



# Review of PFM's Feb 2018 Report on the Future of JEA

**Michael Mace, Managing Director**

November 25, 2019

---

PFM

---

Orlando, FL  
Charlotte, NC

---

[pfm.com](http://pfm.com)



## Discussion Topics

- Introduction
- Scope of the Report
- Utility Industry Valuation
- Important Considerations
- Summary



## Introduction: Origins of the 2018 Report

### ◆ Nov/Dec, 2017 JEA Board Meetings: Questions Posed:

*Would Jacksonville be better served in the private marketplace?*

*Should JEA/City consider benefits of privatization?*

*Evaluate position in the market, and report on JEA's private market value so citizens, the Mayor and the Council can evaluate that opportunity.*

### ◆ JEA Requests Report from Public Financial Management

- PFM - leading financial advisor to state and local governments
- Advisor-only business – not a “broker”, underwriter, trader or lender
- Advisor to over half of the 50 largest public power utilities
- Serving as financial advisor to JEA for 17 years



## Scope of the 2018 Report

- ◆ Establish the Range of Potential Values for JEA Enterprise(s)
  - Considering:
    - *commonly accepted valuation methodologies*
    - *utility market conditions and potential buyers*
    - *JEA's financial metrics and condition*
  
- ◆ Discuss Important Considerations and Variables
  - Key valuation drivers
  - Quantitative and qualitative impacts of a sale

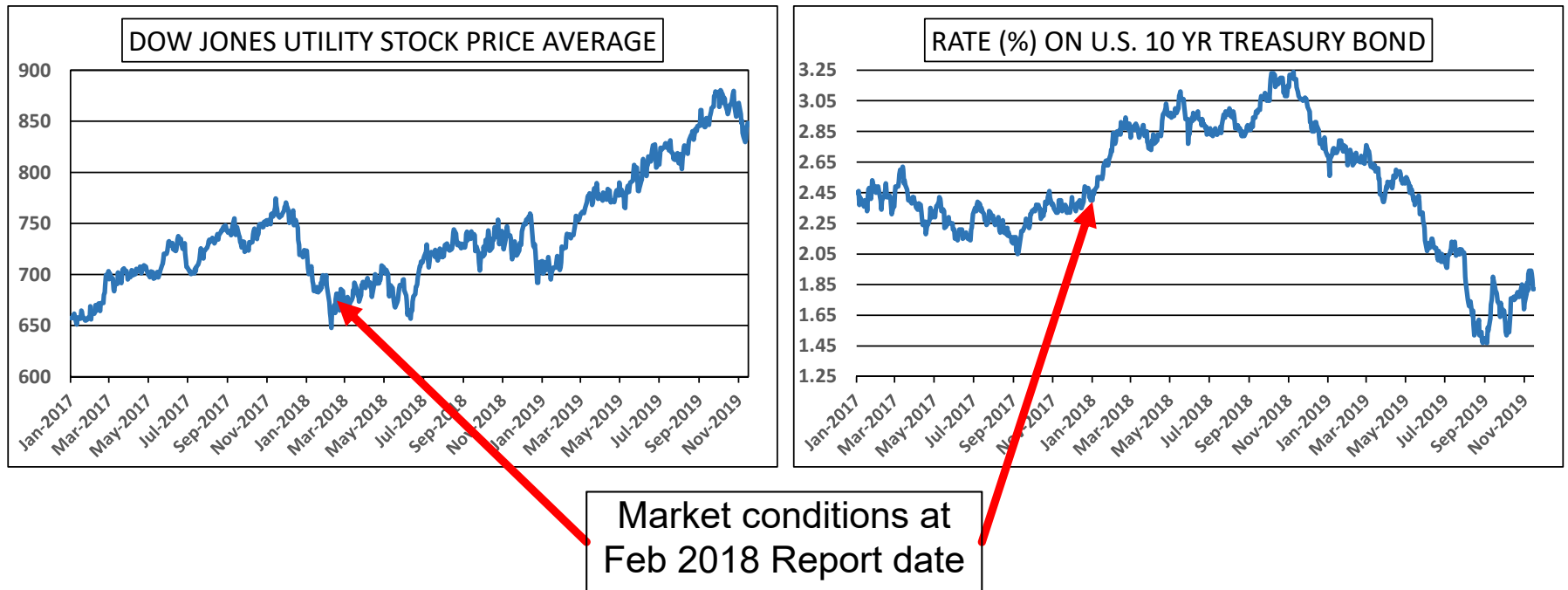
**The Report was NOT a Recommendation to Sell or Retain JEA**



# Utility Industry Valuation Trends

## ◆ Strong Markets Drive Investor Owned Utility (“IOU”) Value

- Utility and broader stock prices near all time highs
- Interest rates remain very low

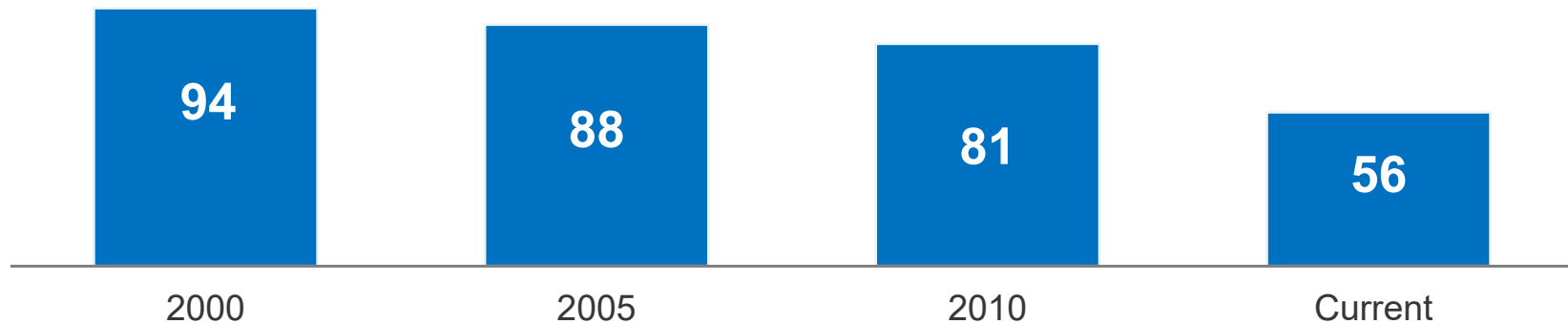




# Utility Industry Valuation Trends

## IOU Shareholders Value Growth

- Utilities are not seeing growth within their own service territories
  - *Conservation and energy efficiency erode demand growth*
  - *Distributed generation (solar) replaces supply*
  - *Industry wide condition, not specific to JEA*
- Acquisitions provide growth opportunity for IOUs
  - *Consolidation has reduce the number of opportunities (# of utility holding cos.)*



- Municipal utilities are an appealing acquisition alternative
  - JEA assets and service territory present a unique opportunity



## Utility Industry Valuation Trends

- ◆ Utility Business Conditions Have Changed – and continue to
  - Financial markets – *reduced capital cost advantage for munis*
  - Corporate tax structure – *lower tax rates, faster depreciation/expensing*
  - Utility industry – *less capital intensive, greater technology/business risk*
- ◆ JEA is an Attractive Acquisition Candidate
  - Strong cash flow and financial position
  - Significant debt reduction in recent years
  - Attractive asset mix in a strategic, growing region of the Country



# Valuation Methodologies and Metrics

## ◆ Discounted Cash Flow Projection Model

- Test a wide range of assumptions and variables

discount rates

growth rates

synergies

rate scenarios

capital program

financial markets

depreciation

taxes and transfers

## ◆ Company Earnings

Stock Price (P/E) Multiples Applied to Company Earnings

## ◆ Earnings before Interest, Taxes, Depreciation & Amortization

EBITDA or Cash Flow, Times Market Multiple Ranges

## ◆ Property, Plant & Equipment net of Depreciation

PP&E or “Rate Base” Assets, Times Market Multiple Ranges





## Utility Industry Valuation Trends

### ◆ High Market and Transaction Values for Utilities Persist

- Merger & Acquisition activity provides price and metric comparables
- Utility stock market prices and ratios provide additional data
- Recent data indicates continued market strength:

Stock Price and Price/Earnings (P/E) Ratios

~25X

Cash Flow (EBITDA) Multiples

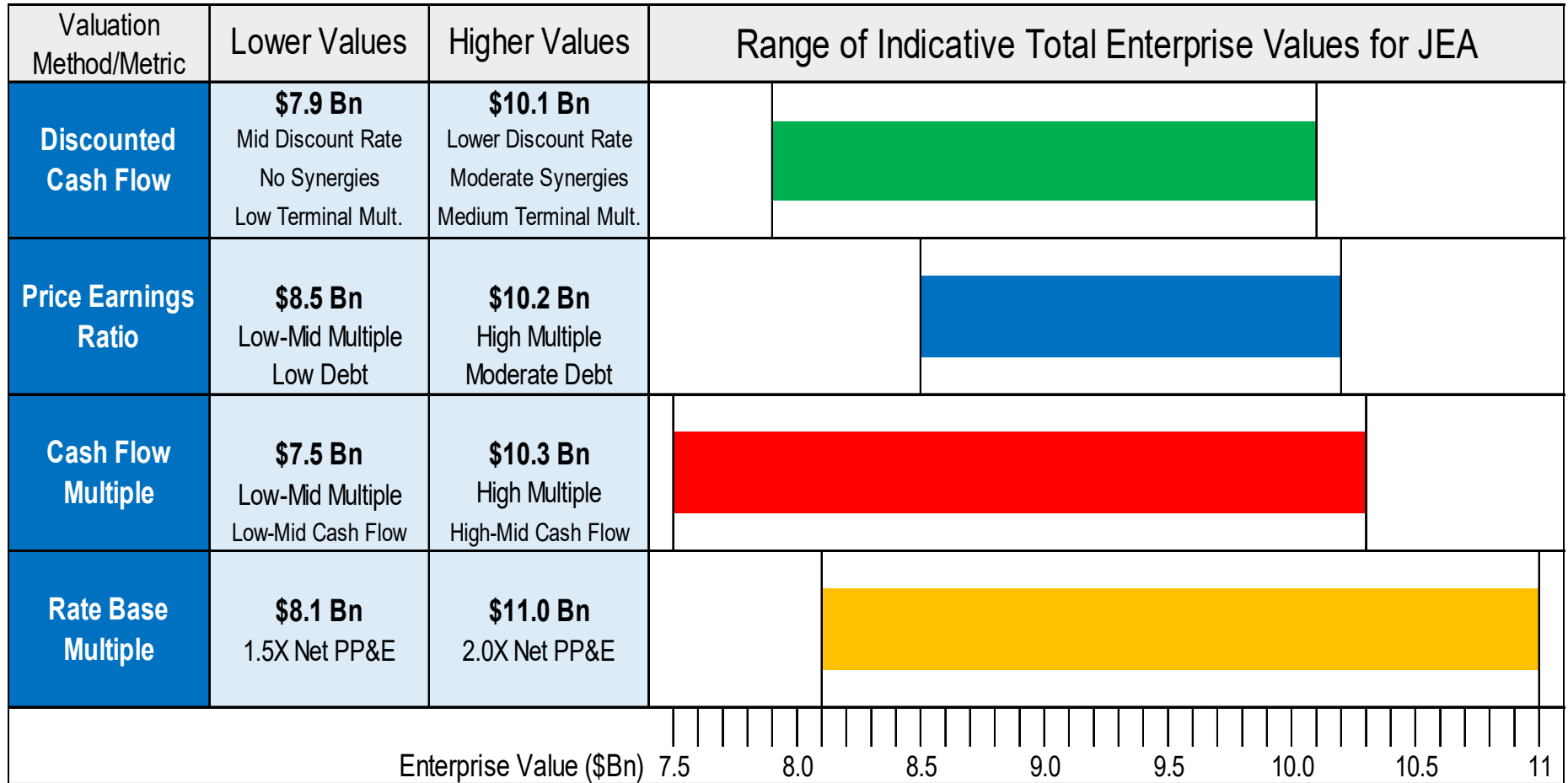
~12X

Rate Base Asset Ratios

~ 2X



# 2018 Valuation Methodology Results





## **2018 Valuation Methodologies and Metrics**

### ◆ Implied Transaction Value for JEA of \$7.5 to \$11 Billion

- Represents **gross transaction value** – before retiring debt
- Very wide range of values based on market comparables
- Case could be made for wider ranges and higher values
- Position within the range (or outside it) will be a function of terms and conditions imposed on the sale

**And all subject to assumptions, market conditions and change**

### ◆ Net Value Amount is Net of Other Assets and Liabilities



# Valuation Methodologies and Metrics

## ◆ Estimated Adjustments to Arrive at Net Value

- Cost to retire JEA debt balance has declined  
*Feb, 2018 figure of ~\$3.9 billion has declined to ~\$3.4 billion*
- Cost to terminate JEA interest rate hedges is roughly similar  
*Termination costs expected to be ~\$100 million*
- Vogtle contract considerations: Vogtle debt has increased  
*NPV of Vogtle tax-exempt debt service component is roughly ~\$1.8 billion*  
*Cost to address the contract could be much less*
- Expected excess cash and investments  
*Roughly \$600 million was assumed available to reduce debt*

*All of the above figures are subject to market conditions and change*



# **2018** Valuation Net Value Estimates

## ◆ Adjustments to Gross Value/Price Paid

<b>Estimated Adjustments to Value</b>	<b>Lower Values</b>	<b>Higher Values</b>
<b>Gross Transaction Value</b>	<b>\$7.5 Bn</b>	<b>\$11.0 Bn</b>
<b>2019 Debt Retirement Cost</b>	<b>(\$3.9) Bn</b>	<b>(\$3.9) Bn</b>
<b>Interest Rate Hedge Termination</b>	<b>(\$0.1) Bn</b>	<b>(\$0.1) Bn</b>
<b>Vogle Contract NPV of Debt Portion</b>	<b>(\$1.2) Bn</b>	<b>(\$1.2) Bn</b>
<b>Available Cash and Investments</b>	<b>\$0.6 Bn</b>	<b>\$0.6 Bn</b>
<b>Net Proceeds after Assets &amp; Liabilities</b>	<b>\$2.9 Bn</b>	<b>\$6.4 Bn</b>

Down to ~\$3.4Bn with debt matured and retired

Up to ~\$1.8 Bn with debt issued and lower discount rate



## Important Considerations

### ◆ Future Utility Rates – Moving to a Regulated Environment

- Florida Public Service Commission regulation
- Multi-year rate freezes are a common sale condition
- Examine projected rate differential under JEA Board vs. FPSC
- Long-term rate modeling is challenging in a changing market

### ◆ JEA Employees

- Transition, and even discussion, is challenging for the entire workforce
- Workforce guarantees are a negotiated condition in most asset sales
- Service and safety continuity are essential



## Important Considerations

### ◆ JEA City Payments vs. Private Owner Taxes

- JEA makes 3 forms of payments totaling roughly \$250 million

*City Contribution*      *Franchise Fee*      *Public Service Tax*

- Private utilities have a different tax structure

*Property Taxes*      *Franchise Fee*      *Public Service Tax*

- Sale conditions can be imposed to “hold harmless” the City
- Additional taxes will be paid to other jurisdictions under private owner  
Federal, State, County, Schools



## Important Considerations

### ◆ Local Economic Impacts and Efficiencies

- JEA is a large employer and economic contributor to the region
- JEA/City partnership achieves efficiencies, cost savings, policy priorities
- Sale could include commitments to maintain presence, cooperation and commitment to the City to limit negative impacts

### ◆ Execution Complexity and Challenges

- Existing contractual arrangements
  - Combined real estate and right-of-way agreements
  - Vogtle power purchase agreement
- Asset sale structure – electric, water, sewer, irrigation, district energy
- Governments eligible for FEMA assistance





## **2018 Summary**

- ◆ The Utility Industry has Changed, and Market Values have Increased Considerably in the Past 5-10 Years
- ◆ A Sale of JEA Can Be Expected to Produce Substantial Up-Front Net Proceeds to the City
  - Net Proceeds Could Range from Roughly \$3 to \$6 Billion
  - Actual Value Will be Highly Dependent on Market Conditions and on Transactions Terms & Conditions
- ◆ Selling JEA Would be a Very Complex Undertaking
- ◆ Several “Non-Price” Quantitative and Qualitative Considerations to be Evaluated and Managed