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**UNION COUNTY BUDGET  
2010  
CITIZENS' REVIEW  
GOLF OPERATIONS**  
Released March 31, 2010

**Our Mission**

*The Union County Watchdog Association, Inc. is a nonpartisan, nonprofit 501(c)3 organization working on behalf of residents and taxpayers to monitor Union County government and advocate for the elimination of waste, corruption and incompetence. We believe that good government can only be achieved through a system of checks and balance - a system that includes the watchful eye of the people.*

**Report on the  
2010  
Union County Budget  
GOLF OPERATIONS**

On March, 2009 Union County closed Oak Ridge golf course in Clark claiming that the course lost \$400,000 in one year. In 2009 the two remaining county golf courses, Galloping Hill in Kenilworth and Ash Brook in Scotch Plains combined to lose \$398,930. Will they be closed too? This report studies what has been going on with golf in Union County and is divided into the following sections:

- A The Situation
- B The Kemper Contract
- C Recommendations

## **Section A**

### **The Situation**

In 2009 Galloping Hill reported an operating loss of \$268,989 and Ash Brook a loss of \$129,941. The main reason provided for the losses was that it rained a lot.

The operating budget will increase from \$3.2 million in 2009 to \$3.8 million in 2010. The increase is primarily due to adding Food and Beverage Operations at both courses and a Learning Center at Galloping Hill.

In addition \$1.2 million is being spent to upgrade the clubhouse and add bunkers at Galloping Hill.

Revenues are projected to increase from \$2.8 million in 2009 to \$4.1 million in 2010. \$418,000 of this increase is to come from Food and Beverage sales which, in the past, was under concessionary agreements that brought in less than \$2,000 per month. For Galloping Hill Practice and Learning Center Union County is forecasting \$610,000 in range ball sales alone for the first full year of operations.

Twenty-two employees with base salaries totaling \$1,287,973 were listed in golf-related occupations in 2008, mostly maintenance. As of February, 2010 the payroll totals \$1,110,651 with three employees cut and one employee (Ronald Paz) moved. Considering that one golf course was closed spending on golf course maintenance has not decreased by one-third.

One full-time employee in clubhouse operations has so far been moved from the county to KSM payroll. In addition, approximately 25 seasonal employees are now KSM employees but these part-timers had not been provided county benefits before so there is minimal savings from their change in status. Additional staff - golf pro(s) and an on-site bookkeeper - are supposed to be hired by KSM.

#### Exhibits Attached:

A2: Listing of golf maintenance employees currently and as of 2008

A3 - A4: Undated letter from Armando Sanchez, Division Head of Golf Operations, to Al Faella, Director of Parks and Community Renewal, regarding 2009 losses and proposals for 2010

A5: Freeholder resolutions on upgrading Galloping Hill

A6 - A7: Excerpts from 2010 Executive Budget on current golf courses

A8: Excerpt from 2010 Executive Budget on plans for Oak Ridge

**OPRA Payroll**

<b>Name</b>	<b>2008 Salary</b>	<b>2010 Salary</b>	<b>Hire Date</b>	<b>Title</b>
Sanchez, Armando	\$110,000	\$110,000	06/14/08	Conf Aide G20.5
MacDermant, Joseph P	\$84,000	\$88,124	5/14/1983	Asst Spvg Grnskpr G19
Addressa, Joseph W	\$69,240	\$72,955	4/19/1971	Spvng Greenskeeper G18
Cyran, John	\$66,736	\$60,772	12/8/1975	Spvng Greenskeeper
Hamilton, Cormac	\$66,736	\$0	9/3/1974	Spvng Greenskeeper
McCoy, Peter T.	\$66,736	\$0	11/15/1971	Spvng Greenskeeper
Gormley, Jeffrey S	\$60,772	\$60,772	5/31/1988	Asst Spvng Greenskeeper
Tullo III, Charles A	\$60,722	\$60,772	10/24/1987	Asst Spvng Greenskeeper
Goett III, Harry E	\$59,843	\$62,902	2/14/1984	Golf Supt G17
Hayden, Marc B	\$58,035	\$51,830	6/22/1996	Asst Spvng Greenskeeper
Allen III, Thomas	\$52,841	\$54,819	8/13/1994	Sr Greenskeeper
Novak, Lawrence	\$52,630	\$52,630	9/25/1982	Sr Greenskeeper
Swidersky, Gregg A	\$50,161	\$50,161	10/2/1999	Greenskeeper
Barr, Jeffrey	\$49,362	\$49,362	10/30/1999	Greenskeeper
Dowzycki, Bruce	\$49,362	\$49,362	4/15/1995	Greenskeeper
Harris II, Russell M	\$49,362	\$49,362	3/1/1999	Greenskeeper
Mochun Jr, Peter	\$49,362	\$49,362	8/3/1973	Greenskeeper
Best, Gregory M.	\$47,930	\$49,362	4/15/1995	Greenskeeper
Wilson, Antoine	\$47,923	\$0	5/13/1995	Greenskeeper
Paz, Ronald D	\$46,789	\$48,673	9/16/2000	Greenskeeper/Rec. Maint.
Alston Jr, George	\$46,559	\$46,559	12/9/2000	Greenskeeper
Richardson, John L	\$42,872	\$42,872	8/2/1997	Mngr Golf Facility G15
<b>TOTAL</b>	<b>\$1,287,973</b>	<b>\$1,110,651</b>		

To: Al Faella, Director of Parks and Community Renewal

From: Armando Sanchez, Division Head of Golf Operations

Subject: 2009 Profit and Loss Statements for Galloping Hill Golf Course and Ash Brook Golf Course and 2010 Proposed Operating Budget and Projected Revenues

Director Faella,

Attached you will find the Financial Statements showing our Total Revenues and Expenses for Galloping Hill Golf Course in Kenilworth and Ash Brook Golf Course in Scotch Plains for 2009 and our Proposed Operating Budget and Projected Revenues for 2010.

In 2009 both courses showed an operating loss for the year. Galloping Hill is reporting a loss of \$268,989 and Ash Brook a loss of \$129,941. The key driving factor for the losses can be attributed directly to Negative Weather Impact for the golfing season of April through September in the Northeast. The Northeast experienced an unusually wet summer in comparison to years past and industry reports have shown a loss of anywhere from 5% to 20% of revenues directly related to negative weather across the Northeast. For the season of 2009 we had 18 fewer Playable Days during the months of April through September in comparison to 2008. Compounding the negative impact from weather was that 15 of these days happened to fall on Weekend Days of Friday, Saturday and Sunday. For June alone we had 21 out of 30 days of Measurable Rain. So as to understand the impact financially I have outlined it below.

Galloping Hill averaged 350 rounds per Weekend Day during the golf season with an Average Revenue per Player Rate of \$29.00 which amounts to \$10,150 per day. Multiplied by the 15 lost weekend days gives us \$152,250 in lost revenue driven by Negative Weather.

Ash Brook averaged 240 rounds per Weekend Day during the golf season with an Average Revenue per Player Rate of \$36.00 which amounts to \$8,640 per day. Multiplied by the 15 lost weekend days gives us \$129,600 in lost revenue driven by Negative Weather.

One last component that should be addressed is if not for the closing of the Single 9 during the months of March, April, May and June Galloping Hill would have reached Breakeven or possibly turned a profit given the enormous popularity of the course. During the months of July, August and September we averaged over 3830 rounds per month. This would have given us potentially another \$153,200 in revenue. This revenue will be realized in 2010 since the Single 9 will be open for the entire season as will the Practice Range and Learning Center.

Total Utilization of our courses rose in 2009:

2009 - 67% - 88,200 Rounds on 45 Holes with GH and AB and 130,000 available tee times.

2008 - 52% - 101,000 Rounds on 63 Holes with GH, AB and OR and 195,000 available tee times (Negative Weather Weekend Days of 15 caused a loss of 8,850 Potential Rounds)

A 3

For the 2010 Operating Budget and Projected Revenues you will see that we have shown an increase in our Operating Budget by \$600,000 from \$3,200,000 to \$3,800,000. This is being done to account for increasing our overall operations at the Galloping Hill Practice and Learning Center as well as adding the Food and Beverage Operations at both Galloping Hill and Ash Brook. Additionally, PGA Professionals, Sales and Marketing staff and overall marketing efforts will be increased so as to increase the potential revenues for both Galloping Hill and Ash Brook. The additional increases in operations will lead to an increase of \$1,300,000 in our Operating Revenues from \$2,800,000 to \$4,100,000 which will lead to a \$300,000 Net Profit for the division.

We are forecasting revenues of \$418,000 for Food and Beverage at Galloping Hill and Ash Brook combined. These revenues were never realized in the past since they were under Concessionary Agreements and the County would receive a nominal amount in monthly rent at each facility of less than \$2000 per month for both courses combined.

For the Galloping Hill Practice and Learning Center we are forecasting \$610,000 in range ball sales alone for the first full year of operations.

The Division of Golf Operations along with KemperSports is looking forward to 2010. The County's Staff and the staff at KemperSports feel that we have begun to position ourselves in the market as a premiere public golf course that golfers of all ages and skill level can enjoy.

Thank You,

Armando Sanchez  
Division Head of Golf Operations  
The County of Union

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## **GOLF SPENDING RESOLUTIONS**

**2009-1181 FREEHOLDER KOWALSKI**, authorizing the County Manager to award a contract **KemperSport, North Brook, Illinois** pursuant to an RFP process for **Galloping Hill Clubhouse Construction Management Services**, in the amount not exceed 10% of the costs associated with the development, design and construction of the clubhouse in an amount of not to exceed \$1,000,000. **12/17/2009**

**2010-135 FREEHOLDER MIRABELLA**, amending the **2010 Local Temporary Capital Budget** in the amount of **\$200,000** for the reconstruction of the bunkers at Galloping Hill Golf Course from Capital Surplus. **2/11/2010**

- Lucent Technologies, New Providence-297 participants-11,520 lbs.
  - Warinanco Park, Roselle – 157 participants – 5,780 lbs.
  - Schering Plough, Kenilworth – 433 participants – 18,280 lbs
- **Propane Tanks**
    - Union County College, Cranford – 119 tanks collected
    - Lucent Technologies, New Providence – 112 tanks collected.
    - Union County Vo-Tech, Scotch Plains – 35 tanks collected.
    - Union County College, Cranford – 136 tanks collected.

## **Division of Golf Operations**

### **Ash Brook Golf Course Improvements**

Ash Brook Golf Course in Scotch Plains was the site of the second phase of the irrigation upgrade which included the installation of the main line and secondary pump house. The project was started in November of 2008 and completed in the spring.

### **Galloping Hill Golf Course Improvements**

Galloping Hill Golf Course in Union/ Kenilworth saw the beginning of upgrading sand bunkers and playing conditions.

### **Galloping Hill Driving Range and Learning Center**

Galloping Hill Golf Course in Union/Kenilworth saw the completion of the Driving Range and the redesign of the single 9. Both opened to praise from the public which enabled golf operations to create partnerships with The First Tee of America, a community outreach program for underprivileged children interested in learning the game of golf as well as teaching life skills.

### **Golf Operations**

Initiated partnership with Kemper Sports Management which will help us reach profitability on our two courses. The goal is to have Kemper Sports manage all revenue and programming for current and future operations: a new club house at Galloping Hill which will hold banquet facilities, offices for the New Jersey State Golf Association, a restaurant and grill for visiting golfers, and corporate outings and events.



**2010 Budget Schedule**

<b>Department / Division</b>	<b>Salaries</b>	<b>Overtime</b>	<b>Other Expenses</b>	<b>Total Appropriations</b>
<b>General Government</b>				
<b>Freeholders</b>	268,500		90,000	358,500
Annual Audit			182,775	182,775
Other Accounting & Auditing Fees			131,200	131,200
Public Obligations & Contract Pmts			1,466,676	1,466,676
<b>County Manager</b>	720,721		150,000	870,721
Special Studies and Initiatives			800,000	800,000
<b>Parks &amp; Community Renewal</b>				
Director	2,119,410	50,000	885,000	3,054,410
Planning & Community Development	173,952		656,000	829,952
Cultural & Heritage	501,448		8,000	509,448
Golf Operations	1,556,129	130,000	1,935,200	3,621,329
Parks Planning & Environmental Services	518,909			518,909
Information Technologies	1,202,950		1,643,800	2,846,750
<b>Finance:</b>				
Director	255,476		70,000	325,476
Reimbursement	153,355		3,000	156,355
Treasurer	255,906		2,500	258,406
Comptroller	765,854		22,000	787,854
Internal Audit	99,262		2,000	101,262
<b>Administrative Services:</b>				
Director	293,038		118,000	411,038
Motor Vehicles	1,484,649	35,000	3,765,000	5,284,649
Personnel Management & Labor Relations	1,207,126		852,000	2,059,126
Purchasing	651,784		340,000	991,784
<b>County Counsel</b>	1,324,782		525,860	1,850,642
County Adjuster	307,302		6,000	313,302
<b>Clerk of the Board</b>	647,851		250,000	897,851
Advisory Boards			5,500	5,500
Status of Women			500	500
<b>County Clerk</b>	1,775,655	30,000	170,000	1,975,655
County Clerk - Elections	115,184	10,000	593,500	718,684

- **Oak Ridge Park Master Plan**

In 2009, as part of the Union County Master Plan Open Space & Recreation Plan Element, the Department of Parks and Community Renewal completed a concept master plan for the newly created Oak Ridge Park in Clark. The goal of the Oak Ridge Park Master plan was to create a balance between active and passive recreation. The concept master plan includes a barrier free playground, a spray park, a skate park, tennis courts, a hockey/ice skating center which would include two (2) sheets of ice and the creation of pedestrian and vehicular paths as well as overpasses to separate the two. A great lawn or open lawn area will still continue to dominate the park. Ample parking in various locations will also be provided. In 2010, we will look to begin design engineering this new park with Freeholder approval. This can/will be done in phases.

- **Master Plans for Clark Reservoir and Warinanco Park**

Master plans are being developed for the Clark Reservoir in Clark and Warinanco Park in Roselle and Elizabeth. The Clark Reservoir plan will look toward improving access by the public to the County's largest waterbody, which was added to the Union County Park System in recent years. The Warinanco Park plan will look at improving facilities in the County's busiest park, while respecting its historic character. Division staff have provided input to the project design of both projects, and will contribute to the planning efforts where appropriate.

### **Bureau of Governmental Relations and Community Outreach**

- **MusicFest**

- ✓ Expansion of MusicFest event to two full days encompassing a full weekend.
- ✓ Venue change from Nomahegan Park, Cranford to Oak Ridge Park, Clark.
- ✓ Incorporation of a four day "County Fair" on Thursday and Friday preceding the event in addition to the fair operating while MusicFest took place.

- R&B by the Brook – tenth annual event, added a car show to further diversify the event and appeal to the 5,000 plus that attended.
- Kids Kingdom – slight revamping to maximize the event at the R& B by the Brook festival, change in locations to Mt Carmel, Berkeley

## **Section B**

### **The Kemper Contract**

On August 7, 2009 Union County (UC) entered into a contract with Kemper Sports Management, Inc. (KSM) to operate and manage Clubhouse Services, excluding Maintenance Services, at the two remaining UC golf courses. Among the highlights of that contract:

KSM will get:

- \$7,000 per month in 2010; \$10,000 if they take over maintenance
- profits from golf shops
- 6.5% of Gross Revenue over \$3.4 million

KSM is supposed to:

- hire, train, and supervise all employees
- be under the direction of UC Parks Director and Golf Director
- recruit, hire and employ full time Golf Professionals
- get a liquor license
- employ an on-site bookkeeper

KSM may:

- take over Maintenance Services also for an additional \$3,000 per month in 2010 to get more employees off the county payroll
- consult on new golf programming (including a possible membership advance tee time program, increasing the number of outings and tournaments, developing partnerships with private and non-profit entities and marketing efforts).

Exhibits Attached:

B2 - B22: Excerpts from UC contract with KSM

**MANAGEMENT AGREEMENT**

THIS MANAGEMENT AGREEMENT ("Agreement") is made and entered into as of August 7, 2009 (the "Commencement Date"), by and between the County of Union, a public body corporate and politic of the State of New Jersey ("County"), and Kemper Sports Management, Inc., an Illinois corporation ("KSM").

**WITNESSETH:**

**WHEREAS**, County is a public body corporate and politic of the State of New Jersey, and currently owns and operates the following two golf courses and related golf facilities: Galloping Hill located in Kenilworth, New Jersey ("Galloping Hill"); and Ash Brook located in Scotch Plains, New Jersey ("Ash Brook") ("Galloping Hill and Ash Brook are collectively referred to herein as the "Golf Courses");

**WHEREAS**, the County determined to undertake a Competitive Contracting procurement process pursuant to and in accordance with N.J.S.A. 40A:11-4.1 et seq., and issued a Request for Proposals ("RFP") on May 14, 2009; and

**WHEREAS**, after evaluation of the proposals received in response to the RFP (and completion of negotiations relating to same), the County has determined that KSM has satisfied the financial, technical and management requirements of the RFP, and that KSM is qualified to operate and manage the County's Golf Courses in accordance with the terms of the RFP and this Agreement, and the County has determined further that KSM's Proposal (as amended, negotiated and incorporated into this Agreement as though set forth in full herein; provided, that in the event of any conflict between the terms of KSM's Proposal and the terms of this Agreement, the terms of this Agreement shall control) provided the highest standard of qualifications and experience, and beneficial financial benefits and should be accepted in the best interests of the County; and

**WHEREAS**, the County desires for KSM to provide its management expertise related to the current operations of the Golf Courses, including advice and recommendations regarding food and beverage, marketing, golf shop, golf learning center, clubhouse development and general golf operations at the Golf Courses; and

**Clubhouse Maintenance Services.** The term "Clubhouse Maintenance Services" means any maintenance and janitorial services required in the interior of the clubhouses (or any renovated or new clubhouses) being managed by KSM.

**Clubhouse Services.** The term "Clubhouse Services" means the operation and management of all non-maintenance related golf services (with the exception of Clubhouse Maintenance Services) at the Golf Courses including, but not limited to, the collection of all revenues, recruitment, hiring and management of personnel, operating Golf Shop services, operating the Learning Facility and consultation and management oversight over the development of golf programming and capital expenditures.

**County.** The term "County" means County of Union, New Jersey and its successors, legal representatives, and permitted assigns.

**County's Advances.** The term "County's Advances" shall have the meaning described in Section 4.2 of the Agreement.

**County's Receipts.** The term "County's Receipts" shall have the meaning described in Section 5.4 of the Agreement.

**Golf Courses.** The term "Golf Courses" shall mean the golf courses to be operated as "Gallop Hill" and "Ash Brook" located on and operated from the Real Property.

**Golf Shops.** The term "Golf Shops" shall mean the area in a clubhouse or other facility where KSM shall be responsible for the purchase and sale of all merchandise, equipment and other inventory.

**Commencement Date.** The term "Commencement Date" shall have the meaning described in Section 2.2 of the Agreement.

**Golf Management Services.** The term "Golf Management Services" means all tasks and responsibilities to be provided by KSM at the Golf Courses with respect to the operation and management services specified in this Agreement or any subsequent management agreement between KSM and County.

**Gross Revenues.** The term "Gross Revenues" shall mean all monthly receipts related to or derived from the operation of the Golf Courses from cash or credit transactions recognized during the Term, computed on an accrual basis, including, but not limited to, greens fees, member dues, cart rental fees, guest fees, income derived from the investment of Gross Revenues, the amount of all sales (wholesale or retail) of food, beverages, goods, wares, or merchandise on, at, or from the Property, or for services of any nature performed on, at, or from the Property, determined in accordance with generally accepted accounting principles applied on a consistent basis. Gross Revenues shall be reduced by any refunds, rebates, discounts, and credits of a similar nature given, paid, or returned by KSM or County in the course of obtaining such Gross Revenues.

Gross Revenues shall not include:

- Applicable gross receipts taxes, admission, cabaret, excise, sales, and use taxes, or similar governmental charges collected directly from customers or their guests or as a part of the sales price of any goods or services;
- Service charges that are percentage gratuities added to billings, to the extent paid to employees of the Golf Courses;
- Proceeds of borrowings by County;
- Proceeds paid as a result of an insurable loss, unless paid for the loss or interruption of business, to the extent such sums are used to remedy said loss;

**Operating Expenses.** The term "Operating Expenses" shall mean all operating expenses of the Golf Courses incurred or paid on behalf of County during the Term, computed on an accrual basis, including, but not limited to, the following items:

- Salaries, wages, employee benefits, and payroll expenses, including without limitation, payroll service bureau fees, payroll taxes, Golf Course profit sharing programs, and insurance for all employees employed on-site in the direct operation of the Golf Courses, excluding, however, service charges, which are defined as percentage gratuities added to billings and paid to employees (collectively, the "Gross Payroll");
- Marketing, advertising, and promotional expenses;
- Purchase and replacement, as necessary, of inventories of maintenance parts and supplies, food stores and bar supplies;
- Purchase and replacement, as necessary, of silver, chinaware, glassware, cooking utensils, and other similar items of equipment;
- Purchase and replacement, as necessary, of office supplies, computers, printers, facsimile machines, photocopiers, postage, printing, routine office expenses, and accounting services incurred in the on-site operation of the Golf Courses;
- The costs of IT consultants and other consultants utilized for the Golf Courses;
- Reasonable travel expenses of on-site employees incurred exclusively in connection with the business of the Golf Courses;
- Accrual of a reserve for insurance (including workers' compensation) and property taxes each month in an amount or at a rate that is sufficient to pay such insurance premiums or property taxes when they become due and payable;

**ARTICLE II**  
**APPOINTMENT; TERM**

2.1. **Appointment.** County hereby retains, engages and appoints KSM as County's agent to perform Golf Management Services during the Term, as more fully described herein, and KSM hereby accepts said appointment upon and subject to the terms hereof.

2.2. **Term.** The term of the Agreement shall begin on the Commencement Date first set forth above (which is the date of execution of the Agreement between the County and KSM), and shall end on the last day of the month preceding the fifth anniversary of the Commencement Date (the "Termination Date") unless terminated according to the provisions herein. Beginning January 1, 2010, KSM shall provide Golf Management Services specified under Article V, Section 5.3 of the Agreement (such date is referred to herein as the "Start Date"). The County shall have the option to terminate the Agreement on the third anniversary of the Commencement Date, without penalty or cause, which option may be exercised by giving written notice to KSM at least ninety (90) days prior to said date.

The sixty month contract with KSM shall run as follows:

Year 1- 2009 Commencement Date to December 31, 2009

Year 2- Calendar year 2010

Year 3- Calendar year 2011

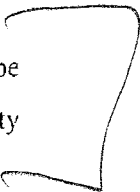
Year 4- Calendar year 2012

Year 5- Calendar year 2013

Year 6- Months remaining in calendar year 2014 to total a 60 month contract period.



required in performing the Golf Management Services specified in this Agreement. Such KSM personnel shall not be employees or have any contractual relationship with the County. All of the Golf Management Services hereunder will be performed by KSM or under its supervision, and all personnel engaged in such services shall be fully qualified and shall be authorized under Federal and State law to perform such services.

- v. KSM shall not hire or engage any other subcontractors without the prior written consent of the Union County Director of Parks and Community Renewal (the "Director"). Any approved subcontractors shall name the County as an additional insured on all policies submitted to the County and any such subcontractor shall execute an agreement to hold harmless, indemnify and defend the County in addition to any other requirements set forth in this Agreement.
- vi. The Golf Management Services to be performed by KSM shall at all times be subject to the direction and control of the Director of Parks and Community Renewal and the Director of the Division of Golf Operations. 
- vii. KSM, in accordance with its status as County's agent, covenants and agrees that it shall conduct itself consistent with such status, that its employees will neither hold themselves out as, nor claim to be, an officer or employee of the County by reason hereof. KSM will not by reason hereof, make any claim, demand or application that its employees or officers have any right or privilege applicable to an officer or employee of the County, including but not limited to worker's compensation coverage, unemployment insurance benefits, social security coverage or retirement membership or credit.
- viii. In the event of legal action or a claim by either party to enforce this Agreement, or any term thereof, including indemnification, collection of any amount due or because of breach in performance of any term, condition,

accordance with its terms.

4.2.3. Effect of Agreement. Neither the execution and delivery of this Agreement by KSM nor KSM's performance of any obligation hereunder (i) will constitute a violation of any law, ruling, regulation, or order to which KSM is subject, or (ii) shall constitute a default of any term or provision or shall cause an acceleration of the performance required under any other agreement or document to which KSM is a party or is otherwise bound.

## ARTICLE V GOLF MANAGEMENT SERVICES

KSM shall perform the following Golf Management Services for the County subject to the terms of this Agreement:

5.1. Golf Management Services. Commencing as of the Start Date, KSM shall operate and manage Clubhouse Services at the Golf Courses. Said services do not include Golf Maintenance Services which will continue to be provided by employees of the County. KSM shall be responsible for operating and managing golf services including, but not limited to, the collection of all revenues; recruitment, hiring and management of KSM personnel; operating Golf Shop services in accordance with Section 5.3.5 below; operating the Learning Facility; managing Clubhouse Maintenance Services; consultation and management oversight over the development of golf programming and capital expenditures; preparation of annual golf services plans including recommended annual operating budgets; operating Food and Beverage Services; and performing such services in accordance with the highest golf industry standards (subject to the terms of this Agreement and the approved Operating Budget).

**5.2. Services Provided by KSM in 2009**

5.2.1. Review of Existing Operations. KSM shall review and assess the existing operations at the Golf Courses. Such review and assessment shall include the golf operations, the Learning Facility, the food and beverage operations, Golf Shops and the existing clubhouses and other facilities.

5.2.2. Third Party Service Providers. It is understood that the food and beverage operations and the golf shop operations shall continue to be provided by concessionaires for the remainder of 2009. KSM shall assist County in oversight of such concessionaires and their operations.

5.2.3. Clubhouse Programming and Golf Management Consulting. KSM shall utilize its expertise in advising the County in connection with the development of any capital improvement projects to be undertaken by the County at the Golf Courses. KSM will provide golf management consultation services associated with the operations of the Golf Courses and the facilities thereon. Such services will include, among other things, consulting and advising the County and its staff and professionals in connection with the development of new golf programming for the Golf Courses, clubhouse renovations, construction services, Food and Beverage Services, and Learning Facility operations. KSM shall provide its golf management expertise in advising on the development of any golf course improvements (including a possible new clubhouse at Galloping Hill with a banquet facility) and new golf programming (including a possible membership advance tee time program, increasing the number of outings and tournaments, developing partnerships with private and non-profit entities and marketing efforts). Upon request of County, KSM shall work with County, the clubhouse architect, and other professionals engaged by the County, on planning and programming of the possible new clubhouse. This shall include space planning, furniture, fixtures, and equipment selection and procurement. KSM shall assist in identifying other needed consultants for the kitchen, pro shop, fixtures and clubhouse interiors.

5.2.4. Marketing Plan. KSM shall consult on a proposed marketing plan and awareness campaign for County's review, discussion and approval.

5.2.5. Operating Budget. KSM shall develop and submit to County, for its review and approval, the Operating Budget for the Golf Courses (the "Operating Budget") for 2010, which shall include (i) proposed marketing, sales, promotion, advertising, and public relations concepts for the Golf Courses, (ii) the forecasted revenues and expenses for the Golf Courses, and (iii) a description of the assumptions upon which the Operating Budget is based. County shall give its comments and/or approval of the Operating Budget within thirty (30) days after receiving the Operating Budget from KSM. KSM shall not be deemed to have made any guarantee or warranty in connection with the results of operations or performance set forth in the Operating Budget (or any updated Operating Budget delivered during the Term) and the parties acknowledge that the Operating Budget is intended to set forth objectives and goals based upon KSM's judgment and the facts and circumstances known by KSM at the time of preparation.

5.2.6. Operations of Golf Courses. It is understood that all operations of the Golf Courses, including the clubhouses and Learning Facility operations, will be managed by County until the Start Date. KSM shall assist County in oversight of clubhouse and Learning Facility operations.

**5.3. Services to be Provided by KSM as of Start Date**. Commencing as of the Start Date, subject to the terms of this Agreement and the approved Operating Budget, KSM shall have the authority and responsibility to:

5.3.1. KSM shall manage Clubhouse Services, as described herein, which with the services performed by KSM prior to the Start Date, collectively are the Golf Management Services. KSM shall supervise, manage, direct, and operate the operations at the Golf Courses and the Property on behalf of and for the account of County, subject to the terms hereof and at all times consistent with the Operating Budget approved by

County, subject to the terms of this Agreement. County hereby delegates to KSM, subject to the (i) Budgets, (ii) County's approval rights specifically described in this Agreement (the "Approval Rights"), (iii) Operating Budget, and (iv) other terms and conditions set forth herein, the discretion and authority to determine operating policies and procedures, standards of operation, house rules, standards of service, pricing, and other policies, rules, and regulations affecting the Golf Courses or the Property or the operation thereof, to implement all of same, and to perform any act on behalf of County deemed by KSM to be necessary or desirable for the operation and maintenance of the Golf Courses and the Property.

5.3.2. KSM will manage all activities of the Golf Courses that are included in the annual Operating Budget and approved by County. It is understood that the Golf Management Services shall specifically exclude Golf Maintenance Services at the Golf Courses.

5.3.3. KSM shall be responsible for Clubhouse Maintenance Services. The Gross Payroll for all employees performing janitorial and maintenance services in connection with clubhouse operations shall be included in the collective Gross Payroll for the Golf Courses, and shall be an Operating Expense of the Golf Courses.

5.3.4. Manage the Golf Courses, including the Learning Facility, and use commercially reasonable efforts to achieve the approved Operating Budget;

5.3.5. County hereby grants to KSM a non-exclusive license to utilize clubhouse and any other designated areas for retail merchandise sales as more fully described below. KSM shall be responsible for all Golf Shop operations and all merchandise sales at the Golf Courses (including the two existing golf shops and the merchandise sales area located at the Learning Facility). In connection therewith, KSM shall purchase and maintain all merchandise inventory to be sold in the Golf Shops at its expense, and shall be entitled to all revenues received from cash or credit transactions from retail sales of merchandise at the Golf Shops. In the event that the County should desire to enter into an arrangement with a national sponsor or other similar entity for the

exclusive sale of certain merchandise by the sponsor or entity, KSM and the County would work together in good faith on an amendment to this Agreement in order to agree upon the portion of the sales of such merchandise inventory to be paid to KSM. The Gross Payroll for all employees performing services in connection with the Golf Shops and other merchandise sales shall be included in the collective Gross Payroll for the Golf Courses, and shall be an Operating Expense of the Golf Courses.

5.3.6. KSM shall operate and manage all Food and Beverage Services. It shall be the responsibility of KSM to hire and employ personnel to operate, manage and provide for Food and Beverage Services including the purchase of food, beverages, supplies and materials. The County and KSM shall coordinate all requirements associated with an application for an "Annual State Permit License" pursuant to Title 33 of the New Jersey Statutes to serve alcoholic beverages. KSM shall use commercially reasonable efforts to maintain the permit. All costs related to acquiring and maintaining the permit shall be Operating Expenses. All reporting associated with the permit shall be handled by KSM. All KSM personnel handling point of sale of alcoholic beverages must meet the New Jersey Alcohol Beverage Commission mandated training requirements. KSM shall periodically consult with the County on matters associated with menus, hours of operations, prices and charges and costs associated with providing Food and Beverage Services.

5.3.7. KSM shall recruit, hire and employ full time Golf Professionals, with consultation of the County, who can offer instruction in the sport of golf at the Learning Facility and at the Golf Courses, supervise all tournament outings, assist the County and other KSM managers in marketing efforts, assist KSM managers in overseeing Golf Course membership and tee time programs and be responsible for the operations of Golf Shops. The Director of Parks and Community Renewal shall give written consent to the hiring of all Golf Professionals.

5.3.8. KSM shall recruit, hire and employ full time professional managers and support staff, who will operate and manage all Golf Management Services including,

but not limited to, the management of all Clubhouse Services and all activities and services to be provided pursuant to this Agreement.

5.3.9. Implement the policies and standards of the Golf Courses, as approved by County;

5.3.10. Consult with County on golf course maintenance standards approved by County; Manage and supervise all day-to-day operations of the Golf Courses (excluding Golf Maintenance Services), including tee time reservations, collecting green and cart fees, outside services, managing tournaments and events, payroll and benefits administration, accounting and financial reporting, etc;

5.3.11. Hire, train, and supervise all employees required to carry out KSM's responsibilities;

5.3.12. Manage payment of all operating expenses of the Golf Courses as identified in the Operating Budget;

5.3.13. Determine hours of operations, dress code requirements, establish outside services and instruction programs;

5.3.14. Acquire all goods and services necessary to carry out KSM's responsibilities

5.3.15. Market the Golf Courses to achieve targeted objectives.

5.3.16. Obtain licenses and other operating permits;

5.3.17. Provide commercially-reasonable assistance to procure contracts for maintenance equipment and carts, in compliance with applicable laws, at the lowest responsible cost available to the County;

(excluding the Golf Maintenance Services). At a minimum, KSM shall perform the following acts and services:

5.5.1. Financial Management, Accounting Records and Reporting. KSM will employ an on-site accountant or bookkeeper (the cost of which shall be an Operating Expense) for the Golf Courses whose duties shall include: (i) maintaining all books, records, and other data associated with the financial activities of the Golf Courses, (ii) preparing all operating budgets, cash flow budgets, and other financial forecasts, and (iii) being responsible for the day-to-day financial affairs of the Golf Courses. All accounting records shall be maintained in a format consistent (in all material respects) with generally accepted accounting principles.

(A) Financial Reporting. KSM shall provide the following financial statements in a format reasonably specified by County:

1. KSM shall submit to County, within twenty (20) days after the close of each calendar month, a financial statement showing in reasonably accurate detail the financial activities of the Golf Courses for the preceding calendar month and the fiscal year to date.

2. KSM shall submit to County, within sixty (60) days after the close of each fiscal year, a financial statement showing in reasonably accurate detail the financial activities of the Golf Courses for the fiscal year then ended.

(B) Internal Control. KSM agrees to develop, install, and maintain reasonably appropriate accounting, operating, and administrative controls governing the financial aspects of the Golf Courses, such controls to be consistent (in all material respects) with generally accepted accounting principles.

(C) Records and Inspection. KSM shall maintain a set of all financial, vendor and operating records relating to the Golf Courses at the Property. At any time during the



Term, County shall have the right, after three (3) days prior written notice to KSM, to inspect the books, records, invoices, deposits, canceled checks, or other financial data or transactions of the Golf Courses at reasonable times and during normal business hours; provided, however, County shall use its best efforts to not cause any disruptions in the operations of the Golf Courses in connection with such inspections. Notwithstanding the foregoing, such inspection rights shall not extend to any inspection of KSM corporate records at its corporate office or any records relating to any other projects or locations. Upon expiration or termination of this Agreement, KSM will promptly turn over all such Golf Course records to County.

5.5.2. Bank Accounts. KSM shall assist County in establishing, in County's name, utilizing the federal tax identification number of County, a deposit account (the "Deposit Account") and an operating expense account (the "Operating Expense Account"). County agrees that individuals designated by KSM, and approved in writing by County, shall be signatories on the accounts, and that County will not change the signatories of such accounts or close such accounts without the prior written consent of KSM. Additionally, KSM shall establish a payroll account (the "Payroll Account") in KSM's name. The records and bank statements shall be subject to inspection by County pursuant to the terms recited herein. All Gross Revenues of the Property shall be collected, received, and deposited by KSM exclusively through the Deposit Account in accordance with the terms of this Agreement. All Operating Expenses shall be handled and expended exclusively through the Operating Expense Account. All Gross Payroll for the Golf Courses shall be handled and expended exclusively through the Payroll Account.

5.5.3. Employees. Subject to the provisions of this Agreement, as part of the Operating Budget, KSM shall (i) determine personnel requirements, recruitment schedules, and compensation levels, (ii) furnish job descriptions, performance appraisal procedures, employee benefit programs, and operational and procedural manuals for all personnel, and (iii) establish forms and procedures for employee compensation and Golf Course incentive programs. KSM shall hire, promote, discharge, and supervise all employees performing Golf Management Services in and about the Golf Courses. All of

the employees performing Golf Management Services at the Golf Courses shall be employees of KSM.

5.5.4. Marketing. KSM shall make recommendations to County as to greens fees and other fees and rates. KSM shall develop the ongoing marketing plan for the Golf Courses and define a schedule of marketing and advertising activities, which shall be submitted to County as part of the Operating Budget. Upon County's approval, KSM shall indicate on the premises that the Golf Courses are being operated by KSM.

**5.6. Environmental Remediation**. Throughout the Term, if KSM becomes aware of the presence of any Hazardous Material in a quantity sufficient to require remediation or reporting under any Environmental Law in, on or under the Property or if KSM, County, the Golf Courses, or the Property becomes subject to any order of any federal, state or local agency to investigate, remove, remediate, repair, close, detoxify, decontaminate or otherwise clean up the Property, County shall be responsible for any and all remedial measures to remedy aforesaid conditions or KSM shall, at County's written request and sole expense, use all commercially reasonable efforts to carry out and complete any required investigation, removal, remediation, repair, closure, detoxification, decontamination or other cleanup of the Property; provided that such remediation activities shall be at KSM's expense if such activities are required as a consequence of Hazardous Material being present in, on or under the Property as a result of willful misconduct or grossly negligent actions undertaken by KSM or its employees. County acknowledges and agrees that County shall be solely responsible for any legal or other liability arising out of the presence of any Hazardous Material in, on or under the Property, except to the extent such Hazardous Material is present in, on or under the Property solely as a result of willful misconduct or grossly negligent actions undertaken by KSM.

**5.7. Contracts**. Commencing as of the Start Date, KSM shall negotiate, consummate, enter into, and perform, in the name of County, such agreements as KSM may deem necessary or advisable for the furnishing of all food, beverages, utilities,

County employees shall be required to make all repairs and corrections that may be needed from time to time in the areas described above and shall remain responsible for complying with all Laws in connection with the Golf Maintenance Services. All materials, supplies and equipment and all other costs associated with the Golf Maintenance Services shall remain expenses of the County and shall not be considered Operating Expenses of the Golf Courses. All employees performing the Golf Maintenance Services shall be employees of County and shall be under the supervision, direction and control of County. The day-to-day activities of the Golf Maintenance Services shall be under the supervision of County's employee designated by a title agreed to by County and KSM. KSM shall cooperate with County in the County's performance of the Maintenance Services and shall provide advice and recommendations to County in connection with the Maintenance Services.

**ARTICLE VII**  
**FEES, EXPENSES AND RECEIPTS**

7.1. **Management Fees prior to Start Date**. County shall pay to KSM a Management Fee equal to \$4,000 per month, for services performed prior to the Start Date, which fee shall be paid in advance no later than the first day of each calendar month. The Management Fee for this time frame shall be prorated for any partial calendar month of services.

7.2. **Management Fees**. Commencing on the Start Date, County shall pay KSM Management Fees for the management of Clubhouse Services as follows:

Year 2010: \$7,000 per month x 12= \$84,000 annually  
Year 2011: \$7,200 per month x 12= \$86,400 annually  
Year 2012: \$7,400 per month x 12= \$88,800 annually  
Year 2013: \$7,600 per month x 12= \$91,200 annually  
Year 2014: \$7,800 per month x the number of months remaining  
to total a 60 month contract period.

The Management Fees shall be paid each month in advance, no later than the first day of each calendar month. Management Fees for the provision of Clubhouse Services shall be prorated for any partial calendar month of services.

**7.3. Adjustments to Management Fees.** Should the County desire to revise the services required of KSM under the Agreement (as described in Article V herein) then the parties shall enter into an Amendment to this Agreement setting forth such changes in the scope of services. In such event, the Management Fee shall be increased as follows in order to compensate KSM for such additional scope of services.

**7.3.1. Addition of Golf Maintenance Services.** If the County elects to add Golf Maintenance Services to the Clubhouse Services to be performed by KSM, then the parties shall enter into an Amendment to this Agreement setting forth such changes in the scope of services. In such an event, an Alternate Management Fee shall be paid as follows in order to compensate KSM for such additional scope of services:

Year 2010: \$10,000 per month x 12= \$120,000 annually  
Year 2011: \$10,300 per month x 12= \$123,600 annually  
Year 2012: \$10,600 per month x 12= \$127,200 annually  
Year 2013: \$10,900 per month x 12= \$130,800 annually  
Year 2014: \$11,200 per month x the number of months remaining to total  
a 60 month contract period.

Management Fees for the provision of Clubhouse Services and Golf Maintenance Services shall be prorated for any partial calendar month of services.

**7.3.2. Clubhouse Services with new or renovated Clubhouse(s).** If the County builds a new clubhouse at Galloping Hill and/or renovates the clubhouses at either Galloping Hill or Ash Brook or both (which will expand the food and beverage operations) then the parties shall enter into an Amendment to this Agreement setting forth

such changes in the scope of services. In such event, the Management Fee for Clubhouse Services shall be paid as follows in order to compensate KSM for such additional scope of services:

Year 2010: \$8,000 per month x 12= \$96,000 annually  
Year 2011: \$9,000 per month x 12= \$108,000 annually  
Year 2012: \$9,300 per month x 12= \$111,600 annually  
Year 2013: \$9,600 per month x 12= \$115,200 annually  
Year 2014: \$9,900 per month x the number of months remaining to total a  
60 month contract period

Management Fees for the provision of Clubhouse Services with new and/or renovated clubhouses shall be prorated for any partial calendar month of services.

7.3.3. Clubhouse Services and Golf Maintenance Services with new or renovated Clubhouse(s). If the County builds a new clubhouse at Galloping Hill and/or renovates the clubhouses at either Galloping Hill and Ash Brook or both (which will expand the food and beverage operations) and the County elects to have KSM perform Golf Maintenance Services in addition to Clubhouse Services then the parties shall enter into an Amendment to this Agreement setting forth such changes in the scope of services. In such event, the Management Fee for Clubhouse Services and Golf Maintenance Services shall be paid as follows in order to compensate KS for such additional scope of services:

Year 2010: \$12,000 per month x 12= \$144,000 annually  
Year 2011: \$12,350 per month x 12= \$148,200 annually  
Year 2012: \$12,700 per month x 12= \$152,400 annually  
Year 2013: \$13,000 per month x 12= \$156,000 annually  
Year 2014: \$13,400 per month x the number of months remaining  
to total a 60 month contract period.

Management Fees for the provision of Clubhouse Services and Golf Maintenance

Services with new and/or renovated clubhouses shall be prorated for any partial calendar month of services.

**7.4. Incentive Fees.** Commencing on the Start Date, County shall also pay KSM an annual incentive fee (the "Incentive Fee") calculated as follows:

- If the Management Fee is calculated pursuant to Section 7.2 above, then the Incentive Fee shall be equal to 6.5% of Gross Revenues over \$3,400,000;
- If the Management Fee is calculated pursuant to Section 7.3.1 above, then the Incentive Fee shall be equal to 6.5% of Gross Revenues over \$3,100,000;
- If the Management Fee is calculated pursuant to Section 7.3.2 above, then the Incentive Fee shall be equal to 6.5% of Gross Revenues over \$4,400,000; and
- If the Management Fee is calculated pursuant to Section 7.3.3 above, then the Incentive Fee shall be equal to 6.5% of Gross Revenues over \$4,100,000.

The Incentive Fee shall be paid to KSM within sixty (60) days after the end of the fiscal year to which the Incentive Fee relates. In no event shall the Incentive Fee for any fiscal year exceed the annual Management Fee paid to KSM during such year.

[For example, if the Management Fee is calculated pursuant to Section 7.2 above for the entire year 2010, and the Gross Revenues for 2010 equal \$3,600,000, then the Incentive Fee shall equal \$13,000 (6.5% of \$200,000 = \$13,000).]

**7.5. Golf Shop Sales.** KSM shall be responsible for all Golf Shop operations and merchandise sales at the Golf Courses (as described in Section 5.3.5). In connection therewith, KSM shall purchase and maintain all merchandise inventory to be sold in the

Golf Shops at its expense, and shall be entitled to all revenues received from cash or credit transactions from retail sales of merchandise at the Golf Courses. In the event that the County should desire to enter into an arrangement with a national sponsor or other similar entity for the exclusive sale of certain merchandise by the sponsor or entity, KSM and County would work together in good faith on an amendment to this Agreement in order to agree upon the portion of the sales of such merchandise inventory to be paid to KSM. All revenue from receipts for Golf Shop merchandise sales shall be retained by KSM. The Gross Payroll for all employees performing services in connection with the Golf Shops and other merchandise sales shall be included in the collective Gross Payroll for the Golf Courses, and shall be an Operating Expense of the Golf Courses.

7.6. **Out-of-Pocket Expenses.** In addition to all other reasonable fees and expenses recited herein payable to KSM, and subject to County's approval of same in the Budgets, it is agreed that County shall reimburse KSM within fifteen (15) days of invoice for all actual out-of-pocket expenses incurred by KSM in the performance of this Agreement. Out-of-pocket expenses shall include, but shall not be limited to, reasonable travel, air express, costs of recruitment (including applicable agent's fees), and other incidental expenses. Reimbursement for such out-of-pocket expenses will be made at actual cost and may be made directly from the Operating Expense Account.

7.7. **Late Fees.** County shall pay to KSM all of the fees described above, and any other sums due KSM, at the times, at the places, and in the manner herein provided. If any payment or any part thereof to be made by County to KSM pursuant to the terms hereof shall become overdue for a period of ten (10) days, a "late charge" may be charged by KSM for the purpose of defraying the expense incident to handling such delinquency. The late charge shall be equal to the lesser of (i) one percent (1%) per month, or (ii) the highest amount allowed to be charged by applicable law. In the event any portion of this Section violates any state or federal law or regulation, this Section shall be deemed void and shall have no other effect or make invalid any other provision of this Agreement. Further, nothing herein shall be construed as waiving any rights of KSM arising out of any Events of Default of County by reason of KSM assessing or accepting any such late

payment or late charge; the right to collect the late charge is separate and apart from any rights relating to remedies of KSM after default by County in the performance or observance of the terms of this Agreement.

**7.8. County's Receipts.** Beginning on the Start Date, in each calendar month County shall receive the Positive Net Cash Flow for such calendar month after payment of the Management Fee and any other fees or out-of-pocket expenses owed to KSM, which amount shall be distributed, to the extent requested by County, within fifteen (15) days following the close of each calendar month ("County's Receipts"); provided, however, that a minimum balance of at least the Operating Expense Minimum and the Payroll Expense Minimum is maintained in the Operating Expense Account and the Payroll Account at all times. KSM may deduct any Management Fee or other fees or amounts owed to KSM from Gross Revenues before remitting County's Receipts to County.

## ARTICLE VIII INSURANCE

**8.1. Insurance from Commencement Date to Start Date.** During the period from Commencement Date to Start Date, the following insurance coverage shall be secured and maintained by the parties:

8.1.1. County's Coverage. County shall maintain, at its cost, the following insurance for the Golf Courses and the Property:

(A) Property Insurance covering loss or damage to the buildings, structures or other Improvements, contents, equipment and supplies. Such Property Insurance shall include a waiver of all right of recovery by way of subrogation against KSM and County in relation to any damage covered by such policy.

(B) Commercial General Liability and/or Umbrella/Excess Liability Insurance



## **Section C**

### **Recommendations**

Give it up. The idea of making Galloping Hill 'premier' is a pipe dream that will have taxpayers fronting millions of dollars to fulfill somebody's juvenile fantasy of strolling the greens with Tiger Woods.

If a large number of employees are not taken off the county payroll, with the generous government benefits, and onto the KSM payroll, with the measly private sector benefits, then privatizing the golf operations makes no sense. The contract with KSM is heavily slanted toward KSM with a fixed flat fee plus running the Pro Shop plus a percentage of **Gross Revenues** with little to be gained by county residents from KSM's expertise in running golf operations from Illinois or attracting tournaments which public-course golfers care little about.

Union County is sinking millions of dollars into projects like building a driving range, banquet facility, and bunkers at Galloping and fixing the irrigation system at Ash Brook all designed to increase revenue from golf operations. A large portion of that increased revenue will go to KSM. **All** the costs will be borne by Union County taxpayers.

Keeping Oak Ridge open and not bringing in KSM would have benefited more golfers, taxpayers, and even golf workers.