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OFFICE OF THE VICE PRESIDENT
WASHINGTON

May 12, 1992

Mr. John Stainback
President and CEO
Privatization International, Inc.
14 Wall Street
New York, New York 10005

Dear John:

Thank you for sending me the package of material on Privatization International and the Comprehensive Privatization Program. I will make sure it gets circulated around the office.

I am also glad we had a chance to talk yesterday (finally) after a week of trying. Please keep us informed about the progress of your projects so that, at the appropriate stage, we can work together to promote privatization.

Best wishes.

Sincerely,

A handwritten signature in dark ink, appearing to read "Richard Porter", with a stylized flourish at the end.

Richard W. Porter
Counselor to the Vice President

PRIVATIZATION INTERNATIONAL, INC.

JOHN STAINBACK
President and CEO

May 1, 1992

Mr. Richard W. Porter
Counselor to the Vice President
The White House
Washington, D.C. 20501

Dear Richard,

As a pioneer in the privatization industry since 1986, please relay my appreciation to President Bush and Vice President Quayle for their Executive Order: Infrastructure Privatization. Hopefully state and local government officials will seize the privatization opportunities which are now possible based on the Executive Order.

Based on my experience, I would like to share an observation with you and Bill Burrows. I believe most government officials narrowly define privatization as transferring public services to the private sector. This is only one of nine types of privatization so we believe privatization is often pigeon-holed into the controversial arena of government versus public employee unions.

We believe our Comprehensive Privatization Program (CPP) approach amply illustrates that substantial amounts of nontax revenue and cost savings can be generated for governments totally disregarding the privatization of services. We view the privatization of services as a small percentage of the solution for governments to balance their budgets.

I have enclosed a large package of information but if you only have a few minutes, I would like for you to read the article titled: "Comprehensive Privatization Program (CPP): A Plan for Governments to Generate Nontax Revenue and Reduce Operational Costs."

I have also enclosed our company brochure, media pack, and another article titled: "Governments Need to Generate Additional Nontax Revenue and Reduce Operational Costs, Not Increase Taxes and Institute Wholesale Cutbacks."

While I cannot enclose our full CPP reports for the City of Philadelphia and the United States Military Academy at West Point, I did fax summaries yesterday. I believe it would be appropriate to review the full reports in detail at a meeting.

Our recently completed study to determine the financial feasibility of the privatization of a \$60 million toll road in Jackson, Mississippi revealed five alternative public/private finance and development plans, all of which would yield a sufficient Internal Rate of Return (IRR) to attract 100 percent private financing.

Mr. Richard Porter
Page 2

We were also recently contracted by Philip Morris to prepare a comprehensive review of bond refinancings over the past ten years for all 50 states. Philip Morris has given us permission to share the report with your office, provided you are interested. The report will take approximately 60 days to complete.

I apologize for the length of this letter, but I wanted you to know that we are participating in some of the nation's most visible privatization projects and have a trackrecord for producing tangible and effective results, which we are willing to share with you and Bill Burrows.

Keep up the good work - the Executive Order was well written.

Best Regards,



John Stainback
President and CEO

PRIVATIZATION INTERNATIONAL, INC.

New York, New York

PRIVATIZATION INTERNATIONAL, INC.

Privatization is our only business — our approach generates revenue first, and reduces cost second.

"How will the U.S. find the money to fix its aging roads and bridges and waterlines? John Stainback thinks he has an answer, and it shows in the name of his consulting firm, Privatization International. Stainback explains: 'I come in, identify a municipality's assets and teach them how to leverage the hell out of 'em.'"

"Public Projects, Private Financing"
Faces Behind the Figures
FORBES
April 16, 1990

Privatization International, Inc.

14 Wall Street
New York, New York 10005
212/385-0067; FAX 212/385-0069

PRIVATIZATION INTERNATIONAL, INC.

PREFACE: PRIVATIZATION DEFINED

Although the term "privatization" was coined in 1969 by Peter Drucker, professor of social science at the Claremont Graduate School in California, and several public/private partnerships have been in place since the early 1970s, it is only in the last several years that privatization has truly emerged as an alternative delivery method. Therefore, we thought a brief definition would be informative.

A General Definition

The public and private sectors joining forces to provide needed public facilities, infrastructure, and services in the most efficient manner.

The Privatization of Public Facilities and Infrastructure

A fair and reasonable sharing between the public and private sector of the responsibilities, costs, risks and potential economic return from structuring and implementing the public/private finance, design, development, construction, and operation of public facilities and infrastructure.

The Privatization of Public Services

The full or partial transfer to the private sector of the government's cost and responsibilities for services traditionally provided solely by the government.

The Privatization of Government-Owned Enterprises

The purchase or lease by the private sector of enterprises owned and operated by the government.

PRIVATIZATION INTERNATIONAL, INC.

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*The First in a Series of Significant Quotes
on Privatization International, Inc.*

"Privatization might become the next hot investment area."

"State and local governments need cash to rebuild their ailing infrastructures while Eastern European countries hunger for outside capital to reconstruct their sagging economies."

"The firm [Privatization International, Inc.] wants to marry governmental financing needs with institutional investors' sizable assets."

"Investors, Governments May 'Marry' "

*Pensions & Investments
October 1990*

PRIVATIZATION INTERNATIONAL, INC.

I. COMPANY OVERVIEW

Operations

Headquartered in New York, Privatization International, Inc. is a diversified investment and advisory firm focused solely on structuring and implementing privatization engagements. As one of the few firms that views privatization as its only business, Privatization International has played a leading role in expanding the privatization concept throughout the world.

Many governments and other public organizations are facing enormous financial problems, most of which arise from **one fundamental dilemma**: *their inability to solve, by traditional means, the conflict of providing an increasing number of public facilities, infrastructure, and public services with a decreasing amount of funds and an increasing number of fiscal controls. This dilemma is compounded by increasing costs.*

Providing solutions to this dilemma is our firm's operating objective. Working within the framework of this objective, Privatization International has been successful in providing both principal investing and advisory services to our clients. As a principal, our firm acquires or jointly acquires government assets that are being privatized. As an advisor, our firm serves as an agent to design and develop a full range of privatization programs. *Whether serving as a principal or as an advisor, our firm is noted for its ability to structure privatization programs that are responsive to the requirements of both public-sector officials and the investment community.*

Distinguishing Factor

It is precisely this ability to effectively address the requirements of both the public and private sectors that distinguishes Privatization International. By bridging the gap between the public and private sectors, our firm is able to clearly identify, quantify, and present the benefits of privatization to all parties involved in an engagement.

PRIVATIZATION INTERNATIONAL, INC.

Privatization Experience

One of the most powerful assets Privatization International provides to its clients and public/private partners is the insight and knowledge gained from our extensive privatization experience. Since 1986, the principals of our firm have structured over \$6 billion of public/private facilities and infrastructure projects and financings. With a blend of professional experience that has been carefully balanced to meet the needs of our national and international client base, our firm has been instrumental in completing many of the most notable privatization engagements.

A review of our privatization activity highlights the diverse nature of these engagements. Most recently, Privatization International was instrumental in forming a consortium to finance, design, build, and operate one of the first privately developed toll roads in the United States. This effort was in addition to our highly publicized comprehensive privatization programs for the City of Philadelphia and the U.S. Military Academy at West Point.

As the field of privatization continues to gain momentum, it is evident that the need for professionals with a track record and proven ability to complete complex privatization engagements is rapidly increasing. We believe Privatization International fills this need.

*The Second in a Series of Significant Quotes
on Privatization International, Inc.*

"Embarking on a \$1 billion rebuilding program it knows it can't finance, the U.S. Military Academy at West Point is considering privatizing as many of its operations as it can to save money."

"West Point is working from a list of 113 possibilities — including its hotel, athletic facilities and parcels of real estate — that were identified by Privatization International, Inc., a Manhattan consulting firm."

"'We think privatization makes sense,' says Lt. Col. Richard Ashley, the academy's project coordinator and long-range planning chief."

"Privatization Now a Cottage Industry"

*Crain's New York Business
August 26, 1991*

PRIVATIZATION INTERNATIONAL, INC.

II. INVESTMENT and ADVISORY SERVICES

We believe the most productive means to answer the question: "What does Privatization International offer to its clients?" is to provide examples of the services we provide. Rather than simply providing a summary of our transaction activity or a lengthy list of the various services we provide, the material that follows highlights the value added nature of Privatization International's work.

Feasibility Studies

Public-sector managers and elected and appointed officials frequently are interested in exploring or testing the privatization concept. These managers and officials often have a fairly comprehensive understanding of the benefits privatization can provide, yet they may have questions concerning the implementation process.

Privatization International is recognized for its ability to clearly and concisely quantify the benefits and, more importantly, the costs associated with privatization projects. Commonly referred to as feasibility studies, our efforts in working with our clients during the initial or formulation stages of privatization projects can take several forms. For example, during a recent engagement Privatization International was retained to review the dynamics of a privatization program being considered by a municipality. The scope of our work on this engagement was focused primarily on the likelihood of obtaining financing for the privatization program. Drawing on our frequent involvement and close association with the capital markets, we identified and preliminarily priced multiple sources of financing for our client. Specific financing sources analyzed included privately placed senior and subordinated debt, credit-enhanced (i.e., wrapped) securities, receivable-based financing, and first loss, government-guaranteed financing. We also presented our client with various lease acquisition approaches.

A key result of our efforts on this engagement was to screen out several financing sources that proved to be uneconomical when applied to our client's privatization program. We then prepared financing implementation plans and schedules for the viable financing sources.

PRIVATIZATION INTERNATIONAL, INC.

Principal Investing

Privatization International, much like a European merchant bank, is willing to commit its own capital to complete privatization transactions. Whether in the form of debt or equity, Privatization International is able to facilitate privatization closings with its own funds.

Our commitment to principal investing is evidenced by the alliance recently formed with Trammell Crow, a leading developer. The objective of this alliance is to pursue university-related investment opportunities.

Many governments and universities are operating facilities that require continual cash outlays to cover operational deficits. The thrust of the Privatization International and Trammell Crow alliance is to structure public/private acquisition plans which enable our team to enhance the revenue performance of facilities and to share the economic returns with our government or university partners.

Valuation of Government-Owned Assets and Enterprises

One of the most difficult aspects of the privatization process involves the concept of valuation. This is especially true in some of the developing markets where we are asked to value enterprises that have never strived to maximize profits. In fact, in many cases the profit motive has been entirely lacking for years.

Unlike the valuation of assets and enterprises in the private sector, government-owned assets and enterprises often have hidden value drivers that need to be uncovered during the valuation process. By utilizing multiple valuation methodologies and building on our general privatization experience, Privatization International provides a full range of valuation services.

Recent examples of our valuation work include assessing the values of a municipally-owned gas company and water system in anticipation of sales to strategic buyers. On both of these engagements, we analyzed the operating benefits produced by additional capital expenditures and the introduction of updated technology. Other examples of our valuation efforts include sports arenas and stadiums, parking garages, and toll facilities.

PRIVATIZATION INTERNATIONAL, INC.

Privatization Advisory Services

Privatization International is frequently retained as a privatization advisor to governments, universities, and other public- and private-sector organizations. Our public-sector engagements often involve preparing a Comprehensive Privatization Program ("CPP") similar to those prepared for the City of Philadelphia and the U.S. Military Academy at West Point. (A description of the CPP approach is contained in the following section.)

For our private-sector clients we often are retained to identify privatization opportunities and coordinate our client's efforts in responding to proposal requests. A recent example of our ability to coordinate the proposal process for one of our private-sector clients involved a diversified technology and communications company. On this engagement we were retained to assist with the quantification and development of an appropriate privatization purchase price. We also provided a detailed analysis of the multiplier effect generated by the privatization program, and, most importantly, we quantified the government's full cost of operation. This information was used as a basis for negotiating with the government.

Other Services Provided by Privatization International

In addition to the services highlighted above, the principals and managers of Privatization International are recognized for their ability to manage large turnkey teams and complex infrastructure developments. For example, our firm recently organized a consortium to finance, design, build, and operate one of the first privately developed toll roads in the United States. Members of this team included some of the leading financial, legal, and construction firms.

Our professionals are also noted for their ability to effectively respond to the sensitivities of legislative, political, and labor organizations. This ability has led to our involvement with a number of organizations throughout the world that are interested in the privatization concept. Most recently, professionals from our firm were asked to provide the United Nations with information on privatization activity in conjunction with an international effort to facilitate privatization in the Philippines. Our firm also takes an active role in promoting the use of employee stock ownership plans ("ESOPs") as an alternative to an outright sale of government assets. We have shown that properly structured ESOPs can be used effectively in the privatization field.

PRIVATIZATION INTERNATIONAL, INC.

Summary

In summary, we believe the professional capabilities of Privatization International are well suited to assisting our public- and private-sector clients in identifying, quantifying, and implementing privatization transactions throughout the world. Whether preparing a feasibility study, acting as a principal investor, providing a valuation, or serving as an advisor, Privatization International is committed to providing our clients with the highest quality of service available in the expanding field of privatization.

***The Third in a Series of Significant Quotes
on Privatization International, Inc.***

"More and more, privatization involves functions once thought to be part of government's core responsibilities. For example, John Stainback, President of Privatization International, Inc. a New York City firm that specializes in privatization, is currently working on a plan under which a private firm would finance and build a \$60-million toll road linking four Mississippi communities to the Jackson International Airport. "

"'Most governments really cannot afford to maintain the needed public facilities, services and infrastructure, and at the same time, they can't continue to raise taxes,' Stainback said. 'That can't always be the answer. So we believe that privatization is the answer.'"

***"'Privatization Would be Far-Reaching'-
Weld Plan for Companies to Take Over
Programs Could Reshape Government."***

***The Boston Globe
April 29, 1991***

PRIVATIZATION INTERNATIONAL, INC.

III. OUR COMPREHENSIVE PRIVATIZATION PROGRAM

Overview

Many governments, universities, and other public organizations are currently facing a multitude of financial problems. These problems arise from one fundamental dilemma: the need to satisfy the increasing demands placed on governments, universities and other public organizations with fewer funds and a greater number of fiscal policy constraints. It is difficult, if not impossible, for the public sector to solve its financial problems by traditional means.

Therein lies the need for privatization.

Privatization International's operating objective is to provide solutions to the problems facing governments, universities, and other public organizations by structuring and implementing privatization engagements. In addition to our advisory and investing activities previously described, our firm is recognized for its ability to prepare what has been coined a "Comprehensive Privatization Program" or CPP. The CPP approach generates additional revenue and reduces costs while providing our clients with a tremendous amount of implementation flexibility.

In one of our most recent engagements involving the CPP approach, our client was most interested in implementing privatization opportunities that produced economic returns or cost savings in the near term (i.e., in less than twelve months). Consequently, we tailored the CPP approach to target privatization opportunities that could be implemented quickly and with a minimum effort. Many of these opportunities involved leveraging the synergies that existed between various departments and agencies. Additionally, our efforts focused on highlighting the positive impact generated by implementing proper revenue management techniques. On another CPP engagement, our client was interested developing a multifaceted privatization plan. For this client we identified over 100 privatization opportunities and ranked each opportunity according to numerous criteria including implementation timing, economic impact, and political sensitivities.

PRIVATIZATION INTERNATIONAL, INC.

The Three Phases of a CPP

The CPP approach consists of three separate and distinct phases. Although the three phases are clearly interdependent with each other, we have found that by examining each phase independently our clients are best able to fully comprehend the tremendous potential privatization provides.

Phase I: Identification

During the identification phase of a CPP, Privatization International works closely with our clients to identify a full range of privatization opportunities. Many of these opportunities go well beyond the traditional scope of privatization and include opportunities related to joint developments, recapitalizations, and restructurings.

One of the most powerful benefits produced during Phase I of a CPP is our ability to identify the synergistic factors produced by privatization. These factors produce a cumulative economic benefit for our clients that far exceeds the returns traditionally associated with privatization.

Phase II: Quantification/Analysis

The second phase of the CPP approach involves selecting a number of the privatization opportunities identified in Phase I for further economic, political, and regulatory analysis. The privatization opportunities analyzed during Phase II of a CPP over a multitude of disciplines. It is Privatization International's experience and ability to effectively analyze privatization opportunities from several perspectives that makes Phase II of a CPP so valuable to our clients.

Phase III: Implementation

After conducting a detailed analysis of a certain number of privatization opportunities it becomes evident that certain opportunities are better candidates for implementation than others. During Phase III of a CPP, Privatization International works with our clients to design the most appropriate implementation plans and financial structures. These plans can involve any one or any combination of nine types of privatization. (A review of the nine types of privatization employed by Privatization International is contained in the following section of this memorandum.)

*The Fourth in a Series of Significant Quotes
on Privatization International, Inc.*

"The number of air travelers in the U.S. is projected to double by early in the next century."

"Private development of terminal facilities could be one way to get those terminals built. Potential profits from retail and other sources - which public owners have barely begun to tap in many cases - could make terminals attractive to developers, says John Stainback, President of Privatization International, Inc., a consultant to government on various aspects of privatization. In terms of their retail operations, terminals are similar to arenas and stadiums, he says. 'We've identified over 20 sources of revenues for these facilities, and most in this country are operating at half speed. I suspect that airports suffer from the same problem.'"

"Other steps he recommends include contracting airport operations to private firms, leasing management to a private company, selling existing airports and creating new, freestanding private airports."

"Privatization Takes Flight"

*Civil Engineering
February 1991*

IV. NINE TYPES of PRIVATIZATION

Overview

When most government officials, the media, and other professionals hear the word privatization, they often only think of contracting out public services or the sale of government-owned assets. These are only two of nine types of privatization which can be used to create new sources of revenue and reduce operational costs. Several types of privatization, such as the public/private finance and development of public facilities and infrastructure, also reduce the government's risks and responsibilities which occur throughout the pre-development and development phases of capital improvement projects. The material which follows identifies nine types of privatization used by Privatization International during a CPP engagement.

Type 1: Transfer Facility Operation to a Private-Sector Management Company

Many governments, universities, and other public organizations operate facilities that probably should be operated by private-sector firms. A prime example involves sports and entertainment facilities. There are a number of highly qualified facility management companies available to governments. These firms take advantage of their economies of scale and their ability to specialize in one type of facility or, in some cases, one type of operation. By leveraging their national network of entertainers and events these private-sector firms are better able to generate new bookings. (Studies have shown that privately-operated entertainment facilities have 30 to 40 percent more event days an average than do similar facilities operated by the public sector.) Private-sector firms also introduce innovative management techniques to control operational costs. By retaining private-sector management companies, governments are often able to reduce or even eliminate the need for operating subsidies.

Type 2: Fully Utilize Government-Owned Real Estate Assets

By leveraging vacant or underutilized real estate, government entities can realize new streams of revenue. These streams can be derived from land-leases, sale-leasebacks, or outright sales. An analysis of a government's real estate inventory generally reveals a tremendous amount of potential value.

Type 3: Structure Public/Private Finance and Development Plans

Governments, universities, and other public organizations are continually studying and analyzing the feasibility of development projects. Unfortunately, many of these efforts neglect to fully consider a potential source of revenue or cost sharing. Frequently, privately-owned commercial, retail, or residential developments benefit significantly from nearby public investments or infrastructure. If the private sector benefits either directly or indirectly from government-sponsored projects, the private-sector beneficiaries should contribute to the government's efforts. The private sector is generally receptive to arrangements that are well structured and offer a fair return, provided, however, that the terms and conditions of such arrangements are consistently applied.

Type 4: Structure the Public/Private Lease or Partial Disposition of Facilities and Infrastructure

Governments have made an enormous investment in public facilities and infrastructure. In many cases government entities are responsible for managing and operating these investments. The management and operation of a government is enormously complex, requiring a wide spectrum of facilities and infrastructure to meet the needs of residents. Owning and especially operating this wide array of facilities and infrastructure may not be the most appropriate means for a government to meet the needs of its residents. Public/private partnerships can be structured in a manner whereby the government maintains a comfortable level of oversight control without being burdened with all of the costs, risks, and responsibilities traditionally required of an owner and operator.

Investments in stadiums, arenas, civic centers, and airports can be very attractive to the private sector. Governments can recognize an economic return from these valuable assets by structuring long-term lease agreements or partial dispositions in which the private sector gains operating control over the operation of the facility in exchange for an up-front cash payment and a negotiated portion of the revenues. Governments benefit from the initial payment plus the enhanced future revenue stream while maintaining partial ownership and quality control.

PRIVATIZATION INTERNATIONAL, INC.

Type 5: Enhance Economic Performance of Existing Facilities

There are a number of ways to improve the economic performance of government facilities. Increasing or implementing user-fees, establishing concessions, or joint development opportunities can increase revenues and/or reduce expenses. On one of our recent engagements, we identified twenty four different revenue enhancement techniques for our client's sports and entertainment facilities. Implementing just a few of these will generate over \$3 million of additional revenue for our client.

Type 6: Transfer Selected Services to the Private Sector

Government services such as street maintenance, waste collection and disposal, custodial services, etc. can be contracted out to the private sector. These privatizations reduce government expenses without sacrificing needed public services. A transfer is generally accomplished through a bidding process which is frequently open to the public agency currently performing the particular service, thereby instilling a level of competition.

Type 7: Restructure Government Organization and Management

Governments can benefit from establishing clear and distinct responsibilities for each of their departments or authorities. Often times several departments and authorities have overlapping responsibilities that lead to inefficiencies. By restructuring the management and responsibilities of these departments and authorities, governments can realize substantial cost savings and increase efficiency.

Type 8: Enhance Cash Management and Restructure Debt

Because of the inefficient processing of parking tickets, license fees, etc., checks sent to the government may not be deposited for several days. This inefficiency results in an opportunity loss — interest income on the receipts is not realized. A well organized and fully computerized cash management system can result in a large increase in interest income for governments.

Many governments can benefit from refinancing or restructuring outstanding debt. These governments may be able to take advantage of the currently low interest rates to realize substantial savings on debt service.

Type 9: Structure the Sale or Disposition of Government-Owned Enterprises

Many government-owned enterprises are attractive privatization candidates. If the private sector acquires a government-owned enterprise, the government usually benefits from a large cash infusion, as well as added property taxes.

In some situations a sale or disposition eliminates the government's need to support enterprises that have operating deficits. In these situations, a sale or disposition should be viewed as an expense reduction rather than a revenue source.

Whenever selling a government-owned enterprise it is imperative that the government's true cost of operation be quantified. Frequently, the full costs associated with security, vehicle maintenance, and administrative support are not reflected in an enterprises' operating budget. Conversely, we have also found many situations where the revenue generated by an enterprise is understated in the operating budget.

The most important step in selling a government-owned enterprise concerns the development of a valuation range. Although there are many valuation techniques and valuation practitioners, the valuation of government-owned enterprises requires special techniques and skills. For this reason, the selection of an experienced valuation advisor is an extremely important step in the sale or disposition of a government-owned enterprise.

Summary

The nine types of privatization described above have all been used successfully by governments, universities, and other public organizations throughout the world. Privatization International designed the CPP approach around these privatization methods and it has been our experience that our clients often use a combination of methods during their privatization efforts. For example, on an engagement involving the sale of sports and entertainment facilities, we recommended that our client first enhance the economic performance of its facilities (privatization type 5) prior to structuring the sale of these government-owned enterprises (privatization type 9). The increase in the sale price these efforts produced far outweighed the costs associated with enhancing the performance.

***The Fifth in a Series of Significant Quotes
on Privatization International, Inc.***

"Privatization International, Inc. in New York, has a contract to advise the military academy on how to make or save money on a variety of West Point facilities."

"Mr. Stainback is focusing his privatization guns on property development. 'The U.S. government owns \$2.4 trillion of real estate, and in my opinion, most of it is tremendously underutilized; he says. Cities are another target. 'They own buildings and vacant lots', he says, 'and half the time they don't even have an inventory.'"

***"Privatization Lets Small Firms Manage Everything From
Libraries to Golf Courses"***

**Wall Street Journal
April 2, 1991**

PRIVATIZATION INTERNATIONAL, INC.

V. OUR PRIVATIZATION EXPERIENCE

One of the most powerful assets Privatization International brings to our clients is the insight and knowledge gained from our extensive experience with structuring and implementing privatization and public/private infrastructure projects.

"There Is No Way To Gain Experience Except Through Experience."

Over the last five years, the principals and managers of Privatization International have structured and/or implemented the financing and development of public facilities and infrastructure projects with a value of over \$6 billion. The size and complexity of our national and international transactions range from a \$60-million toll road to a comprehensive privatization plan for a \$1.1-billion building program.

Our principals' transaction experience assures our clients that our privatization strategies, plans, and structures will contain a careful and proven balance of practicality and innovation. Our principals have significant insight into how the various parties involved with a privatization transaction will respond to a privatization offering, a deal structure, or a proposed public/private development agreement. This insight has proved extremely valuable to our clients. A review of our privatization experience is contained on the following page. As shown, our firm has been involved with some of the more notable privatization transactions completed to date.

PRIVATIZATION INTERNATIONAL, INC.

Privatization International's Privatization Experience

Comprehensive Privatization Program

(71 privatization opportunities)

City of Philadelphia

Philadelphia, Pennsylvania

Comprehensive Privatization Program

(113 privatization opportunities)

U.S. Military Academy

West Point, New York

A Hotel, Marina and Golf Course Complex

(\$23 million)

J. P. Coleman State Park, Mississippi

State of Mississippi

Metropolitan Jackson Bridge and Parkway

Toll Road Study (\$60 million)

Flowood, Mississippi

GTECH Corporation

Development of lottery privatization programs for various states.

West Greenwich, Rhode Island

100-Acre Recreational Facility

Wake County, North Carolina

Division of Parks and Recreation

Raleigh, North Carolina

Graduate Student Housing

Public/Private Finance and

Development Plans (\$15 million)

University of Maryland at

College Park (UMCP)

Trammell Crow Company

Washington, D.C.

Development of Facilities at the

University of Maryland at College Park

National Museum of Transport

(\$35 million)

St. Louis, Missouri

Team includes PRC and Ernst & Young

Consolidated Ventures

International, Inc. (CVD)

Arrange financing for two Export/Import

Bank supported cereal plants in Krakow

Poland, and Mohacs, Hungary

Laganbank Mixed-Use Development

(\$175 million)

Laganside Corporation

Belfast, Ireland

Comprehensive Financing Plan

Czechoslovak Airlines

Prague, Czechoslovakia

Rehabilitation/Expansion of Hotel Thayer

(\$51 million)

U.S. Military Academy

West Point, New York

Navy's National Public/Private

Venture Program

U.S. Navy

Alexandria, Virginia

Lake Ironwood Conference Center and

Hotel Pre-development Phase Only

(\$38 million)

Tempe, Arizona

First Street North Development

Pre-development Phase Only

(\$240 million)

Los Angeles, California

PRIVATIZATION INTERNATIONAL, INC.

Privatization International's Privatization Experience, continued

United States Judiciary Office Building

(\$130 million) *Under Construction*

Architect of the Capitol

Washington, D.C.

Downtown Library (\$30 million)

City of San Antonio

San Antonio, Texas

The Acquisition Management Complex

(\$290 million)

U.S. Air Force

Wright-Patterson Air Force Base, Ohio

Eight Golf Courses Located in State Parks

(\$48 million)

State of Tennessee, Department of

Finance & Administration

Nashville, Tennessee

Centre City San Diego Development

(\$575 million)

San Diego, California

U. S. Government Trust Certificates

(Foreign Military Sales Debt Refinancings)

New York, New York

***The Sixth in a Series of Significant Quotes
on Privatization International, Inc.***

" . . . their efforts are to be applauded. Their team, led by John Stainback, was creative, responsive and comprehensive in their project approach. "

***Michael A. Fitts
State Architect
State of Tennessee
November 6, 1989***

PRIVATIZATION INTERNATIONAL, INC.

VI. *PRIVATIZATION INTERNATIONAL'S ARTICLES, SPEECHES, PUBLICATIONS, AND BROADCASTS*

As the privatization concept continues to spread throughout the world, Privatization International's activities are frequently featured in the press and on television and radio. Because of our extensive transaction history, professionals from our firm are often asked to prepare and present articles and speeches outlining the benefits and various methods of privatization. A sampling of our firm's media coverage is presented on the following pages. Copies of select articles and speeches are available upon request.

PRIVATIZATION INTERNATIONAL, INC.

Articles Authored or Co-Authored by Members of Our Professional Staff

"Privatization Is An Alternative To Tax Increases," Philip Morris Editorial Services, October, 1991. (*Distributed to 7,000 newspapers with a circulation of 43 million.*)

"Investing in Privatization," *Investing: For the Professional Manager — Worldwide*, Spring, 1990.

"Privatization is the Answer, But There is No Free Lunch." *Real Estate Finance, The Quarterly Review of Commercial Finance Techniques*, Vol 6, No. 4, Winter 1990.

"Privatization Development Profitable in Many Areas." *National Real Estate Investor*, November 1989.

"Public Sponsors, Private Developers Join Hands to Build Public Facilities." *Houston Business Journal*, April 10, 1989.

"Twenty Questions to be Answered Prior to Participating in a Public-Private Development Project." *The Privatization Review*, Vol. 4, No. 1, 1988: A Year in Review.

"Miami Arena: A Developer's View of Successful Privatization." *Decoma Venture*, Fall 1988.

"Preparing an RFP for Public/Private Developments." *Tennessee Public Works*, September, 1988.

"Public/Private Partnerships: An Approach for Houston." *Houston Chapter/American Institute of Architects Newsletter* 2, February 1987.

Speeches on Privatization and ESOPs Presented by Members of Our Firm

"Privatization: Enhancing the Economic Performance of State Parks", *Maryland Recreation and Parks Association, affiliated with National Recreation and Park Association*, Baltimore, Maryland, March 19, 1992

"A Comprehensive Privatization Program for the City Of Philadelphia," *The Commonwealth Foundation For Public Policy Alternatives Conference*. Harrisburg, Pennsylvania, February 3, 1992.

"Public-Private Partnerships in Transportation and What it Takes to Make Private Transportation Projects Work." *California Engineering Foundation (CEF)*, Los Angeles, California, July 31, 1991.

PRIVATIZATION INTERNATIONAL, INC.

Speeches on Privatization and ESOPs Presented by
Members of Our Firm, *continued*

"ESOPs in Mergers, Acquisitions and Restructurings." *The ESOP Association Fourteenth Annual Convention*, Washington, D.C., May 15 - 17, 1991.

"Privatization Opportunities and Forms of Equity Ownership in Poland." *Joint Conference on Polish Investment*, New York, New York, April 24, 1991.

"ESOPs: New Applications & Expanding Opportunities with the Government." *The ESOP Association Seminar Series*, Stamford, Connecticut, January 22, 1991.

"Alternative Funding and Financing of Public Projects." *Infrastructure Partnerships*, New York, New York, January 11, 1991.

"How to Make Mixed Use a Reality." *Fairfax Chamber of Commerce Seminar on Mixed Use Development*, Fairfax, Virginia, November 15, 1990.

"Privatization Defined." *The Brookings Institute Inter-Agency Seminar Group*, Washington, D.C., November 8, 1990.

"Privatization in Eastern Europe: Strategies for Success." *Society for International Development*, Washington, D.C., September 26, 1990.

"Privatization as a New Investment Class." *Fourth Annual Public Pension Fund Conference*, Minneapolis, Minnesota, September 17, 1990.

"Airport Privatization: Roadblock or Bridge to Solving the Airport Capacity Crisis?" *American Association of Airport Executives and Airport Operators Council International Symposium on Airport Privatization*, Washington, D.C., August 13 - 14, 1990.

"Financial Considerations for ESOPs." *The ESOP Association Thirteenth Annual Convention*, Washington, D.C., May 23 - 25, 1990.

PRIVATIZATION INTERNATIONAL, INC.

Speeches on Privatization and ESOPs Presented by Members of Our Firm, *continued*

"Public/Private Ventures — An Alternative to Traditional Methods of Acquiring Needed Services and Facilities." *Symposium: Quality Planning in a Time of Tight Budgets, Federal Construction Council of the National Research Council and the Design Arts Program of the National Endowment for the Arts Conference*, January 23, 1990.

"Financial Considerations for ESOP Transactions." *The National Center For Employee Ownership Conference*, Buffalo, New York, October 31, 1989.

"Structuring ESOP Transactions with Government Involvement." *The ESOP Association Seminar Series*, Philadelphia, Pennsylvania, October 19, 1989.

"Employee Buyouts of Government Enterprises." *Reason Foundation Conference*, Washington, D.C., September 21, 1989.

"ESOP Financing." *The ESOP Association Twelfth Annual Convention*, Washington, D.C., May 24 - 26, 1989.

Publications Featuring Our Firm

ABC Color (Paraguay), "*Governments Should Avoid All Private Monopolies*," February 5, 1992.

Diario Noticias (Paraguay), "*Prioritize Idea of Worker Participation in Privatized Companies*," February 5, 1992.

The Journal of Commerce, "*Latin Carriers Catch Privatization Bug*," January 27, 1992.

Ethiopian English Language Newspaper, "*Privatization Opportunities in Africa*," January 23, 1992.

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— "*City of Philadelphia - One of the Most Thorough Privatization Audits*," January, 1992

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— "*Hungary Tender for M9*," January, 1992

Public Works Financing, "*East Europe's First BOT Road*," November 1991.

Crain's New York Business, "*Group Sets Hungary Effort*," November 25, 1991.

PRIVATIZATION INTERNATIONAL, INC.

Publications Featuring Our Firm, *continued*

Privatisation International, London, England

- *"Higher Profile for Toll Roads in U.S.,"* November, 1991.
- *"Privatization International, Inc.,"* September 1991.
- *"West Point Privatizes,"* January 1991.

Philadelphia Inquirer, "A Case for Competition,"
October 13, 1991.

Crain's New York Business, "Privatization Now a Cottage Industry," August 26, 1991.

The Boston Globe, "Privatization Would be Far-Reaching,"
April 29, 1991.

The Wall Street Journal, "Privatization Lets Small Firms Manage Everything From Libraries to Golf Courses,"
April 2, 1991.

Civil Engineering, "Privatization Takes Flight,"
February 1991.

Pensions and Investments, "Investors, Governments May Marry," October 1, 1990.

Partnership Focus, "Privatization International, Inc.,"
October 1990.

The Miami Herald, "The New Conquistadors" —
"Multinational Investors are shopping for pieces of the Latin American and Caribbean economies," July 29, 1990.

The Times Union, Potential Knick Arena Leaser Looking at Deal," June 28, 1990.

Forbes - 'Faces Behind the Figures' - John Stainback -
"Public Projects, Private Financing," April 16, 1990.

PRIVATIZATION INTERNATIONAL, INC.

Radio and Television Broadcasts Featuring Our Firm

KYW-TV (NBC television affiliate) *"Newsmakers - Privatization International, Inc.,"* One-hour taping, March 25, 1992

WorldNet Television, *"Increasing Competitiveness Through Privatization,"* Discussion with various government, media, and labor officials in Bolivia, Paraguay, and Ecuador. February 5, 1992.

WorldNet Television, *"Privatization Opportunities in Africa,"* Interview with leading government officials. January 22, 1992.

Wall Street Journal Radio Network, *"Enterprising Managers,"* August 29, 1991.

CBS Radio, A Division of CBS Inc., *"The Financial Management of New York City,"* August 29, 1991.

Cable News Network (CNN), *"Government Buyouts,"* Interview on MoneyLine, May 23, 1991.

WTEN-TV, CBS in Albany New York, *"Knickerbocker Arena Lease Agreement,"* June 26, 1990.

PRIVATIZATION INTERNATIONAL, INC.

Resumes of the Company's Principals

John Stainback

John Stainback is the president and chief executive officer of Privatization International, Inc. based in New York City. The company is an advisor to governments and private companies with the primary focus of generating additional revenue and reducing the cost of government. Privatization International, Inc. also forms consortiums to structure and implement the public/private finance, design, development, construction and operation of public facilities and infrastructure.

Mr. Stainback founded Privatization International, Inc., one of the world's only companies whose sole business is privatization. Mr. Stainback is also responsible for developing the Comprehensive Privatization Program (CPP) for governments and universities to fully utilize privatization to generate revenues, reduce the cost of government, and to finance and build needed facilities and infrastructure.

Over the last six years Mr. Stainback has structured the public/private finance and development of public facilities and infrastructure with a value of \$3.75 billion. In addition to these privatization projects, Mr. Stainback has completed CPP's which have a first year value of over \$2 billion.

Some of his more notable achievements include developing an implementation plan for one of the first privately financed toll roads in the U.S., preparing CPPs for the City of Philadelphia and the U.S. Military Academy at West Point, structuring privatization plans for the world's largest lottery operator, and preparing public/private finance and development plans for the U.S. Judiciary Office Building in Washington, D.C. (construction to be completed in October 1992), and the \$175 million Laganbank, a mixed-use development along the Lagan River in downtown Belfast, Ireland.

Prior to forming Privatization International, Inc., Mr. Stainback was the president and CEO of Privatization Development of America, Inc. with offices in Houston, Texas and Washington, D.C. He also held the position of development director for Barker Interests and Decoma Venture, one of the nation's only development companies established solely for public/private developments.

PRIVATIZATION INTERNATIONAL, INC.

John Stainback, continued

Mr. Stainback is a vice president of the Board of Directors of The Privatization Council, located in Washington, D.C., and a member of its Executive Committee. He is also chairman of The Privatization Council's International Privatization Policy Board.

In addition to his participation in various privatization organizations, Mr. Stainback has authored a dozen articles on privatization, delivered numerous speeches, and participated in several television and radio broadcasts on privatization.

Mr. Stainback is a graduate of the University of Pennsylvania (master of architecture and master of city planning) and the University of Maryland (bachelor of architecture and bachelor of arts).

PRIVATIZATION INTERNATIONAL, INC.

David L. Stickler

David Stickler is a managing director at Privatization International. A graduate of the Kellogg Graduate School of Management at Northwestern University (master of business administration) and Bowling Green State University (bachelor of science in accounting), Mr. Stickler is a recognized authority on privatization financing. With an extensive background in finance, Mr. Stickler provides Privatization International's clients with access to a full range of financial markets.

Mr. Stickler joined Privatization International to focus on developing alternative financing sources for public/private ventures. Prior to joining Privatization International, Mr. Stickler spent four years as a vice president in the Corporate Finance Department at Manufacturers Hanover Securities Corporation where he was responsible for structuring both domestic and international transactions.

Mr. Stickler also served as a White House intern during the Reagan Administration. While in Washington, Mr. Stickler analyzed a variety of privatization opportunities for the federal government.

Mr. Stickler is a certified public accountant, and he spent three years working with Ernst & Whinney where he coordinated several structured finance and acquisition finance engagements. Mr. Stickler is also a securities industry representative for the Financial Accounting Standards Board's Emerging Issues Task Force.

PRIVATIZATION INTERNATIONAL, INC.

John McDonough

Mr. McDonough serves as the chief financial officer and as a public/private finance analyst for Privatization International. A graduate of the University of Dayton (bachelor of science in accounting), Mr. McDonough is a member of the American Institute of CPA's, as well as the Securities Industry Association.

With over twenty years of finance experience, Mr. McDonough is recognized as an expert in the securities, mortgages, investment banking, and merchant banking fields. The major portion of Mr. McDonough's extensive finance experience was gained during his twelve years at Salomon Inc. In 1978 he joined Salomon Inc. as a vice president and assistant controller. In 1983 he was made special projects director. In the latter position he directed a team of 90 professionals with global responsibilities to advise senior management on control and efficiency of worldwide corporate entities including Salomon Brothers, Philipp Brothers and Phibro Energy.

Prior to joining Salomon, Mr. McDonough was with Coopers & Lybrand.

PRIVATIZATION INTERNATIONAL, INC.

Letters of Recommendation

These Letters of Recommendations are available upon request. The letters are listed in reverse chronological order.

- **Laganside Corporation** January 24, 1992
A Public/Private Development Corporation
established by the Government of Northern Ireland.
Mike Smith, Director of Development
Belfast, Ireland
- **Department of the Army** November 1, 1991
United States Military Academy
Richard C. Ashley, Jr.
Directorate of Academy Advancement
West Point, New York
- **State of Mississippi** October 29, 1991
Department of Economic and Community
Development (DECD)
Peyton D. Prospere
General Counsel
Jackson, Mississippi
- **City of Philadelphia** October 15, 1991
Office of the Controller
David A. Volpe
Deputy City Controller
Philadelphia, Pennsylvania
- **City of Flowood** October 15, 1991
Office of the Mayor
Gary L. Rhoads, Mayor
Flowood, Mississippi
- **County of Albany** October 2, 1990
Office of the Executive
James J. Coyne, County Executive
Albany, New York

PRIVATIZATION INTERNATIONAL, INC.

Letters of Recommendation, continued

- **State of Tennessee** November 6, 1989
Department of Finance and Administration
Michael A. Fitts, State Architect
Nashville, Tennessee
- **Department of the Army** August 16, 1989
United States Military Academy
John L. Throckmorton, Jr.
Lieutenant Colonel/Project Manager for
Hotel Thayer
West Point, New York

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Richard

From Bob Poole
- Reason Fndtn

Carl Williams

- #2 Cal Trans

916-654-4852

Calif Transp. Dept - privatization of
Toll Rds, etc

- backup - Ray Hagy -

LA City Council members in favor of
Selling / leasing LA Intl Airport

- CC Pres John Ferraro

213-485-3337

- Joel Woehs
(liberal dem)

213-485-3391

assistant - Greg Nelson

- Joy Pious 213-485-3486

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PRIVATIZATION INTERNATIONAL, INC.**FAX TRANSMITTAL SHEET**

To:

Richard Porter

Date:

5/11

Company:

White House

City:

Fax No.:

202-456-6216

From:

John Stainback

Acct #:

Comments:

This fax consists of 3 pages including this sheet.

Phone: (212) 385 0067 / Fax: (212) 385 0069

14 Wall Street New York, New York 10005

PRIVATIZATION INTERNATIONAL, INC.

JOHN STAINBACK
President and CEO

May 11, 1992

Mr. Richard Porter
Counselor to the Vice President
The White House
Washington D.C. 20501

Dear Richard

Over the weekend, I have had time to further develop the concept of forming a consortium to work with you and other members of the Vice President's Office to structure and implement the acquisition of several major infrastructure assets using the Executive Order on Infrastructure Privatization.

If you have had time to further review my manuscript, you know that my focus was to use the proceeds from the disposition of public assets to eliminate government debt, and to issue a tax credit, or payment to every American citizen. This weekend I thought of a better use of the proceeds, and one which is much more beneficial to the Bush Administration. Use the proceeds to fund programs advocated by the White House. This would demonstrate to voters that the Administration was very astute to issue the Executive Order and then used it to take bold and innovative action to solve some of the nation's domestic problems. For example, use the proceeds to finance the redevelopment of south central Los Angeles, or central city housing programs across the nation, etc.

The driving force for the Administration to support this approach is to demonstrate action, and simultaneously silence critics regarding spending more government funds (i.e., The Great Society approach). Through the use of privatization of the nation's infrastructure assets, the federal government and the other levels of government are not writing checks, the private sector is! The private sector is willing to write checks because they not only obtain a valuable asset, but they also believe they can enhance the economic performance of privatized assets, thereby gaining a satisfactory economic return.

The voters' perception of the White House is substantially enhanced because:

- the Bush Administration is seen as taking immediate action and fully utilizing the private sector to solve the nation's domestic problems,

Mr. Richard Porter

Page 2

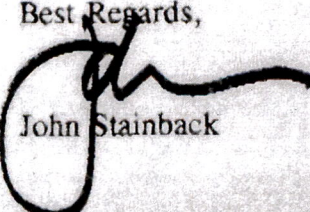
- the Bush Administration is not simply pouring more government funds on the nation's problems, they are facilitating private financing, thereby avoiding adding to the federal deficit,
- the Bush Administration is also seen as being entrepreneurial, by allowing the private sector to proactively manage these assets, most of which are passively managed and underutilized by government.

Time is of the essence. As you well know the presidential election is only 23 weeks away. If you can gain the full support of President Bush, and/or Vice President Quayle for a world-class public/private consortium to implement several major asset dispositions to generate nontax revenue for the government, I can form the consortium very quickly. But I need the Administration's support, otherwise the implementation process will go far beyond November 4th.

If you can arrange for the Vice President to attend a meeting with a consortium on this approach, I will assemble a team of some of the best minds in the nation. I only need one week to obtain commitments from consortium participants. Obviously, prior to the initial meeting, I will review the team with you for your approval. We should be able to have the first meeting two to three weeks from now. I suspect work session(s) with you and other members of the White House staff will take place after the initial meeting with the Vice President, and this will require an additional two to three weeks in June, which only allows four months to implement several asset dispositions, which the Administration can point to as successful results of their Executive Order, and as sources of private finance for needed programs identified by the White House.

Our Company's Board of Directors and principals stand ready to begin work immediately.

Best Regards,



John Stainback

cc: Bill Burrows

Bush Library Photocopy Preservation

PRIVATIZATION INTERNATIONAL, INC.

GOVERNMENTS NEED TO GENERATE ADDITIONAL NONTAX REVENUE AND REDUCE OPERATIONAL COSTS, NOT INCREASE TAXES AND INSTITUTE WHOLESALE CUTBACKS

John Stainback, Chairman and CEO, Privatization International, Inc., New York, New York, an advisory company to governments in the U.S and overseas.

The Limited Choices for Governments to Balance Their Budgets and Regain the Confidence of Voters

Most governments are facing the dilemma of financial shortfalls, yet an increase in the demand for additional and expanded services, infrastructure and public facilities.

Governments have four choices to solve their dilemma. They can generate additional nontax revenue, reduce operational costs, increase taxes, or cut services and capital improvements. The latter two solutions are no longer viable. Governments should focus on generating additional revenue from their existing assets and reducing the direct expenditures for public facilities, infrastructure, and services. Introducing an entrepreneurial spirit to government operations will not only allow governments to balance their budgets, but also finance needed facilities and infrastructure, as well as begin to recapture the confidence of voters.

Increasing Taxes is Unacceptable

States already collect nearly twice as much tax for every \$1 in income tax as they did in 1970, according to a recent report in *Forbes*. Revenue from individual income taxes, as a percentage of total state tax revenue, has more than tripled since 1948. The Tax Foundation, a unit of Citizens for a Sound Economy, estimates that the average family of four now works until May 8 to pay taxes — three days longer than the previous record, set last year.

Governors of 23 states have proposed tax increases for the 1992-93 fiscal year, according to a 1991 study by the National Association of State Budget Officers and the National Governors' Association. The same study found that in fiscal year 1991-92, 26 states raised taxes.

Taxpayers have reached their limit. "In Connecticut, Governor Lowell Weicker had to escape via a tunnel when 65,000 angry voters at the state capitol protested a new 4.5 percent income tax. Governors Pete Wilson of California and James Florio of New Jersey have seen their popularity ratings plummet after raising taxes." (Fortune, November 18, 1991)

Cutting Services and Deferring Needed Rehabilitation and Construction of Infrastructure and Buildings is Also Unacceptable

The condition of the nation's infrastructure is rapidly deteriorating, and efficiently provided public services are needed now more than ever.

According to the Federal Highway Administration, 239,568 bridges — 41.5 percent of America's 576,025 bridges over 20 feet in length — are either structurally deficient or functionally obsolete. The Federal Highway Administration which now spends about \$13 billion a year on repairs and construction, estimates that bringing the nation's roads up to "minimum engineering standards" would cost between \$565 billion and \$655 billion over the next twenty years. So, the annual investment required is 2.5 times the current allocation.

Equally important, governments electing to institute wholesale cutbacks of services as a means to reduce their financial shortfalls only compound the severe unemployment problem and the nation's gloomy economic condition.

Reducing the Cost of Government is a Beginning

The cost to operate many governments at all levels across the country is no longer justified. State taxes and fees skyrocketed by \$16.2 billion in 1991, the largest dollar amount ever, and one of the largest by percentage in history. The Tax Foundation recently reported that state tax collections in fiscal 1989-1990 shot up by nearly \$20 billion to a record \$284 billion. State taxes have been rising faster than federal taxes, with an increase of 127% over the past decade.

In the November 18, 1991 issue of *Fortune*, it was reported that federal taxes have risen to almost 21% of GNP, "about where they were in 1981 when Ronald Reagan unleashed a frenzy of congressional tax cutting. State and local taxes have risen relentlessly from 9.5% of GNP in 1981 to 11.1% today."

How are the voters' taxes being used — if most governments are operating at a deficit, deferring the construction of needed infrastructure, and slashing services? One example is the typical fringe benefit package of public employees which far exceeds the private sector. No one is advocating excessive cutbacks, but public employee fringe benefits should be competitive in the marketplace. A prime example of compensation for public employees not being competitive was reported by The Commonwealth Foundation in 1991 when they discovered that the labor costs for government employees in the City of Philadelphia had increased eighty-five percent since 1970, and account for half of the city's budget. Benefits and wages for city workers average

over \$45,000, 51% more than private sector wages. They went on to report that a city worker is entitled to 47 paid days off their first year!

In addition to making public employee benefit packages competitive, government costs can be reduced by introducing competition to the delivery of public services; allowing private operators to manage selected public facilities; and reducing overlap and inefficiencies in the organization of government, which in turn is a basis for consolidating building space needs.

The Preferred Solution to Government Shortfalls is to Generate Additional Nontax Revenue

Most governments at all levels and all sizes have a multitude of ways to generate additional nontax revenue, because most governments own and/or operate an enormous number of facilities, infrastructure, services, and companies — many of which are operating at a deficit. Governments also own substantial real estate holdings, which if managed well, could generate substantial income. However, most governments take a "caretaker" approach to their assets and resources. Real estate assets are passively managed; facilities such as stadiums, arenas, convention centers and airports are not generating the operational income they could; and government-owned and operated companies are usually managed as public monopolies, consequently, they are bloated from little, or no competition.

Most governments are also faced with a number of facilities which are continually subsidized by precious general funds, inter-governmental funds, a special tax, or all three. Each type of facility has various operating expenses and sources of revenue. Most facilities owned and operated by government are not operating on all cylinders. The government owner and operator of the facility should view these facilities as a business and identify all of the ways to increase revenue and reduce operational costs. An example of a government-owned and operated type of facility which typically operates at a deficit is an arena or stadium. There are 24 sources of operational revenue for these facilities, but in most cases only a small number of these revenue sources are in effect, yet many governments continue to subsidize these facilities year after year.

Most cities, counties and states also have vast real estate holdings, yet few governments manage their assets proactively. Valuable properties and buildings sit dormant, vacant or underutilized. These assets represent another source of income, not necessarily from selling them to the private sector, but from long-term land leases to private developers, and/or forming public/private partnerships to develop them to their highest and best use. The real estate which is identified as excess properties should be sold outright to the private sector. For these properties governments not only realize a cash infusion, but these properties go back on the tax roll, and government expenditures for maintenance is eliminated.

A Comprehensive Privatization Program (CPP) May Be the Most Powerful Means Available to Government to Generate Nontax Revenue and Reduce Costs

Governments cannot continue to rely on the traditional solutions of increasing taxes and cutting services to solve financial shortfalls. They need to focus on reducing the cost of government and generating nontax revenue. This will require changing their basic method of operation — the issue is not public versus private. It is the introduction of competition and an entrepreneurial spirit to the way they manage their assets and carry out their responsibilities.

One privatization technique which focuses on generating nontax revenue and cutting costs is a Comprehensive Privatization Program (CPP). A CPP is applied to most, if not all the responsibilities of a government. For CPP's, nine types of privatization are used to maximize government assets, and eliminate the deficit operation of facilities and services. The nine types of privatization include: transferring the management of selected facilities to private operators, capitalizing on the revenue potential from real estate assets, structuring creative public/private finance and development plans for needed public buildings and infrastructure, disposing of businesses government should not own in the first place, and enhancing cash management and restructuring debt. A CPP for a city, county, or state usually yields over a hundred privatization opportunities. Consequently, it also provides government with both short- and long-term nontax revenue gains, which in turn provides flexibility in the implementation phase. The CPP for the City of Philadelphia generated 71 privatization opportunities. It is important to note that only four of the wide array privatization opportunities called for introducing competition in the delivery of public services. Five of the 71 privatization opportunities were recommended for priority implementation. The new nontax revenue and cost savings for the City generated by these priority privatization projects alone is \$1.2 billion.

A CPP for the U.S. Military Academy at West Point was equally successful. Over 100 privatization opportunities were identified, ranging from enhancing the economic performance of facilities with deficit operations to recommending that the Army divest themselves of businesses such as food service, dry cleaning, and publishing.

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COMPREHENSIVE PRIVATIZATION PROGRAM (CPP): A PLAN FOR GOVERNMENTS TO GENERATE NONTAX REVENUE AND REDUCE OPERATIONAL COSTS

John Stainback, Chairman and CEO; Privatization International, Inc., New York, New York

The tote board located in Midtown Manhattan which tracks the federal government's ever increasing national debt was \$3,381,220,401,500 at 3:00 p.m. on April 23, 1992. How are governments at all levels across the nation going to balance their budgets, be less dependent on the debt ridden federal government, and also meet the increasing needs of the American people?

A Recently Completed CPP for the City of Philadelphia is a Prototype for Cities, Counties, and State's Throughout the Nation

The most effective means available to government today to generate additional nontax revenue, reduce the cost of government, and facilitate the private finance and development of needed facilities and infrastructure is a Comprehensive Privatization Program (CPP).

A CPP for the City of Philadelphia generated 71 privatization opportunities by applying nine types of privatization to maximize the City's assets, eliminate the deficit operation of facilities and services, and facilitate the private finance and development of needed facilities and infrastructure.

To understand the full potential of a CPP, realize the transfer of services to the private sector is only one of the nine types of privatization.

Five of the 71 privatization opportunities recommended for priority implementation will produce \$1.2 billion of new nontax revenue and cost savings for the City in the next 12 to 15 months. the CPP approach could be a prototype program for governments at all levels to focus on generating new nontax revenue and cost savings to balance their budgets versus the traditional approach of increasing taxes and wholesale cutbacks of services.

The Sobering Financial Condition of Many Governments

A government finance expert at the Brookings Institution recently stated that "you have to go back to the Great Depression to find similar anguish in terms of the number of states that are facing unprecedented cutbacks in services or significant increases in taxes."

Currently, thirty states face deficits, as do thousands of counties, cities, and towns, with no chance of being bailed out by the Federal Government, which according to a March 23, 1992 article in The New York Times, is facing a \$368 billion budget deficit this year. The Bush administration has proposed a Fiscal Year Budget of \$1,516,700,000,000. The Fiscal Year budget represents more than 25 percent of the nation's total output as measured by the Gross National Product (GNP).

According to an April 1991 survey by the National Association of State Budget Officers and the National Governors' Association for fiscal year 1991, twenty-six states raised taxes to bail themselves out. To compound these current dismal conditions, governors of 23 states have proposed tax increases for fiscal year 1992.

Two major concerns have developed from the current dismal financial condition of many governments at all levels; 1) The knee-jerk reaction of government officials and legislators to add another layer of taxes onto an intolerable situation, and 2) possibly the most worrisome aspect of the current financial condition of many governments is that in the 1980s, government budgets were pushed upward by the unyielding increase in education, medical, and prison costs, and these trends are not going to stop anytime soon. Demographic statistics indicate the number of school-age children is expected to grow by 3.2 million in the next decade. This number decreased by 3.4 percent during the last decade. The July 1, 1991 issue of Fortune describes the cost of health care as being "out of control" - rising at more than twice the rate of inflation. The lack of prisons to accommodate the increasing inmate population is also a national problem which will not go away any time soon.

Privatization is an Alternative to Tax Increases, Cutting Services, and Deferring Capital Improvements

Most governments are facing the dilemma of financial shortfalls and tighter spending controls, yet an increase in the demand for additional and expanded services, infrastructure and public facilities.

Governments have four choices to solve their dilemma. They can generate additional nontax revenue, reduce the operational cost of government, increase taxes, or cut services and capital improvements. The latter two solutions are often not attainable. Governments should focus on generating additional nontax revenue from their existing assets and reducing the direct expenditures for public facilities, infrastructure, and services.

A Comprehensive Privatization Program (CPP) Produces a Menu of Opportunities to Generate Nontax Revenue, Reduce Operational Costs, and Facilitate Private Financing for Needed Facilities and Infrastructure

Many governments exploring the use of privatization have far too narrow a perception of the number and type of privatization opportunities which exist. Most often governments relegate privatization to contracting out services or selling government-owned enterprises. Privatization is much more. A Comprehensive Privatization Program (CPP) can generate enormous amounts of additional nontax revenue, reduce the operational cost of government and provide financing for needed capital improvements by applying nine types of privatization to many of the activities included in the eight primary responsibilities of government. In addition, a CPP offers governments a wide variety of privatization opportunities typically 50 to 100 which provide both short and long term results. Often the resulting additional revenue and cost savings are achieved inside one year or can be phased into the government system over a longer time frame.

The CPP Process

The primary objectives of a CPP are to generate new and additional nontax revenue, reduce operational costs, and facilitate private financing for needed capital improvements. The CPP methodology to achieve these objectives includes seven sequential steps:

1. In conjunction with the government, establish evaluation criteria to qualify each privatization opportunity and later in the process prioritize each for implementation.
2. Identify problems and opportunities within the government's eight primary responsibilities, such as: needed new facilities and infrastructure, facilities operating at a deficit, deferred maintenance and rehabilitation projects, underutilized real estate assets, inordinately costly services, etc.
3. Apply one, or a combination of the nine types of privatization (described on page 4) to each of the identified government problems and opportunities.
4. By applying one, or some combination of the nine types of privatization to each government problem or opportunity, a menu of privatization opportunities is generated.
5. Apply one, or a wide range of privatization techniques to each privatization opportunity identified.
6. In conjunction with the government, select all, or any number of privatization opportunities to value and analyze regarding feasibility and the potential revenue and cost savings to be gained by the government.
7. Prepare an implementation plan for each of the recommended privatization opportunities for implementation.

As a result of the CPP process, there are inevitably a large number and wide variety of privatization opportunities developed. Typically, a CPP yields such a wide range of privatization opportunities for a government, they have the flexibility to select what types of privatization are implemented, how many, and when each is implemented.

A CPP Has Six Basic Parts

Part One: Evaluation Criteria to Qualify Privatization Opportunities and Prioritize Each Opportunity for Implementation.

To better define the scope of the CPP, governments need to identify their objectives, establish priorities, and understand the constraints and opportunities for privatization.

Every government entity is unique. Each government is confronted with different financial situations; public needs they can not satisfy, and constraints to implement privatization. Therefore, "Evaluation Criteria" are used to both qualify privatization opportunities for inclusion in the CPP and later in the CPP process prioritize privatization opportunities for implementation.

Each privatization opportunity is evaluated using criteria, typically numbering 35 to 50, which includes factors and issues such as:

- The level of sensitivity of public and private groups which may be affected by the privatization opportunity.
- The potential amount of economic return or cost savings for the government.
- Public and private sources of finance.
- Public and private finance techniques.
- The time required to structure and implement each privatization.
- Legislative constraints and opportunities.

The number and type of evaluation criteria for a CPP is specifically tailored for each government to meet their desired level of control, timing, and investment.

Part Two: The Eight Primary Responsibilities of Government

To reduce operational costs and maximize government assets and resources, privatization is applied to specific activities within each of the eight primary responsibilities of government:

- Own and Operate Public Facilities and Infrastructure
- Finance and Build New Public Facilities and Infrastructure
- Rehabilitate or Expand Existing Public Facilities and Infrastructure

- Manage Real Estate Assets
- Provide Public Services
- Own and Operate Company(s)
- Manage the Budget and Collect Revenues
- Manage and Operate the Government

The multitude of government activities and projects included in each of these responsibilities can be enhanced by applying one, or any combination of the nine types of privatization. The eight primary responsibilities also serve to organize the resulting menu of privatization opportunities.

Part Three: Nine Types of Privatization

Most governments using privatization to generate revenue or reduce costs typically use only one or two types of privatization. The most common types of privatization are the transfer of public services to the private sector, and the sale of government owned enterprises. The nine types of privatization used in a Comprehensive Privatization Program include:

1. Transfer the Operation of Government Facilities to Private Operators or Management Companies.
2. Structure Public/Private Partnerships to Finance the Rehabilitation or Expansion of Existing Government Facilities and Build New Facilities and Infrastructure.
3. Enhance the Economic Performance of Existing Government-owned and Operated Facilities.
4. Fully Utilize Government-Owned Real Estate Assets.
5. Structure Public Services to Be More Competitive.
6. Structure the Disposition or Re-Capitalization of Government-Owned Companies.
7. Enhance Cash Management and Restructure Debt.
8. Restructure Government Organization and Management.
9. Structure the Public/Private Disposition of Public Facilities and Infrastructure.

Application of some of these types of privatization not only generate new sources of revenue and reduce costs, but also reduce government's risk and responsibilities during the phases of pre-construction, construction and operation of facilities and infrastructure.

Part Four: A Menu of Privatization Opportunities

A substantial number of privatization opportunities result from applying one, or more of the nine types of privatization to the facilities, infrastructure, services, government-owned companies, facility operations, and government activities included in the eight primary responsibilities of government.

An example of the privatization of one facility included in one of the eight primary responsibilities of government will begin to reveal the power of a CPP. A city-owned and operated civic arena would be one facility among a multitude of facilities included in the city responsibility of "Own and Operate Public Facilities and Infrastructure" (see Part 2). Five of the nine types of privatization could be used on this single facility. The five types include:

- Transfer the management of the arena to a private operator. (Type 1)
- Enhance the economic performance of the arena by tapping most, if not all of the 24 sources of revenue available for this type of facility. (Type 3)
- Structure the arena's public services to be competitive. (Type 5)
- Depending on such factors as how the arena was financed, and the balance of the principal debt, the remaining debt could be restructured. (Type 7)
- Structure a disposition plan for the arena to offer it to the private sector on the basis of an outright sale, or long-term lease-acquisition. The latter would allow the government to retain ownership. (Type 9)

So the privatization of the civic arena alone generates five privatization opportunities. To further illustrate why so many privatization opportunities evolve from the CPP process, assume a government owns and operates, say ten facilities, and on average only two of the nine types of privatization are applicable, the number of privatization opportunities generated is 20. Remember this is only one of the eight primary responsibilities of government and only two of the nine types of privatization in use.

Part Five: Privatization Techniques for Each Privatization Opportunity

The primary objective in Part Five of the CPP is to determine the most effective privatization technique to be used for each of the privatization opportunities identified in Part Four. Selection of the technique to proceed with will be affected by the evaluation criteria developed in Part One, because each privatization technique will generally require the government and private sector to be responsible for certain aspects of the project, incur various costs, and share in the economic return and/or cost savings.

Again, an example may be the clearest way to explain this part of the CPP. If funds were cutback for a city's capital improvement program, or their municipal bond capacity was nearly exhausted and they could not finance a much needed road, they could structure a public/private partnership to finance, design, construct and operate the road. (Type 2). There are three basic privatization techniques which could be used to implement this privatization opportunity.

- The most common technique is to Build-Operate-Transfer (BOT) a new facility. Basically, a private entity structures the public/private finance of the road, and then builds and operates the facility for a specified term, typically 20 to 40 years. Title and operation of the road are transferred to the government at little, or no cost upon expiration of the term of the agreement.
- The Build-Transfer-Operate (BTO) technique requires a private entity to finance the facility, but title to the road is transferred to the government upon completion of construction. The private entity then operates the road for a term of 20 to 40 years to collect all revenues and recoup its investment.
- Perpetual Franchise is a third technique which requires that the title, financing, construction, and operation are the primary responsibility of a private entity. The government has oversight controls on safety and quality of service.

To expand or rehabilitate an existing road there are at least five privatization techniques. The specific techniques are not as important here, as is the recognition that for this type of privatization opportunity there are five privatization techniques up and above the techniques available for a new road.

Part Six: Implementation Plans for High Priority Privatization Opportunities

In Part Six each privatization opportunity is evaluated using the criteria established earlier in the CPP process, and ranked from 1 to 10 to prioritize each opportunity for implementation. For this part of the CPP an "Implementation Matrix" is used.

An Implementation Matrix is the culmination of all five parts of the CPP. The matrix systematically presents all of the privatization opportunities and provides the data, results of the financial analysis, and logic for each privatization opportunity.

The "cells" of a matrix provides information on each opportunity, which addresses each evaluation criteria. So, a matrix typically includes 100 privatization opportunities and 50 evaluation criteria, for a total of 5,000 cells.

Advantages of a CPP for Government

The cumulative total of additional nontax revenue and cost savings from the anticipated 100 or more privatization opportunities could have a profound effect on the financial condition of a government. In addition to the financial impact, a CPP provides governments with other advantages:

- **Flexibility:** Governments will be able to mold their CPP to structure and implement privatization opportunities which best meet their needs and objectives.
- **Short and Long Term Results:** If a government wants to focus on short term results they can implement privatization opportunities which produce an economic return and/or cost savings in several months. A CPP typically includes privatization opportunities with both short and long term results.
- **Synergism Among Privatization Opportunities :** Governments will find that another advantage of the CPP approach is the cumulative impact, which will often be realized from using more than one type of privatization technique for a particular privatization opportunity, and/or combining related privatization opportunities.
- **Use New Nontax Revenue and Cost Savings for Other Purposes:** Another advantage for the City is the multiple use of the initial nontax revenue and cost savings generated from the CPP. The revenue realized initially can serve as a source of funding for required studies to implement or fully capitalize on the CPP. it can also serve as the equity participation in public/private finance and development projects. And of course, the new revenue could be invested to generate interest income, etc.
- **Disperse the Burden of Balancing the Budget :** When a government relegates the use of privatization to contracting out services to the private sector the burden of reducing costs falls on the shoulders of public employees. A CPP provides government with a wide range of opportunities to generate revenue and reduce costs.

Summary

City, county, and state officials can no longer afford, politically or financially, to solely rely on tax increases, wholesale cutbacks of services, and deferred maintenance and construction of facilities and infrastructure to balance their budgets. Privatization is emerging as one of the most effective alternatives to traditional government solutions. Some governments have begun to utilize privatization , but have limited its use to services, or the sale of government-owned companies. A Comprehensive Privatization Program (CPP) may be the most powerful means available today for governments to generate nontax revenue and reduce operational costs. Equally important, because a CPP yields such a large number and wide variety of privatization opportunities, it may be the most flexible, and therefore acceptable means to balance government budgets throughout the world.

① Privatization

Ron Lander - What will happen on user's fees -
Just want to be sure
it won't go up!

② Competitive bidding is
the one straight forward
way to save money

Potential from privatization
is enormous - \$10 billion annual
savings in NY alone. All we
are asking is to get the
right to privatize.

DO - Recoupment is the big issue
want to make sure state's don't
just trifle away money.
Where's the money on this?

Lauder - Cuomo likes it now because it will save him money. He said, find me the buyers for the Airports + I'll make it happy. Key to making this popular is to talk about competition, not privatization. Some worry about jobs - especially public employee unions. But look at Heathrow, they have created jobs -

Gawitch
Only people not privatizing are Burma, North Korea + the People's Republic of NY. Real advance is in contracting out. Introducing competition is key. Thatcher passed a law in 1988 mandating competition

③ for government contracting services. Considine introduced a similar initiative in Denver. Privatization offers B/A a chance to give cities something for nothing.

Robert Poole - Reason Foundation

- Hidden wealth locked up in city/state balance sheets that we can unlock, allowing city & states to d
- Doing it in Calif. w/ roads \$2.5 billion for four toll roads one road doesn't even have toll booths - all electronic!

Reason estimates more than ⁽⁴⁾
\$200 billion over next
5 years could be invested.
Freeing up money for
cities + states. Plus -
it adds these assets to
the tax base, making
recoupment a non issue
- Price Waterhouse study
of Dulles Toll Road extension -
\$2 in tax revenue for every
\$1 invested.

John Givardo - If you require
recoupment, you may extinguish
grant conditions - conditions we
want. Also, we should not overlook
impact on unions - gives city an
incentive to reduce # of people who
vote for them.

⑤ DQ - Recoupment a political problem - don't want to show that feds got no return from their investment

Michael Basham - Indianapolis Water Company one of his first clients. They want to invest in water treatment facility in Fort Wayne.

~~Higher industry priorities~~
Higher return of money to local officials, the easier it is to get them to do it.

Urggio Butler - Recoupment issue gets blurred in airports because after they pay back grant, operators can then reapply for other grants. Lockheed doing work in Prague, but not

(6)
here. Recoupment is an issue
in as much as it effects
city/local incentives for
officials,

Dusty Rhodes -

The bigger the money the better
the incentive. The incentive is
necessary to get the good
policy.

Michael Busham - what's
driving this is not policy,
but economics. &

Paul - (1

If ~~they~~ LA sells LAX
(for \$1 - 3 billion) (Uggo - \$1.5 bill)
it will finance their deficit for
40 years. Also - limits on private
activity bonds creates a bias
for going public instead of private.

Any kind of facility that serves a public purpose should get the public tax exemption.

Even if you do make them private, subject to public use cap, don't subject them also to AMT provisions.

Lauder

- 83% of NYers in a poll done by Lauder support privatization.

Use the word competition on infrastructure, not privatization.

Sawitch -

Could follow up on Exec A with a comp. Council group stimulating local demand.