



CITY OF
**PALO
ALTO**

Climate Action and Sustainability Committee Staff Report

From: City Manager

Report Type: ACTION ITEMS

Lead Department: Public Works

Meeting Date: May 2, 2025

Report #:2503-4452

TITLE

Priorities for 2026-2027 Sustainability and Climate Action Plan (S/CAP) Climate Action Work Planning; CEQA Status - Not a Project

RECOMMENDATION

This is a discussion item and no Committee action is requested. Staff is seeking feedback on Committee priorities for 2026-2027 Climate Action work planning.

EXECUTIVE SUMMARY

The City has made significant strides in its S/CAP efforts since adoption of the plan in 2023. It has executed a significant portion of the 2023-2025 S/CAP Climate Action Work Plan and is on track to complete most of the remaining items by the end of 2025. This puts the City in a position to take continued steps in the 2026-2027 time frame. This staff report summarizes progress to-date on S/CAP Climate Action work items and outlines potential areas of focus for 2026-2027.

Staff is expecting that some key areas of focus for 2026-2027 will include:

- Communications and outreach: raising awareness of the need for climate action
- Financially scalable program models for EV charging and building electrification
- Establishing priorities and exploring funding needs/availability for implementation of S/CAP Mobility goals
- Designing effective electrification assistance for Palo Alto residents to comply with current Air District Zero Oxides of Nitrogen (NOx) regulations
- Piloting program designs for multi-family and non-residential building electrification
- Establishing and beginning implementation of a public and workplace charging strategy
- Establishing and beginning implementation of a gas transition strategy

Staff is seeking Committee feedback on these key areas of focus and the other potential program ideas noted in this report to inform staff development of a proposed 2026-2027 S/CAP

Work Plan (Climate Section). As the Committee discusses the next years workplan, it will be important to consider the legislative and regulatory environment including but not limited to federal regulations, imposition of tariffs, utility affordability and the availability of near term and sustained funding availability.

BACKGROUND

In June 2023, the City Council adopted the S/CAP, which included Goals and Key Actions, along with a 2023-2025 S/CAP Work Plan for both the sustainability and the climate action areas. Council has also included Climate Action, Adaptation, and Sustainability in its priorities for 2023, 2024, and 2025. Most parts of the 2023-2025 S/CAP Work Plan Climate Action sections are either completed or on track to be completed (Attachment A). Detailed status updates on the 2023-2025 S/CAP Work Plan items and 2024 Council Priorities are included in the November 12, 2024 S/CAP Status Update.¹ As the City reaches the end of its 2023-2025 work planning period, staff is beginning development of a 2026-2027 S/CAP Work Plan.

Over the course of the year staff expects to develop the work plan by 1) brainstorming and soliciting ideas, 2) prioritizing those ideas, 3) lay out a draft proposal taking into account potential resource constraints, and 4) refining this proposal with the Committee, Council, and relevant stakeholders, including other City Commissions as needed.

ANALYSIS

This staff report focuses on brainstorming and soliciting ideas for the Climate Action section of the 2026-2027 S/CAP Work Plan. No formal proposals are presented in this report, only high-level potential areas of focus. Staff's goal with this discussion is to use these high-level, preliminary descriptions to solicit feedback on the priorities of the Committee and stakeholders.

Contents:

1. Transportation
2. Buildings (including Resiliency)
3. Carbon Neutrality

Priorities for Climate Action in 2026-2027 could include:

- Ensuring continued improvement in transportation emissions reduction, such as advancing vehicle miles traveled (VMT)-reducing transportation programs and projects and ensuring EV charging for residents of multi-family residential complexes and commuters and visitors where economically viable.

¹ Staff report 2407-3266, <https://cityofpaloalto.primegov.com/meetings/ItemWithTemplateType?id=6222&meetingTemplateType=2&compiledMeetingDocumentId=12233>

- Advancing building electrification and resiliency through advanced pilots and exploring scalable financial structures (including financing) for programs based on the S/CAP Funding and Financing Study.
- Studying Carbon Neutrality for promising approaches to offsetting carbon emissions or removing carbon from the atmosphere.

1. Transportation

In the Mobility area, the 2023-2025 S/CAP Work Plan primarily focused on developing plans to reduce VMT, such as bike and pedestrian infrastructure and safety, housing development, and last mile solutions like micromobility and on-demand transit. Some of this plan development was delayed due to staff capacity issues that were resolved in a previous budget cycle. In 2026-2027, staff expects to focus more attention on plan and program implementation, such as Safe Streets for All Safety Action Plan implementation, Bicycle and Pedestrian Transportation Plan implementation, and VMT-reducing policy updates, including a transportation demand management (TDM) Ordinance, which will require exploring funding needs and funding sources specific to transportation projects and programs to assist businesses in helping manage their transportation demand. Maintaining staffing capacity is also needed if implementation is to proceed successfully.

Community EV adoption is proceeding rapidly but could stall if adequate charging is not provided for multi-family housing residents (who currently only represent 15% of total community EV ownership due to limited charging), either on-site or public. Public and workplace EV charging, if economically viable, could help facilitate commuter and visitor EV adoption. Both multi-family and workplace charging can be addressed in conjunction with building electrification as described below. The EV Charger Needs Assessment currently being finalized will help the City determine appropriate strategies.

2. Buildings

The City to-date has used a three-phase approach to building electrification and EV charging programs: starting with small pilots and studies, then moving into larger scale early adopter advanced pilots, with the goal of identifying a program design and financial structure that can be scaled community-wide. This is complicated by the diversity of building and EV charging strategies needed for different parts of the community. Single-family homeowners, multi-family complex homeowners, commercial building and business owners, and major employers all have different ownership structures and financial perspectives. Different approaches are needed for each. Attachment B shows different groups within the community, which phase of the three-phase approach the City is in for each group and which existing programs serve them, and potential programs that could be established for them.

A critical step in 2026 and 2027 will be the development of scalable funding approaches. The City made some progress in this area in the Advanced Heat Pump Water Heater Pilot Program,

which was piloted with a financial structure that might attract outside capital in the future if successful, but it became clear that it would require additional funding sources to scale community-wide. The S/CAP Funding Study, currently being finalized, will give the City the insights needed to design new financial structures to pilot and identify potential revenue sources. In particular, use of net new electric sales revenue from building and vehicle electrification to provide support to electrification programs could be a critical part of a successful approach, and identifying any legal or business risks and clarifying the business tradeoffs of this approach is an important step in 2025. Other concepts to explore could be financing or “electrification as a service,” modeled on existing “efficiency as a service” offerings where an efficiency improvement is paid for out of resulting utility bill savings. Policy decisions to balance further investment in S/CAP goals while maintaining affordability of utility rates will be a key consideration as the City works to develop scalable financial approaches.

Electrification programs that can be made available to most or all of the community will be helpful in ensuring the successful implementation of the regional Bay Area Air District zero NOx mandates. On January 1, 2027, small NOx-emitting combustion water heaters may no longer be sold within the Air District’s jurisdiction. That is followed by a prohibition on the sale of NOx-emitting combustion space heaters on January 1, 2029 and large NOx-emitting combustion water heaters on January 1, 2031. The City is coordinating regionally with both Air District staff and community choice aggregators (CCAs) on the support needed from energy providers. Areas of focus include the need for financing programs, incentives for income-qualified customers, and exemptions or incentives for complex, higher-cost projects.

Another potential work item could be to explore finding ways to incorporate the price of carbon into gas commodity prices. This could be done through the purchase of biogas, or other methods that would require more legal analysis. Programs could involve an opt-in or opt-out feature.

Lastly, as part of its implementation of the Reliability and Resiliency Strategic Plan (Strategies 4 and 5) the City is currently finishing studies of potential resiliency programs. If, based on these studies, Council directs staff to pursue resiliency programs, these could also be included in the 2026-2027 Work Plan. In addition to the CASC’s review of this topic, the RRSP is being reviewed by the Utilities Advisory Commission (UAC) throughout 2025, with the last review taking place at its February meeting with feedback focusing on greater clarity on City microgrid policies and how long-term resiliency is dealt with in the plan.

3. Carbon Neutrality

There were no work items specific to carbon neutrality in the 2023-2025 S/CAP Work Plan, but the City still made some progress, working with Stanford students to identify some potential carbon removal options to achieve carbon neutrality. The City’s Carbon Offset Gas Program also advances carbon neutrality. But more work is needed in this area. Considering options like

biogas for the gas utility could help the City progress, but a broader study of carbon removal approaches being commercialized and ways of funding carbon neutrality will be needed.

FISCAL/RESOURCE IMPACT

The fiscal impact of the Climate Action strategies above will depend on what is adopted and the strategies used. Additional funding appropriations will be necessary, with exact amounts to be identified once a draft workplan returns. The model developed for the S/CAP Funding Study primarily focused on building and vehicle electrification, but as funding needs for VMT reduction, resiliency, and carbon neutrality are developed further, they can be added to the funding model to develop resource impacts.

STAKEHOLDER ENGAGEMENT

The City will continue stakeholder engagement via the Climate Action and Sustainability Committee and the Working Group, but also engages in other outreach depending on the program or strategy in question. The City is working on broad outreach around the need for climate action. More specific outreach and engagement is in progress or in development for specific projects, such as the Bicycle and Pedestrian Transportation Plan or the 2026-2028 Energy Reach Code. But as the 2026-2027 S/CAP Work Plan is developed, additional outreach may be needed to the community at large. The City is also coordinating regionally with other municipalities, utilities, and CCAs on programs, regulations, and studies, particularly in developing unified approaches to assist with compliance with Air District regulations.

ENVIRONMENTAL REVIEW

Council's discussion of potential work plan items for a 2026-2027 S/CAP Work Plan is not a project as defined by CEQA because it does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. CEQA Guidelines section 15378(b)(4).

ATTACHMENTS

Attachment A: 2023-2025 S/CAP Work Plan Status Dashboard

Attachment B: Building Electrification and EV Charger Program Overview

APPROVED BY:

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