INVESTMENT COMPANY INSTITUTE

MEMO# 2225

September 26, 1990

FY 1990-1991 BUDGET

September 26, 1990 TO: BOARD OF GOVERNORS NO. 71-90 RE: FY 1990-1991 BUDGET ____ In preparing the budget proposal for the next fiscal year, the following factors have influenced our thinking: -- Assets of open-end and closed-end fund members have grown substantially over the last year which will result in an increase in dues revenue at the current 29% forgiveness rate of approximately $1.2 million in the next fiscal year. -- Many securities firms are experiencing a squeeze on profits and the prospects for the immediate future are uncertain. This has led us to be conservative in estimating revenue from non-dues sources next year. -- Member, governmental, media and public demand on the Institute has grown over the past year and is expected to remain heavy. -- Legislative and regulatory matters of substantial concern to the industry and fund shareholders, e.g. the stock transfer excise tax and other tax initiatives, a new investment company act, financial planners legislation, and restructuring of financial services regulation, will continue to require a high level of expenditure for outside legal and legislative counsel. -- Initiation of substantial new programs or significant reallocation of the Institutes's resources should await the Executive Committee's recommendations regarding the Institute's mandate for the 1990's. These factors have led us to propose a conservative budget which continues most of the Institute's activities at their current levels. The exceptions are modest funding to carry forward the new centralized data collection and dissemination project, reallocation of some funds from outside legislative counsel fees to a new congressional liaison position, and one professional slot to enhance our media relations capabilities. The following is a summary of the major income and expense categories of the proposed budget, a comparison with the expected results for the current fiscal year and the percentage change from this year to the next. A copy of a more detailed budget breakdown is attached. - 1 - Estimated % Change Actual Proposed Actual 89-90 Income FY 89-90 FY 90-91 FY 90-91 (Thousands of Dollars) Dues: Open-End 12,650 13,800 9.1% Closed-End 696 750 7.8% UIT 639 600 -6.1% Assoc. Member 260 255 -1.9% Investments 649 630 -6.0% ICI Mutual 252 240 -4.8% Conferences 1,636 1,275 -22.1% Publications 524 527 .6% Other 583 770 37.0% TOTAL 17,889 18,847 5.4% Expenses Administration 10,201 11,687 16.5% Legal 2,377 2,340 -1.6% Legislative Affairs 1,166 1,200 -14.2% 1990's Project 333 0 - Foundation Grant 150 0 - Research 265 408 54.0% Operations 385 485 26.0% Public Information 785 903 15.0% Industry Conferences 1,151 1,112 -3.4% Depreciation/Amort 260 270 3.8% TOTAL 17,073 18,405 7.8% NET INCOME 816 442 -45.8% - 2 - - 3 - FY 1989 - 1990 Results We are estimating that FY 89-90 income will exceed the budget by more than $1 million. Major contributions to the surplus income came from new open-end fund members, good results from industry conferences, and profits from surveys. Non-dues income for the year will equal about 20.4% of total income. Expenses will also exceed the budget -- by about $950,000 - -with personnel and various other administrative categories accounting for most of the overrun. The expected surplus of $800,000 will be carried forward as reserves, bringing total reserves to about $5.6 million or 30% of the FY 90-91 budget, still short of the eventual goal of having reserves equal to 50% of the annual budget. Last year we set aside $250,000 from surplus to fund the new ICI Foundation and agreed to consider another contribution from surplus this year. We have projected a contribution of $150,000 in computing this year's results. Highlights of the FY 1990 - 1991 Budget Proposal Personnel. This budget calls for the addition of four positions now and two late in the fiscal year. One of the new positions is for another media relations specialist to augment the two full time and two part time professionals currently allocated to this function. This addition was supported in principle by the Marketing Committee when it reviewed the public information and marketing activities of the Institute this summer. The second new position is for a computer programmer to aid in the development of the software for the new statistical data collection and dissemination activity. Funds are included for two additional support staff who will be needed for this project before the end of the next fiscal year. The third position is for a new tax legislative specialist which will allow reduction in expenditures for outside counsel in this area. The fourth addition will be a support staff person to aid with the "New Funds in Registration" project in the Operations Department. The budget contains a salary increase averaging approximately 7%. No additional fringe benefits are planned but large increases in the cost of medical insurance due to unfavorable experience in these plans in the past year account for most of the growth in this category. We will be examining the possibilities for containing costs through changes in policy provisions in the next year. - 4 - - 5 - Rent. With the expansion of ICI Mutual and the addition over the past several years of new staff, the Institute has nearly exhausted its expansion space. The over-built conditions in the real estate market in Washington and economic problems of the National Geographic Society combine to create an opportunity to sub-lease space at favorable terms contiguous to that we already have on the 5th floor. We have received informal assurances from National Geographic Society management that we would not be forced to vacate this sub-leased space if the prime tenant, ITT, does not renew its lease in 1994. Therefore, we are including funding for adding up to 5,000 sq. Ft. of sub-leased space in the budget. Printing, Mailing and Postage. Moving most of our printing and mailing activities in-house has resulted in holding down costs but a major postal rate increase early in 1991 will drive total expenditures in this area higher. Legal. Outside counsel fees will remain at about their current level with emphasis on tax (capital gains indexation, short-short, foreign shareholders' adjustments), securities (1940 Act revision, financial planners regulation), and Glass-Steagall (legislative restructuring, OCC ruling) matters. Investment adviser and blue sky matters are expected to continue at their present level. Legislative Affairs. Tax matters, Glass-Steagall, the SEC's investment adviser SRO proposal, and consideration of major revisions to the Investment Company Act will again require a high level of resources in this area, but some savings are expected as a result of adding a new staff position. Operations. The custodian survey planned for the current year has been significantly expanded and both the expenses and income associated with it have been allocated to the new fiscal year. A new telephone equipment and usage survey, taking off from the information generated by this year's quality of service survey, will be undertaken. Also, an EDGAR training program will be undertaken next year if the SEC EDGAR timetable for bringing investment company reporters onto the system proceeds on schedule. Recently a person with substantial industry experience was added to the staff, enhancing our capability to undertake surveys and training programs. Research. The budget contains funding for three new research projects recommended by the Research Committee: a study of redeemers, a study of the aging affluent market, and a repeat of the shareholder survey last done in 1986. In addition, funds for publishing several studies completed in the current fiscal year are included. - 6 - - 7 - Public Information and Marketing. Most activities are projected to continue at their present levels. The addition of another media relations specialist will enhance the possibilities for more proactive effort with the press and other media. We are planning at least two new brochures, one on pricing and tax ramifications of mutual fund ownership and another on retirement plans. Conferences. During the fiscal year the Institute will sponsor the General Membership Meeting, the SEC Procedures Conference, the Tax & Accounting Conference, the Operations Conference, a new conference for investment advisers, an orientation conference for new and potential members, and regional meetings for FUNDS users. We will continue to offer a full range of regional workshops/seminars at the same level as the current year. Capital Expenditures. Again this year, the principal expenditures will be for leasehold improvements on the 5th floor of our offices and for major enhancements to our computer system. We plan to add two new super mini-computers to take over most office automation tasks, leaving our main computer to handle our growing databases and the new statistical data collection and dissemination system. We will also be making another payment on our ICDI perpetual database license. Total capital expenditures are projected at $328,000. Planned Surplus. In keeping with the Executive Committee's decision three 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 $5.8 million, or approximately 31.5% of next year's budget. Dues. The dues forgiveness rate will remain at 29% for groups with greater than $100 million in assets and 34% for smaller groups. Dues rates for Closed-end investment company and UIT members will remain at their present levels. David Silver President