



**CITY AUDITOR** 345 6<sup>th</sup> Street, Suite 600, Bremerton, WA 98337-1873 & Phone (360) 473-5369

---

June 20, 2017

To: Audit Committee Members:

Pat Sullivan, Audit Committee Chair and Council Member  
Deborah McDaniel, Audit Committee Vice-Chair  
Eric Younger, CPA, Council President  
Dennis Treger, CPA, Audit Committee Member  
Tony Hillman, CPA, Audit Committee Member

**Re: Building 50 Review**

Dear Audit Committee Members:

At your request and based on the information available to date, I am submitting a report summarizing my review of the Building 50 lease history.

My work included the consideration and/or analysis of certain records including:

1. [Puget Sound Navy Museum website history tab](#);
2. [Typed notes and materials provided by Megan Churchwell, the Puget Sound Navy Museum curator](#);
  - a. "Building 50: A Bremerton Legacy",
  - b. "A Proud Museum for a Proud Navy: Puget Sound Navy Museum", narrative and PowerPoint slides; and
  - c. Photos.
3. [Expense detail reported in FinancePlus](#);
4. [Kitsap Conference Center revenue report 2014 through 2016](#);
5. [April 26, 2010 internal audit report titled, "Review of Harborside Fountain Park – Building 50 – Memorial Plaza Project", prepared by a former City Auditor](#);
6. [Museums USA website research](#);
7. [Synergy Construction Contract No. 4531](#);
8. [Kitsap County Assessor records](#);
9. [2014 and 2015 Puget Sound Navy Museum Annual Reports](#);
10. [Quitclaim Deed for the conveyance of the Building 50 parcel and improvements](#); and
11. Other miscellaneous research.

Additionally, I communicated with the following individuals about the Building 50 background:

Alyce Fierro, Project Assistant, Department of Community Development  
Lindy Doshier, Director, Naval Museums Northwest  
Cary Bozeman, Bremerton Port Commissioner and Former Bremerton Mayor  
Gary Sexton, Former Bremerton Special Projects Administrator  
George Bieda, Puget Sound Naval Museum Foundation President

**MUSEUM PURPOSE**

According to Wikipedia, “The purpose of modern museums is to collect, preserve, interpret, and display items of artistic, cultural, or scientific significance for the education of the public. The purpose can also depend on one’s point of view. To a family looking for entertainment on a Sunday afternoon, a trip to a local history museum or large city art museum could be a fun, and enlightening way to spend the day. To city leaders, a healthy museum community can be seen as a gauge of the economic health of a city, and a way to increase the sophistication of its inhabitants. To a museum professional, a museum might be seen as a way to educate the public about the museum’s mission, such as civil rights or environmentalism. Museums are, above all, storehouses of knowledge.”

**BUILDING 50 BACKGROUND**

The U.S. Navy built Building 50 on the Puget Sound Naval Shipyard (“Shipyard”) in 1896 for an initial cost of \$7,900. Although the building may look like a house, it never served as a residence. It originally functioned as a shipyard commandant office space and has since served a number of other functions as summarized below:

Function	Era
Shipyard commandant offices	Until 1920
Chemistry lab	1920
Apprentice school	1920-1933
<i>Salute</i> newsletter and Gas Rations Board	During WWII
Dispensary and ship offices	Postwar years
Puget Sound Navy Museum	2007 to present



Building 50 resided in the Shipyard for over 100 years. In 2006, the Shipyard relocated Building 50 to its present location at 251 First Street in Bremerton, which is on land donated by the Shipyard to the City of Bremerton (“City”). Building 50 was donated by the US Navy to the City and underwent a \$6 million renovation funded primarily by the US Navy, plus federal and state grants<sup>1</sup>. When renovations were complete, the City leased the majority of the interior of the building to the Navy for use as a U.S. Navy

Museum, which officially opened in Building 50 as the Puget Sound Navy Museum (“PSNM”) on August 25, 2007. Building 50 also houses a 1,650 square foot event space, an addition that was part of the renovation, which is leased to Columbia Hospitality for additional Kitsap Conference Center event space.

**RESTRICTIVE COVENANT**

The deed conveying the land and Building 50 to the City from the US Navy includes a “Restrictive Covenant”. This covenant provides, in part, that the City shall not “use the property for any uses other than recreational. Recreational use is defined as walking,

<sup>1</sup> About half of the renovation was funded by the Navy.



viewing, nature watching, playing, entertainment, festivals, markets, concerts, museum and park food services, social activities, museum use and related activities, movies, picnicking, exercising, relaxing and all other activities reasonably associated with park, museum, and public open space usage.”

This restrictive covenant runs with the title of the property, binding all future owners of any portion of or interest in the subject property. This and other covenants, restrictions and conditions in the deed are binding in perpetuity; however, the Owner (i.e. City) can record an instrument that provides the restrictive covenant no longer limits the use of the property provided that the US Navy, Environmental Protection Agency (“EPA”), and Washington Department of Ecology (“WDOE”) determine the restrictive covenant is no longer required to protect human health and the environment<sup>2</sup> or to comply with an “Applicable, Relevant and Appropriate Requirement.”

### **HISTORIC PRESERVATION COVENANT**

The deed also includes a Historic Preservation Covenant that requires the City and all future owners to preserve and maintain Building 50 in accordance with specific historic building standards to preserve the building as a national landmark property. This covenant is binding in perpetuity.

Please refer to the Quitclaim Deed, attached as Exhibit A, for complete details of all covenants, restrictions, conditions and other terms.

### **PUGET SOUND NAVY MUSEUM BACKGROUND**

The PSNM collects, preserves, and interprets the naval heritage of the Pacific Northwest for the benefit of the U.S. Navy and general public. The PSNM is one of twelve museums funded and administered by the U.S. Navy. Although the PSNM moved into the newly renovated Building 50 in 2007, this museum began operation on December 3, 1954 in the Bremerton Craven Center, a Shipyard building then located at Burwell and Park.

In 1964, the Navy declared the Craven Center building as surplus and the museum moved into a portion of the Washington State Ferry Terminal’s lobby. The City accepted custody of the museum’s collection, and the Kitsap County Historical Society agreed to staff the museum. The museum reopened in 1967 in the ferry terminal lobby and operated there until 1986 when the terminal was demolished.

In 1986, the City of Bremerton agreed to lease a 6,000-square foot building for the museum near the ferry terminal at 130 Washington Avenue. Volunteers staffed the museum and the City paid the rent and utilities.

A November 12, 1997 Hotel/Motel Tax Committee letter outlines a number of requests for Hotel/Motel Tax Funds, including a request from the then Bremerton Naval Museum. The outline states the Bremerton Naval Museum was embarking on a program to achieve eventual self-sufficiency. It further states the Museum Board of directors “freely admit the

---

<sup>2</sup> The deed states hazardous materials in the form of asbestos or asbestos containing materials have been found or are otherwise presumed to exist on the property.

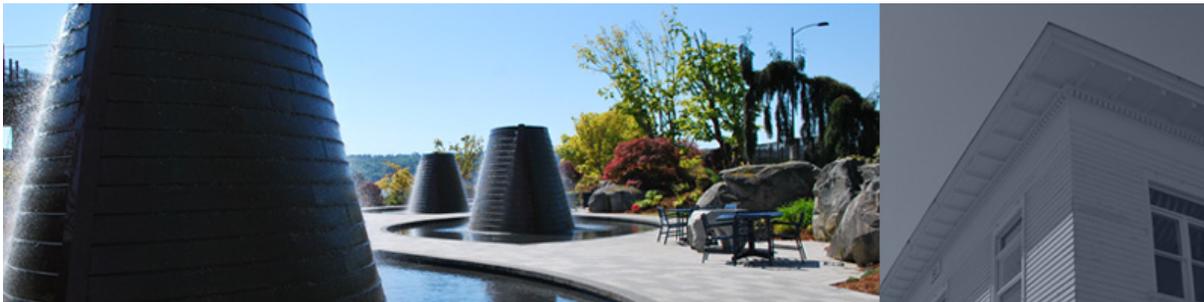
museum as an attraction does not draw tourists to the Bremerton area. However, they do claim to have 30,000 visitors annually. It was acknowledged ... that if each visitor were charged an entry fee of \$1.00, the museum would be self-sustaining.”

In 1998, the City decided to no longer pay the museum’s rent, which led the museum’s non-profit foundation to take over the full operation of the museum until 2002, when the City decided to raze the Washington Avenue location to make room for a hotel and convention center.

Negotiations between former museum foundation Board President Lyle Nelson, U.S. Congressman Norm Dicks, and City officials resulted in a decision to create a permanent home for the museum in Building 50. The museum moved from 130 Washington in 2002 to a temporary rented space in the Amy Burnett Gallery at 4<sup>th</sup> and Pacific. It operated there until the summer of 2007 when it moved to its current location at 251 First Street.

### **BREMERTON WATERFRONT REVITALIZATION**

The Kitsap Mall opened in August 1985, which shifted the retail core of Kitsap County from Bremerton to Silverdale. As a result, retailers including Sears, J.C. Penney, Montgomery Ward, Nordstrom Place Two, Woolworth and Rite Aid all closed their downtown Bremerton stores in the ‘80s and ‘90s. Downtown Bremerton became a scene of many large empty storefronts and a waterfront cluttered with parking lots.



In an effort to restore economic development in the downtown area, plans were undertaken to develop a revitalized, accessible waterfront that would draw people and businesses to the area. Beginning with the building of a waterfront boardwalk and marina in 1992, Bremerton began the process of revitalizing its downtown community. The Building 50 renovation for the PSNM was part of the revitalization – the effort to restore economic development. The following table summarizes some key projects in the Bremerton revitalization, which reportedly cost more than \$400 million in total:

- 1992: The destroyer USS *Turner Joy* opens for public tours.
- 2000: A waterfront multimodal bus/ferry terminal is complete.
- 2004: Hampton Inn and Suites and Kitsap Conference Center are complete.
- 2004: Norm Dicks Government Center is complete.
- 2006: Anthony’s restaurant opens.
- 2006: Kitsap Credit Union building is complete.
- 2007: The Harborside Fountain Park and PSNM open.
- 2007: Harborside Condominiums are built.
- 2008: A newly expanded marina with increased boat capacity is complete.
- 2009: A tunnel traversing from the ferry terminal to Highway 304/Burwell opens.

2010: Fairfield Inn and Suites by Marriott opens on the site of the old City Hall building.

### **BUILDING 50 PHYSICAL DESCRIPTION**

When initially built, the building featured a “widow’s walk” balcony at the back of the roof, a majestic eagle ornament at the peak of the roofline, and four fireplaces were shown in the original building plans. The building was originally white but has been painted several times: during World War II it featured a camouflage paint scheme and during the Korean War it was “battleship gray”.

Building 50 currently is situated on a ¼ acre waterfront lot zoned for military and has 15,321 square feet. The square footage includes a 2,777 square foot basement currently used for museum storage and a small events kitchen.



### **LEASE TERMS**

The City leases most of Building 50 to the United States of America for \$1 per year. The current lease term is from October 1, 2014 through September 30, 2024. The lessee may terminate the lease at any time by giving at least 60 days’ notice.

The lessee is responsible for staffing and operating the museum, plus janitorial services; and the City provides the following at City expense:

- a. Water and electrical service,
- b. Building systems and exterior maintenance,
- c. Grounds maintenance,
- d. Normal HVAC for public spaces,
- e. Keys for museum personnel for unlimited access to museum spaces, and
- f. Normal operational access to elevators, service areas, loading docks, and entry ways pertaining to the premises.

The City’s expenses for Building 50 from 2014 through 2016 averaged \$41,270, as summarized below:<sup>3</sup>

---

<sup>3</sup> The largest expense difference during this period is in Structures and Grounds (S&G). 2014 S&G includes an HVAC repair and conduit work, which totaled \$7,600. 2015 S&G includes air conditioning services totaling \$10,076, plus additional expenses to install a fire alarm, key switch for the elevator, and duct heat assembly.



Description	Expenditure Total		
	2014	2015	2016
Operating expenses paid by City:			
Wages and benefits	\$ 564	\$ -	\$ -
Office and operating supplies	4,285	618	3,707
Small tools, equipment and furnishings		89	
Professional services	100	454	
Telecommunications		2,295	2,148
Equipment rental	697		
Electricity	10,821	10,552	8,048
Water/sewer/stormwater	3,010	3,484	3,511
Structures and grounds	21,263	11,761	24,497
Miscellaneous	3,669	4,238	4,000
<b>Total operating expenses paid by City</b>	<b>\$ 44,409</b>	<b>\$ 33,491</b>	<b>\$ 45,911</b>

Mr. Bozeman stated both the City and Navy believed it was important to have a Naval Museum located in downtown Bremerton, depicting the history of the shipyard and its relationship to the City. The shared desire for a Naval Museum and the fact that the Navy funded about half of Building 50’s renovation appear to be key factors in the lease negotiations. Mr. Sexton added that the City agreed to pay the utilities since the building is used by two tenants (Columbia Hospitality and the Museum.)

**PSNM FINANCIAL SUMMARY**

The PSNM operating expenses are funded by the US Navy. The PSNM fiscal year 2017 budget totals \$84,000 plus labor associated with six full time equivalent employees. Ms. Doshier estimated the total budget, including labor and benefits, may be approximately \$500,000 per year.

In addition to funding from the US Navy, PSNM receives funds from the Puget Sound Navy Museum Foundation (“Foundation”), a 501(c) (3) non-profit organization. The Foundation’s mission is to “obtain financial support for the development of the Puget Sound Navy Museum and its educational, cultural, and historical programs.” The Foundation raises funds to cover museum expenses not funded by the US Navy. Fund sources, which averaged approximately \$40,000 per year from 2012 through 2016,<sup>4</sup> are from gifts, donations, and museum store sales.

The table below summarizes the Foundation’s 2016 income and expense as reported on Form 990-EZ:

<sup>4</sup> 2016 had an extraordinary \$20,000 donation. Annual funding from 2012 through 2015 averaged approximately \$35,000.



Description	2016
Income:	
Contributions, gifts, grants, etc. (A)	\$ 28,518
Investment income	1,369
Gross profit from sales of inventory	12,775
Net from fundraising events	(457)
<b>Total income</b>	<b>42,205</b>
Less expenses:	
Credit card processing fees	956
Store and office supplies	2,007
Liability insurance	1,104
Memberships	380
Telephone and Internet	2,265
Volunteer recognition	3,097
Museum support	10,234
STEM bus transportation	600
<b>Total expenses</b>	<b>20,643</b>
<b>Net income</b>	<b>\$ 21,562</b>

(A) Includes a \$20,000 donation from a philanthropic foundation formed in 2015.

Foundation assets and liabilities as reported on Form 990-EZ are summarized below:

Description	As of December 31,	
	2015	2016
Cash, savings, and investments	\$ 145,154	\$ 164,560
Liabilities	2,156	-
<b>Assets less liabilities</b>	<b>\$ 142,998</b>	<b>\$ 164,560</b>



The Foundation President, George Bieda, provided the following comments concerning the Foundation’s finances:

“The PSNM Foundation works very hard to generate the funds to support PSNM for items that are not supported by the USN. This includes paying for bus transportation to schools that cannot afford to pay for the transportation to STEM (Science, Technology, Engineering and Mathematics) events that are highly encouraged by the USN--but not funded by them, advertising the PSNM, exhibit shipping insurance, personal comfort items (like bottled water), and many other items. Our Board is made up of just 10 members most of whom are well over 70 years old, we are losing them as they age and it is hard to find new board members. They have worked very hard to raise these funds and have very closely monitored expenditures to insure an adequate amount of funds are kept on hand to support the PSNM in good times and bad. We have a limited capability to raise new funds and depend upon the Museum Store and donations to provide the core of the Foundation's support. Please do not misinterpret our success in raising and preserving funds as proof that we are having an easy time executing this task.”

**FOUNTAIN ROOM**

The Fountain Room is a 1,650 square foot event space in Building 50 that is managed by Columbia Hospitality and accommodates up to 200 guests. The City pays Columbia Hospitality \$1,000 per month to market and manage this unique space. Columbia Hospitality has indicated this space is difficult to service because it is offsite (about 1/10<sup>th</sup> mile) from the Kitsap Conference Center, the main location of Columbia Hospitality’s kitchen and service area.

From March 2015 through July 2016, Columbia Hospitality did not actively market this event space<sup>5</sup> due to the difficulties and inefficiencies of serving an offsite space. Fountain Room event revenue from January 1, 2014 through December 31, 2016 totaled \$161,525.

**SUMMARY**

Situated in the Harborside Fountain Park, which is reported to be one of the Puget Sound region’s most impressive public places, the renovated Building 50 is a beautiful home for the PSNM. Although the museum itself does not generate revenue for the City, the museum in recent years has drawn close to 100,000 visitors annually, as shown below:

Year	Visitors
2014	77,927
2015	98,753
2016	93,660

<sup>5</sup> Although they did not actively market the Fountain Room, Columbia Hospitality continued to book events at this space. Columbia Hospitality was not paid the additional \$1,000 monthly payment during this 17-month period.



It is reasonable to assume that these visitors frequent local eateries and other businesses, contributing to the economic revival of downtown Bremerton.

Please contact me if you have questions or need additional information.

Sincerely,

Jennifer L. Sims CPA/CFF, CFE  
City Auditor

cc: Mayor Lent  
DeWayne Pitts, Finance Director  
Mike Riley, Assistant Finance Director  
Shannon Corin, City Clerk