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Turning Coal Into Diamonds

By Karl R. Dorshimer, CEcD, EDFP

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A POWERFUL HISTORY

In 1937, the decision by city leaders to build a large coal burning power plant on the Grand River in the middle of downtown Lansing, Michigan, made good sense. Chosen as the location for the state capitol in 1847, Lansing had grown from a cluster of log cabins on the longest river in Michigan to a city of 78,000 residents in 1930. Along the way Michigan State University, the nation's first land grant university, was established nearby, and Ransom Ely Olds, an early entrepreneur, created the Oldsmobile Motor Vehicle Company near the banks of the river. Olds, who built his first steam car in 1894 and his first gasoline powered car in 1896, is credited with inventing the concept of the assembly line and used it in 1901 to build the Oldsmobile Curved Dash, the first mass-produced automobile (Michigan Yesterday & Today by Robert W. Domm).

In the decades leading up to 1937, the river had become lined with industry and evolved from being a source of fresh water, fish, and transportation, to an industrial input for cooling and a convenient mode of waste disposal. The river once rich in natural resources had reached the point where it was no longer fit for human contact.

However, in the late 1930s with the economy rebounding from the first Great Recession, Lansing began to ride high on its economic sectors of industry, government, and higher education. World War I was a fading memory and Lansing was making the transition from small town to city. The population more than doubled between 1910 and 1937 and the city's existing older power plant was overwhelmed by a rapid surge in demand for electricity by residents, institutions, businesses, and industry. To meet this demand, the city made the decision to build the Ottawa Power Station. However, this was the age of great public works and the plant was not going to be ordinary. Times were finally good and the sky was the limit. This plant would be a statement to the world that Lansing had succeeded in the industrial age. To design such a building, the city selected the firm of Edwyn Bowd and Orlie Munson. The firm designed an art deco exterior of brick and windows that was shaped like a wedding cake but made out of long rectangles instead of circles. Each layer was set on top of the previous one until the building reached ten stories in height. The exterior colors were intended to represent the transformation of coal into flames and light.

Photo courtesy of IBEW.

Ottawa Power Station under construction in 1940s.

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Lawrence Cosentino of the Lansing City Pulse describes how the walls rise "upward from the river, the masonry changes in color from coal-black granite at the bottom, radiating into waves of purple-gray, red, orange and yellow brick. The colors do not change in distinct layers, but gradual, Impressionist graduation, with outliers dispersed to enhance the illusion of flame. Thus the exterior of the plant is both a monumental sculpture and a fluid painting..."

Photo by Gene Meadows.

Inside of Power Station prior to redevelopment.

Half completed in 1939, the Ottawa Power Plant was delayed in completion by World War II, and the other half built in 1946. Continually upgraded and improved as technology changed, the plant burned coal to produce both steam and electricity for downtown Lansing as the city grew during the 50s and 60s. However, during the 70s another plant took over Ottawa's steam generating tasks, and the aging beauty started to show signs of age. A newer more efficient power plant was built on the outskirts of Lansing, and an upgraded electric grid system enabled the city to be less dependent upon the old plant. At about this same time, the city expanded an adjacent public parking ramp over the road that fronted the plant and blocked its view from downtown.

The final blow came when stricter environmental regulations and unfavorable market conditions caused the plant to be decommissioned in 1992. The city continued to use the steam distribution system in the building to disperse steam piped in from a newer power plant to various customers in the downtown area. Gradually, the power plant became a silent and conspicuous reminder of Lansing's past glory days and loomed over a struggling downtown.

THERE IS NO MAGIC BULLET

Through the 90s the plant stood idle but with much of its equipment and boilers still inside. The city made it known that the plant was for sale and had high hopes that a potential purchaser would come forth. However, most of the interest was from dreamers and not of a serious nature. There were a few serious developers with mixed use proposals, but all fell by the wayside when the projects progressed to the financial feasibility phase.

Even Earvin "Magic" Johnson, Lansing's native son and Hall of Fame professional basketball player, could not put together a deal to make the building into an entertainment center. It became obvious that the building presented major redevelopment challenges that were way outside of what was normally found in a brownfield project.

THE BIG CHILLER

When it became clear that the plant would not be re-commissioned and no developer or business was going to purchase the property, the city's municipal utility company (Lansing Board of Water and Light) removed all the machinery and boilers to make the property more appealing. What this did was create a huge cavernous interior that was dark, cold, and dangerous. Pigeons, falcons, and raccoons soon took over the upper reaches of the building, giving it a post-apocalyptic look and feel. Several more years passed with no end user in sight, and the city saw an opportunity to use the building for another purpose.

In 1998, the Lansing Board of Water and Light (LBWL) needed to locate a large 10,000-ton chilled water plant in downtown Lansing to serve the state of Michigan's building complex and the new General Motors Grand River Assembly Plant. The assembly plant, GM's first new plant in the U.S. in generations, was built in 1999 on the former Oldsmobile manufacturing site along the Grand River upstream from the downtown area. The site, once the location for the Michigan State Fair, had been the historic epicenter of Oldsmobile where more than 14 million Oldsmobiles were produced over a hundred-year run.

Built in 1999, the 2.5-million-square-foot Grand River Assembly (LGR) plant, a $550 million brownfield redevelopment project, thrust Lansing back into the U.S. lead in modern manufacturing. The LGR employs 2,000 people and has a major economic impact on the Lansing economy. The LBWL wanted to build a chilled water

2006 – pre-redevelopment view of plant with parking ramp and chiller cooling towers blocking access.

plant between downtown and the new LGR plant. However, the location selected drew heavy criticism from adjacent property owners. The chilled water plant would use massive compressors driven by steam or electricity to produce chilled water to be piped underground to customers who use the cold water in their air-conditioning units to cool large buildings. The used and now warmer water is then looped back to the chilled water plant where it is cooled back down and sent back around the loop again.

The process of stripping the heat off the loop at the chiller plant uses evaporation in several large cooling towers. These cooling towers produce both noise and a large amount of steam. When the steam comes in contact with an adjacent building, it condenses and forms either water or ice depending upon the outside air temperature.

When opposition to the chosen location reached a large and uncompromising level in late 1999, the LBWL found a second location that was under their control, well buffered from private land owners, and tall enough to get the steam plume high in the air – the Ottawa Power Station. So steam driven compressors were installed in the vacant plant and a massive and unsightly cooling water tower system was attached to the roof of the building. The combination of the encroaching parking ramp and the cooling towers effectively hid the building from view and made it even less appealing from a redevelopment standpoint.

Thus midway through the first decade of this millennium, the inside of the Power Station was covered in soot, coal dust, lead paint, and contained asbestos caulk. There were steel beams and cross supports, and the compressors took up a large portion of the interior space. To complicate matters even more, there was a privately owned building located in the middle of the six-acre site. Additionally, the extent of environmental contamination was unknown and associated liability issues not fully resolved. It all added up to a property that appeared impossible to redevelop.

THERE'S A NEW MAYOR IN TOWN

In 2006, Virg Bernero was elected mayor of Lansing. Mayor Bernero, who came into office on a platform of pro economic development, beefed up the Lansing Economic Development Corporation (LEDC) with more city funding and hired Bob Trezise, Jr. as the new LEDC president and CEO. After achieving several small successful development projects in the city, the new mayor set his sights on the 10-story behemoth in the downtown.

The city's attitude toward the Grand River had come full circle from the mid-1800s, and the river was once again considered a positive natural asset. The Clean Water Act of 1972 along with a strong state environmental department had over the previous 30 years eliminated most of the sources of pollution entering the river. The river was also naturally cleaning itself up and no longer considered hazardous to come in contact with. The planting of salmon in the river along with the resurgence in native fish populations provided recreation opportunities for fishing. The cleaner river also became popular for canoeing and kayaking.

The city started embracing the river with the construction of the Lansing Center in the 1990s and the establishment of an entertainment district along the east bank. Thus it was logical to look across to the west bank and see the former coal burning power plant rising up over the river and dare to dream about it as a diamond in the rough. However, the power plant building would be the mayor's and LEDC's supreme challenge. In an effort to redevelop the building, LEDC put together a Request for Proposals (RFP) for the property. On June 14, 2006, LEDC released the RFP. There was a major effort to distribute the RFP as far and wide as possible to generate interest from national and even international developers.

LEDC used the Internet, social media, conventional media, and various professional real estate networks to spread the word. The RFP went to great lengths to describe not only the physical attributes of the building but the wide array of development incentives and tax credits available for the project. Included in the RFP was a link to the LEDC website where additional detailed information was available including the environmental assessment work on the entire site.

There was an initial flurry of interest and LEDC even conducted tours of the property. However, as the deadline for submitting development proposals neared, it became clear that there were many tire kickers but none se-

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rious enough to spend the time and effort to put together a serious proposal. The day before the deadline, a local developer called LEDC and said he knew a company that was interested in the site. The local developer was encouraged to send at least a letter of interest to get his foot in the door. That letter represented the disappointingly low results of the LEDC RFP efforts.

THE HARDEST THING TO FIND

The local developer, Chuck Abraham, had a friend in a high place, Blue Cross Blue Shield of Michigan's President Dan Loepp. This link would prove to be an incredible stroke of good fortune. After searching far and wide for a developer or company to take on the Ottawa Station project, could it be that the solution was right under the city's nose?

Blue Cross Blue Shield of Michigan (BCBS) was no stranger to urban redevelopment, having rehabilitated a building in downtown Grand Rapids, Michigan, in 2004. BCBS was looking for a new location for a subsidiary company, the Accident Fund Insurance Company of America (AFICA). AFICA, already located in downtown Lansing, was outgrowing their location with 600 employees and expecting to hire another 500. They were looking at both in-state and out-of-state sites for relocation.

At the time, even though the Ottawa Station site was visible out their windows only four blocks away, they had not even considered it as a possible location. The power plant with its massive smokestack, steam belching cooling towers, blocked off access, and contaminated soils seemed a far cry from their image of a health insurance company's world headquarters.

However, Abraham was the master of the soft sell. Consulting with LEDC, he kept putting the issue at every opportunity in front of Loepp, who had previously worked in downtown Lansing and was familiar with the building. When Loepp learned about the various development incentives and the public sector's strong desire to redevelop the power plant, he asked Abraham to set up a confidential tour of the building for his facilities people.

MARGE AND HOMER SIMPSON COME CALLING

Abraham contacted Bob Trezise of the LEDC in fall 2006 to let him know that his prospective tenant for the project wanted to tour the site. Trezise and the author (then LEDC vice president) quickly arranged an onsite tour. At this point, the identity of the potential user was unknown to LEDC. As introductions were made, the two company representatives asked to remain confidential and requested for conversational purposes to please refer to them as Marge and Homer Simpson.

During the tour, both Marge and Homer had a lot of questions regarding the current status of the building. They were particularly interested in the chilled water and steam systems and the parking ramp next to the plant. LEDC staff were pleased to tour the property with people who were asking "what if" and "how to" questions rather than the typical negative kind of responses from past prospect tours. The representatives seemed to be tasked with taking a look at the building and trying to figure out if it really could work for them.

THE CITY GETS CHALLENGED

One month after the Simpson's visit, Mayor Bernero received a phone call from Dan Loepp of BCBS who told the mayor that Marge and Homer were his facilities people and they saw potential in the old power plant. He told the mayor that if the city could meet his demands, the Accident Fund would locate its new world headquarters in the power station. His demands for the city and developer were:

- Remove & relocate the chilled water system,
- Dismantle and remove the smokestack,
- Demolish the parking ramp over Grand Avenue,
- Assemble the properties and sell the site,
- Demolish adjacent older buildings,
- Mitigate lead & asbestos,
- Assess and clean-up soils,
- Rehabilitate the power plant,
- Build another 100,000 sf building on site for additional space,
- Construct a 1,000-space parking facility for employees, and
- Make improvements to the riverfront.

Photo by Ike Lea.

2008 – city parking ramp and chiller cooling towers under demolition.

2009 – plant under restoration and steel going up for adjacent office building.

The view of the finished project from the Grand River.

THE PHOENIX PROJECT TEAM IS FORMED

Mayor Bernero relayed the good news to the LEDC and they along with the company's chosen developer (The Christman Company) gathered together a team of public and private sector experts to work on meeting the challenges issued by Loepp and the Accident Fund. The team members included staff from the city, utilities, state & federal departments, plus environmental and legal firms. Since the project was still confidential, it was code named the Phoenix Project.

At one of the team's first weekly meetings, the experts pointed out the reality of the challenges:

- The Lansing Board of Water and Light still owed $30 million on the chilled water system.
- Because of changes in technology, the scrap value of the chilled water system was minimal and scrapping the chilled system would eliminate the revenue but leave the debt.
- The construction of a new chilled water system would cost $20 million or more.
- The steam distribution system would be expensive and difficult to relocate.
- The portion of the city parking ramp to remove was over a major downtown street that needed to be shut down for an extended period of time.
- The smokestack would be expensive and difficult to disassemble.
- The city did not control ownership of the entire site, with a privately owned parcel almost bisecting the property right in the middle.

Team members left this initial meeting very discouraged, after which one member coined the term "the chiller is the killer."

THE TEAM TACKLES THE CHALLENGES ONE AT A TIME

The Project Team concluded the challenges had to be solved one at a time. The Christman Company, the developer and potential general contractor, conducted preliminary design and engineering work to rough out the construction components of the project. The first part would be the remediation and redevelopment of the power plant building. The second component was the construction of an adjacent, modern 100,000-square-foot four-story building. This adjacent building was necessary because the renovated power plant would not have enough room for the anticipated 1,100 or more workers. Adding directly onto the power plant would compromise its architectural integrity and historic nature. Thus, the new building would be connected by enclosed walkways at several levels. Finally, there was the 1,000-space parking ramp to be built on site. Christman was able to lay out the development and prove to Accident Fund that the site was capable of housing the type of headquarter campus they desired.

Meanwhile the Project Team started working on the assessment of the existing contamination on site. Conducting the environmental assessment was accomplished by using an EPA assessment grant previously awarded to the Lansing Brownfield Redevelopment Authority (LBRA). There was also a survey inside the power plant to assess any hazardous materials present there. The results of the environmental work showed the presence of some contamination in the soils from the storage of coal plus lead paint and asbestos window caulking in the power plant.

The good news was that no "deal killer" contamination was discovered. The bad news was that remediation costs were going to add to the overall costs of the project. The LBRA was able to offer EPA remediation funds to take care of these newly discovered environmental costs.

LBRA was also able to secure grant funds from the Michigan Department of Environmental Quality (MDEQ) for riverfront improvements to improve public access. Under the city's charter, the first 25 feet of land along the river must be retained in public ownership. Only with the approval of the voters can this buffer of land be sold. In Lansing this strip of land is used for a river trail system that is very popular with residents, visitors, and downtown workers.

The city planned to retain ownership of the 25-foot strip and use MDEQ funds to create a river trail and canoe access points. There was one part of the power plant building that encroached upon the 25-foot zone right up to the river's edge. For this part of the river trail, a causeway type bridge was necessary to go around the building. The city also needed to get voters' approval to sell the portion of the power plant that lay within 25 feet of the river.

The task of acquiring the sole privately owned parcel fell to Chuck Abraham. The parcel's owner was a long time Lansing attorney who had been approached by the city in previous years but refused to sell his property. He had past axes to grind with the city and thus Abraham, being skilled in the gentle art of negotiation, was the perfect person to approach him. After a long and subtle process, the developer secured an option on the property without alerting the owner to the potential project.

Because of the large number of new jobs to be created, LEDC contacted its state level counterpart, the Michigan Economic Development Corporation (MEDC). It was determined that the project would be eligible to apply for Michigan Economic Growth Authority (MEGA) tax credits. These credits are based upon the number and pay levels of new jobs created in Michigan. MEDC also held out a very large carrot to the company in the form of a tax free Renaissance Zone. This designation, if received, would exempt the company from paying property taxes for the first 12 years and then phase them back in to the full rate by year 16.

With the historic nature of the power plant, the city and LEDC were also able to help the developer apply for both state and federal historic tax credits. Because of the extraordinary size and nature of the project, it qualified for an additional enhanced 15 percent historic tax credit from the state. Additionally, because the project qualified as a brownfield redevelopment project under state law, the developer was able to apply to the state of Michigan for a Brownfield Michigan Business Tax Credit for 10 percent of the total eligible investment up to $10 million.

LBRA offered to use tax increment financing (TIF) to reimburse the developer for eligible brownfield redevelopment costs. These costs could include demolition of the portion of the city parking ramp, demolition of the chilled water system, and demolition and relocation of the steam redistribution system. The costs were estimated to be $3.9 million.

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The biggest issue was how to pay for the construction of a new chilled water plant. With the demolition and scrapping of the current system, there was the need for a new chiller plant to serve the existing customers including General Motors, the largest private sector employer in Lansing. The state of Michigan, also a chilled water customer, generously offered a location for the new chilled water plant one-half mile from the old and accessible to the current chilled water loop. This was a major stroke of good fortune, but who was going to pay for the new $20 million chiller? LBWL would still owe on the debt for the existing chiller. The chilled water service revenue only covered its cost of operation and the current debt service. Adding $20 million more in debt would drive the service into the red. Increasing prices would be difficult, because there were only a few large users with long-term contracts in place.

However, there was a solution to the chiller problem. The cost of relocating public utilities is eligible to be reimbursed with Tax Increment Revenue by the Lansing Brownfield Redevelopment Authority (LBRA). LBRA calculated the expected tax capture over the first 30 years of the new development and found that even with the first 12 years being tax free, the remaining 18 years would produce an estimated $1.8 million per year in tax capture. With such a large future revenue steam, it would be possible to propose to the developer that they pay for the new chiller plant and then get reimbursed in the future. Additionally, the Accident Fund committed to purchasing both chilled water and steam from the city, generating additional revenue.

With a solution for the deal killing chiller issue in hand, it was time to present the developer and Accident Fund with the initial incentive package:

• Present Value (6%) Property Taxes Abated	$12,600,000
• Historic Tax Credits	$11,000,000
• Brownfield MBT Credits	$10,000,000
• Present Value of MEGA MBT Credits	$9,000,000
• Investment in Public Riverfront Access (MDEQ)	$3,200,000
• Environmental Assessment and Clean-up (EPA)	$600,000
• Present Value (6%) Demo and Chiller Costs	$12,600,000
• **Total Estimated Value of Incentive Package**	**$59,000,000**

March 9, 2011 – cutting the ribbon at the grand opening.

Accident Fund and BCBS accepted the incentive package and the city, LEDC, and developer prepared for a public announcement. While the developer and Accident Fund worked on the final design, engineering, and financing, LEDC, LBRA, and MEDC worked closely together on the incentives. Concurrent to this effort, several related purchase and development agreements needed to be negotiated and executed. The legal costs alone for all parties would be over $1 million. The Lansing City Council along with many other public body boards held multiple public hearings and meetings, ultimately clearing the way for the announcement of the project.

THE PROJECT BEGINS

With much fanfare, the project was announced on October 8, 2007. As with most big economic development projects, not everything was buttoned down before the announcement was made, and this project was no exception. However, after having come so far and solving so many seemingly insurmountable challenges, the Project Team was not going to be denied. Lansing voters approved the sale of the portion of the plant that extended to within 25 feet of the Grand River, and the LBWL Board approved the sale of the power plant and property. At this point, the entire site could be assembled and sold to the developer, Christman Company.

The smokestack was dismantled in December 2007. Because the stack was located on top of the 10-story building, it had to be cut into sections and lifted down to the ground in big pieces. In early 2008, the interior of the power plant was torn out, with many tons of steel and concrete lifted up and out of the top of the building. At the same time, the previously privately owned property was demolished, and that portion of the site was cleared. This allowed for the environmental remediation to be performed.

By mid-2008, the old windows were being removed and replaced while the new floors were being lowered into place through the now open roof in the power plant. The steel frame of the new adjacent building was being erected and the new river trail infrastructure installed. In the year 2009, the interior of the power plant was being finished and the exterior of the new building completed.

In 2010, the parking ramp was underway while the interior of the new building was completed. The LEDC issued a $32 million taxable bond to finance the parking ramp to keep the project on track. When the calendar turned to the year 2011, the project was definitely the talk of the town. The ramp was nearing completion, and the interiors of both buildings were finished and furnished. The project was completed on time and on budget. On March 9, 2011, almost five years from the date the LEDC released the Request for Proposals, the grand opening of the Accident Fund world headquarters was held. The final project numbers were as follows:

- Rehabilitation of Power Plant $65,000,000
- Construction of Adjacent Office Building $40,000,000
- Construction of Parking Ramp $32,000,000
- Construction of New Chilled Water Plant $20,000,000
- New Personal Property Purchased $18,000,000
- Soil Remediation Costs $370,000
- Dewatering Costs $40,000
- Costs to Implement Activity Use Limits and Eng. Controls $25,000
- Costs to Mitigate Lead Paint and Asbestos $1,000,000
- Demolition $5,000,000
- Other Costs $565,000
- **Total Project Cost** **$182,000,000**

A CROWN JEWEL OF A DEVELOPMENT

The Lansing Ottawa Power Station Project transformed a vacant and contaminated ten-story, former coal burning power plant into the world headquarters of the Accident Fund Insurance Company of America. This brownfield redevelopment project combined the renovation of the historic power plant with the construction of a new contemporary office space, to create results that are both visually stunning and extremely functional.

A long list of physical, environmental, and economic barriers had to be overcome to make the project a reality. Mayor Virg Bernero, the Lansing Economic Development

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Corporation, Lansing Board of Water and Light, city of Lansing, and its Brownfield Authority worked closely with the developer, Christman Company, to overcome each and every hurdle. The U.S. Environmental Protection Agency, Michigan Economic Development Corporation, Michigan Department of Environmental Quality, and State Historic Preservation Office also provided invaluable assistance to help create a financial incentive package that turned a prominent symbol of stagnation and decline into a major generator of economic activity and civic pride.

All together, the $182 million project tallied over one million worker hours, retained 600 high-paying jobs, and created another 500 positions. The new headquarters has served as a catalyst to generate additional retail, commercial, and residential development projects in the area. The power plant has now come full circle, from once providing power to the city, to being a symbol of decline, to coming back alive to power the new economy. The last few years have proven the coal stained building was truly a diamond in the rough, waiting patiently to become a jewel in the heart of Lansing.

Photo by Justin Maconochie.

The finished interior of the top floor of the former power plant.