

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
LEGAL
WORKING FILE**

FROM: TERRI CARLOCK

DATE: DECEMBER 10, 2014

**RE: SILVER STAR TELEPHONE COMPANY'S APPLICATION FOR AUTHORITY
TO GUARANTY DEBT; CASE NO. SIL-T-14-01.**

On November 12, 2014, Silver Star Telephone Company, Inc. (Silver Star) requested authority to execute an unsecured guaranty of debt payments up to a loan value of \$2,222,222 with the Rural Telephone Finance Cooperative (RTFC). The proposed loan proceeds will be used to install nine new cell towers and related facilities to improve and extend cellular coverage in southeast Idaho and southwest Wyoming. The loan amount includes purchase of the required 10% subordinated capital certificates. The loan will have an eight-year term with interest initially set at a variable rate with the option to convert to a fixed rate. The loan may be prepaid and may or may not have a prepayment fee or make-whole premium dependent on the loan being at a fixed or variable rate. *Idaho Code*, Chapter 9 “Issuance of Securities”, requires this Application. The required fees have been paid.

Silver Star and Gold Star Communications, LLC (Gold Star) are both wholly-owned subsidiaries of Horizon Communications, Inc. (Horizon). Gold Star provides cellular services to customers in southeast Idaho and southwest Wyoming. Gold Star will install the new facilities as owner and operator of the cellular system. Horizon as the parent will be the borrower, execute a secured promissory note and will be responsible for repayment of the loan in quarterly installments. Both Gold Star and Horizon will pledge collateral as security for the loan. To provide connectivity for calls, Silver Star facilities will also be used and Gold Star will compensate Silver Star for this service. Silver Star is an existing borrower for other loans with RTFC and as an affiliated company is required to provide an unsecured loan guaranty.

STAFF DISCUSSION AND RECOMMENDATION

As with other debt authority requests, Staff continues to express concern about using regulated operations to secure non-regulated activities. These activities increase the risk for a regulated company at least initially. With separation of operations in the affiliated companies and the limited eight-year term, Staff believes the risk to Silver Star regulated customers is minimal and it is easier for Staff to verify that these non-regulated costs are not included in regulated rates. Silver Star states that the unsecured obligation to guaranty repayment of the loan will not further encumber Silver Star assets or affect the revenue requirement for regulated operations. Protection of the regulated customers remains important. Staff has reviewed the Annual Reports for Silver Star and the 2014 mid-year financial statements for Silver Star, Horizon and Gold Star and believes the regulated customer can be adequately insulated from negative consequences related to the guaranty. Various factors reflected in the financial statements and loan covenants support this belief in the event of a default by Gold Star and Horizon: 1) cash and cash equivalent items are currently adequate to make the payments, 2) the equity ratio is adequate to absorb a hit to retained earnings and prevent an increase in the overall cost of capital for regulated operations, 3) dividends and other cash distributions to the parent are currently adequate to make the payments, 4) increases in management fees, shareholder dividends and other cash outlays will be stopped if the loan covenant ratios are not met.

Staff recommends approval of the loan request. To monitor any loan covenant requirements, Staff also recommends adopting the following reporting requirements:

- 1) Provide copies of the RTFC final loan documents, approvals and advances.
- 2) Provide a copy of any executed collateral documentation and security agreements.
- 3) Provide copies of all annual certification, covenant reports, and letters regarding these determinations.

COMMISSION DECISION

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



Terri Carlock