ICANN81 | Prep Week – Finance and Planning Update
Wednesday, October 30, 2024 – 11:30 to 12:30 AM TRT

KELLY MEDINA: Hello and welcome to the Finance and Planning Update. My name is Kelly Medina and I am the Participation Manager for this session. Please note that this session is being recorded and is governed by the ICANN Expected Standards of Behavior and ICANN Community Anti-Harassment Policy. During this session, questions or comments will only be read out loud if submitted with a question or a comment posted in front of the text. Interpretation for this session will include English, French, Spanish, Chinese, Arabic, Russian, and Portuguese. The interpretation option is located in the Zoom toolbar. If you would like to speak during this session, please raise your hand in Zoom. When called upon, unmute your microphone to speak. Please state your name for the record, the language you will speak if speaking a language other than English, and speak at a reasonable pace.

I will now review today's agenda. Today we will be discussing the Fiscal Year 2024 Financial Update. We will also discuss the Fiscal Year 2025 Financial Forecast, ICANN Fee Increase, and we will be setting some time aside to allow for questions regarding the financial slides. Then we will continue with the Draft Fiscal Year 2026-30 Operating Plan and Draft Fiscal Year 2026 Operating Plan information, and we will be providing time at the end for any final questions. At this time, I will be handing over the microphone to Shani.

Note: The following is the output resulting from transcribing an audio file into a word/text document. Although the transcription is largely accurate, in some cases may be incomplete or inaccurate due to inaudible passages and grammatical corrections. It is posted as an aid to the original audio file, but should not be treated as an authoritative record.

SHANI QUIDWAI: Thank you, Kelly, and hello, everyone. If we could move to the next page, please. So first just wanted to flag and make an announcement to everyone about the various financial schedules that ICANN produces and publishes on our website. You can see them listed here. The majority of these reports are published annually after the completion of the fiscal year. You can see most of these have recently been published and relate to our fiscal year that was from July 2023 to June 2024. So we encourage everyone to take a look at some of those reports, and in the following slides I'll go through some of the information that's contained within those. And there is a link at the bottom of this page to all of these resources. If we could move to the next page, please.

So here we have a high-level overview of the various segments and the ways that we report and track costs at ICANN. We'll go through each one of these in more detail, but just to start off and kind of emphasize some of the figures on this page, the top row is the funds that we started the year with, and at the bottom, that is where we ended. So we started the year with $518 million funds under management and ended the year with $518. The first column here is ICANN operations. This is where all of the core work within the organization and the day-to-day activities of the organization are recorded and captured. For this fiscal year, we had funding of $149 million and expenses of $155 million. This translates to a deficit of roughly $5 million, and this has been communicated in the past and was announced towards the end of the fiscal year.

With the adoption of the fiscal year 2025 budget, the board did acknowledge the fact that ICANN had higher expenses than funding in

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fiscal 2024 and worked with the organization to develop a plan ultimately where by the end of this fiscal year or earlier, we will have taken actions to reduce our costs and improve the financial sustainability of ICANN so that in the future we're balanced. Some actions have been taken so far, and we are nearly two-thirds of the way done in completing our plan to balance future budgets.

The next column here, we have the new gTLD program. This is where the costs to process the remaining applications for the 2012 round are captured along with the costs that are being incurred to develop the next round of TLDs.

Next here, we have the SFICR projects. This stands for the Supplemental Fund for Implementation of Community Recommendations, and we have separate slides on here, so I won't go into too much detail, but we are currently utilizing these funds to do prioritized review implementation work along with RDRS pilot.

Next, we have the grant program. This is utilizing the auction proceeds from the 2012 new gTLD round. For the year, we incurred $1.5 million of expenses, and these are ultimately implementation costs and preparation costs to begin processing those grants and dispersing them later this year.

Lastly, we have the Reserve Fund. In the Reserve Fund, there were no actual contributions or withdrawals, but we did see gains on the investment side of $12.6 million, ending the year at $182.5 million.

And then on the bottom of this table, you can see the headcount. And so, the headcount at the end of the year, or the number of ICANN staff, was 451, and they're broken out and assigned to these various segments here.

We could move to the next page. This is just a little bit more detail on the funds. As noted before, we had no change in overall funds for the year. However, if you look in the various different types of funds that we have, there was activity.

Overall, the operating fund decreased roughly $22 million. The primary reason is that there was a board-approved transfer of excess from prior years to the SFICR, and those funds are being used for the programs noted before, as well as the new gTLD implementation.

We have the new gTLD fund. These are remaining application fees from the 2012 round. This decreased $7 million due to the expenses that were incurred.

The auction proceeds increased $11 million. This is primarily due to gains on the investments, partially offset by the $1.5 million of expenses that we've seen.

And then lastly, as noted before, the reserve fund has gone up. There have been no withdrawals or contributions to that. If we could move to the next page.

Here is just a little bit more detail within the operations of ICANN. You can see here that when comparing the funding to the prior year, the funding was flat or unchanged. It was slightly higher than the budget, and this is due to higher than historically seen fees related to new gTLD domain name transactions or registrations.

On the expenses, you can see that those have increased from $142 to $155 million. This is due to a variety of factors, but there was overall an increase in travel and projects and work. You can see that the staffing has increased 17, and those are some of the key drivers. We'll go through more details of that in subsequent slides.

On the budget, you can see here that we had projected to be balanced with $145 million of funding and $145 million of costs. However, as noted before, there was a deficit of $5 million. We can move to the next page.

Here is more detail for the next round. You can see that since the launching of this work in April 2023, we have incurred $21 million in costs, and this aligns fairly closely with the budget. The funding for this program or this work is approved by the board in tranches, and so those are listed here.

There have been to date three different tranches approved by the board to carry out the work to implement the next round. If we move to the next page, here is an overview of the specific review recommendations. These are the costs that have been incurred to date for this work starting in 2022 February, and these are for 45 board-approved specific recommendations that are being implemented with funds from the SFICR. The board had approved a usage of $5.8 million of these funds, and to date we have spent $2.4 million, and you can see the breakout here and how much of those costs relate to staffing versus external, as well as the completion of each of those reviews in the first column.

Here we have an overview of the Registration Data Request Service, or RDRS. Those costs are also being funded from the SFICR. The board had approved this work, and you can see here that these costs have primarily been internal staff costs within our IT department. Those consist of $1.6 million, along with some costs on the vendor side to ultimately get this pilot system up and running.

Here we have the grant program. You can see here that these were the costs programmed to date to implement and get the grant program implemented. The actuals align very closely to the budget, just slightly under $2 million. There was a key milestone in the fiscal year that the first application cycle opened in March 2024. Those applications have been accepted and are currently being processed, and I believe in December is when we are targeting to start reviewing and doing some of the disbursements on this. That concludes the overview of the past fiscal year. So at this point, we'll now give an overview and a forecast into the current fiscal year.

And so at this point, we are roughly three to four months into the fiscal year. The fiscal year started on July 1st, 2024, and will run through the 30th of June 2025. Some of the assumptions that we wanted to highlight before walking through the numbers is that we're projecting a lot of ranges, and that's due to the fact that we are still very early in the fiscal year, and there are assumptions and items that we don't have full visibility into, and so we projected ranges to acknowledge the fact that there isn't full certainty on specific things such as our funding or some of the various cost drivers.

Overall, we are projecting a deficit in the range of $2 to $7 million, and this does align with the board resolution that there could be a deficit this year. However, ICANN is committed and will have completed in actions by the end of the fiscal year or earlier to remove costs and ultimately get to a sustainable run rate or cost structure that aligns with future funding.

If we move to the next page, here is an overview of some of those figures, and we compare these against the adopted budget that was approved by the board in May 2024. The funding was $145 million in the budget. We still project that to be fairly similar. We're currently projecting $144 million funding with a range of 142 to 146. The funding is evaluated on a monthly basis and more formally adjusted as we learn information on a quarterly basis when we bill the contracted parties, as well as analyze macroeconomic data and other information within the DNS marketplace.

Overall costs are projected to be $82 to $85 million. This is lower than what had been projected in the budget. The two key drivers that are driving this are, in May, ICANN announced a reduction in some positions, and so the elimination of those positions is driving the cost to be lower than what had been initially thought, and separately, we did not do organization-wide salary increases, and so those two things are the key drivers as to why we're projecting lower than what had initially been budgeted.

In the non-personnel expenses, those are trending to be fairly in line, however, we are looking at optimization and cost savings specifically with things relating to travel, as well as IT systems and platforms.

The contingency has been increased from the budget from $5 million to $4 to $7.5 million. This is ultimately to give the organization more flexibility to manage hard-to-predict costs should those arise, and so at this point, we project that range, and as the year progresses, we'll get more visibility into that and have more clarity as to what would be the usages of those contingency funds. Lastly, you can see here that the adopted budget had projected a deficit of $8 million, and we now projected this range of $2 to $7 million.

Next page, please.

KELLY MEDINA: Hi, Shani. We had a couple questions regarding the fiscal year 2024 financial slides. Would you like to answer them now or wait until the Q&A section?

SHANI QUIDWAI: Let me just see how many more slides we have. I only have one more slide to go through, so let me just finish with this and then we'll go to all the Q&A. And one last topic we just wanted to bring visibility into, today ICANN posted a blog on our website discussing a planned fee increase that we are implementing. If we move to the next page, there's a little bit more background on here, and so ICANN is planning to increase fees for most of the gTLD registries and accredited registrars. ICANN's fees have never been increased so far. To date, ICANN has been able to manage within our funding without increasing fees due to things such as growth within the domain name marketplace and cost optimization.

Ultimately, we have now reached a point where it is critical that we start to increase fees so that we can grow our funding in alignment with inflation as a lot of our costs do grow in alignment with inflation. The fee increase can be viewed as a way to improve the financial sustainability of ICANN. This is not something that we are using to solve the current deficit or to fund new work. Ultimately, this is something that helps the financial sustainability.

When you read through the blog and some of the other materials that are in there, you can find more background on this, but ultimately the goal of the fee increase is to grow funding in alignment with inflation.

So specifically with registries, there is contractual language for the fees to increase in alignment with inflation, and that part of the contract essentially will be exercised starting in January. And then on the registrar side, we're projecting an increase to start in July. The registrar transaction fees and variable accreditation fee have currently been experiencing a roughly 10% discount for over 10 years. And so the plan is to remove that discount, and this will all be conveyed and published within the operating plan and budget that is posted for public comment in December. The public comments will be taken into consideration, and then ultimately the board will review this budget in May. And at that time, if the board approves this, it will then go to the registrars for their voting as part of the registrar fee process for them to vote on who would be paying the fees, either them or the registries, or collecting it essentially on their behalf So with that, I'll pause and we can start to go to the Q&A now. Thank you.

KELLY MEDINA: Thank you, Shani. So we did receive a question from Judith, which was, "I noticed staffing was budgeted at $413, but then went up to $416, and was wondering if you could talk about this." I did see that Xavier provided a response in the comments, so we will go ahead and move on to the next question from Owen, if that's okay. We will go to, how will ICANN fund the gap of the budget deficit?

SHANI QUIDWAI: Thanks for the question, Owen. So the budget deficit has already been started to be addressed in the sense that, as noted in May, there were positions eliminated. The elimination of those positions has helped reduce the gap. Aside from that, also mentioned the fact that we bypassed taking increases on staff salaries, which has helped further stabilize costs. Separately, we have started to reduce staff travel to ICANN meetings, and there are various other initiatives within the organization that are being taken to optimize costs. One of the more notable ones being technology rationalization and consolidation, where we're evaluating a lot of the services and platforms that we use, and optimizing those, and ultimately leading to lower costs. So to date, we're roughly 60% to 70% done in kind of completing and identifying those actions, and we're working on the remaining third that will get us balanced in the future.

KELLY MEDINA: Thank you, Shani. At this time, we are open for questions. You may enter your questions in the chat, or we will also allow questions to be answered live, if you would like to raise your hand on Zoom. Okay, I am not seeing any questions at this time. We will be providing additional time for questions at the end of the presentation as well. We will go ahead and move on to our next section, which is regarding the draft fiscal year 2026 and 30 operating plan and draft fiscal year 2026 operating plan. Margaret, if you could go ahead.

MARGARET BENAVIDES: Thank you, Kelly and Shani. For the record, this is Margaret Benavides from the ICANN planning team. I will now provide an overview of the draft five and one year operating plans for FY 2026 through 30 Next slide, please.

The ICANN planning process encompasses the strategic planning process, the operating planning and budget process, and the progress reporting process. Many in the audience may be aware that the development of the draft FY 2026 through 30 strategic plan is currently in process and being led by the ICANN board. The strategic plan helps set ICANN's strategic direction, including its mission vision, strategic objectives, goals, and strategies. The operating plan is a critical way for or to operationalize the strategic plan and help implement ICANN's mission and mandate and operate the organization. The budgeting process helps identify the resources needed to achieve these activities. And the progress reporting process helps to explain the achievement of key milestones and how ICANN is delivering against this plan. Next slide, please.

The ICANN bylaws are very specific in outlining that the ICANN and PTI both need a strategic plan to be developed every five years with an annual update as needed. They also advise that a five- and one-year operating plan and budget are developed annually for ICANN, IANA, and PTI. Next slide, please.

The operating plans include descriptions of the activities ICANN will undertake to achieve the strategic plan or operate the org and meet its mission and mandate. Key activities were published in the draft operating plan framework, which was published alongside the draft five year strategic plan in July. These activities have been further grouped into strategic initiatives and development of the five year operating plan and will outline how ICANN intends to meet the strategic goals outlined in the draft five year strategic plan. The functional activities help with implementing our mission and mandate, such as IANA or contractual compliance or activities that help with operating the organization or supporting organizations such as human resources or finance. Next slide, please.

There are 33 functional activities that we will be writing about in the five and one year draft operating plans, and these functional activities encompass all areas that ICANN is involved in, including our technical mission, policy, community engagement, as well as activities that we use to operate the organization. Next slide, please.

I will now review the FY 26 draft planning assumptions and principles. The first assumption is on the new strategic plan. This operating plan assumes that the draft five year strategic plans vision and strategic goals will be adopted and set forth to help with delivering on the strategic initiatives that will help with delivering upon the strategic plan. The second assumption is on travel. The FY 26 plans assume that

ICANN public meetings, board, org, and community engagement will occur based on the public meeting schedule.

This leads us to our first principle on financial sustainability. Financial sustainability is the cornerstone of our plans. We want to make sure we have affordability with operating expenses remaining lower than budgeted funding drawing from designated and available funding sources.

The second principle is on planning for board approved activities. ICANN will begin designing vectored implementation work only when recommendations and policies are board approved. These board approved activities will be prioritized through the planning prioritization process when available to support the needs and demands of the community.

The last principle is a new one. It's on security, stability, and resiliency of the DNS and how it is fundamental for ICANN to fulfill its mission and protect the internet as a globally shared source. We are committed to stability, security, and resiliency, and it is interwoven into all of our daily operations. Next slide, please.

This slide reviews the FY26 planning prioritization process. This year, we have eight primary members and six secondary members who were appointed by participating community groups. This planning prioritization process is part of our annual planning cycle, and we have meetings that are expected to start in January of 2025 to help the ICANN ecosystem prioritize its work in a transparent, inclusive, and efficient manner. We also use this, and it is all outlined in the planning prioritization framework that has been published on the ICANN planning wiki. Next slide, please.

This slide shows the key dates for the FY26 operating plan and budget process. We are expecting to have public comment open in mid-December, with a proceeding that extends for two months until the 17th of February. As usual, we will have two community webinars planned for December when the proceeding opens, and the publication of the adopted plans is anticipated for the end of April, with adopted plans scheduled to go into effect on the 1st of July of 2025.

In December, there will be two public comment proceedings that open simultaneously. The first will be for the five- and one-year ICANN operating plan and IANA one-year operating plan and budget. The second is on the PTI one-year operating plan and budget. We also want to note that there is an additional proceeding that is anticipated to open on the 26th of November, and that is for the draft five-year PTI strategic plan. As mentioned previously, this is part of the bylaws that every five years, the PTI strategic plan needs to be redrafted and reviewed. Next slide, please.

This concludes the presentation component of the prep week community webinar. If you would like to ask any questions or make a comment through the chat, please feel free to start with question or comment. If you wish to speak, you may raise your hand and we can manage the queue. And as a kind reminder, please state your name and affiliation if you are representing one when you speak. I'll now turn it over to Kelly from the planning team to manage the queue. Thank you.

KELLY MEDINA: Thank you, Margaret. So we do have a question for the planning team. We have Patrick asking if there is a projected impact on consensus policy development or recommendation development given the new principles when applied to travel for staff.

XAVIER CALVEZ: I think the simple answer to your question, Pat, is no, that there's not expected impact in general. I think that just having discussed with some of the members of the policy team recently on the topic, they are working with each of the communities to be able to plan better the workload of work and notably be able to also prioritize more the various topics that are the subject of work by each of the communities and in order to be able to prioritize and contain within a limited amount of bandwidth the work that is being done on an ongoing basis. Obviously, the limitation of staff travel is one factor, but of course the bandwidth of the community is also limited and also stretched and that collective effort to prioritize and contain the volume of work being tackled at any point of time within reasonable and available limits is fundamentally important. The direct answer to your question is no, but in the context of resource limitation, I think that the community, organization, and leadership and the staff members together are working hard to be able to manage that workload better.

KELLY MEDINA: Thank you, Xavier. If there are any more questions, we welcome you to please raise your hand on the Zoom toolbar and we will ask for you to unmute and you may ask your questions live to our presenters today.

JUDITH HELLESTEIN: Could you go over the, we went so quickly over the budget issues, and I know there were some other questions. I don't know if Owen had gotten his question answered, but maybe we could have the option to review it and point out the other questions because right now we did it so quickly.

KELLY MEDINA: Yes, of course. Let me go back to those slides.

JUDITH HELLERSTGEIN: Are you going to put these slides on the page, on the planning page?

KELLY MEDINA: Yes, our slides will be available on the ICANN Finance and Planning Community Workspace and they're also currently available in the prep week page where you registered. You should see them right below the speakers' names for this session.

JUDITH HELLERSTGEIN: Yes, and it wasn't here, it wasn't this page when he was discussing where we saw the gap. Yeah, here, this page. So, I think that's what he was asking the question is, when we have here from what was projected from the budget, and then what was the expenses and the variance was 10 million. And I was wondering, was that all related to staff, is that staff? What was that composed of, that the 10? Thanks.

KELLY MEDINA: Thank you, Judith. Someone from the finance team would like to respond?

ALEX MORSHED: Yeah, it is, Judith, it was a variety of factors as Shani mentioned. There was a higher than anticipated or higher than planned expenses for travel and meetings so we experienced higher than planned travel and meetings costs. And also there was some inflation on personnel costs as well that were unanticipated. So that led us to, during the course of the year, find process improvements and do some cost savings initiatives. And then, ultimately, the biggest of those being the reduction in staffing costs. So, as Shani mentioned, we're on our way to a sustainable rate of expenses. We had a deficit of 5 million in FY 24 and we're projecting a similar deficit and FY 25, but by the end of 25, we're projecting to have an annualized rate of expenses that is in line with our funding. So, in essence, we will be balanced by FY 26.

JUDITH HELLERSTEIN: Yes, thanks. Yeah, because I know in several other public comments in past years when travel wasn't increasing, I know At-Large raised that and I think other groups raised that. I guess we have proven that we are right that we should have been more concerned about that. But that's what on the bridge now.

ALEX MORSHED: Yes, thanks.

KELLY MEDINA: Thank you. Owen, I see that you have your hand raised if you would like to unmute your microphone.

OWEN SMIGELSKI: Thank you. This is Owen Smigelski. I'm with Registrar Namecheap and a member of the Registrar Stakeholder Group. So the question I have is, you know, I thought it had been answered earlier, but I guess it has not. Because you just said that there was a budget deficit of 5 million dollars for FY 24, which my understanding is that has now been closed. Like, FY 24 is over. And then a projected 4 million dollar gap for FY 25. So how is that difference in funding being met? Where is that extra money coming from? Or is ICANN just running up IOUs or something along those lines? I'm just curious. Or is that coming from the reserve fund or where is that money being found to cover that gap? I understand there's reductions in staff and other costs, etc. But it doesn't get around the fact that, you know, the 2024 ICANN was short 5 million dollars. Thanks.

SHANI QUIDWAI: Yeah, I can take that. So all of this work is carried out through ICANN's operating fund. And so within the operating fund, and if we move back a few pages, you can see the exact figures. But the operating fund had some excess from prior years, which gave us some buffer to absorb this. And then generally speaking, we maintain a minimum of three months of expenses within our operating fund at all times. So if ICANN were to ever be in a situation like this, where our expenses exceed our funding, there is sufficient funding in there without having to go into the reserve fund and make a transfer.

If this were to continue or perpetuate at a longer rate, we would then start to go below our three month average balance as indicated or dictated by the investment compliance. And at that point would potentially need to do a borrowing from the reserve fund. We haven't gotten to that point yet, but that is a scenario that could happen if a deficit were running long. However, as we noted, we plan to get to a sustainable rate by the end of the year and are not currently projecting a need to utilize the reserve fund.

OWEN SMIGELSKI: OK, and just to clarify, you say by end of the year, you're talking about the end of the fiscal year 2025, not the end of the calendar year.

SHANI QUIDWAI: Correct. And that aligns with the board resolution that no later than the end of the fiscal year. That doesn't prevent us from achieving it earlier.

KELLY MEDINA: Thank you, Owen. Again, if you would like to ask a question to our teams, please raise your hand on Zoom and we will allow you to unmute your microphone. Okay, at this time, I'm not seeing any hands raised. And for our presenters, if there were any additional comments that you would like to make or we wanted to go back to any of the slides, please let me know. I would also like to send a reminder to all participants that we will be having an additional webinar on the draft strategic plan for FY 26 and 30 tomorrow as part of the ICANN 81 prep week sessions that we would like to invite for you to attend as well. Thank you, Margaret.

Margaret provided a link to the schedule in the chat as well. If there are no further questions, I think we can go ahead and close out this session. We will stop the recording. And thank you everyone for attending today's session.

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