



**CITY AUDITOR**

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Honorable Patty Lent, Mayor  
Members of the City Council

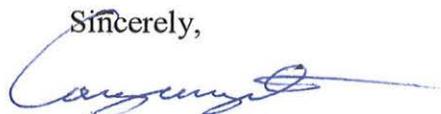
The City Auditor has completed the attached review of the Conference Center at the Bremerton Harborside. This was scheduled on the 2012 work plan.

One finding noted that the Parks Department has been overcharged for the cost of electricity for the fountains in the Harborside Plaza. Two other recommendations were made.

Included on page nine is a response to the draft of the report from the Department of Financial Services. However, because this response was to a draft that has been revised, a reply from the City Auditor to the Finance response is also included at page 11. The Director of Financial Services has stated they do not have time to review this final report.

Please contact me if you would like any further information.

Sincerely,



Gary W. Nystul

cc: City Attorney  
Director of Financial Services  
Director of Parks and Recreation

# **KITSAP CONFERENCE CENTER REVIEW**

## **Purpose**

The City Auditor routinely reviews various funds, departments and divisions. This review of the financial operations of the Kitsap Conference Center at the Bremerton Harborside was scheduled on the 2012 work plan.

## **Scope**

The revenue and expenses for 2011 for the Conference Center Operations Fund (Fund 120) were reviewed. Portions of the Parking Fund, and the General Fund – Parks and Recreation, which were classified as related project expenses, were also included.

## **Statement of Auditing Standards**

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards, except section 3.82 requiring an external peer review. Those standards require the auditor to plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. The auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

## **Objectives**

- Review revenue and expense of the Kitsap Conference Center
- Review compliance with the cost sharing agreements related to the plaza, parking garage and common areas
- Review the city's internal cost allocations to the Conference Center

## **Summary of Results**

- The Parks Department has been overcharged by more than \$20,000 per year for the electricity to operate the fountains in the Plaza
- Net income from the Conference Center management contract has declined and has operated at a loss since 2011

## **BACKGROUND**

The City of Bremerton and Kitsap Transit constructed the Kitsap Conference Center at the Bremerton Harborside and the Commuter Retail Building which opened in August 2004. The project consists of a conference center, three levels of parking garage, a central plaza with water feature fountains, restaurant pad (sold to a third party), hotel pad (sold to a third party), offices and retail spaces.

Since the opening, the city has contracted with Columbia Hospitality, Inc. (CHI) to operate and manage the Conference Center. They promote the center and book events such as weddings, conferences, meetings, dinners, etc. They collect the revenue from these events and pay the staff and expenses. The city maintains the plaza area including the fountains, the parking garage, and the conference center building.

The three parking levels have shared ownership. Level P1 is primarily owned by Kitsap Transit who also leases parking spaces to the Hampton Inn. However, the city granted a perpetual easement for 80 parking spaces on P1 to Mad Anthony's, Inc., for Anthony's Restaurant. Levels P2 and P3 are owned by the city which receives all of the parking revenue. The city cleans and maintains the entire garage including lighting.

Kitsap Transit owns the office building and the retail spaces along the transit center walkway facing the plaza. Kitsap Transit also owns parking levels under their building which includes HOV parking.

### **Conference Center**

The Conference Center Operations Fund records all revenue and expense including a summary entry for the activity of Columbia Hospitality. The total revenue received by CHI is recorded as Activity Fees and the expenses are recorded as Professional Services Ext. Other revenue includes a transfer from the Lodging Tax Fund to support operations.

Columbia Hospitality, Inc. is paid a fixed fee plus an incentive fee to operate the Conference Center. They deposit all revenue into bank accounts (which they maintain in the name of the city) from which they make disbursements to pay operational expenses and labor. None of the CHI employees are employees of the city.

The Conference Center Replacement Reserve is an allocation, required by the management contract, to set aside 3% of gross revenue. This amount is used to replace furniture, fixtures, and equipment. It is held by CHI and expended as needed with notice provided to the city.

In 2012, the Columbia Hospitality revenue was \$1,185,923 and expenditures were \$1,304,513 for an operating loss of \$118,590. This includes the replacement reserve expense of \$35,562. The Columbia Hospitality net operating income (or loss), including the replacement reserve allocation, is as follows.

2009	\$ 97,501
2010	1,800
2011	(65,175)
2012	\$ (118,590)

City expenses in the Conference Center Fund have included an allocation of salaries and wages for Parks Department personnel who maintain the fountains, clean the plaza, and maintain the landscaping. Additional costs include an allocation for insurance of the Conference Center and an allocation for the city facilities maintenance personnel's time maintaining the building and exterior.

**Plaza**

The Plaza is the space between the Kitsap Transit/Conference Center building and the Hampton Inn. It includes the main fountain, the stair step fountain, and the landscaping. Expenditures for the fountains are charged to Conference Center Fountains in the General Fund. These costs include electricity, repairs and maintenance of the fountains.

**Parking Garage**

There are three levels of parking referred to as P1, P2 and P3. P1 is primarily owned by Kitsap Transit. They rent space to the Hampton Inn by agreement between those parties. Spaces are also provided to serve the retail spaces in the Commuter Retail Building (Starbucks, Subway, Taco Del Mar and etc.). The city granted a perpetual easement of 80 spaces to Anthony's Restaurant. Kitsap Transit also has a connected parking level for its commuter and staff vehicles.

Levels P2 and P3 are owned by the city. Monthly and daily parking is managed by the city's parking contractor. The parking contractor collects all of the fees, enforces parking and remits the money to the city. Events in the Conference Center also use the parking with varying fees. Revenue is deposited into the Parking Fund. Expenditures for some expenses such as maintenance are charged to the Parking Fund.

## FINANCIAL ANALYSIS

### Conference Center

The Conference Center Fund includes revenue and expense from the operations by Columbia Hospitality, city overhead cost allocations, and some expenditures for maintenance of the Plaza. The following pro-forma statement of the financial activity has been prepared to include just revenue and expense of the Conference Center for 2012. This statement does not consider any additional costs for electricity which the Parks Department may have been paying. It also does not include any allocation for cost of space or depreciation. It is intended to give an overview of revenue and expenses that one might include in analyzing the Conference Center as a business unit.

#### Revenue

Conference Center Operations	\$1,185,923	(1)
Investment Income	2,621	
Lodging Tax Transfer	<u>155,000</u>	
Total Revenue	1,343,544	

#### Expenses

Conference Center Expenses	1,332,991	(2)
Supplies	1,008	
Professional Services IFD	70,030	
Telecommunications	2,175	
Insurance	25,650	
Water/Sewer/Storm	682	
Equipment Repair	2,124	
Building Maintenance	30,133	
City Facilities Department	23,109	
Other	<u>6,688</u>	
Total Expenses	1,494,590	

Net Operating Loss	<u><u>(\$151,046)</u></u>
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#### Reconciliation of City Financial Records above to Columbia Hospitality Financial Summary

CHI Revenue	1,185,923	(1)
CHI Expenses	<u>1,332,991</u>	(2)
Subtotal	(147,068)	
Change in Reserves	<u>28,478</u>	
Net Loss	<u><u>(118,590)</u></u>	

## Plaza And Parking Garage

There are two written agreements which address the sharing of expenses for the Plaza and the Parking Garage. One agreement is the Harborside Conference Center Parking and Plaza Agreement, dated March 26, 2009. Under this agreement Kitsap Transit agreed to pay 33 1/3% of all maintenance and operating expenses for the plaza and fountains, which includes supplies, services and electricity, but does not include labor or capital expenditures. Kitsap transit has agreed to pay 22.7% of the management, operating and maintenance expenses of the parking garage.

The other agreement is an easement between the City and Mad Anthony's Inc. dated October 25, 2004. This obligated Mad Anthony's to pay 8 1/3% of the shared utility costs of the parking garage and a proportional share of maintenance.

There are no written agreements between the city and the Port of Bremerton relating to parking garage cost sharing. They have not made any payments to the city.

In 2011 these allocations were calculated as follows.

	Kitsap Transit	Anthony's
<b>FOUNTAINS</b>		
(General Fund - Project 5146)		
Salaries & Wages		
Fountain Repair Parts	33.33%	-
Electricity	33.33%	8.33%
Water	33.33%	8.33%
Equipment Repair	33.33%	-
Fountain Maintenance	33.33%	-
 <b>PLAZA</b>		
(Conference Center Fund - Project 5603)		
Salaries, Wages, Benefits	33.33%	-
Water	-	8.33%
 <b>PARKING GARAGE</b>		
(Parking Fund - Project 43012)		
City Parking Contractor	-	3.80%
Electricity	22.70%	8.33%
Elevator & HVAC Maintenance	22.70%	8.33%
City Facilities Maintenance	22.70%	8.33%
Security Contractor	22.70%	15.20%

## FINDINGS AND RECOMMENDATIONS

**FINDING: The Parks Department has been overcharged for the cost of electricity for the fountains and lights in the plaza.**

### Criteria

The Parks Department should only pay the actual or reasonably estimated cost of electricity for the operation of the fountains and lights in the plaza and related boardwalk lighting.

### Condition

Only one electric meter was installed when the Conference Center was constructed. This electric meter is for the Conference Center, parking garage, fountains, elevators, boardwalk and plaza lighting. A city read sub-meter was later added with the intent to measure electricity for the Conference Center. However, it measures only two of the three circuits serving the Conference Center. In a further effort to allocate cost, a calculation was made to estimate the monthly cost of electricity for the parking garage lights. This amount remained constant for 2009 through 2012.

The monthly cost allocation starts with the PSE invoice for the total building. The estimated fixed amount for the parking garage lights is subtracted. The computed use from the Conference Center sub-meter is subtracted. The balance is assumed to be Parks Department for the fountains, plaza lights and boardwalk.

The fountains are turned off in November, December, January and February. However, the parks department is still being charged over \$5,000 per month during these months when the fountains are not operating. Most of this cost likely belongs to the Conference Center. The following table shows the actual charge to the Parks Department for the fountains in 2011 and 2012.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2011	7,435	8,661	5,604	4,745	5,721	5,348	4,134	4,752	4,763	5,076	5,658	5,555
2012	6,442	6,100	6,056	4,355	4,668	4,620	4,993	5,375	5,076	5,211	5,504	5,393

### Cause

When the conference center was built, only one electric meter was installed for the city account. This meter measures the electricity for the conference center,

HVAC, parking garage lights, fountains, plaza lighting, boardwalk and some signs. The city read sub meter was installed with the intent to measure the Conference Center use. However, it is only measuring two of three circuits serving the Conference Center. This cost has been added to the Parks Department and assumed to be a charge for the fountains.

The calculated amount for the monthly parking garage lights was increased to \$1,916.32 in 2009 and remained at that amount through 2012. For 2013 it was increased to \$1,953.69, an increase of 1.95%. However, the average cost per kilowatt hour paid to PSE in 2012 was 14.34% greater than 2009. The result is less electricity allocated for garage lighting and more to the Parks Department.

### **Effect**

The Parks Department has overpaid for electricity by more than \$20,000 for several years. Therefore the cost of operating the Conference Center has been understated by this amount.

### **Recommendations**

1. The Department of Financial Services should authorize and fund additional sub meters to be installed to measure electrical use for the conference center and/or the fountains and parking garage lighting. The use of these meters would ensure a more accurate allocation of costs.
2. The flat rate charged used for electricity in the parking garage was increased by 1.95% for 2013. Average electricity cost per kilowatt hour has increased by over 14% from 2009. A more reasonable adjustment should be made.
3. After electrical circuits are properly identified and consumption accurately measured, the cost of electricity should be properly allocated to the actual user.

## **RECOMMENDATIONS AND OTHER OBSERVATIONS**

1. Net income from the Columbia Hospitality contract became a loss in 2011 and 2012. The budget for 2013 is also estimating a loss of \$13,879. The city should monitor the overall operation.

2. There is a grease trap which serves the conference center kitchen and Anthony's Restaurant. The cost to pump the grease out is about \$1,000 and is done only a few times a year. A reasonable portion of the cost has not been allocated to Anthony's Restaurant. The shared cost, based on estimated use, should be collected from Anthony's.

Response to Kitsap Conference Center Review – draft audit report dated 02/20/13.

Per BMC 2.18.060, please find below the official response to the above referenced audit report.

*Recommendation/Summary of Results: Gross income from the Conference Center has declined and is now operating at a loss and should be reviewed by City management.*

On page two of the draft, in the last sentence of the first paragraph under the title, Conference Center, the draft report states that the transfer from the Lodging Tax Fund is supporting marketing. In actuality, this transfer is in support of the Conference Center operations. This distinction is relevant in that while the draft report makes the recommendation that City management review operations, City management does review operations monthly, but includes this transfer as part of that review.

In reviewing the revenue and expense numbers outlined on page three of the draft audit report, finance staff was not able to validate the numbers used in the report. There were minor discrepancies in the numbers on page three as compared to those in the financial system. In addition, the numbers outlined in the pro-forma statement on page four of the draft audit report excludes significant revenue and expense categories which are part of the Conference Center fund (see paragraph above). When finance staff includes these amounts, the net operating loss decreases from \$121,682 (from the draft audit report) to \$5,924 (from the financial system), for a difference of \$115,758. Finance believes that the exclusion of these categories would cause the pro-forma to be incomplete and potentially misleading.

As mentioned above, operations of the Conference Center are reviewed monthly and are also reviewed during budget development each fiscal year. During this review, City management does consider the \$155,000 transfer as part of this review, along with the external pressures that are a result of the continued downturn in the local economy.

*Recommendation/Summary of Results: The Parks Department has been overcharged by more than \$20,000 a year for electricity for the fountains in the Plaza which should be for the Conference Center.*

The fountains and lighting in the plaza located adjacent to the Conference Center is a public thoroughfare and as such, is public space assigned to the Parks Department. Costs associated with the fountains, plaza and festival lighting, boardwalk lighting, sound system lighting, etc. are appropriately charged to Parks. Although the fountains may be inactive during the winter months, the remaining items listed are in continual use. If the City were to choose to assign these costs to a non-departmental cost center or the facilities cost center, the overall impact to the General Fund would remain the same as all three cost centers are General Fund activities.

Regarding the statement made on page six of the draft audit report (middle of first paragraph under Condition) that the sub meter appears to measure only lights, kitchen, and related consumption, if this is indeed the situation, this is information that the finance staff did not know. Per prior e-mails identified regarding this sub-meter, it was indicated that the sub-meter also measures the electrical heating system associated with the Conference Center. In additional past e-mails, it was determined that over one half of the electrical bill from PSE is associated with the fountains and various plaza amenities.

The following is in response to the four specific recommendations made on page seven of the draft audit report regarding this summary:

1. The Public Works (PW) Facilities Maintenance Department does periodically review the meters associated with the conference center and plaza.
2. Additional sub-meters would be expensive and may not realize enough benefit to recover the costs. Sub-meters would require City staff resources to read each month, which would divert our already limited staffing resources from other projects. At the request of finance, facilities and electronics staff did review the possibility of having PSE install separate meters. It was determined that it is not possible to install additional PSE meter bases in the electrical room. The only existing available panel is 100 amp but new meters would require 200 amp on a continual basis. To run the appropriate power line in, the panel would need to be relocated and the costs would be in excess of \$30,000, exclusive of the cost of wiring and connections to the appropriate electrical consuming features.
3. Electrical costs were reviewed and changed with the 2013 budget. This change resulted in an immaterial difference of approximately \$450 per year.
4. Given the responses to the first three recommendations, number four is non-applicable.

The following is in response to Other Observations and Recommendations listed on page seven of the draft audit report:

1. Addressed under the response to the first Recommendation/Summary of Results regarding the Conference Center.
2. The City's PW's department is aware of this situation and currently does not have the resources available to negotiate a reimbursement agreement at this time.
3. The gas fired pre-heat boiler is for use when the Conference Center's HVAC system has been off line for an extended period of time. This boiler does not heat the facility in its entirety. It is designed to preheat space. The Conference Center remains at a constant temperature during planned use. Public Works facilities staff has controls that are monitored and operated in such manner as to lower the temperature of the facility when the Conference Center is closed or does not have an event. It is determined by the PW staff that the recommendation of the draft audit report would not provide savings if activated, as the Conference Center is rarely closed for more than one or two days in a row.
4. City management continually reviews the cost sharing agreements regarding the Conference Center and plaza, specifically when electrical charges may be increased by PSE.

## **AUDITOR'S REPLY TO DEPARTMENT OF FINANCIAL SERVICES RESPONSE**

The Department of Financial Services issued the response on the previous two pages to the original draft of this audit report. This reply is intended to assist in reconciling the responses made to the draft to the final report.

**1. The Finance response states that the Lodging Tax transfer is to support operations at the Conference Center and not marketing.**

A written record does not exist of what the intended transfer is to be used for. After inquiry of several officials and staff, the consensus was that expenditure for operations was permissible and probably intended. The original draft was changed.

**2. The Finance response notes there were differences in the numbers on page three compared to the financial system.**

The amounts used in the report are taken from annual financial statements provided to the city by Columbia Hospitality Inc.

**3. The Finance response states they do not agree with the pro forma statement.**

The revenues reflected in the pro forma include all but the space rent income from the yacht broker. The expenses do not include salaries for employees maintaining the plaza and board walk and do not include reimbursements for these expenses from the building tenants. These items were excluded since they do not relate directly to the Conference Center. The financial information is taken from the 2011 budget ledgers

**4. The Finance response states that additional electrical sub-meters would be expensive.**

The Finance Department requested Public Works to consider the ability of PSE to change the service to the Conference Center and add meters. This was discussed many years ago and is not feasible. The existing sub-meter measuring two of three circuits for the Conference Center works quite well. Public Works estimates the additional meter would cost less than \$1,000. The addition of a sub-meter for the garage lighting would also ensure an accurate calculation of costs for all users for their share of that electricity.

- 5. The statement is made “Sub-meters would require City staff resources to read each month, which would divert our already limited staffing resources from other projects.”**

The staff already reads two sub-meters in two different electrical rooms each month in the Conference Center for Finance to do cost allocation or billing. The addition of one sub-meter in the same room would only add a minute or two to the PW staff time.

- 6. The Finance Department increased the estimated cost of garage electricity by \$450 per year in 2013.**

The electricity cost for the parking garage lighting it is estimated because there is no sub-meter. PSE electricity charges for the Conference Center have increased by 14.3% since 2009. There should have been adjustments for garage lighting electricity in prior years. The “immaterial difference of approximately \$450 per year” increase in 2013 should have been increased by about \$3,300 per year.