77 Fair Drive
Costa Mesa, CA 92626

# CITY OF COSTA MESA

## Agenda Report

**File #:** 26-363 **Meeting Date:** 7/22/2026

**TITLE:**

**CITY BALLOT INITIATIVES PERTAINING TO BUSINESS LICENSE REFORM AND TRANSIENT OCCUPANCY TAX**

**DEPARTMENT:** **FINANCE DEPARTMENT**

**PRESENTED BY:** **ANNA ACOSTA-REYES, FINANCE MANAGER**

**CONTACT INFORMATION:** **ANNA ACOSTA-REYES, FINANCE MANAGER (714) 754-5219**

**RECOMMENDATION:**

Staff requests that the City Council take action on the placement of the following two ballot measure (s) on the November 3, 2026, ballot.

1. Determine whether to place the Business License Reform measure on the November 3, 2026 ballot by adoption of the following resolutions:

    a. Adopt Resolution 2026-xx (Attachment 1): Ordering the submission to the qualified electors of the City of Costa Mesa “The Costa Mesa Fair Business License Reform, Small Business Protection Measure” at the General Election to be held on Tuesday, November 3, 2026, as called by Resolution No. 2026-21.

    b. Adopt Resolution 2026-xx (Attachment 3): Requesting the Orange County Board of Supervisors to consolidate a General Municipal Election to be held on Tuesday, November 3, 2026, with the Statewide General Election to be held on the date pursuant to section 10403 of the Elections Code.

    c. Adopt Resolution 2026-xx (Attachment 4): Authorizing written arguments for or against the proposed measure “The Costa Mesa Fair Business License Reform, Small Business Protection Measure,” setting priorities for filing written arguments, determining the authors of the written arguments, and directing the City Attorney to prepare an impartial analysis; and

    d. Adopt Resolution 2026-xx (Attachment 5): Authorizing the filing of rebuttal arguments for “The Costa Mesa Fair Business License Reform, Small Business Protection Measure”; and

2. Receive and file the report pertaining to a potential Transient Occupancy Tax (TOT) measure.

**BACKGROUND:**

The City of Costa Mesa first adopted a Business License Tax in 1985 through the establishment of

Title 9, Chapter 1 of the Costa Mesa Municipal Code (CMMC). The City's Business License Tax rate structure has remained unchanged since that time and caps the annual tax at $200. The current business license tax is a fixed amount per gross receipts level, ranging from $0 for businesses that generate $1,000 or less in gross receipts to a maximum tax of $200 for businesses that generate $500,000 or more in gross receipts. Under the current structure, many of the small, locally owned businesses unfairly pay a higher proportion of their revenue in business license taxes than do large national chain stores and businesses. For example, big box stores like Home Depot, Target, and big luxury retailers pay only $200 a year in business license taxes to Costa Mesa, which is thousands of dollars less than these stores pay in some other nearby cities.

Per CMMC § 9-25, the business license tax is as follows:

**Table 1: Current Business License Structure in Costa Mesa**

| Gross Receipts | Business Tax |
|---|---|
| **Under $1,000.00** | None |
| **$1,000.00 to $25,000.00** | $25.00 |
| **$25,000.01 to $40,000.00** | $35.00 |
| **$40,000.01 to $75,000.00** | $45.00 |
| **$75,000.01 to $200,000.00** | $60.00 |
| **$200,000.01 to $500,000.00** | $100.00 |
| **Over $500,000.00** | $200.00 |

At the July 10, 2012, City Council Study Session, staff presented an overview of the existing Business License Tax; however, no formal action was taken. The matter returned to the City Council on June 4, 2013; at which time the Council directed the Financial Advisory Committee to review the City's Business License Tax structure. The Committee began its review on June 25, 2013; however, by July 30, 2013, the Committee's focus shifted to the City's then-recently implemented business license tax software system.

The City has periodically reviewed and updated its user fees and charges to reflect the cost of providing fee-supported services and to maintain appropriate levels of cost recovery. City records document comprehensive fee reviews dating back to the early 1990s, including comprehensive reviews in Fiscal Years 1992-93 and 2006-07. In 2019, the City initiated a comprehensive citywide fee study to evaluate user fees, service charges, and development-related fees based on the reasonable cost of providing services. As the cost of providing municipal services has increased over time, corresponding user fees have also been adjusted. For example, a facility rental fee of approximately $10/hr. to $20/hr. in the 1990s is currently $45/hr. to $130/hr. The City is currently conducting a comprehensive citywide fee study, which will be presented to Council in August. These adjustments illustrate the City's practice of periodically updating service-based fees to reflect increased operational and service-delivery costs, while the Business License Tax structure has remained unchanged for the last 41 years.

At its December 2, 2025 City Council meeting, the City Council directed staff to explore the potential placement of two measures on the November 3, 2026 Ballot: Business License Reform and a

Transient Occupancy Tax (Hotel Tax) increase.

At the June 9, 2026 Study Session, staff presented to the City Council the two potential ballot measures, discussed options, received feedback and direction for additional analysis. The following addresses those specific areas identified by the City Council for further review and consideration.

**ANALYSIS:**

The City Council requested an analysis of the existing budgetary needs that would be addressed by the potential ballot measures. The analysis includes new and expanded initiatives undertaken by the City over the last five years and results from the Facilities Needs Assessment, Pavement Management Plan, Parks Assessment and Information Technology Strategic Plan that identify the budgetary needs to maintain and improve the City's infrastructure, and support core service levels, while meeting the City Council goals and objectives going forward.

**Expanded City Services**

In the past five fiscal years, the City has expanded and added new services to align with various City Council goals, exceeding previously provided levels of service. This has resulted in increased staffing, programming, and levels of service costs.

Examples of services expanded or added in response to City Council Goals include:

Strengthen the Public's Safety and Improve the Quality of Life

- **Police Departmen**t: Purchase and implementation of new technologies such as body cameras, drones, and remodeling the main building to support operations. In addition, support for businesses was increased to combat retail theft by deploying cameras in the city and assigning staff to participate in regional task force efforts. The City has also worked diligently to recruit and retain staff for the Police Department.
- **Ambulance Transport**: Established in 2018 by Costa Mesa Fire & Rescue Department (CMFR), the program has expanded over the past several fiscal years. The Ambulance Transport program provides CMFR the ability to directly facilitate and enhance the emergency transport system for the community, through all threes stages of the emergency incident: Response, Treat, and Transport. Since 2020, CMFR has transported over 47,000 patients, with an annual transport of over 7,500 patients.
- **Arts and Culture**: The City Council approved the City of Costa Mesa's first Arts & Culture Master Plan. The Master Plan resulted in important initiatives and organizational enhancements, establishment of the Arts Commission in 2022, expansion of arts programming and grant opportunities, development of a public arts policy, and increased partnerships with regional arts organizations and community stakeholders.

Diversify, Stabilize and Increase Housing to Reflect Community Needs

- **Homelessness Response and Bridge Shelter**: Since 2021, the City has significantly expanded its homelessness response efforts through the opening and expansion of the Bridge Shelter, increasing capacity from 72 to 100 beds, while providing coordinated outreach, shelter, housing navigation, case management and support services. The City also transitioned case management services in-house, became the second city in Orange County to participate in CalOptima Health's Street Medicine Program, and completed two Homekey projects that converted underutilized motels into 116 units of permanent supportive housing for individuals experiencing chronic homelessness and 46 units of affordable housing for very-low -income Costa Mesa seniors.

- **Tenant Protection/Housing Programs**: The City has strengthened tenant protections and housing stability through adoption of the Just Cause Eviction Ordinance, expanded rental assistance and housing navigation programs, CDBG-funded legal assistance for low-income residents, and partnerships with nonprofit service providers to connect residents with housing resources and educational workshops.
- **Development Services**: The City has advanced long-range planning and development efforts through preparation of the Fairview Developmental Center Specific Plan, rezoning and community outreach to implement Measure K, approval of mixed-use developments, and launch of an interactive development map to improve public access to project information and the implementation of the new land management system, TESSA.

Maintain & Enhance City Facilities, Equipment, and Technology

- **Transportation and Infrastructure**: The City has advanced multimodal transportation and safety improvements citywide, expanded bicycle facilities and wayfinding, bicycle safety education, citywide bike parking, major corridor upgrades, and the addition of an Active Transportation Coordinator. Improvements include new and enhanced bike lanes and trails, upgraded sidewalks, bicycle signals and pedestrian hybrid beacons to improve safety and connectivity for bicyclists and pedestrians. Additionally, the City has invested in critical infrastructure through alley rehabilitation, sidewalk repairs, and street resurfacing to achieve one of the highest Pavement Condition Index (PCI) ratings in Orange County.

Advance Environmental Sustainability and Climate Resilience

- **Sustainability**: The City has advanced sustainability initiatives through development of a Climate Action and Adaptation Plan (which can help streamline environmental review), designation as a Tree City USA, and conversion of 6,150 streetlights to energy-efficient LED technology in partnership with Southern California Edison.

These new and expanded services are expected to continue to increase and have been integrated into City operations as part of its core services delivered to residents.

**Future Budgetary Needs**

Over the last year, City Council has directed staff to conduct several assessments, in order to determine the needs of our facilities, parks and other infrastructure.

**Facilities Needs Assessment**

The City recently underwent a needs assessment for the various City facilities. These needs considered both maintenance and upgrades for the facilities, many of which were built in the 1960s-1980s. For the ongoing maintenance of the City's current facilities, the assessment estimated a budget need of approximately $3 million per year. For major critical facility upgrades, the assessment estimated an additional $60 million over a 10-year period. An executive summary of the Facility Needs Assessment is included as Attachment 6.

In order to address the estimated $60 million for major renovations, as well as ongoing maintenance needs of approximately $3 million per year, there is a need for approximately $9 million per year. Based on review of the budget over the past ten (10) years, the City has invested approximately $4 million per year on various facilities for maintenance and upgrades. Therefore, there is an additional $5 million per year budgetary need to address facility improvements. The required major upgrades include replacement of Fire Station 2, living quarters at Fire Station 4, and renovations for Fire Stations 3, 5 and 6. The Westside Substation may need a full replacement based on future needs. The Tennis Center will also require an upgrade to the pro-shop and restroom.

**Pavement Management Plan**

The City undertakes a biennial review of pavement assessment as required by the Orange County Transportation Authority (OCTA) Measure M2 Ordinance. According to the most recent report completed in June 2026, the current Pavement Condition Index (PCI) for the City is 82.6. While this keeps the City in a good category, consistent investment is needed to maintain and improve the PCI. The City would like to improve the PCI to a level of 85 in order to ensure that the street network is maintained at high quality.

Currently, the City budgets about $9 million per year on various street rehabilitation projects. However, due to increasing construction costs, it is estimated that the investment needed to maintain the City street system with a high PCI is approximately $12 million per year. Therefore, there is an additional need for $3.2 million per year to maintain the PCI of the City's street network.

**Table 2: Costs per Fiscal Year to Improve Average Network PCI**

*Improve Average Network PCI*

| Fiscal Year | Increase PCI Funding | Network PCI | MPAH PCI | Local PCI |
|---|---|---|---|---|
| Today | ~ | 82.6 | 81.6 | 83.1 |
| 2026-27 | $9,000,000 | 83.2 | 82.0 | 83.9 |
| 2027-28 | $12,155,600 | 84.2 | 82.9 | 84.9 |
| 2028-29 | $12,202,400 | 84.5 | 83.2 | 85.1 |
| 2029-30 | $12,377,800 | 84.5 | 83.3 | 85.1 |
| 2030-31 | $12,164,500 | 84.1 | 83.0 | 84.8 |
| 2031-32 | $12,111,800 | 83.9 | 82.8 | 84.3 |
| 2032-33 | $12,998,100 | 83.6 | 82.7 | 84.2 |
| Total | $83,010,200 | | | |

**Parks Needs Assessment**

The City also underwent a needs assessment for each of the 32 public parks in the City. Each park was provided a ranking to evaluate the park's quality, function, and condition. An Executive Summary of the Parks Needs Assessment is included as Attachment 7.

The total cost of all park playground improvements is estimated at $20 million. The City currently invests approximately $1 million per year towards park improvements. If the identified improvements are programmed for completion within 10 years, an additional $1 million in investment is needed for parks. This estimate does not include any new park development or other improvements beyond current amenities at various parks.

### IT Strategic Plan

The needs in the Information Technology (IT) Department are assessed through the IT Strategic Plan (ITSP). The ITSP is funded by a 1.5% allocation of General Fund revenues. For the next five fiscal years, the IT Department has adopted a conservative fiscal stance by allocating $1.7 million annually to fund 30 projects, safeguarding against funding uncertainties.

However, this fiscal constraint directly impacted the project pipeline, where originally 64 initiatives were identified in the ITSP, requiring a total of $19.8 million. The 34 unfunded projects that were classified as “To Be Determined” and not within the funded 30 projects would require an additional $11.3 million over the next five fiscal years.

### Budgetary Needs Summary

Table 3, illustrates a summary of budgetary needs for the key areas discussed. A total of approximately $11.5 million annually would be required to address these areas of focus.

**Table 3: Summary of Estimated Annual Budgetary Needs**

| Decription | Amount (In Millions) |
|---|---|
| Facilities Needs Assessment | $5.0 |
| Pavement Management Plan | $3.2 |
| Parks Assessment | $1.0 |
| IT Strategic Plan | $2.3 |
| **Total** | **$11.5** |

The table above identifies the additional budgetary needs of approximately $11.5 million annually to fully fund the Facilities Needs Assessment, Pavement Management Plan, Park Assessment, and IT Strategic Plan. While a portion of the City’s overall budget from various funds is dedicated to the plans listed above, staff will continue to seek alternative funding sources, such as grants and State and Federal earmarks for the unfunded portion of the four plans.

### Five-Year Financial Plan

Staff prepared a five-year forecast to project the baseline budgetary needs. The five-year financial plan does not factor in additional revenue from potential ballot reform measures and does not account for the increased funding needs of the City’s infrastructure, listed in Table 3.

**Table 4: Projected 5-Year Long-Term Financial Plan**

**Adopted Budget - FY 2026-27**
**Five-Year Long-Term Financial Plan Summary Base Case**
(in millions)

## Revenues

| Description | FY 26-27 Adopted | FY 27-28 Projected | FY 28-29 Projected | FY 29-30 Projected | FY 30-31 Projected |
|---|---|---|---|---|---|
| Property Tax | 64.0 | 66.6 | 69.2 | 72.0 | 74.9 |
| Sales & Use Tax | 82.5 | 84.2 | 85.9 | 87.6 | 89.3 |
| Transient Occupancy Tax | 10.6 | 10.6 | 10.8 | 11.0 | 11.2 |
| Other Revenues | 42.8 | 45.0 | 46.3 | 47.7 | 49.2 |
| **Total Revenues** | **200.0** | **206.3** | **212.2** | **218.3** | **224.6** |

## Expenditures

| Description | FY 26-27 Adopted | FY 27-28 Projected | FY 28-29 Projected | FY 29-30 Projected | FY 30-31 Projected |
|---|---|---|---|---|---|
| Salaries & Benefits | 103.3 | 108.5 | 112.4 | 116.6 | 120.5 |
| Retirement | 42.9 | 45.4 | 48.0 | 50.5 | 53.1 |
| **Subtotal Labor** | **146.2** | **153.9** | **160.4** | **167.2** | **173.6** |
| Operating | 53.8 | 54.4 | 55.0 | 55.1 | 54.8 |
| **Total Expenditures** | **200.0** | **208.3** | **215.4** | **222.2** | **228.4** |
| **Surplus/(Challenge)** | **0.0** | **-1.9** | **-3.2** | **-3.9** | **-3.8** |

Revenues are projected to increase by 3% year-over-year in the next five years, while expenses are projected to increase by 4% year-over-year over that same period. The projected shortfall of $1.9 million in FY 2027-28 includes an anticipated increase to general liability insurance premiums in the amount of $0.5 million, as well as restoration of budget items that received a one-time reduction for 2026-27 in order to balance the budget.

Without expanding the City's revenue base, the budgetary shortfall in the General Fund is projected to grow to $4.9 million by FY 2030-31. In addition to exploring potential Business License Reform and Transient Occupancy Tax measures, staff is also identifying potential grant opportunities to increase revenue to help offset future budgetary growth. Finally, staff continues to work on cost-saving measures to curtail non-essential spending.

### Costa Mesa Business Profile

Costa Mesa enjoys a diverse variety of businesses due to its highly educated and prosperous population (70% of residents have a college degree) with a median age of 36. Consumer research tools such as Experian's Mosaic USA describe the three largest consumer segments in Costa Mesa as:

1. Prosperous, established couples in their peak earning years living in suburban homes

2. Young singles starting out and some starter families living a city lifestyle
3. Diversely aged singles earning mid-scale incomes supporting active city styles of living

Attributes of Costa Mesa that result in this successful business climate include:

Location and Accessibility

- Gateway to premier recreational areas along the Pacific Ocean and Upper Newport Bay
- Access to affluent coastal communities along with providing those residents urban amenities such as major retail shopping, performing arts, and fine dining
- Strategic access to major highways connecting to both Los Angeles and San Diego along with proximity to an international airport for shipping and business travel

Economic Diversity

- Strong retail anchored by South Coast Plaza, a growing technology sector, plus significant arts, manufacturing, and services industries
- Hub for startups and tech-driven companies, supported by a network of incubators, accelerators, and educational institutions
- Major companies with corporate offices range from Anduril, Experian, Vans, and Volcom

Talent and Education

- Proximity to University of California Irvine, California State University Long Beach, Orange Coast College, and Vanguard University
- Trade workers and specialized skills (boat repair/mechanics, high end vehicles, design)

Cultural and Lifestyle Appeal

- Segerstrom Center for the Arts and Samueli Theater attracts hundreds of thousands of patrons annually
- Unique retail and dining experiences offered at "The Lab," South Coast Collection, and Northgate Mercado
- Golf courses include Costa Mesa Country Club, Mesa Verde Country Club, and Santa Ana Country Club

Businesses locating in Costa Mesa are seeking exposure to the City's workforce, amenities, and consumer base, which includes shoppers from across the region and international shoppers looking to make substantial expenditures. As such, businesses invest in infrastructure and staff with the knowledge that they will access high-end clientele and exposure beyond the region.

**Business License Reform Measure**

At the June 9, 2026 Study Session, staff presented a proposed Business License Reform Structure that included a rate of $0.60 per $1,000 gross receipts, which would generate approximately $5 million in additional annual General Fund revenue. Discussion focused on the rate, tier structure and impact to small businesses. City Council directed staff to return with a revised model that did not impact small businesses, while ensuring large businesses pay their fair share for City services.

Revised Business License Reform Structure

At the City Council Study Session on June 9, 2026, Council directed staff to use a single rate of $0.50 per $1,000 of gross receipts and to minimize the impact to small businesses by keeping their business license rate the same. Staff is recommending a business license reform rate model of:

- $0.50 per $1,000 in gross receipts for businesses that generate more than $500,000 in gross receipts; and
- Maintaining the current business license rate for businesses that generate $500,000 or less in gross receipts; and
- A maximum rate that a business would pay is $15,000.

**Table 5: Proposed Ballot Measure Business License Structure**

| Total Gross Receipts | | Number of Businesses | Current Rate | Potential Ballot Measure | |
|---|---|---|---|---|---|
| From | To | | | Recommendation | Equivalent Amount |
| Under $1,000.00 | | 1,365 | $0 | No Change | $0 |
| $1,000.01 | $25,000.00 | 1,293 | $25 | | $25 |
| $25,000.01 | $40,000.00 | 337 | $35 | | $35 |
| $40,000.01 | $75,000.00 | 667 | $45 | | $45 |
| $75,000.01 | $200,000.00 | 1,221 | $60 | | $60 |
| $200,000.01 | $500,000.00 | 902 | $100 | | $100 |
| $500,000.01 | $1,000,000.00 | 690 | $200 | Rate of $0.50 per $1,000 | $250 to $500 |
| $1,000,000.01 | $5,000,000.00 | 1,023 | $200 | | $500 to $2,500 |
| $5,000,000.01 | $30,000,000.00 | 369 | $200 | | $2,500 to $15,000 |
| Over $30,000,000.00 | | 120 | $200 | Maximum Rate | $15,000 |

The proposed business license rate structure is designed to avoid impact on smaller businesses. For the purpose of the program, the City of Costa Mesa will define small businesses as those businesses with $500,000 or less in gross receipts. These small businesses will see no changes to their current business license payments and will continue to follow the current rates as presented in Table 5. Businesses with gross receipts exceeding $500,000 will be subject to the revised proposed rate structure. To reduce the impact on the City's largest businesses, the proposed business license structure includes a maximum annual business license rate of $15,000. This cap would apply to businesses with gross receipts over $30 million, ensuring that the rate remains predictable and does not exceed the established maximum threshold.

Based on the $0.50 per $1,000 of gross receipts rate model, the City is estimated to generate approximately $5.6 million in annual revenue, an increase of $4.6 million above the current $1.0 million generated annually under the existing $200-cap model. The total amount of additional revenue generated from this ballot measure would be contingent upon the extent and structure of the increases from current levels.

**Comparison to Other Cities**

Compared to other cities listed, Costa Mesa has the oldest rates for business licenses. While some cities revise their business licenses annually for Consumer Price Index (CPI) adjustments, there are others that have not been updated in some time.

**Table 6: Business License Rates and Years Last Updated by City**

| Type | Per Annual Gross Receipts (PGR) | | | | Per Employee (PE) | | |
|---|---|---|---|---|---|---|---|
| City | Costa Mesa | Santa Ana | Orange | Anaheim | Huntington Beach | Newport Beach | Irvine |
| Year Updated | 1985 | 2022 | 1993 | 2005 | 2026 | Annually (for CPI) | Annually (for CPI) |
| Business License Rate | ▪ Minimum of $0<br>▪ Varying rate up to $500,000 GR<br>▪ Maximum of $200 | ▪ Base of $60, plus CPI<br>▪ Plus $0.65 per each $1,000 GR | ▪ Varying rate up to $500,000 GR<br>▪ $20 per additional $100,000 GR | ▪ Minimum of $40<br>▪ Greater of: $0.95 for each $1,000 GR or $60 flat | ▪ Base of $75 for 3 employees<br>▪ Plus $2-4 PE, varying rate | ▪ Base of $229<br>▪ Plus $11 PE | ▪ Flat rate |

Furthermore, other Orange County Cities vary in how they apply these rates to businesses. As discussed at the June 9 Study Session, cities can apply a gross receipts rate or per employee rate. Additionally, cities can apply a minimum or maximum amount to these rates. Surrounding cities identified in Table 7 provide a comparison and demonstrate how the City of Costa Mesa's rate structure compares for both current and proposed rate structures.

**Table 7: Business License Amount for Surrounding Cities with Gross Receipts Rate**

| Gross Receipts | Costa Mesa (Current) | Costa Mesa (Measure) | Santa Ana | Orange | Anaheim |
|---|---|---|---|---|---|
| Under $1,000 | $0 | $0 | $67 | $35 | $40 |
| $1,000 - $25,000 | $25 | $25 | $82 | $35 | $40 |
| $25,000.01 - $40,000.00 | $35 | $35 | $92 | $40 | $40 |
| $40,000.01 - $75,000.00 | $45 | $45 | $115 | $75 | $40 |
| $75,000.01 - $200,000.00 | $60 | $60 | $196 | $135 | $60 |
| $200,000.01 - $500,000.00 | $100 | $100 | $391 | $195 | $60 |
| $500,000.01 - $1,000,0000.00 | $200 | $250 - $500 | $716 | $295 | $95 |
| $1,000,000.01 - $5,000,000.00 | $200 | $500 - $2,500 | $3,316 | $915 | $475 |
| $5,000,000.01 - $30,000,000.00 | $200 | $2,500 - $15,000 | $19,566 | $6,115 | $2,850 |
| Over $30,000,000.00 | $200 | $15,000 (max) | $110,000 (max) | No Max | No Max |

Based on feedback received from the City Council, staff conducted additional research on the topic of "gross receipts" versus "gross profits," and only three cities in California utilize a form of "gross profits." Staff does not recommend basing the tax on gross profits because it's less equitable than gross receipts - namely, profits differ and are unique to different businesses. Gross receipts are more matter-of-fact and simpler to audit when necessary. Gross receipts are also the existing basis for the City's business license tax, so no methodology change would be required to reform the rate structure. The proposed Business License Reform measure will generate additional General Fund revenue, which will help fund infrastructure, public safety, homelessness prevention and shelter services, maintain parks and playgrounds, and other key facilities.

Staff recommends the following question be placed on the ballot:

**Costa Mesa Fair Business License Reform, Small Business Protection Measure.**

Without taxing residents, shall the measure be adopted, updating Costa Mesa's 41-year-old business license tax, ensuring large businesses pay their proportionate share and helping fund general city services including keeping public areas safe/clean; preventing crime/burglaries; addressing homelessness; maintaining Costa Mesa's financial stability; revising the tax rate to 50¢ per $1,000 gross receipts, with no increase for small businesses; generating approximately $5,600,000 annually until ended by voters, requiring audits, spending disclosure, funds locally controlled?

The proposed Ordinance is included with the resolution ordering the submission of the measure to the qualified electors of the City of Costa Mesa (Attachment 2).

## Transient Occupancy Tax (TOT or Hotel Tax)

At the June 9th Study Session, staff also presented a proposed TOT ballot measure to amend the City's 16-year-old rate of eight (8) percent - among the lowest in Orange County - by up to three percentage points. Each additional percentage point is estimated to generate approximately $1 million annually. Council provided feedback and direction to address the comparison to the City of Irvine's hotel room rates and amenities, and short-term rentals within the city.

### City of Irvine Comparison

The City Council requested a comparison of the hotel offerings in Costa Mesa and Irvine, including average daily rate, occupancy rate, available supply, and other offerings.

Citywide Number of Hotels

Costa Mesa and Irvine have around the same number of hotels which are currently operating: Costa Mesa has 25 and Irvine has 23 hotels. However, only ten (10) hotels in Costa Mesa have been subject to the additional Business Improvement Area (BIA) assessment, while all hotels in Irvine are subject to an additional Tourism Business Improvement District (TBID) assessment.

**Table 8: Number of Hotels and Associated Tax Rate by City**

| City | Hotels | Tax Rate | Number of Hotels | Total Number of Rooms |
|---|---|---|---|---|
| Costa Mesa | TOT only, non-BIA | 8% | 15 | 1,049 |
| | TOT plus BIA | 11% | 10 | 2,150 |
| Irvine | TOT plus TBID | 10% | 23 | 4,996 |

Hotel Comparison

Hotel data was gathered from the City's license with CoStar Group. The data in CoStar Group works by aggregating a set of hotels, rather than assessing an individual hotel's performance. This data serves as the main indication of hotels' revenue-generating potential. There are five key data points considered:

- **Supply (Rooms Available)**: Supply indicates the number of rooms in the specified set of hotels multiplied by the number of days in a specified period.

- **Demand**: Demand indicates the number of rooms in the set of hotels sold in a specified period (excluding complimentary rooms).
- **Occupancy Rate**: Occupancy rate shows the percentage of rooms occupied.
- **Average Daily Rate (ADR)**: ADR is the measure of the average paid for rooms sold in a given time period. The metric covers only revenue-generating rooms.
- **Revenue Per Available Room (RevPAR)**: RevPAR is the total room revenue divided by the total number of available rooms. Whereas ADR is based strictly on rooms sold (demand), RevPAR is based on all available rooms (supply).

In the past twelve months, Costa Mesa's supply and demand of hotel rooms is well below that of Irvine, even for Costa Mesa's BIA hotels. Irvine has more than double the room availability than Costa Mesa's BIA hotels. However, Costa Mesa's BIA hotels performed slightly better than Irvine hotels in their occupancy rate in the past year. Additionally, while Costa Mesa BIA hotels' ADR is around $10 less than that of Irvine, the RevPAR outperforms Irvine's. A higher RevPAR provides insight into the performance of hotel set, as neither occupancy nor ADR independently provide this insight.

**Table 9: Monthly Hospitality Data by City**

| | Average Monthly Supply of Hotel Rooms | Average Monthly Demand of Hotel Rooms | Average Monthly Occupancy Rate | Average Monthly ADR (Average Daily Date) | Average RevPAR (Revenue Per Available Room) |
|---|---|---|---|---|---|
| **Costa Mesa (Total)** | 93,098 | 68,695 | 73.8% | $160.74 | $119.03 |
| **Costa Mesa (BIA)** | 66,781 | 52,157 | 78.1% | $180.31 | $141.29 |
| **Irvine** | 159,559 | 114,749 | 71.9% | $193.45 | $139.62 |
| *Source: CoStar Group, May 2025 – April 2026* | | | | | |

While Costa Mesa BIA hotels generally outperform Irvine's in occupancy rate and RevPAR and remain competitive for ADR, the limiting factor for increased revenues for Costa Mesa BIA hotels (and, therefore, TOT revenues for the City) are the number of rooms available.

<u>Hotel Offerings</u>

When comparing all of the hotels within the city, Costa Mesa has the greatest amount of hotels in the Economy category (12 hotels); however, this only accounts for 18% of the total amount of rooms in the city. In comparison, Irvine has the greatest amount in the Upscale category (13 hotels), which accounts for 46% of the total rooms in the city.

**Table 10: Citywide Hotel Offerings by Quality Category**

| | Costa Mesa | | Irvine | |
|---|---|---|---|---|
| | Number of Hotels | Total Amount of Rooms | Number of Hotels | Total Amount of Rooms |
| Upper Upscale | 5 | 1,654 | 5 | 1,882 |
| Upscale | 2 | 368 | 13 | 2,320 |
| Upper Midscale | 3 | 319 | 3 | 522 |
| Midscale | 3 | 265 | 2 | 272 |
| Economy | 12 | 593 | - | - |
| | **25** | **3,199** | **23** | **4,996** |

When considering solely BIA/TBID hotels, 42% of the rooms fall within the Upper Upscale/Upscale categories for Costa Mesa, compared to 84% of rooms within the same categories in Irvine.

**Table 11: Citywide Hotel Offerings by Quality Category**

| | Costa Mesa | | Irvine | |
|---|---|---|---|---|
| | Number of BIA Hotels | Total Amount of Rooms | Number of TBID Hotels | Total Amount of Rooms |
| Upper Upscale | 5 | 1,654 | 5 | 1,882 |
| Upscale | 2 | 368 | 13 | 2,320 |
| Upper Midscale | 2 | 159 | 3 | 522 |
| Midscale | 2 | 194 | 2 | 272 |
| | **11** | **2,375** | **23** | **4,996** |

Within the BIA/TBID hotels, there are other marked differences between Costa Mesa and Irvine:

- **The current hotel stock in Irvine is newer**. The average year built for Costa Mesa BIA hotels is 1982, while the average in Irvine is 2001. Furthermore, the average renovation year for Costa Mesa BIA hotels is 2011, with the most recent renovation occurring in 2018. The average renovation year in Irvine is 2012, with the most recent renovation in 2023.
- **The room capacity per hotel is comparable**. Both cities have an average of 215 rooms per hotel. Six (6) BIA hotels in Costa Mesa have an occupancy greater than 200 rooms, whereas nine (9) hotels in Irvine have this occupancy. However, Costa Mesa only has one hotel that is near 500 rooms (the Hilton), while Irvine has two hotels that are near or above this capacity (Marriott and Hyatt Regency).
- **The meeting and event space in Irvine is more than double that in Costa Mesa**. Irvine has a combined total of 200,000 square feet in event space, while Costa Mesa BIA hotels have only 130,00 square feet. This is reflected in the offerings of the two largest hotels: Irvine's Marriott and Hyatt Regency can accommodate 2,000 people, while Costa Mesa's Hilton and Westin can only accommodate 900 to 1,200 people.

**Short-Term Rentals (STR)**

At the June 9 Study Session, the City Council requested a review of the potential revenue that could be collected from STRs. Existing City policy prohibits STRs in Costa Mesa, with the exception of STRs that are homeshares. Although homeshares are allowed in Costa Mesa, there is currently no mechanism to collect revenue from these types of properties or to distinguish active listings that are allowed homeshares compared to prohibited STRs.

Staff reviewed existing listings across popular STR platforms, such as Airbnb and VRBO, and aggregated data from various sites offering this data on publicly available platforms. There are currently over 100 active listings in Costa Mesa, including allowed homeshares and prohibited STRs. STRs are subject to TOT, including the allowed homeshares, and the City could generate approximately $500,000 in revenue from this source. In order to achieve this, the City would need to (1) amend the existing STR ordinance to require them to affirmatively register and make TOT remittals, and (2) implement an administrative and compliance process for recovering revenues from properties that are subject to the TOT. The estimated cost to implement a program to collect revenues from STRs is approximately $100,000.

### Proposed Structure for Potential Measure

An increase of 1% to 3% to the TOT is estimated to generate between $1 million to $3 million in additional revenue to the General Fund, as indicated below in Table 12.

**Table 12: Potential Measure Estimated Revenue**

| Rate Increase | Total TOT Rate | Estimated Revenue to be Generated |
|---|---|---|
| 1% | 9% | $1M |
| 2% | 10% | $2M |
| 3% | 11% | $3M |

## Community Outreach and Information

FM3 Research conducted a second community survey to determine interest in Business License Reform and a TOT increase. Community feedback was ascertained among likely voters in the City. Results of the second community survey will be presented by FM3 Research at the Council Meeting.

The City has held preliminary meetings with key stakeholders to provide information on the ballot measures under consideration and answer any questions.

### *Business License Tax*

- City staff met with representatives of South Coast Plaza, South Coast Metro Alliance, The Lab and The Camp to provide information about the potential business license reform ballot measure and to receive feedback.

- Since the June 9th Study Session, staff met with the Costa Mesa Chamber of Commerce. The Chamber appreciated the staff presentation and expressed willingness to continue the conversation and facilitate communication with the business community.

### *Transient Occupancy Tax*

- On Wednesday, March 18, Travel Costa Mesa presented to FiPAC on its role in tourism promotion, BIA funding structure, performance metrics, and economic impact to tourism, noting recent challenges affecting revenues such as staff changes, hotel conditions, and increased competition.
- On May 28, City staff held a meeting with local hotels and motels around the City, in order to discuss the potential ballot measures. Various owners and general managers attended and expressed concerns about being competitive with surrounding cities, particularly about "all-in pricing" potentially pricing out customers. Others raised concerns about postponing or phasing the measure, in order to be more cautious in the City's approach to generating additional revenue. City staff addressed these concerns and invited the hoteliers to join the June 9 Study Session to provide further input.
- At the May 28 meeting with local hotels and motels, Travel Costa Mesa presented information about the impacts of increasing TOT to the members of their business improvement area.
- At the June 9th Study Session, TCM informed the City Council that a Tourism Economic Impact Study would be conducted.

**Next Steps**

The final filing date for the City Clerk to file ballot measures for an election in November with the Orange County Registrar of Voters (ROV) is Friday, August 7, 2026. The ROV recommends the City adopt resolutions placing any measures on the November 3, 2026 ballot at the July 21, 2026, City Council meeting. This will allow time for direct and rebuttal arguments and allow the placement of the full text of the measure in the Voter Information Guide.

**Public Education**

If the City Council takes action to place a measure(s) on the ballot, the City will engage a consultant to assist staff with public education efforts regarding the measure(s). Public education will focus on providing information about the measure(s) and the impacts to the City, with or without the proposed increases.

If the City Council approves placing a measure on the ballot, the City Clerk will submit the Measure and required arguments and impartial analysis to the Registrar of Voters by the deadline of August 7, 2026, with rebuttal arguments submitted to the Registrar of Voters by the deadline of August 7, 2026.

**ALTERNATIVES:**

The City Council may provide alternative recommendations to the proposed Business License Tax Reform Measure to update our 41-year-old business license rate structure.

Based on feedback from our community as well as conversations specifically with the business community, staff recommends that Council proceed with the process to place the Business License Reform Measure on the November Ballot. However, in light of the current fiscal climate and community feedback, staff recommends that the City Council not move forward with a TOT Measure at this time.

Staff will continue to work with Travel Costa Mesa to ensure Costa Mesa remains competitive with our neighboring cities and further our partnership to boost tourism to generate additional TOT revenue.

**FISCAL REVIEW:**

The fiscal impact of placing one ballot measure on the November ballot is estimated at $15,000 to $20,000. The funding for submission of ballot measures is included in the FY 2026-27 Adopted Budget in the City Manager's Department in the General Fund (Fund 101). Additional funding for public education and consulting related to the ballot measure is also included in the General Fund budget.

The total amount of additional revenue that could potentially be generated from a ballot measure would be contingent upon the extent and structure of the increases from current levels.

***Business License Reform Measure***

Under the business license tax rate model of $0.50 per $1,000 in gross receipts, the City is estimated to generate an additional $4.6 million in revenue to the General Fund.

***Transient Occupancy Tax***

The City is estimated to generate an additional $1 million in revenue from Transient Occupancy Tax for every additional percentage point above the current 8% rate. However, staff is not recommending moving forward with a TOT Measure at this time.

**LEGAL REVIEW:**

The City Attorney has reviewed the report and approves it as to form.

**CITY COUNCIL GOALS AND PRIORITIES:**

This item supports the following City Council Goals:

- Achieve Long-Term Fiscal Sustainability
- Strengthen the Public's Safety and Improve the Quality of Life
- Diversify, Stabilize and Increase Housing to Reflect Community Needs
- Maintain and Enhance the City's Facilities, Equipment and Technology
- Advance Environmental Sustainability and Climate Resiliency

**CONCLUSION:**

Staff recommends that the City Council:

1. Place the Business License Reform measure on the November 3, 2026 ballot by adoption of the following resolutions:
    a. Adopt Resolution 2026-xx (Attachment 1): Ordering the submission to the qualified electors of the City of Costa Mesa "The Costa Mesa Fair Business License Reform, Small Business Protection Measure" at the General Election to be held on Tuesday,

November 3, 2026, as called by Resolution No. 2026-21.

b. Adopt Resolution 2026-xx (Attachment 3): Requesting the Orange County Board of Supervisors to consolidate a General Municipal Election to be held on Tuesday, November 3, 2026, with the Statewide General Election to be held on the date pursuant to section 10403 of the Elections Code.

c. Adopt Resolution 2026-xx (Attachment 4): Authorizing written arguments for or against the proposed measure “The Costa Mesa Fair Business License Reform, Small Business Protection Measure,” setting priorities for filing written arguments, determining the authors of the written arguments, and directing the City Attorney to prepare an impartial analysis ; and

d. Adopt Resolution 2026-xx (Attachment 5): Authorizing the filing of rebuttal arguments for “The Costa Mesa Fair Business License Reform, Small Business Protection Measure”; and

2. Receive and file the report pertaining to a potential Transient Occupancy Tax (TOT) measure.