



**CITY OF ALBANY
MEMORANDUM**

DATE: May 21, 2025
TO: Climate Action Committee
FROM: Michelle Plouse, Community Development Analyst
SUBJECT: Heat Pump Rebate Program Updates

RECOMMENDATION

Receive presentation and discuss.

BACKGROUND

The City of Albany Climate Action and Adaptation Plan (CAAP) established the objective of 70% greenhouse gas (GHG) emissions reductions by 2035, and net zero emissions by 2045. The CAAP focuses on reducing emissions from the City's largest emissions sectors, including new and existing buildings. An estimated 40% of GHG emissions in Albany result from the building sector, specifically from the use of natural gas appliances. The main strategy for decarbonization of the building sector is electrifying new and existing buildings and increasing carbon-free content of electricity. Heating, ventilation, and air-conditioning (HVAC) systems are a priority for electrification as they often use more natural gas than other home appliances. Heat pump HVACs are all-electric, efficient alternatives to traditional gas furnaces and also provide climate adaptation benefits such as cooling (as they are 2-in-1 systems, also known as "two-way air conditioning"). Heat pumps do not combust fossil fuels, so they also have safety benefits in the form of no carbon monoxide (unlike gas furnaces) and do not create NOx emissions (which contribute to smog).

On October 20th, 2021 staff presented a proposal for a heat pump heating, ventilation, and air-conditioning (HVAC) rebate program to the Climate Action Committee. The Committee unanimously recommended that it be adopted by the City Council. On March 7th, 2022 the program was approved by the Council with a budget of \$40,000, increasing general fund appropriations by that amount. The program launched on June 1st 2022. On February 6th, 2023, Staff requested additional funds for the program, as the initial budget had run out. Council appropriated an additional \$65,000 and made a few changes to the funding levels, including adding an increased amount for moderate income households. On February 5th, 2024, staff requested yet another round of funding for \$75,000, giving the program a total of \$180,000 combined. The Council also increased the rebate levels for low and moderate-income households. The details of the current program are described below.

On March 19th, 2025, the Climate Action Committee discussed possible updates to the program and created a subcommittee to create a proposal.

DISCUSSION

Program Details

The program offers rebates in the following amounts:

	Standard Rebate	Moderate-Income	Low-Income
Ducted Heat Pump	\$1000	\$3000	\$6000
Ductless Heat Pump	\$500	\$1000	\$1500
Electric Panel Upgrade (with heat pump)	\$500	\$1000	\$2000

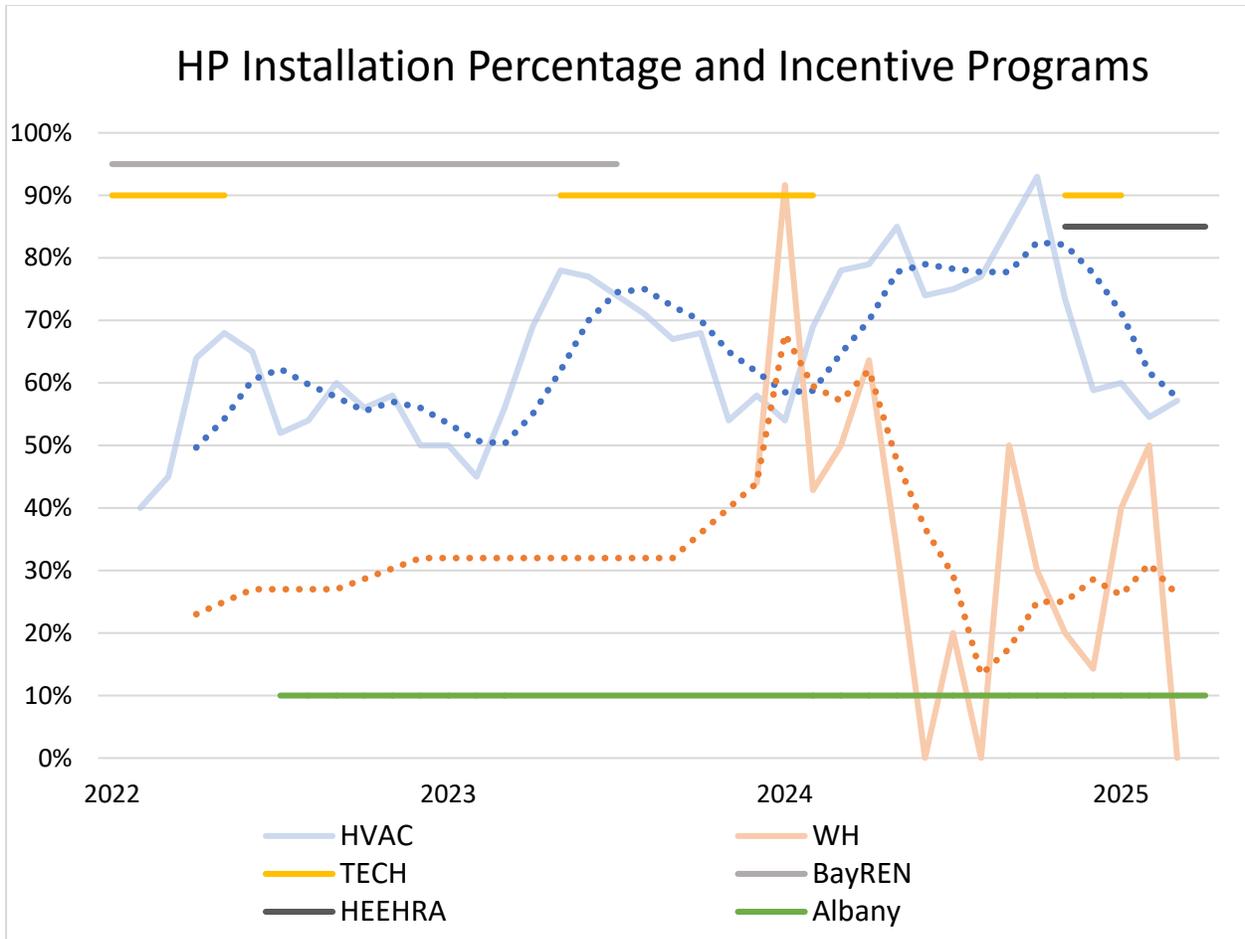
In order to be eligible, heat pump installations must be in the City of Albany, receive a building permit, and apply for the rebate within 4 months of receiving a permit. Electrical panels must have been upgraded no more than 6 months prior to the heat pump permit to be eligible. A low-income household is defined as below 80% of the median income for the county or metro area. Moderate-income households are between 80% and 120% of the area median income (AMI). The exact income amounts per household are listed on the program website. The program also offers a \$750 signing bonus to contractors who register with the Bay Area Regional Energy Network (BayREN) or the Technology and Equipment for Clean Heating (TECH) program.

Changing conditions

Since the creation of the rebate program, the popularity of heat pumps has grown drastically.

Last year, heat pumps made up 75% of all HVAC permits in Albany. As heat pumps become more common place and standard, the rebate program inevitably has less of an impact, particularly on higher income households. One way that this is appearing in our data is in the number of heat pumps installed without the homeowner seeking a rebate. When the program launched, about 50% of installations received a rebate. Last year, that was down to 40%.

Meanwhile, heat pump water heaters have increased in popularity as well, but they are significantly lagging behind heat pump HVAC systems. Last year, heat pump water heaters made up 42% of water heater permits. However, many water heater installations (especially gas water heaters) are done without a permit, probably around two-thirds. So the actual percentage of heat pump installations is likely 10-20%. The chart below shows heat pump HVAC and water heater installations by month alongside the timelines of various incentive programs. It shows that water heaters are particularly sensitive to rebate availability. Likely because of the low incremental cost and the fact that replacements are rarely pre-planned.



Additionally, due to Bay Area Air Quality Management District (BAAQMD) Rule 9-6 and 9-4 requiring only electric HVAC and water heating installations in coming years, there is an increased need to raise awareness among homeowners to proactively electrify and plan ahead for things like panel capacity, wiring upgrades, and other installation complications.

All of these factors are reason to consider shifting the program to prioritize heat pump water heater installations. The rebate subcommittee has developed a framework for changes to the program. The subcommittee has not yet developed this into a formal proposal for recommendation to the Council, as some elements need to be finalized and would benefit from Committee discussion.

Proposed Program Changes

Water Heater Rebates: The main proposed change is the addition of rebates for heat pump water heaters. The rebate amounts would follow a similar format to the existing HVAC rebates by a standard rebate, a moderate-income rebate, and a low-income rebate. The incremental cost of a heat pump water heater according to permit data is \$1000, however other estimates including non-permitted projects put the cost closer to \$2000. With this in mind, the subcommittee proposes amounts in the following ranges:

- Standard: \$500-1000
- Moderate-income: \$1000-1500
- Low-income: \$2000-4000

Staff estimates that in the coming year, such a program may receive about 25 rebate applications, with about 3-5 moderate and low-income applications each. The low-end of the rebate range would therefore cost about \$20,000, and the high end of the range about \$40,000.

HVAC Rebates: The subcommittee recommends keep the moderate and low-income rebates for heat pump HVACs the same. The larger amounts have a great impact on the incremental cost of a heat pump, which averages to about \$7,000, and make more of a difference for these lower income households. The subcommittee has not yet come to a determination about the standard rebate. The committee may decide to keep it the same, lower it, or end it entirely. As mentioned above, the impact of the rebate has lessened over time, and the subcommittee feels it is now a lower priority than water heater rebates. Staff estimates that at the current \$1000 level, the standard rebate would cost approximately \$30,000 next year. That amount is equivalent to the mid-range cost of new water heater rebates, so it is possible to keep the program cost static by eliminating the standard HVAC rebate. In order to keep the rebate in place, while also adding water heater incentives, the committee would need to request additional funding.

Ductless HVAC Rebate: Currently, ductless heat pumps are offered a lower rebate than ducted heat pumps, because the incremental cost is lower. Ducted heat pumps cost about \$7,000 more than ducted furnaces, whereas ductless heat pumps cost about \$3,000 more than ductless furnaces. However, it has become more common in recent years to install multiple ductless heat pump units in a single home. This approach can often be simpler and less expensive than a ducted unit, but it does raise the overall project cost to be nearer to a ducted heat pump. For multi-unit ductless installations, the average cost is \$7,500 per unit, while the average cost of a ducted heat pump is \$19,000. There may be value in providing a larger incentive for these projects to better match the cost. However, the exact structure of such an incentive risks becoming excessively complicated. One approach might be to offer a double rebate for multi-unit installations. Or perhaps, to offer a 1.5x rebate for 2 units and a 2x rebate for 3 units.

Panel Upgrades: The subcommittee recommends keeping the bonus for panel upgrades the same, but making them available for households receiving a water heater rebate as well. The bonus has been utilized by about 25% of rebate recipients, suggesting that it is still a fairly common necessity and therefore a barrier for some households. The average cost of a panel upgrade is \$5000, making the rebate amounts roughly in line with the impact of the HVAC rebate. Making this bonus available to water heater recipients would likely cost about \$3000. If the standard HVAC rebate is eliminated, that would lead to a savings of about \$4,000.

Budget

The rebate program was initially created in March, 2022 with a budget of \$40,000. This was “tagged” as a Measure DD program, utilizing funds from the increase in the Utility User’s Tax passed in November 2020. However, because this tax funds the general fund, technically, the budget for the program has come from the Community Development department budget.

The proposed biennial budget for fiscal years (FY) 2025/26 and 2026/27 include approximately \$60,000 per year for the rebate program within the department budget. This is based on the three appropriations made for the program: \$40,000 in 2022, \$65,000 in 2023, and \$75,000 in 2024. The department budget does not list out particular programs in order to provide flexibility, so the \$60,000 is not a line item specifically budgeted to the program, but rather what the department plans to spend based on overall estimated department costs. This approach allows the department to shift funding as needed as issues

arise, priorities change, or additional funds open. The department may reduce or add funding to the program over time, but the planned expenditure is \$60,000, and that amount can be utilized for the committee for purposes of designing the program. If the committee wants to design the program in a way that would require more funding, for instance adding water heater rebates and keeping the standard HVAC rebate, it would be necessary to request that the Council add funds to the community development department budget for that purpose.

ATTACHMENTS

None.