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February 5, 2020

Robert J. O'Regan, Chair
Board of Selectmen
Town of Stoughton
10 Pearl Street
Stoughton, MA 02072

Dear Chair O'Regan:

Enclosed please find MassHousing's draft report regarding the cost examination for the Taj Estates, Phase I rental development built pursuant to M.G.L. c. 40B ("Chapter 40B"). This report is based on our analysis of Taj Estates LLC's cost examination (the "Cost Examination") dated December 31, 2019 and received by MassHousing on January 10, 2020 (a copy of which is enclosed). We have undertaken this analysis pursuant to our responsibilities as the Subsidizing Agency (defined under the provisions of 760 CMR 56.02) for certain Chapter 40B programs; specifically the New England Fund Loan Program. It is our responsibility to determine whether the Cost Examination complies with applicable accounting and reporting standards, as well as legal requirements and published guidelines for the preparation of these examinations.

Prior to MassHousing issuing a final report regarding the Cost Examination for Taj Estates Phase I and releasing the developer's financial surety, we would like to offer you, as the Chief Elected Official of the Town of Stoughton, an opportunity to comment on this draft report, identify any issues that you might have with the content, or raise any questions that you believe should be addressed. I would appreciate it if all comments could be sent to us by March 9, 2020 so that we may consider them prior to the issuance of our final cost examination report for this development. Comments should be sent to Jennifer Wierl, Auditor, Planning and Programs. Ms. Wierl can be reached at (617) 854-1136 or jwierl@masshousing.com should you have any questions.

Very truly yours,

Jessica L. Malcolm
Acting Manager, Planning and Programs

Enclosures

cc: Mohiuddin Ahmed, Taj Estates LLC
Robert M. Bibeault, CPA, Bibeault & Associates LLC
Sherman Epro, Chair, Stoughton Zoning Board of Appeals
Margaux LeClair, DHCD



**Report on MassHousing's Analysis
of the Cost Examination
Dated December 31, 2019
and
Received by MassHousing on January 10, 2020
with additional information (as requested by MassHousing) received through
January 28, 2020**

**Submitted by
Taj Estates LLC
Regarding**

**Taj Estates Phase I
a M.G.L. Chapter 40B Rental Development
Stoughton, Massachusetts
Project ID# 816**

Date of Report: February 5, 2020

Executive Summary

On January 10, 2020, MassHousing received an Independent Accountant's Report dated December 31, 2019 for the Taj Estates, Phase I rental housing development ("Taj Estates, Phase I" or the "Project") located in Stoughton, Massachusetts (the "Town"). In said Independent Accountant's Report, Bibeault & Associates LLC (the "CPA") stated that they have examined the Schedule of Actual and Budgeted Development Sources & Uses, Schedule of Total Chapter 40B Maximum Allowable Developer Fee and Overhead, and Schedule Showing Calculation of Owner's Equity and Limited Dividend under Chapter 40B (collectively, the "Cost Examination" or "Schedules") of Taj Estates LLC (the "Developer"), and that in their opinion the Cost Examination presents fairly, in all material respects, the Schedules of the Developer as of June 5, 2018, in conformity with the accounting practices prescribed by the requirements of the Inter-Agency 40B Rental Cost Certification Guidance for Owners, Certified Public Accountants, and Municipalities (the "Guidance").

MassHousing, acting as the Subsidizing Agency (formerly, "Project Administrator") for this development, conducted an analysis of this Cost Examination to ensure that it was in compliance with applicable accounting standards, reporting standards, legal requirements and applicable Chapter 40B guidelines.

MassHousing has completed its analysis and has prepared this report (the "Report"). In the process, we have reached the following conclusions:

1. The Cost Examination is consistent with applicable guidelines and practices.
2. MassHousing believes that the Developer has not exceeded the Chapter 40B maximum fee and overhead allowed to be earned on this development by the Developer as a limited dividend entity.
3. MassHousing has determined that the maximum allowable developer fee and overhead is \$1,579,507, as further described in Section IV below.
4. MassHousing has determined that the owner's equity is \$4,336,379 as further described in Section V below.
5. MassHousing has determined that the allowable annual limited dividend distribution is \$433,638 as further described in Section V below.

The following schedule reflects the final calculations noted in this Report:

Executive Summary (continued)

USES OF FUNDS

Pre-Permitting Land Value, defined as the sum of the "as is" appraised land value and reasonable carrying costs. *(This value is shown for Chapter 40B purposes and is used in Maximum Developer Fee and Limited Dividend calculations.)*

\$ 1,200,000

<i>Description</i>	<i>Per Cost Examination</i>	<i>Proposed Adjustments</i>	<i>Ref.</i>	<i>Final Per MassHousing</i>
Development Costs:				
Land Acquisition	\$ 676,401	\$ -		\$ 676,401
Building Structural Costs (Hard Costs)	9,035,042	-		9,035,042
Site Work (Hard Costs)	2,578,015			2,578,015
Builder's OH, Profit & General Conditions	98,801			98,801
General Development Costs	1,745,014			1,745,014
Developer Fee & OH	-	-		-
Capitalized Reserve	-	-		-
Total Development Costs	<u>\$ 14,133,273</u>	<u>\$ -</u>		<u>\$ 14,133,273</u>

SOURCES OF FUNDS

<i>Description</i>	<i>Per Cost Examination</i>	<i>Proposed Adjustments</i>	<i>Ref.</i>	<i>Final Per MassHousing</i>
Private Equity:				
Owner's Cash Equity	\$ 2,233,273	\$ -		\$ 2,233,273
Developer Fee/OH Contributed or Loaned	-			-
Subordinate Debt:				
Permanent Debt (Senior):	11,900,000			11,900,000
	<u>\$ 14,133,273</u>	<u>\$ -</u>		<u>\$ 14,133,273</u>

MassHousing concludes that the Cost Examination is free of material mathematical errors; reflects the Schedule of Actual and Budgeted Development Sources & Uses; reflects development costs that appear to be reasonable; and reflects the number of units in the Project as agreed to in the Regulatory Agreement. The Notes to Schedules appear to cover the full scope and time frame of the Project.

I. Overview

According to the Cost Examination, Taj Estates LLC was formed as a limited liability company on July 13, 2015 for the purpose of acquiring and developing rental housing in Stoughton, Massachusetts. Taj Estates, Phase I consists of 67 units, of which 25 percent (17 units) must be rented to qualifying income eligible individuals and households.

On March 4, 2009, MassHousing issued a project eligibility letter ("PEL") to Woodbridge Crossing, Inc. (the "Original Applicant") evidencing fundability of the Project under the New England Fund ("NEF") Program of the Federal Home Loan Bank of Boston. This letter amended and replaced a PEL issued by MassHousing to the Original Applicant, dated April 7, 2004, for a different development on the same site.

On February 3, 2011, the Stoughton Zoning Board of Appeals (the "ZBA") issued a Comprehensive Permit to the Original Applicant for the development of 179 rental apartments.

On August 10, 2015, the ZBA approved the transfer of the Comprehensive Permit to the Developer. There were Modifications to and Extensions of the Comprehensive Permit since then. As a condition of the Comprehensive Permit, the development is to be built in two distinct phases, with Phase I consisting of 67 rental apartments in two buildings and Phase II consisting of 112 units in three buildings.

On May 18, 2016, MassHousing issued a final approval letter under the NEF program for Taj Estates, Phase I.

MassHousing and the Developer entered into a Regulatory Agreement for Phase I, dated May 2, 2016 and recorded on May 25, 2016 at the Norfolk County Registry of Deeds in Book 34114, Page 266.

Pursuant to the Regulatory Agreement, MassHousing is responsible for evaluating the limited dividend requirement, which involves determining the Developer's compliance with the allowable developer fee and overhead limitation through approval of total development costs.

The final certificate of occupancy for this Project was dated June 5, 2018.

II. Procedures

In connection with its responsibilities under the Regulatory Agreement, MassHousing reviewed documentation and information related to Chapter 40B and specifically to the Project, including but not limited to the following:

- The Cost Examination, including the Independent Accountant's Report.¹
- Owner's Certificate from Mohiuddin Ahmed, on behalf of Taj Estates LLC, dated January 9, 2020.
- General Contractor's Certificate from Mohiuddin Ahmed on behalf of Taj Estates LLC dated January 2020.
- Land appraisal, commissioned by MassHousing, dated May 6, 2016, valuing the land as of September 16, 2003, prepared by Foster Appraisal & Consulting Co., Inc. (the "Appraisal").
- Architect's Certificate from Jerome R. Dixon.
- M.G.L. c. 40B ("Chapter 40B") regulations at 760 CMR 56 and its associated guidelines, most recently revised in 2014.
- The Guidance.

In order to verify the contents of the Cost Examination, MassHousing obtained the "Owner's Certificate" referenced above. This certification, executed under seal and under the pains and penalties of perjury, serves as an additional safeguard in verifying the data set forth in the Cost Examination.

¹ Throughout this report we use the term "Cost Examination" rather than "audit". For various technical reasons, a Chapter 40B cost examination report prepared by a CPA may not meet the requirements of the U.S. Auditing Standards established by the American Institute of Certified Public Accountants (AICPA). We note, however, that we require the CPA's report to be the result of an "attestation examination" and that under AICPA standards (i) the objective of an attestation examination parallels that of an audit, (ii) the required level of evidence which must be accumulated for an attestation examination parallels that of an audit, (iii) the professional requirements for performing an attestation examination parallel that of an audit, and, finally, (iv) an attestation examination is the equivalent of an audit in situations where the financial statements have been prepared based on a set of specific rules (here, the requirements of our detailed 40B Cost Certification Guidance) that do not constitute accounting principles generally accepted in the United States ("GAAP").

III. Project Costs

A. Land

The Project's site consists of approximately 14.5 acres of land located at 1779 Central Street in Stoughton, Massachusetts (the "Site").

The land, which Taj Estates, Phase I and Phase II was built, was acquired for \$1,825,000, based on a Foreclosure Deed from Teliot Capital Corp. to Taj Estates, LLC dated July 14, 2015 and recorded on July 16, 2015 at said Deeds in Book 33316, Page 367. The total purchase price of the land, which includes \$4,537 of closing costs, is \$1,829,537.

The prorated acquisition cost for Phase I is reported in line 171 of the Cost Examination at \$676,401. This amount was calculated based on building square footage.

The Appraisal states that the "as is" value of the Site (Phase I) was \$1,200,000. MassHousing has determined that the Appraisal is acceptable.

For purposes of calculating the Chapter 40B Maximum Allowable Developer Fee and Overhead (Section IV below) and the Limited Dividend (Section V below), the above stated land values are considered as described below.

The pre-permitting land value is defined as the sum of the As Is Market Value² (\$1,200,000) plus Reasonable Carrying Costs³ (\$0). The Cost Examination reports the pre-permitting land value as \$1,200,000.

MassHousing has determined that the pre-permitted land value is appropriate.

The allowable acquisition cost ("AAC") is defined as the lesser of the pre-permitting land value (\$1,200,000) and land acquisition cost (\$676,401). The Cost Examination reports the AAC as \$676,401.

MassHousing has determined that the AAC as reported is appropriate.

² As Is Market Value is the value of the property under current zoning at the time of the Developer's application for a Project Eligibility Letter, and it must exclude any value created by a previously-issued Comprehensive Permit. It should be supported by an appraisal of this as-is market value.

³ Reasonable Carrying Costs (RCC) may include the following, up to a maximum of 20% of As-Is Market Value:

- a. If site control is established through an option or purchase-and-sale agreement, RCC may include non-refundable option and extension fees.
- b. If site control is established through ownership of the parcel to be developed, RCC may include taxes, insurance and interest costs on acquisition financing.
- c. Any interim income earned from existing operations on the site must be deducted from RCC

B. Construction Costs

The Guidance states that the Developer “is required to provide an explanation for the development’s actual hard costs if they exceed, by more than 10%, the estimated cost determined for a similar development through the use of the RS Means cost estimating tools.”

MassHousing has reviewed the RS Means Cost Analysis Reporting Form (the “RS Means Form”) certified to by Jerome R. Dixon (the “Architect”), which states that the applicable RS Means standard construction costs for the Project are \$15,544,125. Actual construction costs for the Project are reported in the Cost Examination as \$11,711,858, which is \$3,832,267 less than the reported RS Means standard.

The total construction costs do not exceed the RS Means standard construction costs returned by the cost estimation analysis, and also do not exceed the 110% safe harbor allowed under the Guidance.

C. Construction Costs – Site Work

The RS Means Form requires an explanation if site development costs exceed 10% of the actual building structure costs as reported in the Cost Examination. The RS Means Form certified to by the Architect shows site development costs of \$2,578,015, which is approximately 29% of the \$9,035,042 of building structure costs, as reported in the Cost Examination.

The Developer provided the following explanation to MassHousing:

The site costs for TAJ Estates LLC are higher than the normal 10% due to many unforeseen and unusual factors that arose during the project.

The Company was required to install a traffic light and reconfigure the intersection to the complex. As part of this process they incurred delays caused by Verizon which caused them to pave the roadway for winter and then tear it up and redo it in the spring. The amount of these additional costs totaled approximately \$120,000

Due to the amount of rock on the project there was a significant amount of additional excavation work that need to be done as well as the demolition of an existing structure. Additional change orders for this work exceeded \$600,000.

Many of the additional site costs related to the traffic light issue were allocated based on the same percentage that was used to allocate the land cost which was the best available method.

Overall due to the condition of the property, site costs were anticipated to be higher than normal and they were properly budgeted for in the approved budget.

Based on MassHousing’s experience with other projects of a similar nature, MassHousing has determined that the reported site development costs are reasonable.

D. Builder's Profit, Builder's Overhead, General Conditions

The Developer did not utilize a general contractor for the Project.

The Guidance allows, for related party general contractors, a builder's profit of 6% of construction costs, builder's overhead of 2% of construction costs, and general conditions of 6% of construction costs. It is acceptable for a particular line item to exceed the limit set forth above so long as the total of the three line items does not exceed 14%.

The total of builder's profit (\$0), builder's overhead (\$0) and general conditions (\$98,801) identified in the Cost Examination is \$98,801 or 1% of construction costs.

The reported amount is within the 14% limitation described.

IV. Calculation of Maximum Allowable Chapter 40B Developer Fee and Overhead

The Cost Examination reports a Maximum Allowable Developer Fee and Overhead of \$1,579,507 (as shown in the calculation below).

Step 1: Calculation of 5% of Allowable Acquisition Cost

	<u>Per Cost Examination</u>	<u>Per MassHousing</u>	<u>Difference</u>
Allowable Acquisition Cost (AAC) Lesser of Pre-Permit Land Value and Actual Acquisition Cost	\$ 676,401	\$ 676,401	\$ -
Multiplied by 5%	5%	5%	5%
Adjusted Allowable Acquisition Cost	<u>\$ 33,820</u>	<u>\$ 33,820</u>	<u>\$ -</u>

Step 2: Calculation of Adjusted Development Cost

	<u>Per Cost Examination</u>	<u>Per MassHousing</u>	<u>Difference</u>
Total Development Costs (TDC) AAC+hard costs+soft costs+fee/oh+reserves	<u>\$ 14,133,273</u>	<u>\$ 14,133,273</u>	<u>\$ -</u>
Less:			
Allowable Acquisition Costs	676,401	676,401	-
Developer Fee	-	-	-
Developer Overhead	-	-	-
Development Consulting Fees	-	-	-
Capitalized Reserves	-	-	-
Total Deductions	<u>676,401</u>	<u>676,401</u>	<u>-</u>
Adjusted Development Costs (ADC)	<u>\$ 13,456,872</u>	<u>\$ 13,456,872</u>	<u>\$ -</u>

IV. Calculation of Maximum Allowable Chapter 40B Developer Fee and Overhead (continued)

Step 3: Calculation of Maximum Allowable 40B Developer Fee and Overhead

	<u>Per Cost Examination</u>	<u>Per MassHousing</u>	<u>Difference</u>
Adjusted Allowable Acquisition Cost (from Step 1 above)	\$ 33,820	\$ 33,820	\$ -
Plus: 15% of First \$3,000,000 of ADC*	450,000	450,000	-
Plus: 12.5% of Next \$2,000,000 of ADC*	250,000	250,000	-
Plus: 10% of (ADC* minus \$5,000,000)	845,687	845,687	-
Maximum Allowable 40B Developer Fee and Overhead	<u>\$ 1,579,507</u>	<u>\$ 1,579,507</u>	<u>\$ -</u>

* ADC from Step 2 above

MassHousing has determined that the Maximum Allowable Developer Fee and Overhead of \$1,579,507, as reported, is appropriate.

Step 4: Calculation of Total Development Fees and Overhead Actually Received

	<u>Per Cost Examination</u>	<u>Per MassHousing</u>	<u>Difference</u>
Actual Paid Developer Fee	\$ -	\$ -	\$ -
Plus: Actual Paid Developer Overhead	-	-	-
Plus: Actual Paid Development Consulting Fees	-	-	-
Plus: 80% of All Reserves to be Funded to Owner within 5 years of completion	-	-	-
Total Development Fees and Overhead Actually Received	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Developer represents that no developer fees were paid. As shown in Section IV, Steps 1 – 4 calculations above, the Total Development Fees & Overhead Actually Received, as reported in the Cost Examination, are zero.

V. Limited Dividend

A. Calculation of Owner's Equity

The Cost Examination reports Owner's Equity as \$4,336,379.

Owner's Equity is determined by taking the greater of the amounts determined by the Cost Method and the Value Method.

The Value Method looks at the "as-complete" appraised value after construction, minus the amount of permanent debt. In this case, the Developer elected to use the Cost Method alone for determining Owner's Equity (as shown below).

Cost Method

Step 1: Maximum Allowable Development Fee for Purposes of Calculating Limited Dividend

	<u>Per Cost Examination</u>	<u>Per MassHousing</u>	<u>Difference</u>
Maximum Allowable 40B Developer Fee and Overhead (from Section IV, Step 3 above)	<u>\$ 1,579,507</u>	<u>\$ 1,579,507</u>	<u>\$ -</u>

Step 2: Calculation of Total Development Fees and Overhead Actually Received

	<u>Per Cost Examination</u>	<u>Per MassHousing</u>	<u>Difference</u>
Actual Paid Developer Fee	\$ -	\$ -	\$ -
Plus: Actual Paid Developer Overhead	-	-	-
Plus: Actual Paid Development Consulting Fees	-	-	-
Plus: 80% of All Reserves to be Funded to Owner within 5 years of completion	-	-	-
Total Development Fees and Overhead Actually Received (from Section IV, Step 4 above)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

A. Calculation of Owner's Equity (continued)

Step 3: Calculation of Owner's Equity

	<u>Per Cost Examination</u>	<u>Per MassHousing</u>	<u>Difference</u>
Cash Equity Invested by Owner	\$ 2,233,273	\$ 2,233,273	\$ -
Plus: Deferred Portion of Maximum Allowable Development Fee	1,579,507	1,579,507	-
Plus: Amount, if any, by which Pre-Permitting Land Value Exceeds Acquisition Cost	523,599	523,599	-
Less: Amount, if any, by which Acquisition Cost Exceeds Pre-Permit Land Value	-	-	-
Owner's Equity by Cost Method	<u>\$ 4,336,379</u>	<u>\$ 4,336,379</u>	<u>\$ -</u>

MassHousing has determined that the reported Owner's Equity is appropriate.

B. Calculation of Annual Limited Dividend:

The Cost Examination reports the Annual Limited Dividend as \$433,638 as shown in the calculation below.

	<u>Per Cost Examination</u>	<u>Per MassHousing</u>	<u>Difference</u>
Owner's Equity by Cost Method	\$ 4,336,379	\$ 4,336,379	\$ -
Multiplied by 10%	10%	10%	10%
Annual Limited Dividend	<u>\$ 433,638</u>	<u>\$ 433,638</u>	<u>\$ -</u>

MassHousing has determined that the Chapter 40B Maximum Annual Limited Dividend as reported in the Cost Examination is appropriate.