



Capital Connections

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RURAL TELEPHONE FINANCE COOPERATIVE

Indiana Telephone, Electric Co-ops Team Up for Broadband Expansion

SEI Communications began serving southeastern Indiana with telephone service in 1953 and has since evolved into a provider of advanced integrated services to keep its community connected. Today, it is teaming up with the local electric cooperative to bring fiber and broadband services to thousands more rural homes, and RTFC is helping make the rollout possible.

SEI had recently finished its own self-funded fiber expansion in its territory when it was selected to partner with Southeastern Indiana Rural Electric Membership Corporation (SEI REMC) for a fiber-to-the-home (FTTH) project in SEI REMC's service area.

"They wanted to offer broadband service like many electric companies are doing," said Tony Clark, CEO and general manager of SEI Communications, based in Dillsboro, Indiana. "And we're happy to open up a wider coverage area that can help increase the connectivity to the underserved rural communities."

The initiative will be rolled out in portions of SEI's service area across seven southeast Indiana counties. The joint venture is known as SEI Fiber. The project also provides SEI with a path to expanding its own operations in these areas.

Entering into the partnership was a natural choice. SEI Communications was already well acquainted with Southeastern Indiana REMC and as cooperatives, both share similar philosophies of high customer and public service.

"We've had a strong relationship with REMC for decades," Clark said. "When they decided to move forward with the project, we were the company they selected to work with."

SEI saw several advantages to the partnership. The electric co-op already had an extensive network of power line and poles throughout the region that could be used to string fiber, according to Clark.

Once completed, several levels of high-speed internet service will be available to more than 25,000 residents. While not every household will sign up for the service, SEI expects a take rate of up to 60 percent or higher.

The rollout of broadband in a largely



Tony Clark

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rural area is "our way of bridging the digital divide," Clark said. He also noted that the rollout would have been cost prohibitive for either utility acting alone, but by working together, rural residents and businesses will have access to services far sooner than would have otherwise been possible.

"Our goal was to help SEI REMC get broadband to all of their membership," Clark remarked. He noted that the rollout will include not just residential, but also business and commercial users as well.

The service will potentially give a substantial economic development boost to this sprawling rural region. Access will enable members to engage in remote work as well as a wide variety of internet-based services and products. In addition, fiber will enhance the ability of local schools and colleges to provide distance learning, while rural hospitals will be able to engage in telemedicine services as well, according to Clark.

"It will stimulate the economy in each of the counties that we serve," Clark explained.



Another home in Southeastern Indiana will soon have faster internet as a result of the SEI Fiber joint venture.

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RTFC Stands Ready To Assist with Middle Mile Project Grant Funding

The Enabling Middle Mile (MM) Broadband Infrastructure Program is now taking applications for a slice of the \$1 billion pie available through the National Telecommunications and Information Administration (NTIA)—and RTFC can assist members with the letter of credit requirement and other funding for the grant.



Drew Coleman

The Notice of Funding Opportunity for this grant program created by the Infrastructure Investment and Jobs Act was released in May, and applications are due by September 30, with award processing by February 16, 2023. Recipients have five years for implementation.

“The Middle Mile program offers RTFC members another excellent opportunity to secure grant money and reduce the cost of connecting unserved and underserved areas to the internet backbone,” RTFC Vice President of Portfolio Management Drew Coleman explained.

Coleman urged members interested in the program to reach out to their RTFC account manager early in the planning process. “We can quickly assist with the letter of credit requirement as well as financing for the matching contributions and interim financing for the grant,” he added.

MM infrastructure broadly refers to the mid-section of internet infrastructure that carries large amounts of data at high speeds over long distances. This program also seeks to increase the resilience of internet infrastructure. Grants can be used for the construction, improvement or acquisition of MM infrastructure, such as:



- Construction, improvement or acquisition of facilities and equipment,
- Engineering design, permitting and work related to project reviews,
- Personnel costs, including salaries and benefits for staff and consultants, and
- Other costs necessary to programmatic activities. //



RTFC Vice President Chairs Smart Rural Community Advisory Council, Supports SRC Live! Summit

The rural telecom network comes together in Las Vegas this week for SRC Live! This summit for participants and advocates of the Smart Rural Community (SRC) program brings together leaders from the rural broadband world along with economic and development agencies in an educational forum to discuss what it takes to create successful connected communities.

RTFC Vice President of Business Development Nancy White has been engaged with the SRC program since 2014 when the telecom company she was the CEO of became the 14th of more than 200 SRC program participants. Since then, she has been on the SRC Advisory Council for five years, serving as chair the past two years.



Nancy White

“I believe strongly in the Smart Rural Community brand and program because it’s so much more than a particular company that has built a state-of-the-art broadband network. It’s about how the members of the community are using that network every day that is so powerful,” White explained. “Our intent at the summit is to listen, learn and share best practices that can be brought to the rest of the RLEC industry and their communities.”

She is a strong believer that local collaboration can lead to lasting prosperity for a rural community. “When you see a hospital really have access to the best doctors and testing, the economic development opportunities and jobs that are created locally, individuals who can work from home instead of commuting hours, and farmers who now have data they can send and receive to improve the quality and quantity of their crops—those are just a few of the outcomes every day in smart rural communities,” White said.

RTFC is proud to be a Silver Sponsor of SRC Live!

Indiana Telephone . . .

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RTFC provided SEI with a secured term loan to finance capital expenditures for the project along with a line of credit to serve as interim financing and provide maximum flexibility on the debt for the project.

“It was affordable to receive a loan to help secure this project and move forward with it,” Clark explained. “The vast amount of material that we were buying required more capital up front.”

He said the loan process was smooth, with RTFC staff able to answer questions that helped SEI “secure the right term and the right loan. We would highly recommend RTFC for a loan. It was just a very, very simple and easy process.”

The project also received almost \$13 million in state matching grants from the Indiana Office of Community and Rural Affairs’ Next Level Connections Broadband Grant Program. These funds are going directly to the build-out. //

ECONOMIC ANALYSIS

Personal Finances Paint Blurry Picture

Personal income increased 2.6 percent while disposable income dropped 0.3 percent in April on a year-ago basis. Month-over-month, personal income increased 0.4 percent, primarily driven by an increase in compensation. The figure, however, is the lowest in three months, suggesting the rise in personal income is slowing down.

Meanwhile, the personal savings rate—saving as a percentage of disposable income—decreased to 4.4 percent, lower than March’s figure of 5 percent and well below pre-pandemic levels. In December 2019, the figure stood at 7.3 percent. Nonetheless, the Personal Consumption Expenditures index rose 0.9 percent from March. Since expenditures increased faster than income, it suggests the lower savings rate is the result of consumers dipping into savings to cover higher prices. The question is, how long can they continue to do that?

Pending Home Sales Decline

As the federal funds rate increased this spring, so did the average mortgage rate. The housing market is among the first to feel the impact of the Federal Reserve’s rate hikes. Pending home sales decreased 9.1 percent in April from the same month last year.

The pending home sales index is a leading indicator of activity in the housing market as it measures signed contracts, which typically become home sale transactions in one to two months. Nonetheless, home prices were still surging as late as March, particularly in metropolitan areas. The average price of a single-family home saw a 19 percent year-over-year increase in March while the S&P CoreLogic Case-Shiller Home Price Index, which measures home prices in 20 metropolitan areas, rose 21.2 percent. As home price data tend to lag, the impact of rate hikes might not yet be captured in the latest release.

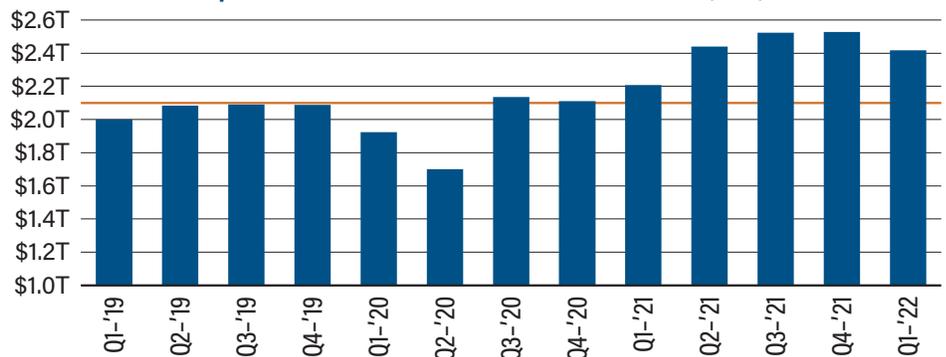
Corporate Profits Decline in First Quarter

It was no surprise when corporate profits took a hit in the first quarter, falling 4.3 percent from the previous period. However, before you shed tears for U.S. companies, it is worth noting that they made record profits of \$2.53 trillion in the fourth quarter of 2021. Even with the decline, the current profit figure of \$2.42 trillion is still significantly higher than pre-pandemic levels.

Do corporate profits have anything to do with inflation? Simply put, the price of a good can be broken down into two components: production costs and the mark-up. The former consists of labor charges and the price of other production factors. The latter is the profit. Undeniably, labor shortages and supply chain issues have led to increases in production costs in nearly all industries. But both components have gone up from their pre-pandemic levels.

Many companies are suffering through inflation with the rest of the economy as reflected in their financial statements, although those with flashy profits have some questions to answer. Simply passing on higher production costs to consumers would lead to higher prices, but it would not lead to higher profits unless there’s more to it.

Corporate Profits Run Above Pre-COVID Levels (QoQ)



Source: U.S. Bureau of Economic Analysis

RECENT ECONOMIC RELEASES

INDICATOR	PRIOR PERIOD	CURRENT PERIOD (FORECAST)	CURRENT PERIOD (ACTUAL)
Personal Income (Apr.)(MoM)	0.5%	0.5%	0.4%
Personal Saving Rate (Apr.)(MoM)	4.4%	N/A	5.0%
Pending Home Sales (Apr.)(YoY)	-8.6%	-10.0%	-9.1%
Corporate Profits (Q1)(QoQ)	0.2%	0.5%	-4.3%

Source: Bloomberg

KEY INTEREST RATES

	5/31/2022	2/22/2022	CHANGE
Fed Funds	1.00%	0.25%	0.75
1-mo. Libor	0.94%	0.18%	0.76
3-mo. Libor	1.46%	0.49%	0.97
2-yr. UST	2.56%	1.55%	1.01
5-yr. UST	2.82%	1.87%	0.95
10-yr. UST	2.85%	1.94%	0.91
30-yr. UST	3.06%	2.23%	0.83

Source: Bloomberg

RATE FORECAST—FUTURES MARKET

	Q3-22	Q4-22	Q1-23	Q2-23
Fed Funds	2.25%	2.65%	2.95%	3.10%
1-mo. Libor	2.47%	3.01%	3.14%	3.17%
3-mo. Libor	2.56%	3.10%	3.25%	3.27%
2-yr. UST	2.96%	3.01%	3.11%	3.11%
5-yr. UST	3.05%	3.03%	3.11%	3.13%
10-yr. UST	3.10%	3.09%	3.17%	3.24%
30-yr. UST	3.16%	3.19%	3.24%	3.32%

Source: INO.com

Inflation Might Be a Stickier Problem Than Most Think

By John Suter, Vice President, Economic Research

Americans, like the rest of the world, have seen gasoline prices surge and stocks plunge recently. It's no wonder we're all fretting as we get a daily dose of more uncertainty, higher inflation and less economic growth. The term most often used to describe slow or negative growth coupled with high inflation is stagflation—something the U.S. has not experienced since the late 1970s.

While inflation was dubbed “transitory” in 2021, there are four reasons why it may hang around longer than analysts believe. Starting from a broader view, globalization has slowed down. Tariffs, COVID and Russia’s invasion of the Ukraine along with fragmented globalization have led to higher production costs.

Next, the global net zero emission push isn't cheap. The Blackrock Investment Institute estimates consumer prices could rise by as much as 4 percent a decade if the transition costs are fully passed on to households. Ironically,

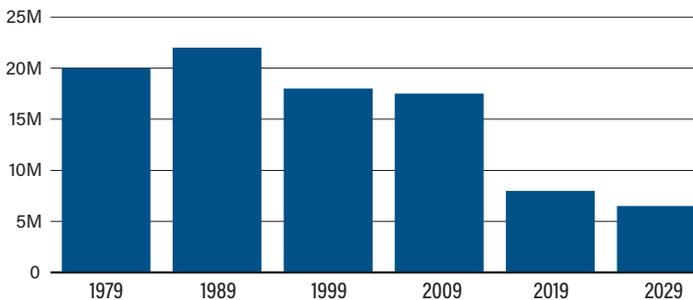
air pollution itself is a common example of a negative externality where the cost of poor health due to pollutants has to be borne by society. If we are going to pay for something, it might as well be clean air.

The shrinking U.S. labor force is the next factor. Where will companies find the necessary workers they need to produce their merchandise? Our 2021 population growth was the lowest annual posting on record dating back to 1776. The ongoing retirement of the baby boomer generation combined with tighter legal immigration is limiting the number of Americans available for hire, which might push up wages and be a good thing for those willing to work.

Housing is also a market looking at a shortfall. Elevated demand from aging millennials is running up against a constrained housing supply. The housing bust of The Great Recession drove small homebuilders out of business, leading to a supply shortfall of up to 2 million homes. It will take years for the construction cycle to clear. Between the overheated demand and rising mortgage rates, home affordability is on the decline for many.

All these trends could easily mean inflation hangs around longer than analysts think, especially since most have never experienced stagflation to begin with. //

Growth in U.S. Labor Force (Change in Decade Average)



Source: Bloomberg

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