



Capital Connections

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RURAL TELEPHONE FINANCE COOPERATIVE

RTFC Bridges Financing for South Dakota Technology Upgrade

When USDA green-lighted \$97 million for 12 projects to provide or improve rural broadband service in 11 states last year, RC Technologies was one of the lucky dozen. Today, RTFC is helping the New Effington, South Dakota-based carrier launch its \$17 million infrastructure upgrade with a line of credit for more than \$5 million.



Scott Bostrom

“The interim funding is a great advantage, and allows us to get started with the project while waiting for RUS to complete paperwork,” says RC Technologies General Manager Scott Bostrom. “The line of credit was a huge help during the government shutdown.”



Workers will lay nearly 780 miles of fiber for RC Technologies' infrastructure upgrade.

Loan Volume on the Rise as Members Tackle Technology Upgrades

RTFC has approved roughly \$325 million in financing over the last three fiscal years as members dig in and tap various resources to build a better future for the communities they serve.

“We expect to see steady loan volume as our members keep pace with their urban counterparts when it comes to technology expansions and upgrades,” explains Vice President of Portfolio Management Don Samonte.



Don Samonte

Funding approvals include nearly \$200 million of long-term loans to finance fiber buildouts in the country's most underserved broadband communities, support acquisitions that help members grow in size and scope, and refinance existing debt.

“Our staff have a deep understanding of the rural telecom industry, and we're always willing to customize a financing solution to best meet member needs,” Samonte adds.

More than 60 short-term facilities totaling roughly \$125 million have also been approved. RTFC's short-term facilities are used to support working capital needs and to bridge receipt of funds

from RUS or RTFC permanent financing.

“RTFC has more than 30 years of experience, and we're well positioned to meet our member's financing needs now and in the future,” Samonte concludes.

The USDA funding is through a Telecommunications Infrastructure Loan Program facility to provide Internet, video and voice to more than 1,300 households, businesses and key community organizations served by RC Technologies.

“We are excited to be at this point,” Bostrom adds. “These services will create potential for business growth, employment, better public safety and a higher quality of life for our subscribers. The project will lay roughly 780 miles of fiber and provide nearly 100 percent fiber-to-the-home coverage to our territory.”

RC Technologies reached out to RTFC for the bridge financing as a result of peer recommendations and previous associations with staff. “The credit process was very simple and efficient. Dealing with the RTFC staff has been very smooth and pain free,” he concludes.

Founded in 1956, RC Technologies is a local exchange carrier serving eight exchanges in parts of North and South Dakota, providing local and long-distance telephone, Internet and cable TV services to its membership of roughly 2,000 subscribers. //

Channeling the Ghost of Richard Nixon

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



John Suter

History can often be a good barometer when markets take a turn for the worse or we analyze mistakes made with government policy. In looking at what happened economically in 2018 and may happen in 2019, we might want to slide back in time to 1972.

That year, the economy was suffering from slow economic growth and high inflation due to the rising price of oil. If you divided up all assets into the eight buckets listed in the accompanying chart, not one turned in a return of greater than 5 percent.

Ironically, the same scenario with assets happened in 2018 even though economic growth was more robust and inflation under control. The stock market peaked in January, but could never come to grips with global trade tensions and remained quite volatile. Fourth-quarter results were just plain ugly, with the S&P 500 recording a pitiful 6.2 percent decline for the year.

Oval Office actions also had a huge impact both in 1972 and in 2018. President Nixon—during his 1972 re-election race—put the hard press on Federal Reserve Chairman Arthur Burns to not raise the overnight Fed Funds rate as a way to tamp down interest rates and keep the economy growing. (These conversations were captured on the Nixon White House tapes.) Burns succumbed to the pressure, with disastrous results for inflation. President Trump in December criticized Fed Chairman Jerome Powell for raising interest rates 0.25 percent as the markets tumbled.

One of President Nixon's notable achievements was opening up a dialog with communist China. His visit to Beijing beginning on February 21, 1972, was dubbed the "week that changed the world."



Likewise, the Middle Kingdom dominates the news again as the Trump administration last year imposed tariffs on certain Chinese goods as a way to extract better trade terms for U.S. businesses. China, of course, retaliated.

Although a temporary truce in the budding trade war exists as the two powers talk, some believe if President Trump can successfully negotiate a much fairer trade pact it would be viewed in economic terms as great as Nixon's historic political feat.

Broad Asset Classes in the Financial Markets

- Large cap U.S. stocks
- Small cap U.S. stocks
- International equities
- Emerging equities
- Treasuries
- Investment-grade bonds
- Commodities
- Real Estate

Yield Curve Holding Surprisingly Low

Surprisingly, interest rates along the yield curve remain below the 2018 average. With the economy growing at 3 percent, nonfarm payrolls averaging 240,000 for the last three months and average hourly earnings running above 3 percent, conventional wisdom holds that bond investors should be a little spooked about inflation re-igniting and—as a result—demand a premium for bond yields.

But so far the yield curve looks as flat as a pancake. With the Federal Reserve recently hinting that additional interest rate hikes may be on hold for 2019, a yield-curve inversion—when the two-year Treasury yield exceeds the 10-year; viewed by some as a harbinger of recession—seems unlikely. But at some point the Fed will raise rates again to stay ahead of inflation and the front end of the yield curve will slide upward and maybe force an inversion.

Manufacturing Kicks Off Year on High Note

The Institute for Supply Management Index Manufacturing Index rose in the first month of 2019 after a sharp decline in December, rebounding from 54.3 to 56.6. The measure stood at 58.8 in November, and readings above 55 percent are considered exceptional.

The 2.3 percent uptick resulted from a sharp 6.9 percent climb in new orders—considered the engine that drives the sector—and a 6.4 percent boost in production. Fourteen of the 18 U.S. industries surveyed reported expansion while only nonmetallic mineral products saw a downturn.

The index has now grown for 29 consecutive months, with new orders accelerating for the 37th consecutive month.

Homebuilder Sentiment Improves With New Year

Buoyed by falling mortgage rates, the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index—which shows builder confidence in the newly built single-family home segment—kicked off 2019 on a positive note, jumping from 56 to 58. Major components posted gains—the current sales conditions measure advanced two points to 63, the component gauging expectations during the next six months increased three points to 64 while the metric charting buyer traffic edged up one point to 44.

If the Federal Reserve stays on course and approves two 0.25 percent hikes in short-term interest rates this year, mortgage rates will undoubtedly follow, boosting housing costs. In turn, builders may shift toward cheaper units to keep folks in the market.

Business Outlook Still Rosy

The National Federation of Independent Business Small Business Optimism Index fell slightly to 104.4 in December—the lowest reading since October 2017, but still near historic highs. Downturns in expected real sales growth and expected business conditions during the next six months accounted for the modest tumble.

Unfilled jobs and lack of qualified applicants continue to be primary concerns, with a record 39 percent of respondents reporting at least one hard-to-fill job opening, up from 34 percent in November. Capital expenditure plans slid—a worry as business spending remains critical in an economy where 70 percent of activity is based on consumption. The index hit an all-time peak of 108.8 last August.

Fed Focus on Inflation Finding Few Fears

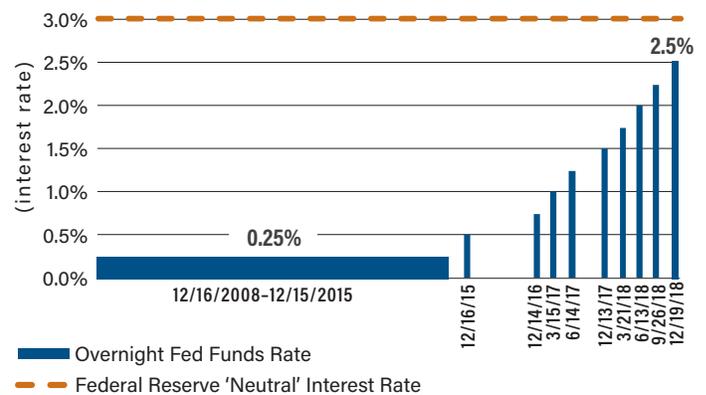
Goods prices hold the key to stoking inflation fires, and for ever-watchful Federal Reserve officials the immediate horizon seems clear. Weaker expansion in Chinese producer prices and little upward cost pressure in the U.S. services sector (despite a tightening job market and recent wage growth acceleration) appear to be keeping a lid on things.

The headline Consumer Price Index (CPI)—the most common inflation measure, which captures average prices for a common basket of goods and services—slipped in December on a year-over-year basis, from 2.2 percent to 1.9 percent. Energy was the main driver

for the decline. Core CPI, which excludes volatile food and energy segments, held at 2.2 percent year-over-year—above the 2 percent target set by the Fed.

At the moment, the U.S. economy operates in a “Goldilocks scenario,” allowing the Fed to gradually raise short-term interest rates to keep inflation from getting hot while not slowing the economy. In fact, as the accompanying chart indicates, the most recent Fed hike was the ninth since December 2015.

Fed Action on Interest Rates



Directors Re-elected; New Officers Chosen

Two RTFC board directors were re-elected to three-year terms on January 29 during the 31st RTFC Annual Meeting, held at RTFC headquarters in Dulles, Virginia.

Returning to the board are Dave Dunning of Wolverton Telephone Company in North Dakota (District 3) and Allen Hoopes of Silver Star Communications in Wyoming (District 4).

Hoopes presided over the meeting and concluded his tenure as RTFC board president. He shared that RTFC closed the most recent fiscal year with total assets of \$461 million and net margins of \$416,000.

RTFC recently published its fiscal year 2018 financial results. A digital version of the report is available on the RTFC website in the Member Center (login required).

During the organizational meeting that followed, the board elected new officers for 2019:

- President: **J. Frederick Johnson**, Executive Vice President and General Manager, Farmers Telecommunications Cooperative (AL);
- Vice President: **Kevin Larson**, Director of Public Affairs, Consolidated Telecommunications Company (MN); and
- Secretary-Treasurer: **Bruce Bohnsack**, President and CEO, Germantown Telephone Company (NY).

Petersen, Benincasa Headline at RTIME

RTFC CEO Sheldon C. Petersen and RTFC-sponsored speaker Robyn Benincasa headlined the closing general session of the 2019 NTCA—The Rural Broadband Association Rural Telecom Industry Meeting & Expo, held Feb. 2–6 in New Orleans.

Petersen shared his insights on fiscal and monetary policies that could affect rural telcos and the broader U.S. economy. A key theme was Petersen's view that market volatility is being driven by several factors, including slowing global growth, a modest inflation outlook and the Federal Reserve's rate actions, which have pushed up short-term rates.

Benincasa, a former firefighter, CNN Hero, 10-time Ironman finisher and world champion adventure racer, spoke about leading through change and shared stories about how she turned personal setbacks into comebacks. She founded Project Athena, which helps survivors of medical or other traumatic challenges reach new goals and achieve their adventurous dreams. //



Sheldon C. Petersen

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RTFC Recognized as Top FRS Sponsor



RTFC was honored by the Foundation for Rural Service on February 4 in New Orleans at RTIME. Named one of "25 25th Anniversary Silver Donor Awardees," RTFC was recognized for its many years of financial support. To date, RTFC has proudly donated more than \$1 million through its Educational Fund. Staff accepted the award at the glamorous FRS 25th Anniversary Gala. In attendance are, from left, RTFC Senior Vice President and FRS Director **Robin Reed**, Vice President of Business Development **Nancy White**, CEO **Sheldon C. Petersen**, Board President **J. Frederick Johnson** (executive vice president and general manager, Farmers Telecommunications Cooperative, AL), Board Secretary-Treasurer **Bruce Bohnsack** (president and CEO, Germantown Telephone Company, NY), Director **Allen Hoopes** (chairman and CEO, Silver Star Communications, WY), **Jamielyn Hoopes**, **Judy Hegmann**, Director **Bill Hegmann** (president and CEO, Southwest Arkansas Telephone Cooperative, AR) and Associate Vice President **Irina Tumanova**.

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