



Council Agenda Correspondence

DATE: May 21, 2024

TO: Mayor and Council

FROM: Greg Hermann, Interim Assistance City Manager

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VIA: Whitney McDonald, Interim City Manager

SUBJECT: ITEM 7B – ENERGY EFFICIENCY RENOVATIONS POLICY FOR MAJOR RESIDENTIAL ADDITIONS AND ALTERATIONS

Staff received a series of questions about the proposed Energy Efficient Renovations Policy from a Council member. The questions are below with staff's response shown in *italics*:

- 1. How was the requirement for an addition or alteration of 500 square feet arrived at? Is it based on data about efficiency, cost, or other factors?**

To develop the applicability threshold, staff reviewed energy efficiency retrofit thresholds in other jurisdictions, thresholds for different types of retrofit policies in the City's current code, and construction cost estimates. In the December 2023 study session, additions and alterations were presented as an optimal trigger for the initial policy development since retrofits could be incorporated with minimal impact to the project. As such, the cost to comply with the measure compared to typical cost of applicable projects was a primary evaluative criterion. Staff looked at what other jurisdictions have done, what other standards for existing buildings require, and considered different sizes based on costs of compliance in relation to the overall project. Staff is proposing the 500 square feet for the City of SLO based on the minimum cost of construction for renovations being 200 dollars a square foot. This means that the ordinance should not impact projects with a construction cost of less than \$100,000, which is proportionate to the overall cost of compliance.

- 2. We received some correspondence questioning the value of R19/R30/R49 insulation for our area. Are these levels of insulation commonplace/necessary in our area?**

The Statewide Codes and Standards Team developed the cost effectiveness report provided as Attachment B. The study is based on building simulations run in the City's climate zone and found that the proposed compliance measures reduce energy use. The points in the compliance measure table correlate to the relative energy savings expected by each measure. Staff also conducted a local builder who affirmed that these insulation measures are effective and valuable in the City's climate zone.

3. Can you please explain exemption #7?

Exemption 7 exempts attached accessory dwelling units (ADUs) from triggering the policy. As drafted, this exemption would be most applicable in the instance where a project was adding an attached ADU and an addition/alteration to the main unit. In this instance, if there was a 400 square foot attached accessory dwelling unit and a 200 square foot addition, the project would only count for 200 square feet in the context of this policy and would not be considered a “major” addition or alteration.

4. Why are we excluding attached ADUs?

During community outreach, staff heard concern about slowing housing production due to requiring improvements to the main building when only an ADU is being created. Staff also heard concern from developers that if an ADU was being built, and it required modifications to the existing associated residence, that it will cause delays in construction if the existing residence is occupied. In addition, staff recommends further consideration in the context of existing State law supporting the production of ADU's.

5. Some of our email expressed concerns that while there are incentives now, it is uncertain how long and how many of these incentives will be available in the future. Is there a possible mechanism for providing some sort of incentive in the future, in addition to the ordinance? (Examples mentioned include discounts on permitting fees, or other financial incentives.)

Incentive and rebate granting agencies and organizations are subject to changing economic conditions and staff cannot guarantee resources will be available beyond 2026, which is why they are not included in the cost effectiveness study findings. However, based on discussion with staff in both 3CE and 3CREN, regional resources are expected to be available through the foreseeable future. The federal tax credits that would apply to compliance measures are available through 2032.

6. Could this be considered a pilot project, with review and potential improvements made before 2026?

The proposed policy is a “de facto” pilot in the sense that it will be in operation for one year before being required to be re-adopted as part of the next three-year building code update cycle. Early implementation learnings will immediately be put into place as part of the first update. The policy will need to be re-adopted every three years thereafter, which ensures regular check-in and update opportunities.

- 7. How do we know the local workforce is knowledgeable enough and that there are enough professionals in the marketplace now to accommodate an increase in demand for this work?**

These relatively minor upgrades would occur as part of large construction projects. Hot water heater installation, HVAC installation, electrical work, and energy efficiency improvements are standard processes and there is not expected to be contractor shortages relative to the likely small number of applicable projects. Most projects this size would already be complying with parts of the California Energy Code and would have someone on the team able to complete the energy efficiency portion and some projects already have water heaters or HVAC systems in their scope.

- 8. For requirement #2, it seems expensive to get to a point value of 8 in table 1. It's also very expensive to install solar, and to install heat pump HVAC. Is it possible that most projects could qualify for the "hardship" exemption?**

The hardship exemption would only be granted if the applicant can demonstrate that 1) there are no feasible compliance paths, or 2) there are no compliance paths that would cost less than 10% of total project cost.