

Initial ISOC Financial Contributions to IETF Administration LLC

In order to create the IETF Administration LLC, the initial financial contributions from ISOC to the IETF Administration LLC need to be described in the operating agreement between the two organizations. This document provides a description of the proposed initial contributions in the current draft of the operating agreement.

Notably, this document and the current draft of the operating agreement focus on operating expenses and reserves for the IETF. They do not include contributions associated with securing increased long-term funding for the IETF, via the IETF Endowment or other long-term funding mechanisms. Such contributions are left for further discussion after the LLC is operational.

IETF Goals

This proposal assumes that the goals of the initial ISOC financial contributions from the IETF's perspective are as follows:

- Ensure that the LLC can cover its annual operational expenses without needing to go back to ISOC (or others) for help closing gaps before the end of each fiscal year.
- Have sufficient funds available to lay the foundation to allow the LLC to be successful.
- Have sufficient funds available to accommodate increased expenses associated with running the LLC, including one-time transition/start-up expenses and ongoing operating expenses.
- Have flexibility to experiment with new initiatives that further the IETF's mission.

Proposed ISOC Contributions to LLC Operational Finances

The proposed initial ISOC financial contributions are comprised of two parts: an annual cash contribution from ISOC to the LLC to help cover operating expenses on a yearly basis, and a set of up-front contributions associated with the creation of the LLC to bootstrap reserve funds for the IETF. After two years, the organizations would require themselves to review this funding plan and adopt a subsequent plan for 2021 and beyond. Two years allows the LLC enough time to get up and running without having to go back to ISOC while also providing a specified point at which the contributions can be usefully re-evaluated.

Annual contribution

Under the [2018 IETF budget](#), the revenue the IETF receives from ISOC is approximately \$2.7M in cash and \$315K in in-kind contributions, for a total of approximately \$3M. The IETF's total expenses are approximately \$7M.

Under the proposal, ISOC would commit to an annual contribution of \$5M each year for the next two years. This amount was chosen to provide a solid foundation for the IETF to

achieve the goals listed above in the LLC's start-up phase. It is based on a sample LLC budget prepared by the IAD in cooperation with the IETF Chair, which is summarized in Table 1 below.

The sample budget uses as its foundation the existing IETF 2019 and 2020 [budget advice](#), with increased expenses associated with operating the LLC. The projected operating expenses for the LLC in the sample budget are more than double the projected operating expenses for IASA (\$1.5M compared to \$707K in 2019, for example). This increase accounts for staff salaries, benefits, and travel; insurance; increased fundraising support; and human resources support, all of which will be new expenses incurred by the LLC that are not currently incurred by IASA.

This sample budget is no substitute for the official budget that the LLC will need to develop. It was put together for the purposes of formulating proposed initial contributions from ISOC to the LLC, which need to be documented in the operating agreement before the official budget process can begin.

	2018	2019	2020
Revenue			
ISOC annual contribution	\$2,692	\$5,000	\$5,000
ISOC in-kind	315	0	0
Meeting revenue	3,909	4,154	4,219
In-kind revenue	113	35	35
Total	\$7,029	\$9,189	\$9,254
Expenses			
Meeting expenses	\$3,089	\$3,172	\$3,215
RFC services	1,238	1,262	1,198
IETF secretariat	1,375	1,404	1,436
Operating costs	670	1,564	1,795
ISOC support	315	0	0
Transition costs	75	0	0
Special projects	50	50	50
Tools	217	221	226
Total	\$7,029	\$7,674	\$7,920
Net surplus		\$1,516	\$1,334
Net surplus as percentage of revenue		16.5%	14.4%

Table 1. Summary of sample LLC budget for 2019-2020. All values are in thousands of US dollars. Numbers for 2018 reflect the 2018 IETF budget.

Up-front contributions

The proposal also includes a set of up-front contributions associated with the creation of the LLC to bootstrap reserve funds for the IETF. These contributions consist of:

- Operating reserve. These funds allow the LLC to maintain continuity or to wind itself down in the event of an emergency or a change in ISOC's own financial situation. ISOC currently maintains an operating reserve for the IETF; these funds would be transferred to the LLC from there, allowing the LLC to decide independently from ISOC about whether and when to draw from this reserve. The operating reserve figure of \$9M shown below is an approximation. The final figure would be calculated to cover annual revenue less ISOC's annual contribution less annual expenses multiplied by three (years).
- Endowment. The existing IETF Endowment balance and annual pledges would be transferred to the LLC.

Table 2 shows the resulting overall reserve fund picture over the first two years of the LLC. The net surpluses from the operating budget as summarized in Table 1 would be invested together with the reserve funds. A conservative investment return of 4% is assumed.

Reserve balance	2018	2019	2020
Prior year balance		\$11,610	\$13,705
Endowment	\$2,610	115	115
Operational reserve	9,000		
Annual net surplus		1,516	1,334
Investment income		484	569
Total	\$11,610	\$13,705	\$15,702

Table 2. Projected reserve balances. All values are in thousands of US dollars.

As noted above, this proposal does not project additional contributions into the IETF Endowment over the first two years, beyond existing pledges. The idea behind this would be to give the LLC time to consider the endowment in the context of the IETF's finances as a whole and develop a strategy to raise additional endowment contributions or to otherwise address the long-term funding needs of the IETF.