

Capitola City Council

Agenda Report



Meeting: March 16, 2026

From: Community and Economic Development Department

Subject: Capitola Mall and Objective Standards Zoning Code

Recommended Action: 1) Adopt a resolution amending the General Plan Land Use Element; 2) Introduce for first reading, by title only, waiving further reading an ordinance amending Capitola Municipal Code Title 17: Zoning; and 3) Adopt a resolution authorizing submittal to the California Coastal Commission for the certification of an amendment to the Local Coastal Program. (*Continued from the February 23, 2025, Special City Council Meeting*)

Background: On February 23, 2026, the City Council held a public hearing to consider proposed Zoning Code and General Plan amendments to facilitate housing production on the Capitola Mall Site consistent with the City's General Plan Housing Element. The February 23, 2026, staff report covers the background on the Housing Element, the Planning Commission work sessions and public hearings on the updates, and a thorough explanation of the draft ordinance. Attachment 10 includes a link to the agenda materials to the February City Council meeting.

At the meeting on February 23, 2026, the City Council received public comments on the amendments, including a letter submitted by the majority property owner for the Capitola Mall, Merlone Geier Partners (MGP), requesting revisions to address ten topics (Attachment 5). The City Council discussed the amendments and continued the hearing until March 16, 2026, to further consider the amendments and public comments received. The City Council also requested that staff return with additional information and analysis, which is provided in the discussion below.

Following the meeting on February 23, 2026, City staff met with MGP to discuss their letter. The discussion below provides a summary of each of the ten topics followed by staff recommendation on how to address the comment. Staff recommended revisions to the proposed amendments to address the MGP letter and other items raised City Council are shown with yellow highlight in the draft ordinance (Attachment 2A).

Discussion: City Council requested additional information on several topics, including: the mall redevelopment tiers, open space requirements, future development phasing and associated revenue loss, incentives for Metro development of an affordable housing project, minimum bedroom standards, and the ten topics identified by MGP. Each of these topics is analyzed further within this section.

Mall Redevelopment Tiers

State housing law requires the City to allow residential-only development in commercial zones on properties identified in the City's Housing Element sites inventory. For this reason, the Zoning Code amendments establish a tiered system to incentivize mixed-use redevelopment on the Capitola Mall property. The Planning Commission recommendation included Tier 1, which would allow residential-only development subject to new minimum development standards that the City committed to in its Housing Element. The Planning Commission's recommended Tiers 2, 3A, and 3B would allow for additional building height and residential density for mixed-use redevelopment projects that include specified amounts of new hotel and commercial development.

On February 23, 2026, Council Member Westman proposed revisions to the Planning Commission's recommended incentive-based development tiers (Attachment 8). This proposal would maintain Tier 1 as recommended by Planning Commission and create new standards to incentivize development at Tier 2 and Tier 3 levels. Following the City Council meeting, Council Member Westman informed staff of a correction to SW Tier 2 for Perimeter Zone Maximum Height to be 65 feet, not 75. Table 1 includes the

original Planning Commission recommended tiers, as well as the Council Member Westman’s proposal (SW Proposal).

Table 1: Proposed Mall Redevelopment Tiers

	Planning Commission Recommendation				SW Proposal**	
	Tier 1	Tier 2	Tier 3A	Tier 3B	SW Tier 2	SW Tier 3
Density						
Min.	20 du/ac	20 du/ac	20 du/ac	20 du/ac	20 du/ac	20 du/ac
Max.	48 du/ac	48 du/ac	53 du/ac	53 du/ac	53 du/ac	53 du/ac
FAR	2.0	2.0	2.0***	2.0***	2.0***	2.0
Perimeter Zone						
41 st Ave.	125 ft	125 ft	125 ft	125 ft	75 ft	125 ft
Capitola Rd.	125 ft	125 ft	125 ft.	125 ft	75 ft	125 ft
Clares St.	125 ft	125 ft	125 ft	125 ft	125 ft	125 ft
Height						
Perimeter Zone	55 ft	65 ft*	65 ft*	65 ft*	75 65 ft*	55 ft
Core Area	75 ft	75 ft	85 ft	85 ft	85 ft	85 ft
Open Space	5%	2.5%	2.5%	2.5%	2.5%	2.5%
Affordable Housing	20%	20%	20%	20%	20%	20%
Commercial	0	30,000 sf	40,000 sf	200,000 sf	35,000 sf	200,000 sf
Hotel Rooms	0	85	125	0	120	0
Meeting Space	0	3,000	4,000	0	4,000	0

* Max 85 ft. for hotel

SW Tier 1 is the same as the Planning Commission's Tier 1 recommendation.

*** FAR excludes rooftop decks

With the shift in the anticipated land uses, staff developed an updated financial model to evaluate the potential fiscal impacts from Capitola Mall redevelopment on the MPG properties. The model was introduced to the City Council on February 23, 2026. At the meeting, the City Council indicated a desire to further consider the proposed tiers and requested staff provide a fiscal impact analysis of the additional tiers.

Table 2 includes the fiscal impact analysis results for the Planning Commission recommendation and the additional tiers proposed during the council meeting. Six development scenarios were analyzed in the model, based on the maximum allowed density and minimum required nonresidential uses for the three Capitola Mall redevelopment tiers.

For each scenario, the model estimates the annual cost to the City to provide services based on the Capitola Mall Fiscal Impact Analysis prepared by Kosmont & Associates in 2019, with adjustments for inflation and updated project details (reduced commercial footprint and private parks/streets). In addition, Department Directors evaluated assumed staffing and workload impacts based on MGP updated land uses and found the Kosmont Study cost assumptions to be on the high end, but a good tool to understand the potential financial impacts of each tier.

The model estimates the annual revenue expected to be generated under each scenario from sales taxes, hotel taxes, and all other applicable revenue sources. The revenue generation assumptions were

developed in collaboration with the City’s economic development consultant, Keyser Marsten and Associates. The net fiscal impact (revenue minus cost) for each scenario is shown in Table 2. The figures represent the fiscal impact assuming full buildout of each tier. However, if the tiers are not economically feasible, or market demand causes development to occur below the full buildout, the revenue estimates shown in Table 2 would be reduced.

Table 2: Financial Impacts Analysis

	Planning Commission Recommendation				SW Proposal**	
	Tier 1	Tier 2	Tier 3A	Tier 3B	SW Tier 2	SW Tier 3
Development Assumptions	48 du/ac	48 du/ac	53 du/ac	53 du/ac	53 du/ac	53 du/ac
New Units	1,256	1,256	1,326	1,326	1,326	1,326
Specialty Retail	0	30,000 sf	40,000 sf	40,000 sf	35,000 sf	40,000 sf
General Retail	0	0	0	160,000 sf	0	160,000 sf
New Hotel	0	85 rooms	125 rooms	0	120 rooms	
Meeting Space	0	3,000 sf	4,000 sf	0	4,000 sf	
Fiscal Impact						
Cost	\$1,225,509	\$1,225,509	\$1,293,810	\$1,293,365	\$1,293,810	\$1,293,365
Revenue	\$448,840	\$1,496,277	\$1,981,392	\$2,053,580	\$1,873,392	\$2,012,517
Net Impact*	\$(776,669)	\$270,768	\$687,583	\$759,770	\$579,583	\$718,708

* Impacts estimated using assumed household size of 1.5 persons/unit. Using a 2.1 persons/unit household size negatively impacts the net impact by approximately \$300,000 in each option.

** SW Tier 1 same as Planning Commission recommendation Tier 1.

At the City Council meeting on February 23, 2026, some members questioned the need for a third tier. Planning Commission Tier 1 is included to comply with state law requiring a 100% residential mall redevelopment option. Planning Commission Tier 2 reflects the results of the Keyser Marston market demand analysis and accommodates what is projected to be an attainable mixed-use project under current economic conditions. Planning Commission Tier 3A and 3B reflect the City’s desire to see a substantial amount of new commercial, if supported by future market demand and development feasibility, despite current market conditions not supporting those levels of development. Council has discretion to modify the incentives within each tier, establish criteria for tier eligibility, and/or add or remove tiers of development.

Merlone Geier Partners Comment Letter

MGP submitted a letter on February 23, 2026, requesting revisions to the proposed amendments related to ten topics (Attachment 5). On February 23, 2026, the City Council provided input on MGP-requested revisions for several topics. Following the City Council meeting, staff met with MGP to discuss the letter. Based on these discussions and City Council input, staff has revised the proposed amendments to address the MGP letter with changes shown in yellow highlighting in the draft ordinance (Attachment 2A). The following analysis includes a summary of MGP requested revisions, an overview of the topic, staff recommendation, and the relevant code section with redlines when staff is recommending changes.

1. Deviation Review and Approval Process

MGP’s Initial Request: Exempt market-rate housing development from the City’s discretionary deviation review process where land is dedicated for affordable units that would otherwise qualify for

concession/incentive/waiver under the State Density Bonus Law if the affordable units were part of a mixed-income development.

Overview: The proposed code updates include objective standards to guide future development, but to allow for future flexibility, they also provide for deviations approved by the Planning Commission via a discretionary review process and for modifications necessary to comply with the State Density Bonus Law for qualifying projects. MGP's proposed language would have required the City to award state density bonus incentives, waivers and concessions to stand-alone market rate housing development projects that dedicate land for affordable housing to satisfy the City's inclusionary requirements, even if such projects are not otherwise eligible for the state density bonus. This would allow a future market-rate housing developer to bypass the discretionary deviation process included in the proposed Zoning Code, which otherwise requires Planning Commission approval for deviations from adopted objective development standards.

After meeting and discussing this topic with MGP, MGP clarified that they are comfortable with the City maintaining discretionary review over deviation requests, but once such approval is granted, MGP would like confirmation that the project would be considered consistent with the City's applicable objective development standards.

Staff Recommendation: Incorporate clarifying language into the draft ordinance that would allow MGP to obtain approval for sitewide deviations in connection with their first Planning Commission approvals. Any deviations Planning Commission approved would then carry forward to site-specific entitlement approvals MGP pursues for future phases of development, consistent with those initial site-wide approvals. This clarifying language would preserve the City's discretion to consider deviation requests in the context of the overall proposed redevelopment project – approving deviations where they result in a desirable overall development pattern – while giving MGP additional predictability with respect to how subsequent approvals will be processed and approved.

17.57.040.B. Deviations.

1. An applicant may request deviation from one or more standards in this chapter through the design permit process. The planning commission may approve a deviation upon finding that:

- a. The project incorporates an alternative method to achieve the intent statement that proceeds the standard; and
- b. The request is needed due to unique site conditions and/or to provide for a superior project design.

2. Unless the deviation is approved by the Planning Commission pursuant to Paragraph (1) above (which may be sought and obtained in connection with an applicant's initial subdivision map, conditional use permit, and design permit application for a mall redevelopment project), a project requesting a deviation pursuant to this Section 17.57.040.B shall not be considered consistent with applicable, objective development standards for the purposes of qualifying for streamlined approval under Government Code Section 65913.4, Government Code Chapter 4.1, or other state laws providing a ministerial approval process for qualifying projects consistent with applicable, objective development standards. This paragraph does not apply to any benefits or modifications approved pursuant to the State Density Bonus Law (Government Code Section 65915).

3. A request for deviation pursuant to this Section 17.57.040.B shall not affect a housing development project's eligibility for a density bonus, incentives, concessions, waivers, and/or parking reductions under Government Code Section 65915. An applicant may apply for and receive deviations pursuant to this Section 17.57.040.B regardless of whether the proposed project is eligible for a density bonus.

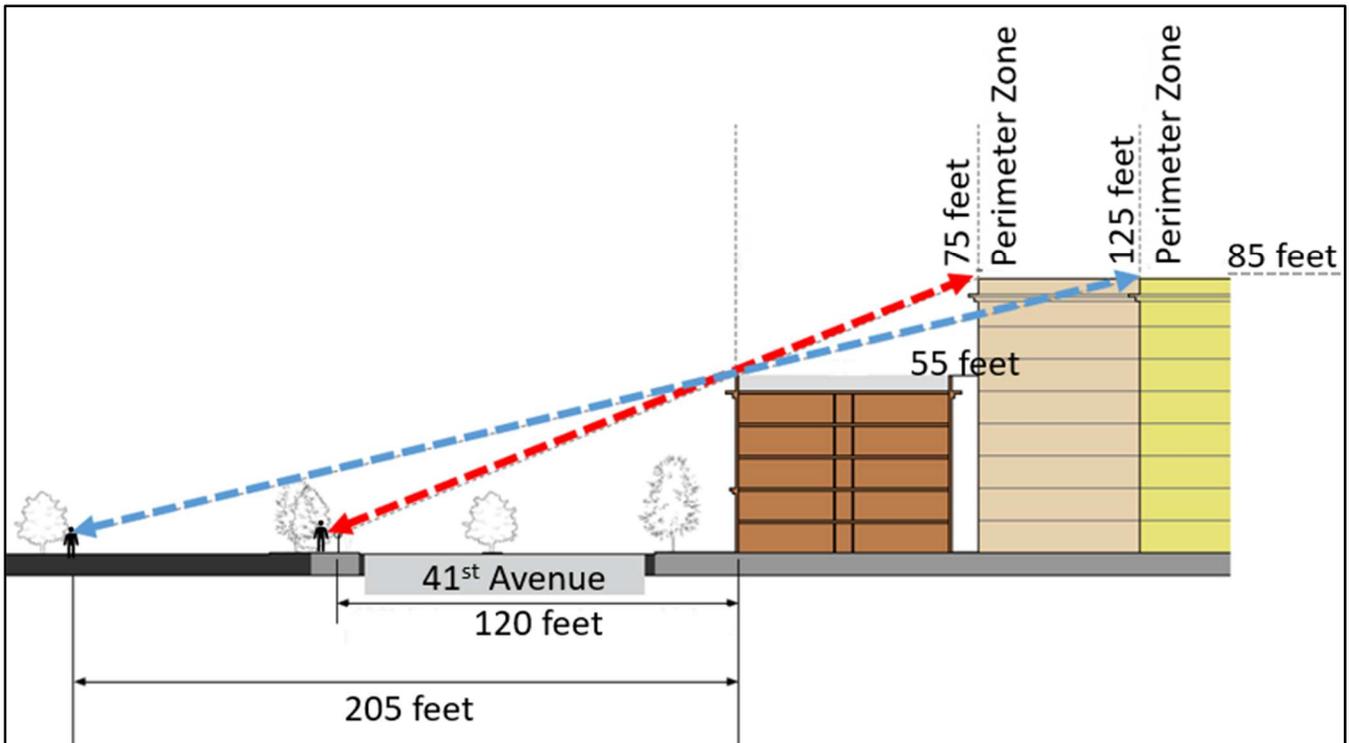
2. Perimeter Zone

MGP Request: Reduce perimeter zone to 75 feet.

Overview: The draft ordinance includes lower maximum height limits in the perimeter zones to screen the massing of the taller buildings within the core area of the Capitola Mall properties. For instance, the maximum height for Tier 1 projects is 55 feet in the perimeter zone (within 125 feet of 41st Avenue, Capitola Road, and Clares Street) and 75 feet in the core zone (areas other than the perimeter zone).

Figure 1 shows a 55 feet tall structure in the perimeter zone and an 85 feet tall structure located 75 feet and 125 feet from the property line. With a 75 feet perimeter zone, the 55 feet structure screens the 85 feet structure as viewed from sidewalk on the opposite side of 41st Avenue. With a 125 feet perimeter zone, the core area 85 feet buildings are screened up to 205 feet away.

Figure 1. Comparison of 75 feet and 125 feet Perimeter Zone



City Council Input: Several Council Members supported reducing the perimeter zone to 75 feet fronting 41st Avenue and Capitola Road as part of Council Member Westman's Tier 2 proposal. Council Member Westman also included a height limit of 75 feet within the perimeter zone, which she later informed staff should have been 65 feet.

Staff Recommendation: Staff recommends reducing the perimeter zone to 75 feet for Tier 2 and Tier 3 fronting 41st Avenue and Capitola Road and maintaining the perimeter zone of 125 feet along Clares Street.

Section: 17.24.035.C.5 (Definitions) includes definitions for Core Area, Perimeter Streets, and Perimeter Zone, as follows:

“Core area” means all areas on the Capitola Mall property that are not in the perimeter zone.

“Perimeter street” means 41st Avenue, Capitola Road and Clares Street. 5.

“Perimeter zone” means all areas on the Capitola Mall property that are within 75-125 feet of a property line abutting 41st Avenue or Capitola Road and within 125 feet of a property line abutting Clares Street.

3. Tier Minimums for Commercial, Hotel, and Hotel Meeting Space

MGP Request: In the February 23rd letter, MGP requested the City Council reduce minimum new commercial requirement to 25,000 square feet for Tier 2 projects and 35,000 square feet for Tier 3 projects. Since the February 23, 2026, Council Meeting, MGP has continued to express concern to staff that the proposed modification to Tier 2 would not adequately incentivize a hotel or commercial development on the site, and that setting development thresholds to qualify for Tier 2 at the high end of feasibility (or beyond what is currently feasible) would result in a Tier 1 project. On March 12, 2026, MGP wrote a letter to the City that included a request for Tier 2 to have the following minimums: 25,000 square feet commercial, 85-room hotel, and 2,500 square feet of meeting space, a Tier 3A with 35,000 square feet commercial, 120-room hotel, and 4,000 square feet of meeting space, and a Tier 3B with 200,000 square feet commercial and no hotel (Attachment 6).

Overview: Table 3 represents the tiers recommended by the Planning Commission and the two tiers suggested by Councilmember Westman.

Table 3: Abbreviated Mall Redevelopment Tiers

	Planning Commission Recommendation				SW Proposal**	
	Tier 1	Tier 2	Tier 3A	Tier 3B	SW Tier 2	SW Tier 3
Development Assumptions	48 du/ac	48 du/ac	53 du/ac	53 du/ac	53 du/ac	53 du/ac
New Units	1,256	1,256	1,326	1,326	1,326	1,326
Specialty Retail	0	30,000 sf	40,000 sf	40,000 sf	35,000 sf	40,000 sf
General Retail	0	0	0	160,000 sf	0	160,000 sf
New Hotel	0	85 rooms	125 rooms	0	120 rooms	
Meeting Space	0	3,000 sf	4,000 sf	0	4,000 sf	

Keyser Marston Associates (KMA), the City’s economic development consultant, prepared a Capitola Mall Retail and Hotel Market Overview to inform decision-making on the Zoning Code amendments (Attachment 7). The report suggests that the Mall properties continue to have strong redevelopment potential, and the introduction of residential and hotel uses will help the overall retail environment within the block. The report finds that retail demand likely will be strongest in the food and beverage sector and cater to smaller tenants, with an expected demand for new retail development ranging between 25,000 and 35,000 square feet. PC Tier 3A and 3 B exceed KMA’s recommendation for retail.

The KMA study also found that a hotel on the site would have the opportunity to exceed market average revenues with a strong operator and brand, with an 85-room hotel likely to support approximately 2,550

square feet of meeting and event space, and a 130-room hotel likely to support approximately 3,900 square feet of meeting and event space. The KMA study did not provide a recommendation on specific room count, however, the consultant advised the Planning Commission during their presentation that an 85-room hotel is typical and would likely be supported by market demand.

The Planning Commission recommended hotels ranging from 85 rooms (Tier 2) to 125 rooms (Tier 3). Councilmember Westman’s Tier 2 suggested 120 rooms. In their March 12, 2026, letter, MGP noted additional concerns related to tier requirements for minimum hotel rooms and meeting space. More specifically requesting minimum Tier 2 requirements for a hotel to be set at 85 hotel rooms and 2,500 square feet meeting space, and minimum Tier 3A requirements for a hotel to be set at 120 hotel rooms and 4,000 square feet meeting space. MGP noted there is no guarantee that there is demand for a hotel beyond 85 rooms.

The following table includes the recommended amount of meeting space related to the Tiers per the analysis completed by KMA, suggesting 25 – 30 sf per hotel room.

Table 4: Hotel Rooms and Meeting Space

Hotel Rooms	Meeting Space Supported by KMA
85	2,125 – 2,550
120	3,000 – 3,600
125	3,125 – 3,750

City Council Input: Several Council members supported requiring 35,000 square feet of new commercial space as part of Council Member Westman’s Tier 2 proposal, which aligns with the high end of Keyser Marston Associates’ projections for market demand.

Staff Recommendation: Require minimum new commercial space between 25,000 - 35,000 square feet for a Tier 2 project and meeting space between 25 – 30 square feet per hotel room, consistent with KMA’s recommendation.

For hotel land use, consider if minimum hotel room requirements are set too high, a future developer may opt for a Tier 1 development rather than take advantage of the development incentives offered at Tier 2 or above.

The draft ordinance includes the Planning Commission's recommendation, with no modifications to minimum commercial space, hotel rooms, or meeting space.

Section: 17.24.035.C.5 (Definitions)

7. “Tier 2 mixed-use project” means a proposed mixed-use development project with all of the following:

- a. Residential development that meets or exceeds the affordability requirements specified in Section 17.24.035.D.7. Inclusionary Housing Requirement).
- b. A hotel with a minimum of 85 rooms and a minimum of 3,000 square feet of meeting space and conference facilities.
- c. 30,000 square feet or more of new commercial space.

8. “Tier 3 mixed-use project” means a proposed mixed-use development project that:

a. Meets or exceeds the affordability requirements specified in Section 17.24.035.D.7. Inclusionary Housing Requirement); and

b. Complies with one or both of the following options:

Option 1: The project includes both a hotel with a minimum of 125 rooms and a minimum of 4,000 square feet of meeting space and 40,000 square feet or more of new commercial space.

Option 2: The project includes 200,000 square feet or more of new commercial space.

4. Commercial Ground Floor Height Minimums

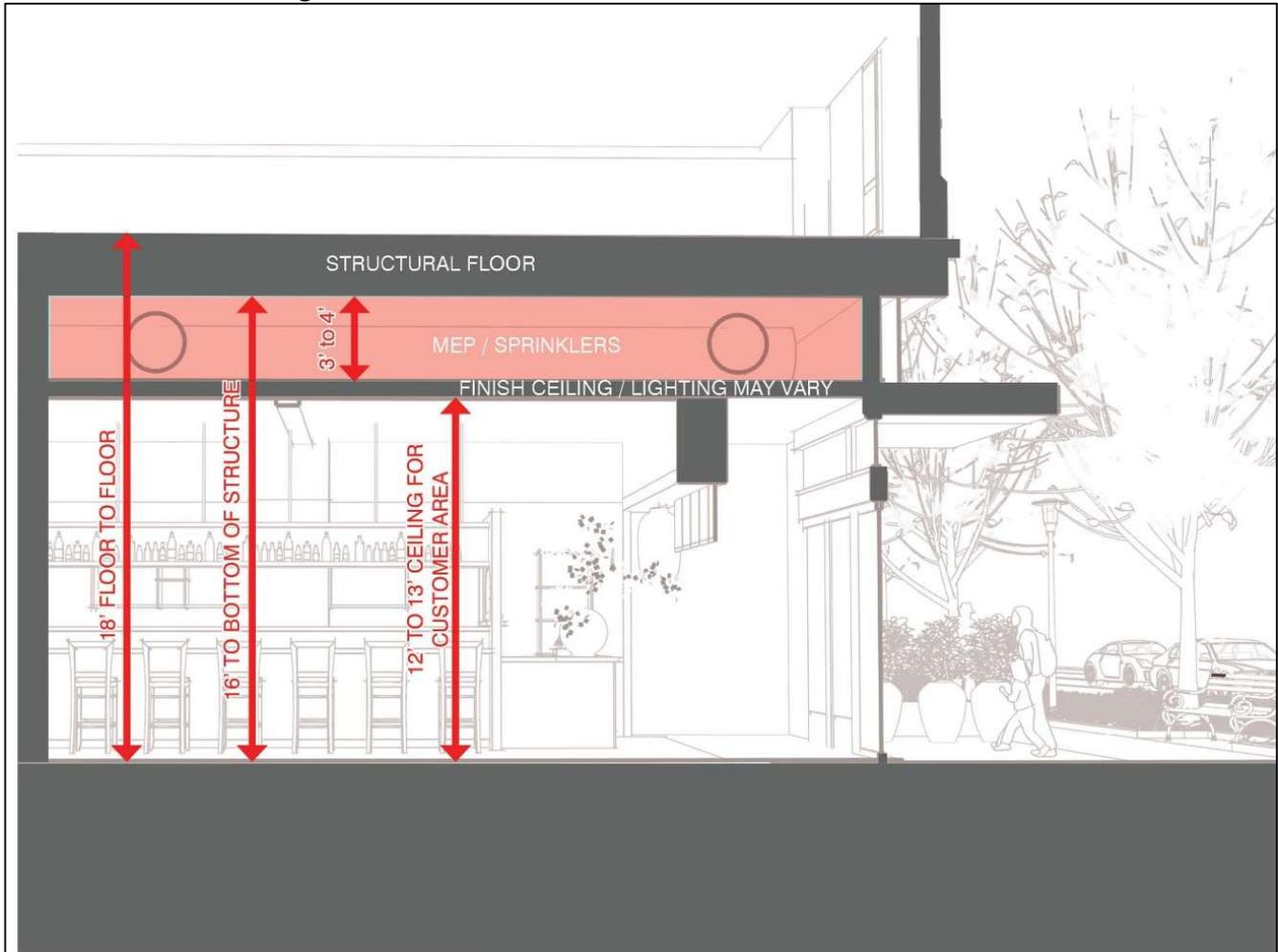
MGP Request: Reduce minimum ground-floor height for non-restaurant commercial and hotel uses to 14 feet.

Overview: The original draft code required a minimum commercial ground floor height. Specifically, the ground level would have minimum floor-to-floor height of 18 feet. For single-story buildings, minimum ground floor height is measured to the top of structure. Floor-to-floor height is a planning term that refers to the vertical distance from the top surface of one finished floor to the top surface of the finished floor above it. A typical floor-to-floor dimension incorporates the occupied space above the finished floor, a finished ceiling, the area above the finished ceiling utilized for mechanical, electrical, and plumbing, and the structural floor above.

The intent of the code is to have commercial structures with higher ceiling heights, which provides long-term tenant flexibility and market competitiveness. Retailers have specifications that must be met to lease a space, often including floor-to-ceiling heights. The reason for this is that higher ceilings improve natural light, allow better storefront glazing proportions, and allow for future conversions between uses (retail to restaurant). Higher ceilings help attract and retain a range of quality tenants in new commercial space.

Figure 2 below shows dimensions for floor-to-floor measurements with the 18 foot requirement.

Figure 2 Commercial 18 feet floor-to-floor measurement



Staff Recommendation: Staff recommends modifying the ceiling heights to be measured from the finished floor to the bottom of the structure. For any tier-required new commercial space, require a minimum 16 feet clear from the ground floor to bottom of structure, as shown in Diagram 2. Also, update the code so new commercial space provided which exceeds the minimum tier-required amount is exempt from this minimum height requirement. For example, if the City Council required 35,000 square feet of commercial to qualify for Tier 2, any commercial space beyond the required 35,000 square feet would not be required to meet the minimum height standard. The draft ordinance includes the updated language recommended by staff.

Section: 17.57.050.F.2.c.1 (Ground Floor Height)

c. Commercial Ground-Floor Design (Excludes Hotels). The following standards apply to both vertical mixed-use and stand-alone commercial buildings.

(1) Ground Floor Height. For all required new commercial space required for a Tier 2 or Tier 3 project, the ground level shall have minimum floor to floor height of 18 feet 16 feet clear from the ground floor to the bottom of the structure above. See Figure 17.57-9. This minimum ground floor height standard does not apply to commercial space provided in excess of the required new commercial minimum. For single-story buildings, minimum ground floor height is measured to top of structure.

5. Density Calculation and Definition

MGP Request: Include street right-of-way, public easements, and public open space dedicated to City in the land area used to calculate permitted density.

Overview: The draft code does not include street right-of-way, public easements, and public open space dedicated to the City in land area used to calculate permitted density. If the City were to seek right-of-way, public easement, or open space dedications, a property owner is more likely willing to accept the request if they retain the underlying density.

Staff Recommendation: Accept MGP request.

Section: 17.24.035.D.3.a (Density Calculation)

3. Density.

a. Calculation.

i. The density of a proposed development on the Capitola Mall property is calculated on a project wide basis as the number of dwelling units per acre of land, using the total combined land area for all contiguous parcels under single ownership regardless of whether dwelling units are proposed on an individual parcel.

ii. The land area used to calculate density includes the following:

(a) Privately owned and maintained publicly accessible open space; and

(b) Public open space dedicated to the City; and

(c) Private streets, sidewalks, pathways and other similar private circulation improvements except where dedicated for public use consistent with paragraph iii below and

(d) Areas subject to tenant lease controls and private easements.

(e) Perimeter street frontage improvements on privately owned property subject to a public access easement or dedication pursuant to Section 17.57.050.A.h.3.d.

(f) Public rights of way; and

(g) Public easements.

~~iii. The land area used to calculate density excludes public rights of way, public easements, and public open space dedicated to the City~~

iii. The “density” definition in Section 17.160.020.D.6 does not apply to the Capitola Mall property.

6. Internal Street Connectivity

MGP Request: Soften new internal street requirement and expand circumstances to grant exceptions. Internal streets can only be developed in an incremental, phase-by-phase manner.

Overview: This section of code requires the developer to create a circulation plan showing new internal streets that provide a vehicular connection between all perimeter streets abutting the development site. This requirement is followed by seven additional standards related to internal street connectivity. Staff agrees that street buildout can only be accomplished in a phased manner. The standards allow for incremental phasing of streets.

Staff Recommendation: Allow for the Planning Commission to grant an exception to the new internal street requirement upon findings that establishing the new internal street is infeasible. The draft ordinance has been updated to include the staff recommendation.

Section: 17.57.050.A.2.c.1 (Internal Street Connectivity)

c. Internal Street Connectivity.

(1) A mall redevelopment project shall create new internal streets that provide a vehicular connection between all perimeter streets abutting the development site except where the Planning Commission finds that the establishment of new internal streets would be infeasible (e.g., presence of existing structures and improvements on the site).

(2) A mall redevelopment project application shall include a circulation diagram that shows how future potential internal streets on adjacent parcels can:

(a) Connect to new internal streets on the development site; and

(b) Provide a vehicular connection to perimeter streets that do not abut the development site.

(3) New internal streets shall be designed to allow for connections to existing internal circulation and future internal streets on adjacent properties within the mall block.

(4) Where an adjacent property within the mall block was previously redeveloped, a mall redevelopment project shall provide one or more vehicular connection between the development site and the adjacent property.

(5) If a new internal street cannot yet connect to an existing public street or other public way, the property owner may temporarily restrict public access to that street until such a connection becomes feasible through future adjacent development. Once a connection to another public street or public way is established, the internal street shall be opened for public use. The property owner shall remove any gates or other physical barriers to ensure permanent unrestricted public access.

(6) If the parcel on which mall redevelopment will occur contains an existing street, pedestrian path, or other public connection, that connection will be preserved or replaced on the parcel to maintain public access and circulation through the property.

(7) In all areas of the Capitola Mall property, where a project site includes an existing street or other public connection, this public connection will be maintained or relocated within the project site.

~~(8) The City may grant an exception to the standards in this Paragraph b (Internal Street Connectivity)~~

7. Bike Circulation

MGP Request: Allow required internal bicycle connections with sharrows throughout the project.

Overview: The Capitola Mall Properties is a 46-acre block with 14 parcels and seven property owners. The majority owner, MGP, owns 31.5 acres, of which they plan to redevelop 20 acres. The two sites with 11 acres that will remain as-is include the Kohl's site, due to a long-term lease, and the parking area around Target and the food court, due to parking and circulation agreements.

Capitola's General Plan includes Policy LU-8.5 for New Interior Street. Specifically, it states, "As a long-term vision for Capitola Mall, support the addition of a new interior street within the mall property lined with sidewalk-oriented retail, outdoor dining, and pedestrian amenities. This new street should be connected with the existing street network surrounding the Mall property to enhance mall access for all modes of transportation."

There are currently no streets, bike lanes/paths, or housing in the 46-acre block. MGP intends to develop new private streets through the project. With density allowed up to 53 dwelling units per acre, the Capitola Mall properties will become a high-density area with more residents and increased pedestrian and bicycle activity. Bike lanes provide a safe, dedicated space for cyclists and reduce conflicts with cars and pedestrians. If the streets are developed without bike lanes, there likely will not be a future opportunity to add bike lanes.

Bicycle Facilities: On February 23, 2026, Councilmember Orbach expressed support for standards that require bicycle parking and other bicycle-related facilities for residents and visitors. Zoning Code Section 17.76.080 (Bicycle Parking) contains standards for bicycle parking, including the minimum number of required bicycle parking spaces. These standards would apply to mall redevelopment projects.

Table 4: Required Bicycle Parking Spaces

Land Use	Required Bicycle Parking Spaces	
	Short-Term Spaces	Long-Term Spaces
Multifamily Dwellings and Group Housing	10% of required automobile spaces; minimum of 4 spaces	1 per unit
Nonresidential Uses	10% of required automobile spaces	1 per 20 required automobile spaces for uses 10,000 sq. ft. or greater

Staff Recommendation: Staff recommends no changes to the Planning Commission recommendation, and continuing to require bike lanes on new internal streets. It is worth noting the Deviation section of the code would apply and provide flexibility if warranted.

Section: 17.57.050.A.2.f.3 (Pedestrian and Bicycle Circulation)

1. Pedestrian and Bicycle Circulation.

- A mall redevelopment project shall include a network of pedestrian and bicycle facilities that connect all new and existing buildings on the site to each other, to publicly-accessible open space areas, to commercial uses on adjacent properties, and to perimeter streets.

2. All pedestrian and bicycle facilities shall comply with the City of Capitola Public Improvement Design Standards and the adopted 41st Avenue and Clares Street Corridor Plan. Where sidewalk and pedestrian realm standards in this chapter conflict with the Public Improvement Design Standards, this chapter governs.

3. The following requirement applies when an internal street is established that connects two abutting perimeter streets:

- a. At least one continuous bike lane or bike path shall also connect the two abutting perimeter streets.
- b. For any portion of the internal street that abuts ground-floor commercial uses, sharrows may be provided as an alternative to the bike lane or path.

8. Street Frontage Improvements

MGP Request: Exempt undeveloped side of new internal streets from frontage improvement requirements.

Overview: The objective standards require new street frontage improvements, including a building frontage zone, a pedestrian clear path, and a landscape/street furniture zone. Street frontage improvements are required for all internal streets created on a development site. The code further requires that frontage improvements on abutting parcels controlled by the developer but outside the development site are required if necessary to provide complete pedestrian facilities on both sides of the street and be consistent with the required circulation plan. The purpose of this requirement is to ensure complete streets within a future high-density, mixed-use neighborhood.

Figure 3 provides an example development scenario of when this standard would apply. MGP has previously stated they do not intend to redevelop the Kohl's site in the initial phase of a project due to the long-term lease with the retail establishment. If development is proposed on the parking lots in front of Ulta Beauty and adjacent to Kohl's parking (shown in blue) and the circulation plan were to include new internal streets around the development site, this standard would require the new street frontage improvements (yellow) be required on both side of the street as MGP owns the adjacent land (green).

Figure 3. Example of new street frontage requirement



Staff Recommendation: Allow the Planning Commission to approve an exception to the frontage improvements requirement on abutting parcels upon finding that installing the frontage improvements on the abutting parcel would be infeasible.

Section: 17.57.050.A.2.h.1 (When Required – Internal Streets)

(1) When Required – Internal Streets.

(a) Frontage improvements described in this section are required for all internal streets created on a development site.

(b) Frontage improvements described in this section are required on an abutting parcel controlled by the developer but outside the development site if the improvements are:

i. Necessary to provide complete pedestrian facilities on both sides of a new internal street included in the development; and

ii. Consistent with the circulation plan required by paragraph g (Circulation Plan) above.

(c) Planning Commission may grant an exception to the requirement in Paragraph (b) above upon finding that installing the frontage improvements on the abutting parcel would be infeasible (e.g., presence of existing buildings within the minimum frontage improvement dimensions).

9. Internal Street Parking

MGP Request: Allow existing surface parking lots between a new building and an internal street.

Overview: Staff intended to allow existing surface parking lots to remain. This error is easily resolved by updating the requirement to clarify “new” surface parking.

Staff Recommendation: Clarify that new surface parking may not be located between a building and an internal street. This standard does not apply to existing surface parking lots.

Section: 17.57.050.C.2.a.1 (Internal Streets)

a. Surface Parking Lots.

(1) Internal Streets.

(a) Excluding hotels, new surface parking may not be located between a building and an internal street. Parking must be behind or adjacent to a street-facing building.

10. Hotel Street Presence

MGP Request: Allow a carve out for existing surface parking lots. Also, the standard is too vague in the context of existing surface parking lots.

Staff Response: Continue to require hotel presence on at least one street with no new surface parking lots permitted between the building wall and the street-adjacent sidewalk. Clarify that surface parking is permitted along the three other building facades that do not provide the required street presence.

Section: 17.57.050.F.2.d (Hotel Street Presence)

d. Hotel Street Presence. A minimum of one hotel building facade shall front a perimeter street or internal street in compliance with the following requirements:

- (1) Surface parking lots are prohibited between the building facade and the street adjacent sidewalk.
- (2) Street parking and porte-cochères drop-off areas are permitted between the building facade and the street.
- (3) A building entrance accessed from the sidewalk shall provide access to the hotel lobby.
- (4) Loading docks and service areas may not front the street.

(5) Parking Location. Existing and new surface parking is permitted along all other building facades that do not provide the street presence as required by Paragraph 1 above.

The remainder of the staff report provides additional information on topics raised during the February 23, 2026, City Council meeting.

Open Space Requirement: On February 23, 2026, the City Council requested that staff clarify the minimum open space requirement for a mall redevelopment project. Proposed Zoning Code Section 17.26.035.D.1 requires a minimum open space of 5 percent of the total site area for Tier 1 projects and 2.5 percent of the total site area for Tier 2 and Tier 3 projects. For a proposed project on a 20-acre site, this standard would require 1 acre of open space for a Tier 1 project and 0.5 acres for a Tier 2 or Tier 3 project. Reduced open space requirements for Tier 2 and Tier 3 projects is intended to incentivize and reduce barriers to new commercial uses on the mall property.

Proposed Zoning Code Section 17.57.050.B (Publicly Accessible Open Space) establishes additional standards for required open space areas. To count towards the minimum amount of required open space, the open space area must have a minimum area of 3,000 square feet and a minimum dimension of 20 feet in any direction. A project on a development site greater than 10 acres must include a central gathering place of at least 12,000 square feet that supports civic and commercial activities such as farmers' markets, performances, and seasonal events.

Rooftop Open Space: Section 17.57.050.B.2.b.2 in the proposed Zoning Code amendments states that "Permitted types of publicly accessible open space include rooftop open space located above a building which is open to the general public without charge and utilized for outdoor recreation, leisure, and/or public gathering functions. Section 17.24.035.D.5b also states that "for Tier 2 and Tier 3 projects, rooftop decks are excluded from the floor area calculation." These provisions were included in the proposed Zoning Code amendments as requested by the Planning Commission.

Publicly accessible open space on a building rooftop does exist, primarily in dense urban cities such as San Francisco or New York. In these places, land available for open space is limited or nonexistent, and rooftop spaces are the only available option to provide public open space. On the Capitola Mall property, land is available for public open space on the ground level. Rooftop open space may be problematic as it may not be easily accessed by the public. For these reasons, the City Council may wish to remove language from the proposed Zoning Code amendments that allow rooftop spaces to count as required publicly accessible open space. Staff recommends keeping the rooftop deck exception to counting toward floor area from the Tier 2 and Tier 3 project as it adds desirable amenities to the project.

Revenue Gap: Redevelopment of the mall site will temporarily reduce sales tax revenue as existing commercial uses are removed before new hotels, residential development, and commercial uses are constructed and occupied. This creates a short-term fiscal gap in which the City loses ongoing revenue while incurring the one-time costs associated with redevelopment and infrastructure. One potential

strategy to bridge this gap is the use of the City’s PERS Trust Fund as a temporary financial buffer. While the PERS Trust is restricted to pension-related expenditures, the City has significant annual PERS obligations, which allows the City to offset those costs from the Trust in a given year and free up General Fund resources to maintain service levels during the redevelopment period.

To prepare for this transition, the City would need to model and forecast the anticipated reduction in sales tax revenue during the construction period and identify the likely duration of the gap, which could extend multiple years, while new commercial uses are constructed and begin generating revenue. Based on this analysis, the City could utilize reserves to maintain service levels during the interim period. Eliminating sales tax revenue from the MGP properties (excluding Kohl’s), would reduce the City’s sales tax revenue by approximately \$400,000 year. Existing balances in the PERS Trust would allow the City to offset these losses for approximately 4-5 years, assuming future investment returns.

Other potential strategies include temporarily reducing service levels to align expenditures with reduced revenues, pursuing a short-term voter-approved revenue measure to help bridge the fiscal gap until redevelopment is complete and new economic activity begins generating tax revenue, or a developer fee during the phasing of the project to cover a portion of the gap until a certificate of occupancy is issued for hotel and/or commercial.

Project Phasing: The City Council requested additional information on the phasing of non-residential development in a mixed-use mall redevelopment project. The ordinance has been updated to require project phasing for all Tier 2 and Tier 3 mixed-use projects, with an exception for 100% affordable development projects.

Proposed project phasing includes a first step requirement that following entitlements, deed restrictions be placed on the parcels that contains the hotel and/or new commercial space required for a Tier 2 or Tier 3 project and prohibit development of such parcels for other uses. After recording the deed restrictions, the project may either be phased through certificate of occupancy restrictions or annual fee payments. Table 5 outlines the steps of phasing for certificate of occupancy restrictions.

Table 5. Certificate of Occupancy Phasing

Phase	Building Permit	Timing
1	First Multifamily Residential Building Permit	Upon entitlement
2.	First Multifamily Residential Certificate of Occupancy and/or Second Multifamily Residential Building Permit Issuance	Upon issuance of building permit of Tier 2 qualifying hotel / commercial
3.	Second Multifamily Residential Occupancy	With Tier 2 or Tier 3 qualifying hotel and/or commercial certificate of occupancy

The following requirements have been added to the Zoning Code amendments to ensure that hotel and commercial development is constructed concurrently with residential development.

H. Project Phasing. 100% affordable development projects are exempt from the project phasing requirement in this section. The following project phasing requirements apply to all Tier 2 and Tier 3 mixed use projects.

- a) Deed Restriction. Prior to recording of a final subdivision map or issuing Building Permits for any market rate housing on the site, whichever occurs first, the applicant shall record a 10 year deed restriction on the parcel(s), or portions of a parcel, in a form approved by the City Attorney that designates the parcel that contain the hotel and/or new commercial space required for a Tier 2 or Tier 3 project and prohibit development of such parcels for other uses.
- b) Phasing Alternatives. All Tier 2 and Tier 3 projects shall be subject to phasing requirements, which shall include either Certificate of Occupancy Restrictions or Annual Fee Restrictions, as provided below:
 - i) Phases for Certificate of Occupancy Restriction.
 - (1) The City shall issue a building permit for the first market rate multifamily building in the development project following entitlement.
 - (2) The City shall issue a Certificate of Occupancy for the first market rate multifamily building and issue a Building Permit for the second market rate multifamily building in the development project only after the City issues a building permit for a Tier 2 or Tier 3 qualifying hotel and/or new commercial space within the development site, and
 - (3) The City shall issue a Certificate of Occupancy for the second market rate multifamily building in the development project only after the City issues Certificate of Occupancy for the Tier 2 or Tier 3 qualifying hotel and/or new commercial space within the development site.
 - ii. Annual Fee Payment
 - (1) A project utilizing the Tier 2 or Tier 3 incentives may enter a contract with the City to pay an annual fee to the City per market rate unit for which a Certificate of Occupancy has been issued.
 - (2) The required per unit fee amount shall be calculated during the entitlement of the project within the Fiscal Impact Analysis prepared pursuant to Section 17.24.035.F, in a form approved by the City Attorney.
 - (3) The first payment of such fees shall be due one year after the issuance of Certificate of Occupancy, and annually thereafter. The contract shall terminate immediately upon issuance of Certificate of Occupancy for the hotel and/or commercial development necessary to qualify for Tier 2 or Tier 3 incentives.

Objective Standards Applied to Village and Industrial District: The proposed amendments include a change to Section 17.82.020 that would apply existing citywide objective design standards to residential and mixed-use development in the Mixed Use Village (MU-V) and Industrial (I) zoning districts. Currently, objective design standards for the Village are in Section 17.20.030.E (General Design Standards). However, these standards apply only outside of the Village Residential Overlay (see blue hatched area in Figure 4 below).

Figure 4: Village Residential Overlay



Staff recommends applying objective design standards in Chapter 17.82 to the MU-V zoning district to ensure that development in the Village Residential Overlay preserves and enhances the unique design characteristics of this area. All standards in Chapter 17.82 would apply in the Village, including provisions in Section 17.82.030 that allow the Planning Commission to approve deviations from standards through the design permit process.

Applying objective design standards to the MU-V and I Zoning Districts will not interfere with the Capitola Mall Zoning Code updates. The Capitola Mall property is outside of the Coastal Zone and, as such, the proposed amendments will become effective on the Mall property 30 days after Council adoption. The Coastal Commission process to certify amendments within the coastal zone will have no effect on zoning for the Mall property.

Public comment on February 23, 2026, questioned using the Housing Element rezoning CEQA exemption for the proposed amendments that apply objective design standards MU-V and I Zoning Districts. Staff notes these amendments do advance Policy 1.4 Mixed-Use Development, which encourages mixed-use development and calls for the City to utilize the City's newly established Objective Design Standards to streamline review of mixed-use development. In addition, staff recommends the City Council find these amendments exempt from CEQA pursuant to CEQA Guidelines Section 15060(c)(2), which applies to projects will not result in a direct or reasonably foreseeable indirect physical change in the environment, and CEQA Guidelines Section 15061(b)(3) which provides that a project is exempt from CEQA if the activity is covered by the common sense exemption that CEQA applies only to projects which have the potential for causing a significant effect on the environment. In addition, the incorporation of objective development standards into the MU-V and I zoning districts qualifies for the categorical exemption from CEQA included in CEQA Guidelines Section 15305 for minor alterations in land use limitations, because the affected areas have an average slope of less than 20%. In addition, the objective development standards do not result in any changes in allowed land use or density; they simply affect the design and form of uses and densities already permitted within the affected zones. These CEQA exemptions are included in the revised draft ordinance (Attachment 2).

Size of Housing Units: At the meeting on February 23, 2026, the City Council requested additional information on public comments regarding the size of housing units in a Capitola Mall redevelopment project. These comments recommended establishing a minimum average unit size requirement and requiring a specific percentage of 2- and 3-bedroom units.

In the proposed Zoning Code amendments, the inclusionary housing requirement provides that a minimum of 5 percent of the project units must be either deed-restricted affordable to moderate income households or studio units with a kitchen and living space, but without a separate bedroom (as called for by the Housing Element). Staff does not recommend including additional unit size requirements as suggested by public comment. Additional size requirements would reduce development flexibility, increase per-unit construction costs, and potentially limit the number of housing units that could be produced on the mall property sites. Minimum average unit size requirements or mandated percentages of larger units can constrain project design and make it more difficult for projects to respond to market demand and financing conditions. Given this, such a requirement could conflict with Housing Element policies that call for standards that facilitate housing production on the mall property.

Transit Center TOD Incentive: At the meeting on February 23, 2026, Council Member Orbach suggested adding an incentive in the Zoning Code amendments to encourage upper-story housing above a ground-level bus transit center, similar to transit-oriented development projects in Watsonville and the City of Santa Cruz. The Code, as drafted, allows a developer to dedicate land to an affordable housing developer. The Transit Center is located on an easement held by Metro. If the property owner, City, and Metro are interested in having a combined project with transit-oriented design (TOD), the RFP could include a preference for such.

Table 5. Summary of Staff Recommendations on Remaining Items

Topic	Staff Recommendation	Ordinance Updated in Current Draft
1. Deviations	Clarify that the Planning Commission can approve discretionary deviations in connection with initial entitlements for the project that continues to apply to future approvals implementing the entitlements, and that approved deviations shall be considered consistent with the City's applicable objective standards.	Yes
2. Perimeter Zone Setback	Reduce perimeter zone to 75 feet fronting 41 st Avenue and Capitola Road for Tier 2 and Tier 3. Keep 125 feet fronting Clares Street.	Yes
3. Tiers and Commercial and Hotel Minimum	Consider the market analysis provided by KMA and direct staff on Tiers	Pending Direction on Tiers
4. Ground floor Commercial Height minimum	Modify ceiling heights to be measured from finished floor to bottom of structure and add diagram. For any tier-required new commercial space, require a minimum 16 feet clear from the ground floor to bottom of structure.	Yes
5. Density Calculation	Include street right-of-way, public easements, public open space dedicated to the City in land area used to calculate permitted density.	Yes
6. Bike lanes	No changes to Planning Commission recommendation.	Yes
7. Internal Street Requirement	Allow for the Planning Commission to grant an exception to the new internal street requirement upon findings that establishing the new internal street is infeasible.	Yes
8. Street Frontage Improvements	Include exception by Planning Commission when infeasible.	Yes
9. Existing Parking Lots	Allow existing surface parking lots between a new building and an internal street.	Yes
10. Hotel Street Presence	Require hotel presence on one street frontage within block. Parking may be on all other sides	Yes
11. Project Phasing	Add section 17.24.035.H: Phasing requirements.	Yes

Environmental Determination: The Capitola Mall Zoning Code amendments are exempt from the California Environmental Quality Act (CEQA) as these amendments implement the City's Housing Element. For the General Plan Amendment, the amendments were analyzed and considered as part of the City's adoption of the Addendum to the General Plan EIR for the City's Housing Element, such that nothing further is required under CEQA. As discussed above, the proposed amendments that apply objective design standards in the MU-V and I Zoning Districts are also exempt from CEQA pursuant to CEQA Guidelines Sections 15060(c)(2), 15061(b)(3), and 15305.

Fiscal Impact: There is no fiscal impact associated with the adoption of the Zoning Code amendments. Fiscal impacts from new development allowed by the amendments will be considered through the fiscal impact assessment requirement included in the proposed amendments.

Alignment with 2025-2029 Strategic Plan Priority: Accountable Government; Attainable Housing; Economic Opportunity; Healthy Families, Community, and Environment.

Attachments:

1. Draft Resolution Amending General Plan Land Use Element
 - Exhibit A: Proposed General Plan Amendments
2. Draft Capitola Mall Redevelopment Ordinance
 - Exhibit A: Proposed Zoning Code Amendments
3. LCP Consistency Analysis
4. LCP Amendment Application Resolution
5. Merlone Geier Letter: February 23, 2026
6. Merlone Geier Partners Letter: March 11, 2026
7. Capitola Mall Retail and Hotel Market Overview by Keiser Marston Associates
8. Councilmember Westman Suggested Tiers
9. Public Comment Received 2/24/2026 – 3/12/2026
10. February 23, 2026 City Council Meeting Materials:
<https://mccmeetings.blob.core.usgovcloudapi.net/capitolaca-pubu/MEET-Packet-f6877abf2c3f421784777cab1a307b39.pdf>

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