

21 West Church Street
Jacksonville, Florida 32202-3139

September 27, 2019

St. Johns County ("SJC")
Attn: Mr. Michael D. Wanchick
County Administrator, St. Johns County
500 San Sebastian View
St. Augustine, FL 32084



Re: Interlocal Agreement ("Agreement") – Notice of Exclusive Purchase Event ("Notice")

Dear Mr. Wanchick,

Thank you for your letter dated August 27, 2019 stating SJC's staff will "recommend that the Board of County Commissioners investigate and negotiate the purchase of JEA assets . . . should such action be determined to be in the best interest of [SJC] residents and businesses." We are also in receipt of your September 11, 2019, letter requesting an update on JEA's Invitation to Negotiate ("ITN") timeline.

JEA has set October 7, 2019 as the deadline to submit responses to JEA's ITN #127-19. Our evaluation team will meet and post a Notice of Intent to Negotiate on October 18, 2019. JEA expects that it will take several months to negotiate with the various respondents. At the conclusion of the negotiation, the JEA Board will, in the Spring of 2020, either approve the ITN recommendation or conclude the ITN with no change to JEA.

JEA understands SJC's desire to evaluate its option to purchase JEA assets in SJC. To that end, the following letter and support documentation is intended to aid the SJC Board of County Commissioners' analysis of the impacts on SJC, its residents, and its businesses. The enclosed Cost-Benefit Analysis and below figures have been prepared by JEA and its consultants.

A SJC Board of County Commissioners decision to exercise its purchase option under the Agreement would:

- Require SJC to more than double its debt load by adding over \$340 million in debt (>\$26 million per year);
- Increase water and sewer rates on JEA customers in SJC by over 15%;
- Deprive SJC JEA customers of over \$34 million in utility rebates;
- Eliminate an immediate increase in tax base of over \$300 million;
- Forego new revenues for SJC of over \$4 million per year;
- Reduce SJC's current revenues by \$3 million per year;
- Require SJC to increase its capital expenditures over \$10 million per year;
- Increase the risk that SJC's Consumptive Use Permit (CUP) would be insufficient to meet the county's needs to serve residents and business while promoting economic growth; and
- Eliminate over \$600 million of new taxable property values over the next 30 years.

Regarding your request for additional information, please note that not all of the information you requested is maintained in the ordinary course of business or readily available. JEA is working to assemble the requested information and will provide you all of the information that is available to assist you in making a decision. In addition, JEA is meeting with your staff on October 3 to discuss the materials requested in your letter of September 11.

E L E C T R I C

W A T E R

S E W E R

September 27, 2019

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Finally, please accept this letter as formal Notice of the ninety (90) day period upon which JEA requests SJC submit its decision on whether to: i) exercise a purchase option under the Agreement; or ii) waive any purchase option under the Agreement.

Please contact me if you have any questions.

Very truly yours,

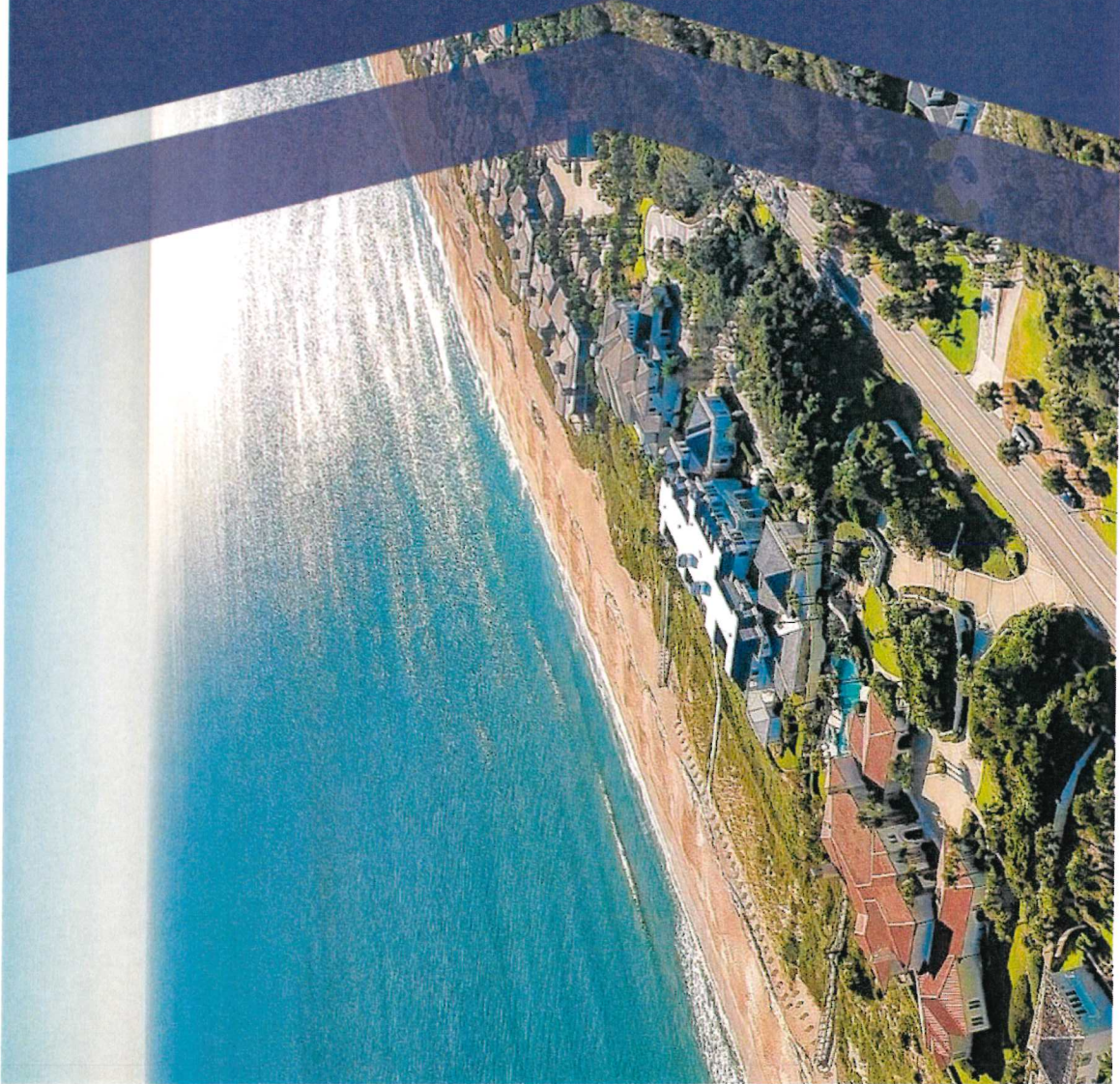
A handwritten signature in blue ink, appearing to read "H.T. Vinyard Jr.", is written over the typed name and title.

Herschel T. Vinyard Jr.
Chief Administrative Officer

Enclosure

cc: St. Johns County Board of County Commissioners
Hon. Hunter S. Conrad, St. Johns County Clerk

**COST-BENEFIT FOR
ST. JOHNS COUNTY**



WHY CONTINUE TO PARTNER WITH JEA?

Overview of Pros and Cons

BENEFITS of Remaining with JEA/ITN

- Strengthen overall financial health of the County
- No increase in County debt and debt service
- Immediate increase to tax base and revenue
- The County would participate in the potential benefits of the ITN, e.g. customer rebates, rate stability, environmental protections

Potential Financial Gain with JEA: \$91,300,000

COSTS to SJC for Purchasing Water/Wastewater System

- County would need to raise customer rates
- County's debt would double
- County's debt service would triple
- County's revenues would go down with loss of new tax base, ad valorem tax revenue and revenue share
- Elimination of potential benefits of the ITN
- Risk would increase, with potential impact on County's credit metrics and ratings

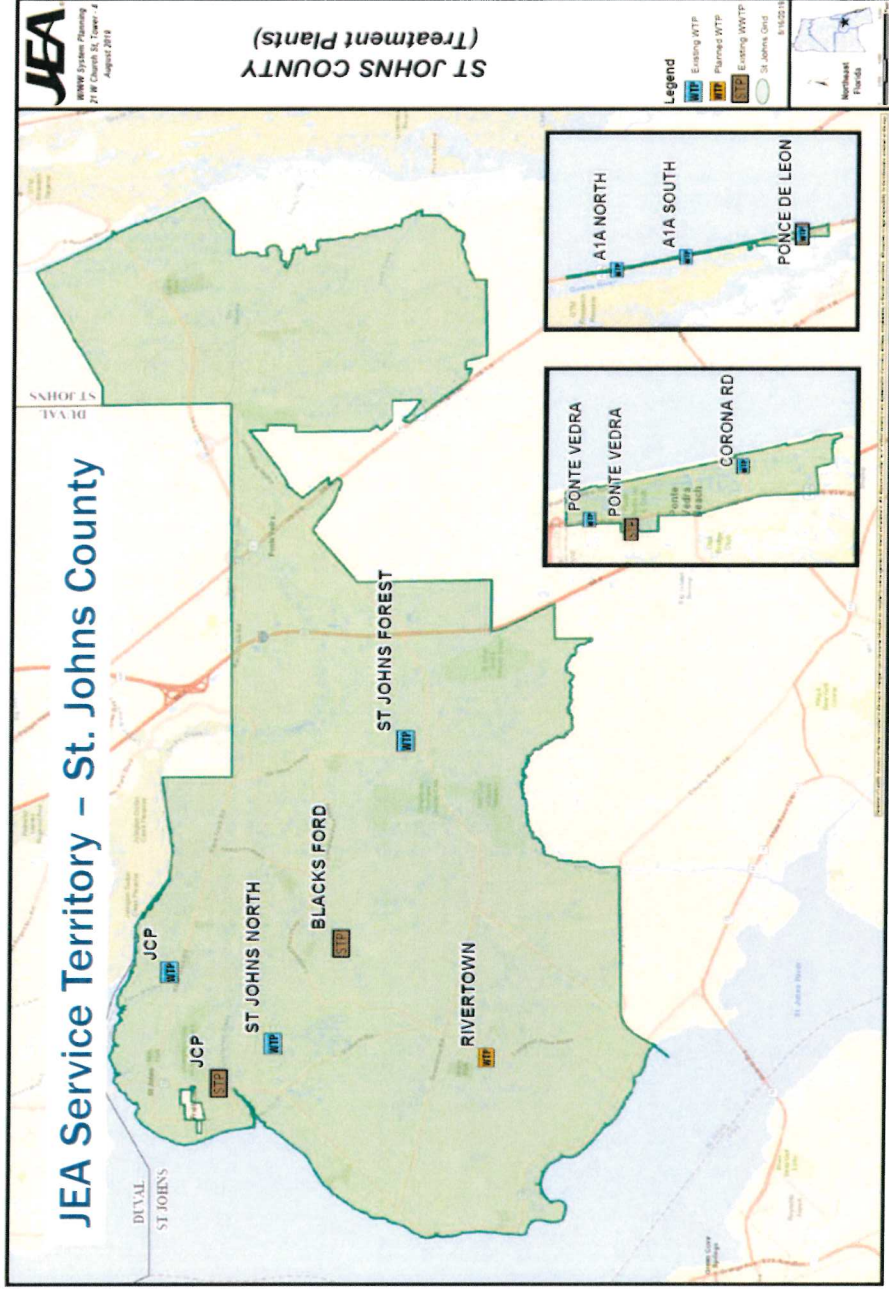
Total Cost of Ownership: \$1,311,000,000

ESTIMATED NET BENEFIT TO REMAIN WITH JEA: \$1,402,300,000

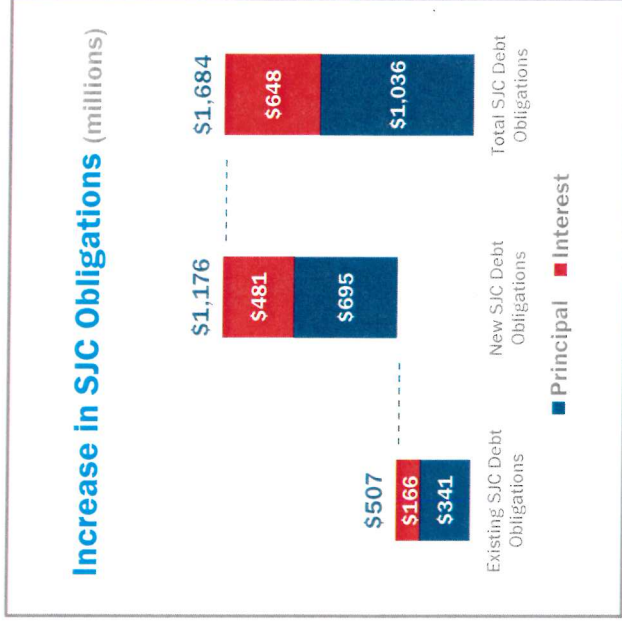
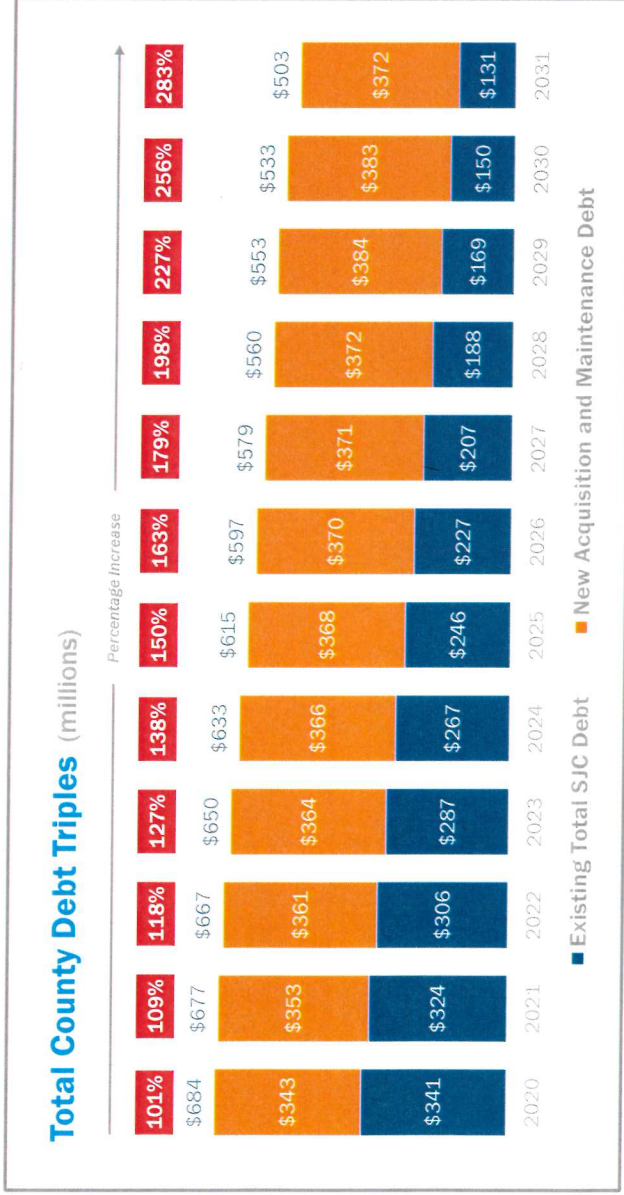
SYSTEM OVERVIEW

JEA System in St. Johns County:

- 77,600 Customers
- 1,521 Miles of Pipe
- 4 Wastewater Treatment Plants
- 9 Water Treatment Plants
- 2 self-contained systems – Ponte Vedra & Ponce de Leon



EXERCISING PURCHASE OPTION DOUBLES SJC DEBT AND TRIPLES SJC DEBT SERVICE



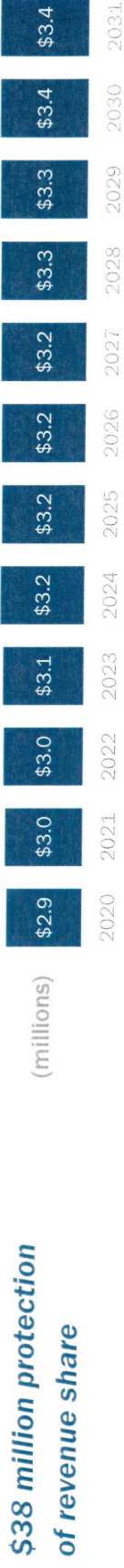
- New acquisition financing would be a minimum of \$340 million
- Total debt for the County would increase by more than \$350 million
- Annual debt service could increase by more than \$25 million
- Debt service would triple with total obligations increasing from \$507 million to more than \$1.6 billion

\$90 MILLION HIGHER REVENUES FOR SJC BY REMAINING WITH JEA

Annual Ad Valorem Tax Revenue



Revenue Share



Net Gain to St. Johns County

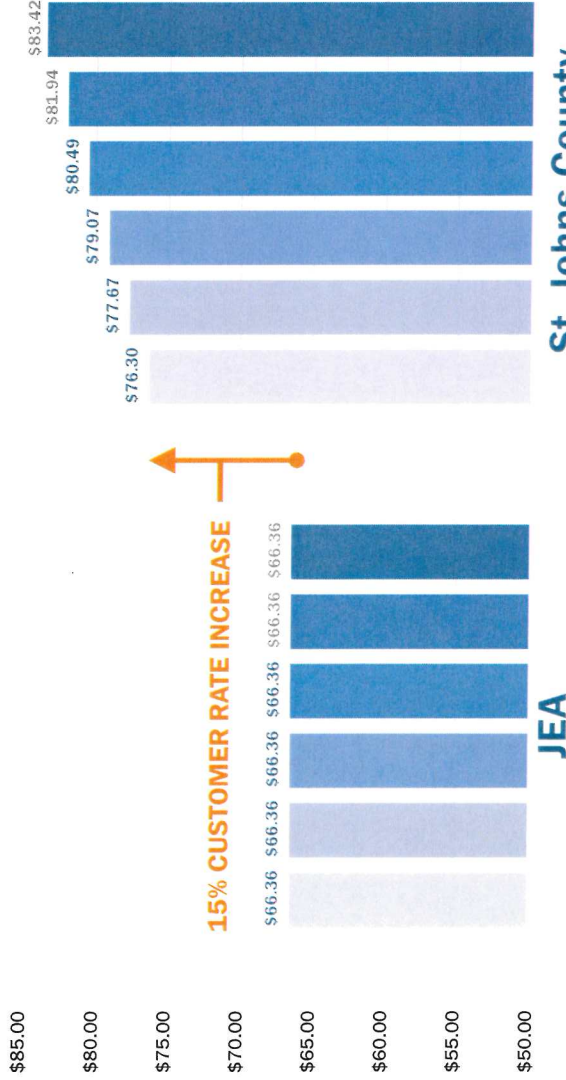


AN ACQUISITION BY SJC MEANS CUSTOMERS WILL PAY MORE

Moving away from JEA makes service immediately more expensive for SJC customers, both in monthly customer bills as well as customers not receiving rebates

Water & Sewer Bill Comparison Outlook

(Estimate, 6k gal consumption)



St. Johns County

St. Johns County indexes rates to the CPI-U from July to July (Utilized FY20 increase 1.8% to forecast)

JEA

JEA has no planned rate increases in Water or Wastewater for the next 5 years

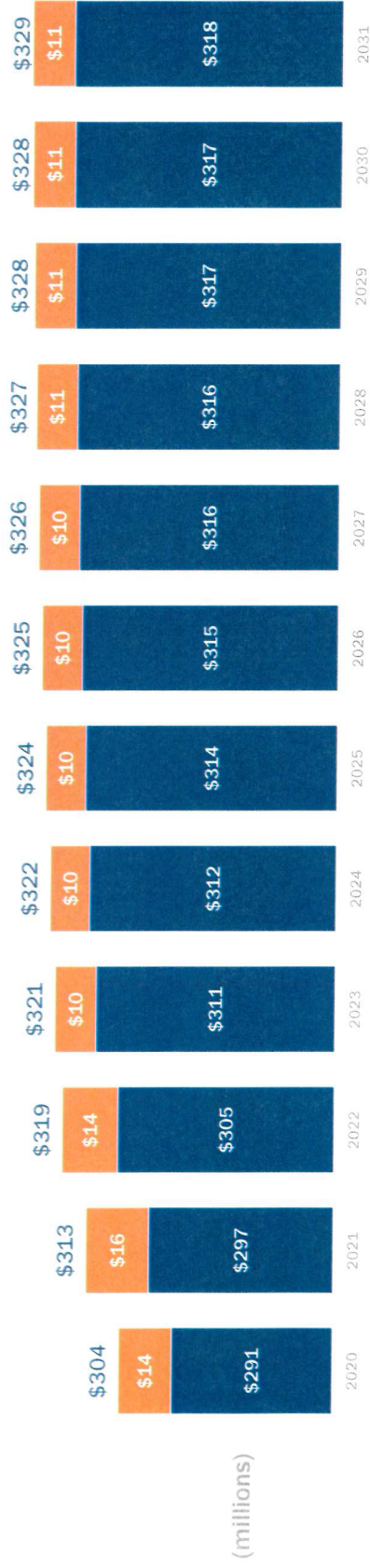
REBATES FOR SJC CUSTOMERS

Proposed \$350 customer rebate per JEA account in event of a transaction

TOTAL SJC Customer Value: ≈ \$34.4 million

PRIVATE OWNERSHIP WOULD CREATE MORE THAN A \$300 MILLION NEW TAX BASE

Increase in Tax Base and Net Investment



■ JEA's Current Assets that Become Taxable
 ■ Projected Future JEA Investments

SJC WILL NEED TO INVEST SIGNIFICANTLY TO ACCOMMODATE ECONOMIC GROWTH

- SJC imports 65% of potable water from outside the County (currently 8 MGD) to serve their service area
- SJC Consumptive Use Permit (CUP) expires in 2024 and will need to be increased in a difficult water-withdrawal permitting environment
- By 2035, SJC will be required to get an additional allocation of 5 MGD (if available) and build considerable capacity to serve the area
- SJC would not receive from JEA the approximately \$40 million planned in capital water projects over the next 5 years.

