July 20, 2026

Costa Mesa City Council
77 Fair Drive
Costa Mesa, CA. 92626

RE: Opposition to Proposed 700% - 1250% Increase to the Business License Tax

Dear Mayor and Members of the City Council,

I am writing on behalf of small businesses, especially restaurants, in Costa Mesa regarding the proposed overhaul of the business license tax, which would replace the current flat rate fee structure with a gross-receipts model charging $0.50 per $1,000 in revenue.

If one asks AI for "Types of businesses in Costa Mesa, CA with $1,000,000 – 5,000,000 in revenue" the first sector that comes up is restaurants. For an average restaurant that generates between $1,000,000 to $5,000,000 in gross-receipts the $200 current flat fee would increase between 700% to 1250% under the new structure.

Under the Business License Reform Measure section of your Agenda Report, it states "The proposed business license rate structure is designed to avoid impact on smaller businesses". As proposed, this statement is simply incorrect! We ask the Council to seriously consider the compounding burden this increase places on small businesses, restaurants in particular, for the following reasons:

1. **Restaurants operate under incredibly thin margins.** Unlike many other industries, restaurants can typically run on margins of 3-5%. It is a constant struggle to keep these razor thin margins intact. A tax tied to gross-receipts rather than profit disproportionately impacts these businesses, since it is charged regardless of whether the business is actually profitable in a given year.

2. **The Costa Mesa Business License Tax does not exist in isolation.** Restaurants and small businesses in Costa Mesa are already absorbing:
    - Rising commercial property taxes
    - California sales tax, among the highest in the nation
    - Payroll taxes and minimum wage increases, which continue to rise annually
    - Workers' compensation and insurance costs, which have climbed sharply
    - Even our local trash service went up 11% this month

    Layering a 700% - 1250% increase in the business license tax on top of these existing pressures compounds the already high cost of operating in Costa Mesa at a time when many restaurants are already operating on the margin of viability.

3. **The impact is disproportionate relative to city revenue gained.** The business license tax currently generates approximately $940,000 annually, or about 0.5% of the City's general fund. We respectfully ask the Council to weigh whether an increase of this magnitude on small businesses is proportionate to the relatively modest share of the general fund that this represents.

4. **Risk of driving businesses out of Costa Mesa.** As Councilman Chavez noted at the June 9 meeting, there is a real risk in setting a rate that discourages businesses from operating in the City. Restaurants and small businesses already operate on thin margins in a highly competitive market; a steep, one-time jump in fixed costs may push some to relocate, forgo reinvestment and hiring or to simply close.

Our request: We ask the Council to consider the following before placing this measure on the November 2026 ballot:

- A lower per-$1,000 rate for small businesses within $1,000,000 – $5,000,000 gross-receipts
- A distinct, reduced tier or cap for low-margin industries such as restaurants
- Public engagement with the restaurant and small business community before finalizing the rate structure

We appreciate the City's commitment to fiscal sustainability and understand the tax is overdue for an update. We simply ask that any new structure account for the realities faced by small, low-margin businesses that make up much of Costa Mesa's commercial character.

Thank you for your consideration. We welcome the opportunity to discuss this further before the Council finalizes its decision.

Respectfully,

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