



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Lori Mitchell

SUBJECT: San José Clean Energy
Pilot Program Options

DATE: November 10, 2025

Approved

Date:

11/13/25

COUNCIL DISTRICT: Citywide

RECOMMENDATION

Adopt a resolution approving the development of a contractor incentive pilot program with a cost not to exceed \$100,000 to encourage local contractors to install electric heat pumps in lieu of proceeding with an electric leaf blower incentive pilot program.

SUMMARY AND OUTCOME

This memorandum presents two pilot program options for consideration: a contractor incentive to increase participation in San José Clean Energy (SJCE)'s EcoHome Rebate program and a commercial electric leaf blower (ELB) incentive. After evaluating the greenhouse gas reduction potential, implementation effort, and staff resource requirements, staff recommends implementing only the contractor incentive pilot program.

The contractor incentive pilot program aims to increase the number of local contractors installing electric heat pumps by offering direct payments for early installations. This would support market transformation ahead of upcoming Bay Area Air District regulations restricting emissions of nitrogen oxides from space and water heating appliances. By encouraging more contractors to gain experience with heat pump installations, the program aims to expand consumer access.

Staff does not recommend proceeding with the ELB pilot incentive at this time. Whereas upfront costs for electric equipment are a barrier for many landscaping businesses, the greenhouse gas reduction potential of this pilot program is minimal and not guaranteed to benefit San José residents, and the implementation would require a significant investment of staff time. Staff recommends instead focusing on advocacy to the Bay Area Air District and the California Air Resources Board for additional funding and support for electric landscaping equipment in San José.

BACKGROUND

SJCE offers incentive and educational programs to its customers aimed at reducing greenhouse gas emissions, increasing customer savings, and promoting equity, while also supporting operational objectives by managing load and lowering power procurement costs. In April 2025, the City Council directed staff to return with a recommendation for a pilot program focused on incentivizing the adoption of ELBs. In response, the Energy Department evaluated multiple program options aligned with these goals.

Recent air quality regulations adopted by the Bay Area Air District and the California Air Resources Board have established point-of-sale bans on natural gas space appliances and gas-powered landscaping equipment:

- In March 2023, the Bay Area Air District adopted regulations restricting nitrous oxide emissions that will phase in from 2027 to 2031. These rules will prohibit the sale of natural gas appliances for space and water heating, requiring existing homes and businesses that are replacing old equipment to install electric heat pump water heaters and heat pump heating, ventilation, and air conditioning (HVAC) systems.
- In December 2021, the California Air Resources Board approved a statewide regulation prohibiting the sale of gas-powered small off-road engines, including leaf blowers manufactured after January 1, 2024, due to their high levels of smog-forming emissions and the associated health impacts, particularly for landscaping workers.

The two pilot program concepts presented in this memorandum—contractor incentive for heat pump installations and an incentive for ELB adoption—are designed to enhance the effectiveness of these regulations by supporting early market adoption and addressing practical barriers to compliance in San José.

ANALYSIS

Contractor Incentive Pilot Program for Heat Pumps

As of September 2025, 72 contractors have participated in SJCE's EcoHome Rebate program for HVAC installations, and 24 for heat pump water heater installations. Notably, just two contractors are responsible for over 35% of HVAC projects and over 54% of heat pump water heater projects, underscoring the need to broaden participation and build a more diverse contractor base. Nearly 110 contractors install heat pumps through the TECH Clean California state incentive program in Santa Clara County. According to license data, over 800 San José-based contractors hold active licenses to perform HVAC or water heater installations, highlighting a significant untapped pool of

professionals who could be incentivized to install heat pumps.¹ Increasing familiarity with heat pumps among a broader base of contractors could help drive down project costs as demand for installations increases as the Bay Area Air District regulations go into effect.

Staff recommends implementing a contractor incentive pilot program to improve familiarity with heat pump technologies and encourage contractors to build a heat pump business. Contractor incentives, those that target contractors rather than end users, can be particularly powerful in transforming markets because they directly influence the professionals who make technology and equipment recommendations for homeowners. By lowering the learning curve and early financial risk for contractors, contractor incentives can accelerate adoption, standardize installation practices, and help build a more confident contractor network. This approach supports SJCE's goals of reducing greenhouse gas emissions while supporting San José's readiness for the transition to appliances that do not emit nitrous oxides.

The proposed pilot program would offer \$1,000 for each of the first six qualifying heat pump installations completed for an SJCE customer by an eligible contractor, totaling up to \$6,000 per contractor. Eligible participants must be licensed contractors in the Bay Area who have completed fewer than three projects through SJCE's EcoHome Rebate program.² The funding would offset the time and costs associated with learning new technologies and help contractors build a sustainable heat pump business model. The total pilot budget of \$100,000 would fund approximately 15 contractors and be supported with \$10,000 in marketing and collateral development. The pilot program would utilize existing community development and workforce funding that the Energy Department has secured from long-term power purchase agreements with energy developers.³

The program is expected to result in approximately 90 new installations over a 12-month period and deliver estimated emissions reductions of 1,466 metric tons of carbon dioxide. Because it builds on existing EcoHome Rebate infrastructure, the contractor incentive can be implemented with minimal additional staff time—approximately nine hours per month, or 0.07 full-time equivalent.

Staff will evaluate the effectiveness of the contractor incentive pilot program by tracking the number of new contractors participating in the EcoHome Rebate program, the number of heat pump installations completed, project costs, and other metrics. In addition, staff will continue to conduct surveys or interviews with participating

¹ Licenses that can perform part or all of a heat pump installation include C-20 (HVAC), C-10 (electrical), and C-36 (plumbing).

² <http://www.sanjosecleanenergy.org/ecohome-rebate>

³ The City enters into long-term power purchase agreements with energy developers to source electricity for San José Clean Energy customers. To date, San José Clean Energy has received \$1.365 million from five developers, and \$490,000 has not yet been spent. This is a one-time, limited funding source.

contractors to assess satisfaction with the program, identify barriers to heat pump adoption, and gather feedback to inform potential program adjustments.

ELB Incentive Pilot Program

Staff evaluated a pilot program concept that would offer financial incentives to small landscaping businesses to adopt commercial-grade ELBs in place of gas-powered models. While the California Air Resources Board’s regulation prohibits the sale of new gas-powered leaf blowers manufactured after January 1, 2024, staff found that gas-powered models are still widely available due to existing dealer inventory. This ongoing availability, combined with the slower adoption of electric equipment, presents an opportunity for San José to accelerate market transition.

The proposed pilot would offer up to 80% of the equipment cost (excluding tax) as a base incentive, not to exceed \$1,000, with an additional \$500 incentive adder for participants who qualify for state-funded energy bill discounts or live in communities with a high pollution burden according to the state, provided the total does not exceed 80% of the total cost (Table 1). Eligible participants would need to be SJCE customers operating a licensed gardening or landscaping business with five or fewer employees, a group that comprises over 90% of the 1,286 landscaping businesses registered to do business in San José. The pilot would be designed as a point-of-sale voucher system, allowing eligible landscaping businesses to receive the incentive directly at participating dealers when purchasing qualifying equipment. This approach is aimed to minimize upfront costs for small businesses and streamline the customer experience without requiring reimbursement or complex application processes.

Table 1. Possible Incentive Structure for an ELB Incentive Pilot Program

	Stihl BR 600 Gas Powered Backpack	ELB + 1 battery and charger	ELB + 1 battery and charger	ELB + 2 batteries and charger*	ELB + 2 batteries and charger*
MSRP	\$549.99	\$1,430	\$1,430	\$2,349	\$2,349
Base incentive		- \$1,000	- \$1,000	- \$1,000	- \$1,000
Adder		\$0	- \$144	\$0	- \$500
Cost, excluding tax	\$549.99	\$430	\$286	\$1,349	\$849

* Most common electric equipment configuration to fully replace gas.

In addition to improved air quality, reduced noise, and other health benefits, electric models offer substantial fuel and maintenance savings. While the upfront cost of a professional-grade ELB system averages around \$2,349 compared to \$550 for gas models, electric units greatly reduce fuel costs (approximately \$7 per gallon for gas) and

require significantly less maintenance over time. The payback period on ELB systems varies by model and operating time but can be as short as 12 months, mainly due to fuel savings.⁴

Staff identified several implementation and impact challenges. Landscapers would still face an out-of-pocket cost gap of \$300 to \$800 with the proposed incentives, particularly if multiple batteries are required for daily operations. Performance concerns also remain; industry experts estimate a 5% to 15% reduction in work productivity for ELB compared to gas units. From a greenhouse gas standpoint, the emissions reduction impact is minimal—less than 0.1% of San José’s total emissions. The air quality benefit is more significant: operating a gas leaf blower for one hour produces as much smog-forming pollution as driving a car over 1,100 miles. Finally, ELBs are mobile equipment so there is no guarantee that incentivized devices would be used exclusively or even mainly within San José, limiting the City’s ability to ensure local environmental and health benefits. Landscapers could use the ELBs in cities with a gas leaf blower ban and continue to use gas leaf blowers in San José.

To support such a pilot, new systems for eligibility verification, incentive disbursement, dealer coordination, and multilingual customer assistance would need to be developed. To ensure successful adoption, the pilot would require intensive customer education to address common concerns about electric equipment performance, charging logistics, and battery maintenance. This would include multilingual outreach materials, hands-on demonstrations, and personalized support to help small business owners make informed purchasing and operational decisions. Staff estimate ongoing administrative needs at 40 to 80 hours per month (0.25 to 0.5 full-time equivalent), which would require additional staffing (Table 2).

Given these constraints and the limited emissions impact, staff recommend focusing instead on state and regional advocacy and reserving local resources for higher-impact programs. Staff recommends continuing to pursue advocacy opportunities with the Bay Area Air District and the California Air Resources Board to secure targeted funding for small landscaping businesses in San José. This includes urging the Bay Area Air District to ensure San José businesses are eligible for its forthcoming voucher program for zero-emission landscaping equipment and encouraging the California Air Resources Board to release more funding for its successful electric lawn equipment voucher program.⁵

⁴ [Stihl Battery Power Return on Investment Calculator](#)

⁵ The Bay Area Air District’s forthcoming incentive program for electric-powered lawn equipment is focused on Assembly Bill 617 communities, which do not include San José at this time. Future advocacy efforts could focus on securing formal Assembly Bill 617 designation for San José communities with high air pollution burdens—such as Alviso—which are currently listed as candidate communities but have not yet been officially included in the program.

Table 2. Comparison of Contractor and ELB Incentive Pilot Programs

	Expected impact over 12 months	Budget	Staff time estimate	Lifetime greenhouse gas reductions
Contractor incentive	15 “new” heat pump contractors	\$100,000	0.07 FTE	1,466 metric tons of carbon dioxide
Recommended				
ELB incentive	75 electric leaf blowers sold	\$142,500*	0.25-0.5 FTE	174 metric tons of carbon dioxide
Not recommended				

* Does not include staffing request.

EVALUATION AND FOLLOW-UP

Staff will evaluate the effectiveness of the contractor incentive pilot program and will provide an update to City Council as part of the annual Programs Roadmap update anticipated to go to City Council in spring 2026.

COST SUMMARY/IMPLICATIONS

The total cost of the recommended SJCE contractor incentive pilot program is expected to be approximately \$100,000 through Fiscal Year 2025-2026. Funding for the pilot program was allocated in the San José Clean Energy Fund as part of the 2025-2026 Adopted Operating Budget process. The Adopted Budget was approved on June 10, 2025, and adopted on June 17, 2025, by City Council.

BUDGET REFERENCE

Fund #	Appn. #	Appropriation Name	Total Appropriation	Amount for Recommendation	2025-2026 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
501	232J	Electrification Workforce Development Programs	\$740,000	\$100,000	1032	6/17/2025 31230

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, the City Manager's Budget Office, and the City Manager's Office of Racial and Social Equity.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the December 2, 2025 City Council meeting.

The contractor incentive pilot design was informed by conversations with neighboring Community Choice Aggregators. The ELB incentive pilot design was informed by stakeholder engagement with 16 local gardeners and a high-volume equipment dealer, a bilingual gardener workshop with 17 participants, and partnerships with the American Green Zone Alliance and the Latino Business Foundation of Silicon Valley.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP17-004, Government Funding Mechanism or Fiscal Activity with no commitment to a specific project which may result in a potentially significant physical impact on the environment.

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/
Lori Mitchell
Director, Energy Department

For questions, please contact Kate Ziemba, Senior Environmental Program Manager, Energy Department, at kate.ziemba@sanjoseca.gov.