

MEMO# 1413

September 28, 1989

FY 1989-1990 BUDGET

September 28, 1989 TO: BOARD OF GOVERNORS NO. 60-89 RE: FY 1989-1990 BUDGET

Enclosed is the proposed budget for the Institute's fiscal year starting October 1, 1989 which has been reviewed and approved by the Executive Committee. In preparing the budget proposal, the following factors have influenced our thinking: __ The Institute will finish the current fiscal year with a substantial surplus. -- The increase in member assets during the past year would produce a modest increase in dues income for the coming year at current dues rates. -- Member, governmental, media and public demand on the Institute for information and services is expected to continue at a high level. -- There will be no let up in the legislative and regulatory areas and our tax agenda will continue heavy even on the assumption that there will be favorable results with respect to Section 67(c). -- In spite of the generally favorable market conditions this year, the mood of the industry would not favor a dramatic expansion of the Institute's activities. Consequently, we are presenting a budget designed to respond to the industry's current needs but are not proposing any major new programs. Here is a summary of the major income and expense categories: % Change Budget Estimated Actual Proposed Actual FY 88-89 FY 88-89 FY 88-89 FY 89-90 FY 89-90 Income (Thousands of Dollars) Dues: Open-End 11,150 11,902 12,100 1.7% Closed-End 450 560 700 25.0 UIT 580 524 600 14.5 Associate Members 160 256 240 - 6.25 Investments 315 657 540 -17.8 ICI Mutual 220 215 220 -2.3 Conferences 974 1,254 1,355 8.05 Publications 465 547 691 26.32 Other 75 103 390 278.6 Total 14,389 16,018 16,836 5.1 Expenses Administration 8,659 8,936 9,796 9.6 Legal 1,940 2,060 2,120 2.9 Legislative Affairs 1,100 1,350 1,200 -11.1 1990s Project ----- 250 200 -20.0 FY 88-89 Results Our estimates for FY 1988-1989 show a substantial increase in income over the amount budgeted in virtually all income categories. Expenses also exceeded the budget, but by a smaller amount. Some expense overruns were more than offset by related revenues which exceeded expectations. We now expect a surplus for the year of more than \$1 million. Highlights of the FY 1989-1990 Budget Proposal Personnel. This budget calls for the addition of four and one-half positions. Two of these positions, a mail room clerk and a statistical assistant, are justified on the basis of the cost savings or increased revenue associated with the work they will be doing. We are moving a large portion of our printing and mailing function from outside vendors to our mailing facility and a new mail clerk will be needed to help handle the increased load. In the research area, a new statistical assistant would help with the burgeoning workload related in part to the upsurge in the closed-end funds activity. Another new position would be for a badly needed operations specialist to aid in the work of our Operations Department. We are planning to conduct the transfer agent survey in-house this year and the revenue from that project should largely offset the cost of this position. Another position would be designated for a senior level writer to help produce sophisticated materials distributed by our Public Information and Marketing Department. We also need a half-time clerk to free a secretarial position from the responsibilities of clipping the daily press which has become a substantial

job as coverage of the industry has exploded in recent years. Rent. In February the Institute subleased additional space on the fifth floor of our building. The period of free rent expires in November, accounting for part of our rent increase. The other element in the rent increase is the built-in step-up included in our original lease for the sixth floor space. We are still paying rent at a rate somewhat below the market for prime space. Printing, Mailing and Postage. We will be doing more of our printing and mailing in-house in an effort to control costs and improve control. Our electronic publishing system will also allow us to save substantially on pre-publication costs of preparing published materials. Legal. Outside legal fees are expected to remain at approximately their current level although we expect to reallocate some resources away from the 12b-1 matter to the formulation of legislative recommendations under the 1990s Project. Tax matters will continue to occupy a great deal of time, especially capital gains proposals, efforts to revive the IRA, and modifications of the short-short rule. Investment adviser and blue sky activities are expected to continue at their present levels. Legislative Affairs. Glass Steagall repeal, capital gains and other tax proposals, and the SEC's investment adviser SRO recommendations will absorb any resources left idle due to the final repeal of Section 67(c). Operations. In addition to the annual transfer agent study, a self-financing survey of custodian costs is planned. The first two parts of the Quality of Service Survey will be finished with the assistance of the Public Information & Marketing and Research staff. Workshops to instruct members how to use the SEC's new EDGAR system are also planned. Research. The Research Committee is asking the staff to proceed on five major projects, a larger agenda than we have the capacity to execute. Studies we hope to conclude in the coming fiscal year include 1) a survey of money management attitudes and behavior in the "baby boom" generation, 2) a study of the small pension plan market, including 403(b) and 401(k) plans; and 3) a study of the IRA rollover market. Public Information and Marketing. Most activities are projected to continue at their current levels. We will reallocate some resources away from film distribution toward a new consumer education activity. Up to four new booklets, including one on "How to Read a Prospectus" and another explaining tax treatment of mutual funds are planned. Conferences. In addition to the annual General Membership Meeting and the SEC Procedures, Operations, and Tax and Accounting Conferences, we will sponsor the bi-annual Mutual Fund Training Conference and a new international conference on legal and marketing issues next year. We are also planning a free orientation conference for new ICI members and potential members, and plan a series of workshops to assist members in expanding their use of FUNDS. Capital Expenditures. Principal expenditures will be for modest lease hold improvements and furnishings for our new fifth floor space and for enhancements to our in-house computer system. Total capital expenditures are planned at \$147,900. Planned Surplus. In keeping with the Executive Committee's decision two years ago, we are continuing to build reserves towards the goal of 50% of annual budget. Expected reserves at the conclusion of FY 1989-1990 will be about \$4,800,000 or approximately 30% of next year's budget. David Silver President