



CITY AUDITOR 345 6th Street, Suite 100, Bremerton, WA 98337-1873 & Phone (360) 473-5369

November 6, 2020

To Audit Committee Members:

Leslie Daug, Audit Committee Chair and Council Member
Deborah McDaniel, Audit Committee Vice-Chair and Citizen Member
Mike Simpson, Council Member
Darryl Riley, Citizen Member
Dennis Treger, CPA

Re: Bremerton Ice Center Concession Agreement History Review

Dear Audit Committee Members:

At your request and based on the information reviewed to date, I am submitting my findings regarding the Bremerton Ice Center Concession Agreement History Review.

BACKGROUND - LAND ACQUISITION

In April 1971, the [United States Secretary of the Interior deeded 17.6 acres of land](#) to the City for public park and recreation purposes. The conveyance prohibited the City from leasing the land except to another government agency, but allowed the City to provide recreational facilities and services by entering into private concession agreements, subject to approval by the Secretary of the Interior.

Thirty years after the City acquired the land, the City entered into a concession agreement with Bremerton Ice Arena, Inc. ("BIA") whereby the property would be developed for an indoor public ice rink.

KITSAP ICE RINK HISTORY

The first Kitsap County ice rink was the [Ice Bowl](#), which opened in Gorst in October 1939. The Ice Bowl, built by Karl Mehner, was a 70 by 130 foot ice rink that hosted national touring ice carnivals, sponsored a hockey league, and was home to a figure skating club. In January 1943, the Ice Bowl roof collapsed in a blizzard under the weight of an estimated 500 tons of snow. Mr. Mehner was unable to rebuild at the time due to cost and wartime restrictions on materials.

After the restrictions were lifted, Mr. Mehner opened the New Ice Bowl in June 1945. The New Ice Bowl was located at the corner of Preble and Charlotte in Navy Yard City. This facility was 12,000 square feet, and included a pro shop, restaurant, and bleachers for 1,300 spectators. The Puget Sound Hockey League played there weekly and local ice skating grew in popularity. For two years, the ice rink is reported to have been one of Bremerton's most popular venues.



Officials at the Puget Sound Naval Shipyard expected the shipyard labor force would be cut after the war from 32,000 to 22,000; however, by December 1946, the post-war shipyard labor force was cut to 9,000, which reduced business at the ice arena. In addition to the reduction in business, the rink experienced maintenance problems with its ammonia compressor. These problems led to the ice rink's demise in 1952, and it would be more than 50 years before Kitsap County would see its next ice arena.

ICE RINK COMES TO BREMERTON

Inspired in part by the desire to give his sons the opportunity to play hockey, Greg Meakin decided to build an ice arena in Silverdale, Washington. He and his wife, Deborah, filed the [Articles of Incorporation](#) for Silverdale Ice Arena, Inc. on April 17, 2001 with plans to build the ice arena next to the Kitsap County Fairgrounds; however, in March 2002, the Meakins ran into problems with county zoning rules that would delay the project indefinitely.

Several parties, including former Bremerton Mayor Cary Bozeman, were interested in helping the Meakins relocate the site. Mayor Bozeman wanted the ice rink moved within City limits, stating cities could no longer afford to pay for recreation facilities like the ice arena and had to rely on private individuals for the ideas, backing and initiative to provide such amenities. The City offered a \$175,000 financial incentive for the Meakins to build the ice rink in East Bremerton and in consideration of future use of the ice arena by City residents. The City's treasurer, Richard Hanna, estimated the City would recoup the incentive within three years from tax revenues on construction and operation costs.

On June 13, 2002, the Meakins filed an amendment to the Articles of Incorporation that changed the corporation name to Bremerton Ice Arena, Inc., and proceeded with plans to build the ice arena in East Bremerton.

INITIAL LEASE

On August 9, 2002 the City and BIA entered into a [concession agreement](#), which granted BIA a ground and use concession to develop, construct, and operate an ice arena on city property. The concession agreement was unanimously approved by the City Council.¹ The agreement is signed by former Mayor Cary Bozeman and the president of BIA, Mr. Meakin.

The concession agreement provided in part: (1) the City retains ownership of the land; (2) BIA cannot encumber the land; (3) BIA will build and operate an ice arena on the land (Arena); (4) BIA will own the Arena for 10 years, with four successive 10-year renewal options; (5) BIA will own improvements developed and constructed on the land subject to any security interest of a lender during the agreement; and (6) ownership of the Arena and all improvements will revert to the City when the agreement terminates.

As an incentive for BIA to locate its facility within City limits and to help defray the costs of relocating from the initially proposed site in Kitsap County, and in consideration of additional futures use of the Premises, the City paid BIA \$175,000. BIA agreed to compensate the City

¹ City Council at that time included the following members: Carol Arends (Council President), Will Maupin (Council Vice President), Cecil McConnell, Daren Nugren, Ed Rollman, Mike Shepherd, Mike Short, Eric Younger, and Wayne Olsen who was appointed after Glenn Jarstad died in January 2002.



for use of the land in the form of hours of use of the ice arena. The hours of use were calculated based on the market value of the site at the inception of the concession agreement. Based on an independent appraiser's report, it was determined that compensation provide by BIA to the City for the Eastpark property is equivalent to 194 hours of indoor ice skating facility usage per year for the term of the agreement.

BIA opened for business in May 2003.

FREE SKATE PROGRAMS

The current arrangement for the City's free [facility usage](#) is as follows:

Playgrounds on Ice: Free admission for all ages to the ice center for Bremerton residents on most Wednesdays from 2 to 5 pm. In addition, skate rental is discounted to \$3.50 compared to full price rental of \$4.50. Vouchers for the free admission are available at Parks and Recreation offices.

This free skating program is marketed in the Parks and Recreation Quarterly Activity Guide, as well as through the City's web site, word-of-mouth at the Ice Center and through flyers. Attendance is approximately 1,800 per year (30-40 per week).

Senior Open Ice Skate: Free admission to the ice center for members of the Bremerton Senior Center on Mondays and Wednesdays from 11 am to 12 pm. Skate rental is discounted to \$3.50. Vouchers for the free admission are available at the Senior Center.

The free senior skate is marketed in the Senior Center Active Us Newsletter (normally published five times annually) and on the City's website. A flyer is featured on the activity board at the Senior Center facility and the program is marketed to potential members during building tours and program introductions as well at public outreach events attended by center staff. Attendance for 2019 was 384.

LAWSUIT

In September 2002, Charles and Joanne Haselwood² loaned BIA \$3.8 million at 10 percent interest to construct the ice arena. A promissory note was executed between the Haselwoods and BIA, which was secured by a deed of trust. BIA defaulted on the promissory note to the Haselwoods in August 2003, and the Haselwoods brought an action to foreclosure the deed of trust against BIA and other creditors. The ensuing [lawsuits](#) eventually went to the Supreme Court then back to Kitsap County Superior Court. After seven years of legal wrangling, Ms. Haselwood was granted full and sole ownership of the ice arena in August 2010. The ice arena was renamed the Bremerton Ice Center, LLC ("BIC").

LEASE AMENDMENT – ALCOHOL CONSUMPTION

October 2011 council meeting minutes state the [new] owners of the ice arena requested the ability to sell beer and wine under certain conditions as a revenue enhancement to the facility and as a convenience to its adult customers. The 2011 Council narrowly voted to approve an

² Charles Haselwood died on November 20, 2006.



amendment to the Concession Agreement that would remove the ‘no alcohol consumption’ clause from the agreement. However, subsequent to the vote, the City Attorney determined that due to a remote interest³, Councilman Wheeler’s ‘Yes’ vote was invalidated, which resulted in the [item failing](#).

In April 2012, with three new members on City Council, the item came up for a vote again and passed 6 to 2 with Councilman Wheeler abstaining.⁴ The First Amendment to the Concession Agreement to allow for the sale and consumption of alcoholic beverages is dated May 2, 2012. Mayor Patty Lent signed on behalf of the City and Mrs. Haselwood signed as the manager of BIC.

Alcohol sales remain a very small portion of the ice rink’s business. The Penalty Box, where alcohol is sold and consumed, is only open during adult league nights.

FIRST OPTION TO RENEW LEASE

On April 2, 2014, the Bremerton Ice Center exercised its option to renew the term of the August 9, 2002 agreement through August 8, 2022. The option to renew is signed by Mrs. Haselwood and Mayor Patty Lent.

BREMERTON ICE CENTER DESCRIPTION

The [BIC](#) is approximately 40,000 square feet, situated on 3.3 acres of City-owned land. The ice arena houses a National Hockey League regulation-sized 85 by 200 foot rink. It has a heated lobby with a view of the ice, heated birthday party and all-purpose conference rooms, and a concession stand. It also has a fireplace sitting area overlooking the ice, lockers and vending machines and an electronic center-ice scoreboard.

BIC serves a diverse group of users of all ages. It hosts an adult hockey league, youth hockey league, and a figure skating club. There are public skate sessions and opportunities to play broom ball. Skating and hockey lessons are available. And businesses and individuals hold special events at the ice center, such as corporate holiday parties and birthday parties. Party rooms can be rented or the entire facility.

THREE PHASES OF AN ICE RINK

According to Tom Reges, an experienced ice rink owner/operator, there are [three phases in the life of an ice rink](#). While the actual time spent in each phase may vary by rink and how well the assets are maintained, Mr. Reges’ description of the life of an ice rink is summarized below. The first period, which lasts about three years, is the new construction phase, when everything is new and the major effort is keeping the building clean and the equipment well-oiled and maintained. The second period is the repair phase when the equipment and building need repairs. The third period, starting sometime after the 10th year and accelerating by the 15th year is the deemed replacement phase. Facilities need new headers, compressors, boards, roof, etc. BIC is 17 years old.

³ Councilman Wheeler’s wife, Sunny, worked at the ice center.

⁴ Council members Runyon, Flemister, Wofford, Younger, Daugs, and McDonald voted in favor of allowing alcohol consumption at the ice center; Council members Arends and Brockus voted against the motion.



INDUSTRY

According to IBISWorld, [key variables that drive the ice skating industry](#) include disposable income, time spent on leisure, and health awareness. The Ice Rinks industry experienced strong growth over the five years to 2019. Demand for ice activities fared well from 2014 through 2019 amid rising per capita disposable income and increased participation in sports. Moreover, a resurgence in interest in ice hockey helped boost demand for ice rink management companies, raising revenue and encouraging the development of new facilities. Higher sports participation rates and growing public awareness of the link between physical activity and health also boosted demand. IBISWorld expected industry revenue to increase an annualized 2.6% to \$882.7 million over the five years to 2019.

In December 2018, the National Hockey League (NHL) approved a proposal to grant an expansion franchise to the city of Seattle. The team, Seattle Kraken, will compete in the NHL beginning with the league's 2021-2022 season. It will be the first professional hockey team to play in Seattle since the Seattle Totems of the Western Hockey League played their last game in 1975. The Kraken will play at Climate Pledge Arena, a redeveloped version of Seattle's Key Arena, which previously served as home to Seattle's professional basketball team, the SuperSonics.

Prior to Covid-19, which greatly impacted the world economy, the [Ice Rink industry](#) was expected to continue to expand, albeit at a slightly lower rate than the previous five years. Locally, having a new professional hockey team in Seattle will likely spark enthusiasm for hockey and other ice activities in the region.

Locally, [SnoKing Ice Arenas](#) currently has two ice centers in Kirkland and Renton. These two cities have a combined population of approximately 196,000 (approximately five times that of Bremerton) and are near other populous jurisdictions. The combined annual revenue of the Kirkland and Renton ice centers was approximately \$3.2 in years ending June 2017 and June 2018. The associated net income each year was approximately \$142,000. No financial data for BIC was obtained; however, given Bremerton's much smaller population, it is expected BIC's revenue is considerably less than SnoKing's. Also, no information was obtained that would indicate whether BIC is profitable.

COVID-19

The first human cases of Covid-19, a highly contagious and sometimes fatal virus, were identified in Wuhan, China in December 2019. The World Health Organization declared the Covid-19 outbreak a Public Health Emergency of International Concern on January 30, 2020, and a pandemic on March 11, 2020.

The first known death in Washington was on February 29, 2020, which marks the date Washington State Governor Inslee announced a state of emergency due to the virus. Throughout the month of March 2020, Covid-19 restrictions evolved rapidly: early in the month, employees were urged to work from home; schools, community centers and libraries were closed; events and gatherings with more than 250 people were banned.

On March 16, 2020, Washington restaurants, bars and entertainment facilities, including gyms and ice rinks, were ordered closed. On March 23, Governor Inslee issued a statewide stay-



at-home order that closed all non-essential businesses and banned all gatherings. The governor's orders have continued to evolve, sometimes tightening, other times loosening.

Governor Inslee issued a four-phase approach for reopening businesses by county throughout the state. All counties started in Phase 1, which has the most restrictions. Under Phase 4, most public interactions resume with social distancing.

On May 28, 2020, Kitsap County advanced to Phase 2. On July 2, 2020, Governor Inslee announced a freeze on counties looking to advance from their current stage of reopening. Kitsap County is in Phase 2 until the freeze ends and the county can be approved to advance.

Restrictions and requirements for ice rink operations are currently the same in Phase 2 and 3, and are part of the Indoor Fitness and Training category. Under current restrictions, BIC is limiting the facility to no more than 30 patrons. As such, some hockey and figure skating activity and the senior skate have resumed; however, BIC has not reopened to other public skate activities, which are not expected to resume until the county is in Phase 4 of the state's reopening plan.

SUMMARY

The Bremerton Ice Center is a local amenity that City residents can enjoy and the City has no burden to operate or maintain the facility. Once the Covid-19 restrictions are loosened and BIC can resume the free skate sessions, it could benefit more City residents to know about the opportunity for free fun through a more robust marketing effort.

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

Sincerely,

Jennifer L. Sims CPA/CFF, CFE
City Auditor

cc: City Council
Mayor Greg Wheeler
Jeff Elevado, Parks Director
Mike Riley, Financial Services Director
Melinda Monroe, Contracts Administrator