

DOCKETED

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City Council AGENDA REPORT

DATE: 10/31/2024

AGENDA OF: 11/19/2024

DEPARTMENT: Planning and Community Development

SUBJECT: Amendments to Chapter 18.15 of the Municipal Code Requiring Additional Energy Standards for Alterations and Additions to Existing Single-Family Homes. CEQA: Exempt under general rule, 15061(b)(3) and per Guidelines Section 15308, Class 8, Actions by Regulatory Agencies for Protection of Natural Resources, and Reuse of Climate Action Plan 2030 Negative Declaration. Location and Council District: Citywide. Applicant: City of Santa Cruz. (PL/CM)

RECOMMENDATION: Motion to 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). The ordinance creates an energy reach code that requires additional energy standards for renovations to existing single-family homes with an intent to provide property owners with a range of energy efficiency measure options when undertaking alterations and additions that will also meet goals to reduce greenhouse gas emissions associated with fossil fuel use citywide. Council finds the 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. The ordinance is also exempt under exempt from CEQA under the general rule, 15061(b)(3) and per CEQA Guidelines Section 15308, Class 8, Actions by Regulatory Agencies for Protection of Natural Resources.

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 emission 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 current proposal takes the next step in this process to create reach code requirements for existing buildings.

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 first of what may be 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.

While the reach code for the construction of new buildings was being developed in 2022, staff also began work exploring existing building decarbonization policies. Considering that 96 percent of the City’s building stock is residential, 87 percent of residential buildings are single-family homes, and 84 percent of those single-family homes were constructed prior to 1991, staff determined that large renovations to single-family homes are one of the best opportunities to make cost effective improvements that result in lower energy use and reduced unhealthy emissions while also improving living environment, comfort, and satisfaction.

This proposed ordinance would require more stringent energy standards when triggered by new alterations or additions of at least 350 square feet for existing single-family homes.

Staff anticipates this will capture approximately 110 permits per year. Doing so would avoid approximately 315 metric tons of carbon dioxide equivalent per year, an important step in addressing building energy usage in existing buildings to meet the CAP 2030 target.

Applicants have a variety of means through which they can achieve compliance with the more stringent energy code standards by completing one or more identified improvements. Depending on the work being completed and compliance path selected, certain requirements may apply, such as electric readiness to facilitate future conversion of a gas-powered appliance to electric alternatives. A full discussion of the proposed energy reach code and technical analysis can be found in the attached agenda report for the October 17, 2024, Planning Commission meeting.

California Energy Commission Approval

After adoption by 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.

Community Outreach

Staff conducted extensive outreach on this topic between 2020 and 2022 during the development of the CAP 2030. In the spring of 2022, staff conducted four listening sessions on the topic of existing building decarbonization with the housing and healthcare sector; designers, builders, and contractors; large multifamily property owners and developers; and non-profits and community-based organizations. In 2023, because staff had to develop a replacement ordinance for the suspended natural gas prohibition in new construction, progress on existing building decarbonization was paused for about a year. Once the new buildings energy reach code was adopted by City Council in November 2023, City staff began immediately developing the energy efficient renovations policy.

On June 13, 2024, staff conducted outreach with the Mayor's Community Climate Action Task Force, where ten individuals participated. In early June 2024, staff mailed postcards regarding the development of the proposed ordinance to over 500 builders, designers, contractors, and developers listed in the City's business database. On June 27, 2024, staff conducted a virtual outreach meeting for builders, designers, developers, and contractors who do business in the City of Santa Cruz. On July 10, 2024, staff conducted a virtual outreach meeting for the public with only six participants, despite heavy promotion of the meeting. All materials from the outreach described above are included at the City's Building Decarbonization webpage (<https://www.cityofsantacruz.com/Home/Components/Topic/Topic/11316/3916>).

Feedback from the outreach included questions related to:

- The addition of a low emission refrigerant option for heat pump appliances,
- How the policy would accommodate the imminent advance in technology to 110-volt/120-volt appliances versus 240-volt appliances,
- Whether a subpanel addition versus a main panel would trigger the electric readiness requirements for future space and water heating appliances,
- How project valuations are computed for the purpose of building permits, and
- Where to find assistance to install a heat pump water heater in a homeowners' association.

One participant expressed concern that the proposed policy could present another barrier to legalizing illegal accessory dwelling units (ADUs) and that the square footage threshold that triggers compliance should be increased to the size of a junior ADU (500 square feet or greater).

This topic is further discussed below in the Planning Commission section of this report. Another participant suggested that the proposed policy, should it be adopted, go into effect at the same time as the regular code update cycle. An additional concern articulated the need to advise people with pacemakers of the implication of homes with induction cooktops. Although this proposed policy would not require installation of induction cooktops, it could result in making the building's electric infrastructure ready for induction cooktop appliances.

Feedback also included a suggestion that staff should emphasize the cost effectiveness of the energy efficiency measures that will offset the costs of installing the energy efficiency measures. Last, another participant offered to host the public to view two different types of heat pump space heating units installed at two dwelling units on one property.

Staff developed the attached Frequently Asked Questions document to address these concerns and other common questions. This document is posted on the website and will be periodically updated based on feedback and questions from the community.

In addition, a City Council study session convened on August 6, 2024 to examine this topic specifically. Staff gave a presentation on the proposed policy and received feedback from City Councilmembers and the public. City Council discussion and questions focused on the cost of these requirements to property owners and what can be done to reduce those costs, how the threshold of 350 square feet of new or substantially modified area was determined, whether the measures apply to ADUs, whether the proposed requirements line up with available grant resources, the need to allocate additional resources for staff time to assist applicants, how the proposed measures align with the green building code, how long it will take for these measures to affect a substantial proportion of the housing stock, and what upgrades are already in place throughout the housing stock.

Planning Commission

The proposed ordinance was brought to the October 17, 2024, Planning Commission meeting to seek feedback and suggestions from commissioners, as well as interested members of the community. With the Municipal Code changes occurring outside of the Zoning Ordinance, the Commission meeting was a courtesy referral, intended to garner additional input from Commissioners, and was not a required meeting for the proposed changes. Six Planning Commissioners attended the meeting (Commissioner Polhamus absent) as well as several members of the public.

Commissioners shared several concerns and suggestions about the proposed ordinance. This feedback included concerns about CAP goals, availability of rebates/incentives, grid reliance, and the cost burden for homeowners to implement these measures, as well as suggestions to increase the square footage threshold or lower the threshold for a cost burden exception and to exempt accessory dwelling units (ADUs) from the requirements. There were also more technical comments provided by Commissioner McKelvey. The attached Planning Commission Feedback document provides a more comprehensive overview of the Planning Commission comments, as well as detailed responses from staff. Public comments at the meeting included support for the proposed policy, comments about whether the policy can legally apply to ADUs, and other comments requesting minor clarifications.

In response to feedback from the Planning Commission and public, staff made several changes to the draft ordinance:

- Creation of a new exemption for statewide exemption ADUs, including Junior ADUs and ADUs converted from existing space within the single-family home, and clarification that modifications to the main house are not required as a result of creating a new ADU/JADU;
- Clarification that projects will receive credit for previously installed measures that will count toward the point total for compliance with the energy reach code; and
- Other minor clarifications

Next Steps

If the City Council approves the first reading of the ordinance on November 19, 2024, it will then come back for a second reading on December 10, 2024. After approval by 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 April 1, 2025, after the final approval by the City Council and the California Energy Commission.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA) DETERMINATION: The municipal code amendments are consistent with the Negative Declaration approved for the CAP 2030 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, 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. Rather, the rules are expected to have a positive effect on the environment by resulting in cleaner energy use and a reduction in greenhouse gas emissions. 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 community well-being of the City's residents by prioritizing public health, sustainability and equity into decision-making across sectors and policy areas. 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 so that they have holistic information upon which to make decisions. The municipal code amendments support the pillars of equity and public health by advancing efforts to ensure existing buildings are safe and healthy while remaining cost effective. The amendments support sustainability by reducing greenhouse gas emissions (projected to be a reduction of approximately 315 metric tons of carbon dioxide equivalent per year) 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: As the proposed ordinance provides more flexibility in building design than the currently-suspended natural gas prohibitions but less flexibility than the standard California Energy Code regulations, it could be argued that the policy could lead to an increase in development applications compared to those received during the natural gas prohibition and a decrease in applications compared to those received prior to implementation of any additional regulations beyond the standard state energy code. An increase in development applications will

result in increased revenue for the City in the short term and increased tax basis over the longer term as redeveloped properties are reassessed. A decrease in development applications will result in decreased revenue for the City in the short term and decreased tax basis over the longer term as redeveloped properties are reassessed. Overall, however, 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.

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ATTACHMENTS:

1. EXISTING BUILDING PROPOSED ORDINANCE - CLEAN.DOCX
2. EXISTING BUILDING PROPOSED ORDINANCE – TRACK CHANGES.DOCX
3. AGENDA REPORT FOR OCTOBER 17, 2024 PLANNING COMMISSION MEETING.DOCX
4. FREQUENTLY ASKED QUESTIONS.DOCX
5. 2022 COST-EFFECTIVENESS STUDY - EXISTING SINGLE FAMILY BUILDING UPGRADES.PDF
6. PLANNING COMMISSION FEEDBACK.DOCX