

CITY OF COSTA MESA

HOUSING AND COMMUNITY DEVELOPMENT INTER OFFICE MEMORANDUM

To: Honorable Mayor Monahan and City Council Members

From: Muriel Ullman, Housing & Neighborhood Improvement Manager
Alma Penalosa, Management Analyst

Subject: Status Update on City Employee Home Buyer Program

Date: May 24, 2004

Background

In the fall of 1998, the City adopted guidelines for the City of Costa Mesa Police Officer Home Buyer Assistance Program ("Program"). Staff administered the Program for three years during which time nine (9) Police Officers were assisted with the purchase of a home in the City. In January 2003, the City Council approved the expansion of the Program to all City Employees. The Program provides down payment assistance of up to \$40,000 to full-time City of Costa Mesa employees who do not currently own a home in the City of Costa Mesa. The Program also provides for an annual \$1,000 credit for each year that the Employee continues to be employed by the City, with a maximum forgiveness of \$10,000. Pursuant to the City Council's expansion of the Program, Staff has been administering the City Employee Home Buyer Assistance Program for the previous sixteen months. **Since the expansion, no City employees have utilized the Program.**

Survey & Analysis

In an attempt to understand why the Program has not been utilized, a survey was conducted with limited results as only 100 employees responded. Approximately 50 of the respondents indicated that they simply do not desire to live in the City. Reasons listed ranged from not wanting to relocate from their current community to not wanting to live in the same City in which they work.

The remaining 50 respondents stated they would be interested in residing in Costa Mesa; however, the largest obstacles were reported to be high home prices and lack of a sufficient down payment¹. Of these, 25 respondents stated that a reduction in the down payment requirement to 3% would definitely encourage their participation in the Program. The remaining 25 respondents said it might encourage them to participate if a decrease in the down payment was combined with an increased subsidy, an increase in the annual credit and/or the allowance of move-up homes for existing Costa Mesa residents. When asked the amount of subsidy needed to encourage participation answers ranged from \$60,000 to \$100,000.

It is important to note that even if the City contributed as much as \$100,000 to the purchase price, a moderate income household in Costa Mesa would still be unable to afford more than a \$396,297 home.² Even when less stringent underwriting criteria is used, staff calculates that the City would have to contribute anywhere from \$57,000-\$144,000 for homes ranging between \$450,000-\$515,000. Based on the Homeseekers.com web page dated May 17, 2004, there were only 14 condominium units in this range in Costa Mesa and no single-family homes as opposed to the City of Irvine where there were 95 condominiums and small starter homes available.

Also of note is the fact that Homebuyer Assistance programs in general have proved very difficult to operate at this point in time. The Agency's Home Buyer Program, available to the general public, has seen a 60% decrease in the current fiscal year and a 40% decrease in the prior fiscal year. A survey of other local cities with similar programs has shown that this is a trend at the moment due to unprecedented high home prices, low interest rates and a general decrease in the available housing stock. Whereas homebuyer assistance programs were once looked upon as a mainstay of City and Redevelopment Agency housing programs, due to the narrow clientele they now serve, they are only considered one small tool in an array of affordable housing programs.

Several cities in California are in the process of introducing larger subsidies into their Homebuyer Assistance Programs in keeping with rising home prices in State. This has mostly been tried with Redevelopment Agency Programs and involves moderate-income resale restrictions. Should the City Council consider increasing its subsidies by the aforementioned amounts, it would also have to change its policy of helping several employees to helping just a few due to the large subsidies given out. Additionally, income and therefore resale restrictions wouldn't apply. Fiscally, this might be considered imprudent based on the amount of funds, which would be needed, on an ongoing basis to fund fewer than 4 loans per year.

Financial Analysis

There is currently over \$400,000 available for this Program in the current fiscal year. The amount is more than is normally available at this time of year due to a sharp increase in payoffs of prior Police Program participants. All but two of the prior Police Program participants have paid off their loans.

This Program is funded out of the Capital Outlay Fund. No new funds have been allocated to the Program in the current fiscal year nor for 2004-2005. It is anticipated that the existing funds will be used for any future loans with future payoffs allowing for additional loans.

Attached are the guidelines for the Program. Upon Council's direction, Housing & Community Development Staff will schedule this item for further City Council action.

Cc: Allan Roeder, City Manager

1. The current program guidelines require a 5% down payment from the Participant.
2. This assumes a 5% down payment with no additional equity to be applied.