



FY15

**Operating Plan
and Budget**

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Introduction

This document sets forth ICANN's annual Operating Plan and Budget for FY15 (from 1 July 2014 to 30 June 2015).

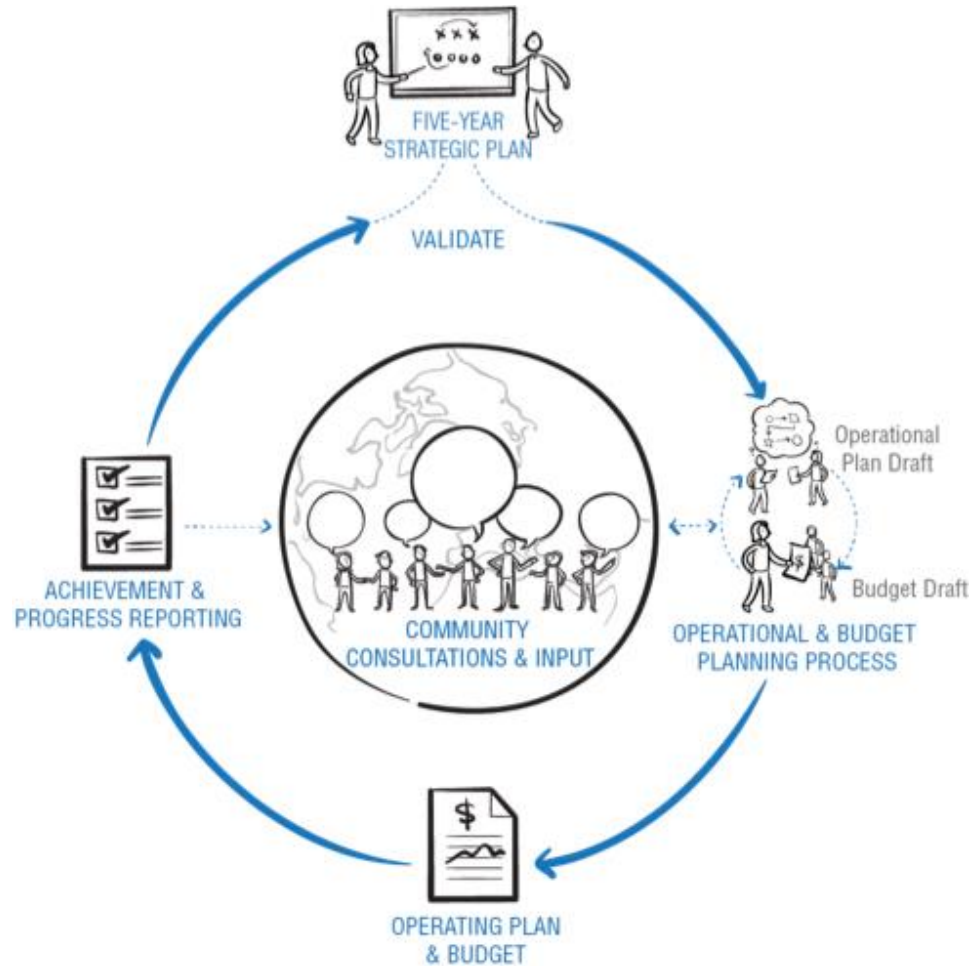
Community feedback and input through the public comment process are a critical component of the accountability and transparency of the Multistakeholder model.

The draft version of this document (published on 08-May-2014) was amended as a result of the comments received as well as ICANN staff and Board input. The main change between the draft and this document is the reduction of the revenue from registries and registrars, resulting from a revision of the assumptions of new registry delegations and transactions volume. Operating expenses have been reduced accordingly to ensure that expenses do not exceed revenues.

The Operating Plan and Budget includes:

- An introduction describing the highlights of FY15
- An overview of the budgeted resources and expenses, including comments on year-on-year variances by category and by function.

Beginning with the FY16 annual planning process, the Five-Year Strategic Plan will provide input into the annual planning process. The graphic shows the expected annual planning cycle for FY16-20, at a high level.



1. FY15 Highlights

ICANN is entering FY15 with as much focus on its accountability and transparency mechanisms as ever. With the significant amount of work that the organization has been facing in most areas, it has grown significantly over the past 2 years.

As a result, with the objective of maximizing efficiency and continuously improving operational performance during FY15, management will focus the organization on fully integrating the resources on-boarded by the end of June 2014, and stabilize the organization during FY15 and maximize efficiency, with limited growth in selective areas. Additionally, management will ensure that specific and targeted resource investments support the following activities:

- Manage the USG transition process
- Develop the gTLD service platform to accommodate the growing volume of activity
- Launch multi-year build-out of enterprise system architecture (IT front end and back end)
- Optimize the Contractual Compliance capabilities.

1.1. Revenues

1.1.1. Revenue Overview

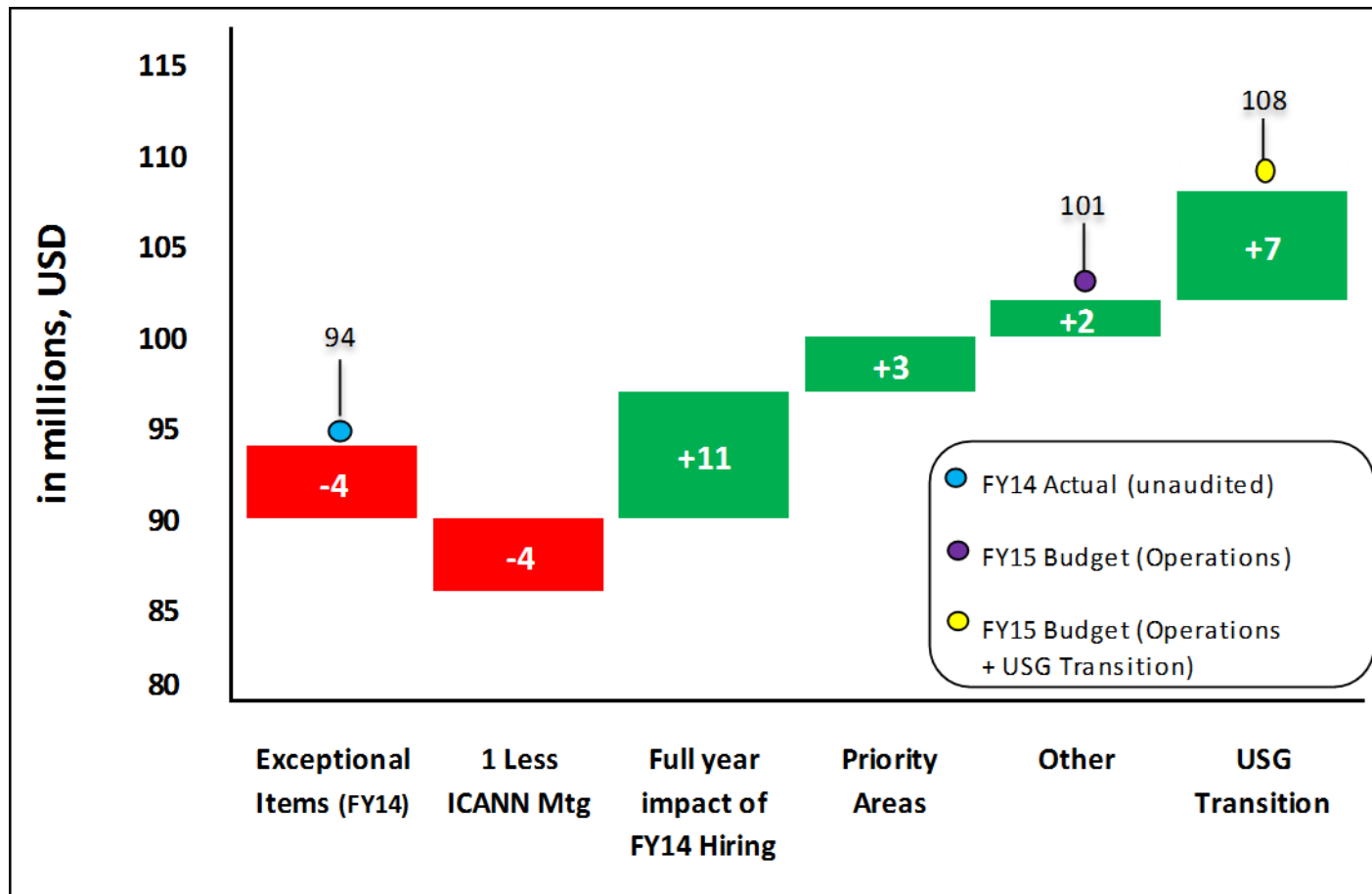
In Millions, US dollars	FY15 Budget	FY14 Actuals	Fav/ (Unfav)	%
Existing TLDs				
Registry	\$44.8	\$43.1	\$1.8	4.1%
Registrar	34.9	34.8	0.1	0.3%
RIR	0.8	0.8	0.0	0.0%
ccTLD	2.1	2.1	0.0	0.1%
Meeting Sponsorships/other	1.5	1.3	0.2	14.3%
Sub-total	84.2	82.1	2.1	2.5%
New gTLD (see breakdown below)				
Registry	17.9	2.8	15.1	547.4%
Registrar	2.0	0.2	1.8	779.8%
Sub-total	19.8	3.0	16.9	564.9%
ICANN Ops Revenue	104.0	85.1	18.9	22.2%
New gTLD Application Fees	54.9	41.0	13.9	33.8%
Total Support and Revenue	\$158.9	\$126.1	\$32.8	26.0%
New gTLD breakdown	\$19.8	\$3.0	\$16.9	565.9%
Registry fixed fee	16.7	2.8	13.9	504.4%
Registry per transaction fee	1.2	0.1	1.1	1994.6%
Registrar per transaction fee	2.0	0.2	1.8	1107.4%

1.1.2. Revenue assumptions

- Historical gTLD revenue stream is consistent with current growth trend (+4% of registrations).
- New registries assumptions:
 - In the root by end of June 2014: 344
 - In the root by end of June 2015: 1034
 - 15.0 million registrations in FY15.
- Sponsorships/contributions
 - ccTLD: FY14 includes some FY13 contributions collected in FY14. Excluding those, the ccTLD contributions grow as a result of the ccNSO contribution guidelines updated in November 2013.
 - Meetings sponsorship lower due to 3 meetings in FY15 vs 4 meetings in FY14.
- New gTLD revenue continues to decrease as the evaluation work and spend decrease year on year.
- The Registrar fees are to be approved by the Board before submission to voting by the Registrars (see Appendix for details).

1.2. Operating Expenses

1.2.1. ICANN Operations (excludes New gTLD program)



See comments on each variance item on next page.

The operating expenses budget for ICANN Ops (excludes New gTLD) is \$108M. This represents a \$15M increase from the FY14 level of \$94M.

- FY14 exceptional (one-time) items not recurring in FY15 - Strategy Panels and ATLAS II costs
- 1 Less ICANN meeting (3 in FY15 vs. 4 in FY14)
- Full year impact of FY14 hiring - Increase in personnel costs due to 117 employees hired in FY14 working a full year in FY15 vs. a partial year in FY14, plus increase/promotion assumption.
- Priority areas - GDD service platform, Enterprise system architecture, and Optimizing Contractual Compliance
- Other - Increase in depreciation due to capital investments (Salesforce, Digital Platform, website, etc.), decreased allocations to the New gTLD Program and all other variances.
- USG Transition – transition of the IANA stewardship role of the U.S. Government, including third party costs and direct personnel allocation.

1.3. Statement of Activities

in millions, USD	ICANN Ops					New gTLD Program					Total			
	FY 15 Budget	FY14 Actual	Incr/ (Decr)	%		FY 15 Budget	FY14 Actual	Incr/ (Decr)	%		FY 15 Budget	FY14 Actual	Incr/ (Decr)	%
TOTAL SUPPORT AND REVENUE	104.0	85.1	18.9	22.3%		54.9	41.0	13.9	33.8%		158.9	126.1	32.8	26.0%
OPERATING EXPENSES														
Personnel	51.0	36.8	14.2	38.6%	(a)	9.3	8.4	0.9	10.2%		60.3	45.2	15.1	33.3%
Travel & Meetings	13.0	18.4	(5.4)	-29.5%	(b)	1.0	1.9	(0.8)	-44.5%		14.0	20.3	(6.3)	-30.9%
Professional Services	20.7	20.6	0.1	0.6%	(c)	20.1	18.8	1.4	7.3%		40.8	39.3	1.5	3.8%
Administration	14.2	12.9	1.2	9.5%	(d)	2.2	3.8	(1.6)	-42.3%		16.4	16.8	(0.4)	-2.4%
Bad Debt Expenses	0.5	0.2	0.3	129.4%		0.0	0.0	0.0	0.0%		0.5	0.2	0.3	129.4%
Depreciation Expenses	4.8	3.3	1.5	44.6%	(e)	0.0	0.0	0.0	0.0%		4.8	3.3	1.5	44.6%
Community Support Requests	0.7	0.7	0.0	1.4%		0.0	0.0	0.0	0.0%		0.7	0.7	0.0	1.4%
Contingency	3.4	0.6	2.8	436.1%	(f)	0.0	0.0	0.0	0.0%		3.4	0.6	2.8	436.1%
Operating Expenses	108.2	93.5	14.7	15.7%		32.7	32.9	(0.2)	-0.7%		140.9	126.4	14.4	11.4%
CHANGE IN NET ASSETS DUE TO OPERATING ACTIVITIES	(4.2)	(8.4)	4.3	50.6%		22.2	8.1	14.1	174.2%		18.0	(0.3)	18.4	5271.5%
Historical Development Costs	5.7	5.0	0.7	14.3%		(5.7)	(5.0)	(0.7)	14.3%		0.0	0.0	0.0	0.0%
CHANGE IN NET ASSETS	\$1.6	(\$3.4)	\$5.0	145.6%		\$16.5	\$3.1	\$13.4	\$0.0		\$18.0	(\$0.3)	\$18.4	5271.5%

- a) Impact of 117 employees hired in FY14 working a full year in FY15 vs. a partial year in FY14, and FY15 hires.
- b) 3 ICANN meetings in FY15 vs. 4 in FY14 and no ATLAS II in FY15.
- c) No Strategy Panels in FY15 and reduced consulting costs due to more internal resources partially offset by USG transition costs.
- d) Increase in facilities costs, primarily due to headcount increase and hub offices.
- e) Impact of FY14 capital investments (Salesforce.com, Digital Platform, website, etc.)
- f) The FY14 contingency has been used on travel & meetings, professional services and administration and the costs appear in those respective lines

1.4. Capital Expenditures

Description	Total	Comments
Real Estate	\$1.1	
Leasehold Improvement	1.0	Includes mainly leasehold improvements in Hub offices
Office Furniture & Equipment	0.1	
Strategic	5.0	
Business Applications	2.6	Includes the GDD Portal, Contractual Compliance SFDC implementation Includes Global data center expansion, IT/Security enhancements Includes website improvements (GDD, ICANN.org, SO/AC), collaboration tools
Infrastructure Improvement	1.2	
Online Community Services	1.1	
Audio / Visual Equipment	0.1	
On-going replacements & improvements	1.9	
Business Applications	0.2	Includes mainly hardware/software purchases/replacements
Infrastructure Improvement	1.5	
Online Community Services	0.2	
Grand Total	\$8.0	

1.5. Resource Utilization - ICANN Ops

in millions, USD	[A]	[B]	Total	FY14 Actuals (unaudited)	Increase/ (Decrease)	
	Operations	USG trans. +AOC +strat. agreements			\$	\$
	\$	\$	\$	\$	\$	%
Support & Revenue	\$104.0		\$104.0	\$85.1	\$18.9	22.3%
Strategic Reviews & Initiatives	\$2.5	\$3.6	\$6.1	\$5.3	\$0.7	14.0%
Strategic Communications	\$7.9	\$0.9	\$8.7	\$8.7	\$0.1	0.7%
GSE/ Gov. Eng./ Public Resp.	\$14.1	\$0.7	\$14.8	\$10.7	\$4.1	38.2%
SO/AC Policy and Engagement	\$5.9		\$5.9	\$5.3	\$0.7	12.5%
Governance support	\$8.9	\$1.0	\$9.9	\$8.9	\$1.0	11.6%
Operations	\$23.9	\$0.1	\$23.9	\$24.7	-\$0.8	-3.3%
IT & Cyber Security	\$13.7		\$13.7	\$10.3	\$3.5	33.6%
Global Domains Division	\$16.8	\$0.8	\$17.6	\$14.3	\$3.3	23.2%
Contractual Compliance	\$4.2		\$4.2	\$3.4	\$0.8	22.6%
Other	-\$0.1		-\$0.1	-\$2.9	\$2.8	-97.5%
Contingency	\$3.4		\$3.4	\$4.8	-\$1.4	-29.8%
Total Operating Expenses	\$101.3	\$6.9	\$108.2	\$93.5	\$14.7	15.7%
Change in Net Assets	\$2.7		-\$4.2			
Cash from change in Net Assets	\$8.0		\$1.1			
Capital Expenses	\$8.0		\$8.0			
Contribution to Reserve Fund	\$0.0		-\$6.9			
Net Cash from Operations	\$0.0		\$0.0			

1.6. Risks and Opportunities to the FY15 Budget

High/Medium/Low
Likelihood

Risks

USG Transition: requires significant unbudgeted actions	Med
Revenue shortfall due to: slower ramp up of registries lower number of transactions per registry	Med High
Overspend: Functional budgets have little contingency	High

Opportunities

USG Transition: requires less work / costs less	Low
Revenue upside due to: Faster ramp up of registries Higher number of transactions per registry	Low Low
Lower spend based on delayed activities	Low
Effectiveness of costs saving actions	Med

Risk: defined as the possibility of a lower revenue or higher cost / Opportunity is the opposite

Appendix

Registrar Fees

The Registrar fees are to be approved by the Board before submission to voting by the Registrars.

Approximately 1,000 registrars are currently accredited by ICANN. This relationship is governed by the Registrar Accreditation Agreement (RAA), of which the most recent version was approved in June 2013. The two versions of the agreement currently in use were approved in 2009 and 2013. The RAA is a five year agreement that provides for the following types of fees:

- Application fees
- Annual accreditation fees
- Variable accreditation fees
- Per registrar variable fees
- Transaction based fees

In addition, since 2009, the budget has assumed an Add Grace Period (AGP) excess deletion fee to eliminate domain tasting. The amount for AGP deletion fees was assumed to be zero in past budgets and is also assumed to be zero for the FY15 budget.

Application fees are paid one time by prospective registrars at the time of application. For FY15, the application fees are estimated to be \$420,000 based upon a volume of 120 applications and a per application fee of \$3,500 per application.

Annual accreditation fees are fees that all registrars are required to pay annually to maintain accreditation. The fee is \$4,000 per year. Registrars have the option of paying the annual \$4,000 accreditation fee in quarterly installments of \$1,000. For FY15, the annual accreditation fees are estimated at \$4.2 million, based on an estimate of a total of 1,050 registrars renewing and being newly accredited.

Variable accreditation fees are determined based on the transaction type and volume of each registrar. There are two types of fees associated with the variable accreditation fees:

- Per registrar variable fee
- Transaction based fee

Per registrar variable fees are based on a validated concept that ICANN often expends the same quantum of effort in providing services to a registrar regardless of size. However, provided that the registrar is considerably smaller in size and in activity, some registrars will continue to be eligible for “forgiveness” of two-thirds of the standard per-registrar variable fee. To be eligible for forgiveness, the registrar must have (1) less than 350,000 gTLD names under its management and (2) no more than 200 attempted adds per successful net add in any tld. Forgiveness will be granted each quarter to all registrars that qualify.

The amount per registrar is calculated each quarter by dividing \$950 thousand (one-fourth of \$3.8 million) equally among all registrars that have at least been accredited for one full quarter or have made at least one transaction, taking into consideration the forgiveness factor.

In addition, a discount of 10 percent is granted to all registrars operating under the 2009 and 2013 RAA.

Transaction based fees are assessed on each annual increment of an add, renew or a transfer transaction that has survived a related add or auto-renew grace period. This fee will be billed at \$0.18 per transaction for registrars operating under the 2009 or 2013 RAA (resulting from a \$0.20 base fee, discounted by 10% to \$0.18).

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Add-grace period excess deletion fees are assessed on each domain name deleted, in excess of the threshold, during an add-grace period. The threshold is the larger of 50 or 10% of total adds, per month, per tld. The rate per excess deletion is \$0.20.

In Millions, US dollars	FY15 Budget	FY14 Actuals	Fav/ (Unfav)	%
Existing TLDs				
Application Fees	\$0.4	\$0.7	-\$0.2	-36.5%
Accreditation Fees	4.2	4.1	0.1	3.2%
Per Registrar Variable Fees	3.4	3.4	0.0	-0.3%
Transaction Fees	29.1	26.9	2.3	8.5%
AGP Excess Deletion Fees	0.0	0.0	0.0	-100.0%
Total Registrar Revenue	37.2	35.0	2.2	6.1%