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Sent:	Thursday, October 11, 2018 6:15 PM
To:	Alan Howard
Cc:	Zahn, Aaron F. - Interim Managing Director/CEO
Subject:	Moody's rating action
Attachments:	Jacksonville Oct 11 2018.pdf; JEA Electric Oct 11 2018.pdf; JEA WS Oct 11 2018.pdf

MOODY'S INVESTORS SERVICE

Rating Action: Moody's downgrades Jacksonville, FL's issuer & special tax ratings to A2 and non-ad valorem covenant bonds to A3; outlook negative

11 Oct 2018

Approximately $2. billion of debt affected

New York, October 11, 2018 -- Moody's Investors Service has downgraded the city of Jacksonville's (FL) issuer rating to A2 from Aa2, Special Revenue Non Ad Valorem Covenant bonds to A3 from Aa3, Better Jacksonville Sales Tax Revenue bonds to A2 from A1, Capital Projects bonds to A2 from Aa3, Excise Taxes Revenue bonds to A2 from Aa2, Capital Improvement bonds to A2 from Aa3 and the Transportation bonds to A2 from A1; affecting approximately $2.1 billion of outstanding debt. The outlook has been revised to negative from stable.

RATINGS RATIONALE

The downgrade of the city's debt reflects our concurrent downgrade of JEA's electric, water and sewer and District Energy System utility debt ratings. For further details on the downgrade of JEA's utility debt, please see our reports, dated October 11, 2018.

The broad Jacksonville rating action is driven by the city's participation as a plaintiff in litigation with JEA, a component unit of the city, against Municipal Energy Authority of Georgia (MEAG), in which JEA and the city are seeking to have a Florida state court invalidate a "take-or-pay" power contract between JEA and MEAG. The city's action calls into question its willingness to support an absolute and unconditional obligation of its largest municipal enterprise, which weakens the city's creditworthiness on all of its debt and is not consistent with the prior Aa rating category. The contract in question was signed in 2008 and is the sole source of repayment for $1.4 billion of outstanding MEAG Power Project J debt bonds.

JEA continues to make payments in full and on time for amounts billed by MEAG Power under the PPA and intends to do so unless and until a court invalidates the PPA.

The one-notch distinction between the A3 rating of the city's non ad valorem bonds and its issuer rating is based on the more limited revenue pledge of the non-ad valorem bonds.

The A2 rating of the special tax bonds is capped at the city's GO rating because of a lack of legal separation of the pledged revenues from the city's general operations.

RATING OUTLOOK

The negative outlook reflects the uncertainty surrounding the disposition of the city's litigation during the outlook period.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Withdrawal by the city and JEA from the lawsuit against MEAG requesting the termination of the take-or-pay contract

- Material improvement in the city's cash and liquidity position

- Significant reduction in the growth of the city's pension obligations

- Material economic improvement reflected in tax base growth, lower unemployment and increased median family income

- Trend of significant pledged revenue growth

- Increases in debt service coverage levels for special tax bonds

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Continuation of JEA-MEAG lawsuit and decisions by the court favorable to termination of the contract

- Further increases in fixed costs (pension, OPEB and debt service payments)

- Significant reduction in reserves and liquidity

- Material economic deterioration reflected in declining taxable values and increasing unemployment

- Protracted pledged revenue declines

- Decreases in debt service coverage levels for special tax bonds

LEGAL SECURITY

The issuer rating reflects the implied general obligation equivalent rating of the city.

The non-ad valorem bonds are secured by the city's covenant to budget-and-appropriate legally available non-ad valorem revenues, by amendment if necessary, to repay this obligation, after payment of essential services and bonds having a prior lien on specific non-ad valorem revenues.

The Series 2006C and 2009A excise tax bonds are secured by utility taxes levied on various utility purchases, as well as occupational license taxes. Purchases of utility services including electricity, natural gas, and water are subject to a 10% excise tax, and telecommunications services including cellular, are subject to a 7% tax.

The Series 2008B, 2012A and 2018 transportation bonds are secured by a transportation (half-cent) sales tax and constitutional gas tax (two cents per gallon) revenues.

METHODOLOGY

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the lease ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018. The principal methodology used in the special tax ratings was US Public Finance Special Tax Methodology published in July 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

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MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades JEA (FL) Electric Enterprise ratings to A2 for senior lien revenue bonds; outlook negative

11 Oct 2018

Approximately $2.3 billion of revenue bonds affected

New York, October 11, 2018 -- Moody's Investors Service has downgraded JEA (FL) Electric Enterprise ratings, including the senior lien electric system revenue bonds to A2 from Aa2, subordinate lien electric system revenue bonds to A3 from Aa3, St. Johns River Power Park System (SJRPP) revenue bonds to A2 from Aa2 and Bulk Power Supply System revenue bonds (Plant Scherer revenue bonds) to A2 from Aa2. Additionally, Moody's downgraded the utility's underlying long-term rating for Variable Rate Electric System Revenue Bonds (Senior Lien) to A2 from Aa2 while affirming the associated short-term VMIG-1 rating for those bonds. Moody's also downgraded the utility's Variable Rate Electric System Revenue Bonds (Subordinate Lien) to A3/VMIG-2 from Aa3/VMIG-1.The outlook remains negative.

RATINGS RATIONALE

The rating action reflects the increasingly pressing credit risks facing JEA's future credit profile owing to the exposure to new nuclear construction through its 20-year power purchase agreement (PPA) with the Municipal Electric Authority of Georgia (MEAG Power) for 206 megawatts (MWs) of capacity from the much delayed and over-budget Vogtle nuclear project. JEA's future financial metrics, which have historically been reasonably well positioned in the Aa rating category could end up in the A rating category owing to a rising power purchase obligation through the PPA with MEAG Power for twenty years from commercial operation. These risks have been magnified by the existence of litigation between JEA and MEAG Power which raises questions about the legal status of the PPA. These actions, while arguably an attempt to mitigate the utility's exposure to an increasingly expensive contractual arrangement, calls into question JEA's willingness to abide by the take-or-pay, "hell or high water" PPA terms under the contract. We view this effort to effectively repudiate the PPA contract as being inconsistent with the Aa rating category.

The strength of the take-or-pay obligation under the PPA is the sole security for about $1.4 billion of MEAG Power's PPA-Project J bonds issued in the public markets along with about $337 million borrowed from the DOE to fund a portion of its 22.7% share of the Vogtle project. The PPA has been validated on three separate occasions in the Superior Court of Fulton County, Georgia wherein the court ruled the PPA-Project J bonds are deemed valid and binding obligations of MEAG Power, including the security for payment which are the revenues from the JEA take-or-pay PPA contract with MEAG Power.

JEA continues to make payments in full and on time for amounts billed by MEAG Power under the PPA and intends to do so unless and until a court invalidates the PPA. Should such a scenario occur, we believe that the outcome would expose the Florida utility to additional lawsuits from the Vogtle project's other participants and from Project J creditors, leading to further material increase in its credit risk and increased potential for rating downgrades owing to costly and protracted litigation risk.

Today's action further acknowledges the downgrade of the City of Jacksonville's G.O. to A2 from Aa2 owing in large part to our concern around their efforts to join with JEA as a co-plaintiff in the MEAG Power lawsuit which attempts to repudiate a take-or-play obligation that effectively supports a JEA debt obligation. Similar to the utility, this action calls into question the willingness to support an agreed upon obligation of their largest municipal enterprise, an action that we believe is not consistent with the Aa rating category.

Notwithstanding these factors, JEA's credit profile still exhibits positive qualities, including an unregulated rate setting process and a track record of exercising rate autonomy to achieve financial goals, maintain good liquidity and offer reasonably competitive retail rates for all customer classes.

The A2 rating for the SJRPP bonds and the Plant Scherer revenue bonds incorporate the fact that the debt service for these series of bonds are paid as an operating expense of JEA prior to the debt service on the Electric System revenue bonds and the Electric System subordinated bonds. The electric system subordinate lien rating is A3, reflecting the weaker security provisions related to the electric system subordinate lien bonds.

The VMIG-1 and VMIG-2 short-term ratings for variable rate senior lien electric system revenue bonds and subordinate lien electric system revenue bonds, respectively, reflect the short-term rating transition schedules for variable rate demand obligations supported by conditional liquidity facilities under the Moody's Rating Methodology for Variable Rate Instruments Supported by Conditional Liquidity Facilities.

RATING OUTLOOK

The negative rating outlook for Electric System, SJRPP and Bulk Power System revenue bonds primarily reflects the heightened and ongoing litigation and nuclear construction risk which we believe will persist at least during the next 12 to 18 months. The outlook also recognizes the fact that JEA faces continuing lackluster increase in demand for electricity in its service territory which contributes to a long capacity position, making its Vogtle 3&4 investment a chronic credit overhang issue.

FACTORS THAT COULD LEAD TO AN UPGRADE

- The rating is not likely to be upgraded in the near to intermediate term owing to the negative outlook and ongoing litigation and nuclear construction risk

- The outlook could stabilize if JEA withdraws its lawsuit filed against MEAG Power and or there is a non-appealable final court ruling in favor of MEAG Power's own lawsuit against the City of Jacksonville and JEA

- Also it would be credit positive if JEA introduces additional strategies to avoid the anticipated decline in its Electric Enterprise financial flexibility as the Vogtle project moves forward and payments to MEAG Power increase under the PPA and pressure the adjusted fixed obligation charge coverage ratio

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Developments in the pending lawsuits that favor JEA's claims and call into further serious question JEA's willingness to continue abiding by the terms of its PPA with MEAG Power

- Further construction delays and cost overruns at the Vogtle project materially beyond the latest revised schedule and cost to complete

LEGAL SECURITY

JEA's senior lien bonds have a rate covenant that requires net revenues to cover debt service by 120% and an additional bonds test that requires net revenues to cover maximum annual debt service by 120%. A renewal and replacement account is required to be funded at least equal to 5% of gross revenues of the preceding year or 10% of net revenues of the preceding year. Senior lien bonds are also secured by a debt service reserve sized at maximum annual interest, which we consider to be a weak protection measure for bondholders.

JEA's subordinate lien bonds are payable from a subordinate lien on the net revenues of JEA's electric system. Subordinate lien bonds have a sum-sufficient rate requirement and adjusted net revenues must also be at least equal to 115% of debt service on the senior and subordinate lien bonds. There is a sum-sufficient additional bonds test. Subordinate lien bonds do not require a debt service reserve, which we consider to be a weak protection measure for bondholders.

As of FYE 2017, JEA had approximately $167.9 million aggregate principal amount of SJRPP Revenue Bonds outstanding under its First Power Park Resolution (the First Resolution), which are referred to as "Issue Two Bonds" and approximately $282.3 million aggregate principal amount of SJRPP Revenue Bonds outstanding under its Second Power Park Resolution (the Second Resolution), which are referred to as "Issue Three Bonds". All outstanding "Issue Two Bonds" were defeased in February 2018.

Debt service requirements for Issue Three Bonds governed by the Second Resolution are the sole responsibility of JEA. The Second Resolution permits the use of a surety bond to satisfy the debt service reserve requirement and allows for issuance of variable rate debt with payment terms other than April 1 and October 1. Under the Second Resolution, the debt service reserve is a weak level of protection for bondholders in our view since it is established at maximum annual interest. The debt service reserve under the First Resolution governing Issue Two Bonds is more protective of bondholder interests since it is based upon average annual debt service.

JEA's Bulk Power Supply System Scherer 4 Project issue is secured by a pledge of and a lien on the proceeds of the bonds; the revenues as defined in the Bulk Power Supply System resolution are all revenues derived from ownership and operation of the project. JEA is required to make payments from the electric system as an O&M expense into the Plant Scherer Project Revenue Fund for any output, capacity, use and service of the project at least equal to 115% of the aggregate debt service. The debt service reserve account is required to be at maximum annual interest, which we view as a weak protection measure for bondholders.

PROFILE

JEA is a municipal utility whose service territory covers Jacksonville, Florida (Duval County), and parts of three adjacent counties. It is split into three enterprise funds, including the Electric Enterprise; the Water and Sewer Enterprise Fund; and the District Energy System. The Electric Enterprise is comprised of the JEA Electric System, the Bulk Power Supply System, and St. Johns River Power Park System. Jacksonville is a major ground transportation center and is also considered a significant rail hub and has one of the largest ports on the South Atlantic Seaboard. The local economy is diversified among defense, transportation and distribution, financial services, consumer goods, information services, manufacturing and insurance sectors.

METHODOLOGY

The principal methodology used in the long-term ratings was US Public Power Electric Utilities With Generation Ownership Exposure published in November 2017. The principal methodology used in the short-term ratings was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in March 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

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MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades JEA, FL's Water & Sewer ratings to A2 and District Energy bonds to A3; outlook negative

11 Oct 2018

Approximately $1.6 billion of debt affected

New York, October 11, 2018 -- Moody's Investors Service has downgraded JEA, FL WATER & SEWER ENTERPRISE bond ratings to A2 from Aa2 and the District Energy System chilled water rating to A3 from Aa3, affecting approximately $1.4 billion of outstanding debt. The outlook has been revised to negative from stable.

RATINGS RATIONALE

The downgrade of JEA's water and sewer debt reflects our concurrent downgrade of the city of Jacksonville's issuer rating, non-ad and special tax ratings, and JEA's electric utility debt ratings. For further details on the downgrade of the city's debt and JEA's electric utility debt, please see our reports, dated October 11, 2018.

The broad Jacksonville rating action is driven by the city's participation as a plaintiff in litigation with JEA, a component unit of the city, against Municipal Energy Authority of Georgia (MEAG), in which JEA and the city are seeking to have a Florida state court invalidate a "take-or-pay" power contract between JEA and MEAG. The city's action calls into question its willingness to support an absolute and unconditional obligation of its largest municipal enterprise, which weakens the city's creditworthiness on all of its debt and is not consistent with the prior Aa rating category. The contract in question was signed in 2008 and is the sole source of repayment for $1.4 billion of outstanding MEAG Power Project J debt bonds.

JEA continues to make payments in full and on time for amounts billed by MEAG Power under the PPA and intends to do so unless and until a court invalidates the PPA.

The fundamental credit strengths of JEA's water and sewer system include the utility's sizable and diverse service area that also contains acquired systems outside Jacksonville (A2 negative); solid financial operations characterized by healthy total debt service coverage; competitive rates; sound liquidity; and a manageable capital program.

The District Energy System (DES) maintains adequate debt service coverage and liquidity and has a stable institutional, although limited customer base. DES is bolstered by JEA's ability to utilize available water and sewer revenues if a deficiency in the DES Debt Service Fund occurs. The one notch rating distinction of DES below the water and sewer system reflects a much smaller service area and lower debt service coverage levels as the water and sewer system The strong long-term planning of JEA management is also a positive key credit consideration.

RATING OUTLOOK

The negative outlook reflects the uncertainty surrounding the disposition of the city's litigation during the outlook period.

FACTORS THAT COULD LEAD TO AN UPGRADE

-Withdrawal by the city and JEA from the lawsuit against MEAG requesting the termination of the take-or-pay contract

-Improved debt service coverage and liquidity

-Sustained customer and usage growth

FACTORS THAT COULD LEAD TO A DOWNGRADE

-Continuation of JEA-MEAG lawsuit and decisions by the court favorable to termination of the contract

-Weakened debt service coverage and liquidity

-Material leveraging with additional debt

LEGAL SECURITY

The senior lien water and sewer bonds are secured by net revenues of the combined water and sewer system and legally-available capacity fees. The subordinated bonds are secured by a subordinate lien on net revenues of the combined water and sewer system and legally-available capacity fees. The District Energy System bonds are secured by the net revenues from the operation of JEA's chilled water system, and, to the extent that a deficiency in the Debt Service Fund arises, available JEA water and sewer revenues.

USE OF PROCEEDS

Not applicable

PROFILE

JEA is an authority created by the city of Jacksonville to better provide public power, water and sewer services to the area. The City of Jacksonville serves as an economic hub to the southeast and is the largest city in Florida (Aaa stable). The city's population is estimated to be approximately 890,066.

METHODOLOGY

The principal methodology used in thess ratings was US Municipal Utility Revenue Debt published in October 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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