CITY OF ALBANY
CITY COUNCIL AGENDA
STAFF REPORT

Agenda Date: March 2, 2026
Reviewed by: NA

SUBJECT: Heat Pump Rebate Program

REPORT BY: Michelle Plouse, Community Development Analyst
Dina Tasini, Community Development Director

SUMMARY

The matter before the Council is consideration of a proposed additional expenditure of $139,500 to support the existing Heat Pump Rebate Program.

STAFF RECOMMENDATION

That the Council adopt Resolution No. 2026-10, rescinding Resolution No. 2025-07 and authorizing the appropriation of $139,500 of the available fund balance in the Climate Action and Adaptation Reserve Fund for the Heat Pump Rebate Program.

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. 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 20, 2021, the Climate Action Committee unanimously recommended to Council the adoption of a heat pump HVAC rebate program. On March 7, 2022, the City Council approved the Program. The Program launched on June 1, 2022 and has been updated in February 2023 and 2024, adding a moderate-income category and subsequently increasing funding levels of income-qualified households. On July 21, 2025, the Council updated the Program to include rebates for heat pump water heaters for all income levels, end the standard rebate for heat pump HVAC systems, and provide additional funds for multi-unit ductless installations. The current rebate amounts are listed below:

Table 1: Current Rebate Amounts

System	Standard Rebate	Moderate-Income	Low-Income
Water Heater	$500	$1,500	$3,000
Ducted System		$3,000	$6,000
Ductless System		$1,000	$1,500
Electric Panel Upgrade (with a heat pump)	$500	$1,000	$2,000

Table 2: Current Rebate Amounts for Ductless HVACs

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

DISCUSSION

Overall Performance

Since inception, the Program has funded 139 total projects, including 20 low-income projects and 18 moderate-income projects. A total of $262,250 in rebate funds have been paid or reserved.

Since the latest update in July 2025, the program has been extremely popular and successful. In particular, applications from income-qualified homeowners have surged, increasing by nearly 350%. This is a promising sign that the Program has become much more effective at one of its main goals—making electrification more equitable and accessible to lower-income residents. The greater number of income-qualified applicants than expected has led to the need to augment the existing Program budget.

Water Heater Rebates

Since the water heater rebates were initiated, 11 rebates have been paid or reserved and 2 more are in process. Of the thirteen applications, 3 were for moderate-income households and 2 for low-income households. This is slightly fewer rebates than staff expected, however, the percentage of income-qualified rebates has almost doubled compared to the previous stage of the Program (Stage 3, from February 2024 to July 2025). As a result, the total cost of water heater rebates so far has been very close to staff's estimation that the annual cost of the water heater rebates would roughly equal the savings from discontinuing the standard HVAC rebate.

Increase in Low and Moderate-Income HVAC Applications

In contrast, there has been a major surge in HVAC applications from low and moderate-income households that has gone far beyond initial projections. During Stage 3, the monthly average was 0.4 low-income applications and 0.3 moderate-income applications. So far in Stage 4 (July 21, 2025- present) these figures have surged to 1 low-income application and 1.4 moderate-income applications per month.

It's not clear why the income-qualified applications have surged recently, however, the shift does appear to be correlated with the updates to the Program, despite the fact that this most recent change did not adjust the amounts for income-qualified households. Heat pump permits have dropped over the last two months, possibly because the federal tax credits expired or due to normal seasonal shifts, however this has not affected the rebate application rate. It's possible that the growth in awareness of the Program over time plus a surge of publicity around the beginning of Stage 4 has led to a lasting growth in popularity.

The Program has managed to reach the higher-need households that it has been targeting for several years and is making a difference in their ability to electrify. The application includes a survey asking whether the applicant would have installed a heat pump without the Program. Half of moderate-income applicants and 60% of low-income applicants answered "maybe" or "probably not". Another 20% of low-income applicants responded "definitely not." This data, along with staff's conversations with applicants has made it clear that the Program has had a very tangible impact on the affordability of heat pumps for many homeowners.

From a budget perspective, the surge in applications for these high-value rebates, especially the $3000 and $6000 ducted HVAC rebates, has quickly brought the Program over budget. If similar application rates continue, the HVAC rebates will require an additional budget amount of over $75,000 more than staff projected for this fiscal year.

Table 3: Monthly Average HVAC Rebate Applications

	Stage 3	Stage 4	% increase	Annual incremental cost
Low-income	0.4	1.0	150%	$41,000
Moderate-Income	0.3	1.4	366%	$35,000

Increase in Standard Income HVAC Applications

There was also a surge of applications for HVAC rebates by households that did not qualify as low- or moderate-income. Twelve applications came in between July 21st (when the Program was updated) and September 19th (the deadline for non-income qualified HVAC rebate applications). This is triple the rate of non-income qualified applications that the City received in Stage 3 and double what staff had projected. The sunset period allowed homeowners who were already in the process of getting a permit to receive their rebate. It also pushed some homeowners who were on the fence about heat pumps to make the switch and submit an application. The total cost of the sunset-period standard income rebates was $10,500.

One other unexpected budget pressure was an unusually large number of reserved rebates from fiscal year (FY) 2024-2025 that were not paid out until FY 2025-2026. This can happen when projects are delayed, are part of a larger remodel, or simply reserved near the end of the fiscal year. This year, that delayed expenditure was a total of $16,000.

ANALYSIS

Budget

As discussed above, the Program has been so popular that expenditures quickly exceeded the initial budget. The Community Development Department budget for FY 2025-2026 included $30,000 for the Program. So far, this fiscal year $87,000 has been paid to rebate recipients and $30,500 is reserved or in process of being reserved. Based on the application rates seen in Stage 4, staff projects that the City will receive applications for another $52,000 in rebates for the remainder of this fiscal year. In total, an additional $139,500 in funding is needed to cover payments, reservations, and projected costs for this fiscal year.

Climate Action Reserve Funds

The Climate Action and Adaptation Reserve Fund is a reserve fund supported through Measure DD (2020) general fund revenue and currently has a balance of $152,362.

On February 18, 2025, Council adopted Resolution No. 2025-07 authorizing the appropriation of $125,000 in funds from available fund balance in the Climate Action and Adaptation Reserve Fund for the Gas Line Decommissioning Project. This was at a time when staff did not know if the Department of Energy grant funds for the project would be released in time for the project to proceed. Funds have been made available and the City has been regularly receiving grant disbursements to pay for the project costs. Therefore, the appropriation of funds through the Climate Action and Adaptation Reserve Fund is not necessary at this time freeing funds that could be reappropriated to fund the Heat Pump Rebate Program.

SUSTAINABILITY CONSIDERATIONS

To date, the Program has incentivized 131 heat pump HVAC systems and 11 heat pump water heaters, reducing the number of new gas furnaces and water heaters installed in the City and the associated carbon emissions. Conversion from a gas HVAC or water heater to a heat pump reduces CO_2 (carbon dioxide) 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 Program now focuses resources for HVAC systems on moderate-income and low-income households to help make access to electrification more equitable and provides larger water heater rebates to income qualified households. Applications from income-qualified homeowners have increased nearly 350% since July 2025.

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 Climate Action & Adaptation Reserve Fund currently has a balance of $152,362. The Gas Line Decommissioning Project, which potentially would have required funding from this reserve fund, is currently funded through a federal grant from the United States Department of Energy and so no reserve funds are considered to be needed at this time. Given the success of the Heat Pump Rebate Program, staff recommend that the Council appropriate $139,500 from the Climate Action & Adaptation Reserve Fund for the Heat Pump Rebate Program in FY 2025/26 and FY 2026/27.

Attachment

1. Resolution No. 2026-10

RESOLUTION NO. 2026-10

A RESOLUTION OF THE ALBANY CITY COUNCIL RESCINDING RESOLUTION NO. 2025-07 AND AUTHORIZING THE APPROPRIATION OF $139,500 FROM THE AVAILABLE FUND BALANCE IN THE CLIMATE ACTION AND ADAPTATION RESERVE FOR THE HEAT PUMP REBATE PROGRAM

WHEREAS, 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; and

WHEREAS, an estimated 40% of GHG emissions in Albany result from the building sector, specifically from the use of natural gas appliances; and

WHEREAS, on March 7, 2022 the City Council authorized the establishment of a Heat Pump Rebate Program; and

WHEREAS, on July 21, 2025, the Council approved an update to the Program to include rebates for heat pump water heaters for all income levels, end the standard rebate for heat pump HVAC systems, and provide additional funds for multi-unit ductless installations; and

WHEREAS, since its inception, the Program has funded 139 total projects, including 20 low-income projects and 18 moderate-income projects; and

WHEREAS, since the latest update in July, the Program has been extremely popular and successful, and applications from income-qualified homeowners have surged, increasing by nearly 350%.; and

WHEREAS, in the current fiscal year, $87,000 has been paid to rebate recipients and $30,500 is reserved or in process of being reserved, with additional applications incoming for another $52,000 in rebates for the remainder of this fiscal year, with an additional $139,500 needed in funding to cover payments, reservations, and projected costs; and

WHEREAS, the Climate Action and Adaptation Reserve Fund is a reserve fund supported through Measure DD (2020) general fund revenue and currently has a balance of $152,362; and

WHEREAS, On February 18, 2025, Council adopted Resolution No. 2025-07 authorizing the appropriation of $125,000 in funds from available fund balance in the Climate Action and Adaptation Reserve Fund for the Gas Line Decommissioning Project, however, the Gas Line Decommissioning Project is being funded through a United States Department of Energy grant and so no reserve funds are considered to be needed at this time.

NOW, THEREFORE, BE IT RESOLVED, that the Albany City Council hereby rescinds Resolution No. 2025-07 and authorizes the appropriation of $139,500 of the available fund balance in the Climate Action and Adaptation Reserve for the Heat Pump Rebate Program.

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PEGGY McQUAID, MAYOR