

Preliminary Budget, FY 2010-2011, Considerations and Options

Draft 11-4-09

Overview

The current budget that we are operating under, incorporated substantial reductions from that of the previous year in order to balance the budget. In comparing the previous FY 2008-2009 budget to the current FY 2009-2010 budget, expenses were reduced by \$850,193 and revenue was reduced by \$964,843. As a component of the expense reductions, total budgeted labor related costs were reduced by \$276,896 despite a 15% increase in the health plan costs to USDF. Over the past two budget cycles the total budgeted labor force supporting USDF services and programs has been reduced from 42 to 35 full time employees and contractors. No part time employees have been engaged during this time period, nor are any budgeted for.

Some general market trend assumptions were made through the end of the next fiscal year, March 2011. They assume that inflationary cost increases incurred by USDF will be minimal, membership and competition related volumes will be relatively stable, sponsor revenue will be maintained at the current all time high levels, merchandise sales will increase because of WEG opportunities, and print advertising revenue will decline because of industry trends. These assumptions are based on our year to date financial reports which were tracking favorable to the budget plan at the end of the second fiscal quarter, ending September 30th. With two more quarters remaining in the current fiscal year, there is some risk to these relatively optimistic assumptions.

The proposed budget continues to apply a freeze on staff annual pay increases and bonuses through 2010. Also continued is the practice, established by the 2008 BOG, of treating depreciation expense as an acceptable non cash loss by subtracting the expense from the bottom line. This is an acceptable accounting practice which balances the budget from an operating cash flow perspective.

The budget reserve policy which is outlined in USDF's Budgeting Protocol document has been revised to require that a minimum of ½ to 1 percent, rather than 2 to 3 percent, of the budgeted total be set aside in a budget reserve line item. The minimum ½ percent has been incorporated.

The organizations' *Draft 11-1-09*, Preliminary Budget for Fiscal Year 2010-2011, which begins on April 1, 2010 currently forecasts a budget shortfall of \$237,714. That shortfall needs to be reduced to \$0 by either increasing revenue or decreasing expenses or a combination of the two. Ultimately, the goal is for the Board of Governors to approve a balanced budget for FY 2010-2011, during the 2009 BOG General Assembly.

With that in mind, the USDF Executive Board is providing two potential budget balancing pathways for consideration. One pathway, (Plan A), incorporates no dues increases. Another pathway incorporates the dues increase recommendations being presented by the *Ad Hoc Committee to Evaluate the Membership and Fee Structure*, (*Ad Hoc Committee*) which is a committee created by the BOG at the 2008 General Assembly for that purpose. Plan A and B are not necessarily mutually exclusive and other alternatives could be considered.

Budget Balancing Plan (A) Incorporating No Dues Increase

The forecasted budget shortfall of \$237,714 identified above can be reduced to \$0, without a dues increase, with the measures listed below. These are options presented by the Executive Board (EB), but not necessarily the preferred recommendations of the EB. These measures serve to balance the budget but generally have a long term cost associated with them that might not be in the best interest of the organization and may not be considered a fiscally responsible path.

1. In addition to freezing staff annual pay increases and bonuses for a second year, there would be an additional reduction in labor costs by \$44,000 by not replacing a contractor position being vacated as of December 1, 2009. This position would be absorbed in-house. This will leave USDF with a budgeted full time labor force of 34 as compared to 42 in 2008.

Further cut backs in staff resources will result in the loss of experienced employees. Retaining experienced employees is the primary factor that has allowed USDF to reduce staff numbers while maintaining most member programs, benefits and services. However, reducing employee numbers further, and implementing employment compensation policies below local market conditions, may result in a loss of experience and begin a downward cycle of customer service and program support. Ultimately USDF's member expectations will not be maintained at current levels and it will be costly to rebuild.

2. Cut back expenses dedicated to the furthering of strategic initiatives by \$60,000. The initiatives include expanding feature benefits of the on-line magazine, developing on-line education opportunities, improving merchandising capabilities, marketing the new Education Membership being proposed by the *Ad Hoc Committee*, and incorporating interactive displays in the HOF. These initiatives would be scaled back but not eliminated from the budget.

Since its completion, about two years ago, the Strategic Plan has languished, with a number of initiatives deferred over the past two budget cycles. The initiatives outlined under item (2), further the goals of the strategic plan. They essentially fall in the, "investing in the future" category. The risk to USDF of not investing in these initiatives is in not meeting member expectations. That ultimately will have a negative impact on future revenue streams.

3. Take a more optimistic outlook on the improving economy and the impact it may have on membership volume. If the GM and PM volume forecast in the Preliminary Budget were increased by 2% it would contribute \$27,000 in revenue.

Taking a more optimistic outlook in forecasting membership volume has considerable risk attached since this optimism would be based on a leap of faith rather than trends that have actually been confirmed.

4. Make a one time \$60,868 revenue contribution from the organizations investment fund to offset a portion of the budget shortfall.

Taking \$60,000 out of the investment portfolio to cover operating expenses would be inconsistent with a USDF policy which states: "In the unrestricted portion of its investment portfolio, USDF shall maintain a minimum equivalent of 25 percent or three months of the annual operating budget, and strive to build it to a 50 percent or six month level. As of 9-30-09 USDF was just at the 25 percent mark, based on the proposed budget. Depleting the investments would jeopardize USDF being able to meet this policy expectation. The EB feels that this measure would not be in the best interests of USDF or its membership.

5. The Preliminary Budget includes a capital investment of \$20,000 to replace the office phone system. It is likely that this action will need to be taken before the end of the next fiscal year but a calculated risk could be taken that it can be deferred and the expense dropped from the budget.

The phone system is a vital tool for maintaining customer service. The current system has been in use for 7 years and utilizes technology that is over 10 years old. The system broke down this summer and was out of service for about four days. It has been repaired. However the outdated software and compatible hardware are no longer being supported by the manufacturer, therefore difficult and possibly impossible to repair. This leaves USDF in a vulnerable position.

6. The *Ad Hoc Committee* has as a component of its recommendations suggested increases in Lifetime Horse Registration, HID, and Non Member fees. The Executive Board has reviewed these recommendations and is putting forth a modified version for consideration, which would contribute \$25,846 in revenue. These include increasing Lifetime Horse Registration from \$85 to \$95 contributing \$14,928, increasing the HID from \$20 to \$25, contributing \$4,093, and increasing the Non Member Fee from \$20 to \$25, contributing \$6,825.

For comparative reference the USEF and USHJA non-member fees are \$30 and the USEA non-member fee is \$25. The USHJA horse registration fee is \$30. USDF HID fees have never been raised since their implementation in 2002. Lifetime Horse Recordings were raised in 2007. Non-member fees are designed to provide affordable opportunities which may be offset in the future by the opportunity classes being offered, as of December 1, 2009. No USDF or USEF membership or HID fees are required to participate in opportunity classes.

Total contribution of the above measures towards the \$237, 714 budget shortfall would be \$237, 714 balancing the budget.

Budget Balancing Plan (B) Incorporating Dues Increases

The forecasted budget shortfall of \$237,714 identified above can be reduced to \$0, with a dues increase, as proposed by the *Ad Hoc Committee*. Implementation is proposed for the 2011 membership year beginning on December 1, 2010.

The *Ad Hoc Committee* proposes to increase membership dues as outlined below:

Membership Type	Current Dues	Proposed Dues 2011 Membership Year	New Revenue For Fiscal Year 2010-2011 (April 2010-March 2011)	Most Recent Increase
Participating Membership	\$62.00	\$75.00	\$114,586	2004—From \$50 to \$62
Youth Participating Membership	\$35.00	\$60.00	\$42,834	2005—From \$25 to \$35
Group Member Organization membership	\$17.00	\$20.00	\$52,768	2004—From \$10 to \$17
GMO Family Membership	\$8.00	\$10.00	\$2,132	2006 added GM Supporting Membership
Business Membership	\$175.00	\$200.00	\$4,337	2008—Changed to one membership
USDF PM 5 year membership	\$250.00	\$300.00	\$13,827	Never been increased
USDF PM Life Membership	\$1,000.00	\$1,500.00	\$7,260	Never been increased
Total New Revenue			\$237,744	

The potential revenue impact of the proposed dues increases, within the 2010-2011 fiscal year is forecast at \$237,444. This is based on the assumption that the current membership volume will be maintained.

Regarding the Youth Participating Membership, the *Ad Hoc Committee* maintained that this category, on a per capita basis, generally benefited from many more USDF opportunities than any other category. In addition, last year USEF raised youth dues to be equal to senior dues. For those youth members who are not competing for year end awards, Regional Championships, or NAJYRC programs, they have the alternative option of joining a GMO which allows them to compete in USEF licensed/USDF recognized competitions, or electing the newly proposed \$10 education membership option, if not competing.

The Education Membership is being proposed under separate cover by the *Ad Hoc Committee*. No revenue for the newly proposed Education Membership is included in the Preliminary Budget, although expenses to market it are. When approved, it will take a year to develop the benefit package fully, and to market it. The timing is such that some expenses will be realized in the new fiscal year but revenue will likely not be realized until the following fiscal year.

The *Ad Hoc Committee* also made recommendations for increasing Lifetime Horse Registration, HID, and Non Member fees. The Executive Board reviewed these recommendations and is putting forth a modified version for consideration as outlined in the chart below:

Type	Current Fees	Proposed Fees 2011 Comp. Year	New Revenue For Fiscal year 2010-2011	Most Recent Increase
USDF Non-Member Competition Fee	\$20.00	\$25.00	\$6,825	No increase since Implemented 10/1/2007
Horse ID	\$20.00	\$25.00	\$4,093	No increase since implementation in 2002
Lifetime Horse Registration	\$85.00	\$95.00	\$14,928	2007
Total New Revenue			\$25,846	

For comparative reference the USEF and USHJA non-member fees are \$30 and the USEA non-member fee is \$25. The USHJA horse registration fee is \$30. Non-member fees are designed to provide affordable opportunities which may be offset in the future by the USEF opportunity classes being implemented as of December 1, 2009. For these classes, there are no USDF, or USEF membership or HID requirements.

In summary, if all of the dues and fees in Plan B were implemented for the 2011 membership and competition year, a total of \$263,590 of incremental revenue could potentially be realized during Fiscal Year 2010-2011. Although this is more than the \$237, 714 that is currently forecast as the Preliminary Budget shortfall, it might be prudent to create a slight hedge against a budget forecast that has essentially no margin for error built into it.

A dues increase could have a negative impact on participation volume. However historical statistics indicate that when USDF has implemented increases, they have not had a negative impact on participation. The last major increase went into effect in 2004, which was followed by a growth in memberships that continued through 2007. However, it could also be argued that these increases came at a time of economic growth. Since the proposed dues increase would not go into effect until December 2010, indicators suggest the country could be in a recovery mode by then.

Because of the long lead times between the approval of a dues increase and when revenue begins to be generated from it, a strategy that will position USDF to meet its member obligations not only for 2010, but for a few years beyond would be prudent. It is likely that the cost of doing business will begin to increase over the next few years. With the cut backs that have already been made, USDF will struggle to keep pace without some revenue increasing initiatives in place.