



OFFICE OF THE CITY COUNCIL

DR. CHERYL L. BROWN
DIRECTOR- COUNCIL SECRETARY
JACKSONVILLE CITY COUNCIL
OFFICE (904) 630-1452
FAX (904) 630-2906

SUITE 425, CITY HALL
117 WEST DUVAL STREET
JACKSONVILLE, FLORIDA 32202
E-MAIL: CLBROWN@COJ.NET

SUBPOENA DUCES TECUM

RE: Special Committee on the Potential Sale of JEA

TO: Paul McElroy, Managing Director and Chief Executive Officer of JEA
c/o JEA
21 West Church Street
Jacksonville, Florida 32202

General Statement: The subject matter of the inquiry will be matters concerning the potential sale of JEA, including but not limited to inquiries related to the Public Financial Management, Inc. (PFM) report dated February 14, 2018.

YOU ARE HEREBY COMMANDED to appear before the City Council Special Committee on the Potential Sale of JEA at its scheduled meeting on Thursday, March 29, 2018, at 2:00 p.m., at 117 West Duval Street, Council Chambers, 1st Floor, City Hall, Jacksonville, Florida, to testify and to speak the truth in the above matter and to have with you at that time and place, for inspection and copying, all documents within your possession, custody or control relating to the following:

Documents that relate to philanthropic/volunteer hours from 2013 through 2017 provided by JEA, as a corporate entity, or through its JEA employees, including but not limited to any documents that relate to the value of such philanthropic/volunteerism hours, the community impact of such hours, any requirements by JEA of charitable giving or volunteerism by JEA for its employees; programs or policies to encourage such charitable giving or volunteerism, or any other documentation that relate to the value of the Community Impact of charitable giving, volunteerism support, or other community-related goals as described under "Key Value Drivers for Sales Price" beginning on pages 14-15 of the PFM report, a copy of which is attached hereto;

Documents concerning JEA's strategic plan to offset the recent revenue decline trend, including but not limited to the power point entitled "Materials to assist the City Council Special Committee on the Potential Sale of JEA" dated March 15, 2018;

Documents concerning JEA report on hurricane damages from Matthew and Irma and FEMA reimbursements;

This subpoena duces tecum is issued under the authority of Sections 5.09 and 18.01, Charter of the City of Jacksonville, and Chapter 134, Jacksonville Ordinance Code. This subpoena is continuing in nature and unless you are released from the subpoena your testimony will continue at the next meeting after your appearance. If you are not served at least seven (7) days prior to the above Special Committee on the Potential Sale of JEA meeting, you are required to appear at the next Special Committee on the Potential Sale of JEA meeting that is scheduled for Thursday, April 5, 2018 at 3:30 p.m. in Council Chambers, 1st Floor, City Hall, Jacksonville, Florida.

WITNESS my hand and the Seal of the City of Jacksonville, Florida this 20th day of March, 2018.



A handwritten signature in blue ink, reading "Cheryl L. Brown", is written over a horizontal line.

Cheryl L. Brown, Council Secretary
Jacksonville City Council

Enterprise Value as a Multiple of EBITDA or Cash Flow:

A pro-forma projection is used to determine the expected EBITDA if JEA were a private utility. The EBITDA number is multiplied by a factor determined by industry comparable public equity trading values and recent utility M&A transactions to determine the appropriate enterprise value.

Enterprise Value as a Multiple of Assets in Rate Base:

A pro-forma projection is used to determine the expected Public Service Commission approved rate base assets if JEA were a private utility. JEA's NPP&E serves as a good proxy for an estimate of the assets for which the FPSC would allow capital cost recovery to a private, regulated utility. The amount of rate base is multiplied by a factor determined by industry comparable public equity trading values and recent utility M&A transactions to determine the appropriate enterprise value.

These multiples and ratios of Earnings, EBITDA and Rate Base are typically used to measure and compare various transactions. They often provide a "scorecard" comparison, as opposed to serving as the primary determinate of the price a buyer will pay for an asset.

Potential asset buyers will examine these metrics and compare them to their own business objectives and projections. Some buyers will examine a potential acquisition on a stand-alone basis – looking to see that the expected economic results deliver a sufficient return on funds invested in the new business. Other buyers will expect to incorporate the new business into an existing operation. These buyers will want to see that returns for their investors are higher for the combined business than for their existing business. But the focus will clearly be first and foremost on achieving investment returns and economic success for shareholders/investors.

At various times in the past, the City has analyzed the value of JEA. Since the last time this analysis was completed in 2012, there are several factors that have worked together to improve the overall potential market value of JEA's utility assets. Buyers are willing to pay higher multiples of Earnings, EBITDA, and NPP&E. At the same time, the JEA management team has reduced JEA's overall debt and improved the operation of the utility, including its relationship with its customers, thus substantially improving the value of the enterprise.

Key Value Drivers for Sales Price

As mentioned earlier, simply focusing on obtaining the highest possible up-front price for a utility asset, may lead to outcomes that are not optimal for the long-term customers of the utility if it is sold. New owners are likely to make changes that will impact utility customers and the City. Some of these changes may be necessary to generate earnings required to justify a high purchase price for JEA. In nearly every system sale, the seller or state regulators impose conditions on the sale that are designed to protect ratepayers, employees and the community from excessive change and unintended consequences of a new ownership structure.

Listed below are examples of common asset sale conditions or objectives that are designed to protect ratepayers:

- **Guaranteed employment:** acquisitions commonly provide employment guarantees for existing employees for a period of time to be negotiated among the parties.
- **Utility Rate Guarantees:** Acquirers will often agree to keep rates the same or lower for some period of time following the acquisition. Rate regulation for a buyer of JEA's assets will ultimately transition to the Florida Public Service Commission. The pricing and duration of rate constraints may have a significant impact on acquisition price.
- **Headquarters Location:** The sale process can include certain requirements around maintaining a physical presence in a community, including the location of corporate headquarters.
- **Community Impact:** Requirements for charitable giving, volunteerism support, or other community-related goals can be included in the constraints established up front as part of the sale process.

While these types of conditions, and others, are common in utility asset sales, conditions that are too onerous on the buyer could serve to limit the price paid for a utility asset. Any decisions related to a sale of JEA should include discussion and decisions on these items to ensure that there are not unintended consequences of a sale that adversely impact the community.

Overview of JEA's Balance Sheet

Like JEA's operations, JEA's financial statements are divided according to the three utility systems and their respective funds – the Electric Enterprise Fund, the Water and Sewer Fund, and the District Energy System (DES). The Electric Enterprise Fund is comprised of the JEA Electric System, Bulk Power Supply System (Scherer), and St. Johns River Power Park System (SJRP). JEA maintains separate accounting records for the Electric System, the Bulk Power Supply System and its ownership interest in SJRP. For purposes of financial reporting, however, JEA prepares combined financial statements that include the Electric System, the Bulk Power Supply System, JEA's interest in the Power Park, the Water and Sewer System and the District Energy System. The financial statements consist of the related statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows covering the fiscal year period October 1 – September 30.

JEA's statement of net position, more commonly referred to as a balance sheet, contains relevant financial metrics that would be important to the analysis of an asset sale. JEA's outstanding debt would have to be retired if its utility assets are sold. Portions of cash and cash equivalents on hand can be used to satisfy portions of the long-term debt obligations. Both assets and liabilities would be factored into the net transaction price. Net capital assets are another indicator of value although these are historical amounts and might not represent current replacement or market values for JEA's invested infrastructure assets.

Table #2: JEA Balance Sheet Metrics

As of 9/30/17 (\$'000)	Cash and Equivalents	Long-Term Debt	Net Capital Assets
Electric System ¹	\$803,000	(\$2,328,000)	\$2,687,000
Water/Sewer	\$448,000	(\$1,625,000)	\$2,616,000
DES	\$7,000	(\$36,000)	\$36,000
TOTALS	\$1,258,000	(\$3,989,000)	\$5,339,000

¹ Excludes SJRP – shutdown January 2018

PFM