

# Capitola City Council

## Agenda Report

**Meeting:** June 26, 2025

**From:** City Manager Department

**Subject:** City-Owned Property Leasing Policy



**Recommended Action:** Establish a standard frequency to put leases of City-owned property out for proposals and adopt an administrative policy outlining the process for the lease of City-owned property.

**Background:** The City of Capitola currently holds three leases with business owners for the commercial use of City-owned property:

Lease Holder/Business	Summary of Service Provided	City-Owned Property
Capitola Boat and Bait	Bait and tackle shop, seasonal moorings, water taxi	Temporary structures on Capitola Wharf
Capitola Beach Company	Seasonal surf lessons, beach equipment rentals	256 square feet of Esplanade Park
Café Lido (Brittannia Arms)	Patio dining	Area adjacent to restaurant and Esplanade Park

The City has also entered a 99-year lease with the County of Santa Cruz and sublessee Santa Cruz Public Libraries for the City library building. As the building was purpose-built for library services, provided by the Santa Cruz Public Library system JPA, the City negotiated directly with the County rather than use an RFP process to solicit interest or award a lease.

The general reason to lease City-owned property is to allow purpose-driven and expert business owners to provide public services that the City is unable or unsuited to; for example, a restaurant housed in a City-owned building or recreation activity provider stationed in a public park. All leases of City property must be approved by City Council in open session.

No formal policy currently exists to regulate the process and procedure for leasing City-owned property. As requested by Council, the proposed policy (Attachment 1) outlines a standard for the advertisement of leasing opportunities and the selection of lessees to ensure transparency, alignment with community interests, and responsible management of public assets.

Staff reviewed existing policies from the cities of Oceanside and Monterey and the City and County of San Francisco, as well as current and best practices.

The proposed policy includes language to allow Council to approve leases with nonprofits and public agencies without going through an RFP process.

**Discussion:** The recommended City-Owned Property Leasing Policy establishes a comprehensive framework to guide the leasing of City-owned properties in a transparent, consistent, and community-aligned manner.

- **Lease Approval and Selection:** All leases must be approved by the City Council. Competitive processes, such as Requests for Proposals (RFPs), are recommended unless otherwise deemed appropriate and in the best interest of the City by the City Council. Situations where the Council may negotiate directly are included in the proposed policy, such as if an investment of \$1 million

or more is being made in the facility, or when considering a lease with a non-profit or partner agency.

- **Fair Market Value:** Lease terms must reflect fair market value and include provisions for rent escalation, maintenance, and insurance, except as authorized by Council.
- **Lease Duration:** Staff is seeking Council direction to determine the regularity of the RFP process for the use of City-owned property. In general staff suggests the Council consider establishing a standard period of between 5-10 years, with exceptions for structures that require an investment of at least \$1 million dollars and developed for a specific use, or if a property is physically connected to a commercial use, and any non-affiliated or unrelated use of the property is inconsistent with its intended purpose.
- **Auditing and Compliance:** Leases will be audited annually by the City Manager's Office. An inspection schedule and annual reporting to the Council are recommended to monitor lease compliance.

Staff requests that Council provide feedback on the highlighted areas within the proposed policy and align the requirements with Administrative Policy I-36, the Outdoor Dining Program.

### **Administrative Policy I-36: Village Outdoor Dining Program:**

Although the Outdoor Dining Program is separate from the City's formal leasing structure, the City Council requested that the program be considered with a City leasing policy, to ensure consistency with the goal of managing public land use equitably and transparently. The Outdoor Dining Program, authorized by the Coastal Commission, allows private businesses to temporarily use public right-of-way or public property (such as parking spaces) for outdoor dining purposes so long as they have a City-issued permit.

Staff recommends that Administrative Policy I-36 be revised (proposed revisions included in Attachment 2) to utilize the same standard number of years as identified in the leasing policy to reallocate spaces if the program reaches the maximum number of permits, with the goal of allowing others the opportunity to participate in the program if all the spaces are eventually filled.

Fiscal Impact: There is no fiscal impact associated with the recommended action. In 2024, the City of Capitola received approximately \$7,500 in rent due to leased property. This amount helps offset the cost of managing the leases.

### Attachments:

1. Administrative Policy: City-Owned Property Leasing- Proposed Draft
2. Administrative Policy I-36: Village Outdoor Dining Program- revised December 9, 2021

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Approved By: Jamie Goldstein, City Manager