



Agenda Report

Item #: 26-295

Meeting Date: 6/16/2026

TITLE: PROPOSED FIRST TIME HOMEBUYER PILOT PROGRAM FUNDED BY MEASURE Q (RETAIL CANNABIS)

DEPARTMENT: ECONOMIC AND DEVELOPMENT SERVICES DEPARTMENT/ADVANCED PLANNING AND HOUSING DIVISION

PRESENTED BY: NANCY SA, GRANT ADMINISTRATOR AND ANNA MCGILL, PLANNING MANAGER

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RECOMMENDATION:

Staff recommends the City Council provide direction on a pilot First-Time Homebuyer (FTHB) Program utilizing the dedicated Measure Q revenue; provide direction on the core elements of the proposed program; and direct staff to return to the Council with an evaluation of the program following completion of the pilot period.

BACKGROUND:

On November 3, 2020, Costa Mesa voters approved the City of Costa Mesa Retail Cannabis Tax and Regulation Measure (Measure Q), authorizing cannabis retail storefront and delivery uses within the City. Following its passage, on May 4, 2021, the City Council adopted a seven-percent tax on cannabis retail businesses and directed that one-half of one percent of Measure Q revenues be allocated to a First-Time Homebuyer (FTHB) Program for current residents, former residents raised in the City, and graduates of the Newport-Mesa Unified School District. Funding for the program began in Fiscal Year 2022-23.

- May 4, 2021, Agenda Report and Attachments:
<https://www.costamesaca.gov/home/showpublisheddocument/47786/637557361622170000>

The FTHB Program funded through Measure Q is not subject to federal or state income-eligibility requirements and may be designed to address local priorities. On June 4, 2024, Council appropriated \$2.5 million in American Rescue Plan Act (ARPA) funds to the Housing Trust Fund, which could be used to provide or assure continued provision of affordable housing in the City through activities including development of affordable housing, rental assistance, or a first-time homebuyers program. These funds have since been committed on March 17, 2026, to Jamboree Housing Corporation for the development of the Costa Mesa Senior affordable housing project and on April 21, 2026, for the rehabilitation of rental units at the James/18th Street Apartments.

- June 4, 2024 Agenda Report and Attachments:
<https://costamesa.legistar.com/LegislationDetail.aspx?ID=6712591&GUID=E687585E-334A-47E5-9CA2-847DF5760A3C>
- March 17, 2026 Agenda Report and Attachments:
<https://costamesa.legistar.com/LegislationDetail.aspx?ID=7949570&GUID=65518C76-80C6-40A3-9903-7FD39E7C3A4B>
- April 21, 2026 Agenda Report and Attachments:
<https://costamesa.legistar.com/LegislationDetail.aspx?ID=7984263&GUID=CB2081E0-60E6-492D-B6CC-D26E50AC38F2>

A preliminary analysis conducted in 2024 found that Measure Q revenues at the time were insufficient to implement the program. The dedicated fund now totals approximately \$550,000. The budget for FY 2026-27 is \$227,472 and the anticipated revenue is \$242,200. Staff is returning to the City Council to seek direction regarding potential implementation of a pilot program.

The current housing market in Costa Mesa remains highly challenging for first-time homebuyers. The median home purchase price in Costa Mesa is approximately \$1.4 million according to industry data. By way of example, the table below summarizes typical costs associated with purchasing a \$1 million home and the minimum annual income to meet this recommendation.* Mortgage professionals recommend that home payments be no more than 30 percent of a household's gross income. When using this recommendation, Table 1 includes the estimated minimum household income needed to purchase a \$1 million home at the low, mid, and high-end estimates.

Table 1: Estimated Costs Associated with Purchase of \$1 Million Home in Orange County

Cost Category	Low-End Estimate	Mid Estimate	High-End Estimate
Down Payment	3.5% - \$35,000	10% - \$100,000	20% - \$200,000
Closing Costs	\$45,072**	\$28,907	\$26,142
Monthly Mortgage (P&I)	\$5,555	\$5,689	\$5,057
Additional Monthly Costs (taxes, insurance, mortgage insurance)	\$1,894	\$1,534	\$1,294
Total Monthly Costs	\$7,449	\$7,223	\$6,351
Estimated Minimum Annual Household Income Needed***	\$297,960	\$288,930	\$254,040

*Data source: Bank of America Closing Costs calculator

**Closing costs associated with a 3.5% down payment are higher due to the upfront mortgage insurance premium required for an FHA loan, compared with a 20% down conventional loan.

***The Median Family Income in Orange County for 2026 is \$138,600.

ANALYSIS:

City staff developed a high-level framework for a FTHB Program, identifying key program components for City Council review and direction. In preparing this framework, staff reviewed comparable programs in neighboring jurisdictions, examined current home prices in Costa Mesa, and evaluated strategies to ensure the program aligns with local needs. The proposed program is intended to support and advance the City Council's strategic goal to "diversify, stabilize, and increase housing to reflect community needs."

As previously indicated, staff recommends structuring the framework as a pilot program that includes City Council direction on core program elements. It is anticipated that the pilot program would run for 2 years to provide enough time for staff to develop the program, officially launch the pilot and provide suitable time to receive applications, review and assess eligibility and allow home buyers sufficient time to purchase a home (i.e., search for a home, enter into escrow and close on the home). Following the pilot program, staff would return to the City Council to report of the program's effectiveness and provide any recommendations for restructuring or altering the program moving forward.

Staff is requesting direction from the Council on the following core program elements:

1. Grant Amount
2. Eligible Uses of Grant Funds
3. Household Eligibility
4. Income Limit
5. Cash Assets
6. Eligible Housing Types
7. Residency Requirements
8. Application Review Process

1. Grant Amount

Given the current fund balance and anticipated ongoing revenues, staff recommends structuring assistance as a one-time grant to maximize the number of households served. The following options illustrate potential grant amounts and corresponding households served, based on the total \$537,656 dedicated funds available. Note that the number of households may increase based on dedicated funds available if revenues increase between now and the launch of the program.

Table 2: FTHB Program Grant Options

	Option 1	Option 2	Option 3
Grant Amount	\$25,000	\$30,000	\$35,000
Households Served (Year 1)	22	18	15

City Council Direction Requested: Provide direction on a grant amount.

Potential Alternate Loan Structure

Alternatively, City Council may consider structuring the assistance as a 0% interest loan, repayable at sale/transfer or refinance, with the City subordinating to other loans. Staff presents the following considerations:

- There is a cost to the City of administering loans. The City currently uses a third-party contractor for loan administration, including loan setup and annual monitoring activities, amounting to approximately \$6,000 per loan. Assuming two years of the two-year pilot program, staff estimates a total of 17 anticipated loans equating to about \$102,000 in administrative costs, or about 13 percent of the total Measure Q fund balance for the program. With a \$30,000 assistance amount, staff estimates the ability to award over the course of two years 23 grants, but only 17 loans.
- There is currently no additional staff capacity to administer 20-30 additional loans. The City currently services about 50 different homeowner loans. If administration is done by staff, an estimated additional 400 hours of staff time would be needed, resulting in the need for a part-time staff member at a minimum. This estimate is in addition to the initial loan set up (performed by the loan contractor) and does not include City legal and finance staff time and resources.
- The average tenure of homeownership in southern California is 20 years. With 0% interest, the repaid loan amount would not keep pace with inflation. Over the course of 20 years, the loan amount would trail current closing costs by about 35%, meaning each repaid loan could only partially subsidize future homebuyers.
- Historically, the City is not below a second mortgagee for homebuyer loans, meaning that there is some guarantee that the City will recapture its loan in the event of a sale or refinance. However, subordination (refers to a procedure that ensures loan lien priorities) could put the City in a position where recapture of funds may be more challenging (i.e. loan listed as 3rd of 4th secured against the property).
- For reference, the City's Single Family Rehabilitation Program issues grants and loans to low-income households. The minimum threshold for a loan is \$50,000. This amount was pre-determined by staff based on the administrative burden associated with administering a loan.
- The City Council could consider an interest rate to accommodate the loan, or a higher loan amount (for example, \$75,000) to fewer recipients, which would lessen the administrative burden on each loan.

2. Eligible Uses of Grant Funds

Staff recommends that grant funds may be used for home-purchase-related expenses, including but not limited to down payments, closing costs, and interest rate buy-downs. Related expenses must be exhausted at the close of sale. Expenses such as home renovations, improvements and purchase of furniture or other household related items, will not be eligible under this grant. The application process will include a list of eligible home-purchase related expenses. Applicants will be required to identify their intended use of funds and provide documentation prior to fund disbursement.

City Council Direction Requested: Provide directions on the eligible uses of grant funds.

- Staff recommendation: Approve the list of eligible expenses as described below.
 - Eligible expenses: down payment assistance, closing costs, interest rate buy downs and any similar expenses related to the financing aspect of the home purchase,
 - Ineligible expenses: costs related to home renovations, improvements, and purchase of furniture or other household related items.

3. Household Eligibility

Measure Q requires the program participants to be current Costa Mesa residents (for a minimum of one year), former residents who were raised in the City, and/or graduates of the Newport-Mesa Unified School District. Staff has identified the following additional criteria for Council consideration:

- First-time homebuyer: An applicant is eligible if they meet one of the following criteria:
 - Never owned a home in California;
 - Has not owned a home in California within the past three years.
- Mortgage pre-approval: Applicants must obtain pre-approval for a fixed rate mortgage loan. Cash purchases are not eligible.

City Council Direction Requested: Eligibility criteria.

- Staff recommendation: applicants are eligible if they meet Measure Q requirements, the definition of first-time homebuyer and obtain pre-approval for a fixed rate mortgage loan.

4. Income Limit

Although Measure Q does not impose income restrictions, the City Council may wish to adopt optional income limits to target assistance. Staff has provided the following options using 2026 Area Median Income (AMI) information from the California Housing and Community Development (HCD) Department.

Table 3: FTHB Program Income Limit Options

	Option 1	Option 2	Option 3
Area Median Income	150% AMI	200% AMI	250% AMI
Annual Income	\$207,900	\$277,200	\$346,500

If an income limit is adopted, staff recommends setting a single income threshold regardless of household size. The annual incomes included above are the AMI for a 4-person household. This approach will avoid excluding households preparing for future household needs and will simplify program administration. The income limit will be updated annually to reflect updated AMI information provided by HCD.

City Council Direction Requested: Whether to adopt an income limit, and if so, at what level.

5. Cash Assets

A prior analysis recommended limiting eligibility to households with no more than \$100,000 in liquid assets remaining after the close of escrow. Staff have considered this task and observe that there are limited ways to ensure that the City has the complete inventory of an applicants' liquid assets, with verification being an administrative challenge.

City Council Direction Requested: Limit on liquid assets.

- Staff recommendation: Removing this requirement for administrative simplicity.

6. Eligible Housing Types

Homes purchased with the FTHB assistance must be located within the City of Costa Mesa. Staff recommended eligible and non-eligible housing types are as follows:

Table 4: FTHB Program Eligible Housing Types

Eligible Housing Types	Non-Eligible Housing Types
• Single-family detached homes • Townhomes • Condominiums • Manufactured homes	• Multi-unit properties (e.g., duplexes, triplexes) • Recreational vehicles (RVs)

City Council Direction Requested: Eligible housing types.

- Staff recommendation: Approve the eligible and non-eligible housing types in Table 4.

7. Residency Requirement

Although not required by Measure Q, staff recommends that program participants be required to occupy the home as their primary residence for a minimum of five years. This safeguard helps ensure that program funds support long-term homeownership rather than short-term investments.

City Council Direction Requested: Residency requirements

- Staff recommendation: Require a residency requirement for a minimum of five years.

8. Application Process

Applications for the program, once launched, will be open for a 60-day period. Staff estimates that there is workload capacity to review up to 60 applications per funding cycle. Staff will conduct robust outreach to maximize public awareness which will include notifying local mortgage lenders, community organizations, and businesses, and using the City's outreach channels such as social media and email lists. Outreach will also be provided in multiple languages to ensure an inclusive process.

Applications will be accepted during a 60-day period. After the application period closes, all submissions will be entered into a randomized lottery to determine which households move forward for review. Households will be notified whether they were selected to proceed, placed on a waitlist, or not selected.

Once an application is pre-approved, the household will have 12 months to secure and close on a home. Staff will also maintain a waiting list in case pre-approved households are not able to close on a home within the approved time frame.

Staff also evaluated reviewing applications in the order received but do not recommend this approach due to the additional administrative burden it would create. If Council chooses to move forward with a first received, first reviewed process, staff will need additional time to develop procedures for administering the program, including how to verify that applications are complete upon submission. The randomized lottery ensures that all households who apply within the 60-day window have an equal opportunity to advance, regardless of when their application is submitted.

City Council Direction Requested: Review of applications using a randomized lottery.

Program Implementation Timeline

Following City Council direction on the program components outlined in this report, staff will finalize program policies and develop application procedures. Staff anticipates opening the application period in Fall 2026.

ALTERNATIVES:

City Council may decide to postpone the FTHB program or change any element(s) of the proposed program including adding additional program requirements.

FISCAL REVIEW:

The FTHB program is funded by Measure Q revenue and will not have an impact on the General Fund. There is currently an available fund balance of approximately \$550,000 for the program in the First Time Homebuyers' Fund (Fund 140). The fund receives approximately \$242,200 in annual revenue from Measure Q, however, accurate annual projections remain challenging due to fluctuations in revenue collection. The program will be administered in accordance with the availability of funds.

LEGAL REVIEW:

The City Attorney's Office has reviewed this agenda report as to form.

CITY COUNCIL GOALS AND PRIORITIES:

This item supports the following City Council Goal:

- Diversify, Stabilize and Increase Housing to Reflect Community Needs

CONCLUSION:

The development of a pilot First-Time Homebuyer Program presents an opportunity to support the City Council's strategic goal to diversify, stabilize, and increase housing to reflect community needs. With sufficient dedicated Measure Q funding now available, staff recommends that the City Council provide direction on the proposed core program elements and authorize staff to launch the pilot program. Staff further recommends that, following implementation, a comprehensive evaluation be brought back to a future Council meeting to assess the program's effectiveness, equity, and long-term viability.