Initial Consultation: Fiscal Year 2009 Operating Plan and Budget Framework

Doug Brent, Chief Operating Officer
Kevin Wilson, Chief Financial Officer
Purpose of this discussion

- Kick off ICANN’s operations and budget planning for Fiscal Year 2009 (1 July 2008 through 30 June 2009)
- Inform the discussion with an initial budget framework and draft operating activities/outcomes
- Engage the community in refining key assumptions, spending priorities and other choices over the next months
- Create a plan and budget that will deliver on ICANN’s strategic priorities
ICANN’s Planning Cycle

- Three year Strategic Plan approved in December
- Now beginning operating plan and budget preparation with both to be finalized in June
Process Goal: Maximize Participation

2007

- Lisbon
  - Operating Plan Consultations
  - Operating Plan Posted
  - BFC Review
  - Draft Budget Posted
  - Budget Approved

2008

- New Delhi
  - Initial Framework Posted; Community Consultations
  - Extended community consultation period
  - BFC Review
  - Draft Budget Posted
  - Budget Approved

First community feedback four months earlier

San Juan

Paris
Improving the Process

- Focus on early input/feedback
- Community feedback on a work-in-progress
- Operating Plan activities in more accessible format – improved focus on outcomes
- Step towards full-costing of various initiatives
- Multi-year forecast
Challenges with this approach

- Early view is less precise, more future-looking
- Over this three-year budget cycle, introduction of new gTLDs has many difficult-to-forecast elements
- Still making decisions about ICANN practices that could affect ultimate budget
2009 Operating Plan Themes

● Reality of IDN’s and new gTLDs
  – Significant effort/expense to complete implementation process
  – Upfront investment in staff and systems necessary to prepare for new TLD Operations
  – Considerable uncertainty in this new environment

● Operational effectiveness essential
  – Fully implementing systems and plans for security and failover
  – Basic business tools
2009 Operating Plan Themes – Cont.

● Increase global participation
  – Fellowship, ALAC, significant increase in planned translation, investment in remote participation

● Registrant Protections
  – Security
    ● Be operationally prepared to publish and sign the root zone with DNSSEC by the end of FY09
    ● Expand security training to cc operators in conjunction with the cc community
  – Funding for full participation in data escrow
  – Ramp in compliance activities
    ● Staffing and systems
Making the Planning Work Accessible

Daily Operations

- Daily work, e.g. processing IANA change requests or working with a registrar
- Administrative tasks, facilities, etc.

Key Initiatives

- Strategic priorities
- Strong community interest
- Separately identifiable projects

IDN + new gTLD

- Special focus on these key strategic initiatives: new gTLDs and IDNs

Total ICANN activities and expenses
Fiscal Year 2009 – Daily Activities

- Base IANA services
- Systems support for global teleconferences
- Connectivity and expenses for L-Root
- Ombudsman
- Finance, Human Resources, IT
- Non-ICANN meeting travel
- Facilities: Marina del Rey, Sydney, Brussels
- Office and other support
Fiscal Year 2009 – Key Initiatives

- IDN Activities
- Implement Policy for Introduction of New gTLDs
- Operational Systems for New gTLDs
- Compliance Activities
- Registry/Registrar Support
- Global Outreach
- Organizational Reviews
- Organizational Improvement
- Policy Development Support
- Registrant Protections

- Security Initiatives, including DNSSEC
- Transcription and Translation
- Technical Work/Leadership
- IANA Improvements
- Broaden Participation
- Operational Systems and Infrastructure
- Meetings and Events
- Administrative Improvement
Example: Compliance Activities

- Perform annual audits of registrar and registry compliance performance
- Site visits to assess compliance with registrar and registry agreements (expanded to 100 per year)
- Enhance sophistication of audit procedures and processes
- Develop procedures including acquiring software support to assist in audit tasks (internal)
- Publish reporting and statistics 3 times per year
- Establish presence in selected regions to assess compliance
Example: Compliance Activities – Cont.

- Outreach to governments, consumer advocacy groups and registrars and registries
- Implement complaint process system to:
  - address complaints and forward them to correct parties as approved
  - collect statistics to better target compliance activities

<table>
<thead>
<tr>
<th>FY 09</th>
<th>FY10</th>
<th>FY 11</th>
</tr>
</thead>
<tbody>
<tr>
<td>On Going</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Initial plan framework:

- Information is available on all key initiatives at the same level of detail shown for the Compliance area at:
  - [http://icann.org/announcements/announcement-2-04feb08.htm](http://icann.org/announcements/announcement-2-04feb08.htm)

- Attempt to both summarize the information at a high level and provide detail about outcomes

- Initial budget information developed for each initiative area as well
## FY 09 IDN and new gTLD Expenses

### Important cost drivers:
- $3.3MM outreach and awareness program regarding new gTLDs/IDNs for due diligence
- $1.5MM in professional services for completing dispute resolution and contract processes
- $1MM to build a system for TLD applications, that integrates with TLD operations, registrar support and IANA integration

<table>
<thead>
<tr>
<th></th>
<th>FY 2008</th>
<th>FY 2009</th>
<th>Change $</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDN Activities</td>
<td>968,000</td>
<td>2,111,000</td>
<td>1,143,000</td>
</tr>
<tr>
<td>Implement Policy for introduction of new gTLDs</td>
<td>2,640,000</td>
<td>8,547,000</td>
<td>5,907,000</td>
</tr>
<tr>
<td>Operational systems for new gTLDs</td>
<td>165,000</td>
<td>3,670,000</td>
<td>3,505,000</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>3,773,000</td>
<td>14,328,000</td>
<td>10,555,000</td>
</tr>
</tbody>
</table>
## FY 09 Key Initiatives

<table>
<thead>
<tr>
<th>Key Initiatives</th>
<th>FY 2008</th>
<th>FY 2009</th>
<th>Change $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance activities</td>
<td>495,000</td>
<td>1,397,000</td>
<td>902,000</td>
</tr>
<tr>
<td>Registry/registrar support</td>
<td>550,000</td>
<td>1,180,000</td>
<td>630,000</td>
</tr>
<tr>
<td>Global outreach</td>
<td>2,283,000</td>
<td>3,176,000</td>
<td>893,000</td>
</tr>
<tr>
<td>Organizational Reviews</td>
<td>605,000</td>
<td>788,000</td>
<td>183,000</td>
</tr>
<tr>
<td>Organizational Improvement</td>
<td>755,000</td>
<td>1,103,000</td>
<td>348,000</td>
</tr>
<tr>
<td>Policy Development Support</td>
<td>400,000</td>
<td>420,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Registrant Protections</td>
<td>715,000</td>
<td>783,000</td>
<td>68,000</td>
</tr>
<tr>
<td>Security Initiatives, including DNSSEC</td>
<td>387,000</td>
<td>1,595,000</td>
<td>1,208,000</td>
</tr>
<tr>
<td>Transcription and translation</td>
<td>605,000</td>
<td>1,050,000</td>
<td>445,000</td>
</tr>
<tr>
<td>Technical work/leadership</td>
<td>860,000</td>
<td>420,000</td>
<td>(440,000)</td>
</tr>
<tr>
<td>IANA improvements</td>
<td>304,000</td>
<td>849,000</td>
<td>545,000</td>
</tr>
<tr>
<td>Broaden Participation</td>
<td>759,000</td>
<td>1,753,000</td>
<td>994,000</td>
</tr>
<tr>
<td>Operational systems and infrastructure</td>
<td>477,000</td>
<td>860,000</td>
<td>383,000</td>
</tr>
<tr>
<td>Meetings and events</td>
<td>3,630,000</td>
<td>3,663,000</td>
<td>33,000</td>
</tr>
<tr>
<td>Administrative improvement</td>
<td>352,000</td>
<td>856,000</td>
<td>504,000</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>13,177,000</td>
<td>19,893,000</td>
<td>6,716,000</td>
</tr>
</tbody>
</table>
Revenue Assumptions

- Revenue from existing sources
  - Budget assumption is for modest growth in registrations from FY09-FY11
  - Some indications that significant consolidation in number of registrars or reductions in the number of domain registrations is possible,
    - Apply transactional fee to all add transactions including add grace period
Revenue Assumptions – cont.

- Revenue from new TLDs
  - Applications for 100 new TLDs in FY09, 300 in FY10, 500 in FY11
  - Few TLDs operational in FY09; ramp consistent with sTLD start-up process
  - Average operational TLD will generate $106K/year in revenue to ICANN
  - TLD applications have both a cost and revenue implication, but based on GNSO recommendations, and for model purposes, are currently assumed to be equal (no net impact)
  - Model fee reductions as significant revenue is generated from new TLDs and strategic reserve fund goal is achieved
## Three year financial framework model

<table>
<thead>
<tr>
<th></th>
<th>FY 2009</th>
<th>FY 2010</th>
<th>FY 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>gTLD application revenues less costs</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Current Revenue Sources</strong></td>
<td>61,274,000</td>
<td>63,112,000</td>
<td>65,005,000</td>
</tr>
<tr>
<td>New gTLDs Revenue</td>
<td>405,000</td>
<td>6,885,000</td>
<td>29,565,000</td>
</tr>
<tr>
<td>Potential Fee Reduction</td>
<td>-</td>
<td>(3,000,000)</td>
<td>(23,000,000)</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>61,679,000</td>
<td>66,997,000</td>
<td>71,570,000</td>
</tr>
<tr>
<td>Personnel</td>
<td>21,161,000</td>
<td>22,304,000</td>
<td>24,083,000</td>
</tr>
<tr>
<td>Board and public meetings</td>
<td>5,675,000</td>
<td>5,845,000</td>
<td>6,020,000</td>
</tr>
<tr>
<td>Other travel and meetings</td>
<td>3,988,000</td>
<td>4,129,000</td>
<td>4,314,000</td>
</tr>
<tr>
<td>Professional services</td>
<td>18,973,000</td>
<td>13,372,000</td>
<td>16,173,000</td>
</tr>
<tr>
<td>Administration</td>
<td>4,245,000</td>
<td>4,005,000</td>
<td>4,371,000</td>
</tr>
<tr>
<td>Bad Debt &amp; Depreciation</td>
<td>3,086,000</td>
<td>3,161,000</td>
<td>3,238,000</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>57,128,000</td>
<td>52,816,000</td>
<td>58,199,000</td>
</tr>
<tr>
<td><strong>Net Revenues less Expenses</strong></td>
<td><strong>4,551,000</strong></td>
<td><strong>14,181,000</strong></td>
<td><strong>13,371,000</strong></td>
</tr>
<tr>
<td>Intended Increase in Reserve</td>
<td>10,000,000</td>
<td>12,500,000</td>
<td>15,000,000</td>
</tr>
<tr>
<td><strong>Net</strong></td>
<td>(5,449,000)</td>
<td>1,681,000</td>
<td>(1,629,000)</td>
</tr>
</tbody>
</table>
FY09 Budget by Strategic Priority

- **Multistakeholder**
  - 15,086,000
  - 26%

- **Organizational Excellence**
  - 3,321,000
  - 6%

- **Security and Stability**
  - 3,526,000
  - 6%

- **Accountability**
  - 1,184,000
  - 2%

- **Confidence in gTLDs**
  - 6,713,000
  - 12%

- **Financial Stability**
  - 424,000
  - 0.7%

- **Monitor IPv4 vs IPv6**
  - 1,359,000
  - 2%

- **IDN's and New gTLD's**
  - 25,515,000
  - 45%
FY09 Budget by ICANN Principle

- Global Community Participation: $12,288,035 (21%)
- Bottom-Up, Transparent Policy Development Support: $12,357,730 (22%)
- Promotion of Competition and Choice: $10,616,805 (19%)
- DNS Stability & Security: $9,081,930 (16%)
- Other*: $12,783,500 (22%)

*Other may include legal, capital investments, reserve funds, and other non-program costs.
Observations

- Three year view is not a prediction - it is a *planning model* for the ICANN community. This is the Framework.
- Should energize discussion:
  - Important community assumptions: How many new TLDs? What should the fee model be? How quickly will new TLDs come on line?
  - What are the important risks and opportunities over the next several years? How can ICANN manage risk inherent in a new process with many unknowns?
Open Items/Budget Impact

- This initial framework does not provide reserve fund contribution in fiscal year 09 called for in strategic plan
  - Need to consider expense reductions, revenue increase, or change in reserve goal
- Possible remuneration for Board members
- Possible changes to ICANN travel support policy
- Possible ALAC meeting in FY09
- Changes in meeting structure
- Possible fee changes or new revenue sources, including auctions
Next Steps

- Community consultation
- Detailed ICANN budget preparation by staff ("bottom up")
- Working through detailed assumptions, estimates, priorities, and model with Board Finance Committee with Community input
- More detailed analysis of new gTLD expenses and revenues
- Post updated Operating Plan and Proposed budget in May
- Final consultations and consideration of budget at Paris meeting
Thank You!

For more information, please visit:
http://icann.org