



CITY OF ALBANY CITY COUNCIL AGENDA STAFF REPORT

Agenda Date: July 21, 2025
Reviewed by: NA

SUBJECT: Updates to the Heat Pump Rebate Program
REPORT BY: Michelle Plouse, Community Development Analyst

SUMMARY

The matter before the Council is to consider updates to the heat pump rebate program to adjust to new market conditions and create rebates for heat pump water heaters.

CLIMATE ACTION COMMITTEE RECOMMENDATION

Update the heat pump rebate program to include rebates for heat pump water heaters, end the standard rebate for heat pump HVAC systems, and provide additional funds for multi-unit ductless installations.

STAFF RECOMMENDATION

That the Council affirm an update to the heat pump rebate program to include rebates for heat pump water heaters, end the standard rebate for heat pump HVAC systems, and provide additional funds for multi-unit ductless installations.

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, incredibly efficient alternatives to traditional gas furnaces.

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.

Through the first half of 2025, a rebate subcommittee of the Climate Action Committee worked with staff to consider possible updates to the program and on June 18th, 2025 the Committee recommended a set of updates to the Council.

DISCUSSION

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.

ANALYSIS

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%. Permit data also 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. For these reasons, staff and the Climate Action Committee recommend shifting the program to prioritize heat pump water heater installations.

Proposed Changes

Heat Pump Water Heater Rebate

Create a rebate for heat pump water heater (HPWH) installations in the following amounts:

- Standard Rebate: \$500
- Moderate-income: \$1500
- Low-income: \$3000

According to permit data, the average incremental cost of a heat pump water heater is \$1000. However, other estimates including non-permitted projects show that it is closer to \$2000 and anecdotal reports suggest that in some cases it may be quite a bit higher.

End Standard Heat Pump HVAC Rebate

End the standard heat pump HVAC rebate after a 2-3-month transition period. The rebates are currently \$1000 for ducted heat pumps and \$500 for ductless. This change would not affect anyone who already has a rebate reserved. Heat pump HVAC rebates would still be available for moderate and low-income households.

Additional Ductless HVAC Rebate

Increase the rebate for ductless heat pumps for low-income households from \$1500 to \$2000 and provide additional funding for ductless heat pump installation where 2 or 3 indoor units are installed in the following amounts:

Ductless units	Moderate-Income	Low-Income
1	\$1000	\$2000
2	\$2000	\$4000
3	\$3000	\$6000

Currently, ductless heat pumps are offered a lower rebate than ducted heat pumps, because the incremental cost is lower. 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. Providing additional funds for multi-unit ductless projects matches the reality of projects costs more closely and prevents homeowners from being penalized for not installing ductwork if it doesn't make sense for their home.

SUSTAINABILITY CONSIDERATIONS

To date, this program has incentivized 105 heat pump HVAC systems, reducing the number of new gas furnaces installed in the City and carbon emissions. Conversion from a gas HVAC or water heater to a heat pump reduces CO2 emissions by about 1 metric ton per year.

SOCIAL EQUITY AND INCLUSIVITY CONSIDERATIONS

This program makes heat pumps and panel upgrades accessible to more residents. The proposed changes focus resources for HVAC systems on moderate-income and low-income households to help make access to electrification more equitable.

CITY COUNCIL STRATEGIC PLAN INITIATIVES

The heat pump rebate program advances City Council Strategic Plan Initiative Goal 1, “Reduce Greenhouse Gas Pollution and React to Climate Change.”

FINANCIAL CONSIDERATIONS

The recommended program changes are anticipated to remain within the amount budgeted for this program within the Community Development department budget as adopted in the biennial budget without pauses or waitlists.