

# JEA Disposition Process Briefing To Jacksonville Civic Council, Inc.

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By  
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- Duke University B.S. '75, MS '76
- 600 Utility Sale or Appraisal Projects over 42 years
- 36 states
- Expert Witness at 9 State PSC's
- Expert Witness in some 200 Court Cases
- Duke Energy/FPC – Citrus County
- Dover Delaware
- Vero Beach/FP&L
- Bushnell/SECO
- Grand Tower Energy Center
- Bayou Cove/NRG
- Many Others
- Numerous Water & Wastewater (approximately 550 of 600)

# JCC REQUESTS

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- 1) Update the 5/18/2018 Report (Summary Letter Format)
- 2) Update Utility Disposition Process
- 3) Update the process items not performed in an adequate fashion

# JEA Initial Criteria & Considerations

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## Criteria

- Achieving JEA's Goals (ITN)
- Experience and Customer Commitment
- Economic development and benefits to Jacksonville
- Employee, retention and benefits
- Plans for innovative services and investments

## Considerations

- Community Stewardship
- Financial Stability
- Environmental, Social and Governance Commitments

# Where We Are

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- Initial Step on a Sale – Get Interested and Qualified Bidders (Successfully Done)
- Other Options per JEA – Not adequate performed to date
- Basis for Decisions:
  - 1) Appraised (USPAP) Value – Not Done  
(PFM is an Investment Banking/Financial Advisor – Not an accredited appraisal firm)
  - 2) Thoroughly examined options – Not Done (Catch-up work needed)
  - 3) Public has not been thoroughly informed to participate or appropriately comment

# JEA Scenarios (October 11, 2019)

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Scenario #1: Status Quo Plan

Scenario #2: Traditional Utility Response Plan

Scenario #3: Community Ownership Plan (Similar to Utility Cooperative Style)

Scenario #4: Initial Public Offering (IPO) Plan

Scenario #5: ITN Plan (Sale)

# Scenario #1 – Status Quo Plan

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- JEA says this is complete. Nonetheless, very little has been provided except a few summary tables with assumptions that have not been verified and certain high-level summaries.
- Typically, the Status Quo Plan incorporates the current managements:
  - 1) Planning possibilities and range of forecasts
  - 2) Financial Optimizations
  - 3) Operational Optimizations
  - 4) Capital Program Value Engineering
  - 5) Management Proposals
  - 6) Opportunities and Impacts
  - 7) Enhancements and
  - 8) Review of current practices which can be improved
- Either a report or series of reports are compiled. (Such documents have not been shared with the public)

# Scenario #2 – Traditional Utility Response

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- JEA says this is complete. Comparing the current JEA conclusions “a combination of cost cuts, head-count reduction, a deferred of capital investment in the community and rate increases to customers.” It does seem dire. It also seems to lack what other appropriate utilities – like OUC, Orlando, Orange County did as an example. Dependent Authority, Charitable Trust, or Not-for-Profit options are available.
- From the conceptual work a 12% water and wastewater rate increase over 18 years is less than inflation and is actually quite good.
- Few and only generalized public documents have been provided.
- None of the more innovative programs done in Florida were provided to the public.



# Scenario #3 – Community Ownership

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- This scenario has not been completed by JEA.
- There are Utility Cooperatives, Charitable Trusts, Not-for-Profit Entity Options (63-20 IRS), and Dependent or Independent Authorities.
- With good JEA Management, typically these entities should be slightly less competitive based on national experiences.
- Nonetheless, the public should wait to see what work is being done.
- Decisions should be made with the identified and other scenarios are known.

# Scenario #4 – Initial Public Offering (IPO)

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- Again this scenario has not finished JEA evaluation.
- It is a scenario that I have not seen implemented successfully by a City.
- Nonetheless, many private businesses have been through this process.

# Scenario #5 – ITN - Sale

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- Just beginning the process.
- Basis work has not been done (Appraisal, etc.)
- Three separate power, three separate water, and four complete (power & water) entities provided interest. The anonymous entity is just that at this time.
- At this juncture, the vast majority of the work is still ahead.
- In many cases, large private company regionalization and expertise have benefited cities and counties.

# Summary of Bidders

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## Electric

- Duke Energy
- FPL – Next Era Energy
- Emera – TECO & Peoples

## Water

- American Water
- Suez
- Duke Energy

## Investors

- Macquarie Infrastructure & Real Assets, Inc.
- American Public Infrastructure, LLC
- IFM Investors Pty, Ltd

## Joint Venture

- JEA Public Power Partners (Emera, Barnhart Capital Partners and Suez)

## Anonymous

- One Entity

# JEA Management Decisions Review

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- Asset Disposition Consideration by JEA is an appropriate management activity.
- Right to Serve and Decision on a sale of all or part is a City decision and potentially customer vote determination if City decides to sell, not a JEA decision.
- City Council appears not to be fully informed by JEA due to JEA Management decisions.
- The Public appears not to be fully informed of all options and comparison of options. No public reports, “cone of silence”, no feasibility reports, no fully investigated options analyses (reports), no USPAP compliant appraisal (one essential basis for negotiations), etc.

# JEA Management Decisions Review (cont.)

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- JEA does not have either a Water & Wastewater or an Electric rate base. FPSC has not determined or ordered the JEA rate base. (Premature activities). Such information is needed for all bidders.
- There are incomplete analyses of viability which are major factors to a successful, effective, and sustainable utility.

# Conceptual Value Consulting Summary

## (\$ x Billion) <sup>(1)</sup>

Description	Approx. Value	Approx. Debt/Liabilities	Net Proceeds	Estimated Time Req.	Comments
Electric System	\$5.5 +/-	\$4 +/-	\$1.5 +/-	1.5 yrs.	Secure long-term lower rates (FP&L) or others; get ad valorem taxes, get franchise fees, get fund balances, get utility tax, transfer restricted funds and debt service reserve funds.
Generation Only Not Bid Separately	N/A	\$3.9	Small	N/A	Not Bid Separately.
Electric T&D Not Bid	N/A	Small	N/A	N/A	Not Bid Separately.
Chilled Water	Small	Small	Small	N/A	Minor transaction, little benefit, better to be packaged with electric.
Water and Wastewater	\$3.0 +/-	\$1.5 +/-	\$1.5 +/-	2 yrs.	Loss of utility rate control to FPSC or to NFP.
All Utilities	\$8.5 +/-	\$5.5	\$3.0 +/-	2+ yrs. No Control by City	City gets franchise fees, fund balances, utility tax, ad valorem tax, transfer of restricted funds, transfer of debt service reserve, etc. funds.

<sup>(1)</sup> Rounded Preliminary/Rough Estimates

# Fully and Publicly Decide on Goals & Objectives (Suggestions)

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- Proceeds for City General Fund CIP – (How much needed for what?)
- Stable or Lower Customer Rates – (Evaluate Each Option)
- Assumption of Existing Customer Contracts – (Honor Agreements)
- Economic Development – (Development Programs, Local Synergies, Responsible Service)
- Good Customer Service – (Existing and Examples with large systems)
- Reliable Operations – (Proven abilities)
- Excellent Quality – (Track Record and Effective Actions)
- Prudent/Innovation – (Correct certain management decisions, accomplish what can be done (examples in Florida))



# Define Sources & Uses

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- What projects are “high priority”
- How much do they cost?
- How much can the City fund from other sources?
- How much do you really need (i.e. \$1 Billion, \$3 Billion, \$5 Billion?)
- Have you performed “Value Engineering”?
- Have you decided how to operate the remainder which is not sold?
- Have you “simplified” future operations and improved effectiveness?

# Determine What You Want to Sell or If You Want to Sell

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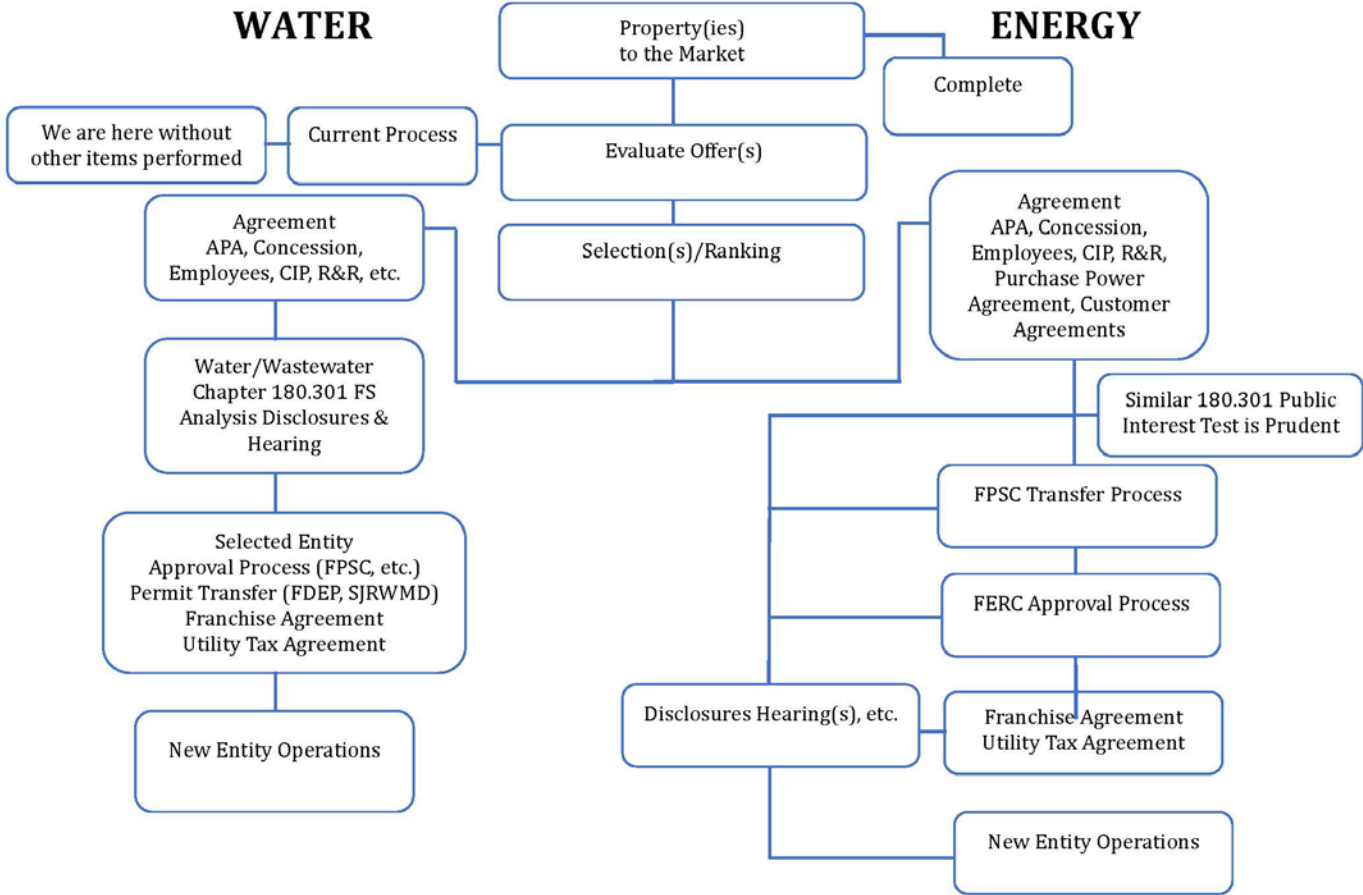
See Flow Chart (5/18/2018 Report)

Conceptually and only on a comparative basis:

1. Sell Electric & Chilled Water Fiber (Power)
2. Sell Water & Wastewater (Water)
3. Optimize and Keep Power
4. Optimize and Keep Water
5. Combinations



# Flow Chart (cont.)



# Major Reasons Why for Sale

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## Power

- Poor fuel mix for future market conditions
- Risks @ Vogtle
- Available Open Transmission Access FERC 888 and 889
- Projected less competitive generation with management's current mix
- ∴ Potential low future ROI
- ∴ Potential higher customer rates
- ∴ Current Management has not developed programs to adjust to future market conditions

# Major Reasons Why for Sale (cont.)

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- Generate net proceeds for CIP shortfall
- Stable and potentially lower rates (i.e. FP&L/NextEra and others may have among the lowest rates in Florida)
- Assumption of Contracts
- Loss of City – Customer Interaction, yet many private providers have good track record
- Franchise Agreement must be Comprehensive and NOT standard one

# Need To Document, Describe, Present Property

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- Legal description
- Engineering description
- Insurance (due diligence) report(s)
- Low cost optimizations
- Playing catch-up here – currently “not available”
- Etc.

# Items Not Done or “Not Available”

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- 1) Analyze Comparative Sales of various properties individually and combined.  
– Not Done
- 2) Discuss with Market Participants before ITN – Not Adequately Done
  - Get their insights and comments
  - Engage
  - Provide Data
  - Track Records – Investigate communities following sales
  - Obtain their current “Key Factors”



# Items Not Done or “Not Available” (cont.)

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- 3) Appraise the Property Offered for Sale (USPAP Compliant Utility Appraisal) PFM report was not an appraisal.
  - Proper Public Property Due Diligence
  - Example Vero Beach – Only with an appraisal could the FP&L offer increase from less than \$100 million to almost \$200 million (Appraisal about \$200 million in value) – Water and Wastewater Appraisal value was also much greater than offers) and therefore not sold
- 4) Open public information and availability of documents, reports, etc., - Customers and City Council
- 5) No available optimization program, detailed with front-line staff, etc. includes operations, financial (various activities), effective capital investment and engineering (modernization, efficiency, etc.)
- 6) No fully prepared options report with assumption sensitivity, etc. (See 5/18/2018 report).

# Potential Misleading Information

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- JEA says 71% rate increase. Fact 2008-2018 period rates went down, not up (\$114.28 (2008) - \$111.76 (2018))
- JEA says what they can't continue successfully because they are "Government Constrained" – all ITN red x's except "reduce dividend/city contribution" can be done by JEA, and the above is not supportive of the City
- JEA assumptions disputed by FMEA with their estimate of a net effect of \$3.9 billion only on the electric (power) side
- JEA's 400 person lay-off as reported were not front-line FTE's.
- JEA Management says they can not effectively meet future challenges in running the utilities. Historically done over 100 years, yet current management says not possible or desirable due to future requirements.

# Effects of the Lack of Full Disclosure of Comparative Options and Items Not Done

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- Removes a proper frame of reference
- Does not fully inform the public and City Council
- Focuses on one activity (sale) option, while stating that the situation is dire (but arguable it is not)
- The “cone of silence”, publicly incomplete and potentially misleading JEA activities detract from a proper asset management activity of the consideration of potential disposition
- No need for a “cone of silence” and refusal to answer questions. Market participants are used to public entity solicitation. They are many times public utilities themselves either investor owned or not-for-profit. Some utility investor groups have done well (examples are peaking power plant turn-arounds, etc.).

# Flow Chart Activities – Status Update

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- A.) Procurement Document Preparation – ITN and Addenda - Completed
- B.) Offer for Sale to the Market - Completed
- C.) Evaluation - Ongoing
- D.) Negotiate Asset Purchase Agreement (APA) with Exhibits
- E.) Selection(s), Ranking – by JEA
- F.) Public Workshops (Customers & City Council) (These are being considered maybe 12 to 15)
- G.) Regulatory Submittals and Rate Base Determinations
- H.) Tax and Utility Tax Agreements

# Flow Chart Activities – Status Update (cont.)

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- I.) City Franchise Fee Agreements (i.e. 6% gross revenues) – Between City and Successful Bidder
- J.) City Council Consideration of Options
- K.) City Council Consideration of Sale option with Chapter 180.301 F.S. type Hearings and Documents – City Council decision after public input
- L.) Various Regulatory Approvals
- M.) Financing by Buyer(s)
- N.) Surveys
- O.) Title Insurance
- P.) Environmental Audit
- Q.) Closing and Agreement to Cure Deficiencies

# Following Activities (cont.)

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- R.) Transitional Activities
- S.) Defeasance Activities
- T.) Separation and Re-Integration – if needed
- U.) Accounting Activities, Fund Transfers, Financial Plan/Investment Plan, etc.
- V.) Ad Valorem Work
- W.) Liquidation or Transfer of Excess Properties
- X.) Franchise Agreement CIP Requirements by City
- Y.) Franchise Agreement ROW Activities as Required by City
- Z.) Planning, Land Use & Zoning for Properties as Required or if needed

# The Customer Impacts depends on how you sell, to whom you sell, and what you sell

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## 1) Lower Community Impacts with Generation Only Sale

- Sale of Power Generation due primarily to FERC Orders 888 and 889 when agreement (PPA's) are satisfied with the sale.

## 2) Beneficial Impact on Customers

- Most FP&L transactions due to lower purchase prices, largest rate base “pool” and among lowest rates in the State. (Regulated by FPSC – NextEra subsidiary).
- Example of Indianapolis – Citizens Charitable Trust (\$1.9 Billion) better management, service, etc., good rates due to not-for-profit checks and balances with community.
- Utilities with major problems are typically better solved with new larger professional management.
- Others

# The Customer Impacts depends on how you sell, to whom you sell, and what you sell (cont.)

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## 3) Negative Impacts on Customers

- Typically isolated to the customer class that is currently being subsidized.
- When buyer has higher debt per customer, debt cost, higher effective age, less future expected service life, and less competitive in the market then poor results.
- On many occasions owners defer costs or subsidize operations from the general fund and “hide” the true utility cost. This practice causes customer rate pressure.
- When sold to a utility with a poor track record of customer service.
- Others – Community Impacts Analysis are needed



# Summary

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- Consideration of asset disposition is a prudent management activity
- Several entities included in the nine (9) responses to the ITN are well known and capable utility providers
- The activities upto 10/7/2019 have not included appropriate public and City Council information, review and/or responses due to the “cone of silence” used by JEA concerning its public entity. This situation can be corrected.
- Important process activities were either not done, deferred, or not thoroughly performed by JEA.
- Unfortunately, several misleading JEA statements were made or misinterpreted. Certain statements have been corrected, others need more analysis.
- It is difficult to negotiate without a USPAP Compliant Appraisal. Acceptance of the “best deal” offered may not be prudent or appropriate without a frame of reference.

# QUESTIONS