



CITY AUDITOR

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Honorable Patty Lent, Mayor
Members of the City Council

The City Auditor has completed the attached review of summary financial information of the Kitsap Conference Center at the Bremerton Harborside. This project was scheduled on the 2014 work plan.

The purpose of this report was to review the financial activity of that portion of the facility managed by Columbia Hospitality. A four year schedule of monthly revenue and operating income is included.

Please contact me if you have any questions or would like further assistance.

Sincerely,

Gary W. Nystul

cc: City Attorney
Director of Financial Services

REVIEW OF KITSAP CONFERENCE CENTER AT BREMERTON HARBORSIDE

This is a review of the financial status of the Kitsap Conference Center at the Bremerton Harborside which is managed for the City by Columbia Hospitality, Inc. For the last four years it has been operating at a loss. The current year is also projected to be a loss.

The Kitsap Conference Center is a 10,000 sq. ft. facility that was opened in July 2004. In 2014 a \$1.1M expansion was completed utilizing approximately 6,750 square feet of unfinished space on the third floor which is owned by Kitsap Transit. It was anticipated that the added space would allow additional activities to be booked at the facility which then would generate additional revenue.

Financial History

The total revenue and operating income for the last four completed years is presented below. The information is taken from monthly financial reports prepared by Columbia Hospitality.

	2016	2015	2014	2013	2012	2011
Budgeted Revenue	1,351,430	1,399,021	1,309,456	1,381,674	1,321,487	1,316,245
Actual Revenue			1,141,244	1,239,957	1,185,923	1,193,310
Variance to Budget			(168,211) -13%	(141,717) -10%	(135,564) -10%	(122,935) -9%
Budgeted Operating Income (loss)	(64,504)	(14,863)	(62,411)	(40,209)	(75,079)	(88,748)
Actual Operating Income (loss)			(124,756)	(66,057)	(118,590)	(65,175)
Variance to Budget			62,345 -100%	25,848 -64%	43,511 -58%	(23,574) 27%

The table demonstrates that the revenue projections are generally within 10%. However, the budgeted operating income (loss) difference has ranged from 27% to 100% of projection. Also, the actual revenue year to year has not shown growth in the last three years.

All of the revenue and expense for the operation of the conference center are not included in the financial activity reported by Columbia Hospitality. Additional transfers in and expenses are paid by the city in a special revenue fund entitled "Conference Center Operating."

Expansion Project

A project to expand the Conference Center space on the third floor of the building was completed in May 2014. The cost was about \$1,100,000 and added approximately 6,750 square feet of rentable space. It was funded by a grant from the Kitsap Public Facilities District of \$441,474, a contribution from Kitsap Transit of \$205,514 and a loan from the city Equipment Rental Reserve of \$500,000.

City management "conservatively" estimated that the expansion would result in \$500,000 in increased annual revenue for the facility starting upon completion. Actual revenue since the opening of the expanded area have not demonstrated increases.

Columbia Hospitality estimated this addition was projected to increase revenue in the first year by \$516,360 with an additional 3% yearly increase thereafter. The increase in revenue for the first 12 month period after expansion of May 2014 to April 2015 over the average of the prior 24 months was \$55,243 or 10 percent of projected.

No lease payment to Kitsap Transit is required during the first four years. Lease payments start in year 5 at \$8,437.50 per month. In addition, expenses for shared costs of the building started in year one. The lease may run for 20 years.

ERR Loan

City council Resolution number 3194 in June 2013 authorized the \$500,000 loan from the Equipment Rental Reserve Fund. Repayments were to start in 2015 at \$100,000 per year plus accrued interest. The interest rate was based on the Local Government Investment Pool earnings on December 31 of the year the principal payment is due. On November 18, 2015 the repayment schedule was extended to 20 years with principal payments starting in 2017 and a fixed interest rate.

Lodging Tax Contribution

The city has annually dedicated \$155,000 of Lodging Tax proceeds to support the Conference Center.

Other City Expenses

In addition to the expenses incurred and paid by Columbia Hospitality, Inc., the city incurs expenses for maintenance and repair of the building. These expenses include allocation for insurance, overhead, telecommunications, water/sewer, elevator and HVAC maintenance, and facilities transfer. In 2014 these expenses totaled \$132,000.

The addition of the Gold Mountain Golf Facility under Columbia Hospitality management has created opportunities for efficiencies. Sharing items such as staff, chairs, tables and flatware has created some cost savings.

Summary

The revenue for the conference center is dependent upon market conditions including the economy and competition. The management of the conference center endeavors to be proactive and seek out new clients and reduce operating costs. However the “conservative” estimates of increased revenue of \$500,000 in the first twelve months of operating the third floor addition have not materialized. It is unknown if they will in the foreseeable future.

Attached Schedule

Attached is a schedule of monthly revenue and expense taken from the Columbia Hospitality monthly reports. It shows how revenues fluctuate monthly within a year and from year to year. It also shows the amount of monthly loss or income.

KITSAP CONFERENCE CENTER

(From monthly schedules provided by Columbia Hospitality)

TOTAL MONTHLY REVENUE

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2012	117,853	87,539	102,329	64,047	91,755	103,955	103,577	150,076	98,909	89,788	85,917	90,177	1,185,923
2013	101,022	113,311	98,388	107,704	89,785	125,412	56,045	112,893	106,487	110,910	62,481	155,517	1,239,957
2014	59,454	47,620	93,993	58,749	133,736	132,418	70,242	97,478	126,029	87,578	99,386	134,563	1,141,244
2015	91,331	71,116	122,967	45,364	106,480	81,287	62,391	194,035	130,364				
% prior year	154%	149%	131%	77%	80%	61%	89%	199%	103%				

REVENUE - YTD

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2012	117,853	205,393	307,721	371,768	463,523	567,478	671,055	821,132	920,041	1,009,829	1,095,746	1,185,923
2013	101,022	214,333	312,721	420,424	510,210	635,622	691,667	804,561	911,048	1,021,958	1,084,440	1,239,957
2014	59,454	107,074	201,067	259,816	393,552	525,971	596,212	693,690	819,719	907,296	1,006,682	1,141,244
2015	91,331	162,447	285,414	330,778	437,259	518,545	580,936	774,972	905,336			
% prior year	154%	152%	142%	127%	111%	99%	97%	112%	110%			

MONTHLY OPERATING INCOME

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2012	5,623	(14,786)	(11,595)	(33,801)	(12,584)	(5,472)	(18,614)	14,029	(27,515)	(15,594)	(21,137)	22,854
2013	(11,268)	(7,654)	(1,568)	(154)	(27,505)	4,137	(33,132)	6,802	(90)	(2,757)	(18,771)	26,184
2014	(34,275)	(32,509)	(12,660)	(27,845)	4,350	13,048	(27,172)	(10,868)	6,067	(9,851)	(2,868)	9,828
2015	(28,175)	(41,879)	(1,465)	(41,502)	(2,745)	(21,733)	(28,430)	57,085	5,224			

OPERATING INCOME - YTD

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009												97,501
2010												1,800
2011												(65,175)
2012	5,623	(9,163)	(20,757)	(54,558)	(67,142)	(72,614)	(91,227)	(77,198)	(104,713)	(120,307)	(141,444)	(118,590)
2013	(11,268)	(18,922)	(20,490)	(20,644)	(48,150)	(44,013)	(77,145)	(70,343)	(70,433)	(73,190)	(91,961)	(65,777)
2014	(34,275)	(66,785)	(79,445)	(107,290)	(102,940)	(89,892)	(117,064)	(127,932)	(121,865)	(131,716)	(134,584)	(124,756)
2015	(28,175)	(70,053)	(71,518)	(113,021)	(115,765)	(137,498)	(165,928)	(108,843)	(103,619)			
% prior year	82%	105%	90%	105%	112%	153%	142%	85%				