

Capitola City Council

Agenda Report

Meeting: February 23, 2026

From: Community and Economic Development Department

Subject: Capitola Mall and Objective Standards Zoning Code Amendments



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.

Background: On August 22, 2024, the City Council adopted amendments to the 2023-2031 Housing Element of the General Plan (Housing Element). The Housing Element establishes goals and policies for housing production in Capitola as required by state law. The Housing Element also contains programs with required City actions to implement Housing Element policies. The City must complete these actions by the dates specified for each program.

Housing Element Program 1.7 calls for the City to amend the Zoning Code to facilitate housing production on the Capitola Mall site. Specifically, this program requires the City to:

- Develop land use policies to facilitate shopping center redevelopment with a strong sense of urban design cohesion;
- Define “Capitola Mall” as all properties between Clares Street, 41st Avenue, and Capitola Road;
- Allow for building height up to 75 feet for mall redevelopment;
- Define “mall redevelopment” to mean a mix of uses that includes residential and retail/commercial components;
- Exclude parking garages from the project floor area ratio (FAR) calculations for mall redevelopment; and
- Adopt objective development standards to facilitate mall redevelopment.

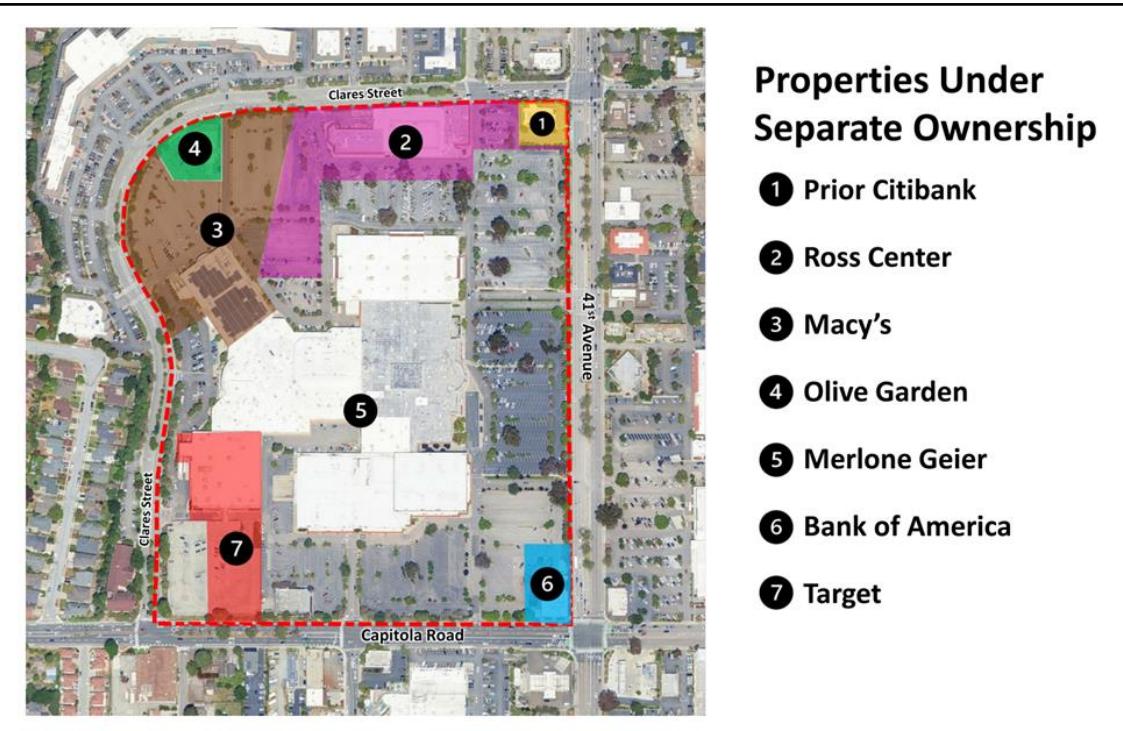
Outside of the Housing Element, the General Plan contains additional policies to guide redevelopment of the Capitola Mall site. Goal LU-8 calls for the City to “support the long-term transformation of Capitola Mall into a more pedestrian-friendly commercial district with high quality architecture and outdoor amenities attractive to shoppers and families.” Policies LU-8.1 through LU-8.5 add more specific direction on topics relating to phased mall redevelopment, parking lot redevelopment, Metro Center relocation, public gathering places, new interior streets, and other topics. To implement the Housing Element, it is necessary to update the General Plan’s Land Use Element to conform FAR requirements between the sections.

As called for in the Housing Element, the Capitola Mall Zoning Code Amendments will apply to the entire Capitola Mall property, as shown in Figure 1. The Capitola Mall property is 46 acres in size, with 14 separate parcels and seven different property owners (see Figure 2). Merlone Geier Partners (MGP) is the major property owner, controlling the enclosed mall and former Sears building (31.5 acres total). In 2019 MGP submitted a pre-application for a mall redevelopment project, which was later withdrawn due to changed economic conditions resulting from the COVID-19 Pandemic.

Figure 1: Capitola Mall



Figure 2: Capitola Mall Properties Under Separate Ownership



To conform to the requirements of Housing Element Program 1.7, the City must adopt Zoning Code amendments that allow for a development capacity of at least 1,777 units on the Capitola Mall property, as identified in the Housing Element sites inventory. For the portion of the Mall property under control by MGP, the Zoning Code amendments need to allow approximately 1,100 units. Attachment 7 explains the number of housing units assigned to the City of Capitola through the Regional Housing Needs Assessment (RHNA) and elaborates on the units specifically planned for at the Capitola Mall in the Housing Element sites inventory.

The Capitola Mall property is currently zoned Regional Commercial (C-R) and is subject to the development standards in Zoning Code Chapter 17.24 (Commercial and Industrial Zoning Districts). The Capitola Mall property is also eligible for increased FAR and building heights as an incentive to provide community benefits (Chapter 17.88). Multifamily and mixed-use development on the Capitola Mall property is subject to objective design standards in Chapter 17.82. These design standards, adopted in 2022, address topics such as parking placement, building entrance orientation, building massing, and façade and roof design. Housing Element Program 1.7 seeks to facilitate housing development at the Capitola Mall property by making the development review and approval process more predictable; increasing density and FAR allowed without the provisions of community benefits; and creating objective development standards that are tailored to Mall redevelopment.

Prior City Meetings: Over the past six months the City has held the following meetings regarding the Capitola Mall Zoning Code Amendments and associated actions to implement Housing Element Program 1.7:

- **August 28, 2025, and September 11, 2025:** City Council meetings to approve a work program to prepare the Zoning Code Amendments. On September 11, Council directed staff to proceed with the work program referred to as Option 1.5, which included a stakeholder meeting, a community workshop, three Planning Commission meetings, and one City Council meeting for the first reading of the ordinance.
- **October 2, 2025:** Planning Commission study session to receive background information about the Zoning Code Amendments and consider unique design considerations for a Capitola Mall redevelopment project.
- **October 8, 2025:** Community meeting at New Brighton Middle School to receive public input on a Capitola Mall redevelopment project.
- **October 29, 2025:** Stakeholder meeting with Capitola Mall property owners to review planned Zoning Code Amendments.
- **October 30, 2025:** Planning Commission study session to provide feedback on the general approach to the Zoning Code Amendments.
- **November 19, 2025:** Planning Commission meeting to provide feedback on draft Zoning Code Section 17.24.035 with development standards, land use regulations, and permit requirements for Capitola Mall redevelopment projects.
- **December 4, 2025:** Planning Commission meeting to review the second draft of Section 17.24.035 and the first draft of the new Chapter 17.57 (Objective Design Standards for Capitola Mall Redevelopment).
- **January 8, 2026:** City Council meeting amending the contract with Ben Noble City and Regional Planning to account for two extra Planning Commission meetings and one extra round of revisions. The amendment also included two optional public hearings if necessary.
- **February 5, 2026:** Planning Commission meeting where a public hearing was held to consider the proposed Capitola Mall Amendments, and at this hearing the Commission recommended the City Council adopt these Amendments.

At the February 5, 2026, hearing, the Planning Commission adopted resolutions recommending the City Council adopt the General Plan Land Use Element Amendments, adopt the Capitola Mall Zoning Code Amendments, and find that the actions are exempt from CEQA.

HCD Discussions: Because of the relationship between the Housing Element and the proposed Capitola Mall Zoning Code Amendments, the State of California Housing and Community Development Division (HCD) has been involved in the Amendments' development. On January 7, 2026, at City staff's request, a meeting was scheduled with HCD to provide a progress report to HCD on the Mall zoning code updates. HCD expressed support for the ongoing work towards adopting updated development standards in collaboration with MGP as the property owner and anticipated developer.

On January 13, 2025, HCD contacted City staff to inform the City that a request for technical assistance had been filed to the state related to the proposed Capitola Mall Zoning Code Amendments and suggested meeting with staff to discuss. HCD staff and City staff met on January 27, 2026, to review the proposed Capitola Mall Zoning Code Amendments in the context of the technical assistance request. After discussion and sharing context and clarifications, HCD staff identified three topic areas where they believed further refinements would be necessary.

Following the meeting with HCD, City staff drafted responsive updates into the proposed Capitola Mall Zoning Code Amendments released as part of the Planning Commission packet on January 30, 2026. After publishing the Planning Commission agenda packet, City staff received a written response from HCD providing three specific suggested modifications to the draft Capitola Mall Zoning Code Amendments that HCD staff believed would address the three areas of concern. Staff's email and HCD's response are included as Exhibit 8.

HCD's written response outlined three issues of concern from HCD, including:

1. Section 17.24.035.E Land Use Regulations. Clarifying parameters for Conditional Use Permit (CUP) submittals for residential development.
2. Section 17.57.040(B)(2). Deviations to Objective Standards. Redundancy between deviations and state density bonus law.
3. Section 17.24.035(E)(2)(c) Fiscal Impact Analysis. Update to exempt 100 percent residential projects and ensure FIA cannot be used to justify a reduction in the residential units/residential floor area in a proposed project.

In a memorandum provided to the Planning Commission on February 3, 2026, City staff identified further modifications to the Zoning Code Amendments in response to HCD's January 30th written communication for Items 1 and 3 identified above. HCD's direction regarding Item 2 was fully addressed in staff's January 30, 2026, draft, and no further revisions were proposed in response to this comment. These modifications were accepted by the Planning Commission and incorporated into the motion for the recommended amendment to City Council.

At the time of publishing the staff report for the February 23, 2026, Special City Council meeting, no additional feedback has been received from HCD.

Proposed Zoning Code Amendments: Attachment 2 contains a draft ordinance to adopt the proposed Capitola Mall Zoning Code Amendments. The proposed amendments have two main parts:

- A new Section 17.24.035 (Capitola Mall Redevelopment) with new development standards, land use regulations, and permit requirements for Capitola Mall redevelopment projects.
- A new Chapter 17.57 (Objective Design Standards for Capitola Mall Redevelopment) with site and building design standards for Capitola Mall redevelopment projects.

The proposed amendments implement Housing Element Program 1.7 with objective standards and a streamlined permit process to facilitate housing production on the Capitola Mall property.

Under existing rules, proposed development on the Mall property may request increased FAR and height using Chapter 17.88 (Incentives for Community Benefits). Under Chapter 17.88, a project may request increased FAR and height (up to 2.0 and 50 ft.) in exchange for providing community benefits that exceed

minimum City requirements. The City Council may allow increased height and FAR only after finding that the project provides a substantial benefit to the community and advances the goals of the general plan (among other findings).

The proposed amendments separate increased height and FAR on the Capitola Mall property from the community benefits process in Chapter 17.88. Instead, a proposed project is entitled to increased height and FAR if it complies with new objective standards. This new approach will facilitate housing production, increase certainty for developers and the community, and ensure a quality Mall redevelopment project consistent with City goals and policies.

The following discussion describes key aspects of the proposed amendments.

Section 17.24.035 (Capitola Mall Redevelopment)

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. Under this system, Tier 1 allows residential-only development subject to new development standards mandated by the Housing Element. Tiers 2 and 3 allow for additional building height and residential density for mixed-use redevelopment projects that include specified amounts of new hotel and commercial development.

As summarized in Table 1, Tier 1 allows a maximum density of 48 units per acre with no required non-residential uses. 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 3 shows these zone boundaries. The Tier 1 maximum FAR is 2.0, excluding parking garages.

Tiers 2 and 3 incentivize mixed-use redevelopment on the Mall property with increased height, density, and other development incentives that are available to projects that incorporate specified amounts of retail and hotel development along with new residential uses. For Tier 2, a project must include a hotel with at least 85 rooms and 3,000 square feet of meeting space and 30,000 square feet of new commercial space project to qualify for incentives. A project has two options to qualify for Tier 3: include a hotel with 125 rooms and 4,000 square feet of meeting space and 40,000 square feet of new commercial space; or provide at least 200,000 square feet of new commercial space with no hotel requirement. For Tier 3, a project receives a density increase to 53 dwelling units per acre and a height of 85 feet in the core zone. For both Tier 2 and Tier 3 projects, parking garages, hotels, retail, and roof top decks are excluded from the FAR calculation.

Table 1: Capitola Mall Redevelopment Tiers

	Tier 1	Tier 2	Tier 3	
			Option A	Option B
Residential Uses				
Density				
Min.	20 du/ac	20 du/ac	20 du/ac	
Max.	48 du/ac	48 du/ac	53 du/ac	
Affordable Units	20%	20%	20%	
Non-Residential Uses				
Hotel Rooms (min.)	None	85	125	None
Hotel Meeting Space (min.)	None	3,000 sf	4,000 sf	None
New Commercial Space (min.)	None	30,000 sf	40,000 sf	200,000 sf
Development Standards				
Height (max.)	75 ft.			
Perimeter Zone	55 ft.	65 ft.	65 ft.	
Core Zone	75 ft.	75 ft.	85 ft.	
FAR	2.0*	2.0*	2.0*	

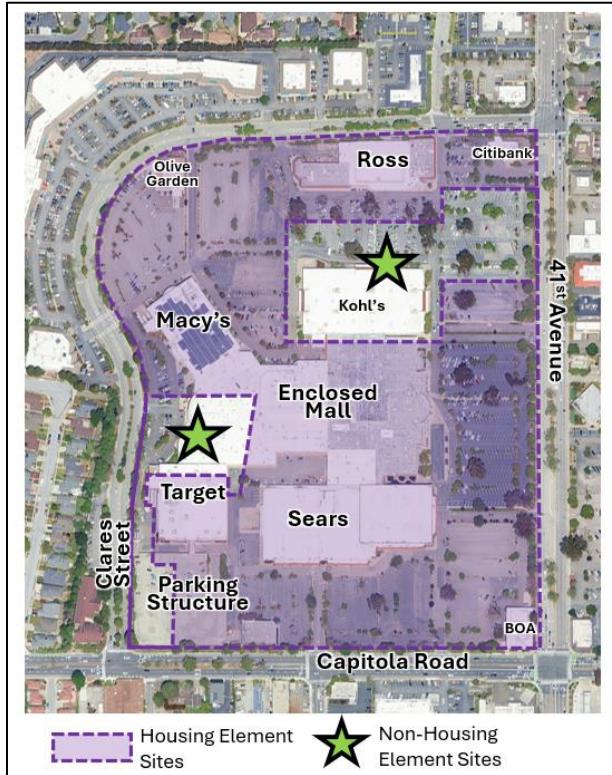
*FAR calculation excludes parking garages and hotels in all tiers and rooftop decks in Tier 2 and 3.

The standards in Table 1 apply to development on a Capitola Mall Housing Element Site. On a Capitola Mall parcel that is not a Housing Element Site (see Figure 4) the maximum residential density is 20 dwelling units per acre and development must comply with the development standards that apply to all other properties in the CR zone. At the time of adopting the housing element, MGP asked that two sites on the mall property be removed from the sites inventory due to configuration of existing structures and parking areas, existing lease terms (Kohl's), CC&R provisions, and shared parking agreements.

Figure 3: Perimeter Zone and Core Area



Figure 4: Housing Element Sites



Density: The proposed amendments also establish rules for calculating residential density on development sites with multiple parcels. Specifically, density of a proposed development on the Capitola Mall property is calculated on a project wide basis using the total combined land area for all contiguous parcels under single ownership regardless of whether dwelling units are proposed on an individual parcel. For instance, the density associated with the Takara parcel could be developed on the Sears parcel.

Parking: Residential uses in a Tier 1 project must comply with the City's existing multifamily parking standards, as shown in Table 2.

Table 2: Required Parking for Tier 1 Residential Uses

Unit Size	Minimum Spaces per Unit
Up to 500 sf	1.0
501-750 sf	1.5
751 sf or more	2.0

For residential uses in Tier 2 and Tier 3 projects, the proposed amendments require on-site parking spaces as shown in Table 3.

Table 3: Required Parking for Tier 2 and Tier 3 Residential Uses

Unit Size	Minimum Spaces per Unit
Studio	0.8
1 bedroom	1.0
2 bedroom	1.6
3 bedroom	2.0

Parking requirements for Tier 2 and Tier 3 projects are reduced as an incentive for mixed-use mall redevelopment.

Inclusionary Housing Requirement: As called for by the Housing Element, the proposed amendments establish the following affordable housing requirement for new residential development on the Capitola Mall property:

- A minimum of 15 percent of the units deed restricted affordable to lower income households.
- A minimum of 5 percent of the units either deed restricted affordable to moderate income households or studio units with a kitchen and living space but without a separate bedroom.

Rental and ownership housing projects must provide either on-site affordable units or dedicate land for an affordable housing development project. Payment of in-lieu fees is not permitted. Dedicated land must be transferred to a developer approved by the City and meet other requirements specified in the proposed amendments.

All other requirements in the City's inclusionary housing ordinance in Municipal Code Chapter 18.02 (Affordable (Inclusionary) Housing) would continue to apply to a Capitola Mall redevelopment project.

Allowed Land Uses: Currently, residential uses are allowed on the Capitola Mall property only as part of a mixed-use development and require a Conditional Use Permit (CUP) approved by the Planning Commission. Hotels also require a CUP and restaurants require a Minor Use Permit (MUP) approved by the Community Development Director.

The proposed amendments aim to incentivize mixed-use redevelopment by allowing hotels, retail, restaurants, and cultural institutions (museums) as desired non-residential uses without a CUP for Tier 2 and Tier 3 mixed-use projects.

As required by state housing element law, the amendments allow residential uses both with and without a commercial component. All residential uses continue to require a Conditional Use Permit (CUP). In response to HCD comments the amendments state that when reviewing a CUP for residential uses, the City will not consider whether the proposed housing is suitable land use for the property. Instead, the City's review will focus on specified considerations related to site layout, circulation, operating characteristics, and other similar topics. The City may not impose conditions that would deny the project or reduce project density.

Permit Requirements: Within the existing code, a mall redevelopment project requesting increased height and FAR under Chapter 17.88 requires a minimum of four public meetings, including conceptual review by both the Planning Commission and City Council, a Planning Commission recommendation, and final City Council Approval. Development also requires a Design Permit under Chapter 17.120.

The proposed amendments streamline the existing permitting process by eliminating the conceptual review requirements for Capitola Mall redevelopment projects. The City Council remains the final review authority for redevelopment projects after a Planning Commission recommendation. The proposed amendments also add the requirement for an applicant proposing new residential uses to host a community meeting before the City deems an application complete.

Fiscal Impact Analysis: Section 17.24.035.F requires a fiscal impact analysis (FIA) for any proposed development project with new residential uses on the Capitola Mall property, except that an FIA is not required for a stand-alone 100 percent affordable housing development project. The FIA will estimate the incremental change to annual reoccurring City revenues and expenditures generated by the project and describe proposed mitigation to offset any projected negative fiscal impact. An applicant must submit at time of application a FIA prepared by a qualified economic consultant, which would be peer reviewed by an independent economic consultant hired by the City and funded by the applicant.

Section 17.24.035.F.3 states that “the City shall consider the findings of the FIA to inform the decision-making body about future land use and planning decisions that may be necessary in response to the proposed development project's fiscal impacts when reviewing and acting on the proposed development project. The findings of an FIA shall not be used as a basis to deny or reduce the density of a housing project.” This language was added in response to comments from HCD (see Attachment 8).

Objective Design Standards: Currently, multifamily and mixed-use development on the Capitola Mall property is subject to objective design standards in Zoning Code Chapter 17.82. These existing standards were prepared for a type and scale of development that includes less intensity than what is expected for Mall redevelopment. For this reason, the Zoning Code Amendments create a new set of objective standards specifically tailored to mid-rise development, including both residential-only apartments and vertical mixed-use development.

The objective design standards focus on design issues important to the successful mixed-use redevelopment of the Capitola Mall. Street and circulation standards require a new block pattern with new streets and improvements that maximize connectivity for vehicles, bicycles, and pedestrians. Publicly accessible open space standards require new plazas, parks, and other open space to provide public gathering areas, enhance community identity, and support social interaction. These site layout and design standards focus on the quality of the public realm as the foundation for a successful mall redevelopment project.

The objective design standards aim to ensure that new development at the mall reflects the scale, rhythm, and authenticity of a traditional urban block. Because Capitola does not have a singular architectural style, the standards require varied and distinct façade identities at regular intervals to introduce visual diversity within each block. This approach prevents a large project from appearing monolithic and supports a streetscape character that is consistent with Capitola's eclectic and varied architectural environment.

Building design standards emphasize reducing the perceived mass and box-like appearance of buildings. Buildings over 200 feet in length must include massing breaks and unique facade identities with visually distinct portions of the building frontage. Ground-floor building facades facing a street or publicly accessible open space must include transparent windows, visually prominent entries, and other features to support an active and welcoming pedestrian environment.

The objective design standards do not mandate specific architectural styles and do not include prescriptive standards for roof forms, windows, balconies, and other building elements. Instead, the standards focus on basic elements of successful urban design while providing project designers with flexibility to meet these standards in a variety of different ways. This approach encourages design diversity within a mall redevelopment project as an essential component for authentic placemaking consistent with Capitola's unique identify and sense of place.

The proposed objective design standards would apply to all development on the Capitola Mall property except for improvements and minor additions to existing buildings. Noteworthy design standards in Chapter 17.57 include the following:

- Streets and Circulation
 - New internal streets must be privately owned and maintained.
 - Required locations for new streets intersecting Capitola Road, Clares Street, and 41st Avenue.

- Required new internal streets proving connections between perimeter streets.
- Maximum 450 feet block lengths.
- Required internal pedestrian and bicycle circulation system.
- Required perimeter and internal street pedestrian realm frontage improvements.
- Publicly Accessible Open Space
 - Minimum amount of open space: 2.5 percent of site area for Tier 2 and Tier 3 projects and 5 percent of site area for Tier 1 projects.
 - Permitted types of open space: plazas, squares, parks, parklets, paseos/pedestrian paths.
 - Required central gathering place for projects on a site greater than 10 acres
- Parking and Vehicle Access
 - New surface parking prohibited between buildings and internal streets (excluding hotels)
 - Allow continued use of existing surface parking lots.
 - Limitations on width and frequency of driveways crossing an internal sidewalk.
 - Disallowed street-facing garage doors serving individual units.
 - Structured parking concealed from view.
- Building Placement and Orientation
 - Required building setbacks consistent with pedestrian realm standards for internal and perimeter streets.
 - Permitted upper-level building projections into required setbacks and frontage zones.
 - Required entries facing an adjacent street, publicly accessible pathway, or publicly accessible open space.
- Building Massing
 - Maximum building length: 450 feet.
 - Required building massing breaks for buildings longer than 260 feet.
 - Reduced building heights along perimeter streets (standard in Chapter 17.24)
- Facade Design
 - Required unique facade identities for building longer than 150 feet.
 - Residential ground-floor design standards: transparency, finished floor level, entry design.
 - Commercial ground-floor design standards: ground-floor height, transparency, blank wall length, tenant space depth.
 - Hotel standard: Minimum one facade must front a street with no surface parking between facade and sidewalk.
 - Required 2-inch change in plane for windows and doors.
 - Rooftop mechanical equipment screened from view.
 - Prohibited exterior facade materials.
- Other Site Features
 - Refuse storage and collection areas and ground-mounted mechanical equipment screened from view.

Chapter 17.57 also includes a process to allow deviations from mall redevelopment design standards. The Planning Commission may approve a deviation upon finding that 1) the project incorporates an alternative method to achieve the intent statement that proceeds the standard; and 2) the requested is needed due to unique site conditions and/or to provide for a superior project design.

Retail and Hotel Market Analysis: Keyser Marston Associates, the City's economic development consultant, prepared a Capitola Mall Retail and Hotel Market Overview to help inform decision making on the Zoning Code Amendments (Attachment 3). 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. The report also finds 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.

Fiscal Impact Model: In 2019, MGP submitted an application for mall redevelopment which included a net decrease of 30,000 square feet of overall commercial, while adding 637 residential units, a new street grid, and parks. Kosmont & Associates prepared a Capitola Mall Fiscal Impact Analysis for the City including assumptions that the City would maintain the streets and parks in the new development. The study concluded an additional cost of \$785 per new resident to the City. The application was withdrawn in 2020 due to the COVID-19 Pandemic.

In developing the current code amendments, MGP has explained that due to retail market conditions, future redevelopment of the mall will have significantly less commercial space, considerably more housing, and may include a hotel. The developer also clarified that the streets and parks will be publicly accessible but privately maintained by the property owner and not an additional cost to the City. With significantly less commercial space now anticipated, staff evaluated calls for service data for multiple projects to help understand how demand for Police services could potentially change.

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.

Table 1 summarizes the inputs and outputs of the fiscal impact model. Four redevelopment scenarios were analyzed in the model, based on the maximum allowed density and minimum required non-residential 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 financial impacts of each tier.

The model estimates 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 4.

Table 4: Fiscal Impact Analysis on MGP Mall Redevelopment

	Redevelopment Scenarios			
	Tier 1	Tier 2	Tier 3A	Tier 3B
Development Assumptions	48 du/ac	48 du/ac	53 du/ac	53 du/ac
New Units	1,256	1,256	1,326	1,326
Specialty Retail	0	30,000 sf	40,000 sf	40,000 sf
General Retail	0	0	0	160,000 sf
New Hotel	0	85 rooms	125 rooms	0
Meeting Space	0	3,000 sf	4,000 sf	0
Fiscal Impact				
Annual Cost - Adjusted Kosmont	\$1,225,509	\$1,225,509	\$1,293,810	\$1,293,365
Annual Revenue Increase	\$448,840	\$1,496,277	\$1,981,392	\$2,053,580
Projected Net Impact	\$(776,669)	\$270,768	\$687,583	\$431,270

It should be noted that the 160,000 square feet of general retail in Tier 3B is assumed to be productive large-format retail space. If the space was occupied by a grocery or fitness facility the revenue from Tier 3B would be reduced. For reference, the hotel transient occupancy tax (TOT) in Capitola is 12 percent of total guest payment, with the City collecting 100 percent of TOT collected. Sales tax is 9.25 percent, of which the City receives 1.5 percent, and property tax is 1 percent of assessed value, of which City receives 7.47 percent on average.

Proposed General Plan Amendment: Attachment 1 contains a draft resolution to amend the General Plan Land Use Element Amendment for consistency with the Housing Element and Zoning Code Amendments. The draft text amendment would add the following language to Action LU-9.3: "On the Capitola Mall property, a maximum FAR of 2.0 is permitted for residential and mixed-use development that complies with objective standards in the Zoning Code."

Local Coastal Program: The Zoning Code is part of Capitola's Local Coastal Program (LCP), and as such, Zoning Code Amendments for property in the Coastal Zone must be certified by the Coastal Commission before they become effective. When adopting LCP amendments, the Coastal Commission requires cities to consider consistency with the LCP Land Use Plan and potential impacts on public access to the coast. This required analysis is provided in Attachment 4. Attachment 5 contains a draft resolution authorizing City staff to submit the Zoning Code Amendments to the Coastal Commission for certification. Note that the LCP amendments are only necessary to apply portions of the Zoning Code Amendments to areas of the city in the Coastal Zone, such as within the Village. The Capitola Mall property is not located within the Coastal Zone, and therefore the proposed General Plan Amendment and Zoning Code Amendments would not require Coastal Commission certification to become effective.

Environmental Determination: The Capitola Mall Zoning Code Amendments are exempt from the California Environmental Quality Act (CEQA) pursuant to Public Resources Code 21080.085, which states that "This division does not apply to a rezoning that implements the schedule of actions contained in an approved housing element pursuant to subdivision (c) of Section 65583 of the Government Code." Here, the Housing Element's Program 1.7 sets for a schedule of actions calling for the City to update the Zoning Code to facilitate Mall redevelopment by allowing up to 75 feet in height, excluding parking from FAR calculations, allowing development up to an FAR of 2.0, and adopting objective development standards. Because the proposed Zoning Code amendments implement this schedule of actions, its adoption is exempt from CEQA.

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. The amendments bring the Land Use Element into conformance with the adopted Housing Element consistent with the proposed Zoning Code Amendments. There are no proposed changes to the General Plan that would require major revisions of the previous EIR or its Addendum due to the involvement of new significant environmental effects or a substantial increase in the severity of previously identified significant effects.

Fiscal Impact: There is no fiscal impact associated with 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. 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. Keyser Marston Capitola Mall Retail and Hotel Market Overview
4. LCP Consistency Analysis
5. LCP Amendment Application Resolution
6. Capitola Mall Frequently Asked Questions
7. Regional Housing Needs Allocation (RHNA) and Capitola Mall Sites Information
8. HCD Correspondences

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