

**OFFICE OF THE CITY COUNCIL**

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**CITY COUNCIL SPECIAL MEETING ON JEA VALUATION**

**MEETING MINUTES**

**City Council Chamber, 1st floor, City Hall**

 **February 14, 2018**

**3:00 p.m.**

**Location:** City Council Chamber, City Hall – St. James Building; 117 West Duval Street,

**In attendance:** Council Members Anna Lopez Brosche (President), Greg Anderson, Danny Becton, Aaron Bowman, Lori Boyer, Katrina Brown, Reggie Brown, Doyle Carter, John Crescimbeni, Garrett Dennis, Al Ferraro, Reggie Gaffney, Bill Gulliford, Tommy Hazouri, Jim Love, Joyce Morgan, Scott Wilson

**Excused:** Council Member Sam Newby and Matt Schellenberg

**Also**: Jason Gabriel, Peggy Sidman, Paige Johnston – Office of General Counsel; Kyle Billy, Kim Taylor and Phillip Peterson – Council Auditor’s Office; Carol Owens – Legislative Services Division; Steve Cassada – Council Staff Services; Sam Mousa, Ali Korman and Jordan Elsbury – Mayor’s Office

**Meeting Convened**: 3:03 p.m.

President Brosche called the meeting to order. Council Member Carter gave the invocation and led the Pledge of Allegiance. The President announced that the normal procedural rules of the Council would apply for today’s meeting and that the meeting would adjourn no later than 5:50 p.m. She welcomed representatives of the City administration and the JEA to the meeting. The President referenced a memo received by the Council from the General Counsel yesterday afternoon regarding procedural issues surrounding consideration of this issue and said that it would be discussed at a future meeting. Ms. Brosche encouraged council members to ask their questions and debate relevant issues in open meetings rather than in private so that the public can have the benefit of the dialogue. Ms. Brosche expressed her displeasure at phone calls that constituents have reported receiving recently from some person or persons disparaging the management and operation of the JEA and the performance of JEA employees. The President read the call of the meeting issued by Mayor Curry.

In response to a question from Council Member Dennis about whether the JEA board had properly noticed a meeting to run simultaneously with the City Council meeting, Jody Brooks of the Office of General Counsel said that the JEA board had noticed a meeting of that body in a timely manner, but the body did not plan to take any action today.

JEA CEO Paul McElroy introduced JEA Board Chairman Alan Howard who said that the board had not taken any position on the privatization of the utility and planned to take no action today. The Council President declined to allow Mr. Howard to introduce Mayor Lenny Curry to make introductory remarks. Mr. Howard said that JEA’s current financial strength and the alignment of larger forces in the national economic marketplace may present a unique opportunity to monetize the asset that JEA represents to the community and urged the Council members to undertake the evaluation process in a spirit of openness and cooperation. In response to a question from President Brosche, Mr. Howard described the difference between a “valuation” report (focused solely on asset value) and an “evaluation” report that considers broader strategic issues and community concerns, opportunities and challenges, etc. in addition to simple asset value. In response to a question from Council Member Hazouri, Mr. Howard said that the JEA board has not debated its next step and will need to read and digest the consultant report before knowing whether or how to proceed. He does believe that the next logical step, if there appears to be a consensus among all the relevant parties, including City Council, to explore privatization, would be to issue an RFP and begin soliciting expressions of interest from potential purchasers. In response to a question from Council Member Katrina Brown, General Counsel Jason Gabriel said that the JEA board has the legal authority to issue an RFP for privatization without City Council’s approval, but Mr. Howard had indicated that he sees no point in going down that road if the Council is not supportive of that effort. In response to a question from Council Member Anderson, Mr. Gabriel said that the City Council in office at the time a final decision needs to be made would make that decision, even if the process extends beyond the term of the current Council.

Mr. Howard introduced Michael Mace, Managing Director of Public Finance Management Inc. to make the presentation. Mr. Mace briefly reviewed the company’s charge from the JEA board. His company is the leading governmental financial management consultant in the country, does not work for private investor-owned utilities (IOUs), and is not a broker or lender in any utility company transactions. He noted that at least 2 valuation studies of the JEA have taken place in the past 10 or so years and said that the economics of municipal utilities have changed substantially in recent years with changes in interest rates, tax laws, and the nature of the utility industry overall (increasing energy conservation, changing fuel markets, etc.), which warrants a new look at the utility’s value. He said that for several reasons the JEA is a very attractive asset in the current marketplace, including its AAA bond rating (on the water and sewer system), the low interest rate environment, constrained opportunities for organic growth by investor owned utilities, and a shrinking number of IOUs because of market consolidation. Mr. Mace briefly reviewed the various metrics for evaluating value in different ways, including a discounted cash flow projection model, purchase price as a multiple of earnings, and value of the utility’s cash flow, and the value as a multiple of assets in the rate base.

Mr. Mace projected a chart showing a range of potential values of the JEA using the four valuation methodologies:

* $7.9 - $10.1 billion using the discounted cash flow model
* $8.5 - $10.5 billion using the price-to-earnings ratio model
* $7.5 – $10.3 billion using the cash flow multiple model
* $8.1 - $11 billion based on the rate base multiple model

He said that the valuations were done on a fairly conservative basis using moderate assumptions and represent gross transaction value before retirement of debt (currently $6.3 billion) and settlement of other outstanding long-term contracts and obligations (i.e. the JEA’s contractual obligation on a power purchase agreement for a portion of the output of nuclear plant Vogtle under construction in Georgia. A reasonable expectation for net proceeds from sale of JEA under current market conditions would be $2.9 -$6.4 billion

Mr. Mace said that numerous other considerations come into play in making a decision of this magnitude:

* What will utility rates be under JEA vs. an IOU regulated by Florida PSC (a rate freeze could be negotiated for some period of time as a condition of the sale)?
* What impact would the sale have on JEA employees (workforce guarantees could be negotiated as a condition of the sale)?
* What are the financial ramifications to the City from a change in the cash flow currently generated by the JEA? The amount of money currently transferred annually from JEA to City is approximately $240M currently via franchise fee, public service tax, and annual contribution; after a sale the cash flow would be comprised of property taxes, franchise fee and public service tax.
* What is the impact on the local economy via changes in employment, participation in environmental initiatives, cooperative projects between the JEA and the City, etc.

It would be an extremely complex and challenging process if the decision is made to proceed to a sale.

Mr. Mace gave an overview of the steps in a sale process consisting of 5 phases:

1) preliminary evaluation of numbers and commitment to the exploratory process (not necessarily to a sale)

2) engage legal and broker assistance, develop documentation and disclosure for potential buyers

3) receive expressions of interest and evaluate interested parties for suitability and capability

4) due diligence and final bids

5) regulatory approvals (Federal Energy Regulatory Commission, Florida Public Service Commission, other regulatory agencies).

The time frame from the current phase to a closed transaction would probably be one-and-a-half to two years.

Council Member Q&A

In response to a question from Council President Brosche, Mr. Mace discussed the process of making valuations and evaluations and his company’s experience in that area. Ms. Brosche questioned whether PFM is certified and qualified in the area of making asset valuations; Mr. Mace said that it would be standard practice for a seller to commission a further asset fairness valuation later in the process before a sale takes place. Mr. Howard agreed that a fairness opinion would be standard practice.

In response to a question from Council Member Gulliford about selling the electric and water/sewer utilities separately, or perhaps only selling the electric utility, Mr. Mace said that PFM’s evaluation included models of both possibilities and that sales of water and sewer utilities are less common than electric system sales. He said that the sale of the entire utility could be conditioned upon the buyer retaining ownership of all parts of the entity for some period of time.

In response to a question from Council Member Crescimbeni, Mr. Mace said that the final report would be distributed at the end of the meeting and that no other parties had seen that report, although the company did have discussions with JEA staff on various aspects of the study. He said that he had briefly reviewed the Council Auditor valuation reports from 2007 and 2012 but offered no opinion on their reliability. PFM did not perform an asset valuation fairness report as part of its work. He clarified the timing of the final decision to pursue a sale (at the end of Phase 4 of the process) and who would be making decisions during the process.

Council Member Reggie Brown asked for clarification about the JEA’s obligation and liability for extending water and sewer service to areas promised those services at the time of consolidation that are still unserved. Mr. Mace said that consolidation issues did not factor into PFM’s study. Mr. Brown expressed concern about the future of the current JEA employees and said that would be substantial factor in his consideration of the issue. JEA CEO Paul McElroy confirmed that PFM was charged to examine the utility’s balance sheet, assets and liabilities on the books and not to look at consolidation promises. Mr. Brown said that protection of JEA employees and the interests of the taxpayers will be his primary concerns. Mr. McElroy drew a distinction between a strategic buyer (purchasing the utility to operate it) and a recapitalization buyer (purchasing the utility to generate a payout and leaving the management and employees in place). Mr. Brown asked the JEA board to come up with a plan to retrofit water and sewer in pre-consolidation areas that don’t have public services.

Council Member Hazouri felt that it would be counterproductive for the JEA sale consideration process to take place now with the prospect of a new City Council taking office before the final decision is made. In response to a question about how long the JEA has been considering whether a sale should be explored, Mr. McElroy said that changes in financial markets in the last 18 months and a sale of TECO last year prompted the board to want to take a new look at possible privatization. He emphasized that the purpose of the PFM study is to set some basic parameters on potential value and to outline a process for evaluating possibilities.

Council Member Becton felt that the fundamental question to be answered is why the community would want to sell the JEA in the first place. What’s driving the push to explore the value and suggest a process? He feels the report was too superficial in its consideration of issues other than the basic asset valuation and that the report puts the cart before the horse when no decision has been made to sell and that the JEA was premature in expending $100,000 on a study that may prove useless.

In response to a question from Council Member Bowman, Mr. McElroy explained the JEA’s obligations and liabilities to the Vogtle nuclear power plant. Mr. McElroy said in response to another question that generally speaking, public power is less expensive for ratepayers that IOU’s. In response to another question, Mr. Mace said that private utilities would likely spend several hundred thousand dollars developing a proposal to demonstrate their interest in purchasing the JEA. Mr. Bowman is interested in knowing what costs the JEA will incur in moving to the next phase of the investigation.

In response to a question from Council Member Ferraro, Mr. McElroy said that the JEA board and City Council will make the make the decision about whether the process goes forward from today. JEA Chairman Howard said that the board has had no discussion about moving forward if the City Council does not want that process to proceed. Mr. McElroy said that he has no personal interest in whether the utility does or does not privatize and that the JEA has not negotiated with any potential purchasers. Mr. Mace explained the asset valuation process, which is the same for either a public or private utility.

In response to a question from Council Member Dennis, Mr. McElroy said that JEA has not received any unsolicited bids or offers to buy the utility, but has been mentioned as a possible acquisition target because of its reputation and solid financial condition. He said that if a decision is made to explore privatization further, the JEA would hold a number of town hall meetings to explain the proposal to the public and get their input. Mr. McElroy did not offer a pro or con opinion on whether a voter referendum should be held. Mr. Mace said that in other jurisdictions with which he is familiar, he does not know of any that held a voter referendum on potential utility sales but would not be surprise if it may have happened somewhere. Mr. Dennis said that the privatization discussion to date has been a debacle and felt that someone at JEA should take responsibility for the uproar that has been caused.

Public Comment

Jennifer Stokes agreed with Council Member Becton’s analogy of not needing an appraisal before you decide to sell your house. JEA is one of Jacksonville’s greatest assets and should remain as a municipal utility.

Raymond Diaz, Vice President of IBEW union Local 2358, said it would be wrong for the City to sell off the JEA and take a short-term financial gain with a long-term cost.

John Bezares opposed the sale of the JEA and said the utility should leverage its current strong financial valuation to fulfill the promises of consolidation and install water and sewer lines where they are lacking.

Valerie Gutierrez, IBEW 2358 treasurer, said that a privatized JEA would lose access to FEMA financial assistance in the event of disasters. JEA employees are dedicated to serving their community as they showed during response to the recent hurricanes.

Ronnie Burris, LIUNA Local 630 representative for water and sewer employees, said there has been no transparency to JEA employees in this privatization study process until the retention incentive letters went out to upper management and were publicized by the media. He wants the union contract with JEA reopened to add successor language.

James Taylor, JEA employee, reiterated his concern about the “golden parachutes” being proposed for upper management and questioned who is leading the charge to privatize the utility.

Lisa King said that the process doesn’t seem to have a logical beginning – who started the process and why? She suggested that someone unseen is driving the process from behind the scenes.

Blake Harper said that there is a vacancy on the JEA board that needs to be filled before a decision is made. The value produced from a transaction has to come from somewhere, and the value to be generated from privatization of the JEA would come from increased rates and reductions in employees.

Keith Hodges said that the JEA is a valuable community asset worth more intact and run by the city than as a source of short term cash.

Andy Johnson questioned what’s wrong with the JEA and why there should be any consideration of selling it. Any asset could be sold for a short term profit, but that’s shortsighted. The value of an asset is forever unless you sell it for a short term profit. He urged the City Council to tell the JEA to stop the privatization process now.

Matthew Killen said that holding a meeting of this importance during the business day on Valentine’s Day exemplifies the intent to keep the public out of the process. The JEA is worth more to the community as a permanent revenue source than an asset for 1-time sale.

Joseph Lanning said that this issue is a political issue being driven by some unseen force. Who’s behind the proposal?

Russell Harper said that privatization doesn’t benefit customers or employees, but only the purchasers. He thanked the council members for asking hard questions and trying to understand what’s behind this effort. What will happen to the current employees’ pensions if there is a sale?

John Winkler said that the question of JEA employees’ pensions is a very important one and needs to be clearly resolved before any consideration of a sale takes place. Who will bear the unfunded liability?

John Nixon said that this is the first City Council meeting he’s ever attended because of the importance of the issue. JEA has done a good job in his part of town at improving reliability and reducing outages. He can’t imagine why the City would allow an asset that produces $115 million for the City budget each year to get away. What is the proposal for using the short term financial windfall? He believes that since the JEA is a publicly owned utility, the public should be able to opine on the proposal by a referendum.

Catherine Pierce urged the Council to dig into why this proposal is being considered at all. She believes the media reporting on the JEA’s liability to the Votgle nuclear plant may be part of the reason for this privatization effort. That obligation has backfired on the JEA and apparently was mismanaged.

Ali Samiian said the quality of the PFM report is very disappointing and didn’t answer the big questions that really need to be answered.

Chris Richardson said that the JEA is the shining jewel of Jacksonville and had been a valuable asset for decades. It seems the idea for a sale arose with a former JEA board member who is no longer on the scene.

President Brosche said that she took note of which council members did not get to pose their questions before the public comment period began and they would be first in line to begin with their questions at the next meeting.

**Meeting adjourned:** 5:50 p.m.

Minutes: Jeff Clements, Council Research Division

2.20.18 Posted 5:00 p.m.

Tapes: Special City Council meeting on JEA – LSD

 2.14.18