Council Auditor's Office

The Potential Sale of JEA: Things to Consider

March 22, 2018

Special Report #807

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March 22, 2018

Special Report #807

Honorable Members of the City Council
City of Jacksonville

We are providing this special report in accordance with Ordinance Code Section 102.102. This report does not represent an audit or attestation conducted pursuant to government auditing standards. We wish to emphasize that we are not experts in utility valuation. However, we believe our report provides useful information that should be considered in any discussion of the potential sale of JEA.

INTRODUCTION

What is JEA's value? JEA recently contracted with Public Financial Management (PFM) to prepare a report that included potential JEA value ranges. That report titled "The Future of JEA: Opportunities and Considerations" was released on February 14, 2018.[1] It estimated that the sales price for JEA could range from a low of $7.5 billion to a high of $11 billion. We utilized these gross numbers as a starting point for determining the net sale proceeds that would be available to the City of Jacksonville (see chart below) should they materialize.

	Minimum	Maximum
Gross Value[1]	7,500,000,000	11,000,000,000
Less:		
JEA Long-Term Debt[1]	(3,900,000,000)	(3,900,000,000)
Plant Vogtle Obligation[1]	(1,200,000,000)	(1,200,000,000)
GEPP Pension UAAL (1)	(541,025,000)	(541,025,000)
Interest Rate Swap termination cost[1]	(100,000,000)	(100,000,000)
JEA OPEB UAAL (1)(2)	(34,526,000)	(34,526,000)
Environmental Liabilities	(21,654,000)	(21,654,000)
Net Proceeds to the City (3)	$1,702,795,000	$5,202,795,000

(1) UAAL=Unfunded Actuarial Accrued Liability
(2) OPEB=Other Post-Employment Benefits
(3) Net Proceeds have not been reduced by fees and expenses associated with the sale.

In the chart above, we can see that the net proceeds to the City from selling JEA could range from a low of $1,702,795,000 to a high of $5,202,795,000. However, these numbers alone do not answer the question of JEA's value and numbers alone do not answer the question as to whether the City should sell JEA. What else needs to be considered?

[1] https://www.jea.com/About/Investor_Relations/Financial_Reports/JEA_Valuation_PFM_Report.aspx

JEA'S CONTRIBUTION TO THE CITY GENERAL FUND

Although JEA does not pay property taxes, JEA has contributed to the City General Fund each year since consolidation in 1968. In the late 1970s, a formula was created to allow the City and JEA to budget with certainty the amount of the contribution. For the most part, the formula has been reviewed and modified every five years. The original formula was based on sales, and consequently, the contribution increased or decreased with sales. The formula has been modified many times since then to include a floor or various minimum increases. Under the current formula which is in effect until September 30, 2021, JEA will pay the City of Jacksonville $116,619,815 in Fiscal Year 2017/18. The formula requires a minimum increase of one percent each year over the base year amount of $114,187,538 from Fiscal Year 2015/16. The calculation is written into the JEA charter. While other City revenues may come in more or less than budgeted, the contribution from JEA is one revenue that the City knows it can count on.

REPLACING JEA'S CONTRIBUTION TO THE CITY GENERAL FUND

If JEA is sold, the City will no longer receive the JEA contribution, thus creating a hole in the City budget. The ad valorem taxes paid by a private utility will fill part of the hole, but not all of it. Assuming that a private utility would pay $60 million in ad valorem taxes (calculated on all JEA real property and all JEA tangible personal property except for St. Johns River Power Park and the downtown headquarters tower), this would leave a hole of approximately $57 million in the budget. There are multiple options to fill the budget hole. We have provided three options as examples.

Option #1: A portion of the sale proceeds could be used to pay off the City's General Fund supported debt, which is approximately $850 million and would save approximately $90 million per year in debt service, thus filling the hole by reducing required expenditures. This option would reduce the net proceeds available to the City to a range of $850 million to $4.35 billion.

Option #2: A portion of the sale proceeds could be used to pay down the City's pension debt. We estimate that if the City paid down the police and fire pension debt by $1.1 billion, it would reduce the City's required pension payment by approximately $75 million per year, thus filling the hole by reducing required expenditures. This option would reduce the net proceeds available to the City to a range of $600 million to $4.1 billion. (An actuary could run various scenarios and advise the City on projected outcomes.)

Option #3: A portion of the sale proceeds could be permanently set aside to generate a revenue stream equal to the approximate difference between the JEA contribution and the ad valorem taxes estimated to be paid by an Investor Owned Utility (IOU). ($2 billion invested in 30-year U.S. Treasury bonds at 3.0% would generate $60 million annually.) This option would reduce the net proceeds available to the City to an approximate range of $0 to $3.2 billion. However, setting aside $2 billion in a trust fund could have unintended consequences. In 2017, House Bill 7063 was filed and died in the Government Accountability Committee.[2] The bill would have prohibited certain local governments from enacting, extending, or increasing taxes unless the government did not have excess unencumbered fund balances. A county would not have been able to levy a millage rate above its rolled-back rate unless it spent down those excess fund balances.

[2] https://www.flsenate.gov/Session/Bill/2017/07063

Not an Option: While there are likely many other options that could be considered to fill the budget hole that would be created by the loss of the JEA contribution, there is one thing that is not an option. Proceeds from the sale of JEA should not be used directly to fill the hole. (**See Recommendation #1**)

ADDITIONAL JEA CONTRIBUTIONS TO THE CITY

In any meaningful discussion of JEA's value to the City, there are additional factors that must be considered. These "additional factors" are contributions that JEA has made to the City and the citizens of Jacksonville above and beyond the annual monetary contribution to the City General Fund. We have compiled a list of major contributions made by JEA to the City through the years.

1. In 1996, the Environmental Protection Agency (EPA) issued an administrative order to the City of Jacksonville because of sanitary sewer overflows due to poor sewer infrastructure. On June 1, 1997, the City Water/Sewer utility was transferred to JEA. In 1998, JEA started the "Groundworks Program" to dedicate resources to the Water and Sewer system, which improved so much that the EPA lifted the administrative order in the same year.[3] Over $3,618,940,436 has been invested by JEA in capital improvements to the Water and Sewer system to date.[4]
2. Prior to JEA taking over the water and sewer system from the City Public Utilities Department on June 1, 1997, the water and sewer utility was not making a contribution to the City General Fund. Since JEA took over the water and sewer system, it has made a contribution to the City General Fund each year.[5]
3. At the time the City financed the River City Renaissance project in the 1990s, the City's practice was to use fixed-rate bonds. JEA suggested that the City use variable-rate debt for the financing to achieve significant interest savings. Because of concerns with how high the variable interest rate might go, JEA guaranteed the maximum amount of interest that the City would pay on $242,000,000 in variable-rate debt.[6]
4. In 2001, JEA expanded its water and sewer territory with the full support of the City Council. All nineteen Council Members sponsored Ordinance 2001-880-E, which approved the financing and appropriated the funds for JEA to purchase United Water, increasing JEA's service territory and adding approximately 36,000 customers. JEA lowered water and sewer rates for almost all of the former United Water customers.[7] As JEA expanded, its contribution to the City General Fund increased.
5. JEA partnered with the City for a Joint Projects Agreement so that utility and drainage projects could be accomplished at the same time thereby avoiding overlapping construction costs and multiple traffic disruptions.[8] This coordination was especially helpful during the Better Jacksonville Plan.
6. JEA performed the project management function for the $75 million septic tank remediation project that was part of the Better Jacksonville Plan.[9]
7. JEA has an Economic Development Program Rider with two rate programs to attract new business to Jacksonville. Currently, Sysco International Food Group Inc., Dresser Equipment Group Inc., and Hans Mill Corporation are part of the program.
8. JEA spent approximately $53,000,000 on electric, water and sewer infrastructure at Cecil Field to assist the City in creating Cecil Commerce Center.

[3] JEA Annual Report 1998
[4] Number provided by JEA's Financial Planning & Analysis Department
[5] JEA Annual Report 1998
[6] JEA Annual Report 2001
[7] https://www.prnewswire.com/news-releases/jea-and-united-water-complete-219-million-transaction-74688952.html
[8] JEA Annual Report 1999
[9] http://www.coj.net/Departments/Better-Jacksonville-Plan/Docs/bjpreport20011023.aspx

9. JEA spent approximately $20,000,000 to purchase over 5,000 acres of preservation land to complement the City's Preservation Project.
10. In conjunction with the Better Jacksonville Plan, JEA constructed a chilled water plant at Hogan's Creek to serve the new arena and baseball field and another plant downtown to serve the new courthouse and the new Main Library. The downtown plant now also serves the JEA Plaza, the State Attorney Office building, the City Hall Annex, and the Library Garage. JEA has since constructed another plant in Springfield to serve the University of Florida College of Medicine, the Proton Beam Facility, and the Shands Healthcare campus.[10]
11. Rather than the City and JEA each constructing their own radio systems, JEA coordinated the design and construction of a radio system that the City and JEA could both use. The First Coast Radio System was a City-wide 800MHz trunked radio system used by JEA, the City, the Sheriff's Office, and the Fire & Rescue Department. JEA financed the $20,795,159 cost of the system and billed the using agencies for their monthly operating charges as well as a capital recovery charge. With the newly installed P-25 radio system, JEA houses the transmitters and receivers at no cost to the City. The system also provides service to the five surrounding counties.
12. JEA has several community partnerships and community involvement programs that enable and encourage their employees to contribute to a better community. Examples include internships through Duval County Public Schools and Florida State College at Jacksonville, participation with Junior Achievement of North Florida to teach elementary and high school students about business, economics and entrepreneurship, and involvement with local charity fundraising efforts to further the charity's cause.[11]
13. JEA spent $1,150,000 to fund the initial construction of the JEA Science Theatre at the Museum of Science and History and an additional $775,000 to fund the renovation of the theater years later.
14. JEA is performing and financing (estimated cost of approximately $10 million) the City's LED (Light Emitting Diode) streetlight conversion.
15. Pursuant to the 2016 interagency agreement between the City and JEA,
    A. JEA contributed $15,000,000 to be used in conjunction with a $15,000,000 match from the City for water and sewer infrastructure.
    B. JEA transferred 30.34 metric tons of Total Nitrogen Water Quality Credits to the City because the expected reductions generated by the septic-tank phase out program were not sufficient for the City to meet the Total Nitrogen Load Reduction Goal of 50% by July 31, 2015. Per the agreement, JEA shall provide these credits (valued at $2,086,767 per year) to the City for no compensation through December 31, 2023 to assist the City in meeting its Basin Management Action Plan (BMAP) load reduction goal. Per the Florida Department of Environmental Protection, if the City sold JEA, the City would get to keep the BMAP credits already received, but any future credit transfers would have to be transacted between the City and the new owner of the utility.
    C. JEA committed to contributing a maximum annual amount of $1,000,000 for sewer projects that the City undertakes to meet its environmental obligations. Related to those sewer projects, JEA committed to pay the sewer capacity fees up to an annual cap of $650,000.
16. JEA agreed to provide the City Solid Waste Division a discounted rate on landfill leachate disposal through Fiscal Year 2018/19, while the City explores alternative methods of disposal.
17. The City of Jacksonville, the Duval County School Board, the United States Navy, and the United States Marine Corps save money on their electric bills because they qualify for JEA's General Service Extra Large Demand rate rider. The rider provides a reduction in overall costs by combining accounts that would otherwise be required to be billed separately at a higher rate.

[10] https://www.jea.com/About/Careers/District_Energy_System_Overview_Presentation/
[11] https://www.jea.com/in_our_community/community_investment/

18. In 2013, the Northeast Florida Regional Council released an Economic Impact Analysis for JEA. The study estimated the economic impact and value of JEA to Duval County in 2012. The annual impact of JEA on Gross County Product (GCP) indicated:
    - JEA contributed between \$860 - \$910 million to GCP
    - JEA contribution was 1.4% - 1.5% of Duval County GCP
    - JEA directly and indirectly impacted 4,500 - 4,700 jobs
    - JEA impacted Earnings/Personal Income \$206 - \$310 million

    Only the tangible impacts were quantified in the analysis.

OTHER CONSIDERATIONS

1. As a municipally owned utility, JEA is eligible for Federal Emergency Management Agency (FEMA) funds. Since 2004, JEA has been reimbursed 81.9% or \$13,829,366 of storm damage costs by FEMA and the State (costs for Hurricanes Matthew and Irma are not included because as of the report date, no reimbursements have been received for Hurricanes Matthew or Irma). Investor Owned Utilities are not eligible for FEMA reimbursement so the costs of natural disasters are passed on to customers. As of January 2018, FPL (Florida Power and Light) customers were paying two different storm cost recovery charges. On a typical 1,000 kWh monthly FPL bill, \$3.36 was being collected for a period of twelve months until February of 2018 for Hurricane Matthew. In addition, \$1.20 is being collected to repay the bonds issued for the 2004 and 2005 hurricane restoration efforts and to partially replenish the storm damage reserve for future storms.[12] This charge has been collected since 2007. Note that FPL has only one residential rate for their entire service area which means that storm charges are assessed to all of their customers regardless of the geographic location of the damage or the customer.
2. The JEA contribution is a pledged revenue for the City's Capital Project bonds. The City has approximately \$108 million of these bonds outstanding as of 9/30/17. Of course, the City could defease these bonds with the proceeds from the sale of JEA if there are sufficient proceeds to do so.
3. The JEA contribution is a pledged revenue for all of the Jacksonville Port Authority's (JPA) outstanding bonds. Pursuant to Municipal Code Section 106.218, the pledge amount is calculated annually by multiplying ¼ mill times the gross kilowatt hours of electricity sold by JEA for the prior 12 months. Although the obligation will remain with the City if JEA is sold, the factor that is used to calculate the pledged revenue will have to be revised. The outstanding amount of JPA bonds as of 9/30/17 was \$182,269,000. The bondholders will have to consent to a revised calculation prior to, or concurrent with the sale to avoid impairment of the bonds.[13] From FY 1996/97 to FY 2016/17, \$63,584,846 of revenue from JEA was pledged to JPA for debt service. For FY 2017/18, the amount pledged from the JEA assessment is \$3,062,125.
4. JEA has an interlocal agreement with Nassau and St. Johns Counties that allows either county the first right of refusal to purchase the JEA water and sewer facilities in their respective county in the event of a change of majority ownership of JEA. There is also a clause that states that if the facilities are purchased and then resold within five years, the net profit must be split 50/50 between JEA and the County.
5. According to the American Public Power Association 2017/18 Directory and Statistical Report, public utilities gave back 5.6% of their electric operating revenues to their communities in 2014. In comparison, IOUs only paid 4.2% of operating revenues in taxes and fees to State and local governments. For that same time period, JEA paid 6.1% of operating revenues to the City. In 2017, JEA paid 6.7%.

[12] https://www.fpl.com/rates/pdf/electric-tariff-section8.pdf
[13] Per JPA bond counsel, Foley & Lardner

6. The City Council currently has the capability to question and influence JEA's annual proposed budgets and planned capital project expenditures for the electric, water/sewer, and district energy systems. This ability to influence where or when improvements occur would likely not exist under an Investor Owned Utility.
7. JEA's contribution to the City has a guaranteed floor or minimum. Returns on the invested sale proceeds from JEA would be dependent upon market conditions.
8. JEA currently contributes to the cost of providing City services. Specific examples that would otherwise be offset by a General Fund contribution are the Office of Inspector General ($85,000) and the Office of Ethics, Compliance & Oversight ($5,000). JEA also utilizes the services of Fleet Management and participates in the City's workers' compensation and general and auto liability insurance pooling with the Risk Management Division. These areas could be affected if JEA's participation was removed.
9. If JEA's utilities are split, (for example if Electric is sold, but Water/Sewer is retained) they will not be as efficient operating separately as they are together. The electric, water/sewer, and district energy utilities are deeply intertwined. In Fiscal Year 2017/18 for example, the electric utility is budgeted to perform $48 million of water/sewer work. Work performed by one utility for another is charged to the correct utility, however if the utilities were separated, the efficiencies would be lost and the work would likely cost more.
10. JEA maintains its company headquarters downtown and was preparing just a few months ago to build a new headquarters building in the heart of downtown. JEA has approximately 2,000 employees. Most of these jobs are well paid with benefits. If JEA were a company thinking of moving its headquarters and 2,000 jobs to Jacksonville, the Office of Economic Development would likely ask the City Council to approve millions of dollars of incentives to lure them here.
11. The City of Jacksonville receives JEA contribution on utility sales outside of Jacksonville. For example, water and sewer customers in Nassau and St. Johns Counties contribute to the City of Jacksonville General Fund every month when they pay their bill.
12. Private Utilities will likely not pay as much in ad valorem taxes as one might think. It is common practice for private sector businesses to challenge their property assessments. For example, we checked with the Value Adjustment Board in Miami-Dade County and found that Florida Power and Light (FPL) filed petitions challenging its assessments in 2013, 2014, and 2015, all of which were later withdrawn. We checked with the Value Adjustment Board in Palm Beach County Florida and found that FPL had filed petitions in 2014, 2015, 2016, and 2017. In 2014 and 2016, FPL withdrew its petition with no change in assessment. In 2015, FPL withdrew its petition, but received a reduction in its assessment from $1,710,880 to $342,176. In 2017, FPL did not appear at the hearing and the petition was denied.

    In another example, in 2012, a tax dispute arose between Duke Energy and Citrus County. After fifteen months, Citrus County agreed to a settlement. Citrus officials said they agreed to settle because of rising legal bills in their battle with Duke.[14]
13. Local Control: While it might be a stretch to say that local control is priceless, it does have considerable value. Possible bidders for JEA might include FPL based in Juno Beach, Florida, Duke Florida (owned by Duke Energy which is based in Charlotte, North Carolina), and TECO (owned by Emera which is based in Halifax, Nova Scotia, Canada). Would these companies based in other cities, states, and another country make Jacksonville a priority on a day to day basis or after a natural disaster? Would they work closely with the City on infrastructure projects? The CEO would certainly not be just across the street.

[14] http://www.tampabay.com/news/business/energy/settlement-favors-duke-energy-in-tax-dispute-with-citrus-county/2171118

14. The City must assume that if JEA is sold, the City will not be able to get JEA back if it later has seller's remorse. Jacksonville Port Authority once owned all of Blount Island, but sold the eastern 900 acres to Offshore Power Systems in the early 1970s for use in a large economic development project. Think how things would be different if JPA still owned all of Blount Island. JPA may not have developed the Dames Point Terminal. JPA might have a cruise ship terminal east of the Dames Point Bridge. The length of JPA's dredging project would be shorter and less expensive if it only had to accommodate Blount Island.
15. Even if the sale proceeds pay for JEA's share of the UAAL, an actuary will have to determine the effect on the General Employees Pension Plan if the JEA employees are removed from the pension plan. The models used in pension reform did not contemplate the sale of JEA. The models contemplated that those JEA employees hired by September 30, 2017 would be part of the pension plan with an employee and employer share being paid into the pension plan every pay period for decades into the future. The impact to the pension plan might be favorable or unfavorable, but the actuary will have to determine this. (**See Recommendation #2**)
16. JEA and the City could spend considerable sums of money working on a deal that might never close. Two recent examples follow:

    A. In 2016, NextEra Energy, the parent of Florida Power & Light, canceled its $2.63 billion bid to purchase Hawaiian Electric Industries after the deal was rejected by Hawaiian state regulators.[15] [16]

    B. In 2017, utility regulators in Texas rejected an $18.7 billion bid by NextEra Energy to buy Oncor Electric Delivery Co., the state's largest regulated utility.[17]

    To reiterate, it is entirely possible that bids could be obtained, a term sheet could be agreed on, millions of dollars could be spent on attorneys, consultants, financial advisors, and investment bankers, but for regulatory or other reasons, the deal does not close. In its February 14, 2018 report, PFM stated that "A sale of all or a portion of JEA's assets will represent one of the largest, most complex transactions ever attempted in the municipal utility market."[18] Where will the funds come from to pay all these costs? If the deal does not close, those millions that were spent may not be recoverable. (**See Recommendation #3**)
17. The sale could take years to close. For example, the sale of Vero Beach's electric utility to Florida Power and Light (FPL) was first approved by voters in 2011. In October of 2017 (6 years later) the Vero Beach City Council approved the sale, but it is still not final. It must still be approved by several other groups including the Florida Public Service Commission (FPSC).[19] If the sale does not go through, the City of Vero Beach will be responsible for the majority of the costs associated with the sale.[20]

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15 http://www.miamiherald.com/news/business/article90362237.html

16 https://www.hawaiianelectric.com/nextera-energy-and-hawaiian-electric-industries-announce-termination-of-merger-agreement

17 http://www.sun-sentinel.com/business/fl-bz-nextera-oncor-deal-rejected-20170413-story.html

18 https://www.jea.com/About/Investor_Relations/Financial_Reports/JEA_Valuation_PFM_Report.aspx

19 https://www.tcpalm.com/story/news/local/shaping-our-future/growth/2017/10/24/vero-beach-oks-selling-electric-system-fpltakes-action-fpl-185-million-offer-buy-city-electric-syste/791924001/

20 http://www.covb.org/vertical/sites/%7B898790A2-F88A-48AE-A9B3-666AAE67AD40%7D/uploads/FPL_LETTER_OF_INTENT_May_16_2017.pdf

18. Eight Council Members will be leaving the City Council due to term limits. It is possible that the current Council could vote to move forward with a sale, but the next Council may not approve the deal.
19. It is possible that a private equity firm could purchase and operate JEA. Private equity firms buy companies with capital from investors (cash) and borrowed money (debt/bonds). If the borrowed money greatly exceeds the cash, it is called a leveraged buy-out (LBO). One of the issues with an LBO is that the purchased company will end up with the debt on its books after the purchase. In one of the largest LBOs in history, utility company TXU Corp was purchased by a group of private equity firms which left TXU (now known as Energy Future Holdings) with more than $40 billion in debt. In 2014, Energy Future Holdings filed for Chapter 11 bankruptcy protections because it could not make scheduled debt payments.[21]
20. If the City sells JEA, it will not have JEA to oversee any future capital projects involving the undergrounding of electric lines or the extension of water and sewer lines.

BENEFITS TO THE CITY OF SELLING JEA

1. The City could potentially receive a large sum of money without increasing debt or raising taxes. These funds could be used to pay down or pay off City debt, pay for the pension UAAL, construct infrastructure, and/or provide funding for large projects (e.g. a new convention center, downtown development, or an entertainment zone).
2. Ad valorem taxes and stormwater fees would be collected on former JEA property.
3. The Duval County School Board (DCSB) would receive additional ad valorem taxes, although the amount DCSB would receive is limited. We estimate that DCSB would receive approximately $8 million per year for capital purposes only. It does not appear that the DCSB would receive any additional operating funds because an increase in local funds would be offset by a decrease in state funds. (**See Attachment 1**)

BENEFITS TO THE CITY OF KEEPING JEA

1. An annual, predictable monetary contribution to the City General Fund.
2. Local control of Electric and Water/Sewer Utilities.
3. A corporate headquarters located in downtown Jacksonville.
4. Thousands of high paying jobs with benefits.
5. Rates are set by the JEA Board, whereas rates for an IOU are set by the Public Service Commission in Tallahassee.
6. After a hurricane or storm that causes large quantities of electrical outages, JEA makes it a priority to restore electrical service to JEA sewer infrastructure, thereby reducing the potential ripple effects of the storm.

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[21] http://www.star-telegram.com/news/business/article3855518.html

RECOMMENDATIONS

Recommendations if the City decides to sell JEA

1. Proceeds from the sale of JEA should never be used for operating expenses. They should be set aside to generate a future income stream and/or used for one-time expenditures such as paying down debt or used for needed capital expenditures. (Note: The City needs to be cognizant of the increased operating costs that would be associated with any capital expenditures.)
2. As part of the City's due diligence, it should engage its actuary to determine the effect on the general employees pension plan if JEA were sold.
3. Include a requirement in the purchase agreement that if the deal does not go through for any reason other than the City of Jacksonville turning it down, the buyer must reimburse the City of Jacksonville and JEA for all expenses incurred in the attempted sale.

Recommendation if the City decides to Keep JEA

4. A task force should be created to determine what, if any, changes could be made to JEA that would help JEA to increase its financial contribution to the City and/or help the City accomplish other goals such as extending water and sewer infrastructure. (Note: From 2010 through 2017, JEA paid down $400 million in debt beyond its normal debt service. Paying down that much additional debt in that period of time shows fiscal discipline, however, it also begs the question as to whether those funds could have been used in other ways to benefit the City.) The task force could explore ideas such as those listed below and many others not contemplated here.
    a. Could JEA become a natural gas utility creating an additional revenue stream and additional City contribution? (For example, Tallahassee operates electric, water, sewer, and natural gas utilities.)
    b. Could JEA sell or lease rooftop solar to its customers?
    c. Could/should JEA take over the City Stormwater Utility?
    d. What other ways could JEA generate additional revenue?
    e. Could JEA make a larger financial contribution to the City General Fund?
    f. Should the City contribution include sales of reclaimed water?
    g. What amount of electric line undergrounding and extension of water and sewer lines should be pursued and included in JEA's capital improvement budget each year?

Respectfully submitted,

Kyle S. Billy

Kyle S. Billy, CPA
Council Auditor

Council Auditor's Office
The Potential Sale of JEA: Things to Consider
DCSB Impact

The Duval County School Board (DCSB) would receive additional ad valorem taxes, although the amount DCSB would receive is limited. We estimate that DCSB would receive approximately $8 million per year for capital purposes, pursuant to the Local Capital Improvement Millage. Note that the DCSB would probably not receive additional operating revenue from the sale of JEA. Based on the way the Florida Education Finance Program (FEFP) formula works, increases in revenue from the Required Local Effort or the Discretionary Local Effort would likely be offset by a corresponding decrease in State funds. The Local Capital Improvement Millage however, is not part of the FEFP calculation. This information was confirmed with the Florida Department of Education.

Duval County Gross Taxable Value used to calculate DCSB 2017/18 Taxes	$ 64,320,200,875	(A)
Exemption Value of JEA Property as of 1/1/17	5,582,321,552	
Total Duval County Taxable Value Including JEA	$ 69,902,522,427	(B)

DCSB 2017/2018 Budgeted Ad Valorem Revenue Under Two Scenarios

Funding Sources	Millage Rates (C)	Scenario 1 JEA City Owned (A) x (C)	Scenario 2 JEA Investor Owned (B) x (C)	Difference
Required Local Effort Taxes[1]	4.2370	$ 261,623,703	$ 284,329,908	$ 22,706,205
Discretionary Local Effort[2]	0.7480	$ 46,187,050	$ 50,195,603	$ 4,008,553
Total Local Funding		**$ 307,810,753**	**$ 334,525,511**	**$26,714,758**
State Funding[3]		$ 637,616,380	$ 610,901,622	$ (26,714,758)
Total Local and State Funding		**$ 945,427,133**	**$ 945,427,133**	**$ -**
Local Capital Improvement[4]	1.5000	$ 92,621,089	$ 100,659,632	$ 8,038,543

Footnotes:

1 - This funding is used for school district operations. The millage rate is set by the Department of Education.

2 - This funding is used for school district operations. The DCSB sets the Discretionary Local Effort millage rate; however, the 0.7480 millage rate is the maximum millage rate allowed by the Florida Legislature.

3 - This funding is derived by the State from a complex formula based on a number of factors (e.g. number of students, the Florida Price Level index by school district, discretionary millage compression supplement, etc.)

4 - This funding is to be used for capital improvements only. The DCSB sets the Local Capital Improvement millage rate; however, the 1.5000 millage rate is the maximum millage rate allowed for capital improvements.

This methodology has been confirmed with the Florida Department of Education regarding State and local funding for the DCSB both currently and under the assumption of adding JEA property to the tax roll. It also assumes that an Investor Owned Utility would take advantage of the 4% early payment discount on property taxes.