

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: TERRI CARLOCK

DATE: FEBRUARY 27, 2006

SUBJECT: COLUMBINE TELEPHONE COMPANY'S APPLICATION FOR
DEBT AUTHORITY; CASE NO. COL-T-06-2.

RECOMMEND: APPROVAL WITH REPORTING RESTRICTIONS

Columbine Telephone Company, Inc. (Columbine) requests authority to borrow up to \$11,000,000 from the Rural Telephone Finance Cooperative (RTFC). This Application was filed January 26, 2006 with a requested Order date of February 25, 2006. To facilitate the schedule for decision meetings, Columbine agreed to an extension for the Order to be issued.

The proposed loan is for a term of 15 years at a fixed or variable rate to be determined at issue. Current estimated rates are approximately 7.1% variable or 7.1% - 7.24% fixed. The variable rate is subject to change monthly and may be converted to a fixed rate at any time without a fee. The assets of Columbine and Silver Star Telephone Company, Inc. (Silver Star) will *not* be pledged to secure the loan. Instead, the stock of Columbine, Silver Star and Goldstar Communications (a wholly-owned subsidiary of Silver Star) along with the assets of Goldstar Communications and other unregulated subsidiaries will be pledged to secure the loan. RTFC will require Silver Star to maintain a minimum Times Interest Earned Ratio of at least 1.5 and a minimum Debt Service Coverage Ratio of 1.25. The covenants also include restrictions on dividend distribution, additional indebtedness and a Leverage Ratio not to exceed 5 times cash flow.

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The proceeds of the loan will be used to finance construction of a new office-building complex; general plant and equipment for regulated and unregulated operations; purchase of RTFC 10% Capital Certificates; and other corporate purposes. The budgeted amounts include approximately \$2.75 million for the Columbine office-building complex in Driggs, ID; \$1 million supplemental funds for the Freedom, WY headquarters building; \$1.3 million for fiber cable; \$800,000 for terminal equipment; \$600,000 for switching; \$850,000 for facilities in the Teton Springs subdivision; \$2.7 million for wireless and internet facilities; and \$1 million for the RTFC certificates.

STAFF DISCUSSION AND RECOMMENDATION

As with other debt authority requests, Staff continues to express concern about using regulated operations to secure non-regulated activities. Any adjustments associated with allocations, non-regulated costs or the need for a new office building will occur in future rate cases.

To monitor the loan covenants required by RTFC, Staff recommends the following reporting requirements be included in the order approving the Application:

- 1) Provide copies of the RTFC final loan approvals including documentation for advances.
- 2) Provide a copy of any and **all** executed collateral documentation.
- 3) Provide copies of **all** annual certification, covenant reports, and letters regarding these determinations.
- 4) The "Report of Securities Issued".

Columbine accepts these reporting requirements.

COMMISSION DECISION

Should the Application be approved with Staff's recommended reporting requirements?


Terri Carlock

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