

Capitola City Council

Agenda Report



Meeting: September 11, 2025

From: Community and Economic Development Department

Subject: Capitola Mall Update and Amendment to Agreement with Ben Noble Planning

Recommended Actions: 1) Receive update on the Capitola Mall and Housing Element implementation Programs 1.6 and 1.7 related to the City's zoning amendments; 2) Provide direction on the preferred approach to updating the City's Zoning Code; 3) Adopt a resolution amending the FY 2025-26 Budget to allocate funding for Housing Element Implementation; and 4) Authorize the City Manager to execute Amendment 1 to the Professional Services Agreement with Ben Noble Planning to assist in Housing Element implementation. (*Continued from August 28, 2028*)

Background: As part of the City's adopted 6th Cycle Housing Element, Program 1.6 (Development Regulations) and Program 1.7 (Shopping/Commercial Center Redevelopment) identify the Capitola Mall site as a key opportunity for redevelopment to help meet regional housing needs while supporting economic development and community character.

Housing Element Program 1.6 directs the City to review and revise Chapter 17.88 of the Zoning Code, Incentives for Community Benefits, to modify the required findings for future redevelopment of the Capitola Mall Site to require compliance with objective standards, expand the Community Benefits zoning boundary; and increase the incentives for redevelopment on the Capitola Mall Site to allow a maximum Floor Area Ratio (FAR) of 2.0 (excluding parking garages), and a maximum building height of 75 feet.

Housing Element Program 1.7 addresses the changing retail environment and directs the City to study and facilitate mixed-use redevelopment of the Capitola Mall site. Specifically, the program calls for amending Chapter 17.88 of the Zoning Code by the end of 2025 to:

1. Develop land use policies to facilitate shopping center redevelopment with a strong sense of urban design cohesion.
2. Define "Capitola Mall" as all properties between Clares Street, 41st Avenue and Capitola Road.
3. Allow for building height up to 75 feet for Mall Redevelopment.
4. Define "Mall Redevelopment" to mean a mix of uses that includes residential and retail/commercial components.
5. Exclude parking garages from the project FAR calculations.
6. Adopt objective development standards to facilitate mall redevelopment.

Housing Element Program 1.7 also direct the City to annually work with property owners and developers to pursue redevelopment opportunities of the Capitola Mall site. In accordance with this program, and to gather feedback in preparation for the zoning code updates for the Mall site, staff met with a representative of Merlone Geier Partners (MGP), the majority owner of the Capitola Mall site.

At the initial meeting in May, staff learned that MGP was interested in the City pursuing a form-based code to create greater certainty in the review process. At a follow-up meeting in June, staff had the opportunity to ask more questions about the request for form-based code and received insight on similar zoning updates in Alameda, CA. Since the initial two meetings, staff have been working with Ben Noble Planning to identify the steps and costs associated with implementing a form-based code. At the third meeting with MGP on July 23, 2025, staff reported the estimated cost (\$150,000–\$200,000) and timing (1 year) of adopting a form-based code for the mall site. Following the meeting, on August 1, 2025, staff received an email from MGP requesting a change in direction and expressing MGP's preference to streamline updates and adopt changes before the end of 2025.

On May 23, 2024, the City Council authorized a contract with Ben Noble Planning in the amount of \$124,375 to implement Housing Element programs. The funding for this agreement was a mix of REAP 2.0 grant funds (\$64,375) and General Plan funds (\$60,000). The City adopted the majority of the Housing Element implementation items in 2024 but incurred higher than anticipated costs for the multifamily zoning amendments.

The contract for \$124,375 has a remaining balance of \$46,611. Staff recommends amending the contract with Ben Noble to include additional funds to implement Housing Element Programs 1.6 and 1.7. The additional funds, ranging from \$45,781 to \$161,484, is due to the additional costs associated with multifamily amendments and the higher costs associated with implementing Program 1.6 and 1.7, as discussed below.

On August 28, 2025, the Council received a report from staff with three options to implement Housing Element Programs 1.6 and 1.7, and continued the item to this September 11, 2025, meeting. In that action, the Council formed a subcommittee (composed of Council Members Orbach and Westman) to engage in discussions with MGP and return to the Council on September 11th. The Council also directed staff to reach out to the other property/business owners within mall block to inform them of the current planning efforts, upcoming meeting, and invite them to participate as stakeholders in the zoning code updates. On September 3rd, the subcommittee met with MGP and discussed how they could provide information to the City and community about their plans for redevelopment. A MGP representative will attend the September 11th meeting. Also, staff reached out to stakeholders within the mall block to inform them of the recent event and invite them to participate in future steps.

Following the meeting, staff received questions regarding the number of units assigned to the Capitola Mall in the Housing Element. Attachment 7 includes a summary of the process, and actions, that lead to the final 1,777 units being assigned to the Mall site.

Discussion: To implement Housing Element Programs 1.6 and 1.7 and facilitate redevelopment of the Capitola Mall, the City must update its Zoning Code and General Plan. Staff, in coordination with Ben Noble Planning, has identified three potential approaches for consideration, each with varying timelines, levels of public engagement, and costs.

Option 1 – Objective Standards: This option would amend multiple sections of the Zoning Code and General Plan to replace discretionary review with objective standards, increase height and FAR allowances, and update objective standards with anticipated building types. It would include three stakeholder meetings, one community workshop, and interim presentations to the Planning Commission and City Council to review preliminary standards prior to publishing the public draft. This approach completes the project in April 2026 to allow for input and refinement. Estimated cost: \$75,972 (See Attachment 2). If the City were to take this approach, property owners within the mall block could submit a redevelopment plan in May 2026 with the increased height and FAR that would be reviewed against the new objective standards.

Option 2 – Expedited Objective Standards: This option includes the same Zoning and General Plan amendments as Option 1 but incorporates a more limited public engagement process. Public engagement would be limited to initial stakeholder input and public participation through public hearings at Planning Commission and City Council meetings. This approach allows completion by January, with most work occurring early in the process. Estimated cost: \$45,781 (See Attachment 1). With this approach, mall property owners could submit a planning application for redevelopment in late January 2026 that would be reviewed against the new objective standards. MGP has requested this option.

Option 3 – Form-Based Code: This approach would replace conventional zoning for the site with a form-based code, which focuses on the physical form and relationship of buildings to streets, sidewalks, and public spaces. It would establish cohesive design standards for height, massing, setbacks, architecture, landscaping, and public amenities, and could require commercial uses along main streets or gathering areas. A form-based code also includes a regulating plan, which is a map that designates where different building standards apply. This plan would guide the character and intensity of the development within the Mall site. This process provides the highest level of design control and predictability, but requires

significant time, funding, and coordination with the property owners. A unique feature of this option is a multi-day workshop design-charrette to receive early input from the property owners and the public. Estimated cost: \$162,000. After receiving the comments from MGP related to timing, the consultant was able to cut back the timeline from one year to approximately 8 months (Attachment 3). If the City were to take this approach, mall property owners could submit a redevelopment plan with the increased height and FAR in May 2026, to be reviewed against the highly prescriptive form-based code and regulating map.

	Option 1 – Objective Standards	Option 2 – Expedited Objective Standards	Option 3 – Form-Based Code
Description	Amends Zoning Code and General Plan to replace discretionary review with objective standards; increases height/FAR; tailored to likely building types and includes multiple public outreach opportunities	Same as Option 1, but eliminates three stakeholder meetings, one community workshop, and interim Commission and Council review.	Zoning framework based on building form, public space, and streetscape design; establishes cohesive, mixed-use vision for the site.
Timeline for Completion	April 2026	Jan. 2026	May 2026
Estimated Cost	\$76,000	\$46,000	\$162,000
Public Engagement	Stakeholder meetings, workshop, interim reviews	Initial stakeholder input + public hearings	Early engagement with multi-day workshop design-charrette and coordination with property owner and residents
Key Advantages	Balances timely completion with public engagement; substantially complies with State housing law; predictable design outcomes and placemaking.	Quickest and least expensive option; meets Housing Element requirements; aligns with property owner preference; predictable design outcomes and placemaking	High-quality, predictable design outcomes; supports walkability and public space; allows comprehensive site planning.
Key Considerations	Less prescriptive than form-based code; more community engagement; more PC/CC involvement; slightly longer and increased City costs as compared to Option 2.	Staff/consultant led; limited community engagement; less PC/CC involvement; less time to carefully consider and develop standards.	Highest cost; longest timeline; likely requires property owner participation for success.

For all options, an economic consultant will assist in the review of the updates with the goal of ensuring redevelopment has a fiscal positive outcome for both the developer and the City.

Fiscal Impact: The \$124,375 Contract with Ben Noble Planning has a remaining balance of \$46,611. The original Contract allocated \$64,375 for Housing Element implementation and \$20,000 per year for annual code updates over three years (\$60,000 total). The contract spans three fiscal years, beginning in FY 2024-25.

Given the ongoing changes to state housing laws, staff recommends reserving the remaining \$46,611 in the Contract for code updates over the next two years and amending the contract to cover the full cost of the Mall option selected by the City Council.

The resolution, budget amendment, and contract amendment each have sections to be updated (description and cost) depending on the option selected by City Council, as follows:

Option 1	Objective Standards	\$76,000
Option 2	Expedited Objective Standards	\$46,000
Option 3	Form Based Code	\$162,000

Mall-related updates are part of the Housing Element implementation and will be funded through the General Plan Special Revenue Fund.

Attachments:

1. Option 1: Objective Standards
2. Option 2: Expedited Objective Standards
3. Option 3: Form Based Code
4. Contract Amendment
5. Resolution
6. Budget Amendment
7. Mall and RHNA Unit Summary

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Approved By: Jamie Goldstein, City Manager

Attachment 7 edited on September 9th to correct the background section on page 1.