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**RURAL TELEPHONE BANK PRIVATIZATION STUDY
TRANSITION PLAN**

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RURAL TELEPHONE BANK TRANSITION PLAN

Executive Summary

Privatization represents a major change in the Bank's operations. There is no guidance in the RE Act for how the Bank will transition from a Government agency to a private entity. Therefore, it is critical that the Board approves and implements a plan for transitioning the Bank in such a way as to minimize the impact of this change on the rural telecommunications community. (See Appendix H for the complete transition plan.)

The proposed Transition Plan includes activities that should be completed before the Bank is privatized so that it can continue to responsibly serve the rural community while at the same time increase the likelihood of the Bank's long-term success. The Transition Plan is a living document that will be modified as necessary to address issues that may arise during its implementation. This plan does not anticipate that the RTB would be operated any differently during the transition period than it currently is.

The Board of Directors is responsible for establishing the Bank privatization target date and approving the transition plan. At the start of the transition period, estimated to be 18 months, the Board would be responsible for appointing a Transition Manager, optimally a senior manager who is experienced in managing large projects on a tight schedule and is familiar with the operations of the RTB or a similar institution. The Transition Manager would report directly to the Board, providing regular progress reports and presenting information at key decision points for Board action.

In addition, the Board would need to work closely with RUS and USDA to form a Transition Team to implement the proposed transition plan. The proposed Transition Team would be comprised of personnel temporarily assigned from RUS/USDA and specialized outside support hired by the Board. The Transition Team as a whole would be responsible for the success of the transition. Six functional areas are represented on the team – finance, human resources, operations, organizational planning, legal and marketing/communications. It is critical that the transition team include professionals well versed in credit analysis related to the rural telecom market. The Functional Area Leads would be responsible for coordinating information and decisions among all the functional areas so that the Transition Team and the Board can work efficiently without duplication or gaps. The Transition Manager, Functional Area Leads and the Board would need to meet on a frequent, regular basis to discuss progress on the transition plan and to discuss issues where Board decisions will be needed. The Transition Manager would be responsible for ensuring that the meetings are planned, the decision options clearly stated for Board action, and the results of the meetings documented.

Among the key activities that would need to be completed during the transition are the following:

- Pursuing legislative changes to the RE Act;

- Developing a business plan, assessing market requirements, and determining the optimal organizational structure for the private Bank;
- Determining the location of the Bank's offices;
- Setting up private accounts for the Bank's assets to be transferred into;
- Conducting a study of insurance needs;
- Ensuring that the Bank has a clear understanding of the assets, liabilities, and the financial systems, information, and data that may transfer to the Bank;
- Meeting regularly with shareholders and other Bank stakeholders;
- Meeting with credit rating agencies and other members of the financial market;
- Hiring the private Bank's management team;
- Developing a memorandum of understanding with the Government on a number of issues since the private Bank will continue to work closely with the Government; and
- Creating the systems, policies and procedures that will need to be in place before the Bank can be privatized.

A detailed list of key decisions and activities for the RTB Board's consideration and ultimate approval are listed in the Transition Schedule. The schedule is an integral part of the Transition Plan and would be used as the tool to assess progress and performance.

1.0 Introduction

In 1971, the Rural Electrification Act (REA) was amended to create the Rural Telephone Bank for the purpose of providing supplemental financing for telecommunications companies and cooperatives eligible to borrow under the REA's telephone loan program.

A part of the legislation to create the Bank in 1971 also described how the Bank would eventually be privatized. Section 410 of the REA calls for the Bank to be privatized at the point at which 51 percent of the Class A stock has been retired. The Bank has been retiring Class A stock on an annual basis since 1996. As of September 30, 2002, approximately 27 percent of the Class A stock has been retired. The Administration is proposing to privatize the Bank in a manner that all of the Class A stock would be retired as soon as possible.

Privatization represents a major change in the Bank's operations. There is no guidance in the REA for how the Bank will transition from a Government agency to a private entity. Therefore, it is critical that the Board approves and implements a plan for transitioning the Bank in such a way as to minimize the impact of this change on the rural telecommunications community.

This report proposes a Transition Plan for the Board's consideration. The Transition Plan includes activities that should be completed before the Bank is privatized so that it can continue to responsibly serve the rural community while at the same time increasing the likelihood of the Bank's long-term success. This Transition Plan is a living document that will be modified as necessary to address issues that may arise during implementation. This plan does not anticipate that the RTB would be operated any differently during the transition period than it currently is. It is expected that the Bank would continue to be operated by RUS personnel with direction provided by the Board until privatization at which point the transition effort will have provided a sound foundation for the Bank to begin its private operations.

2.0 Organization

2.1 Current Organization

The current RTB organization has three basic components: (1) Headquarters (HQ) - responsible for overall policy and program direction, (2) Field Representatives - responsible for marketing and communications, and (3) Operations staff located in Saint Louis, Missouri. All personnel supporting the Rural Telephone Bank are currently Federal Government employees of the United States Department of Agriculture (USDA) and, more specifically, the Rural Utilities Service (RUS). The Bank has no employees of its own.

The REA assigned responsibility for day-to-day management of the RTB to its Governor, currently Ms. Hilda Gay Legg, who has responsibility for operating the Bank in accordance with the restrictions set forth in the REA. Assisting Ms. Legg in administering these responsibilities is the RTB Management Team made up primarily of the Ms. Roberta Purcell, Assistant Governor, Mr. Jonathon Claffey, the Deputy Assistant Governor, and Mr. Kenneth Ackerman, Assistant Treasurer. This management team reports directly to the Bank's Board of Directors.

The Bank's Board of Directors is made up of six individuals elected by the Bank's shareholders (three representing cooperatives and three representing commercial companies), and seven individuals, including five USDA employees, appointed by the President in accordance with Section 405 of the Rural Electrification Act (REA).

During the proposed transition, the RTB organization will need to support the transition by committing personnel, providing information on current operations, assets, liabilities, and other key areas of concern. Without this assistance, the transition will not be able to be completed on the proposed schedule.

2.2 Transition Team Organization

A Transition Team would be organized to implement the transition plan. The Transition Team would be separate from the current organization, but remains dependent on the current organization for information about bank operations as described above. The Transition Team would be comprised of personnel temporarily assigned from RUS/USDA and specialized outside support hired by the Board. The Board will assign a Transition Manager to organize and manage the Transition Team. The Transition Manager will report directly to the Governor and the Board, providing regular progress reports and presenting information at key decision points for Board action.

The principal objective of identifying a Transition Team organization is to assure that clear, unambiguous lines of management responsibility and authority are established. Figure 1 presents a proposed Transition Team organization. The organization includes major functional areas where management attention will be required on a frequent basis

throughout the transition period. A Functional Area Lead would be assigned in each area. These functions may be redefined or consolidated as the transition proceeds.

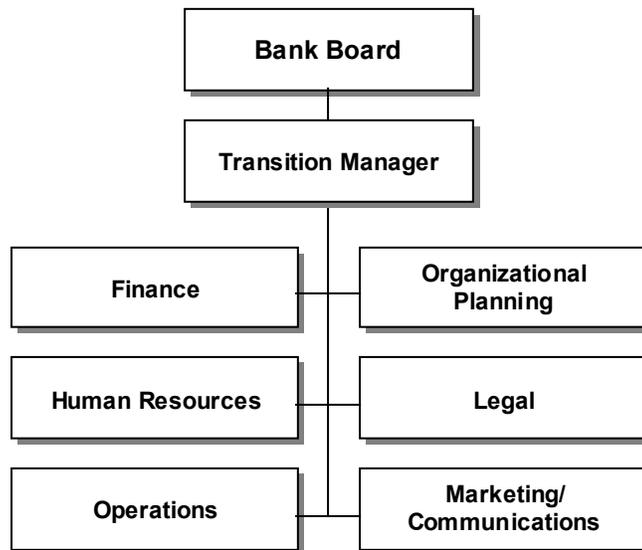


Figure 1. Proposed Transition Team Organization

2.3 Transition Team Responsibilities

The Transition Team as a whole is responsible for the success of the transition. The Functional Area Leads are responsible for coordinating information and decisions between all the functional areas so that the Transition Team and the Board can work efficiently without duplication or gaps. The Transition Team Manager, Functional Area Leads and the Board will meet on a frequent, regular basis – the Transition Team Manager is accountable for ensuring that the meetings are planned, the decision options clearly stated for Board action, and the results of the meetings documented.

The following sections discuss the roles and responsibilities of the Board, the Transition Manager and the Functional Areas during the proposed transition.

2.3.1 Board of Directors

The Board of Directors is responsible for establishing the Bank privatization target date and approving the transition plan. The proposed schedule for the transition is currently estimated to be 18 months. During the transition period, the Board would be responsible for assigning the Transition Manager, optimally a senior manager who is experienced in managing large projects on a tight schedule and is familiar with the operations of the RTB or a similar institution. This person could be a Government employee or a member of the private sector.

The Board would then be responsible for providing direction to the Transition Manager in accordance with the transition plan, amending the transition plan as necessary, and taking action on key decisions presented by the Transition Team.

With assistance from the Transition Manager, the Board would establish a Memorandum of Understanding (MOU) with USDA detailing how the Department will support the Transition Team. USDA support will be needed in the following areas:

- protecting the interests of USDA during the transition;
- preserving the value of the RTB through privatization;
- assigning Federal personnel on a temporary basis to work as part of the Team throughout the transition;
- providing a mechanism for transition funding (funding could be either from the Bank's accounts or from USDA's budget);
- providing infrastructure support to the Transition Team in terms of contracting, supplies, equipment, etc.;
- providing the Transition Team with access to existing systems and information used by the Bank;
- continuing to efficiently operate the Bank during the transition period;
- facilitating communications on the transition's progress with Bank shareholders and stakeholders; and
- allocating workspace if necessary.

During the transition period, the Board will hold regular briefing sessions with the Transition Manager and Functional Area Leads to assess transition progress in accordance with the Transition Plan. During these meetings, the Transition Manager would present key decisions that require Board approval to proceed with transition activities. Key decisions that would need to be made during the transition include:

- legislative changes that will be pursued with respect to the REA;
- an organizational structure for the private Bank;
- changes to the Bank's bylaws;
- an initial set of corporate policies and procedures;
- changes to loan policies and procedures;
- the private Bank's proposed business plan;
- the selection, development and integration of key systems;
- a location(s) for the Bank's offices;
- make-or-buy decisions;
- a compensation program for Bank employees;

- a recruiting program for the Bank's executive officers; and
- hiring of individuals to fill executive level positions.

A complete list of key decisions that are currently anticipated to be made during the transition are listed in the proposed Transition Schedule provided for review in Appendix 1. In addition to making these key decisions, the Board would play an active role in the transition activities themselves, such as:

- providing guidance and direction to the Transition Team;
- meeting with shareholders and other Bank stakeholders such as associations to discuss the privatization effort, garner support, and seek input;
- interviewing candidates to fill key vacancies;
- negotiating MOUs with the Office of Management and Budget (OMB) and the Department of the Treasury (Treasury);
- advancing proposed legislative changes to the REA;
- reviewing and approving Bank policies and procedures; and
- meeting with the financial rating agencies (e.g., Moody's, Standard & Poor's) and other members of the financial market.

The development and negotiation of MOUs with OMB and Treasury will be critical activities that will require extensive effort on the part of the Board of Directors and many other members of the Transition Team. OMB support will be needed to advance legislative changes and to set up future areas where the Bank and the Government will need to cooperate such as the retirement of Class A stock. Treasury support will be needed in setting up accounts, transferring assets and liabilities, and on issues related to Treasury debt and the retirement of Class A stock.

2.3.2 Transition Manager

The Transition Manager will lead the Transition Team throughout the transition period. The Transition Manager will report to the Board and be responsible for ensuring that the transition progresses in accordance with the transition plan, on schedule and within budget. The Transition Manager would be responsible for preparing a budget and schedule of activities for Board approval and for assisting the Board in establishing the MOU with USDA. The Transition Manager would finalize the Transition Team organization and assemble the personnel to staff the transition.

The Transition Team could be comprised of both Federal and private sector personnel. The Federal employees would be chosen and recruited to the Transition Team in accordance with the MOU with USDA described above. As members of the Transition Team, USDA personnel would likely continue as Federal employees, paid by USDA during the transition, with salaries reimbursed by the Bank, if necessary. At the end of the transition, USDA personnel would return to Government positions or, if appropriate,

consider positions with the private Bank. The Federal employees would protect the Government's interest, for example, preserving joint loan files, protecting the Government's security interests, and archiving data.

Private sector participation on the Transition Team is needed to develop policies, procedures, and systems that comply with private sector banking requirements. Private sector personnel would be active members of the Transition Team bringing expertise in legal, organizational development, human resources, communications, and finance that would complement the competencies of the Federal personnel. Private sector insight is also critical to ensuring that the Bank is set up in such a way to maximize its probability of long-term success in the commercial marketplace.

A contract for private sector support will likely be needed. The Transition Manager would be responsible for defining the scope of the contract and, in coordination with either USDA's contracting group or another Government contract office such as GOVWORKS (part of the Department of the Interior), develop a request for additional contract support.

Once the team is assembled, the Transition Manager will be directly responsible for the following:

- reporting progress to the Board and Governor;
- facilitating Board decisions;
- validating the estimated start-up and operating costs for the private Bank;
- establishing an initial operating budget for the Bank;
- drafting the MOU with OMB;
- negotiating MOUs with OMB and Treasury;
- negotiating for private sector services and contracts;
- meeting with shareholders and other Bank stakeholders to discuss the overall progress of the transition effort; and
- coordinating activities among the different functional groups working on the transition.

2.3.3 Transition Team Functional Areas

Activities described below for each of the functional areas are listed on the integrated transition schedule provided in Appendix 1. The schedule identifies start time, duration, and whether the activity depends on the completion of other activities.

2.3.3.1 Finance

Finance would lead efforts by the Transition Team to establish the systems, policies and procedures needed to function as a private Bank. The finance group would be responsible for reviewing the status of all outstanding loans, existing loan policies and

procedures, and outstanding loan applications. Based on these reviews, they would recommend changes that may be needed to the current systems, policies and procedures before the Bank would be privatized. In addition to the activities related to reviewing current information, Finance would be responsible for developing new systems (ALM, accounting and loan processing) and meeting with representatives of the financial markets to understand what actions and information they would need to see from the privatized Bank. Key activities that the Finance area would undertake are:

- preparing a business plan that would include pro forma financial statements and performance goals;
- developing an Asset Liability Management Strategy for the private Bank to include establishing accounts into which transferring assets would be deposited upon privatization;
- establishing an accounting system that meets regulatory requirements for whatever type of organization the private Bank will become;
- interviewing public accounting firms to act as the Bank's independent auditor;
- developing internal audit procedures;
- meeting with shareholders and other Bank stakeholders;
- meeting with rating agencies and other members of the financial market;
- estimating the start-up and operating costs for the private Bank;
- conducting a study of insurance needs; and
- ensuring that the Bank has a clear understanding of the assets, liabilities, and the financial systems, information, and data that may transfer to the Bank.

Finance would also be expected to draft an MOU with Treasury that would define the procedure for transferring the Bank's assets and liabilities to the private Bank, attempt to assure access to Treasury debt for unadvanced loan commitments transferred to the private Bank, and define the Government's responsibility for liabilities and/or commitments made by the Government prior to the privatization date. The Finance area will coordinate information and decisions with the Legal area, since the activities are closely coupled. This activity is expected to take a number of months (refer to Appendix 1).

2.3.3.2 Organizational Planning

The Organizational Planning area would be responsible for developing the initial draft of the business plan for the private Bank including presenting alternate organizational structures to the Board for a final decision. Key activities that the Organizational Planning area would undertake are:

- developing corporate policies and procedures;
- estimating the demand for bank products;

- estimating the number of employees that will be needed by the private Bank under various scenarios;
- conducting a location study for the Bank's offices;
- proposing changes to the Bank's bylaws; and
- performing the analyses necessary to support make or buy decisions for a number of support areas that the private Bank may want to consider hiring outside firms to do rather than developing its own infrastructure to handle these responsibilities (e.g., loan processing, payroll, ALM, information management network support).

The Organizational Planning area will coordinate information and decisions with all other functional area, particularly with the Legal area to propose changes to the Bank's bylaws; with the Human Resources area to estimate the number of employees that will be needed by the private Bank; and with the Finance area to estimate the demand for possible new product offerings.

2.3.3.3 Legal

The Legal area would be responsible for a wide range of activities centered on ensuring that the private Bank was set up in a manner that would ensure it was able to operate on sound legal footing when it is privatized. The Legal area would coordinate information and decisions with Government lawyers from USDA, OMB, and Treasury to ensure that the responsibility for the assets and liabilities that will transfer from the Government to the private Bank are adequately covered and understood by all as well as with the other functional areas. Key Legal activities include:

- drafting proposed changes to the Rural Electrification Act and other legislation that may be needed by the private to allow for the Bank's long term viability;
- determining the applicability of Government laws and regulations to the private Bank;
- reviewing current Bank policies and procedures;
- developing an employee conflict of interest program;
- performing an assessment of the Bank's current corporate governance;
- reviewing new policies and procedures as they are drafted by the other groups in the Transition Team;
- reviewing MOUs drafted for negotiations with Treasury and OMB;
- assisting in the negotiations associated with these MOUs;
- reviewing the draft business plan;
- reviewing asset/liability documentation and security transfers associated with exiting loans that will transfer to the private Bank;
- establish the privatized loan documents, policies and procedures,

- performing a risk assessment other than ALM; and
- reviewing financial reporting requirements as the Finance group develops them.

2.3.3.4 Human Resources

The Human Resources area would develop the infrastructure needed to allow the private Bank to hire and assist its own employees. The Human Resources area will coordinate information and decisions with the Legal area to ensure appropriate employment policies are established and implemented. Key Human Resources activities include:

- developing a compensation program for new employees (including salary estimates, benefits, retirement plans, health plans, etc.);
- drafting human resources policies and procedures;
- drafting the Bank's corporate compliance program in terms of Equal Employment Opportunity;
- developing position descriptions and vacancy notices;
- developing a recruiting program for key vacancies that need to be filled before the Bank is privatized with the goal of hiring a Chief Executive Officer (CEO) first and then working with the CEO to fill remaining key vacancies;
- initiating recruiting activities to fill key vacancies;
- interviewing candidates to fill key vacancies;
- recommending candidates for key vacancies to the Board for their consideration; and
- hiring candidates as the Board approves them and provide new employee services.

A core of private Bank employees would be hired prior to the privatization date to lead the Bank as it begins operations as a private bank. Initial recruiting efforts will focus on identifying the Bank's CEO who should be hired as early as possible in the transition period and begin to assume transition responsibilities from the Transition Manager. Although there are a number of activities that need to be completed before the Bank is in position to hire a CEO (refer to Appendix 1), the CEO should be onboard approximately four months (ideally about six months) prior to the privatization target date. The CEO would assemble the management team for the Bank prior to the privatization date. The proposed transition schedule schedules the last of these key hires to be made about one month prior to the end of the transition.

The following positions, in addition to the CEO, are considered key management positions and would be recruited prior to privatization to allow the management team to represent the Bank in discussions with the Government and the financial communities during the latter stages of the transition:

- Chief Financial Officer
- General Counsel
- Director, Business Development
- Director of Administration
- Director of Contracts

Following privatization, until the Bank has time to assemble a full staff, the Bank would operate with some functions or positions being contracted out. It may be possible for RUS to continue to do certain functions on a reimbursable basis or to hire others experienced in servicing loans or bank functions to do the work temporarily. This would be subject to negotiations.

2.3.3.5 Marketing/Communications

The Marketing/Communications area will be responsible for preparing communications for use with the Bank's shareholders and other interested stakeholders. They will also be charged with surveying potential markets and identifying business opportunities during the transition that will feed into the Bank's business plan. The Marketing/Communications area will work closely with the Board, Transition Manager, Organizational Planning, and other Bank personnel that meet directly with the Bank's customers and stakeholders. During the transition, this area will be responsible for completing the following major activities:

- developing a customer relationship management plan;
- meeting regularly with stakeholders to discuss their concerns and gather feedback as well as report on the progress of the transition;
- drafting outreach materials explaining the need for privatization, how the transition is taking place, and what the Bank hopes to accomplish;
- meeting or communicating regularly with RUS personnel to ensure that customer questions and concerns that may come into the system through the Bank's traditional methods (e.g., field representatives) are dealt with promptly and consistently; and
- developing the Bank's website and content so shareholders and stakeholders have an easy mechanism from which that can gather the latest information on the Bank, privatization, and the transition.

2.3.3.6 Operations

The Operations area would be responsible for operations of the Bank – specifically procurement, information resource management (IRM), and office management. Each of

these areas represents a series of activities whose completion will be crucial to completing the transition in an orderly manner.

Procurement will develop the contracting policies and procedures to be used by the Bank. Procurement would not be involved in the initial contract for transition support since this contract will need to be issued early on in the transition and is expected to be issued by USDA or another Government contracting office. However, Procurement would be expected to play a leading role later in the transition, participating in several major procurement efforts. Prior to privatization, contracts will likely need to be let for accounting services; an enterprise system developer; an imaging or document copying service; purchase of office equipment including computers, office furniture, and a telephone system; and to lease office space. These contracts will provide the Bank with the expertise, equipment, and space to operate as a private bank immediately upon privatization. How these contracts will be issued will need to be negotiated with USDA or others within the Government since the Bank will not be in position to let its own contracts prior to privatization. A number of options should be available to the Transition Team including the use of GSA schedules, direct contracts through a Government contracting office, and, possibly, the use of existing Government contracts.

IRM will be responsible for ensuring that the Bank's information systems are established, tested, and fully operational prior to privatization. To facilitate the completion of this activity, there are a number of activities that would need to be completed first. IRM will work closely with all of the other groups to determine exactly what the Bank's computing needs will be. It is anticipated that this subgroup would be heavily involved in selecting the contractors needed to develop the enterprise system software, recommending the computer equipment that will be needed by the bank, interfacing with key outsourcing systems (e.g., accounting or loan processing) and selecting a firm to image files that the Bank may desire copies of from RUS's files (e.g., loan documentation, engineering drawings, etc.). Finally, IRM will need to work closely with Office Management to ensure that offices are outfitted with the proper computers, printers, etc. and that these systems are tested and working prior to privatization.

Office Management will be responsible for identifying suitable office space for the Bank, working with Procurement to lease the offices after the Board approves of the recommended space, and then building out the offices. Building out the offices will require Office Management to work closely with the IRM subgroup to ensure that the proper cabling is run throughout the offices to support the planned computer and telephone systems. They will also need to work closely with Procurement to ensure that the offices are outfitted with the proper furniture and other equipment. Finally, Office Management will be responsible for purchasing the supplies needed to outfit the offices as soon as they are available to be occupied. This would include such items as writing supplies, paper, etc.

3.0 Schedule of Activities

3.1 Critical Path

Appendix 1 includes a proposed transition schedule that would allow the RTB to transition from a government entity to a fully operational private bank over an 18-month period. The proposed schedule lists a series of activities that will need to be completed during the transition by responsible party as described briefly in Section 2.0 of this report. A number of these activities can be undertaken in parallel but there are also a large number that must be done in series. In other words, one activity must be completed before another can begin. For example, the MOU with Treasury would have to be drafted before it could be reviewed by Legal, the Board, and, finally, negotiated.

Table 1 shows the critical path for the proposed schedule. Based on the current schedule, should the completion of any of these tasks slip it will mean a day-for-day slip in the completion date of the transition. At the same time, other tasks that are not on the critical path will need to be completed in parallel with these activities. Should the completion of these tasks slip beyond the amount of slack time that is built into the schedule they could become part of the critical path and cause the completion date to slip.

Table 1. Critical Path Activities & Finish in the Number of Calendar Days from Start of Transition

Activity	Responsible Party	Finish Day ^a
Decide To Proceed With The Transition	Board	0
Name A Transition Manager	Board	7
Develop A Memorandum Or Understanding With USDA On the Assignment Of Personnel To The Transition Team	Board	29
Set Up Transition Team Organization	TM	44
Assign Members To The Transition Team	USDA/Board	65
Evaluate Proposals For Transition Support	TM	79
Present Recommendation On Transition Support To The Board	TM	80
Approve Contract For Transition Support	Board	87
Meet With Transition Support Contractor	Board	91
Determine Applicability Of Government Laws And Regulation To The Private Bank	Legal	119
Determine Income Tax Status Of Private Bank	Legal	133
Propose Alternate Organization Structures	Org. Plan.	162
Approve Organization Structure For Private Bank	Board	176
Finalize Draft Corporate Policies & Procedures	Org. Plan.	191
Review New Policies & Procedures	Legal	219
Approve Corporate Policies & Procedures	Board	248
Finalize Contracting Policies And Procedures	Procurement	269
Develop Contract For Enterprise System Development	Procurement	297
Develop Memorandum Of Understanding With Treasury	Finance	297
Interview Firms For Enterprise System Development	IRM	311
Recommend Firm For Enterprise System Development	IRM	314

Table 1. Critical Path Activities & Finish in the Number of Calendar Days from Start of Transition (continued)

Activity	Responsible Party	Finish Day ^a
Develop Contract For Public Accounting Support	Procurement	329
Approve Firm For Enterprise System Development	Board	330
Issue Contract For Enterprise System Development	Procurement	344
Issue Contract For Public Accounting Support	Procurement	373
Capture Functional User Requirements	IRM	391
Outfit Offices (Computers, Furniture, Phones, Etc.)	Office Mgmt	434
Determine Need For Systems To Operate As A Private Bank	IRM	434
Facilitate Conversion Of Old Records And Data	IRM	462
Implement Enterprise System Software (E.G., Oracle)	IRM	519
Test Networks, Systems, Etc.	IRM	540
Commence Operations as a Private Bank	Board	541

^a In number of days from start of transition.

While the activities shown in Table 1 are those directly on the critical path based on the proposed schedule, there are a small number of activities that are crucial to the completing the transition that are not currently on the critical path but will ultimately determine the success of the transition and the long-term viability of the private bank. These activities include pursuing legislative changes, finalizing a business plan, determining the Bank's organization structure, hiring of key personnel, systems implementation, and the successful negotiation of a MOU with OMB. While none of these activities are currently on the critical path, they could quickly become critical tasks and should be managed as such throughout the transition. Management efforts should be dedicated to ensure that these activities are progressing on schedule and to quickly identify issues that could delay the completion of these tasks to the Governor and the Board so that a resolution can be agreed to expeditiously.

3.1.1 Hiring of the Management Team

Although the hiring of the CEO and other key members of the Management Team is not currently on the critical path as discussed above, these are key activities and should be completed on schedule to give the Management Team as much time as possible to interact with the Transition Team and the Board prior to privatization. Table 2 shows the series of events and the number of days from the start of the project to the projected finish date for this set of activities.

Table 2. Activities Related to the Hiring of Key Personnel & Projected Finish in the Number of Calendar Days from the Start of the Transition

Activity	Responsible Party	Finish Day ^a
Develop Employee Conflict of Interest Program	Legal	119
Develop Compensation Program (Salary, Benefits, Retirement, Health Plans, etc.)	HR	133
Draft Hiring/Human Resources Policies/Procedures	HR	162

Table 2. Activities Related to the Hiring of Key Personnel & Projected Finish in the Number of Calendar Days from the Start of the Transition (continued)

Activity	Responsible Party	Finish Day^a
Approve Compensation Program	Board	162
Develop Corporate Compliance Manual (EEO)	HR	191
Develop Position Descriptions And Vacancy Notices	HR	212
Develop Recruiting Plan	HR	241
Approve Recruiting Plan	Board	255
Initiate Recruiting To Fill CEO Position	HR	283
Interview Candidates To Fill CEO Position	HR	297
Recommend Candidates To Fill CEO Position	HR	304
Interview Candidates To Fill CEO Position	Board	318
Approve Hiring Of CEO	Board	336
Hire CEO	HR	350
Initiate Recruiting To Fill Other Key Vacancies	HR	381
Interview Candidates To Fill Other Key Vacancies	HR	412
Recommend Candidates To Fill Other Key Vacancies	HR	419
Interview Candidates To Fill Other Key Vacancies	Board	440
Approve Hiring Of Individuals To Fill Other Key Vacancies	Board	461
Hire Candidates As Approved By Board	HR	503

^a In number of days from start of transition.

4.0 Projected Transition Team Makeup

As discussed in Section 2.3.3, the Transition Team organization encompasses a Transition Manager and six functional areas: Finance, Organizational Planning, Human Resources, Legal, Operations, and Marketing/Communications. As would be expected, the Transition Manager is the first member of the Transition Team needed to get transition activities started. He or she would be needed immediately after being appointed by the Board and Governor.

It is expected that the Marketing/Communications lead would be needed next, approximately one month after the Transition Manager is named. This person is needed to deal with questions from shareholders and stakeholders that may arise early on in the transition before people fully understand the Bank's plans. This would be a part-time position early on but eventually it is projected that this group will need to have the equivalent of 1 full-time person dedicated to the transition.

Legal, Finance, Organizational Planning and Human Resources will all be needed approximately three months into the transition. These activities could start earlier if there are Government employees or contractor support available to start earlier. These areas would immediately start on the bulk of the activities that need to be completed during the transition. It is estimated that the Finance and Organizational Planning areas will be the largest with approximately 3 full-time equivalents needed for Finance and 2.5 needed for Organizational Planning. It is estimated that the Legal and Human Resources areas will require the services of 1.5 full-time equivalents.

The Operations area will be able to start later than the other groups because its responsibilities are dependent on the completion of a number of activities by other functional areas. Procurement would be the first of the Operations' sub areas to get started, approximately 4 months into the transition. The Office Management sub area would start approximately 6-7 months into the transition after a decision is made on where the Bank's office(s) will be located. Finally, the IRM sub area will need to start approximately 10 months into the transition after Procurement has established the ability to contract for a systems developer. All of these sub areas are estimated to need about 1.5 full-time equivalents to complete their responsibilities in a timely manner.

Table 3 shows the projected personnel needs for the entire Transition Team. As discussed earlier, it is anticipated that some of these individuals will be current Government employees while others will be individuals from the private sector. The Transition Manager, a part-time Marketing/Communications person, a full-time Finance person, and a part-time Legal person would likely be the minimum amount of support from the Government needed to ensure that the transition could be completed on the proposed schedule. In addition, the Transition Team will need access and support from other Government personnel on individual tasks in order to support completion of the transition on an 18-month schedule.

Table 3. Projected Personnel Requirements of the Transition Team

Functional Area	No. of Full-time Equivalents
Transition Manager	1.0
Marketing/Communications	1.0
Legal	1.5
Finance	3.0
Organizational Planning	2.5
Human Resources	1.5
Operations	
Procurement	1.5
Office Management	1.5
Information Resource Management	1.5
Total	15.0

Given the sequence of activities that need to be completed before others can start, it is not necessary for all of these functional areas to start work immediately upon commencement of the transition. Table 4 shows the latest date when each of the functional areas would need to begin work in the number of days from the start of the transition in order to support the proposed schedule. This would allow the transition staff to be phased in as needed such that in the first 90 days after initiation of the plan three full time equivalents are needed in addition to the Transition Manager, in the second 90 days an additional six staff are planned, and during the remainder of the first transition year the remaining three staff are planned to join the team. The last three members of the transition team would not be needed until the final six months of the transition. If it were possible for an area to start earlier than the date shown below, it would increase the probability that the transition can be completed on schedule. Once a functional area has started work, it is anticipated that they will need to continue working on the transition through its completion.

Table 4. Projected Start in the Number of Calendar Days from the Start of the Project

Functional Area	Start Day
Transition Manager	8
Marketing/Communications	37
Legal	92
Finance	92
Organizational Planning	92
Human Resources	92
Operations	
Procurement	120
Office Management	206
Information Resource Management	300

5.0 Estimated Transition Cost

The cost of the transition is estimated to be approximately \$5.5 million over the 18-month period with the total costs including a number of one-time charges related to the startup of the private Bank. This cost estimate includes funding for all of the positions shown in Table 3 on the basis that these positions would be contracted out. As discussed earlier, to increase the likelihood of a successful transition some of these positions should be filled by Government personnel, thus the estimated costs should be able to be reduced. Table 5 shows the estimated cost for the entire transition effort.

Table 5. Projected Transition Costs

Requirement	\$ (thousands)
Transition Team Professional Support	
• Transition Manager	425
• Finance	725
• Legal	800
• Organizational Planning	450
• Human Resources	440
• Marketing/Communications	240
• Operations	550
Management Team Salaries/Benefits	750
Loan Processing System Upfront Costs	250
On-line Application System Upfront Costs	75
Due Diligence	75
Rating Agency Studies	75
Documentation Imaging	350
Office Lease (1 month)	40
Office Cabling & Phone Installation	50
Up-front Computer Costs	75
Office Furniture/Outfitting (1 month)	10
Total Transition Cost Estimate	\$5,380

6.0 Conclusion

The transition of the RTB from a Government agency to a private Bank will be very complex. This transition plan proposes an organization, set of tasks, and a schedule for accomplishing that transition. The complexity derives from the number of different Government agencies that are involved, the number of existing borrowers and loans, the magnitude of the Bank's assets, and the changes in operations that must be undertaken to compete in the private sector financial markets.

The transition will require an extensive amount of effort on the part of the Bank's Board, unqualified support from RUS and USDA, and agreements with OMB and Treasury. A separate Transition Team is proposed that would be accountable for the success of the transition and dedicated to carrying out the transition plan on schedule and within budget. It is estimated that approximately 15 full-time equivalents will be needed to support the transition at its peak.

The proposed plan could be completed in 18 months if all parties can agree to support that goal. At the end of 18 months, the Bank would be in a position to begin operating as a private business, and a minimum of 51 percent of the Government's Class A stock would be retired to allow the privatization to take place. The measure of the transition's success will ultimately be judged by the support the Bank receives from the rural telecommunications market. If successful, the transition will transform a Government agency into a successful private business in position to continue providing high quality and timely support to the rural telecommunications market over many years. In supporting this effort, the Administration will have fulfilled the desire of Congress when the Bank was first established over 30 years ago. A successful private business will have been created from the seed money provided by the Government that will continue to serve the needs of rural America.

Appendix A Proposed Transition Schedule of Activities

ID	Activity Name	Finish Date	Pred	Year 1												Year 2			
				1	3	5	7	9	11	13	15	17	19	1	3	5	7		
1	Implement Transition Plan	541																	
2	Governor/Board Of Directors Responsibilities	541																	
3	Vote To Proceed with the Transition	0																	
4	Appoint A Transition Manager	7 3																	
5	Develop Transition Budget	22 4																	
6	Develop MOU On Assignment Of RUS Personnel To The Transition Team	29 4																	
7	Arrange For Office Space & Equipment To Support Transition	29 4																	
8	Assign Members To The Transition Team	65 113,7																	
9	Approve Contract For Transition Support	87 182																	
10	Meet With Transition Support Contractor To Brief Requirements	91 9																	
11	Approve Location Recommendation	134 189																	
12	Approve Compensation Program	162 223																	
13	Approve Alternate Organization Structure	176 191																	
14	Review Assessment Of Corporate Governance	219 212																	
15	Legislative Assessment - Review & Approve Proposed Changes To Legislation	233 211																	
16	Approve Office Space Recommendation	241 412																	
17	Approve Corporate Policies & Procedures	248 213																	
18	Approve Recruiting Plan	255 227																	
19	Approve Changes To Loan Policies And Procedures	269 210																	
20	Review Draft Memorandum Of Understanding With Treasury	283 215																	
21	Approve Changes To Corporate Bylaws	297 217																	
22	Review Draft Memorandum Of Understanding With OMB	304 216																	
23	Interview Candidates To Fill CEO Position	318 230																	
24	Approve Firm For Enterprise System Development	330 401																	
25	Work With OMB To Advance Proposed Changes To Legislation	424 214																	
26	Approve Hiring Of CEO	336 23																	
27	Approve Firm for Imaging or Copying Support	344 403																	
28	Approve Make Or Buy Decisions	350 197																	
29	Approve Selection Of Public Accounting Firm For Auditing Responsibilities	358 251																	

Note: "Finish Date" is in the number of calendar days from the start of the transition effort. "Pred." Indicates activities by ID no. that has to be completed before the subject activity can be started.

