

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In Re: Application for Original Certificate of Authorization and Initial Rates and Charges for Water and Wastewater Service in Duval, Baker and Nassau Counties, Florida by FIRST COAST REGIONAL UTILITIES, INC.

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DOCKET NO. 20190168-WS

**NOTICE OF FILING**

First Coast Regional Utilities, Inc., by and through its undersigned attorneys, hereby gives notice of filing its Rebuttal Testimony of Deborah D. Swain in the above-referenced docket.

Respectfully submitted on this  
31st day of July, 2020, by:

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**CERTIFICATE OF SERVICE**

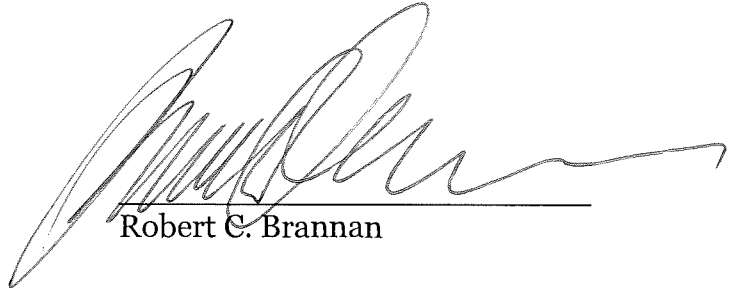
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Robert C. Brannan

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Docket No.: 20190168-WS

REBUTTAL TESTIMONY

OF

DEBORAH D. SWAIN

ON BEHALF OF

FIRST COAST REGIONAL UTILITIES, INC.

1 **Q. Please state your, name profession and address.**

2 A. My name is Deborah D. Swain. I am Vice President of Milian, Swain & Associates, Inc. and  
3 head up the firm's finance, accounting and management team. My business address is 2025  
4 SW 32<sup>nd</sup> Avenue, Suite 110, Miami, Florida 33145.

5 **Q. Have you presented direct testimony in this case.**

6 A. Yes, I have.

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. The purpose of my rebuttal testimony is to present information to refute some of the issues  
9 and arguments presented by JEA Witnesses Joseph Orfano, Julia E. Crawford, and Robert  
10 Zammataro.

11 **Q. Are you sponsoring any exhibits?**

12 A. Yes, I am sponsoring the following exhibits: Exhibit DDS-4, a description of my experience  
13 with municipal and county bond feasibilities, annual reporting to bond holders, and  
14 coordination of rating agency reviews; DDS-5, an exhibit describing the downgrading of  
15 JEA's bonds by rating agencies; DDS-6, an exhibit with JEA statements of cash flow; DDS-  
16 7, JEA's "FY2021 Budget Snapshot" presented to their board in June 2020, DDS-8, an exhibit  
17 consisting of a letter with preliminary financing terms; and DDS-9, an exhibit with revisions  
18 to certain pages in the Accounting Information contained in the original application.

19 **Q. Were these Exhibits prepared by you and your staff?**

20 A. Yes, they were.

21 **Q. What issues will you be addressing in your testimony?**

22 A. I address each witness one at a time, and cover the following issues:

23 JEA Witness Joseph Orfano and JEA Witness Robert Zammataro

24 • JEA Financial Stability

25 JEA Witness Julia E. Crawford

- 1           • Rate Comparisons

2           JEA Witness Joseph Orfano and JEA Witness Robert Zammataro, JEA Witness Susan West

- 3           • Dedication of utility facilities for no compensation

4           JEA FINANCIAL STABILITY

5           **Q. Did you review Witnesses Orfano’s testimony regarding JEA’s financial resources?**

6           A. Yes, I did. In addition to giving an overview of the water and wastewater systems, he provided  
7           some financial statistics, including revenues, capital assets, and bond capacity. He then  
8           concludes that First Coast customers would benefit by having JEA provide services because  
9           “JEA’s extensive resources lead to lower costs to rate payers, economies of scale, system  
10          redundancies that minimize outages, and sufficient funds for capital projects.”

11          **Q. Do you agree with Witness Orfano’s statements?**

12          A. No, I do not. First, Witness Orfano states that JEA has extensive resources, presumably due  
13          to the amount of revenues, capital assets, and bond capacity. Although I do not necessarily  
14          dispute the magnitude of the resources, while describing the bond capacity, he omits that the  
15          rating agencies have recently downgraded their rating of the JEA bonds, which I first found  
16          disclosed in their FY 2019 Audited Financial Statements, which stated “...with respect to  
17          Water and Sewer Revenue Bonds and Water and Sewer Subordinated Revenue Bonds, the  
18          long term ratings were lowered from “Aa2” to “A2”...”

19          **Q. Why is that important?**

20          The general reason this is important is that a lower rating usually results in higher bond costs,  
21          particularly where new bonds are contemplated for future capital improvements.

22          **Q. Have you determined why the bonds were downgraded?**

23          A. I have reviewed documentation publicly available, which is included in my Exhibit DDS-5.  
24          Moody’s Investor Services (“Moody’s) downgraded the bonds I mention above in October  
25          2018. The report I was able to find did not provide a reason for the downgrade.

1 Then in a June 26, 2020 report from Moody’s, they announced “Moody’s Investors Service  
2 has assigned an A2 rating to the planned issuance by JEA, FL Water & Sewer Enterprise of  
3 approximately \$103.7 million Water and Sewer System Revenue Bonds, 2020 Series A and  
4 \$26.3 million Water and Sewer System Subordinated Revenue Bonds, 2020 Series A.  
5 Moody’s maintains the A2 rating on JEA’s senior lien water and sewer system debt and an  
6 A2 on the system’s subordinate lien debt. The outlook is negative.” They summarize the  
7 reason as “Water and Sewer system’s credit profile primarily reflects governance and social  
8 risks relating to pending litigation and significant ongoing organizational changes.” They  
9 elaborate further, “JEA also faces credit challenges relating to substantial organizational  
10 changes following the abrupt decisions in late 2019 to cancel plans to restructure or privatize  
11 JEA and to terminate JEA’s CEO, with cause, and CFO, without cause. In May 2020, JEA  
12 has since replaced the entire seven-member Board, terminated its interim CEO, and hired a  
13 former JEA CEO to fill the interim CEO role for a six-month term while undertaking a search  
14 for a new CEO. More recently, nine additional senior leaders were placed on 30-day paid  
15 administrative leave, pending their dismissal and were replaced with interim leaders primarily  
16 from within JEA.”

17 Finally, I was able to find a newspaper article, also included in DDS-5, which describes that  
18 Standard & Poor’s downgraded its rating on JEA’s senior-lien water and sewer revenue bonds  
19 from AAA to AA+, and the subordinate bonds were dropped from AA+ to AA. The stated  
20 reason is “uncertainty surrounding transparency and independence of both senior  
21 management and the board of directors.”

22 I should also point out that according to the article, Fitch Ratings determined that JEA’s  
23 outlook is “stable” and did not change its ratings.

24 **Q. What do you conclude from this information?**

25 A. Although the obvious result from the ratings downgrades could be an increase in debt service

1 cost, the reason for the downgrade highlights activities that call into question JEA's true  
2 stability. If the organization has been in disarray, at a minimum this is a distraction. This  
3 clearly can call into question how much financial and management stability JEA can claim. I  
4 also reviewed JEA's 2019 Audited Financial Statements and see that JEA has stated that for  
5 the next several years they plan to fund capital expenditures from cash (customer revenues)  
6 rather than bonds. From just the publicly available financial reports, it does not appear that  
7 this is sustainable. For the year 2019, the Statement of Cash Flows shows that JEA's Water  
8 and Sewer Enterprise Fund had a net cash outlay of \$22,848 million in 2018 followed by a  
9 net cash inflow of \$30,671 with a final cash balance of \$153,732 million. In JEA's "March  
10 2020 Quarterly Analysis of Financial Performance", JEA reports a net cash outlay of \$58,068  
11 million with a reported remaining cash balance of \$95,664 for the first six months of the year.  
12 Although the second half of 2020 may result in a turnaround in the cash flow, the trend creates  
13 questions as to the sustainability of using customer revenues to fund the sizable capital budget  
14 for the upcoming years, without increasing customer rates. The pages to which I am referring  
15 are included in Exhibit DDS-6.

16 **Q. Do you agree with JEA Witness Zammarato that JEA is better suited to handle events**  
17 **that may affect utility service due to its financial stability?**

18 A. I don't think the recent financial and management disarray necessarily means that they are  
19 not able to provide responsible, stable utility service. However, it is a stretch to claim  
20 financial stability in light of recent events. Also, a bond downgrading can easily result in  
21 higher costs, and the rating agencies will need to have clear assurance that the utility is willing  
22 to increase rates as needed to cover costs. Furthermore, the \$1.267 billion capital budget from  
23 fiscal years 2020 - 2023 can easily require a rate increase. My Exhibit DDS-7 is JEA's "FY  
24 Budget Snapshot" dated June 23, 2020 presented to their board for consideration. I marked  
25 the section showing the capital expenditures. I would also like to point out that on that

1 document they contemplate that to meet that budget they will need some sort of debt financing  
2 next year, and does not show a funding plan for the subsequent years.

3 **Q. Do you agree with Witness Zammarato that First Coast customers would be more**  
4 **directly impacted by unforeseen costs?**

5 A. The only way unforeseen costs could more directly impact First Coast customers than the  
6 entire JEA area is if they only affected First Coast customers, and not the JEA customers.  
7 Furthermore, if something only occurred within First Coast's area, and service was provided  
8 by JEA, if those costs were spread over this much larger base, it means that the remainder of  
9 JEA's customers would be subsidizing the First Coast area customers, and vice versa if JEA  
10 makes extraordinary expenditures. It is important to also point out that the First Coast utility  
11 facilities will be brand new with the newest technology. It is unlikely that events would  
12 significantly impact the facilities, but if it did, there is nothing presented that would call into  
13 question First Coast's ability to fund any related costs.

14 **Q. Do you agree with JEA Witness Crawford's analysis of First Coast rates versus JEA**  
15 **rates?**

16 A. Although her calculations are mathematically correct, I do not agree with the point she is  
17 trying to make in her testimony. I will explain step by step.

18 COMPARISONS IN GENERAL

19 First, it is important that the FPSC does not consider rates of other utilities in the  
20 establishment of rates. This is largely because there are too many factors that cause variability  
21 among utilities, and each must prove the cost of providing service based on those factors.

22 Below is a description of some of those factors:

23 Infrastructure

24 Water Source of Supply, Quality and Treatment: There are significant differences among  
25 utilities throughout the state regarding both quantity and quality of water. Some water utilities



1 in Florida have the good fortune of access to an abundant supply of high-quality water, which  
2 may require only chlorination for disinfection, while others may only have access to water a  
3 considerable distance from the customers, requiring costly treatment to remove chlorides, or  
4 require softening. Diminishing availability of sources requiring less costly treatment, and  
5 regulatory limitations may restrict withdrawal from higher quality water sources.

6 Wastewater Treatment and Effluent Disposal: Wastewater utilities experience vast  
7 differences in conditions which impact the cost for disposal of effluent. Utilities may have  
8 access to property on which they can simply apply the effluent, and for others, wastewater  
9 must be treated to remove contaminants similar to drinking water. This can be dictated by  
10 regulatory requirements, and water supply availability.

11 Compliance with Current and Future Regulatory Requirements: Utilities building state of the  
12 art facilities today are more likely to avoid costs associated with future improvements to meet  
13 new regulatory requirements. Utilities with older facilities will have to face possible  
14 significant investments in system improvements, facing making decisions about replacement  
15 or retrofit.

16 Contributions in Aid of Construction: Utilities may be anywhere from 0% or 100%  
17 contributed. An investor-owned utility is entitled to earn a return on its investment, and the  
18 predominant portion of the investment is determined by calculating the utility's net plant less  
19 any contributions. This amount may constitute a significant portion of the rates. The more  
20 the customer pays up front as a contribution, the lower the utility's investment, and therefore  
21 the monthly rate over time will be lower.

22 Other factors include size and scale, efficiency, water demand and seasonality of the  
23 customers.

#### 24 COMPARISON WITH JEA

25 I have not analyzed the JEA rates in any detail, but whether provided service by JEA or by

1 First Coast, the customers will pay the actual allowable cost – either up front or over time.  
2 And if JEA does not charge the First Coast customers their actual cost, it is because the other  
3 JEA customers are subsidizing the First Coast area in some way.

4 COMPARISON WITH MUNICIPAL UTILITIES

5 In addition to my general discussion about reasons why costs between utilities may be  
6 different, there are many factors that cause difference between investor-owned and municipal  
7 utilities.

8 First, even if all capital costs, contributions, and operating and maintenance costs are identical  
9 the cost of service determination method is different between municipal and private utilities.

10 The cost of service for municipal utilities is primarily cash flow based, and includes factors  
11 not included for investor-owned utilities. Includable cost components include debt service  
12 (principal plus interest), capital outlay, and providing cash for such things as rate  
13 stabilization, renewal and replacement, general fund contributions, etc. On the other hand,  
14 they have no reductions to revenue requirement for non-used and useful plant, excess inflow  
15 and infiltration or unaccounted-for water, periodic costs are not deferred and amortized over  
16 time. Rates are often set with a five-year forward look.

17 Investor-owned utilities must pay certain expenses from which municipal utilities are exempt,  
18 such as property taxes and income taxes. They are subject to the adjustments I mention above  
19 which reduce their revenue requirement. Although they all pay income taxes, only the few  
20 that are C-Corporations are able to recover income taxes in rates. Finally, they are allowed to  
21 earn a return on investment, but it is out of this return that they must pay interest expense,  
22 which often time does not cover their actual interest payments.

23 Efficiency is a cost factor, and in my experience, because of the economic regulation to which  
24 they are subjected, investor-owned utilities are more likely to operate highly efficiently than  
25 the larger municipal utilities.

1                   COMPARISON WITH INVESTOR-OWNED UTILITIES

2                   Once again, the differences among utilities are vast, and the costs will be significant. We can  
3                   look at utility systems under single ownership to highlight this. In 2015, Utilities, Inc. of  
4                   Florida (UIF) filed a rate case requesting uniform rates. Prior to filing that request, virtually  
5                   every system had a unique rate, although some were uniform within counties.

6                   Prior to consolidation, one system had a residential rate of \$4.49 base facility charge and  
7                   gallage of \$.95 per 1,000 for under 6,000 gallons. The sewer rate was \$15.19 base charge  
8                   plus \$1.89 per 1,000. Another had a water rate of \$13.76 plus \$8.68 per 1,000 and a sewer  
9                   rate of \$27.43 plus \$19.41 per 1,000. A 6,000 gallon usage customer in UIF example 1 would  
10                  have received a bill of \$10.19 for water and \$26.53 for sewer, totaling \$36.72. Example #2  
11                  would result in a water bill of \$65.84 and \$143.89 for sewer, totaling \$209.73. Just to  
12                  summarize, in a comparison of the rates between two systems owned by the same Utility,  
13                  customers in one system would have a \$36.72 bill, and the other would have a \$209.73. I  
14                  would like to also point out that these are 2016 rates, and all of UIF systems share one rate.  
15                  These rates are detailed in Order No. PSC-2017-0361-FOF-WS, issued on September 25,  
16                  2017.

17                  **Q.    You have explained why it is not appropriate to make rate comparisons among utilities,**  
18                  **but do you agree with Witness Crawford’s claim that the rates First Coast is proposing**  
19                  **are comparatively high?**

20                  A.    Yes, they are somewhat high. Because of this First Coast discussed potentially phasing in the  
21                  rates, which can be a reasonable mechanism to provide customers rate relief without requiring  
22                  the owner to permanently relinquish its opportunity to earn a fair rate of return on its  
23                  investment. However, in subsequent discussions with First Coast, it was determined that  
24                  rather than financing the construction of the utility facilities with equity, the owner would  
25                  obtain debt financing to fully fund construction. This will dramatically reduce the revenue

1 requirement by reducing the overall rate of return as the debt will carry a lower cost than  
2 equity, and eliminating a provision for income taxes. Although the financing has not been  
3 executed, the letter in Exhibit DDS-8, preliminary terms have been laid out indicating a  
4 tentative 5% interest rate. I support that the actual terms be incorporated into the  
5 determination of revenue requirement and rates at the time it becomes known, or that a best  
6 estimate available be use if the terms have not been finalized.

7 I have recalculated the impact with 100% debt at a 5% rate. This is shown his is in Exhibit  
8 DDS-9, which includes those schedules that would be updated from the accounting schedules  
9 in the original application.

10 **Q. Can you please summarize the results shown in that Exhibit?**

11 A. A financing plan whereby the facilities are fully funded by 5% debt would reduce the revenue  
12 requirement and rates for water by 22%, and for sewer the reduction would be 24%. The  
13 average residential water and sewer bill would be \$158.54 instead of \$204.38 in the original  
14 application. You can see these numbers on Schedule 5 page 2 of 3, lines 9 and 32, in Exhibit  
15 DDS-9, and Schedule 5 page 1 of 3, lines 9 and 32 in Exhibit DDS-1.

16 **Q. With a new financing plan, would you also recommend phasing in the rates?**

17 A. No, I would not. First, by definition, a utility that is fully debt financed has no opportunity to  
18 generate any earnings for owners and 100% of the calculated net income is actually to be  
19 used to pay interest on debt. With this financing plan, any further reduction in rates even on  
20 a temporary basis would mean that during that period, the revenues generated would not be  
21 adequate to cover interest expense. In that situation, the utility would incur book losses, and  
22 the retained earnings, the only equity a utility will have if it is otherwise fully debt funded,  
23 would show a negative balance. This is not a desirable financial situation and I would not  
24 recommend it.

25 DEDICATION WITH NO COMPENSATION

1 **Q. When you reviewed JEA witnesses' testimony, did you form an opinion about their**  
2 **discussions about dedicating First Coast's utility facilities to JEA?**

3 A. Yes. I did. Although no JEA witness explicitly states that the supposed requirement that First  
4 Coast dedicate its utility facilities to JEA without compensation, it seems to be implied.  
5 Several of JEA's witnesses discuss a comparison of rates. As I previously stated, I believe  
6 such a comparison is inappropriate and not helpful. The issue is not what rates are currently  
7 being charged by JEA or proposed to be charged to by First Coast. Instead the issue is who  
8 can provide the needed service at the least cost. Cost of service is the true issue, not rates. In  
9 order to analyze costs of service, one must include the capital costs. JEA's discussion of rates  
10 and provision of service ignores capital costs for all of the treatment and distribution and  
11 collection facilities needed to service the proposed territory, and implies that all facilities will  
12 be provided to JEA free of any cost. This ignores the fact that ultimately the customers of  
13 the utility will have to pay all costs of operating the utility, be they capital cost or operating  
14 costs. In some instances, such costs are recovered through a combination of service  
15 availability fees and monthly service rates. In others, they are mostly in rates or mostly in  
16 service availability fees. However, they are still costs of providing service and cannot be  
17 ignored as JEA has done. That approach is nonsensical. If First Coast were to receive all of  
18 the capital facilities free of charge, of course they could provide service at a lower cost. But  
19 that is not a basis for a reasonable comparison of methods of providing service.

20 Although I do not intend to argue the legal aspects nor the true definition of "dedication", I  
21 did have a chance to review the Nassau County Interlocal Agreement attached to JEA witness  
22 Zammataro's testimony. JEA entered into an Interlocal Agreement pursuant to Chapter 163,  
23 F.S., whereby Nassau County consented to JEA's owning and operating a water and  
24 wastewater system within its jurisdiction. In my review, I found that JEA agreed to give the  
25 County the exclusive right to purchase the utility under certain conditions including the end

1 of the term of the agreement. Furthermore, a formula was defined to determine the price. It  
2 is puzzling that JEA recognizes the value of an investment they made in this Nassau County  
3 and established a mechanism for compensation, but seemingly do not wish to establish a  
4 purchase option for First Coast assets.

5 **Q. Can you please address witness Zammataro's claim that reclaimed water rates were not**  
6 **included in the proposed tariffs filed with First Coast's application**

7 A. Yes, he is correct. Although I propose a reclaimed water rate of \$.50 per 1,000 gallons, we  
8 inadvertently did not include the rate page in the utility tariff. The rate, when approved,  
9 should be included in the final tariffs.

10 **Q. Does that conclude your rebuttal testimony at this time?**

11 A. Yes, it does.

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## Deborah D. Swain, Vice President



### EDUCATION

Bachelor of Science,  
Accounting  
Florida State University, 1976

### LEADERSHIP

- Miami-Dade A&E Society, Founding President
- Citizens for a Better South Florida, Board of Directors, Treasurer, Secretary
- Transportation Advisory Board, Coral Gables, Past Chairperson
- Miami-Dade County Transportation Aesthetic Review Committee, Vice Chair
- Miami-Dade County Small Business Advisory Committee

### EMPLOYMENT

- Milian, Swain & Associates, Inc., Vice President, Principal - Management and Financial Consulting
- Deltona Utilities, Inc., Vice President, Controller
- Southern States Utilities, Inc., Controller

### EXPERTISE

Mrs. Swain is the Vice President and Principal of MSA's Financial and Management Consulting Services with over 35 years of experience specializing in utilities, including management, financial planning and modeling, accounting, systems development, rate regulation, rate design, revenue deficiency, and cost of service studies.

### SELECT EXPERIENCE

#### Project Manager

#### Water and Sewer Retail and Satellite City Rate Study City of Miami Beach – Miami Beach, FL

Responsible for conducting a detailed rate study for the water and sewer utility. The work included determining the cost to provide water and sewer service by analyzing of operating, maintenance and administrative cost, debt service, renewal and replacement of existing infrastructure and capital expenditures, forecasting costs over a five-year period, determining revenue required and resulting rates, and presenting the findings to the Finance & Citywide Projects Committee and to the full City Commission.

#### Project Manager

#### Water and Sewer Rate Study, 2010, 2015, 2019 City of Hialeah – Hialeah, FL

Responsible for preparation of a water and sewer rate study. The work involved determining the utility costs including operation and maintenance, administrative, renewal and replacement, capital outlays, debt-funded capital costs, debt service on existing and prospective bonds. The revenue requirement was determined, and rates were proposed, including the development of a five-year forecast and projection of revenues.

#### Project Manager

#### Water and Sewer Revenue Bonds City of Hialeah Water and Sewers Department

Project Manager responsible for directing the work related to the services provided to the City of Hialeah Water and Sewers Department. MSA performed an assessment of the City's financial and operational condition of its water and wastewater system in support of its planned issuance of approx. \$50 million in Water and Sewer Revenue Bonds, Series 2011. Services provided included an evaluation of the systems owned and operated by the city of Hialeah; an analysis of the records and capital improvement programs of the City's department of Water and Sewers, physical inspection of a sample of water and sewer system facilities, and coordination with rating agencies, counsel, and bond purchasers.

#### Project Manager

#### Financial Feasibility for New RO Water Treatment Plant City of Hialeah – Hialeah, FL

Responsible for conducting a financial analysis to determine the feasibility of constructing an Upper Floridian Aquifer reverse osmosis water treatment plant. Analyzed various scenarios considering different phasing schedules and several funding sources. Results were used by the City to determine whether they would proceed with the construction of the facility, and the appropriate phasing.

#### Project Manager

#### Rating Agency Review, 2013, 2015, 2017, 2019 City of Hialeah – Hialeah, FL

Worked with the City of Hialeah Department of Water and Sewers and Finance Department to provide information to Fitch Ratings in response to their bi-annual surveillance.

#### Project Manager

#### Bond Feasibility Broward County Water and Sewer Department

Project Manager - Directed the financial component of Broward County Water and Sewer Department's Bond Feasibility Report in support of the issuance of approximately \$100 million Revenue Bonds (2003) and \$200 million (2008).

## Deborah D. Swain Vice President



### **Project Manager**

#### **Bond Financial Feasibility**

##### **City of Ft. Lauderdale Water and Sewer Department**

Directed the financial component of the City of Fort Lauderdale Water and Sewer Department's Bond Feasibility Report in support of the issuance of approximately \$90 million Revenue Bonds.

### **Project Manager**

#### **Annual Report, 2000 - 2012**

##### **Broward County Water and Sewer Department**

Project Manager - Directed the preparation of Broward County Water and Wastewater Engineer's Annual Report in compliance with Bond Resolutions. The water and wastewater systems annual report for the Broward County Office of Environmental Services (BCOES) presented engineering and financial information regarding the water and wastewater systems.

### **Project Consultant**

#### **Wastewater Reuse Feasibility Study Update, 2017**

##### **Miami-Dade Water and Sewer Department**

Responsible for all public involvement aspects of the services provided to Miami-Dade Water and Sewer Department for the completion of a Wastewater Reuse Feasibility Study Update. Facilitated, coordinated, and prepared all meeting materials for meetings with targeted stakeholders, including regulatory agencies, potential major users and other major stakeholders. Specific stakeholder meetings were held with FDEP, RER-DERM, Biscayne National Park, Everglades National Park, MDPROS, MDAD, City of Homestead, SFWMD, DSWM, Farm Bureau, FIU, American Dream, Graham Properties, FPL, and Zoo Miami. Additionally, coordinated and conducted two large public stakeholder workshops to share the proposed reuse alternatives and to obtain input. Minutes from each meeting were prepared by MSA, and incorporated into the final Reuse Feasibility Study. In addition, performed the economic and present value analysis, components of the reuse feasibility report.

### **Project Manager**

#### **Waterworks 2011**

##### **City of Ft. Lauderdale Water and Sewer Department**

Directing the financial component of the City's Water and Wastewater ten-year \$700 million Capital Program (Waterworks 2011). The financial plan includes a combination of user fees, connection charges, capital expansions fees, revenue bonds and state revolving fund bonds, and grants. Directed the development of rates, the development and implementation of connection fees, and the development and implementation of miscellaneous charges and capital expansion fees.

### **Project Manager**

#### **Alternative Water Supply Master Plan, Wastewater Reuse Feasibility Study and Alternative Water Supply Plan**

##### **Miami-Dade Water and Sewer Department**

Directing the firms work efforts on several tasks as a subconsultant on the Water Master Plan Team. Primary responsibilities include overseeing development of the monitoring plan for the Coastal Wetlands Rehydration Demonstration Project, research and investigation of large scale aquifer recharge opportunities in South Miami-Dade County and in the Bird Drive Basin, and serve in the lead role in planning and facilitating large scale stakeholder meetings.

Directed the financial component of the Reuse Feasibility and Alternative Water Supply Study, including an analysis of the impact on user rates and impact and/or mitigation fees. Directed the public and regulator input workshops by providing facilitation and coordination. Evaluated potential major users by reviewing current large potable water customers, obtaining input from Miami-Dade Parks and Recreation, and other potential user groups.

### **Project Manager**

#### **Efficiency and Competitiveness Analysis**

##### **Miami-Dade Water and Sewer Department**

Performed financial analysis to aid in determination of competitiveness of Miami-Dade Water & Sewer Department. Coordinated and conducted thirty employee workshops to solicit input from employees to become more efficient. Coordinated and conducted process improvement team workshops to develop implementation strategies.



## Deborah D. Swain Vice President



### **Project Manager**

#### **Various Rate Studies**

##### **Miami-Dade County Water and Sewer Department**

Prepared Wholesale (Bulk) Rate Study in 2017. Participated in the Analysis of Future Rates in 2000. Directed the rate design and bulk user fee analysis for the Rate Study in 1997. Directed the Miscellaneous User Fees Study in 1997. Directed the study on the impact of rate structure on poverty level customers in 1993.

### **Rate Expert**

#### **Water and Wastewater Rate Studies**

##### **Various Utilities**

Performed and supervised cost of service studies for over 300 individual private and public utility systems, calculated revenue deficiencies and revenue requirements, design rates, including determination and implementation of conservation water rates, and reuse rates. Calculated and implemented service availability fees (impact or connection fees), allowance for funds prudently invested (AFPI) and ancillary charges (miscellaneous service charges).

Developed other revenue sources for water and wastewater utilities, in particular wastewater disposal products, including effluent and sludge, and performed rate studies to support sales fees. Provided expert testimony in public hearings when required. Participated in negotiations with end users on pertinent issues, including shared benefits, required utilization, and liability.

Prepare and present expert testimony in the area of regulatory accounting, rate regulation, and utilities in general before federal, county, and state courts and regulatory agencies.

### **Project Manager**

#### **Large Group Meeting Facilitation / Strategic Planning**

##### **Miami-Dade Water and Sewer Department**

Planned, developed, prepared and conducted over 40 workshops involving an average of 50 individuals to gain consensus on a variety of planning and strategic issues. Participated in the development and facilitation of strategic planning sessions for various groups. Directed, coordinated and conducted six-day process improvement team workshops for water and wastewater utilities. Recent project resulted in over \$4 million for Miami-Dade Water and Sewer Department. Workshop involved leading team members to develop process flow charts, problem-solve, and develop implementation plans and mechanisms to measure success of plan.

### **Lead Senior Consultant**

#### **Contract Management – Post Construction Contract Analysis & Forensic Accounting Services**

##### **Miami Dade County Water & Sewer Department**

Participated on project for Miami-Dade County, requiring investigation, analysis, financial determination, and preparation of possible litigation related to the Water and Sewer Department's Pump Station Improvement Program (PSIP). The project required reviewing contracts, payments, invoices, change orders and other documentation to determine potential overpayment under select contracts.



## Rating Action Moody's downgrades to Aa2 JEA, FL Variable Rate Water and Sewer System Revenue Bonds LOC-backed 2008 Series A-2

23 Oct 2018

New York, October 23, 2018 -- Moody's Investors Service has downgraded to Aa2 from Aa1 the joint support letter of credit-backed rating of JEA, FL Water Sewer Enterprise (the Issuer) Variable Rate Water and Sewer System Revenue Bonds, 2008 Series A-2 (the Bonds). The short-term Aa1 rating assigned to such Bonds remains unchanged.

### RATINGS RATIONALE

Moody's downgrade of the long-term joint default analysis (JDA) of the Bonds resulted from Moody's downgrade of the underlying rating on the Bonds on October 11, 2018 to A2 from Aa2. For information on that rating action please see the rating update report published on such date. The Bonds continue to be supported by an irrevocable direct pay letter of credit (LOC) provided by the SunTrust Banking Corporation (the Bank). Moody's current long-term and short-term Counterparty Risk (CR) Assessment of Bank are A1(cr) and P-1(cr), respectively.

The long-term rating of the Bonds is based on JDA, which reflects Moody's approach to rating jointly supported transactions. The JDA incorporates (i) the long-term CR Assessment of the Bank and the credit quality of the Issuer, (ii) the probability of default in payment by the Bank and the Issuer; and (iii) the standard legal protections of the transaction, which provide for timely service payments. Moody's has determined that the joint probability of default between the Bank and the Issuer is low which results in a JDA rating of Aa2 for the Bonds.

### FACTORS THAT COULD LEAD TO AN UPGRADE

- Moody's upgrades the long-term CR Assessment of the Bank and long-term underlying rating of the Bonds.
- A short-term rating upgrade is not applicable.

### FACTORS THAT COULD LEAD TO A DOWNGRADE

- Moody's downgrades the long-term CR Assessment of the Bank and long-term underlying rating of the Bonds.
- Moody's assessment of the default dependence between the Bank and Issuer increases.
- Moody's downgrades the short-term CR Assessment of the Bank.

The principal methodology used in this rating was Rating Transitions on the Credit Substitution Approach: Letter of Credit-backed and Guaranteed Debts published in May 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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## Rating Action **Moody's assigns A2 to JEA Water and Sewer System senior subordinate lien revenue bonds; outlook negative**

26 Jun 2020

New York, June 26, 2020 -- Moody's Investors Service has assigned an A2 rating to the planned issue of JEA, FL Water & Sewer Enterprise of approximately \$103.7 million Water and Sewer System Revenue 2020 Series A and \$26.3 million Water and Sewer System Subordinated Revenue Bonds, 2020 Series B. Moody's maintains the A2 rating on JEA's senior lien water and sewer system debt and an A2 on the senior subordinate lien debt. The outlook is negative.

### RATINGS RATIONALE

JEA, FL - Water and Sewer system's credit profile primarily reflects governance and social risks relating to pending litigation and significant ongoing organizational changes. JEA

has exposure to nuclear construction risk at the Vogtle projects through JEA's Electric Enterprise's 2019 power purchase agreement (PPA) with the Municipal Electric Authority of Georgia (MEAG) and the pressure on JEA's fixed obligation charge coverage (FOCC) ratio because of increasing obligations under the PPA.

Despite significant construction delays at the Vogtle project and efforts by JEA to mitigate its exposure under the PPA through litigation, JEA is making timely payments to MEAG. On June 17, 2020, a judge in the U.S. District Court for the Northern District of Georgia rendered a judgment regarding the JEA lawsuit that the PPA is enforceable and increasing the likelihood that JEA will be required to honor its contractual obligation under a "hell or high water" take-or-pay arrangement. As part of that decision, the stay relating to JEA's additional claim that MEAG was negligent in its performance under the contract was lifted, while an additional claim that JEA breached its contract with MEAG can also be pursued. While JEA continues to pay amounts due under the PPA as billed by MEAG, the utility continues to pursue the additional claim in the ongoing litigation which calls into question JEA's willingness to abide by the take-or-pay "hell or high water" terms governing the PPA. JEA is also considering its options relating to the recent judgement about the validity of the PPA, which could include an appeal process which would add delay to any final resolution of this litigation.

JEA also faces credit challenges relating to substantial organizational changes following the abrupt decision in late 2019 to cancel plans to restructure or privatize JEA and to terminate JEA's CEO, with cause, without cause. In May 2020, JEA has since replaced the entire seven-member Board, terminated its CEO, and hired a former JEA CEO to fill the interim CEO role for a six-month term while undertaking a search for a new CEO. More recently, nine additional senior leaders were placed on 30-day paid administrative leave pending their dismissal and were replaced with interim leaders primarily from within JEA.

Also tied to social risks, we regard the coronavirus outbreak as a social risk under our ESG framework due to the substantial implications for public health and safety. The coronavirus crisis is not a key driver for our rating action. We do not see any material immediate credit risks for JEA or the City of Jacksonville (A2 negative outlook). However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of JEA or Jacksonville changes, we will update the rating and/or outlook at that time.

These credit negative characteristics are partially balanced by JEA's sizeable and diverse customer base that extends outside of the city, strong coverage and sound liquidity, competitive rates, and a manageable debt program.

### RATING OUTLOOK

The negative rating outlook primarily reflects JEA's governance and social risks. The utility's heightened ongoing litigation and nuclear construction risks persist, as does the credit negative overhang of the recent terminations of senior management and complete replacement of the board of directors.

### FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS



- The rating is not likely to be upgraded in the near term owing to governance and social risks that are in the negative outlook
- The outlook could improve if JEA withdraws its lawsuit filed against MEAG Power or there is a non appealable final court ruling in favor of MEAG Power's own lawsuit against the City of Jacksonville

#### FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability to reestablish stability around governance and social risks
- Developments in the pending lawsuits that favor JEA's claims or 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
- Prolonged demand declines due to coronavirus which erode the system's financial position

#### LEGAL SECURITY

The senior lien water and sewer bonds are secured by net revenues of the combined water and sewer 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.

#### USE OF PROCEEDS

Proceeds from issuance of the 2020 Series A Bonds will be used to refund all or a portion of the Refunded Bonds as defined in related documents, including 2010 Series D and E; 2012 B; and 2014 A bonds. Estimated net present value savings are approximately \$20.7 million or 16.5% of refunded bonds.

Proceeds from the issuance of the 2020 Series A subordinated bonds will be used to refund all or a portion of the Refunded Subordinated Bonds as defined in related documents, including 2010 Series B; 2012 B; and 2014 A. Estimated net present value savings are approximately \$5 million or 15.6% of refunded bonds.

#### PROFILE

JEA is a municipal utility whose service territory covers Jacksonville, Florida (Duval County), and parts of several adjacent counties. It is split into three enterprise funds, including the Electric Enterprise; the Water and Sewer Enterprise Fund; and the District Energy System. Jacksonville is a major ground transportation center and 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 these ratings was US Municipal Utility Revenue Debt published in 2017 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM\\_109](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_109). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1)

At least one ESG consideration was material to the credit rating action(s) announced and described in this press release.

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<https://www.bizjournals.com/jacksonville/news/2020/02/24/s-p-downgrades-jea-water-and-sewer-bonds.html>

# S&P downgrades JEA water and sewer bonds

Feb 24, 2020, 2:40pm EST

Standard & Poor's Global Ratings downgraded its ratings of JEA's water and sewer bonds late last week, citing "uncertainty surrounding transparency and independence of both senior management and the board of directors.

The rating on JEA's \$1.15 billion senior-lien water and sewer revenue bonds was dropped to AA+ from AAA and the rating on its \$224 million in subordinate revenue bonds fell to AA from AA+.

The rating agency's outlook on all JEA bonds is "developing," it said in its Friday announcement. That outlook means that a rating may be "raised, lowered or affirmed"; the other options are positive, negative or stable.

"The downgrade and developing outlook on the water and sewer system bonds reflect recent events suggesting governance instability and evidence of weak controls on the heels of the utility terminating its CEO, the departure of the CFO, and the resignation of five of the six sitting board members," credit analyst Edward McGlade said in the announcement. "In our view, these events are not in keeping



with the former ratings.”

While the water and sewer system have a strong financial profile, the rating agency said, the uncertainty around the utility’s leadership “cause us to believe it is more likely than not that the rating will be lowered over the next two years.”

Earlier in the week, Moody’s Investors Service announced that it had completed a periodic review of JEA’s Electric Enterprise rating, but did not announce a change.

Earlier in February, Fitch Ratings kept its AA rating on JEA and said its outlook was stable.

“Fitch Ratings believes the recent resignation of JEA's entire board of directors, culminating from a string of events dating back to 2018, is a distraction for the utility but is unlikely to present near-term credit risks,” the company said in a statement. “However, the utility's credit quality could be influenced over the intermediate term by significant changes in the strategic direction of the utility following the appointment of a new board and the hiring of new senior staff.”

Bond ratings became a flashpoint for JEA in 2018 when Moody’s downgraded both JEA electrical system bonds and Jacksonville municipal bonds over the utility’s attempt to get out of its agreement related to funding the construction of a nuclear power plant known as Plant Vogtle in Georgia.

“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,” Moody’s said in October 2018, when it lowered the city’s rating and JEA’s senior lien electric system revenue bond ratings to A2 from Aa2, a drop of three levels.

That move came after S&P Global Ratings in September 2018 dropped JEA’s senior-lien bond rating to A+ from AA- and said its outlook was negative.

**Timothy Gibbons**

Editor in chief

*Jacksonville Business Journal*



JEA  
 Combining Statement of Cash Flows  
 (In Thousands)

Year Ended September 30, 2018

	Electric System and Bulk Power Supply System	SJRPP System	Elimination of intercompany transactions	Total Electric Enterprise Fund	Water and Sewer Enterprise Fund	District Energy System Fund	Elimination of intercompany transactions	Total JEA
<b>Operating activities</b>								
Receipts from customers	\$ 1,249,048	\$ 104,261	\$ (34,089)	\$ 1,319,220	\$ 430,685	\$ 8,446	\$ (17,753)	\$ 1,740,598
Payments to suppliers	(655,986)	(90,429)	34,089	(712,326)	(104,124)	(4,012)	20,567	(799,895)
Payments to employees	(160,943)	(35,736)	-	(196,679)	(61,403)	(554)	-	(258,636)
Other operating activities	16,148	60,089	-	76,237	11,446	-	(2,814)	84,869
Net cash provided by operating activities	448,267	38,185	-	486,452	276,604	3,880	-	766,936
<b>Noncapital and related financing activities</b>								
Contribution to General Fund, City of Jacksonville, Florida	(91,538)	-	-	(91,538)	(25,031)	-	-	(116,569)
Net cash used in noncapital and related financing activities	(91,538)	-	-	(91,538)	(25,031)	-	-	(116,569)
<b>Capital and related financing activities</b>								
Deleasance of debt	(405,105)	(128,280)	-	(533,385)	(460,305)	-	-	(993,690)
Proceeds from issuance of debt	383,840	-	-	383,840	437,160	-	-	821,000
Acquisition and construction of capital assets	(171,075)	-	-	(171,075)	(203,416)	(1,053)	-	(375,544)
Repayment of debt principal	(135,105)	(41,330)	-	(176,435)	(51,020)	(1,640)	-	(229,095)
Interest paid on debt	(97,134)	(16,685)	-	(113,819)	(67,659)	(1,371)	-	(182,849)
Capital contributions	-	-	-	-	28,043	-	-	28,043
Other capital financing activities	44,011	(6,974)	-	37,037	26,160	-	-	63,197
Net cash used in capital and related financing activities	(380,568)	(193,269)	-	(573,837)	(291,037)	(4,064)	-	(868,938)
<b>Investing activities</b>								
Purchase of investments	(506,359)	(252,593)	-	(758,952)	(279,014)	-	-	(1,037,966)
Proceeds from sale and maturity of investments	462,211	428,653	-	890,864	288,607	-	-	1,179,471
Investment income	10,225	(2,050)	-	8,175	7,023	103	-	15,301
Distributions from The Energy Authority	3,513	-	-	3,513	-	-	-	3,513
Net cash provided by (used in) investing activities	(30,410)	174,010	-	143,600	16,616	103	-	160,319
Net change in cash and cash equivalents	(54,249)	18,926	-	(35,323)	(22,848)	(81)	-	(58,252)
Cash and cash equivalents at beginning of year	340,063	121,027	-	461,090	145,909	7,035	-	614,034
<b>Cash and cash equivalents at end of year</b>	<b>\$ 285,814</b>	<b>\$ 139,953</b>	<b>\$ -</b>	<b>\$ 425,767</b>	<b>\$ 123,061</b>	<b>\$ 6,954</b>	<b>\$ -</b>	<b>\$ 555,782</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>								
Operating income	\$ 242,739	\$ 21,239	\$ -	\$ 263,978	\$ 125,247	\$ 1,750	\$ -	\$ 390,975
Adjustments:								
Depreciation and amortization	203,075	10,987	-	214,062	145,424	2,403	-	361,889
Recognition of deferred costs and revenues, net	1,546	(859)	-	687	6,169	-	-	6,856
Other nonoperating income, net	103	700	-	803	270	-	-	1,073
Changes in noncash assets and noncash liabilities:								
Accounts receivable	13,184	15,812	-	28,996	(2,200)	(310)	-	26,486
Accounts receivable, restricted	13	-	-	13	3	-	-	16
Inventories	2,136	52,297	-	54,433	(8,014)	-	-	46,419
Other assets	(3,287)	-	-	(3,287)	675	-	-	(2,612)
Accounts and accrued expenses payable	10,076	(10,441)	-	(365)	1,330	14	-	979
Current liabilities payable from restricted assets	-	(49,998)	-	(49,998)	-	-	-	(49,998)
Other noncurrent liabilities and deferred inflows	(21,318)	(1,552)	-	(22,870)	7,700	23	-	(15,147)
<b>Net cash provided by operating activities</b>	<b>\$ 448,267</b>	<b>\$ 38,185</b>	<b>\$ -</b>	<b>\$ 486,452</b>	<b>\$ 276,604</b>	<b>\$ 3,880</b>	<b>\$ -</b>	<b>\$ 766,936</b>
<b>Non-cash activity</b>								
Contribution of capital assets from developers	\$ 1,597	\$ -	\$ -	\$ 1,597	\$ 52,517	\$ -	\$ -	\$ 54,114
Unrealized gains (losses) on fair value of investments	\$ (4,052)	\$ 4,146	\$ -	\$ 94	\$ (3,480)	\$ -	\$ -	\$ (3,386)

**JEA**  
**Combining Statement of Cash Flows**  
*(In Thousands)*

Year Ended September 30, 2019

	Electric System and Bulk Power Supply System	SJRPP System	Elimination of intercompany transactions	Total Electric Enterprise Fund	Water and Sewer Enterprise Fund	District Energy System Fund	Elimination of intercompany transactions	Total JEA
<b>Operating activities</b>								
Receipts from customers	\$ 1,244,236	\$ 22,150	\$ (28,693)	\$ 1,237,693	\$ 449,924	\$ 9,514	\$ (17,604)	\$ 1,679,527
Payments to suppliers	(646,113)	(4,877)	28,693	(622,297)	(104,542)	(4,028)	20,959	(709,908)
Payments to employees	(167,477)	41	-	(167,436)	(65,347)	(594)	-	(233,377)
Other operating activities	22,771	459	-	23,230	13,209	4	(3,355)	33,088
Net cash provided by operating activities	453,417	17,773	-	471,190	293,244	4,896	-	769,330
<b>Noncapital and related financing activities</b>								
Contribution to General Fund, City of Jacksonville, Florida	(92,829)	-	-	(92,829)	(39,878)	-	-	(132,707)
Net cash used in noncapital and related financing activities	(92,829)	-	-	(92,829)	(39,878)	-	-	(132,707)
<b>Capital and related financing activities</b>								
Defeasance of debt	(100,090)	-	-	(100,090)	(94,955)	-	-	(195,045)
Proceeds from issuance of debt	-	-	-	-	2,000	-	-	2,000
Acquisition and construction of capital assets	(260,413)	-	-	(260,413)	(205,559)	(758)	-	(466,730)
Repayment of debt principal	(130,690)	(1,720)	-	(132,410)	(51,720)	(1,660)	-	(185,790)
Interest paid on debt	(92,619)	(11,167)	-	(103,786)	(64,705)	(1,345)	-	(169,836)
Capital contributions	-	-	-	-	29,538	-	-	29,538
Other capital financing activities	(2,588)	(59)	-	(2,647)	(1,188)	-	-	(3,835)
Net cash used in capital and related financing activities	(586,400)	(12,946)	-	(599,346)	(386,589)	(3,763)	-	(989,698)
<b>Investing activities</b>								
Purchase of investments	(235,745)	(97,635)	-	(333,380)	(82,023)	-	-	(415,403)
Proceeds from sale and maturity of investments	515,390	109,768	-	625,158	237,846	-	-	863,004
Investment income	14,565	4,679	-	19,244	8,071	156	-	27,471
Distributions from The Energy Authority	2,443	-	-	2,443	-	-	-	2,443
Net cash provided by investing activities	296,653	16,812	-	313,465	163,894	156	-	477,515
Net change in cash and cash equivalents	70,841	21,639	-	92,480	30,671	1,289	-	124,440
Cash and cash equivalents at beginning of year	285,814	139,953	-	425,767	123,061	6,954	-	555,782
<b>Cash and cash equivalents at end of year</b>	<b>\$ 356,655</b>	<b>\$ 161,592</b>	<b>\$ -</b>	<b>\$ 518,247</b>	<b>\$ 153,732</b>	<b>\$ 8,243</b>	<b>\$ -</b>	<b>\$ 680,222</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>								
Operating income	\$ 274,039	\$ 6,580	\$ -	\$ 280,619	\$ 129,640	\$ 1,763	\$ -	\$ 412,022
Adjustments:								
Depreciation and amortization	207,427	410	-	207,837	153,268	2,429	-	363,534
Recognition of deferred costs and revenues, net	20,074	14,061	-	34,135	10,657	-	-	44,792
Other nonoperating income, net	171	-	-	171	1,864	-	-	2,035
Changes in noncash assets and noncash liabilities:								
Accounts receivable	8,314	(6,009)	-	2,305	(5,330)	622	-	(2,403)
Accounts receivable, restricted	7	-	-	7	1	-	-	8
Inventories	4,928	1,574	-	6,502	(287)	-	-	6,215
Other assets	2,527	-	-	2,527	(109)	-	-	2,418
Accounts and accrued expenses payable	(23,717)	(292)	-	(24,009)	1,179	87	-	(22,743)
Current liabilities payable from restricted assets	-	(5,299)	-	(5,299)	-	-	-	(5,299)
Other noncurrent liabilities and deferred inflows	(40,353)	6,748	-	(33,605)	2,361	(5)	-	(31,249)
<b>Net cash provided by operating activities</b>	<b>\$ 453,417</b>	<b>\$ 17,773</b>	<b>\$ -</b>	<b>\$ 471,190</b>	<b>\$ 293,244</b>	<b>\$ 4,896</b>	<b>\$ -</b>	<b>\$ 769,330</b>
<b>Non-cash activity</b>								
Contribution of capital assets from developers	\$ 5,431	\$ -	\$ -	\$ 5,431	\$ 62,757	\$ -	\$ -	\$ 68,188
Unrealized gains on fair value of investments	\$ 7,690	\$ 52	\$ -	\$ 7,742	\$ 5,572	\$ -	\$ -	\$ 13,314

**JEA**  
**Combining Statement of Cash Flows**  
**(in thousands - unaudited) for the year-to-date ended March 2020**

	Electric System and Bulk Power Supply System	SJRPP System	Elimination of intercompany transactions	Total Electric Enterprise Fund	Water and Sewer Enterprise Fund	District Energy System Fund	Elimination of intercompany transactions	Total JEA
<b>Operating activities</b>								
Receipts from customers	\$ 590,165	\$ 12,401	\$ (12,814)	\$ 589,752	\$ 226,764	\$ 3,706	\$ (8,171)	\$ 812,051
Payments to suppliers	(282,864)	(5,821)	12,814	(275,871)	(53,226)	(1,875)	9,716	(321,256)
Payments for salaries and benefits	(90,627)	(5,046)	-	(95,673)	(35,582)	(344)	-	(131,599)
Other operating activities	16,691	164	-	16,855	7,888	-	(1,545)	23,198
Net cash provided by operating activities	233,365	1,698	-	235,063	145,844	1,487	-	382,394
<b>Noncapital and related financing activities</b>								
Contribution to General Fund, City of Jacksonville, Florida	(46,859)	-	-	(46,859)	(12,456)	-	-	(59,315)
Net cash used in noncapital and related financing activities	(46,859)	-	-	(46,859)	(12,456)	-	-	(59,315)
<b>Capital and related financing activities</b>								
Defeasance of debt	(48,070)	-	-	(48,070)	(45,425)	-	-	(93,495)
Acquisition and construction of capital assets	(112,928)	-	-	(112,928)	(96,171)	(657)	-	(209,756)
Repayment of debt principal	(122,380)	(13,780)	-	(136,160)	(54,705)	(1,690)	-	(192,555)
Interest paid on debt	(42,240)	(5,564)	-	(47,804)	(29,466)	(665)	-	(77,935)
Capital contributions	-	-	-	-	16,214	-	-	16,214
Other capital financing activities	(4,317)	159	-	(4,158)	(1,266)	-	-	(5,424)
Net cash used in capital and related financing activities	(329,935)	(19,185)	-	(349,120)	(210,819)	(3,012)	-	(562,951)
<b>Investing activities</b>								
Purchase of investments	(135,890)	(11,846)	-	(147,736)	(17,080)	-	-	(164,816)
Proceeds from sale and maturity of investments	82,582	11,922	-	94,504	34,589	-	-	129,093
Investment income	4,164	1,283	-	5,447	1,854	51	-	7,352
Distributions from The Energy Authority	(85)	-	-	(85)	-	-	-	(85)
Net cash provided by (used in) investing activities	(49,229)	1,359	-	(47,870)	19,363	51	-	(28,456)
Net change in cash and cash equivalents	(192,658)	(16,128)	-	(208,786)	(58,068)	(1,474)	-	(268,328)
Cash and cash equivalents at beginning of year	356,655	161,592	-	518,247	153,732	8,243	-	680,222
<b>Cash and cash equivalents at end of period</b>	<b>\$ 163,997</b>	<b>\$ 145,464</b>	<b>\$ -</b>	<b>\$ 309,461</b>	<b>\$ 95,664</b>	<b>\$ 6,769</b>	<b>\$ -</b>	<b>\$ 411,894</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>								
Operating income	\$ 147,106	\$ (1,867)	-	\$ 145,239	\$ 77,043	\$ 622	\$ -	\$ 222,904
Adjustments:								
Depreciation and amortization	100,927	205	-	101,132	80,474	1,234	-	182,840
Recognition of deferred costs and revenues, net	5,432	6,149	-	11,581	2,985	-	-	14,566
Other nonoperating income, net	69	-	-	69	262	-	-	331
Changes in noncash assets and noncash liabilities:								
Accounts receivable	36,967	56	-	37,023	448	(252)	-	37,219
Inventories	(6,576)	106	-	(6,470)	553	-	-	(5,917)
Other assets	(3,111)	-	-	(3,111)	(226)	(17)	-	(3,354)
Accounts and accrued expenses payable	(24,076)	1,382	-	(22,694)	(4,983)	(127)	-	(27,804)
Current liabilities payable from restricted assets	-	(2,610)	-	(2,610)	-	-	-	(2,610)
Other noncurrent liabilities and deferred inflows	(23,373)	(1,723)	-	(25,096)	(10,712)	27	-	(35,781)
<b>Net cash provided by operating activities</b>	<b>\$ 233,365</b>	<b>\$ 1,698</b>	<b>\$ -</b>	<b>\$ 235,063</b>	<b>\$ 145,844</b>	<b>\$ 1,487</b>	<b>\$ -</b>	<b>\$ 382,394</b>
<b>Non-cash activity</b>								
Contribution of capital assets from developers	\$ 814	\$ -	\$ -	\$ 814	\$ 30,133	\$ -	\$ -	\$ 30,947
Unrealized investment fair market value changes, net	\$ 1,576	\$ (13)	\$ -	\$ 1,563	\$ 487	\$ -	\$ -	\$ 2,050



# FY2021 Budget Snapshot

Energy System					
Revenue	FY2021B	FY2020B	Δ	FY20F	
(in millions)	\$1,247	\$1,250	-\$3	\$1,166 <sup>^</sup>	
<b>Unit Sales Growth</b>					
<ul style="list-style-type: none"> <li>▶ Flat system sales from FY2020B to keep sales aligned with growth assumptions and trends</li> <li>▶ 5.0% weather contingency</li> </ul>					
COJ Transfer	FY08	FY18	FY19	FY20F	FY21P
Total (\$ in millions)	\$121	\$195	\$198	\$197	\$196
<b>O&amp;M Expenses</b>					
Decreases by \$29.3m or 10% versus prior year's budget					
<ul style="list-style-type: none"> <li>▶ Includes bargaining unit step increases per contractual agreements and estimated general increases.</li> <li>▶ Includes funding for DSM/Environmental</li> </ul>					
Capital (millions)	FY20F	FY21*	FY22	FY23	
Depreciation	\$198	\$198	\$205	\$212	
Expenditures	\$237	\$224	\$178	\$156	
Funding		FY20F	FY21*		
R&R	\$66	\$64			
OCO	\$165	\$218			
Environmental OCO	\$13	\$12			
Prior	-\$7	-\$70			
Debt	\$0	\$0			
	\$237	\$224			
*FY21 Budget Includes 10% budget reserve					
Metrics	FY21B	Pricing Policy			
Coverage	4.4x	≥ 2.2x			
Debt to Asset	55.4%	≤ 60%			
Days of Liquidity	318	150-250 days			
Total Debt**	\$1.83bn	-			
Change in Debt**	(\$232m)	-			

<sup>^</sup>Does not include \$25m net bond buyback revenue adjustment  
 \*\*Total debt and change in debt assumes \$100m defeasance of SJRPP Issue 3 debt

Water/Wastewater System					
Revenue	FY2021B	FY2020B	Δ	FY20F	
(in millions)	\$499	\$494	\$5	\$497 <sup>^</sup>	
<b>Unit Sales Growth</b>					
<ul style="list-style-type: none"> <li>▶ 2.7% unit sales increase to properly align sales with growth assumptions and trends</li> <li>▶ 5.0% weather contingency</li> </ul>					
COJ Transfer	FY07	FY18	FY19	FY20F	FY21P
Total (\$ in millions)	\$27	\$50	\$50	\$51	\$53
<b>O&amp;M Expenses</b>					
Decreases by \$7.9m or 4.2% versus prior year's budget					
<ul style="list-style-type: none"> <li>▶ Includes bargaining unit step increases per contractual agreements and estimated general increases.</li> <li>▶ Includes funding for DSM/Environmental</li> </ul>					
Capital (millions)	FY20F	FY21*	FY22	FY23	
Depreciation	\$155	\$156	\$162	\$170	
Expenditures	\$236	\$360	\$377	\$294	
Funding		FY20F	FY21*		
R&R	\$25	\$27			
OCO/Capacity	\$185	\$198			
Environmental	\$11	\$16			
Prior	\$15	\$0			
Debt**	\$0	\$119			
	\$236	\$360			
*FY21 Budget Includes 10% budget reserve					
Metrics	FY21B	Pricing Policy			
Coverage	5.2x	≥ 1.8 x			
Debt to Asset	42.6%	≤ 50%			
Days of Liquidity	272	-			
Total Debt	\$1.39bn	-			
Change in Debt	\$55m	-			

<sup>^</sup>Does not include \$34m net bond buyback revenue adjustment  
 \*\*New debt money requirement from either revolving credit facility advance or new bond proceeds





## MBS CAPITAL MARKETS, LLC

July 20, 2020

Robert Kennelly, CPA, Esq.  
President, First Coast Regional Utilities, Inc.  
Post Office Box 238  
Lake Butler, FL 32054

Re: First Coast Regional Utilities, Inc.; Bond Financing

Dear Mr. Kennelly,

MBS Capital Markets, LLC appreciates the opportunity to assist First Coast Regional Utilities, Inc. ("FCRU") with the financing needs for its water and wastewater utility facilities.

Since the time that we first began discussing this matter, the bond market has improved significantly for a borrower with the financial strength behind it that FCRU enjoys. We believe, based upon our examination of the FCRU project, its anticipated absorption schedule, and the credit support of 301 Capital Partners, LLC, that an indicative rate of interest for a 30 year tax exempt industrial development bond, the proceeds of which would be utilized to finance the construction of the water and wastewater utility works envisioned by FCRU, would be approximately 5% in today's market. Further, as we have done in other recently concluded successful transactions, we may be able to structure the financings under favorable terms to account for the early years of the FCRU utility. Of course, the market is time sensitive, and interest rates are subject to fluctuation as to market conditions on the date of sale; however, for planning purposes, 5% is reasonable.

Should you have any questions or comments concerning the above, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Edwin M. Bulleit", is written over a white background.

Edwin M. Bulleit  
Managing Partner

EMB/FCRU

Member: FINRA/SIPC

**Schedule 4**  
**Revised July 31, 2020**

**First Coast Regional Utilities, Inc.**  
**Initial Rates and Charges**  
**Projected Capital Structure When Utility Reaches 80% Capacity**

	(1)	(2)	(3)	(4)	(5)
		Reconciled to			
		Rate Base (Schedule 1)			
Line No.	Class of Capital	Year 4 - 80%	Ratio	Cost Rate	Weighted Cost
1	Long Term Debt	\$ 22,519,463	97.95%	5.00%	4.90%
2	Short Term Debt	-			
3	Preferred Stock	-			
4	Common Equity	-			
5	Customer Deposits	472,000	2.05%	2.00%	0.04%
6	Tax Credits - Zero Cost				
7	Tax Credits - Weighted Cost				
8	Accumulated Deferred Income Tax				
9	Other (Explain)				
10					
11	Total	<u>\$ 22,991,463</u>	<u>100.00%</u>		<u>4.94%</u>

13 Note: The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-2018-0327-PAA-WS

	Residential	General Service	
17 <u>Outstanding Customer Deposit Balance</u>			
18 New Customers connected years 3 and 4	1,000	120	
19 Average monthly bill	\$ 158.54	\$ 232.59	
20 Deposit requested	\$ 400.00	\$ 600.00	
21			
22 Deposit balance Year 4 from new customers	\$ 400,000	\$ 72,000	\$ 472,000

Schedule 5  
 Revised July 31, 2020

First Coast Regional Utilities, Inc.  
 Initial Rates and Charges  
 Proof of Revenue  
 Projected December Year 4

Line No		Rates for Revenue Requirement	Total ERCs	Total Gallons	Revenue Required Annual Revenue
1	<b>Revenue Proof For Water</b>				
2	<b>Requested Rates - Residential - Monthly</b>				
3	Base Facility Charge	\$ 31.75	24,000		\$ 762,000.00
4	Gallorage Charge				
5	First 3,000 gls	\$ 1.55		72,000	\$ 111,600.00
6	Over 3,000 gls - 10,000 gls	\$ 2.33		99,871	\$ 232,699.90
7	Over 10,000 gls	\$ 4.66		0	\$ -
8	<b>Total Residential Revenues</b>				<b>\$ 1,106,299.90</b>
9	<b>Average Residential Bill</b>				<b>\$ 46.10</b>
10					
11	<b>Requested Rates - General Service</b>				
12	5/8" x 3/4"	\$ 31.75	2,160		\$ 68,580.00
13	3/4"	47.63	0		-
14	1"	79.38	720		57,153.60
15	1-1/2" Turbine	158.75	0		-
16	2" Turbine	254.00	0		-
17	3" Turbine	555.63	0		-
18	Charge per 1,000 gallons	\$ 1.58		32,522	\$ 51,383.97
19	<b>Total General Service Revenues</b>				<b>\$ 177,117.57</b>
20	<b>Average General Service Bill</b>				<b>\$ 61.50</b>
21					
22	Revenues from Miscellaneous Charges (50% to water)	\$ 15.00	560		\$ 8,400.00
23					
24	<b>Total Water Revenue at 80% Design Capacity</b>				<b>\$ 1,291,817.47</b>
25					
26					
27	<b>Revenue Proof For Wastewater</b>				
28	<b>Requested Rates - Residential - Monthly</b>				
29	Base Facility Charge	\$ 84.35	24,000		\$ 2,024,400.00
30	Gallorage Charge, 10,000 gallons cap	\$ 5.09		132,451	\$ 674,176.61
31	<b>Total Residential Revenues</b>				<b>\$ 2,698,576.61</b>
32	<b>Average Residential Bill</b>				<b>\$ 112.44</b>
33					
34	<b>Requested Rates - General Service</b>				
35	5/8" x 3/4"	\$ 84.35	2,160		\$ 182,196.00
36	3/4"	126.53	0		-
37	1"	210.88	720		151,833.60
38	1-1/2" Turbine	421.75	0		-
39	2" Turbine	674.80	0		-
40	3" Turbine	1,476.13	0		-
41	Charge per 1,000 gallons	\$ 6.10		26,017	\$ 158,704.92
42	<b>Total General Service Revenues</b>				<b>\$ 492,734.52</b>
43	<b>Average General Service Bill</b>				<b>\$ 171.09</b>
44					
45	<b>Requested Rates - Reclaimed Water</b>				
46	Charge per 1,000 gallons	\$ 0.50		25,229	\$ 12,614.40
47					
48	Revenues from Miscellaneous Charges (50% to sewer)	\$ 15.00	560		\$ 8,400.00
49					
50	<b>Total Wastewater Revenue at 80% Design Capacity</b>				<b>\$ 3,212,325.53</b>

**Additional Support**  
**Revised July 31, 2020**

**First Coast Regional Utilities, Inc.**  
**Initial Rates and Charges**  
**Projected Net Operating Income**  
**Projected Year 4**

<b>Line No.</b>	<b>Projected Costs</b>	<b>Additional Revenues and RAFs</b>	<b>Revised Required Revenues</b>
<b>1 Water</b>			
2 Operating Revenue		\$ 1,219,401	\$ 1,219,401
3			
4 Operating Expenses			
5 Operation & Maintenance Expenses	\$ 294,600		\$ 294,600
6 Depreciation net of CIAC Amortization	324,216		324,216
7 Amortization	2,000		2,000
8 Taxes Other Than Income	259,161	54,873	314,034
9 Income Taxes		0	0
10 Total Operating Expenses	\$ 879,977	\$ 54,873	\$ 934,850
11			
12 Net Operating Income (Loss)	\$ (879,977)	\$ 1,164,528	\$ 284,551
13			
14 Rate Base	\$ 5,760,141		\$ 5,760,141
15			
16 Rate of Return			4.94%
17			
18			
<b>19 Wastewater</b>			
20 Operating Revenue		\$ 3,211,591	\$ 3,211,591
21			
22 Operating Expenses			
23 Operation & Maintenance Expenses	\$ 599,580		\$ 599,580
24 Depreciation net of CIAC Amortization	1,063,762		1,063,762
25 Amortization	2,000		2,000
26 Taxes Other Than Income	550,500	144,522	695,022
27 Income Taxes		-	-
28 Total Operating Expenses	\$ 2,215,843	\$ 144,522	\$ 2,360,364
29			
30 Net Operating Income (Loss)	\$ (2,215,843)	\$ 3,067,070	\$ 851,227
31			
32 Rate Base	\$ 17,231,322		\$ 17,231,322
33			
34 Rate of Return			4.94%