



12-Year Multifamily Tax Exemption (MFTE) Compliance Manual

FOR RENTAL PROPERTIES
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Definitions & Acronyms

See Bellingham Municipal Code (BMC) [17.82.010](#) for specific definitions that are applicable to the City's Multifamily Tax Exemption Program but may not be included in this Manual.

Affordable Housing	Housing that is rented by a person or household whose monthly housing costs including utilities, other than internet and telephone, do not exceed 30 percent of the household's monthly income
Affordable Units	The 20% of units that are designated as rent and income restricted in compliance with the 12-year MFTE program requirements
AMI	Area Median Income, as defined by the Washington State Housing Finance Commission for Whatcom County
BHA	Bellingham-Whatcom County Housing Authority
Co-Living Units	Units that are independently rented and lockable and provide living and sleeping space, and residents share kitchen facilities with other sleeping units in the building. May include congregate living facilities, cooperative housing, dormitories, single room occupancy, boarding and rooming house, and similar establishments
Gross Rent	The base rent, calculated as 30% or less of a household's monthly income, before subtracting the Utility Allowance and recurring fees
Household Eligibility Packet	A packet comprised of forms available from the City of Bellingham. Includes a Household Eligibility Form Cover Sheet, the Certificate of Household Eligibility Form, and a Supplemental Household Eligibility Workbook. Packets are signed by households residing in affordable units and affirm their compliance with the affordability restrictions
Maximum Allowable Rent	The maximum amount that may be charged to a tenant renting an Affordable Unit, calculated by deducting the Utility Allowance and required fees from the Gross Rent. If the tenant does not pay for utilities and there are no recurring fees, the Gross Rent and Maximum Allowable Rent will be the same
MFTE	Multifamily Tax Exemption, codified in BMC 17.82
MFTE Contract	The "agreement" between the City and the Property, from which all Affordable Housing requirements derive. This is issued after receipt of the initial MFTE Application and prior to authorization of the Conditional Certificate of Tax Exemption.
Planning	Planning and Community Development Department, City of Bellingham

Property/Properties	Owners of properties participating in the MFTE program, or the designated agent(s) (including, but not limited to, property manager or a property management firm) acting on their behalf
Utility Allowance	A specific dollar amount, determined by the BHA, that is deducted from the Gross Rent to calculate the Maximum Allowable Rent for an Affordable Unit
WSHFC	Washington State Housing Finance Commission

Roles and Responsibilities

The City of Bellingham works with Properties to ensure compliance with the MFTE program, to provide cost-restricted housing for income-eligible households.

Properties **must**:

- **Lease to eligible households.** Lease Affordable Units to income-qualified households in compliance with their MFTE Contract and all applicable local, state, and federal laws.
- **Submit reports.** Provide complete and timely reports.
- **Communicate changes.** Notify City of any changes or situations that impact the Property's ability to provide housing in accordance with their MFTE Contract.
- **Stay current.** Keep informed of regulatory updates and changes.
- **Allow monitoring.** Cooperate with City staff during inspections and annual reviews.
- **Know the Property's agreement(s).** Understand and follow all terms and requirements agreed to in the Property's Initial Application, Conditional Certificate, MFTE Contract, required Affordable Unit materials, and Final Certificate. When questions arise, Properties must reach out to the City for assistance or clarification.

City staff **must**:

- **Monitor compliance.** Track Property performance and ensure adherence to agreements and compliance requirements.
- **Enforce agreements.** Enforce MFTE Contract and Final Certificate rules and requirements.
- **Provide support.** Offer technical assistance and training to Property.
- **Communicate updates.** Notify Properties with Affordable Units of changes to rules and regulations.
- **Provide reporting.** Prepare and distribute annual reports.

I. Introduction to this Manual

This Compliance Manual (Manual) is designed to explain the City of Bellingham’s twelve-year multifamily property tax exemption (MFTE) codified at BMC [17.82](#). It applies only to the 12-year MFTE program (including optional 12-year MFTE extension), which includes an Affordable Housing requirement.

This program provides a tax exemption for residential multifamily projects in exchange for setting aside twenty percent (20%) of the units as income and rent restricted. Please see BMC [17.82](#) for definitions of terms and detailed explanations of processes that may not be included in this Manual.

This Manual is specific to properties intended for rental occupancy. For questions about how the 12-year MFTE program applies to ownership projects (i.e., condominiums) please contact the City of Bellingham’s Planning and Community Development Department (Planning) at cd@cob.org.

While the activities of this program may be carried out by the property owner’s designated agent, such as a property manager or property management firm, **it is the owner or owners of a property receiving an MFTE credit who are ultimately responsible for ensuring compliance with all aspects of this program.** Owners of properties receiving the MFTE and/or their designated agent(s) are referred to interchangeably hereafter as “Properties”.

II. MFTE Compliance Overview

A. Multifamily Tax Exemption and Compliance Period

By participating in the program, Properties commit to a Compliance Period in return for a Tax Exemption Period (both terms defined below). While there is substantial overlap between the Tax Exemption and Compliance Period, the two are not synonymous. The periods are defined as follows:

- The **Tax Exemption Period** begins on January 1st of the calendar year following the issuance of the Final Certificate of Tax Exemption and ends on December 31st twelve calendar years later. During this period, the property receives a tax exemption on residential improvements.
- The **Compliance Period** begins on the date of the application for the Final Certificate of Tax Exemption (the “Final Certificate”) and ends on December 31st of the 12th year of the Tax Exemption period.
 - Note that if a household income qualifies and anticipates occupying an Affordable Unit on or before December 31 in year 12 of the Tax Exemption Period, the Property must honor the affordable rent for the remainder of the lease period, even if it falls outside of the Compliance Period.

Properties shall lease the designated rent and income-restricted units (Affordable Units) to income eligible households during the Compliance Period, **and prior to approval and receipt of the Final Certificate.** Typically, this will require leasing units to income-qualified tenants at the Maximum Allowable Rent prior to applying for the Final Certificate. To qualify for an MFTE, projects must contain at least five units of new multifamily housing or at least 10 new co-living sleeping units.

At the time of initial [MFTE Application](#), Properties shall submit a list of all Affordable Units, the anticipated unit size, expected household size, assumed maximum rent of units, and an illustrated diagram displaying the anticipated location of the Affordable Units within the overall projects. The

number of designated Affordable Units shall be included in the MFTE Contract. This ensures that the Affordable Units are in compliance at the beginning of the Compliance Period.

If the City determines that the project has been completed within the authorized time period and in accordance with the terms outlined in the MFTE Contract, the City may issue the Property a Final Certificate of Tax Exemption. Both the MFTE Contract and Final Certificate must be recorded with the Whatcom County Assessor by the Property. The MFTE Contract is, for all intents and purposes, the “agreement” between the City and the Property, from which all Affordable Housing requirements derive.

B. Initial Designation of Affordable Units

Per the MFTE Contract, a Property may request a Final Certificate only once all Affordable Units have been designated, whether rented or held vacant to be rented by income eligible households, and Planning (cd@cob.org) has been provided with the following information:

- Affordable Unit Detail Sheet for all units in project (including Market Rate units), showing rents (or offering rents)
- Housing Eligibility Packets (comprised of Household Eligibility Form Cover Sheet, Supplemental Workbook, and Certificate of Household Eligibility Form)

This requirement means that all Affordable Units must be designated prior to applying for the Final Certificate, and all households living in an Affordable Unit prior to applying for the Final Certificate must be income verified prior to leasing an Affordable Unit.

C. MFTE Unit Mix

The MFTE program requires that at least 20% of all residential units are designated as Affordable Units. The City of Bellingham (the City) multiplies the total number of units within the project by 20%, rounding up to the required number of Affordable Units if there is any fraction of a unit. For example, 21.2 units is rounded to 22 units. Affordable **units must be distributed proportionally by the number of unit types available in the property.** See the table below for an example unit mix in a 100-unit property.

Example Unit Mix: 100-Unit Property

	Entire Property	Affordable Units	% AMI	Household Size
Studios	50	10	80%	1
1-bedrooms	30	6	80%	1.5
2-bedrooms	20	4	80%	3

Rents are to be charged based on unit type, not based on the size of the household. For the purposes of calculating the affordability criteria, it is presumed that rents are based upon the number of bedrooms in the unit and an assumption of 1.5 persons per bedroom, regardless of the number of persons renting the unit. Therefore, a studio or efficiency unit will have a household size of one and a 1-bedroom unit has a household size of two at 80% AMI. It is presumed that a 2-bedroom unit has a household size of at least two at 80% AMI. Actual family size may vary, and any limits on the total number of inhabitants per unit should depend on the square footage of the actual units. Any restrictions on number of people per unit shall be reasonable and be applied equally to both market rate and Affordable Units.

When advertising, screening, and selecting tenants for the Affordable Units, properties must adhere to all State and Federal Fair Housing Laws. For more information on Fair Housing Law in Washington State, contact the Fair Housing Center of Washington (<https://fhc.washington.org/>) at 253-274-9523 or visit the website of HUD's [Office of Fair Housing and Equal Opportunity](#).

D. Affordability Criteria

Area Median Income is one approach to look at how household incomes are distributed in a certain place (usually a metro area). It is a way to use available information about local incomes to set key housing policy thresholds, usually whether households would qualify for programs that limit housing costs based on income.

In this case, the "median" income is a benchmark that is right in the middle of the income range in a certain area. Half of the households in the area in question would make more than this, and the other half would make less.

This is more useful than the average income in an area because a few very high-income households in a community could skew averages so high that they would not represent the incomes of the rest of the community.

All Affordable Units are income and rent restricted at a given percentage of the Area Median Income, determined annually by the Washington State Housing Finance Commission (<http://www.wshfc.org/limits/Map.aspx>). Projects intended for rental occupancy seeking the 12-year MFTE must provide 20% of the housing units as follows:

- **Rental units defined as co-living units** are affordable to households whose adjusted income is at or below 50% AMI, adjusted for family size; and
- **Rental units defined as studio units, or with one or more bedrooms** are affordable to households whose adjusted income is at or below 80% AMI, adjusted for family size.

The 20% Affordable Housing requirement can be met with any combination of Affordable Units meeting the 80% AMI criteria. However, the Affordable Unit mix must be proportionate to the project as a whole.

E. Unit Designation

Properties may designate which units are Affordable for meeting the unit mix criteria, provided the following considerations are taken into account:

- Affordable Units cannot be concentrated on one floor of a multi-floor building.
- For properties with multiple buildings, Affordable Units cannot be concentrated in one building.
- Affordable Units must not be exclusively in an area or areas of the building that is less desirable, such as facing an alley or a noisy street or other land use.
- Affordable Units must have substantially similar amenities as market rate units in the building.
- Affordable Units must not all be the smallest units of that bedroom type.

The Affordable Unit designation may also "float" during the Compliance Period. For example, at the initial lease signing, unit #102 is designated as an Affordable Unit and a household qualifies, signs the lease, and resides there for two years. At the time of move-out, unit #102 and #202 are both available to rent. If both are substantially similar, unit #202 could be designated as the Affordable Unit in place of

#102. Or, if an existing tenant in a market-rate unit does not move out, but meets the income criteria, they could submit an application and qualify to have their unit designated as the Affordable Unit once the household in unit #102 moves out.

Rent limits are set according to bedroom size, even if unit qualities differ across unit sizes. An exception to this is units that may have different occupancy or assumed household size allowance based on additional or supplemental features located within units with identical bedroom sizes. An example of this is a 2br in one property that does not contain a loft or separate office (non-bedroom) space, and another 2br unit that does contain such space, may have separate occupancy expectations. In this example, these units could be categorized as different types of the same unit size, (categorized as 2BR-A and 2BR-B), and assigned different maximum rents (up to the maximum rent allowed for that unit type).

If the Property believes the calculated rent limit based on household size is different from the published rent limit for the bedroom size based on the extraordinary circumstances, they may reach out to Planning (cd@cob.org) to discuss further.

In any event, Properties must maintain an Affordable Unit mix that complies with the criteria in this section, and the unit mix in section II.C. The Affordable Unit designation cannot float from one household to another while the initial qualifying household is still present, and an existing, income-qualified tenant cannot be forced to move to a new unit in order to qualify. **Once a household income qualifies, it keeps the Affordable Unit designation until the next annual income certification and has the first right to requalify at that time, regardless of whether the household size remains the same, increases or decreases.**

F. Advertising Affordable Units

The City requires that Properties send a paragraph describing the units available and when any leasing or pre-leasing activities are scheduled to begin to cd@cob.org. Staff will then distribute this information to local housing partners at their discretion.

Units should also be listed specifically as participating in the 12- year MFTE program to aid potential applicants in their search. The City recommends advertising on www.housingsearchnw.org to reach low to moderate income applicants that will likely qualify for the program. Other suggestions for outreach can be found in the City's [Housing Development Guideline and Procedure Handbook](#), Section 220.

G. Source of Income Discrimination

Within the City of Bellingham, as within the State of Washington, it is illegal to discriminate against any applicant because of their source(s) of income. Ability to pay rent should be neutral as to whether the applicant will pay rent with employment earnings, a housing assistance voucher, social security or disability payments, or any other form of legal income. Applicants who apply for an Affordable Unit cannot be charged any additional application or administration fees that are not charged to all applicants for market rate units, nor can they be required to pass any additional screening (such as background or credit checks) that are not required of all applicants.

H. Change of Ownership or Property Management

Properties must communicate with the City prior to any transfer of ownership or change in property management company. Similarly, property management companies must update the City with current contact information should the individual property management contact change.

Properties must secure and account for all resident files before transitioning to a new management company to prevent paperwork from being lost, which may jeopardize compliance with annual compliance requirements.

III. Affordable Unit Income Verification

A. Income Verification Overview

Affordable Units are income and rent restricted units required to meet the affordability obligations outlined in BMC [17.82](#).

Income eligible occupants shall have a total household annual income from all sources at or below the maximum allowable household income restriction for the unit. A household's income must be certified using source documentation to verify all amounts anticipated to be earned over the income projection period. The income projection period is the 12 months following the initial lease start date. Current income amounts will be projected forward over the 12-month period unless there is verifiable evidence of an anticipated change, such as a raise, change in position, cost of living adjustment, etc. If there is a history of receiving income (bonuses, tips, commissions), this will be projected forward if it could reasonably be anticipated, even if the employer cannot guarantee it will be received. Lapses in income resulting from voluntary leave, medical leave, or a voluntary reduction in hours will not be taken into consideration in the income calculation; income will be annualized as if it will be received.

B. Initial Certification & Recertification

All households applying for an Affordable Unit must be certified as income-eligible prior to signing a lease. Households may not sign a lease for an Affordable Unit based on a partial or preliminary income certification. **Re-certification of the household residing in each Affordable Unit must be performed annually.** The City recommends that re-certification is performed at each subsequent annual lease signing, and in tandem with any rent increase. Any changes to household size or income should be captured at that time. There is no need to do mid-year income recertification if a household's composition or income changes.

Income certifications must be conducted no more than 120 days prior to the certification effective date (the start date of the initial lease) to be considered valid. Certifications occurring more than 120 days in advance of the lease start date are no longer considered valid projections and will not be accepted. Properties that complete income certifications after signing a lease, or that base eligibility on a certification older than 120 days, will receive compliance findings and may jeopardize their participation in the program.

If the income re-certification determines that the household is now ineligible, the next available unit must be designated in the household's place. Once this occurs, the Property may provide the required notice to the ineligible household and revert their unit to market rate. Note that in the City of Bellingham, rent increases of over 10% on month-to-month leases require a 120-day notice per BMC [6.12.020](#).

C. Income Certification Process

The income certification process that Properties shall follow for renting Affordable Units includes four steps, as follows:

1. **Income Disclosure:** Adult applicants disclose all income and assets anticipated to be available to the household for 12 months following the lease start date.
2. **Income and Asset Verification:** Property obtains income and asset documentation to verify all sources disclosed by applicants on their application. The City will not collect these verification materials, but will require property owners to have them on file for a period of at least six (6) years beyond the MFTE Compliance Period.
3. **Income Calculation:** Property calculates total household income based on verified documentation (and not applicant's self-disclosed amounts).
4. **Eligibility Determination:** Property compares total household income to posted income cap for household/unit. If the household income qualifies to reside in the designated affordable unit, the household may sign the Certificate of Household Eligibility Form.

These steps are described in more detail below.

1. Income Disclosure: Properties shall provide to each applicant household a Household Eligibility Packet, which is to include a Household Eligibility Form Cover Sheet, the Certificate of Household Eligibility Form, and a Supplemental Household Eligibility Form Workbook. This full packet is to be completed by each adult household member. The application shall ask the applicant to disclose all anticipated incomes sources and assets available to the household over the twelve months following the certification effective date (initial lease start). The application shall be completed even if no income sources are anticipated to be available to an applicant. To be accepted, Properties must ensure the following:

- The application shall be completed in full to be considered valid. It is not acceptable to leave fields blank. If an income source or an asset has a value of zero, the applicant shall answer \$0. It is not acceptable to leave fields blank.
- Gross annual income (before taxes) shall be reported in all instances except for self-employment income where the net earned from the business will be used. Applicants shall not omit information on bonuses, tips, and commissions on account of them not being "guaranteed" by employer. If there is a history of receiving income from any of these sources, they shall be disclosed.
- The Property is responsible for ensuring the Household Eligibility Packet provides the requested information. It should not be assumed that applicants earning an hourly wage are employed full-time. The Property shall make a reasonable effort to follow up with applicants if more information or clarification is needed. Applicants shall not be rejected solely for an incomplete application.
- The Property and the applicant(s) shall sign the complete Certificate of Household Eligibility Form. Once complete and signed, move on to step 2.

2. Income and Asset Verification: Properties shall request documentation to support all amounts disclosed on the application. Each income source disclosed by the applicant shall be supported by documentation. The documentation shall be the basis for the final household income calculation.

- Employment income shall be verified by the Property using an employment verification form sent directly to the employer and returned to the Property directly by the employer. The City

also recommends obtaining at least one current paystub to supplement the information provided by the employer.

- If two or more document attempts have been made to obtain an Employment Verification Form from the applicant's employer without success, Properties may instead verify the income based on the six most recent paystubs. If an applicant has only recently started a position, the Property may document income through an employment offer letter.
- All forms of unearned income (Social Security, child support, alimony/spousal payments, unemployment benefits, military benefits, income from personal property, gifts, etc.) shall be reported.
 - **If an applicant is a full-time student, they must also meet certain conditions in addition to these income verification criteria.** See Section E below for specific instructions which apply to full-time students.
 - Student loans, grants, and work-study do not count as income for the purposes of qualifying for an affordable unit. However, income from part-time jobs and gift income (such as regular contributions from family, including rent payments) does count.
- All assets shall be verified. Only the income earned from assets in the form of interest, dividends, or other recurring distributions shall count as income, not the value of the asset (e.g., the interest on a savings account would count as income, not the current account balance or withdrawals). Once all income for all income sources is available, move on to step 3.

3. Income Calculation and Eligibility Determination: The Property shall calculate the total gross household income based on the verified income documentation.

- Move-in household income is always based upon current income, annualized and projected forward for the next 12 months after the initial lease start date. Any verifiable anticipated changes, such as raises, cost of living adjustments, bonuses, etc. must be incorporated into the 12-month projection.
- When calculating the total household gross income, add all income (regardless of earned, unearned or from assets) in exact amount down to the cent, then round only the final gross amount to the nearest dollar.
- All income calculations shall be documented by the Property and retained on file for review during monitoring. All inputs as well as formulas must be maintained as part of the documentation.
- Once the Household Eligibility Packet is complete with all documentation and calculations supporting a final household income figure, move on to step 4.

4. Eligibility Determination: If the total household income calculated is at or below the maximum income for the unit, the household is eligible.

- The applicants and Property must sign the Certificate of Household Eligibility Form for it to be effective, and before entering into a lease agreement for the unit.
- All supporting information will be maintained by the Property in files to substantiate the eligibility determination, and reviewed by the City in the event of a monitoring visit. Only once the Housing Eligibility Packet has been completed in full and demonstrates eligibility, and the

Certificate of Household Eligibility Form has been signed by both parties, may the applicant sign a lease for the Affordable Unit.

- Properties are to submit the completed Household Eligibility Packet to the City.
- If the applicant is over-income and is denied for an Affordable Unit, a notice of determination shall be provided to the applicant, and all income certification documents collected to date shall be retained for six (6) years beyond the Compliance Period. The Property shall also provide written notice to the applicant as to why they were deemed ineligible for the unit, including the final income calculations that were used to make this determination.

D. Corrective Action: Over-Income Households or Missing Documentation

Properties that approve an over-income or ineligible household to move into an Affordable Unit will be required to restrict an additional comparable unit. The unit occupied by the over-income household or household with missing documentation must continue to be treated as an Affordable Unit until that household moves out. This means that:

- Housing costs must remain at or below the applicable AMI limit (i.e., housing cost limit). The City may request rent ledgers to document compliance.
- The Annual Compliance Report must reflect that the units are restricted (both the unit occupied by the over-income household and the newly restricted unit).

The City must approve any changes/conversions of Affordable Units to unrestricted units.

E. Students

Full-time students are eligible to rent Affordable Units. However, full-time students may be considered for occupancy of Affordable Units only if they have a demonstrated financial need and can fully document their income eligibility. Uncorroborated statements or affidavits of income will not suffice for the qualification process. The following compliance procedures only apply to full-time students who apply for Affordable Units.

To be considered for occupancy of an Affordable Unit, a full-time student must have completed a Free Application for Student Aid (FAFSA) or a Washington Application for State Financial Aid (WASFA) and have received a need-based financial aid award such as a Federal Pell Grant, a Washington College Grant (formerly known as the State Need Grant), a William D. Ford Federal Direct Loan, a Teacher Education Assistance for College and Higher Education (TEACH) Grant, or another need-based loan or grant awarded through the FAFSA or WASFA process. GI Bill recipients are also considered eligible.

If a student meets the above threshold for need, they will be allowed to continue eligibility screening to apply for an Affordable Unit. The student's financial aid income (listed on the financial aid award letter) shall be deemed as exempt. All sources of income must still be documented and verified, whether or not they are exempt.

Properties must take these *additional* steps for all applicants who indicate full-time student status on the rental eligibility application.

1. **Verify Student Status.** Students must provide proof of registration and current enrollment in an accredited institution.

2. **Verify Aid.** Students must provide verification that they are receiving a need-based financial aid award. Students must provide written proof of such need-based aid from their school's financial aid office. The document must show that the student has accepted a need-based award. GI Bill recipients must provide a copy of their GI award. Merit or athletic scholarships are not considered evidence of financial need on their own.
3. **Calculations.** Properties should calculate and project any income other than need-based student aid over the following 12-month period and include all sources of income on the rental application and Household Eligibility Packet. Total exempt and nonexempt income shall be calculated and recorded. Non-exempt income listed should also be listed in the Household Eligibility Packet. All other income identified throughout the certification process shall be calculated and projected over the following 12-month period. All nonexempt income must be listed in the Household Eligibility Packet.

IV. MFTE Rent Calculations

A. Calculating MFTE Rent

Maximum rents for the Affordable Units will be calculated annually by the City based on income limits provided by the Washington State Housing Finance Commission (WSHFC). WSHFC publishes the income limits in the Spring of each year, and the City will update the rent limits on our website soon after their release. In no case shall rents be higher than the City's calculated payment standard, which is based upon actual market rents. If the Gross Rent is higher than current market rents, the City will adjust accordingly so that the Affordable Rents are less than market rent.

The maximum rent that shall be associated with the Affordable Unit for the duration of the lease is the one that is effective at the time of the anticipated first day of occupancy. Upon lease renewal, the Property may adjust the rent to the maximum effective at that time, provided that the limit has changed. Month-to-month leases can use the most current effective rents after the first full month following the notice of the increase to the tenant.¹ For example, if the effective date for the new Affordable Unit maximum rent is April 1st, and a month-to-month tenant is notified on April 15th of a potential rent increase, the new Affordable Unit rent can be used starting June 1st, one full month after the notice.

The City will publish maximum MFTE rent tables on [our website](#) annually. **Note that the figures provided on the table represent the Gross Rents and are not necessarily what the Property can charge the tenant.** This is because the definition of Affordable Housing includes all mandatory recurring housing costs that are a condition of tenancy. The Maximum Allowable Rent therefore takes into account utilities paid by the tenant (in the form of a Utility Allowance), renter's insurance if required, and any non-optional fees. The City uses the following formula to calculate Maximum Allowable Rents for Affordable Units:

$$\text{Max Allowable Rent} = \text{Gross Rent} - (\text{Utility Allowance} + \text{required fees})$$

¹ Unless the rent increase is more than 10% of current rent. In that case, the tenant is entitled to 120-day notice, per BMC [6.12.020](#).

It is important to incorporate the Utility Allowance and all mandatory recurring fees into the rent calculation to avoid overcharging tenants. If the City discovers that one or more tenants is charged a rent that exceeds the Maximum Allowable Rent, a reimbursement will likely be required for the Property to continue to comply with the MFTE Contract.

As a best practice, the City recommends adding a small buffer when setting rents to account for unexpected utility or renters insurance estimate increases. The table below provides an example of how to calculate this for a hypothetical 80% AMI OBR restricted unit where tenants are responsible for all utilities and management requires households to purchase renter’s insurance.

Components for calculating max allowable rent	Amount
Housing Rent Limit – City Housing other than HOME (80% AMI OBR Unit as of 4/1/2025)	\$ 1,518.00
Utility Allowance + Water/Sewer/Garbage/Recycling See more details below	-\$ 182.78
Renter’s Insurance	-\$ 25.00
Buffer	-\$ 15.00
Maximum allowable rent	\$ 1,295.22

If there is any question as to whether rents are being calculated correctly, please contact cd@cob.org.

B. Utility Allowance

If the tenant is expected to pay for any portion of their utilities, they must receive a Utility Allowance. While a third-party billing service may be used, or the Property may otherwise bill the tenant for utilities, tenants who pay out of pocket for utilities must receive a Utility Allowance, which is deducted from the gross rent.

The Utility Allowance schedule is maintained and updated by the Bellingham-Whatcom County Housing Authority (BHA), and is the basis for the Utility Allowances adjustments that are required to be deducted from the maximum gross rent charged under 12-year MFTE program. The Utility Allowance depends upon the number of bedrooms in the unit and the specific type of building utilities (electricity, natural gas, propane, etc.). If the Affordable Units include major appliances such as a refrigerator and stove, the Utility Allowance is the total of heating, cooking, electric appliances and cooling, and monthly utility charges.

To calculate the most recent Utility Allowance for your project, visit the [BHA’s Resources Page](#) and click on the document titled “HCV Utility Allowances.”

The Utility Allowance will be received by the tenant as an adjustment to the Gross Rent. For example, if a tenant moves into a 1-bedroom unit, and they are expected to pay for basic utilities, the Maximum Allowable Rent would be \$960 (Gross Rent) - \$51 (Utility Allowance) = \$909. See table above for an illustrated example of how to deduct the Utility Allowance and required fees from the Gross Rent.

If the tenant does not pay for any utilities (except internet and phone) and there are no recurring mandatory fees, then the Gross Rent and Maximum Allowable Rent would be the same. In all other circumstances, the Maximum Allowable Rent will be less than the Gross Rent.

If water, sewer, and trash/recycling collection fees are not included in rent, then they must be included in the Utility Allowance. While this fee may be passed on to the tenant, it must be deducted from the maximum gross rent in addition to any required Utility Allowance adjustment. For example, if the Gross Rent for the Affordable Unit is \$960 - \$51 (Utility Allowance) - \$142 (water, sewer, garbage/recycling), the Maximum Allowable Rent that could be charged would be \$767.

Utility Allowance increases will require an adjustment (decrease) to Maximum Allowable Rents. **New Utility Allowances must be implemented immediately for all new leases signed after the effective date of the new rates**, and at the next income re-certification/lease renewal for existing tenants. Property managers must check the current Utility Allowances at the BHA website when creating or renewing leases for Affordable Units. The City may send out a notice to all Properties when the current Utility Allowance changes, in which case adjustments must be made immediately.

C. Other Fees

Other types of fees may be recurring, or one-time, or optional fees. Please read carefully below to determine which fees should also be deducted from the Gross Rent.

- **Recurring Fees:** All mandatory recurring fees that are a condition of tenancy count as part of the rent. These fees, regardless of who collects them, must be deducted from the gross rent. Common examples of mandatory recurring fees are renter's insurance, required parking fees, or amenity fees.
- **One-time Fees:** One-time fees are allowed (for example, an application fee). However, all fees charged to tenants of Affordable Units must be customary, reasonable, and identical to fees charged for market rate units. There can be no additional fees charged for covering the administrative aspect of the MFTE program.
- **Optional Fees:** Any optional recurring fees that are not required as a condition of tenancy are **not deducted** from the gross rent. Common examples of optional fees are pet fees, optional parking spaces, or optional recreational amenities. To be considered optional, the tenant must have a reasonable alternative available and the ability to turn down the fee and reside at the property.

D. Required Lease Provisions

The lease or a lease addendum for all Affordable Units shall clearly provide the following information:

- All one-time fees and recurring fees, and whether they are refundable or non-refundable, required, or optional.
- All utilities paid for by the tenant and the method through which they are expected to pay (directly, through a third party, etc.)
- Whether renter's insurance is recommended, required, or not required to live at the property. (Note: If renter's insurance is required, the rent must be adjusted accordingly regardless of who collects the premium.)
- The final rent amount, adjusted by the Utility Allowance and any recurring fees that are a condition for living at the property.
- That subleasing is strictly prohibited in Affordable Units. **Affordable Units are intended for residential use by the income eligible occupant household only.** Receiving income from renting

the unit, whether directly by the tenant or through a service such as AirBnB, may result in loss of MFTE status for the unit, as well as other penalties listed in BMC [17.82](#).

- Month-to-month lease fees may be charged. However, the rent including fees shall not exceed the Maximum Allowable Rent.

The lease must be signed by the tenant and Property before the tenant occupies an Affordable Unit. All documentation must be retained by the Property for six (6) years beyond the Compliance Period and made available to the City upon request and within a reasonable timeframe.

V. Monitoring & Reporting

A. Annual Compliance for All Units

As described in the MFTE Contract, the Property shall file a notarized declaration with Planning (cd@cob.org) within thirty (30) days after the first anniversary of the date of filing the Final Certificate and each year thereafter, for the Tax Exemption period. This declaration is for *all units* and must indicate the following information, gathered via a template providing by Planning and mailed to the Property annually:

- A statement of occupancy and vacancy of the multi-family units during the previous year.
- A certification that the property remains in compliance with the contract with the City, including Affordable Housing requirements.
- A description of any subsequent improvements or changes to the property; and
- A separate report on the Affordable Units (see Section B below).

All Properties shall submit an annual report no later than January 31st for each year of the Compliance Period. This report verifies the rental activity at the property throughout the previous calendar year (January 1 to December 31). Reports shall be submitted electronically to cd@cob.org using the most recent template provided by the City. The information will be compiled by City staff for all MFTE projects and then reported collectively to the Washington State Department of Commerce.

B. Additional Reporting Requirements for Affordable Units

In addition to the annual compliance required, a report on Affordable Units shall also be submitted, due on the same date (January 31) as the annual compliance declaration. The City will supply a template for this report. Information collected for this report may include the following information for each Affordable Unit:

- Unit number;
- Unit size (square feet), type (number of bedrooms) and location (floor);
- Occupancy (leased or vacant);
- Household name (first five letters of last name only);
- Move-in date and lease end or renewal date;
- Household size;
- Household income;
- Utility Allowance and Recurring Fees; and
- Maximum Allowable Rent and contract rent (rent stated on the lease)

If the location and distribution of Affordable Units has changed from the previous year, the Property will be required to submit an additional Affordable Unit Distribution sheet, detailing the type, size, and location within the project of the Affordable Units. A diagram of the building indicating where the Affordable Units are located will also be requested from the Property, to ensure that Affordable Units are equitably distributed amongst other market units.

Tenants' personal information beyond what is required on the annual report template should not be submitted to the City. Properties shall keep the income and asset verification documentation, and copies of the current lease on file for all tenants in Affordable Units for no less than six (6) years from the date of the Compliance Period so that all materials are available for on-site monitoring.

C. Monitoring

The City of Bellingham will conduct monitoring of all projects annually during the Compliance Period, through a desk review of the annual reports. In addition, onsite monitoring visits may be scheduled. Properties will be notified of monitoring visits at least two weeks (14 days) in advance. The following documents shall be retained and available for Planning staff to review during the monitoring visit:

- Current signed lease agreements for all occupied Affordable Units;
- Current Household Eligibility Packet (including signed Certificate of Household Eligibility Form) for all occupied Affordable Units;
- All applications for Affordable Units that were received throughout the Compliance Period;
- Supporting documentation for income verification for all applicants for Affordable Units, whether or not the application was approved or a lease was signed;
- For applicants who were determined to be ineligible, a copy of the notice of determination; and
- Example advertisements for available Affordable Units.

Washington State Department of Commerce is in the process of creating a system for auditing properties that are not otherwise owned or operated by a nonprofit organization. This will include both an auditing program managed by Commerce, as well as recommendations for independent review/audit programs to be run by individual jurisdictions. Under this approach, private Properties must be audited at least once every five years. Properties found to be out of compliance could be levied penalties as an alternative to cancellation.

Commerce is authorized to impose and collect fees directly from MFTE Properties subject to monitoring.² Commerce currently plans to conduct monitoring fee-free for the 2025-27 biennium. In the event fees are charged in the future, monitoring fees may not exceed the expected costs of the monitoring. The Property shall bear the costs of any additional review necessary to confirm a plan for correction has been carried out.

VI. Extension of Exemption

Projects that are nearing the end of their MFTE term (either the 8-year exemption or the 12-year exemption) will have the opportunity to extend their MFTE for an additional 12 years. This is contingent

² RCW [84.14.100\(3\)\(c\)](#)

upon City approval and intended for projects that are within 18 months of expiration, and subject to the terms listed in BMC [17.82.030\(B\)\(4\)](#).

For the property to qualify for an extension, the applicant must commit to selling or renting 20% of the multi-unit housing units as Affordable Units, as prescribed in the below chart.

Unit Type	Affordability Requirement
Owner-Occupancy	80% - 115% AMI
Rental-Occupancy – Co-Living Units	50% AMI
Rental-Occupancy – Multifamily Units	70% AMI

For projects receiving an 8-year exemption that apply for a 12-year extension, the processes described in this manual for Affordable Unit designation, verification, regulation, and annual compliance will apply. Properties receiving a 12-year exemption applying for a 12-year extension must continue to follow the process described in this manual for Affordable Unit designation, verification, regulation, and annual compliance.

Properties that do not wish to apply for an extension at the end of their 12-year exemption period will be required to provide rental relocation assistance to tenants in Affordable Units.

VII. Relocation Assistance

Properties are required to support their low-income tenants with rental relocation assistance at the end of the Tax Exemption (both the initial exemption and if applicable, the extension), before the affordable units are changed to market-rate units.

The Property must provide written notice to tenants in Affordable Units at the end of both the tenth and eleventh years of the tax exemption, letting them know about the intention to provide tenants with rental relocation assistance. The tenant must be in a qualified Affordable Unit and qualify as a low-income household, earning 80% AMI or lower. The tenant must be occupying the Affordable Unit at the time of the exemption expiration.

Relocation assistance must be equal to one month's rent. The rental relocation assistance will be made available to the tenant within the final month of the tenant's qualified lease, and at least one month before affordability requirements are no longer in effect.

VIII. Noncompliance, Cancellation, and Penalties

Properties that fail to comply with any of the regulations described in this manual may be deemed to be in noncompliance with the terms of their exemption, and their Tax Exemption may be canceled. This cancellation may occur in conjunction with the annual review or at any other time when noncompliance has been determined. Property owners who wish to convert the multifamily housing to a different use must notify the Planning Director and the Whatcom County Assessor within 60 days of the change in use.

If the Tax Exemption is canceled due to a change in use or other noncompliance reason, the Whatcom County Assessor may impose an additional tax on the property, together with interest and penalty, and a priority lien may be placed on the land, pursuant to state legislative provisions.

If it is determined that the Tax Exemption must be canceled, the Planning Director will notify the property owner by certified mail. The property owner may appeal the determination by filing a notice of appeal with the Hearing Examiner within 30 days, specifying the factual and legal basis for the appeal. Property owners may appeal the Hearing Examiner's decision to the Whatcom County Superior Court, if the appeal is filed within 30 days of receiving notice of cancellation.