



Review of PFM's Feb 2018 Report on the Future of JEA

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Discussion Topics

- Introduction
- Scope of the Report
- Utility Industry Valuation
- Important Considerations
- Summary



Introduction: Origins of the 2018 Report

◆ Nov/Dec, 2017 JEA Board Meetings: Questions Posed:

Would Jacksonville be better served in the private marketplace?

Should JEA/City consider benefits of privatization?

Evaluate position in the market, and report on JEA's private market value so citizens, the Mayor and the Council can evaluate that opportunity.

◆ JEA Requests Report from Public Financial Management

- PFM - leading financial advisor to state and local governments
- Advisor-only business – not a “broker”, underwriter, trader or lender
- Advisor to over half of the 50 largest public power utilities
- Serving as financial advisor to JEA for 17 years



Scope of the 2018 Report

- ◆ Establish the Range of Potential Values for JEA Enterprise(s)
 - Considering:
 - *commonly accepted valuation methodologies*
 - *utility market conditions and potential buyers*
 - *JEA's financial metrics and condition*

- ◆ Discuss Important Considerations and Variables
 - Key valuation drivers
 - Quantitative and qualitative impacts of a sale

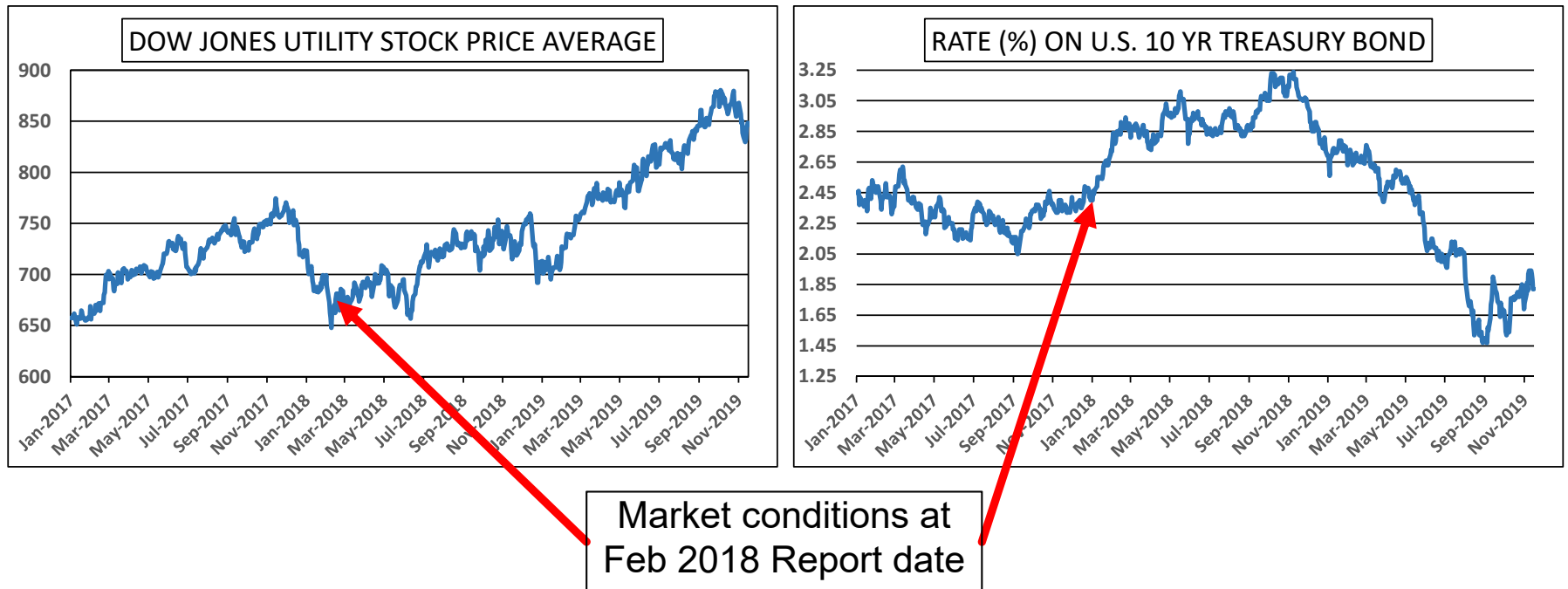
The Report was NOT a Recommendation to Sell or Retain JEA



Utility Industry Valuation Trends

◆ Strong Markets Drive Investor Owned Utility (“IOU”) Value

- Utility and broader stock prices near all time highs
- Interest rates remain very low

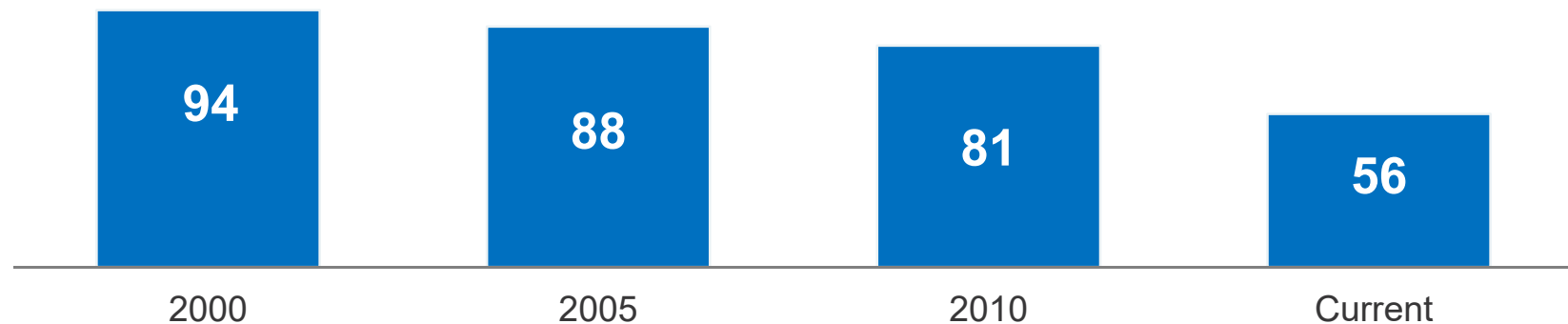




Utility Industry Valuation Trends

IOU Shareholders Value Growth

- Utilities are not seeing growth within their own service territories
 - *Conservation and energy efficiency erode demand growth*
 - *Distributed generation (solar) replaces supply*
 - *Industry wide condition, not specific to JEA*
- Acquisitions provide growth opportunity for IOUs
 - *Consolidation has reduce the number of opportunities (# of utility holding cos.)*



- Municipal utilities are an appealing acquisition alternative
 - JEA assets and service territory present a unique opportunity



Utility Industry Valuation Trends

- ◆ Utility Business Conditions Have Changed – and continue to
 - Financial markets – *reduced capital cost advantage for munis*
 - Corporate tax structure – *lower tax rates, faster depreciation/expensing*
 - Utility industry – *less capital intensive, greater technology/business risk*

- ◆ JEA is an Attractive Acquisition Candidate
 - Strong cash flow and financial position
 - Significant debt reduction in recent years
 - Attractive asset mix in a strategic, growing region of the Country



Valuation Methodologies and Metrics

◆ Discounted Cash Flow Projection Model

- Test a wide range of assumptions and variables

discount rates

growth rates

synergies

rate scenarios

capital program

financial markets

depreciation

taxes and transfers

◆ Company Earnings

Stock Price (P/E) Multiples Applied to Company Earnings

◆ Earnings before Interest, Taxes, Depreciation & Amortization

EBITDA or Cash Flow, Times Market Multiple Ranges

◆ Property, Plant & Equipment net of Depreciation

PP&E or “Rate Base” Assets, Times Market Multiple Ranges



Utility Industry Valuation Trends

◆ High Market and Transaction Values for Utilities Persist

- Merger & Acquisition activity provides price and metric comparables
- Utility stock market prices and ratios provide additional data
- Recent data indicates continued market strength:

Stock Price and Price/Earnings (P/E) Ratios

~25X

Cash Flow (EBITDA) Multiples

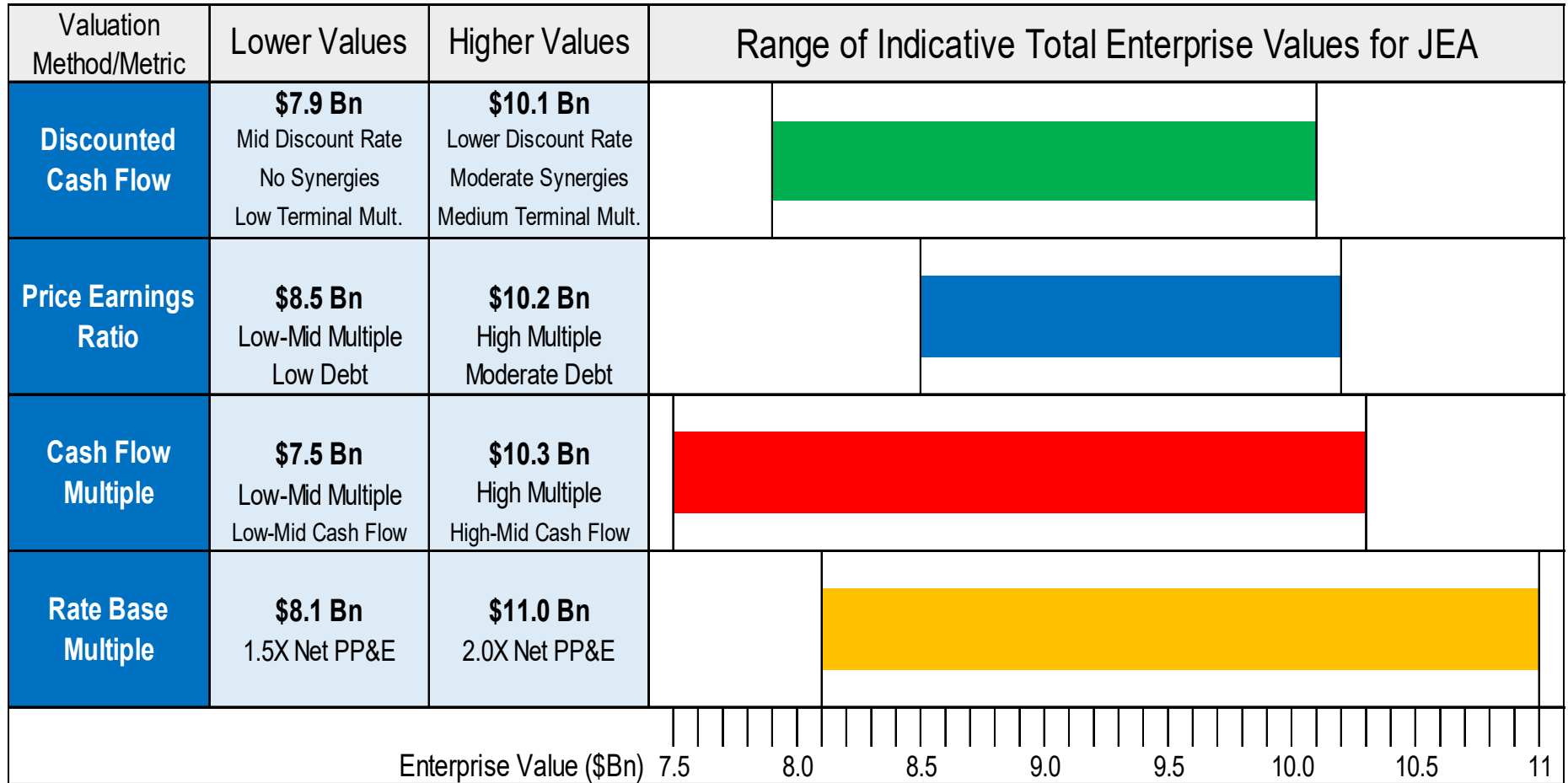
~12X

Rate Base Asset Ratios

~ 2X



2018 Valuation Methodology Results





2018 Valuation Methodologies and Metrics

◆ Implied Transaction Value for JEA of \$7.5 to \$11 Billion

- Represents **gross transaction value** – before retiring debt
- Very wide range of values based on market comparables
- Case could be made for wider ranges and higher values
- Position within the range (or outside it) will be a function of terms and conditions imposed on the sale

And all subject to assumptions, market conditions and change

◆ Net Value Amount is Net of Other Assets and Liabilities



Valuation Methodologies and Metrics

◆ Estimated Adjustments to Arrive at Net Value

- Cost to retire JEA debt balance has declined
Feb, 2018 figure of ~\$3.9 billion has declined to ~\$3.4 billion
- Cost to terminate JEA interest rate hedges is roughly similar
Termination costs expected to be ~\$100 million
- Vogtle contract considerations: Vogtle debt has increased
NPV of Vogtle tax-exempt debt service component is roughly ~\$1.8 billion
Cost to address the contract could be much less
- Expected excess cash and investments
Roughly \$600 million was assumed available to reduce debt

All of the above figures are subject to market conditions and change



2018 Valuation Net Value Estimates

◆ Adjustments to Gross Value/Price Paid

Estimated Adjustments to Value	Lower Values	Higher Values
Gross Transaction Value	\$7.5 Bn	\$11.0 Bn
2019 Debt Retirement Cost	(\$3.9) Bn	(\$3.9) Bn
Interest Rate Hedge Termination	(\$0.1) Bn	(\$0.1) Bn
Vogle Contract NPV of Debt Portion	(\$1.2) Bn	(\$1.2) Bn
Available Cash and Investments	\$0.6 Bn	\$0.6 Bn
Net Proceeds after Assets & Liabilities	\$2.9 Bn	\$6.4 Bn

Down to ~\$3.4Bn with debt matured and retired

Up to ~\$1.8 Bn with debt issued and lower discount rate



Important Considerations

◆ Future Utility Rates – Moving to a Regulated Environment

- Florida Public Service Commission regulation
- Multi-year rate freezes are a common sale condition
- Examine projected rate differential under JEA Board vs. FPSC
- Long-term rate modeling is challenging in a changing market

◆ JEA Employees

- Transition, and even discussion, is challenging for the entire workforce
- Workforce guarantees are a negotiated condition in most asset sales
- Service and safety continuity are essential



Important Considerations

◆ JEA City Payments vs. Private Owner Taxes

- JEA makes 3 forms of payments totaling roughly \$250 million

City Contribution *Franchise Fee* *Public Service Tax*

- Private utilities have a different tax structure

Property Taxes *Franchise Fee* *Public Service Tax*

- Sale conditions can be imposed to “hold harmless” the City
- Additional taxes will be paid to other jurisdictions under private owner
Federal, State, County, Schools



Important Considerations

◆ Local Economic Impacts and Efficiencies

- JEA is a large employer and economic contributor to the region
- JEA/City partnership achieves efficiencies, cost savings, policy priorities
- Sale could include commitments to maintain presence, cooperation and commitment to the City to limit negative impacts

◆ Execution Complexity and Challenges

- Existing contractual arrangements
 - Combined real estate and right-of-way agreements
 - Vogtle power purchase agreement
- Asset sale structure – electric, water, sewer, irrigation, district energy
- Governments eligible for FEMA assistance



2018 Summary

- ◆ The Utility Industry has Changed, and Market Values have Increased Considerably in the Past 5-10 Years
- ◆ A Sale of JEA Can Be Expected to Produce Substantial Up-Front Net Proceeds to the City
 - Net Proceeds Could Range from Roughly \$3 to \$6 Billion
 - Actual Value Will be Highly Dependent on Market Conditions and on Transactions Terms & Conditions
- ◆ Selling JEA Would be a Very Complex Undertaking
- ◆ Several “Non-Price” Quantitative and Qualitative Considerations to be Evaluated and Managed