



Connecticut Housing Finance Authority

Cost Certification
Preparation Guideline

2018

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TABLE OF CONTENTS

| | |
|---|---------|
| I. Requirements..... | Page 3 |
| II. Eligible Costs..... | Page 4 |
| III. Cost Certification Process..... | Page 5 |
| IV. General Contractor’s Cost Certification Instructions..... | Page 6 |
| V. Mortgagor’s LIHTC Cost Certification Instructions..... | Page 7 |
| Mortgagor’s Certification of Placed-in-Service Date..... | Page 8 |
| Syndicator or Investor Certification..... | Page 9 |
| Request for Issuance of Form(s) 8609..... | Page 10 |

COST CERTIFICATION PREPARATION GUIDELINE

PURPOSE

This Guide sets forth (a) the standards to be followed in the preparation of Cost Certifications and in the conduct of the audits, and (b) the minimum scope of audit and report format acceptable to The Connecticut Housing Finance Authority (CHFA). It does not provide detailed audit procedures nor is it intended to supplant the Certified Public Accountants' (CPA) judgment as to the work required. This Guide is applicable to audits of General Contractors' and Mortgagor's-LIHTC cost certifications as required for multifamily rental housing developments funded with CHFA financing and/or Low-Income Housing Tax Credits (LIHTCs).

The purpose of the cost certification is to establish the total costs incurred by the contractor and the mortgagor to complete the development so that CHFA may determine at Final Closing the total development cost of the project, the final principal amount of the CHFA loan(s), the final amount of the annual allocation of LIHTCs, and the mortgagor's equity in the development.

Adequate records must be maintained for three years following Substantial Completion for the purpose of verifying costs. All books and records, contracts, invoices, receiving reports, particulars of material, labor and equipment entering into the construction of the project, and other records appropriate to such accounts must be made available to CHFA for inspection and copying upon request.

Because of the complexity of the rules governing CHFA's Multifamily Rental Housing and the LIHTC programs, all participants are urged to seek appropriate legal and accounting advice regarding construction-related matters, monthly draw requests, cost certifications and other matters associated with the disbursement of CHFA funding. Borrowers/mortgagors and general contractors may engage accounting and legal representation of their choice without CHFA approval, and are urged to do so at an early stage in the processing/underwriting of CHFA financing.

All questions regarding this guideline should be directed to Maj Kabir, Multifamily Underwriter, via e-mail at maj.kabir@chfa.org or via phone at 860-571-4238.

I. Requirements

All developments consisting of more than ten units containing LIHTCs, with or without CHFA financing, are required to complete General Contractor's and Mortgagor's-LIHTC Cost Certifications.

The requirements for cost certifications may differ for non-LIHTC financed developments. CHFA may require cost certifications for developments that receive state financing or other programmatic funding. To determine the cost certification format and requirements, please refer to the original Notice of Funding Availability (NOFA) for the specific funding program, and any specific program bulletins or guidelines.

The General Contractor's and the Mortgagor's-LIHTC Cost Certifications must be prepared by an independent, third-party CPA. The certifications must be prepared in accordance with Generally Accepted Accounting Standards, Generally Accepted Government Audit Standards, and audit standards acceptable to the American Institute of Certified Public Accountants. The certifications must be accompanied by an Independent Auditor's Report, including the unqualified opinion of the CPA.

The Cost Certifications completed by the CPAs must be submitted on the forms provided by CHFA in the Cost Certification Workbook. Such forms include the General Contractor's Certificate of Actual Costs and the Mortgagor's-LIHTC Cost Certification, which correspond to the CHFA project cost summary and development budget forms. The CPA's cost certification should follow the General Contractor's Certificate of Actual Costs and the Mortgagor's-LIHTC Cost Certification worksheet line items to eliminate delays in the review of the cost certification. Variation to this format may result in the return and required re-submission of the cost certification. If a development consists of multiple buildings, the CPA must complete the LIHTC Building Schedule worksheet of the Cost Certification Workbook.

The General Contractor's Cost Certification shall not be prepared by the same CPA preparing the Mortgagor's-LIHTC Cost Certification. It is acceptable for the same CPA firm to prepare both certifications as long as different accountants are preparing them.

If payables are noted on the cost certifications, then the general contractor and the mortgagor shall submit Supplemental Cost Certifications.

Note: If there is more than one general contractor for any development, CHFA requires a separate General Contractor's Cost Certification from each general contractor.

II. Eligible Costs

Eligible costs are those approved costs that have been or will be incurred within 120 days after the date of Substantial Completion.

In the event that the project is financed in whole or in part with the proceeds of tax exempt bonds issued pursuant to Section 142 of the IRC, certain restrictions and limitations apply with respect to the costs or the portions thereof which are includable in the total development cost. Such restrictions and limitations shall control in the event of any conflict or inconsistency with any other provisions of this Guide.

The eligible costs may include all costs paid in cash under the terms of the construction contract. The contract price may be amended for approval change orders, and reduced for liquidated damages as required by the contract. In addition, the eligible costs may include various Fees, Finance and Carrying Charges, and other cost categories as identified in the most recent executed Development Budget.

The development budget approved as of initial closing may be modified during the development process with the prior written consent of CHFA. The most recent development budget approved by CHFA shall serve as the basis for review and acceptance of required cost certifications upon construction completion. Mortgagors are strongly advised to coordinate with CHFA to confirm that the appropriate development budget is used to complete the cost certifications.

III. Cost Certification Process

Within 120 days of Substantial Completion, the mortgagor and the general contractor shall submit to CHFA general contractor's and mortgagors-LIHTC cost certifications of the actual costs for construction and development of the project.

Consistent with Section 42(m)(2) of the Internal Revenue Code and industry best practices, CHFA limits the award of LIHTC and other State controlled resources to the funding gap necessary to make a transaction viable. Even if a specific line item is not being paid with LIHTC equity or CHFA funds, any excessive cost, regardless of the source of financing, increases the gap and affects the public subsidy needed by a transaction. As a result, CHFA reserves the right to require a justification of any development cost line item.

It is the mortgagor's responsibility to manage all timing requirements. Please refer to the CHFA LIHTC Guideline regarding rescission of tax credits.

Required Documentation, if not previously submitted to CHFA:

1. Copy of the fully executed Construction Contract between the owner and the general contractor;
2. Completion of the [Mortgagor's Certification](#) of Placed-In-Service Date form for each building;
3. Letter from the mortgagor requesting the [Form\(s\) 8609](#) from CHFA;
4. [Letter](#) from either the syndicator or, if private placement, the investor stating the Cost Certification has been reviewed and approved. The letter should also confirm the first year of the credit period;
5. Copies of approved construction change orders (for LIHTC only developments or if another entity other than CHFA issued the Tax-Exempt Bonds);
6. Copy of the executed mortgage notes (not the actual mortgages) for all of the loans to the development, including the bridge loan, if applicable, and the permanent loan(s). The mortgagor must provide evidence of funding commitments for any non-debt source(s) of funds.
7. If construction period Net Operating Income (NOI) is a funding source, the CPA must prepare and provide an Operating (or Income and Expense) Statement covering the period from first occupancy to the date of substantial completion to evidence the availability of NOI. If NOI is

identified as an original or alternative source of funds, it must be reflected on the cost certification prepared by the CPA.

8. Copy of fully executed Limited Partnership Agreement with the investor limited partner, including all exhibits.

CHFA requires a minimum of 60-days from the date it receives the final Mortgagor's-LIHTC Cost Certification to issue the Form(s) 8609. The mortgagor must provide adequate and accurate information for the timely issuance of the Form(s) 8609. CHFA reserves the right to return any request(s) for the issuance of Form(s) 8609 if the mortgagor fails to communicate with CHFA regarding delays and concerns.

As required, mortgagor shall submit a supplemental cost certification acceptable to CHFA within 60-days of final closing.

Adequate records must be maintained by the mortgagor and the general contractor for the purpose of verifying costs. All books, records, contracts, invoices, reports, particulars of material, labor, and equipment entering into the construction (if any) of the development, and other records appropriate to such accounts must be made available to CHFA and its representatives for inspection and copying upon request.

IV. General Contractor's Cost Certification Instructions

For each Construction Division (Divisions 2 through 16) the CPA must submit a schedule of costs, which includes monies paid to vendor(s), as well as general requirements, builder's overhead and profit, building permit and other fees, bond premium costs and CHFA approved change orders. The certification should include cost determinations for construction costs associated with the development including designated punch list items and allowances for seasonal work.

The General Contractor's Cost Certification must follow the CHFA General Contractor's Certificate of Actual Cost Form. The original General Contractor's Cost Certification must be signed by the general contractor/construction manager and the signature must be notarized. Two (2) original bound copies and an Excel version of the completed General Contractor's Cost Certification are to be sent to CHFA for review.

For developments with construction contract between owner and GC where the basis of payment is the Cost of the Work Plus a fee with a Guaranteed Maximum Price, the eligible construction cost amount shall be the lesser of:

- (i) the actual cash paid and to be paid at final closing, as reflected on the General Contractor's Certificate of Actual Costs, or
- (ii) the contract price under the construction contract, as reflected on the most recent approved project cost summary

General Requirements and Builder's Overhead and Profit shall be calculated as a percentage of the eligible construction cost (percentage as reflected on the most recent approved project cost summary). All CHFA approved change orders shall be an adder to the above mentioned eligible construction cost. Additional bond and/or permit costs generated by the change order preparation

and approval process during construction will be handled separately through a final change order at the completion of construction.

Any hard cost savings realized during or at the end of the construction shall be added to the construction contingency via credit change orders. These savings shall go to the mortgagor and may be used for betterments to the projects as approved by CHFA. Any cost saving agreement between mortgagor and GC must be disclosed to and approved by CHFA at initial closing. All remaining hard cost savings shall be allocated as described in the [Multifamily Rental Housing Program Guideline](#).

For developments with construction contract between owner and GC where the basis of payment Stipulated Sum, the eligible construction cost amount shall be the contract price under the construction contract, as reflected on the most recent approved project cost summary. All CHFA approved change orders shall be an adder to the above mentioned eligible construction cost. The amount of actual cash paid or to be paid as described above shall be reduced by CHFA to the extent such amount includes any costs disallowed by CHFA in its review of the contractor's certificate of actual cost. Any hard cost savings/overages realized at the end of the construction shall go to the GC.

V. Mortgagor's LIHTC Cost Certification Instructions

The CPA shall complete the Mortgagor's-LIHTC Cost Certification form. The certification must include the line item costs included in the Development Budget approved by CHFA and all certified sources.

If the cost certification does not consist of LIHTCs, complete pages 1, 2, 3, 4 (actual cost columns), and 6 of the Mortgagor's-LIHTC Cost Certification form. If the cost certification includes LIHTCs, complete the entire Mortgagor's-LIHTC Cost Certification form.

The original Mortgagor's-LIHTC Cost Certification must be signed by the General Partner or Managing Member of the Mortgagor and the signature must be notarized. Two (2) original bound copies and an excel version of the completed Mortgagor's-LIHTC Cost Certification are to be sent to CHFA for review. Additionally, an Excel version (not PDF) of the Cost Certification Workbook shall be e-mailed to CHFA.

CHFA will use the Mortgagor's-LIHTC Cost Certification submission to establish the development's final maximum mortgage and tax credit amounts for LIHTC developments.

For non-LIHTC developments, if applicable, CHFA will review the Mortgagor's Cost Certification to establish the total costs incurred to complete the housing development.

MORTGAGOR'S CERTIFICATION OF PLACED-IN-SERVICE DATE
(A SEPARATE CERTIFICATION IS REQUIRED FOR EACH BUILDING)

Development Name, City or Town and CHFA # _____

Building Identification Number _____

The undersigned hereby certifies to the Connecticut Housing Finance Authority that the building located at _____ is a qualified low-income housing building in accordance with Section 42 of the Internal Revenue Code of 1986, as amended, (the "Code") and is eligible for an annual allocation of Low-Income Housing Tax Credits in the amount of \$_____.

The undersigned further certifies, pursuant to provisions of Section 42 of the Code, the following:

1. Date building was placed in service:
 - a. Acquisition-existing building (month/day/year) _____
 - b. Rehabilitation (month/day/year) _____
 - c. New construction (month/day/year) _____
2. Total Number of low-income units in the building _____
3. Total units in the building _____
4. Total Square footage of low-income units in the building _____
5. Total square footage of all residential units in the building _____
6. Eligible basis for the acquisition credit _____
7. Qualified basis for the acquisition credit _____
8. Eligible basis for new construction or rehabilitation _____
9. Qualified basis for new construction or rehabilitation _____
10. First year of the tax credit period _____

By: _____

| | |
|-----------|-----------------------------|
| Signature | Final Mortgagor Entity |
| Name | Mortgagor Taxpayer I.D. No. |
| Title | Date |

SAMPLE

SYNDICATOR OR INVESTOR CERTIFICATION

(Syndicator or Investor Letterhead)

Connecticut Housing Finance Authority
999 West Street
Rocky Hill, CT 06067

Re: Development Name, City or Town, and CHFA Development Number

This letter is to advise the Connecticut Housing Finance Authority that _____, syndicator of the Low-Income Housing Tax Credits for the above referenced development, has reviewed the attached cost certification dated _____ as prepared by _____, an independent certified public accountant. Please be advised that we concur with the development's sources and uses of funds and all costs represented to be includible in the eligible basis as indicated in the attached cost certification.

In addition, by this letter we are also confirming that the mortgagor of the development has elected to commence the start of the tax credit period in the year _____. Therefore, the mortgagor has chosen (not to)/(to) defer the start of the tax credit period until the year after the development was placed in service.

Sincerely,

SAMPLE

REQUEST FOR ISSUANCE OF FORM(S) 8609

Connecticut Housing Finance Authority
999 West Street
Rocky Hill, CT 06067

Re: Development Name, City or Town, and CHFA Development Number

This letter is to request the Connecticut Housing Finance Authority to review the attached General Contractor's and Mortgagor's-LIHTC Cost Certification for the issuance of the IRS Form(s) 8609.

Please be advised that _____, syndicator of the Low-Income Housing Tax Credits for the above referenced development, has reviewed the attached Cost Certification dated _____ as prepared by _____, an independent certified public accountant. The syndicator's concurrence with the development's Sources and Uses of Funds and all costs represented to be includible in the Eligible Basis as indicated in the attached Cost Certification is evidenced by the attached Syndicator or Investor Certification.

In addition, by this letter we are also confirming that the mortgagor of the development has elected to commence the start of the tax credit period in the year _____.

Sincerely,