From:	GREEN, BRENDA
To:	TERAN, STACY
Subject:	FW: TOT-Tourism Economic Report for Council
Date:	Monday, July 20, 2026 9:15:38 AM
Attachments:	img-bc1aa6cf-e9d1-4249-9f3f-126f3b7b5384.png img-0517ae05-09c2-4489-a28d-bdc2ba99ca9f.png img-7c75c601-75d7-4407-8f8d-ae6a08fa7dad.png img-1e572a58-57d2-4d15-a7b6-c64af016ceea.png TE Costa Mesa TOT Analysis 2026-07-14.pdf

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Brenda Green

City Clerk

City of Costa Mesa

714/754-5221

From: Paulette Lombardi-Fries <pfries@travelcostamesa.com>
Sent: Thursday, July 16, 2026 8:00 PM
To: GREEN, BRENDA <brenda.green@costamesaca.gov>
Cc: REYES, ALMA <ALMA.REYES@costamesaca.gov>; GALLARDO DALY, CECILIA <CECILIA.GALLARDODALY@costamesaca.gov>
Subject: TOT-Tourism Economic Report for Council

Good evening, Brenda,

Attached is the Tourism Economics TOT Report commissioned by Travel Costa Mesa, which we committed to sharing with the City Council at the June 9 study session.

Thank you,

Paulette Lombardi-Fries
President
@travelcostamesa
pfries@travelcostamesa.com
714-321-2903
www.travelcostamesa.com

TOURISM ECONOMICS

AN OXFORD ECONOMICS COMPANY

Economic Impacts of Increased Transient Occupancy Tax Rate in Costa Mesa

July 2026

Prepared on behalf of:

Travel Costa Mesa

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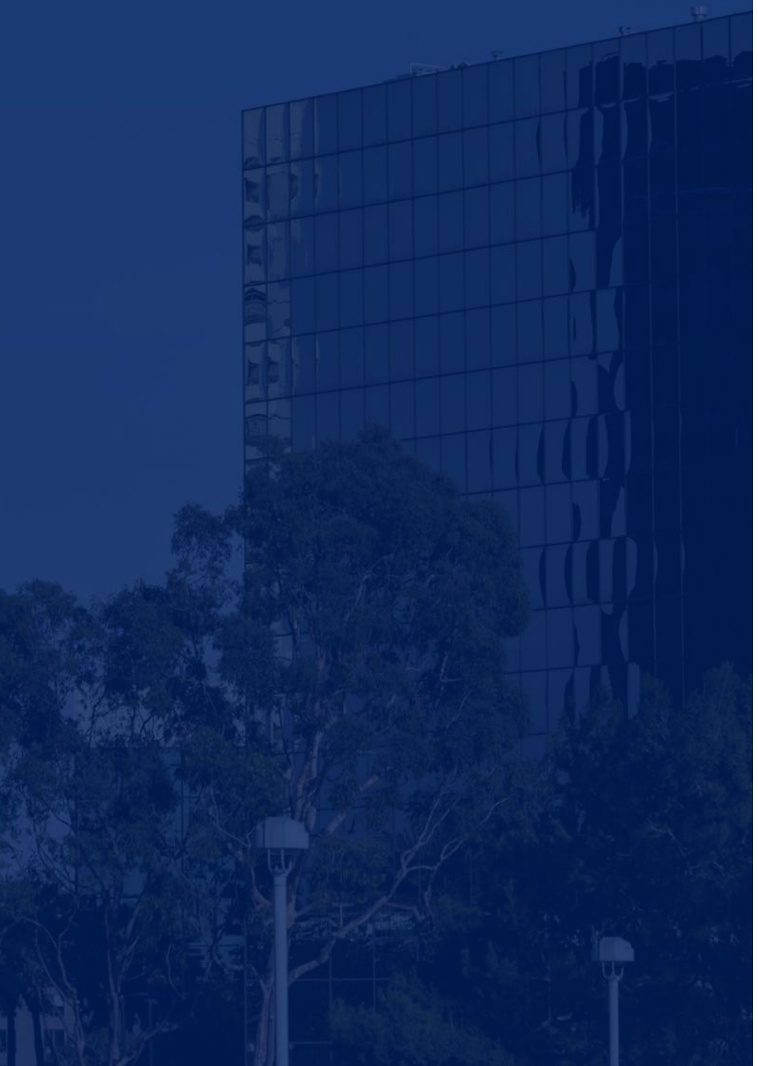

1 Key findings

Key findings

Tourism Economic prepared a detailed analysis of the expected economic impact of a transient occupancy tax (TOT) increase on behalf of Travel Costa Mesa.

This analysis shows:

- Costa Mesa hotels are an important part of the local economy, supporting $653.0 million of local business sales annually, as well as 3,407 jobs and $104.5 million of tax revenue.
- A TOT increase would have competitive implications for local hotels, resulting in less guest spending and reduced local economic impact. TOT revenue would increase, but jobs and other local taxes would decrease.

Total economic impact of Costa Mesa hotels

$653.0M	$214.7M	3,407	$104.5M
Business sales	Wages and salaries	Jobs	Total taxes

Note: Total economic impacts within the City of Costa Mesa during 2025.
Source: Tourism Economics

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Key findings

We analyzed two potential TOT increase scenarios:

- **TOT increase**, assumes a two-percentage point TOT increase to 10%; and,
- **TOT increase with DMO funding increase**, assumes of a two-percentage point TOT increase to 10%, of which one percentage point is directed to Travel Costa Mesa as additional funding.

We estimated the following impacts, relative to a baseline with an 8% TOT:

- With a TOT increase, hotel room demand would decrease by 0.9%, resulting in an annual loss of $4.5 million in local business sales with an average of 23 fewer jobs in Costa Mesa.
- With a TOT increase and additional funding to Travel Costa Mesa, hotel room demand would increase by 0.3%, resulting in an annual increase of $8.6 million in local business sales with an average of 47 more jobs in Costa Mesa.

Economic impact of TOT increase scenarios, annual run rate

	Total business sales	Total wages and salaries	Total jobs	Total TOT impact	Other state and local tax impact
TOT increase:	-$4.5M	-$1.4M	-23	$2.3M	-$0.4M
TOT increase with additional funding:	$8.6M	$2.9M	47	$2.4M	$0.7M

Note: Estimates measure total economic impact due to the TOT rate increase in a stabilized year after the increased rate goes into effect. Impact to City of Costa Mesa study area. Results are shown in real 2026 dollars.
Source: Tourism Economics

Key findings

We estimated impacts over a ten-year period as follows (relative to a baseline 8% rate):

- A TOT increase would result in a loss of $44.8 million business sales, including $14.1 million in lost wages and salaries. TOT revenue would increase by $22.7 million; however, this gain would be partially offset by a loss of $4.1 million in other state and local taxes due to less visitor spending.
- With a TOT increase and additional funding to Travel Costa Mesa, TOT revenue would be $24.2 million higher than in the baseline, there would be increased business sales and jobs, and there would be a $6.6 million positive impact to other state and local taxes.
- Based on our analysis of Travel Costa Mesa activity, funding, and market characteristics, we have estimated each additional dollar of funding for Travel Costa Mesa will yield an additional $7 of visitor spending.

Economic impact of TOT increase, Ten-year impacts

	Total business sales	Total wages and salaries	Total jobs	Total TOT impact	Other state and local tax impact
TOT increase:	-$44.8M	-$14.1M	-23	$22.7M	-$4.1M
TOT increase with additional funding:	$86.0M	$29.1M	47	$24.2M	$6.6M

Note: Estimates measure total economic impact due to the TOT rate increase for the ten years after the impacts stabilize. Impact to City of Costa Mesa study area. Results are shown in real 2026 dollars, without the impacts of inflation over time.

Source: Tourism Economics

2 Benchmarking results

Important role of hotels

Hotels are a major contributor to Costa Mesa's economy.

- Local hotels support $653.0 million of business sales in Costa Mesa annually, supporting 3,407 jobs, $214.7 million in wages and salaries, and $55.8 million in state and local taxes.
- We estimated hotel demand segmentation in the market is approximately 64% leisure transient, 13% business transient, and 23% group.

Other key metrics on Costa Mesa hotels include:

- 3,102 hotel rooms
- Over 800,000 hotel room nights sold annually
- $401.1 million of annual hotel guest spending

Hotel industry impacts

City of Costa Mesa, dollar amounts in millions, 2025

Total impact	
Business sales	$653.0
Wages and salaries	$214.7
Employment	3,407
Total taxes	$104.5
State and local taxes	$55.8
Metrics	
Guest rooms	2,915
Room nights sold	829,337
Hotel guest spending (on-site and ancillary)	$401.1

Source: Tourism Economics

Competitive analysis

Costa Mesa currently has a total lodging tax and assessment of 11.2%, giving it a competitive advantage over nearby destinations. A 2.0 percentage point increase to the TOT would increase the total lodging tax and assessment to 13.2%, reducing its competitive advantage.

Lodging tax and assessment rates

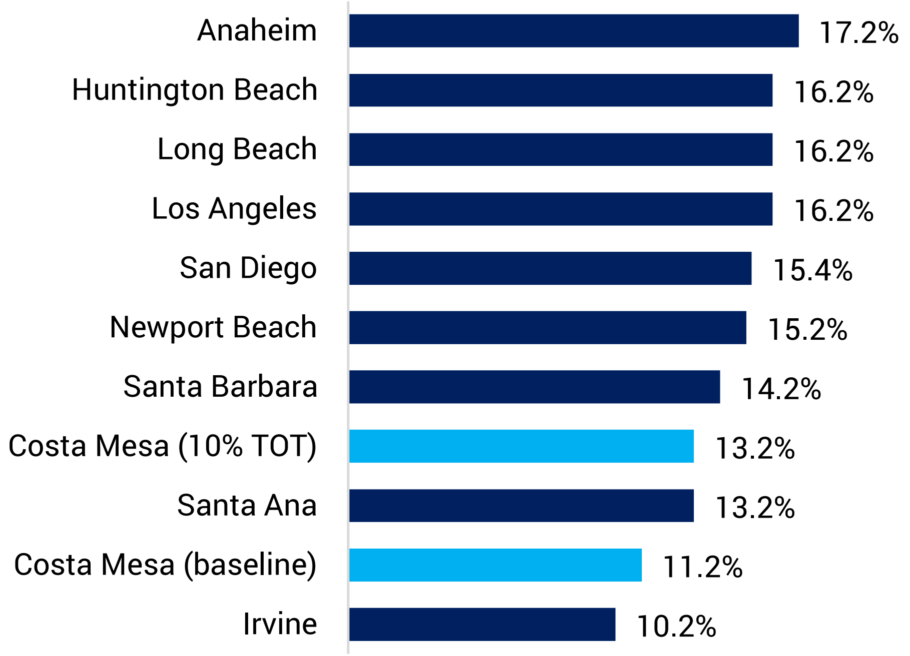
City of Costa Mesa competitive set

Rank	City	Assessment	Tax rate	CA assessment	Total tax and assessment
1	Anaheim	2.0%	15.0%	0.195%	17.2%
2	Huntington Beach	6.0%	10.0%	0.195%	16.2%
3	Long Beach	3.0%	13.0%	0.195%	16.2%
4	Los Angeles	2.0%	14.0%	0.195%	16.2%
5	San Diego	2.0%	13.2%	0.195%	15.4%
6	Newport Beach	5.0%	10.0%	0.195%	15.2%
7	Santa Barbara	2.0%	12.0%	0.195%	14.2%
8	**Costa Mesa (10% TOT)**	**3.0%**	**10.0%**	**0.195%**	**13.2%**
9	Santa Ana	2.0%	11.0%	0.195%	13.2%
10	**Costa Mesa**	**3.0%**	**8.0%**	**0.195%**	**11.2%**
11	Irvine	2.0%	8.0%	0.195%	10.2%
	Average				**14.9%**

Note: Lodging taxes and assessments as researched by Tourism Economics

Lodging tax and assessment rates

City of Costa Mesa competitive set



Source: Tourism Economics

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3 Scenario results

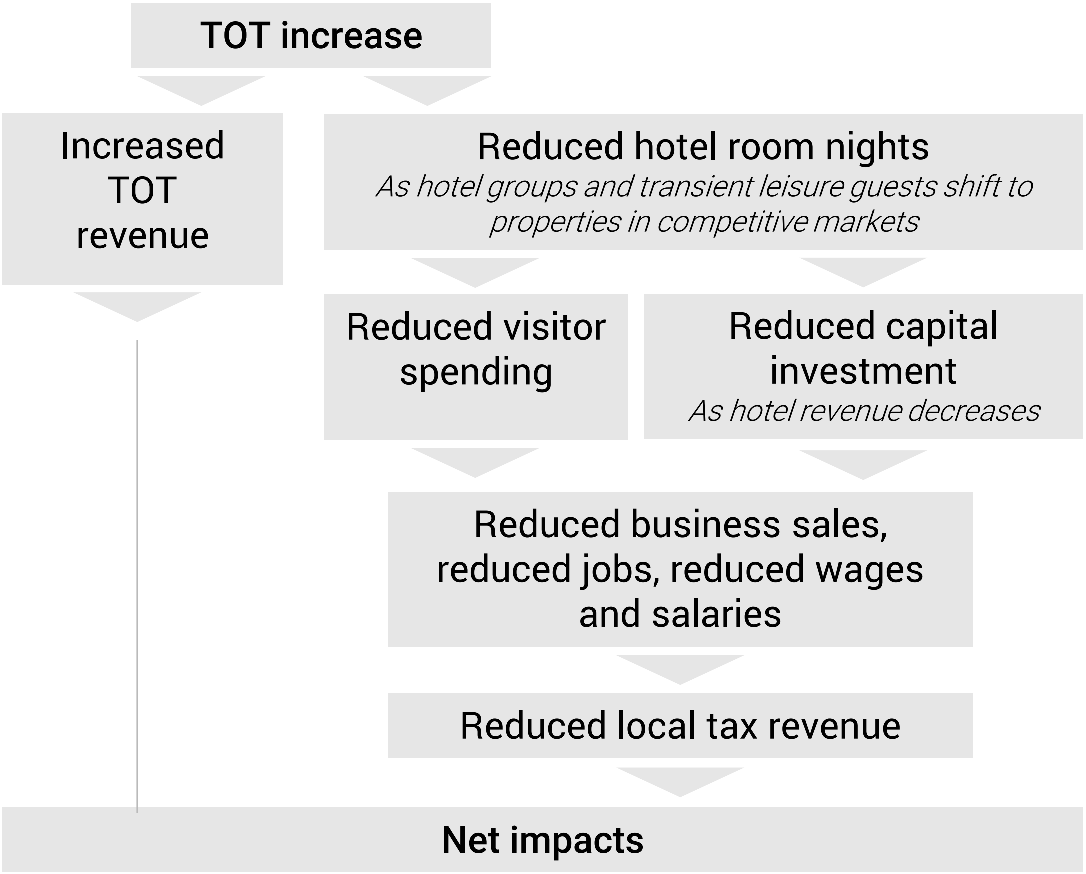
Scenario description

A TOT increase raises the cost of a hotel stay and typically results in a decrease in hotel room demand. Economists refer to this type of impact as representing a price elasticity of demand, with a higher price causing a corresponding reduction in demand. Two hotel guest segments are expected to be particularly sensitive to the increased cost:

- **Group segment:** Organizers of events, such as business meetings and social events, frequently compare hotel costs. In these situations, a higher tax rate can contribute to a greater estimated event cost and make such properties less competitive.
- **Leisure segment:** Many leisure travelers have a degree of flexibility in picking a hotel location and can shift toward competitive destinations with lower costs.

With fewer hotel guests, Costa Mesa is expected to experience a reduction in visitor spending and capital investment as more pressure is placed on hotel margins. This results in additional losses through downstream economic impacts.

Visual summary of impacts



Source: Tourism Economics

TOURISM ECONOMICS

Scenario impacts

We estimate that over time the 2.0 percentage point increase to the TOT rate results in an annual loss of approximately 7,537 hotel room nights, nearly 1% of total annual room nights. This reduced demand results in a loss of $2.5 million in visitor spending.

Also, we expect hotel operators and development companies to reduce investment in Costa Mesa hotels over time, resulting in about $0.7 million less capital investment annually.

Baseline	Scenario
TOT rate stays at 8%	*TOT rate increases to 10%*

Annual run rate of scenario impacts

City of Costa Mesa, stabilized year, real 2026 dollars, direct economic impacts

	TOT increase
Price increase (%)	1.8%
Lost hotel room nights (%)	-0.9%
Lost hotel room nights (level)	-7,537
Lost group room nights (%)	-1.4%
Lost group room nights (level)	-2,755
Lost visitor spending	-$2,498,116
Lost capital investment	-$696,636

Source: Tourism Economics

4 Economic impacts

Direct economic impacts

The accompanying table summarizes the direct economic impacts of a TOT increase. Losses are relative to a baseline scenario with an 8% TOT.

This analysis of *direct* economic impact includes spending by visitors, both at hotels and elsewhere, and capital improvement and development by hotels operators.

The direct impact of lost business sales in Costa Mesa is $3.2 million, with 18 lost jobs and $1.0 million of lost wages and salaries.

Annual run rate of direct economic impacts

City of Costa Mesa, stabilized year, real 2026 dollars

	TOT increase
Business sales	-$3,194,752
Wages and salaries	-$960,627
Jobs	-18
GDP	-$1,315,193
Total taxes	$1,752,078
State and local taxes	$1,951,290
Lodging tax	$2,239,301
Sales tax	-$176,436
Other taxes	-$111,574
Federal taxes	-$199,212
Personal income tax	-$85,942
Social security	-$95,497
Other taxes	-$17,774
Tax impact by summary category	
TOT revenue	$2,268,770
Federal taxes	-$199,212
State and local taxes (non-TOT)	-$317,480

Source: Tourism Economics

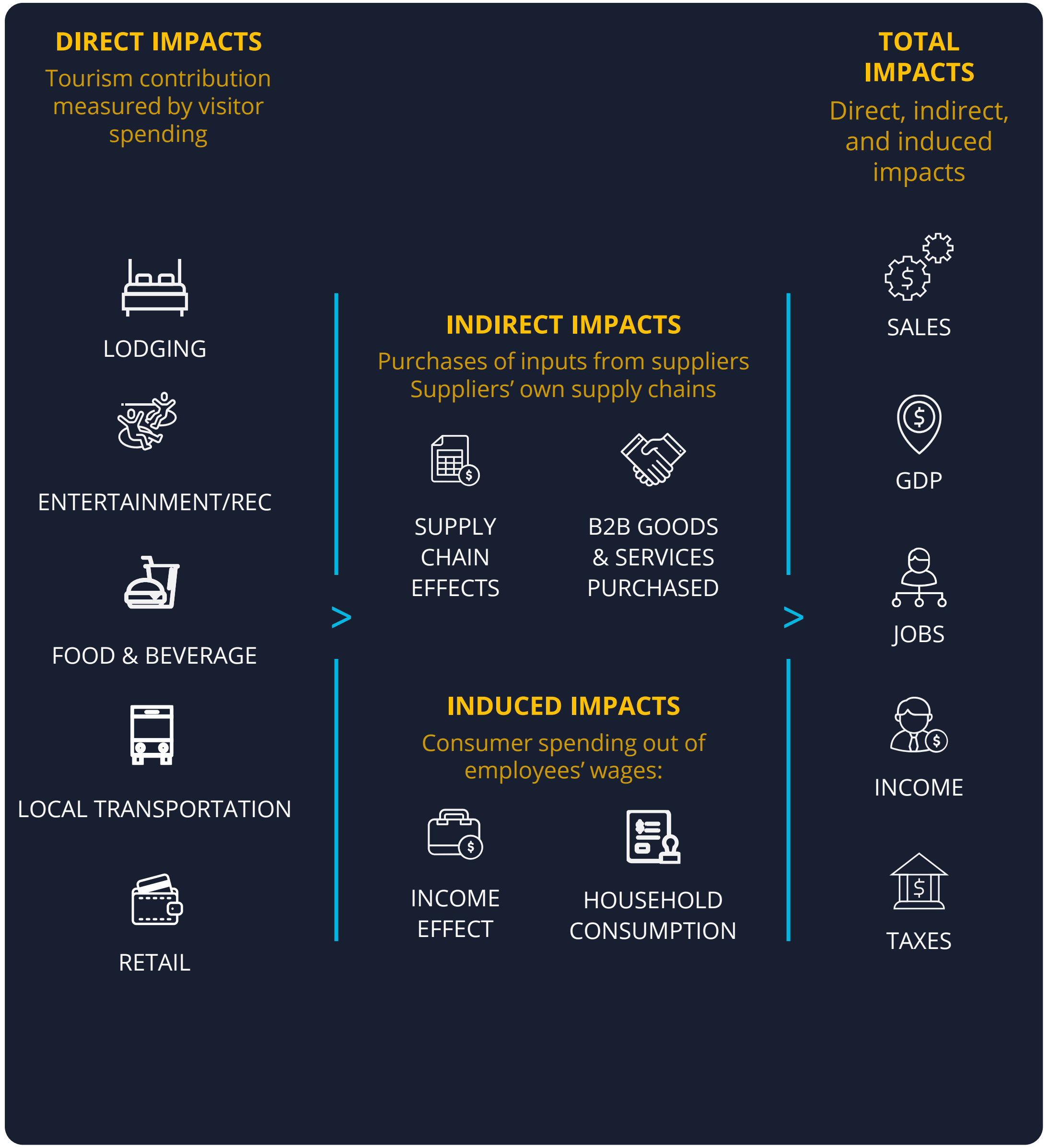
Total economic impacts

Our analysis of the economic impact of a potential TOT rate increase begins with reduced spending by visitors and on construction, but it also considers the downstream effects of this reduction of spending into the local economy. To determine the total economic impact in the City of Costa Mesa, we input visitor and construction spending into a model created in IMPLAN. The model calculates three distinct types of impact: direct, indirect, and induced.

The impacts on business sales, jobs, wages, and taxes are calculated for all three levels of impact.

1. **Direct Impacts:** Visitors create direct economic value within a discrete group of sectors (e.g., recreation, transportation). This supports a relative proportion of jobs, wages, taxes, and GDP within each sector.
2. **Indirect Impacts:** Each directly affected sector also purchases goods and services as inputs (e.g., food wholesalers, utilities) into production. These impacts are called indirect impacts.
3. **Induced Impacts:** Lastly, the induced impact is generated when employees whose wages are generated either directly or indirectly by visitors spend those wages in the local economy.

IMPLAN is particularly effective because it calculates these three levels of impact – direct, indirect, and induced – for a broad set of indicators, including spending, wages, employment, and taxes



Total economic impacts

The accompanying table summarizes the total economic impacts of a TOT rate increase in Costa Mesa.

This analysis of *total* economic impact includes direct effects, such as reduced visitor spending, supply chain effects, such as reduced purchases by hotels of goods and services from local businesses, and income effects, such as wages spent by hotel employees.

In the TOT increase scenario, the total lost business sales in Costa Mesa is $4.5 million, with 23 lost jobs and $1.4 million lost wages and salaries.

The additional $2.3 million in TOT revenue is partially offset by the loss of $0.4 million of other state and local tax revenue.

Annual run rate of total economic impacts

City of Costa Mesa, stabilized year, real 2026 dollars

	TOT increase
Business sales	-$4,482,627
Wages and salaries	-$1,411,888
Jobs	-23
GDP	-$2,123,604
Total taxes	$1,557,782
State and local taxes	$1,862,931
Lodging tax	$2,239,301
TOT revenue	$2,268,770
Assessment revenue	-$29,470
Sales tax	-$205,597
Other taxes	-$170,772
Federal taxes	-$305,149
Personal income tax	-$124,861
Social security	-$144,997
Other taxes	-$35,290
Tax impact by summary category	
TOT revenue	$2,268,770
Federal taxes	-$305,149
State and local taxes (non-TOT)	-$405,840

Source: Tourism Economics

Ten-year economic impacts

The accompanying table summarizes the total economic impacts of the TOT rate increase in the City of Costa Mesa over a ten-year period.

The total loss of business sales is $44.8 million, including $14.1 million in lost wages and salaries. While TOT revenue increases by $22.7 million, state and local non-TOT revenue decreases by $4.1 million.

Results are shown in real 2026 dollars, without the impacts of inflation over time.

Ten-year total economic impacts

City of Costa Mesa, stabilized year, real 2026 dollars, dollar amounts in millions

	TOT increase
Business sales	-$44.8
Wages and salaries	-$14.1
Jobs	-23
GDP	-$21.2
Total taxes	$15.6
State and local taxes	$18.6
Lodging tax	$22.4
TOT revenue	$22.7
Assessment revenue	-$0.3
Sales tax	-$2.1
Other taxes	-$1.7
Federal taxes	-$3.1
Personal income tax	-$1.2
Social security	-$1.4
Other taxes	-$0.4
Tax impact by summary category	
TOT revenue	$22.7
Federal taxes	-$3.1
State and local taxes (non-TOT)	-$4.1

Source: Tourism Economics

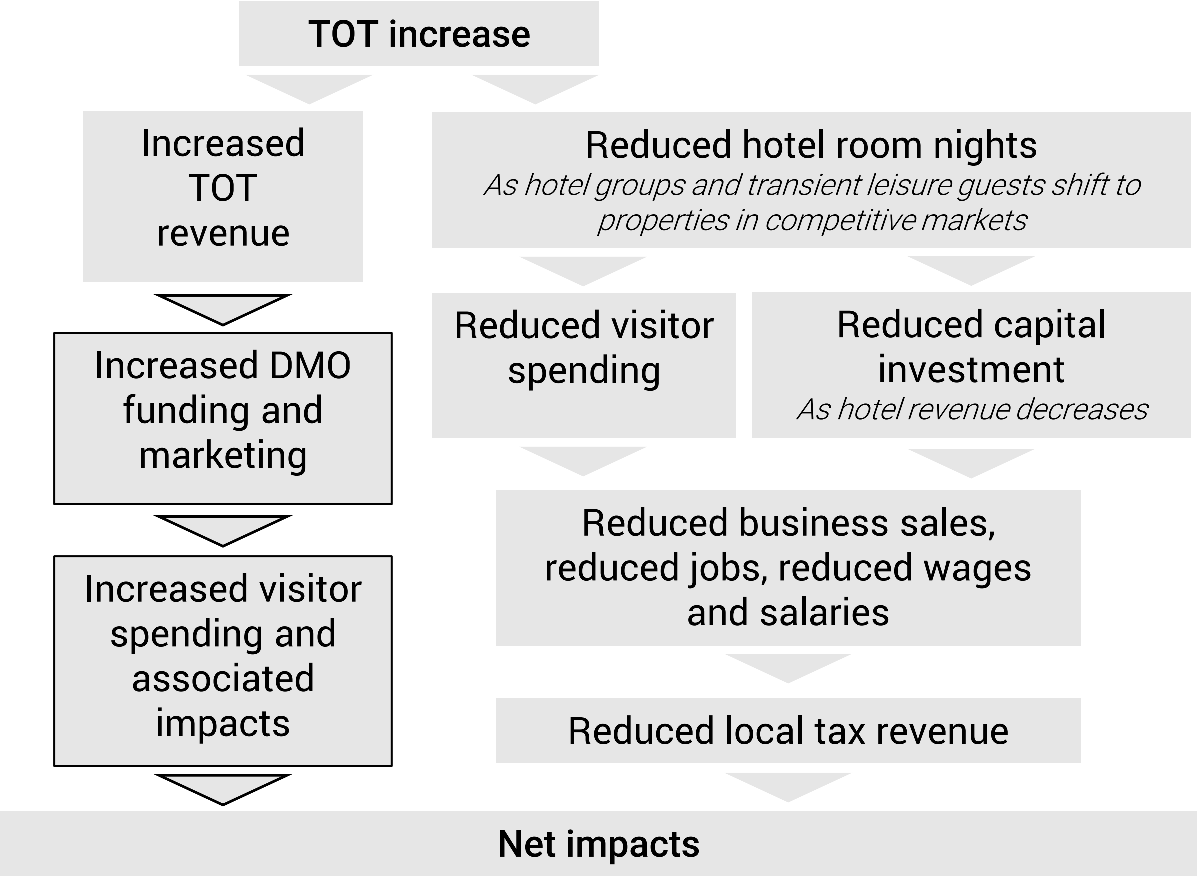
5 DMO funding scenario

Scenario description

We further analyzed the impacts of the portion of a potential increase in the TOT rate being allocated to Travel Costa Mesa. With an increase of the TOT rate from 8% to 10%, we assumed a scenario in which one percentage point of the TOT increase is dedicated to Travel Costa Mesa as additional destination promotion funding.

With additional funding, Travel Costa Mesa can offset some of the loss caused by the price increase by increasing marketing efforts and attracting more visitors. This would offset overall visitor spending losses as well as losses to group travel and capital investment.

Visual summary of impacts



Source: Tourism Economics

DMO funding analysis

Destination marketing organizations (DMO) help promote the destination as a place for vacations, meetings and conventions. DMOs are funded by various sources depending on the location, such as tourism improvement district assessments and occupancy taxes.

At $3.3 million, Travel Costa Mesa has one of the smallest DMO budgets in the competitive set that we considered.

Even when controlling for market size by comparing organizational revenue per hotel room, Travel Costa Mesa still ranks as having a low level of funding (about $1,132 per hotel room)

Based on the scenario analysis, Travel Costa Mesa would receive $1.2 million of additional funding in a typical future year, bringing the total budget up to $4.5 million. This would represent about $1,544 of DMO funding per hotel room, closer to competitors such as Anaheim and San Deigo.

DMO funding per hotel room

City of Costa Mesa competitive set, FY24/25

City	DMO funding (millions)	Hotel rooms	DMO funding per hotel room
Newport Beach	$16.0	3,232	$4,950
Huntington Beach	$10.0	2,393	$4,179
Santa Barbara	$11.9	3,912	$3,035
Los Angeles	$67.8	36,031	$1,882
Costa Mesa (scenario)	**$4.5**	**2,915**	**$1,544**
San Diego	$54.0	39,551	$1,365
Anaheim	$28.5	21,573	$1,321
Long Beach	$7.7	6,308	$1,221
Costa Mesa (baseline)	**$3.3**	**2,915**	**$1,132**
Irvine	$3.6	4,996	$721
Santa Ana	$1.5	3,649	$411

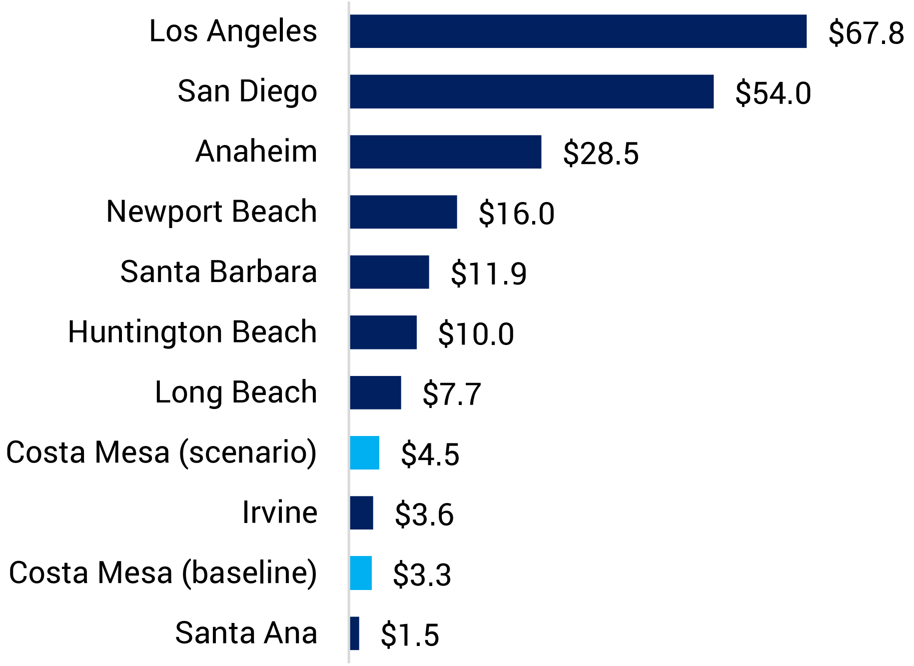
Source: Civitas, CoStar, Tourism Economics

Note: DMO funding represents organizational revenue based on tax reporting and other sources for FY24/25 as researched by Tourism Economics

DMO funding analysis

DMO funding

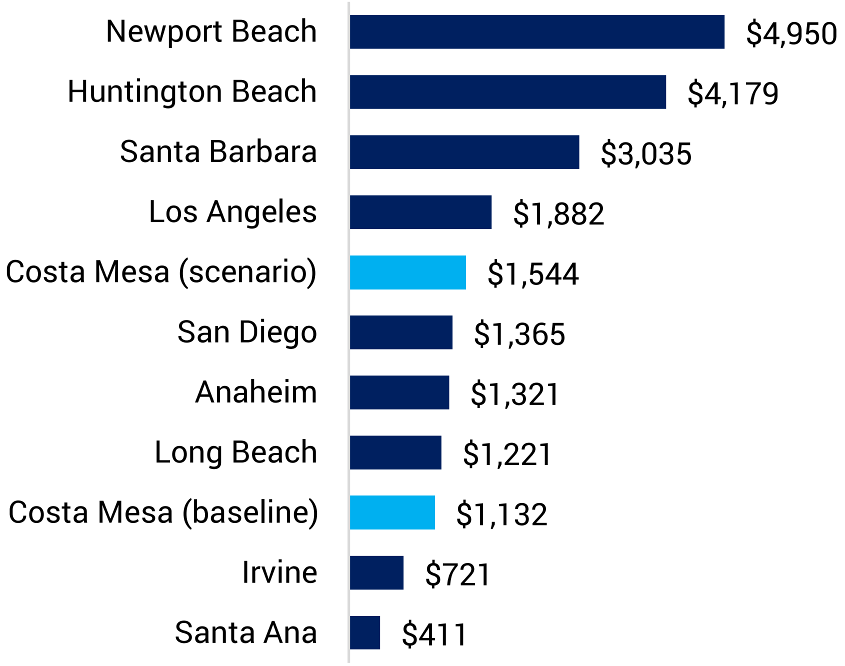
City of Costa Mesa competitive set, FY24/25



Source: Civitas, Tourism Economics

DMO funding per hotel room

City of Costa Mesa competitive set, FY24/25



Source: Civitas, Tourism Economics

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DMO funding increase scenario

- **TOT increase:** TOT revenue collected in Costa Mesa is directed to the general fund. With an increase in TOT, we expect an increase in hotel costs, decreasing room demand and visitor spending overall. Although TOT revenue increases by $22.7 million per year in this scenario, total business sales decrease by $44.8 million and 23 jobs are lost due to the TOT increase.
- **TOT increase with DMO funding increase:** Dedicating one-percentage point of the TOT increase to Travel Costa Mesa for destination promotion activity would lessen the negative impact of the TOT increase. Increased marketing would attract more visitors, offsetting the loss in jobs, income, and other state and local taxes. Based on our analysis of DMO activity, funding, and market characteristics, we have estimated each additional dollar of DMO funding for Travel Costa Mesa will yield an additional $7 of visitor spending. In this scenario, over a ten-year period, $86.0 million of additional business sales would be generated, with $29.1 million wages and salaries and 47 jobs.

Ten-year cumulative impacts

City of Costa Mesa, stabilized year, real 2026 dollars, dollar amounts in millions

	TOT increase	TOT increase with DMO funding
Economic impacts		
Visitor spending	-$31.9	$59.9
Total business sales	-$44.8	$86.0
Wages and salaries	-$14.1	$29.1
Jobs	-23	47
Tax impacts		
TOT revenue	$22.7	$24.2
Other state and local taxes	-$4.1	$6.6

Source: Tourism Economics

TOURISM ECONOMICS

About Tourism Economics

Tourism Economics, an Oxford Economics company, is a leading global economic forecaster specializing in the intersection of tourism expertise and rigorous economics. We help organizations measure the value of the visitor economy, connect strategy and marketing to real-world outcomes, and forecast demand for future planning. Our work spans custom consulting and impact studies, decision-ready intelligence and attribution tools, and the industry's most comprehensive travel forecasts and datasets.

Hundreds of leading companies, associations, and destinations around the world partner with Tourism Economics every year, trusting our experts to deliver clear, defensible insights. We bring decades of experience to every engagement, helping our clients make better marketing, investment, and policy decisions.

For more information:

www.tourismeconomics.com

CITY OF COSTA MESA
FINANCE DEPARTMENT
INTEROFFICE MEMORANDUM

TO: MAYOR AND CITY COUNCIL

FROM: MARK KHOU, BUDGET AND PURCHASING MANAGER

DATE: JULY 20, 2026

SUBJECT: CITY COUNCIL AGENDA ITEM #26-333: CITY BALLOT INITIATIVES PERTAINING TO BUSINESS LICENSE REFORM AND TRANSIENT OCCUPANCY TAX

Finance Department is providing an update to Table 4 on page 7, that was published as part of the July 21, 2026 Agenda Report for City Ballot Initiatives Pertaining to Business License Reform and Transient Occupancy Tax. The narrative within the agenda report, for the projected $4.9 million shortfall by FY 2030-31 is accurate. However, there is an error on the table, which identifies a $3.8 million shortfall, as outlined in red below. Finance made a revision to redistribute expenditures, which duplicated a reduction in FY 2028-29, and resulted in a lower projected shortfall in FY 2030-31.

Published Long-Term Financial Plan Table: Incorrect table that was published in Agenda Report #26-333.

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**

Original Long-Term Financial Plan Table: The accurate table with projected $4.9 million shortfall in FY 2030-31.

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	113.4	117.7	121.6
Retirement	42.9	45.4	48.0	50.5	53.1
Subtotal Labor	**146.2**	**153.9**	**161.4**	**168.2**	**174.7**
Operating	53.8	54.4	55.0	55.1	54.8
Total Expenditures	**200.0**	**208.3**	**216.4**	**223.3**	**229.5**
Surplus/(Challenge)	**0.0**	**-1.9**	**-4.2**	**-4.9**	**-4.9**

Attachment: City Council Agenda Report #26-333

CC: Cecilia Gallardo-Daly, City Manager
Alma Reyes, Assistant City Manager
Brenda Green, City Clerk
Anna Acosta-Reyes, Finance Manager

77 Fair Drive
Costa Mesa, CA 92626

CITY OF COSTA MESA

Agenda Report

File #: 26-333 **Meeting Date:** 7/21/2026

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 ▪ Varying rate up to $500,000 GR ▪ Maximum of $200	▪ Base of $60, plus CPI ▪ Plus $0.65 per each $1,000 GR	▪ Varying rate up to $500,000 GR ▪ $20 per additional $100,000 GR	▪ Minimum of $40 ▪ Greater of: $0.95 for each $1,000 GR or $60 flat	▪ Base of $75 for 3 employees ▪ Plus $2-4 PE, varying rate	▪ Base of $229 ▪ 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.

Flock Safety
Automated License Plate Reader
Presentation

Lieutenant Jared Barnes
July 21, 2026

Overview

- Background
- What Flock cameras do
- Benefits of Flock, benefits to the community
- Governance/ Policy

Background

- CMPD is committed to council goals to strengthen the public's safety and improve the quality of life
- Address community concerns
- Data sharing and security incidents
- CMPD has used different forms of ALPR technology for over 15 years
- CMPD began using Flock Safety ALPR services in April 2022
- Started with 31 cameras at fixed points along major roadways
- Expanded to 46 cameras in February 2024, which were funded by the Organized Retail Theft grant (ORT)
- Current contract expires in April 2027
- Total expense $151,800 yearly

What Flock Cameras Do

Flock DOES	Flock DOES NOT
Takes photos of the rear of vehicles, capturing license plates and vehicle attributes on public roads	Sell customer data to third parties
Checks all plates against existing law enforcement databases for stolen vehicles and wanted individuals	Allow data to be shared outside California or with Federal agencies
Notifies Communications and Patrol Officers within 30 seconds of any detected hits	Use facial recognition
Provides evidence to help solve crimes that do occur	Capture names or personal information of motorists
Helps prevent future crimes from occurring	Intentionally photograph drivers or occupants
Place cameras at intersections of major roadways	Place cameras in parks or city facilities

Transparency Portal

Search

HOW DO I...

WATCH CMTV LIVE

Trending | Government | Business | Community

- POLICE
  - + Animal Services Unit
  - + Career Opportunities
  - + Citizens Programs
  - AlertOC: Emergency Notifications
  - - Police Information
    - Crime Map
    - Incident Search
    - Crime Statistics
    - Homeland Security
    - Identity Theft
    - Sex Offenders
    - - Policies, Procedures, Training
      - Policies
      - Training
      - Automated License Plate Reader (ALRP) Information
    - Domestic Violence
    - Victim and Community Resources

Government » Departments and Divisions » Police » Police Information » Policies, Procedures, Training »

AUTOMATED LICENSE PLATE READER (ALRP) INFORMATION

Font Size: + − Share & Bookmark Feedback Print

The Costa Mesa Police Department is continually researching and evaluating technology in an effort to protect our community. In June of 2022, the Police Department secured funding and finalized an agreement to establish an Automated License Plate Reader (ALPR) program. This program consists of fixed and mobile cameras that are strategically installed throughout the city. These cameras serve two functions. They immediately alert our department when vehicles listed on statewide criminal databases are detected and allow our police personnel to locate and apprehend these wanted criminals (such as a stolen vehicle, child abduction, and other wanted dangerous criminals). Secondly, they can be used as an investigative tool to search for vehicles involved in criminal activity after the fact (for example: a vehicle fleeing the scene of a hit and run traffic collision, a kidnapping suspect vehicle or a wanted criminal fleeing the scene of a crime).

The Costa Mesa Police Department respects the privacy of all. The ALPR systems we utilize only detect license plates and vehicles. They do not photograph or record the occupants of vehicles and do not utilize facial recognition technology.

Per our policies, our ALPR system can only be used for a legitimate law enforcement purposes and will never be utilized for immigration enforcement or purposes not specific to enforcement of California laws.

Transparency Portal

Flock | Transparency Portal

Costa Mesa CA PD Transparency Portal

Last updated: Wed Jul 01 2026

OVERVIEW

Costa Mesa CA PD uses Flock Safety technology to capture objective evidence without compromising on individual privacy. Costa Mesa CA PD utilizes retroactive search to solve crimes after they've occurred. Additionally, Costa Mesa CA PD utilizes real time alerting of hotlist vehicles to capture wanted criminals. In an effort to ensure proper usage and guardrails are in place, they have made the below policies and usage statistics available to the public.

POLICIES

What's Detected

License Plates, Vehicles

What's Not Detected

Facial recognition, People, Gender, Race

Acceptable Use Policy

Data is used for law enforcement purposes only. Data is owned by Costa Mesa CA PD and is never sold to 3rd parties.

Prohibited Uses

Immigration enforcement, traffic enforcement, harrassment or intimidation, usage based solely on a protected class (i.e. race, sex,

USAGE

Data Retention

The number of days data is retained.

365 days

Total Cameras

Number of LPR and other cameras.

46

Sharing Network Data With

Organizations granted access to Costa Mesa CA PD data.

Alameda CA PD

Alameda County CA SO

ALPR Camera


Flock Safety
#27 W 19th St @ Harbor Blvd - EB
Costa Mesa CA PD Costa Mesa CA PD
4/27/2026 14:26:40 PDT
1668997

Use of Flock Technology

- Flock Technology used to deliver real-time intelligence
  - Nationwide
    - 5000 law enforcement agencies and 1000 businesses
  - Statewide
    - 400 law enforcement agencies
  - Orange County
    - 21 law enforcement agencies
  - Local
    - Costa Mesa PD
    - South Coast Plaza
    - Home Depot
    - Private HOA

Public Safety Benefits Since Flock

- Since the implementation of Flock (2022), the city has experienced a reduction in crime.
- Recovered private property, approximately $3,063,961

	2023	2024	2025	YTD 2026
Detections	217	119	128	53
Recoveries	65	41	34	20
Arrests	68	60	21	15
Estimated Recovered	$1,118,447	$1,242,014	$477,000	$226,500

Public Safety 12-Month Data

- Period Covers July 2025 – July 2026
- Flock ALPR directly resulted in the following:

Recovered Stolen Vehicles	20
Missing Persons	3
Grand Theft	24
Burglary	9
Robbery	5
Assault with a Deadly Weapon	6
Sexual Assault	10
Attempt Homicide	3
Homicide	2

Flock Master Service Agreement (MSA)

- Governed by Flock MSA
- 5.3-Disclosure of Footage
  - Subject to and during the Retention Period, Flock may access, use, preserve and/or disclose the Footage to law enforcement authorities, government officials, and/or third parties, if legally required to do so or if Flock has a good faith belief that such access, use, preservation or disclosure is reasonable necessary to comply with a legal process, enforce this Agreement, or detect, prevent or otherwise address security, privacy, fraud or technical issues, or emergency situations.

Privacy and Civil Liberties Protections

- ALPR use governed by SB 34 (Civil Code § 1798.90.51; Civil Code § 1798.90.53)
    - Maintain security safeguards
    - Implement public privacy policy
    - Public availability
- Accountability
    - Multi factor authentication login required
    - Search reason required
    - Procedures to ensure no unauthorized users
    - Audit Assistance

Department Policy

- Operations
  - Official law enforcement use only
- Data Collection and Retention
  - 365-day retention
  - Opted for extended retention to aid investigations
- Releasing ALPR Data
  - CMPD data is only shared with California state and local agencies
  - CMPD data is NOT shared with federal law enforcement agencies, Civil Code § 1798.90.55 (SB34)
  - Public Records Requests

System Access Controls

- Administrator sets employee access controls based upon role/assignment
- Incident of misused Flock access and data
- Actions taken to address issue:
  - CMPD investigators found and investigated misconduct, occurring 2023-2024
  - Conducted investigation of misconduct and employee resigned
  - Case was filed with the OC District Attorney and the officer plead guilty
- Internal review conducted and resulted in:
  - Changes to system's access

Summary of Benefits

- Faster response and stronger situational awareness
- Objective investigative leads to solve and prevent crime
- Supports precision policing
- Prevent crime through smarter resource deployment and public partnership
- Commitment to public safety through responsible use of Flock technology and data
- Support for multi-agency response to regional crime trends

Recommendations

- Based on the demonstrated success of the Costa Mesa Police Department’s Automated License Plate Reader (ALPR) program, staff recommends that the City Council approve the continued use of Flock Safety ALPR system.

Considerations

- Provide direction to strengthen language into the Master Service Agreement to ensure data security.


POLICE
COSTA MESA


TRIANGLE
restaurants & entertainment
Now Open!
EL CORAZON

QUESTIONS?

City Ballot Initiatives for the 2026 General Election

City Council Meeting

July 21, 2026

Background: Proposed Ballot Initiatives

- Evaluate additional revenue streams for City.
- Currently, revenue of sales tax, property tax and transient occupancy tax, increases approximately 3% per year.
- Revenue is not keeping pace with inflation and rising cost of providing core City services.
- Interest by City Council to diversify the City's sources of revenue.
- **December 2, 2025**: Council directed staff to explore potential Business License Tax Reform and a Transient Occupancy Tax (Hotel Tax) measure for the November 3, 2026 ballot.
- **June 9, 2026**: Council received an overview of both measures and directed staff to conduct additional analysis and return with further options.

Costa Mesa

Overview

Community Feedback	Ballot Measures	Financial Outlook	Recommendation

Ballot Measures

- TOT Initiative
- Business License Reform Initiative

Financial Outlook

- 5-Year Financial Plan
- Facilities Needs Assessment
- Pavement Management Plan
- Park Needs Assessment
- IT Strategic Plan
- Estimates cost by Fiscal year

Costa Mesa

Community Feedback

Community Feedback: Additional Results

- The City retained the services of FM3 Research for a community survey to determine interest in Business License Reform and a TOT increase.
- FM3 conducted a second community survey.

Costa Mesa

Costa Mesa Budget Priority Follow-up Survey

Highlights of a Survey of Likely November 2026 Voters

FM3 RESEARCH
FAIRBANK, MASLIN, MAULLIN, METZ & ASSOCIATES

220-8062

Survey Methodology

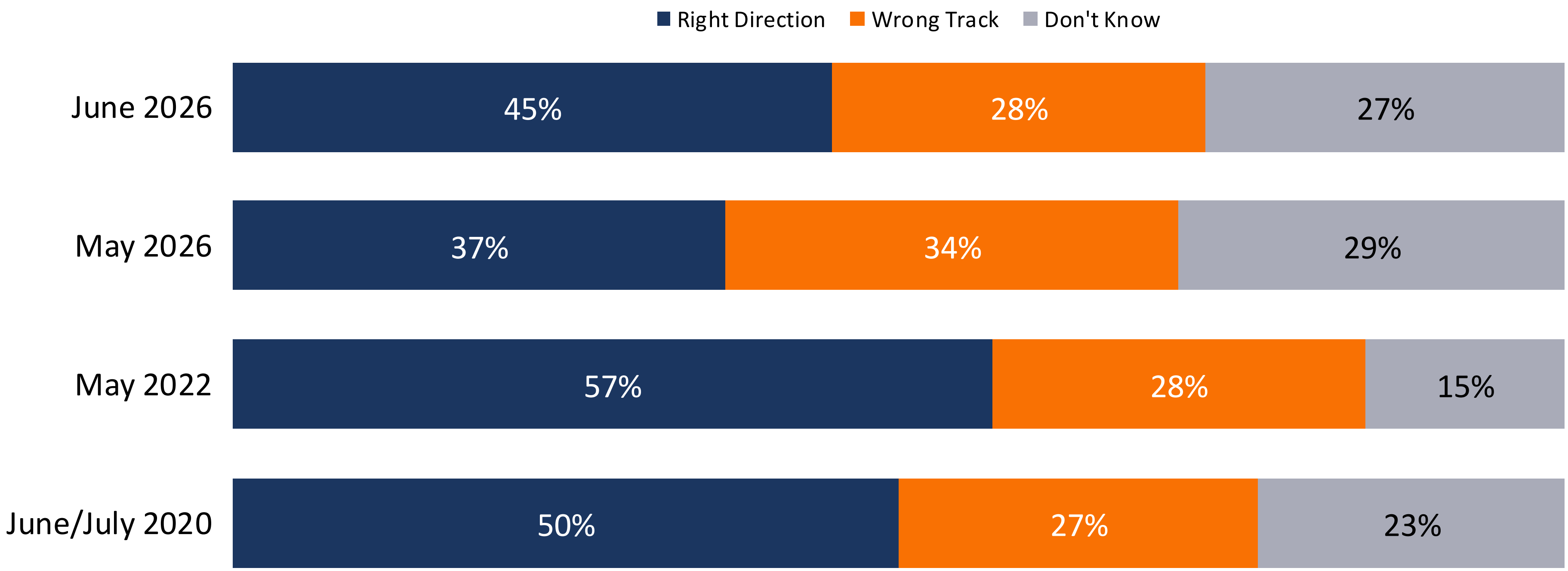
Dates	June 22-29, 2026
Survey Type	Dual-mode Voter Survey
Research Population	Likely November 2026 Voters in the City of Costa Mesa
Total Interviews	407
Margin of Sampling Error	(Full Sample) ±4.9% at the 95% Confidence Level (Half Sample) ±6.9% at the 95% Confidence Level
Contact Methods	Telephone Calls, Email Invitations, Text Invitations
Data Collection Modes	Telephone Interviews, Online Interviews
Survey Tracking	June/July 2020, May 2022 & May 2026
Language(s)	English & Spanish

(Note: Not All Results Will Sum to 100% Due to Rounding)

Context

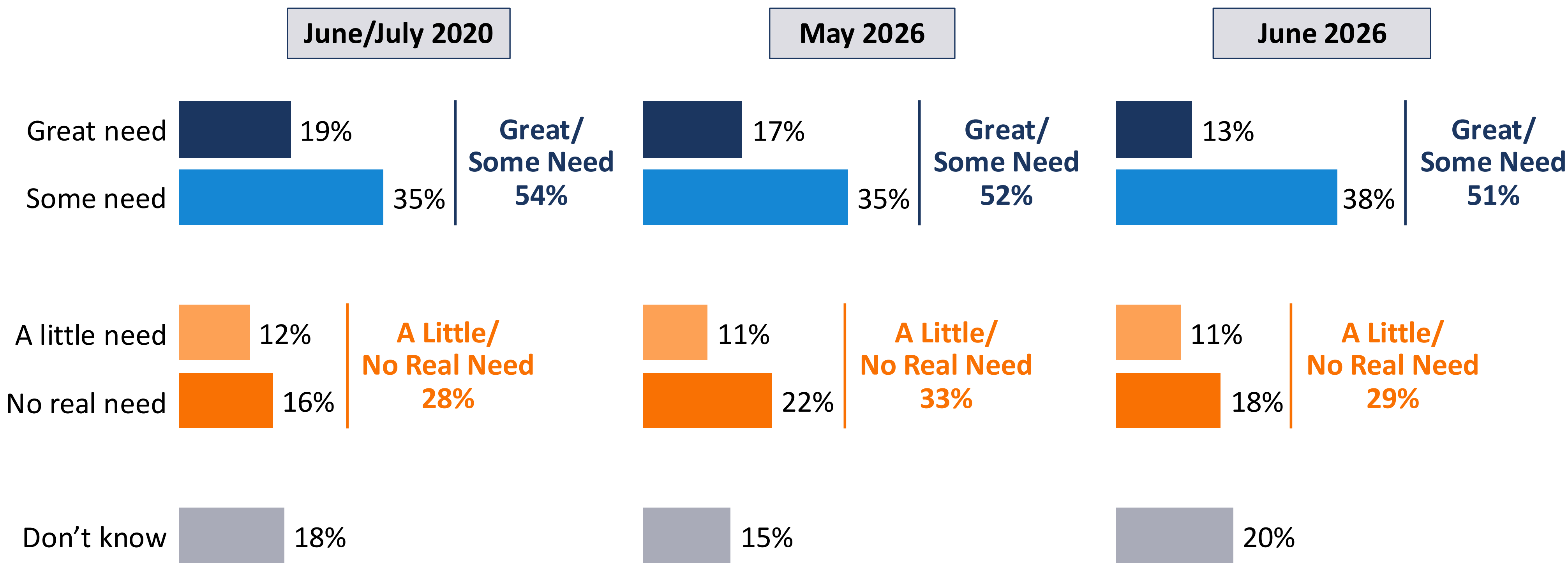
A plurality of voters perceive the City is heading in the right direction, up from a month ago.

First, would you say things in the City of Costa Mesa are headed in the right direction, or do you feel they are off on the wrong track?



Q.

Half continue to perceive the City has at least some need for additional funds to provide the level of City services residents need and want, though the perceived great need is modest.



Q. Next, in your personal opinion, do you think the City of Costa Mesa has a great need for additional funding, some need, a little need or no real need for additional funding to provide the level of City services that Costa Mesa residents need and want?

Hypothetical Potential Ballot Measure

Hypothetical Potential Ballot Measure Tested June 2026 and May 2026

(As Approved by Legal Counsel)

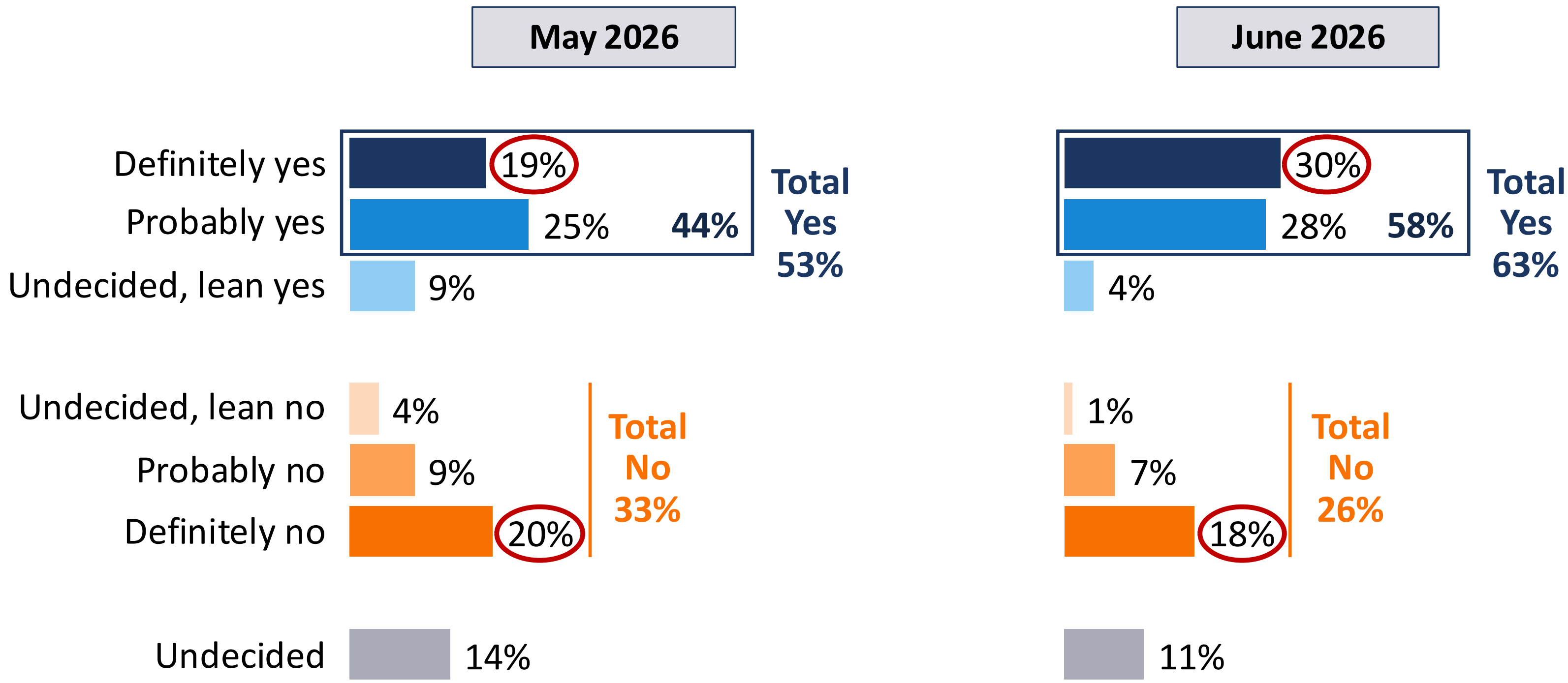
May 2026	June 2026
Costa Mesa Fair Business License Update, Small Business Protection Measure. Shall an ordinance, without taxing residents, updating City of Costa Mesa's outdated business license tax, ensuring fairness to all businesses and funding general city services, including keeping public/business areas safe/clean; preventing crime/thefts/burglaries; addressing homelessness; by revising the tax rate to **60¢ per $1,000** gross receipts, capped at $15,000, with small businesses paying only $25 a year; generating approximately **$6,000,000** annually until ended by voters, requiring audits, spending disclosure, all funds locally controlled, be adopted?	**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?

FM3 RESEARCH

Q. If the election were held today, do you think you would vote yes or no on this measure?

Initial support based on solely the ballot title and summary has increased 10 percentage points from last month, and those saying they would definitely vote yes has also increased 11 percentage points.

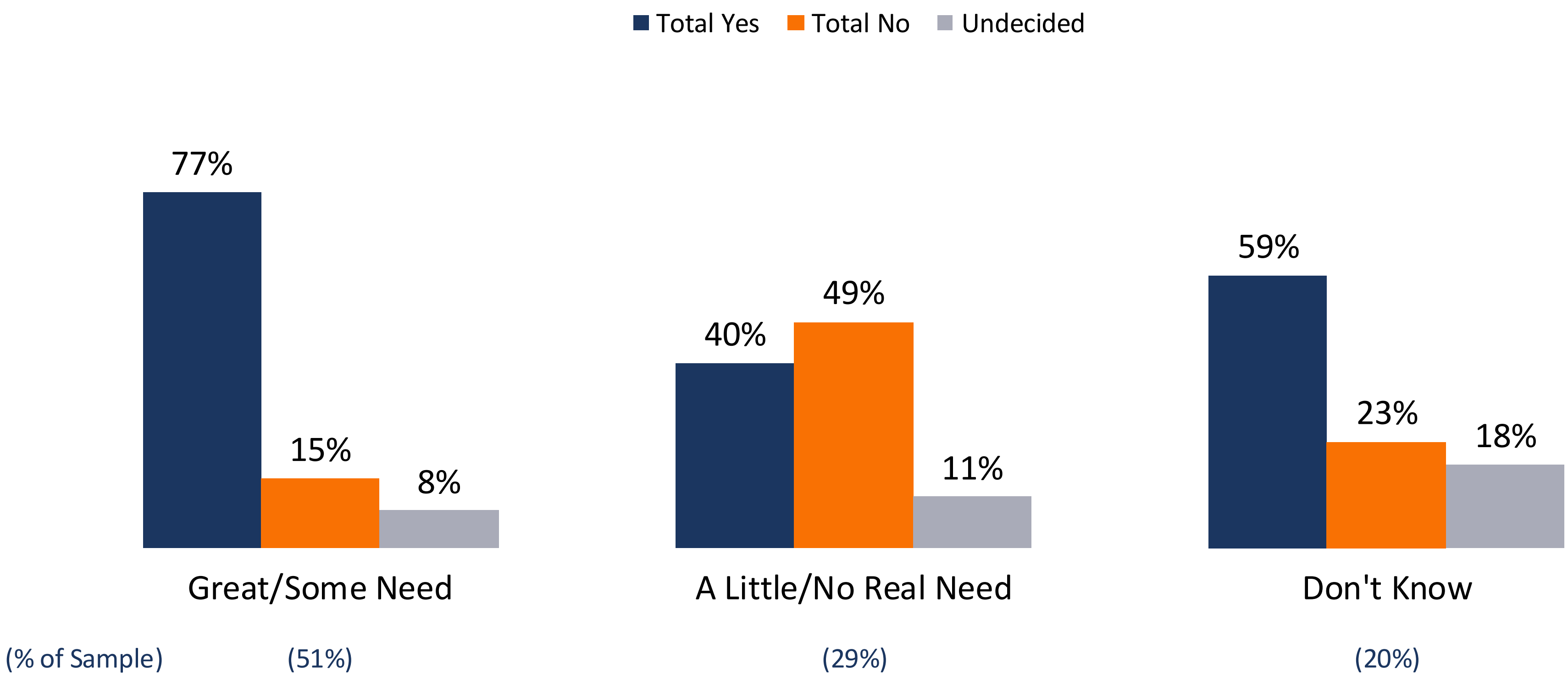
(MOE: ±4.9%)



Q. If the election were held today, do you think you would vote yes or no on this measure?

The more one perceives the City has a need for funds the more likely they are to vote yes on the measure.

Initial Vote on the Business License Reform, Small Business Protection Measure by Need for Funding

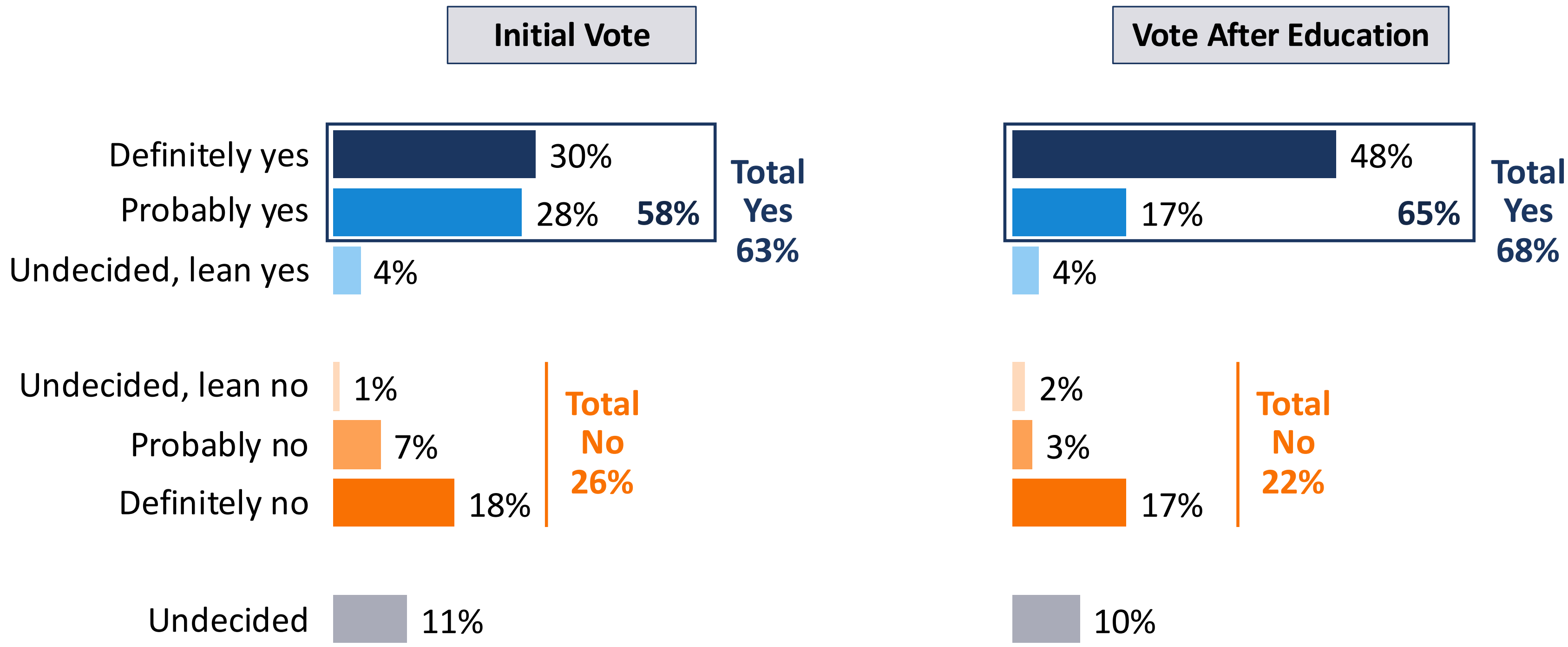


Q. If the election were held today, do you think you would vote yes or no on this measure?

Effects of Education

After education, overall support rises five percentage points, from 63% to 68%, with close to half who said they would definitely vote yes on this simple majority measure.

(MOE: ±4.9%)

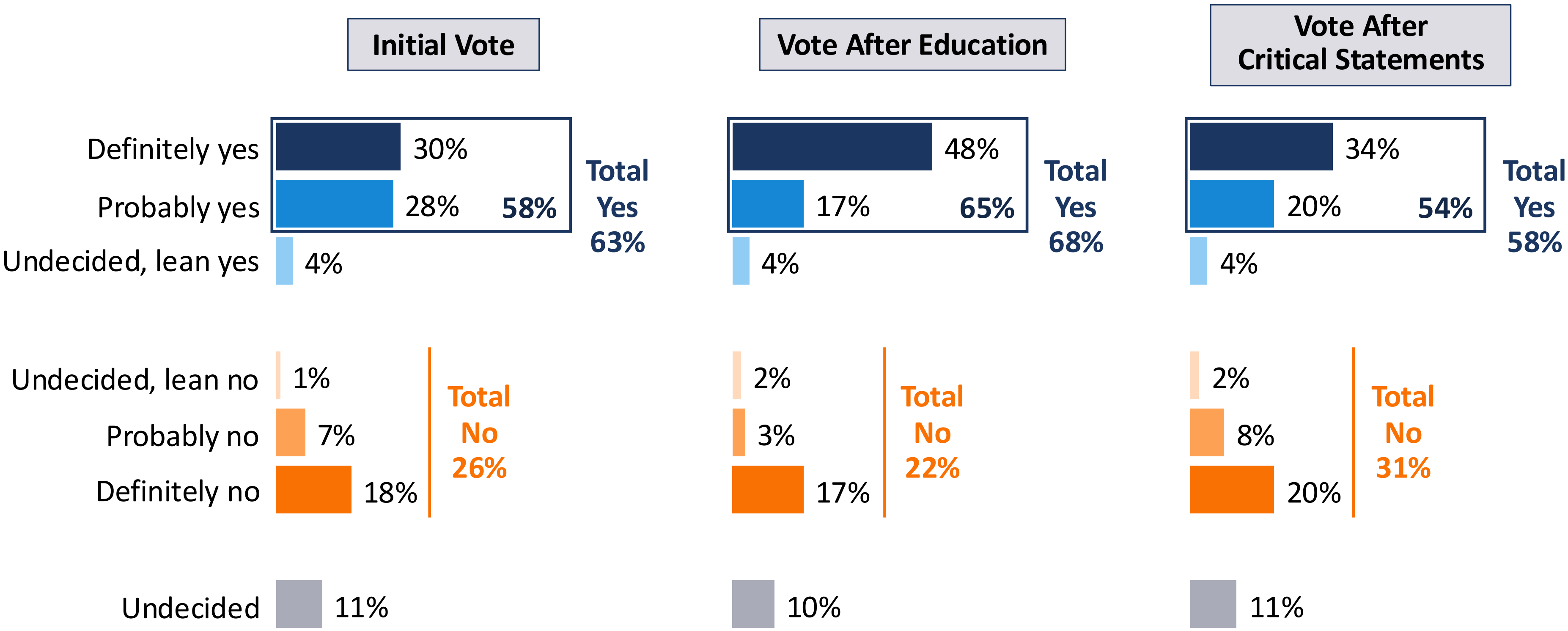


Q. If the election were held today, do you think you would vote yes or no on this measure?

Effects of Critical Statements

After critical statements, overall support declines 10 percentage points, from 68% to 58% but continues to remain above the simple majority threshold and above the margin of error for passage.

(MOE: ±4.9%)

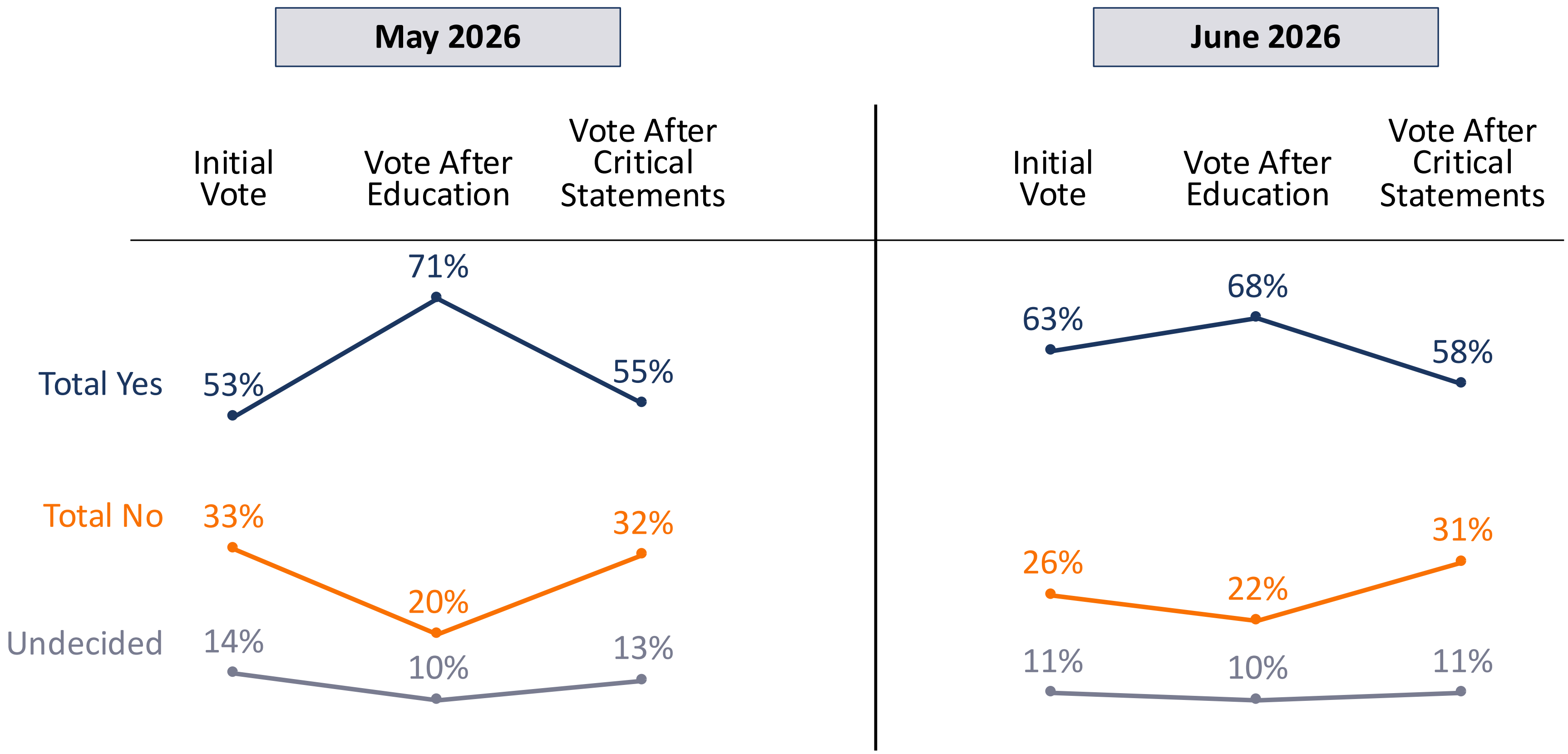


FM3 RESEARCH

Q. If the election were held today, do you think you would vote yes or no on this measure?

Vote Progression Business License Measure May 2026 vs June 2026

(MOE: ±4.9%)



Q. If the election were held today, do you think you would vote yes or no on this measure?

FM3 RESEARCH

Conclusions

Conclusions

- A Business License Reform, Small Business Protection Measure is viable for further planning, assuming substantial communication with voters and stakeholder outreach.
- The baseline survey has helped refine the measure presented in the follow-up survey to make it more in line with voter sentiments.
- Initial support exceeds the majority vote threshold at 63% yes.
- Simulating education lifts the measure to 68% and increases those who say they will definitely vote yes from 30% to 48% — signaling the importance of doing community outreach.
- Simulating opposition knocks the measure back down, but it remains above the simple majority threshold (58%) and above the margin of error needed for passage.

Conclusions; Continued

- Ensuring larger businesses pay their fair share and that the measure will not increase taxes on residents are among the leading reasons to support the measure.

Costa Mesa Budget Priority Follow-up Survey

Highlights of a Survey of Likely November 2026 Voters

FAIRBANK, MASLIN, MAULLIN, METZ & ASSOCIATES

220-8062

Transient Occupancy Tax

Costa Mesa

Transient Occupancy Tax

- A change to TOT is not recommended at this time.
- Concerns expressed by City Council that a TOT increase would make our hotels less competitive.
- Hoteliers are concerned with losing bookings to neighboring cities with lower TOTs.
- In an effort to be sensitive to what we have heard from hotels and City Council concerns, pursuit of a TOT increase is not recommended.

Short-Term Rentals

- Staff identified more than 100 active listings across platforms such as Airbnb and VRBO, including both permitted home shares and prohibited STRs.
- The resulting estimated TOT revenue that the City could potentially receive is approximately $500,000 from the active listings, which include both the allowed homeshares and the prohibited STRs.
- No code amendment is required, however, costs associated for the implementation and enforcement is estimated at $100,000.

Costa Mesa

Business License Reform

Costa Mesa

Revised Business License Reform Structure

- Council directed staff to use a single rate of $0.50 per $1,000 of gross receipts and to minimize the impact on 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 with more than $500,000 in gross receipts
  - Maintaining current business license rate for businesses with $500,000 or less in gross receipts
  - A maximum rate that a business would pay is $15,000.

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

Over 72% of businesses would keep the current business license rate.

Costa Mesa

Business License Reform Structure: Estimated Revenue

- Based on the revised business license reform structure of $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 $200 cap model.

Costa Mesa

Comparison to Other Cities

- Costa Mesa's Business License Rate structure has remained unchanged since 1985, making it one of the oldest rate structures among comparable cities.
- Some cities revise their business licenses annually for Consumer Price Index (CPI) adjustments.

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 ▪ Varying rate up to $500,000 GR ▪ Maximum of $200	▪ Base of $60, plus CPI ▪ Plus $0.65 per each $1,000 GR	▪ Varying rate up to $500,000 GR ▪ $20 per additional $100,000 GR	▪ Minimum of $40 ▪ Greater of $0.095 for each $1,000 GR or $60 flat	▪ Base of $75 for 3 employees ▪ Plus $2-4 PE, varying rate	▪ Base of $229 ▪ Plus $11 PE	▪ Flat rate

Costa Mesa

Business License Amount for Surrounding Cities

- The table below provides a comparison of how the City of Costa Mesa's rate structure compares for both current and proposed rate structures.

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	$66 - $67	$35	$40
$1,000 - $25,000	$25	$25	$67 - $82	$35	$40
$25,000.01 - $40,000.00	$35	$35	$82 - $92	$35 - $50	$40
$40,000.01 - $75,000.00	$45	$45	$92 - $115	$50 - $75	$40
$75,000.01 - $200,000.00	$60	$60	$115 - $196	$100 - $135	$40 - $60
$200,000.01 - $500,000.00	$100	$100	$196 - $391	$155 - $195	$60
$500,000.01 - $1,000,0000.00	$200	$250 - $500	$391 - $716	$215 - $295	$60 - $95
$1,000,000.01 - $5,000,000.00	$200	$500 - $2,500	$716 - $3,316	$295 - $915	$95 - $475
$5,000,000.01 - $30,000,000.00	$200	$2,500 - $15,000	$3,316 - $19,566	$1,115 - $6,115	$475 - $2,850
Over $30,000,000.00	$200	$15,000 (max)	$110,000 (max)	No Max	No Max

Costa Mesa

Five-Year Financial Outlook

Future Budgetary Needs

- City Council requested information on the City's future budgetary needs including the cost of the recommendations in the Facilities Needs Assessment, Parks Needs Assessment, and other assessments.
- The assessments identify the future investments needed to maintain existing infrastructure.
- 5-year financial outlook includes:
  - Year over year natural growth
  - Revenues
  - Expenditures

Costa Mesa

Five-Year Long-Term Financial Plan

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	113.4	117.7	121.6
Retirement	42.9	45.4	48.0	50.5	53.1
Subtotal Labor	**146.2**	**153.9**	**161.4**	**168.2**	**174.7**
Operating	53.8	54.4	55.0	55.1	54.8
Total Expenditures	**200.0**	**208.3**	**216.4**	**223.3**	**229.5**
Surplus/(Challenge)	**0.0**	**-1.9**	**-4.2**	**-4.9**	**-4.9**

Costa Mesa

Future Budgetary Needs

Costa Mesa

Additional assessments

- Assessments conducted, including:
  - Facilities Needs Assessment
  - Pavement Management Plan
  - Parks Needs Assessment
  - Information Technology Strategic Plan

Facilities Needs Assessment

- Facilities needs assessments considered both **maintenance** and **upgrades.** Most facilities were built in the 1960s-1980s.
- **Maintenance** of facilities: About $3 million per year.
- Major critical facility **upgrades**: An additional $60 million over 10-year period, or $6 million per year.
  - Replacement of Fire Station 2
  - Replacement of living quarters at Fire Station 4
  - Renovations for Fire Stations 3, 5 and 6
  - Full replacement of Westside Substation
  - Upgrade of Tennis Center pro-shop and restroom
- Currently, the City budgets about $4 million per year.
- An additional need for **$5 million per year** to address facility improvements

Costa Mesa

Pavement Management Plan

- The current Pavement Condition Index (PCI) for the City is 82.6 ("Good").
- To maintain and improve the PCI to 85 and above (“Very Good"), there is additional investment is needed.
- Currently, the City budgets about $9 million per year.
- An additional need for **$3.2 million per year** to maintain PCI at the highest “Very Good“ level due to increasing construction costs

Parks Needs Assessment

- 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.
- An additional **$1 million per year** in investment is needed for parks over the next 10 years.
- This estimate does not include any new park development or other improvements beyond current amenities at various parks.

Costa Mesa

IT Strategic Plan Phase II

- For the next five fiscal years, the IT Department has adopted a conservative fiscal stance by imposing a strict $1.7 million annual project spending cap to fund 30 projects.
- The ITSP identified:
  - 64 initiatives totaling $19.8 million
  - 30 projects are currently funded
  - 34 projects remain classified “To Be Determined”
- The 34 unfunded projects require an additional $11.3 million across the next five years.

Summary

- The table below shows the summary of budgetary needs for key areas.
- A total of $11.5 million on annual basis would be additionally required to address these areas of focus.

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**

Costa Mesa

Ballot Measure Placement

Costa Mesa

Recommended Resolutions for Ballot Measure Placements

In order to place a ballot measure on the election, there are various resolutions and ordinances for the City Council to consider:

1. **Attachment 1**: Orders the submission of the measure to the qualified electors of the City of Costa Mesa.
2. **Attachment 2**: Draft Code Amendment.
3. **Attachment 3**: Requests to consolidate the Municipal General Election with the Statewide General Election (pursuant to the Elections Code §10403).

Costa Mesa

Recommended Resolutions for Ballot Measure Placements

4. **Attachment 4**: Authorizes written arguments for or against the proposed measure, sets priorities for filing written arguments, determines the authors of the written arguments, and directs the City Attorney to prepare an impartial analysis.
   - Under AB 1416, the names of the supporters and opponents of a local ballot measure will be printed on the ballot along with the Title and Summary. While the Council may author an argument, it may be preferable to allow community members and businesses to author arguments instead.
5. **Attachment 5**: Authorizes the filing of rebuttal arguments for the proposed ballot measure.

Recommendation

Costa Mesa

Recommendation

1. Place the **Business License Reform** measure on the November 3, 2026 ballot by adoption of the following resolutions:
   a. **Adopt Resolution 2026-xx**: 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**: 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.

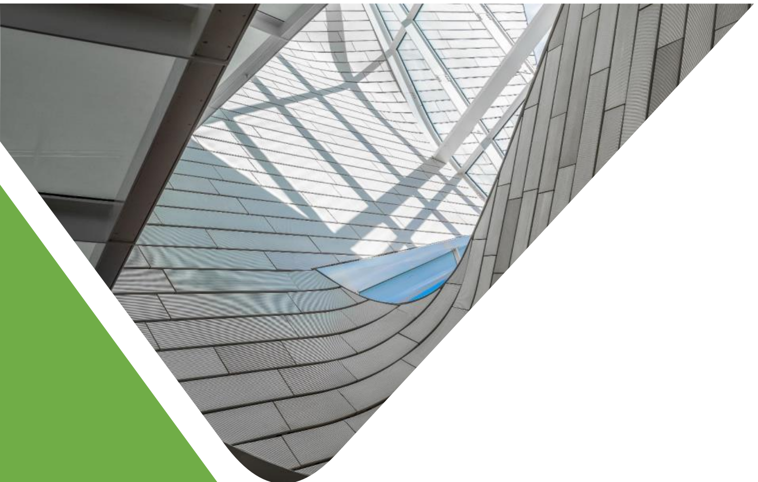
Recommendation

c. **Adopt Resolution 2026-xx** as presented or as modified:

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;

d. **Adopt Resolution 2026-xx**: 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.



Questions

Costa Mesa