

A Conversation With The City of Jacksonville

UPDATE OF JUNE 6, 2018 & OCTOBER 21, 2019 (JCC)
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By
Hartman Consultants, LLC.
Thomas A. Cloud, Esq.

HC #20007.00

Gerald C. Hartman, PE., BCEE, ASA

- 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)

Thomas A. Cloud, Esq. - Gray Robinson, P.A.

- Wake Forest University B.A. '76, FSU Law '79
- Board Certified City, County & Local Government Law By Florida Bar
- General Counsel, Utilities Commission, City of New Smyrna Beach
- Represented Over 80 Cities and 20 Counties in Florida
- Over 100 Utility Sales
- Worked on Three of the Four Florida Municipal Electric System Purchases in the last century (Winter Park, Bushnell & Vero Beach)

CITY REQUESTS

- 1) Update the JCC Presentations
- 2) Potential Future Activities

JEA Initial Criteria & Considerations

Criteria

- Achieving JEA's Goals
- 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

- Initial Step on a Sale – Get Interested and Qualified Bidders (Successfully Done) Other Sale Work Done – Now Sale Activities Halted
- Other Improvements – Not Adequately Performed To Date – Now Is The Time To Do It
- Basis for Decisions:
 - 1) Appraised (USPAP) Value – Not Done
(PFM is an Investment Banking/Financial Advisor – Not an Accredited Appraisal Firm)
 - 2) Thoroughly Examine COJ Ownership Activities
 - 3) Public Should Be Informed and Listened To

JEA Scenarios (October 11, 2019)

- Scenario #1: Status Quo Plan – Not a Professionally Managed Scenario
– Every Utility Adapts to Change
- Scenario #2: Traditional Utility Response Plan – Actively Manage Utility
Considering Opportunities Available
- Scenario #3: Community Ownership Plan (Similar to Utility Cooperative Style)
– Not Really An Option
- Scenario #4: Initial Public Offering (IPO) Plan – Not Really An Option
- Scenario #5: ITN Plan (Sale) – This Is An Option



Scenario #1 & #2 are really just one scenario – that of optimization, professionally address challenges, adapt to change, etc.

Scenario #3 & #4 are not really an option

Scenario #5 is the other scenario. Many utilities compare the results from Scenarios #1 & #2 with a sale

Scenario #1 – Status Quo Plan

- JEA said this was 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 management analyses of:
 - 1) Planning possibilities and range of forecasts – Gives future definition to anticipated challenges
 - 2) Financial Optimizations – Capacity Sales, Refunding Options, Numerous Existing Program
 - 3) Operational Optimizations – From in-house outsourcing to contract operations
 - 4) Capital Program Value Engineering – What is most effective
 - 5) Management Proposals –Alter Current Structure, City Council Participation, Others
 - 6) Opportunities and Impacts – Identify & Analyze
 - 7) Enhancements – From sources of revenue enhancement, to customer equity
 - 8) Review of current practices which can be improved – A collaborative look in-house
- Typically a report or series of reports are compiled and discussed with public. (Such documents have not been found to date)

Scenario #2 – Traditional Utility Response

- JEA said this was 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, Lakeland, Orange County did as an example
- From the conceptual JEA 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
- There are several innovative programs on-going in Florida

Scenario #3 – Community Ownership

- This scenario was not 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 less competitive than JEA based on national experiences
- Downsides included start-up costs, complexities, governance, higher interest costs, less surety

Scenario #4 – Initial Public Offering (IPO)

- Again this scenario has not finished JEA evaluation
- It is a scenario that we have not seen implemented successfully by a City
- The City is not a start-up private business that typically would go through this process for capitalization
- Failures are common. Public Utility failure is not an option with a monopoly providing essential public services

Scenario #5 – ITN – Sale - Halted

- 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
- The Fair Market Value Legislation – out of committee – would need to pass the Florida Legislature to provide for a reasonable sale

Summary of Bidders

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

Management Decisions Review

- Asset Disposition Consideration now halted by JEA was an appropriate management activity, yet it is premature without other optimization activities
- City Council is now investigating additional information and considering public and professional comments
- 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 full consideration. (Legislation for FMW is out of two (2) committees as of 2/17/2020)
- There are incomplete analyses of viability which are major factors to a successful, effective, and sustainable utility

Management Decisions Review (cont.)

- City Council to consider a consultant to assist management such as a Mr. Fred Haddad (previous OUC) or another on a temporary basis
- Implement a JEA management rebuilding program
- City Council and Mayor to select a new JEA BOD equally
- City Council then voters clearly to have asset disposition powers
- JEA BOD and management to do – research and recommendations to operations, finance, engineering, budgeting, customer service, etc.

Conceptual Value Consulting Summary (\$ x Billion) ⁽¹⁾

Description	Consulting Approx. Value Potential	Estimated Net Proceeds	Estimated Time Req.	Comments
Electric System	\$4.8 +/-	\$1.0 +/-	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	Small	N/A	Not Bid Separately.
Electric T&D Not Bid	N/A	N/A	N/A	Not Bid Separately.
Chilled Water	Small	Small	N/A	Minor transaction, little benefit, better to be packaged with electric.
Water and Wastewater	\$3.3 +/-	\$1.0 +/-	2 yrs.	Loss of utility rate control to FPSC or to NFP.
All Utilities	\$8.1 +/-	\$2.0 - 3.0 +/-	2+ yrs.	City gets franchise fees, fund balances, utility tax, ad valorem tax, transfer of restricted funds, transfer of debt service reserve, etc. funds.

(1) Rounded Very Preliminary/Rough Estimates

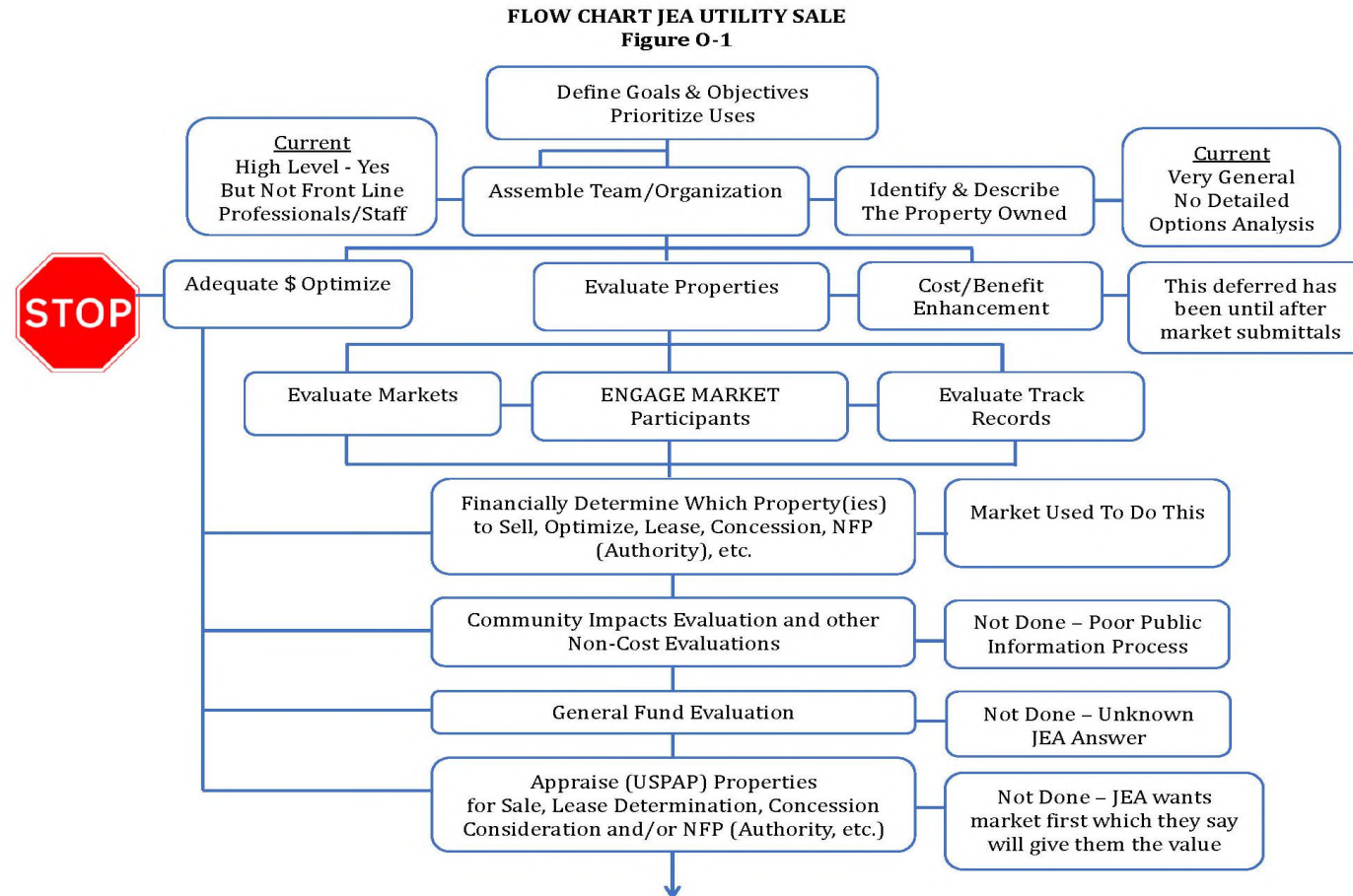
Fully and Publicly Decide on Goals & Objectives (Suggestions)

- 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))

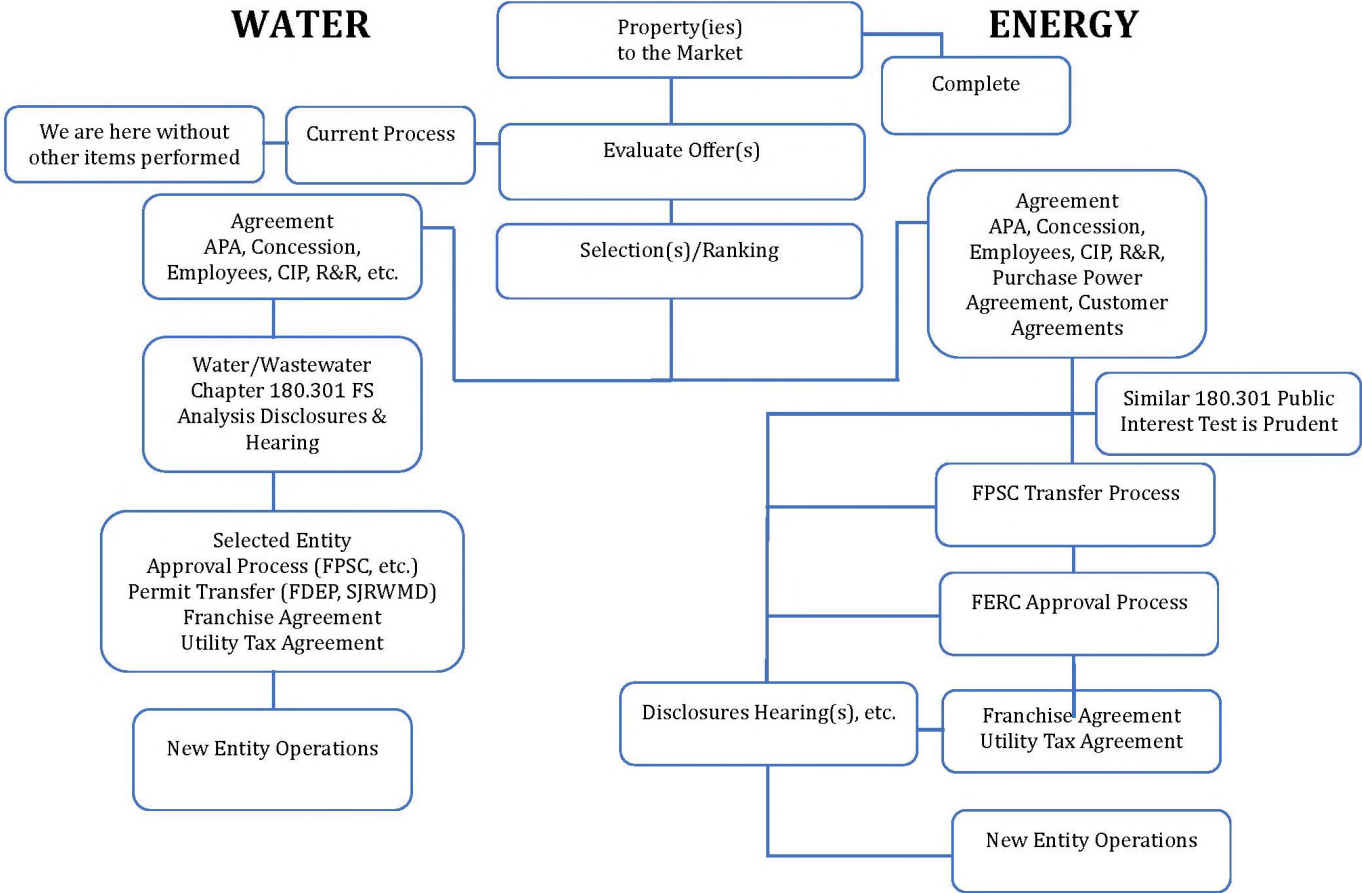
Define Sources & Uses

- What projects are “high priority”
- How much do they cost?
- How much can the City fund from other sources?
- How much is the need (i.e. \$1 Billion, \$3 Billion, \$5 Billion?)
- Have you performed “Value Engineering”?
- Consider “simplified” future operations and improved effectiveness?

Flow Chart



Flow Chart (cont.)



Need To Document, Describe, And Modify Property For Best Operations

- Legal Description
- Engineering Description
- Insurance (Due Diligence) Report(s)
- Low Cost Optimizations
- Strategic Investments

Items Not Done So Far or Are “Not Available”

- 1) Analyze Comparative Sales of similar properties individually and combined
- 2) Discuss with Market Participants enhancements and optimizations
 - Get their insights and comments
 - Engage
 - Provide Data
 - Track Records – Investigate communities following sales
 - Obtain their current “Key Factors”

Items You May Choose To Do

- 1) 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
- 2) Develop and implement an optimization program, detailed with front-line staff, etc. includes operations, financial (various activities), effective capital investment and engineering (modernization, efficiency, etc.)

Summary

- Consideration of (a) utility enterprise improvement versus (b) 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 historic JEA management. This situation can be corrected
- Important process activities were either not done, deferred, or not thoroughly performed by previous JEA management
- Allow internal plans to meet challenges to mature and be more thoroughly done such that JEA can reach its potential
- It is difficult to compare options without the above being done or 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