The Power of PACE: A Historic Building Completes its Development Plan with PACE Financing in Milwaukee

Summary

The Mackie Building, a 19th-century historic landmark of downtown Milwaukee, completed a comprehensive redevelopment plan made possible by PACE financing. The post-civil war building was in need of efficiency upgrades, historic refurbishments and restorations to complete an overall redevelopment of the property. J. Jeffers & Co., the building's owner, saw PACE as a "really critical piece" of the project, which also made use of a complex capital stack of city Tax Increment Financing (TIF), state and federal historic tax credits, Milwaukee Economic Development Corporation loans, bank financing and equity.

The redevelopment and restoration plan totaled $13.7 million and the PACE component amounted to $1.7 million. PACE paid for the following upgrades: a variable refrigerant flow (VRF) heating and cooling system, low-flow water fixtures, elevator replacements, and an improved water heating system. To arrange the funding, PACE Equity LLC, a national turnkey PACE provider, worked with the Milwaukee Energy Efficiency (Me^2) program, the city's PACE program administrator. The improvements made will create over $2.2 million in savings over the life of the project.

Project Highlights

- Total PACE Equity Financing: $1,702,000
- Term: 20 years
- Energy Savings: 64,000 kWh per year
- Annual PACE Assessment: $154,500

PACE Equity
Renovating America the Efficient Way

Jeffers & Co

City of Milwaukee

Me2
Milwaukee Energy Efficiency

PACENow
Financing Energy Efficiency

The Site and Project Idea

The Mackie Building was built 136 years ago to house Milwaukee's grain trading hub, and to some, the building is still known as "the grain exchange." The site also functioned as the original home of the Milwaukee Chamber of Commerce. Today, the building is used to host banquets and events — located within the grain exchange trading floor — and as office space.

J. Jeffers and Co. acquired the Mackie Building in 2014. The company has a history in the historic restoration business; prior to owning and managing the Mackie Building, the firm restored and repaired the adjacent Mitchell Building. As owner and developer, J. Jeffers & Co. plans to add 25 apartments to the Mackie Building's upper floors, expand the building's office space, and complete energy efficiency retrofits including HVAC upgrades, elevator replacements, water conservation measures, and an improved water heating system.

The building's HVAC system is being upgraded from steam-heat to an efficient variable refrigerant flow (VRF) system which both heats and cools. This system was chosen because it works within the historical guidelines of the building; VRF requires no ductwork and so preserves the building's interior and retains its historical image. The VRF system will be installed by JM Brennan, a local family-owned mechanical contractor.

How Does PACE Work?

PACE, which stands for Property Assessed Clean Energy, is a simple and effective way to finance energy efficiency, renewable energy, and water conservation upgrades to buildings. PACE can pay for new heating and cooling systems, lighting improvements, solar panels, water pumps, insulation, and more. It can be used for almost any property – commercial, industrial, multifamily, non-profit, and agricultural properties and in some states, homes as well.

PACE financing is available in many states across the country. While there are variations in program design and financing arrangements across the country, at minimum a PACE project should include: a unit of local government authorizing the program, a property owner, an energy services professional, and a PACE financing provider.

The Milwaukee Energy Efficiency (Me^2) program enables local businesses to fund energy efficiency and renewable energy improvements with no up-front cost. In this case, Me^2 served as a program administrator and partnered with PACE Equity LLC, a national turnkey PACE provider, to organize PACE funding for this project.

Erick Shambarger, Director of Environmental Sustainability for the city of Milwaukee, commented, "Our open market PACE program is a model for other communities in Wisconsin and throughout the United States. The Milwaukee Office of Environmental Sustainability continues to lead on innovative financing programs to spur the clean energy economy."

Project Financing

Total PACE Financing: $1,702,000
Term: 20 years
Annual Assessment: $154,500
Energy Savings: 64,000 kWh per year

Building Details

Type: Historic mixed-use building
Square feet: 58,435
Stories: 4
Year Built: 1879

List of Improvements

Utility and operational savings of approximately $1.40/sf has been identified. The following is a list of the PACE-funded improvements for this project:

- VRF heating and cooling
- Elevator replacements
- Low-flow plumbing
- Improved hot water system

Project Financing

To complete this project, the building owner made creative use of a wide variety of financing options. The $13.7 million restoration project relied on PACE financing from PACE Equity LLC, Tax Increment Financing (TIF) provided by the city of Milwaukee, state and federal historic preservation tax credits, city façade grants, and developer equity. PACE Equity, in partnership with the Milwaukee Energy Efficiency (Me^2) PACE program, provided $1.7 million for efficiency retrofits and elevator replacements. Over the term of the assessment, the building's owner is expected to gain over $2.2 million in savings from reduced energy costs, which will result in a positive savings-to-investment ratio.

J. Jeffers & Co. found PACE financing to be an attractive source of long term funding that can replace more expensive equity. Specifically, the building owner noted that the following aspects of PACE were especially appealing:

- 100% up-front funding for all energy efficiency improvements, including soft and hard costs
- 20 year financing term
- Off-balance sheet financing, which allowed the building owner to preserve borrowing capacity
- No personal guarantee, PACE relies on the value of the collateral and not personal credit
- Overall, PACE funding allowed the customer to deploy their internal capital in areas core to their business with a higher rate of return

Using PACE as part of this project's capital stack was a beneficial choice, as PACE financing pairs well with the variety of other financing options available – according to Beau Engman, Founder of PACE Equity LLC, PACE funding "fits like a glove" in addition to these other funding sources.

Joshua Jeffers, President of J. Jeffers & Co., commented that "PACE Equity financing was the right choice because PACE paired so well with the rest of the capital stack used on this project. With PACE, we were able to finance over a 20-year term and offset more expensive sources of capital."

Conclusion

In Wisconsin, PACE legislation enables cities and counties to create PACE programs such as Milwaukee's Me^2 program. The Mackie Building's use of PACE to finance major energy and water efficiency upgrades displays the importance of PACE as a financing tool for building owners and developers in the state.

According to Erick Shambarger, who runs the city's PACE program, "The Mackie Building project demonstrates that with PACE, we can restore our historic buildings with 21st century technologies to save energy and improve the environment." He added that "the Mackie Building is part of Milwaukee's downtown renaissance and our broader environmental sustainability plan, ReFresh Milwaukee." After restoration, the Mackie Building can serve as a cornerstone of downtown Milwaukee, bringing in additional retail and job opportunities for residents.

PACE Equity LLC is currently working with a team of statewide partners to expand the availability of PACE throughout Wisconsin, which will allow even more business-owners in the state to take advantage of PACE financing.

Principal Project Partners

PACE PROGRAM: Me² MILWAUKEE

The Milwaukee Energy Efficiency (Me²) program enables commercial building owners in Milwaukee to take advantage of PACE financing. The Milwaukee Office of Environmental Sustainability runs the program. Me² is the first PACE program in the state, and the program is designed to alleviate the upfront costs of energy efficiency improvements for businesses in the city of Milwaukee.

PROJECT DEVELOPER AND FINANCIER: PACE EQUITY, LLC

PACE Equity worked with the city of Milwaukee and the Me² program to provide project governance, energy efficiency expertise, and financing for the project. With extensive experience developing commercial energy projects leveraging PACE financing and evangelizing PACE throughout the United States, PACE Equity is a leading PACE project developer and finance provider in PACE markets across the US.

BUILDING OWNER AND MANAGER: J. JEFFERS & CO.

J. Jeffers & Co. was described by their President Joshua Jeffers as a "mission-based real estate development firm." The firm was established in 2011 and now owns the historical Mitchell Building and Mackie Building in downtown Milwaukee. The company has since led the efforts to restore these buildings, and has used PACE financing for efficiency upgrades to the Mackie Building. J. Jeffers & Co. has also completed renovation projects on an affordable multifamily housing development and a sports training center in the Milwaukee area.

ENERGY SERVICES COMPANY: J.M. BRENNAN

J.M. Brennan is a family-owned mechanical contractor that services the Milwaukee area. The company installed the Mackie Building's VRF system and other efficiency measures.

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