



Capital Connections

SEPTEMBER 8, 2022 | VOL. 34, NO. 3

RURAL TELEPHONE FINANCE COOPERATIVE

South Dakota Co-op Taps Multiple Grants, RTFC Financing for Fiber Build-Out

RTFC recently approved more than \$10 million in financing to help a South Dakota-based telecommunications cooperative and its for-profit subsidiary expand broadband access to several underserved rural communities in the eastern part of the state.

The \$9.26 million in RTFC term loans to Valley Telecommunications Cooperative (VTC), headquartered in Herreid, South Dakota, will leverage \$25.6 million of government grants awarded to VTC and its wholly owned subsidiary, Valley Communications, Inc. (VCI). The grants were awarded through two rounds of the USDA ReConnect

Grant Program and two phases of the Connect South Dakota Grant Program. Additionally, RTFC provided VTC with a \$1.2 million line of credit for working capital, and approved a separate \$547,000 letter of credit to support a \$1.7 million grant through the U.S. Federal Communications Commission’s Rural Digital Opportunity Fund.

“The USDA grant-supported projects will cost around \$20.2 million to complete,



“We anticipated the availability of government grants...We wanted to get our network and services established to be ready for those grant possibilities.” – Jeff Symens

and the state grant-supported projects will cost around \$21.25 million,” VTC Chief Executive Officer and General Manager Jeff Symens said.

Construction will involve fiber-to-the-premises build-out in several underserved rural areas. “We will pass about 2,900 locations with these projects,” Symens said. “Currently, we have 900 of these locations turned up with fiber broadband services. We have another 1,200 that are in the middle of the fiber placement process and waiting for new broadband services. We plan to have these all completed by the end of this year.”

Local customer interest in broadband service has been high, and VTC and VCI expect to serve around 2,300 locations in these grant areas when build-out is complete—a 79 percent take rate. “Customers continue to request services in these areas at a pace of 20 signups per week,” Symens said.

VTC launched its CLEC in order to grow the company and serve more local customers. Although VTC is headquartered in north-central South Dakota, VCI has been laying fiber about 250 miles away in east-central South Dakota, near the town of Volga.

Call on RTFC To Assist with Grant Funding Requirements

By Ian Flanders, RTFC Associate Vice President and Senior Lender

Broadband has been a hot topic in the rotundas of federal and state legislatures over the past few years, leading to a bevy of grant programs at all governmental levels to fund broadband deployments both big and small. Our members frequently contact us to discuss the intricacy of these programs, including collateral requirements, matching funds, letter of credit requirements and more.



Ian Flanders

Navigating the complex rules surrounding grant options can be difficult, and making sure your lender will collaborate to accommodate the requirements attached to your telco’s grant award is a key part of a successful funding and deployment strategy.

RTFC fully supports our members pursuing these grant programs and endeavors to work in close collaboration with your telco to ensure all the financial requirements are met in a timely fashion. Many grant programs require telcos to provide match-funding as a percentage of the total build-out cost. RTFC can provide financing

up to 100 percent of the match amount required by federal and state grants. Quite a few programs also require a letter of credit from an approved financial institution to be issued prior to receiving funds. RTFC is prepared to help you meet the letter of credit requirements.

No matter what your financial need, our customized loan solutions are flexible to help you comply with government requirements. Please reach out to us as soon as you have your eye on a possible grant application. Contact your RTFC account manager at RTFCContactUs@nrufc.coop or 800-346-7095.

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NTCA Fall Conference: Contact RTFC Staff Today To Meet in San Francisco

NTCA's upcoming Fall Conference will focus on building a better broadband future for rural America. Taking place Sept. 25–28 in San Francisco, the event offers an opportunity to speak in person with RTFC staff about how to fund your broadband future. Staff will have an on-site room for private meetings to discuss financing options or upcoming projects.

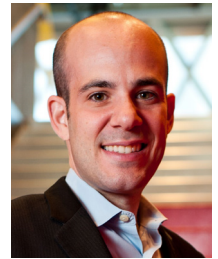


“Financial planning today can prepare you to quickly take advantage of unexpected opportunities tomorrow,” said RTFC Vice President of Portfolio Management Drew Coleman. “We are happy to begin financing discussions in the earliest planning stages of a project. The sooner you get your RTFC account manager involved in expansion

or acquisition considerations, the easier the process will be.”

E-mail RTFCContactUs@nrucfc.coop today to set up a meeting time during the event.

RTFC is pleased to sponsor strategist and futurist Scott Steinberg, the event's opening keynote speaker, who will reveal forward-thinking ways to redesign your telco's leadership and insights on workplace trends and business solutions. Hailed as “The Master of Innovation” by Fortune magazine, he is known for helping his clients adapt to new industry practices.



Scott Steinberg

RTFC is pleased to be an Inner Circle Sponsor of the Fall Conference. We hope to see you in the Golden Gate City! //

South Dakota Co-op Taps Multiple ...

Continued from Page 1



Valley Communications subsidiary FiberCom has three offices. Local officials showed up for the ribbon-cutting ceremony at the Volga, South Dakota, office that was the company's first location in the expansion area. Pictured, from left, General Contractor Randy Roiger, Clark Drew Construction; Valley FiberCom Board President Michael Schlomer; Valley FiberCom General Manager and CEO Jeff Symens; Kyle Raph of Co-Op Architecture; Volga City Administrator Jameson Berreth; and Volga City Mayor Randy Santema.

“VTC formed VCI in late 2018 and began laying a fiber network in 2019. The desire to expand and better serve more local customers was our driving force. Those towns lacked a robust and reliable broadband infrastructure,” Symens explained.

He continued, “We also anticipated the availability of government grants for the rural areas that surrounded these towns, as most locations in those rural areas lacked sufficient access to any broadband. We wanted to get our network and services established in those towns to be ready for those grant possibilities.”

Looking ahead, VTC plans to continue bringing larger bandwidth offerings to its customers, such as surveillance and home security products for the residential market. “We will continue to enhance our stature as our customers' technology partner,” Symens said.

VTC also hopes to apply for additional USDA ReConnect grants in order to expand into more underserved areas. Bringing affordable broadband to these rural areas supports not only individual customer needs but also the regional economy.

From opening up remote work possibilities to enhancing online learning and making telehealth a reality, expanding broadband is benefiting VTC's members.

In describing a few of its benefits, Symens commented, “VCI's fiber network also creates savings over high-priced digital TV costs, giving our customers the ability to stream their content at a much lower cost than traditional TV.”

He added, “A fiber-based broadband service allows companies to relocate to our rural service areas, which will have a positive economic impact on those communities.”

VTC selected RTFC for its financing needs due to RTFC's strong access to capital and knowledge of the broadband and communications industry.

“We chose RTFC for our financing as they demonstrated a great knowledge of our industry and understood and supported our desire to expand our company, products and services,” Symens said. “RTFC is very easy to work with, and we look forward to a long-term partnership with RTFC and their assistance with our company's growth objectives.” //

RTFC Staff Are Ready To Run for FRS

The Foundation for Rural Service 5K Rural Run kicks off this week! RTFC and its affiliate, National Rural Utilities Cooperative Finance Corporation, registered 34 staff members to participate in the virtual fund-raising event. RTFC is also proud to be a Rural Run Silver Sponsor. The annual drive raises funds to support FRS's philanthropic programs that benefit rural communities. Won't you join us in completing 3.1 miles and posting a photo for FRS this month?

Send photos to foundation@frs.org or tag your success on social media @ [frsruralconnect](https://www.facebook.com/frsruralconnect).



ECONOMIC ANALYSIS

Retail Sales Hold Steady

On a month-over-month basis, retail sales were unchanged in July, but increased 0.7 percent when excluding gasoline and auto sales. As gasoline prices began to fall, other goods received bigger shares of consumer spending. Note that July is a month of high activity, particularly related to summer vacation and back-to-school spending. It is unsurprising that purchases of goods such as electronics posted increases.

It is worth noting that sales figures are not adjusted for inflation. Consumers might have purchased the same or fewer units of goods at higher prices. The irony is the same observers who cheer and see increases in sales as consumer resiliency are those who are worried about further rate hikes, ignoring the fact rate hikes are intended to curb inflation by bringing down consumer spending, and the so-called consumer resiliency is the opposite of what is needed to stop rate hikes.

Leading Indicators Point to a Recession

The Conference Board Leading Economic Index (LEI) declined for a fifth consecutive month in July. The composite of 10 leading economic indicators dropped 0.4 percent from the previous month and 1.6 percent between January and July 2022. Leading economic indicators anticipate turning points in the business cycle. The LEI typically predicts a turning point in approximately seven months. The decline suggests a rising probability of a recession in the near term.

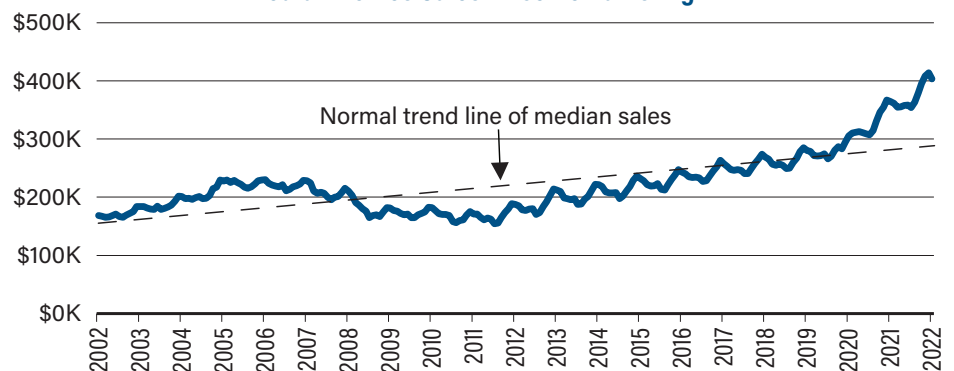
With worrying indicators—such as consumer pessimism, volatile equity market and declining housing construction and manufacturing new orders—economic weakness is expected to intensify and spread broadly throughout the economy. Accordingly, it expects that real gross domestic product is not expanding in the current quarter. That is potentially a third quarter of negative growth. It projects a short and mild recession by the end of this year or early 2023.

Housing Market Continues To Decline

Interest rate hikes appear to be claiming their first victim: the housing market. On the supply side, housing starts and building permits decreased 9.6 percent and 1.3 percent, respectively, from a month ago. Both are indicators of new-home availability in the future. The declines suggest we are unlikely to see big increases in inventory despite buyers pulling back due to higher rates. Additionally, the National Association of Home Builders (NAHB) Housing Market Index—which measures homebuilders' expectations—declined for an eighth consecutive month in August to the lowest reading since May 2020. NAHB notes that monetary tightening and persistently high construction costs have already caused a housing recession.

Existing-home sales decreased 5.9 percent to 4.81 million in July, marking the sixth consecutive month of declines and the lowest level since May 2020. Nonetheless, the median existing-home sales price increased 10.8 percent from a year ago to \$403,800. Home sale prices are stubbornly high and unlikely to crash as in 2008, although further moderate declines may be expected this winter. Given the current conditions of supply and demand, the housing market is likely to see the normalizing of home prices, returning to the pre-pandemic trend from the unprecedented price levels seen during the last two years.

Median Homes Sales Price Remains High



Source: Bloomberg

RECENT ECONOMIC RELEASES

INDICATOR	PRIOR PERIOD	CURRENT PERIOD (FORECAST)	CURRENT PERIOD (ACTUAL)
Retail Sales (Jul.)(MoM)	0.8%	0.1%	0.0%
Conference Board Leading Economic Index (Jul.)(MoM)	-0.8%	-0.5%	-0.4%
Housing Starts (Jul.)(MoM)	2.4%	-6.7%	-9.6%
Existing-Home Sales (Jul.)(MoM)	-5.5%	-4.5%	-5.9%

Source: Bloomberg

KEY INTEREST RATES

RATE FORECAST—FUTURES MARKET

	8/31/2022	6/6/2022	CHANGE	Q3-22	Q4-22	Q1-23	Q2-23
Fed Funds	2.50%	1.00%	1.50	3.05%	3.55%	3.65%	3.60%
1-mo. Libor	2.55%	1.16%	1.39	3.33%	4.01%	4.05%	4.01%
3-mo. Libor	3.10%	1.67%	1.43	3.39%	4.08%	4.13%	4.10%
2-yr. UST	3.46%	2.69%	0.77	3.21%	3.31%	3.26%	3.16%
5-yr. UST	3.28%	2.97%	0.31	3.10%	3.14%	3.10%	3.05%
10-yr. UST	3.12%	2.98%	0.14	2.99%	3.06%	3.06%	3.03%
30-yr. UST	3.24%	3.15%	0.09	3.17%	3.24%	3.25%	3.24%

Source: Bloomberg

Source: INO.com

Capital Connections is published quarterly by RTFC.

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INSIDE THE ECONOMY

Now Streaming: Keeping Up with the Federal Reserve

By Sam Kem, Senior Economic Research Analyst

From Team Transitory to team Soft Landing to Team Undecided, the Federal Reserve is anything but easy to keep up with. This is apparent in the volatility in the equity market.

The Fed has made it repeatedly clear its top priority is fighting inflation. Of course, one would not have doubted the central bank had it not recently insisted inflation was transitory, only to find itself way behind the curve. Nonetheless, after four rate hikes in only five months, the Fed's hawkish policy should have been self-evident except for the mixed signals it has been sending in recent weeks.

First, it stopped short at suggesting the size of the rate hike in its September meeting. Then, it seemed to suggest it does not know where or when to stop, with some Fed officials bluntly stating they do not know how far rate hikes will go. Finally, Fed officials insist a slower pace

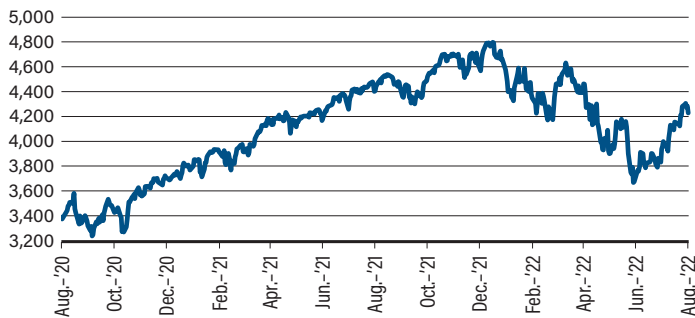
of rate hikes will only happen when they are completely convinced inflation is cooling down without actually explaining what exactly it will take them to be completely convinced.

Wall Street was unimpressed and has called the Fed's bluff as it bet on the Fed lowering rates sometime next year. The bet is evident in recent rallies in the equity market. The only problem is further rallies mean financial conditions would loosen up, working against efforts to tame inflation. If inflation proves hard to tame, the Fed will have to continue raising rates, which means Wall Street would lose the bet and losses would stretch across the sector.

Make no mistake: Wall Street is trying to keep up with the Fed. Just ahead of the Jackson Hole Economic Symposium, the equity market turned gloomy as investors once again feared further aggressive rate hikes.

Why, then, won't the Fed make its plan clear? The answer is because it doesn't have a plan. It has come to the painful realization that its record in forecasting inflation, growth and financial indicators is not impressive. That is why Federal Reserve Chairman Jerome Powell insists on going to a meeting-by-meeting basis. Stay tuned for the next episode. //

High S&P 500 Volatility in 2022



Source: Bloomberg

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