provide an update of changes to the County's pooled cash investment strategy since our May 2013 report.<sup>2</sup> For this study, we reviewed the following documentation:

- Fairfax County Investment Policy, dated March 2015.
- Monthly investments and cash management reports prepared by the Department of Finance for FY 2013, FY 2014, and FYTD 2015.
- PowerPoint presentation prepared by the Department of Finance regarding the impact of modifications made to the pooled cash investment portfolio and overall investment strategy.
- Negative Pooled Cash Monthly Monitoring Report (dated April 2015), prepared by the Department of Finance.
- Pooled cash investment information provided by Arlington County and Prince William County for FY 2013, FY 2014, and FYTD 2015 (as of the end of March). Loudoun County did not respond to our request.

### **Status as of July 2015**

Since our May 2013 review, the Investment Committee approved the reallocation of \$750 million from the short-term Liquidity portfolio to the longer term Core portfolio. In addition, the Investment Committee approved the creation of a separate \$850 million "Core Extended" portfolio with a maximum maturity of two years (with maturities laddered). The Investment Committee also approved the use of the Virginia Investment Pool (VIP). The VIP is a pooled investment program for local governments and other political subdivisions. The VIP achieves a higher than expected rate of return compared to traditional money market funds by investing in slightly longer-term securities as authorized by the Code of Virginia - Investment of Public Funds Act.<sup>3</sup>

According to the Department of Finance, the reallocation of assets and the approval of a two-year maximum maturity for the Core Extended portfolio have resulted in better asset diversification and higher yields. The Department of Finance estimates the recent changes to the investment strategy have resulted in a \$1.4 million benefit to the County's total pooled cash investment portfolio.

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<sup>1</sup> The Investment Committee is composed of the following county staff positions: Chief Financial Officer, Department of Finance Director, Department of Tax Administration Director, Department of Finance Deputy Director, Department of Finance Investment Manager, and Department of Finance Investment Analysts.

<sup>2</sup> The scope of this study did not include the County's pension (retirement) funds, which are separately managed and maintained by the Retirement Administration Agency. This study was not an audit of controls over investment operations or allocations of investment earnings or fees. The County's Office of Internal Audit reviewed investment operations as part of a larger review of controls related to the implementation of the County's enterprise resource planning system (FOCUS).

<sup>3</sup> Virginia Municipal League and Virginia Association of Counties (VML/VACO).

Although the recent changes to the County's investment strategy have improved the relative performance of the portfolio, investment earnings continue to be affected by national economic conditions and low interest rates. Interest revenue generated from the pooled cash investment portfolio decreased from \$19.6 million in 2013 to \$11.8 million at the end of FY 2015. According to the Department of Finance, the decline in interest revenue can be partly attributed to the low Federal Funds target rate and a \$40 million decrease in the portfolio balance from FY 2013 to FY 2014.

### **Negative Cash Balances**

Under certain circumstances, negative balances in the pooled cash accounts can reduce the amount of money the County has available to invest. The Department of Finance has implemented a procedure to monitor negative balances in the pooled cash accounts. Each month, the Department of Finance produces a "Negative Pooled Cash Monthly Monitoring" report that identifies negative balances and categorizes those balances as "Acceptable" or "Follow-up Needed." The April 2015 negative pooled cash report identified nine accounts with a total combined negative balance of \$1.8 million. The Department of Finance classified \$1.5 million of the total \$1.8 negative cash balance as "Acceptable," noting that the negative balances were in reimbursable grant funds that were expected to be negative.

### **Comparative Information from Other Jurisdictions**

The Audit Committee requested comparative investment information from other local jurisdictions. We received information from Prince William County and Arlington County. Loudoun County did not respond to our request. It is important to note that each jurisdiction has established separate investment policies with different maximum maturities and asset allocation standards.<sup>4</sup> Different reporting and investing practices further complicate efforts to make direct comparisons among the other local jurisdictions.

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<sup>4</sup> The Code of Virginia – Investment of Public Funds Act establishes the standards for investments of public funds for local governments. Under Virginia Code, local governments are allowed to adopt their own policies regarding the maximum maturity period of investments, the use of allowable investment instruments and deposit products, and the maximum percent of each instrument relative to the total size of the portfolio.

**FISCAL YEAR 2015 (Partial Year)**  
**July 1, 2014 - March 31, 2015**

	<b>Fairfax County</b>	<b>Prince William County</b>	<b>Arlington County</b>
<b>Average Daily Balance (1)</b>	\$ 2,959,624,723	\$ 950,000,000	\$ 498,342,009
<b>Yield (2)</b>	0.41%	1.22%	0.72%
<b>Weighted Average Maturity (3)</b>	183 days	1,224 days	672 days
<b>Interest Income</b>	\$ 8,800,348	\$ 8,668,513	\$ 2,506,154

**FISCAL YEAR 2014**  
**July 1, 2013 - June 30, 2014**

	<b>Fairfax County</b>	<b>Prince William County</b>	<b>Arlington County</b>
<b>Average Daily Balance (1)</b>	\$ 2,810,336,939	\$ 927,600,000	\$ 441,290,166
<b>Yield (2)</b>	0.42%	1.38%	0.47%
<b>Weighted Average Maturity (3)</b>	146 days	1,332 days	690 days
<b>Interest Income</b>	\$ 12,821,569	\$ 12,831,082	\$ 4,414,668

**FISCAL YEAR 2013**  
**July 1, 2012 - June 30, 2013**

	<b>Fairfax County</b>	<b>Prince William County</b>	<b>Arlington County</b>
<b>Average Daily Balance (1)</b>	\$ 2,848,464,830	\$ 929,000,000	\$ 377,316,369
<b>Yield (2)</b>	0.60%	1.55%	0.66%
<b>Weighted Average Maturity (3)</b>	108 days	1,476 days	778 days
<b>Interest Income</b>	\$ 19,614,285	\$ 14,442,552	\$ 4,876,375

See "Notes" on the following page.



**NOTES:**

The investment portfolio information reflects the separate investment policies adopted by each jurisdiction. Different reporting and investing practices further complicate efforts to make direct comparisons among other local jurisdictions. The pooled investment portfolios include monies maintained and invested for participating county funds and component units. The investment portfolio information does not include restricted bond funds or pension (retirement) funds. Retirement fund investments are separately managed and maintained.

**1 Average Daily Balance (Portfolio Size)**

Fairfax County includes General Obligation bond proceeds in its pooled investment portfolio. Arlington County considers all bond funds to be restricted and did not include those funds in their reported pooled investment portfolio. Arlington County invests all unexpended bond funds in the State Non-Arbitrage Program (SNAP).

**2 Yield (Rate of Return)**

Yields are reported before fees (e.g. banking custodian, rating agency, Bloomberg). Arlington County marks to market monthly and tracks the total return of their portfolio taking market changes into account.

**3 Weighted Average Maturity (WAM)**

Prince William County and Arlington County reported the WAM as a period-end snapshot. Prince William County annualized the WAM for fiscal year 2015. Fairfax County reported the WAM as the weighted monthly average.

**BUDGET-TO-ACTUAL TRENDS  
GENERAL FUND**

**BACKGROUND**

The Audit Committee Work Plan for this quarter included a compilation of general information regarding budget-to-actual trends in the General Fund. The County’s process for allocating the remaining General Fund balance at fiscal year-end is known as “carryover.” The carryover process occurs in July and August, following the end of the fiscal year (June 30). The Board of Supervisors typically approves the final Carryover Package in September. During the carryover process, the Department of Management and Budget (DMB) identifies the portion of the total carryover balance that represents encumbrances and other required commitments.<sup>1</sup>

The following table shows the difference between budgeted (estimated) and actual General Fund revenues and expenditures for the past five fiscal years. The table also shows the total carryover balance, including encumbrances.

**General Fund Budget Carryover  
Difference between Budget (Estimates) and Actuals  
Fiscal years 2014 - 2010**

Fiscal Year	REVENUES				EXPENDITURES				TOTAL CARRYOVER** (A) + (B)
	Budgeted Revenues	Actual Revenues	Difference (A)	% of Total Carryover	Budgeted Expenditures	Actual Expenditures	Difference (B)	% of Total Carryover	
2014	3,573,961,085	3,582,236,865	\$ 8,275,780	12%	1,354,975,140	1,291,818,500	\$ 63,156,640	88%	\$ 71,432,420
2013	3,465,811,874	3,496,010,691	\$ 30,198,817	32%	1,332,068,655	1,268,707,797	\$ 63,360,858	68%	\$ 93,559,675
2012	3,354,520,264	3,377,652,643	\$ 23,132,379	31%	1,295,930,028	1,243,260,782	\$ 52,669,246	69%	\$ 75,801,625
2011	3,269,900,429	3,319,866,380	\$ 49,965,951	48%	1,257,276,305	1,187,804,890	\$ 54,471,415	52%	\$ 104,437,366
2010	3,319,883,857	3,348,718,663	\$ 28,834,806	29%	1,253,939,653	1,162,084,081	\$ 71,855,572	71%	\$ 100,690,378

**Source:** Carryover General Fund Statements and the County Executive’s Memo in Attachment B of the Carryover Package for fiscal years 2014 through 2010. Actual expenditures for FY 2010 and 2011 include amounts set aside for retirement reserves. Actual expenditures for FY 2012 include the amount set aside for the child care reserve.

\*\* The Total Carryover Balance includes encumbrances.

During the past five fiscal years, the County’s total carryover balance has decreased from \$101 million in FY 2010 to \$71 million in FY 2014. Differences between budgeted (estimated) and actual expenditures typically represent a significant portion of the total carryover balance. In FY 2014, the expenditure balance represented 88 percent of the total \$71 million carryover balance.

Each year, the total carryover balance is adjusted to account for encumbrances and other required commitments. Encumbrances are separately identified in the County’s enterprise resource planning system (FOCUS). DMB provides guidance to department/agency directors regarding the carryover review process, including the justification process for encumbrances and other adjustments. Department/Agency directors are

<sup>1</sup> The County defines encumbrances as, “... legally obligated funding for items/services/contracts for which final financial processing has not been completed.” The County defines unencumbered carryover as items that were previously approved by the Board of Supervisors, but were not purchased during the fiscal year due to timing or other issues. Administrative adjustments are other funding priorities identified by the County Executive and the Board of Supervisors. Administrative adjustments also include adjustments to the Managed Reserve and Revenue Stabilization Fund.

required to provide justification for each category of carryover adjustments: Encumbrances, Unencumbered Commitments, and Administrative Adjustments.

The “Net Carryover Balance” is the balance that remains after encumbered carryover, unencumbered carryover, and other adjustments are subtracted from the Total Carryover Balance. In April 2015, the Board of Supervisors approved a policy that directed the County Executive to allocate a set percentage of the net carryover balance to capital infrastructure (20 percent) and required reserves (40 percent).

The following table shows the total carryover balance less encumbrances and other adjustments for the past five fiscal years. Adjustments to the total carryover balance are presented in detail in the County Executive’s Carryover Package. The remaining net carryover balance is usually reserved for future annual budgets or other future requirements.

**Total Carryover Balance Less Encumbrances and Other Adjustments\*\*  
Fiscal years 2014 – 2010**

<b>Fiscal Year</b>	<b>Total Carryover Balance (a)</b>	<b>Encumbered Carryover (b)</b>	<b>Unencumbered Carryover (c)</b>	<b>Other Adjustments (d)</b>	<b>Balance After Adjustments (a)-(b)-(c)-(d)</b>
2014	\$ 71,432,420	\$ 34,551,246	\$ 1,837,160	\$ 24,011,000	\$ 11,033,014
2013	\$ 93,559,675	\$ 32,717,214	\$ 4,116,330	\$ 41,109,355	\$ 15,616,776
2012	\$ 75,801,625	\$ 28,436,550	\$ 6,042,141	\$ 26,942,489	\$ 14,380,445
2011	\$ 104,437,366	\$ 34,391,637	\$ 9,906,990	\$ 31,445,576	\$ 28,693,163
2010	\$ 100,690,378	\$ 37,671,645	\$ 3,023,440	\$ 36,042,150	\$ 23,953,143

**Source:** Carryover General Fund Statements, the County Executive’s Memo in Attachment B of the Carryover Package for FY 2014 through 2010, and the Department of Management and Budget.

\*\* Other Adjustments include the combined total of the County Executive’s administrative adjustments, adjustments to the Managed Reserve and Revenue Stabilization Fund, and other Board adjustments. The net balance is typically reserved for future annual budgets or other future requirements.

**SCOPE AND METHODOLOGY**

The scope of our review included an analysis of budget-to-actual trends in the General Fund for the past five fiscal years. The FY 2015 carryover balances were not finalized at the time of our review. Therefore, the scope of our review did not include FY 2015.

We reviewed the available Budget Carryover Packages and General Fund statements for fiscal years 2014 through 2010. We also reviewed budget-to-actual reports in the County’s enterprise resource planning system (FOCUS) and memos from the Department of Management and Budget regarding the budget carryover process.

## OBJECTIVES AND RESULTS

Business Objective		Study Assessment
Availability of approved budget carryover packages.		Satisfactory
Budget carryover guidance provided to departments/agencies.		Satisfactory
Alignment of line-item budgets for operating expenditures with actual experience.		Needs Improvement
Control Summary		
Good Controls	Weak Controls	
<ul style="list-style-type: none"> <li>The approved budget carryover packages and General Fund statements are available on the County's website.</li> <li>Each fiscal year, the Department of Management and Budget provides department/agency directors with guidance regarding budget carryover process, including the justification process for encumbrances and other carryover adjustments.</li> </ul>	<ul style="list-style-type: none"> <li>The County's "bottom line" approach to budgeting does not align individual line-item expenditure budgets with actual experience.</li> </ul>	

## OBSERVATIONS AND ACTION PLAN

The following table presents the observations and recommendations from the study along with management's action plan to address these issues.

### Fairfax County Office of Financial and Program Audit

BUDGET-TO-ACTUAL TRENDS			
Risk Ranking	MEDIUM		
<p>As noted in our study, General Fund expenditures typically represent the largest portion of the total carryover balance. General Fund direct expenditures are tracked in five broad categories: (1) Operating Costs, (2) Personnel Costs, (3) Fringe Benefits, (4) Capital Equipment, and (5) Recovered Costs. In FY 2014, the operating cost category represented \$45 million of the total \$63 million General Fund direct expenditures carryover balance.</p>			
General Fund Direct Expenditures Budget-to-Actuals			
	Fiscal Year 2014		
	Revised Budget	Actual	Difference (Carryover)
Operating Costs	377,639,431	332,101,180	45,538,251
Personnel Services	719,258,192	712,590,507	6,667,685
Fringe Benefits	298,051,727	286,808,294	11,243,433
Capital Equipment	3,193,468	1,615,894	1,577,574
Recovered Costs	(43,167,678)	(41,297,375)	(1,870,303)
<b>TOTAL Expenditures</b>	<b>\$1,354,975,140</b>	<b>\$1,291,818,500</b>	<b>\$63,156,640</b>
<p><b>Source:</b> FY 2014 Carryover General Fund Statement. The \$63 million balance includes encumbrances.</p>			

The General Fund operating budget is allocated and tracked among various “commitment items” in the County’s enterprise resource planning system (FOCUS). Each commitment item in FOCUS represents a specific budget line-item. For example, there are individual commitment items for Office Supplies, Postage, Consultant Services, Fuel, Utilities, Computer Equipment, and Vehicle Replacements. In total, there are over 240 operating expenditure commitment items in FOCUS.

From our review of budget-to-actual General Fund expenditures in FOCUS, we noted that the line-item budgets for some operating expenditures are consistently misaligned with actual expenditures. For example, the General Fund “Office Supplies” commitment item had a positive remaining balance (budget underrun) of \$3.6 million in FY 2014, \$7.1 million in FY 2013, and \$3.4 million in FY 2012. Conversely, the General Fund “Postage” commitment item had a negative balance (budget overrun) of -\$2.0 million in FY 2014, -\$2.1 million in FY 2013, and -\$692,000 in FY 2012.

According to officials in the Department of Management and Budget, the County uses a “bottom line” approach to budgeting, which means that individual line-item budgets are not expected to align with actual experience. The County considers this to be an acceptable practice if the combined total of the budget overruns and underruns (bottom line) is positive.

The Office of Financial and Program Audit previously recommended in November 2011 and May 2015 that the Department of Management and Budget should review the budget allocations for line-item expenditures to ensure that they are more closely aligned with actual experience.

**Recommendation**

The Department of Management and Budget should review the budget allocations for line-item operating expenditures to ensure that they are more closely aligned with actual experience.

**Action Plan**

Point of Contact	Target Implementation Date	Email Address
Joe Mondoro	FY 2017 Budget Development	Joseph.Mondoro@fairfaxcounty.gov

**MANAGEMENT RESPONSE:**

The controls that the County has in place to ensure that departments remain within budget are not negatively impacted by not aligning individual line-item budgets with actual experience. However, the analysis of department spending is made more difficult when budgets and actuals are not aligned. Therefore, in the case of multiple years of significant variation between actuals and budgets at the commitment item level, staff will work to better align budgets with prior year actuals. It is important to recognize that this realignment will have no impact on bottom line agency budgets or savings at year-end.

## VACANT POSITIONS INFORMATIONAL STUDY

### BACKGROUND

Management responded to the Board of Supervisors regarding vacant positions in a FY 2015 Budget Q&A. To that end, this quarter's approved Audit Committee Work Plan included an informational review whereby we worked with management to assess the information provided.

### SCOPE AND METHODOLOGY

The scope of our informational review included analyzing vacant position data as of June 2015, provided by the Department of Human Resources. This included liaising with management to confirm which positions were open for 18-35 months, 36 months or greater. We also endeavored to assess if savings could be garnered by eliminating these positions. The vacant position data included; agencies, position names, funding types, pay grades and months vacant.

Position vacancy information (as of 6/8/2015) is provided below. The information by agency was stratified between the 18-35 month/36 month categories:

<b>Vacancies by Agency</b>	<b>18-35 Months</b>	<b>At least 36 Months</b>	<b>Grand Total</b>
Board of Supervisors	1		1
Cable & Consumer Services	1		1
Circuit Court & Records	1	4	5
Community Services Board	14	5	19
County Executive	1		1
DPWES Land Development Services		2	2
DPWES Solid Waste Management	3		3
DPWES Stormwater Management	1		1
DPWES Wastewater Management	3		3
Family Services	3		3
Finance	2	2	4
Fire & Rescue		1	1
Health Department	13	7	20
Housing & Community Development	2	2	4
Information Technology	8	13	21
Juvenile & Domestic Relations Court	2		2
Library		2	2
Management & Budget	2		2
Neighborhood & Community Services	1	1	2
Park Authority	7	26	33
Planning & Zoning	3		3
Police	7	4	11
Public Safety Communications	3		3
Purchasing & Supply Management	1		1
Reston Community Center		1	1
Sheriff		1	1
Transportation	2	1	3
Vehicle Services	4	2	6
<b>Grand Total</b>	<b>85</b>	<b>74</b>	<b>159</b>

Vacancies by Fund	Fund Code	18-35 Months	At least 36 Months	Grand Total
General Fund	10001	56	58	114
Fairfax-Falls Church Community Services Board	40040	14	5	19
Reston Community Center	40050		1	1
E-911	40090	3		3
Stormwater Services	40100	1		1
Refuse Disposal	40150	1		1
Energy Resource Recovery (ERR) Facility	40160	1		1
I-95 Refuse Disposal	40170	1		1
Elderly Housing Programs	40330		2	2
Department of Vehicle Services	60010	4	2	6
Document Services	60020		1	1
Technology Infrastructure Services	60030	1	5	6
Sewer Operation and Maintenance	69010	3		3
<b>Grand Total</b>		<b>85</b>	<b>74</b>	<b>159</b>

## OBJECTIVES AND RESULTS

Business Objective	Study Assessment
Review of financial impact of vacant positions.	Satisfactory
Elimination of funding for vacant positions.	Satisfactory

Control Summary	
Good Controls	Weak Controls
<ul style="list-style-type: none"> <li>DMB, DHR and departments/agencies review vacant positions to identify potential savings.</li> <li>DMB worked with departments/agencies to eliminate positions in FY 2016.</li> </ul>	<ul style="list-style-type: none"> <li>Positions remain vacant for periods <math>\geq 18</math> months and <math>\geq 36</math> months.</li> </ul>

VACANT POSITION REVIEW		
<b>Risk Ranking</b>	<b>LOW</b>	
Positions remain vacant for periods $\geq 18$ months and $\geq 36$ months.		
<b>Recommendation</b>		
DMB and DHR should continue to monitor vacant positions to identify potential cost savings.		
<b>Action Plan</b>		
<b>Point of Contact</b>	<b>Target Implementation Date</b>	<b>Email Address</b>
Susan Woodruff Cathy Spage Joe Mondoro		Susan.Woodruff@FairfaxCounty.gov Catherine.Spague@FairfaxCounty.gov Joseph.Mondoro@FairfaxCounty.gov

**MANAGEMENT RESPONSE:**

The Department of Management and Budget, working with the Department of Human Resources, will continue to monitor vacant positions to determine if those that have been vacant for an extended period should be eliminated. As agencies have been operating with reduced Personnel Services budgets as a result of budget cuts and have been maintaining position vacancies in order to stay within their budgets, it is not anticipated that savings could be generated through the elimination of vacant positions



## DULLES METRORAIL PROJECT STATUS

### Background

The Dulles Metrorail Project is a 23-mile extension of the Metrorail system through the Dulles Corridor. The project is divided into two phases. Phase 1 of the project includes five new stations as well as improvements to the West Falls Church rail yard. Phase 2 of the project will include six new stations as well as a maintenance and storage facility at Dulles International Airport. The Metropolitan Washington Airports Authority (MWAA) is responsible for managing the Dulles Metrorail Project through the substantial completion of each phase, at which point the project will be turned over to the Washington Metropolitan Area Transit Authority (WMATA).

The total combined budget for Phase 1 and Phase 2 is currently \$6.47 billion (\$3.344 billion for Phase 1 and \$3.126 billion for Phase 2). Funding for the project is provided through a combination of federal, state, and local sources. Fairfax County's baseline funding obligation for the project is 16.1% of the actual project construction costs, notwithstanding construction costs related to parking garages. Fairfax County's project funding obligation does not include MWAA's actual finance costs.

### Project Status

On April, 27, 2015, MWAA announced a projected \$76 million cost overrun in the Phase 1 construction budget. To address the projected cost overrun, MWAA transferred \$76 million from the "Project Finance Costs" budget line-item to the baseline construction budget, which increased the total Phase 1 construction budget from \$2.906 billion to \$2.982 billion. As shown in the table below, the \$3.344 billion total project budget for Phase 1 did not change.<sup>1-2</sup>

**Phase 1 Budget Adjustment  
Projected Construction Cost Overrun**

PHASE 1	Previous Budget	Budget Change	Estimate at Completion
Baseline Construction	2,443,450,279	76,018,037	2,519,468,316
Contingency	462,245,014	-	462,245,014
<b>Construction Budget</b>	<b>\$ 2,905,695,293</b>	<b>\$ 76,018,037</b>	<b>\$ 2,981,713,330</b>
Project Finance Costs (MWAA)	438,184,571	<span style="color: red;">(76,018,037)</span>	362,166,534
<b>Total Project Budget</b>	<b>\$ 3,343,879,864</b>	<b>-</b>	<b>\$ 3,343,879,864</b>

**Source:** "Phase 1 Cost and Schedule Update as of April 30, 2015," presented to the MWAA Special Joint Dulles Corridor and Finance Committee on May 20, 2015.

In accordance with the project funding agreement, Fairfax County will cover approximately \$12 million of the projected cost overrun. Loudoun County and MWAA will cover approximately \$4 million and \$3 million of the cost overrun, respectively. The remaining \$57 million will be covered by Dulles Toll Road revenues. According to MWAA officials, the \$76 million cost overrun will have no impact on the toll rates.

<sup>1</sup> Fairfax County separately funded the costs associated with the Wiehle Avenue parking garage.

<sup>2</sup> The total \$462 million contingency budget for Phase 1 includes a \$150 million budget increase, which was approved by the MWAA Board in June 2012.

Phase 1 of the Project is currently in closeout status and some activities are continuing past the opening date (July 26, 2014). Final closeout for Phase 1 is expected to occur in 2016.

**Dulles Metrorail Project Phase 1  
Budget and Actual Expenditures  
As of April 2015**

PHASE 1	Budget (a)	Expenditures (b)	Remaining (a) - (b)	% of Budget Spent (b) / (a)
Baseline Construction	2,519,468,316	2,279,593,411	239,874,905	90%
Contingency	462,245,014	462,245,014	-	100%
<b>Total Phase 1 Project Construction</b>	<b>\$ 2,981,713,330</b>	<b>\$ 2,741,838,425</b>	<b>\$ 239,874,905</b>	<b>92%</b>
Project Finance Costs (MWAA)	362,166,534	229,434,304	132,732,230	63%
<b>Total Phase 1</b>	<b>\$ 3,343,879,864</b>	<b>\$ 2,971,272,729</b>	<b>\$ 372,607,135</b>	<b>89%</b>

**Source:** Phase 1 budget and expenditures reported in MWAA's Monthly Progress Reports for April 2015 (issued in May 2015) and the Monthly Cost and Schedule Update as of April 30, 2015, presented to MWAA's Board of Directors on June 17, 2015.

Concurrent with the announcement of a \$76 million construction cost overrun for Phase 1, MWAA also announced a 13 month schedule extension for Phase 2 of the project. According to MWAA officials, the Phase 2 schedule extension resulted from design modifications to address safety and reliability as well as the new stormwater regulations. MWAA is still in the process of evaluating the potential costs associated with the Phase 2 schedule extension. MWAA officials indicated that the final costs associated with the schedule extension should be finalized in September 2015. According to MWAA officials, additional costs arising from the Phase 2 schedule extension will be covered by the \$550 million Phase 2 contingency budget and will have no impact on the toll rates on the Dulles Toll Road. The current modified schedule indicates that Phase 2 is projected to start revenue service in 2020.

**Dulles Metrorail Project Phase 2  
Budget and Actual Expenditures<sup>3</sup>  
As of April 2015**

PHASE 2	Budget (a)	Expenditures (b)	Remaining (a) - (b)	% of Budget Spent (b) / (a)
Baseline Construction	2,226,784,385	394,488,273	1,832,296,112	18%
Contingency	551,451,179	43,729,207	507,721,972	8%
<b>Total Phase 2 Project Construction</b>	<b>\$ 2,778,235,564</b>	<b>\$ 438,217,480</b>	<b>\$ 2,340,018,084</b>	<b>16%</b>
Parking Garages (Fairfax and Loudoun)	348,215,194	See footnote.	See footnote.	See footnote.
<b>Total Phase 2</b>	<b>\$ 3,126,450,758</b>	<b>\$ 438,217,480</b>	<b>\$ 2,688,233,278</b>	<b>14%</b>

**Source:** Phase 2 budget and expenditures reported in MWAA's Monthly Progress Reports for April 2015 (issued in May 2015) and the Monthly Cost and Schedule Update as of April 30, 2015, presented to MWAA's Board of Directors on June 17, 2015.

<sup>3</sup> Fairfax and Loudoun counties are responsible for designing and building parking garages with funding sources that are outside of the Project funding agreement. Fairfax County is responsible for two parking garages: one at the Herndon Station and one at the Innovation Center Station. Loudoun County is responsible for three parking garages: one at the Route 606 Station and two at the Route 772 Station. In December 2014, Fairfax and Loudoun counties finalized the agreements for federal Transportation Infrastructure and Finance Innovation Act (TIFIA) loans to help offset their respective project costs. Fairfax County received a \$403 million TIFIA loan and Loudoun County received a \$193 million TIFIA loan.

**LIST OF ACRONYMS**

24 CFR	Code of Federal Regulations, Title 24 - Housing and Urban Development
AR	Accounts Receivable
DHCD	Department of Housing and Community Development
DMB	Department of Management and Budget
DPWES	Department of Public Works and Environmental Services
DTA	Department of Tax Administration
FCRHA	Fairfax County Redevelopment and Housing Authority
FIPS	Federal Information Processing Standards
FOCUS	Fairfax County Unified System
FY	Fiscal Year
FYTD	Fiscal Year-to-date
HAP	Housing Assistance Payment
HCV	Housing Choice Voucher
HUD	Housing Urban Development
IRMS	Integrated Revenue Management System
LDS	Land Development Services
LOPs	Landlord Overpayments
LOPTR	Landlord Overpayment Tracking Report
MSA	Metropolitan Statistical Area
MTW	Moving to Work
MWAA	Metropolitan Washington Airports Authority
PHA	Public Housing Authority
SHSS	Senior Housing Services Specialist
SNAP	State Non-Arbitrage Program
WAM	Weighted Average Maturity