



---

# Connecticut Housing Finance Authority

---

Cost Certification  
Preparation Guideline

2016

---

This Guideline is effective August 2016

**TABLE OF CONTENTS**

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

# COST CERTIFICATION PREPARATION GUIDELINE

## PREFACE

This Guideline and the current Cost Certification Workbook are intended to provide guidance to the mortgagors, general contractors, and independent Certified Public Accountants (CPA) for preparation and submission of cost certifications to the Connecticut Housing Finance Authority (CHFA). The guideline applies to all developments receiving funding through CHFA's Multifamily Rental Housing Program, the Low-Income Housing Tax Credit (LIHTC) Program, or other multifamily financing programs.

The purpose of the cost certification is to establish the total costs incurred by the general contractor and the mortgagor in the development of a project. CHFA will utilize the cost certifications to make a final allocation of resources to a development and disposition of all remaining resources for final closing.

The Guideline supplement the existing laws and rules prescribed by the Internal Revenue Service (IRS) in Section 42 of the Internal Revenue Code (the "Code") and Section 8-253a(6) of the Connecticut General Statutes (the "Statute"). It is also to be used as a supplement to the CHFA Procedures, Qualified Allocation Plan (QAP), CHFA/DOH Consolidated Application (the "ConApp"), Multifamily Design, Construction and Sustainability Standards, LIHTC Guideline, CHFA Multifamily Rental Housing Program Guideline, any other CHFA Guideline or Policies. If any statements in these documents conflict with federal and state laws, those laws take precedence.

This Guideline should not be relied upon solely nor as a substitute for a mortgagor's tax or legal counsel or interpretation of laws related to the CHFA Multifamily Rental Housing Program or LIHTC Program. Once submitted to CHFA, the cost certifications may not be amended or supplemented except as may be required by CHFA. It is the owner's responsibility to review the cost certifications in their entirety prior to submittal to CHFA. Related or referenced documents can be found at the end of this Guideline.

## 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.

CHFA Procedures require a Guaranteed Maximum Price construction contract between the mortgagor and the general contractor. Should there be compelling reasons for the mortgagor and general contractor to utilize a different type of arrangement, the mortgagor must provide explicit justification and request a waiver from CHFA's requirement before the proposal is presented to CHFA's Board of Directors. CHFA will consider each request on a case-by-case basis.

Regardless of the type of construction contract, any hard cost savings realized at the end of the construction shall go to the mortgagor and any net overall savings shall be allocated as described in the Multifamily Rental Housing Program Guideline.

## **II. Eligible Costs**

All costs are included in the calculation of the Total Uses (a/k/a "Project Cost"). "Project Cost" means the sum total of all costs incurred in the development of a housing project, which are approved by CHFA as reasonable and necessary, including, but not limited to (1) costs of land acquisition and any buildings thereon; (2) costs of site preparation, demolition and development; (3) architectural, engineering, legal, authority and other fees and charges paid or payable in connection with the planning, execution and financing of the project; (4) cost of necessary studies, surveys, plans and permits; (5) insurance, interest, financing, tax and assessment costs and other operating and carrying costs during construction; (6) cost of construction or reconstruction, and fixtures and equipment related to such construction or reconstruction; (7) cost of land improvements; (8) necessary expenses in connection with the initial occupancy of the project; (9) a

reasonable profit or fee to the builder and developer; (10) an allowance established by CHFA for working capital, replacement and contingency reserves, and reserves for any anticipated operating deficits; (11) the cost of such other items, including tenant relocation, as CHFA shall deem to be reasonable and necessary for the development of the project, less any and all net rents and other net revenues received from the operation of the real and personal property on the project site during construction.

However, not all costs included in the Total Uses (a/k/a Project Cost) are necessarily recognizable in determining the eligible basis and the amount of LIHTCs to be allocated. Eligible costs for all LIHTC-funded developments are outlined in the Code. It is generally equal to the adjusted basis of the building, including amenities and common areas but excluding land.

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. 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.

CHFA will review the information to establish the final recognized construction cost. CHFA will recognize the lower of the amounts reflected on the most recent approved project cost summary or the amounts reflected on the General Contractor's Certificate of Actual Costs.

### **IV. 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.

## V. CHFA Cost Certification Process

Within **90-days of substantial completion** (as determined by the mortgagor's supervising architect), the General Contractor's Cost Certification is due. An electronic notice from CHFA will be sent to the mortgagor reminding it of this timeline.

The Mortgagor's-LIHTC Cost Certification along with all required documentation must be received by CHFA within **120-days of substantial completion**. Mortgagors who are not able to submit the cost certifications including all required documentation within this 120-day period may request CHFA for an extension in writing. The maximum extension that will be granted to any development will be 30-days unless the mortgagor is deferring the start of the credit period as defined in IRC Section 42(f)(1). 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. Completion of the [Mortgagor's Certification](#) of Placed-In-Service Date form for each building;
2. Letter from the mortgagor requesting the [Form\(s\) 8609](#) from CHFA;
3. [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;
4. Copies of approved construction change orders (for LIHTC only developments or if another entity other than CHFA issued the Tax-Exempt Bonds);
5. 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.
6. 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.

7. 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.

---

For additional information please refer to the LIHTC - Glossary of Terms. Any questions may be sent via email to: [multifamilydevelopment@chfa.org](mailto:multifamilydevelopment@chfa.org).

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,