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August 3, 2010

Mr. Jim Landon  
City Manager  
City of Palm Coast  
2 Commerce Boulevard  
Palm Coast, FL 32164

RE: Palm Coast Tennis Center

Dear Mr. Landon:

Thank you for meeting with Ricardo and me to further discuss management of the City of Palm Coast Tennis Center. As requested, we have revised our original proposal dated February 19, 2010 to include a preliminary budget and organizational chart.

As discussed at our meeting, KemperSports manages similar tennis facilities including those at the Brunswick Forest Fitness and Wellness Center in Leland, North Carolina, Tunica National Golf & Tennis Center in Tunica, Mississippi as well as the tennis operations at numerous semi-private and private clubs throughout the United States. Management of the Palm Coast Tennis Center is a natural extension of our golf course management services and affords a cost efficient solution to achieving the City's goals.

From a marketing and sales standpoint, we believe the potential exists to enhance top line performance through increased promotion and marketing, eliminating underperforming membership categories and add enhanced programming and events (social events, tournaments, outings). In addition to providing a continuity of service within the Palm Coast community, there are other benefits such as staffing efficiencies, reduced G&A costs, recreation synergies, the buying power of national account relationships, and one point of contact that result from this expanded relationship.

Summarized on the next page is a preliminary budget with corresponding explanations for the first year of operations under KemperSports management of the Tennis Center. The preliminary first year budget forecasts revenue growth over 2009/2010 of approximately \$ 70,000, a 41% increase, primarily derived from enhanced programming, marketing and community outreach. The new budget re-allocates payroll in certain key positions resulting in increased funding of clinics, lessons, programs and community outreach.

### 2010/2011 Financial Summary

	09-10 Actuals	10-11 Budget	11 vs 10 Var	11 vs 10 Var	Notes
Private Lessons	\$ 37,317	\$ 43,000	\$ 5,683	15%	Gross amounts
Clinics/Camps	11,860	51,250	39,390	332%	Increase in programs/marketing
Membership	97,327	104,370	7,043	7%	Marketing
Merchandise	1,453	4,600	3,147	217%	
Usage fees & other	11,962	19,500	7,538	63%	
Tournament revenues	12,036	19,000	6,964	58%	Addtl. Events
<b>Total Revenues</b>	<b>\$ 171,955</b>	<b>\$ 241,720</b>	<b>\$ 69,765</b>	<b>41%</b>	
COGS - Merchandise	1,017	3,220	2,203	217%	Higher sales
COGS - Lessons	29,059	60,025	30,966	107%	New comp packages
Payroll	164,620	112,754	(51,866)	-32%	Result of higher commission base
Operating Expenses	53,835	65,180	11,345	21%	
<b>Total Expenses</b>	<b>\$ 248,531</b>	<b>\$ 241,179</b>	<b>\$ (7,352)</b>	<b>-3%</b>	
<b>EBITDA</b>	<b>\$ (76,576)</b>	<b>\$ 541</b>	<b>\$ 77,117</b>	<b>101%</b>	
Management Fee	-	20,000	20,000		
Depreciation	4,003	4,004	1	0%	
<b>NOI</b>	<b>\$ (80,579)</b>	<b>\$ (23,463)</b>	<b>\$ 57,116</b>	<b>71%</b>	

### Management Comments on the 1010-2011 Budget

#### Total Revenues

Our revenue projections reflect an increase of \$69,765 or 41% versus prior year.

#### Programming

The revenues for clinics, camps and other activities are projected to increase by approximately \$38,000. We will change the compensation model so teachers will be compensated based on all the classes they teach to incentivize staff to grow this initiative. These programs will be paid on a 50% basis, which can then be allocated between the Manager of the Tennis Center and respective teachers. Implementation of USTA Quickstart and other programs are expected to be a major contributor as outlined in our proposal dated February 19, 2010. We also plan to work closely with Luanne Santangelo and the Recreation and Parks department to expand programming at the Tennis Center as well as Holland Park and Belle Terre Park.

#### Private Lessons

Private lesson revenue is projected to increase by \$5,500 primarily as a result of increased outreach and promotions to drive traffic to the facility and the introduction of an additional tennis professional on an independent contractor basis.

## **Memberships**

KemperSports will streamline membership categories, increase marketing and programming to generate the additional \$7,000 in revenue estimated for the year. We will also introduce and expand junior memberships and summer camps.

## **Pro-Shop**

Because of the size limitations of the Tennis Center clubhouse, merchandise sales and equipment repair are viewed primarily as a service and a way for the manager to generate additional income. In addition, we believe there is opportunity to grow this department by selling logo'ed merchandise such as hats, shirts, etc. similar to the merchandise at Palm Harbor Golf Club. We anticipate offering a commission plan to incentivize the manager to up-sell merchandise and offer basic equipment repairs.

## **Tournaments**

We anticipate adding a major event in addition to the USTA Pro Circuit Palm Coast Men's Futures Championship which is currently run at the Tennis Center. Additional revenue is expected at \$7,000. We will also create and implement additional events throughout the year to supplement this area of revenue.

## ***Court Fees & Other revenue***

We anticipate gradual increases in court fees as we implement new events, initiatives and with the improvement of enhanced food & beverage at the facility. We will explore adding simple canopy tents on the lawn area to allow spectators to watch play in a shaded area. The tents will also allow us to offer light breakfast fare, prepared snacks and sandwiches as well as cold drinks to players and guests.

## **Payroll**

KemperSports anticipates reducing payroll by \$ 52,000 to achieve desired financial goals and operating efficiencies. The base salaries for both current full time employees will be reduced and one clerk position will be eliminated. The Head Pro will be required to cover three (3) shifts per week in addition to other teaching responsibilities. In addition, the Tennis Center Manager's annual salary is \$ 12,000 less than the current superintendent's compensation. Tom Cioffi will receive a \$ 3,000 annual salary increase and Reggie Hunter will receive a \$1,500 annual salary increase as compensation for their added responsibilities at the Tennis Center.

## **Expenses**

Operational expenses are projected to be approximately \$11,000 higher than 2009/2010 actual expenses. The bulk of the increase (\$4,500) is allocated to marketing. The remainder of the increase is spread out over several other categories such as supplies, uniforms, utilities, among others.

## **Maintenance**

The expenses related to this were budgeted based on the information provided to us by the City and only account for the same items which have historically been booked by the City to this department. We did not substantially change any of the maintenance practices, policies or procedures in the scope of this budget; however, minor increases for equipment repairs are included.

## **Sales & Marketing**

As mentioned above, this area was bolstered by nearly \$5,000 in an effort to increase the exposure of the facility. Reggie Hunter will provide support in this area and help cross promote the Tennis Center to our existing database. We will also explore ways to generate revenue for the Tennis Center with catered events with our partners, special outings, etc.

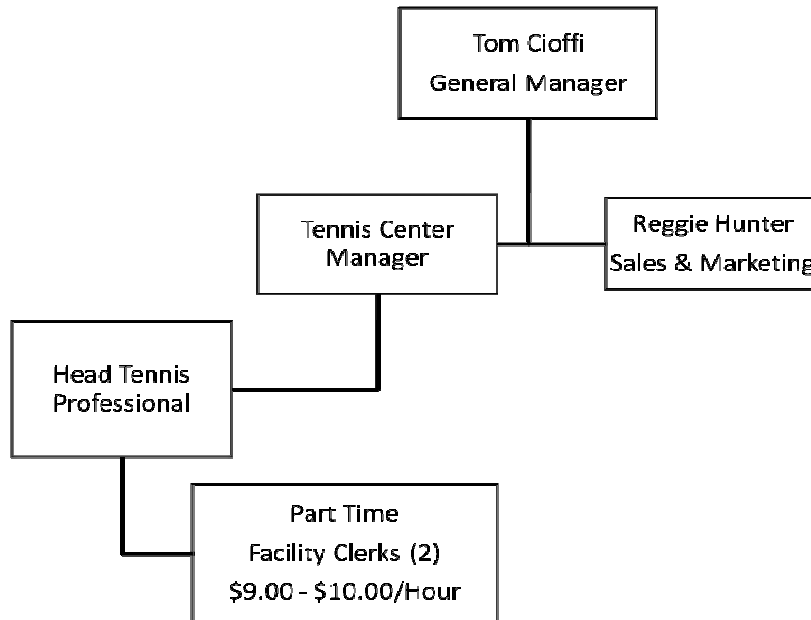
## **Pricing**

The budget above does not reflect any major pricing changes. We anticipate having a much clearer picture of what adjustments are needed, if any, once we have a better working knowledge of the operation.

## **Personnel**

Our expectation is that all the existing staff, or the vast majority will be offered the opportunity to remain at the property once we initiate operations. Below is a proposed organizational chart and staffing matrix.

### Palm Coast Tennis Center Organizational Chart



#### Management Oversight

As presented in our proposal dated February 19, 2010, as operations manager of the Palm Coast Tennis Center, KemperSports' services will include, but are not limited to:

- Responsibility for hiring all staff who would be KemperSports employees (excluding subcontractors such as tennis instructors) eligible for KemperSports benefits and training. Our philosophy is to retain and retrain the best members of the existing staff to ensure continuity of customer relations and uninterrupted operations.
- Developing annual business and marketing plans focused on achieving the City's goals and objectives.
- KemperSports will be responsible for creating and implementing community wide outreach and recreational, instructional and competitive tennis awareness campaigns.
- KemperSports will optimize the existing point of sales system to track tennis court utilization to more fully understand weekday, weekend and peak hour usage as well as program enrollment. This information will be used to measure the

effectiveness of community outreach programs and to highlight where additional focus is needed to increase utilization of the facility. This information also will be used to assist with staffing needs, setting hours of operation and communication with residents. It is critical that all components are integrated in order to maximize resident communication initiatives and utilization of the Tennis Center.

- Presenting unique ideas for partnerships with various local and national health related organizations such as The Red Cross, American Diabetes Association, American Heart Association and local medical centers. The goal is to showcase the Tennis Center as well as other Palm Coast community recreation amenities in a way that is unique and that appeals to a specific demographic potentially resulting in increased participation in all recreation programs.
- Creating a merchandise plan focused on soft goods and impulse items with good margins and low inventory levels. The tennis shop will also provide tennis racquet repair and possibly stringing services.
- Exploring selling non-resident memberships. Benefits of selling non-resident memberships include enhancing utilization and visibility of the Tennis Center and interest in other recreation programs. If the decision is made to sell non-resident memberships, KemperSports will create a membership marketing plan which will include rate structures and program fees.
- Creating programs, camps, clinics and opportunities for the recreational as well as skilled tennis player to learn new skills or hone existing abilities. “Value added” ancillary programs in cardio-respiratory, core-conditioning, stretching as well as group and individual instruction may be offered. Develop community demographic driven programs and events to continually promote the Tennis Center in a fresh and unique way.
- Exploring additional ways to increase revenue, such as possibly restructuring membership programs to include minimal dues, adjust rates and offer additional programming geared at increasing utilization.

In addition to the community outreach initiatives discussed above, programs may include:

- Personal Tennis and Fitness Plans
- Personal Training as it relates to tennis
- Member fitness challenges
- Group tennis instruction
- Private tennis instruction
- Team tennis opportunities
- Tennis event programming and tournaments

- Developing food and beverage concepts, events and menus that can be offered to enhance tennis center utilization and participation in programs. We will explore the viability erecting an “event” tent or tent canopies in the lawn area between the fence and tennis courts to facilitate pre and post tennis social gatherings. We will explore the feasibility of obtaining a liquor license which will enable us to enhance the social aspects of the Tennis Center.
- Overseeing all housekeeping, general facilities maintenance and tennis court maintenance. We envision maintenance of the tennis courts and common grounds will continue to be handled by Recreation and Parks staff.
- Applying KemperSports national accounts purchasing power to purchase the best products and supplies at the least cost to the Palm Coast Tennis Center.
- Implementing financial controls and providing customized financial reports and forecasts to City representatives.
- KemperSports will prepare annual operations budgets for review and approval by City representatives. KemperSports will manage to the approved budget. Expanding KemperSports’ role to include management of the Tennis Center affords the ability to leverage golf course managerial staff with little additional cost.
- In coordination with our meeting for Palm Harbor Golf Club, a Senior Operating Executive will meet with City representatives on a monthly basis to discuss Tennis Center operations, finances, programming and any other pertinent items regarding the operation of the facility.

**Key Business Terms**

**Term**

To coincide with management term of Palm Harbor Golf Club. In the event Net Operating Income (NOI) for any year is below the actual NOI for 2010 the City will have the right with 60 days notice to terminate the Tennis Center management services.

**Base Management Fee**

\$ 20,000 per year (plus annual 3% increase)

**Incentive Management Fee**

15% of improvement in NOI over 2010 Actual Results

**Reimbursable Expenses**

KemperSports travel and other out-of-pocket expenses will be part of the annual Tennis Center operating budget and a reimbursable expense. Expenses incurred will be split equitably between the Tennis Center and Palm Harbor Golf Club, when appropriate.

KemperSports has the experience, resources and desire to manage the Palm Coast Tennis Center, and we look forward to expanding our role in achieving your vision.

Again, thank you for your consideration for this exciting opportunity. I look forward to speaking with you regarding next steps.

Sincerely,



Douglas Hellman  
Vice President, Business Development

cc: Ricardo Catarino