Proposed Fiscal Year 2004–
2005 Budget

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FOR PUBLIC COMMENT AND DISCUSSION

Proposed Budget – Fiscal Year 2004-2005
(1 July 2004 to 30 June 2005)

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INTRODUCTION

This proposed fiscal year 2004-05 budget, prepared by President and CEO, Paul Twomey and Vice President, Business Operations, Kurt Pritz, provides a description of the ICANN budgeting process for this upcoming year, annual objectives that the organization has set out to accomplish, and an explanation of the revenue model and spending plan for the year. After public comment and follow-up discussions with the Budget Advisory Group and the ICANN Board of Directors' Finance Committee, the budget will be amended and submitted to the ICANN Board for adoption in Kuala Lumpur on 23 July 2004.

Prologue and Consultation

As reported during the President's Report at ICANN's meeting in Rome, March 2004, during the preceding twelve months, ICANN staff and Board members have consulted with a wide range of people representing a variety of interests and needs relating to ICANN's mission. This consultation process has focused on what the various parts of the ICANN internet community think ICANN should be doing to continue improving its performance. Governments and law enforcement officials, academic and everyday users of the Internet, ccTLD managers, gTLD registry and registrar operators, Internet Address communities, members of the Technical community, business leaders, Intellectual Property Holders, Internet service providers, technical Internet operators, and many more show remarkable agreement on ICANN's top priorities:

Identified Priorities for ICANN	Governments	Internet Address Communities	ccTLD Managers	Technical Community	At-Large User Communities	Law Enforcement Officials	Academics and Researchers	Wider Business Community	gTLD Registrars	gTLD Registry Operators	Intellectual Property Holders	Connectivity Service Providers	Non-commercial Domain Holders
Complete the MoU process with the US DOC	x	x	x	x	x	x	x	x	x			x	x
Proactively ensure the future stability and security of root server system	x	x	x	x	x	x	x		x	x		x	x
Substantially augment core IANA services and ensure they function effectively	x	x	x	x	x	x	x	x	x	x	x	x	
Efficiently introduce new gTLDs to increase competition in the domain name space	x				x			x	x	x		x	
Significantly expand available resources to assist developing nation Internet communities with education and technical coordination	x	x	x	x	x	x	x					x	
Meaningfully increase preparation of ICANN materials in multi-lingual formats	x	x	x	x	x		x	x	x				
Actively promote consumer interests through information and service	x		x	x	x	x	x		x	x	x	x	x
Effectively educate consumers on how to obtain resources for dispute resolution, consumer protection and law enforcement	x		x	x	x	x	x	x	x	x	x	x	
Considerably strengthen services to gTLD Registries to address their growing needs as new gTLDs are introduced				x	x				x	x	x	x	
Significantly strengthen services to gTLD Registrars to ensure a healthy, competitive marketplace	x			x	x			x	x	x	x		
Materially aid gTLD Registrars with managing consumer complaints	x			x	x	x		x	x	x	x		
Work closely with address community in implementation/roll out of IPV 6	x	x	x	x	x	x	x	x				x	
Work closely with registries (gTLDs and ccTLDs) and multilingual community in development and introduction of IDNs	x		x	x			x	x	x	x			

In response to this community input, ICANN adjusted its planning priorities. This budget is a key first step towards addressing these priorities. The budget is based upon the results of consultations with various Internet constituency groups and the goals set out in the Memorandum of Understanding with the U.S. Department of Commerce.

ICANN staff developed this budget through a bottom-up, collaborative approach involving key ICANN stakeholders, including those who contribute to its revenue.

To start and in order to consider and develop budgetary requirements in a bottom-up fashion, ICANN instituted a new departmental structure for its staff functions. The creation of functional departments enabled the organization expert in each field to determine the resources required to accomplish her or his organizational goals. The departmental budgets were reviewed by management to ensure effective and efficient use of funds. Senior management then conducted an additional review of the consolidated budget with cuts made to eliminate redundant spending and non-vital expenditures. In all, the original departmental budgets were reduced approximately 25%.

ICANN then conducted another round of intensive consultations with key stakeholders to discuss the need for additional funds this upcoming fiscal year, new funding mechanisms, and possible alternative funding. As a result, several changes were made to the budget. The fee structure for invoicing registrars was changed to reflect the nature of ICANN support, some additional cuts were made, some programs were enhanced, and alternative sources of funds were explored and are being tapped.

The process also included (and will continue to include) consultations with the ICANN Board of Directors Finance Committee and the Budget Advisory Group. Consultations with the community will continue through public comment periods for proposed budget.

The process thus far has greatly enhanced communication among stakeholders and between ICANN and the Internet community. There has been a great exchange of information among the parties describing the challenges and opportunities facing all.

Content

The ICANN 2004-05 annual budget is intended to enable the organization to move forward on a number of fronts and reach for goals heretofore unattainable due to lack of staff, planning, and resources. This year, progress on these issues is required by demands of the community, objectives in ICANN's agreement with the U.S. Department of Commerce, and political, governmental, and environmental factors such as litigation, the formation of the ccNSO, and the U.N.'s World Summit on the Information Society.

While this budget covers the upcoming fiscal year only, it is part of an overall strategic plan that guides ICANN activities for the next three years and beyond. The budget provides certainty regarding resource requirements and spending targets for the foreseeable future. This budget differs in several ways from previous budgets on both the revenue and expense side.

The ICANN budget for fiscal year 2004-05 represents a departure from the budgets of previous years in several respects:

- The budget represents the tactical execution of ICANN's strategic planning. As such, this one-year budget also provides a vision for ICANN spending and revenue requirements for the next several years.

- The expense portion of the process was created through the bottom-up creation of departmental budgets.

    o Each of ICANN's functional departments wrote annual objectives based upon the goals set out in the strategic plan.

    o Each budget therefore matches the objectives with the resources (staff, infrastructure and supplies) necessary to achieve those objectives.

    o Senior staff reviewed the departmental budgets individually and collectively to eliminate unnecessary spending, "double-dipping," items that were not of a critical nature, and spending that should be delayed in order to ensure that the spending can be well-managed and is not wasteful.

- Matching tasks to revenue resulted in an expense budget that is considerably larger than that of previous years. The resources described in this year's budget will enable the ICANN staff to accomplish the objectives set out before them.

- Through this budget, ICANN proposes to change some of the mechanisms for raising revenue, specifically the quarterly calculation where variable fees are charged to the registrars based on names under sponsorship. Instead, registrars would pay transaction-based fees, i.e., fees based upon billable events. This methodology ties registrar expense directly to registrar revenues (removing the uncertainty in the previous model) and allows them to more easily pass on the fees to the registrant.

- Through the budgeting process, ICANN has launched an aggressive effort to find alternate sources of funds.

  o During fiscal year 2003-04, approximately two-thirds of the revenue raised came from the variable fees paid to ICANN by the accredited registrars. It is not sound business practice to be reliant to such an extent on one class of revenue stream.

  o The ICANN efforts to find alternate revenue, while underway, will not bear significant fruit through most of fiscal year 2004-05. Therefore, the fiscal budget this year remains reliant on traditional forms of revenue.

  o However, since ICANN can provide spending projections over the next three years, and since ICANN will raise revenue from alternative sources, ICANN can commit to holding per-name transaction fees constant over the next three years and should be able to hold them constant for the foreseeable future.

This report describes most of these changes in more detail below. Detailed descriptions of planned expenses and revenues for the upcoming fiscal year also follow.

BUDGET PROCESS

The budget process this year started with the formulation of the ICANN strategic plan. The objectives of that strategic plan were fed into a bottom-up, departmental budgeting process. The departmental budgets were rolled up into an organization-wide budget for management review. After management-initiated reductions, the budgeting process and detailed elements of the budget were discussed with the ICANN Finance Committee, the Budget Advisory Group, and certain key constituencies. The results of those discussions were fed back into the budget document to prepare for this posting.

There are several benefits to this approach:

- Leveraging strategic objectives provides greater budget predictability over a three-year period.

- Annual goals set out in the one-year budget mesh with the long-term vision for the organization.

- The bottom-up process maps resource requirements to objectives, ensuring that the budget provides the appropriate amount of revenue to accomplish the published goals.

- Review with various constituency groups enables constructive discussion and the opportunity to find areas of intersection between ICANN's goals and needs and the operational models of the constituency groups.

Strategic Planning

In accordance with sound business practice and in compliance with the memorandum of understanding (MoU) with the U.S. Department of Commerce, ICANN has developed a strategic plan to guide its activities for the next three years and beyond. Accomplishing the goals set out in the MoU is required in order for ICANN to achieve a fully independent status.

ICANN's strategic planning addresses objectives set out in the MoU, those described to ICANN by various stakeholders and constituencies, and environmental considerations such as the United Nations' World Summit on the Information Society (WSIS), the introduction of IPv6 and relationships with certain stakeholders.

Planning sets out objectives in accordance with ICANN's role as defined in the white paper that essentially created the organization. http://www.icann.org/general/white-paper-05jun98.htm The white paper required ICANN's commitment to the following principles:

- Contribute to the on-going stability and security of the Internet through ICANN's IANA activities, improvements in infra-structure and root management activities.

- Promote choice and competition for the marketplace through support of registry and registrar operations, enforcement of contractual obligations throughout the community, and introduction of IDNs, new TLDs and other enhancements to the market.

- Provide a forum for the bottom-up development of policy to ensure the continuous improvement of the DNS.

- Ensure, on a global basis, an opportunity for participation in the ICANN process by all interested parties.

Identifying objectives under these four headings ensured that the strategic plan mapped to ICANN's role as originally envisioned and does not expand ICANN's role. What this budget does is to outline how the resources necessary to actually perform these tasks will be provided.

This budget plans to improve performance in each of these four areas with targeted spending on specific initiatives. In rough numbers, the increased effort in each area is:

Spending by Area of Focus	2003-04 Budget ($,000)	2004-05 Revised ($,000)
Contributing to the on-going stability and security of the Internet through ICANN's IANA activities, improvements in infra-structure and root management activities.	$2,800	$4,980
Promoting choice and competition for the marketplace through support of registry and registrar operations, enforcing contractual obligations through-out the community, introducing IDNs and new TLDs.	$2,400	$5,850
Providing a forum for the bottom-up development of policy to ensure continuous improvement in the DNS.	$1,700	$2,550
Ensuring, on a global basis, an opportunity for participation in the ICANN process by all interested parties.	$1,400	$2,450
Total ICANN Expense Budget	**$8,300**	**$15,830**

The Bottom-up Budgeting Process

ICANN this year implemented a departmental, bottom-up budget development process. In this process, ICANN defined seven departments along the lines of the ICANN staff's functional expertise. Those departments are:

- Executive (housing the offices of the General Counsel and the Ombudsman);

- Business Operations (including the Registrar and Registry liaison functions as well as the company administrative functions);

- Policy Development Support (providing staff support to the supporting organizations and the advisory committees;

- IANA (allocating Internet numbering resources; performing administrative functions associated with root management; managing the .int registry; coordinating assignment of technical protocol parameters);[1]

- Technical Operations (providing oversight of the L-root, other ICANN systems, and providing system solutions for the organization);

- Global Partnerships (managing the formation of the ccNSO and the ICANN regional and outreach programs); and

- Public Participation (including communications, press relations, translation, and organization of At-Large regional organizations).

Each department head began with strategic planning elements, the requirements of the community and other needs defined by the environment. Each manager built a departmental budget. The budget expenses were captured as: staffing, travel, outside services, administrative requirements, capital requirements and project requirements.

The budgets were reviewed with the V.P., Business Operations and Chief Financial Officer. After all the budgets were rolled together, a formal review with the CEO was held. The reviews were intended to provide a double check to ensure:

- All resources were dedicated to activities falling within ICANN's scope as originally envisioned in the white paper and ICANN's Bylaws.

- There was not a parallel allocation of resources for similar objectives (i.e., "double-dipping").

- The spending could be accomplished in an effective and economical manner within the fiscal year.

- In everyone's opinion, the spending plan devised was logical and economical when compared to all other options for accomplishing the work.

Reductions in the budget resulting from the reviews exceeded 25%.

The organization will realize several benefits from the new process. Among them:

- Matching resources to objectives, the process ensures that each objective is funded with appropriately sized resources, earmarked for that objective.

- Departmental budgets are placed in the hands of those with the right expertise to make decisions regarding appropriate sizing of resources. These experts can best determine the most economical and effective way to accomplish the objective germane to their functional department and to obtain and size the resources necessary.

- The individual departmental budgets provide a management tool so that managers can measure their own performance against the plan and take corrective action as required.

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[1] Budgets for IANA and Technical Operations were combined since there is substantial overlap in the day-to-day operations and resource requirements of the groups.

- The individual departmental budgets will push the decision-making process down through the organization, thereby somewhat freeing senior management resources.

- The individual and rolled-up budget provide a reporting tool since the detailed levels of planning can be matched easily to performance and reported.

BUDGET PRIORITIES FOR FISCAL YEAR 2004-05

Specific Programmatic Efforts

Compliance

The budget provides that ICANN will review and augment, as appropriate, the corporate compliance program, including the system for auditing registry and registrar contracts for compliance by all parties to such agreements.

Competent corporate compliance programs are an effective tool for ensuring that services are provided by the registrar/registry communities to users in accordance with the terms of the various contracts binding registrars, registries, registrants and ICANN. Because many of the contractual terms span the entire community, compliance programs also monitor consistency across the communities in order to provide users and other community members with a predictable experience.

In fiscal year 2004-05, ICANN plans to grow an effective compliance program building upon existing, constructive relationships with the registrar and registry communities. The elements of the initial program will consist of:

- Establishment of technical and non-technical audit functions to review, on a regular basis, registry/registrar operations to ensure compliance with contracts and appropriate standards.

- Statistical tracking and analysis of registrant and user complaints/comments regarding specific registries/registrars.

- Coupling statistical results with the audit function to make economical use of resources.

- Working constructively with registries/registrars to implement and complete corrective action plans.

- Implementing a planned escalation of actions and cures, including legal and specific performance remedies, in order to correct ongoing harm and to ensure legitimacy for the compliance function.

An effective compliance program will protect peer and client members of the Internet community by ensuring constancy of conduct across the registrar and registry communities.

Fostering Competition and Supporting Providers of Registration Services

Registration providers offer an invaluable service to the global Internet community by registering domain names and IP number assignments and publishing the information that ensures stable mapping of names to Internet resources.

In order to do this, registration providers need unique access to the global Internet domain name system and associated technical coordination. Therefore, ICANN and its structures will provide and improve the following services to registration providers:

- Provide staff support for the GNSO, ccNSO, ASO and advisory committees to facilitate ongoing development and implementation of the framework of technical rules, standards and agreed procedures (which the Internet community refers to as "policies") that together facilitate the effective management of the domain space and IP address allocations.

- Provide staff to liaise with technical community facilitating the introduction of new technologies (e.g. IPv6).

- Complete the studies preparing for and enabling the introduction of new TLDs.

- Add the staff required to perform contract management in a responsive manner (e.g. renewals, assignment, changes, updates, and adapting the contractual framework to accommodate changes).

- Provide staff to respond to hundreds of email and voicemail inquiries and complaints on a daily basis from individual users and registration providers.

- Provide staff and infrastructure to supply data escrow coordination and services.

- Augment staff to issue accreditations, eliminating backlog and effectively evaluating and dealing with problematic accreditation applications made for securing deleted names only.

- Provide staff to coordinate dispute resolution policies and services, analyze and report UDRP statistics, engage with independent arbitration service providers, and retain permanent ombudsman services.

Services to registrants:

- Provide facilitation services to encourage resolution of disputes between and among registrants and registrars.

- Enhance the website and staff the public participation function to educate consumers about resources for dispute resolution, consumer protection and law enforcement, as well as promote consumer interests through information and service tools.

- Improve Whois accuracy through ICANN's Whois Data Problem Reports system. The new closed-loop system will provide follow-up from staff to ensure that corrections are made or names are deleted. ICANN staff will also undertake proactive statistical sampling studies to determine the overall database accuracy and then develop a plan for improvement.

- Implement tracking mechanisms for facilitating the channeling and resolution of customer service issues.

- Address 300 emails daily received through twelve ICANN mailboxes plus emails addressed to individual staff.

Meeting the needs of registration providers and consumers is already a significant element of ICANN's budget, but there are many activities that are under-funded and under-staffed in light of the demand for such services. To provide the level of service that appropriately fulfills ICANN's service goals will require substantial investments in systems, infrastructure, regional presence and personnel.

IANA Performance
ICANN's stakeholders require timely, reliable, and accurate responses to their operational requests, and responsiveness to their evolving needs.

To increase its effectiveness, ICANN's IANA function has initiated a work program to map its processes and activities. Systematizing these processes will enable faster, more efficient and more accurate performance of ICANN's operational functions.

The immediate priorities for development are:

- streamline existing procedures and resource allocation,

- commence the implementation of a professional request tracking and response management system to improve turnaround times across the operation.

On an ongoing basis, ICANN staff will refine the management system based on experience and feedback from ICANN's stakeholders and those benefiting from the IANA function. Investment in technical resources and expertise is required to effectively meet these priorities.

Services in Response to Registry Issues
ICANN is developing a transparent, repeatable and predictable process for evaluation of proposed changes in registry operations. That service function will be performed by existing and additional ICANN staff members in order to provide timely, adequate service.

ICANN will also develop and publish performance guidelines so that applicants and requestors will understand the process, the input requirements and the timing of outcomes.

Contingency Planning
ICANN will develop a contingency plan to ensure continuity of operations in the event the organization incurs a severe disruption of operations, or the threat thereof, by reason of its bankruptcy, corporate dissolution, a natural disaster, or other financial, physical or operational event. Similarly, ICANN will develop a contingency plan to ensure continuity of registry and registrar relations in the event that any such organization suffers a severe disruption of operations.

The contingency plan requires capital investment, new geographically diverse infrastructure, and staff time to put into place agreements, relationships and procedures that will guarantee on-going operations.

<u>Translation and the Needs of a Global and Culturally Diverse Internet</u>
"You are not communicating if people can't understand you."[2] As a global organization, ICANN will provide multilingual communications and materials to communicate with regional Internet communities in order to provide relevant expertise, assistance, and information. As part of developing and implementing an economical and effective strategy, ICANN will, in consultation with the community:

- identify appropriate languages and materials for translation,

- seek to work with appropriate entities, interested parties within the ICANN structure, and the Supporting Organizations, and Committees, as appropriate, to implement the strategy to facilitate multilingual communications, and

- use existing resources and opportunities to implement a strategy as efficiently and effectively as possible.

ICANN has been contacted by several governmental and non-governmental agencies regarding establishing regional presences/partnerships in certain locations. Those contacts included offers of assistance in the form of staffing and facilities. This budget contains seed money to develop those inquiries and take initial steps in the establishment of potential presences to ensure the efficacy and appropriate operational strategy for the site. Those steps will not be taken absent funding commitments by outside entities and a joint operating plan.

ICANN's regional presence will:

- Enable responsiveness to local needs in multiple time-zones.

- Cooperate closely with key regional stakeholders, such as ccTLD operators or RIRs

- Permit ICANN staff to participate in regional Internet-related activities.

- Support greater staff assistance in coordinating and supporting the regional activities and needs of its Advisory Committees and Supporting Organizations as they relate to ICANN's mission and scope.

<u>The MoU with and Independence from the U.S. Department of Commerce</u>
A significant portion of the budget will be dedicated toward achieving the objectives set forth by the MoU between the U.S. Department of Commerce and ICANN. Upon meeting these objectives, ICANN will become fully independent of the DoC.

Most of the objectives overlap with activities requested by the community and will result in a more effective ICANN. These include the establishment of a compliance function, facilitating innovation and competition within the DNS, executing agreements with the ccTLDs, developing a process for the creation of new TLDs, and refining and coordinating root management practices.

<u>Litigation</u>
Significant litigation expenses have exacerbated the current resource shortfall. During the current fiscal year, litigation expenses and associated outside services agreements will

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[2] Mouhamet Diop, ICANN Board Member, Carthage, October 2003.

exceed the budgeted amount by nearly 300%. At this stage of the fiscal year, the ICANN budget planned for a staff of 40. As a result of this litigation and in order to meet the overall budget, ICANN has been forced to hold the staff size to 30, materially affecting the ability to accomplish the tasks set out in this document. Recently filed litigation will require the same budget resources in this upcoming year as that realized this past year. Therefore, nearly $2MM (over $0.06 per transaction) of the budget increase is attributable to increased litigation activity.

UN's World Summit on the Information Society (WSIS)
A significantly smaller portion of the budget will be spent managing developments springing from the UN's WSIS. This investment is dedicated to describing ICANN's international role, the value ICANN provides to the worldwide Internet community, and the proper management of governmental involvement in the evolution and policy making processes for the Internet.

Specific Operational Efforts

In order to support the efforts above and other similar efforts, ICANN will take steps to improve its organization and infrastructure. These steps will enable the project-based efforts. As such, these efforts do not necessarily connote the need for resources beyond that required to accomplish the efforts indicated above. In most cases, the resources that go into fortifying the operational base (below) are the same resources that will be employed in accomplishing project-based tasks (above).

The anticipated revenue uses (that are not self-funding) beyond those funded by the existing budget include:

- Creating a stable organization structure:
    - Developing and implementing contingency plans
    - Developing and implementing succession plans
    - Attracting and maintaining competent staff with the right skills and talents in sufficient numbers to accomplish the remaining strategic objectives in a timely and economical way.
    - Developing a multi-cultural workforce able to respond appropriately anywhere on the globe.
    - Developing and implementing corporate governance methodologies that enable organizational responsibility and internal mechanisms for compliance.
- Maintaining reliable technical infrastructure:
    - Implement technology to maintain reliable operating capacity and capacity to grow with demand.
    - Implement geographical and capacity redundancies to ensure on-going operations.
    - Implement laboratory environments for testing potential changes before they are deployed.

- o Implement network management tools to measure and respond to changes in the DNS environment.
- o Improve the efficiencies of some services by outsourcing some functions.

Creating a Reserve Fund

Five years ago as part of the approval of the 1999-2000 budget, the Board stated: "It is the intention of the ICANN Board to create a reserve account of at least one year's operating expenditures, to be funded over several fiscal years." Approval by the Board of the 1999-2000 budget implied that the Board accepted this statement about the appropriate level of reserves.

Up to now, ICANN has made essentially no progress towards this goal. The present budget calls for a contribution to reserves of less than $200,000. ICANN initially wrote a budget for the upcoming fiscal year that made a more significant contribution to reserves. That budget required a variable per transaction fee significantly greater than $0.25. After intensive consultation with stakeholders, ICANN agreed to the $0.25 fee. Balancing whether to apply resources towards accomplishment of strategic goals or building strategic reserves, ICANN chose the former.

There are opportunities in fiscal year 2004-05 to provide for additional reserves. First, ICANN has specified new sources of revenue that, if partially developed before the end of the upcoming fiscal year, will contribute to reserves. Additionally, growth in the DNS may result in a higher number of transactions than anticipated. Any funds collected in excess of the amount required by this spending plan will be applied toward a reserve account.

REVENUE PLANNING

This year's budget remains heavily reliant on registrant fees paid to ICANN by the registrars. However, this year ICANN also sets in place a concerted effort to collect funds from other areas of the community. Those efforts, expected to become more effective year-by-year, are described below.

Transaction or Billable Event Based Fees: gTLDs

This year's budget plans that the fees charged to registrants through registrars should be made on billable event (i.e., a per transaction) basis rather than by the current quarterly calculation. The current method divides the portion of the ICANN budget allocated to the registrant fees by the number of total number of domain names to develop a "per name" fee. That fee can vary from quarter to quarter as the number of registrations fluctuates. In cases where the registrar sells a multi-year registration, the registrar will be out-of-pocket if the per-name fee rises over the years.

Billable event or transaction based fees (fees paid by the registrant, through the registrar, to ICANN) effectively address these issues. Billable events are all new subscriptions (adds), renewals or transfers that result in an invoice to the registrant. Since the registrar

forwards fees to ICANN only upon the commitment from the registrant, the fees paid will always be directly proportional to revenues. Variability in the total number of names would not affect the fee rates. While needing to ensure a smooth transition phase, ICANN will absorb in the longer term, within reason, the variability of the process. In the case of multi-year registrations, the total billable event fee for all years would also be paid upon receipt, negating the effects of any subsequent changes to the rate structure. Since the fee is charged on an event-by-event basis, the charge can more readily be passed through directly to the registrant, either as a price increase or as a separate line item charge on the registrar's invoice to the registrant.

Initially, the billable event fee would be set at a rate slightly higher than that required by the ICANN expense budget to address variability in the revenue stream due to seasonality, timing effects and multi-year subscriptions. Excess receipts (if any) will be held in ICANN's reserve account. Over a period of several years, ICANN will build a reserve fund. When reserve goals are met, a portion of the billable event fee will be eliminated.

Given the spending plan described below, ICANN anticipates the billable event fee to be $0.25 per billable event. ICANN is committed to ensuring long-term certainty for the registrars in terms of that fee.

The fee can be held constant for essentially two reasons. First, this year's expenses are part of a three-year plan where the significant increase in budget will occur during this upcoming calendar year with smaller increases in the following two years. Therefore, any increase in budget during the next two years will be funded in fees proportional to growth in the DNS, but will not require a change to the fee structure. Second, ICANN is working to increase revenues from other sources.

Per Registrar Variable Fee: gTLDs

ICANN incurs effort and provides services to registrars and as a result of their activities. The volume (time and expense) associated with those activities may be, in some cases proportional to the size of the registrar, i.e., to the number of names under contract at that particular registrar. In other cases, the effort may not be proportional to the number of names under contract. In those cases, ICANN might spend the same amount of effort for each registrar based merely upon on their accreditation. I.e., for some effort, ICANN expends essentially the same effort on each registrar regardless of its size. Examples of these types of efforts include compliance, accounting, and data base maintenance.

An equitable charging mechanism therefore will include two types of charges: a fee proportional to registry size and a fee calculated for each registry to be allocated to the costs described just above, a Variable Registrar Support fee.

This fiscal year, ICANN will raise $3.8MM in funding to cover the sorts of efforts associated with each registrar regardless of size. This figure was calculated by listing the various services provided by ICANN and determining whether that service applied equally to registrars regardless of size or if the amount of service provided was proportional to the names under registration for each registrar. It was determined that approximately 2/3 of the ICANN effort is proportional to registrar size while

approximately 1/3 of the services are performed equally for each registrar regardless of size. The $3.8MM represents approximately 1/3 of the funding coming to ICANN through the registrars.

The fee will be calculated by dividing $3.8MM by the number of registrars at the time of invoicing. For example, if that invoicing were to occur today (where there are 197 accredited registrars), the Variable Registrar Support fee would be $19,289 per registrar. (This fee will be charged in addition to the annual accreditation fee.)

However, there are several, relatively small registrars, firmly established and serving their communities well. The new fee might prove overly burdensome to them. In certain cases ICANN will provide a mechanism to forgive 2/3 of the fee. The mechanism will require registrars wishing relief to apply for the relief based upon economic considerations. Registrars satisfying definite criteria regarding revenue base will pay the lower fee. ICANN will publish a procedure for relief application and the criteria to be satisfied in judging the application. Successful applicants will demonstrate relatively few names under registration and limited other sources of accredited registrar related income.

As an example, it is estimated that there will be at least 250 accredited registrars at the start of the fiscal year. If 50 of the 250 registrars receive relief, the annual variable registrar fee for the majority would be $17,538 and the smaller registrars would pay $5,846 annually.

In addition, the accreditation fee will be reduced in the following manner. Currently, each registrar pays an annual accreditation fee of $4000 for the contractual right to sell domain names for a single top level domain registry and $500 per registry for the contractual right to sell names for additional registries. In this fiscal year, the $4000 fixed fee will accredit each registrar to sell names for all top level domain registries. This includes registries that may be formed later in the fiscal year. (Some sponsored top level domains can choose to limit the manner in which the names are released.)

ccTLD Contributions

In 1999, the Task Force on Funding recommended that the share attributable to ccTLD registries should be 35% of ICANN's continuing revenue requirements.
http://www.icann.org/committees/tff/final-report-draft-30oct99.htm#4
While this amount has never been realized, past ICANN budgets have indicated an amount determined by this percentage and then written it down to a contribution amount actually anticipated. In consultations, several other stakeholders have urged that ICANN should not abandon, at this stage, the 35% goal.

However, in the interest of budgeting simplicity, ICANN this year, instead of listing the amount based on the Task Force on Funding calculation ($5,611,200) and writing it down, has budgeted the collection goal ($1,022,000).

In consultation with several ccTLD representatives, ICANN proposes to set the ccTLD registry contributions to 20 cents per domain name under registration. This is a small increase on the effective rate levied in 2003-2004 budget. This is a different approach than that followed in the gTLD registrations to reflect the greater role ICANN plays in

policy formulation for the gTLD arena. ICANN will continue to work with the ccTLD registries to increase receipt of contributions.

In the case of Tier 3 registries having a signed agreement with ICANN, those registries will be provided a request for an amount calculated on the formula of 20 cents per name plus the $5,000 fixed fee. In the case of Tier 3 registries that have not entered into such frameworks with ICANN, ICANN will request suggested contributions based on a similar approach.

Suggested fees for Tier 1 and 2 ccTLDs will the same as the previous year.

Regional Internet Registries

ICANN will shortly execute an MoU with the RIRs that will make available funds held in escrow by the RIRs. In anticipation of that agreement, the RIRs have released some funds out of escrow to ICANN. In fiscal year 2004-05, based upon discussions with RIR representatives, ICANN budgeted RIR contributed revenue equal to 10% of the previous years budget. The predicted contributions of $823K represent a 54% increase over the previous year's budget. In addition, it is important to note the RIRs fund ASO meetings, some staff support for the ASO and travel and attendance at the ICANN meetings.

Alternate Sources of Revenue

Sound business planning dictates that ICANN should develop alternate sources of funding in order to provide a more robust revenue base. Specifically, these sources include the ccTLDs, the RIRs, the formation of new gTLDs, and other interested parties.

- With the formation of the ccNSO, ICANN is in a better position to engage cc managers on the importance and appropriate structure of accountability framework agreements with ICANN. One aspect of these discussions is how to secure a more consistent base of funding from these stakeholders. ICANN is staffing a ccNSO liaison and contract support function to facilitate the formation and execution of such agreements.

- ICANN is presently engaged in a process of establishing new sponsored TLDs and has undertaken a study to determine how best to allocate new gTLDs. Where new TLDs are established, ICANN will undertake separate technical and commercial negotiations with each one. Depending upon the business model of each, ICANN will realize some reasonable revenue stream from each TLD. Those revenue models may differ significantly from the ones presently locked in with existing registries. This model also applies to the negotiations to take place for the .net registry in 2005 and other existing gTLDs in the following years.

- ICANN could derive fees from the revenue stream flowing to registries as a result of new registry services.

- ICANN is engaged with several stakeholders who view a strong, vibrant ICANN as necessary for the stability of the Internet and therefore necessary for the stability of substantial business segments these stakeholders manage. These stakeholders have indicated that there is a substantial opportunity for commercial organizations who benefit directly from successful operation of ICANN's functions to contribute to

some of the associated costs

With that in mind, ICANN proposes to engage these stakeholders and other commercial entities who profit from the stability and operation of the Internet and those who underwrite those who profit from Internet interoperability.

Other organizations have proposed to facilitate ICANN's outreach and development by providing or funding staffing or facilities. ICANN would earmark moneys contributed to foster global Internet outreach, Internet education, and supply needed services around the world via the Internet, consistent with its Mission.

While ICANN expects some impact from these sources during the upcoming fiscal year, it will take a full year or more to realize significant benefits. Therefore, anticipated revenues from these sources cannot be applied to reduce the present per transaction fee, but ICANN commits that these funds will obviate the need for increases in the future.

Continuing Resolution

Generally, ICANN budgets are adopted at ICANN meetings occurring just prior to the start of the fiscal year. This year, the meeting to be held near that time (in Kuala Lumpur) occurs after the start of the fiscal year, i.e., 19-23 July 2004. In order to ensure the opportunity for public comment, ICANN plans to adopt this budget (as revised through the budget-development process) at that meeting. In order to fund the organization, ICANN staff will submit to the Board of Directors a continuing resolution. That resolution will propose to fund ICANN at current levels with current funding mechanisms through the date of adoption of the new budget, tentatively 23 July 2004.

The new budget and funding will be effective the date of adoption. Execution of the plans and objectives described in this document will begin on the date of adoption.

PRELIMINARY BUDGET SCHEDULE AND ACCOMPANYING NOTES
(See appended notes for explanations; all items are in US$)

PRELIMINARY 2003-04 BUDGET ($Thousands)	2003-04 Approved Budget	2003-04 Year-End Total Projection	2003-03 Difference Projection to Budget	Preliminary 2004-05 Budget	Difference Budget to Budget	Difference Projection to Budget	See Notes in Text
EXPENDITURES							
Staff Full-Time at Year-End	38	33	6	59	21	26	*1*
Base Expenditures							
Personnel	$3,891	$3,049	$842	$5,668	$1,777	$2,619	*2*
Professional and Technical Services	664	2,562	(1,898)	2,977	2,313	415	*3*
Board meetings & Other Travel	1,342	1,331	11	2,380	1,038	1,049	*4*
Capital Expenditures	35	50	(15)	982	947	932	*5*
Administrative & Systems	1,508	1,067	441	1,533	25	466	*6*
Subtotal: Base Expenditures	$7,440	$8,059	($619)	$13,633	$6,193	$5,574	
Other Expenditures							
NomCom	70	0	70	163	93	163	*7*
At Large Activities	58	131	(73)	0	(58)	(131)	*8*
IDN Activities	25	2	23	80	55	78	*9*
Outreach Program	220	220	0	205	(15)	(15)	*10*
Technical Infrastructure	160	194	(34)	440	280	246	*11*
Communications	0	15	(15)	73	73	58	*12*
Contingency	300	43	257	1,333	1,033	1,290	*13*
Subtotal: Other Expenditures	$833	$605	$228	$2,201	$1,368	$1,596	
Total Expenditures	**$8,273**	**$8,664**	**($391)**	**$15,834**	**$7,561**	**$7,170**	

Base Revenues							
Registry/Registrar Revenues							
	Transaction Based Registration Fee	$5,817	$5,817	$0	$8,449	$2,632	$2,632	*14*
	Variable Registrar Support Fee (per registrar)	0	0	0	3,800	3,800	3,800	*15*
	Registrar Application Fees	35	105	70	35	0	-70	*16*
	Annual Registrar Accreditation Fees	900	1,153	253	900	0	-253	*17*
	IP Address Registries	535	359	-176	823	288	464	*18*
Subtotal: Variable Registry/Registrar Revenues		$7,287	$7,434	$147	$14,007	$6,720	$6,573	
Fixed gTLD Registry Fees (with agreements)								
	Tiers 1&2	6	6	0	7	1	1	_
	Tier 3	736	736	0	846	110	110	*19*
	New sTLD Initial Fixed Fees	0	0	0	600	600	600	*20*
Subtotal: Fixed TLD Registry Fees		$742	$742	$0	$1,453	$711	$711	
Subtotal: gTLD Revenues		$8,029	$8,176	($212)	$15,460	$7,431	$7,284	
ccTLD Registry Fees								
	Tiers 1&2 fixed	5	9	4	10	5	1	_
	Tier 3 variable	184	180	(4)	212	28	32	_
	Contributions	600	478	(122)	800	200	322	*21*
Subtotal: ccTLD Fees & Contributions		$789	$667	($122)	$1,022	$233	$355	
Miscellaneous Income		$50	$21	($29)	$50	$0	$29	_
Less: Bad Debts or Bad Debt Allowance		250	250	0	500	250	250	*22*
Total Revenues		**$8,618**	**$8,614**	**($363)**	**$16,032**	**$7,414**	**$7,418**	
CONTRIBUTION TO OPERATING RESERVE		**$345**	**($50)**	**$28**	**$198**	**($147)**	**$248**	_

Notes:

(1)   The fiscal year 2004-05 Budget calls for a final staff size of 59 by the end of the fiscal year. Incremental staffing will address operational requirements as described below. Additionally, new staff will fulfill the requirements described in the succession plan – a key section of contingency planning. Key new positions include, by department:

Executive

- Ombudsman: This position is mandated by Article V of the Bylaws. The requirements of the position are defined in that Article.

- Contract Administrator: This position will expedite the execution of frameworks of accountability between the cc's and ICANN.

Policy Development Support

- Nominating Committee Support Staff: The Nominating Committee is required by Article VII of the Bylaws. The Committee requires a half-time staff person to be able to complete its work.

- RRSAC Support: This Committee requires a half-time staff person to be able to complete its work.

- Manager, GNSO Support: The ICANN Blueprint for Reform, as adopted by the ICANN Board, endorsed the notion that all ICANN Supporting Organizations and advisory committees be appropriately staffed. In the case of the GNSO, this includes staff support for tracking the Policy Development Process, and providing support for the GNSO Secretariat. The budget proposes a 3-person team, headed by this position.

- Manager, ccNSO Support: With the formation of the ccNSO at the Rome meeting, the ICANN Blueprint for Reform, as adopted by the ICANN Board, endorsed the notion of supporting the ccNSO in the same manner as the GNSO.

- ccNSO Secretariat Support: This position again follows the ICANN Blueprint for Reform endorsement of staff support.

Public Participation

- General Manager of Public Participation: This position is mandated by Article III, Section 3 of the new ICANN Bylaws. As stated in the ICANN Blueprint for Reform, this position is "...responsible for developing mechanisms to encourage full public participation in ICANN, and to facilitate the receipt and analysis of all public comments received on a given proposed action by the ICANN Board. This position would also be responsible for the design and content of other relevant outreach activities, including the ICANN website, public forums and mailing lists, and other options for public comment and participation."

- Web Content Manager: The Web Content Manager supports the Manager of Public Participation in maintaining website structure and content.

Operations

- Compliance staff: in order to review and augment the organization's compliance program, including its system for auditing material contracts for compliance by all

parties to such agreements, ICANN will staff an additional four full-time positions and dedicate parts of other positions to ensure compliance in the following subject areas:

- o Whois service and accuracy obligations

- o Inter-registrar Transfers

- o Legal agreements

- o Registrant liaison

- o UDRP liaison

- Human Resources Administrator: Presently, ICANN has no formal HR function, dividing tasks in an inefficient manner among three employees: the General Counsel, VP, Operations, and the Chief Financial Officer.

- Administrative Assistants (2): These positions will be shared to support: VP Operations, GM Global Partnerships, Chief Technical Officer, and Chief Financial Officer in one case, and the General Counsel, GM Public Participation, Deputy General Counsel and (part-time) Chief Executive Officer on the other hand.

<ins>Global Partnerships</ins>

- Outreach Managers: ICANN anticipates receiving aid in the form of staff and facilities to support the outreach effort. In this budget, three managers are planned to aid in the initial staffing. Since each appointment will be for a matter of months during the next fiscal year, the manpower required for this effort is less than 1½ FTEs.

<ins>Technical Operations</ins>

- Senior Technical Staff: There are a number of key infrastructure initiatives planned for the fiscal year including L-root enhancements and relocation of certain systems to remote locations. One additional staff member will perform most of this work.

(2)   This line item represents the costs associated with the personnel changes detailed in Note (1). Not all positions will be filled for the full 12 months. They will be filled in accordance with a planned growth model to ensure all efficiencies can be employed. Note that positions are considered fulltime (except where noted) staff positions even though they may, according to management judgment, be filled by contract personnel.

(3)   This line item grew to match anticipated litigation expenses. ICANN is presently involved in seven suits. Additionally, ICANN is engaging the services of independent review panel services, limited public relations services, and other consultants who will be engaged if the effort is required and if their engagement represents real cost savings as compared to the expense of utilizing staff. These efforts may include:

- o Operations or HR consulting for specific tasks such as recruitment and system development,

- o Information Systems consulting and implementation,

- o Information regarding dealing with governments,

- o Employment, contract, tax, accounting and other legal advice,

- o Root-zone management,

- o IDN issues,

- o Protocol parameters,

- o Data escrow services,

- o Mediation or independent review services, and

- o Public relations and translation services.

(4)   In fiscal year 2003-04 there were two ICANN meetings. In the upcoming year there will be three, representing a 50% increase in expense over the previous year. Additionally, travel has incrementally increased to partially satisfy requests for ICANN attendance at meetings and conferences. Trips for next year are already tentatively planned so that maximum savings can be realized by advanced purchase of tickets.

(5)   Capital purchases include all acquisitions of equipment over $1000 per piece. This line item includes the purchase of new or replacement laptops for employees. Each laptop is planned for four year of use. Other equipment includes .int servers, limited cubicle construction, DDOS mitigation hardware, voice over IP communications, web casting equipment, root server upgrades, and limited teleconferencing equipment to enhance communications with stakeholders.

(6)   These costs, a major component of ICANN expenses, are remaining essentially flat despite increases in other areas. Several small efforts to pare expenses resulted in the relative cost reduction.

(7)   The Nominating Committee is charged this year with filling certain seats on the ICANN Board of Directors and advisory committees. The committee will meet face-to-face twice during the fiscal year. In addition to these travel costs, the amount budgeted will cover administrative costs, e.g., teleconferences, documentation distribution and administrative support. Because no Nominating Committee costs were charged in this fiscal year, the costs are deferred to next year, along with next year's projected costs. No costs were charged in fiscal year 2003-04 because the first meeting will not be held until after the start of the next fiscal year.

(8)   At-Large activities are captured under the Public Participation departmental budget and therefore appear on the "regular" budget line items above. That budget contains expenses to improve upon the significant progress that has been made on the creation and involvement of ICANN At-Large. As ICANN attempts to "grow" At-Large from a "tabula rasa" starting point, additional start-up funds are needed. To increase the likelihood of establishing the At-Large framework envisioned in the bylaws, additional ICANN support is required for At-Large organizing/outreach, including staff support to secure the involvement of a significant number of At-Large Structures in each region in ICANN policy activities, and face-to-face interactions at ICANN meetings of At-Large community leaders.

(9)   These funds will secure independent technical guidance on the present IDN implementation and the future implementation of full IDNs. Monies for test beds and other hardware to verify technical advice through testing are not included in this budget. If there is sufficient community interest, ICANN will secure funding for this testing from alternate sources.

(10)   This outreach budget contains "seed" money for the location of regional presences. That seed money will be employed in traditional outreach efforts such as translation, training and education. ICANN has received written and verbal offers of support to establish presences in various regions. If that support is received, the traditional outreach efforts described above will grow into the establishment of presences. As a comparison, this line item represents approximately 15% of the funds necessary to establish and maintain (not including staff) presences in four regions.

(11)   This line item funds completion of L-root "hardening"; labor to support capital projects above, such as voice over IP and DDOS mitigation; relocation of co-location facilities to more secure environments; and contingency planning.

(12)   Communications efforts include dissemination of ICANN activities and actions to improve transparency and openness. The results will be multi-lingual publications and web castings aimed toward Internet community efforts to improve stability and increase competitive opportunities. This number does not represent the full extent of ICANN spending on multi-lingual communications. It represents the start-up effort to launch a multi-lingual program. On-going translation efforts are included in the ALAC and Public Participation departmental budgets.

(13)   A contingency of 10% was set to anticipate legal fees or other actions that could affect the budget by +/- $2MM. Contingency was not applied to the meeting expense line item. Contingency is to be spent at staff discretion to cover unanticipated expenses.

(14)   This year's budget indicates that the fees charged to registrants through registrars should be made on a billable event or per transaction basis rather than by the current quarterly calculation. Transaction based fees are fees paid by the registrant, through the registrar, to ICANN for every new subscription, renewal or transfer. This budget is based on a $0.25 per transaction fee.

(15)   Certain ICANN expenses dedicated to supporting registrars (directly and indirectly) are based upon the number of transactions. However, there are costs associated with supporting each registrar (such as funding a compliance program) regardless of size. Therefore, ICANN will allocate $3.8 MM to registrars on a per registrar basis. Today that would equate to $19,290 per registrar. The fee will be calculated on a quarterly basis and vary with the number of registrars accredited at the end of the quarter prior to the invoice date.

(16)   With the possible implementation of WLS, it is anticipated that application fees will decrease.

(17)   Fixed accreditation fees will remain constant for access to the first registry ($4000) but will be set at zero for additional registries. Therefore, payment of this single fixed fee, as well as the other variable fees, will accredit registrars to sell domain names

for all Top Level Domain registries. (Sponsored TLDs may limit those registrars who may sell names for their particular sTLD.)

(18)   Estimated RIR contributions have been set based upon positive communications between the ASO and ICANN.

(19)   This represents the annual fixed fees (paid in quarterly installments) associated with the Tier 3 gTLDs as follows:

Operator	Registry	Amount
VeriSign	.com	$132,000
VeriSign	.net	$132,000
Afilias	.info	$132,000
PIR	.org	$132,000
NeuLevel	.biz	$106,000
GNR	.name	$106,000
RegistryPro	.pro	$106,000
Total		**$846,000**

As allowed for in the gTLD registry agreements with ICANN, these figures are 15% over those budgeted for FY03.

(20)   The new round of sTLD applications may result in one or more new registries. ICANN is budgeting revenue averaging $100,000 from each of six new registries. It is expected however, that business models, and the resulting revenue, will vary widely from registry to registry. It is safe to assume that the business models of the proposed sTLDs vary widely regarding the potential generation of revenue. The revenue may be based upon variable or fixed fees. However, it would not be appropriate for ICANN to speculate as to any proposed revenue generating capability for a particular proposed sTLD because ICANN is managing the arms-length, confidential evaluation of each application.

On the other hand, it is also not appropriate to ignore the revenue-generating potential of these proposed registries. To do that would shift financial burden on those already funding ICANN. Therefore, ICANN believes the most prudent, accurate course, is to budget this amount based on the best judgment of the staff, consulted constituencies, the Budget Advisory Group and the Finance Committee.

(21)   ICANN believes significantly more revenue should be generated from the ccTLD's than has been realized in the past. The budget anticipates a 25% increase in revenue; internal goals are greater. Additional revenue will be based on successfully communicating the real value provided by ICANN services.

(22)   "Bad debt" has been increased proportionally with the revenue budget.