



Connecticut Housing Finance Authority

Cost Certification
Preparation Guideline

2019

This Guideline is effective January 2019

COST CERTIFICATION PREPARATION GUIDELINE

I. Purpose

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.

The cost certification audit must be completed by an independent, third-party Certified Public Accountant (CPA) who is familiar with the requirements of Section 42 of the Internal Revenue Code (IRC).

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.

Questions related to the General Contractor's cost certification should be directed to Seema Malani, Architect, via e-mail at seema.malani@chfa.org or via phone at 860-571-4296. Questions related to the Mortgagor's-LIHTC cost certifications should be directed to Maj Kabir, Multifamily Underwriter, via e-mail at maj.kabir@chfa.org or via phone at 860-571-4238.

II. 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 funded developments.

Within 180 days of Substantial Completion (60 days past cut-off date), the mortgagor and the general contractor shall submit to CHFA General Contractor's and Mortgagor's-LIHTC cost certifications of the actual costs for the construction and the development of the project.

The cost certification must be submitted on the current version of the CHFA Cost Certification Workbook (the "workbook") posted on the CHFA website. The workbook includes two separate lists of required documentation to be submitted with the General Contractor's and Mortgagor's-LIHTC cost certifications.

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.

III. Description of Eligible Costs

Total development cost may include:

- Construction costs
- Architect fees
- Professional fees, such as legal and accounting, appraisal and market study, engineering and survey
- Furniture and equipment
- Construction period interest and fees
- Financing expenses, including loan application fees, loan origination fees, and mortgage insurance premium
- Tax Credit allocation and monitoring fees
- Real estate taxes and property and liability insurance
- Title and recording expenses
- Development reserves
- Developer fee
- Syndication fees and expenses
- Compliance monitoring fee
- Rent-up expenses
- Relocation expenses

IV. Interim Income (Income During Construction)

For a building that is occupied during the construction period, if there is a construction loan, that is, the owner is paying interest only on the loan and no principal, the interest (as well as taxes and insurance) is allowable in tax credit basis. If there is no construction loan, however, and the owner is paying both principal and interest, these costs are not basis eligible.

If the full cost of construction period interest, real estate tax, and property insurance are included in total cost, net income during construction must be calculated and included as a funding source.

V. 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, builder's profit-GMP fees, 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. Please note that the Project Cost Summary (PCS) shall be used as a source document for evaluating GC costs at Final Closing.

The General Contractor's Cost Certification must follow the CHFA General Contractor's Certificate of Actual Cost Form. The General Contractor's Cost Certification must be accompanied by the following documents:

1. Color copy of the most recent signed and approved Project Cost Summary (signed by both GC and Mortgagor);
 2. Copy of the fully-executed General Contractor's contract;
 3. Excel workbook for the Contractor's Cost Certification completed by the CPA(s);
 4. Once the General Contractor's Cost Certification review is finalized, provide one (1) original bound copy of the Contractor's Cost Certification signed by the general contractor/construction manager and the signature executed in blue ink must be notarized for CHFA record. The certifications must be accompanied by an Independent Auditor's Report, including the unqualified opinion of the CPA; and,
 5. Color PDF copy of the executed notarized General Contractor's Cost Certification.
- A. 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, CHFA recognized construction amount for cost certification purposes 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.

For reimbursement of costs associated with permit, other fees and bond premiums, the GC shall provide proof of payment, such as a paid receipt or paid invoice. The PCS submitted at Initial Closing shall be updated to reflect these actual costs incurred.

CHFA-recognized general requirements, builder's overhead and builder's profit-GMP fees are calculated as a percentage of the CHFA recognized construction cost (Subtotal for Divisions 2-16). The percentage for general requirements, builder's overhead and builder's profit-GMP fees is computed based on the most recent approved project cost summary.

All CHFA-approved change orders will be added to the above-mentioned recognized 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. 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 realized during or at the end of the construction will be added to the construction contingency via credit change orders. These savings will be controlled by the owner. Upon approval from CHFA, these savings may be used for betterments to the project. Any cost saving agreement between Owner and GC must be disclosed to and approved by

CHFA at the time of Initial Closing. All remaining hard cost savings will be allocated as described in the Multifamily Rental Housing Program Guideline, which is available on the CHFA website.

- B. For developments with construction contract between owner and GC where the basis of payment Stipulated Sum, CHFA recognized construction cost amount for cost certification shall be the contract price under the construction contract, as reflected on the most recent approved PCS, excluding costs for permit, other fees and bond premiums. For reimbursement of costs associated with permit, other fees and bond premiums, the GC shall provide proof of payment, such as a paid receipt or paid invoice. The PCS submitted at Initial Closing shall be updated to reflect these actual incurred amounts.

All CHFA-approved change orders will be added to the above-mentioned recognized 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. The amount of actual cash paid or to be paid as described above, shall be reduced by CHFA to the extent that such amount includes any costs disallowed by CHFA in its review of the contractor's certificate of actual cost.

The development owner must forward a copy of the CHFA approved G.C. Cost Data Sheet to the CPA that will prepare the Mortgagor's-LIHTC cost certification. CHFA will recognize these construction costs on the Mortgagor's-LIHTC cost certification.

VI. Mortgagor's-LIHTC Cost Certification Instructions

The mortgagor's cost certification shall include all costs incurred in the development of the project that have been paid for in cash by the mortgagor or will be paid for up to one hundred twenty (120) days from Substantial Completion.

Consistent with Section 42(m)(2) of the Internal Revenue Code and industry best practices, CHFA limits the award of LIHTC 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.

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, the entire Mortgagor's-LIHTC Cost Certification form must be completed.

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. One (1) original bound

copies, signed color PDF of the cost certification, 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 final maximum mortgage and annual 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.