

Capitola City Council

Agenda Report

Meeting: October 23, 2025

From: Community and Economic Development Department

Subject: Economic Development Presentations and Department Update



Recommended Action: Receive presentations from local business organizations and receive a presentation from the Community and Economic Development Department on current and upcoming economic development initiatives.

Background: Capitola continues to face several challenges in maintaining a resilient local economy. Shifting consumer behaviors and increased competition from online retail have contributed to rising commercial vacancies in key shopping areas, particularly along 41st Avenue and in the Village. At the same time, projected population growth and development pressure require careful fiscal planning to ensure that future projects generate sustainable revenue and service capacity. In addition, Capitola's popularity as a tourist destination has outpaced its current hotel inventory, creating opportunities for targeted hotel development to meet visitor demand and enhance the City's economic base.

During the Fiscal Year 2025-26 budget process, the City renamed the Community Development Department as the Community and Economic Development Department (CED), to reflect the City's expanded focus on economic vitality in addition to building and planning.

The mission of the Community and Economic Development Department, as stated within the FY 2025-26 budget, is to promote development that supports attainable housing, economic opportunities, community wellbeing, and environmental stewardship. The Department provides responsive, high-quality services and programs that enhance the quality of life for residents, businesses, and visitors within Capitola's built and natural environments.

Discussion: The City of Capitola collaborates with a range of community partners and organizations to support local businesses, enhance economic vitality, and improve the quality of life for residents and visitors. To strengthen this collaboration, staff has organized a joint presentation and update to the City Council highlighting ongoing economic development efforts, organizational updates, and upcoming initiatives.

Three key partner organizations will provide brief presentations to the Council describing their current programs and how they support Capitola's business community:

1. **Capitola Village and Wharf Business Improvement Area (BIA)**

The BIA supports Capitola Village businesses through marketing, events, and coordinated improvements that enhance the visitor experience and support local commerce.

2. **Capitola Soquel Chamber of Commerce**

The Chamber promotes the citywide business community through networking, business development programs, community events, and regional partnerships that attract visitors and strengthen the local economy.

3. **Visit Santa Cruz County**

Visit Santa Cruz County markets the region as a visitor destination, providing data, marketing resources, and cooperative programs that help increase tourism and overnight stays in Capitola.

Community and Economic Development Updates: Current CED projects focused on economic development include the 41st Avenue Corridor Plan, Capitola Mall zoning code updates, Wharf Master Plan, business engagement, and on-call economic development consulting services as described below.

41st Avenue Corridor Plan

One of the City's most significant economic development initiatives is the 41st Avenue Corridor Plan, a comprehensive planning effort to reimagine the future of Capitola's primary commercial and transportation corridor. The project will establish a long-term vision that supports mobility improvements, economic vitality, housing opportunities, and a stronger sense of place for residents, businesses, and visitors.

Key focus areas include enhancing multimodal mobility, creating a cohesive visual identity through placemaking and landscaping, incorporating public and green spaces, improving safety and accessibility, and supporting future mixed-use and housing opportunities.

A community meeting introducing the project and the related Capitola Mall Zoning Code updates was held on Wednesday, October 8, 2025. Stakeholder meetings are currently underway. The next steps include drafting design concepts and vision plans, a second round of public outreach, and lastly, a final corridor plan with phasing to be presented to Council. Estimated time of completion is around the new year.

Zoning Code Updates

The consultant team for the Capitola Mall zoning code updates includes an economic development consultant to ensure the updated standards will result in an economically sustainable project for both the developer and the City. As part of this effort, the consultant team is considering hotel objective standards intended to attract new, high-quality lodging opportunities that complement retail and entertainment uses and enhance tourism. Supporting hotel development is a great economic development tool, as the City continues to see retail sales tax revenue not keeping up with inflation. A hotel generates transient occupancy tax (TOT) of which 12% of gross hotel revenue is collected, all of which goes directly to the City. By comparison, sales tax is 9.25%, of which the City receives 1.5%. The zoning code updates are anticipated for completion in January 2026.

Wharf Master Plan

CED is currently in the process of finalizing a Wharf Master Plan. On June 26, 2025, the City Council directed the consultant, Fuse Architecture, to proceed with a flexible market space, while incorporating a full-service restaurant. The Wharf Master Plan will be utilized in a future request for proposals to solicit private parties interested in developing the plan and leasing the space from the City. The goal of the Wharf Master Plan is to create a cherished community feature on the Wharf and attract visitors to Capitola, which will support the local businesses.

Business Engagement Meetings

To foster stronger communication with local businesses, staff is initiating business engagement meetings with individual Capitola business owners. These informal discussions provide an opportunity to discuss local business conditions, City programs, and opportunities for improvement. The meetings help ensure the City remains responsive to business needs and continues to provide high-quality services that support economic growth. Current efforts are focused on the properties within the Capitola Mall block and along 41st Avenue to ensure property owners/business owners are aware of the aforementioned upcoming projects. The CED Director has also begun attending the Chamber of Commerce monthly board meetings.

On-Call Economic Development Services Contract

During the FY 2025-26 budget setting process, the Council approved an allocation of \$20,000 to further advance Capitola's economic development goals. On September 19, 2025, staff issued a Request for Qualifications (RFQ) for on-call economic development consulting services. The purpose of the RFQ was to identify a qualified consultant capable of providing professional support on a range of economic

development initiatives, including addressing commercial vacancies, conducting fiscal analyses of development proposals, and identifying strategies to incentivize new hotel development.

The consultant will work under the direction of the Community and Economic Development Director to support the City's goals of maintaining long-term economic stability and vitality. Tasks may include the following:

- **Addressing Commercial Vacancies:** The consultant will analyze vacancy patterns and their impacts on the local economy, identify opportunities for retail attraction and tenant diversification, and recommend corridor revitalization strategies. This may include developing incentive programs or partnership opportunities to fill key vacant spaces within the City's commercial districts.
- **Fiscal Analysis of Population Projections and Development Applications:** The consultant will evaluate the fiscal impacts of new development and population growth on City revenues and expenditures. This includes preparing fiscal impact assessments for residential, commercial, and mixed-use projects to inform City decision-making and ensure financial sustainability. These analyses help the City assess net fiscal impacts and align development approvals with long-term infrastructure and service needs.
- **Incentivizing New Hotel Development:** The consultant will assist in identifying feasible hotel development opportunities within Capitola, analyzing tourism trends and lodging demand, and recommending incentive structures to attract new hotel investment. This work will directly support the City's goal of expanding visitor-serving uses and increasing transient occupancy tax (TOT) revenue.
- **Other On-Call Economic Development Support:** As needed, the consultant will provide data analysis, policy review, and strategic recommendations on emerging issues affecting Capitola's economic vitality.

The RFQ closed on October 10th, and the City received four proposals in response. Following a review of qualifications and experience, Keyser Marston was selected as the most qualified firm to assist the City. Staff is currently in the process of executing a professional services agreement.

Fiscal Impact: The City Council allocated \$20,000 in the FY2025-26 budget for on-call economic development consulting services.

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