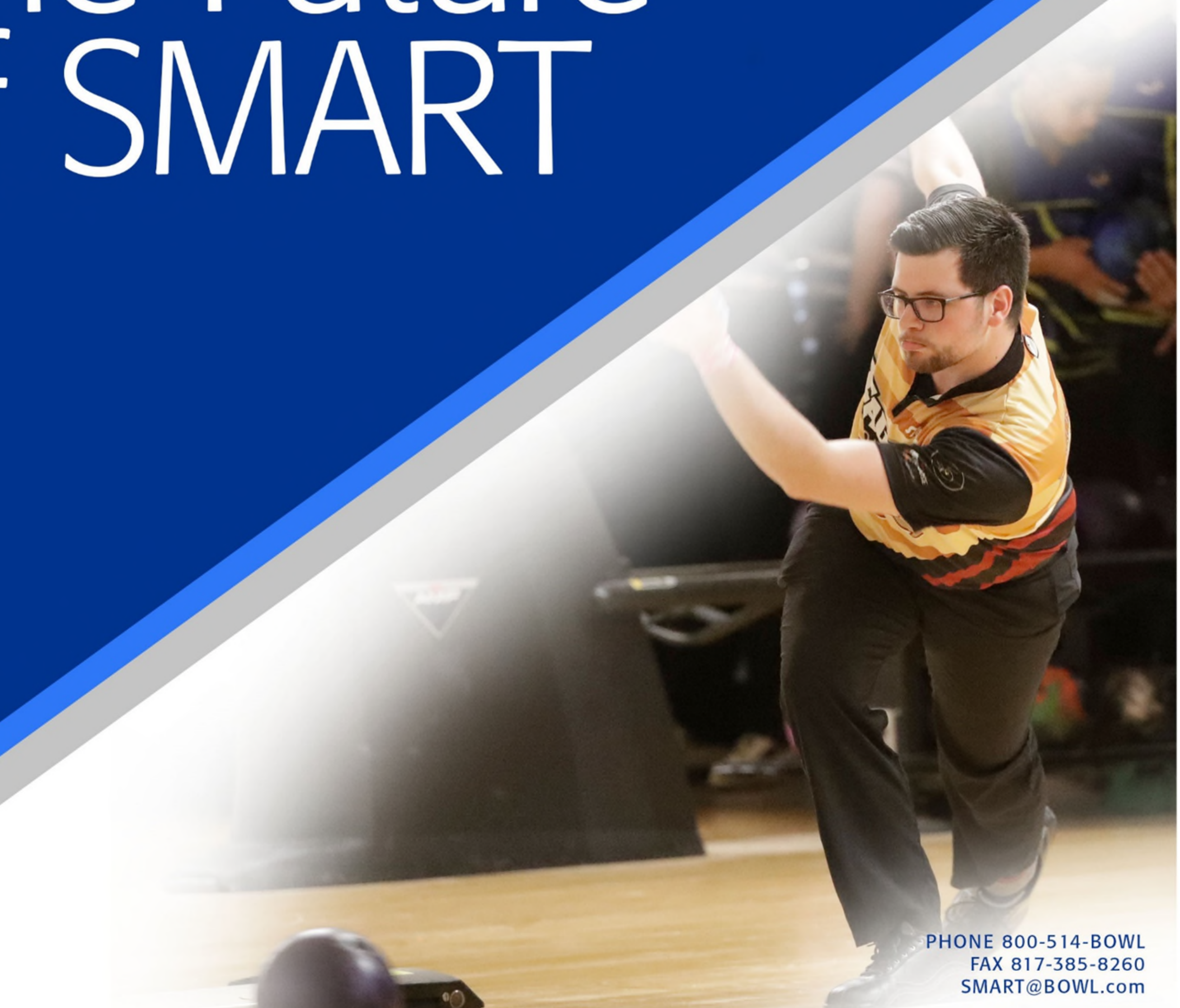
A Future for the Sport

The Future of SMART



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EXECUTIVE SUMMARY

The Scholarship Management and Account Reporting for Tenpins (SMART) program started in 1994 to offer a centralized location to safeguard and manage scholarship funds awarded to youth bowlers in a structure that protected athlete eligibility. To work as intended, the event operators (Providers) must run scholarship programs through leagues, tournaments and other means while also utilizing the additional funds provided through investment earnings and expired scholarships for new scholarship awards. Then, the SMART program's scholarship earners (Recipients) must use the scholarship funds in their accounts towards their continued education after high school.

Approximately 16% of funds available for college-age Recipients are drawn annually, while only 10% of Providers are using Unassigned funds for new scholarships, leaving more than $18 million currently unused.

After examining the data and bringing together a working group consisting of a cross-section of stakeholder Providers to discuss the current SMART structure, the newly created USBC SMART Committee, with approval from the USBC Board, is proposing a series of policy revisions to increase the dollars used of scholarships. These proposed changes include:

- Allocating a portion of investment earnings directly to Recipient accounts.
- Setting an expiration deadline for Providers to move Unassigned funds to new scholarships.
    - Providers will have two years to use Unassigned funds, after which SMART will begin expiring in February 2024 if unused.
- Allocating a portion of expired and unassigned funds directly to Recipient accounts.
- Establishing a new grant program to award additional scholarships to Recipients requesting financial aid.
- Allowing Recipients to transfer unused scholarship funds to immediate family members who qualify to use the funds.

If the policy changes are approved, every February SMART will determine its allocation. Half of those funds will go to Providers as new Unassigned funds, just as it happens today. Half will also be distributed to Recipients accounts as additional scholarships in an effort to ensure more funds are used in a reasonable timeframe.

The intent of the policy changes is to preserve key benefits of the current system for Providers, while creating a new benefit for Recipients in the form of added scholarships as a result of their participation in bowling. Most importantly, SMART will be shifting policy to better align with the program's intent to fund the continued education of USBC youth bowlers.

PUBLIC COMMENT PERIOD

The USBC Board of Directors and SMART Committee want feedback from the bowling community on the proposed policy revisions for SMART. USBC members are invited to provide comments through June 30, 2021. Visit BOWL.com/FutureofSmart and fill out the form on that page to submit feedback during the comment period. Based on feedback, adjustments to the proposed policy revisions will be considered before final policy revisions are announced later this year.

SMART PROGRAM OVERVIEW

Bowling has a long history of awarding cash prizes in competition, from casual leagues to its major tournaments. But league and tournament prize funds created an issue for youth bowlers because earning cash for athletic performance can impact eligibility status for high school and college sports.

The SMART program began in 1994 to offer a centralized location to safeguard and manage scholarship funds awarded to youth bowlers in a structure that protected athlete eligibility. The design of the program is simple: a youth athlete earns a scholarship in a competition (Recipient), and the event operator (Provider) deposits the funds in SMART and when the Recipient goes to college, he or she requests the funds be paid directly to the school. The eligibility of Recipients is protected because they never have access to the funds.

USBC requires all youth scholarship funds connected with certified play are deposited in SMART to not only protect the high school and college eligibility of youth bowlers, but to eliminate the risk of event operators misusing scholarship funds.

To encourage event operators to certify competitions and participate in SMART, the program offered a benefit to Providers – an allocation from investment earnings. SMART invests deposited funds and generates earnings on those investments. The investment earnings are first used to cover administrative expenses and the additional investment earnings are annually distributed to Providers to use as new scholarship awards.

Additionally, Providers were allowed to use expired Recipient funds. When a Recipient earns a scholarship in competition, the scholarship eventually will expire if not used and the funds are returned to the Provider to award to a new Recipient.

Investment earnings and expired scholarships display to the Provider as Unassigned funds and can only be used as new scholarships for Recipients. The design of the program was to provide a growing flow of scholarship funds to benefit youth bowling and help more youth bowlers pay for higher education.

INTENT OF THE PROGRAM VS REALITY

For the SMART program to work as intended, two actions are important:

- Recipients request and use scholarship funds.
- Providers use Unassigned funds for new scholarship awards.

Several decades of data show neither of these actions are occurring at a reasonable rate. Instead, the data shows:

- Only 16% of funds available for college-age Recipients are used annually.
- Only 10% of Providers are using Unassigned funds for new scholarships, as intended.
- Providers currently have more than $18 million sitting unused as Unassigned funds.

Additional data further explaining the trends is included later in this report to help explain why this has happened.

ENDLESS CYCLE OF UNUSED FUNDS

Since 2010, the SMART fund has grown from $39 million to more than $96 million today. Under the SMART Corporation Board, earnings on investments improved, resulting in increased allocations up to $3.5 million to Providers in 2020 and $7 million in 2021. However, as distributions to Providers increased, so did Unassigned funds, growing from $4.7 million in 2015 to more than $18 million today.

It is clear the structure of the program needs evaluation. While the SMART fund is approaching $100 million, each year Recipients use approximately $5 million in scholarships. Data shows many Recipient scholarships are not used, expire and recycle, as seen by $18 million unassigned by Providers.

Based on historical trends, USBC projects 40% of the SMART fund never will be used under the current policy.

Without policy change, USBC staff projects the SMART fund will grow to more than $165 million by 2030, while the percentage of the fund used by Recipients for college will continue to shrink.

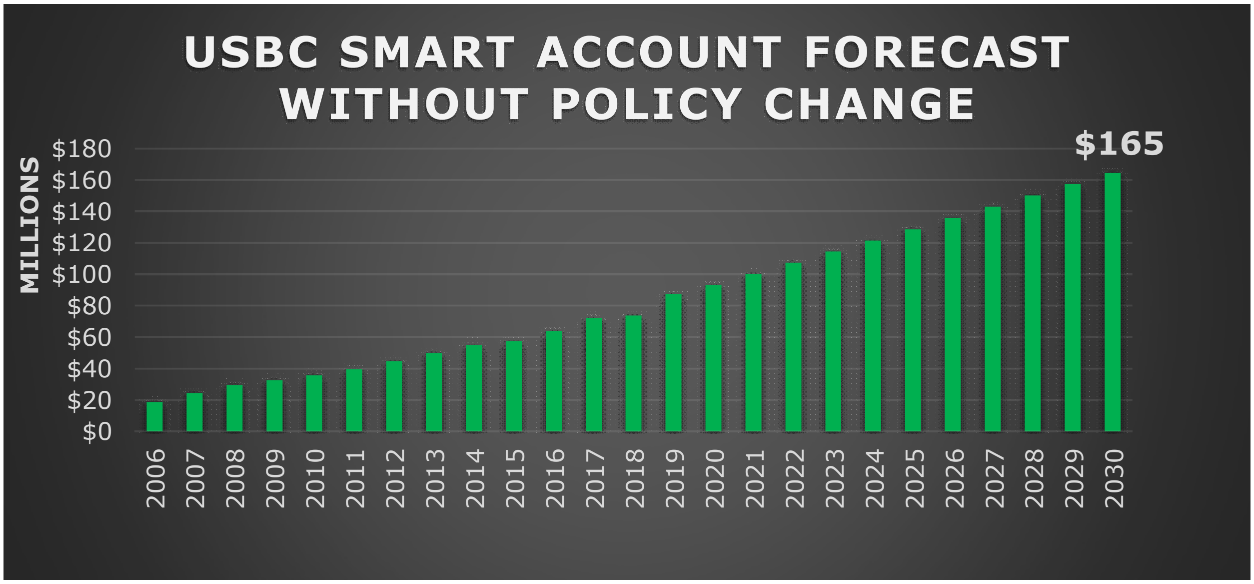


Figure 1 - USBC SMART Account Analysis

SMART CORPORATION

In 2010, the SMART Bowling Scholarship Funding Corporation was created as a new entity to manage the SMART Fund and Policies. At that time, the USBC Board transferred governance of the SMART Program to the SMART Corporation with USBC staff continuing to manage and operate SMART.

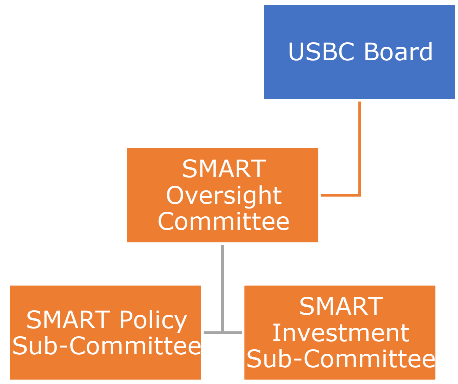
Under the guidance of the SMART Board, the assets were managed in accordance with the published investment policy and the SMART fund showed earnings growth. In recent years, the SMART Board and USBC Board had an ongoing dialogue about the path forward for the SMART Program.

Ultimately, it was determined the SMART Program would return to USBC Board governance in 2021. As part of the transition, the USBC Board created an oversight structure for SMART, designed to improve SMART policy while continuing financial safeguards and prudent investment policy.

USBC SMART COMMITTEE

The newly created USBC SMART Committee structure consists of a SMART Oversight Committee, with a Policy Subcommittee and Investment Subcommittee. All aspects of SMART are under the governance of the USBC Board.

The SMART Oversight Committee consists of Frank Wilkinson, the former USBC President and IBC Youth Committee Chair who serves as chair, and USBC Board members Jay Daryman, Anthony Colangelo, Kevin Krauss, Josie Barnes and Andrew Anderson. The committee is designed to provide a mix of perspectives from youth event managers, proprietors, USBC association leaders and athletes. Subcommittees bring in additional members with business experience and extensive youth program backgrounds.



The USBC SMART Committee's charge includes providing effective and convenient access, along with safekeeping and prudent management of all youth bowler scholarship funds collected and administered through the SMART Program. In the immediate term, Wilkinson asked the Committee to evaluate the SMART Program policy and develop procedures to increase the benefit for Recipients and push more dollars out of the fund for scholarship use.

WORKING GROUP

In September 2020, USBC held a virtual group meeting to discuss the SMART program. The group consisted of a cross-section of stakeholder Providers, including USBC association leaders, proprietors and youth-focused tournament managers. The group also included a USBC Board member, Bowling Proprietors' Association of America (BPAA) Board member and SMART Corporation Board member. The group was geographically diverse and included:

- A USBC state association manager
- A proprietor who serves on a USBC association board
- USBC state youth directors
- An Executive Director or a state BPAA
- Current proprietors with strong youth programs
- Current local youth directors of large programs
- Active tournament series operators

The working group was asked to answer a broad strategic question by the end of the meeting:

Is the SMART Corporation's mission to continue with a distribution channel exclusively through Providers or find a new path that distributes funds to Recipients on a larger scale?

The working group unanimously recommended Recipients should be the primary focus of the program and success should be measured on the percentage of scholarships used. The group supported reallocating directly to Recipients approximately 50% of future investments earnings and expired scholarships currently going as Unassigned Provider funds.

The working group supported concepts including direct addition to Recipient accounts, bonus scholarships for those actively using SMART funds and need-based grants. The working group also supported setting an expiration date for use of Unassigned funds by Providers.

In summary, this cross-sectional working group of Providers agreed the SMART Program needed significant policy revisions and the focus should benefit Recipients.

RESEARCH

In 2016, USBC began a research project to learn more about the SMART Fund and its growth. Based on the data, it became clear a significant portion of assigned scholarships were going unused. USBC gathered some published data on college attendance. USBC also looked at how college bowling might influence SMART scholarship use and what could be learned from analyzing both Recipient and Provider account behavior.

In summary, the research showed:

About a third of the population chooses not to pursue education beyond high school. This group of Recipients will never use their scholarships.
Collegiate bowlers are likely to accumulate the largest SMART scholarships accounts, yet varsity collegiate programs can be restrictive and only allow the use of SMART to supplement their tuition.
A meaningful number of Recipients and Providers are not active with their SMART accounts causing funds to sit unused for years.

GOING TO COLLEGE

Of the 3.2 million people ages 16 to 24 who graduated from [1]high school between January and October 2019, 2.1 million, or 66.2 percent, were enrolled in colleges or universities in October 2019. The college enrollment rate of recent high school graduates in October 2019 was down slightly from the rate in October 2018.

Since SMART launched in 1994, the rate of recent high school graduates who attend college has fluctuated around 62% - 70% over the last 25-plus years.

[1] U.S. Bureau of Labor Statistics

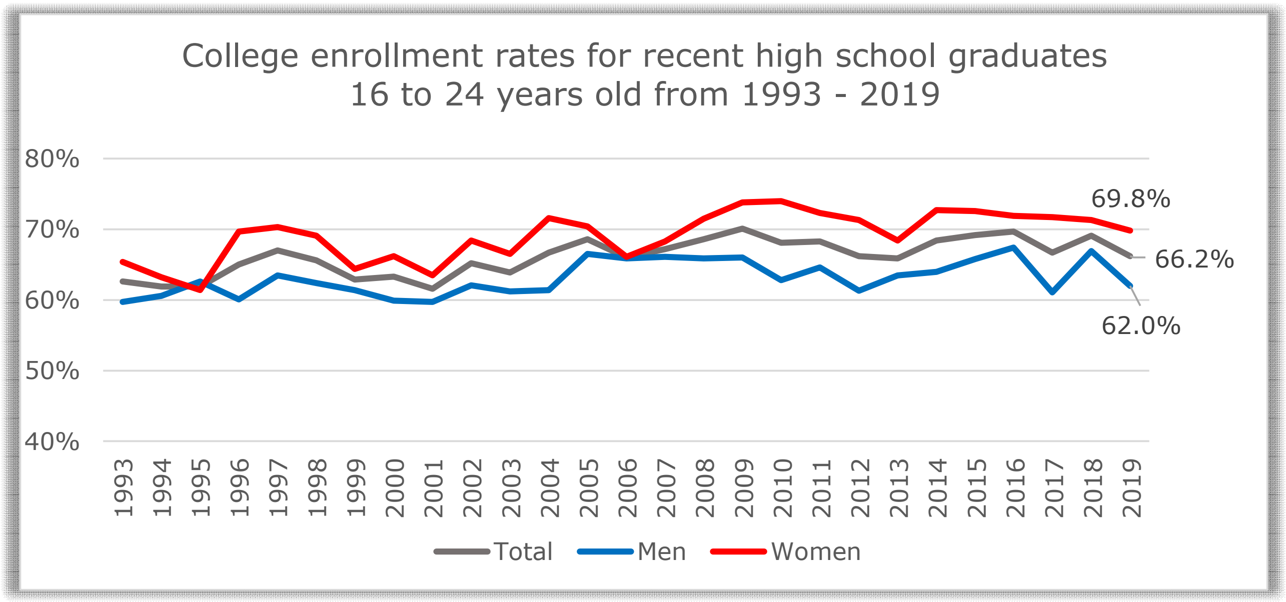


Figure 2 - U.S. Bureau of Labor Statistics

For 2019 high school graduates, the college enrollment rate was 69.8 percent for women and 62.0 percent for men. It could be discerned that roughly one third of USBC Youth bowlers will not attend college based on this data.

Among recent high school graduates enrolled in college in October 2019, about nine in 10 were full-time students. Recent graduates enrolled as full-time students were less than half as likely to be in the labor force (34.0 percent) as their peers enrolled part-time (78.8 percent).

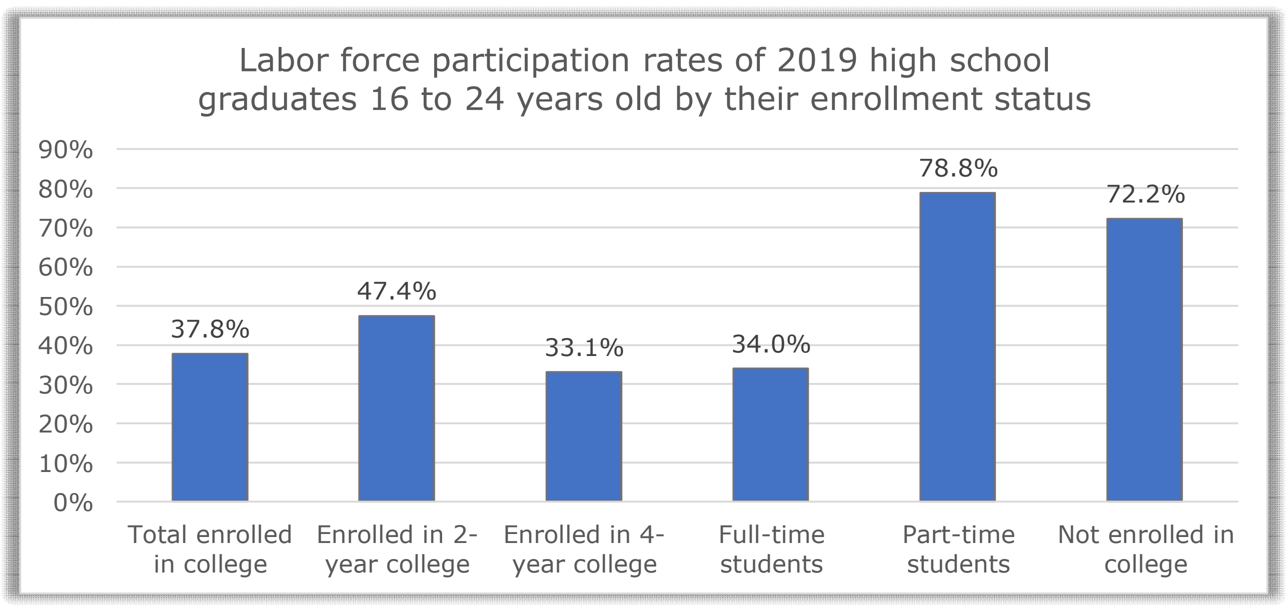


Figure 3 - U.S. Bureau of Labor Statistics

About two in three recent high school graduates enrolled in college attended 4-year colleges. Of these students, 33.1 percent participated in the labor force in October 2019, lower than the 47.4 percent for recent graduates enrolled in 2-year colleges.

Even those enrolled in college see the value in entering the workforce to cover expenses.

And a large percentage of youths see foregoing college as a better alternative, allowing them to enter the workforce and earn money.

SMART Recipient account holders age 18 – 28 have an average of $258 in their account (based on approximately 108k youths age-eligible to draw funds annually), and likely is not a determining factor in the decision on whether to attend college. The next chart from The College Board[2] show the rising costs of college over the past several decades.

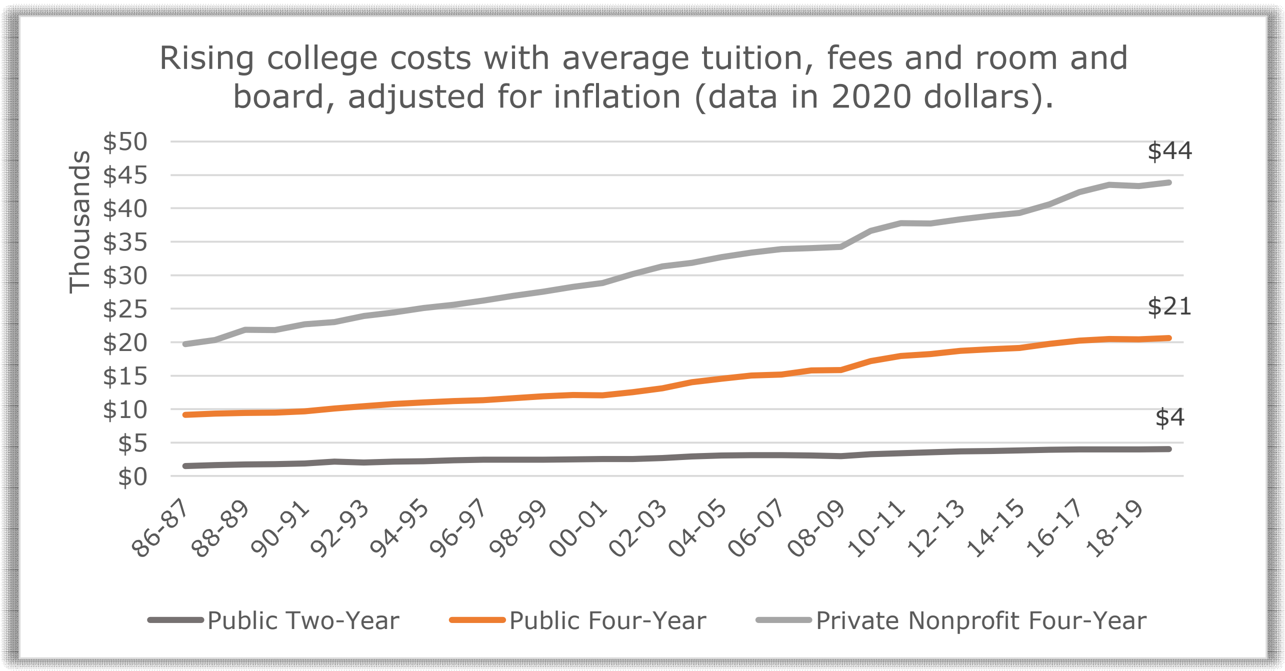


Figure 4 - The College Board, Trends in College 2020 report

Rising college costs and the student loan debt crisis is making the decision to attend college more difficult for youths and their families. In the past four years, the number of youths enrolling in college has declined, despite massive increases in federal aid for students who cannot afford tuition.

A recent article was published on Knoema[3], sharing that student loans in the United States represent the second largest type of household debt after home mortgages and were not only unaffected by the 2009 recession, but are steadily rising along with total US household debt. As of 2018, student debt reached a peak of $1.44 trillion, which is higher than total US auto loans and credit card debt.

[2] The College Board, Trends in College Pricing 2020

[3] Knoema, Student Loan Debt Showing No Signs of Slowing

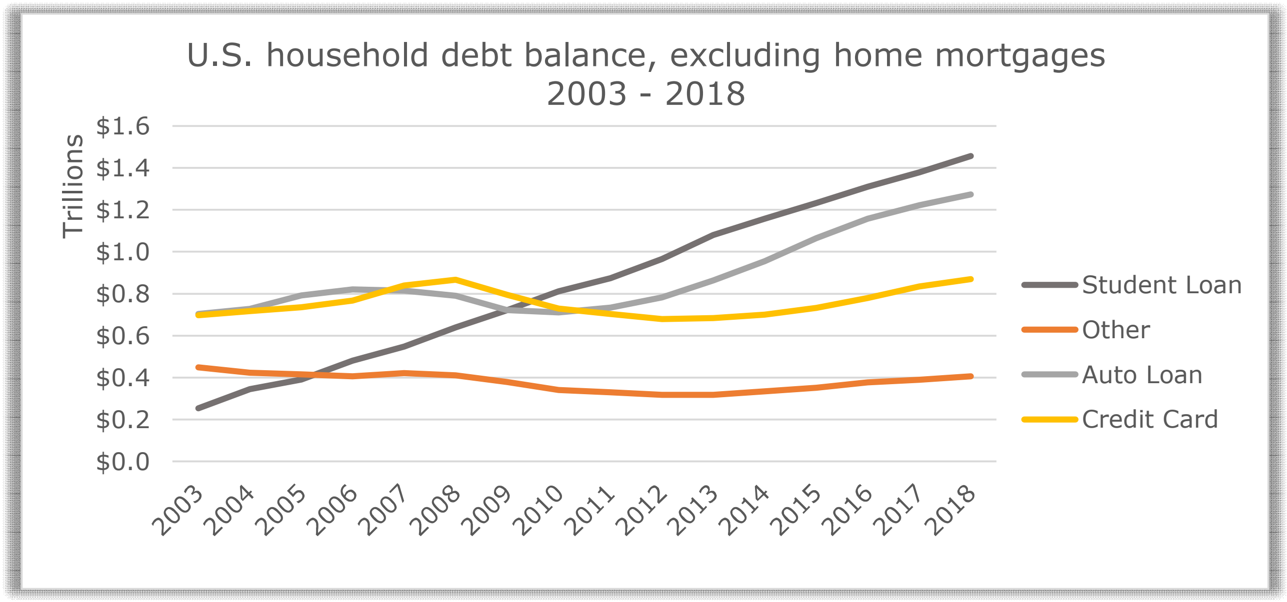


Figure 4 - Knoema Data

Total student loan debt has more than doubled since 2009 and grown six-fold over the last 15 years. While the cumulative value of student loans in default has also increased, jumping almost 90 percent during the last five years to a record $168 billion.

In conclusion, there are several factors to support the statement that a large percentage of SMART funds will go unused:

- Approximately one-third of high school graduates do not go to college.
- The cost to attend college has grown significantly over the last 20 years, well above inflation.
- College debt has surpassed credit card and auto loans debt and is a growing crisis.
- Student loan debt has doubled since 2009, with a record 168 billion in default.
- A significant (45 million) individuals collectively owe $1.6 trillion in student loan debt.

COLLEGIATE BOWLING LANDSCAPE

College bowling has been growing over the last 25 years. USBC Collegiate has seen a rise in the number of teams and individuals participating in college bowling.

Approximately 50% of schools offering college bowling programs provide some form of scholarship and grant assistance. When you consider a majority of collegiate bowlers typically are among some of the top youth bowlers in our sport, these individuals most likely have earned the larger portion of SMART scholarships.

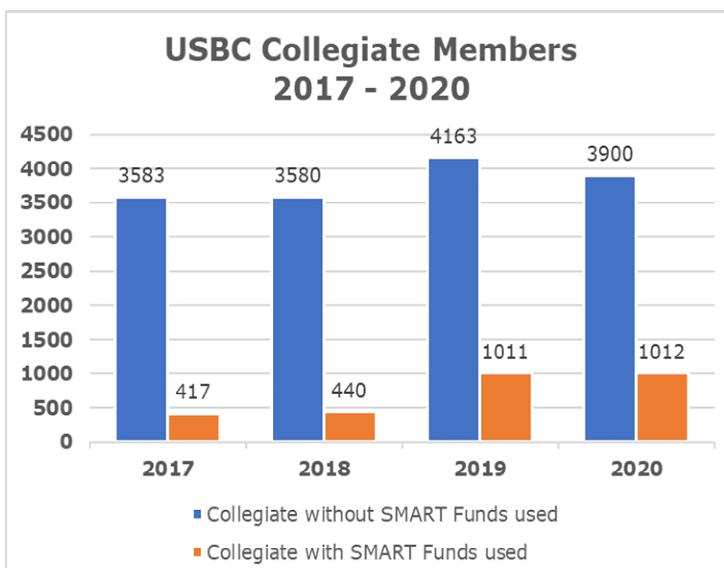
SEASON	CAMPUSES	MEMBERS
1995-96	146	2204
1996-97	135	2027
1997-98	137	1956
1998-99	149	2119
1999-00	154	2210
2000-01	153	2195
2001-02	156	2323
2002-03	164	2441
2003-04	157	2353
2004-05	151	2341
2005-06	147	2373
2006-07	150	2430
2007-08	149	2487
2008-09	152	2551
2009-10	177	3131
2010-11	192	3390
2011-12	192	3281
2012-13	196	3269
2013-14	199	3403
2014-15	199	3417
2015-16	203	3396
2016-17	211	3571
2017-18	219	3823
2018-19	226	4046
2019-20	240	4163

Figure 5 - USBC Collegiate Membership Data

Why is that important? College bowlers are the individuals most likely to benefit from using SMART scholarships; however, they comprise approximately 2% of the total Recipient account holders and 4% of those who are age-eligible to draw funds each year.

For example, look at the last four years of USBC Collegiate members.

The following chart shows that in recent years only about one in five of USBC Collegiate members are currently drawing SMART Funds, meaning the other 80% are paying for college through other financial aid programs, student loans or simply do not know they have funds to use.



When evaluating 2019 (before any COVID-19 disruption), these 1,011 college bowlers were responsible for withdrawing $2.56 million of the $5.92 million (43.2%) of the total funds withdrawn in 2019. In addition, the average account holder had a little more than $2,500 on average, which is 10 times the national average of all Recipient account holders 18-plus, and 99% of the funds were withdrawn by those age 18-22.

There has been an enormous increase in the number of varsity programs over the past decade, or a shift in clubs moving to varsity programs. Where clubs typically do a great deal of fundraising and allow their athletes to use other programs such as SMART to pay for school, Varsity programs are much more restrictive and only allow the use of SMART to supplement their tuition.

Figure 6 – Recipients who are USBC Collegiate Members

NCAA OR NAIA PROGRAMS

One thing to consider are the number of athletes benefiting from various grants[4] and scholarships, and the growing number of college bowling programs. NCAA and NAIA schools are providing a significant amount of aid to students, however, when the program is in full grant-in-aide, athletes cannot use their SMART funds or other assistance. This means athletes may be waiting until graduate school to use SMART scholarships, in most cases.

In addition, in recent years there has been an increasing amount of these programs providing academic scholarships on top of, or replacing, their athletic scholarships. Again, this puts the student-athletes in a position where they are not able use SMART scholarships.

In 2020, USBC data shows that of the 1757 NCAA/NAIA students, only 983 of them have SMART accounts with balances. It is important to note that only 486 (less than half) of them actually requested funds from SMART last year totaling $1.24 million, which is 22% of the total funds drawn that year. However, the combined students, with remaining balances equals $1.89 million still sitting unused.

RECIPIENT ACCOUNTS

In 2016, we began analyzing Recipient accounts to better understand how youth bowlers used SMART. We were able to evaluate information for 2012-2016. Comparing the same data and reports each year showed the data pattern has not significantly changed year to year.

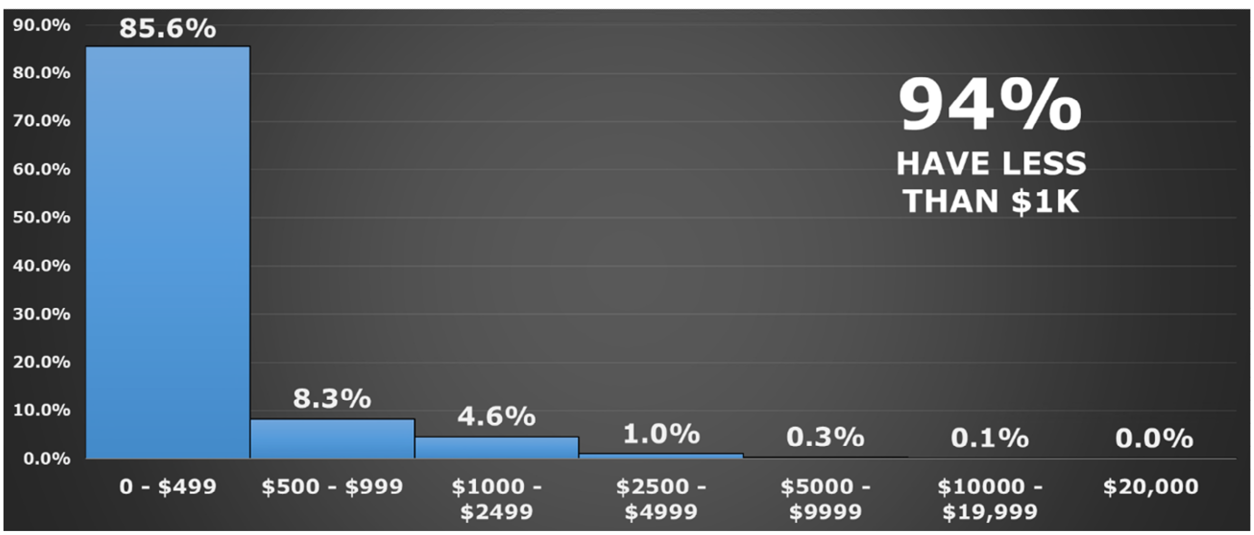


Figure 7 - USBC Recipient Account Analysis

In looking at Recipient account holders, 94% have $1,000 or less in their SMART account and around 1% have enough money to potentially cover one year of college education.

[4] http://www.collegescholarships.org/

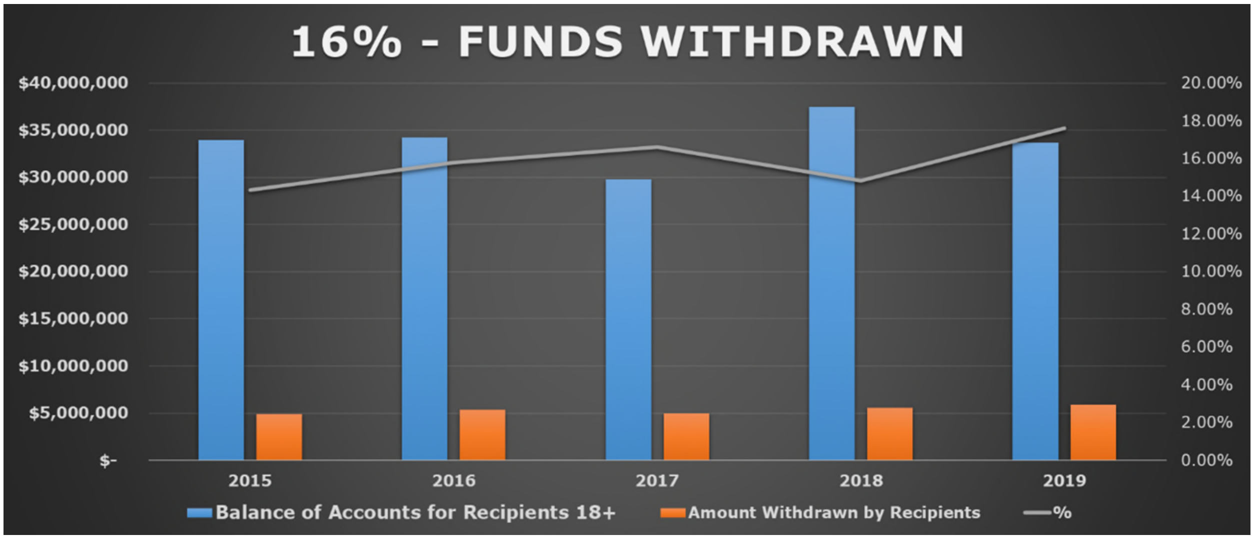


Figure 8 - USBC Recipient Account Analysis

This chart shows that Recipients are only withdrawing 16% of the total eligible funds from all account holders who are high school graduates or older.

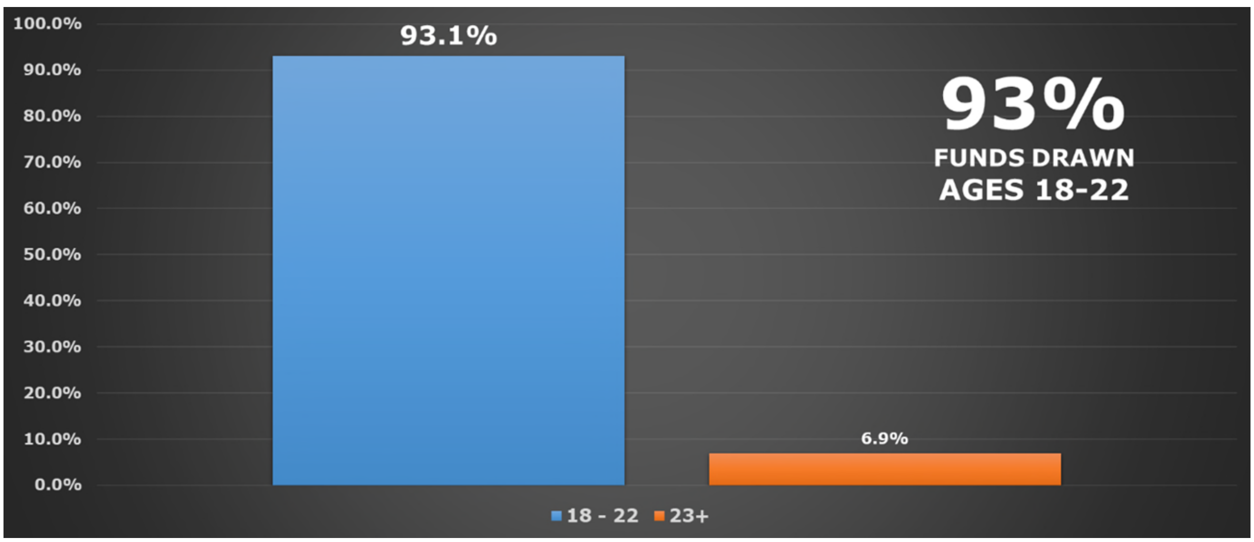


Figure 9 - USBC Recipient Account Analysis

In addition, 93% of all funds withdrawn are done by those between the ages of 18-22, leaving less than 7% coming from those age 23 or older who may be attending a post-graduate degree program.

PROVIDER ACCOUNTS

Providers today are widely managed by Associations, bowling centers, and tournament operators. There are also a small percentage of middle and high school programs, individuals, leagues and other groups.

As part of the account analysis, Provider accounts were also examined from 2015 forward to see how they were managing their accounts along with how they awarded SMART funds from their unassigned funds.

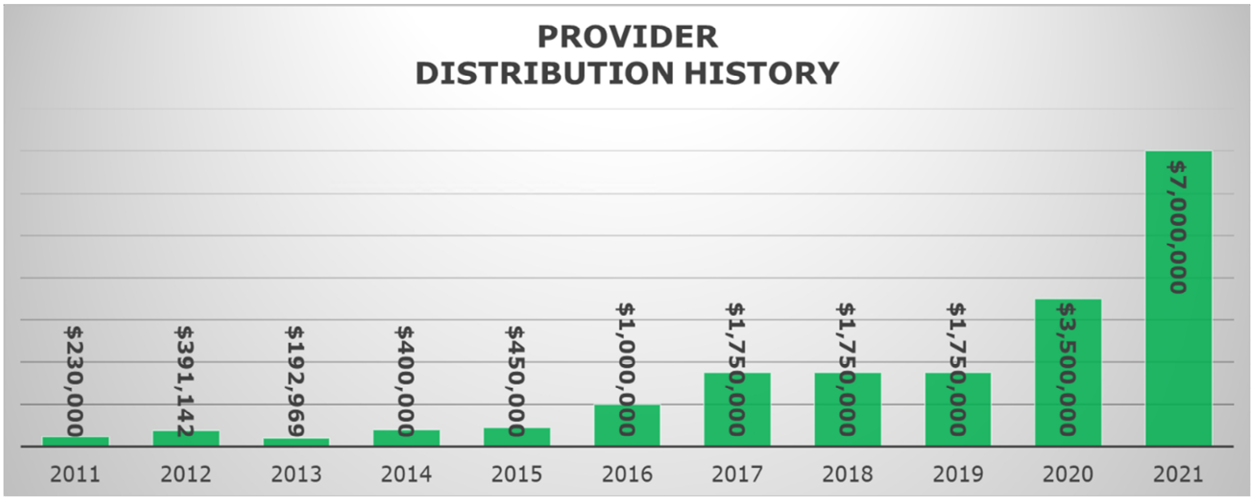


Figure 10 - USBC Provider Account Analysis

The amount of money redistributed from income earned on investments since the program's inception is shown above. The distributions have significantly increased in recent years, but also contribute to the growing unassigned funds.

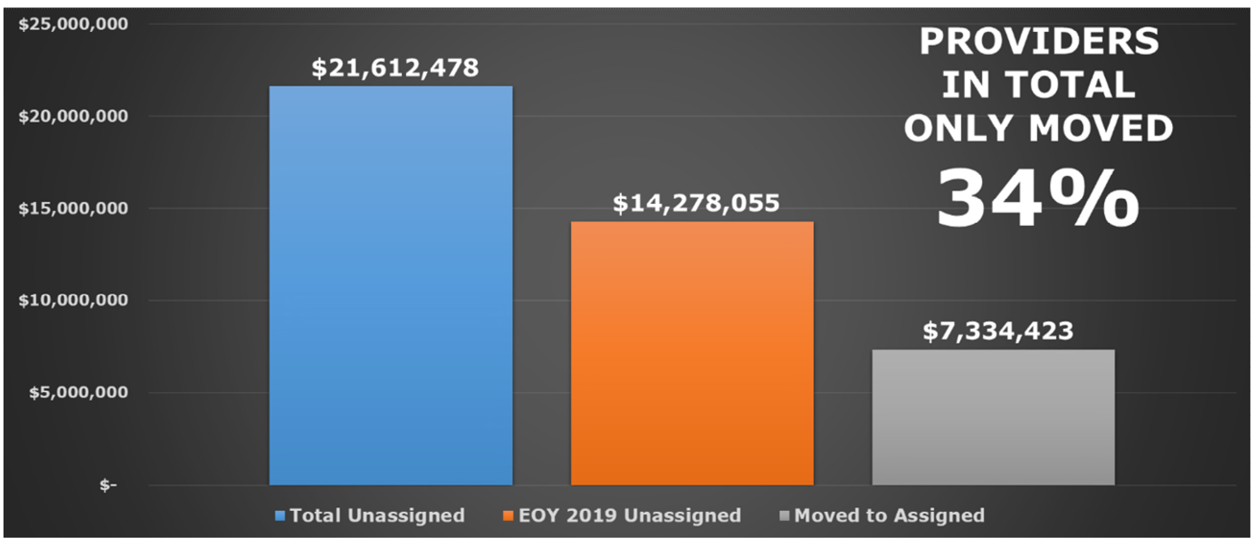


Figure 11 - USBC Provider Account Analysis

At the end of 2019, there was more than $14 million in Unassigned funds, and only 34% of the total Unassigned funds were assigned to Recipients. That number has now grown to over $18 million.

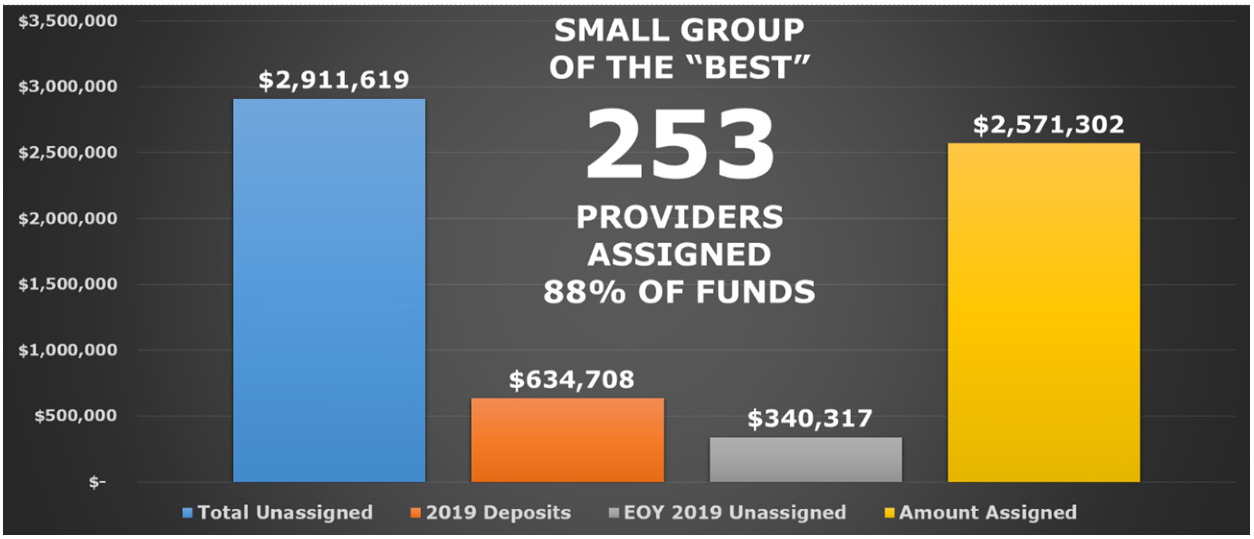


Figure 12 - USBC Provider Account Analysis

Digging a little deeper, roughly 9% of Providers are moving most of their Unassigned funds and utilizing them for scholarships, as intended.

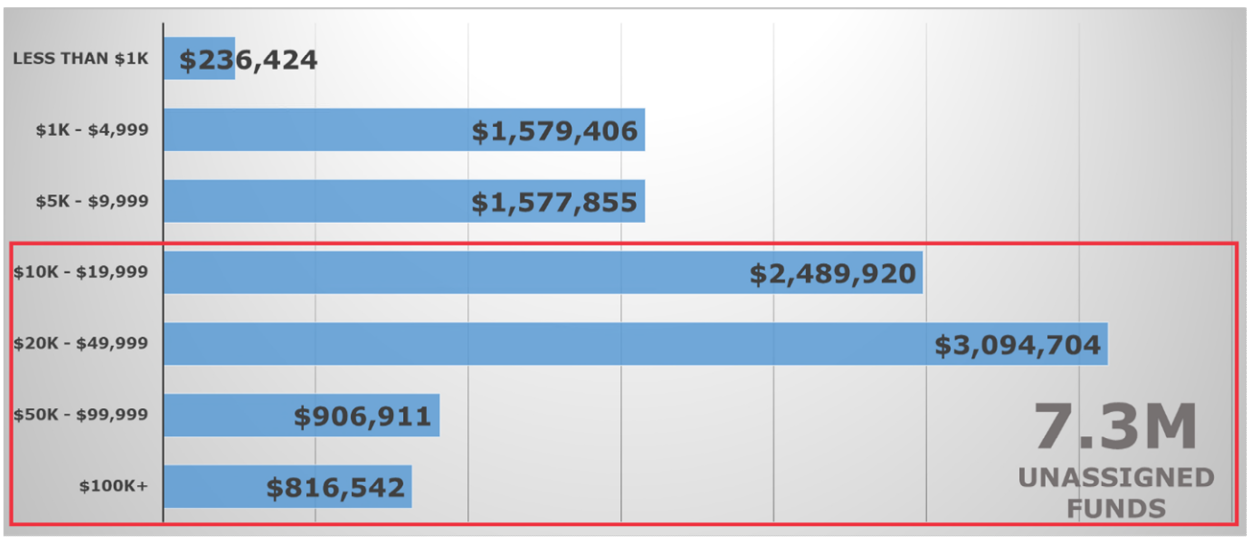


Figure 13 - USBC Provider Account Analysis

Subtract the recently Expired funds at the end of 2019, and evaluate the funds held by Providers, there is approximately $7.3 million held by 303 Provider account holders who have more than $10,000 each to use.

FINAL SUMMARY

PUBLIC COMMENT PERIOD

The USBC Board of Directors and SMART Committee asked for feedback from the bowling community on the proposed policy revisions for SMART published in April 2021. The USBC Board of Directors and SMART Committee made adjustments to the originally proposed policies based on the feedback received.

CONCLUSION

The intention of the SMART program is to provide a centralized location to safeguard and manage scholarship funds awarded to youth bowlers until they are ready to use those scholarships for college.

However, data from the past decade indicates only a small percentage of youth bowlers actually are using their scholarships while event organizers are not using the funds they receive, from investment earnings and expired scholarships, for new scholarship awards.

To ensure funds from investment earnings and expired scholarships are getting in the hands of USBC Youth bowlers who will use the funds to pay for college, the USBC SMART Committee, with approval from the USBC Board, adopted a series of policy revisions that will allocate those funds as scholarships to Recipient accounts of Recipients actively using their SMART scholarship funds, and as grants with eligibility determined by the SMART Oversight Committee.

FINAL POLICY CHANGES

SPM No. 1

SMART Policy Manual
Chapter Three: Providers
Item 6. Earnings Allocated to Providers

Earning Allocated to Providers <u>and Recipients</u>
SMART invests scholarship funds and some of the income earned from the SMART investment is used to cover administrative costs of the program (salaries, supplies, printing, postage, etc.). Income also may be allocated back to the providers and recipients.

* The SMART Oversight Committee may authorize an allocation of funds to providers with a balance of assigned funds over $100, based on the previous calendar year (January-December) and recipients annually from income earned from SMART investments.
* <u>An amount equal to the sum returned to providers from expired recipient accounts will be allocated to recipients from the allocation. The remainder of the allocation will be divided 50% to providers and 50% to recipients.</u>
* The allocation <u>for providers is based on their balance of assigned funds</u> as a percentage of the total SMART liability at the end of that fiscal year.
* Income is defined as the difference between the value of SMART's Cash/ Investments and the amount of SMART's Liabilities as identified in the audited financial statements.

SMART Policy Manual
Chapter Four: Recipients
Item 12. Funds Expire (last paragraph)

Funds expire at the end of the fiscal year (December 31) and funds not used by a recipient will be returned to the provider account.

SPM No. 2

SMART Policy Manual
Chapter Four: Recipients
<u>NEW</u>, SMART Recipient Funds Usage

SMART Recipient Funds will be distributed to recipients as follows:

1. 75% to Recipients who use their scholarship funds.
    a. Each recipient who utilizes funds in a given calendar year will receive an additional scholarship distribution. This scholarship will:
        i. Be equal to the total amount of funds allocated for this payment in that year divided by the number of active recipients.
        ii. Be added to the recipients account as a new scholarship the following year.
        iii. Expire into the SMART General Account eight years from high school graduation date or if additional years were added due to military enlistment, eight years plus the military years, with a maximum of eight SMART allocations.
    b. This additional scholarship distribution can be declined by the recipient if it conflicts with eligibility requirements or for any other reason.
2. 25% for Grants - Criteria, including eligibility requirements, will be established by the SMART Oversight Committee.

SPM No. 3

SMART Policy Manual
Chapter Three: Provider
NEW, Expiration of Unassigned Funds

Past and current Unassigned Funds (allocation and recipient expiration) in a provider account received two years earlier or more will expire on February 14 annually.

Expired funds from a provider's account will be added to the earnings allocation to be disbursed based on the Allocation Policy.

Pepsi Accounts
Expiration of funds in a Pepsi account will be returned to the National Pepsi account for re-allocation back to state Pepsi accounts.

Effective August 1, 2023

SPM No. 4

SMART Policy Manual
Chapter Four: Recipients
NEW, Item 9. Transferable

Scholarship funds are eligible to be transferred provided:

A. Individual transferring the funds is 21 years of age or older
B. Funds are transferred before they expire
C. Funds are transferred to one or more family members. A family member is defined as:
   1. Spouse
   2. Son, daughter, stepchild, foster child, adopted child or a descendant.
   3. Siblings or stepsiblings
   4. Brother-in-law, sister-in-law
   5. Aunt, uncle or their spouse
   6. Niece, nephew or their spouse
   7. First cousin or their spouse
D. Family member receiving the funds:
   1. Has at least four (4) years USBC bowling history. (Does not have to be consecutive)
   2. Agrees to the transfer
   3. Uses the funds within eight years from their high school graduation date, unless additional years were added due to military enlistment. If not, the funds will expire to the SMART General Account for re-allocation.
E. Funds were not received through:
   1. Transfer from a family member
   2. Scholarship given by SMART provided to active recipients.