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## City Council AGENDA REPORT

**DATE:** 10/23/2025

**AGENDA OF:** 10/28/2025

**DEPARTMENT:** Planning and Community Development/City Manager

**SUBJECT:** Amendments to Chapter 18.15 of the Municipal Code to Adopt Local Amendments to the California Energy Code of the 2025 California Building Code Cycle to Require Energy Conservation Measures for Certain Heating, Ventilation, and Air Conditioner Replacements and Installations in Existing Nonresidential Buildings (PL/CM)  
**LOCATION:** Citywide

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**RECOMMENDATION:** Motion to:

- 1) Acknowledge the CEQA determinations that the ordinance is consistent with the Negative Declaration approved for the City of Santa Cruz 2030 Climate Action Plan adopted by City Council on September 13, 2022. The ordinance is also exempt from CEQA under the general rule, CEQA Guidelines Section 15061(b)(3) and per CEQA Guidelines Section 15308, Actions by Regulatory Agencies for Protection of Natural Resources; and
  - 2) Introduce for publication an ordinance amending Municipal Code Chapter 18.15 to adopt local amendments to Title 24, Part 6 of the California Code of Regulations (California Energy Code) creating an energy reach code for existing nonresidential buildings that requires either the installation of a heat pump to State code minimum standards or additional energy measures for new and replacement air conditioning (AC) systems.
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**BACKGROUND:** The City adopted its Climate Action Plan 2030 (CAP 2030) in 2022 with a legal target to reduce emissions 40% from 1990 levels by 2030 and an aspirational target of being carbon neutral by 2035, ten years earlier than the State target. One important way to reduce carbon emissions is by targeting energy efficiency in existing buildings, because existing buildings account for 24% of greenhouse gas emissions as regulated by the California Air Resources Board (CARB). The CAP 2030 contains three measures related to existing building energy use:

- Measure BE-2 - Electrify 31% of existing residential buildings by 2030 and 53% by 2035.
- Measure BE-3 - Electrify 26% of existing commercial buildings by 2030 and 45% by 2035.
- Measure BE-5 - Increase resiliency through equitable energy efficiency and local solar programs.

In 2023, City Council approved local modifications to the California Energy Code, referred to as a “reach code,” for newly constructed buildings. The City followed with a reach code for existing single-family buildings in October 2024, and an update to the policy in 2025 to go into effect on January 1, 2026. The current proposal takes the next step in this process to create reach code requirements for existing non-residential buildings that replace or install new cooling systems. While single family homes and accessory dwelling units represent the largest number of buildings in Santa Cruz at 18,400, nonresidential buildings make up 1,343 buildings. However, nonresidential buildings account for one-quarter of the building square footage in Santa Cruz: another 12 million square feet, presenting further opportunity to reduce greenhouse gas emissions.

According to permit data for the City of Santa Cruz, there were at least 51 AC unit replacements between 2016 and 2025 (to date) or 9 per year.

**DISCUSSION:** Historically, the Energy Code has prioritized improvements to code sections regarding construction of new buildings. This is largely because new construction code changes are simpler to study, implement, and enforce. However, for every new dwelling unit built annually in California, there are approximately 117 existing buildings, many of which predate the introduction of modern energy efficiency standards. Given this, local governments face an increased need to implement practical policies for reducing emissions in these older buildings, which contribute significantly to overall energy consumption and greenhouse gas emissions.

Additionally, CARB recently introduced draft zero-emission appliance standards with a phased implementation beginning in 2027. These standards aim to reduce greenhouse gas emissions and improve air quality by targeting residential and commercial appliances, including heaters and water heaters, to transition towards cleaner energy sources. By 2030, all new space and water heaters sold in California are expected to meet zero-emission standards. This initiative is part of California's broader strategy to achieve carbon neutrality by 2045. The proposed ordinance is the latest of several policies coming forward to prepare existing buildings for the upcoming zero-emission appliance standards and regulate energy use in existing buildings to reach the CAP 2030 targets.

When the reach code for the construction of new buildings was adopted in 2023, staff also began work exploring existing building decarbonization policies. Reach codes for existing single-family buildings passed in 2024 and were updated in 2025. Considering that one-quarter of the City’s floorspace is non-residential, staff determined that non-residential air conditioning replacements and installations are the next best opportunity for property owners to make cost-effective improvements that result in lower energy use and reduce emissions while also improving living environment, comfort, safety and satisfaction.

This proposed ordinance would require more stringent energy standards for new and replacement air conditioning installations but would maintain state minimum requirements for new heat pump installations for space cooling.

The proposed policy provides property owners with the option of either a single zone heat pump (SZHP) or a single zone air conditioner system with a gas furnace (SZAC) plus heat recovery ventilation (HRV) whenever a SZAC unit between 5 and 20 tons is replaced or a new unit is installed on non-residential buildings. The proposed policy does not require electrification or the use of a heat pump. The building types included in this reach code include financial institutions,

grocery stores, libraries, offices, schools, and retail occupancies. The policy is compliant with the recent budget trailer: Assembly Bill 130, which amended California Health and Safety Code sections 17958.5 and 17958.7 to include stricter requirements on when jurisdictions can amend local residential building codes. Since this policy acts on non-residential buildings only, the City may amend the local building code.

The proposed policy also has an exception for situations where the electrical capacity is not sufficient to support a SZHP but can support a SZAC, which is unlikely to be an issue in Santa Cruz’s moderate climate. In these situations, the applicant can apply to be exempt from the reach code requirements by submitting load calculations to the permitting agency prior to permitting.

*Cost-effectiveness*

One way to assess the cost-effectiveness of this proposed policy is to evaluate lifecycle costs. Lifecycle costs factor in equipment operation and replacement over a 30-year lifecycle, assuming one equipment replacement during that time. When installing a heat pump at time of air conditioner replacement, it will also provide heating to the building during the colder months. If there is a secondary gas heating source, it will not need to be replaced when it fails. Lifecycle costs shown in Table 1 show greater savings when installing a heat pump as compared to replacing the AC unit with another AC unit, furnace and HRV.

Table 1: Lifecycle Energy Savings

Approach	Lifecycle Energy Savings	
	Small Office	Medium Retail
Primary Pathway (SZHP)	\$ 4,767	\$43,063
Alternative Pathway (SZAC with furnace and HRV)	\$1,103	\$38,147

To generate these results, Attachment: [2025 Non-residential Alterations Study](#), funded by the California Energy Codes and Standards Program, included evaluation of cost data for two non-residential building types, Small Office and Medium Retail across three vintages: 1980s, 1990s, and 2000s. While both pathways result in savings, installing a SZAC + HRV is also energy equivalent with installing a SZHP. The requirements of this ordinance also do not require equipment efficiencies greater than the federally mandated minimum efficiencies in accordance with the federal standards enacted under the Energy Policy and Conservation Act.

*Greenhouse Gas Emissions*

Heat pumps can provide significant reductions in greenhouse gas (GHG) emissions over air conditioner replacements. This is because heat pumps provide heating more efficiently than gas furnaces (and electric resistance heat). Table 2 below demonstrates greenhouse gas emissions reductions for heat pump approaches, as compared to the base case of an AC replacement in metric tons of carbon dioxide equivalent (MTCO<sub>2e</sub> for the first year) and as a percentage of total emissions. These estimations are conservative, and the actual impact is likely greater because Santa Cruz receives clean energy from Central Coast Community Energy, resulting in very low GHG emissions from electricity use.

Table 2: Greenhouse Gas Reductions

Approach	Annual GHG savings (MTCO <sub>2</sub> e/year)	
	Small Office	Medium Retail
Primary Pathway (SZHP)	0.5	6.4
Alternative Pathway (SZAC and Furnace with HRV)	0.3	2.7

If the policy is implemented and assuming that half of permits are for small office and the other half are for medium retail, the City can expect, on average, at least 27 MT CO<sub>2</sub>e in GHG emissions savings annually. As temperatures increase and the City’s existing commercial building stock ages, the GHG emissions savings will continue to increase over time. AC unit replacements with SZHP are a prime opportunity and important step in addressing building energy usage to meet the CAP 2030 target.

*California Energy Commission Approval*

After adoption by the City Council, the proposed local amendments to the California Energy Code must be approved by the California Energy Commission prior to becoming effective. Public Resources Code Section 25402.1(h)(2) and Section 10-106 of the Building Energy Efficiency Standards establish a process that allows local adoption of energy standards that are more stringent than the statewide standards. Under this process, the California Energy Commission requires any local amendments to the California Energy Code that affect energy use in regulated buildings to be cost-effective and use less energy than the standard requirements contained in Title 24, Part 6. The attached cost-effectiveness studies published by the California Energy Codes and Standards Statewide Utility Program, which includes the State's Investor-Owned Utilities (PG&E, SDG&E, and SCE, under the auspices of the California Public Utilities Commission), show that reach codes such as the one proposed are cost-effective.

*California Building Standards Commission Filing*

After adoption by the City Council, the proposed local amendments to the California Energy Code must be filed with the California Building Standards Commission prior to becoming effective. California Health and Safety Code Sections 17958.5, 17958.7 and 18941.5 provide that the City may make changes or modifications to the building standards contained in the 2025 California Building Standards Code based upon express findings that such changes or modifications are reasonably necessary because of local climatic, geological, or topographical conditions. These conditions are stated here:

1. The City of Santa Cruz’s northern and western neighborhoods abut the Santa Cruz Mountains, creating a wildland-urban interface and heightened fire risk. The 2020 CZU Lightning Complex fire showed that large, fast-moving wildfires can reach these areas. Cutting local greenhouse-gas pollution is a practical way to lessen the frequency and intensity of future fires.
2. Since 2021, the City has faced several destructive flood events. A late-January 2021 atmospheric-river storm triggered debris-flow, causing evacuations. Between December 30, 2022, and January 18, 2023, several atmospheric rivers overtopped the San Lorenzo River, damaged downtown levees and coastal infrastructure. Finally, a powerful winter storm in December 2024 partially collapsed the Santa Cruz Municipal Wharf, leading Governor Newsom to issue an emergency proclamation on February 14, 2025. These recent disasters underscore that greenhouse-gas emissions are amplifying flood hazards. Accordingly, more

restrictive local Energy Code measures are reasonably necessary to safeguard public health, safety, and welfare.

3. In January 2023, successive atmospheric-river storms overwhelmed the Coast Pump Station on the San Lorenzo River, ruptured the Newell Creek Pipeline, the City's lone conduit from Loch Lomond Reservoir to the Graham Hill Water Treatment Plant, and pushed raw-water turbidity at the plant to its highest level on record. These escalating, climate-linked disruptions to critical infrastructure make the Ordinance's stricter local Energy Code requirements a necessary safeguard for public health, safety, and welfare.
4. Santa Cruz occupies a narrow marine terrace bounded by 15- to 30-foot mudstone cliffs along West Cliff Drive and the San Lorenzo River. This layout channels storm waves onto easily eroded bluffs and funnels runoff into downtown, as seen when the January 2023 bomb-cyclone washed out parts of West Cliff and a December 2023 surge increased damages to over \$30 million. The City's Local Hazard Mitigation and Climate Adaptation Plan (2025-2030) ranks these cliffs and the river plain as high-risk for erosion, liquefaction, and quake impacts. To slow erosion, temper storm intensity, and protect key corridors, stricter Energy Code measures that curb greenhouse-gas emissions are essential.
5. Given the unique geological, topographical, and climatic characteristics of Santa Cruz, failure to address and substantially reduce greenhouse gas emissions creates an increased risk to the health, safety, and welfare of City residents.

#### *Community Outreach*

Decarbonization has been the subject of extensive outreach between 2019 and 2024 as the City developed its Climate Action Plan 2030 and, more specifically, its strategy for decarbonizing new buildings and the existing building stock, as well as when prior energy reach codes were developed. This outreach consisted of developer roundtables, community webinars, Climate Action Task Force meetings, and Planning Commission meetings.

#### *Next Steps*

If the City Council approves the first reading of the ordinance on October 28, 2025, it is then anticipated to come back for a second reading on November 18, 2025. After approval by the City Council, the ordinance will be submitted to the California Energy Commission (CEC) for approval as local modifications to the California Energy Code. The ordinance is anticipated to become effective January 1, 2026, or after the final approval by the City Council and the California Energy Commission and final filing with the California Building Standards Commission (CBSC).

#### *Summary of Energy Reach Code Work*

As called for in the CAP 2030, there are a number of energy reach codes to be considered to enable achievement of CAP 2030 measure targets. Two energy reach codes have been adopted, with one (Existing Single-Family Renovations) already updated to the new 2025 California Energy Code, and the other (New Construction) to be updated in the future, pending the release of cost effectiveness studies for the new 2025 code cycle. There are also others (e.g., Multifamily Residential) that will be brought forward when the cost effectiveness studies are released. The following table summarizes past and future energy reach code work the City has undertaken and plans to undertake:

<b>Policy Description</b>	<b>Ordinance Number</b>	<b>Adoption Date/ Projected Council Date(s)</b>	<b>Status</b>
2022 Single Family Flexpath and New Construction Energy Performance	2024-21	12/10/2024	In effect but expires on January 1, 2026. The existing building portion will be replaced by the 2025 Single Family Flexpath update
2022 Single Family FlexPath correction	2025-04	3/11/2025	In effect but expires on January 1, 2026. The existing building portion will be replaced by the 2025 Single Family Flexpath update
2025 Single Family FlexPath update	2025-19	9/9/2025	Under CEC review and will be enforceable once it is approved, anticipated for January 1, 2026.
2025 Nonresidential 2 Way AC (the subject of this agenda report)	TBD	10/28/2025 and 11/18/2025	Will go into effect January 1, 2026, pending CEC and CBSC review.
2025 New Construction Energy Performance	TBD	TBD	City staff will develop requirements once the cost-effectiveness results are available later this year. This ordinance will take effect as soon as Q1 of 2026.
2025 Multifamily Residential Reach Code	TBD	TBD	Will be in development in Q1 of 2026

**CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA) DETERMINATION:** The municipal code amendments are consistent with the Negative Declaration approved for the City of Santa Cruz 2030 Climate Action Plan adopted by City Council on September 13, 2022. Therefore, no further environmental review under the California Environmental Quality Act (CEQA) is required. The ordinance is also exempt from CEQA under the general rule, CEQA Guidelines Section 15061(b)(3), because it can be seen with certainty that the provisions contained herein would not have the potential for causing a significant effect on the environment. Further, this ordinance is exempt per CEQA Guidelines Section 15308, Class 8, Actions by Regulatory Agencies for Protection of Natural Resources, since the proposed ordinance would institute regulatory requirements intended to protect the environment and natural resources.

**HEALTH IN ALL POLICIES (HiAP):** HiAP is a collaborative approach to improving the health of all people by incorporating health considerations into decision-making across sectors and policy areas. HiAP is based on three pillars: equity, public health, and sustainability. The goal of HiAP is to ensure that all decision-makers are informed about the health, equity, and sustainability impacts of various policy options during the policy development process. The municipal code amendments support the pillars of equity and public health by promoting building health and safety while remaining cost effective. The amendments support sustainability

by reducing GHG emissions and fossil fuel dependence citywide consistent with the CAP 2030. Therefore, the proposed code amendments are considered consistent with the three pillars of HiAP.

**FISCAL IMPACT:**

- 1. The recommendation in this report impacts the General Fund: No
- 2. This recommendation requires a budget adjustment: No
- 3. The recommendation creates an on-going expenditure commitment: No

**FISCAL IMPACT DESCRIPTION:** The implementation of this ordinance is unlikely to create cost shifts of a magnitude that would influence whether an applicant decides to move forward with a project or not, so the overall fiscal impact of the proposed ordinance is likely neutral. Given cooling installations are gaining popularity and becoming more common in Santa Cruz, an increase in mechanical permit applications will result in increased revenue for the City in the short term. In instances where new cooling installations add value to an existing building, then the tax basis increases over the longer term as these existing buildings are reassessed.

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**ATTACHMENTS:**

- 1. ORDINANCE – CLEAN.DOCX
- 2. ORDINANCE – TRACK CHANGES.DOCX
- 3. 2025 NON-RESIDENTIAL ALTERATIONS REACH CODE COST EFFECTIVENESS STUDY.PDF