

TO: House of Delegates
 FROM: Dawson Hughes, CEO
 DATE: September 8, 2022
 SUBJECT: 2023 Business plan assumptions

Before covering 2023 business plan assumptions, it's important to recap the high-level financial forecast for 2022 based on second quarter reporting, which is the basis of the assumptions included in the draft 2023 business plan assumptions. Due to USMS's registration timing, second quarter forecasts are generally a good gauge of current year results.

2022 second quarter reporting forecasts a net operating loss of \$520,588 which is \$167,084 better than the revised net operating loss budget of \$687,642 (all numbers include depreciation). Please see the chart below that shows the changes that resulted in the improved bottom line.

<u>Bridge to 2022 Budget (includes approved overbudget \$80k)</u>		
2022 Budget Net Operating Loss		\$ (687,642)
Major Variances: Forecast vs Budget		
<u>Revenue</u>		
Membership, Net	\$ 82,456	
Program Services, net	\$ 26,240	
Contributions	\$ 4,664	
Events, net	\$ 1,135	
Advertising and Partnership, net	\$ (2,624)	
USMS+, net	\$ (15,200)	
College Club, net	\$ (16,777)	
Subtotal: Net Revenue		\$ 79,894
<u>Expenses</u>		
Compensation	\$ 42,554	
Depreciation	\$ 34,063	
Administration-Volunteer	\$ 30,421	
IT outside services and programs	\$ 19,139	
Administration-National Office	\$ (3,066)	
Insurance	\$ (9,391)	
Annual Meeting	\$ (12,301)	
Communications & publications	\$ (14,229)	
Subtotal: Expenses		\$ 87,190
Subtotal 2022 Forecast vs Budget Variances		\$ 167,084
Forecast Net Operating Income (w/o investments)		\$ (520,558)

2023 BUSINESS PLAN ASSUMPTION OVERVIEW

The Board of Directors and the Finance Committee have reviewed and provided input on the following assumptions that will be used to prepare the 2023 USMS budget in the coming months.

It is important to remember that this memo does not outline the 2023 final budget. There will be numerous adjustments to assumptions as more data is known. However, this provides a guide for where we are headed, the initiatives being considered, and the balance of strategy, fiscal responsibility and oversight, resource allocation, and desires of various stakeholders.

USMS will have over 55,000 members in 2022, an increase of over 8%, and is currently on a strong trajectory. An overriding assumption is that USMS can return to a membership close to 60,000 by the end of 2023 and continue to rebuild from there. The 2023 assumptions were developed based on the new strategic priorities and include investments in both club and event development along with continued enhancement of current initiatives and programs.

The assumptions included in the draft business plan support typical committee activities with cost-conscious recommendations and adaptations for post-pandemic activities.

These assumptions also include the financial implications of the board recommendations on [2023-25 national meetings](#) and [2023 membership fees](#).

While reviewing these assumptions, keep in mind that USMS reserve levels thus far in 2022 have declined to approximately \$3.4 million (as of Sept. 2). The market continues to be volatile, so projections for 2022 or 2023 year-end investment balances are not included in these assumptions.

The current assumptions in this plan result in an estimated net operating budget deficit of \$306k before depreciation.

Draft Assumptions Summary	2022 Budget	2022 Forecast	2023 \$65/\$70 Recommended	2023 - \$60 No Fee Change
Revenues	\$ 3,592,703	\$ 3,641,639	\$ 4,184,094	\$ 3,843,294
Expenses	\$ 4,045,973	\$ 3,961,887	\$ 4,439,770	\$ 4,439,770
Net Operating Income (Loss) before depreciation	\$ (453,270)	\$ (320,248)	\$ (255,676)	\$ (596,476)
Depreciation	\$ 234,373	\$ 200,310	\$ 216,200	\$ 216,200
Net Operating Income / (Loss) after depreciation	\$ (687,643)	\$ (520,558)	\$ (471,876)	\$ (812,676)

HOD Action Items for 2023 Budget

See [board recommendation on 2023 membership fees](#) for additional background:

SUMMARY OF PROPOSED 2023 FEES		USMS	LMSC	Total	Change
MEMBERSHIP FEES					
Membership	Nov 1 - Dec 31, 2022	\$52	\$13	\$65	\$5
	Jan 1 - Oct 31, 2023	\$56	\$14	\$70	\$10
Membership: Year Plus	July 1 - Sept 30, 2023	\$92	\$23	\$115	\$16
Membership: Clubs and Workout Groups	Oct 1 - Oct 31, 2022	\$52	\$13	\$65	\$5
	Nov 1, 2022 - Oct 31, 2023	\$56	\$14	\$70	\$10
CCS Bridge Membership		\$25	\$0	\$25	No Change
One Event Membership		\$14.00	\$3.50	\$17.50	\$2.50
EVENT/SANCTION CHARGES					
Pool Meet	sanctioned	\$50			No Change
Pool Meet	recognized	\$100			No Change
Open Water Swim (min charge = \$200 and max charge= \$1,000)	sanctioned	\$100 plus \$5 per participant			No Change
Open Water Swim	sanctioned national championship	\$5 per, +\$3 surcharge			No Change

2023 BUDGET ASSUMPTIONS

Compensation: The Compensation and Benefits Committee provided preliminary input for compensation planning based on a continued tight and competitive labor market and lingering inflationary factors. Initial market survey data reflects U.S. employers increasing payroll budgets at higher levels in response to being able to attract and retain talent. In addition, the committee provided market analysis for USMS benchmark positions as compared to the peers of other NGBs and noted a few of our positions are slightly lagging the market. In response to these factors, and the need to be nimble to ensure retention of experience and

quality staff, the Compensation and Benefits Committee financial planning recommendations for payroll will include an increased merit forecast budget for 2023 and a budgeted amount for market adjustments as needed to ensure our pay practices remain competitive. The committee will provide full recommendations in November.

One additional full-time equivalent staff is contemplated in the assumptions. This position, although approved, was not filled in 2022 due to time constraints, the projected 2022 deficit, increasing inflation, and unknown deficit spending needs in 2023, as well as the forthcoming decision on membership fee recommendations. The purpose of this role is to better support the implementation of local strategy by serving as a resource (e.g., training, best practices, communication, etc.) for LMSC volunteers. The position would also provide additional communication and support for committees involved in driving local implementation of strategy. This is one of many variables that will be determined once decisions are made at the annual meeting on the board's recommendations related to [fees and the annual meeting](#).

With the additional position, staff would be 16.3 full-time equivalents.

Insurance costs: The general and umbrella liability premiums are variable based on the number of members, events, and general insurance market. Applications for the premium year beginning Oct. 1 are in process, and actual costs will be available for the detailed draft budget. Increases are included in the plan with a range of 5%.

Membership revenue: Assume 60,000 members.

- 30,000 full-year members – early registration: \$65
- 24,000 full-year members – standard fee: \$70
- 6,000 year-plus – July 1- Oct 31, 2023: \$115
- USMS+ add-on package option:
 - Early registration: \$229
 - Standard registration \$239
 - [For more information on USMS+ click here](#)
 - Further USMS+ refinements are under consideration.

250 College Club Swimming (CCS) bridge members: \$25

Digital capabilities: We are reaching the conclusion of the five-year digital transformation project. In 2023, we'll continue to build on the member and club databases that will be fully at our disposal in

the first quarter of next year. This project has already allowed USMS to operate since 2020 with fewer staff, more services, and more member communication than would have previously been possible. The pending implementation of the new CRM/membership database will add additional efficiency through automation, automatic renewals, and member account self-management. Planned improvement to the event sanctioning and calendar of events are also scheduled for 2023. The new capabilities will allow USMS to remain flexible amidst new member needs and expectations, and stay current with business trends and security requirements. IT-related expenses for management, maintenance, security, upgrades, and general enhancements will continue at previous levels adjusted for inflationary cost increases.

Communications/
Publications:

Assume 50% of members again choose the digital version of *SWIMMER*.

- A digital content upgrade with greater member-only access is scheduled for early 2023 and continued transition to use of digital content options will be encouraged.

Program services:

Club development strategy for 2023.

- Scale up efforts to support more clubs directly in partnership with LMSCs.
 - Club Development Matching Grant Program will be detailed and announced when the 2023 budget is finalized. This program repurposes previously planned club development funds and won't require additional funding.
- Support existing clubs and identify those with untapped potential growth and provide support.
- Identify facilities for new USMS clubs and provide start-up support.
- Identify coaches with interest and potential to connect with new opportunities.

Education: The coach and instructor training program's goal is to be able to continue to deliver high-quality training that helps USMS recruit interested coaches with potential to lead and grow USMS clubs that can be viable for the long term. It is also a goal for this program to be revenue neutral or positive, including staff and contract resources. Moving Level 1 online has made this goal realistic.

- Level 1 Coach Certification will be presented online
- Level 2-3 Coach Certifications, Clinic Course for Coaches, and ALTS Instructor classes:

- In-person instruction with regional resources in conjunction with club development strategy
- Additional certification classes available when requested and supported by LMSCs

Mentorship Program

- Regional resources integrated with club development strategy.

National Coaches Clinic

- Not planned for 2023, but will be planned on the traditional biennial schedule, with the next NCC in 2024.

Events:

Same national event schedule as 2022 is planned in 2023. Planned to be budget neutral or positive. No changes in fees.

- Pool national championships - 2
- Open water national championships - 6
- College Club Swimming – 4 regional and 1 national championship
- Long distance virtual championships
- Virtual challenges
 - Fitness Series (with some adjustments)
 - Go the Distance

Events expenses:

- Event development strategy will be fully implemented in 2023 with a goal of minimizing or eliminating financial risk for potential event directors/hosts to encourage events to return or start up new events. This will include an Event Development Matching Grant Program in partnership with LMSCs, event-specific marketing support, meet and open water management, and budget consulting.
 - \$30k in additional funding is included in these assumptions as an initial projection for this program
- National pool championships planned with support-related expenses.
- Championship, Long Distance, and Officials Committee travel for liaison function.
- Open water event registration incentives to provide data collection for one-event members.

Adv/Partnership:

Assume revenues increase 3% over 2022 forecast.

- 14 partnerships including joint partnerships with USA Swimming.
- Similar advertising, royalty, and in-kind revenue as previous years.

- Marketing costs: Include a broad range of member/program/event support:
- Digital advertising support for:
 - New club development strategy.
 - Enhanced event-specific marketing.
 - Enhance online content and marketing with more video production.
 - Try Masters Swimming (possibility of two campaigns in 2023).
 - On-going membership and potential member engagement by using social media and digital channels.
 - New member and USMS+ welcome kits.

College Club: Assume a roughly break-even scenario based on number of club registrations and related activities. Discussions planned with CCS Advisory Board on future vision and model for CCS, including a transition to registration on USMS internal systems.

- Registered clubs ~175 clubs
- Registered swimmers ~7,000
- Targeting 2023 to bring CCS registration into the national registration system. (Currently registered through outside vendor)
- The CCS activities will include the leadership summit, event support, and virtual attendance at the annual meeting.

Admin-Volunteers: [See 2023-25 National Meeting Plan Recommendation](#)

Admin-National: Staff travel will continue to be strategically planned and carefully considered; additional office lease savings

- Headquarters office space costs were reduced significantly in 2022 due to renegotiating the lease. Similar costs for 2023.
- Continue hybrid office/remote work for staff

Depreciation

Depreciation: Original forecasts suggested 2022 would be the peak of depreciation for the digital transformation project. However, adjustments in timing of implementation and cash outlay reduced the depreciation forecast for 2022 by \$34k. The same adjustments increased 2023 projections. Depreciation is forecast at - \$200k for 2022 and -\$216k for 2023. This is a non-cash expense.

Capital: The current projections plan for an approximate \$165k in capital investment in 2023. The final capital request will be submitted to the Finance Committee and the Board of Directors for review as part of the budget process to continue enhancements to

infrastructure once new CRM (membership and club database) implementation is complete. The scope of this request will be short term in nature (~1 year) and will include a modernized event sanctioning process to improve efficiency, responsiveness, and security. Capital expenditures are a cash expense in a given year but are amortized over five years from the date of implementation (i.e., depreciation).