

The Budget and Finance

From Worldcon Runners' Guide

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The Budget and Finance

Insurance

A liability policy for at least \$1,000,000 US should be purchased, in the event that someone should decide to sue.

The art show staff are keenly interested in any purchased insurance also covering the goods in the art show. Surprisingly, such policies are hard to find and tend to be expensive. One serious logistical problem is that most such policies insist on a complete itemization of all artwork covered (including value), and photographs of said artwork (which could in theory be done with a portable video camera.) Such policies also often charge a percentage of the value of the art, which is a cost that has not traditionally been factored into the art show fees. Most committees have ended up taking the position that reasonable efforts will be made to prevent thievery, but that insurance is too costly.

You might also consider finding an agency who will deal directly with the artist, negotiate a good rate for the insurance (don't be afraid to get competitive quotes) and let the **artist** insure the work.

The Budgeting Process

A major problem with doing a budget is that many of the key people who will have to spend the money will not be appointed until 18-12 months away from Zero Hour. If a budget is done 2 or 2 1/2 years out, many of the numbers will be guesstimates.

While this sounds fine in theory, in practice once a budget has made it through the initial approval process by the Board of Directors, its numbers tend to become cast in concrete **psychologically**. Part of this is that once an initial budget is done, individual divisions and departments will not look kindly on notions that they should give up some of their money in situations other than across-the-board budget cuts (and, actually, not even then.)

The most critical problem, though, is the question: how much income will your Worldcon have? This is directly related to: how many members will you have, and at what membership rates? (since most of a Worldcon's income is via membership sales) If your initial guess is too low, you will have many happy problems. If your initial guess is too high, things can get Really Ugly.

Even if you make a good, conservative guess as to your membership numbers (say, 4000), many of your costs are not going to be known until very late in the game. Examples include:

1. Many hotel contracts stipulate that certain types of fees will not be determined until a year away from Zero Hour.
2. A number of organizations that you deal with (particularly unions) are not interested in talking seriously about your needs until six months (or less) from Zero Hour.

How to deal with the above? A possible idea is to hold back a certain amount of money from the budgeting process, not as contingency but as "unallocated," and parcel pieces of it out as specific proposals come in.

Another idea is to put together a preliminary budget containing only amounts needed to get the con to a year and counting, then at that point put together the final budget. The downside here is that planning before that point may be based on some departments having wildly optimistic notions of how much of a piece of the final budget they will latch onto.

There simply are no perfect solutions.

Why it is difficult to Budget a Worldcon

(Contributed by Mark L. Olson) [minor updates by Mike Willmoth 2011]

If you look back over a sample of fifteen years' Worldcons at these estimates of the net profit (surplus for purists) made by each, you see an interesting pattern, or rather, lack of pattern:

1980 Noreascon Two	\$15,000
1981 Denvention Two	\$2,000
1982 Chicon 4	\$30,000
1983 Constellation	(\$75,000)
1984 LAcon II	\$100,000
1985 Aussiecon	(\$10,000)
1986 Confederation	\$60,000
1987 Conspiracy	(\$25,000)
1988 Nolacon II	(\$20,000)
1989 Noreascon Three	\$65,000

1990 ConFiction	(\$30,000)
1991 Chicon V	\$55,000
1992 Magicon	\$80,000
1993 ConFrancisco	\$25,000

Five cons lost money, one broke even, and eight generated surpluses. The average profit of all these conventions was about \$20,000 out of an average budget of about a half-million dollars. The average profit was only 4%, but the actual profit ranged from +20% to -13%.

(All of these numbers include membership reimbursements for program participants and staff. Reimbursements were not actually paid when the con lost money, but to put all the surplus figures on the same footing I have included estimates of what they should have been. Many numbers are estimates, and corrections would be appreciated.)

The obvious question is "why is it so hard to budget a Worldcon so that it breaks even?" To answer that, we need to understand the motivations a Worldcon has in forming its budget, and then look at the external factors that frustrate it.

Worldcons normally aim to make a small profit rather than just breaking even since the penalty for a loss is so much greater than the penalty for a profit. If a Worldcon makes a modest amount of money, fannish heads nod sagely and say that this must have been a prudent committee. Even the smallest loss, even if it only manifests in partial or no membership reimbursements, will be talked about for years.

Since the only coin in which Worldcon committees are paid is reputation and satisfaction in a job well done, a well-managed Worldcon will sensibly aim make money. The disproportionate penalties for a loss make Worldcon management extremely risk-averse. (This is inevitable when each Worldcon is a separate organization. If Worldcons were all run by one organization — perish the thought! — the profit from one would fund the deficit from another and the fluctuations from one con to another would be a lot smaller. The 'pass-on funds' scheme that most Worldcons now participate in is an informal way to minimize fluctuations.)

Given that any prudent Worldcon committee will try to make a modest profit, why have so many lost money? The first half of the answer, that it's hard to control your expenses is sort of obvious. It's perhaps less well-known that it's even harder to predict your income.

Around 85% of a Worldcon's income comes from memberships. Traditionally, the cheapest memberships are reserved for people who pre-supported the Worldcon while it was still a bid, and voted in the election which selected it. Rates increase after the vote right up until at-the-door memberships are sold for 2.5 to 3 times as much as the cheapest.

These days, about a quarter of a typical Worldcon's members are voters and join at the lowest possible rate. The rest join over the con's three years of planning, with half joining in the last year. Because so much of a Worldcon's membership joins late, at the highest rates, the bulk of a Worldcon's income comes in the months right before the con.

Here are typical numbers for a mid-range US Worldcon today: (originally written when Worldcons were voted three years out, now voted two years out, so adjust accordingly)

	When	Member	Rate	Income
	Vote	1500	\$55	\$82,500
	Year 1	900	\$75	\$67,500
	Year 2	1100	\$100	\$110,000
	Year 3	2000	\$120	\$240,000
	At door	800	\$150	\$120,000
	Other income			\$75,000
	Total	6100		\$695,000

Budgeting a Worldcon is very risky since many spending decisions must be made before the income to support them is certain.

Which leads to the second problem: it is very hard to predict a particular Worldcon's total attendance. Reliable monthly membership figures exist for five North American Worldcons. Up until January of the year of the con, their membership figures were all pretty much the same. Starting in January, only 8-9 months before the con, each con's membership curve went off on its own and final pre-registration numbers wound up covering a range of nearly 2000 from the largest to the smallest. And there wasn't much correlation between the con size in January and final sizes.

Let me put that another way: Five comparable Worldcons had roughly the same number of members up through January of the year of their convention, yet wound up scattered over a range of 2000 members. All of the difference was in high-priced memberships. The difference in income between the largest and smallest convention was around \$180,000, or over a quarter of the budget. And as of January, none of them knew for sure.

This makes it very hard to budget!

No Worldcon, no matter how well run it is, has much control over its income. True, foolish rate policies can have an effect, and a bad reputation can discourage people from attending, but even without that sort of problem, it's very difficult to accurately predict a Worldcon's total income until a couple of months after the con is over.

If you analyze a typical US Worldcon's income by source you can see why:

Amount	Type of income
\$375K	<i>Base members</i> income comes from the 4000-5000 or so members that any US domestic Worldcon can expect to get. It appears to be a fairly stable number and one can be reasonably sure of it by about January of the year of the con.
\$0K-\$140K	<i>Unpredictable advance</i> members are the 1200 or so members who may or may not go to a particular Worldcon. Most of the divergence takes place in the May-July period and is undoubtedly affected by the con's reputation, hotel rates, travel costs, membership prices, and the

state of the economy. It's only slightly predictable.

\$40K-
\$100K

At the door income seems to have a stable base, but is still

wildly variable. It probably depends more on the local population density and on the extent of local publicity than on the con's

reputation elsewhere in fandom.

\$75K

Other includes Hucksters table fees, Art Show income, ad

income, interest, pass-on funds and the like. It is stable and very

predictable.

\$490K-
\$690K

Total

A well-planned Worldcon must deal with an uncertainty of about 40% in its total income. This is worse than it sounds: By the time the con has an inkling of its actual income, as much as 40% of its total expenses are committed either because they have already been spent or because decisions to commit to future expenses (like how much of the Convention Center to rent) had to be made. This means that the con is faced with an expense budget which might still be changed of around \$300K, and uncommitted income which might range from \$200K to \$400K. The con might have to deal with 30% budget cuts or have a 30% surplus.

It's no wonder that Worldcon surpluses vary a lot. In fact, it's a wonder they don't vary more.

Treasury Office At-con

At con, the location of the treasury must be kept secret, so that mundane thieves can either be misdirected or not realize that a treasury is in the building. One hard lesson learned is: **under no circumstances tell the hotel in writing where the treasury will be!** One can never tell into whose hands memos will get. The major problem in practice with this has not been that of hotel staff working with thieves (though this has happened at some non-SF cons), but with the hotel accidentally listing the treasury location on the daily program which is posted throughout the hotel.

Other than the treasury staff and paid professional security, the only people that should be allowed in the treasury in any circumstances are the Board of Directors, the Facilities Liaison, and the spouses of treasury staff—and all of those should be tolerated only as a courtesy that is expected not to be abused.

The running gag is: "I can tell you where the treasury is, but then I'll have to kill you!"

Multiple Currencies

Determine your basic currency (Euro, Sterling, US\$, Can\$, etc. and monitor exchange rates. They can fluctuate wildly in three years and, if they do, be sure to announce any changes quickly, give reason and apologize (makes people feel better about it if you do.)

Bank

It would be useful if a local bank would be willing to put a banking facility on-site (or if there were one already at, or attached to, the site.) The bank could accept deposits **during** the Con, cutting the Con's risk. Why would any bank do this? Because it will be handling anywhere from \$200K to \$600K in one week, it will expect to cash Travellers Cheques, personal cheques, handle currency conversion, properly set up (with correspondent banks) it can accept the Hucksters' receipts, etc.

Expense reimbursement

A sample form that can be used by people submitting expenses to be reimbursed (or to get advance checks) is on the following page: [get form — note in script: important! Note that the form is multi-part carbonless! This makes it easier to keep track of things.

Budget Philosophy

Plan your budget to cover all anticipated income and expenses you can think of. Estimate how much income and expenses will be needed at various levels and at various time points prior and during the convention. For example, create income/expense estimates for each 1000 memberships sold. Or each 500. Or each 250. You should also estimate how far out pre-con these will be needed. Try to prevent any budgetary month going into the red (negative). Instead, design your cash flow estimates so that you are paying for things out of income from that month rather than tapping into other months. This may not be possible for some expenses, but if you do your best you will improve your overall finances.

Define your budget by division, department and area. Divisions include Events, Programming, Financial, etc. Departments include Hugo Awards, Masquerade, Guests, etc. Areas include Green Room, Consuite, Technical Equipment, etc. Different income categories include child, teen, adult, military, student, program participant (aka guest, not Guests-of-Honor), dealers, dealers tables, etc.

Despite your best estimates ahead of time your budget will need to be flexible so that it can be updated as actuals are posted. Once you reach a given milestone, say 500 members, then earlier estimates for less than this number of members can be dropped from the budget. For a given number of members you can use the actuals at this point to more accurately project forward and should adjust the remainder of the budget accordingly. Include your division heads in the initial budget as soon as possible, then as department heads come on board below each division head include their input in the division's portion of the budget. If you project properly, then the amount to spend on a given division should never go down, only up as memberships and other income arrive. There's nothing worse than telling folks you have \$X, then have to cut that by 20% or more when the anticipated funds don't arrive on time or at all.

Some expenses will be fixed for any number of members. These may include the convention center function space costs from the contract, the hotel function space costs also from contract, airfare or transportation for Guests-of-Honor (until actuals are posted), etc. Most expenses will be variable depending on many variables. These variables include number of program participants, amount of technical equipment needed, licensing fees for music or movies, office supplies, etc. Income will rarely be fixed unless corporate sponsorship is obtained or other special arrangements are made. Most income is from memberships, then there's advertising sold for the website, program book or other publications,

art show panels/tables, dealers tables, merchandise, and so on. Start by asking for past budgets vs actuals and customize from there. Most Worldcons will have mostly the same types of income and expense categories from one year to the next.

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