



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

March 6, 2017

To: Audit Committee Members

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

Re: Bremerton Branch Library Review

Dear Audit Committee Members:

At your request and based on the information available to date, I am submitting my findings regarding the Downtown Bremerton Library Review.

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

1. [Typed notes provided by Kitsap Regional Library \(“KRL”\), “Brief History of Bremerton Branch Library”;](#)
2. [Typed notes provided by KRL, “Library History Factoids”;](#)
3. [Discussion Paper Developed by Ellen Newberg for a focus meeting on March 3, 2003;](#)
4. [April 2, 2003 letter to Mayor Bozeman from Chris Wendelyn, President KRL Board of Trustees;](#)
5. [SUN article “End of an Era” dated March 16, 2002;](#)
6. [SUN article “Downtown Library to Stay Put” dated April 24, 2003;](#)
7. [Typed notes provided by KRL, “Bremerton Branch”;](#)
8. [Estimated 2016 library costs incurred by Kitsap Regional Library for the Bremerton Branch provided by Susan Whitford;](#)
9. [Kitsap Regional Library’s audited financial statements for 2012 and 2013;](#)
10. [City of Bremerton detailed expenditure report of library expenses incurred from 2014 through 2016;](#)
11. [Current Kitsap Regional Library contracts with the City of Port Orchard and the City of Poulsbo;](#)
12. [RCW 27.12.020 re: Public Libraries;](#)
13. [June 20, 1990 and October 21, 1991 City Council meeting minutes re: the Literacy Council;](#)
14. [SUN article “KACE, Former Literacy Council, Closing” dated August 20, 2016;](#)
15. [“Kitsap Regional Library: Information for grant applications”;](#) and
16. Multiple contracts from 1947 through 2017 between the City of Bremerton and Kitsap Regional Library



Additionally, I discussed the library background with the following individuals:

- Jill Jean, Kitsap Regional Library Director
- Susan Whitford, Kitsap Regional Library Director of Technology and Facilities
- Mark Danielsen, Windermere Kitsap Commercial Specialist

BACKGROUND

The City of Bremerton (“City”) owns the land and building at 612 Fifth Street in Bremerton, Washington (the “Library Facility”), where the Downtown Bremerton Library is located. Pursuant to a Memorandum of Understanding entered into by the City and Kitsap Regional Library (“Library District”) on November 8, 2016, the City makes the Library Facility available to the Library District to use as a branch library without rental expense to the Library District.

In addition to providing the Library Facility rent-free, the City provides utility services to the Library Facility at its own expense including heating, electricity, water, sewer, solid waste, and recycling. The City also provides at its own expense building maintenance and landscaping.

The Library District provides library services at its own expense in the Library Facility including staffing, books, materials, programming, technology, telephone and data connection costs. Also, the Library District provides janitorial service and supplies at its own expense.

Expenses charged to the Library Facility in 2016 by each of the parties are summarized below.¹ Additional details are available upon request:

City	Library District
\$33,599	\$484,144
6%	94%

The current Memorandum of Understanding between the City and the Library District expires December 31, 2017. The renewal of this agreement requires City Council (“Council”) approval. I was asked to review the history of the library and contract terms and provide a report intended to assist Council in its contract renewal deliberations.

LIBRARY PURPOSE

According to RCW 27.12.020, Washington State promotes the establishment and development of public library service as part of its provision for public education. Libraries provide books, music, movies, community and technology resources, job search resources, and other educational tools for children, teens, schools, adults/seniors, businesses, community groups, etc.

¹ City expenses in 2016 were approximately \$12,400 higher than the prior two-year average due to a fire panel replacement.



BRANCH HISTORY

The following is an excerpt from the Kitsap Regional Library website:

Located in the heart of downtown Bremerton, the Library is a 1938 art deco building originally funded by the Federal Works Progress Administration (“WPA”)². It served as the city’s main library until 1955 when it became the headquarters for the newly formed Kitsap Regional Library. In 1978 a new headquarters library opened in East Bremerton and the Downtown Library was designated as a branch library. Renovated in 2005, the Library now houses a special Northwest History Reference Collection in addition to its regular circulating collection. The City of Bremerton owns and maintains the library building while Kitsap Regional Library provides service with staff and materials.

The Kitsap Regional Library website also states the last major renovation was in 2007; the building is 5,514 square feet (excludes the downstairs); and the library serves a population of 26,057.

LIBRARY ‘PARTNERSHIP’

Ms. Jean referred to the accomplishment of providing library services to City and Kitsap County residents as a ‘partnership’ effort by the Library District and City. While not a partnership in the legal sense, a review of contract history shows the Library District and the City have shared the cost to provide library services to local residents since at least 1947.

CONTRACT HISTORY³

Agreements show the ‘partnership’ between the Library District and City to provide library services began at least as early as 1947 when the Library District agreed to pay \$0.20 per volume to the City to lend books to Kitsap County residents. The annual payment in 1947 was not to exceed \$4,500. Although not specified in agreements prior to 1982, it is believed that references in the early agreements to “Bremerton Public Library” refer to the 5th Avenue Library Facility that is the subject of this report.

The City and Library District entered into a number of contracts over the years to the present time with varying terms. In 1985, the City voted to annex into the Library District⁴ and the parties entered into an agreement whereby the City would provide the Library Facility rent free and pay all utility services, maintenance, and janitorial costs. Library District was financially responsible for library services (staffing, materials, etc.) The 1985 agreement did not have a termination date; rather, it required 90 days written notice to terminate.

A memorandum of agreement was entered into in 2009 that specified the City would, in addition to the previous financial responsibilities, also pay landscaping expenses.

² The WPA was a program implemented during the Great Depression that employed millions of unemployed people (mostly unskilled men) to carry out public works projects, including the construction of public buildings and roads.

³ Historical contracts/agreements involved parties with slight variations in the names. For simplicity, this report continues to refer to the parties under the current agreement names, i.e. City and Library District.

⁴ As a result of annexation, citizens are taxed directly for library services and those taxes are paid to the Library District.



This agreement was renewable annually by written agreement of the parties. The agreement was renewed through December 31, 2010.

The financial terms changed slightly in a March 2011 lease agreement which provided the Library District was responsible for the janitorial expense in addition to its previously agreed upon financial responsibilities.

The most recent agreement is dated November 8, 2016. This agreement maintains the financial terms of the 2011 agreement with the City providing the Library Facility rent free, paying all utility services, maintenance, and landscaping costs. The Library District is financially responsible for staffing, books, materials, programming, technology, telephone and data connection costs. Janitorial service and supplies are provided by the Library District at its own expense.

CONTRACTS BETWEEN LIBRARY DISTRICT AND OTHER CITIES

As shown in the table below, the Library District has nine branches, three of which are located in city-owned buildings, and two that are in buildings owned by the Library District.

Branch	Building Owner
Bremerton	City of Bremerton
Port Orchard	City of Port Orchard
Poulsbo	City of Poulsbo
Silverdale	Library District
Sylvan Way	Library District
Bainbridge	Bainbridge Public Library, Inc.
Kingston	Village Green Foundation
Little Boston	Port Gamble S'Klallam Tribe
Manchester	Friends of Manchester Library

Each of the cities provides the building to the Library District rent-free and is financially responsible for utilities. The Library District is financially responsible for staffing, books, materials, programming, technology, telephone and data connection costs at each location, plus janitorial expenses. The table below summarizes the contract terms regarding landscape and building maintenance expenses, which differ by city:

Expense	Paid By		
	Bremerton	Port Orchard	Poulsbo
Landscape maintenance	Yes	No	No
Building maintenance	Yes	<i>More specific below</i>	<i>More specific below</i>
Building maintenance structural	<i>Silent</i>	<i>Silent</i>	Yes
Building maintenance minor	<i>Silent</i>	Library District to resolve if feasible	<i>Silent</i>
Building repair substantial	<i>Silent</i>	Library to submit request to City for approval	<i>Silent</i>



The City's landscape expense charged to the income statement in 2015 and 2016 was less than \$300 per year, which does not include Public Works labor that provides landscape service. Beginning in 2017, the City is contracting for grounds maintenance at the library for an estimated cost of \$2,350 per year. Building maintenance appears to cost the City approximately \$5,000 to \$10,000 per year. The City pays about \$5,000 per year (based on 2015) for alarm services, which are not specified in the agreement.

INITIATIVE 747

Initiative 747 was approved by voters in 2001. It imposed a one percent limit on increases in property tax levies beginning 2002. Although this law was overturned by the Washington Supreme Court in November 2007, state lawmakers with bipartisan support restored the one percent property tax cap later that same month.

During a meeting with Ms. Jean and Ms. Whitford on December 12, 2016, Ms. Jean stated this law affected Library District's ability to increase taxes and that it is unlikely that Library District has sufficient funding to maintain the Downtown Bremerton Branch without the current arrangement of shared financial responsibility with the City.

LIBRARY FACILITY PROPERTY VALUE

The most recent Kitsap County Assessor records indicate a 2014 value totaling \$935,360 with \$756,530 assigned to the building. Assessed values are based on market value. For property insurance purposes, the library building was valued at \$1.9 million in 2016. Property insurance values are based on the cost to rebuild.

OTHER RELEVANT HISTORY

The Literacy Council of Kitsap County ("Literacy Council") operated in an area of the upstairs Library Facility for several years before the City leased them the library basement on June 20, 1990. The Literacy Council leased the library basement rent-free until they closed in September 2016. The Literacy Council was financially responsible for janitorial, garbage, and liability insurance.

In 2002, the City had discussions about selling the Bremerton library building with Rice Fergus Architects and moving the library to what was then the proposed Government Center.

By early 2003, the City decided not to include the library in the Government Center and Rice Fergus Architects decided to stop its pursuit of the city-owned building and revamp its current facility on Fourth Street. In April 2003, the City and Library District reached an agreement to keep the Library Facility open. The City proposed decreasing the space the library occupies in the building and seeking a retail tenant that fits in with the library environment to move into part of the building. The expectation was the new tenant would provide some revenue to cover the City's cost of building upkeep. A timeline with additional historical details is available upon request.



DOWNTOWN BREMERTON COMMERCIAL MARKET

The Windermere Kitsap Commercial (“WKC”) website shows current lease rates in downtown Bremerton ranging from \$8 to \$12 per square foot per year with triple net terms (tenant pays property tax, insurance, maintenance and utilities.) Mark Danielsen of WKC specializes in commercial properties and provided a rough estimate over the phone⁵ that the library building might lease for approximately \$10 per square foot, excluding the basement square footage. However, Mr. Danielsen stated the property could be difficult to lease due to its size (rather large for retail) and market conditions. He stated that although there is increased vitality in downtown Bremerton, the property could be vacant for a long time in this current market that he characterized as having a “very considerable amount of vacancy”.

SUMMARY

In light of RCW 27.12.020, it appears the parties have shared the State’s interest in supporting public education by sharing the cost and working together since at least 1947 to make library service available to City and County residents. The Bremerton Branch Library serves a diverse clientele: shipyard employees, downtown merchants, SUN staff, attorneys, bank staff and other workers frequent the library during lunch and before and after work. Homeless and those on the margin also utilize the library.

In the corporate world, providing a prime downtown property to a tenant rent-free and paying certain expenses to boot might be deemed fiscally irresponsible by its shareholders, depending on the circumstances. However, the goals of cities and corporations can differ. One of the purposes of a municipality is to provide services that uplift the quality of life of its citizens, such as parks and libraries.

The City’s annual library cost, which goes towards supporting public education and maintaining its \$1 million+ property, represents 0.02 percent of the City’s 2016 budget of \$153 million.

The terms of the City agreement are comparable to library agreements with neighboring cities. However, it appears Port Orchard and Poulsbo have somewhat more favorable terms concerning landscape and building maintenance. These more favorable contract terms suggest it may be reasonable for the City to consider negotiating better terms.

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

Sincerely,

Jennifer L. Sims CPA/CFF, CFE
City Auditor

cc: Mayor Lent
Chal Martin, Public Works Director
Mike Riley, Assistant Finance Director

⁵ Mr. Danielsen did not perform a market analysis.