

November 2011

To: Minnesota NSP1 and NSP3 Sub-Recipients

From: Ruth Simmons, MN NSP Coordinator

Subject: Cost Reasonableness Certification

Attached is a certification that, if signed, will confirm that Subrecipients of the Neighborhood Stabilization Program (NSP1 and/or NSP3) who received their grant funds through Minnesota Housing Finance Agency are following NSP policies to ensure costs of rehabilitating NSP projects are deemed reasonable. The Cost Reasonableness Certification must be signed by Subrecipients and accompanied by supporting documents in the following circumstances:

- When the Developer Agreement does not require the developer to conduct a competitive bidding process that ultimately leads to the selection of the lowest responsible bid.
- When the Developer Agreement only requires the developer to conduct competitive bidding on some but not all activities in the scope of work.
- When a competitive bidding was conducted, but the lowest bid was not selected for valid reasons.
- When a bidding competition was conducted, but insufficient bids were received. Supporting documentation as to why another bid was not conducted must be in the file along with the recommended bid selection, including the Cost Reasonableness Certification and its supporting documents.

The executed certification will be filed in the project folder along with the necessary supporting documentation.

If competitive bidding is conducted on the project, all bidding documents will be filed in the project folder clearly outlining the bidding process and the selection of the lowest responsible bid, along with the necessary supporting documents.

Subrecipients are certifying that they have determined the expense is necessary and reasonable for the CDBG program (Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments" (Attachment A. Paragraph C):

C. Basic Guidelines

"1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular.
- c. Be authorized or not prohibited under State or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- i. Be the net of all applicable credits.
- j. Be adequately documented.

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. . .”

In rehabilitation programs, a competitive bidding procedure is the best method to attain compliance with the Circular. The competitive bidding procedure should require that all contractors bid on performing the same work in the same manner using the same quality of materials in order to be truly competitive with one another. This requires that the specifications given to contractors to prepare their bids be sufficiently detailed. Then, the lowest responsible bidder would normally be selected.

When the subrecipient is not able to determine the reasonableness of a cost through the selection of the lowest responsible bidder then a price analysis must be used to determine the reasonableness of the proposed contract price. A representative of the Subrecipient with training and experience with rehabilitation cost estimating must prepare the assessment. The estimator should review the specific components of the work, verifying the proposed cost data and evaluating whether the specific elements of cost and profit are within the current industry norms. The scope of work must be specific as to the number, quality, and type of materials to be used, in order for the estimate to be possible.

This certification and its supporting documents is intended for subrecipient’s use in documenting their NSP Minnesota Housing project files. Our goal is for subrecipients to make the certification visible in each project that undergoes rehabilitation, where a competitive bidding did not occur, so it tells a complete story to anyone reviewing the file that an examination of the costs occurred and were deemed reasonable.

If you have any questions about this certification, please contact Ruth Simmons at (651) 297-5146.

