New gTLD Program
Explanatory Memorandum

New gTLD Budget

Background — New gTLD Program

Since ICANN was founded ten years ago as a not-for-profit, multi-stakeholder organization dedicated to coordinating the Internet's addressing system, one of its foundational principles, recognized by the United States and other governments, has been to promote competition in the domain-name marketplace while ensuring Internet security and stability. The expansion of the generic top-level domains (gTLDs) will allow for more innovation, choice and change to the Internet's addressing system, now represented by 21 gTLDs.

The decision to introduce new gTLDs followed a detailed and lengthy consultation process with all constituencies of the global Internet community represented by a wide variety of stakeholders – governments, individuals, civil society, business and intellectual property constituencies, and the technology community. Also contributing were ICANN's Governmental Advisory Committee (GAC), At-Large Advisory Committee (ALAC), Country Code Names Supporting Organization (ccNSO), and Security and Stability Advisory Committee (SSAC). The consultation process resulted in a policy on the introduction of New gTLDs completed by the Generic Names Supporting Organization (GNSO) in 2007, and adopted by ICANN's Board in June, 2008.

This explanatory memorandum is part of a series of documents published by ICANN to assist the global Internet community in understanding the requirements and processes presented in the Applicant Guidebook, currently in draft form. Since late 2008, ICANN staff has been sharing the program development progress with the Internet community through a series of public comment fora on the applicant guidebook drafts and supporting documents. To date, there have been over 250 consultation days on critical program materials. The comments received continue to be carefully evaluated and used to further refine the program and inform development of the final version of the Applicant Guidebook.

For current information, timelines and activities related to the New gTLD Program please go to http://www.icann.org/en/topics/new-gtld-program.htm.

Please note that this is a discussion draft only. Potential applicants should not rely on any of the proposed details of the new gTLD program as the program remains subject to further consultation and revision.

Summary of Key Points in this Paper

- Using sound business practices and fiscal prudence, the gTLD budget has been organized according to three phases; 1) development, 2) deployment, and 3) application processing to enable better tracking and reporting of costs.

- Phase 1 – Development is captured in ICANN's draft FY11 Operating Budget and Plan and reflects the activities necessary to progress the implementation of policy recommendations of the gTLD program. The cost of remaining development activities is estimated at $6.7 million.

- Phases 2 - Deployment reflects activities that require "sufficient scope and timing certainty" such as those necessary to complete the implementation of application evaluation processes, the communication campaign providing global information regarding the launch of the program, on-boarding of evaluation panels and so on. Sound business judgment must be exercised to ensure costs are appropriately and timely incurred. Costs for these activities will be submitted for approval separately from usual ICANN budgeting cycles and are not included in the draft FY11 Operating Plan and Budget. Costs are estimated at $2.6 million.

- Phase 3 - Application Processing budget consists primarily of the variable costs to manage the activities of accepting and processing applications across multiple processes and evaluation panels.   This budget will be separately approved some months prior to the official launch of the gTLD program. Costs for these activities are not reflected in the FY11 Operating Plan and Budget.

Introduction

Helping to achieve ICANN's vision of a *unified global Internet that works for everyone,* the FY11 generic Top Level Domain (gTLD) program will provide new platforms for innovation and change that will stimulate competition and increase choice for a variety of users and communities.

Significant to this effort is the investment necessary to develop an efficient and effective program that addresses community concerns, ensures qualified applicants are able to secure gTLDs, and remains revenue-cost neutral.

The purpose of this Explanatory Memo is to provide insight into estimated gTLD program costs for progressing the implementation of the gTLD policy recommendations to process launch: the evaluation of applications and the delegation of new strings to the root zone. Costs estimates provided by Evaluation Panel candidates, the Important Financial Principles described in section 2 of the "Update on Cost Considerations" paper, dated October 2009 (http://www.icann.org/en/topics/new-gtlds/related-en.htm), and several assumptions described herein, have been used in developing the estimated budgets.

A collaborative effort among ICANN staff, outside experts, and Internet community continues to move forward. While substantial progress has been made to date, a number of activities remain

outstanding, such as completing a final version of the Applicant Guidebook (AGB), completing the processes necessary to accept and evaluate applications, and conducting a communication campaign to alert the global community of the launch of the gTLD program.

Staff recently conducted an analysis of gTLD program costs, including an assessment of the general risks and the timing required to complete certain remaining activities necessary for operational readiness. To ensure costs are appropriately tracked and disclosed, the gTLD budget has been organized according to three phases; 1) development, 2) deployment, and 3) application processing. A summary of each phase is provided below.

Previous plans called for a budget amendment to include application fee revenue, application processing costs, and final implementation costs (now called deployment). This plan addresses those issues, bifurcating the approvals into two steps: submit a request for a budget amendment for deployment costs only now – to bring the program to the point ready for launch. Then, with the approval of the new gTLD program launch, approve the revenue and spending plan associated with processing and evaluating applications. This request would be timed to help ensure that no delays result from lack of operational readiness activities. The new plan also calls for submitting another budget amendment request about 90 days before launch of the new gTLD. These two budget amendments are intended to ensure that ICANN is fully ready to process applications on a timely basis once the final applicant guidebook is approved.

New gTLD Budget Phases

1. Development

Development (Phase 1) costs are included in the draft FY11 Operating Plan and Budget posted for community feedback (http://www.icann.org/en/public-comment/#draft-budget) and expected to be included in the final FY11 budget to be submitted to the Board in Brussels.

This phase represents the activities necessary to progress the implementation of the of the gTLD policy recommendations. This includes resolving open concerns[1], completing the AGB, managing communication with the Internet community, designing and developing the processes and systems necessary to process applications in accordance with the final AGB, and undertaking those activities that have been deemed high risk or would require additional time to complete.

In the "Update to the Cost Considerations of the New gTLD Program" paper dated 2 October 2009 (http://www.icann.org/en/topics/new-gtlds/related-en.htm) – these costs previously consisted of "Development Costs" and "Application Processing Costs – Fixed". . Examples of "Application Processing Costs – Fixed" that have been accelerated include the development of the TLD Application System (TAS), economic studies, scaling studies, and administrative and travel support for staff.

These costs will be funded through normal ICANN budgetary process and the associated costs have been highlighted in ICANN's annual Operating Plan and Budget documents. The draft FY11 Operating Plan and Budget reflects estimated gTLD costs of $6.7 million and cover salaries, professional services, travel, and administration costs across the following major activities:

---

[1] This corrected version was posted on 1 June 2010. On page 3 "This includes completing the ABG, then resolving open concerns…" was corrected to read "This includes resolving open concerns, completing the AGB, …"

Activity	Estimated Cost
A) Resolution of remaining concerns and completion of the AGB	$4.5 million
B) Design and development of processes and systems for applications processing	$1.3 million
C) Communication	$0.7 million
D) Administration	$0.2 million
Total	$6.7 million

2. **Deployment**

Formerly referred to as "Application Processing Costs – Fixed," deployment costs require timing certainty and represent the incremental costs necessary to complete the implementation of the application evaluation processes and systems. Such costs include the global communication campaign, on-boarding of evaluation panels, hiring of additional staff, payment of certain software licenses, securing separate facilities, and so on. These activities can be further separated into:

a) Those requiring a higher level of certainty regarding the launch of the gTLD program. For example, conducting training of Evaluation Panels would not be incurred until a launch date has been agreed on, and

b) Those that can move forward once there is sufficient certainty that the requirements for evaluating applications are mostly complete. For example, we should be able to finalize application evaluation and program management processes or develop the training program for the Evaluation Panels since there are minimal changes to application processing requirements in the next version of the AGB.

A number of these activities are expected to take some months to complete and there is a risk that delaying their start may unnecessarily delay the launch of the gTLD program, once approved. Using sound business practices while exercising fiscal prudence, a balancing of expenditures against completing a number of these activities must be considered.

It is currently anticipated that the Phase 2 budget will be requested for approval in FY11 and, where appropriate, certain application processing activities will be completed in parallel with remaining Phase 1 activities. This budget will be funded from ICANN's Reserve Fund.

Costs for deployment are estimated at $2.6 million and cover the hiring of additional staff, professional services, travel, communication, and administration and are allocated across the following activities:

Activity	Estimated Cost
A) Completion of application processing activities including process integration & software licensing fees	$0.7 million
B) Panelists on boarding including training development and delivery	$1.5 million
C) Global communication campaign	$0.3 million
D) Administration	$0.1 million
Total	**$2.6 million**

It is currently anticipated that Phase 1 - Development and Phase 2 - Deployment costs will be recovered via the $185k application fee. As described in the "Update to the Cost Considerations of the New gTLD Program" paper dated 2 October 2009 (http://www.icann.org/en/topics/new-gtlds/related-en.htm), the recovery is estimated at approximately $25k per application.

3.   Application Processing

Formerly referred to as "Application Processing Costs – Variable" represent those costs necessary to accept and process new gTLD applications, conduct contract execution activities, and conduct pre-delegation checks of approved applicants prior delegation into the root zone.

The application processing (Phase 3) budget will also be separately approved as fees collected and the costs expended for new gTLD applications are to be accounted for separately from ICANN's general funds. ICANN plans to obtain approval for these Phase 3 funds a short time in advance of the program as they are expected to be covered by the Application Fees collected and will not increase ICANN's net operating budget.

These costs vary depending on the number of applications that require a given task to be completed. For example, a panelist charged with technical evaluation is paid only if he or she receives an application for review. Another example is the labor costs (plus appropriate overhead factors) associated with an ICANN staff member to perform a specific task for a given application, or a per-application amount of time to review the results of a panel's score on an application and to post the results of that score.

The following key assumptions have been used to calculate the Application Processing budget:

- The budget is based on processing 500 applications.

- A majority of the costs, with the exception of staff salary and certain administration costs are expected to be variable. Thus costs will fluctuate based on the number of applications received.

- This budget does not consider the impact to ICANN operations once new gTLDs are delegated. The impact of additional gTLDs to existing ICANN operations will be separately analyzed.

- The majority of applications are expected to be "straightforward", as highlighted in the AGB (i.e. pass Initial Evaluation, not require other evaluation procedures, and be eligible to proceed straight to pre-delegation steps).

- A small percentage of applications will be considered "highly complex" and will require at least one additional procedure after Initial Evaluation (i.e. Extended Evaluation, String Contention, Objection/Dispute Resolution). Of this percentage, a majority will be eligible to proceed to pre-delegation steps.

- Pre-delegation procedures include contract execution procedures that will require an outside firm to meet resource requirements and pre-delegation checks that will be conducted by an independent 3rd party.

- Evaluation panel fees are based on proposed fees submitted by final candidates

- To provide an applicant with the largest refund opportunity possible and minimize variable costs, certain evaluation procedures will be conducted prior to moving an application to remaining Initial Evaluation panels. These procedures (Background Checks, DNS Stability, String Similarity review against Reserved Names and existing TLDs) are pass/fail and do not have extended evaluation options.

- A total of 5% of applications submitted will receive the maximum refund (70%) due to either failing early evaluation procedures or via a request to withdraw from the evaluation process prior to the end of Initial Evaluation.

- Another 5% of applications submitted will receive refunds after Initial Evaluation but prior to the end of any subsequent evaluation procedures to which they are be subject or have elected.

- The Independent Objector (IO) will file objections on a small percentage (5%) of the total applications. Note, ICANN will cover all Objection preparation and filing fees incurred by the IO.

- Permanent staff for the gTLD team will be mostly augmented with temporary or seasonal contractors. ICANN will not incur the costs of hiring and subsequently releasing permanent staff should resource requirements be less than expected. This assumption will be re-evaluated as we move to subsequent rounds.

Round 1 will take approximately 18 months to complete. Round 2 is expected to open 12 months after the close of the Application Submission period for Round 1. Accordingly, certain costs (staff time, rent, etc) will be split between Round 1 and Round 2 beginning in Month 16 of Round 1.The estimated budget for 500 applications (round 1) is as follows:

Application Processing - Round 1	Total (,000)
Application Fees (@$185k)	$92,500.0
Less: Risk Costs (Contingency Reserve @ $60k))	$(30,000.0)
Development Costs (Recovery @ $25k)	$(12,500.0)
Refunds	$(8,260.3)
Net Revenue	$41,739.8
Operating Expenses	
Variable	
Travel & Meetings	$(83.2)
Professional Services	
1) Program Administration	$(2,047.9)
2) Initial Evaluation Panels	$(18,306.6)
3) Quality Assurance	$(2,462.5)
4) Extended Evaluation Panels	$(769.3)
5) Independent Objector	$(4,687.5)
6) String Contention	$(431.1)
7) Pre-Delegation	$(6,300.4)
Fixed	
Personnel - gTLD Team	$(2,858.8)
Personnel - ICANN Staff	$(3,296.0)
Administration	$(311.9)
Total Operating Expenses	$(41,555.1)
Net Income / (Loss)	**$184.6**

Cost Accounting and Procurement

The new gTLD program will the follow ICANN's Procurement and Cost Accounting Guidelines and support its principles of openness and transparency. The general guidelines consider that:

- Purchases are made in compliance with ICANN' bylaws and compliant with disbursement policies

- Vendors and service providers are selected fairly and objectively with the highest ethical standards and appropriate levels of disclosure

- Selection procedures are established in advance of any specific decisions to ensure fairness and transparency

In addition, the Cost Accounting guidelines ensure that ICANN accurately tracks and reports on revenue and costs related to the new gTLD program so that appropriate management decisions can be made. Independent auditor reporting on new gTLD's cost tracking and reporting ensures accountability to the community, further builds institutional confidence in the

new gTLD program, and is consistent with ICANN's principles of accountability and transparency.

These guidelines clarify that the process has been appropriately developed to facilitate cost reporting for the new gTLD program and ensure that costs are allocated to various organizational activities based on sound, well considered, documented, easily recalculated, and verified methodologies.