

Internet Civil Defense: Financial Plan

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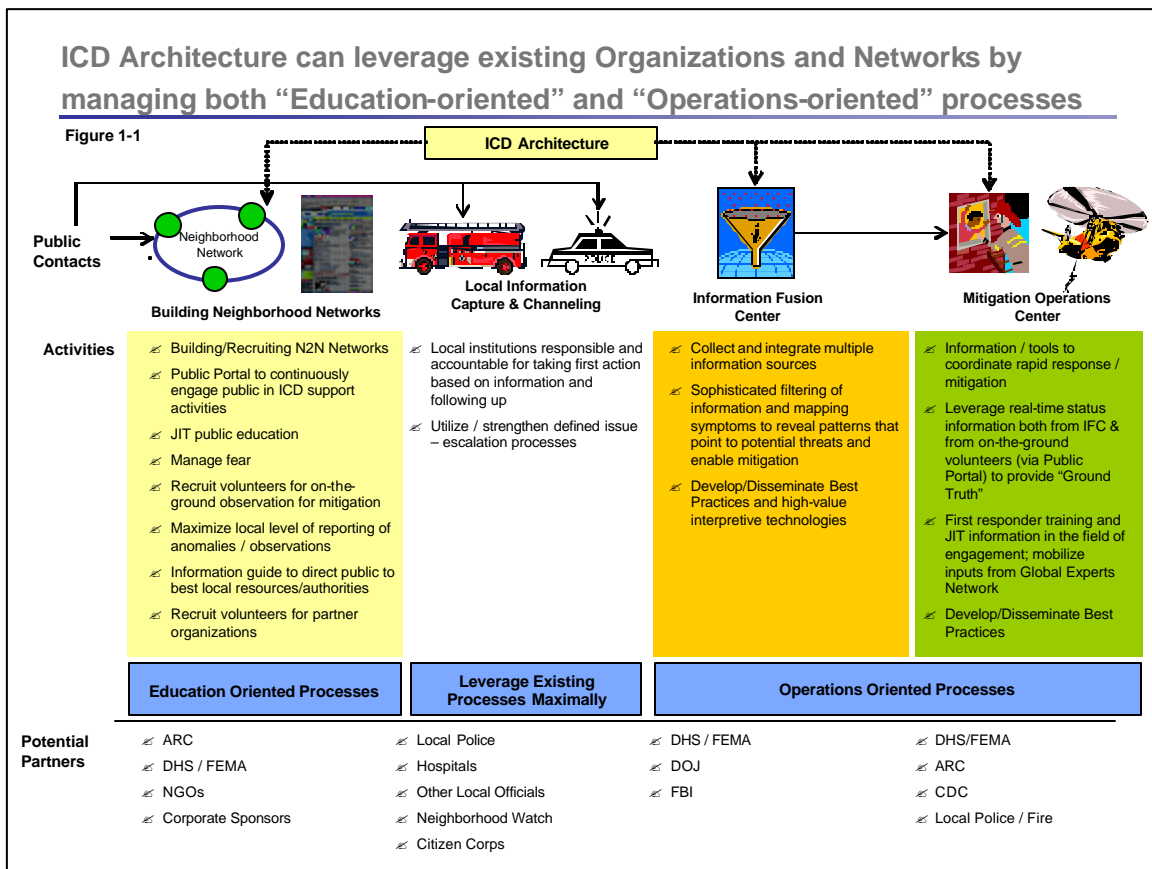
Internet Civil Defense: Financial Plan

I. Background and Objectives

The Internet Civil Defense (ICD) System is designed to substantially enhance national preparedness and response to both terrorism and natural disasters. ICD is a national (and ultimately, international) system of information sharing, education and analysis via the Internet to connect the general public, emergency responders, local and national investigative authorities, and scientific experts and public health officials around the globe in real time for the common purpose of increasing public safety and security.

Development of the ICD Business Plan and Financial Plan is the result of a three-way teaming partnership between DARPA, FEMA, and the American Red Cross (ARC), working together with the Global Health Net (GHNet) Team.

ICD consists of three main modules portrayed in Figure 1-1: Neighborhood Network Building; Information Fusion Center (IFC); and Mitigation Operations Center (MOC).



The ICD objectives and Architecture have been described in detail in the **ICD Feasibility Study**. This document assumes that the reader has reviewed and is familiar with the

Feasibility Study. The specific focus of this Financial Plan is to answer several key questions: (1) What would it cost the nation to implement ICD on a national scale?; (2) What is the magnitude of potential benefits in relation to costs?; and (3) What will a significant-scale Pilot Program cost to demonstrate and test the ICD capabilities?

The Financial Plan uses a “bottoms up” cost-estimation approach -- meaning that we build up from about 20-30 cost categories within each of the ICD modules. Using the “bottoms up” approach, the Financial Plan builds up from activity-based costing of specific, identifiable processes. Individual cost categories are derived from discrete activities (such as Call Center operators responding to calls) and from measurable productivities and unit costs associated with each of those activities (for example, annual cost of an Operator in this example). The plan also incorporates an “intermediate” level of detail. Our overall objective is to come within about 25% of actual implementation costs. To illustrate the “intermediate” level of detail, the activity-based costing is reasonable detailed in building up from clearly identifiable capital and expense categories such as: Call Center Operator costs, Analysts costs, Database license fees, Portal development costs, Capital for network servers and PBX systems, Applications development cost and yearly maintenance, Integration software license and maintenance, and the like. However, we don’t get fine-grained below that level of detail. So, for example, we have one aggregate category of IFC Analysts with an average, or “typical,” fully-loaded cost; an average category of network servers; and so on. Experience shows that this bottoms-up, intermediate-detail approach should be highly indicative for strategic planning and investment purposes.

II. Matching ICD Costs to Growth Scale

The Feasibility Study presented the objective that to approach critical mass, ICD needs to reach approximately 2M users in its second year, who can potentially serve as on-the-ground observers in their home neighborhoods; plus recruit about 40,000 On-the-Ground Coordinators to support Mitigation operations. Beyond Year 2, ICD is planned to grow to 5M+ users, directly spanning at least 2-3% of the national population, and about 10% of families.

This Financial Plan focuses on the year two objective as a “steady state” level – meaning as a first significant plateau point in building up the ICD network. The plan calculates steady-state costs corresponding to a 2M user “installed base” that is continuing to grow. Year 1 installed base will be significantly lower, probably below 1M users. Therefore, the Financial Plan also calculates a rough Year 1 budget in which all costs associated with building the ICD network – such as Field recruiting activities and Applications development – hold at Year 2 levels. Other cost categories associated with the size of the network (that is, dependent on the installed base of users) are scaled to 50% of year 2 values for conservatism.

As detailed in the report, we’ve generally used conservative estimates of employee productivities, and we’ve tried to err on the high side in estimating costs for major items such as Integration software charges and PBX system capital costs. Both for this reason, and because ICD will inevitably exhibit a “learning curve” that will improve productivities with experience, we believe it is likely that the estimated Year 2 costs for 2M users could actually serve at least 3M users by Year 3, and perhaps as many as 4M. Beyond 4M users, costs will probably scale less than proportionately to growth in the installed base; however, we have not estimated formally beyond Year 2. Indeed, ICD should be quite successful by the time it reaches 4M users, and the resulting benefit to the nation from a more extensive network should clearly outweigh the incremental costs.

III. High-level Cost Categories and Cost Drivers

We want to estimate both what the up-front costs would be to create ICD, and what the ongoing budget requirement would be once the network reaches 2M users “steady state.” Therefore, the Financial Model broadly distinguishes 3 types of costs:

- **Upfront Capital (UC) costs** represent initial capital expenditures to launch ICD, such as PBX costs, Portal development costs, and Network server costs. The UC costs would appear on a typical corporate Cash Flow statement under the heading of “Capital Expenditures.”
- **Budget Cash (BC) Expenses** are annual cash outlays required as part of the operating budget – for salaries; telecommunications expense; travel and G&A; maintenance of software applications (to keep them current), and similar items.
- **Budget non-cash (BNC) Expenses** represent amortization of capital equipment items from the first category of Upfront Capital (UC). For each item, we have estimated a useful life to use as an amortization period. So, for example, servers and PCs are assumed to be renewed every 3 years. In accounting terms, these non-cash expenses don’t affect cash flow. However, with that traditional accounting view, capital has to be renewed every several years in “waves.” Instead, to smooth out the underlying cost model, and to provide a more indicative picture of ongoing operating requirements, we add together (BC + BNC) to arrive at total annual operating expenses. If, for example, a business (or in this case, ICD) put aside a cash reserve each year equivalent to the non-cash amortization expenses for all capital items, it would be able to continually renew and maintain an existing capital base (assuming zero growth) with no further investment (and with no “waves”). Thus, total operating budget defined in terms of both cash operating costs and renewal investments is the best single measure of ongoing spending needs.

Cost Drivers

Figure 3-1 shows that the key cost drivers are linked to the major infrastructure items in each of the ICD operations. For example, the Neighborhood Network Building will run a major Call Center and e-mail Center that requires trained operators, networks, and PBX system; plus continuous content freshening and applications development for the Public Portal. We’ve also designated the Neighborhood Network Building process as the “home” of all recruiting expense, including Field Recruiting personnel and PR spending. Neighborhood Network Building will maintain regular contact with the on-the-ground observers network, to ensure their accessibility for mitigation support during a time of crisis.

Resource and Infrastructure Requirements for ICD

Figure 3-1

Neighborhood Network Building	Information Fusion Center	Mitigation Operation Center
<ul style="list-style-type: none"> o Call Center <ul style="list-style-type: none"> ✦ Operators ✦ Volunteer Observers Network Maintenance personnel ✦ System Administrators ✦ Computers, Software, Telecom Equipment ✦ Office Space ✦ Dedicated Broadband Connections o Portal <ul style="list-style-type: none"> ✦ Upfront Capital & Setup Costs ✦ Maintenance Costs ✦ Content Development & Maintenance Personnel ✦ Application Developers ✦ Other Training Personnel ✦ Market Research Personnel o Applications <ul style="list-style-type: none"> ✦ Development & Rollout o Public Training & Accreditation <ul style="list-style-type: none"> ✦ Development & Education o General Hardware / Software <ul style="list-style-type: none"> ✦ Servers ✦ PBX ✦ Database & Licenses ✦ IT Security o Staff Recruiting Costs o General & Administrative <ul style="list-style-type: none"> ✦ Employee Training ✦ Support Staff ✦ Miscellaneous Overhead 	<ul style="list-style-type: none"> o Fusion Center <ul style="list-style-type: none"> ✦ Analysts ✦ Systems Administrative Personnel ✦ Computers, Software, Telecom Equipment ✦ Office Space ✦ Dedicated Broadband Connections o Portal o Analyst Tools <ul style="list-style-type: none"> ✦ P2P Network Tools ✦ Data mining Tools o Interagency Connection and Integration Costs <ul style="list-style-type: none"> ✦ Integration Tools ✦ Professional Services ✦ Maintenance ✦ IT Security o General Hardware / Software <ul style="list-style-type: none"> ✦ Servers ✦ PBX ✦ Database & Licenses ✦ IT Security o Staff Recruiting Costs o General & Administrative <ul style="list-style-type: none"> ✦ Employee Training ✦ Support Staff ✦ Miscellaneous Overhead 	<ul style="list-style-type: none"> o Call / Email Center <ul style="list-style-type: none"> ✦ Operators ✦ Systems Administrators ✦ Computers, Software, Telecom Equipment ✦ Office Space ✦ Dedicated Broadband Connections o Portal o First Responder Training <ul style="list-style-type: none"> ✦ Development & Rollout o Applications <ul style="list-style-type: none"> ✦ Development & Rollout o General Hardware / Software <ul style="list-style-type: none"> ✦ Servers ✦ PBX ✦ Database & Licenses ✦ IT Security o Staff Recruiting Costs o General & Administrative <ul style="list-style-type: none"> ✦ Employee Training ✦ Support Staff ✦ Miscellaneous Overhead

The IFC will have a significant population of highly skilled Analysts, so personnel cost will be comparatively high in that operation. IFC will also have extensive database capabilities, supported by a large number of network and individual servers. Applications cost to develop more sophisticated and valuable technologies for Filtering and Integrating Information over time is accounted for in the IFC.

Finally, the MOC will also run a Call Center to interface both with the First Responders and with the On-the-Ground Observers Network. The MOC will maintain the Best Practices database, plus expertise and content collected from the Global Experts Network, and so will also require significant database capability plus network servers. MOC will also develop key applications to support and coordinate response activity.

Sources of Information

We have calibrated the Financial Model using a variety of data sources, generally documented in Appendix 1. For example, Call Center productivities were based on operating experience of ARC in their Falls Church, VA Call Center. Costs of portal development were based on experience of ARC and FEMA, complemented by conversations with a variety of consultants and website developers. Equipment costs for Network servers, App servers, and PBX systems were based on ARC experience; plus

conversations with a number of consultants and vendors (including Oracle, BEA, and HP). Integration software costs were estimated based on discussion with a leading vendor, Mercator Software, plus the authors' general industry experience derived from consulting and Investment Banking work in this segment. IT security costs were based on a "rule of thumb" that emerged from discussions with IT and cyber-security personnel at FEMA – namely, applying 10% premium to all hardware and software costs.

Validation/Demonstration Costs

ICD can launch based on existing technology. This will require solid implementation skills, but no new "inventions." For example, Portal technology, Content Management software for educational materials, push-down e-mails, and Integration Software approaches are already well demonstrated in numerous field applications. Over time, ICD will incorporate more sophisticated technology, especially in the Information Fusion Center (IFC). Therefore, we have generally adopted high-side estimates of individual cost items (such as Portal development costs, or Application development costs) to allow for component validation and integration into the overall ICD system. One or more Pilot Programs will be used to integrate the initial system and to test/validate potential speed and cost of building community-based networks (see ICD Feasibility Study for further discussion; Section IX of this Financial Plan estimates potential costs of Pilot Programs). Advanced technologies for the IFC – such as predictive models, or collaboration tools – will need to be validated before they are incorporated into ICD. Such technologies may also be implemented in a phased approach; so, for example, some IFC Analysts deploy the new technology, while most Analysts continue to use existing technology during the validation period.

IV. Human Resource Requirements

Figure 4-1 shows an example of how human resource requirements were calibrated for first two years of operation (building on principles described in Section II). We calibrated Year 2 resource requirements based on a projected 2M installed base of users to serve, plus 40,000 On-the-Ground Coordinators. For all resource categories required to build up the user base, such as Field Recruiters, Year 1 values were held at the calculated Year 2 requirement. In other words, these resources need to be put in place at a level capable of contributing to grow the installed base starting from Day 1. For those HR categories tied to the cumulative size (vs. growth) of the installed base, Year 1 levels were set at 50% of Year 2 need. Thus, for example, Neighborhood Network Building Call Center Operators start out at 41 in Year, then climb to the Year 2 steady-state level of 82. Similarly, the IFC starts out with 43 Analysts growing to 85, because in the first year of operation, the IFC database will still be getting populated; thus, Analyst requirements are most closely tied to the user base, vs. to the rate of network building. Neighborhood Network Builders are the e-mail operators who maintain contact with the on-the-ground volunteers network; growing from 41 in Year 1 to 82 in Year 2 as the installed base grows.

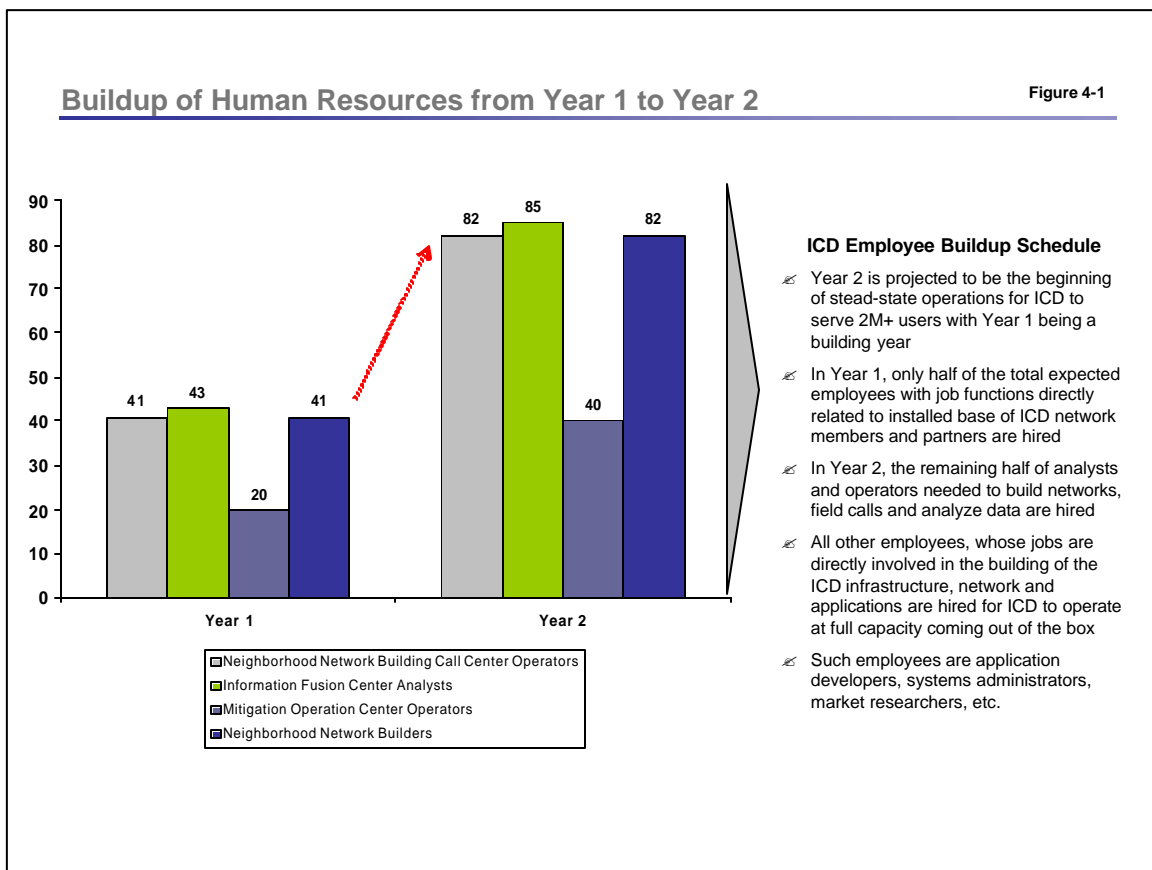
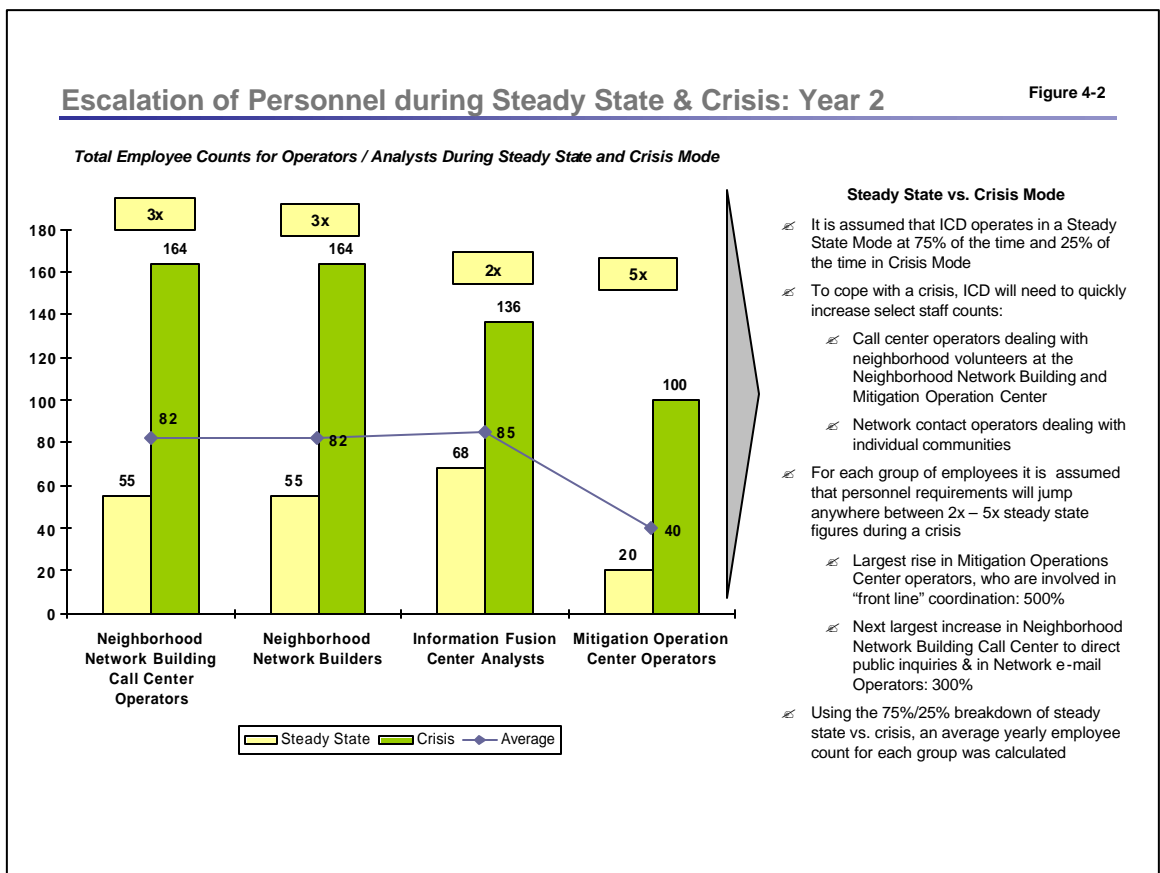


Figure 4-2 shows another dimension of HR requirements: People needs during steady (non-crisis) operations vs. crisis. For each operation, we characterized steady-state needs

based on user base and estimated productivities. We then applied an escalation factor to represent how much a given activity, and the associated resource base, would need to expand during a crisis. For example, for the MOC, we applied a crisis-resourcing factor of 5X, meaning that crisis-period staffing would need to be 500% of steady-state because the MOC would be the direct focal point of field mitigation operations. Other operations were assigned lower resource escalation factors of 200-300%. For example, the number of Analysts in the IFC could grow during a crisis, but not by the same factor as response operations. Assuming that operations over a “typical” year would be 75% steady and 25% crisis, we calculated a weighted-average resource requirement for each HR category. Thus, for example, Call Operators in the MOC start out at 20 but expand to 100 during crisis. The weighted average value is 40 ($20 \times 75\% + 100 \times 25\%$).



V. Detailed Cost Build-ups

Cost Sheets for each ICD Operation

Figures 5-1 through 5-3 show detailed cost build-up sheets for each of the Neighborhood Network Building, Information Fusion Center (IFC), and Mitigation Operations Center (MOC). The specific assumptions for each cost item are outlined on the Cost Sheets, and Appendix 1 documents major data sources. These cost sheets provide the activity-based detail for the capital and budget summaries that follow.

Neighborhood Network Building Costs Figure 5-1a

(All \$ in thousands)

	Year 1	Year 2		Year 1	Year 2			
Human Resources Related to Neighborhood Network Building								
Operators in Network Building Call Center	41	82	General Recruiting Costs / Employee Type	10.0%				
Content Development Personnel	15	15	Operators in Network Building Call Center		3.5 3.5			
Volunteer Observers Network Maintenance Personnel	41	82	Content Development Personnel		10.0 10.0			
Training Personnel for Fear Mgmt. & Public Education	5	5	Volunteer Observers Network Maintenance Personnel		5.0 5.0			
Field Personnel for Recruiting Communities & Captains	25	25	Training Personnel for Fear Mgmt. & Public Education		10.0 10.0			
Market Research Personnel	2	2	Field Personnel for Recruiting Communities & Captains		10.0 10.0			
R&D Personnel	2	2	Market Research Personnel		10.0 10.0			
Systems Administration Personnel	3	3	R&D Personnel		10.0 10.0			
	134	216	Systems Administration Personnel		10.0 10.0			
Fully Loaded Salaries for Each Employee Type								
Operators in Network Building Call Center	35	35	Total Cost of Recruiting					
Content Development Personnel	100	100	Operators		144 144			
Volunteer Observers Network Maintenance Personnel	50	50	Non-Operators		520 0			
Training Personnel for Fear Mgmt. & Public Education	100	100	Network Maintenance Personnel		205 205			
Field Personnel for Recruiting Communities & Captains	100	100	Total Cost of Recruiting		\$869 \$349			
Market Research Personnel	100	100	Cost of Equipment for Employees & Related Expenses					
R&D Personnel	100	100	Computers		1.5 1.5			
Systems Administration Personnel	100	100	Software		0.5 0.5			
Total Fully Loaded Salaries for Each Employee Categories								
Operators in Network Building Call Center	1,438	2,877	Telecom / Network Equipment		1.0 1.0			
Content Development Personnel	1,500	1,500	Startup Equipment Cost per Worker		3.0 3.0			
Volunteer Observers Network Maintenance Personnel	2,055	4,110	Total Employees Added		134 82			
Training Personnel for Fear Mgmt. & Public Education	500	500	Total Equipment Cost		\$403 \$247			
Field Personnel for Recruiting Communities & Captains	2,500	2,500	Depreciation & Amortization (3 Year Period)		\$134 \$216			
Market Research Personnel	200	200	Total Security Cost for Equipment	10.0%	\$40 \$65			
R&D Personnel	200	200	General Telecom Costs					
Systems Administration Personnel	300	300	Average Telecom Cost / Operator		2.0 2.0			
Total Fully Loaded Salaries for Employees	\$8,693	\$12,186	Total Number of Operators		41 82			
Human Resource Additions								
Operators in Network Building Call Center	41	41	Total Operator Telecom Cost		\$82 \$164			
Content Development Personnel	15	-	Average Telecom Cost / Non-Operator		1.0 1.0			
Network Maintenance Personnel	41	41	Total Number of Non-Operators		93 134			
Training Personnel for Fear Management & Public Educ	5	-	Total Non-Operator Telecom Cost		\$93 \$134			
Field Personnel for Recruiting Communities & Captains	25	-	Application Server Costs					
Market Research Personnel	2	-	App Server Cost / CPU License		10 10			
R&D Personnel	2	-	Total Licenses		5 5			
Systems Administration Personnel	3	-	Total Cost of App Server Licenses		\$50 \$50			
	134	82						

Neighborhood Network Building Costs, continued

Figure 5-1b

<i>(All \$ in thousands)</i>			
Network Server Costs			
		Year 1	Year 2
	Network Servers	25	
	Cost / Server	15	
UC	Total Cost of Network Servers	\$375	
BN	Depreciation & Amortization (3 Year Period)	\$125	\$125
BC	Total Security Cost for Servers	10.0%	\$38 \$38
Database Costs			
UC	Upfront Cost for Database (e.g. Oracle)	\$200	
BC	Ongoing Data Base Maintenance Cost	20.0%	\$40 \$40
	Database Cost / CPU License	40	40
	Total Licenses	135	226
BC	Total Cost of DB Licenses	\$5,400	\$9,040
Office Space Costs			
	Office Space Cost / Sq. Foot / Month	1.50	1.50
	Total Sq. Foot of Office Space (in 000's)	80	80
BC	Cost of Yearly Office Space	\$1,440	\$1,440
Training & Accreditation Programs			
	Number of Programs / Year	2	2
	Cost / Program	60	60
BC	Total Training Program Costs	\$120	\$120
BC	Maintenance for Training Programs	20.0%	\$24 \$24
BC	Security Cost for Training	10.0%	\$12 \$12
Applications			
	Number of Rollouts / Year	4	4
	Development Costs / Rollout	250	250
BC	Total Applications Costs	\$1,000	\$1,000
BC	Maintenance for Applications	20.0%	\$200 \$200
BC	Security Cost for Applications	10.0%	\$100 \$100
Public Portal Expenses			
UC	Portal Development Cost	\$5,000	
BC	Portal Maintenance Costs	20.0%	\$1,000 \$1,000
BC	Portal Hosting Cost	20.0%	\$1,000 \$1,000
Other General & Administrative Expenses			
BC	Promotional Costs	\$500	\$500
BC	G&A Costs (15% of Total Employee Salaries)	15.0%	\$1,304 \$1,828
BC	Training Costs (4% of HR Costs)	4.0%	\$348 \$487
BC	Total Other General Expenses	\$2,152	\$2,815
PBX System			
UC	PBX System	\$1,000.0	
BC	Maintenance on PBX System	20.0%	\$200.0 \$200.0
BC	Security on PBX System	10.0%	\$100.0 \$100.0
BNC	D&A On PBX System	\$333.3	\$333.3
Miscellaneous Infrastructure Costs - Racks, Back Tape, Routers and etc.			
UC	Additional Infrastructure Equipment	\$250	

Summary of Neighborhood Network Building Development Costs

	Year 1	Year 2
Total Upfront Capital (UC)	\$7,228	\$247
Total Budget: Cash Expense (BC)	\$22,653	\$30,078
Total Budget: Non-Cash Expense (BNC)	\$593	\$675

Note: Non-Cash Expenses (BNC) represent average reinvestment values for equipment that depreciates over the course of the year. From an accounting standpoint, depreciation is a non-cash expense. However, creating an annual reserve equal to the amount of the non-cash expense would continually renew the equipment base at current level of operations (with no further required capital investment).

Information Fusion Center Costs

Figure 5-2a

<i>(All \$ in thousands)</i>		Year 1	Year 2		Year 1	Year 2
Human Resources Related to Information Fusion Center						
	Number of Fusion Center Analysts	43	85			
	Systems Administration Personnel	3	3			
		46	88	BC		
Fully Loaded Salaries for Each Employee Type						
	Fusion Center Analysts	200	200			
	Systems Administration Personnel	100	100			
Total Fully Loaded Salaries for Each Employee Categories						
	Fusion Center Analysts	8,500	17,000	UC		
	Systems Administration Personnel	300	300	BNC		
BC	Total Fully Loaded Salaries for Employees	\$8,800	\$17,300	BC		
Human Resource Additions						
	Fusion Center Analysts	43	43	UC		
	Systems Administration Personnel	3	0	BC		
		46	43			
General Recruiting Costs						
	Number of New Analysts	43	43			
	Recruiting Cost / Analyst	10.0%	20			
BC	Total Cost of Analyst Recruiting	\$850	\$850			
	Number of New Systems Administrators	3	0			
	Recruiting Cost / Analyst	10.0%	10			
BC	Total Cost of Administrator Recruiting	\$30	\$0			
Employee Annual Telecom Costs						
	General Telecom Costs / Employee	1.0	1.0			
	Total Number of Employees	46	88			
BC	Total Annual Telecom Costs	\$46	\$88			
Cost of Equipment for Employees & Related Expenses						
	Computers	10.0	10.0			
	Software	5.0	5.0			
	Telecom / Network Equipment	1.0	1.0			
	Startup Equipment Cost per Worker	16.0	16.0			
	Total Employees Added	46	43			
UC	Total Equipment Cost	\$728	\$680			
BNC	Depreciation & Amortization (3 Year Period)	\$243	\$469			
BC	Total Security Cost for Equipment	\$73	\$141			
Analyst Network Connection Costs						
	Network Connection / Analyst & Employee	2.0	2.0			
	Total Employees	46	88			
	Total Network Connection Costs	\$91	\$176			
Network Server Costs						
	Network Servers	25				
	Cost / Server	15				
	Total Cost of Network Servers	\$375				
	Depreciation & Amortization (3 Year Period)	\$125	\$125			
	Total Security Cost for Servers	10.0%	\$38	\$38		
Database Costs						
	Upfront Cost for Database (e.g. Oracle)	\$500				
	Ongoing Data Base Maintenance Cost	20.0%	\$100	\$100		
	Database Cost / CPU License	60	60			
	Total Licenses	45	95			
	Total Cost of DB Licenses	\$2,700	\$5,700			
Cost of Datamining Tools						
	Datamining Costs / CPU License	20	20			
	Total Licenses for Fusion Center	45	95			
	Total Cost of Datamining Tools	\$900	\$1,900			
P2P Tools						
	P2P Tools / CPU License	2.0	2.0			
	Total Licenses for Fusion Center	45.0	95.0			
	Total Cost of P2P Tools	\$90	\$190			
Office Space						
	Office Space Cost / Sq. Foot / Month	\$1.50	\$1.50			
	Total Sq. Foot of Office Space (in 000's)	60	60			
	Yearly Cost of Office Space	\$1,080	\$1,080			
Application Server Costs						
	App Server Cost / CPU License	10	10			
	Total Licenses	10	10			
	Total Cost of App Server Licenses	\$100	\$100			

Information Fusion Center Costs, continued

Figure 5-2b

(All \$ in thousands)

		Year 1	Year 2
Inter-Agency Integration Costs			
	Number of Connections	15	
	Cost / Integrated Connection	400	
UC	Total Integration Costs	\$6,000	
BNC	D&A for Integrated Connections	\$2,000	\$2,000
BC	Maintenance Cost / Connection	20.0%	\$1,200 \$1,200
BC	Security for Each Connection	10.0%	\$600 \$600
	Dedicated Telecom Connections	15	15
	Cost / Connection	10	10
BC	Total Telecom Connection Costs	\$150	\$150
UC	Professional Service for Integration (\$100K/Agency)	\$1,500	\$0
BC	Maintenance Cost for Professional Service	20.0%	\$300 \$300
Applications Costs			
	Number of Rollouts / Year (1st Four Years)	2	2
	Development Costs / Rollout	2,000	2,000
	Maintenance Cost / Application	20.0%	800 800
BC	Total Applications Costs	\$5,600	\$5,600
BC	Security for Applications	10.0%	\$400 \$400
Internal Portal Expenses			
UC	Cost of Internal Portal	\$2,000	
BC	Portal Maintenance	20.0%	\$400 \$400
BC	Portal Hosting	20.0%	\$400 \$400
Other General & Administrative Expenses			
BC	General & Administrative	12.0%	\$1,056 \$2,076
BC	Training Costs	4.0%	\$352 \$692
PBX System			
UC	PBX System	\$1,000.0	
BC	Maintenance on PBX System	20.0%	\$200.0 \$200.0
BC	Security on PBX System	10.0%	\$100.0 \$100.0
BNC	D&A On PBX System		\$333.3 \$333.3
Miscellaneous Infrastructure Costs - Racks, Back Tape, Routers and etc.			
UC	Additional Infrastructure Equipment	\$250	

Summary of Information Fusion Center Costs	Year 1	Year 2
Total Upfront Capital (UC)	\$12,353	\$680
Total Budget: Cash Expense (BC)	\$25,655	\$39,780
Total Budget: Non-Cash Expense (BNC)	\$2,701	\$2,928

Note: Non-Cash Expenses (BNC) represent average reinvestment values for equipment that depreciates over the course of the year. From an accounting standpoint, depreciation is a non-cash expense. However, creating an annual reserve equal to the amount of the non-cash expense would continually renew the equipment base at current level of operations (with no further required capital investment).

Mitigation Operation Center Costs

Figure 5-3a

(All \$ in thousands)		Year 1	Year 2		Year 1	Year 2		
Human Resources Related to Mitigation Operation Center					Equipment Cost / Employee			
Call Center Operators		20	40		Computers	1.5	1.5	
Long-Term Health Tracking Personnel		3	3		Software	0.5	0.5	
Systems Administration Personnel		5	5		Telecom / Network Equipment	1.0	1.0	
		<u>28</u>	<u>48</u>		Network & Equipment Costs / Operator	3.0	3.0	
					Total Number New Employees	28	20	
Fully Loaded Salaries for Each Employee Type				UC	Total Equipment Cost for New Employees	\$84	\$60	
Call Center Operators		75	75	BNC	Depreciation & Amortization (3 Year Period)	\$28	\$48	
Long-Term Health Tracking Personnel		100	100	BC	Total Security Cost for Equipment	10.0%	\$8	\$14
Systems Administration Personnel		100	100					
Total Fully Loaded Salaries for Each Employee Categories					General Telecom Costs			
Call Center Operators		1,500	3,000	BC	Average Telecom Cost / Operator	2.0	2.0	
Long-Term Health Tracking Personnel		300	300		Total Number of Operators	20	40	
Systems Administration Personnel		500	500		Total Operator Telecom Cost	\$40	\$80	
BC		<u>Total Fully Loaded Salaries</u>	<u>\$2,300</u>	<u>\$3,800</u>	BC	Average Telecom Cost / Non-Operator	1.0	1.0
					Total Number of Non-Operators	8	8	
					Total Non-Operator Telecom Cost	\$8	\$8	
Human Resource Additions					Network Server Costs			
Call Center Operators		20	20		Network Servers	25		
Long-Term Health Tracking Personnel		3	-	UC	Cost / Server	15		
Systems Administration Personnel		5	-	BNC	Total Cost of Network Servers	\$375		
		<u>28</u>	<u>20</u>	BC	Depreciation & Amortization (3 Year Period)	\$125	\$125	
					Total Security Cost for Servers	10.0%	\$38	\$38
General Recruiting Costs / Employee Type 10.0%					Database Costs			
Call Center Operators		7.5	7.5	UC	Upfront Cost for Database (e.g. Oracle)	\$300		
Long-Term Health Tracking Personnel		10.0	10.0	BC	Annual Maintenance Costs	30.0%	\$90	\$90
Systems Administration Personnel		10.0	10.0		Database Cost / CPU License	40	40	
					Total Licenses	20	49	
					Total Cost of DB Licenses	\$800	\$1,960	
Total Cost of Recruiting					Office Space Costs			
Call Center Operators		150	150		Office Space Cost / Sq. Foot / Month	\$1.50	\$1.50	
Long-Term Health Tracking Personnel		30	-		Total Sq. Foot of Office Space (in 000's)	30	30	
Systems Administration Personnel		50	-	BC	Yearly Office Space	\$540	\$540	
BC		<u>Total Recruiting Costs</u>	<u>\$230</u>	<u>\$150</u>				

Mitigation Operation Center Costs, continued

Figure 5-3b

(All \$ in thousands)

		Year 1	Year 2
First Responder Training Costs			
BC	Cost for Development	\$250	\$250
BC	Maintenance of Training Program	20.0%	\$50 \$50
BC	Security Cost for Training Applications	10.0%	\$25 \$25
Applications			
	Number of Rollouts / Year	2	2
	Development Costs / Rollout	1,000	1,000
BC	Total Applications Costs	\$2,000	\$2,000
BC	Maintenance of Applications	20.0%	\$400 \$400
BC	Security Cost for Applications	10.0%	\$200 \$200
Application Server Costs			
	App Server Cost / CPU License	10	10
	Total Licenses	5	5
BC	Total Cost of App Server Licenses	\$50	\$50
Internal Portal Expenses			
UC	Portal Development Cost	\$3,000	
BC	Portal Maintenance Costs	20.0%	\$600 \$600
BC	Portal Hosting Cost	20.0%	\$600 \$600
Other General & Administrative Expenses			
BC	G&A Costs (15% of Total Employee Salaries)	15.0%	\$345 \$570
BC	Training Costs (4% of HR Costs)	4.0%	\$92 \$152
PBX System			
UC	PBX System	\$1,000.0	
BC	Maintenance on PBX System	20.0%	\$200.0 \$200.0
BC	Security on PBX System	10.0%	\$100.0 \$100.0
BNC	D&A On PBX System		\$333.3 \$333.3
Miscellaneous Infrastructure Costs - Racks, Back Tape, Routers and etc.			
UC	Additional Infrastructure Equipment	\$250	

Summary of Mitigation Operation Center Costs		Year 1	Year 2
Total Upfront Capital (UC)		\$5,009	\$60
Total Budget: Cash Expense (BC)		\$8,966	\$11,877
Total Budget: Non-Cash Expense (BNC)		\$486	\$506

Note: Non-Cash Expenses (BNC) represent average reinvestment values for equipment that depreciates over the course of the year. From an accounting standpoint, depreciation is a non-cash expense. However, creating an annual reserve equal to the amount of the non-cash expense would continually renew the equipment base at current level of operations (with no further required capital investment).

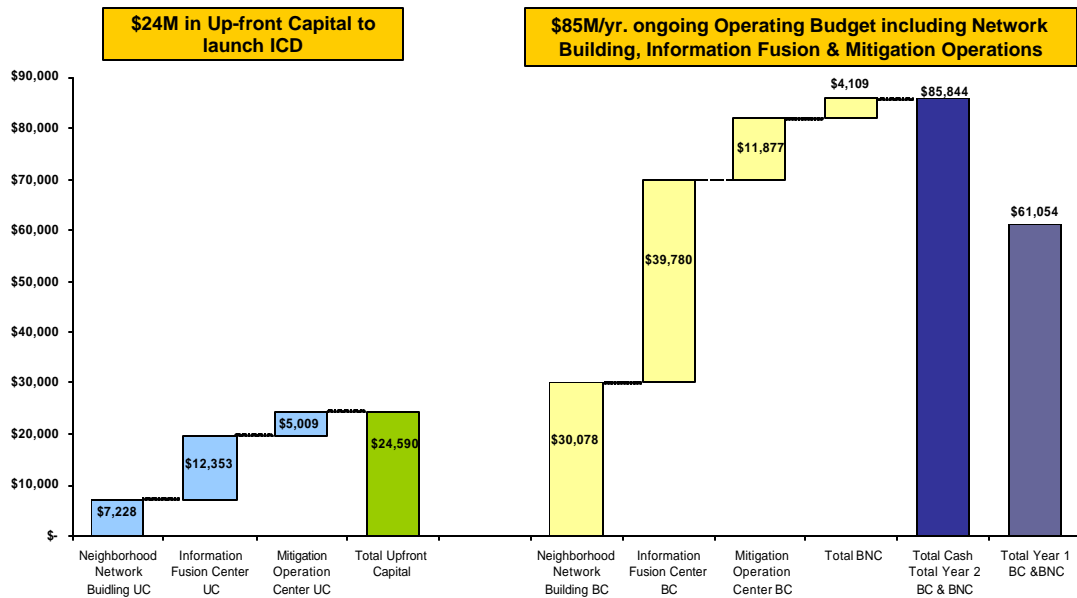
Preview of Potential ICD Costs

Figure 5-4 previews the potential costs of rolling ICD out on a national basis. Total Upfront Capital (UC) is almost \$25M, with half of that concentrated in the IFC. As seen later, the biggest single capital item is purchase of integration software to link about 15 diverse government agencies into the IFC. The Neighborhood Network Building process requires approximately \$7M of capital, with the largest single item being up-front development of the software for a world-class website, including content management features, App servers, and facility for “push-down” content to the ICD user community across the nation’s neighborhoods. The MOC requires about \$5M of initial capital, mainly for a portal to coordinate first responder communications, including interaction with the On-the-Ground volunteer network and Global Experts Network, plus a PBX system for the MOC Call Center.

ICD Capital Requirements and Operating Budget have been estimated using a detailed “bottom up” Activity-based Costing Model

Figure 5-4

(All \$ in thousands)



New DHS mission subsumes IFC & select other ICD activities ... spanning >50% of total ICD costs

Key: UC=Upfront Capital; BC=Budget Cash Expenses; BNC=Budget Non-Cash Expenses (Amortized Capital)

The projected annual budget requirement to fully implement ICD in Year 2 is approximately \$86M, with around \$61M required in the first year of launch. Out of this total, the IFC annual budget is roughly \$40M – of which the largest component is Analyst salaries and related personnel expense -- plus \$30M for Neighborhood Network Building and approximately \$12M for the MOC. Non-cash amortization expenses are only \$4M/yr. because we’ve accounted for annual maintenance of the largest total capital items – the three portals covering all of the operations, and the integration software – as part of the annual cash budget. This renewal expense is 20%/yr. of the up-front portals’ cost – meaning that each portal is fully renewed every 5 years. Non-cash amortization, therefore, mainly represents renewal investment for network servers and other equipment, generally with a three-year replacement life.

Overview of Neighborhood Network Building Capital Requirements and Expense

Figure 5-5 summarizes the drivers of the Neighborhood Network Building up-front capital of just over \$7M. The dominant need is for a world-class portal to manage content and interface with the public, including the Information Referral Guide. We’ve estimated the portal cost at \$5M to be conservative, based on feedback on development cost for a number of substantial existing portals (including ARC, Time Warner, and others). The next largest capital item is \$1M for a high-capacity, flexible PBX system, consistent with ARC experience. The final capital items involve computers for Call Center Operators,

and network servers, plus associated equipment (routers, racks, tape back-ups, and similar items).

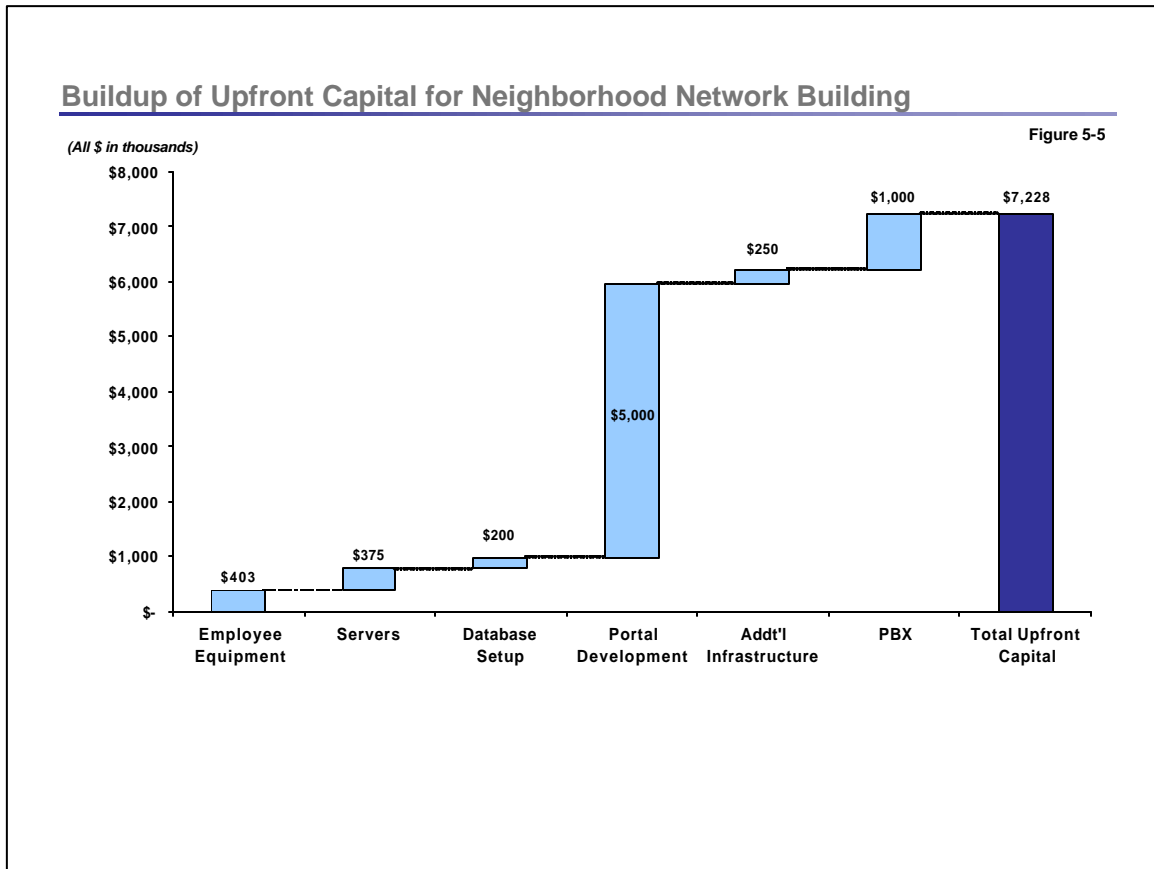
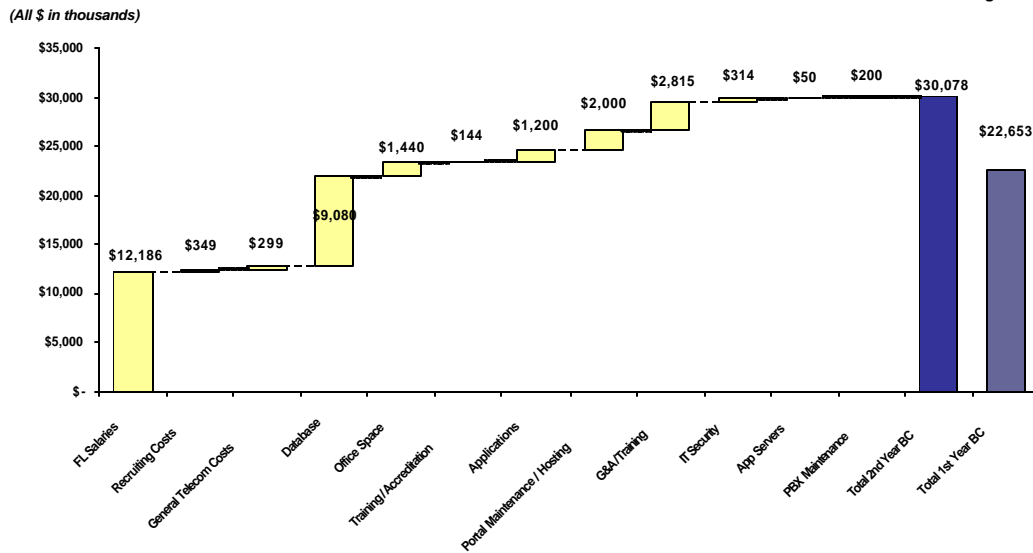


Figure 5-6 portrays the build-up of annual operating budget of \$30M for Neighborhood Network Building, with \$22.7M required in the first year of operation (displayed in the bar at the far right of the figure). The largest single expense item is fully-loaded costs for Call Center Operators, Network Maintenance Personnel, Content Developers, Field Recruiters, and other personnel associated with Neighborhood Network Building operations. Database license costs of \$9.1M are the next largest item – since this operation will maintain the database on contact information for all on-the-ground observers; followed by \$2.8M for G&A plus Training, and \$2M for Portal maintenance and hosting. Annual Applications Development expense of \$1.2M/yr. and Office space expenses of \$1.4M/yr. are the only other cost items above \$1M/yr.

Buildup of Second Year Budget for Neighborhood Network Building & Total First Year Budget

Figure 5-6



Overview of IFC Capital Requirements and Expense

Figure 5-7 shows the determinants of \$12M in up-front capital for the IFC. The major item is Integration software, including professional services, to link approximately 15 different agencies from inception of IFC, with a total cost of \$7.5M. A moderately sophisticated portal, priced out at \$2M, will be needed to exchange data and analyses among Analysts involved with the IFC, including across Agencies. Other capital items involve: PBX; up-front database set-up and configuration; computer equipment including network servers; and miscellaneous infrastructure equipment.

Buildup of Upfront Capital for Information Fusion Center

Figure 5-7

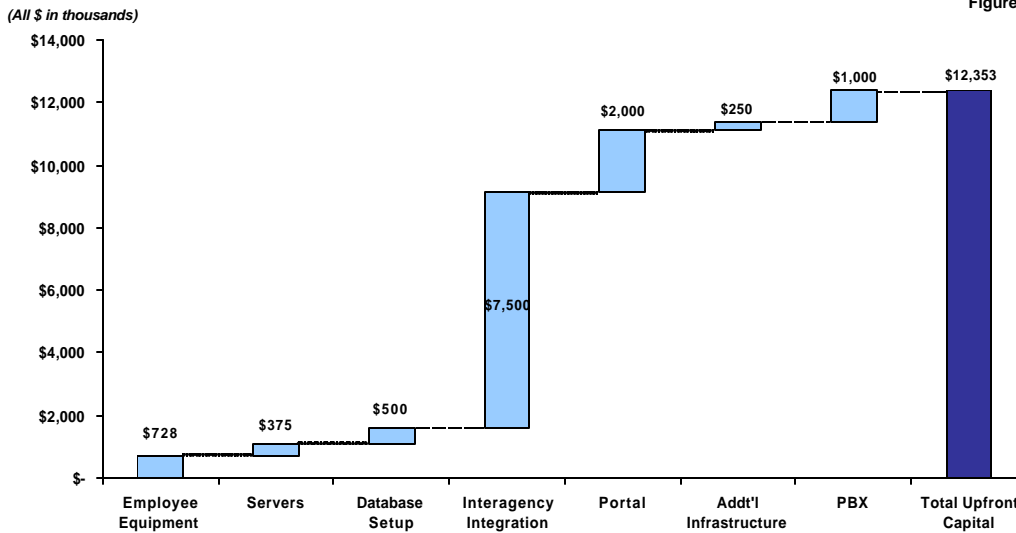
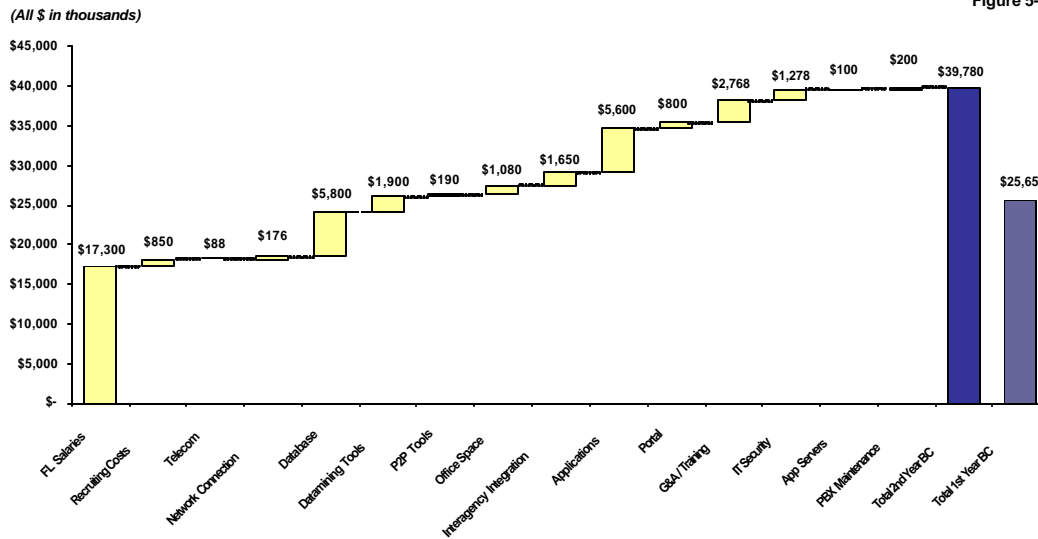


Figure 5-8 portrays the build-up of nearly \$40M annual operating budget for IFC, compared to which \$25.7M would be required in Year 1. Fully-loaded employee costs for 85 Analysts are the major expense category, yielding the \$17.3M/yr. employee cost. Database licenses run \$5.8M/yr., since IFC operations will be highly data-intensive, and also involve diverse Analyst teams. Applications cost of \$5.6M/yr. should allow for developing two major new analytical tools per year plus ongoing maintenance and modernization once developed. Training plus G&A expense total \$2.8M/yr. Other significant operating expenses include: \$1.9M/yr. for data mining tools; \$1.3M/yr for IT security; and \$1.1M/yr. for leased space. Smaller expense items include Recruiting costs, Portal maintenance and hosting, and P2P tools.

Buildup of Second Year Budget for Information Fusion Center & Total First Year Budget

Figure 5-8



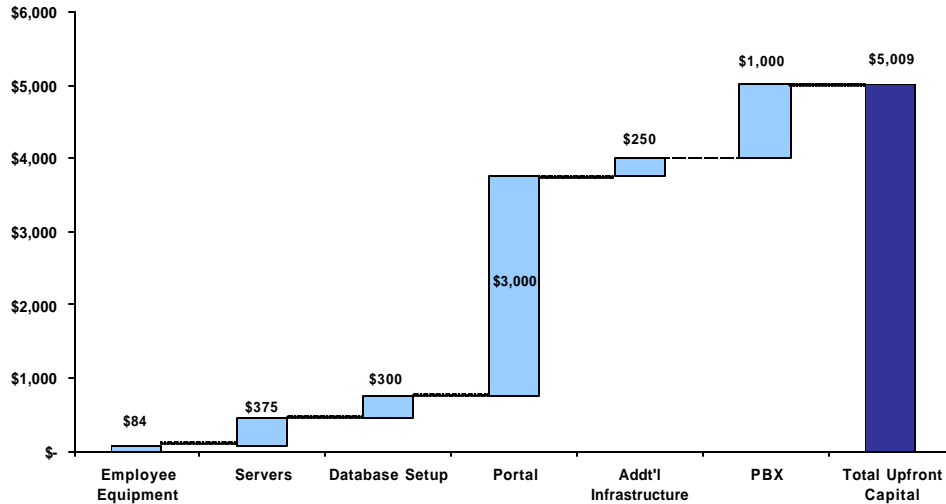
Overview of MOC Capital Requirements and Expense

The waterfall chart in Figure 5-9 displays the drivers of \$5M in up-front capital for MOC. Portal development is the largest single item, \$3M, since the MOC will require a reasonably sophisticated internal/external portal to interface with the on-the-ground volunteers and with the Global Experts Network. Other capital items entail \$1M for a sophisticated PBX system and various categories of computer and network equipment.

Buildup of Upfront Capital for Mitigation Operation Center

Figure 5-9

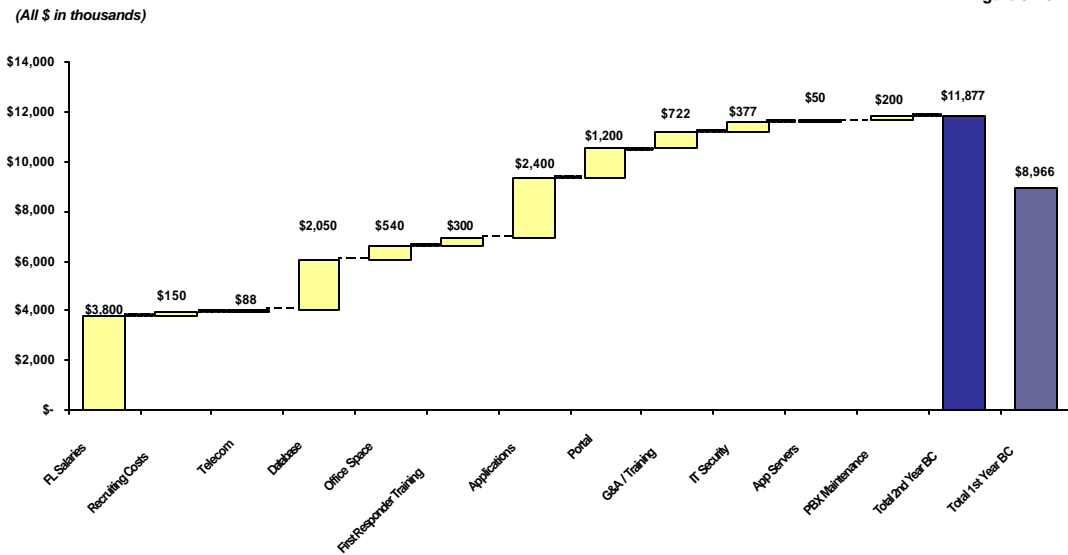
(All \$ in thousands)



The annual MOC budget is projected to run at approximately \$12M/yr., as shown in Figure 5-10, with first-year expense of nearly \$9.0M. Fully-loaded salaries of \$3.8M/yr. cover 40 Call Center Operators, plus System Administrators and long-term Health-tracking personnel. Annual Applications Development expense of \$2.4M/yr. should enable creation, and subsequent maintenance, of two substantial new tools per year to enhance coordination and safety of first responders. Database licenses are expected to run around \$2.0M/yr because the MOC will maintain a variety of databases, including Best Practices, Observer Network contacts (coordinating with Neighborhood Network Building), and Public Health. Other significant cost items are for: Portal maintenance and hosting (\$1.2M/yr); Office space (\$.54M/yr.); Training and G&A (\$0.7M/yr.); IT Security cost; and Recruiting cost.

Buildup of Second Year Budget for Mitigation Operation Center & Total First Year Budget

Figure 5-10



Sensitivity of Total Operating Costs to Crisis % of Time

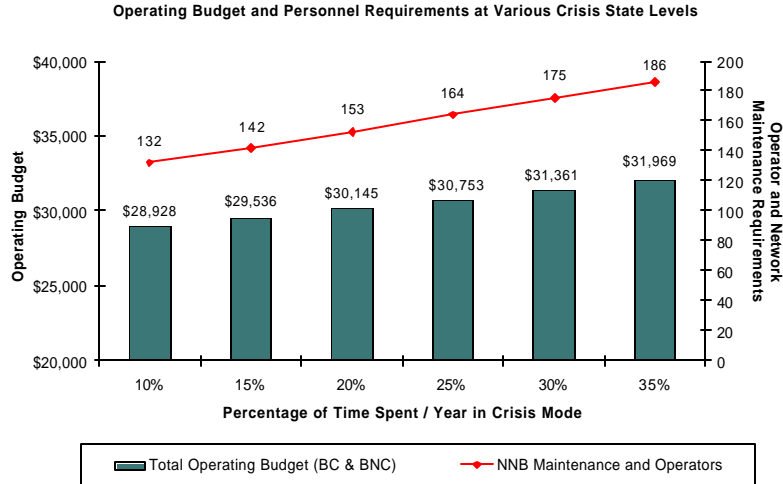
The ICD “Base Case” presented above assumes that the ICD system operates in “stand-by” mode 75% of the time and in “crisis mode” 25% of the time. How do total operating costs change if the Crisis % of time is higher or lower?

Figure 5-11 shows how total staffing and operating budget for Neighborhood Network Building vary up and down as the Crisis % of time rises or falls. For example, required personnel climb from 164 to 186 if the Crisis % grows to 35% (from 25%); and drop to 142 if the Crisis % is only 15% in a given year. The operating budget for Network Building changes less than proportionately to the level of staffing since, for example, staff costs only account for about 40% of the total operating budget in this segment.

Neighborhood Network Building Escalation of Personnel and Operating Budget at Various Crisis Operation Levels

Figure 5-11

(All \$ in thousands)



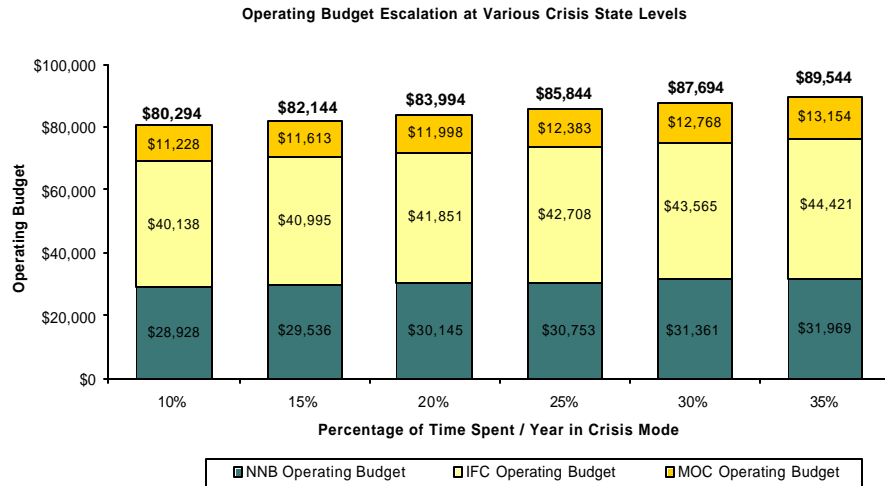
Note: Operating Budget consists of Budget Cash Expense (BC) and Non Cash Expense (BNC)

Figure 5-12 summarizes impact on the overall ICD operating budget. Each 5% variation in the Crisis % of time changes the operating budget by about \$2M/yr. Thus, for example, if the Crisis % rises to 35% (representing 2 increments of 5% each), operating budget grows from around \$85.8M to \$89.5M/yr. Reciprocally, if in a relatively “calm” year, Crisis % is only 15%, operating budget drops toward \$82M/yr. The ICD overall budget contains a relatively high level of “fixed” expenses that don’t depend materially on crisis vs. non-crisis activity – such as Applications development, Database costs, and Best Practices collection – that tend to insulate the overall budget change vs. crisis operation time.

Overall Buildup of Operating Expense at Various Crisis Operation Levels

Figure 5-12

(All \$ in thousands)



Note: Operating Budget consists of Budget Cash Expense (BC) and Non Cash Expense (BNC)

VI. Calculating Total and Incremental ICD Costs

We believe it is useful to view ICD not as an “incremental” expense for the Nation, but as a key contributor to the mission of DHS and to fulfill the President’s objectives for Homeland Security and Emergency Management. Thus, for example, creating the Public Portal (within Neighborhood Network Building) is one mechanism to achieve the “single voice” through which DHS will be charged to communicate with the public about emergencies. Similarly, the IFC will help to fulfill DHS’ role to integrate information emanating from the public and from multiple government agencies. And the MOC can help to elevate first responder training, Best Practices, mitigation speed and flexibility, and overall readiness.

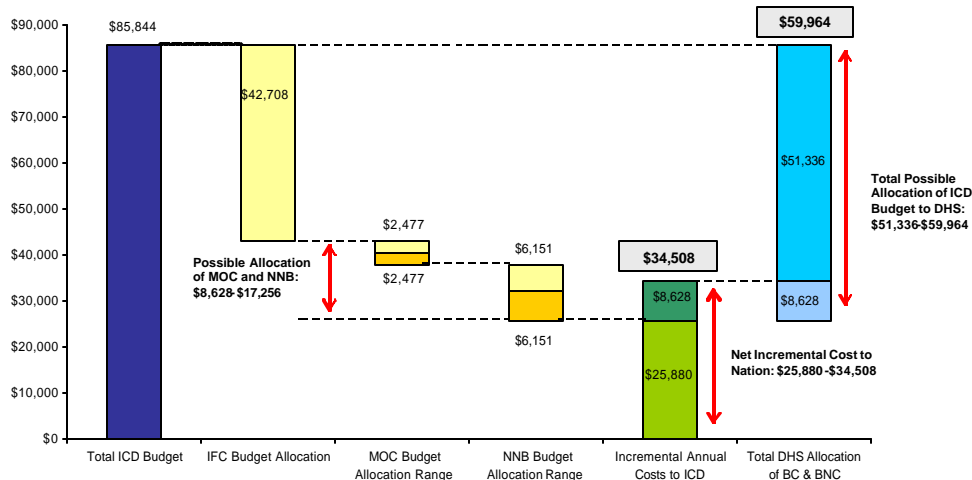
For these reasons, we have designated the IFC as belonging fully to the purview of DHS. Only DHS (or a government agency with a similarly-designated mission) can fulfill the role of information sharing across agencies, and resulting information fusion, that the President has called for. Similarly, we believe it is reasonable to allocate a smaller % -- we’ve picked 20-40% -- of both Neighborhood Network Building and the MOC to “base case” DHS; meaning that those expenditures would be required in any event, independent of existence of ICD, to fulfill the DHS roles in coordinated national communications and response activity.

Figure 6-1 quantifies this argument by calculating that \$8.6-17.3M/yr. of the ICD budget for NNB and MOC overlaps heavily with planned DHS responsibilities, plus the \$43M/yr. budget for the IFC (\$40M cash budget, plus \$3M of amortized expense; see Figure 5-2(b)), for a total of \$51-59M/yr. That leaves \$26-35M/yr. as the potential true “incremental” cost of ICD to the Nation.

Incremental Costs of ICD to the Nation are estimated at \$26-35M, beyond requirements for new DHS Mission

Figure 6-1

(All \$ in thousands)



In fact, ICD could deliver additional value that could save money for the nation in tandem with enhancing safety and security: Namely, the Business Plan makes the case that a coordinated “end-to-end” solution for Emergency Management can elevate the productivity and service delivery capability of all segments. From this perspective, using ICD as a platform to help deliver the new DHS mission could actually save money, and simultaneously yield both greater efficiency and effectiveness in National Emergency Management.

Without over-stating the “rigor” of the above calculation, we believe it is reasonable to assume that the true annual cost of ICD to the nation is in fact a maximum of \$85M/yr., representing actual total cash and non-cash costs, and pragmatically more like \$30-40M/yr., taking into account overlapping strategic values that ICD can deliver. The Benefit/Cost assessment in Section VIII incorporates the full \$85M/yr. operating cost for ICD (cash budget plus non-cash amortization) for conservatism, to include all ICD costs whether or not contributing to currently-planned DHS activities.

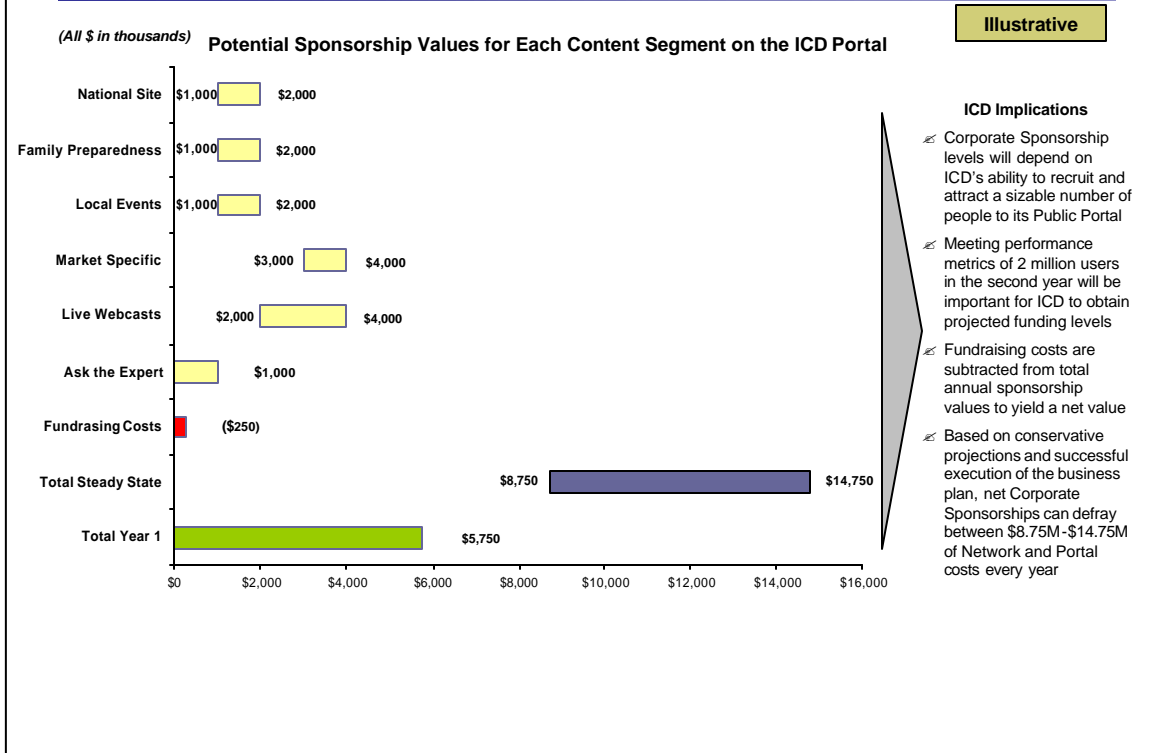
VII. Achieving a Mix of Public and Private Funding for ICD

We also believe there is a strong case that the Corporate sector will be ready and willing to fund a portion of ICD operations, and that these corporate-derived funds could fill a significant part of the operating budget of Neighborhood Network Building. Because of its public education mission, Neighborhood Network Building appears to be the right segment of ICD to attract corporate interest. Large corporations should be willing to support ICD as a gesture of patriotism and good citizenship, as well as for solid economic reasons. A successful ICD can materially help to create more cohesive communities; and to help protect employees, critical productive infrastructure, and international business operations. Reciprocally, ICD can benefit from corporate support beyond the dollars involved, to show national solidarity in the fight against terrorism and broad concern for mitigating disasters.

Corporate Sponsorships can take several forms. In general, corporations would receive tasteful, low-key but visible recognition – much as when Texaco supports the Metropolitan Opera, or corporations support major museums or National Public Radio. Figure 7-1 shows one potential structure of corporate sponsorships: Major sponsorships of \$1-2M/yr. encompass the primary Public Portal content presentations on National/International events; Family Preparedness; and Local events; plus four sponsorships of \$750k-\$1M/yr. each for each of the Market Segment features (covering Business, Health & Healthcare, Not-for-profits, and Government). Additional sponsorships would back four annual live webcasts at \$500k-1M per program, for a total of \$2-4M; plus four annual “Ask the Expert” broadcasts at \$250k each, for a total of \$1M. Subtracting out fundraising costs of around \$250k/yr. yields total corporate sponsorships of \$8.75-\$14.75M/yr. A reasonable first-year target could be \$6M (less fundraising costs).

Corporate Sponsorships could be Instituted for Major Content Modules of Public Portal, including "Live" Events

Figure 7-1



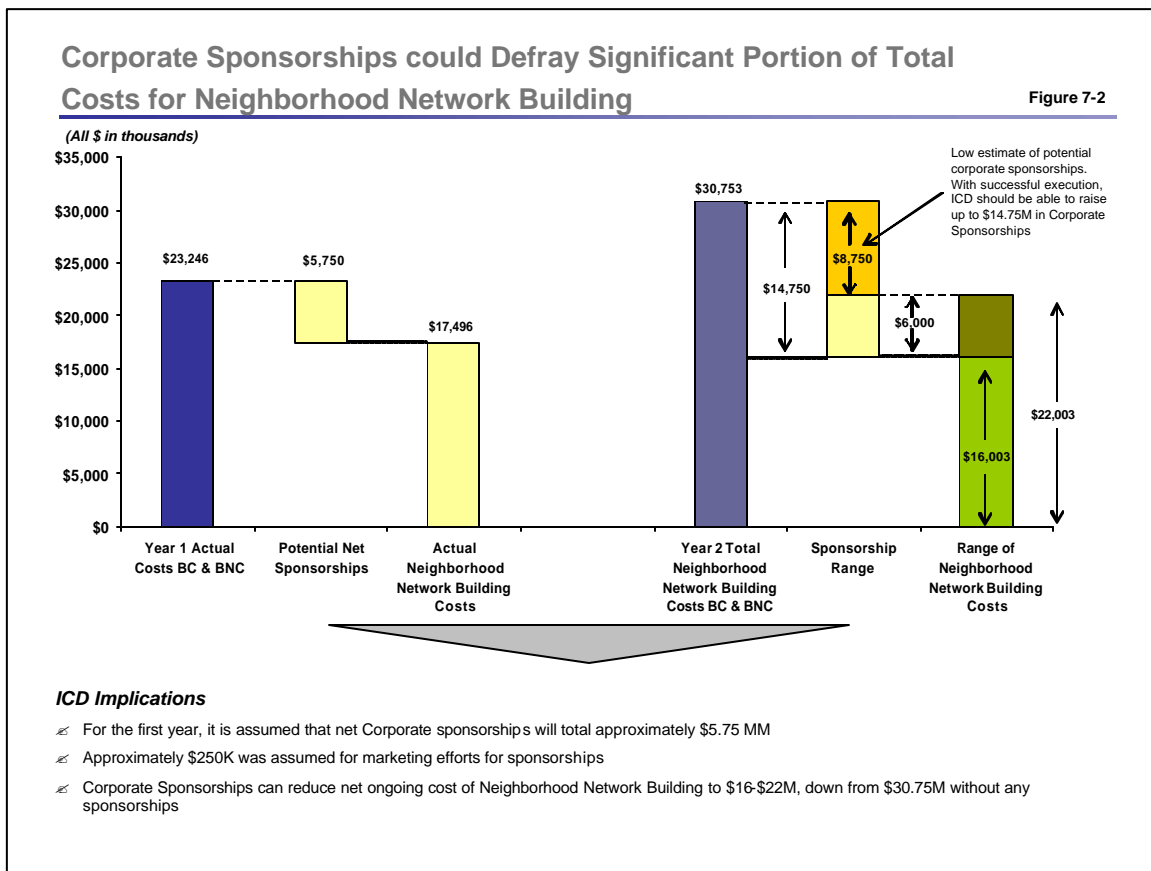
For example, companies like ExxonMobil, BP-Amoco, GE, or IBM, with global operations and consequent interests, could be excellent candidates for sponsorship of National & International events and interpretation. Health care companies like Merck, Pfizer, or Johnson & Johnson would be prime candidates to sponsor Family Preparedness content, or the Health & Healthcare features. Large Insurance Companies (including re-insurers) are additional candidates for sponsorships, because they would benefit from contained risks and lower resulting net worth exposure; for example, both Life Insurance companies and Property & Casualty companies should be beneficiaries of ICD – and should, therefore, be willing to serve as strong Sponsors and proponents.

We emphasize that while businesses will likely volunteer sponsorships during ICD's inaugural year out of a spirit of good citizenship, achieving the kind of sponsorship levels described above will require meeting ICD's target of approximately 2M users in the second year of operation. If ICD can meet and eventually surpass these numbers, corporate sponsorships can become a sound business investment for the sponsors, beyond positive public relations value.

There are additional opportunities for corporate support that are worth pursuing. For example, Section IV calculated over \$17M/yr. in annual database license fees – fully 20% of the total ICD operating budget – plus several million \$ in computers and networking equipment. With support from ARC and FEMA/DHS in approaching vendors, ICD could obtain price concessions well beyond normal commercial discounts in exchange for corporate sponsor-type benefits – such as identifying a particular vendor

as the “Leading Database Provider to ICD.” Candidates for such “Goods-in-kind” sponsorships could include IBM, Oracle, HP, or Accenture or other leading IT service providers (for example, in exchange for portal development services).

Figure 7-2 shows the net result of attracting corporate sponsorships at the annual levels quoted above. For example, Year 2 net operating costs of the Neighborhood Network Building would be reduced from approximately \$31M/yr. to between \$16 - \$22M – a reduction of up to 50%. Year 1 net operating costs would be cut from \$23.2M to around \$17.5M, also a significant help to finance ICD operations. The remaining ICD budget for all three segments would need to come out of governmental sources (potentially, supplemented by some donations and Foundation support). While ICD can be argued to be a “national responsibility,” we believe it would send a very positive message for corporations to support National Preparedness, vs. allowing further increases in government deficits.



VIII. ICD Benefit/Cost

What is the value of having an ICD system in relation to its cost? This is a crucial question to ask, because ICD is ultimately an “investment” in public safety and security, not an “expense” per se.

We can use the “hard” budget numbers from the above sections to quantify ICD’s cost. Quantifying ICD value depends on “softer” calculations about what costs could be avoided through more effective and timely disaster mitigation and deterrence.

Let’s start with the cost side. We can bound ICD’s lifetime cost as shown in Figure 8-1:

1. Start with ICD up-front capital costs of just over \$24M
2. Calculate the annual net operating cost for ICD and convert into an “annuity” value – meaning a lifetime net present value (NPV) of the operating cost stream. ICD annual operating cost ranges from \$26-\$85M depending on whether we count all costs, or attribute a portion to “Base Case” DHS expenses (refer back to Section VI for explanation and calculation; in particular, Figure 6-1). Conservatively attributing only IFC cost to DHS, incremental ICD cost is approximately \$43M/yr. Further, let’s suppose corporate sponsorships average \$10M/yr., toward the low end of the target range in Section VII. Therefore, net ICD costs range from \$33.1-75.8M/yr. We can convert this annual cost into an annuity value by dividing by a “social discount rate,” representing the target return on comparable national investments in infrastructure (such as bridges and roads), national defense, education, environmental health & safety, and the like. Conservatively using a social discount rate of 10%/yr. yields annuity costs for ICD of \$331-758M.
3. Adding the up-front capital costs yields total lifetime ICD costs of \$356-783M. (Note this calculation assumes no ongoing growth in ICD expense beyond Year 2, but also uses a conservative social discount rate, which tends to raise the lifetime cost estimate for ICD.)

Incremental Lifetime Costs of ICD

Figure 8-1

(All \$ in thousands)

Total ICD Costs		
Total Upfront Costs	\$24,590	
(1) Total BC & BNC Cost Range	\$43,136	\$85,844
(2) Total Corporate Sponsorships	<u>\$10,000</u>	<u>\$10,000</u>
Total Range of Ongoing Costs	\$33,136	\$75,844
(3) Assumed Cost of Capital	<u>10.0%</u>	<u>10.0%</u>
Annuity Value of Ongoing Costs	\$331,360	\$758,440
Lifetime Value of Capital and Ongoing Costs	\$355,949	\$783,030

Notes:

(1) Range of costs equal Incremental costs of ICD after full allocation of IFC only to DHS on the low end to the full value of ongoing ICD costs at the high end.

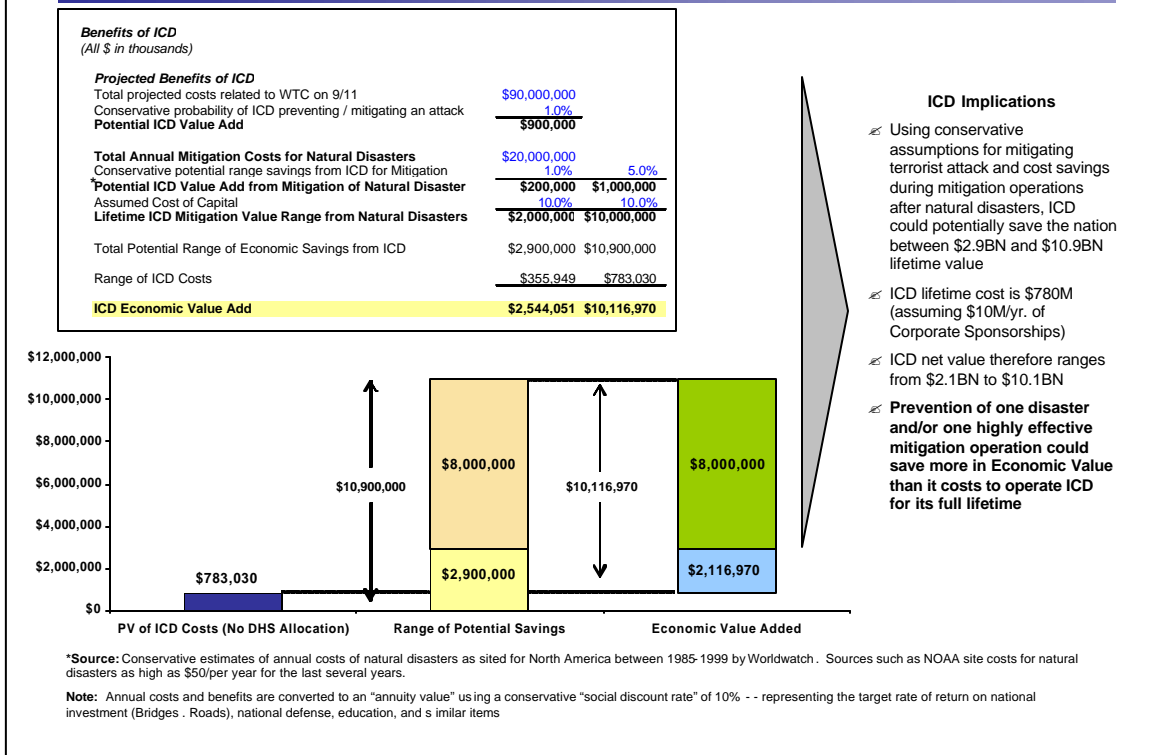
(2) Corporate Sponsorships assumed to be towards the low end of the projected range of \$9-15M/yr. (see Figure 7-1)

(3) Cost of Capital equals the assumed social discount rate of 10%; used to calculate Present Value of lifetime costs of ICD, assuming permanent operation at the year 2 Operating Budget level.

We believe it's much harder to quantify the precise value of ICD benefits, so the best practice is be both illustrative and conservative with respect to claimed benefits. Figure 8-2 shows a calculation logic to bound potential ICD benefits – assuming, of course, that the ICD system grows to encompass at least 2M users as intended.

ICD System could deliver major Social and Economic Benefits, even if Disaster Mitigation is only improved 1%

Figure 8-2



Suppose that ICD can help mitigate major disasters by just 1%. Figure 8-2 illustrates two potential sources of value. Annual cost of disasters in the U.S. is around \$20B/yr. (Sources: WorldWatch Institute, NOAA, and CBO). In fact, the cost is probably greater than that including lost economic activity, plus the “economic drag effect” of higher insurance and security costs; but take \$20B as a base level of cost. If faster and more effective mitigation via ICD can reduce that cost by 1%, that’s worth \$200M/yr., or \$2B in lifetime value (using a 10%/yr. social/economic discount rate to calculate a Net Present Value of benefits). At the high end, 5% lower cost of mitigation would be worth \$10B in net present value.

Similarly, consider the WTC tragedy due to terrorist action. As reported in the ICD Feasibility Study, the all-in cost of that disaster already exceeds \$90B, and will almost certainly climb above \$100B – even without counting all the economic losses and the psychological damage done to individuals and to society. A 1% savings for that one-time event, whether through deterrence or more effective mitigation, is worth \$900M.

Adding the above numbers suggests that an effective ICD system, mobilizing at least 2M and ideally 5-10M “eyes” to the cause of disaster mitigation, could be worth at least \$2.9B and up to \$10.9B. Compared to high-end estimate of \$780M for ICD lifetime cost, ICD could generate very strong benefit/cost ratio.

Another validation of ICD benefit/cost comes from looking at specific types of dispersed threats where an in-place ICD system could materially boost early detection and

mitigation. For example, in October, 2001, the State of Indiana developed a mock exercise in which three large farms were infected with a highly infectious disease similar to foot and mouth. Containment costs for the simulated exercise ran \$14M. But industry losses were a much larger \$709M (Source: National Council of State Legislatures *LegisBrief*, June/July 2002). Significantly, the total dollar impact, \$723M, of this one, limited-scope episode is close to the full lifetime cost of the ICD system – indicating that success in detecting and mitigating one major threat could cost-justify permanent operation of an ICD system.

The above methodologies can unquestionably be improved with experience; and our estimates need to be challenged and refined via professional peer review. However, based on the best information available, our analysis suggests that ICD can be a very cost effective and attractive investment for the Nation to help produce a safer, more resilient society, plus richer and more robust capabilities for Emergency Management. Ultimately, a safer, more secure society will be better able to channel its talents, resources and energies into economic growth and community development.

IX. Cost of Pilot Projects

Figure 9-1 summarizes the key assumptions for the Pilot Program scenarios. We assume that the Pilot will result in fully-operative Neighborhood Network Building (including the Public Portal for public education, recruiting, and Fear Management); a fully-operative, but scaled-down MOC; and a “virtual” IFC staffed by 3 FTE personnel operating out of their current locations (from a combination of FEMA and other Agencies). Pilot duration is either 6 months or 9 months of full running time, preceded by a 3-month planning and set-up period (for example, to create the initial version of the Public Portal). We further assume that the Pilot City will be able to provide some level of “in kind” resources to support the Pilot Project and defray out-of-pocket costs. These in-kind contributions are most likely to be in-place resources with some slack capacity to leverage over the Pilot Program – such as Call Center Operators, System Administrators, Network servers, and the like.

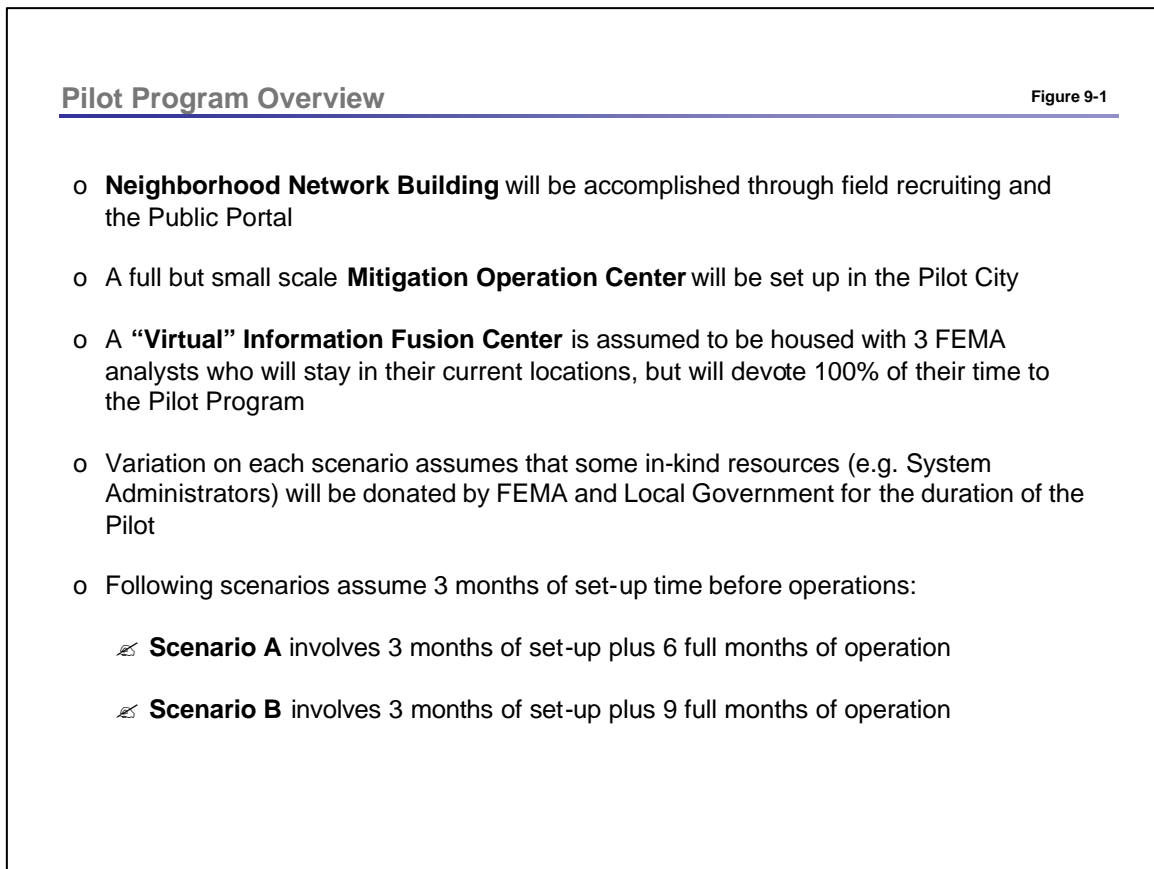


Figure 9-2 estimates the cost of a 6-month running Pilot program in Scenario A. Total cash cost is between \$2.4-2.8M, depending on the level of in-kind contributions from the Pilot City. The largest single expenditures are a total of \$1.15M for development of Portals to support Neighborhood Network Building (\$800K) and the MOC (\$350K). Cost of a Pilot could, therefore be further reduced to the extent that ICD can leverage off the development tools and hosting environment being created for the new FEMA Portal,

Disasterhelp.gov . (Such resource leverage could potentially reduce full-scale implementation costs for ICD as well.)

Projected Pilot Costs for Neighborhood Network Building – 6 Months Figure 9-2a

Neighborhood Network Building Costs (All \$ in thousands)	Total Units	Cost / Unit / Yr.	Annual Cost	Cost / 6 Months	In-Kind Contributions		Adjusted Costs
					Units	Cost	
Human Resource Costs							
Operators in the Call Center	4	35	140	70	2	35	35
Content Development & R&D Personnel	1	100	100	50	-	-	50
Marketing & Recruiting Personnel	3	100	300	150	1	50	100
Training Personnel for Fear Management	1	100	100	50	-	-	50
Total Salaries	9		\$640	\$320			\$235
General Recruiting Costs	10.0%		64	64	-	-	64
Total Human Resource Costs			\$704	\$384			\$299
Employee Equipment Costs							
Equipment Cost (Computer, Software, Telecom)	9	1	9	9	5	5	4
Total Security for Equipment	10.0%		0.9	0.9	-	-	0.9
General Telecom Cost / Employee	9	1	9	4.5	-	-	5
Total Employee Equipment Costs			\$19	\$14			\$9
Training / Accreditation / Applications							
Training Programs	1	20	20	20	-	10	10
Application Rollouts	1.0	85	85	85	-	-	85
Security for Programs / Rollouts	10.0%		11	11	-	-	11
Total Training / Accreditation / Application Expenses			\$116	\$116			\$106
Portal Development Costs	1	800	\$800	\$800	-	-	\$800
Total Neighborhood Network Building Costs			\$1,638	\$1,314			\$1,214

Notes:

- 1) Assumes that 2 operators can be lent from FEMA or other agencies or Pilot City as potential in-kind contribution.
- 2) Content Development and R&D, Marketing and Recruiting positions assumed to be joint positions held by 1 and 3 individuals. Assumes that at least 1 individual will be available from FEMA.
- 3) Employee equipment expenses assumed to be approximately 1/3 of full roll out. Assumes that FEMA / Local government will have equipment for approximately 5 people available for Pilot.
- 4) General telecom costs assumed to equal approximately \$1,000 / employee / year.
- 5) Training and Application rollouts assumed to be approximately 1/3 of full roll out. Assumed 1 roll out each for the pilot duration. Assumes that FEMA can contribute resources / costs equivalent of approximately 1/2 of training costs.
- 6) No maintenance expenses for hardware and software assumed.
- 7) Hardware and software expenses assumed to be shared with MOC and are laid out in subsequent pages.
- 8) Assumes that pilot program will roll into existing call center and thus no additional costs allocated to office space, PBX, and other infrastructure items

Projected Pilot Costs for MOC - 6 Months

Figure 9-2b

Mitigation Operation Center Costs (All \$ in thousands)	Total Units	Cost / Unit / Yr.	Annual Cost	Cost / 6 Months	In-Kind Contributions		Adjusted Costs
					Units	Cost	
Human Resource Costs							
Operators in the Call Center	4	75	300	150	2	75	75
Network Maintenance	4	50	200	100	2	50.0	50
Total Employee Salaries	8		\$500	\$250			\$125
General Recruiting Costs	10.0%		50	50		25	25
Total Human Resource Costs			\$550	\$300			\$150
Employee Equipment Costs							
Equipment Cost (Computer, Software, Telecom)	8	1	8	8	4	4	4
Total Security for Equipment	10.0%		0.8	0.8	-	-	0.8
General Telecom Cost / Employee	8	1	8	4	-	-	4
Total Employee Equipment Costs			\$17	\$13			\$9
First Responder Training Costs							
Training Development	1	75	75	75	-	37.5	38
Security for Training Applications	10.0%		7.5	7.5	-	-	7.5
Total First Responder Training Costs			\$83	\$83			\$45
Applications							
Application Rollouts	1	75	75	75	-	-	75
Security for Applications	10.0%		7.5	7.5	-	-	7.5
Total Application Costs			\$83	\$83			\$83
Portal Development Costs							
		\$350	\$350	\$350	-	-	\$350
Total MOC Costs			\$1,082	\$828			\$636

Notes:

- 1) 2 of the 4 for operators and network maintenance personnel are assumed to be lent from FEMA or the Pilot City as potential in-kind contribution.
- 2) Employee equipment expenses assumed to be approximately 1/3 of full roll out. Assumes that FEMA / Local government will have equipment for approximately 4 people available for Pilot.
- 3) General telecom costs assumed to equal approximately \$1,000 / employee / year.
- 4) Training rollouts assumed to be approximately 1/3 of full roll out. Assumed 1 roll out each for the pilot duration. Assumes that FEMA will be able to contribute 1/2 of the resources / costs for training development.
- 5) Applications rolled out from MOC will be on smaller scale and magnitude than for national rollout. Original application projection was \$1.0 MM.
- 6) No maintenance expenses for hardware and software assumed.
- 7) Hardware and software expenses assumed to be shared with Neighborhood Network Building and are laid out in subsequent pages.
- 8) Assumes that pilot program will roll into existing call center and thus no additional costs allocated to office space, PBX, and other infrastructure items

Projected Shared Expenses and Total Pilot Costs – 6 Months

Figure 9-2c

<i>(All \$ in thousands)</i>							
Shared Resources							
	Total Units	Cost / Unit / Yr.	Annual Cost	Cost / 6 Months	In-Kind Contributions		Adjusted Costs
					Units	Cost	
General Hardware / Software Expenses							
Application Servers	5	5	25	25	2	10	15
Network Servers	5	5	25	25	2	10	15
Security for Network Servers	10.0%		2.5	2.5	-	-	2.5
Oracle Database Setup Costs	1	75	75	75	-	37.5	37.5
Database License Costs	10	10	100	50	-	25.0	25
Total Hardware / Software Expenses			\$228	\$178			\$95
Svstems Administrator	1	100	100	50	1	50	0
General & Administrative			100	50		25.0	25
Total Neighborhood Network Building & MOC Shared Costs			\$428	\$278			\$120
Additional Expenses - GHNet							
Consulting Fees			360	360	-	-	360
Travel & Telecom Costs			50	50	-	-	50
Total Additional Expenses			\$410	\$410			\$410
Breakdown of Pilot Expenses							
			Annual Cost	Cost / 6 Months	In-Kind Contributions		Adjusted Costs
					Units	Cost	
Neighborhood Network Building Expenses			1,638	1,314	-	100	1,214
MOC Expenses			1,082	828	-	192	636
Shared Expenses			428	278	-	158	120
Additional Expenses			410	410	-	-	410
Total Pilot Expenses			\$3,558	\$2,829			\$2,380

Notes:

- 1) Assumes that general hardware and software (servers and database s) will be shared between MOC and Neighborhood Network Building. Of those, assumes that 2 App servers and network servers will be available from local government resources.
- 2) Assumes that 1 network administrator will be able to maintain both Neighborhood Network Building and MOC systems, which could be a shared resource from FEMA / Local Government

Figure 9-3 illustrates that a 9 month-running Pilot Program raises the total cost to \$2.8-\$3.4M. The relatively high level of fixed cost, especially for portal development and deployment, means that total Pilot costs rise much less than proportionate to Pilot duration.

Projected Pilot Costs for Neighborhood Network Building – 9 Months Figure 9-3a

Neighborhood Network Building Costs (All \$ in thousands)	Total Units	Cost / Unit / Yr.	Annual Cost	Cost / 9 Months	In-Kind Contributions		Adjusted Costs
					Units	Cost	
Human Resource Costs							
Operators in the Call Center	4	35	140	105	2	53	53
Content Development & R&D Personnel	1	100	100	75	-	-	75
Marketing & Recruiting Personnel	3	100	300	225	1	75	150
Training Personnel for Fear Management	1	100	100	75	-	-	75
Total Salaries			\$640	\$480			\$353
General Recruiting Costs	10.0%		64	64	-	-	64
Total Human Resource Costs			\$704	\$544			\$417
Employee Equipment Costs							
Equipment Cost (Computer, Software, Telecom)	9	1	9	9	5	5	4
Total Security for Equipment	10.0%		0.9	0.9	-	-	0.9
General Telecom Cost / Employee	9	1	9	6.8	-	-	7
Total Employee Equipment Costs			\$19	\$17			\$12
Training / Accreditation / Applications							
Training Programs	1	20	20	20	-	10	10
Application Rollouts	1.5	85	128	128	-	-	128
Security for Programs / Rollouts	10.0%		15	15	-	-	15
Total Training / Accreditation / Application Expenses			\$162	\$162			\$152
Portal Development Costs							
	1	800	\$800	\$800	-	-	\$800
Total Neighborhood Network Building Costs			\$1,685	\$1,523			\$1,380

Notes:

- 1) Assumes that 2 Operators can be lent from FEMA or other agencies or Pilot City as potential in-kind contribution.
- 2) Content Development and R&D, Marketing and Recruiting positions assumed to be joint positions held by 1 and 3 individuals. Assumes that at least 1 individual will be available from FEMA.
- 3) Employee equipment expenses assumed to be approximately 1/3 of full roll out. Assumes that FEMA / Local government will have equipment for approximately 5 people available for Pilot.
- 4) General telecom costs assumed to equal approximately \$1,000 / employee / year.
- 5) Training and Application rollouts assumed to be approximately 1/3 of full roll out. Assumed 1.5 rollouts each for applications and 1 for training for the pilot duration. Assumes that FEMA can contribute resources / costs equivalent of approximately 1/2 of training costs.
- 6) No maintenance expenses for hardware and software assumed.
- 7) Hardware and software expenses assumed to be shared with MOC and are laid out in subsequent pages.
- 8) Assumes that pilot program will roll into existing call center and thus no additional costs allocated to office space, PBX, and other infrastructure items

Projected Pilot Costs for MOC - 9 Months

Figure 9-3b

Mitigation Operation Center Costs (All \$ in thousands)	Total Units	Cost / Unit / Yr.	Annual Cost	Cost / 9 Months	In-Kind Contributions		Adjusted Costs
					Units	Cost	
Human Resource Costs							
Operators in the Call Center	4	75	300	225	2	113	113
Network Maintenance	4	50	200	150	2	75.0	75
Total Employee Salaries	8		\$500	\$375			\$188
General Recruiting Costs	10.0%		50	50		25	25
Total Human Resource Costs			\$550	\$425			\$213
Employee Equipment Costs							
Equipment Cost (Computer, Software, Telecom)	8	1	8	8	4	4	4
Total Security for Equipment	10.0%		0.8	0.8	-	-	0.8
General Telecom Cost / Employee	8	1	8	6	-	-	6
Total Employee Equipment Costs			\$17	\$15			\$11
First Responder Training Costs							
Training Development	1	75	75	75	-	37.5	38
Security for Training Applications	10.0%		7.5	7.5	-	-	7.5
Total First Responder Training Costs			\$83	\$83			\$45
Applications							
Application Rollouts	1	75	75	75	-	-	75
Security for Applications	10.0%		7.5	7.5	-	-	7.5
Total Application Costs			\$83	\$83			\$83
Portal Development Costs							
		\$350	\$350	\$350	-	-	\$350
Total MOC Costs			\$1,082	\$955			\$701

Notes:

- 1) 2 of the 4 for operators and network maintenance personnel are assumed to be lent from FEMA.
- 2) Employee equipment expenses assumed to be approximately 1/3 of full roll out. Assumes that FEMA / Local government will have equipment for approximately 4 people available for Pilot.
- 3) General telecom costs assumed to equal approximately \$1,000 / employee / year.
- 4) Training rollouts assumed to be approximately 1/3 of full roll out. Assumed 1 roll out each for the pilot duration. Assumes that FEMA will be able to contribute 1/2 of the resources / costs for training development.
- 5) Applications rolled out from MOC will be on smaller scale and magnitude than for national rollout. Original application projection was \$1.0 MM.
- 6) No maintenance expenses for hardware and software assumed.
- 7) Hardware and software expenses assumed to be shared with MOC and are laid out in subsequent pages.
- 8) Assumes that pilot program will roll into existing call center and thus no additional costs allocated to office space, PBX, and other infrastructure items

Projected Shared Expenses and Total Pilot Costs – 9 Months

Figure 9-3c

<i>(All \$ in thousands)</i>							
Shared Resources							
	Total Units	Cost / Unit / Yr.	Annual Cost	Cost / 9 Months	In-Kind Contributions		Adjusted Costs
					Units	Cost	
General Hardware / Software Expenses							
Application Servers	5	5	25	25	2	10	15
Network Servers	5	5	25	25	2	10	15
Security for Network Servers	10.0%		2.5	2.5	-	-	2.5
Oracle Database Setup Costs	1	75	75	75	-	37.5	37.5
Database License Costs	10	10	100	75	-	37.5	38
Total Hardware / Software Expenses			\$228	\$203			\$108
Systems Administrator	1	100	100	75	1	75	0
General & Administrative			100	75		37.5	38
Total Neighborhood Network Building & MOC Shared Costs			\$428	\$353			\$145
Additional Expenses - GHNet							
Consulting Fees			490	490	-	-	490
Travel & Telecom Costs			65	65	-	-	65
Total Additional Expenses			\$555	\$555			\$555
Breakdown of Pilot Expenses							
			Annual Cost	Cost / 9 Months	In-Kind Contributions		Adjusted Costs
					Units	Cost	
Neighborhood Network Building Expenses			1,685	1,523	-	143	1,380
MOC Expenses			1,082	955	-	254	701
Shared Expenses			428	353	-	208	145
Additional Expenses			555	555	-	-	555
Total Pilot Expenses			\$3,749	\$3,385			\$2,781

Notes:

- 1) Assumes that general hardware and software (servers and databases) will be shared between MOC and Neighborhood Network Building. Of those, assumes that 2 App servers and network servers will be available from local government resources.
- 2) Assumes that 1 network administrator will be able to maintain both Neighborhood Network Building and MOC systems, which could be a shared resource from FEMA / Local Government

In summary: These estimates suggest that a fully-fleshed out Pilot Program, running either 6 or 9 mo. from start-up, should be achievable for \$3M or less cash outlay. Such duration should be ample to test the attainable growth in the ICD network during a start-up year. Moreover, this duration should also be sufficient to demonstrate the potential value of ICD to the community, following on the Pilot Objectives framework developed in Section XI of the ICD Feasibility Study. Once the primary fixed costs have been incurred, a second Pilot program could be run for \$2M or less, if desired, prior to national roll-out of ICD.

Appendix 1. Assumptions for ICD Cost Model

Portal Development Assumptions & Sources

Figure A-1

Portal Development Assumptions and Sources:

- 1) Costs associated with call center operators & neighborhood network maintenance personnel derived from total estimated network size and activity for Year 1 and Year 2 and average operator call capacity. Figures for projected network members based on ICD team research and GHNet experience. Also assumed that network is in crisis mode 25% of the time with the remaining 75% representing steady-state operations. During crisis, assumed that call center activity will surge 3X steady state levels & network maintenance personnel will surge 3X steady state levels
- 2) Personnel related to IT Support, Content Development, R&D, Marketing, Public Education, and Network Recruitment based on projected network growth/size and application development estimates; productivity estimates (ability of operators / network maintenance personnel to handle x amount of email / calls per day, ability to handle IT support functions, and etc.) derived from discussions with ARC and other private organizations
- 3) General recruiting costs assumed to be 10% of employees fully loaded salaries.
- 4) General employee equipment and software expenses derived from conversations with IT personnel at ARC and other private organizations.
- 5) General Telecom expenses estimated from conversations with personnel from ARC's national call center.
- 6) Network server requirements and costs estimated from discussions with ARC's IT personnel and personnel from other private organizations.
- 7) Database cost and requirements estimated based on conversations with professionals from Oracle, IT personnel from ARC and other private organizations.
- 8) Office space requirements based on estimates from ARC's national call center and market research.
- 9) Training & Accreditation programs and Application rollouts equal estimated goals for Year 1 and Year 2 for ICD.
- 10) Public Portal development & maintenance expenses based on conversations with IT personnel at ARC, independent website developers and programmers, and other private IT organizations
- 11) Cost & Maintenance for PBX system based on conversations with ARC IT Personnel.
- 12) Other General & Administrative costs assumed to be approximately 15% of total employee salaries with an additional 4% for employee training purposes; plus additional promotional costs of \$500K.
- 13) Other assumptions include 10% of Hardware costs for all IT Security & 20% for all maintenance expenses. These figures were estimated based on conversations with IT personnel at FEMA and other private organizations. FEMA IT personnel suggested as a rule of thumb 10% in incremental security costs for all IT.
- 14) Depreciation & Amortization period on hardware assumed to 3 years based on general IT equipment useful lifespan.

Information Fusion Center Assumptions & Sources

Figure A2

Information Fusion Center Assumptions and Sources

- 1) Analyst salaries and development figures based on projected network growth and activity. Also assumed that network is in crisis mode 25% of the time with the remaining 75% representing steady state operations. During crisis, assumed that analyst activity & requirements will surge 2X steady state levels.
- 2) Personnel related to IT Support based on discussions with IT personnel from ARC and other private organizations.
- 3) General recruiting costs assumed to be 10% of employees fully loaded salaries.
- 4) General Telecom expenses estimated from conversations with personnel from ARC's national call center.
- 5) General employee equipment and software expenses derived from conversations with IT personnel at ARC and other private organizations.
- 6) Dedicated analysts network requirements based on estimated cost for providing secure, high bandwidth connection for analysts.
- 7) Network server requirements and costs estimated from discussions with ARC's IT personnel and personnel from other private organizations.
- 8) Database cost and requirements estimated based on conversations with professionals from Oracle, IT personnel from ARC and other private organizations.
- 9) Data mining and P2P tools are resource estimates for Analysts.
- 10) Office space requirements based on estimates from ARC's national call center and market research plus general research.
- 11) Interagency Integration Costs based on market research on Application Integration providers, project integrations, and ongoing maintenance requirements.
- 12) Application costs based on ICD estimates of application rollouts and development costs
- 13) Portal development & maintenance expenses based on conversations with IT personnel at ARC, independent website developers and programmers, and other private IT organizations
- 14) Cost & Maintenance for PBX system based on conversations with ARC IT Personnel.
- 15) Other General & Administrative costs assumed to be approximately 10% of total employee salaries, since IFC personnel have higher compensation levels than Public Portal, with an additional 4% for employee training purposes.
- 16) Other assumptions include 10% of Hardware costs for all IT Security & 20% for all maintenance expenses. These figures were approximate estimates based on conversations with IT personnel at FEMA and other private organizations. FEMA IT personnel suggested as a rule of thumb 10% in incremental security costs for all IT.
- 17) Depreciation & Amortization period on hardware assumed to 3 years based on general IT equipment lifespan.
- 18) Integration costs based on discussions with Mercator Software and other vendors, plus general industry experience

Mitigation Operation Center Assumptions & Sources

Figure A3

Mitigation Operation Center Assumptions and Sources

- 1) MOC operator salaries and development figures based on projected network growth and activity. Also assumed that network is in crisis mode 25% of the time with the remaining 75% representing steady state operations. During crisis, assumed that Operator activity & requirements will surge 5X steady state levels.
- 2) Personnel related to IT Support based on discussions with IT personnel from ARC and other private organizations. Long-Term Health Tracking personnel costs based on ICD estimates.
- 3) General recruiting costs assumed to be 10% of employees fully loaded salaries.
- 4) General employee equipment and software expenses derived from conversations with IT personnel at ARC and other private organizations.
- 5) General Telecom expenses estimated from conversations with personnel from ARC's national call center.
- 6) Network server requirements and costs estimated from discussions with ARC's IT personnel and personnel from other private organizations.
- 7) Database cost and requirements estimated based on conversations with professionals from Oracle, IT personnel from ARC and other private organizations.
- 8) Office space requirements based on estimates from ARC's national call center and market research.
- 9) First responder training & maintenance costs based on ICD estimates.
- 10) Application costs based on ICD estimates of application rollouts and development costs
- 11) Portal development & maintenance expenses based on conversations with IT personnel at ARC, independent website developers and programmers, and other private IT organizations
- 12) Cost & Maintenance for PBX system based on conversations with ARC IT Personnel.
- 13) Other General & Administrative costs assumed to be approximately 15% of total employee salaries, with an additional 4% for employee training purposes.
- 14) Other assumptions include 10% of Hardware costs for all IT Security & 20% for all maintenance expenses. These figures were approximate estimates based on conversations with IT personnel at FEMA and other private organizations. FEMA IT personnel suggested as a rule of thumb 10% in incremental security costs for all IT.
- 15) Depreciation & Amortization period on hardware assumed to 3 years based on general IT equipment lifespan.