

I C A N N

COMMUNITY FORUM

58

COPENHAGEN

11-16 March 2017

A scenic view of a harbor in Copenhagen at dusk. The sky is a mix of deep blue and soft orange from the setting sun. The water is calm, reflecting the lights from the buildings and boats. On the right, a row of colorful, multi-story buildings with many windows is lit up from within. Several boats are docked along the quay, and their masts are visible against the sky. The overall atmosphere is peaceful and picturesque.

FY18 Operating Plan & Budget

Xavier Calvez, Becky Nash, Taryn Presley

Introduction

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Meet the Planning Team



Xavier Calvez
Project Sponsor



Becky Nash
Project Owner



Taryn Presley
Project Manager
and Budget



Leo Vegoda
Operating Plan



Kirsten Wattson
IANA Budget

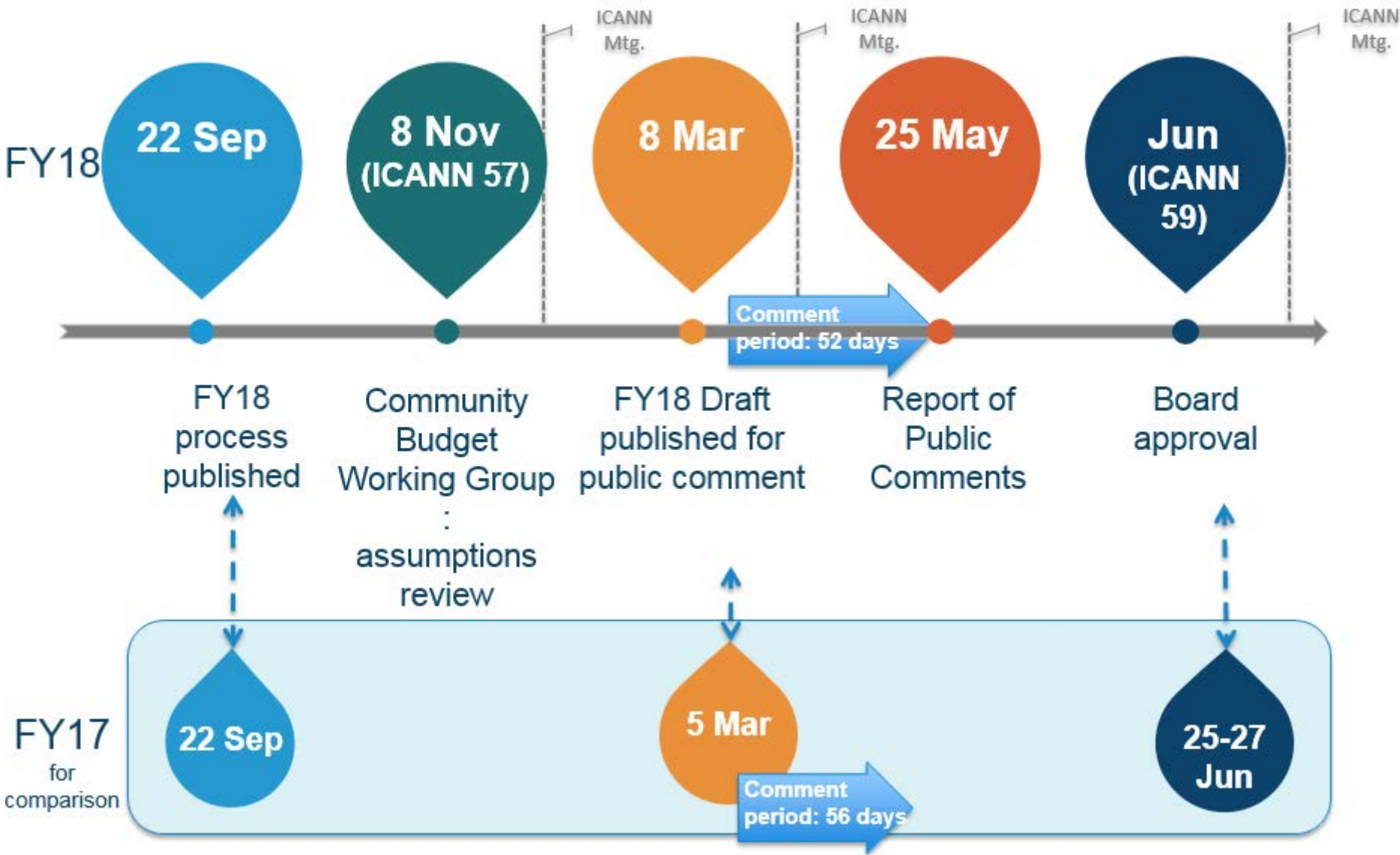


Jessica Castillo
Project Coordinator

A world map where the continents are defined by a network of white dots and lines, resembling a social or data network. The background is a solid teal color.

2. Planning Process Overview and Timeline

2.1. FY18 Planning Process Overview and Timeline



3. 5-Year Operating Plan Update

3.1. 5YOPU FY17 → FY18 Types of Changes

1

Strategic Plan

Objectives and Goals are defined in the Strategic Plan and remain unchanged

4

Dependencies

Dependencies updated to reflect completed work, events that have happened, and arising situations

2

Portfolios

Portfolios updated to reflect work that will be completed in FY17, work to be started in FY18, and refinements to work that will continue. This includes moving portfolios between goals following organizational changes.

5

Phasing

Phasing updated based on planned progress for FY17 and to give additional detail in FY18 and beyond

3

KPIs

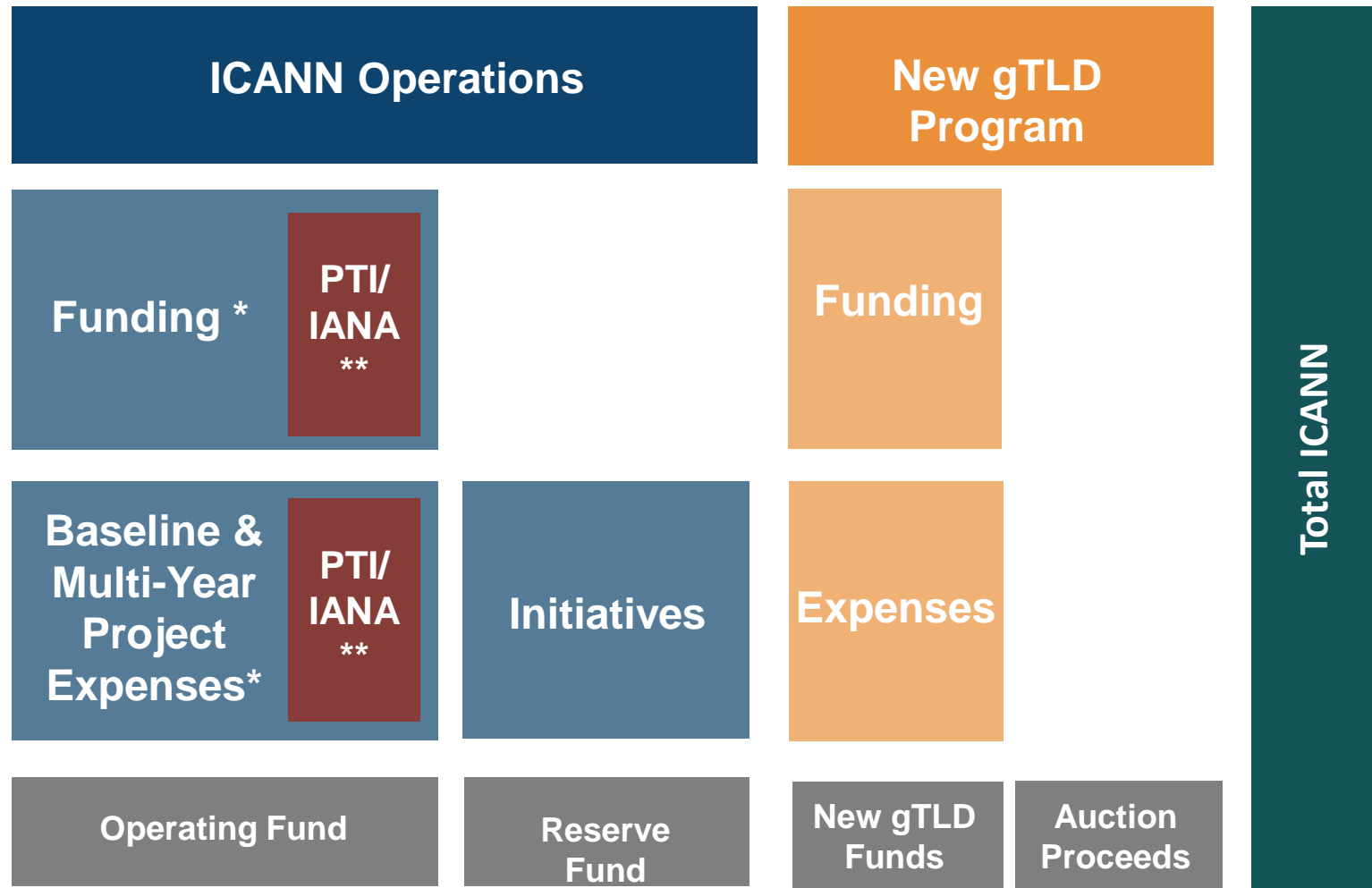
KPIs updated to reflect refinements in measurements based on a better understanding of success

Three high profile updates:

- PTI op plan incorporated into total ICANN op plan
- No IANA Stewardship Transition
- Reviews incorporated into Bylaws. Now called Specific Reviews.

4. Draft FY18 Operating Plan and Budget

4.1. ICANN Org. Financial Reporting Structure



* Excludes depreciation and bad debt expenses

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

4.2. Draft FY18 ICANN Ops Op Plan & Budget Highlights

1

FY18 Operating Plan

- Year 3 of the 5-year Operating Plan.
- No major changes to baseline operations.
- IANA functions segregated in PTI.

2

FY18 Budget balanced

- Funding of \$142.8m
- Baseline expenses of \$142.8m
- No initiatives funded from Reserve Fund

3

Funding increases at a slower rate

- Funding forecast reaches \$142.8m, 5% above the FY17 forecast (\$135.9m).
- Slow down consistent with number of new TLDs in operations reaching its peak.

4

ICANN Operations baseline expenses

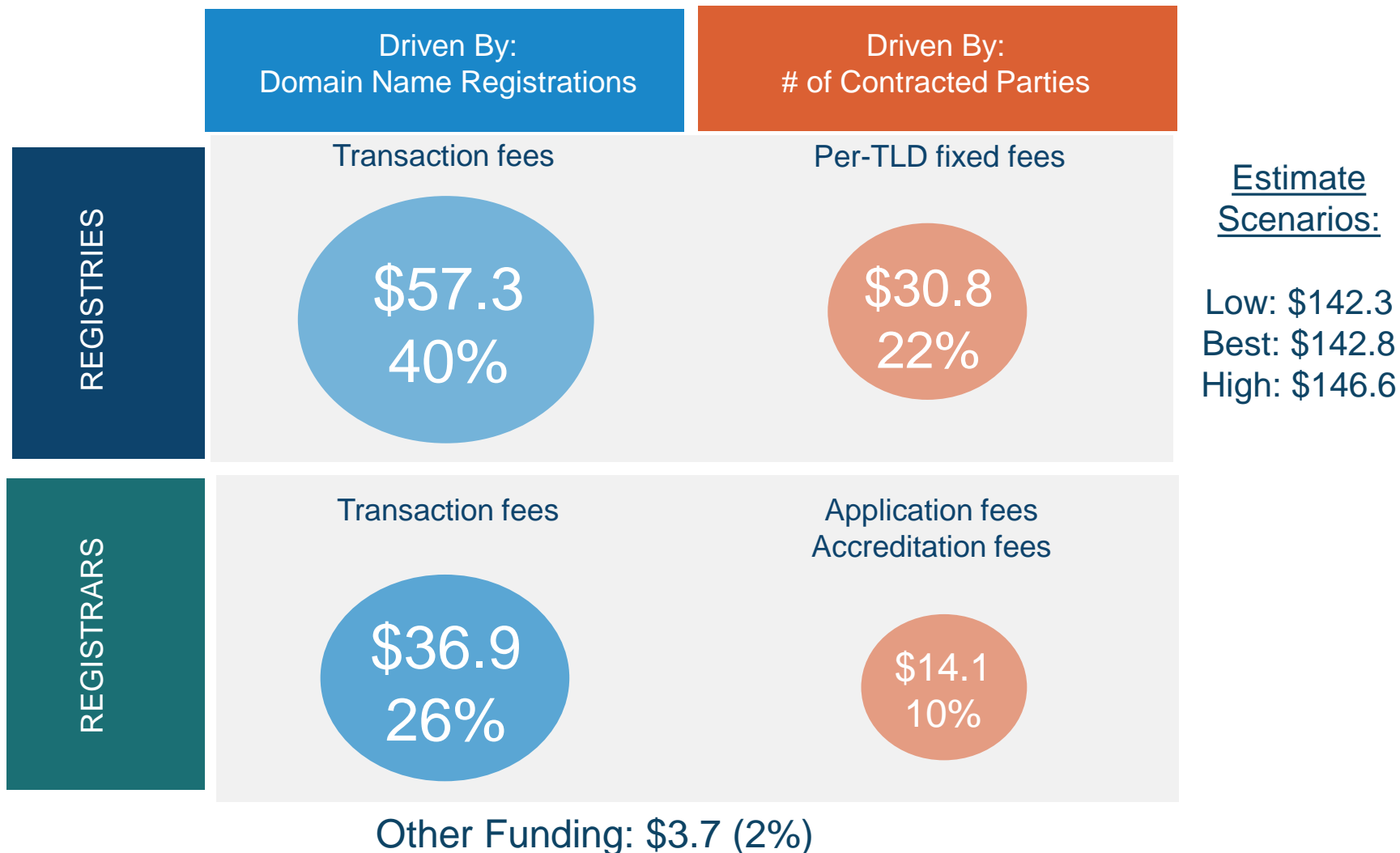
- Baseline cash expenses of \$142.8M increase organically by about 5% (excl. contingency) over the FY17 forecast (\$130.4M), mainly driven by Personnel expenses.

4.3. ICANN Ops Draft FY18 Budget

| | Draft FY18 Budget | FY17 Forecast | Increase/ (Decrease) |
|-----------------------------------|----------------------------------|--------------------------|---------------------------------|
| Funding | \$ 142.8 | \$ 135.9 | \$ 6.9 |
| Baseline Cash Expenses | -\$ 142.8 | -\$ 130.4 | \$ 12.5 |
| Excess/ (Deficit) | \$ 0 | \$ 5.5 | (\$ 5.5) |

4.4.1. Draft ICANN Ops FY18 Funding - Overview

Total: \$142.8 (“Best estimate” scenario)



4.4.2. Draft ICANN Ops FY18 Funding - Highlights and R&Os

Highlights

- Conservative assumptions
- Continued engagement with community >> general acceptance of reasonableness

Risks

- Lower legacy transactions growth (Low probability: \$0.5m)

Opportunities

- Higher new gTLD transactions growth (Med. Probability: \$3.8m)

4.5.1. ICANN Ops Expenses Overview (1 of 2)

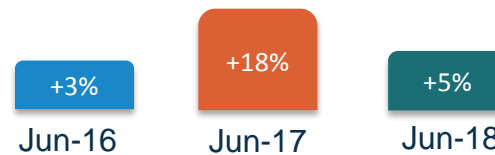
Annual Expenses = Baseline cash ICANN Ops expenses + IANA

1

Baseline cash expenses = Annual Funding

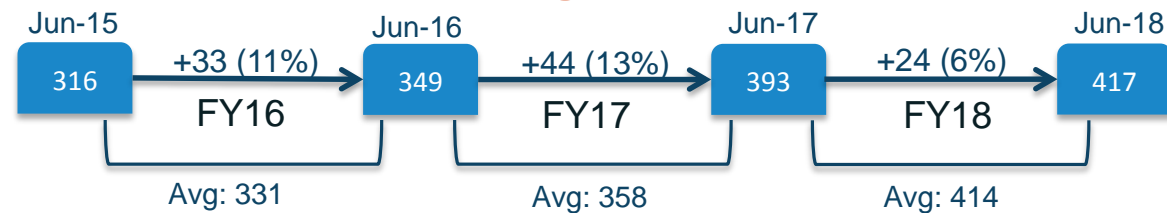
2

Baseline expenses growth slowing down



3

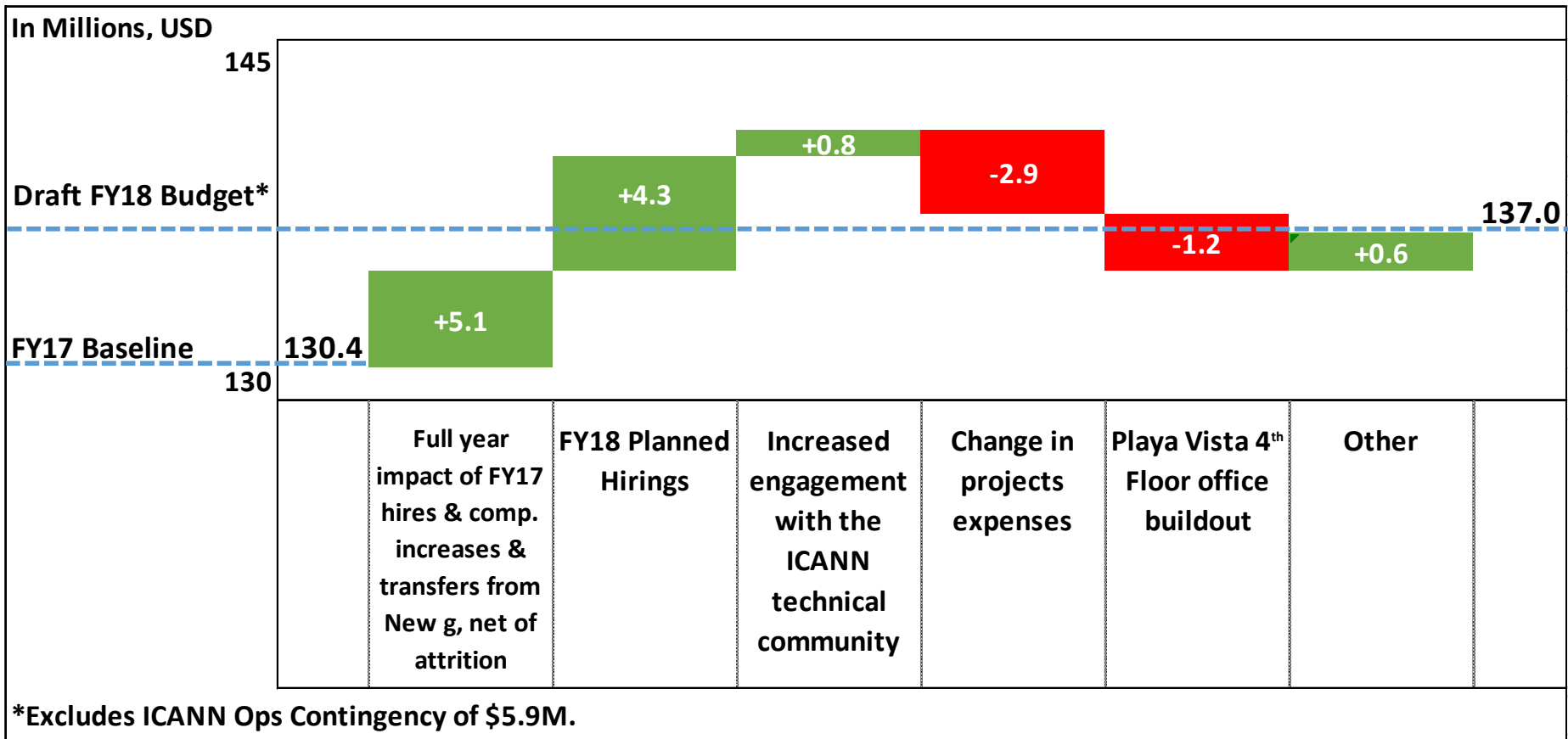
Slowdown of headcount growth in FY18



4

IANA Stewardship Transition concluding in FY17, including WS2.

4.5.1. ICANN Ops Expenses Overview (2 of 2)



4.5.2. ICANN Ops Draft FY18 Headcount

| in Millions, USD Executive Group | FY18 Draft Budget ⁽¹⁾ | | FY17 Forecast ⁽²⁾ | | Increase/(Decrease) | | | |
|--|----------------------------------|--------------|------------------------------|--------------|---------------------|-----------|-------------|------------|
| | EOP Hdct | Avg Hdct | EOP Hdct | Avg Hdct | EOY Hdct | % | Avg Hdct | % |
| DNS, GDD, IANA | 99.0 | 98.5 | 88 | 72.5 | 11 | 13% | 26.0 | 36% |
| Operations | 17.0 | 17.0 | 17 | 9.9 | - | 0% | 7.1 | 72% |
| Strategic Communications | 26.0 | 26.0 | 26 | 25.2 | - | 0% | 0.8 | 3% |
| Finance & Procurement and ERM | 20.0 | 20.0 | 20 | 15.8 | - | 0% | 4.2 | 26% |
| Technical Functions | 19.0 | 18.0 | 17 | 14.6 | 2 | 12% | 3.4 | 24% |
| GSE, Meetings Ops, DPRD | 48.0 | 48.0 | 46 | 43.9 | 2 | 4% | 4.1 | 9% |
| Contr. Compliance & Consumer Safeguards | 29.0 | 29.0 | 26 | 26.2 | 3 | 12% | 2.8 | 10% |
| Governance Support | 20.0 | 19.0 | 17 | 16.2 | 3 | 18% | 2.8 | 17% |
| Governmental & IGOs Engagement | 8.0 | 8.0 | 7 | 7.0 | 1 | 14% | 1.0 | 14% |
| Executive | 3.0 | 3.0 | 3 | 3.0 | - | 0% | - | 0% |
| Policy Dev Support and SO/AC Engagement | 35.0 | 34.9 | 34 | 30.4 | 1 | 3% | 4.5 | 15% |
| IT | 66.0 | 66.0 | 61 | 59.9 | 5 | 8% | 6.1 | 10% |
| Global Human Resources & Admin | 22.0 | 21.7 | 21 | 19.6 | 1 | 5% | 2.1 | 11% |
| MSSI | 17.0 | 17.0 | 17 | 12.9 | - | 0% | 4.1 | 31% |
| Ombudsman | 1.0 | 1.0 | 1 | 1.0 | - | 0% | - | 0% |
| New gTLD Allocations & Corporate (includes attrition) | (13.3) | (13.3) | - | - | (13) | 0% | (13.3) | 0% |
| | 417 | 413.8 | 401 | 358.2 | 16 | 4% | 55.6 | 16% |

In millions, USD

4.5.3. Draft FY18 Baseline Cash Expenses R&Os

Risks

- Possibility/ probability of carrying out “Unfunded Potential FY18 Activities.”
- Increasing urgency of large projects to be carried out.
- Potential impact of the bylaw-driven cycle of reviews both on Community and ICANN organization workload and bandwidth.
- WS2 Transition work expenses delayed to FY18.

Opportunities

- Ability to prioritize the activities of the ICANN Community.
- Ability to reduce headcount growth as result of possible optimization of resources

4.5.4. PTI and IANA Budget

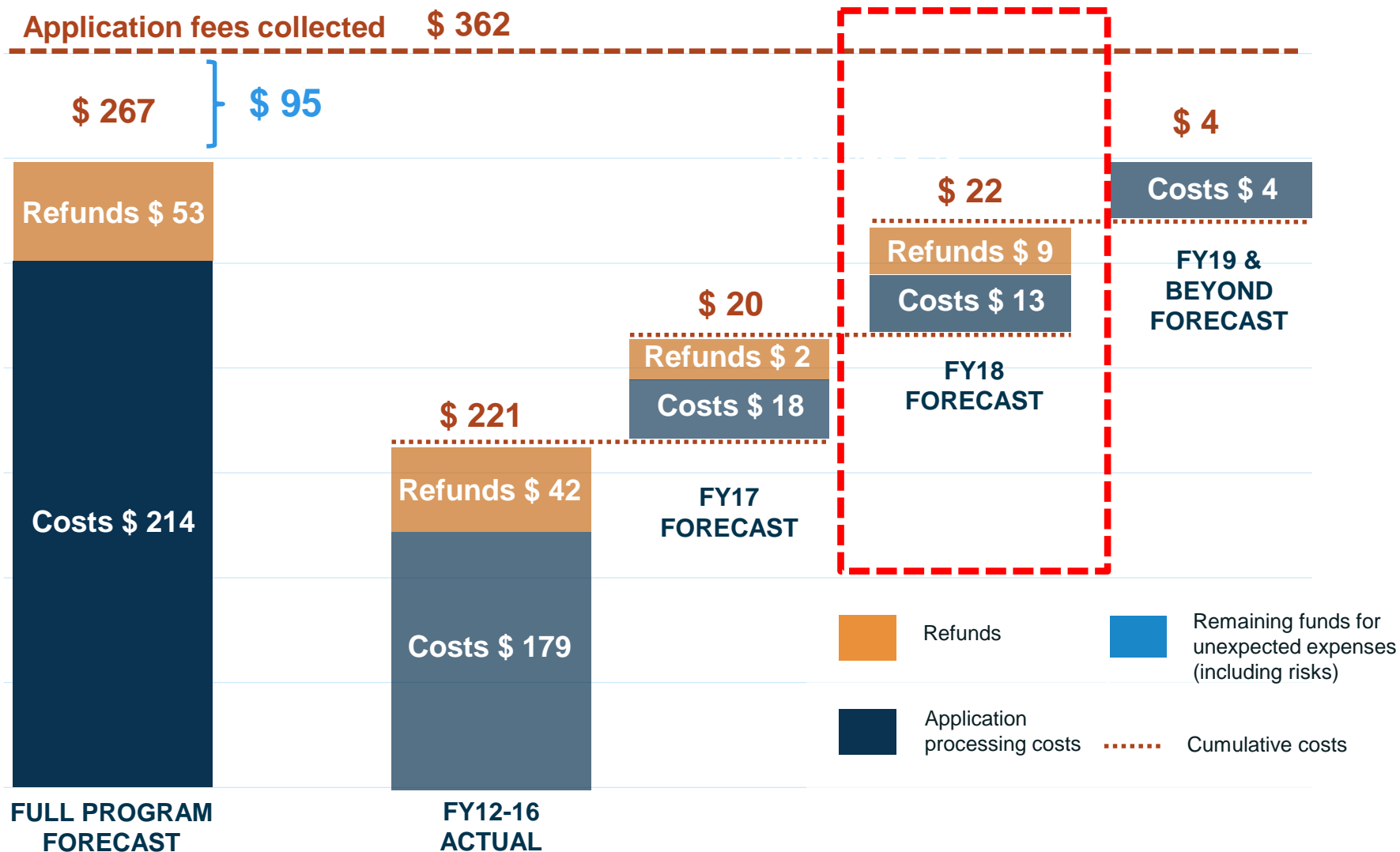
| FY18 IANA Budget in Millions, USD | | IANA Services FY18 Budget |
|--|-----|--------------------------------------|
| PTI Operations IANA Budget | | \$9.6 |
| RZMA (Operating Expense) | (a) | \$0.3 |
| Capital | (b) | \$0.1 |
| Subtotal | | \$0.4 |
| TOTAL IANA BUDGET | | \$10.0 |

(a) RZMA = Root Zone Maintainer Agreement for \$300K per Year. This is funded by ICANN Operations

(b) Capital for IANA for IT systems maintenance

- PTI FY18 OP&B adopted by the PTI Board on 27 January 2017.
- ICANN received as input into the FY18 IANA Budget which is subject to the empowered community veto process
- The IANA Budget is included in the Caretaker Budget should a veto process be triggered

4.6. New gTLD Program – Multi-year Forecast



4.7.1. Total ICANN Financial Overview

| in Millions, USD | FY18 Draft Budget | | | FY17 Forecast ⁽¹⁾ | | | Increase/(Decrease) vs. FY17 Forecast | | | | | |
|---|-------------------|---------------|----------------|------------------------------|----------------|----------------|---------------------------------------|--------------|------------------|---------------|------------------|---------------|
| | Total ICANN Ops | New gTLD* | ICANN Org. | Total ICANN Ops | New gTLD* | ICANN Org. | Total ICANN Ops | % | New gTLD | % | ICANN Org. | % |
| Funding | \$142.8 | \$19.5 | \$162.3 | \$135.9 | \$154.1 | \$290.0 | \$6.9 | 5.1% | (\$134.7) | -87.4% | (\$127.7) | -44.0% |
| Personnel | 69.5 | \$2.5 | 72.0 | \$60.4 | \$4.6 | \$65.0 | 9.1 | 15% | (\$2.1) | -45% | 7.1 | 11% |
| Travel & Meetings | 17.6 | 0.7 | 18.3 | 18.0 | \$1.0 | 19.0 | (0.4) | -2% | (0.3) | -32% | (0.7) | -4% |
| Professional Svcs. | 27.6 | 7.0 | 34.6 | 27.2 | 11.4 | 38.6 | 0.4 | 1% | (4.4) | -39% | (4.0) | -10% |
| Administration ⁽²⁾ | 18.7 | 0.7 | 19.3 | 17.0 | 1.1 | 18.1 | 1.7 | 10% | (0.4) | -37% | 1.3 | 7% |
| Capital | 3.6 | 0.0 | 3.6 | 7.7 | 0.0 | 7.7 | (4.1) | -53% | 0.0 | n/a | (4.1) | -53% |
| Contingency ⁽³⁾ | 5.8 | 0.0 | 5.8 | 0.0 | 0.0 | 0.0 | 5.8 | n/a | 0.0 | n/a | 5.8 | n/a |
| Baseline Cash Expenses | \$142.8 | \$10.9 | \$153.7 | \$130.4 | \$18.0 | \$148.3 | \$12.5 | 10% | (\$7.1) | -40% | \$5.3 | 4% |
| Increase/ (Decrease) to Net Assets | \$0.0 | \$8.6 | \$8.6 | \$5.5 | \$136.2 | \$141.7 | (\$5.5) | -100% | (\$127.5) | -94% | (\$133.1) | -94% |
| Average Headcount | 413.8 | 0.0 | 413.8 | 358.2 | 9.0 | 367.2 | 55.6 | 16% | (9.0) | -100% | 46.6 | 13% |

(1) FY17 Forecast excludes IANA Stewardship Transition travel and meetings, professional services, admin, and capital costs.

(2) ICANN Ops excludes Depreciation and Bad Debt of ~\$8M.

(3) FY17 activities covered by the contingency have been reported in the expense categories above based on the nature of the expense.

4.7.2. Total ICANN Cash Flows - FY18

| Cash Flow Statement | For the Year Ended 6/30/2018 | | | | |
|---|------------------------------|----------------|-----------------|------------------|-----------------|
| | Operating Fund | Reserve Fund | NgTLD | Auction Proceeds | Total |
| In Millions, US dollars | | | | | |
| Funds Under Management - June 30, 2017 | \$ 44.9 | \$ 58.6 | \$ 123.7 | \$ 233.0 | \$ 460.1 |
| Collected/ (refunded) from contracted parties | 141.3 | | (9.0) | | 132.3 |
| Auction Proceeds | - | | - | | - |
| Paid to vendors, net of reimbursement | (62.8) | | (8.3) | | (71.2) |
| Paid to employees, net of reimbursement | (70.9) | | (2.5) | | (73.4) |
| Reimbursement from Reserve Fund - IANA | | | | | |
| Transition Project Costs ⁽¹⁾ | \$ 4.5 | \$ (4.5) | | | - |
| Historical Development Costs | 2.0 | | (2.0) | | - |
| Capital expenditures | (3.6) | | - | | (3.6) |
| Change in investment market value | | 1.2 | 0.3 | 0.5 | 1.9 |
| Funds Under Management - June 30, 2018 | \$ 55.4 | \$ 55.3 | \$ 102.0 | \$ 233.5 | \$ 446.1 |

(1) The IANA Transition Project Costs are reimbursed from the Reserve Fund every six months for the previous six months of expenses. The FY18 impact represents the project expense for H2 FY17 (January through July).

5. New to the Planning Process

5. New to the Process

- Caretaker budget
 - Community power to reject the strategic / operating plans and budget.
 - If the Board-approved OP&B is vetoed, **caretaker budget** replaces OP&B during veto resolution period.
- Unfunded Potential FY18 Activities
 - Include activities/expenses considered during budget development, but not included in the Draft FY18 OP&B.
 - Activities to be considered during FY18, based on priority and availability on funding.

6. Next Steps in FY18 Budget Process

6. Next Steps

| Date | Who | Step |
|---------------------------|-----------|--|
| 19 Mar | Community | Submit clarifying questions (as needed) on the draft 5-Yr Op Plan Update and FY18 Op Plan |
| 31 Mar | Staff | Post responses to clarifying questions |
| 31 Mar | Community | Set up a meeting with the planning team to review your submitted comments (as needed) by |
| 05 Apr (est.) | BFC | BFC recommends Board approves SO/AC Additional Budget requests |
| 28 Apr | Community | Public comment Period ends |
| 05 May | Board | Board approves SO/AC Additional Budget requests (Board resolution) |
| 25 May | Staff | Staff Report published |
| 05 Jun (est.) | BFC | BFC reviews the final ICANN Budget and recommends Board approval |
| 10 Jun (est.) | Staff | New Step: Publication to the community of the final FY18 OP & B intended for Board approval highlighting any changes from the Draft. |
| 24 Jun (est.) ICANN 59 | Board | Board approves final ICANN Budget |

7. How to Get Involved



Email: controller@icann.org



Public Comment

icann.org/public-comments



Community Finance Email List

How to subscribe?

8. Empowered Community – Budget Rejection Power

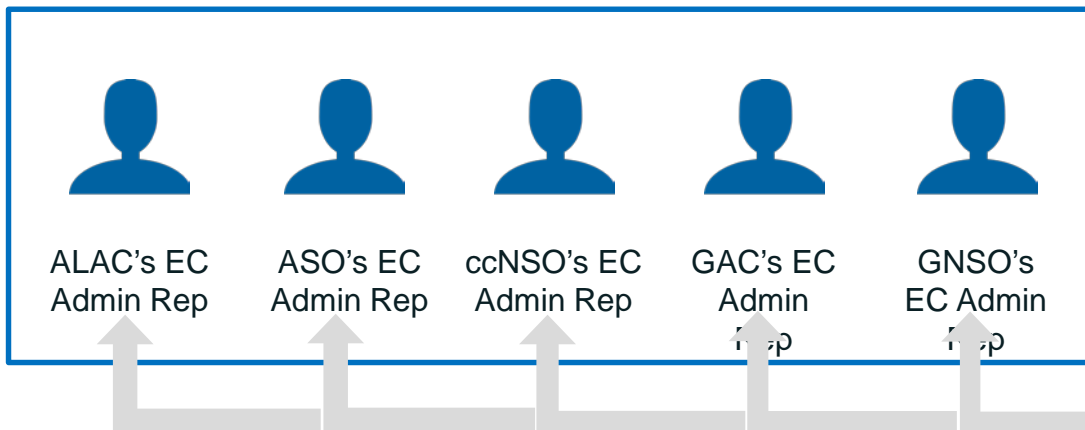
Overview of EC and EC Administration

Empowered Community (“EC”)



In representing a Decisional Participant on the EC Administration, the individual representative acts solely as directed by the represented Decisional Participant and in accordance with processes developed by such Decisional Participant.

Empowered Community Administration



In representing the EC Administration, the representatives act as required for the EC to follow the applicable procedures to exercise its rights.

ICANN and IANA Budget Rejection Action Procedures

Rejection Action Board Notice

ICANN Board approves the ICANN and IANA budgets.

ICANN Secretary sends Rejection Action Board Notice to EC Admin and Decisional Participants.

Petition Period – 21 days

In accordance with procedures of Decisional Participant, an individual may submit a petition.

Decisional Participant decides whether to accept petition. If accept, notify EC Admin and ICANN Secretary.

Support Period (7 days)

Petitioning Decisional Participant contacts EC Admin and other Decisional Participants to determine whether any other Decisional Participants support petition. If at least one other Decisional Participant supports, notify EC Admin and ICANN Secretary.

Community Forum Period – 21 days

EC Admin directs ICANN org to convene Community Forum (may also request to hold conference call prior to Community Forum).

ICANN org schedules conference call (if requested) and Community Forum.

ICANN org, SOs/ACs (including Decisional Participants) submit written views/questions to EC Admin with copy to ICANN Secretary.

EC Admin moderates conference call (if scheduled) and Community Forum. ICANN org staff and Board Directors attend to answer questions.

Decision Period – 21 days

Decisional Participants decide whether to (i) support petition; (ii) reject petition; (iii) abstain, and notify EC Admin with copy to ICANN Secretary.

EC Admin Notice – 24 hours

EC Admin tallies decisions from Decisional Participants. If 4 support and no more than 1 reject, send ICANN Secretary EC Approval Notice. If approval threshold not met, send ICANN Secretary Approval Process Termination Notice.

Appendix – Draft 5-Year Operating Plan Update and FY18 Operating Plan and Budget

ICANN Ops Draft FY18 Financial Overview

| in Millions, USD | FY18 Draft Budget | | | FY17 Forecast ⁽¹⁾ | | | Increase/(Decrease) vs. FY17 Forecast | | | |
|---|-------------------|----------|-----------------|------------------------------|---------|-----------------|---------------------------------------|---------|-----------------|-------|
| | ICANN Ops | IANA | Total ICANN Ops | ICANN Ops | IANA | Total ICANN Ops | ICANN Ops | IANA | Total ICANN Ops | % |
| Funding | \$142.8 | \$0.0 | \$142.8 | \$135.9 | \$0.0 | \$135.9 | \$6.9 | \$0.0 | \$6.9 | 5.1% |
| Personnel | 63.8 | \$5.8 | 69.5 | \$55.2 | \$5.2 | \$60.4 | 8.6 | \$0.5 | 9.1 | 15% |
| Travel & Meetings | 17.0 | 0.6 | 17.6 | 17.6 | \$0.4 | 18.0 | (0.6) | 0.2 | (0.4) | -2% |
| Professional Svcs. | 26.1 | 1.5 | 27.6 | 25.9 | 1.3 | 27.2 | 0.1 | 0.2 | 0.4 | 1% |
| Administration ⁽²⁾ | 17.1 | 1.6 | 18.7 | 15.3 | 1.7 | 17.0 | 1.8 | (0.1) | 1.7 | 10% |
| Capital | 3.5 | 0.1 | 3.6 | 7.6 | 0.1 | 7.7 | (4.1) | (0.0) | (4.1) | -53% |
| Contingency ⁽³⁾ | 5.3 | 0.5 | 5.8 | 0.0 | 0.0 | 0.0 | 5.3 | 0.5 | 5.8 | n/a |
| Baseline Cash Expenses | \$132.8 | \$10.0 | \$142.8 | \$121.6 | \$8.7 | \$130.4 | \$11.2 | \$1.3 | \$12.5 | 10% |
| Increase/ (Decrease) to Net Assets | \$10.0 | (\$10.0) | \$0.0 | \$14.3 | (\$8.7) | \$5.5 | (\$4.2) | (\$1.3) | (\$5.5) | -100% |
| Average Headcount | 391.2 | 22.6 | 413.8 | 336.9 | 21.3 | 358.2 | 54.3 | 1.3 | 55.6 | 16% |

(1) FY17 Forecast excludes IANA Stewardship Transition travel and meetings, professional services, admin, and capital costs.

(2) ICANN Ops excludes Depreciation and Bad Debt of ~\$8M.

(3) FY17 activities covered by the contingency have been reported in the expense categories above based on the nature of the expense.

Draft FY18 Revenue Assumptions

| | FY18 Budget | FY17 Forecast | % Inc/ (Dec) |
|--|-------------|---------------|--------------|
| # of Transactions (in M) | 205.3 | 192.0 | 6.9% |
| Legacy gTLDs | 163.6 | 159.9 | 2.3% |
| New gTLDs – Total | 41.7 | 32.1 | 29.9% |
| New gTLDs - Billable | 35.4 | 27.0 | 31.1% |
| | | | |
| # of Contracted Parties (as of end of year) | 3,503 | 4,249 | -24.9% |
| Legacy gTLDs | 22 | 22 | 0.0% |
| New gTLDs (delegated) | 1,240 | 1,238 | 0.1% |
| Registrars | 2,241 | 2,989 | -25.0% |

Unfunded Potential FY18 Activities

- Include activities/expenses considered during budget development, but not included in the Draft FY18 OP&B.
- Activities to be considered during FY18, based on priority and availability on funding.
- List of activities is evolving and may change as additional information becomes available.

| | Name | FY18 | Total Expenses | Annual recurring | Estimated Start Date | Estimated End Date |
|-----------------------------------|---|--------------|----------------|------------------|----------------------|--------------------|
| Operations | Internal Controls Audit function | \$0.4 | n/a | \$0.5 | n/a | n/a |
| Comms/LS | Comms/Language Services | \$0.2 | \$0.2 | | Jul-17 | Jun-18 |
| MSSI | Reviews support | \$0.2 | \$0.2 | | Jul-17 | Jun-18 |
| GSE | SSR capacity building and additional headcount | \$0.4 | \$0.4 | \$0.3 | Jul-17 | Jun-18 |
| Meetings | Additional Meetings headcount | \$0.2 | n/a | \$0.2 | n/a | n/a |
| Legal | Additional Legal resources | \$0.3 | n/a | \$0.3 | n/a | n/a |
| Legal | Additional defense resources | \$1.0 | \$1.0 | | Jul-17 | Jun-18 |
| Finance | Additional business analysis | \$0.2 | n/a | \$0.2 | n/a | n/a |
| Contractual Compliance | Additional professional services | \$0.1 | \$0.1 | | Jul-17 | Jun-18 |
| Comms/LS | Comms | \$0.4 | \$0.4 | \$0.4 | Jul-17 | ongoing |
| Comms/LS | Comms | \$0.2 | \$0.2 | \$0.2 | Jul-17 | ongoing |
| Policy Development Support | Document Production Pilot Support | \$0.1 | \$0.1 | | Jul-17 | Dec-17 |
| Community Travel Support | Community Regional Outreach program | \$0.1 | \$0.2 | | Jul-17 | Jun-18 |
| Policy Development Support | Additional professional services | \$0.1 | \$0.1 | | | |
| Government Engagement | Additional professional services (engagement - capacity building) | \$0.3 | \$0.3 | | Jul-17 | Jun-18 |
| | Sub-total | \$3.9 | \$3.0 | \$2.0 | | |