



CITY OF COSTA MESA

Agenda Report

77 Fair Drive
Costa Mesa, CA 92626

File #: 25-583

Meeting Date: 12/2/2025

TITLE:

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

DEPARTMENT: FINANCE DEPARTMENT

PRESENTED BY: CAROL MOLINA, FINANCE DIRECTOR

CONTACT INFORMATION: CAROL MOLINA, FINANCE DIRECTOR, (714) 754-5036

RECOMMENDATION:

Staff recommends the City Council:

1. Provide direction to staff to explore placement of potentially two ballot initiatives in the November 2026 elections to consider an increase in the City of Costa Mesa's Transient Occupancy Tax (Hotel tax) and/or Business License Tax.

BACKGROUND:

Transient Occupancy Tax (Hotel Tax)

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

Transient Occupancy Tax and Business License Tax revenues go into the City's general fund, providing flexible, non-property tax revenues that can be used for any municipal purpose the City Council directs, such as funding Public Safety, Capital Projects, etc. Per Costa Mesa Municipal Code 16-68, for the privilege of occupancy in any hotel or motel, each transient is subject to and shall pay a tax in the amount of 8% of the rent charged by the operator. The tax constitutes a debt owed by the transient to the City which is extinguished only by payment to the operator or to the City. The transient shall pay the tax to the hotel or motel operator at the time the rent is paid. Each operator shall file, on or before the last day of the month following the close of each calendar quarter or of such different reporting period as may be established by the Finance Department, a return to the Finance Department on forms provided by it, the total rents charged and received, the amount of tax collected for transient occupancies, and other information as reasonably required by the Finance Department. At the time the return is filed, the full amount of the tax collected shall be remitted to the Finance Department.

Business License Tax (Business Tax)

The City first adopted a Business License Tax by establishing Section 9-1 of the Municipal Code in April 1985.

Per Costa Mesa Municipal Code 9-1, every person conducting, carrying on, or engaging in any business shall pay a business tax to the City as hereinafter set forth. Costa Mesa collects business license taxes based on gross receipts, which is a commonly used methodology. Business taxes are a fixed amount per gross receipt level and range from \$25 in gross receipts tax for \$0 - \$25,000 to a maximum tax of \$200 for gross receipts of \$500,000 and higher.

To date, the Business License Tax structure has not been amended or modified.

ANALYSIS:

Hotel Tax:

Several surrounding cities to Costa Mesa currently have a higher transient occupancy tax rate than 8%, ranging from 10% - 15% (e.g., Newport Beach, Santa Ana, Long Beach, Anaheim), and therefore an examination of a potential increase is warranted. Based on reported gross revenues from Costa Mesa hotels in Fiscal Year 2024-25, every 1% increase in the Transient Occupancy Tax rate would potentially result in approximately \$1 million in additional General Fund revenue to the City.

Business License Tax:

Costa Mesa's business license taxes generally lag tax rates of nearby cities, particularly at the higher gross receipt levels. For example, a business with \$5 million in gross receipts in Costa Mesa pays \$200 business license tax, while the same business in Anaheim pays \$475, and in Santa Ana pays \$3,314. Some cities, such as Long Beach and Newport Beach, charge business license taxes based on the number of employees as opposed to gross receipts and therefore would not be an identical comparison. However, in absolute terms, when comparing the business tax levels of Costa Mesa to Long Beach and Newport Beach, Costa Mesa tax rates are significantly lower at all levels. For example, a business with only 5 employees would pay \$535 in Long Beach, and \$284 in Newport Beach, whereas the *maximum* business license tax paid currently in Costa Mesa is \$200. By simply adding additional revenue categories from the gross receipts level of \$500,000 and higher, thereby aligning Costa Mesa with neighboring cities, and adding correspondingly higher levels of business tax in those added categories, Costa Mesa would increase revenues without negatively impacting the smaller local businesses. Costa Mesa currently has greater than 1/3 of its total registered businesses with estimated annual gross receipts of \$500,000 and greater and therefore would see a significant positive revenue impact by adding further granularity and corresponding higher business taxes for those larger gross receipts categories.

City Staff highly recommends no financial change in business license tax for small businesses. A small business will be defined depending on the potentially recommended new structure for the business license tax.

FIPAC:

At its October 1, 2025, meeting, FIPAC voted to establish an Ad Hoc committee to evaluate the feasibility of placing a Business License Tax and/or a Transient Occupancy Tax (Hotel Tax) increase measure on the November 2026 ballot. Subsequently, at its November 12, 2025, meeting, FIPAC unanimously approved a motion to formally request that the City Council authorize City staff, in coordination with FIPAC, to conduct a comprehensive review and analysis of both the Business License Tax and Transient Occupancy Tax as potential revenue sources for the City. This review may inform the development of a ballot initiative for consideration in the November 2026 Election.

Staff has prepared a suggested timeline (Attachment 1), should City Council consider placing one or more ballot measures on the November 3, 2026, Ballot.

ALTERNATIVES:

City Council may choose to:

1. Receive and file the report and decline to have staff work on the potential ballot initiative(s).
2. Provide staff direction to work on the review and analysis of one or two of the proposed ballot measures.

FISCAL REVIEW:

The fiscal impact to place an initiative on the previous November ballot was \$25,000. The cost of citywide mailings was approximately \$10,000.

City revenues would potentially increase by \$1 million for every additional 1% that the Transient Occupancy Tax (Hotel Tax) above the current 8%.

City's revenues would potentially increase in line with the percentage rise of any business license tax increases; however, the estimated absolute amount of the increase to City revenues would be contingent on the extent and structure of the increases from current levels within each revenue category.

LEGAL REVIEW:

The City Attorney's Office has reviewed this report for legal content and approved it as to form.

CITY COUNCIL GOALS AND PRIORITIES:

This item supports the following City Council Goal:

- Achieve Long-Term Fiscal Sustainability

CONCLUSION:

Staff is seeking direction whether to do a comprehensive review and analysis in connection with potentially placing one or more ballot measures on the November 3, 2026 ballot to increase the Transient Occupancy Tax and/or the Business License Tax. By increasing these taxes, the City achieves the goals of both an increase to total revenues, as well as increasing the diversity of revenues.