

**MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  
LOW INCOME HOUSING TAX CREDIT PROGRAM**

**COST CERTIFICATION GUIDELINES**

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**MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  
LOW INCOME HOUSING TAX CREDIT PROGRAM  
COST CERTIFICATION GUIDELINES**

**I. GENERAL**

These guidelines are designed to assist owners, contractors, and independent certified public accountants in the preparation and submission of cost certification forms to the Michigan State Housing Development Authority's Low Income Housing Tax Credit Program.

The purpose of cost certification is to establish the total costs incurred by the contractor and the owner in the development of a project. This will enable the Authority to determine certain development costs and the amount of tax credit to be allocated to the project. All costs are included in the calculation of the total development costs; however, not all such costs are necessarily recognizable in determining the eligible basis and the amount of credit to be allocated.

The owner is obligated to submit the cost certifications applicable to itself and the contractor prior to issuance of IRS form 8609.

Cost certification is required of all owners and all general contractors. If more than 25% of the actual cost of construction is subcontracted to any one nonrelated subcontractor, tiering of profits will not be allowed. See "Identity of Interest Cases" on page 2 for requirements where there is a relationship between the contractor and the subcontractors.

Authority Forms LIHTC 027 and LIHTC 035 must be submitted with the owner's certification and Authority Form LIHTC 028 must be submitted with the contractor's certification.

The owner's certified costs generally should include all costs to finance and construct the development, whether or not they are includable in eligible basis. The costs to syndicate or otherwise sell interest in the development must be included with the owner's certification. If any estimates are included in the owner's cost certification, they must be identified as such. See Section IV for a discussion of each allowable line item to be included in certified costs.

The Authority reserves the right to exclude from eligible basis part of any line item of expense when the amount is so high as to be out-of-line with reasonable and necessary costs for the services performed or the item supplied. In such cases, the amount allowed will be the Authority's estimate of the "reasonable and necessary" amount as compared with comparable projects in similar areas. All expenditures must be reduced by the amounts of any kickbacks, rebates, allowances, trade discounts or other sums that the owner or the sponsor has received or is to receive.

## II. IDENTITY OF INTEREST CASES

### A. Subcontractors and General Contractors with an Identity of Interest with the General Contractor or Owner

If an identity of interest exists between the sponsor and the general contractor, incentive fees may only be paid to the extent that they are included in the fee limitations mentioned in the following paragraph. A general contractor may act as a subcontractor and may be entitled to additional overhead and profit otherwise payable to an independent subcontractor. However, the general contractor's overhead, profit, and general requirements that may be included as allowable project costs are limited to the percentages noted below.

### B. Subcontractors Acting as General Contractors

General contractor's profit, also called builder's profit, is limited to 6% of the construction contract. General contractor's overhead, also called builder's overhead (item 3 on page 6), is limited to 2% of the construction contract. If a subcontractor acts in the role of a general contractor, profit and fees will be limited to 6% of the construction contract.

Projects of 49 units or less may aggregate general requirements, builder overhead, and builder profit to a maximum of 20% of the construction contract.

## III. OPINION OF CERTIFIED PUBLIC ACCOUNTANT

Each form, LIHTC 027, LIHTC 028, and LIHTC 035, must be accompanied by the unqualified opinion of an independent certified public accountant. When there is an identity of interest between two or more of the parties of whom cost certification is required, certification of the parties having such identity of interest must be by the same certified public accountant.

The independent certified public accountant is required to examine the applicable books and records to the extent necessary to satisfy him/herself that the amounts claimed as costs are within the scope of the above-noted descriptions and are ordinary and necessary expenses appropriate to the project. If the accountant has any questions concerning the appropriateness of any item, or the amount, or desires any assistance in the interpretation of technical matters relating to construction which are not covered below, he/she may seek assistance in such interpretation from representatives of the Authority.

Inclusion in the opinion of any language, indicating that the independent certifying accountant has any reservations as to the amount or propriety of the actual costs as set forth in Form LIHTC 027, LIHTC 028, or LIHTC 035, will make the opinion and the form unacceptable to the Authority.

The following form, containing the minimum representations acceptable to the Authority, is suggested to the certifying independent accountant:

"We have examined the financial information contained in the accompanying (Owner's/Contractor's) Certification of Actual Cost (Form LIHTC 027/LIHTC 035/LIHTC 028) of (name of Owner or Contractor) related to (name of the Development).

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying (Owner's and/or Contractor's) Certificate(s) of Actual Costs of (name of Development), present(s) fairly the financial information contained therein in accordance with generally accepted accounting principles, giving effect to the instructions contained in the MSHDA/LIHTC Cost Certification Guidelines for Owners, Contractors, and Independent Certified Public Accountants for recognition of such costs.

Our examination has been made primarily for the purpose of forming the opinion stated in the preceding paragraph.

The accompanying supplemental information (list page numbers) is presented in accordance with the instructions contained in the MSHDA/LIHTC Cost Certification Guidelines for Owners, Contractors, and Independent Certified Public Accountants. It has been subjected to the tests and other auditing procedures applied in the examination of the Certificates of Actual Costs and, in our opinion, is fairly stated in all respects material in relation to the Certificates of Actual Costs.

We certify that we have no financial interest in the Contractor/Owner other than the practice of our profession."

The Authority reserves the right to determine whether or not the certifications of actual costs received are satisfactory to the Authority.

IV. **COSTS ALLOWABLE IN OWNER'S CERTIFICATION OF ACTUAL COSTS (FORM LIHTC 027)**

Lines 1-4. Land: Enter the actual cost of the land and all related expenses on the lines applicable to each cost. Enter the description of any costs entered on line 4.

Lines 5-6. Building Acquisition: Enter the actual cost of the building, the cost for exterior demolition, and any other costs related to the building acquisition. Enter the description of any costs entered on line 7.

Line 7. Other: Enter costs not included above and provide description.

Lines 8-9. Site Work: Costs incurred in connection with on-site and off-site improvements should be entered for these items; however, such amounts shall not include any site expenses included within the construction costs. Enter the description of any costs entered on line 10.

Line 10. Other: Enter costs not included above and provide description.

- Lines 11-12. Construction Costs: These should correspond to the amounts entered on lines 32-35 of form LIHTC 028. Enter the amount actually paid to the contractor. Total construction costs must equal sub-total line 36 of form LIHTC 028.
- Line 13. Garage/Carports: Enter the amount from line 34 of form LIHTC 028.
- Line 14. Laundry Facility: Enter the amount paid for laundry machines.
- Line 15. Accessory Building: Enter the amount from line 33 of form LIHTC 028.
- Line 16. Pool: Enter cost of material and construction of pool.
- \*Line 17. General Requirements: Enter the amount from line 48 of form LIHTC 028.
- \*Line 18. Builder Overhead: enter the amount from line 49 of form LIHTC 028.
- \*Line 19. Builder Profit: Enter the amount from line 50 of form LIHTC 028.
- \*Underwriting Standards for Lines 17, 18 and 19:
- General Requirements – 6% of construction contract, exclusive of builder profit, builder overhead, and general requirements.
  - Builder Overhead – 2% of construction contract, exclusive of builder profit and builder overhead.
  - Builder Profit – 6% of construction contract, exclusive of builder profit.
  - Projects of 49 units or fewer may aggregate general requirements, builder overhead, and builder profit to a maximum of 20% of the construction contract.
  - Construction manager/consultant fee when not included in the construction contract – maximum of \$50,000.
- Line 20. Subtotal-Construction Costs: Enter the total of lines 11-19 above.
- Lines 21-22. Architect's Fee: Enter the amount actually paid for architect's services.
- Line 23. Real Estates Attorney: Legal expenses are allowed for all legal costs; however, enter only those legal expenses allocated to rehabilitation or new construction.
- Line 24. Engineer/Survey: Enter those costs paid for engineering services and surveying.
- Line 25. Tap Fees/Soil Borings: Tap fees, charges for soil borings, if not included in the construction contract, should be reported here equaling the amount actually paid.
- Line 26. Permits and Fees: The charges for permit fees should be reported here in the amount actually paid.
- Line 27. Other: Enter costs not included above and provide description.
- Lines 28-29. Hazard and Liability Insurance During Construction: The amounts to be included for insurance equal the amount actually paid for coverage on the development during the construction period.

- Line 30. Interest During Construction: The owner's CPA should request confirmation from the construction lender of interest paid.
- Lines 31-32. Loan Origination Fee and Loan Enhancement: Enter the amounts actually paid.
- Line 33. Title, Recording and Taxes During Construction: Enter the amount of taxes paid or accrued during the construction period, and any title and recording fees actually paid.
- Line 34. Other: Enter costs not included above and provide description.
- Lines 35-40. Permanent Financing: Include the costs of acquiring permanent financing on the appropriate line.
- Line 41. Other: Enter costs not included above and provide description.
- Lines 42-49. Other Costs: Cost paid for environmental studies and reports, appraisals, market analyses, cost certifications, tax credit and compliance fees, and bridge loan expenses should be included.
- Line 50. Other: Include costs of equipments, furniture and fixtures necessary to begin operation of the development.
- Line 51-54. Syndication Costs: Enter on the appropriate line the costs paid to syndicate the project.
- Line 55. Other: Enter costs not included above and provide description.
- Lines 56-58. Developer Fee for Projects Subject to State Volume Cap:

The combined total of the developer fee, developer overhead, and any consultant fees will be limited to 15%, not to exceed \$1,000,000. This is calculated as 15% of the total development cost minus developer fee, developer overhead, and consultant fees.

Developer Fee for Projects Not Subject to State Volume Cap:

For projects consisting of 49 units or fewer and receiving an allocation of housing tax credit by virtue of being financed with tax-exempt bonds, the combined total of the developer fee, developer overhead, and any consultant fees will be limited to 20% of the total development cost excluding developer fee, developer overhead, and consultant fees, not to exceed \$2,000,000.

For projects consisting of 50 to 150 units and receiving an allocation of housing tax credit by virtue of being financed with tax-exempt bonds, the combined total of the developer fee, developer overhead, and any consultant fees will be limited to 15% of the total development cost excluding developer fee, developer overhead, and consultant fees, not to exceed \$2,000,000.

If an existing project is split into two or more projects, the aggregate developer fee for all projects cannot exceed \$2,000,000.

For projects involving acquisition and rehabilitation, an amount equal to at least 5% of the acquisition cost must be allocated to acquisition for purposes of attribution to the developer fee.

A maximum of 70% of the developer fee can be used for project costs.

For the Preservation holdback:

For projects of 49 units or fewer, the combined total of the developer fee, developer overhead, and any consultant fees will be limited to 15% of the total development cost, not to exceed \$1,000,000. For projects of 50 units or more, the combined total of the developer fee, developer overhead, and any consultant fees will be limited to 10% of the total acquisition costs and 15% of the total rehabilitation costs, not to exceed \$1,000,000. Excess fees will be deducted from total development costs and eligible basis. If an existing project is split into two or more projects, the aggregate developer fee for all projects cannot exceed \$1,000,000.

Lines 59-62. Project Reserves: Enter on the appropriate line the amounts paid to accounts for project reserves.

Line 63. Amount of Permanent Mortgage Loan: Enter the total amount of the permanent mortgage.

Line 64. Other Non-Equity Funding Sources: Include the amount, if any, of other primary funding sources such as grants and loans--but not including equity from the sale of the tax credit.

V. **COST CERTIFICATION FOR SYNDICATION OF PROJECT**

The owner must certify on Form LIHTC 035 the gross and net syndication proceeds applicable to the project.

VI. **COSTS ALLOWABLE IN CONTRACTOR'S CERTIFICATION OF ACTUAL COSTS (FORM LIHTC 028)**

The contractor is entitled to include in costs, all ordinary and necessary expenses directly related to the construction contract, including amounts paid to subcontractors, all labor and material required for purpose of performing the contract, insurance premiums of all types ordinarily and necessarily incidental or related to the construction (light, power, telephone, telegraph, water and other utilities furnished to the construction job, and all other ordinary expenditures of the contractor incidental to the performances of the contract.)

Costs to be reported by general contractors are as follows:

1. Trade Items: Entered on Line 1 through 44 on Form LIHTC 028

Allowable costs under this heading include amounts paid or owing to all subcontractors, laborers, or material(s) for the construction of on-site (except off-site costs under a supplemental contract), physical improvements included under the general contract. Labor can be aggregated in one total for each line item. Costs for incomplete items should be handled by including the amount of the work in the appropriate line item and inserting next to the contractor's name and amount the word "incomplete."

2. General Requirements

General requirements are included on line 48 and each item must be listed on page 3 of Form LIHTC 028.

General requirements for projects of more than 49 units are limited to 6% of the construction contract and may include such items as superintendent, field engineer to provide lines and grades for locating structures and utilities on the site, temporary sheds, temporary toilet, temporary heat, water and power during construction, cleaning, rubbish removal, workmen's compensation insurance, unemployment compensation and FICA taxes for employees performing the tasks heretofore listed, Michigan Single Business Taxes that are allocable to this project, and the cost of having the cost certification performed. These items must be certified as general requirements and not included in other line items. Other items may also be approved for general requirements provided they are directly attributable to the development, but they must not include items of builder's overhead described below.

3. Builder's Overhead

Builder's overhead is included on line 49 and may not exceed 2% of the construction contract for projects of more than 49 units.

Builder's overhead may include such items as office rent, fuel, lights, telephone and telegraph, stationery, office supplies, fire and liability insurance for the office, legal expenses, salaries of office employees such as bookkeeper, stenographer, clerks and estimator, social security taxes, public liability insurance, workmen's compensation insurance, and unemployment compensation, FICA taxes for office personnel. Such items are not to be included in general requirements or elsewhere.

4. Builder's Profit

Builder's profit is included on line 50 and may not exceed 6% of the construction contract for projects of more than 49 units.

5. Small Projects

Projects of 49 units or less may aggregate general requirements, builder overhead, and builder profit to a maximum of 20% of the construction contract.



**MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  
LOW INCOME HOUSING TAX CREDIT PROGRAM  
CONTRACTOR'S CERTIFICATE OF FINAL ACTUAL COST**

TO: \_\_\_\_\_ DEVELOPMENT NAME \_\_\_\_\_  
 \_\_\_\_\_ DEVELOPMENT LOCATION \_\_\_\_\_  
 City and State

This certificate is made pursuant to the provisions of the construction contract entered into by and between owners and contractor under date of \_\_\_\_\_, and it is understood and agreed by the undersigned that this certificate is to be submitted to the Michigan State Housing Development Authority.

The actual cost incurred in the completion of construction under the above construction contract and accepted construction changes, inclusive of all kickbacks, rebates, adjustments and discounts (except as allowed in the Cost Certification Guidelines) or any other devices having the effect of increasing the true actual costs is itemized below.

No.	Trade Item	Amount	Payee
1	Concrete	\$	
2	Masonry		
3	Metals		
4	Rough Carpentry		
5	Finish Carpentry		
6	Weatherproofing		
7	Insulation		
8	Roofing		
9	Sheet Metal		
10	Doors		
11	Windows		
12	Glass		
13	Lath & Plaster		
14	Dry Wall		
15	Tile Work		
16	Acoustical		
17	Wood Flooring		
18	Resilient Flooring		
19	Painting & Decorating		
20	Specialties		
21	Special Equipment		
22	Cabinets		

No.	Trade Item	Amount	Payee
23	Appliances		
24	Blinds & Shades, Artwork		
25	Carpets		
26	Special Construction		
27	Elevators		
28	Plumbing & Hot Water	\$	
29	Heat & Ventilation	\$	
30	Air Conditioning		
31	Electrical		
32	<b>SUBTOTAL</b>		
33	Community Building		
34	Other Accessory Buildings		
35	Modules		
36	<b>SUBTOTAL</b>		
37	Earth Work		
38	Site Utilities		
39	Roads & Walks		
40	Site Improvements		
41	Landscaping		
42	Unusual Site Conditions		
43	Off-Site Improvements		
44	<b>SUBTOTAL</b>		
45	Site Security		
46	Building Permits		
47	Bond Premium		
48	General Requirements		List Detail on Page 3
49	Builder's Overhead		
50	Builder's Profit		
51	<b>TOTAL</b>	\$	

**Instructions for Preparation of the  
CONTRACTOR'S CERTIFICATE OF ACTUAL COST**

1. Complete instructions are presented in the Authority's Low Income Housing Tax Credit Program Cost Certification Guidelines.
2. The detail of expenditures for line items 1 through 45 is required. Line 45 is to be detailed below. If space is insufficient on this form for any line item, attach a schedule. Labor incurred by the general contractor may be shown in total by Trade item.

<b>ITEMIZED BREAKDOWN OF GENERAL REQUIREMENTS</b>			
<b>ITEM</b>	<b>TOTAL</b>	<b>ITEM</b>	<b>TOTAL</b>
Supervision		Cost Certification Expense	
Field Engineering			
Temporary Facilities			
Temporary Utilities			
Cleaning & Rubbish Removal			
			\$

The undersigned hereby certifies that: (Cross out inapplicable language.) There (has/has not) been and is not now any identity of interest between owner and/or general contractor on the one hand and any subcontractor, material supplier or equipment lessor on the other. Attached to and made a part of this certificate is a signed statement fully describing any identities of interest as set forth in the previous paragraph.

All amounts shown have been reduced to give effect to the amount(s) of any kickbacks, rebates, adjustments, discounts (except as allowed in the Cost Certification Guidelines), or any other devices which, if included, would have the effect of overstating the actual costs.

\_\_\_\_\_ Contractor

By \_\_\_\_\_

Its \_\_\_\_\_

Date \_\_\_\_\_

**NOTE:** This certificate must be supported by a certification as to actual cost by an independent certified public accountant.

**MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  
LOW INCOME HOUSING TAX CREDIT PROGRAM  
OWNER'S CERTIFICATE OF FINAL ACTUAL COSTS**

TO: Low Income Housing Tax Credit Program Manager

Development Name \_\_\_\_\_ Location \_\_\_\_\_

The cut-off date used for calculation of interest, taxes and insurance during construction is:

\_\_\_\_\_.

The actual cost to the owner of labor and materials and necessary services for the construction of the physical improvements in connection with the subject development, after deduction of kickbacks, rebates, adjustments discounts made or to be made to the mortgagor, sponsor or any corporation, trust, partnership, joint venture or other legal entity in which they or any of them hold any interest, is as follows:

	Column 1* Audited Costs	Column 2** Costs to be included in Eligible Basis	
		4%	9%
<b>LAND</b>			
Line 1 - Land Purchase			
Line 2 - Closing/Title & Recording			
Line 3 - Real Estate Expenses			
Line 4 - Other Land Related Expenses			
<b>BUILDING ACQUISITION</b>			
Line 5 - Existing Structures			
Line 6 - Demolition (Exterior)			
Line 7 - Other (Describe): _____			
<b>SITE WORK</b>			
Line 8 - On Site			
Line 9 - Off Site Improvements			
Line 10 - Other (Describe): _____			
<b>CONSTRUCTION COSTS</b>			
Line 11 - New Structures			
Line 12 - Rehabilitation			
Line 13 - Garages/Carports			
Line 14 - Laundry Facilities			
Line 15 - Accessory Building			
Line 16 - Pool			

	Column 1* Audited Costs	Column 2** Costs to be included in Eligible Basis	
		4%	9%
Line 17 - General Requirements			
Line 18 - Builder Overhead			
Line 19 - Builder Profit			
Line 20 - Subtotal - Construction Costs			
<b>PROFESSIONAL FEES</b>			
Line 21 - Design Architect			
Line 22 - Supervisory Architect			
Line 23 - Real Estate Attorney			
Line 24 - Engineer/Survey			
Line 25 - Tap Fees/Soil Borings			
Line 26 - Permits & Fees			
Line 27 - Other (Describe):_____			
<b>INTERIM CONSTRUCTION COSTS</b>			
Line 28 - Hazard Insurance			
Line 29 - Liability Insurance			
Line 30 - Interest			
Line 31 - Loan Origination Fee			
Line 32 - Loan Enhancement			
Line 33 - Title, Recording & Taxes			
Line 34 - Other (Describe)_____			
<b>PERMANENT FINANCING</b>			
Line 35 - Bond Premium			
Line 36 - Credit Report			
Line 37 - Loan Origination Fee			
Line 38 - Loan Credit Enhancement			
Line 39 - Title, Recording & Taxes			
Line 40 - Legal Fees			
Line 41 - Other (Describe)_____			
<b>OTHER COSTS</b>			
Line 42 - Feasibility Study			

	Column 1* Audited Costs	Column 2** Costs to be included in Eligible Basis	
		4%	9%
Line 43 - Market Study			
Line 44 - Environmental Study			
Line 45 - Tax Credit Fees			
Line 46 - Compliance Fees			
Line 47 - Marketing/Rent-Up			
Line 48 - Cost Certification			
Line 49 - Bridge Loan Expenses (During Construction)			
Line 50 - Other (Describe)_____			
<b>SYNDICATION COSTS</b>			
Line 51 - Organizational			
Line 52 - Bridge Loan			
Line 53 - Tax Opinion			
Line 54 - PV Adjustment			
Line 55 - Other (Describe)_____			
<b>DEVELOPER</b>			
Line 56 - Developer Overhead			
Line 57 - Developer Fee			
Line 58 - Consultant Fee			
<b>PROJECT RESERVES</b>			
Line 59 - Rent-Up Reserves			
Line 60 - Operating Reserves			
Line 61 - Replacement Reserves			
Line 62 - Other (Describe)_____			
<b>TOTAL (Must match Total Development Costs in Application)</b>			
Line 63 - Permanent Mortgage Loan			
Line 64 - Other Non-Equity Sources			

**NOTE:** This certificate must be supported by a certification as to actual cost completed by an independent certified public accountant in accordance with the Low Income Housing Tax Credit Program Cost Certification Guidelines.

The undersigned hereby certifies that: (cross out inapplicable language) There (has/has not) been and is not now any identity of interest between ourselves on the one hand and the general contractor or any subcontractor, material supplier or equipment lessor on the other. Attached to and made a part of this certificate is a signed statement fully describing any identities of interest as set forth in the previous paragraph.

\_\_\_\_\_  
Owner

By: \_\_\_\_\_

Its: \_\_\_\_\_

Date: \_\_\_\_\_

**MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  
LOW INCOME HOUSING TAX CREDIT PROGRAM  
CERTIFICATION OF SYNDICATION OF PROJECT**

DEVELOPMENT NAME \_\_\_\_\_

LOCATION \_\_\_\_\_

I certify that the syndication proceeds applicable to this development are as follows:

Gross syndication proceeds \$ \_\_\_\_\_

Net proceeds to the development \$ \_\_\_\_\_

\_\_\_\_\_  
Owner

By: \_\_\_\_\_

Its: \_\_\_\_\_

Date: \_\_\_\_\_