ICANN 60

ANNUAL GENERAL

ABU DHABI

28 October–3 November 2017

BUDGET WORKING GROUP

Presenters

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Budget Working Group - Part 1

Review and Q&A

Xavier Calvez, ICANN CFO
Becky Nash, ICANN VP Finance

ICANN 60

01 November 2017 – 1030-1200

Purpose/ Approach/ Desired Outcome

1

Purpose
- Interactive engagement between ICANN organization and Community on planning
- Informal exchange with no specific representation role
- Participation based on interest in ICANN's planning process

2

Approach
- Timing of ICANN60: early in the budget process before development of budget
- Review the planned process
- Gather constructive input: comments and proposals

3

Desired outcome
- Deepen mutual understanding of expectations and involvement with community members
- Input received to be considered in development of budget assumptions

Part 1 Agenda

1 — FY17 Results

Timing: 20min

2 — Changes to Process and Timeline

Timing: 15min

3 — PTI/IANA Operating Plan and Budget Highlights
Timing: 15min

4 — Reserve Fund

Timing: 20min

5 — Q&A – General

Timing: 15min

6 — Wrap Up/Next Steps

Timing: 5min

FY17 Results

Agenda Item #1

ICANN Organization Reporting Structure FY18

ICANN Operations

New gTLD Program

Total ICANN

Funding

PTI/IANA **

Funding

Expenses*

PTI/IANA **

IANA STEWARDSHIP TRANSITION EXPENSES

Expenses*

Operating Fund

Reserve Fund

New gTLD Funds

Auction Proceeds
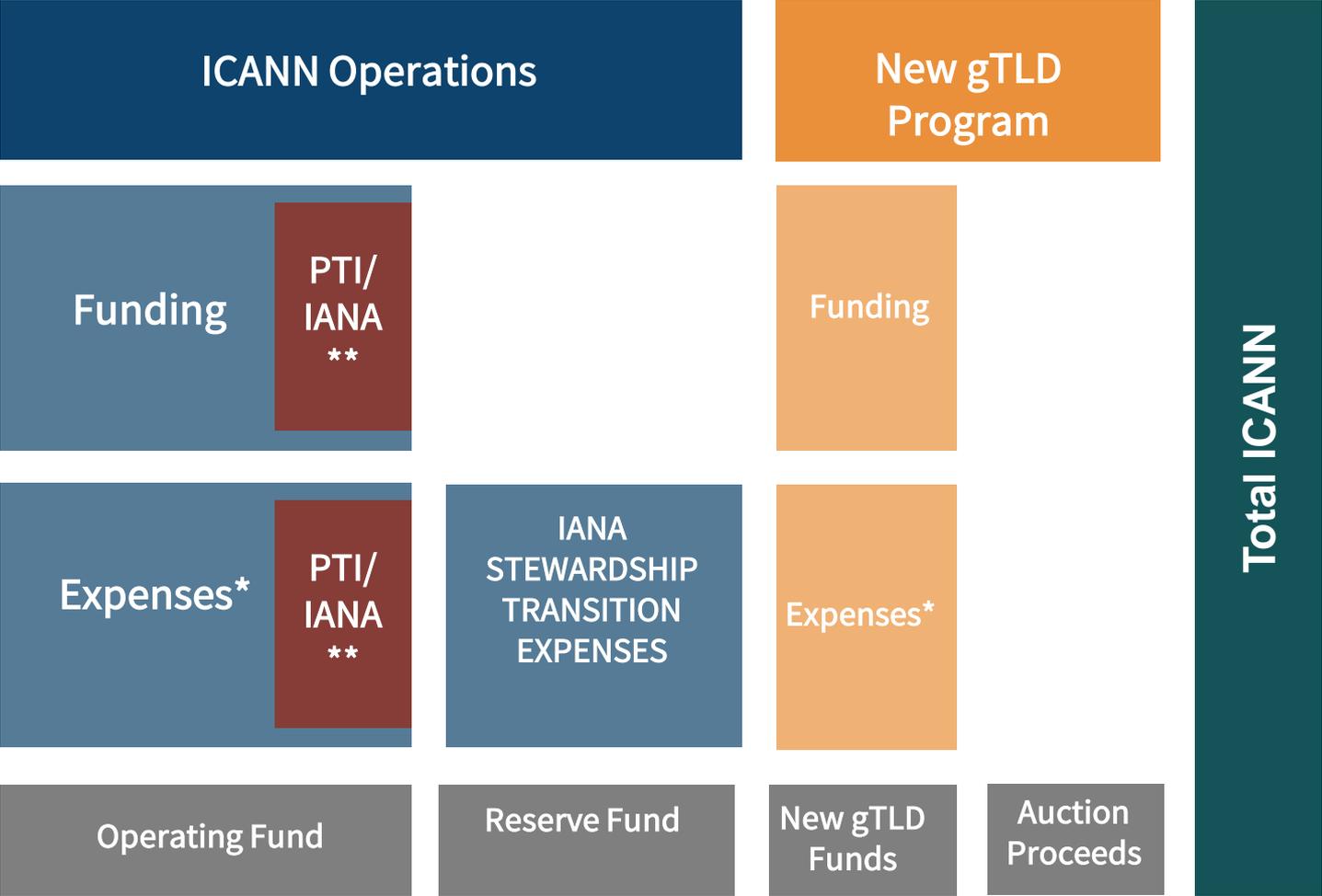
*Excludes depreciation and bad debt expenses

**IANA Services includes ICANN's and PTI's IANA Expenses

FY17 Year End Financial Highlights

- Operations: Fiscal Year End position (after 12 months) was higher than Budget
  - Excess of $1m, instead of a budgeted deficit of -$9m
    - Funding higher than budgeted by $2m, and
    - Total Expenses under budget by $4m.
      - The FY17 IANA Transition expenses within Operations were lower than budget (+3.4M) as activities for WS2 are now to be completed in FY18

- New gTLD: Expenses lower than budget
  - Due to lower refunds from withdrawn applications, partially offset by defense costs and auction fees incurred.

- Funds under management increased by $119M to $460M as of year end
  - Includes the Auction proceeds of $135M

FY17 Year-to-date (Jul 16-Jun 17) Overview

Funding ahead of target and Expenses below target.

	Actual	Budget	Var	% Var	FY16	Var	% Var
Funding	$ 135	$ 132	$ 2	2 %	$ 126	$ 9	7 %
Baseline Expenses	-$ 129	-$ 132	$ 4	3 %	-$ 107	-$ 22	-21 %
IANA Stewardship Transition Expenses	-$ 5	-$ 9	$ 3	39 %	-$ 18	$ 13	70 %
Net	$ 1	-$ 9	$ 10	n/a	$ 1	$ 0	23%

Breakdown of Baseline Expenses	Actual	Budget	Var	% Var	FY16	Var	% Var
IANA Services*	-$ 6	-$ 7	$ 2	27 %	-$ 6	$ 1	15 %
All Other	-$ 123	-$ 125	$ 2	2 %	-$ 100	-$ 23	-23 %

*IANA Services includes ICANN's and PTI's Expenses relative to IANA functions from the effective PTI affiliate incorporation date.

Note: Expenses exclude bad debt and depreciation and include capital expenses.

In millions, USD- unaudited - Arithmetic inconsistencies are due to rounding to the nearest million.

FY17 Year-to-date (Jul 16-Jun 17) Total ICANN Organization Actuals

|	ICANN Baseline Operations (A)	IANA Stewardship Transition (B)	Total ICANN Operations (A+B)	New gTLD Program (C)	Total ICANN Org. (A+B+C)
Funding	$ 135	$ 0	$ 135	$ 156	$ 290
Expenses*	-$ 129	-$ 5	-$ 134	$ -21	-$ 155
Net	$ 6	-$ 5	$ 1	$ 135	$ 135

Total ICANN Operations is the sum of ICANN Baseline Operations (A) and IANA Stewardship Transition (B). Total ICANN Organization is the sum of ICANN Baseline Operations (A), IANA Stewardship Transition (B), and New gTLD Program (C).

In millions, USD- unaudited - Arithmetic inconsistencies are due to rounding to the nearest million.

FY17 Year-to-date (Jul 16-Jun 17) Funding

	Driven By Domain Name Registrations	Driven By # of Contracted Parties
FROM REGISTRIES	Transaction-based fees **$54M** 40%	Per-TLD fixed fees **$30M** 22%
FROM REGISTRARS	Transaction-based fees **$31M** 23%	Application fees Accreditation fees **$16M** 12%
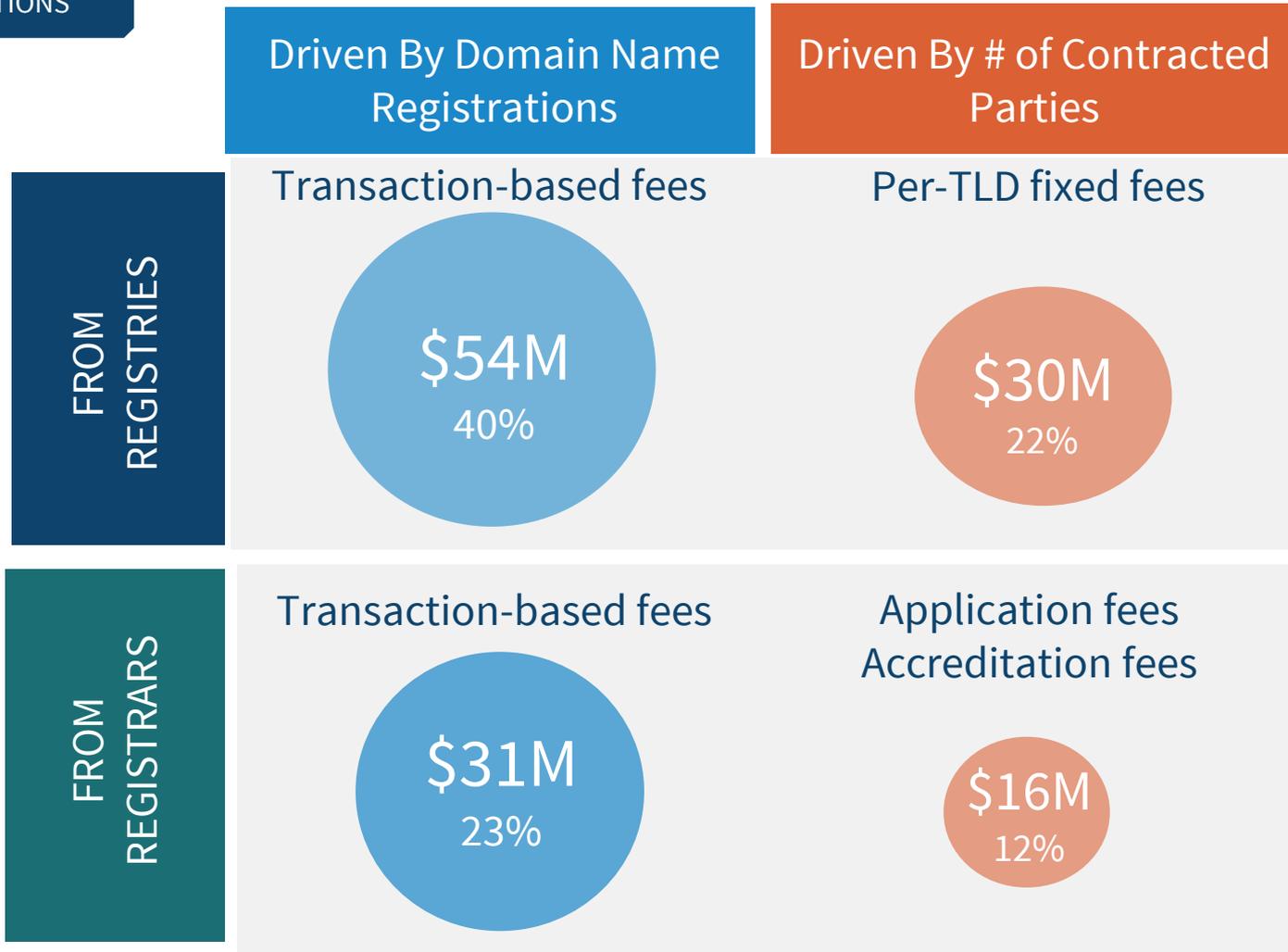
Other Income: $4M, 3%   Total Funding: $135M

In millions, USD- unaudited - Arithmetic inconsistencies are due to rounding to the nearest million.

Funds Under Management as of 30 Jun 2016 and 2017

Total Funds:	$ 460
ICANN Operations:	$ 96
New gTLD Program-related:	$ 364
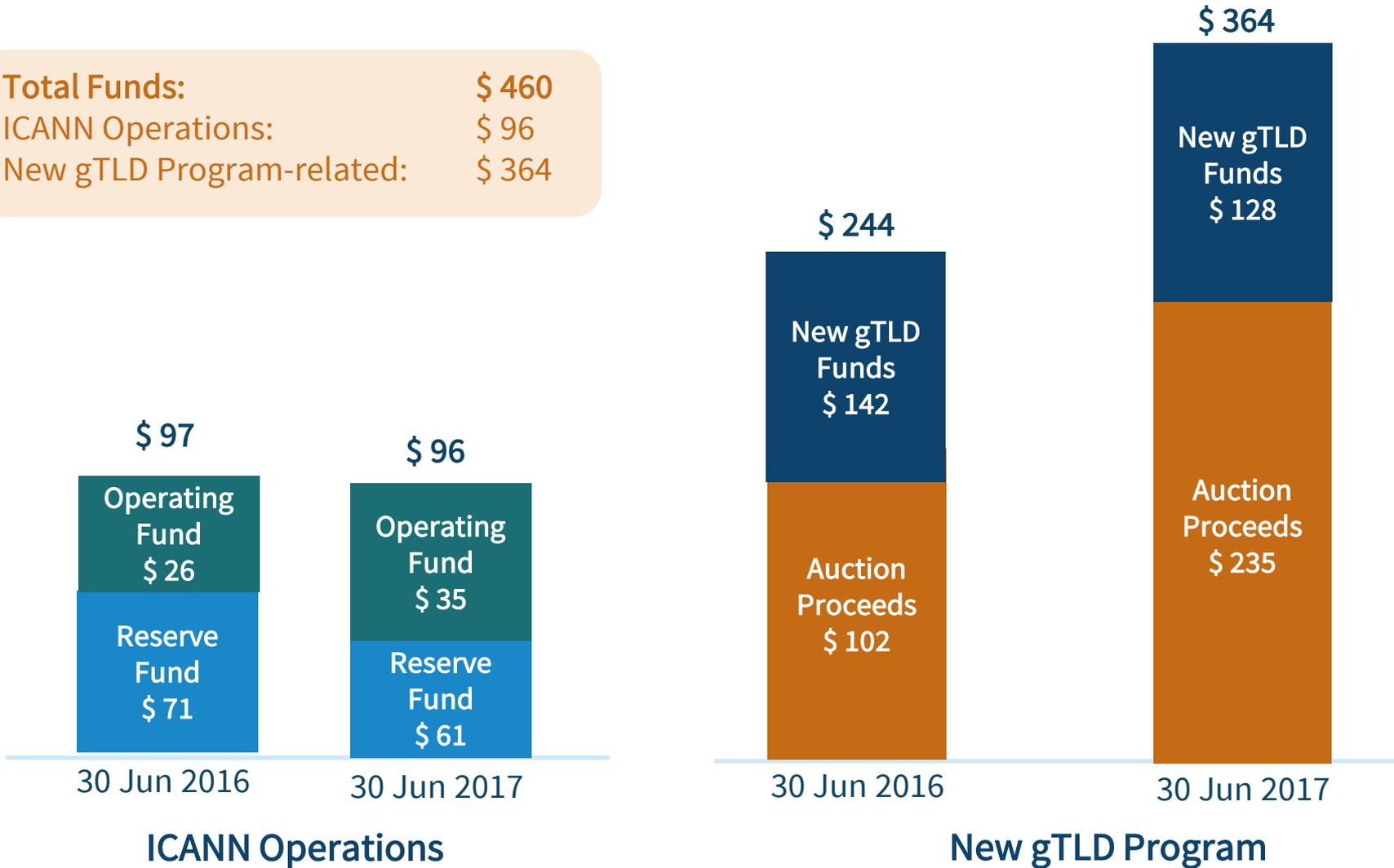
ICANN Operations

30 Jun 2016 — $ 97
- Operating Fund $ 26
- Reserve Fund $ 71

30 Jun 2017 — $ 96
- Operating Fund $ 35
- Reserve Fund $ 61

New gTLD Program

30 Jun 2016 — $ 244
- New gTLD Funds $ 142
- Auction Proceeds $ 102

30 Jun 2017 — $ 364
- New gTLD Funds $ 128
- Auction Proceeds $ 235

In millions, USD- unaudited - Arithmetic inconsistencies are due to rounding to the nearest million.

FY18 Budget Overview

FY18 (Jul 17-Jun 18) approved ICANN Operations budget, aligned to Operating Plan, published on ICANN.org

	FY18 Budget
Funding	$ 143
ICANN Operations Baseline Expenses	-$ 143
IANA Stewardship Transition	-$3
Net	-$3

*Expenses exclude bad debt and depreciation.

In millions, USD- unaudited - Arithmetic inconsistencies are due to rounding to the nearest million.

FY19 Planning Process

Agenda Item #2

FY19 Planning Process Status Update

⊙ Draft FY19 PTI Operating Plan and Budget:

- o Published for Public Comment 9 Oct 2017
- o Six week Public Comment period closes 26 November 2017
- o On schedule for PTI Board adoption at the end of Jan 2017

⊙ Draft ICANN Five-Year Operating Plan update and FY19 Operating Plan and Budget:

- o Under development during Oct – Dec 2017
- o On schedule to publish for public comment in mid January
- o Draft ICANN FY19 SO/AC Additional Budget:
- o Process on schedule to begin in Dec 2017

FY19 Documents and Content

- ⊙ ICANN Five-Year Operating Plan update (year 4)
  - Updated Portfolio KPIs, Dependencies, Phasing, and Five-Year Financial Model
- ⊙ ICANN and PTI FY19 Operating Plan and Budget
  - Operating Plan and Budget by Objective, Goal, Portfolio and Project
  - Executive Summary
  - Funding
  - Operating Expenses by Category (Personnel, Travel etc.)
  - Risks and Opportunities
  - Headcount
  - Multiyear view of New gTLD Program
  - Funds Under Management
  - SO/AC Additional Budget Requests
  - Key Projects Reporting
  - Caretaker Budget

Operating Plan and Budget by Portfolio and by Project

FY18 Proposed Budget By Portfolio and Project

*FTE: Full-time staff equivalent
Totals for the projects are in USD and are rounded to the nearest millions with thousands as a decimal. Projects and Portfolios appearing with $0 are due to rounding.

Obj	Goal	Portfolios	Project ID	Project Name	Project Description	FTE
			26006	Strategy and Strategic Outlook	Strategy High Level	1.1
			123559	Strategic Plan Update	Consider significant internal and external developments to validate whether the Five Year Strategic Plan remains relevant or whether it needs to be modified. Coordinate feedback from multistakeholder	0.0
			152404	Impasse Resolution Process	Manuals implementation	0.6
		3.1.1 Strategic and Operating Planning	152413	FY18 Ongoing Multistakeholder Strategy and Strategic Initiatives Operations	Manage budget and operations of the Multistakeholder Strategy and Strategic Initiatives Department including recruiting and filling department positions, and initiating and supporting new initiatives.	4.2
	3.1 Ensure ICANN's long-term financial accountability, stability and sustainability		152557	Institutional Confidence Index	Institutional confidence index	0.3
			152973	FY19 OP&B Development, including PTI OP&B	Develop and gain approval for ICANN's FY18 Operating Plan & Budget, including development of the PTI Operating Plan & Budget	0.4
		3.1.1 Strategic and Operating Planning Total				6.5
		3.1.2 Finance and Procurement	153503	FY 18 - Finance Operations	All FY18 Finance ongoing operational activities.	15.8
			153504	FY18 - Procurement Operations	This project covers all activities related to ICANN's procurement	2.1
		3.1.2 Finance and Procurement Total				17.9
		3.1.3 Enterprise Risk Management	153505	FY18 - ERM Operations	All FY18 Enterprise Risk Management ongoing operational activities.	1.3
		3.1.3 Enterprise Risk Management Total				1.3
		3.1.4 Security Operations	152671	FY17 Security Operations	Security Operations includes all activities to look after the health and safety of the ICANN organization and Board's people at its facilities and when travelling. It also includes the health and safety of all people attending ICANN public meetings and other ICANN managed events.	4.2
		3.1.4 Security Operations Total				4.2
	3.1 Ensure ICANN's long-term financial accountability, stability and sustainability Total					29.9

FY18 Proposed Budget By Portfolio

*FTE: Full-time staff equivalent
Totals for the projects are in USD and are rounded to the nearest millions with thousands as a decimal. Projects and Portfolios appearing with $0 are due to rounding.

| Objective	Goal	Portfolios	FTE*
Objective 3: Advance Organizational, Technological and Operational Excellence	3.1 Ensure ICANN's long-term financial accountability, stability and sustainability	3.1.1 Strategic and Operating Planning	6.5
		3.1.2 Finance and Procurement	17.9
		3.1.3 Enterprise Risk Management	1.3
		3.1.4 Security Operations	4.2
	3.1 Ensure ICANN's long-term financial accountability, stability and sustainability Total		29.9
	3.2 Ensure structured coordination of ICANN's technical resources	3.2.1 Cybersecurity Hardening and Control	2.1
		3.2.2 IT Infrastructure and Service Scaling	53.7
		3.2.3 Root Systems Operations	6.1
	3.2 Ensure structured coordination of ICANN's technical resources Total		61.9
	3.3 Develop a globally diverse culture of knowledge and expertise available to ICANN's Board, organization, and stakeholders	3.3.1 People Management	10.7
		3.3.2 ICANN Technical University	0.0
		3.3.3 Organizational Assessment and Continuous Improvement	3.7
		3.3.4 Board Operations	2.5
		3.3.5 Global Operations	17.0
	3.3 Develop a globally diverse culture of knowledge and expertise available to ICANN's Board, staff, and stakeholders Total		34.0

⊙ New to the Process

○ Accelerated timeline

- The adoption of the ICANN Budget is expected to be one month earlier

  Provides time for the Empowered community process (28 days) before the start of the next fiscal year

○ Multi Year Planning Process

- Planning for two years during Budget Development Process : FY19 and FY20

Planning Overview Timeline

Current Status

| Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul |

PTI/IANA track:
- Kickoff
- PTI & IANA Draft
- Review — PTI Board & ICANN BFC Review Drafts
- PTI Board & ICANN BFC Approve Drafts (Informal)
- PTI & IANA Public Comment
- Report/Revise
- Review — PTI Board / ICANN BFC Review Proposed OP&Bs
- PTI Board Adopts PTI / BFC Approves IANA
- Review — ICANN Board Reviews IANA
- ICANN Board Adopts IANA
- EC Period

ICANN track:
- ICANN Draft
- Review — ICANN BFC Reviews Draft
- ICANN BFC Approve Draft (Informal)
- ICANN Public Comment
- Report/Revise
- Review — ICANN BFC Reviews Proposed
- ICANN BFC Approves Proposed
- Review — ICANN Board Review
- ICANN Board Adopts
- EC Period — FY19

Board Workshop (Aug/Sep)
ICANN60 (Oct)
Winter Office Closure (Dec)
Board Workshop (Jan)
ICANN61 (Mar)
Board Workshop (May)
ICANN62 (Jun)

Legend:
- PTI/IANA
- ICANN

9 Months Before FY19 Begins

45 Days Before FY19 Begins

Planning Timeline – Key Dates

Step	Proposed Dates	Note
PTI & IANA OP&B DRAFT Submitted to PTI Board & ICANN BFC	25 Sept 2017	At Least 9 Months Before Next Fiscal Year (Per Bylaws)
PTI & IANA Public Comment	9 Oct – 26 Nov 2017	41 Days (48 Days Minus 7 Days ICANN Meeting)
ICANN 60 Annual General Meeting	28 Oct – 3 Nov 2017	Engage with Community on PTI/IANA/ICANN
PTI Board to Approve PTI OP&B	9 Jan 2018	Before ICANN Public Comment Begins (Input to ICANN OP&B Per Bylaws)
ICANN DRAFT Submitted to ICANN BFC	5 Jan 2018	After Year End Break
ICANN Public Comment	15 Jan – 4 Mar	48 Days (7 weeks)
SO/AC Additional Budget Request Submission Due Date	30 January	Process timing similar to last year
ICANN 61 Community Forum	10 Mar – 15 Mar	Engage with Community on Comments Submitted for ICANN
ICANN Proposed OP&B Submitted to ICANN Board	11 May	At Least 45 Days Before Next Fiscal Year (Per Bylaws)
ICANN Board to Approve ICANN OP&B	31 May	Target to allow for EC Review Period before 1 July

PTI/IANA Operating Plan and Budget Highlights

Agenda Item #3

PTI/IANA Operating Plan and Budget Highlights

- Draft PTI Operating Plan and Budget developed in August – September 2017

- The PTI six-week Public Comment started 9 October, 2017

- Clarifying Questions due by 16 October 2017. Received 1 and response was published 23 October

- On-schedule for Responses to Public Comment which ends on 26 November

- PTI Board adoption expected in early January 2018

- IANA Budget adoption by the ICANN Board scheduled for early February

PTI Budget Highlights

1 **PTI Funding/ICANN Funding**

Funding from ICANN of 100% of Expenses, $10.4M

2 **PTI baseline cash expenses**

Baseline expenses $10.2 (including $0.5M contingency) increased $0.7M over FY18 due to higher personnel costs of $0.6 million for annual merit and increased Direct Shared support.

3 **PTI Ops Net Excess / Deficit**

PTI's Budget is balanced with Total Cash Expenses funded by ICANN

TOTAL PTI in Millions, USD	PTI Services FY19 Budget	PTI Services FY18 Budget	Increase/(Decrease) Total	%
Operating Expenses*	$10.2	$9.5	$0.7	7.0%
Capital	$0.2	$0.1	$0.1	157.6%
TOTAL	**$10.4**	**$9.6**	**$0.8**	**8.3%**

*Includes depreciation

FY 19 IANA Budget

- The draft IANA Operating Pan and Budget includes the amounts covered in the draft Public Technical Identifiers (PTI) Budget and the amounts for the IANA services performed by ICANN as the IANA Functions Operator, and which are not performed by PTI.

FY19 IANA Budget in Millions, USD	FY19 IANA Budget	FY18 IANA Budget	Increase/(Decrease) Total	%
PTI Services	$10.4	$9.6	$0.8	8.3%
IANA Services (a)	$0.5	$0.4	$0.1	31.3%
TOTAL	**$10.9**	**$10.0**	**$0.9**	**9.2%**

(a) IANA Services include RZMA = Root Zone Maintainer Agreement and Empowered Community, and RZERC support.

It will be funded by ICANN Operations.

Reserve Fund

Agenda Item #4

Reserve Fund Public Comment and Next Steps

- ⊙ Board Reserve Fund Working Group (created in 2015):
  - ○ Established rationale and 12-month target level
  - ○ Determined to publish in 2 steps: (i) rationale/target level, (ii) governance/replenishment.

- ⊙ Public Comment on rationale/target level:
  - ○ 12-October to 30-November.
  - ○ Public comment report issued by 22-December.

- ⊙ Next steps: 1-Investment Policy update
  - ○ ICANN org proposed response to public comments
  - ○ ICANN org proposed Investment Policy update
  - ○ BFC review and recommendation to the Board
  - ○ Board decision

- ⊙ Next steps: 2-Governance model / Replenishment

Q&A – General

Agenda Item #5

Questions?

Part 1 Wrap Up/Next Steps

Agenda Item #6

Part 1 Wrap Up/Next Steps

Summary/Action Items

Short 10 Minute Break

Part 2 - Working Lunch and Discussion

Budget Working Group - Part 2

Working Lunch and Discussion

Xavier Calvez, ICANN CFO
Cyrus Namazi, VP DNS Industry Engagement
Becky Nash, ICANN VP Finance

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01 November 2017 – 1200-1400

ICANN

Part 2 Agenda

1 Funding Projections

Timing: 30min

2 Long-Term Financial Planning

Timing: 30min

**3** Q&A – General Topics

Timing: 30min

4 Wrap Up/Next Steps

Timing: 5min

ICANN Funding Projections

Cyrus Namazi
Global Domains Division
ICANN60 – Abu Dhabi, UAE

30 October 2017

FY17 Budget versus Actuals

FY17 Budget versus Actual Funding

- FY2017 Actual at $134.5 million
- 2% higher than FY17 budget of $132.5 million

Chart: FY17 Actual vs FY17 Budget (in millions USD)

Category	FY17 Actual	FY17 Budget
Registry Transaction Fee	54.2	54.0
Registrar Transaction Fee	31.5	34.6
Registry Fixed Fee	30.2	30.2
Registrar Other Fees	14.4	9.9
Other Fees	4.2	3.7

■ FY17 Actual   ■ FY17 Budget
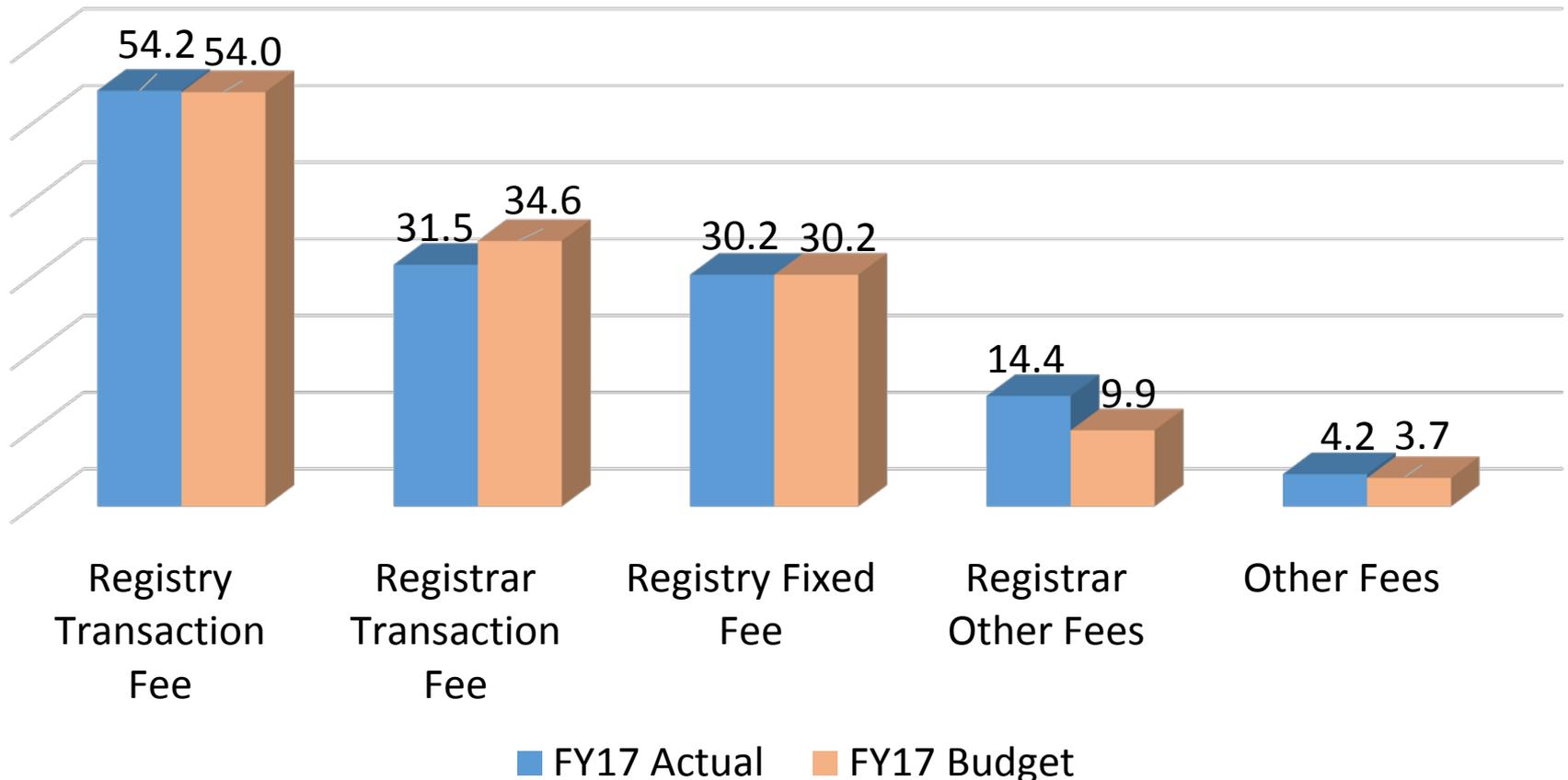
FY17 Budget vs. Actual Transactions & Contracted Parties

	FY17 Actual	FY17 Budget	Variance	FY16 Actual	FY15 Actual
# of Transactions (in Millions)	183.1	192.4	-9.3	184.9	158.5
Legacy gTLDs	160.9	161.7	-0.8	161.5	151.2
New gTLDs – Total	22.2	30.7	-8.5	23.4	7.3
New gTLDs - Billable	18.6	23.1	-4.5	18.1	6.0
% of Billable New gTLDs vs. Total New gTLDs	84%	75%		77%	82%
% of Total New gTLDs vs. Total	12%	16%		13%	5%
% of Legacy vs. Total	88%	84%		87%	95%
# of Contracted Parties (end of year)	4,149	2,841	1,308	3,173	2,207
Legacy gTLDs	22	22	0	18	18
New gTLDs (delegated)	1,216	1,237	-21	1,050	679
Registrars	2,911	1,582	1,329	2,105	1,510

FY18 Budget

ICANN Ops FY18 Funding

⊙ FY18 Funding projected at $142.8 million
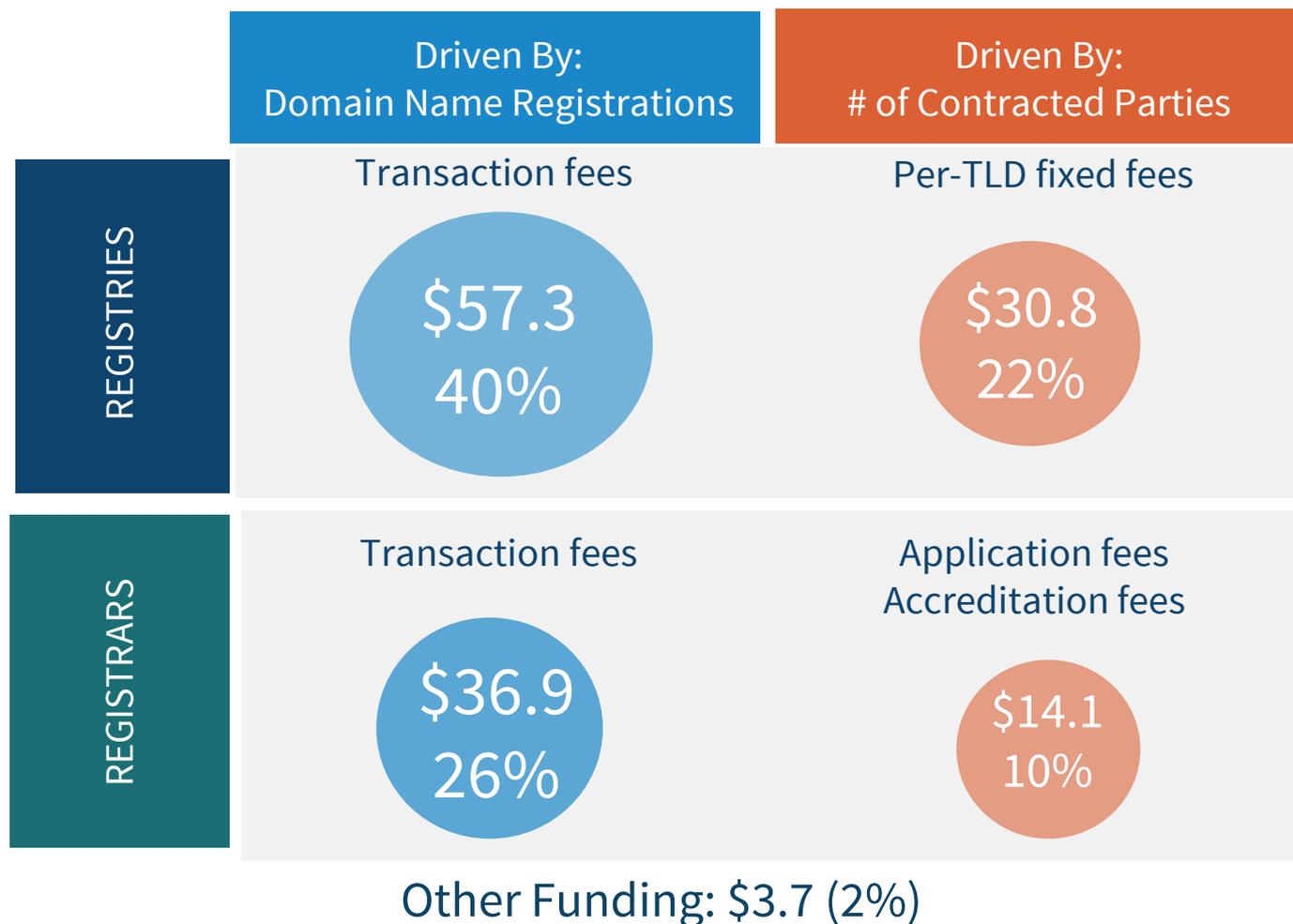
	Driven By: Domain Name Registrations	Driven By: # of Contracted Parties
REGISTRIES	Transaction fees $57.3 40%	Per-TLD fixed fees $30.8 22%
REGISTRARS	Transaction fees $36.9 26%	Application fees Accreditation fees $14.1 10%

Other Funding: $3.7 (2%)

In millions, USD- unaudited - Arithmetic inconsistencies are due to rounding to the nearest million.

Historical Budget vs. Prior Year Actuals

⊙ FY18 Budget represents 7.8% increase over FY17 budget levels.

⊙ Growth in funding vs. prior year reflects expectations of a maturing market
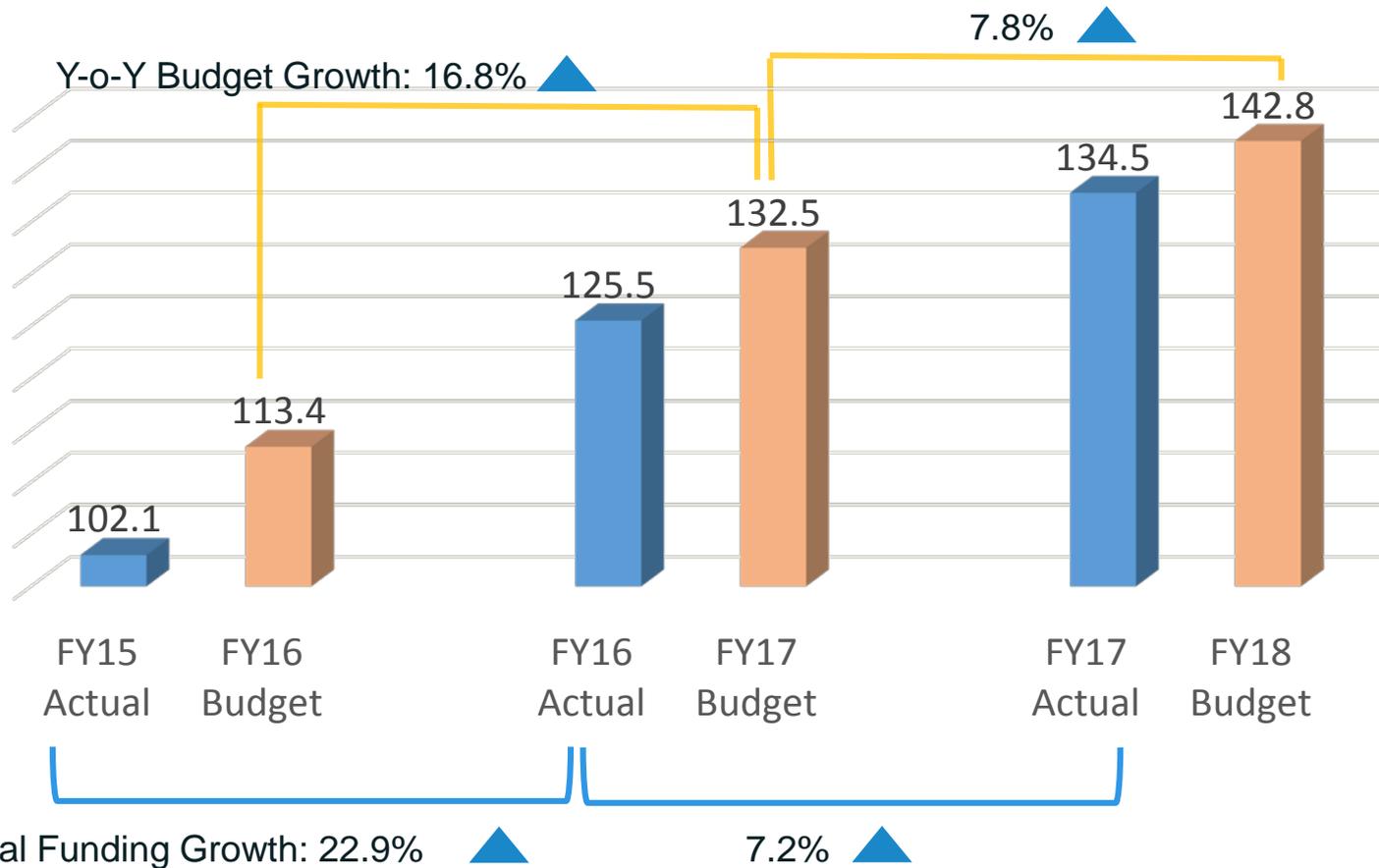
Y-o-Y Budget Growth: 16.8% ▲

7.8% ▲

142.8

134.5

132.5

125.5

113.4

102.1

FY15 Actual   FY16 Budget   FY16 Actual   FY17 Budget   FY17 Actual   FY18 Budget

Y-o-Y Actual Funding Growth: 22.9% ▲   7.2% ▲

ICANN Ops Funding Key Assumptions (1 of 3)

Legacy gTLDs:

Transaction Based Fees

⊙ Assumes growth in transaction volume of 1.7% versus FY17 actuals.

New gTLDs:

Fixed Fees

⊙ 1,240 TLDs assumed delegated by June 31, 2018

Transaction-based Fees

⊙ Estimated using the per-TLD average number of transactions per month since delegation (average transactions during month 1, month 2,…) resulting in forecasted transaction volume growth of 87.6% versus FY17 actuals.

Registrar Accreditation:

Application Fees

- ◉ The number of newly accredited registrars increases at a rate of 15 each quarter or 60 total for the fiscal year

Accreditation Fees

- ◉ The base of total accredited registrars is reduced by 250 each quarter after FY18Q1 as a measure to account for a possible decline in aftermarket accreditations as per conservative future outlook.

Per Registrar Variable Fee

- ◉ Constant total of $3.4 million

New gTLD Program:

Application Fees Revenue

- ◉ Portion of application fees recognized in funding ratably based on evaluation expense incurred versus total evaluation expense forecasted

ICANN Ops Funding Key Assumptions (3 of 3)

	FY18 Budget	FY17 Actual	% Inc/ (Dec)
# of Transactions (in M)	205.3	183.1	12.1%
Legacy gTLDs	163.6	160.9	1.7%
New gTLDs – Total	41.7	22.2	87.8%
New gTLDs - Billable	35.4	18.6	90.3%
# of Contracted Parties (as of end of year)	3,503	4,149	-15.6%
Legacy gTLDs	22	22	0.0%
New gTLDs (delegated)	1,240	1,216	2.0%
Registrars	2,241	2,911	-23.0%

FY19 Funding Approach

FY19 Funding Principles and Approach

⊙ Scenarios are prepared for Low, Medium and High estimates

⊙ New gTLD transaction levels are estimated using growth pattern of earlier-launched strings

⊙ Delegation dates estimated from contracting dates/deadlines and other available information

⊙ Legacy transaction levels based on historical trend line (using quarterly billing seasonal trends)

⊙ Assuming no change to fee schedule/structure in FY19

FY19 Funding Assumptions

Funding type	Baseline scenario	High Scenario	Low Scenario
Registrar accreditation			
Application fees	Assumptions on new applicants using historical averages multiplied by the existing application fee.	TBD	TBD
Accreditation fees	# of new registrars to be added to existing base multiplied by the existing annual fee.	TBD	TBD
Per registrar var. fee	No change expected - Total at $3.4m	TBD	TBD
Legacy TLDs			
Registrations volumes	Assumptions on historical growth average.	TBD	TBD
New TLDs			
New gTLDs Delegations	Expected delegation dates will be estimated for each TLD based on the current status of the applications	TBD	TBD
Registrations volumes	Assumptions on historical growth average	TBD	TBD

Long-Term Financial Planning

Agenda Item #2

Financial Planning (Long-term)

- Why?
  - Community workload, post IANA stewardship transition.
  - Limited resources: ICANN's funding is stabilizing.
  - Next 5-year Strategic plan needs to be renewed.
- What?
  - 5-year "rolling" plan
  - Strategic objectives resulting from prioritization
  - Milestone-based roadmap of action plans, including resource requirements, limited by resources available.
- How?
  - ICANN's budget mostly committed
  - Emerging Trends, analyzed and prioritized annually
  - Trade-off between existing activities and new work from trends
- Next steps?
  - Define a strategic plan development process with community engagement

Q&A – General Topics

Agenda Item #3

Questions?

Part 2 Wrap Up/Next Steps

Agenda Item #4

Part 2 Wrap Up/Next Steps

Summary/Action Items

Draft PTI/IANA Operating Plan and Budget Public Comment
(Closes: 26 Nov 2017)

Reserve Fund Public Comment
(Closes: 30 Nov 2017)

Draft ICANN Operating Plan and Budget Public Comment
(Target: 15 Jan 2018- 4 Mar 2018)

Engage with ICANN

Thank You and Questions

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