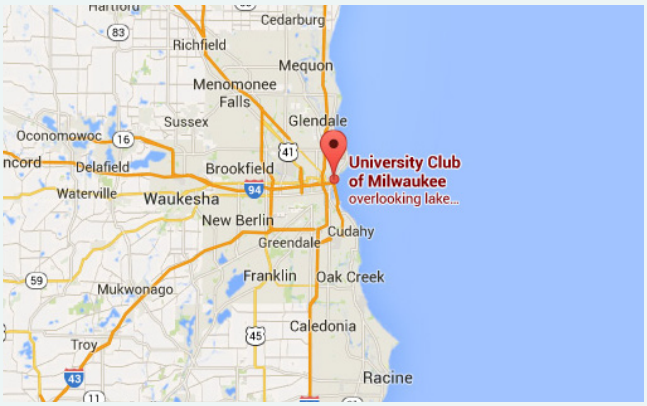
Milwaukee's First PACE Project

$662,000 Retrofit of a Landmark University Club Building



Project in a Nutshell

The University Club building, situated in downtown Milwaukee, underwent a comprehensive $1.9M renovation. Property Assessed Clean Energy funded $662,000 worth of energy efficiency improvements, including balancing the building's airflow with new makeup air units, updating the HVAC system, replacing all lights, repairing steam traps and windows. This project resulted in an estimated $1.34 million worth of savings over the course of 18 years.

Project Highlights

Total Project Size: $1.9 million
PACE Component: $662,000
Term: 18 years
Interest Rate: 6%
Energy Savings: 30%
Total project return over term: $1,341,203
Guaranteed Savings Year 1: $56,000
Average Annual Savings: $75,000

The University Club of Milwaukee Established 1908 · PACE Equity · medc Milwaukee · Me2 Milwaukee Energy Efficiency SmartEnergyPays.com · PACENow Financing Energy Efficiency

The Site and Project Idea

The Club's stately six-story clubhouse is situated at the corner of Wells Street and Prospect Avenue, overlooking Lake Michigan. Facilities include 20 guest rooms and suites, 15 versatile meeting rooms, convenient indoor parking, a health club, business center, wireless access, overnight accommodations, a la carte and private dining. These amenities allow the Club to conduct meetings, lectures, social events and offer networking opportunities for Milwaukee business professionals.

The 1928 building was due for a comprehensive renovation, so the Club's board of directors was looking into various options to finance the necessary building upgrades. One that attracted the board's attention - property assessed clean energy or PACE, was offered by the City of Milwaukee. PACE, inherently a public-private partnership, is a financing mechanism that allows building owners to fund energy efficiency and renewable energy improvements for up to 20 years with no up-front costs. At a conference on PACE sponsored by BOMA Wisconsin, the Milwaukee Office of Environmental Sustainability, and Johnson Controls, the Club's board members learned more about PACE financing process and connected with PACE Equity, a national project developer and project originator.

Project Goals

PACE Equity partnered with other local contractors to modernize the Club's facilities and reduce utility expenses. PACE financing supplemented money raised by broader capital campaign to do other major renovations of the club. Beau Engman, PACE Equity's CEO notes, "The University Club is performing a renovation that is important to their strategic plan. We worked closely with the building owner to develop a project that fits their needs."

Specifically, PACE Equity and the Club identified the following goals:

- Reduce utility expenses
- Increase the comfort of club members
- Reduce the operational and maintenance needs of the facilities team
- Repair and replace windows throughout the building
- Balance the building's airflow to allow the Club to use fireplaces
- Improve the HVAC in the meeting rooms

Property Assessed Clean Energy (PACE)

PACE or Property Assessed Clean Energy financing is an effective way for commercial property owners to pay for energy efficiency upgrades, on-site renewable energy projects, and water conservation measures. PACE funding can cover 100% of a project's costs and is repaid with an assessment over a term of up to 20 years.

About University Club

The University Club of Milwaukee was organized in 1898 by a group of nineteen college alumni. Today, the Club continues to provide for the business and social needs of its members by offering accommodations, educational programming, and networking events. Various educational topics are explored through lectures, roundtable discussions, panels, and dinners.

Project Financing

PACE Assessment: $662,000
Term: 18
Interest Rate: 6%
Total project return over term: $1,341,203

Building Details

Stories: 6
Square feet: 68,308
Year Built: 1928
Architect: John Russell Pope

Property Assessed Clean Energy (PACE), continued

PACE financing is broadly applicable to commercial, industrial, agricultural, multi-family housing and non-profit properties. Several real estate market leaders, including Simon Property Group and Prologis Inc., have used PACE to fund energy efficiency and renewable energy upgrades to their buildings. PACE financing has many features that can easily solve barriers to the adoption of energy efficiency measures. Since 2009, nationally the size of commercial PACE projects has ranged from $2,000 to $7 million, proving its versatility. PACE is available in more than 800 hundred municipalities across the country and commercial property owners in more than 10 states took advantage of PACE financing.

PACE in Milwaukee

Milwaukee established a PACE program because the city saw an opportunity to create and retain local jobs, boost the economy, and meet broad sustainability goals outlined in its *Refresh Milwaukee* plan. In fact, a PACE program ties well with a city-wide *Residents Preference Program* as part of a Community Workforce Agreement that encourages prospective contractors to employ up to 40% of unemployed or underemployed city residents. For instance, the Club's renovation project brought business to seven companies based in Milwaukee.

"The University Club project is a win-win for the city of Milwaukee," said Erick Shambarger, Deputy Director of the City of Milwaukee Office of Environmental Sustainability. "Not only are repairs being made to ensure the sustainability of a Milwaukee landmark, the project is also creating local jobs to bolster Milwaukee's economy and growth."

Additionally, Milwaukee is one of five cities in the world that is part of the United Nations Secretary General's Building Efficiency Accelerator through the *Sustainable Energy for All* initiative. It also participates in the Department of Energy's *Better Buildings Challenge* program. Both programs strive to create more sustainable societies by focusing on building energy and waste reduction. This $1.9 million PACE funded retrofit will result in an estimated energy savings of 30%.

Every PACE-financed project drives job creation and helps the city meet the commitment to sustainable built environment. "The PACE Program empowers building owners to think about their renovation projects differently, from a 'total cost of ownership' perspective," said Engman. "Instead of focusing on first cost, customers can make investments based upon value creation for the facility. This way of thinking leads to a bigger impact, not only on the building's efficiency but on the environment."

Project Developer

PACE Equity secured financing, provided PACE Project governance & expertise, energy engineering, guarantee of energy savings, and ongoing performance monitoring. PACE Equity works with building owners to implement significant building improvements by converting long-term energy efficiency savings into investment dollars to fund these projects. With extensive experience developing commercial energy projects, developing innovative financing structures and evangelizing PACE throughout the United States, PACE Equity aspires to be leading PACE project originator in the country.

Milwaukee PACE Program

Me^2 Property Assessed Clean Energy (PACE) Financing helps commercial property owners affordably finance building upgrades like heating and cooling systems, lighting, controls, and solar. Pay for improvements over time as you reap the benefits of lower energy and maintenance bills. The special charge is attached to the property, not the owner, and is paid back through the property tax system over time. Projects should be designed so the annual energy and other savings pay for the special charge for a net positive cash flow.

Project Financing

The University Club's Board found PACE to be an attractive source of long term funding that supplemented the existing capital campaign. Specifically, the building owner noted that the following aspects of PACE financing were especially appealing:

- 100% up-front funding for energy efficiency improvements
- 18 year term, which resulted in the project being cash flow positive
- Off-balance sheet financing, which allowed the Club to preserve the borrowing capacity
- Tax-assessment nature of financing

"PACE represents an excellent public/private partnership where improvements are funded with private capital, but repaid through a special charge on the tax bill," said Julie Tolan, President of the University Club Board. "In this case, the value to the University Club was long term, low cost capital to reduce operating costs while simultaneously supporting the club's strategic plan."

PACE in Milwaukee uses an open market model for lenders, which means that the program is open to working with a range of capital providers. In this case, the financing was provided by the Milwaukee Economic Development Corporation (MEDC), a local development corporation offering loans to businesses with a goal to create or retain jobs. MEDC, which normally specializes in small to midsize lending, financed $662,000 in PACE funding out of its loan fund. The organization is working closely with the City of Milwaukee and welcomed an opportunity to be the first funder for a PACE project in Milwaukee.

Lastly, since PACE financing is repaid through a property tax assessment mechanism and is senior to any mortgages on the property, the Milwaukee PACE program requires the consent of an existing lender before PACE financing can be used. The mortgage on the University Club building was held by BMO Harris, which is a Chicago-based bank and a member of the Federal Reserve System. The bank is owned by BMO Financial Corporation, a holding company which in turn is owned by Bank of Montreal, also known as BMO Financial Group. BMO Harris consented to the PACE assessment after evaluating the project. The existing lender recognized that this project not only replaced the necessary equipment but increased the value of the building.

Contractors and Improvements

The aspects of the renovation project funded by PACE include balancing the building's airflow with new makeup air units, updating the HVAC system, repairing steam traps, repairing windows and replacing all lights – including chandeliers – with LEDs. These changes will modernize the mechanics of the building while retaining the old-world aesthetics of the historic landmark.

Improvement	Estimated Useful Life (years)	Year 1 Utility Savings
Air Units & Air Balancing	24	$ 7,396
Steam Trap Remediation	15	$ 13,116
Interior LED Lighting	10	$ 18,739
Window Repair	20	$ 1,418
4 HVAC systems	18	$ 15,650
	Total:	$ 56,319

Beau Engman of PACE Equity noted, "This project is an example of how PACE funding can be used as a tool to help building owners perform significant building improvements that are ultimately funded through energy savings."

The following energy service specialists worked together to complete this project.

Craft Milwaukee, a local construction management company, oversaw the project and facilitated coordination among the contractors.

Johnson Controls, a global multi-billion dollar ESCO, installed make up air unit and air balancing solutions.

Thuemling Industrial Products is a Wisconsin-based producer of high quality gauges for a variety of industries, installed steam trap remediation equipment.

Murphy Energy Systems, a full service ESCO focused on energy efficiency solutions, replaced building's interior lighting with LED fixtures.

Butters-Fetting, a southeastern Wisconsin HVAC company serving, replaced four aging HVAC units on several floors of the Club.

JF Cook, a company specializing in manufacturing energy efficient doors, windows and gates to southeastern Wisconsin businesses, replaced and repaired several windows of the Clubhouse.

Principal Project Partners

The University Club
Role: Building owner and PACE financing recipient
Kim Schmitt, General Manager
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PACE Equity
Role: Project originator and developer
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City of Milwaukee's PACE Program
Role: PACE program - PACE loan servicer
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Milwaukee Economic Development Corporation
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PACE*Now* Financing Energy Efficiency

PACE*Now* is a foundation funded, impartial and consensus driven non-profit advocate for PACE.