



Capital Connections

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RURAL TELEPHONE FINANCE COOPERATIVE

Hoosier Co-op's Expansion Project Doubles Subscribers, Revenue

The last five months have spotlighted how vital broadband connectivity is for communities across the country as Americans have turned to their digital devices in record numbers for education, work, medicine and entertainment. In Southern Indiana, RTC Communications is keeping up with its members' needs, laying new fiber-to-the-home that builds on the cooperative's 70-year history of delivering the best broadband and telecommunications experience to its members.

"We're embarking on the most significant network expansion and transformation in our history. This ambitious effort is expensive and requires a strong RTC balance sheet, coupled with financing from RTFC," explains RTC CEO and Executive Vice President Kirk Lehman.

RTC, which serves five exchanges



across three Hoosier State counties, is overbuilding the city of Washington, Indiana, located approximately four miles from its ILEC territory. The city has 5,200 underserved homes and 420 business entities. The construction is all fiber-to-the-premise, comprising a multifaceted, fully redundant network.

"The pandemic has shown us how

critical broadband internet is to our economy, and speed is essential to a quality end-user experience. In addition to doubling our broadband subscribers, the expansion will add almost \$2 million in new annualized revenue," Lehman says. "This revenue increase is critical to our strategy of replacing federal and state subsidies and also will provide the resources to support the never-ending need for technological advancement."

The ambitious project is capitalized with long-term financing from RTFC. Lehman says the cooperative chose RTFC after an extensive review of its options. "The difference in lenders was significant. Large entities lacked flexibility, while small lenders did not possess the background and necessary understanding of the industry to be effective. RTFC is a trusted source for our industry. We felt RTFC understood our needs and the challenges we face," explains Lehman who added that the loan process was a "straightforward exercise" thanks to the expertise of RTFC staff.

While the financing was easy, keeping up with technology is not. The cooperative's constant challenge is to meet the ever-changing and always-rising expectations of its members. According to Lehman,

Sheldon Petersen Announces Intent to Retire Next Year

RTFC Chief Executive Officer Sheldon Petersen has announced his intention to retire in the first half of 2021, subject to the successful completion of a search for his successor. Petersen is the CEO of the National Rural Utilities Cooperative Finance Corporation (CFC), which manages and provides funding for RTFC. He has held that role since 1995.



Sheldon C. Petersen

The CFC Board of Directors will lead the process to identify the next CEO and has established a committee to oversee the related activities and engage an executive search firm to assist with the effort.

"We thank Sheldon for his leadership and strategic vision. He has created an organizational culture focused on member service and a commitment to excellence," said Kevin Larson, president of the RTFC Board of Directors, and director of Public Affairs at Consolidated Telecommunications Company in Minnesota.

"It has been an honor and a privilege to serve the rural utility network for the last 37 years," noted Petersen, adding that "CFC and RTFC are blessed with a strong executive leadership team and dedicated employees that well position us to continue to serve our member-owners into the future."

Continued on Page 2

RTFC Offers Financing Options for RDOF, ReConnect Winners

Final preparations are underway for the October Rural Digital Opportunity Fund (RDOF) auctions, and RTFC is ready to support applicants and recipients with letters of credit, term loans, lines of credit and bridge financing. RTFC also continues to provide financing for ReConnect Program winners.

RDOF awards will be delivered to winning bidders over a 10-year period. The process is expected to be similar to the FCC's Connect America Fund Phase II (CAF II) auction and requires a letter of credit.

"RTFC does not require the letter of credit to be supported by a matching cash investment or lock box," notes Vice President of Portfolio Management Drew Coleman. "If we determine feasibility, we can typically do the letter of credit as an unsecured general obligation, which also makes for a quick turnaround time."

In addition to providing letters of credit, RTFC offers financing for construction costs. "We are pleased to see the federal funds being made available to help close the gap in high-speed Internet availability, and many recipients will likely need to supplement those funds to cover the cost of building



or upgrading the infrastructure," explains RTFC Senior Vice President Robin Reed.

She adds: "We understand our members' needs and don't have the same hesitancy that some financial institutions do with having unfunded commitments on their books. RTFC members can be confident that funds are in place and available when needed."

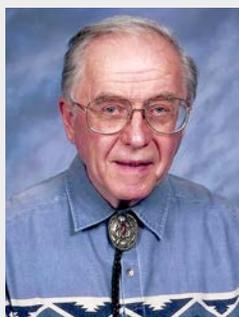
The ReConnect Program, which was authorized in 2018 and is administered by RUS, offers loans, grants or a combination of the two to fund broadband projects. RTFC is ready to help ReConnect recipients with match-funding requirements utilizing bridge or term loans.

"Whether you're receiving funding from ReConnect, RDOF or a state program, RTFC has solutions to help you start and finish your buildout faster," Coleman says.

He adds: "It's always best to start discussions early with your RTFC account manager to determine the time frame needed to obtain the type of financing your organization needs to be a successful recipient of federal or state funding, so give us a call to discuss your unique opportunities." //

Telecom Advocate Bob Leigh Dies

Robert "Bob" Leigh, former senior vice president at NTCA who was instrumental in encouraging the creation of RTFC, passed away July 13. "Bob was a creative and tireless advocate for rural America. While at NTCA, he was a driving force behind the development of RTFC. I'm grateful for his passion and his dedication to improving the lives of rural Americans," remarked RTFC CEO Sheldon C. Petersen.



Robert "Bob" Leigh

Leigh believed the competitive environment of telecom deregulation in the 1980s combined with uncertainty in federal support "dictated that we had to have something other than government financing...and that's the beauty of RTFC. It met that need," he recalled in a 2005 interview. He continued, "RTFC is absolutely essential in today's rural telecommunications industry."

Leigh was hired by the U.S. Federal Communications Commission as a trial attorney in 1961. He joined NTCA in 1965 as general counsel and director of Industry Relations. The first person to hold that role at the association, Leigh launched the policy function at NTCA, retiring 30 years later as senior vice president. Leigh spent thousands of hours representing the interests of rural telecom providers on Capitol Hill and before commissions and regulators.

Members Pass Bylaw Changes

Nearly 150 RTFC voting members cast ballots earlier this month in favor of amending the organization's bylaws. The changes allow RTFC to conduct business meetings in a virtual format, including director elections and other official business.



Additional changes include updating language on member eligibility to reflect the current RUS requirements and to delete the reference to the Rural Telephone Bank that no longer exists; revising the requirement that the annual meeting take place in the first six months of the year to allow it to be held any time during the calendar year; and other adjustments to correspond with the new option to conduct business at remote meetings.

Look for a copy of the new bylaws in the mail soon. //

Hoosier Co-op's Expansion Project ...

Continued from Page 1

"We consider our people and network as critical elements in our communities. Keeping current or ahead of technology advancements, anticipating our customers' needs and continuing to improve the lives of our customers is our challenge."

He says RTC has been solely focused on its member needs since 1949. "Those who think of laying cable as just an opportunity for incremental revenue to their current business model underestimate the needs of the communities they seek to serve. Our network rivals the most advanced networks in metropolitan areas. We are proud of the value we add to every home and business in the areas we serve." //

ECONOMIC ANALYSIS

Retail Sales, Payroll Gains Are Sluggish

Retail sales grew a disappointing 1.2 percent in July after two months of sharp gains. It's just one more indicator that raises worries about a renewed wave of economic pain as enhanced unemployment benefits expired for millions of Americans.

Consumers pulled back on big-ticket items like cars, building materials and sporting goods last month but spent more on food, gasoline, and health and beauty products according to the U.S. Commerce Department. However, the report was not a total bust as electronics showed a remarkable jump in sales as families stocked up on laptops, headphones and webcams to prepare for a virtual start to the school year in many parts of the country. Most economists suspect the rebound is losing momentum, as retail sales had surged to a record 18.2 percent in May and 8.4 percent in June.

Meanwhile, more than 100,000 small businesses have permanently shuttered, and many others have released huge swaths of their workforce. The simple fact is that if businesses don't employ, consumers won't spend, and unfortunately, we are seeing both right now.

Third-Quarter GDP Will Snap Back, Then Slow

The collapse in U.S. gross domestic product (GDP) lasted only two months—March and April—but it took a historic toll on second-quarter growth. Real GDP declined 32.9 percent at an annualized rate, according to the Bureau of Economic Analysis' preliminary estimate. Consumer spending, most investment components, exports and inventories contributed to the decline while government spending and imports were slight offsets.

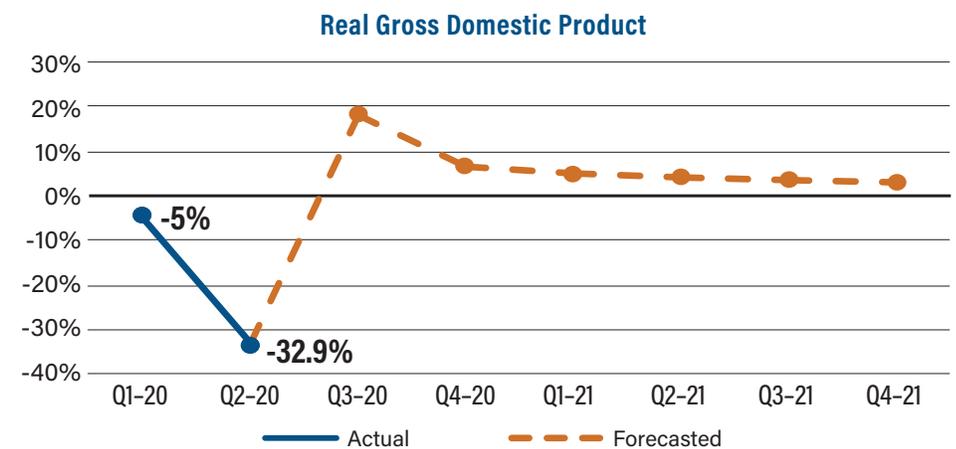
The economy has gone sideways since early June as the resurgence of virus cases paused economic activity to some degree.

States accounting for nearly 75 percent of the nation's GDP have either stopped or reversed openings—setting the stage for a long, drawn-out recovery.

The worst of the economic shock from the COVID crisis seems to be behind us, and barring an even worse outbreak of infections, the recession is over. However, after a short initial bounce, the recovery will be weak. Any growth is conditional on avoiding a debilitating second shutdown while government implements appropriate additional policy to support the economy. A vaccine or effective treatment is likely needed before the country experiences sustained, strong growth.

With the slower GDP growth, inflation will continue to trend below the Federal Reserve's 2 percent threshold. Deflation, the persistent decline in overall prices, is a concern that will continue to weigh on the minds of Fed board members because there is nothing monetary policy can do to reverse it. One rule of thumb says an economy is experiencing deflation after more than six consecutive months of year-over-year declines in core consumer prices. The U.S. economy is not there yet, but it's something to keep an eye on.

— John Suter



Source: Bloomberg

RECENT ECONOMIC RELEASES

INDICATOR	PRIOR PERIOD	CURRENT PERIOD (FORECAST)	CURRENT PERIOD (ACTUAL)
Retail Sales (July) (MoM)	7.5%	1.5%	1.2%
Consumer Price Index (June) (YoY)	0.6%	0.3%	0.6%
Gross Domestic Product (GDP) (Q2)	-5.0%	-34.0%	-32.9%

Source: Bloomberg

	KEY INTEREST RATES			RATE FORECAST—FUTURES MARKET			
	8/17/2020	5/4/2020	CHANGE	Q3-20	Q4-20	Q1-21	Q2-21
Fed Funds	0.25%	0.25%	- - -	0.25%	0.25%	0.25%	0.25%
1-mo. Libor	0.15%	0.40%	-0.25	0.20%	0.20%	0.10%	0.10%
3-mo. Libor	0.27%	0.70%	-0.43	0.30%	0.30%	0.20%	0.20%
2-yr. UST	0.14%	0.20%	-0.06	0.20%	0.20%	0.20%	0.30%
5-yr. UST	0.29%	0.36%	-0.07	0.30%	0.30%	0.40%	0.50%
10-yr. UST	0.71%	0.64%	0.07	0.70%	0.70%	0.80%	0.90%
30-yr. UST	1.45%	1.27%	0.18	1.40%	1.40%	1.50%	1.60%

Source: Bloomberg

Source: INO.com

Job Loss Nightmare: When Temporary Becomes Permanent

By John Suter, Vice President, Capital Markets Research & Analysis

In the early days of the national emergency, nearly 80 percent of laid-off Americans thought their job losses would be temporary according to survey results, and this made perfect sense given the economy was expected to snap back after the COVID threat was subdued—creating a V-shaped recovery. While the economy did improve, the rebound is now stalling. Most economists believe the short recession ended at the close of the second quarter and the recovery is going to be incremental and drawn out.

The labor market continues to struggle as the jobs that have returned are mostly in retail, restaurants and medical offices—the low-hanging fruit jobs that were widely expected to have a quick comeback.

Now, it's harder to bring back jobs as government aid for small businesses expires and consumers remain skittish about spending.

The longer this stop-and-start recovery lasts, the more businesses will start to close their doors for good, which is what we don't want. Unfortunately, that is exactly what data compiled by the Bureau of Labor Statistics are starting

to reveal. The toll is highest on lower-income workers. According to a recent Federal Reserve survey, households with an annual income of \$40,000 or less made up nearly 40 percent of the workers who lost their jobs in March and April—and yet this bracket makes up only 20 percent of the overall population.



Many job losses that were expected to be temporary are turning permanent. These losses—where there is no hope of going back—spiked in June to 2.9 million. Meanwhile, new applications for unemployment aid remain above a million a week.

Late, great labor economist Alan Krueger of Princeton University was known for his studies on the impact losing a job has on the psyche of American workers. He discovered that the unemployed are in a lot of pain—not just mental but also physical—and job searching was the most painful part of their lives. Regrettably, that nightmare is becoming a reality for many Americans who five months ago stated overwhelmingly they expected to return to work as soon as the country reopened. //

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