



## MEMORANDUM

TO: Mayor Burch and City Council Members

FROM: Gregg Guetschow, City Manager

SUBJECT: Purchase of National Guard Armory

DATE: January 22, 2015

On December 8, 2014, City Council authorized the execution of an offer to purchase real estate with the Michigan Department of Military and Veterans Affairs. Through this agreement the City would become the owner of the Michigan National Guard Armory on South Cochran Avenue.

As we noted at that time, the agreement provides for a period during which the City could conduct such investigations as it deems necessary, exploring matters such as environmental conditions on the site and the presence of lead-based paint and asbestos. The agreement also allows for the City Council to take action to rescind and terminate the agreement within a 45 day period that commenced January 6, 2015.

I provided a brief oral report during the preceding Council meeting regarding the results of the City's asbestos investigation. At Council member Conway's request, City staff members have prepared the attached analysis addressing a variety of issues related to the proposed acquisition. This analysis contains additional information from the asbestos survey under Section IV.

Reference is made in the report to various documents that will be found as separate links within the electronic agenda packet.

Should Council wish to proceed with the acquisition of the property, no further action is necessary. If Council prefers not to acquire the property, a

majority vote on a motion to rescind and terminate the agreement is required by February 20.

# NATIONAL GUARD ARMORY PURCHASE

## Executive Summary

City staff has prepared this report to provide an analysis of issues related to the proposed purchase of the former Michigan National Guard Armory on South Cochran Avenue. The report contains the following sections:

**I. Background.** The Armory was constructed in the 1920s and is 23,723 square feet in area and occupies 6.53 acres of land. The property is zoned R-1 single family residential district. The City's Future Land Use Plan classifies the site as "Public and Institutional." A 2014 real estate appraisal identifies the highest and best use of the site as holding until a financially feasible development opportunity arises.

**II. Addressing City and Community Needs and Opportunities.** The primary proposed use of the building is to address storage needs. Other ancillary benefits include facility expansion, historic preservation, community uses, wellhead protection and area aesthetic improvements.

**III. Financing.** It is proposed that the purchase be made through the Motor Vehicle Pool fund with lease charges against other departments. Alternatives to the purchase are considered but it is concluded that optimistic assumptions must be made to justify pursuing such alternatives.

**IV. Environmental.** An environmental survey was completed in 2005 and updated in 2014. No issues of concern were found in these surveys. A December 2014 survey found a small amount of asbestos that does not require remediation at present.

**V. Analysis of Potential Outcomes for the Site.** A variety of potential outcomes and uses for the property are discussed. It is concluded that the City's use of the property for storage would help forestall deterioration until a better use is identified.

**I. Background.** The State of Michigan Department of Military and Veterans Affairs entered into a purchase agreement with the City of Charlotte through which the City would acquire title to the former Michigan National Guard Armory located at 1310 South Cochran Avenue.

The building is 23,723 square feet in area and occupies 6.53 acres of land overlooking, but not contiguous to, the Battle Creek. The parking lots have space for approximately 100 vehicles. The structure is a masonry frame building constructed of steel and masonry. It was built in the 1920s. The appraiser rated the condition of the building as average with an effective age of the building of 30 years and an estimated useful life of 20 years. The appraiser noted “some forms of deferred maintenance such as peeling paint, water damage, etc. Overall, the items of deferred maintenance are limited and are not large obstacles to the marketability of the property. (Appraisal, p. 34)”

Zoning. The entire site is zoned R-1 single-family residential district. Permitted uses in this district include the following: one-family detached dwellings; farms; publicly owned and operated libraries, parks, parkways and recreational facilities; home occupations; state registered family day care homes for children; municipal office buildings when in character with the neighborhood; cemeteries; and public, parochial and other private elementary schools. Conditional uses permitted in the district include the following: public, parochial and private intermediate and/or secondary schools; utility and public service buildings and uses, without storage yards; state-licensed day care group homes; private noncommercial recreational areas, institutional or community recreation centers, and nonprofit swimming clubs; golf courses; colleges and universities; churches; public buildings; and group homes for children and adults.

All properties contiguous to the site are zoned R-1 single-family residential district. The Emerald Isle condominiums farther to the west of the site are zoned RM-1 multiple family residential.

Future Land Use. The 2008 Community Master Plan identifies the future land use of this site as “Public and Institutional.” Regarding this land use, the Master Plan reads as follows:

The Charlotte future land use plan includes the existing public and institutional facilities. The recent renovation of the Charlotte High School and the construction of the Charlotte Middle School has been a very successful addition to the community. As new residents are drawn to the city, additional churches and public organizations will be needed. When growth exceeds the existing services new areas will need to [be] set aside for such uses. However, at this time the schools, churches and other institutions are meeting the needs of the community. Additional, these uses are usually located within existing neighborhoods due to the community-based nature of their operations. (Master Plan, p. 71)

Although the Armory site is at one of the principal entrances to the developed portion of the community, this location is not identified within the Master Plan as one for which gateway enhancements are encouraged.

Highest and Best Use. The real estate appraisal identified the highest and best use of the site as “hold till such time a legally permissible use would be financially feasible to be developed (Appraisal, p. 2).” The highest and best use as improved was “alternative recreational, religious and/or community use.”

In conducting the appraisal, the appraiser utilized data from four sales that occurred in 2012 and 2013. All four sales were for churches located in West Michigan.

City staff identified three Michigan National Guard Armory sales or pending sales. The Armory in Owosso was vacated in 2007 and a sale is pending to the for-profit arm of the Shiawassee Regional Chamber of Commerce. The sale price for the 36,000-square-foot facility is \$230,000. An estimated \$3.3 million will be invested to convert the facility into office space. Additional information is available at [thearmoryproject.com](http://thearmoryproject.com).

The Marshall Street Armory in Lansing is 38,000 square feet in size. (Some reports indicate the size as 41,000 square feet.) It was closed in 2005 and was purchased by the Gillespie Group in 2010 for \$200,000. A conversion

project was undertaken at a cost of \$5.2 million. The facility now houses the offices of the Gillespie Group and those of various nonprofit organizations.

The Monroe Armory was closed in 2006 and sold to Home Town Pharmacy in 2013 for \$171,500. The size of the building is not known. The building was to be demolished at a cost of \$58,000 to make way for a new pharmacy location. A news report in 2013 attributed comments to the township supervisor to the effect that too much repair work needed to be done and too much asbestos needed to be removed to preserve the Armory.

**II. Addressing City and Community Needs and Opportunities.** The primary need that City staff wishes to address through acquiring the Armory property is for additional storage space, primarily for the Public Works, Utilities and Police Departments. Other ancillary benefits to the purchase have also been identified. Some of these were discussed with Council at the time the purchase was authorized; others have become apparent after additional thought about the future potential for the site. These are all addressed below.

Storage. Inadequate storage space exists at present for the Public Works, Utilities and Police Departments. A wide range of items require storage including motor vehicles, portable generators, trailers, Santa Claus, the downtown performance stage, and documents and supplies. Addressing these storage needs currently requires a combination of poor quality buildings in suboptimal locations and outdoor storage. In some buildings, equipment is so tightly packed as to risk damage and make accessing the equipment inefficient.

It is estimated that our current need is for an additional 11,500 to 14,500 square feet of storage space. It is estimated that the west portion of the Armory contains 10,200 square feet of space available for storage with additional storage space available in rooms in the remainder of the building. Particularly with regard to Police Department storage needs, the Armory presents the opportunity to affordably acquire heated, secure storage.

Facility Expansion. The City has made significant investments in property and facilities in the surrounding area over many years. The Armory is located between the Public Works garage and Bennett Park. It is immediately to the west of the well field.

Apart from the land located in the floodplain of the Battle Creek, the Public Works site is essentially built out. The vacant land associated with the Armory property offers the potential for future expansion of Public Works facilities.

The Armory site also offers space to accommodate overflow parking from activities and events held at Bennett Park.

More significant, however, is the location of this property adjacent to the well field. When City staff first approached Council about the acquisition of this property in 2006, the City was anticipating the need to build a water treatment facility. The City was successful in forestalling the construction of such a facility for now. Our experience with changing federal and state regulations as well as with changing consumer demands leads us to believe that there is a significant likelihood that other water facilities will likely be required in the future. One need only consider regulatory changes and their impact on waste water treatment facilities or airport runway protection zones to understand the potential need for facility expansions. These could be required to address new treatment regulations, needs associated with safety and security of the system or simply aesthetic improvements such as softening or iron removal. The preferred location for such facilities would be in proximity to the well field.

Historic Preservation and Blight Prevention. The National Guard Armory is among the oldest former government buildings in the community and part of Charlotte's architectural assets. It has served both national security needs and as a center of community activity. As discussed in Section V below, the future for abandoned armories can be one of deterioration followed, in some instances, by demolition. City acquisition could help avoid this fate.

Community Uses. The east section of the Armory includes a first floor meeting room and a second floor gymnasium. The City's immediate storage needs would not require use of these spaces, making them available for other community uses. The 2005 environmental survey noted that the gymnasium was being used occasionally for high school basketball practice. Space for temporary emergency housing has been mentioned as a possibility and grants could be sought to add the facilities necessary to accommodate such a use. From time to time other community organizations have needed space for things such as preparing food baskets. We expect that there may be other nonprofit organizations that could use these spaces for short term projects as well.

Wellhead Protection. As the accompanying aerial photograph shows, a small portion of the Armory site falls within the 1999 wellhead protection delineation. We do not yet know the impact that the construction of two new wells in the last few years will have on the boundaries of the wellhead protection area. It is impractical, of course, to acquire all properties within the wellhead protection area. Other nearby properties not owned by the City are used for residential purposes and can be expected to pose very low threats to the safety of the City's water supply. This Armory parcel, however, is the one not owned by the City in closest proximity to the well field. Our recent experience with the DEQ regarding water quality issues is one reason to approach potential uses of this property with a significant amount of caution, whether or not it is owned by the City.

Area Aesthetic Improvements. As the aerial photograph shows, Public Works and Police uses have occupied space along the north side of the Battle Creek and in Bennett Park. The availability of storage space within the Armory would permit the demolition of three or four older storage buildings and the elimination of at least some of the outdoor storage that is occurring behind along the river. These changes in turn would allow for reclaiming some yard areas for public access along the Battle Creek west of Cochran Avenue. In addition, it would move the City toward closer compliance with zoning standards related to outdoor storage on the Public Works property.



**III. Financing.** It is proposed that the funds for the purchase of the Armory building be appropriated from the Motor Vehicle Pool fund. This is an internal service fund through which public works vehicles and other equipment are purchased. Costs incurred within this fund are for purchasing and maintaining equipment and for other administrative expenses including those related to Public Works buildings. Revenues for the fund are received through charges to other funds and activities on which this equipment is used such as in Parks, in the Major and Local Street funds and the like.

An internal service fund is one type of proprietary fund. (The other type is an enterprise fund such as for water and sewer utilities or recycling.) A proprietary fund is one of three types of funds used by the City. The other two are governmental funds and fiduciary funds. Each of these fund types uses a different accounting approach. More significantly, from an accounting standpoint, the fund types serve very different purposes. Further, there are limitations on the transfer of monies from one fund to another. With the exception of legitimate inter-fund charges, it would be a violation of generally accepted accounting principles to transfer monies from an internal service fund to another fund. Funds within the Motor Vehicle Pool fund can be used for equipment-related expenditures, including storage facilities for the equipment but they may not be appropriated for other governmental purposes.

The \$237,000 purchase price of the Armory represents a reduction of 41% to the projected cash-on-hand in the Motor Vehicle Pool Fund, originally estimated to be \$571,799 as of June 30, 2015. The purchase is expected to result in the delay of some equipment purchases but these delays are not anticipated to cause any operational problems.

The storage of Public Works vehicles and equipment is expected to be the major use of this facility which is the reason that the Motor Vehicle Pool fund was selected as the source of funds for the purchase. As has been noted, however, this will not be the only use. At present, we anticipate some storage for water and sewer operations, the Police Department and Public Works for miscellaneous items such as Santa Claus. A lease rate for space used by other departments or divisions will be established. Those

charges will offset a portion of the purchase price and costs associated with utilities and building upkeep.

If we allocate the purchase price entirely to the 10,200 square feet of storage space in the west portion of the building and amortize that over 20 years (as opposed to the estimated useful life of 30 years), we arrive at a cost of \$1.16 per square foot per year. In 2010, utility costs for the facility were \$1200. For purposes of this calculation, this number should be increased to \$10,000 to include property maintenance, minor repairs and insurance. This adds \$.98 per square foot to the building cost for a total of \$2.14 per square foot per year. If we assume, by way of example, that the utilities division will use 2000 square feet, the cost per year to that budget would be \$4,280.

This is a preliminary calculation; additional work needs to be done to more firmly establish the inter-fund rate that we would use.

Lease charges, then, would have a budgetary impact on those other funds. In the case of utility uses, these charges will offset the planned construction of a storage building and would have minimal impact overall on fund expenditures. Charges associated with Police Department use would be a new expenditure within the general fund. We expected a portion of the cost to be offset by higher resale prices obtained for old police vehicles as they will be in better condition from the inside storage. In two years, the final debt service payment from the general fund for the 2000 construction of a public works office building will have been completed. We should then realize a net reduction in facility costs in that fund.

Cost of Alternative Storage. For the purpose of analyzing alternatives, we will ignore other ancillary benefits associated with Armory ownership and consider only the immediate needs for storage. If we once again allocate the entire purchase price of \$237,000 to the 10,200 square feet of primary storage space in the west portion of the Armory, the price per square foot would be \$23.24. We can compare this amount with the cost associated with building a storage facility. We will assume that building operating costs will be the same for either alternative.

The cost for new construction will vary depending on the type of construction and the amenities included. For the purposes of this analysis, we will assume that land cost will be zero. Available recent estimates for construction range from \$11 per square foot for a pole building without a floor to \$100 per square foot for the West Side Fire Station. In 2012, the City solicited bids for a 2000 square foot uninsulated pole building with concrete pad and minimal electrical service at the Waste Water Treatment Plant that ranged from \$16.85 to \$23.22 per square foot with a median price of \$19.10 per square foot. (These bids were rejected because they exceeded the budget for the project. The project was budgeted for \$50,000 in the current fiscal year.)

These prices appear to compare favorably with the \$23.24 per square foot calculated for the Armory space but other factors must be taken into consideration. Of the 10,200 square feet of primary storage space, 7200 square feet is within the drill floor area, a 60 feet by 124 feet open space. (The remainder is in the former horse stall area which was converted to secure storage.) The configuration of the drill floor is particularly advantageous for vehicle and equipment storage in that it allows for a center access with storage along both sides. This means that at least two-thirds of the total drill floor, or 4800 square feet, is available for storage use.

According to information found on the Internet, a clear-span pole building is limited in width to no more than 48 feet from eave to eave yielding perhaps 42 to 44 feet of interior width. Because the same width of access is still required for moving equipment, the percentage available for storage is reduced. In other words, it would be necessary to increase the total square footage of the pole building structure in order to realize the same amount of available storage space. In order to allow for maneuvering room, it is expected that space available for storage would be no more than 50% to 55% of the total space. To achieve an effective space of 4800 square feet, then, the building size would need to be between 8700 and 9600 square feet.

(A greater percentage of space could be utilized if vehicles are stacked behind one another. This type of space utilization creates operational

inefficiencies, however, because vehicles behind the one needed must be removed in order to access the one to be used. This is the manner in which the Quonset building at the Public Works garage must currently be used and is part of the motivation for acquiring additional storage.)

Using the assumptions above, the cost for the drill floor space is \$167,328. The cost for equivalent space in a clear-span pole building, assuming a price of \$16.85 per square foot, would be between \$147,595 and \$161,760. Assuming the smaller building size is selected, there is a 12% difference in cost between a pole building and the Armory.

There are several reasons to question the \$16.85 per square foot cost, however. First, the size of the construction is very close to the building code limit of 9000 square feet after which a sprinkler system is required for a new building construction. A sprinkler system will require the building to be heated. A dry sprinkler system could be installed but such systems are quite a bit more expensive.

A 7200-square-foot pole building could be constructed that has a 60 foot width but it would require interior support posts and other structural modifications from a conventional pole building. We do not have an estimate of the cost per square foot for such a structure but it will be in excess of the \$16.85 per square foot we have used for the analysis above. Further, if such a building were to be constructed without a sprinkler system, it would only be able to house vehicles and equipment. If flammable materials were to be housed, including police records, a separate section would need to be constructed with fire walls and sprinklers. Additional costs for police storage would be incurred to provide the necessary access control and security.

Finally, the \$16.85 per square foot was based on the bids for a 2000-square-foot building with a door opening of 10 feet by 10 feet and an interior clearance of 12 feet. These door and interior clearances are inadequate for the use contemplated for Public Works equipment storage. Increasing the building and door heights can be expected to increase costs. As an example of the potential for higher costs, the Charlotte Area Recycling Center received bids a few years ago for a 300-square-foot

building with 16 feet of clearance for the baler equipment. These bids ranged from \$40 to \$53 per square foot. This large cost differential is no doubt due in part to the small size of the building in that certain mobilization costs would remain constant regardless of building size. Nevertheless, we believe it is realistic to expect that costs per square foot would increase by 25% or more above those obtained for the Waste Water Treatment Plan storage building. Applying this factor to the bid prices we have been utilizing would result in a range from \$21.06 to \$29.03 per square foot with a median cost of \$23.88 per square foot.

The recently built airport hangars offer an estimate for a pre-engineered steel building and might provide a more comparable estimate for a secure storage facility needed by the Police Department. While there are unique aspects of these hangars that increase some costs over those of a typical storage building, these can be used to compensate for the lack of heat and security equipment. The hangars were built in 2013 at a cost, including engineering, of \$465,306 or \$39.50 per square foot. This amount should be discounted, however, in recognition that various regulatory requirements increased both the labor and engineering costs. If we apply a discount of 20%, the cost would be \$31.60 per square foot.

Finally, we obtained an estimate from local commercial builder for a 10,000-square-foot pre-engineered steel building with greater height than the airport hangars. The estimate ranges from \$60 per square foot for a “bare-bones” structure to \$70 for a more typical construction.

These various proposals for building alternative structures ignore costs associated with design, permitting, site preparation, paving drives, and other contingencies. In addition, we have not attempted to calculate costs associated with using storage at a location remote from the Public Works garage. That site is effectively built out necessitating another location on property owned by the City elsewhere in the community. Even if we assume that the property is essentially free, costs would be incurred for the time, fuel and equipment wear and tear required to travel from the Public Works garage to the location where the equipment is stored. We will incur some such costs for the utilities division as compared to building a pole building at the Waste Water Treatment Plant but these are expected to be

significantly lower than those associated with Public Works garage staff accessing a building across town due to the differences in use of equipment stored.

Another alternative would be leasing commercial storage. A rate for such storage could be compared to the inter-fund lease rate estimated above. The on-line rate quoted for a 10 feet by 30 feet unit at Budget Self-Storage in Lansing is \$8.76 per square foot per year as compared to the \$2.14 inter-fund rate estimated above. It is impossible without further exploration to determine whether this is a representative rate for commercial storage or whether lower cost alternatives exist in Charlotte.

There are other possible approaches to addressing storage needs that we have not explored. For example, secure commercial storage could be leased for police records and two pole buildings could be constructed so as to stay below the building size requiring sprinklers. The analysis above, however, demonstrates that the cost for new building construction is, at best, only marginally lower than the cost of purchasing the Armory.

In brief, it appears that only the most optimistic assumptions yield a building alternative that is more cost effective than the purchase of the Armory.

**IV. Environmental Conditions.** An environmental assessment of the Armory property was prepared for the Army Corps of Engineers by Altech Environmental Services, Inc. in 2005. The report notes that the property is listed on two databases related to environmental issues. The executive summary concludes that “[t]his assessment has revealed no evidence of [Recognized Environmental Conditions] concerning the subject property.” The report found that the property had been vacant land prior to being used as an Armory, there had never been underground storage tanks on the property and that the limited quantities of chemicals used at the site were contained and not released to the groundwater, soil or air.

This analysis was updated in 2014. That update report confirmed that conditions at the Armory had not changed since the 2005 report.

Neither report evaluated the property for the presence of lead-based paint or asbestos. We believe it likely, due to the age of the building, that lead-based paint is present. The condition of the building and the City's intended use did not warrant, in our opinion, a survey to verify whether lead-based paint is present. This opinion was confirmed by the inspector hired to perform the asbestos survey. The property should be tested for lead-based paint if and when remodeling projects are undertaken in the building that involve disturbing painted surfaces.

The City contracted with CompliChek Environmental Hazard Consulting to conduct an asbestos survey. The report dated December 19, 2014 identifies asbestos in two locations. Ten linear feet of pipe wrap were found in a location inaccessible to the public in rooms located in the front of the building on the first floor. Six hundred square feet of flooring containing asbestos were found in a second floor room. In both cases, the material is non-friable (not crumbling to the touch) and does not require any immediate action. At the time those areas are renovated or demolished, care must be taken to provide for proper disposal. The inspector estimated a cost between \$1200 and \$1650 to abate the hazard.

**V. Analysis of Potential Outcomes for the Site.** While the primary motivation for considering the acquisition of the Armory property is to address immediate storage needs of the Public Works and Police Departments, other future outcomes should be considered as well.

An outcome observed in other communities, as noted above, is one in which armories sit unused for long periods of time. An Internet search reveals that a common fate for armories is demolition following years of vacancy or marginal uses with attendant deterioration. News articles nearly always include comments from residents regretting the loss of a building that had been part of the local landscape for many decades. As in Charlotte, armories often served as community centers and hosted activities remembered fondly by older residents.

Before examining the public and institutional uses of the site that the Master Plan contemplates, it is worth considering whether commercial potential exists. It seems unlikely that a retailer would seek such a location

given the lower traffic counts as compared to other locations in the Charlotte area. Examples of retail uses following armory demolitions can be found but these appear to be in higher traffic locations. Daily traffic counts average 7800 vehicles in front of the Armory as compared to 9600 in the central business district and 13,400 on Lansing Road.

In the two mid-Michigan examples cited previously, armories were converted or were to be converted into office space. In both instances, these armories are located in central city areas. Location would not necessarily be a deterrent for an office conversion but competition with a similar facility in the former Southridge school might be. Conversion costs could result in office rents significantly higher than in other locations in the community. (Future downtown revitalization could drive office rents higher across the community and make a conversion project more practical.)

Warehouse space and offices for contractors would seem to be the most likely commercial uses for the facility in that they could be conducted without undertaking significant facility conversions.

All of the uses discussed above would require rezoning of the property. Such an action could be expected to meet with some public opposition from neighbors. This opposition might be offset by benefits of preserving the Armory in its present, historic condition or, in the future, by the elimination of a blighted condition.

It is conceivable that the property could be converted to residential uses. A conversion of the existing facility to apartments would seem unlikely in this market particularly given the availability of comparable dwellings in the former junior high school building. If the Armory property were combined with the Public Works garage site, the potential for development of single-family homes exists. The location along the Battle Creek would be attractive but the costs associated with property acquisition and clearing would make these building lots prohibitively expensive.

We should consider whether there are other likely institutional uses that are of a higher value to the community than those uses contemplated by the City. The major institutions in Charlotte would include County



government, the public schools and Hayes Green Beach Memorial Hospital. Minor institutions would include churches and nonprofit organizations such as the Chamber of Commerce, the Eaton Area Senior Center and SIREN-Eaton Shelter. Since the announcement of the City's intent to acquire the property, none of these institutions has approached City staff about potential partnerships or about the possibility of acquiring the property from the City.

Of all those institutional users listed, the most likely potential user of the Armory would be a church looking to expand from its current location or an affiliate of a church in an area community looking to branch out into Charlotte. The Armory could be attractive to a church in that space for worship services, Sunday school and recreation purposes are all available in the east portion of the building. As a church grew, it could plan for the conversion of the west portion of the building into a large sanctuary. Accessibility for persons with disabilities would be an issue, however, that could deter a church pursuing acquisition of the Armory. I am aware of just one local church that has been exploring the construction of a new church building.

In summary, it appears now that limited potential exists for development of the Armory into a more highly valued use than currently contemplated by staff. It is admitted that addressing storage needs and limited use by other community-based organizations does not necessarily constitute the highest and best use of the site. The City's acquisition is consistent with the highest and best use identified in the appraisal, however, of "holding the property until a permissible use would be financially feasible to be developed."

We cannot forecast all potential opportunities that will exist in the future for that site. The costs of holding the site are not great, however, and we would not expect the value of the property to decline if properly maintained. It appears to make sense to provide some use of the property until a more desirable redevelopment opportunity presents itself so as to forestall the fate that has befallen armories in some other communities. We believe that addressing City storage needs is such a use.