

Initial Consultation: Proposed Framework for FY10 Operating Plan and Budget

Kevin Wilson, Chief Financial Officer



March 3, 2009

Purpose of this discussion

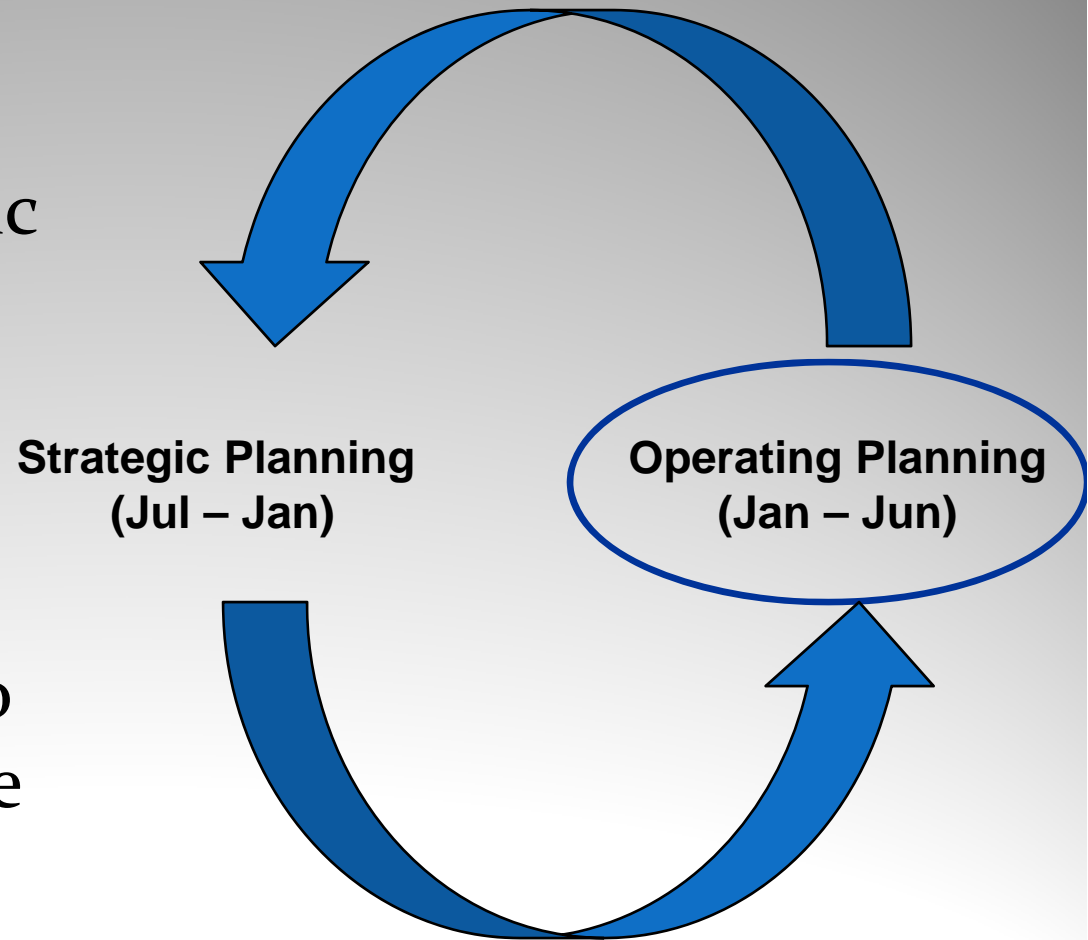
- Kick off ICANN's operating plan and budget development for Fiscal Year 2010 (1 July 2009 through 30 June 2010)
- Engage the community in refining key assumptions, spending priorities and other choices over the next months
- Launch the process which ultimately leads to a plan and budget that will deliver on ICANN's strategic priorities which can be adopted by the Board in June 2009

Overview of the FY10 Framework

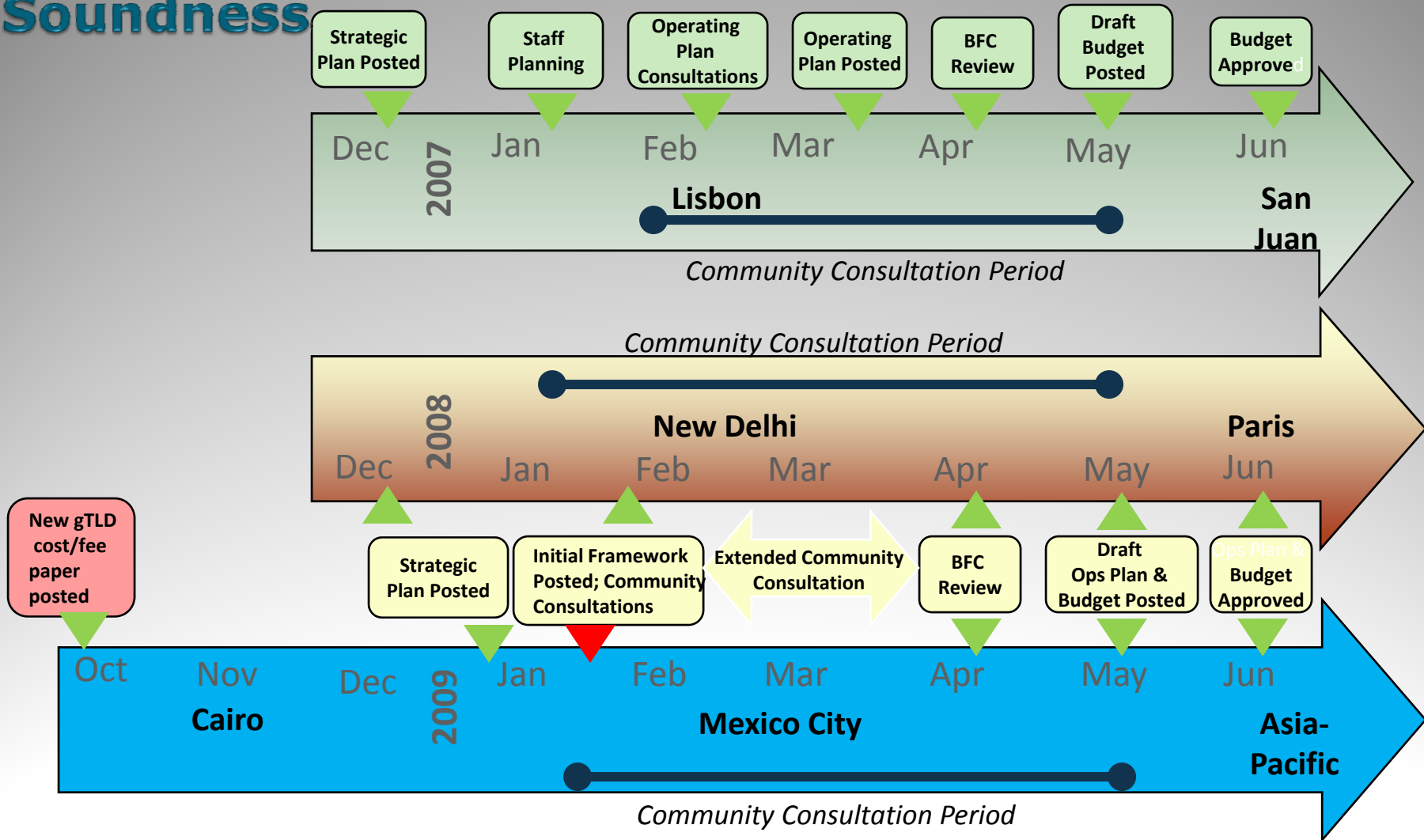
- Expenses of \$54.3 million, 4.9% growth vs. 30.1% in FY09
 - Approaching operational maturity in many areas
 - Some required growth (compliance, technology operations, base hiring for new TLD effort)
- Separate amendment, 90 days before gTLD launch
- Three year projection in this framework
- Seeking feedback on match with Strategic Plan priorities
 - Given world economics, seek input for areas to cut/defer
- Consultative process, ample time for input on the plan
 - Community feedback: here, public fora, constituency mtgs
 - draft plan posted on 17 May
 - Operating Plan/Budget considered to adopt in Sydney, June

ICANN's Planning Cycle

- Three year Strategic Plan approved
- Now developing FY10 Operating Plan and Budget to be finalized in June



The Goal: Maximize Participation, Ensure Financial Soundness

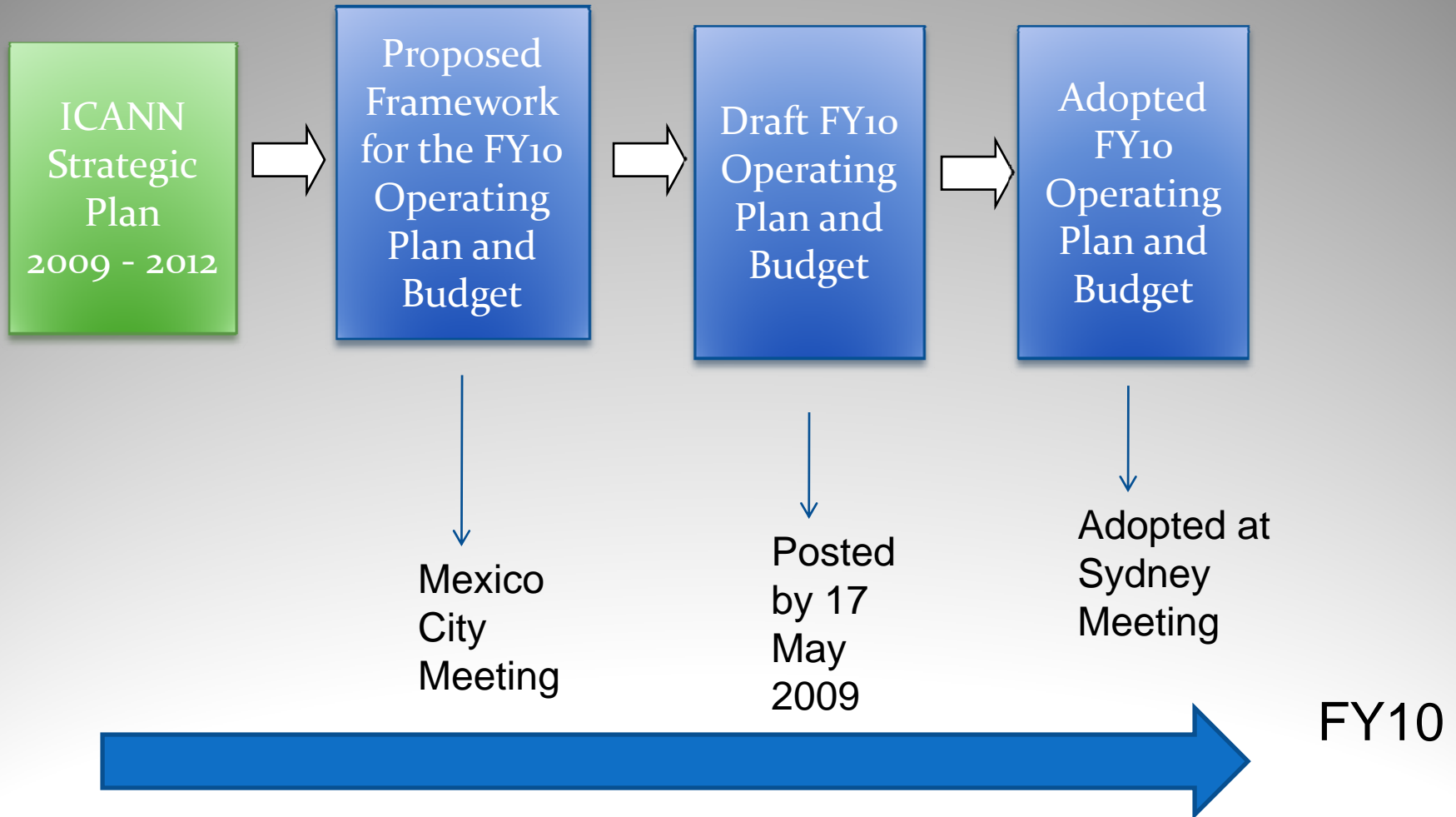


The Strategic Plan

ICANN's strategic plan describes priorities and deliverables over a 3 year planning horizon. The 2009-2012 approved Strategic Plan prioritizes activities as follows:

1. Implement IDNs and new gTLDs
2. Enhance security, stability and resiliency in the allocation and assignment of the Internet's unique identifiers
3. Monitor the depletion of IPv4 address space and provide leadership towards IPv6 adoption
4. Improve confidence in the gTLD marketplace
5. Strive for excellence in core operations
6. Strengthen processes for developing policy
7. Strengthen ICANN's multi-stakeholder model to manage increasing demands and changing needs
8. Globalize ICANN's operations
9. Ensure financial accountability, stability and responsibility

The Timeline



Snapshot of the Operating Plan Framework

- New gTLD implementation complete and launch
- Some growth in compliance, technology operations, and security
- Little or no growth in most ICANN operations

Operational Activities	Proposed FY10 Budget (US\$000)
New gTLD Implementation and Delegation	7,448
IDN Implementation	1,250
New gTLD / IDN efforts	8,698
IANA and Technology Operations	5,079
Security, Stability and Resiliency (SSR)	5,483
Contractual Compliance	3,219
Core Meeting Logistics	5,289
Constituency Support	6,272
Policy Development Support	5,280
Global Engagement and Increasing International Participation	6,781
DNS Operations	1,242
Administrative improvement and other operations such as Board Support, NomCom support, Ombudsman and Community travel support	7,004
ICANN Core (w/o new gTLD)	45,649
Operating Expenses	54,347

Highlights of the FY10 Operating Plan Framework

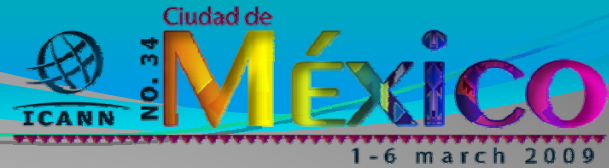
1. New gTLD Implementation.

- Implementation project complete
- New gTLDs launch w/support processes embedded in standard operations
- Application processing set up (advanced staffing)

Costs of \$7.45 million for staff, professional services and technical costs to complete implementation including additional drafts of guidebook. FY09 forecasted costs below budget due to cost saving measures and revised timelines.

Note: Separate new gTLD budget amendment to be proposed prior to launch which will cover costs of application processing

Highlights of the FY10 Operating Plan Framework



2. IDN Implementation

- Launch IDN ccTLDs with the fast track process
- Include IDN support in the new gTLD process
- Set up processing of applications (advanced staffing)
- Ongoing support of technical/standards process

3. IANA and Technology Operations

- Adapt to operational requirements of:
 - DNSSEC
 - Scaled number of TLDs, including IDNs
 - Other ICANN services
- Centralized operations for efficiency and improved service
- Costs of \$5.08 million. 17.8% increase over FY09

Highlights of the FY10 Operating Plan Framework

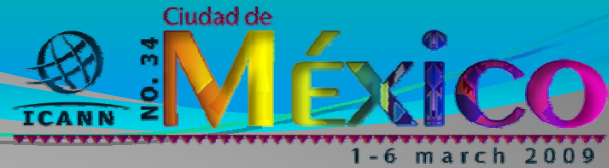
4. Security, Stability and Resiliency (SSR)

- Work with other Internet stakeholders to enhance and protect the security and stability of the Internet.
- Expand TLD security through training programs
- Ensure the security of ICANN's information systems, personnel, and facilities; strong business continuity
- Costs of \$5.48 million, a 10.9% increase over FY09

5. Contractual Compliance

- Complete core staffing of compliance team; scale for current mission
- Perform Whois accuracy study (and possible follow-ons)
- Audit registrars for transfer policy, data escrow compliance
- Costs of \$3.21 million, a 31.0% increase over FY09 reflecting strategic importance

Highlights of the FY10 Operating Plan Framework



6. Core meeting logistics

- Continue to support and operate the thrice annual ICANN meetings and explore new approaches to meetings
Costs of \$5.29 million are 3.1% higher than FY09

7. Constituency support

- Continue to build and improve upon support systems for ICANN's constituencies.
- Increased staffing to support constituencies in Asia
Costs of \$6.27 million, a 7.1% increase over FY09

8. Policy Development Support

- Improve policy development processes
- Implement GNSO improvements
- Service, tools and programs to train future policy leaders
Costs of \$5.28 million, a 2.5% increase over FY09

Highlights of the FY10 Operating Plan Framework

9. Global Engagement and Increasing International Participation

- Continue global engagement
- Continue and increase fellowship program to \$400k
- Budget approximately \$1 million for translation work
- Complete global coverage model with Asia staffing increase

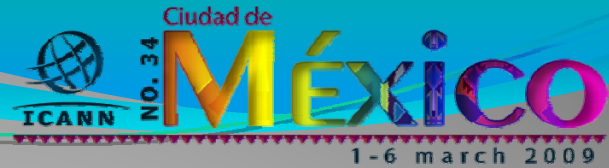
Cost of \$6.78 million. a 6.8% change from FY09

10. Travel Support for ICANN Community

- Continue to provide air, hotel, and per diem funding for some community members (per travel procedure)

Costs of \$1.47 million, flat with FY09, awaiting feedback

Highlights of the FY10 Operating Plan Framework



11. Ombudsman

- Serves as an objective advocate for fairness for ICANN

12. Board Support

- 21 Members serve on ICANN's Board; support includes travel costs for all three ICANN meetings, other meetings, training, and other support costs

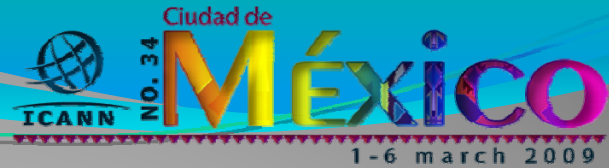
Costs of \$2.42 million, close to FY09

13. Nominating Committee (NomCom) Support

- Continue to support ICANN's key structures including the ICANN Board

Cost of \$0.8 million, flat with FY09.

Highlights of the FY10 Operating Plan Framework



14. DNS Operations

- Develop operational capability for DNSSEC signing of root zone, with goal for readiness in FY10
- Deliver ICANN's L-Root service
- Sign ICANN controlled zones, including icann.org

Costs of \$1.26mil, a 20.2% increase over FY09

15. Administrative Improvement

- Continue to improve ICANN's organizational structures
- Support for analysis of post JPA environment

Costs of \$1.88 million includes \$412k for organizational reviews

Snapshot of the FY10 Budget Framework (\$000)

	Proposed FY10 Budget	FY09 Budget	Change from FY09	
			Amount	Percentage
REVENUE	\$ 67,642	\$ 60,674	6,968	11.48%
EXPENSES				
Core ICANN	45,649	41,768	3,881	9.29%
New gTLD	8,698	10,046	(1,348)	-13.42%
Operating Expenses	\$ 54,347	\$ 51,815	2,532	4.89%
Non Cash Expenses	2,900	2,065	835	40.44%
Total Expenses	\$ 57,247	\$ 53,880	3,367	6.3%
Total Expenses w/ Contingency	\$ 60,247	\$ 57,130	3,117	5.5%
Change in Net Assets	\$ 7,395	\$ 3,544	3,851	108.66%
Capital	\$ 3,000	\$ 3,660	(660)	-18.03%

Highlights of the FY10 Budget -- Revenue

	Proposed FY10 Budget	FY09 Budget	Change from FY09
Registrar	30,866	30,947	(81)
Registry	32,153	25,104	7,049
RIR	823	823	-
ccTLD	2,300	2,300	-
Other	1,500	1,500	-
Total Revenue	67,642	60,674	6,968

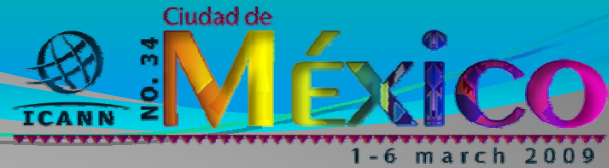
- Revenue of \$67.6 million, increase primarily due to .COM's fixed fee step up
- Revenue sources remain: registries, registrars, RIR's, cc's, other
- Transaction volumes modest increase, will review

New gTLD application fees not included, part of separate new gTLD budget

Highlights of the FY10 Budget -- Expenses

- Operating expenses: \$54.3 mil for FY10 vs. \$51.8 mil in FY09
- Growth rate of 4.9%, compared to 30% growth trend of recent years.
- Given world economic climate, consider work areas that could be deferred, costs reduced
- Focused spending in certain areas is called for:
 - new gTLD and IDN: \$8.7 million to complete implementation
 - Contractual compliance
 - Technology operations infrastructure, 18% growth, to provide adequate support for DNSSEC and other operational enhancements
 - Global engagement, increased staffing in Asia, increased translation budget

Highlights of the FY10 Budget -- Contribution



- Strategic plan calls for reserve fund of one year's operating expenses within three to five years (about \$10 million/year)
- FY10 contribution budget forecast at \$7.4 million; more than twice the \$3.5 plan for FY09 budget
 - Still investing in new TLD and IDN process; will complete in FY10

Separate new gTLD budget Amendment

- New gTLD Program expected to launch in FY10; will post separate budget amendment about 90 days prior to launch
- Detailed information available in fees and cost considerations paper posted in Oct 2008 and responses to comments posted in Feb 2009
- Some new gTLD costs are included in the proposed FY10 Budget Framework
- But, most costs to be included in a separate budget amendment

Three Year Financial Impact Analysis

Three year Framework Model developed

- to assess impact on ICANN's financial position
 - to describe cost recovery mechanisms
 - to consider revenue sourcing strategies
- Key Assumptions:
 - new gTLD Fees and refunds per 2nd draft of guidebook
 - registry Fees (after delegation):
 - \$25,000/year
 - \$0.25 / transaction after 50k transactions

Three Year Financial Impact Analysis – Revenue – Cost Neutral model (Application Fee Impact)

	Start Up Costs	Application Launch	Evaluation			New gTLD
			Year-1	Year-2	Year-3	
Revenue	-	50	83,250	9,250	-	92,550
Expenses	12,795	-	39,524	4,367	-	56,686
Refund of Evaluation Fees	-	-	4,968	578	-	5,546
Other gTLD Costs	-	-	30,000	-	-	30,000
Change in Net Assets	(12,795)	50	8,758	4,305	-	318
Change in working Capital		49,755	(44,492)	(4,945)	-	318
Working Capital	\$ 20,000	\$ 69,755	\$ 25,263	\$ 20,318	\$ 20,318	20,318
Change in Reserve Fund	\$ (12,795)	\$ 12,795	\$ -	\$ -	\$ -	-
Reserve Fund	\$ 30,000	\$ 42,795	\$ 42,795	\$ 42,795	\$ 42,795	42,795

Three Year Financial Impact Analysis Supporting new gTLDs

	New gTLD Year-1	New gTLD Year-2	New gTLD Year-3
gTLD's in operation	146	381	406
Registry Fixed Fees	3,650,000	9,525,000	10,150,000
Registry Fees	346,750	904,875	964,250
Registrar Fees	277,400	723,900	771,400
Revenue	4,274,150	11,153,775	11,885,650
Payroll	1,726,000	3,277,000	3,492,000
Travel	25,000	47,000	50,000
Professional Service	1,643,000	2,000,000	1,523,000
Administration	1,289,720	2,023,120	1,924,700
Expenses	4,683,720	7,347,120	6,989,700
Change in Net Assets	(409,570)	3,806,655	4,895,950

Three Year Financial Impact Analysis – Total ICANN w/new gTLD

	ICANN NEW gTLD FY10	ICANN NEW gTLD FY11	ICANN NEW gTLD FY12
REVENUE			
Traditional revenue	67,642	68,318	69,001
Evaluation Fees (cost neutral)	83,250	9,250	-
New gTLD Registry Fixed Fees	3,650	9,525	10,150
New gTLD Registry Fees	347	905	964
New gTLD Registrar Fees	277	724	771
Total Revenue	\$ 155,166	\$ 88,722	\$ 80,887
EXPENSES			
Personnel	24,721	25,462	26,226
Travel & Meetings	11,458	11,802	12,156
Professional Services	11,862	12,218	12,584
Administration	6,306	6,495	6,690
New gTLD Evaluation Costs	43,726	4,883	-
Refund of Evaluation Fees	4,968	578	-
New gTLD Operation Costs	4,684	7,347	6,990
Non Cash Expenses	2,900	2,987	3,077
Total Expenses	\$ 110,625	\$ 71,772	\$ 67,723
Other gTLD Costs	\$ 30,000	\$ -	\$ -
Contingency	\$ 3,000	\$ 3,000	\$ 3,000
Change in Net Assets	\$ 11,541	\$ 13,950	\$ 10,164

Three Year Financial Impact Analysis

Implications:

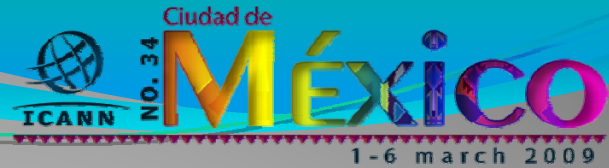
- Model demonstrates revenue covering cost for new gTLD application process
- New gTLD operations naturally impose requirement for detailed cost accounting and reporting
- As models mature, ICANN should consider opportunities to reduce fees and mix of revenue sources
- Historical contributions to reserve fund recouped, and likely to attain full funding of Reserve Fund

What is next?

- Solicit Community Input
 - Online comments
 - Meetings participation
 - Conference Calls with constituency groups
- Refine budget assumptions:
 - Confirm priorities
 - Focus on how to change services to defer or reduce costs
- Synthesize community feedback
- Post draft Plan/Budget for community input by 17 May
- Solicit more community feedback
- Submit final Plan and Budget for Board: Sydney meeting

Thank you

Separate new gTLD budget Amendment



When: About 90 days prior to launch

Why plan for “off cycle” budget amendment?

- Uncertainty on timing, estimates, implementation details
- No need to obtain approval to collect funds in advance
- Cost neutral policy, thus no funds needed for operations

What will be in budget amendment:

- Revenues from new gTLD fees
- Panel and other costs to process applications
- Clarity on tracking and reporting of evaluation costs
- How to treat surplus (or shortfall), if any