

## A Sober View Of Our Finances Going Forward

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**Summary:** The current rough projection from the IEEE is that the IT Society has **lost about \$1.1 Million** due to the financial crisis, with true figures available only in March. However, the current forecast shows that we will remain in excellent health, with an expected reserves to expenses ratio a bit above 100%. (50% is the minimum) We have a \$114K budgeted surplus for 2009 of which only \$50K is budgeted surplus from conferences. This gives us a safe \$64K margin with which to absorb potential conference losses this year without going negative for the year. A further \$50K of safety margin is available since we have money budgeted for initiatives that we could choose not to spend. So for 2009, we should be safe unless something very strange happens.

Going forward, our major looming financial threat is the change in conference Xplore distributions. This is projected to cost the society something like \$110K per year in steady state (2011 and beyond). However, we can absorb this hit without any change in the way we do things, although it will eliminate any spare money for new initiatives except what we can raise from conference surpluses or from raising our journal prices.

Endowing awards does not currently look like a possibility for this year, and besides, does not behave the way we might like. The IEEE Foundation will not provide us with a safe annuity with guaranteed payouts. Instead, the money would ride the market up and down just as it does now, except invested in an even riskier pool of securities.

**Financial Meltdown Implications:** As you can imagine, the financial meltdown is a big deal. Contrary to what you might have thought, the IEEE reserves were heavily exposed to market risk and took a real beating. Final numbers will be available only in March, but the current estimate is that the IT Society reserves at the beginning of 2009 will be depleted from the predicted \$2921K down to \$1792K, a drop of about \$1.1 million. To put this into perspective, this is like more than two to three ISITs being held with no registration fees collected, but everyone attending and eating anyway. But since it is hard to tap our reserves, this is all funny money anyway and we still maintain a safety buffer of more than \$850K beyond our 50% reserve requirement. So our self-insurance against operational losses is still intact.

The more significant implications is that the IEEE as a whole is teetering close to the 50% limit. How close is unknown (again March is when they will let us know) but the consequences are that sending money outside the IEEE is an impossibility and more importantly, the 50% surplus-spending rule might be suspended. If the rule were active, we could have had basically up to \$250K for new initiatives this year (\$100K from a budgeted surplus and another \$150K since last year's operational surplus is estimated to come in at around \$300K).

Operationally, we need to be concerned about whether conference attendance will drop and whether we will find conferences going into the red as employers restrict the ability

of their employees to travel. This year, we are also exposed to currency risk with two ITWs being held in Euroland and ISIT in Korea. I have no idea how this will all play out.

*My recommendation is that we verbally direct the conference organizers to hold their costs down as low as possible until it becomes clear that their registration numbers will hold up. Andrea at TAB meetings also has to be on the watch for any indication that IEEE will grab money from us.*

***A Simple Rounded Net-View of our Finances:***

| <b>Area</b>                                     | <b>Net</b>             | <b>Running Total</b> |
|---|------------------------|----------------------|
| Transactions                                    | +240K                  | 240K                 |
| Long-term Conf. Xplore                          | +110K                  | 350K                 |
| IEEE Administration                             | -335K                  | 15K                  |
| Membership Dues                                 | +80K                   | 95K                  |
| Newsletter                                      | -35K                   | 60K                  |
| Student Committee                               | -15K                   | 45K                  |
| BoG meetings, Awards, etc                       | -50K                   | -5K                  |
| IT Schools                                      | -20K                   | -25K                 |
| Distinguished Lectures                          | -25K                   | -50K                 |
| Outreach  | -10K                   | -60K                 |
| 10% Conference Surpluses                        | +50K (1 ISIT + 2 ITWs) | -10K                 |
| Unfair Conference Xplore<br>(goes away in 2011) | +120K                  | 110K                 |

***Recommendations:***

1. Shift the Awards Luncheon into the ISITs. There is some ambiguity now.
2. Reinstate the 10% surplus target for conferences.
3. Raise nonmember journal prices next year to give ourselves some margin.

**Details about the 2009 Budget and looking towards 2011:**

As you know, we are at the mercy of the IEEE for a great many financial inputs. What follows is an approximate analysis that should reveal the current trends. Most of our revenue is out of our hands:

|                                       |                                   |
|---------------------------------------|-----------------------------------|
| Xplore revenue from Transactions      | 700K                              |
| Xplore revenue from Conference papers | 230K for 2009<br>110K longer term |

These two are mostly in the hands of the IEEE. The conference number will change since it comes from our being the beneficiaries of a completely outdated the formula.

We have slight control of the Transactions revenue since it is apportioned depending on how many PDFs are downloaded from people who are **not** signed in using their member number or any other official IEEE account. Basically, this is papers downloaded through Xplore from institutional subscribers. In 2007, each such click brought us 70 cents. This means that we are helped by papers getting into Transactions in a timely fashion and are somewhat hurt by long-lived preprints on the web. Reducing our sub-to-pub time and having long-half-life papers relevant to circuits and other communities will likely improve our revenues, but it is hard to predict by how much.

We have some minor control over the following sources of revenue in that we can set the prices. The following assumes that we do not raise prices.

|   |      |
|---|------|
| Nonmember and other subscriptions to transactions | 250K |
| Membership fees                                   | 80K  |

Whether it is worth increasing membership depends on whether we believe that a member is likely over the course of the year to shift ~50 PDF downloads onto their member number and away from their institution. At that point, we probably lose money. The best case are members who only download PDFs through their institute subscriptions.

In the long run, the total annual non-conference income comes to **\$1140K** in the long term (say 2011) and about **\$1260K** this year.

Now let us start including the expenses that we have. We start with the big terms that we have little to no control of.

|  |         |
|--|---------|
| Tribute (officially Administration) paid to our IEEE overlords           | -335.7K |
| Transactions creation expenses (partially a function of our page budget) | -550K   |
| Transactions printing expenses (mostly a function of the page budget)    | -160K   |

So far, we are at -1045.7K in expenses. This leaves us about **\$95K** to play with in steady state and about **\$215K** this year .

But there are some more expenses that we want to have to serve the members:

|   |      |
|---|------|
| Newsletter  | -35K |
| Student committee                                       | -15K |
| Awards Luncheon, Awards, and BOG/Officer meetings, etc. | -50K |

At this point, we just have **0K** left in steady state but have **\$120K** left this year. Let us carry over some big initiatives that seem likely to continue into the future.

|                                |      |
|--------------------------------|------|
| IT schools for students        | -20K |
| Distinguished Lecturer Program | -25K |
| Women in IT and other outreach | -10K |

At this point, we are either into the red by about **55K** in steady state or are sitting pretty with **\$70K** in surpluses this year. (Right now, in the budget, all these expenses sit in the web committee line just as a place to park the money.) In typical years, this will only be partially offset by investment returns on our roughly 1700K reserves. The limit of our net negative is 3% of our reserves. That would permit us to go till roughly -50K, leaving us with a 20K shortfall after the conference formulas change. Of course, this is all in the noise of our fluctuations due to continuous formula tweaking at the IEEE.

At this point, we should bring into consideration the main income/expense that we actually have control over: conferences. Right now, the current BoG policy is to aim to run conferences at 0% surplus. It is clear that will not work in the long run with our now diminished reserves if we want to do anything like IT schools, distinguished lectures, continuous upgrades to Pareja, etc.

|                           |     |
|---------------------------|-----|
| Conservative ISIT Surplus | 40K |
| Conservative ITW Surplus  | 5K  |

This results in an another ~45K that could be spent on sustained annual expenses as we go forward. Steadily raising our journal prices by the recommendations of the IEEE also generates approximately ~40K. Between them, we can cover our anticipated expenses and still have about \$30K to invest in new initiatives.