



ICANN Expenditure Analysis: by Stakeholder Interest Area

EAG: Expense Area Group

Summary

ICANN strives to operate in a transparent, accountable and accessible manner. This operating style is essential for ICANN's mission and mandate, and processes that ensure the opportunity for global community input from all stakeholders on ICANN's strategic, operational and budgetary planning processes. One important element of transparency is financial reporting, in which ICANN has consistently sought improvements. Within the last 24 months, for example, ICANN developed monthly dashboard reporting on financial data, and recently provided analysis by primary function. See <http://forms.icann.org/idashboard/public/>.

Many in the community, Board and staff have asked for an additional view of ICANN's finances that generally align with ICANN's structures and the interest areas they represent (for example, funding to support country code registries and the ccNSO). Staff has provided this view by defining a set of Expense Area Groups (EAGs) that follow ICANN's organizational structure.

Of course, this new EAG data is simply one more view of ICANN's finances equal with a functional representation, or a representation by ICANN's accounting codes. In fact, no single representation captures the fundamentally interconnected nature of ICANN's work and mission. ICANN is responsible for coordinating the Internet's unique identifiers at a global level, which is only possible when all of ICANN's organizational structures work with each other on a global basis. Still, this EAG analysis should provide another useful way to understand the totality of ICANN's financial operation.

This paper begins with summary results and a background of the EAG analysis of ICANN's FY10 Budget. Section 2 describes the principles and methodology used for the cost analysis. These cost accounting principles explain how this analysis was developed, some of the benefits and limitations to this approach, and provide useful background to help understand other financial analysis/views as well. Finally, the paper demonstrates how these cost accounting principles are applied specifically to EAG analysis.

The Figure 1 pie chart shows ICANN's draft budget analyzed in an Expense Area Group (EAG) view for the fiscal year ending 30 June 2010 (FY10).

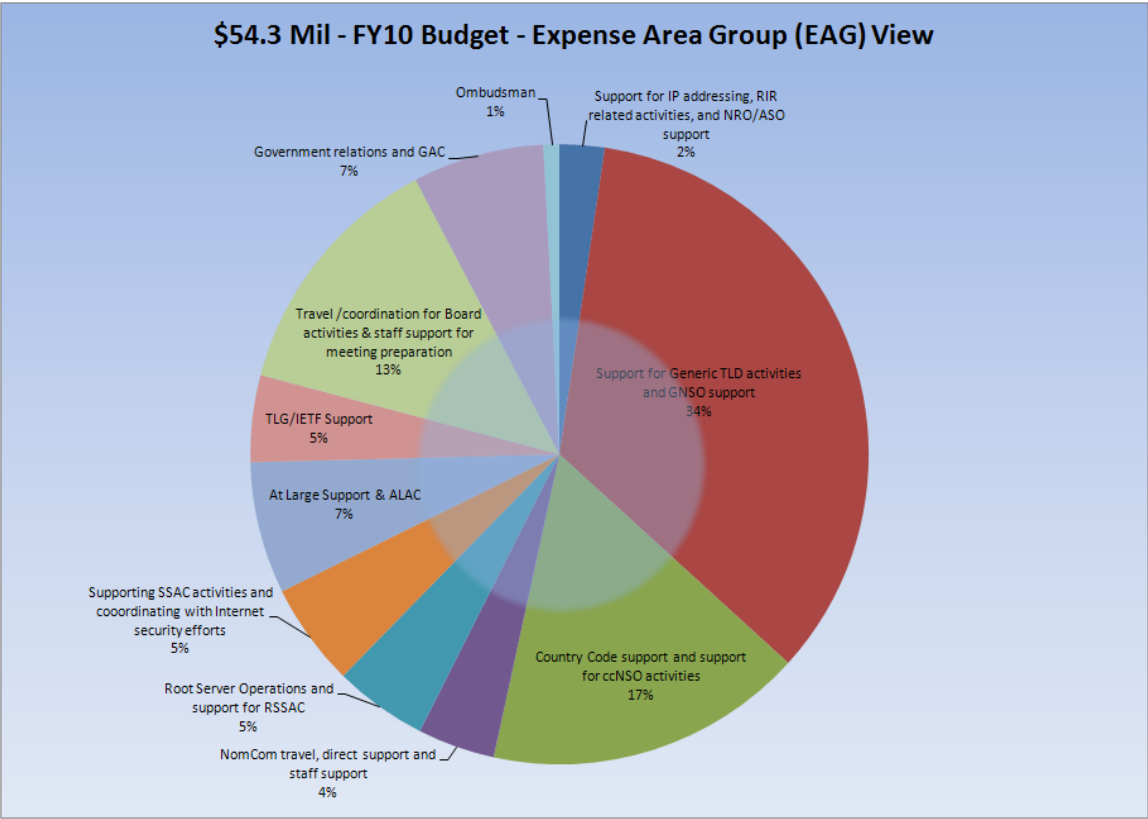


Figure 1 – ICANN’s FY10 budget broken down by Expense Area Group (EAG)

1. Summary Results of the Cost Analysis

ICANN's FY10 draft Operating Plan and Budget proposes operating expenses of \$54.7 million. Historically, ICANN's budget and expenses have been shown in the natural (traditional) accounts, as Figure 2 shows. Natural accounts are the summary categories used in ICANN's general ledger (financial) system. A useful model for understanding this might be to consider a typical household budget, which allocates funds for rent, transportation, food and clothing, among other items.

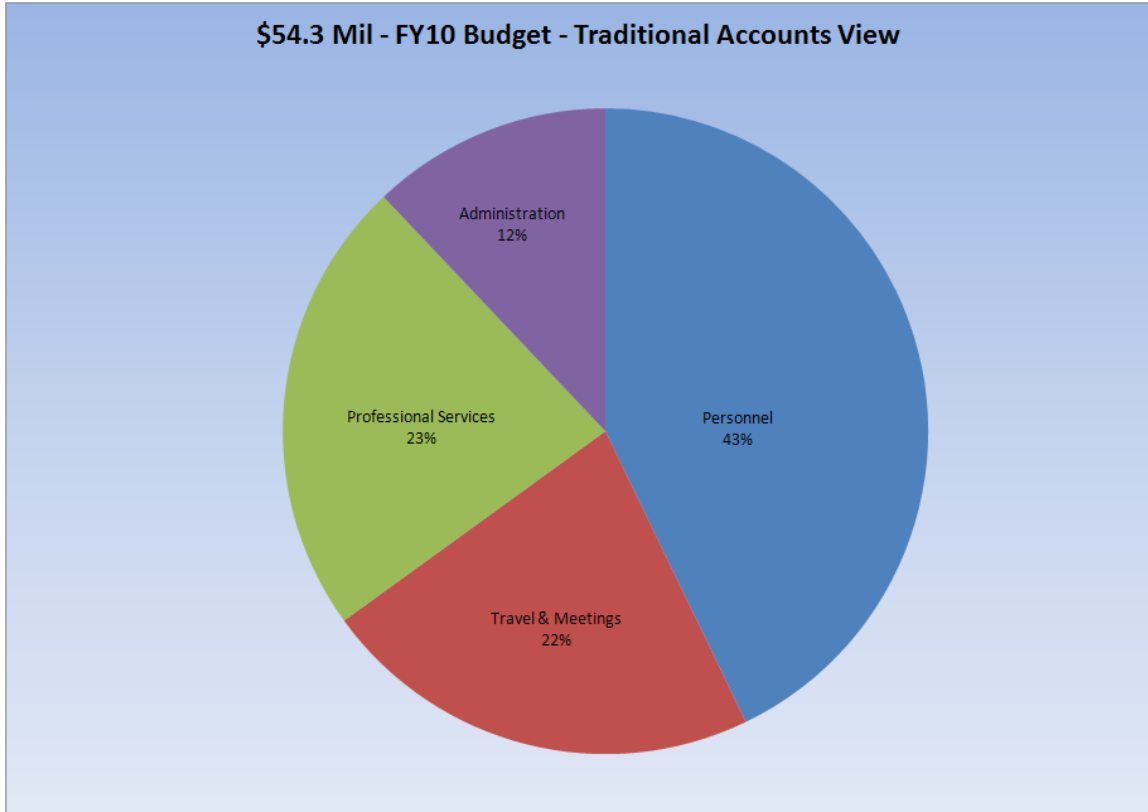


Figure 2 – ICANN's FY10 budget shown in natural accounts

In response to community requests, ICANN now provides expenses in a functional breakdown, as shown in Figure 3. A simple way to think about this functional breakdown is that it shows the purposes behind ICANN spending. Going back to the household budget analogy, the purposes behind spending might be job-related expenses (cutting across categories, to include some of clothing and some of transportation expenses), or education expenses (which could include both transportation and direct tuition fees). ICANN's functional view of expenses (covering FY09 actual expenses) is displayed on the ICANN dashboard along with descriptions of the associated costs. See <http://forms.icann.org//idashboard/public/>.

Note that neither the natural account nor the functional reporting is more correct than the other. Each helps answer different questions. The community (or staff or Board) may want to know how much ICANN spends on travel, and the natural account report provides the simplest way to obtain an answer. If the question is the level of expenses on New gTLDs, the functional report provides the right information.

In addition, the posted FY10 budget framework shows the proposed FY10 budget displayed in this functional format along with more descriptions of the functional activities. See <http://www.icann.org/en/planning/>.

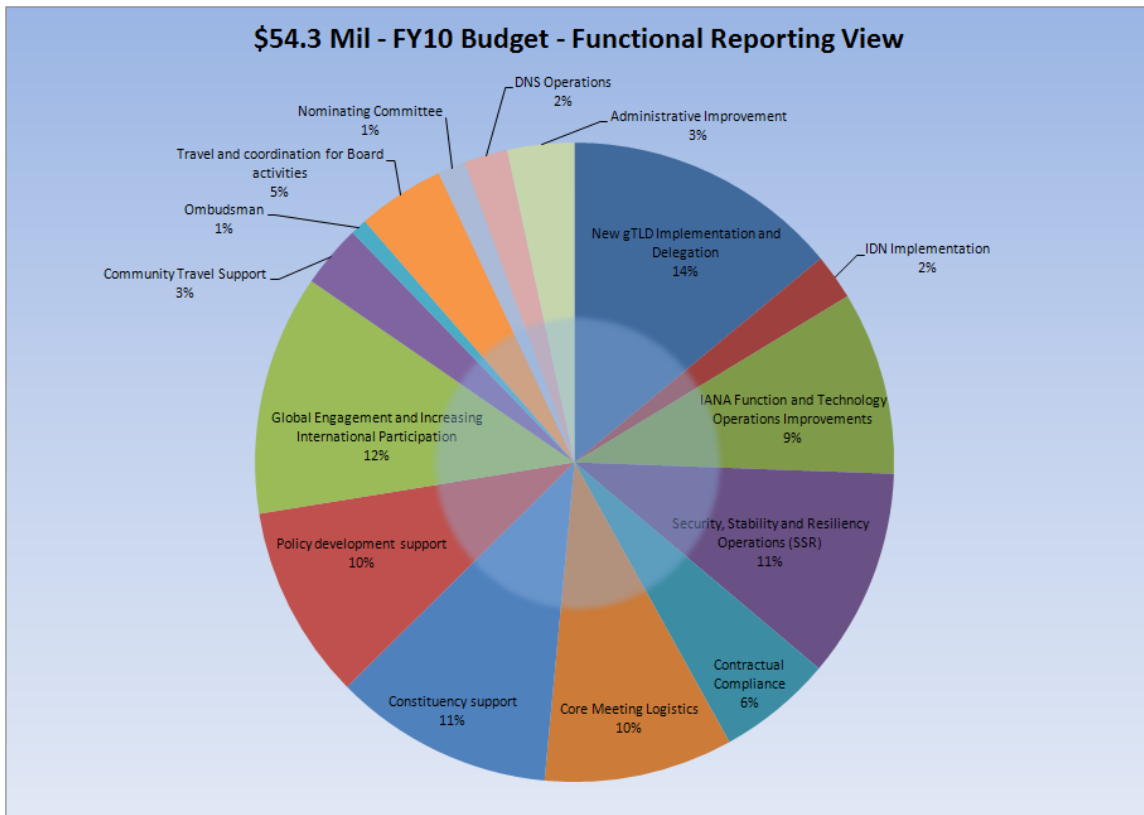


Figure 3 – ICANN's FY10 budget broken down by function

Community feedback on ICANN's functional reporting has been generally favorable. This has led to the request for other types of detailed reporting that can help answer different questions. Many have requested an expense breakdown by stakeholder interest area such as by advisory committee and supporting organization, and the general area of ICANN's work interests that they represent. Typical questions include:

- How much does ICANN spend in support of generic domain name registration operations and the GNSO?
- What percentage of ICANN's budget is spent on country code TLD registries versus generic TLD registries?

These questions require looking at the cross-functional aspects that contribute to these areas. To respond to these requests, we created an Expense Area Group (EAG) report.

Again using the household budget analogy, EAG reporting for a household could be allocating the household budget according to household member. One example would be determining the amount spent on each household member in total (education, clothing, food, transportation, housing, etc.).

To determine a set of appropriate Expense Area Groups or interest areas that would cover ICANN's entire budget and still represent the appropriate interest areas and stakeholders, the EAG relies on the ICANN structure as shown in Figure 4. This organizational structure chart also appears on ICANN's website.

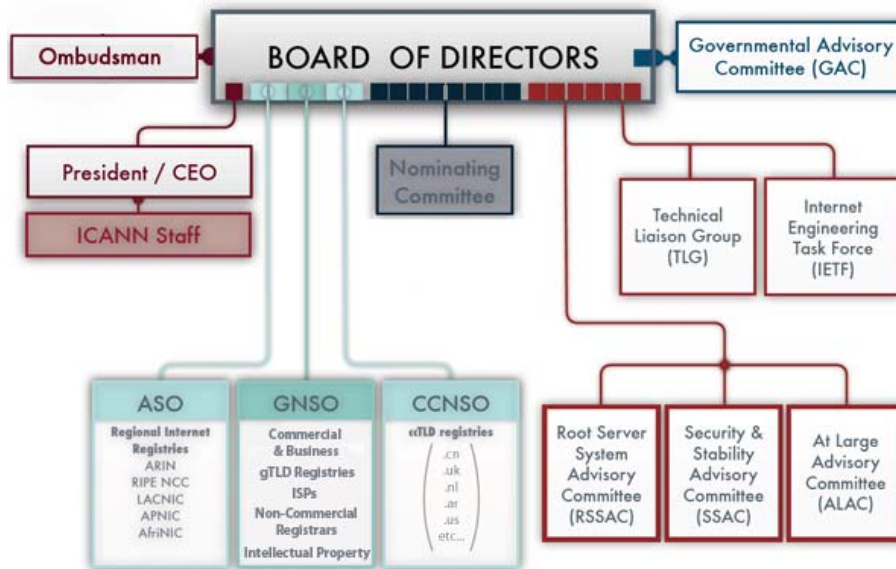


Figure 4 – ICANN's structure

From the ICANN structure in Figure 4, we developed a list of groups that represents ICANN's stakeholders and interest areas. Collectively these groups are called Expense Area Groups, or EAGs. A brief description for the EAGs used in this cost analysis appears in Figure 5.

Short Description of Expense Area Group (EAG)	
1	Support for IP addressing, RIR related activities, and NRO/ASO support
2	Support for generic TLD activities and GNSO support
3	Country Code support and support for ccNSO activities
4	NomCom travel, direct support and staff support
5	Root server operations and support for RSSAC activities
6	Supporting SSAC activities and coordinating with Internet security efforts
7	At-Large support and support for ALAC activities
8	TLG/IETF Support
9	Travel and coordination for Board activities & staff support for meeting preparation
10	Government relations and support for GAC activities
11	Ombudsman

Figure 5 – Expense Area Groups (EAGs)

The FY10 budget cost analysis broken down by EAG is shown in Figure 6. To understand the activities considered in each category, see Figure 7, which explains, for example, the cost/activity elements of country code registry and ccNSO support actually allocated to this category.

Not surprisingly, the expenses required to support generic TLDs and the GNSO represent the highest percentage (34.4%) of ICANN's budget. This expense includes for example, resources required to support gTLD registries and registrars, contractual compliance, policy and secretariat support for the GNSO, IANA function services for generic registries, meeting and travel costs for large portions of ICANN meetings, registry/registrar focused meetings, global engagement, responding to stakeholder interests, awareness, participation, translations, and travel support for GNSO council members. This amount also includes the bulk of the costs for the New gTLD implementation and operational readiness for New gTLDs. (Note that the amount would not include expenses/support provided by the ccNSO or GAC in consideration of new generic TLDs. Total project spending is better understood in the functional analysis chart. This area is discussed in greater detail later on Page 11.)

Expenditures required to support country code operations and the activities of the ccNSO require the next largest percentage (16.7%) of the ICANN budget. This includes IANA function services for country code registries, policy and secretariat support work for the ccNSO, and travel support for community members.

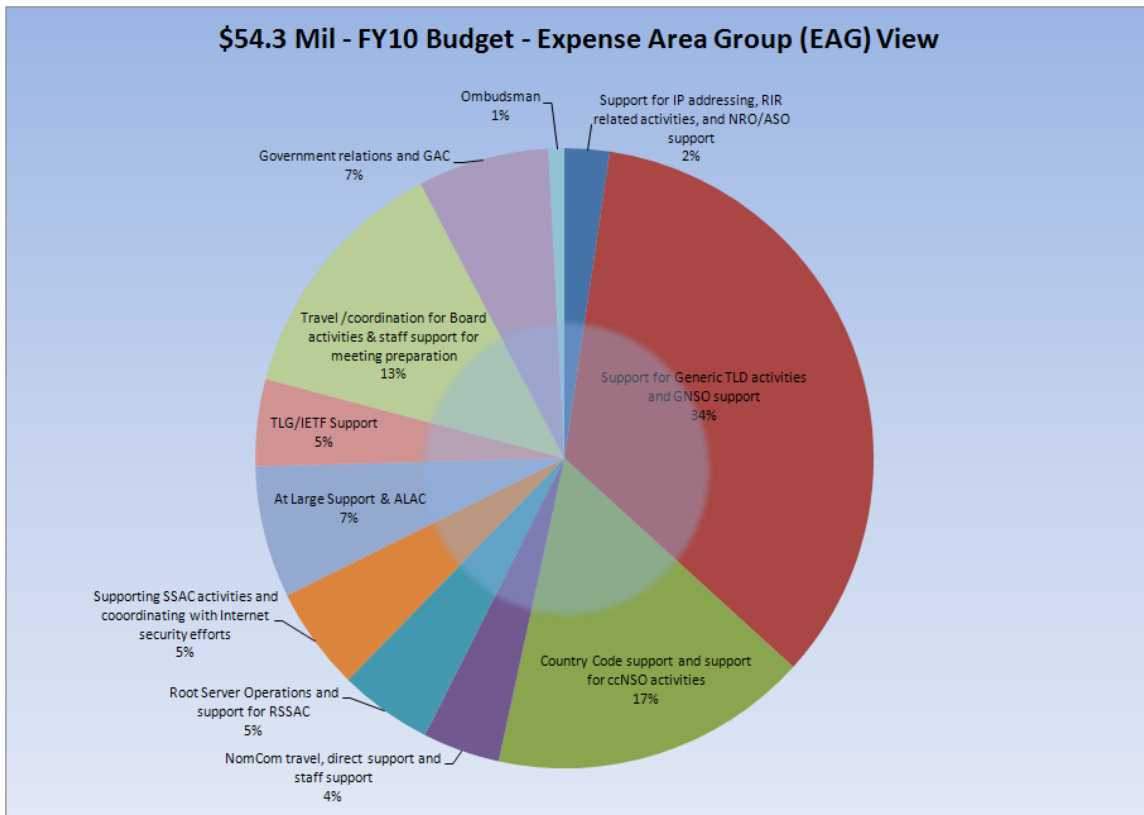


Figure 6 – ICANN's FY10 budget broken down by Expense Area Group (EAG)

Travel and coordination for Board activities and staff support to prepare for Board meetings (13.2% of the ICANN budget) includes the costs of personnel and communication systems dedicated to support Board meetings, an allocation of staff time across all departments used to support Board meetings and Board activities as well as the direct costs to support Board members' travel to ICANN meetings, Board workshops, and selected other meetings.

Figure 7, Expense Area Group (EAG) analysis for ICANN, describes in more detail the costs associated with each section.

Analysis for Expense Area Groups (EAGs)		
1-Support for IP addressing, RIR related activities and NRO/ASO support	1,276,442	2.3%
<ul style="list-style-type: none"> Portion of IANA personnel costs Other departmental costs Policy support for the ASO An allocation of overhead costs such as rent, human resources, accounting Global engagement with regional RIRs 		
2-Support for Generic TLD activities and GNSO support	18,687,532	34.4%
<ul style="list-style-type: none"> Core services to support contracted generic TLDs such as: <ul style="list-style-type: none"> Personnel and other costs required to support gTLD registries Personnel and other costs required to support ICANN accredited registrars Contractual compliance for registrars and registries Policy support work for the GNSO Secretariat support for GNSO Data escrow services for registrants (through registrars) IANA functions services for generic registries Dedicated meetings such as regional meetings for registries and registrars and intercessional GNSO meetings A large portion of ICANN meetings (about 30%) Security, stability, and resiliency efforts for registry/registrar issues Provide travel support for selected GNSO council members An allocation of overhead costs such as rent, human resources, accounting Global engagement, responding to stakeholders, awareness Plus financially significant projects such as: <ul style="list-style-type: none"> New gTLD implementation project Contractual compliance related projects (e.g., Whois accuracy, privacy/proxy study) Operational readiness for New gTLDs Conduct IDN Technical test and implement IDN Protocol (a share) Facilitate the completion of the IDNA protocol (a share) 		
3-Country Code support and support for ccNSO activities	9,062,481	16.7%
<ul style="list-style-type: none"> Core services to country code TLDs and the ccNSO such as: <ul style="list-style-type: none"> IANA functions services for country code registries Conduct ccTLD training courses 		

Figure 7 – Expense Area Group (EAG) analysis for ICANN (cont)

Cost Analysis for Expense Area Groups (EAGs) (cont)		
Local presence in regions, engagement with ccTLDs, regional organizations Communications to support cc issues Policy support work for the ccNSO Provide secretariat support for ccNSO Provide constituency travel resources as needed to meetings An allocation of overhead costs such as rent, human resources, accounting		
3-Country Code support and support for ccNSO activities (cont)		
Plus financially significant projects such as: Complete the IDN ccTLD Fast Track implementation plan Conduct IDN Technical test and implement IDN Protocol (a share) Facilitate the completion of the IDNA protocol (a share) Draft and execute operational readiness plan to accommodate the delegation of new ccIDNs		
4-NomCom travel, direct support and staff support	2,197,637	4.0%
Provide travel resources as needed for NomCom members to meetings Provide travel resources to candidates as needed Provide secretariat and other administrative and technical support Meeting and other support costs for NomCom meetings Develop informational materials, conduct outreach, event coordination to solicit statements of interest from members of the global internet community Conduct independent candidate evaluation and due diligence, using third party contractors as needed An allocation of overhead costs such as rent, human resources, accounting		
5-Root Server Operations and Support for RSSAC activities	2,650,241	4.9%
Technical and administrative support for RSSAC Readiness building for DNSSEC for IANA-related zones Operation and Maintenance of L-ROOT systems Recurring bandwidth for co-location servers An allocation of overhead costs such as rent, human resources, accounting		
6-Supporting SSAC activities and coordinating with Internet security efforts	2,924,278	5.4%
Technical and administrative support for SSAC Conduct ICANN corporate security and continuity programs Conduct ICANN collaborative engagement on DNS security, stability and resiliency to include responding to DNS abuse An allocation of overhead costs such as rent, human resources, accounting Plus financially significant projects such as: Facilitate security, stability and resiliency review of applications for New gTLDs		

Figure 7 – Expense Area Group (EAG) analysis for ICANN (cont)

Cost Analysis for Expense Area Groups (EAGs) (end)		
7- At-Large Support and support for ALAC activities	3,735,206	6.9%
<ul style="list-style-type: none"> Secretariat support for ALAC Policy support work for ALAC Outreach efforts to regional organizations and global engagement Translation of documents Interpretation costs for meetings and conference calls An allocation of overhead costs such as rent, human resources, accounting 		
8-TLG/IETF Support	2,463,846	4.5%
<ul style="list-style-type: none"> IANA functions IANA efforts to review Internet drafts An allocation of overhead costs such as rent, human resources, accounting Engagement with respective organizations 		
9-Travel and coordination for Board activities & staff support for meeting preparation	7,164,604	13.2%
<ul style="list-style-type: none"> Travel support for Board members to ICANN meetings Travel support for Board members to workshops and other meetings Training for Board members Specialized software for Board Executive efforts to support Board actions and activities Staff support for Board members Conference calls An allocation of overhead costs such as rent, human resources, accounting 		
10-Government Relations and support for GAC activities	3,733,409	6.9%
<ul style="list-style-type: none"> Secretariat support for GAC Policy support work for GAC Engagement in international intergovernmental foras, partnerships with governmental organizations Regional liaison efforts with local governments An allocation of overhead costs such as rent, human resources, accounting 		
11-Ombudsman	451,376	0.8%
<ul style="list-style-type: none"> Salary, travel support, and administrative costs to operate office of the Ombudsman 		

Figure 7 – Expense Area Group (EAG) analysis for ICANN (end)

2. Cost Accounting Principles

Presenting ICANN's budgets and expenses in EAG categories or functional categories is helpful in evaluating how ICANN spends its money and how future spending should be prioritized. However, because of the cross-functional aspect of ICANN's activities, true understanding of ICANN's budget and expenses is possible only by looking at all costs in total.

How do project costs such as the New gTLD program tie into the EAG cost analysis?

Providing an analysis of ICANN's costs by Expense Area Group (EAG), can be helpful to allow stakeholders and others to have a better understanding of their impact on ICANN overall. However, most of the primary activities, or projects, of ICANN cut across and deeply impact each EAG area. The New gTLD project, by example, requires significant resources from virtually all EAG areas and functional areas. The ccNSO (with associated costs to support it), expends time and resources on the New gTLD program. Similarly, resources required to support engagement with all stakeholders, including with the GAC and efforts to engage governments in ICANN's processes are currently expended on the New gTLD program. The same is true for ALAC/At-Large, SSAC/security, and so on. Thus, the New gTLD program does not simply require all costs deemed through this analysis to be dedicated to support generic TLDs and support for GNSO activities. The functional reporting, which is now part of ICANN monthly dashboard reporting provides a clearer view of the key projects and functions that drive ICANN's most critical projects. In short, functional reporting is most critical for understanding how ICANN prioritizes its efforts; however, EAG analysis can be helpful to better understand how stakeholders' interests impact ICANN's operations as one tries to ensure all stakeholders are engaged on a global level. Both of these reports (and undoubtedly more to come in the future) in aggregate paint a meaningful picture of ICANN's spending.

How are costs estimated?

Accounting practice allows for many approaches to analyze costs, including activity analysis, percent of revenue, percent of transaction volume, percent of TLD activity, and direct/allocation/overhead spread. While each has merit, the primary approach applicable for EAG analysis is to:

1. Estimate the direct costs associated with the cost analysis group (examples might be registrar data escrow expenses, generic TLD support and GNSO).
2. Allocate time and other remaining costs across the EAG areas based on estimated percentage effort for each group (where costs or effort can be clearly associated with an expense area group).
3. General costs not associated with an EAG interest area or functional areas (for example, rent, accounting, and human resources) are spread proportionately across all groups.

To understand this analysis, it is important to understand how costs are captured at ICANN. First, all costs are captured by their natural accounting groups. Salaries, employee benefits, and other costs required to recruit and retain staff are captured as personnel costs. Airfare, lodging, meals, incidental travel, and meeting event costs are captured in travel costs. Consultant, legal, accounting, and translation charges are captured as professional service costs. Any remaining costs such as communications, real estate related, office supplies, and computer hardware and software are captured as administrative costs.

Second, staff is assigned, and all costs are classified to a department. Some departments such as policy development support, global partnerships, and meeting support are aligned with functional reporting and addressing the interests and needs of all stakeholders globally. Other departments, such as gTLD registry liaison and gTLD registrar liaison, are aligned with the EAG or stakeholder interest area that they primarily support. Still other departments, such as finance, HR and IT, are general support functions and thus are not exclusively or primarily associated with a specific ICANN function. Rather, these resources support and thus are allocated across all of ICANN's functions.

Finally, costs can be captured in a functional category by being assigned to a project. Project costs are captured as they are incurred can be easily and specifically associated with a project. Thus, for example, a consultant engaged to study an aspect of the New gTLD Program (perhaps evaluation criteria) would be assigned to that project. Another example would be the costs for an ICANN International public meeting dedicated to a specific project. If the sole purpose of such a meeting was to resolve a technical issue for IDNs, then the costs could be captured as an IDN project cost.

Each ICANN thrice annual meeting has a project set up for it, and all costs associated with that meeting are assigned to that project; for example, the Sydney meeting. The costs of that meeting are not directly assigned to other projects because the costs as incurred are not easily and specifically identified with specific projects. It is difficult to estimate what parts of a meeting are related only to the New gTLD Program, which costs are only related to the IDN project, and which parts of a meeting are only related to security activities. The interdependence of functions, projects, and even EAG groups dictate that these costs are allocated and not directly charged.

3. How Cost Accounting Principles are applied to EAG analysis

This section provides a more detailed look at how these cost accounting principles are applied to the EAG analysis.

Estimating the ongoing costs to ICANN to support an Expense Area Group or a functional area begins with the natural accounts as shown in Figure 8, and then is broken down by functional categories as shown in Figure 9.

Category	Proposed FY10 Budget (\$)
Personnel	23,287,000
Travel (including Meetings)	12,065,000
Professional Services	12,456,000
Administration	6,559,000
Total	54,367,000

Figure 8 – FY10 budget broken down by Natural Accounting

Functional Categories	FY10 Budget (\$ millions)	
New gTLD Implementation and Delegation	7.45	13.7%
IDN Implementation	1.25	2.3%
IANA and Technology Operations Improvements	4.88	9.0%
Security, Stability, and Resiliency (SSR) Operations	5.48	10.1%
Contractual Compliance	3.22	5.9%
Core Meeting Logistics	5.99	11.0%
Constituency Support	6.27	11.5%
Policy Development Support	5.18	9.6%
Global Engagement and Increasing International Participation	6.38	11.7%
DNS Operations	1.46	2.7%
Administrative improvement and other operations such as Board Support, NomCom support, Ombudsman and Community travel support	6.77	12.5%
Total	54.3	100.0%

Figure 9 – FY10 budget broken down by Functional Categories

The EAG analysis for FY10 budget is repeated in Figure 10. These tables were developed using the cost accounting principles described in Section 2. More details about the methodology used are discussed below.

Expense Area Group (EAG)	Dollars	%
1 – Support for IP addressing, RIR related activities, and NRO/ASO support	1,276,442	2.3
2 – Support for Generic TLD activities and GNSO support	18,687,532	34.4
3 – Country Code support and support for ccNSO activities	9,062,481	16.7
4 – NomCom travel, direct support and staff support	2,197,637	4.0
5 – Root Server Operations and Support for RSSAC activities	2,650,241	4.9
6 – Supporting SSAC activities and coordinating with Internet security efforts	2,924,278	5.4
7 – At-Large Support & support for ALAC activities	3,735,206	6.9
8 – TLG/IETF support	2,463,846	4.5
9 – Travel and coordination for Board activities & staff support for meeting preparation	7,164,604	13.2
10 – Government relations and support for GAC activities	3,733,409	6.9
11 – Ombudsman	451,376	0.8
Total	54,347,052	100.0

Figure 10 – FY10 budget broken down by Expense Area Categories (EAG)

Labor Allocation by EAG

Labor costs are calculated by estimating the portion of time spent by each ICANN staff member for each category. Figure 11 is an extract of the labor allocation chart showing how the time for four representative members of ICANN's staff is allocated for to functional reporting.

Functional Allocation	Executive A (%)	IANA Staff Member B (%)	Registrar Support Staff Member C (%)	Policy Staff Member D (%)	GP Staff Member (%)
1 – New gTLD	10	5	10	20	5
2 – IDN	5	0	0	10	10
3 – IANA	5	90	0	0	10
4 – Security	10	5	0	5	5
5 – Contractual Compliance	5	0	5	0	1
6 – Meetings	0	0	0	0	5
7 – Constituency Support	5	0	75	5	20
8 – Policy Development	20	0	5	50	5
9 – Broaden Participation	10	0	0	0	35
10 – Travel Support	0	0	0	0	0
11 – Ombudsman	0	0	0	0	0
12 – Board Support	15	0	5	5	0
13 – NomCom	0	0	0	0	2
14 – DNS Operations	0	0	0	0	0
15 – Admin Improvement	0	0	0	5	2
16 – Overhead	15	0	0	0	0
Total Allocation	100	100	100	100	100

Figure 11 – Labor costs by Functional Category

Similarly, Figure 12 is an extract of the labor allocation chart showing how the time for these four ICANN staff members is allocated across the Expense Area Groups (EAG). One staff member is an executive called upon for support across almost all functions and cost analysis groups. This executive spends more time is spent on Board activities. Another example is an IANA staff member, who spends the bulk of time on IANA functions, but also spends time on the New gTLD Program and security issues. This staff member spends about 50% of time on IETF matters, 30% on DNS matters, and 10% on number resource activities.

Cost Analysis for EAGs	Executive (%)	IANA Staff Member (%)	Registrar Support Staff Member (%)	Policy Staff Member (%)	GP staff member (%)
1 – Support for IP addressing, RIR related activities, and NRO/ASO support	5	10	0	5	15
2 – Support for generic TLD activities and GNSO support	35	10	90	35	15
3 – Country Code support and support for ccNSO activities	10	20	0	25	20
4 – NomCom travel, direct support and staff support	0	0	0	0	0
5 – Root Server Operations and support for RSSAC activities	0	0	0	0	0
6 – Supporting SSAC activities and coordinating with Internet security efforts	5	5	0	5	8
7 – At-Large support & support for ALAC activities	5	0	0	10	7
8 – TLG/IETF support	0	50	0	0	5
9 – Travel and coordination for Board activities & staff support for meeting preparation	15	5	10	10	15
10 – Government relations and support for GAC activities	25	0	0	10	15
11 – Ombudsman	0	0	0	0	0
Total Allocation	100	100	100	100	100

Figure 12 – Labor costs by Expense Area Group (EAG)

Travel Allocation by EAG

Of the \$11.5 million of travel costs in the FY10 budget, about \$3 million was directly assigned to several EAG categories. These include the Fellowship Program, Board supported travel, and community members supported travel. The remaining balance followed the allocation of the person involved in the travel. The supporting logic says that staff working on a particular EAG category would presumably have similar allocations of travel costs as they have for labor costs. In addition, some costs were allocated using other methodologies. For example, core meeting support costs were allocated based on estimated meeting space allocated for each EAG. Thus, the ASO uses very little meeting space, but the ccNSO, GNSO, and ALAC require considerably more space to function effectively.

Professional Services Allocation by EAG

Of the \$11.9 million of professional service costs in the FY10 budget, about \$5.7 million was directly assigned to various EAG categories. The large majority of the costs directly assigned are associated with the generic TLD support and GNSO support, and the bulk of that is driven by the completion of the implementation plan for the New gTLD Program. About \$610,000 of professional services was directly assigned to the ccNSO group. These estimated costs included developing ccTLD training curriculum/materials, interpretation and translation materials, aliasing testing, linguistic support, IDN technical test, and IDN protocol implementation. The balance of the estimated costs for professional services includes allocations of the amounts remaining after direct charges (direct charges are costs that are identified for a specific purpose such as an invoice for SSR work from a consultant).

These allocations primarily follow the allocation ratios established by review of the labor allocations.

Administrative Costs Allocation by EAG

Of the \$6.3 million of administrative costs in the FY10 budget, about \$600,000 was directly assigned to an EAG category. The balance of the estimated administrative costs includes allocations of the amounts remaining after direct charges. These allocations primarily follow the allocation ratios established by review of the labor allocations.

4. Request for Community Feedback

This new EAG reporting is another view of ICANN's finances, along with the functional reporting and ICANN's traditional reporting with accounting codes. No single representation captures the fundamentally interconnected nature of ICANN's work and mission. ICANN is responsible for coordinating the Internet's unique identifiers at a global level, which is only possible when all of ICANN's organizational structures are working with each other, and on a global basis. Still, this EAG analysis should provide another useful way to understand the totality of ICANN's financial operation.

The community is encouraged to provide feedback on the form of the EAG reporting to help ensure that this type of reporting is responsive to their needs. Ultimately, this reporting can be used to help guide the prioritization of spending for ICANN. A comment period has been opened for feedback on the Expense Area Group reporting, which can be found online [here](#), and will remain open until after the Sydney meeting. In addition, any queries on this type of reporting can be addressed during the [FY10 Operating Plan and Budget public workshop](#) which will take place at the ICANN meeting in Sydney.