The ICANN GNSO "Business Constituency"

Comment on ICANN Proposed FY19 Budget

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Business Constituency Submission

GNSO//CSG//BC

Background

This document is the response of the ICANN Business Constituency (BC), from the perspective of business users and registrants, as defined in our Charter.

The mission of the Business Constituency is to ensure that ICANN policy positions are consistent with the development of an Internet that:

1. promotes end-user confidence because it is a safe place to conduct business
2. is competitive in the supply of registry and registrar and related services
3. is technically stable, secure and reliable.

BC comment on ICANN Proposed FY19 Budget

The Business Constituency (BC) welcomes the opportunity to provide comments on ICANN's proposed FY19 Operating Plan and Budget and we thank the ICANN Finance team for the comprehensive documentation provided.

As mentioned in our earlier comments, we request a high-level Executive Summary of the entire FY19 Budget Proposal that indicates projected income and expenditure, key changes in budget spending and cuts, and risk scenarios for unbudgeted but potential funding needs (for example: implementing WorkStream 2 recommendations; CCT Review, PDPs, and GDPR).

In reviewing the FY19 Operating Plan and Budget proposal, the BC has concerns about several issues:

ICANN reserve fund

Revenue projections

Proposed growth in staff numbers and expenditures

Capacity to fund new priority projects

We are concerned about the magnitude of proposed cuts in community-support activities such as CROP, Special Budget Requests, the Onboarding Program, ICANNWiki, and Fellowship.

The BC recommends expenditure reductions in NEXTGen, the ICANN Academy, and in the frequency of NCPH Intersessional meetings.

Detailed comments on each of these areas are shown below.

ICANN Reserve Fund

The BC believes that ICANN should fund reserves with a minimum of 12 months, but ideally 17 months, of budgeted expenditures. Given ICANN's experienced short-fall in expected revenue from new gTLDs, the BC recommends that reserve fund replenishment be carefully considered.

The BC reiterates our Nov-2017 suggestion that the community process on use of new gTLD Auction Proceeds should thoroughly examine using some of those proceeds to replenish the Reserve Fund. As the CCWG-Auction Proceeds is still underway, this consideration is timely.

We note that the Reserve Fund is established for events that might require major changes in revenue

sources or even an exit strategy. In those events, it does not seem realistic that present levels of staff and offices would continue over a 12 or 17 month period. As businesses, we are familiar with costs of downsizing and transitions, so we propose that the Risk Committee document scenarios showing use of the Reserve Fund.

Revenue projections

The BC agrees that it is appropriate for ICANN to revise its financial projections for lower growth and to reduce overall expenditures. We are concerned, however, that ICANN org, since many new gTLDs are experiencing significant name drops, and some legacy gTLDs are experiencing static or negative growth. The BC urges ICANN to reevaluate its revenue projections, especially related to the new gTLDs. The BC believes that ICANN previously stayed with highly optimistic projections for new gTLDs, ignoring warning signs that many business models were not sustainable (for example, free and nearly free domain registrations). All gTLD registries must be financially sustainable and be able to pay ICANN fees.

Proposed growth in staff numbers and expenditures

Lower revenue projections also necessitate commensurate action regarding staffing, yet the budget proposes to increase both staff numbers and costs. The BC urges ICANN to consider freezing staff until revenue projections and reserve fund targets are met.

ICANN is revising its budget to reflect an expected drop in income of $8M (from $142.8M to $134.5M). Expenses are due to drop by $6.3M (from $142.8M to $136.5M). While ICANN Org is proposing cuts to travel, administrative and operational expenses, staff costs and headcount will continue to increase.

Based on ICANN's proposals and projections for the period FY2017-FY2020, the following changes would occur:

> Revenue: +4% (135m in 2017 to 140m in 2020)
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> Personnel costs: +35% (60m in 2017 to 81m in 2020)
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> Headcount: +12.5% (378 in 2017 to 425 in 2020)
>
> Admin and operational costs: -35% (27m in 2017 to 18m in 2020)

Salaries are projected to rise at roughly three times the rate of headcount increases, with an average cost per capita rising by 7% per year from $157,000 in 2017 to $190,000 by 2020. For comparison, the rate of inflation was 2.1% in the USA during 2017, and median household income in the US between 2012-2016 was $55,000 (US Census).

Capacity to fund new priority projects

There do not appear to be funds available for work on priority policy issues, such as implementation of GDPR, Work Stream 2, the New gTLD Subsequent Procedures WG, and Competition, Consumer Trust and Consumer Choice (CCT). The BC asks whether ICANN plans to further deplete its reserve fund if it needs to exceed current budget to fund these priority activities.

The BC, along with other constituencies, has made a priority of increasing the amount of publicly available technical data, and we are gratified to see that ODI, DAAR, and ITHI are moving to production in 2019. However, it is unclear how these will be delivered and what costs are associated.

Concern about the magnitude of proposed cuts in community-support activities such as CROP, Special Budget Requests, the Onboarding Program, ICANNWiki and Fellowship.

The BC is concerned that the majority of proposed expense cuts in ICANN's proposed FY19 budget would adversely impact services that support work of the ICANN community.

The BC has made excellent use of CROP (Community Regional Outreach Program) funds to increase local awareness and engagement with ICANN. We therefore oppose the elimination of the CROP program.

The BC has used Special Budget Requests to bring potential business participants from developing countries. This has helped to increase participation in BC activities, broaden global outreach, and enhance the legitimacy of ICANN in the global community. The BC objects to the proposed reduction in Special Budget Requests.

The BC also opposes proposed cuts in the Onboarding Project. We asks that Onboarding be concluded at the AGM, with an evaluation. This would extend this project by 6 months and allow the full conclusion of the program and an effective evaluation.

We oppose the proposed elimination of funding for ICANNWiki, which is a valuable service to raise awareness and provide timely information to the ICANN community.

We propose a more limited reduction of just 20% in the Fellowship Program. Before any deeper cuts are made to the Fellowship Program, ICANN should engage in a review discussion with the outreach committees of the SOs and ACs.

BC recommends expenditure reductions in NCPH Intersessional, NEXTGen and the ICANN Academy

In the spirit of sacrificing a program we find beneficial in order to restore proposed cuts in other programs, the BC Recommends skipping the FY19 Non-Contract Party House (NCPH) Intersessional.   The NCPH Intersessional consumes nearly $100K in ICANN's proposed FY19 budget, and the BC would prefer that those funds be used to restore funding for CROP, Special Budget Requests, Onboarding, ICANNWiki, and Fellowship program, as described above.

We question the proposed expenditure for ICANN's NEXTGen program, which was not developed pursuant to a bottom-up community request, and has not demonstrated its contribution to ICANN. At present, NEXTGen lacks a defined mission and outcome, although it incurs significant travel costs. We propose that NEXTGen be reduced to 5 academics from the relevant region who would develop engagement with their students.

We question the need for the ICANN Academy, which is not a fully cross-community program. Moreover, online courses in ICANN LEARN could replace the need for the Academy. We recommend canceling the ICANN Academy and redeploying the staff support and travel costs that have been devoted to this endeavor.

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This comment was drafted by Jimson Olufuye, Denise Michel, Marilyn Cade, and Steve DelBianco.

It was approved in accord with the BC charter.