

# LOW INCOME HOUSING TAX CREDIT PROGRAM COST CERTIFICATION GUIDE POLICY

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## Purpose of the LIHTC Cost Certifications

This policy provides guidance to owners, contractors, and independent certified public accountants in preparing and submitting cost certification forms for the Michigan State Housing Development Authority’s (“the Authority”) Low Income Housing Tax Credit (LIHTC) program. From the total certified costs through the *Substantial Construction Completion date*, the Authority determines **the amount of tax credits** to be allocated to the development based on certified development costs. These independently certified costs provide the Total Development Cost, Depreciable Basis, Historic Tax Credit Basis, and the LIHTC Qualified Basis for reporting via the IRS Form 8609.

In contrast, the Mortgagor’s Cost Certification determines the **allowable mortgage costs** through the *Mortgage Cut-off date*. Refer to the Contractor’s and Mortgagor’s Cost Certification Guide Policy for guidance about the mortgagor’s allowable mortgage costs.

## LIHTC Cost Certification Requirements

All owners and contractors must cost certify prior to final mortgage loan closing as to the actual cost of the development. **All** costs to finance and construct or rehabilitate the development, regardless of whether the costs are includable eligible basis must be included in the cost certification. The costs to syndicate or otherwise sell interest in the development must be included with the *owner's* cost certification. All owners and general contractors are required to complete a cost certification to establish the total costs incurred by the owner and contractors to build or rehabilitate a development.

The Authority reserves the right to exclude from eligible basis part of any line-item expenditures 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 developments 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.

All parties required to provide cost certifications must maintain adequate records to verify costs. The Authority may request access to all books and records, contracts, invoices, receiving memoranda, particulars of material, labor and facilities identified as part of the development's construction costs, and other records appropriate to such accounts.

### ***Cost Certification Submission Documents and Due Dates***

The owner and contractor must work with the **auditor** to certify within 120 days from the Substantial Construction Completion date. The completed documents must be prepared by the **auditor** and include the following documents:

1. Contractor's Final Costs Certification (LIHTC 028) in excel and signed pdf formats.
2. Owner's Final Costs Certification (LIHTC 027) in excel and signed pdf formats.
3. Certification of Project Syndication (LIHTC 035) in signed pdf format.
4. Agreed-Upon Procedures letter.

Cost certification forms must be submitted by the development team with the project's Placed-in-Service submission via [Application Portal \(michigan.gov\)](https://michigan.gov) page as the forms will be used by the Authority's Tax Credit Analyst(s) to issue the IRS form 8609 (Low Income Housing Credit Allocation and Certification).

### **Identity of Interest (IOI) Relationships**

IOI relationships are construed to exist when:

1. An officer, director, or stockholder of any of the following partners is also an officer, director, or stockholder in any of the following partner agency:
  - Owner
  - Sponsor
  - Syndicator
  - General contractor
  - Subcontractor
  - Material supplier
  - Equipment Lessor
  
2. Any of the partner agencies listed in (1) has any of the following conditions:
  - a. A financial interest in one of the other partner agencies.
  - b. Advances any funds to one of the other partner agencies.
  - c. Supplies and pays, on behalf of the owner, the cost of any architectural services or engineering services other than those of a surveyor, general superintendent, or engineer employed by a general contractor in connection with its obligations under the construction contract.
  - d. Takes stock or any interest in one of the other partner agencies as consideration of payment.
  - e. There exists or comes into being any side deals, agreements, contracts, or undertakings entered or contemplated, thereby altering, amending, or canceling any of the required closing documents, except as approved by the Authority's Executive Director.
  - f. A family relationship exists, which would give one of the other partner agencies, control, or influence over the price of the contract or the price paid to a subcontractor, material supplier or lessor of equipment. For purposes of this part, "family relationship" means any person who is related to the party in question by blood, marriage, or operation of law.

### ***All Identity of Interest (IOI) Relationships***

The relationships include all individuals or entities performing work on a development, furnishing materials for the construction of a development or leasing equipment used in the construction of a development other than the general contractor. Record each IOI relationship on the appropriate cost certification form.

If an IOI relationship 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 Overhead and Profit Limitations section below.

### ***Subcontractors\Suppliers with an IOI Relationship***

The terms subcontractors and suppliers include all individuals or entities performing work on a development, furnishing materials for the construction of a development or leasing equipment used in construction of a development other than the general contractor. If a subcontractor or supplier has an IOI relationship with the general

contractor or sponsor as defined above, apply the following rules:

1. *Reasonableness of IOI costs* – The Authority allows subcontractors, suppliers, and equipment lessors who have an IOI relationship to participate in LIHTC developments, provided that the prices paid to such subcontractors, suppliers, and equipment lessors are competitive, do not exceed prices obtainable from non-related firms for similar goods and services and are not so high as to be out-of-line with reasonable and necessary costs for goods and services furnished. Such arrangements, including details of the work or materials to be furnished with prices to be charged, must be disclosed as part of the contractor's cost certification.
2. *Cost certifications* – All entities with an identity of interest, either direct or indirect, with the sponsor or general contractor must disclose as part of the contractor's cost certification their costs prior to Certificate of Occupancy date or Placed in Service date (based on signed Placed in Service letter from the CPA).

Submit identity of interest suppliers' cost certification data as a schedule aggregating each suppliers' invoice prices after deducting any rebates, refunds, kickbacks, trade discounts, except normal discounts for prompt payment of invoices, or price adjustments, but including any delivery and handling costs. List the following information for each IOI supplier:

- Materials furnished,
- Supplier costs, and,
- Supplier selling price.

Submit IOI equipment lessor's cost certification data in a schedule listing the following information for each IOI lessor:

- Equipment leased,
- Lessor name,
- Model number of equipment,
- Number of hours leased,
- Hourly rate of the leased equipment,
- Total invoice amount.

## Overhead and Profit Limitations

The following limitations apply as a percentage of the construction contract:

General Requirements are limited to 6% of construction costs, exclusive of builder's profit, builder's overhead, and general requirements.

Builder's Overhead (General contractor's Overhead) is limited to 2% of construction costs, exclusive of builder's profit and builder's overhead.

Builder's Profit (General contractor's Profit) is limited to 6% of construction costs, exclusive of builder's profit.

### ***General Contractor Entity Performing Subcontract Work***

A general contractors may do their own subcontracting work and may receive ***additional builder's overhead and profit otherwise payable*** to an independent subcontractor. This additional overhead and profit tied to subcontract work will not affect the general contractor's overhead and profit limits.

The subcontract work must maintain the costs within "reasonable and necessary" amounts as compared with similar projects in the development area. However, the general contractor's overhead, profit, and general requirements that may be included as allowable project costs remains limited to the percentages noted in the Overhead and Profit Limitations Section above.

### ***Subcontractors Acting as General Contractors***

Subcontractor(s) may be considered acting as the general contractor, if the actual construction costs subcontracted:

- With any one subcontractor equals 50% of the total costs, or
- With three or fewer subcontractors equals 75% of the total costs.

A subcontractor that acts in the role of a general contractor will have profit and fees limited to 6% of the construction contract. If more than 25% of the actual cost of construction is subcontracted to any one non-related subcontractor, tiering of profits will not be allowed. Relative to this section, any two or more subcontractors having an identity of interest with each other shall be considered as one subcontractor. This exception is not applicable when factory produced components or modules are involved.

## CPA Opinion and Agreed Upon Procedures

Each form, the Owner's Final Costs Certification and Contractor's Final Costs Certification for the LIHTC Program, must be accompanied by the unqualified opinion of an independent Certified Public Accountant. When there is an IOI relationship between two or more of the parties of who cost certification is required, certification of the parties having such IOI relationships must be by the same Certified Public Accountant unless

the Authority waives this requirement.

### **CPA Opinion**

The independent Certified Public Accountant (CPA) is required to perform an audit of the (contractor's/owner) certificate of final actual cost (the "Certificate"). The CPA should audit the (contractor/owner) costs associated with the construction contract for the development based on the criteria established in the Michigan State Housing Development Authority's (MSHDA) Low Income Housing Tax Credit Program Cost Certification Guidelines. The auditor's process should determine that the amounts claimed as costs are within the scope of the allowable cost descriptions and whether those costs are includable in basis. The Certificate is prepared by (contractor/owner) to present the total final actual costs related to the development in accordance with the MSHDA's Low Income Housing Tax Credit Program Cost Certification Guidelines, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The audit should be conducted under the auditing standards generally accepted in the United States of America (GAAS).

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 the LIHTC Owner's Final Costs Certification (Form LIHTC 027) or the LIHTC Contractor's Final Costs Certification (Form LIHTC 028) will make the opinion and the form unacceptable to the Authority unless cleared in advance with the Authority's Director of Rental Development.

The independent auditor's report shall be prepared in accordance with the requirements of auditing standards generally accepted in the United States of America (GAAS) and shall be prepared within the following guidelines provided by the Authority. The Independent Auditor's report shall include:

- The Project Name and MSHDA number being cost certified.
- **Special purpose framework:** Management shall prepare the Certificate in accordance with the MSHDA's Low Income Housing Tax Credit Program Cost Certification Guidelines. (Management does not have a choice of financial reporting frameworks.)
- **Alert that Restricts the Use of the Auditor's Written Communication:** When deemed appropriate by the auditor, an alert that restricts the use of the auditor's written communication such as: Our report is intended solely for information and use of MSHDA and management for (Partnership legal name/development name) and is not intended to be, and should not be, used by anyone other than the specified parties.
- **Other Matter:** The auditor shall include an other matter paragraph disclosing the auditor's financial interest in the report other than completing it as part of its business (modify as necessary to include any other restricted parties) such as: We

certify we have no financial interest in (contractor/owner) other than the practice of our profession.

- **Supplemental Information:** The auditor should be engaged to report on whether the supplemental information is fairly stated, in all material respects, in relation to the Certificate as a whole.

### **Agreed-Upon Procedures (AUP)**

The independent accountant's report on the agreed upon procedures engagement shall be prepared in accordance with the requirements of Statement on Standards for Attestation Engagements (SSAE) No. 19, *Agreed-Upon Procedures Engagements*, issued by the AICPA Auditing Standards Board (or as otherwise amended) and shall be prepared within the following guidelines provided by the Authority. The AUP shall include:

- The Project Name and MSHDA number being cost certified.
- **Required AUP procedure:** We compared the items listed in the electronic submission with the corresponding items listed in the audit report submitted to MSHDA. The results of the performance of our agreed-upon procedures indicate agreement of the electronically submitted information in MSHDA's Excel audit template and related report submitted to MSHDA. (If there are items on the electronic submission that do not agree with the audit report, they are to be specified and explained in the accountant's findings.)
- **Engaged to Perform:** We were engaged to perform an audit of the financial statements of (*Partnership name*) in accordance with the MSDHA Audit Guide as of and for the year ended December 31, 20XX, and have issued our reports thereon dated (*report date*). The information in the electronic submission as specified in the Cost Certification Guidelines MSHDA's Excel (Contractor's/Owner's/Mortgagor's) Final Cost Certification template was included within the scope or was a by-product of that audit. Further, our opinion on the fair presentation of the supplementary financial information dated (*report date*) was expressed in relation to the financial statements of (*Partnership name*) taken as a whole.
- **Other Matter:** A copy of the reporting package required by MSHDA, which includes the auditor's report, is available in its entirety from (*Partnership Name*). We have not performed any additional auditing procedures since the date of the aforementioned reports. Further, we take no responsibility for the security of the information transmitted electronically to MSHDA.
- **Alert that Restricts the Use of the Practitioner's Agreed-Upon Procedures Report:** When deemed appropriate by the accountant, an alert that restricts the use of the agreed-upon procedure report, such as: This report is intended solely for the information and use of (*Partnership Name*) and MSDHA and is not intended to be and should not be used by anyone other than these specified parties.

The Authority's Low Income Housing Tax Credit Section reserves the right to determine, upon receipt, whether the certified statement of cost is satisfactory to the Authority.

## Contractor's Final Costs Certification Instructions

This section provides a description of the costs to record on each of the line items on the Contractor's Final Costs Certification form (LIHTC 028). The contractor is entitled to include in costs, all amounts:

1. For expenditures directly related to the construction contract,
2. Paid to subcontractors, all labor and materials required for purpose of performing the contract, insurance premiums of all types ordinarily and necessarily incidental or related to the construction, such as:
  - Light.
  - Power.
  - Telephone.
  - Water.
  - Other utilities furnished to the construction job.
  - Other expenditures of the contractor incidental to the performances of the contract.

Allowable costs must be recorded under the related trade line item, organized as follows:

- Include the amounts paid or owed to all subcontractors, laborers, and for construction material(s) of on-site (except off-site costs under a supplemental contract) physical improvements included under the general contract. Contractor's may include delivery and handling costs, but **must deduct** any rebates, refunds, kickbacks, trade discounts or price adjustments, *except for* cash discounts of up to 2% for early payment (30 days or less) of vendors' invoices.
- Labor can be aggregated in one total for each line item.
- Other miscellaneous disbursements under \$200 may be aggregated in one amount under each trade line item.
- Provide support for each trade item with a schedule listing each payee and amount attributed to the total trade line item.
- If any estimated costs are included on the form, they must be identified as estimates.
- If any **incomplete** items are included, identify them as "**incomplete**" next to the contractor's name and amount.
- Do **not** include any amount due the contractor under an incentive agreement. Refer to the Owner's Unallowable Costs section for further details.

After each cost category is the American Institute of Architects (AIS)/Construction Specifications Institute (CIS) number in parenthesis.

## Structures

1 **Architectural Environmental Mitigation (020000)** – Labor and materials related to:

- Asbestos abatement.
- Lead-based paint mitigation.
- Sound mitigation.
- Radon barriers.
- Water treatments.

2 **Building Concrete (030000)** – Labor and materials related to:

- All concrete, including trenching for footings and cement work within structures.
- Reinforcing steel and mesh.
- Gravel or other fill and vapor barrier under slabs.
- Perimeter insulation, area wells and foundation vents.
- Concrete piers and form work.
- Basement foundation wall waterproofing and drain tile at footings.
- Gyp-crete, lightweight concrete.

3 **Masonry (040000)** – Labor and materials related to:

- All brick and block work.
- Lintels, metal, and/or precast.
- Ties and reinforcing.
- Cleaning.

4 **Metals (050000)** – Labor and materials related to:

- All structural steel, except lintels.
- Metal railings and handrails (*structures only*).

5 **Rough Carpentry (061000)** – Labor and materials related to:

- All building framing.
- Walls, floor, and roof sheathing.
- All stairs.
- Exterior wood trim, soffit, eaves, and rake.
- Base and rowlock flashing and sill sealer.
- *Labor only* for setting windows.
- *Labor only* for setting exterior doors.
- Nails and other rough hardware.

6 **Finish Carpentry (062000)** – Labor and materials related to:

- Install interior wood trim, millwork, and base.
- *Labor only* for setting interior doors and finish hardware.
- Wood closet shelving.
- Sills and trim at windows.
- *Labor only* for installing medicine cabinets and specialty items.

- All miscellaneous finish work.
- 7    **Insulation (072000)** – Labor and materials related to insulation for ceiling, wall, floor, sound, and vapor barriers.
- 8    **Roofing (073000)** – Labor and materials related to:
- Asphalt shingles and felt.
  - Built-up roofing.
  - Membrane and single-ply roofing.
  - Flashings, ridge vents and accessories.
  - Gutters and downspouts.
- 9    **Siding (074000)** – Labor and materials related to:
- Vinyl, aluminum, wood, etc.
  - Fascia, soffit, and accessories.
  - Panel siding and accessories.
  - Decorative siding trim.
  - EIFS exterior finish and trim.
- 10   **Caulking and Exterior Sealants (079000)** – Labor and materials related to all exterior caulking and sealants.
- 11   **Doors / Hardware (081000)** – Labor and materials related to:
- *Material only* for interior and exterior doors and hardware.
  - *Material only* for glass sidelights and borrowed lights.
  - *Material only* for sliding glass doors.
  - Garage doors.
  - Metal or wood bi-fold closet doors.
- 12   **Windows (085000)** – *Materials only* related to:
- Windows and screens.
  - Storm sash.
  - Window walls, including glazing.
- 13   **Glazing (088000)** – Labor and materials related to:
- Store-front style doors, windows, and hardware.
  - Disability assisted entryways.
- 14   **Gypsum Board (092000)** – Labor and materials related to:
- Metal stud framing
  - All gypsum board walls and ceilings, including taping and sanding.
  - Soundboard at common walls.
  - Resilient clips, channels, and accessories.
  - Special interior wall types.

- 15 **Tiling (093000)** – Labor and materials related to:
- Quarry tile and other non-resilient flooring.
  - All ceramic tile work and base.
- 16 **Acoustical Ceilings (095000)** – Labor and materials related to acoustical ceiling tiles and grid work.
- 17 **Resilient Flooring (096500)** – Labor and materials related to:
- All types of resilient flooring, including metal edging and accessories.
  - All types of vinyl base.
- 18 **Carpeting (96800)** – Labor and materials related to carpeting base and accessories.
- 19 **Painting (099000)** – Labor and materials related to:
- Painting exterior walls and trim.
  - Painting interior walls, ceilings, trim, doors, and any other surfaces of a structure.
  - Interior caulking.
- 20 **Specialties (100000)** – Labor and materials related to:
- *Materials only* for medicine cabinets, apartment numbers, mailboxes, and other miscellaneous items not normally included by trades as other line items.
  - Shower doors, rods, mirrors, and bathroom accessories.
  - Metal closet shelving.
- 21 **Special Equipment (110000)** – Labor and materials related to trash compactor systems and any other equipment, not included as other line items.
- 22 **Appliances (113000)** – Labor and materials related to ranges, refrigerators, range hoods, fans, washers, dryers, dishwashers, and microwave ovens.
- 23 **Window Treatments (122000)** – Labor and materials related to blinds, draperies, and rods.
- 24 **Casework (123000)** – Labor and materials related to kitchen cabinets, Formica tops including hardware and bath vanities.
- 25 **Special Construction (130000)** – Labor and materials related to any special construction, including demolition.
- 26 **Elevators (142000)** – Labor and materials related to a complete system with all items normally supplied and installed by elevator companies.
- 27 **Fire Protection (210000)** – Labor and materials related to:
- Complete Fire protection systems.
  - Fire pumps or other special equipment.

- Associated permits and testing.
- 28 **Plumbing/Domestic Hot Water (220000)** – Labor and materials related to:
- Complete plumbing system installation within structure, including gas piping, disposers, laundry tubs, and pipe insulation.
  - Domestic water heating systems.
  - Associated permits and testing.
  - Water softeners.
- 29 **HVAC (230000)** – Labor and materials related to:
- Complete heating system installation.
  - Individual room air conditioning units.
  - Central air conditioning units, including pads for compressors.
  - Building ventilation and air handling systems.
  - Associate permits and testing.
- 30 **Electrical (260000)** – Labor and materials related to:
- Complete electrical service, including wiring, fixtures, bath fan, furnace, air conditioning and disposer hook-ups.
  - Electric heater.
  - Associated permits and testing.
- 31 **Low Voltage Electrical (262000)** – Labor and materials related to:
- Fire alarm and emergency call systems.
  - Television and cable systems.
  - Intercom and door release system.
  - Telephone and other low-voltage specialty systems.
  - Intrusion alarm systems.
  - Associated permits and testing.
- 32 **Electronic Safety and Security (280000)** – Labor and materials related to:
- Video Surveillance.
  - Access Controls.
- 33 **Total Structures** – Automatically sums line items 1 through 32.

#### **Site Work**

- 34 **Earth Work (310000)** – Costs related to:
- Site preparation, e.g., clearing and grubbing, topsoil stripping, and piling.
  - Tree boxed and planked, tree wells.
  - Rough site grading with normal amount of cut and fill and finish grading.
  - Sidewalk and street cutting.
  - Basement excavation and backfill.
  - All general excavation.

- 35 **Roads/ Walks (321000)** – Costs related to:
- Asphalt or concrete paving for streets and parking areas.
  - Curbs and gutters.
  - Walkways, steps, handrails, and railings.
  - Surfacing for playgrounds and other special areas.
  - All exterior patios.
- 36 **Site Improvements (323000)** – Costs related to:
- Equipment for playgrounds and other special areas.
  - Fences, walls, retaining walls, and railings.
  - Street and development signs.
  - Trash removal areas.
  - Water fountains and other objects of art.
- 37 **Site Irrigation (328000)** – Costs related to:
- Complete irrigation and well systems.
  - Associated permits and testing.
- 38 **Landscaping (329000)** – Costs related to trees, shrubs, seeding, sodding, and plantings.
- 39 **Site Utilities (330000)** – Costs related to:
- Gas, water, sanitary, and storm sewers.
  - Exterior electrical service and transformers.
  - Site lighting.
  - Exterior service for telephone, television systems, etc.
  - Associated permits and testing.
- 40 **Site Environmental Mitigation (020000)** – Costs related to:
- Underground storage tanks (UST) removal and closure.
  - Soil remediation.
  - Phase I and II Environmental Site Assessment (ESA).
  - Wetlands mitigation (Underground Debris).
  - Cost breakdown for debris removal.
  - Description of anticipated work.
- 41 **Off-Site Improvements** – Costs of dedicated infrastructure improvements, such as access roads, sidewalks and curbs, sewers, and utility lines that (unlike on-site improvements) are off the land being developed, or the lots being sold, but which add value to the entire development. Include impact fees (one-time charges) or dedicated improvements required by the state or local government to finance off-site capital improvements for the general public use due the development construction or expansion, such as expanding the sewage system or a new school. Refer to the Off-Site Improvements line item (41) on the Contractor’s Final Costs Certification form. A schedule listing the payees,

amounts, nature of expenditures, and dates paid must accompany the Owner's Final Costs Certification form.

42 **Total Site Work** – Automatically sums line items 34 through 40.

**Miscellaneous Structures and Site Work**

43 **Community Building** – Lump-sum labor and material for community buildings, including pools, and pool enclosures.

44 **Accessory Building** – Lump-sum labor and material for detached utility buildings and maintenance garages.

45 **Garages/Carports** – Costs of the construction of covered or enclosed parking structures for residents.

46 **Laundry Facilities** – Costs of construction and purchase of laundry facilities and equipment.

47 **Soil Borings/Tap Fees** – If not included in the construction contract, record the environmental surveys (soil borings) in the amounts actually paid. Additionally, record the tap fee costs paid to a local government for the right to tap into an existing local utility. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Contractor's Final Costs Certification form.

48 **Temporary Site Security** – Costs of:

- Temporary security fencing.
- Temporary intrusion alarm systems.
- Security guard service.

49 **Bond Premium** – Costs related to establishing the bond funding to assure the contractors completion of the development.

50 **Building Permits** – Costs of all state and local government permits and approvals necessary for the construction of the depreciable property and for securing the certificates of occupancy or other equivalent documents.

51 **Contractor's Cost Certification** – Cost of the contractor cost certification for the development. Alternatively, this cost may be recorded under general requirements.

52 **Total Miscellaneous Structures and Site Work** – Automatically sums line items 42 through 45.

53 **Total Structures and Site Work** – Automatically sums line items 33 (Total Structures), 42 (Total Site Work), and 52 (Total Miscellaneous Structures and

Site Work).

### **Construction Overhead**

- 54 **General Requirements (GR)** – Amount auto-fills from the Itemized Breakdown of General Requirements section total. Refer to the General Requirements sub-section below for more detailed information.
- 55 **Builder's Overhead (BO)** – Costs related to the portion of general overhead expenditures necessary to conduct business directly concerning the specific development under construction. Refer to the Builder's Overhead sub-section below for more detailed information.
- 56 **Builder's Profit (BP)** – Costs related to the General contractor's (Builder's) profit amount for the specific development under competitive conditions. Refer to the Builder's Profit sub-section below for more detailed information.
- 57 **Total Construction Overhead** – Automatically sums line items 54 through 56.
- 58 **Total Construction Costs** – Automatically sums line items 53 (Total Structures and Site Work) and 57 (Total Construction Overhead).

### **General Requirements (Itemized Breakdown)**

Enter the individual general requirements expenditures on the line items identified. General Requirements is allowed in the amount provided in the Construction Contract, as adjusted by approved change orders, and limited by the Authority's general requirements limitation percentage.

Allowable general requirement costs are itemized in the following core categories:

- Supervision – Payments to a construction manager or a consultant serving a similar capacity (as determined by MSHDA) should be included in the construction contract. *Otherwise, such amounts are part of the developer fee. MSHDA will deduct excess fees from total development costs when performing the gap calculation.*
- Field engineering – Provide grades and lines for locating buildings, walkways, and streets on the site. Photographs of site progress.
- Field Office Expenditures – Office supplies, equipment, clerical help (including Workmen's' compensation insurance, unemployment compensation, and FICA taxes for employees performing general requirements).
- Temporary Facilities – Temporary sheds and toilets.
- Temporary Utilities – Temporary heat, water, lights, and power for construction.
- Cleaning and Rubbish Removal.
- Medical Facilities – First aid stations.
- Temporary Protection and Fencing – Signs and fencing limiting access to the site.
- Builder's Risk Insurance – Cost of insurance covering the loss of materials and equipment during construction.

- Michigan Business Taxes that are allocable to this project.

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 in question, but they must not include any items described in the Builder's Overhead section below. If the general contractor is approved to perform subcontract work as described in the Identity of Interest Relationship section, all costs normally incurred by subcontractors in performing such work, including clean-up, payroll taxes, etc., are includable in the line item for such subcontract.

**Do not include** any general overhead of the contractor, such as the salary of any person employed on a permanent basis and whose activities are in general confined to work performed in the main office or any established branch office of the contractor.

Time spent on the actual construction of a development by a superintendent or foreman, who is generally retained by the firm and who is assigned to a specific job or jobs for the purpose of coordinating the work **may be charged** to the cost of construction. Only charge the portion of such total employment that is applicable to the construction of the development in question.

Salaries of officers or executives of the contracting firm are *allowable* if the following terms are met:

- a. The "executive" must have performed, during the period for which his salary is allowed, a type or types of duties that would normally be performed by a non-executive employee.
- b. The time spent by the executive must be supported by time sheets, diary, or other acceptable means of keeping track of time and cannot be based on an allocation of his time.
- c. The officer's salary must be in line with the situation outlined above.

### ***Builder's Overhead***

Builder's overhead includes such items as:

- Office rent,
- Fuel,
- Lights,
- Telephone,
- Office supplies,
- Fire and liability insurance for the office,
- Legal expenditures,
- Salaries of office employees such as bookkeeper, stenographer, clerks, and estimator,
- Social security taxes,
- Public liability insurance,
- Workmen's compensation insurance, unemployment compensation, and FICA taxes

for office personnel.

These items **must not be included** in general requirements or elsewhere on the Contractor's Final Costs Certification form. Builder's overhead is allowed **and cannot exceed** the amount provided in the Construction Cost Trade Payment Breakdown attached to the Construction Contract, as adjusted by approved change orders.

### ***Builder's Profit***

Builder's Profit is limited to the amount provided in the Construction Contract, as adjusted by approved change orders, and limited by the Authority's profit limitation percentage.

### **Incomplete On-Site**

Construction costs that will be incurred in the future due to seasonal timing (i.e., landscaping) must be noted on both the cost certification (LIHTC 028) and the Expenditures Summary (LIHTC 028A) tabs.

- If any ***incomplete*** items are included, identify them as "***incomplete***" next to the contractor's name and amount.

### **Owner's Final Costs Certification Instructions**

This section provides a description of the costs to record on each of the allowable line items on the Owner's Final Costs Certification form (LIHTC 027). The Authority reserves the right to disallow part of any line-item expenditure from allowable owner costs when the expected amount is clearly 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. Allowable costs must be recorded under the related trade line item, organized as follows:

- Owners **must deduct** any rebates, refunds, kickbacks, trade discounts or price adjustments that have been received or plan to receive from expenditures, *except for* cash discounts of up to 2% for early payment (30 days or less) of vendors' invoices.
- Rebates returned directly to the developer may on a case-by-case basis be reflected as a source rather than a reduction to an expenditure.
- ***Supplemental Information*** – On designated line items, an expenditure summary must be provided including the payee, amounts, nature of expenditures, and dates paid for each item that was included in the specified line item of the Owner's Final Costs Certification. Designated line items include the following:
  - Any Other line item (7, 12, 25, 34, 41, 46, 64, 75, and 76)
  - 10 - Off-Site Improvements
  - 18 - Soil Borings/Tap Fees
  - 30 – Legal Fees

- 32 - Real Estate Attorney
- 45 - Legal Fees
- 59 – Syndication Legal Fees

## LAND

- 1 **Land Purchase** – The lesser of (1) the actual cost of land acquired for the development or (2) its appraised value as approved by the Authority. Include the following costs related to the land purchase on this line-item:
  - Analysis of the QAP (Qualified Allocation Plan) for targeted areas.
  - Identification of potential sites.
  - Analysis of population demographics for potential sites.
  - Analysis of site’s economy and forecast future growth potential.
  - Determining a site’s zoning status and possible rezoning actions.
  - Contacting local government officials concerning access to utilities, public transportation, impact fees, and local ordinances.
  - Performing environmental tests on selected sites.
  - Negotiating the purchase of the land and its related financing.
- 2 **Closing/Title & Recording** – Closing costs and real estate expenditures including but not limited to costs related to recording the title of a land acquisition, finder’s fees, brokerage fees, legal fees, professional fees, assumed liabilities related to the acquisition of land.
- 3 **Other Land-Related Expenses** – Land related expenditures related to titles or real estate expenditures. Include land grading that only provides leveling of the land and is *not* done to provide proper setting for a building or a paved roadway. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner’s Final Costs Certification form.
- 4 **Subtotal-Land** – Automatically totals line items 1 through 3.

## BUILDING ACQUISITION

- 5 **Existing Structures (Buildings)** – Cost of existing structures purchased on a development site that provide residential rental property on the site.
- 6 **Demolition** – Costs to destroy the exterior of an existing building to prepare the site for new construction.
- 7 **Other** – Enter a description of the costs and any acquisition costs approved in the construction contract that do not fit into line items 5 and 6. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner’s Final Costs Certification form.
- 8 **Subtotal-Building Acquisition** – Automatically totals line items 5 through 7.

## SITE WORK

- 9 **On-Site Improvements** – Improvements to the land directly related to the new residential building construction such as:
- Equipment for playgrounds and other special areas.
  - Fences, walls, retaining walls, and railings.
  - Street and development signs.
  - Trash removal areas.
  - Water fountains and other objects of art.
  - Grading that provides a proper setting for a building or a paved roadway. Do not include land grading (see line #3 Other Land Related Expenses).
- 10 **Off Site Improvements** – Costs of dedicated infrastructure improvements, such as access roads, sidewalks and curbs, sewers, and utility lines that (unlike on-site improvements) are off the land being developed, or the lots being sold, but which add value to the entire development. Include impact fees (one-time charges) or dedicated improvements required by the state or local government to finance off-site capital improvements for the general public use due the development construction or expansion, such as expanding the sewage system or a new school. Refer to the Off-Site Improvements **line item (41)** on the Contractor's Final Costs Certification form. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner's Final Costs Certification form.
- 11 **Landscaping and Irrigation** – Costs of improving and blending the site grounds with natural elements, such as contours, plants, shrubs, and walkways. Also, installing watering systems used to maintain lawns and custom landscapes. Refer to the Site Irrigation and Landscaping **line-items (37 and 38)** on the Contractor's Final Costs Certification form.
- 12 **Other** – Enter a description of the costs and any site work costs approved in the construction contract that do not fit into line items 9 through 11. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner's Final Costs Certification form.
- 13 **Subtotal – Site Work** - Automatically totals line items 9 through 12.

## CONSTRUCTION/REHABILITATION

- 14 **Structures (Rehabilitation and New Construction)** – Costs connected with rehabilitating an existing building and construction of new residential building(s) on the development site.
- 15 **Community Building and/or Maintenance Facility** – Construction of community and service buildings, such as club houses, computer rooms, maintenance garages, and other auxiliary buildings or rooms on the development site. Refer to the Community Building and Accessory Building **line items (43 and**

- 44)** on the Contractor's Final Costs Certification form.
- 16 **Garages/Carports** – Construction of covered parking structures for residents. Refer to the Garages/Carports **line item (45)** on the Contractor's Final Costs Certification form.
  - 17 **Laundry Facilities** – Construction and purchase of laundry facilities and equipment. Refer to the Laundry Facilities **line item (46)** on the Contractor's Final Costs Certification form.
  - 18 **Soil Borings/Tap Fees** - If not included in the construction contract, record the environmental surveys (soil borings) in the amounts actually paid. Additionally, record the tap fee costs paid to a local government for the right to tap into an existing local utility. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner's Final Costs Certification form. Refer to the Soil Borings/Tap Fees **line item (47)** on the Contractor's Final Costs Certification.
  - 19 **Temporary Site Security** – Cost of providing security for the construction site during the construction of the development, such as temporary security fencing, temporary intrusion alarm systems, and security guard services. Refer to the Temporary Site Security **line item (48)** on the Contractor's Final Costs Certification form.
  - 20 **Bond Premium** – Cost of establishing the bond financing to assure the contractor's completion of the development. Refer to the Bond Premium **line item (49)** on the Contractor's Certificate of Final Actual Costs. If not listed on the Contractor's Cost Certification, Bond Premium should be included on the Owner's Cost Certification, Permanent Financing: Bond Premium **line item (44)** below.
  - 21 **Contractor Cost Certification** – Cost of the contractor cost certification for the development. Refer to the Cost Certification Expense **line item (51)** on the Contractor's Final Costs Certification.
  - 22 **General Requirements** – Enter the general requirements certified on the contractor's cost certification. Refer to the General Requirements **line item (54)** on the Contractor's Certificate of Final Actual Costs.
  - 23 **Builder's Overhead** – Enter the builder's overhead certified on the contractor's cost certification. Refer to the Builder's Overhead **line item (55)** on the Contractor's Certificate of Final Actual Costs.
  - 24 **Builder's Profit** – Enter the builder's profit certified on the contractor's cost certification. Refer to the Builder's Profit **line item (56)** on the Contractor's Certificate of Final Actual Costs.

- 25 **Other** – Record a description of the costs and any construction/rehabilitation approved in the construction contract including all approved change orders that do not fit into line items 14 through 24. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner’s Final Costs Certification form.
- 26 **Subtotal-Construction/Rehabilitation** – Automatically totals line items 14 through 25.

## PROFESSIONAL FEES

If there is an IOI relationship for any professional fees, enter the lesser amount of:

- Actual paid for the services or,
- Included for such services in the Construction Contract.

- 27 **Design Architect** – Actual fees for the design architect’s services.
- 28 **Supervisory Architect** – Actual fees for the supervisory architect’s services.
- 29 **Landscape Architect** – Actual fees for the landscape architect’s services.
- 30 **Legal Fees** – Legal expenditures incurred in connection with construction contract, such as allowable costs attributable to the construction lender. Do not include expenditures connected with permanent financing loan closings (**line item #45**), land acquisition title and recording (**line item #2**) or Real Estate Attorney (**line item #32**). A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner’s Final Costs Certification form.
- 31 **Interior Design Architect** – Actual fees for the interior design architect’s services.
- 32 **Real Estate Attorney** – Fees incurred for initial and final closings. Normally, the costs include only those customary expenditures expected to be incurred in connection with initial closing, construction, and final closing, including attorneys’ fees incurred in obtaining tax abatement and proper zoning in connection with rehabilitation or new construction. Do not include expenditures connected with the syndication of limited partnership interests or expenditures connected with land acquisition already included in the Title and Recording costs or recognized Land costs. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner’s Final Costs Certification form.
- 33 **Engineering/Survey** – Actual fees for the Engineer’s and Surveyor’s services on the development site.
- 34 **Other** – Record a description of the costs and any professional fees approved in

the mortgage commitment including all mortgage modifications that do not fit into line items 27 through 33. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner's Final Costs Certification form.

35 **Subtotal-Professional Fees** – Automatically totals line items 27 through 34.

#### **INTERIM CONSTRUCTION COSTS**

36 **Property & Casualty Insurance** – Premiums actually paid and/or owing for property and casualty, and other structural insurances required by the Mortgagee during the construction period. Additionally, include premiums actually paid and/or owing for protection against claims resulting from injuries and damage to other people and property.

37 **Construction Period Interest** – Interest charged by the construction lender (the Authority or a third party) for construction financing during the construction period. Owner's CPA should request a confirmation from the construction lender regarding the interest paid.

38 **Title & Recording (During Construction)** – Updating the title and recording the construction of new site structures with the local government during the construction period.

39 **Construction Taxes** – Taxes paid or accrued during the construction period. The due date is the date on which the taxes are first due and not the last day on which the taxes may be paid without penalty.

40 **Permits & Fees** – Costs included on the Contractor's Cost Certification, especially costs included on the Building Permits *line-item (45)*. Professional fees for all state and local government permits and approvals necessary for the construction of the depreciable property and for securing the certificates of occupancy or other equivalent documents.

41 **Other** – Record a description of the costs and any interim construction costs approved in the construction contract that do not fit into line items 36 through 40. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner's Final Costs Certification form.

42 **Subtotal-Interim Construction Costs** – Automatically totals line items 36 through 41.

#### **PERMANENT FINANCING**

43 **Loan Origination Fee** – Costs of applying and underwriting the *construction* loan with the mortgagee, including credit report costs. If MSHDA loan, costs of the MSHDA loan commitment fee. Include any loan enhancement collateral provided to reduce the risk and secure the construction loan.

- 44 **Bond Premium** – Cost of establishing the bond funding for the development’s *permanent* financing.
- 45 **Legal Fees** – Legal expenditures incurred in connection with permanent financing, such as allowable costs attributable to the permanent lender. Do not include expenditures connected with construction loan closings, land acquisition already included in the Title and Recording costs or recognized Land costs. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner’s Final Costs Certification form.
- 46 **Other** – Record a description of the costs and any permanent financing costs approved in the final closing and mortgagee’s underwriting commitment including all mortgage modifications that do not fit online item 43 through 45. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner’s Final Costs Certification form.
- 47 **Subtotal-Permanent Financing** – Automatically totals line items 43 through 46.

#### **OTHER COSTS**

- 48 **Market Study** – Costs of the market and feasibility studies of the specific development site.
- 49 **Environmental Studies** – Costs of determining the environmental concerns surrounding a development site.
- 50 **Equipment and Furnishings** – Costs of equipment, furniture, fixtures, and appliances required to begin operations of the development purchased from funds other than rental income. A schedule listing of such items, payees from whom the items were purchased, an item description, and date paid must accompany the Mortgagor’s Final Costs Certification form.
- 51 **Appraisal and C.N.A.** – Cost of appraisals and Capital Needs Assessments performed on the site.
- 52 **Start-up and Organization** – Costs of organizing the LDHA.
- 53 **Tax Credit Reservation Fees** – Costs related to the reservation of tax credits.
- 54 **Tax Credit Application Fees** – Costs related to applying for tax credits through the Authority.
- 55 **Tax Credit Compliance Monitoring Fees** – Costs related to the compliance requirements of the development for tax credit compliance review tasks.
- 56 **Cost Certification** – Cost of the Tax Credit and Mortgagor’s cost certifications.

- 57 **Temporary Tenant Relocation** – Costs of relocating tenants during the rehabilitation of an occupied building. *This line item is not to cover operating expenses for unit turnovers or permanent tenant relocation expenses unless these costs are expressed prior to initial closing.*
- 58 **Marketing Expense\*** – Marketing the development to achieve the required rent-up percentage after the substantial Construction Completion date. A schedule listing of such items, payees from whom the items were purchased, an item description, and date paid must accompany the Costs Certification form.
- 59 **Syndication Legal Fees** – Legal costs of syndicating interests in the mortgagor, such as private placement memorandums, syndicator legal fees, and any state or federal filing requirements.
- 60 **Rent-up Allowance\*** – Costs incurred after the substantial construction completion. In unusual cases, additional months of taxes, and insurance may be expensed to this account.
- 61 **One Month's Gross Rent Potential (Operating Reserve Cost Deposit)** – Amount approved in the Mortgage Loan Commitment report, including any mortgage modifications for the One Month's Gross Rent Potential for the development. This amount is deposited into the development operating account at initial closing.
- 62 **Tax Opinion** – Costs related to reviewing the tax benefits of the tax credit allocated to the development.
- 63 **PV Adjustment** – Costs related to the adjustment of the present value of tax credits awarded to the development.
- 64 **Other** – Record a description and amount of the Other Costs, including all construction change orders that do not fit into line items 48 through 63. Letter of Credit or other operational guaranty fees that are paid prior to the Substantial Construction Completion date but cover a period ending after the Substantial Construction Completion date must be prorated to the Substantial Construction Completion date. Only the amount attributable to the construction period ending on the Substantial Construction Completion date may be included in this line item. Fees paid for the contractor's assurance of completion, such as letter of credit fees and bond premiums, should be included on the proper line item of the Contractor's Final Costs Certification form. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner's Final Costs Certification form.
- 65 **Subtotal-Other Costs In-Basis** – Automatically totals line items 48 through 64.

## DEVELOPER FEES

- 66 **Developer Overhead** – Record the developer’s overhead allowed for in the construction contract, including any change orders. The Authority may adjust this amount, if necessary.
- 67 **Developer Fee** – Record costs paid for services provided to develop the project from its initial inception to its completion when the project is placed in service. Only the portion of the developer fee paid/accrued for providing services associated with the low-income buildings is includable in eligible basis.
- 68 **Consultant Fee** – Record fees related to consultants used to establish the development. Includable in eligible basis if the service is associated with the low-income building. Do **not** include consulting fees related to construction management, which must be included in the general requirements and aggregated as part of the General Requirements, Builder Overhead, and Builder’s Profit fee limits.
- 69 **Subtotal-Developer Fees** – Automatically totals line items 66 through 68.

## PROJECT RESERVES

- 70 **Operating Assurance Reserve** – Amount approved in the mortgage commitment, including any mortgage modifications for the operating assurance reserve for the development.
- 71 **Replacement Reserve** – Amount approved in the mortgage commitment, including any mortgage modifications for the replacement reserve for the development.
- 72 **Operating Deficit Reserve** – Amount approved in the Mortgage Loan Commitment report, including any mortgage modifications for the Operating Deficit Reserve for the development.
- 73 **Tax and Insurance Escrow** – Amount approved in the Mortgage Loan Commitment report, including any mortgage modifications for the Tax and Insurance Escrows for the development.
- 74 **Rent-up Reserve** – Amount approved in the mortgage commitment, including any mortgage modifications for the rent-up reserve for the development.
- 75 **Other** – Record a description and the amount approved in the mortgage commitment, including any mortgage modifications for other reserves/escrows setup that do not fit into line items 70 through 74. Include reserves such as the remarketing reserve, rent lag reserve, and supportive services reserve on the other project reserve line items. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner’s Final Costs Certification form.

- 76 **Other** – Record a description and the amount approved in the mortgage commitment, including any mortgage modifications for other reserves/escrows setup that do not fit into line items 70 through 75. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Owner’s Final Costs Certification form.
- 77 **Subtotal-Project Reserves** – Automatically totals line items 70 through 76.
- 78 **TOTAL (Must match Total Development Costs in Application)** – Automatically totals all subtotal line items. This sum must match the Total Development Costs identified in the construction contract.

#### **TOTAL DEVELOPMENT SOURCES**

- 79 **MSHDA Permanent Mortgage Loan** – Leave this line item blank, of an Authority loan. Authority staff will complete this entry.
- 80 **Conventional / Other Mortgage** – Amount of any conventional loans or other mortgages on the development.
- 81 **Equity Contribution from Tax Credit Syndication** – Amount of the tax credit syndicator’s equity contribution.
- 82 **MSHDA NSP Funds** – Amount of the MSHDA NSP funds applied to the development financing.
- 83 **MSHDA HOME Funds** – Amount of the MSHDA HOME funds applied to the development financing.
- 84 **MSHDA Preservation Funds** – Amount of the MSHDA Preservation funds applied to the development financing.
- 85 **Other MSHDA** – Record the description and amount of other MSHDA funds applied to financing that are **not** identified in the other Total Development Sources line items. *E.g., Interest income earned on Construction Sources held in escrow at MSHDA (Income from Operation, Equity, etc.) through the Mortgage Cut-off month.*
- 86 **Local HOME** – Record the description and amount of local HOME funds applied to the development financing.
- 87 **Income from Operations** – Amount of operating income contributed as a project source during the construction period to cover construction loan interest, taxes, and insurance, if applicable. This amount is identified in the Authority’s Mortgage Loan Commitment report and amended as necessary via mortgage modification(s).

- 88 **Other Equity** – Record the description and amount of funds from equity sources not identified in the other Total Development Sources line items.
- 89 **Other** – Record the description and amount of funds from equity sources not identified in the other Total Development Sources line items.
- 90 **Other** – Record the description and amount of funds from equity sources not identified in the other Total Development Sources line items.
- 91 **Other** – Record the description and amount of funds from equity sources not identified in the other Total Development Sources line items.
- 92 **Deferred Developer Fee** – Amount of deferred developer fee applied as funds for the development. *Eligible basis:* Depends on whether the fee is considered a genuine debt to the property.
- 93 **Total Funding Sources** – Automatically sums the Total Development Sources line items.

### **Developer Fee**

The combined total of the **developer fee, developer overhead, and any consultant fees** are limited based on the development sizes and development parameters. The maximum fee is calculated based on the following formulas and capped by the maximums stated for each development type:

<b>Type</b>	<b>Percentage</b>	<b>Maximum Fee</b>
<b>Subject to State Volume Cap</b>	15%	\$1,500,000

*Formula:*

7.5% of [Land + Building Acquisition] + 7.5 % of Project Reserves + 15% of [Total Development Cost – (Developer Fee + Developer Overhead + Consultant Fees)].

#### **Not Subject to State Volume Cap**

49 or less units

*Formula:*

7.5% of [Land + Building Acquisition] + 7.5 % of Project Reserves + 20% of [Total Development Cost – (Developer Fee + Developer Overhead + Consultant Fees)].

50 units or more

*Formula:*

7.5% of [Land + Building Acquisition] + 7.5 % of Project Reserves + 15% of [Total Development Cost – (Developer Fee + Developer Overhead + Consultant Fees)].

- If an existing development is split into two or more developments, the aggregate developer fee for all developments cannot exceed the calculated maximum.

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

## **Certification of Project Syndication**

The owner must certify on the Certification of Project Syndication (LIHTC 035) the gross and net syndication proceeds applicable to the project. Record allowable amounts under the related line items, organized as follows:

- Gross Syndication Proceeds – Record the gross amount of syndication proceeds allocated to the development.
- Net Proceeds to the Development – Record the amount of net proceeds allocated to the development.