



## Bond/4% Tax Credit Program Policy Guidance – 2026 Allocation Cycle

This Guidance is intended to clarify intent, address discrepancies and provide examples as support. This document is supplemental to the Program Policies and should be read along with the policies.

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## General Guidance:

### *2025 Tax Bill*

The 119<sup>th</sup> Congress passed, and President Trump signed into law H.R.1<sup>1</sup>, which under Section 70422 permanently lowers the threshold for bond financed projects to receive the 4 percent Housing Credit known as the “50% Test<sup>1</sup>” from 50% to 25% for projects financed with tax-exempt bonds that are issued after December 31, 2025.

As a result of this federal change, the Commission has updated references throughout the Bond/Tax Credit Program Policies specifically in Sections 2.3 and 3.17. Corresponding changes have been made to the Combined Funders Application (CFA).

Under the 50% Test the Commission allowed for a cushion of up to 10%, resulting in a cap on allocations of 55% (50% x 110%) of aggregate depreciable basis plus land. With the change to the 25% Test, we are increasing the available cushion to 20%, resulting in a new cap of 30% (25% x 120%).<sup>2</sup> Our intent is that this helps make the transition to the 25% Test smoother and has the downstream effect of reducing supplemental issuance requests.

Applicants are now expected to submit tax-exempt bond cap requests for no more than 30% of aggregate basis plus land. The Commission may allow a higher percentage IF the Commission’s evaluation of permanent debt sizing supports a higher tax-exempt bond allocation, up to a cap of 40% if the following criteria are met:

- the development’s permanent financing supports the larger allocation award, and
- the development is unable to obtain recycled bonds.

As part of transition away from the 50% Test some of the debt that was typically tax-exempt debt under the 50% Test may need to be taxable under the 25% Test.

Please note that the availability of recycled tax-exempt bonds is variable and constrained, for modeling purposes applicants should assume taxable debt for the amount above 30%. At the Commission’s discretion, recycled tax-exempt bonds may be used to finance additional projects or finance portions of debt that may otherwise be taxable, see Section 2.3 of the policies.

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<sup>1</sup> Prior to the passing of H.R.1, 50% of aggregate depreciable basis plus land costs must be financed with tax-exempt bonds to avail 4% Low-Income Housing Credits to a development. Under the new rules, now 25% of aggregate depreciable basis plus land costs must be financed with tax-exempt bonds, expanding the capacity of the program.

<sup>2</sup> See this article from Novogradac for an illustration: <https://www.novoco.com/notes-from-novogradac/california-other-states-begin-to-implement-new-25-test-for-4-lihtc-and-bond-developments>

For projects that have already received a bond allocation and closed, the tax bill allows projects that have supplemental issuances of at least 5% of aggregate depreciable basis plus land financed with bonds issued after 12/31/25 to qualify for using the 25% Test.

## Underwriting Guidance:

### General Assumptions

The Commission acknowledges that market conditions are dynamic and have an impact on affordable housing development and preservation efforts. The Commission continues to monitor and evaluate the current landscape in alignment with our values to effectively use and align our limited resources to serve the affordable housing needs of residents across the state that is safe, affordable and sustainable. The Commission reserves the right to strategically prioritize resources to projects that are responsive to current and emerging sub-market conditions, to ensure proposed rents for income set-asides are well below market and the unit bedroom size is appropriately filling a needed demand in the projects market area. See Section 3.9 Market Study -WAC 262-01-130 (2)(c) for market study requirements.

The Commission, in collaboration with other public funders, is lifting up shared underwriting benchmarks that all applicants should consider when preparing their applications:

### Maximum Rents

- Projects should show that **maximum affordable rents are at least 10% below the local market rents**, with a typical target of **10-20% below**. The revised Combined Funders Application (CFA) will flag if affordable rents are less than 10% of market rents.
- Rent comparisons should be **site specific**, based on appropriate **unit type, size, amenities, and concessions**—not regional averages or generalized assumptions.
- Sponsors are expected to understand their market and sub-market, including what rents are realistically achievable and what concessions are being offered nearby.

### Credit Pricing Assumptions

Applications should reflect equity pricing assumptions that are grounded in **current market conditions and specific to the project**. The Commission acknowledges that tax credit pricing is fluid and influenced by multiple external factors—including investor demand, interest rates, and overall market dynamics—and that pricing can shift meaningfully between application submission and allocation.

Rather than prescribing a fixed pricing range, the Commission expects applicants to provide assumptions that are reasonable and well-supported. If an applicant assumes a

relatively high credit price, the application must include clear justification—typically in the form of a detailed Letter of Intent (LOI) from an investor.

To be considered sufficient, the LOI should include:

- Estimated pricing of the tax credits
- Identification of other sources of financing and estimated amounts
- The number of units, income-set asides, and any special populations served
- A brief statement of the investor's relationship with the developer and/or prior experience with WSHFC

This guidance is not intended to limit flexibility but to promote transparency, feasibility, and consistency across applications. We encourage applicants to contact Commission staff early to discuss unusual assumptions or funding challenges. For additional context on widely accepted standards, applicants may also wish to review the **Affordable Housing Investors Council's (AHIC) Underwriting Best Practices**, available at [https://www.ahic.org/underwriting\\_best\\_practices.php](https://www.ahic.org/underwriting_best_practices.php).

## Community Based Organizations Guidance:

In 2021, the Commission refocused on building relationships with housing-oriented Community-Based Organizations (CBOs) in alignment with our values of Racial Justice and Equity. With these goals in mind, the Commission sought to incentivize greater CBO involvement and ownership through revisions to the Bond/4% Tax Credit program in Section 4.4 Overcoming Historic and Systemic Barriers for Developers who are Black, Indigenous, or People of Color (BIPOC) and Section 4.5 Projects By and For the Community. Several documents were developed to support this policy and its goals, please see the following resources:

- [Promising Practices for CBO-Developer Partnerships](#) provides guidance on developing partnerships and executing contracts between CBOs and developers using case studies from projects awarded points under this policy.
- [2023-2024 CBO Affinity Group Summary](#) outlines engagement with CBOs in partnership with the Housing Development Consortium of King County to confirm the policy process and goals, as well as determine future opportunities to support CBO involvement.

In addition to these resources, the following guidance is included to clarify the general program as well as eligibility and engagement requirements in Sections 4.4 and 4.5.

### 1. General Assumptions

- a. The Commission reserves the right to make determinations regarding an applicant's eligibility for points in each area of activity and to disallow points to applicants who attempt to circumvent the goals of this policy.

- b. The policy is a result of engagement with CBOs, which has informed the policy's emphasis on an organization's connection to communities harmed by housing disparities.
- c. Designation as a CBO is not permanent and must be re-established with each project.
- d. It is assumed that any organization qualifying as CBO has a physical presence in a community in the state of Washington.
- e. Government entities such as state or local social service departments, or a federal office of housing, would not qualify under this criterion. Organizations that solely own and manage housing likely will not qualify. Entities that are related to the developer as subsidiaries or that are completely dependent on the developer relationship to exist may have a conflict of interest and may not qualify.
- f. The policy awards points for CBO inclusion in two ways: CBO involvement in the partnership or meeting specific criteria. The criteria include financial benefit, non-financial benefit, and demonstrating that they bring value to tenants. Applicants that select points for CBO inclusion must demonstrate that these three criteria are satisfied, even if the CBO is in the general partnership.

## 2. Eligibility

- a. Designation by another public funder does not equal designation by the Commission. Eligibility for the Commission's program is determined through an interview with a CBO.
- b. All applicants will be invited to interview by Commission staff prior to application.
  - i. King County projects will be invited to interview on a schedule determined by Commission staff.
  - ii. For Balance of State projects, applicants will be invited to interview as soon as they submit an intent to apply.

## 3. Community Engagement

- a. Principles and best practices are included in the Promising Practices For CBO-Developer Partnerships document. =
- b. Engagement is focused on potential tenants. It is distinct from other engagement that local governments may require. For example, engagement with businesses, neighbors, and other entities for an environmental impact statement may not qualify under this policy.
- c. Engagement activities should include both the CBO and the Developer.

- d. The type and timing of engagement can vary widely and does not have to be explicitly tied to the project. For example, community-based organizations that facilitate regular surveys and community meetings may qualify these activities as engagement with potential tenants.
- e. Due to project timelines, applicants may discuss future engagement activities. Follow-up documentation of these activities may be required as the project progresses toward lease-up.
- f. CBOs should be included in design team meetings and decisions.
- g. CBOs recommend that an architect is involved in engagement activities to accurately portray projects.

## Application Instructions

### 1. General Application

- a. CBOs should be included in the Identity of Interest Matrix. The share of the ownership should be included in the organizational chart and any relevant documents.
- b. For points under Section 4.4, applicants should submit a board certification form and a self-certification letter from the executive director or CEO.

### 2. Memorandum of Understanding (MOU)

- a. Signed MOUs are evaluated to award points. These agreements should include terms that will eventually be included in the Operating or Partnership Agreements, which supersede the MOU as investors sign on to the project. MOUs should transparently represent what the developer and CBO will all expect from the partnership agreement with the investor.
- b. MOUs should include explicit expectations for roles and cashflow schedule with identified amounts and dates. Language should include flexibility for variable project timelines.
- c. Cash flow from the Deferred Developer Fee should be explicitly addressed in partnership agreements. Regardless of the source of payments to the CBO (Deferred Developer fee or other sources), the Developer has a responsibility to inform CBO and/or BIPOC partner (see section 4.4 of the policy) of the approximate payment schedule milestones, amounts, and factors that may cause these elements to change as the project progresses.
- d. Financial Benefit should be explicitly outlined in the MOU. Whether a CBO determines that the financial benefit offered is adequate will be assessed during the CBO interview and verified again during the review process. A meaningful financial

benefit will vary depending on the size, mission, and commitment of the organization. MOUs should clearly define the timeline of financial benefit for CBOs.

i. Service contracts are not considered a financial benefit in section 4.5.2 but can earn points in Section 4.5.3.2.

### 3. Potential Tenant Engagement Response Form (PTERF)

a. Applicants should explain how the CBO is uniquely equipped to bring value to tenants, as determined through a potential tenant engagement process.

b. Applicants should explain non-financial benefits that have been determined by the CBO. Some examples could include:

- Increased service capacity
- Proximity to communities served
- New or expanded facilities
- Training
- Knowledge sharing
- Staff capacity
- Contracted services

c. Applicants should explain the financial benefits that have been determined by the CBO.

i. If the financial benefit is rental or ownership opportunity for space, then the agreed upon rental rate or ownership opportunity should be documented along with the estimated market value to demonstrate this benefit.

d. Projects where the CBO is in the ownership entity and conducting this engagement are eligible, if a project budget is included that accounts for the internal staff hours and resources expended for engagement. Sample budgets might look like:

Community Outreach staff (x hours at \$x per hour)	\$X
Space rental	\$X
Follow up/outreach staff (x hours at \$x per hour)	\$X
Food costs	\$X
Childcare	\$X
Translators/Interpreters	\$X
Printing and materials	\$X
Total	\$X

e. Service partnerships are identified through engagement and described in the Potential Tenant Engagement Response Form. Even if a specific provider is not yet identified, pending engagement results, service dollars should be included in the

operating budget. The service provider does not necessarily need to be a CBO unless desired by tenants.

## Energy Guidance:

### Utility Incentive Form

The Commission newly requires that applicants submit the completed Utility Incentive Form at the time of submitting their Pre-Application/Intent to Apply. For King County applicants, submit your completed Utility Incentive Form 60 days prior to submitting your application.

The Commission expects all applicants to contact their utility early in the design process to learn about available incentives and take advantage of all eligible utility incentives.

### Energy Efficiency in New Construction

To clarify the requirements in Section 4.8.1 Energy Efficiency in New Construction, we are changing the header of the policy and the TC Addendum Form to “Building to **and beyond** the 2021 Energy Code.” This guidance underscores that to earn 12 points under Policy 4.8.1, the application must include **all** required materials for Solar, Additional Efficiency, and Electric Vehicle Charging as listed in Policy 4.8.1.

### Rehabilitation of Major Systems

Climate change is accelerating the frequency and severity of episodes of extreme heat in Washington state. In 2023, the Commission began requiring that all rehab projects provide in-unit cooling to residents in Policy 3.19 Rehabilitation Requirements, so projects must implement the ductless or ducted heat pump options from ESDS Section 5.09.

We are also making the following adjustments to 4.11 Rehabilitation of Major Systems to clarify eligible systems:

- Adding Envelope as an example of an eligible major system
- Removing “Other Systems” on the TC Bond Addendum form

### Energy Benchmarking

The Commission highly recommends that applicants benchmark energy usage at your properties by measuring and tracking energy usage over time. In 2019 the Washington State Clean Building Performance Standards bill was signed into law and expanded in 2022. The objective is to lower costs and pollution from fossil fuel consumption in the state’s existing buildings, including multifamily buildings. The law also provides incentives to encourage building owners to make energy efficiency improvements earlier than required. **All multifamily residential buildings**



**greater than 20,000 gross sq ft (excluding parking area) will need to comply with the Clean Building Performance Buildings Standard by July 1, 2027.**

The Tier 2 Early Adopter Incentive Program, **which launched July 1, 2025**, covers multifamily residential buildings over 20,000 sq ft. A total of \$150 million has been allocated for Tier 2 incentives, with the Department of Commerce's Energy Division partnering with Washington State utilities to pay these incentives to building owners. Learn more:

- [CBPS Tier 2 compliance – Washington State Department of Commerce](#)
- [CBPS Incentives – Washington State Department of Commerce](#).

While there is no Commission policy change this year, we highly recommend that all affordable multifamily buildings – new construction and existing – benchmark their energy usage. The required Evergreen Sustainable Development Standard (ESDS) Sustainable Development Outline Form provides a space for applicants to check a box to indicate that you will be benchmarking.

## Preservation Guidance:

The Commission strives to balance the needs for both new construction and preservation projects, in alignment with our values to **Meet Affordable Housing Needs Everywhere** and **Ensure High-Quality and Affordable Housing for Residents in the Long Term**. While the broader funding system has historically emphasized new construction, preservation remains a vital strategy for protecting Washington's affordable housing stock.

**Although there are no policy changes for this year's Bond/Tax Credit cycle, the Commission is actively engaged in developing a long-term preservation strategy.** In the meantime, the following guidance highlights existing policy pathways available to support preservation.

### Preservation in Current Bond/Tax Credit Policies:

**Preservation Target:** Current policies use a target of 15% - 25% of bond resources to drive preservation outcomes aligned with our values, this target is considered over a rolling multi year period. The lowering of the 50% test, provides opportunity for financing more projects and meet our targets.

**Preservation Definition:** Preservation is defined as a project where 80% or more of the housing units existing at the time of application will be renovated as part of the financing. For projects that include both a rehabilitation along with new construction then at least 50% of the units must be made up of the rehabbed units. Additionally, Preservation projects must include the following:

- Include one or more Federally Assisted Building, OR
- Include properties currently beyond year 15 of the Extended Use Agreement and agree to preserving the units under a new Extended Use Agreement, OR

- For a property originally financed by the Commission, the final regulatory agreement (either bond or tax credit) has recently expired within the last 12 months

Note: Projects that include the acquisition and rehabilitation of a property that does not have regulatory agreements or covenants is considered under new production and not Preservation, therefore competing with new construction projects while also meeting rehabilitation requirements under the current policies.

**Program Requirements:** For applicants seeking re-syndication of a project currently operating under an Extended Use Agreement, the Commission must approve any proposed changes. For example, adjustments to set-asides, populations served, or reconfiguration of units, etc.

**Applicants are required to have a pre-application meeting with Commission staff both the Multifamily Housing and Community Facilities Division and the Asset Management and Compliance Division, to discuss any adjustments or modifications** the current Regulatory Agreement requirements as part of the new financing (see Section 3.13 Acquisition/Rehabilitation of Existing Affordable Housing). Additionally:

- The Commission is interested in projects that are able to maintain existing set asides below 60% AMI and awards 6 points to projects that make this commitment.
- Be aware that re-syndication projects are not eligible for Income Averaging as a Federal Election under Section 3.29 of the policies.

Note: Applicants not intending to make any changes to the existing Regulatory Agreement are still encouraged to discuss with Commission staff their plans prior to applying.

**Rehabilitation Requirements and Expectations:** The Commission values **Fostering Healthy and Sustainable Homes in a Changing Climate**, as such all projects must meet requirements to provide for in unit cooling for residents, provide weatherization and ventilation upgrades (see Section 3.19 Rehabilitation Requirements).

The Commission also awards points for projects that can exceed these requirements by incorporating additional energy efficiency or renewable energy such as solar and/or provide air filters to mitigate the effects of wildfire smoke (see Section 4.9 Energy Efficiency, Healthy Living and Renewable Energy for Rehabilitation Projects).

Additionally, the Commission recognizes that as buildings age major systems will need to be replaced and incentivizes this level of work by awarding points for each major system (see Section 4.11 Rehabilitation of Major Systems).