

**Rural Telephone Bank**  
**Minutes of the 133<sup>rd</sup> Board Meeting**  
**August 4, 2000**

Time and Place of Meeting

The 133<sup>rd</sup> meeting of the Board of Directors (Board) of the Rural Telephone Bank (Bank) was held Friday, August 4, 2000, in the Williamsburg Room, U.S. Department of Agriculture, Washington, D.C., pursuant to notice published in the Federal Register on July 25, 2000.<sup>1</sup> Acting Chairperson (Chair) Curtis Sampson called the meeting to order at 9:08 a.m.

Attendants

Directors present were:	I. Miley Gonzalez	John Dillard
	Michael Dunn	Curtis Sampson
	Carl Whillock	David Crothers
	Sharron Harris	John McAllister
	Robert Lee Stanton	Larry Sevier
	Michael Jensen	

Among others present were Governor Christopher McLean and staff members Roberta Purcell and Ken Ackerman. Also present was Frank Clover of the Office of the General Counsel (OGC). (Directors not present: Jill Long Thompson and Jimmie Lou Fisher.)

Action on the Minutes

On motion duly made and seconded, the minutes of the May 12, 2000, board meeting were adopted as prepared.<sup>2</sup>

Secretary's Report

Secretary Curtis Sampson reported that in the third quarter the Bank approved three loans for a total of \$5,982,900.<sup>3</sup> These loans were commingled with \$10,256,000 of RUS cost of money funds. Interest rates used in feasibility studies during the third quarter ranged from 6.20% to 6.55%.

Treasurer's Report

Treasurer John McAllister reported on the finances of the Bank for the third quarter of FY 2000.<sup>4</sup> Mr. McAllister reported, among other things, that net revenue for the third quarter totalled \$29 million

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<sup>1</sup> Exhibit 133-1

<sup>2</sup> Exhibit 133-2

<sup>3</sup> Exhibit 133-3

<sup>4</sup> Exhibit 133-4

as compared to \$28 million for the same quarter in FY 1999; total class B stock, net of conversions to C stock, amounted to \$712 million as compared to \$656 million on June 30, 1999, and total class C stock increased from \$277 million on June 30, 1999 to \$314 million on June 30, 2000. Advances on loan commitments for the quarter totalled \$11 million as compared to \$15 million for the same quarter in FY 1999, and unadvanced loan commitments totalled \$895 million, down from \$899 million one year earlier. There being no comments on the financial statements, the Chair moved on to the next agenda item.

#### Privatization Committee Report

Committee Chairman Curtis Sampson reported on three issues: ownership of assets, independent financial advisor, and the limitation on the retirement of class A stock. Mr. Sampson, Mr. Jensen, and Mr. Sevier all agreed that ownership of the Bank's assets is undisputed, and, that the U.S. Treasury and the Office of Management and Budget (OMB) have not indicated otherwise. Further, the Bank's financial statements have stood the test of audits by the General Accounting Office and the Office of the Inspector General. Mr. Sampson stated that the Committee finds no reason for the Bank to request, in writing, an opinion from OMB on whether the Bank does or does not own its assets.

Mr. Sampson then inquired as to the status of the Committee's request for an independent financial advisor to perform a business study to prepare the Bank for privatization. The objective of the study would be to arrive at the interim financial changes, which are likely to happen between the present and a possible privatization date, and from the point of privatization on into the future. Mr. McLean responded that a request for \$100,000 was placed on the unfunded list for the Rural Development mission area. Mr. Newby, representing the Under Secretary of Rural Development, stated that the Budget Committee reviewing the \$100,000 request would have an answer for the Bank within a week. Mr. McLean also concurred with the Committee's opinion that the RUS staff could prepare the report and could do a very good job, but that it is very important that the Board members have an independent view of finances. It was also mentioned that the Bank's current financial statements and loan portfolio are dramatically different from many of the assumptions made and projections forecasted in the Kidder Peabody study prepared in 1989. Mr. McLean further stated that since the time of the Kidder Peabody study, we have a completely new market in telecommunications, and, the passage of the 1996 Telecommunications Act changed every assumption that anyone could have had at that time.

Mr. Sampson again expressed the Committee's desire to eliminate, from the annual appropriations bill, the five-percent restriction on the retirement of class A stock.

Consideration of Resolution to Retire Class A Stock in FY 2000

On motion made by Mr. Dillard and seconded by Mr. Stanton, the following resolution was unanimously approved:<sup>5</sup>

**Resolution No. 2000-6**

WHEREAS, Section 406(c) of the Rural Electrification Act of 1936, as amended, provides, in part, that:

Class A stock shall be redeemed and retired by the Telephone Bank as soon as practicable after September 30, 1995, but not to the extent that the Telephone Bank Board determines that such retirement will impair the operations of the Telephone Bank: Provided, That the minimum amount of Class A stock that shall be retired each year after said date shall equal the amount of Class B stock sold by the Telephone Bank during such year...;  
and

WHEREAS, the United States Government purchased a maximum amount of \$592,079,627 of Class A stock of the Rural Telephone Bank (Telephone Bank); and

WHEREAS, for the past four consecutive years, the Telephone Bank has repurchased \$90,289,627 of its Class A stock, leaving \$501,790,000 outstanding; and

WHEREAS, the Agriculture Appropriations Act of 2000 provides that, in fiscal year 2000 no more than five percent of the Class A stock of the Telephone Bank may be retired: an amount equal to approximately \$25,089,500; and

WHEREAS, the Telephone Bank Board has received and had explained to it the attached study entitled *Retirement of Class A Stock of the Rural Telephone Bank*, which demonstrates that the Telephone Bank has sufficient funds to retire \$25,089,500 of Class A stock without impairing the Telephone Bank's operations (see attachment);  
and

THEREFORE, BE IT RESOLVED, the Telephone Bank Board determines that the retirement of \$25,089,500 will not impair the operations of the Telephone Bank based on the attachment; and

RESOLVED, That for fiscal year 2000 the Telephone Bank Board directs that \$25,089,500 be retired prior to October 1, 2000.

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<sup>5</sup> Exhibit 133-5

Consideration of Resolution to Set Annual Class C Stock Dividend Rate

Mr. Dillard expressed his desire to eliminate from future annual appropriations of the Bank the five-percent limitation on the retirement of class A stock. The annual limitation provision was not an Administration initiative, but one supported by the industry. The amount of class C stock outstanding has increased steadily over the past few years and is expected to increase at a larger rate as a result of the new partial stock conversion policy adopted by the Board last year. Directors were concerned that the five-percent limitation on the retirement of class A stock would hinder their flexibility in establishing competitive dividend rates in the future. Specifically, Board members voiced their concern on the possibility of paying out more in class C stock dividends than the total dividend payable to the Federal Government. Following some discussion, a motion was made and seconded, and the following resolution was unanimously adopted:<sup>6</sup>

**Resolution No. 2000-7**

WHEREAS, it is the responsibility of the Board of Directors to annually review and declare the Class C stock dividend; and

WHEREAS, the dividend by law may not exceed the average interest rate on the Rural Telephone Bank debt due to Treasury which is presently about 6.58 percent; and

NOW, THEREFORE BE IT RESOLVED, That a 5.65 percent annual dividend rate be declared on the Class C stock of the Rural Telephone Bank payable December 15 to the Class C stockholders of record during fiscal year 2000 on the basis of one-twelfth of the annual dividend for each full month, or portion of a month, the stock was held during fiscal year 2000.

Final Dates for Receipt and Tabulation of Nominations

Board members unanimously approved changing the final dates for receipt and tabulation of nominations from August 30 and 31 to September 6 and 7, 2000, respectively.<sup>7</sup> A conflict in dates with the RUS National Conference necessitated this change. The election tellers, nominated by the Governor and approved by the Board at its meeting on February 11, 2000, will be attending the RUS National Conference and, therefore, unavailable to tabulate the nominations on the date specified in Board Resolution 2000-3. Consequently, the Board unanimously changed the final dates for receipt and tabulation of nominations.

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<sup>6</sup> Exhibit 133-6

<sup>7</sup> Exhibit 133-7

Other Business

Board members congratulated Mr. McLean on his recent appointment to serve as Administrator of RUS and Governor of the Bank. Mr. McLean succeeds Wally Beyer, who retired October 31, 1999.

Next Board Meeting in Washington, DC

The November staff briefing and Board meeting dates are as follows:

Staff Briefing:	Thursday, November 16, 2000, at 2:00 p.m.
Board Meeting:	Friday, November 17, 2000, at 9:00 a.m.

Adjournment

Whereupon motion to adjourn was made and the meeting was adjourned at 10:00 a.m.

Signed Curtis Sampson

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Secretary