



CITY OF COSTA MESA

77 Fair Drive
Costa Mesa, CA 92626

Agenda Report

File #: 26-284

Meeting Date: 6/9/2026

TITLE:

PROVIDE DIRECTION TO STAFF TO EXPLORE TWO CITY BALLOT INITIATIVES PERTAINING TO BUSINESS LICENSE REFORM AND TRANSIENT OCCUPANCY TAX

DEPARTMENT: FINANCE DEPARTMENT

PRESENTED BY: ANNA ACOSTA-REYES, FINANCE MANAGER

CONTACT INFORMATION: (714) 754-5219

RECOMMENDATION:

Staff requests that the City Council provide direction during the Study Session on the placement of the measure(s) on November 3, 2026, ballot.

1. Provide direction to staff regarding the placement of potential Business License Reform measure on the November 3, 2026, ballot.
2. Provide direction to staff regarding the placement of potential Transient Occupancy Tax (TOT) measure on the November 3, 2026, ballot.

BACKGROUND:

At the December 2, 2025, City Council Meeting, the City Council voted to explore placement of two potential ballot measures, a Business License Reform and/or a Transient Occupancy Tax (Hotel Tax) increase on the November 3, 2026, ballot. The City Council's direction came after the Finance and Pension Advisory Committee (FiPAC) formally requested that the City Council authorize a comprehensive review and analysis of both the Business License Tax and Transient Occupancy Tax as sources of potential revenue for the City.

The City Council has identified long-term fiscal sustainability as a strategic priority and has discussed opportunities to diversify and stabilize municipal revenue sources to maintain essential public services and infrastructure. Rising costs associated with public safety, street and facility maintenance, parks and recreation programs, technology investments, and general municipal operations continue to place pressure on the City's General Fund (Fund 101).

The City's General Fund is comprised of various revenue sources: taxes, fees and charges for service, licenses and permits, use of money and property, and other sources. Among the taxes collected, the categories include property taxes, sales tax, transient occupancy taxes, and business license taxes. These funds can be used for a wide range of city services, such as funding for public safety, maintenance and repairs of roads, as well as capital improvement projects. If passed, the potential ballot measures discussed below would provide additional revenue to the General Fund and

meet the City Council’s identified goal of long-term fiscal sustainability.

Since the time City Council provided direction in December 2025, FiPAC and City staff have worked to evaluate the type of Business License reform structure and/or Transient Occupancy Taxes (TOT) and ascertain initial community feedback to determine interest for the Council’s consideration.

ANALYSIS:

Business License Tax (Business Tax)

Costa Mesa’s Existing Business License Tax

The City first adopted a Business License Tax by establishing section 9-1 of the Municipal Code (CMMC) in April 1985. Per CMMC section 9-1, every person conducting, carrying on, or engaging in any business shall pay a business tax to the City as hereinafter set forth. Costa Mesa collects business license taxes based on gross receipts, which is a commonly used methodology.

Currently, gross receipts are defined by CMMC section 9-9 (Attachment 1) as:

The total amount actually received or receivable from all sales; the total amount of compensation actually received or receivable for the performance of any act or service, of whatever nature it may be, for which a charge is made or credit allowed, whether or not such act or service is done as part of or in connection with the sale of materials, goods, wares or merchandise; and gains realized from trading in stocks or bonds, interest discounts, rents, royalties, fees, commissions, dividends or other emoluments, however designated.

Business taxes are a fixed amount per gross receipt level and range 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 greater in gross receipts. Per CMMC section 9-25, the current rate is as follows:

Table 1: Current Business License Tax

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

The Business License rate structure has not been amended or modified in over four decades, hence FiPAC and City Council interest in exploring reform options. The current structure may not fully reflect today’s business environment, economic conditions, or the costs associated with providing municipal services that support the local business community.

Surrounding Jurisdictions

Surrounding cities vary in the application and formula for determining their Business License rates. Some cities use gross-receipts and others use the number of employees in applying a business

license rate, as Table 2 and Table 3 below show.

For surrounding cities that use retail gross receipts to determine their Business License rate, Costa Mesa is competitive for small businesses that generate \$100,000 or less for gross receipts - providing a low amount of \$0, \$25, and \$45.

For mid-sized businesses that generate over \$100,000 and up to \$1 million in gross receipts, Costa Mesa is below or comparable to the rate of surrounding cities.

For large and very large businesses that generate over \$3 million in gross receipts, Costa Mesa is well behind the rate compared to surrounding cities. For example, a business with \$3 million gross receipts in Anaheim is paying more than double a Business License rate than a similar business in Costa Mesa. A business with \$10 million gross receipts in Anaheim is paying more than ten times the Business License rate than a similar business in Costa Mesa, while a similar business in Santa Ana is paying more than thirty times Costa Mesa’s rate.

Table 2: Surrounding Cities Business License Tax (Gross Receipts)

Retail Gross Receipts	Costa Mesa	Santa Ana	Orange	Anaheim	Huntington Beach	Newport Beach	Irvine
\$25,000	\$25	\$82	\$35	\$40	-	-	-
\$100,000	\$45	\$131	\$100	\$60	-	-	-
\$500,000	\$100	\$391	\$195	\$60	-	-	-
\$1,000,000	\$200	\$716	\$295	\$95	-	-	-
\$3,000,000	\$200	\$2,016	\$615	\$475	-	-	-
\$5,000,000	\$200	\$3,316	\$915	\$950	-	-	-
\$10,000,000	\$200	\$6,566	\$1,915	\$2,375	-	-	-
\$25,000,000	\$200	\$16,316	\$4,915	\$2,675	-	-	-

In comparison to gross receipts, some surrounding cities use a per-employee rate to calculate the appropriate Business License Tax.

Table 3: Surrounding Cities Business License Tax (Per Employee)

Per Employee	Costa Mesa	Santa Ana	Orange	Anaheim	Huntington Beach	Newport Beach*	Irvine**
5	-	-	-	-	\$83	\$55	\$72
10	-	-	-	-	\$103	\$110	\$148
50	-	-	-	-	\$225	\$550	\$148
100	-	-	-	-	\$327	\$1,100	\$148
500	-	-	-	-	\$1,127	\$1,143	\$148

*Listed above is the maximum amount for the City of Newport Beach for commercial, sales-tax generating businesses.

The maximum amount for a commercial, non-sales-tax generating business is \$2,285.

**The City of Irvine determines their Business License Fee by resolution, adopted by the City Council.

FiPAC Recommendations

On April 8, 2026, FiPAC recommended that staff evaluate Business License reform utilizing gross receipts and requested additional rates and structures from staff. On April 16, 2026, FiPAC recommended that City Council consider the following for the Business License Reform:

- Establish a minimum and a maximum flat-fee rate;
- Apply Consumer Price Index (CPI) adjustments to both the rate and the established minimum and maximum flat-fee amounts;

- Ensure the structure is competitive with neighboring cities;
- Define “gross receipts” for consistent application; and
- Maintain a simple and easy-to-administer structure.

Impacts of a Potential Ballot Measure

Based on FiPAC’s recommendations, staff has assessed a business license reform rate model of:

- \$0.60 per \$1,000 in gross receipts
- a minimum rate of \$25
- a maximum rate limit of \$15,000

Staff is recommending the following table as the proposed business license structure:

Table 4: Current and Potential Ballot Measure Business License Tax

Total Gross Receipts		Number of Businesses	Current Business License Tax	Potential Ballot Measure Tax	
From	To			Recommended Rate	Equivalent Amount
\$0	\$1,000	2,791	\$0	Minimum Rate Applies	\$25
\$1,001	\$10,000		\$25		
\$10,001	\$25,000		\$25		
\$25,001	\$40,000	496	\$35	Rate of \$0.60 per \$1,000	\$25 to \$30
\$40,001	\$50,000		\$45		\$30 to 60
\$50,001	\$100,000	891	\$45 to \$60		\$60 to \$150
\$100,001	\$250,000	1,095	\$60 to \$100		\$150 to \$300
\$250,001	\$500,000	508	\$100		\$300 to \$600
\$500,001	\$1,000,000	694	\$200		\$600 to \$3,000
\$1,000,001	\$5,000,000	1,203	\$200		\$3,000 to \$6,000
\$5,000,001	\$10,000,000	278	\$200		\$6,000 to \$12,000
\$10,000,001	\$20,000,000		\$200		\$12,000 to \$15,000
\$20,000,001	\$25,000,000		\$200		Maximum Rate Applies
More than \$25,000,000			\$200		

The proposed business license rate structure is designed to minimize impacts on smaller businesses, while ensuring a more equitable contribution from larger businesses. Under the proposed business license reform structure, small businesses with gross receipts ranging from \$0 to \$49,999 annually would be subject to the minimum annual rate of \$25. For businesses with gross receipts of \$50,000 or greater annually, the proposed rate would be assessed at \$0.60 per \$1,000 of gross receipts. Businesses with gross receipts of less than \$250,000 annually would generally experience only a modest increase in their annual business license rate. Businesses with gross receipts exceeding \$500,000 would experience a greater impact under the proposed rate structure. To limit the burden on the City’s largest businesses, the proposed business license structure includes a maximum annual business license rate of \$15,000. This limit would apply to businesses with gross receipts exceeding \$25 million, ensuring that the rate remains predictable and does not increase beyond the

established maximum threshold.

Based on \$0.60 per \$1,000 of gross receipts rate model, the City is estimated to generate approximately \$6 million in annual revenue, an increase of \$5 million above the current \$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.

City Council Considerations

The following are factors for City Council in considering a potential Business License Reform ballot measure:

- Establishing a minimum Business License rate
- Establishing a maximum Business License rate limit
- Applying Consumer Price Index (CPI)
- Business License rate structure - \$0.60 for \$1,000 in gross receipts is proposed by staff, but the Council may want to explore an alternative that would generate less or more potential revenue

Transient Occupancy Tax (TOT or Hotel Tax)

Costa Mesa's Existing TOT

The City's first TOT went into effect in 1978 at a rate of 6%. In 2010, the City Council approved a ballot measure to increase TOT from 6% to 8%, which was approved by the voters in November 2010.

Per CMMC section 16-68, for the privilege of occupancy in any hotel or motel, each transient is subject to and shall pay a tax in the amount of 8% of the rent charged by the operator. The tax constitutes a debt owed by the transient to the City, which is extinguished only by payment to the operator or to the City. The transient pays the tax to the hotel or motel operator at the time the rent is paid. Each operator must file, on or before the last day of the month following the close of each calendar quarter or of such different reporting period as may be established by the Finance Department, a return to the Finance Department on forms provided by it, the total rents charged and received, the amount of tax collected for transient occupancies, and other information as reasonably required by the Finance Department. At the time the return is filed, the full amount of the tax collected is to be remitted to the Finance Department.

The City's existing TOT does not include any revenues from short-term rentals (STRs), as these have been prohibited in Costa Mesa since 2020. The City adopted an interim ordinance on November 10, 2020, and a permanent urgency ordinance on November 2, 2021. However, short-term rentals that engage in home-sharing are permitted, which is still in effect today. Those home-sharing short-term rentals would be subject to the TOT but are not currently being collected.

Surrounding Jurisdictions

The City of Costa Mesa's existing TOT rate is among the lowest throughout Orange County cities. Among neighboring cities, Costa Mesa and Irvine have the lowest TOT rate at 8%.

Table 5: Orange County Cities TOT Rate

Aliso Viejo	10	Laguna Woods	10
Anaheim	15	Lake Forest	10
Brea	10	Los Alamitos	8
Buena Park	12	Mission Viejo	8
Costa Mesa	8	Newport Beach	10
Cypress	10	Orange	10
Dana Point	10	Placentia	10
Fountain Valley	10	Rancho Santa Margarita	None
Fullerton	10	San Clemente	10
Garden Grove	14.5	San Juan Capistrano	10
Huntington Beach	10	Santa Ana	11
Irvine	8	Seal Beach	12
La Habra	None	Stanton	8
La Palma	12	Tustin	13
Laguna Beach	12	Villa Park	None
Laguna Hills	12	Westminster	8
Laguna Niguel	8	Yorba Linda	10

FiPAC Recommendations

On March 18, 2026, FiPAC recommended an increase of TOT with a maximum of 3 percentage points, with flexibility for Council to determine allocation. The Committee emphasized providing general policy guidance rather than a specific rate, with consideration for market competitiveness, restraint, and coordination with any potential Business Improvement Area (BIA) adjustments.

Impacts of a Potential Ballot Measure

Based on the recommendation from FiPAC, the projected revenue from the potential ballot measure to increase the TOT rate would be as follows. The City is estimated to generate an additional \$1 million in revenue from Transient Occupancy Tax (Hotel Tax) for every additional percentage point above the current 8% rate. Under this proposal, a 3% increase to the TOT is estimated to generate approximately \$3 million in additional revenue.

Table 6: Estimated Revenue Per TOT Rate Increase

Rate Increase	Total TOT Rate	Estimated Revenue to be Generated	Surrounding Cities
1%	9%	\$1M	8% TOT: Irvine, Laguna Niguel, Los Alamitos, Mission Viejo, Stanton, Westminster
2%	10%	\$2M	10% TOT: Fountain Valley, Fullerton, Huntington Beach, Newport Beach, Orange, San Clemente, among others
3%	11%	\$3M	11% TOT: Santa Ana 12% TOT: Buena Park, La Palma, Laguna Beach, Laguna Hills, Seal Beach Greater than 12% TOT: Anaheim, Garden Grove, Tustin

City Council Considerations

In determining a potential Transient Occupancy Tax ballot measure, the City Council may consider the following:

- The appropriate TOT rate increase
- The 3% BIA rate in conjunction with any potential increase

Ballot Measure Viability

The City contracted with FM3 Research on a community survey to determine initial interest in Business License Reform and a TOT increase. Community feedback was ascertained among likely voters in the City. Initial results of the community feedback will be provided by FM3 Research at the study session.

Outreach and Information

The City has held preliminary meetings with some 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 .

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 of tourism, noting recent challenges affecting revenues such as staffing hotel conditions, and increased competition.
- On May 28, City staff held a meeting with local hotels and motels in the City to discuss the potential ballot measures, answer any questions and receive feedback. Various owners and general managers attended and expressed their concerns about being competitive with surrounding cities, particularly due to "all-in-pricing" potentially pricing out customers who are price-conscious, which are the primary demographic of Costa Mesa hotel guests. Others raised concerns about postponing the measure or phasing the measure to be more cautious in the City's approach to gaining more revenue. The hoteliers also recommended that if the TOT measure were to proceed to the ballot and be approved, that the Council consider using some of the revenue resulting from the TOT increase to support hotel marketing. The hoteliers were invited to attend the June 9 Study Session to provide further input to the City Council.
- 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 BIA, comprised of 10 hotels in Costa Mesa (Attachment 2).

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 is recommending 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 provides direction to continue with placing a measure(s) on the ballot, the City will engage a consultant to provide public education 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.

Staff is seeking direction regarding the two potential ballot measures for placement on November 3, 2026, ballot. At the July 21, 2026, meeting, the City Council may vote to place one, both or no ballot measures on the November 3, 2026, ballot.

ALTERNATIVES:

The City Council may provide alternative recommendations to placing either or both the Business License Tax or Transient Occupancy Tax on the November ballot.

FISCAL REVIEW:

The fiscal impact of placing the two tax measures on the November ballot is estimated at \$25,000 to \$35,000. The funding for the 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 measures is included in the General Fund (Fund 101) budget.

As discussed above, the total amount of additional revenue generated from these two tax ballot measures would be contingent upon the extent and structure of the increases from current levels.

Business License Tax

Under the business license tax rate model of \$0.60 per \$1,000 in gross receipts, the City is estimated to generate an additional \$5 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. Under this proposal, a 3% increase to the TOT is estimated to generate approximately \$3 million in additional revenue to the General Fund.

LEGAL REVIEW:

The City Attorney's Office 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

CONCLUSION:

Staff requests the City Council provide direction during the Study Session regarding whether to place one or both potential ballot measures, the Business License Reform and the Transient Occupancy Tax, on the November 3, 2026 ballot. This direction will allow staff to proceed with required election preparation timelines, bring forth an action for Council consideration on July 21, 2026, and ensure that any measure the City Council chooses to advance is presented to voters with accurate, complete and timely information.