

# Valuing the JEA

## *Understanding the implications of the potential sale of Jacksonville's municipal utility*

*In early 2018, Jacksonville's elected officials, policymakers, utility executives and ratepayers became embroiled in debate over the merits of selling the Jacksonville Electric Authority, the 50-year-old municipal utility that provides electric, water and wastewater services to a half-million-plus customers in North-east Florida. Given the heated atmosphere, the Jessie Ball duPont Fund agreed to underwrite an independent assessment of the value of the JEA in an effort to give all parties unbiased data to inform their opinions.*

### WHAT IS THE VALUE OF THE JEA?

The value assessment, prepared by the Public Utility Research Center (PURC) at the University of Florida's Warrington College of Business, shows that JEA's value at the end of the 2017 fiscal year, the most recently available, was \$7.5 billion. Most of that value – 82% -- comes from the utility's Net Capital Assets – the value of the assets used to provide service. The remainder comes from the utility's "going concern" value – the ability of that asset base to produce goods and services, and ultimately value for the owner.

### HOW DOES THIS VALUATION COMPARE?

In early 2018, Public Financial Management, at the request of JEA, issued a report assessing the value of the utility. PFM took a different approach: measuring how potential buyers might value the utility at a specific point in time: late 2019. PFM used a variety of measurement methods and offered a range of values from \$7.5 billion to \$11.0 billion.

The difference in the PURC and PFM valuations might be explained this way: PURC's assessment is not unlike the property appraisal on a residence: it gives you a sense of what the home is worth but it does not attempt to predict what the buyer will pay or the seller will gain in a transaction. PFM's assessment, on the other hand, is akin to the sales price a Realtor might tell a homeowner to expect – the accuracy depends on the Realtor's expertise and market timing.

### WHAT OTHER FACTORS MAY INFLUENCE VALUE?

As PURC's valuation points out, there are a host of factors that may influence how potential buyers value the JEA. The JEA has intangible

## JEA Value

*as of fiscal 2017*



Electric Utility	\$4.5 billion
Water Utility	\$3.0 billion
District Energy Systems	<u>\$0.037 billion</u>
<b>Total Value</b>	<b>\$7.5 billion</b>

*Source: Public Utility Research Center  
Warrington College of Business, University of Florida*

value to the Jacksonville community – as a major employer and corporate citizen, as a first responder in times of disaster and as an agent in economic growth and environmental protection. It also has intangible value to its ratepayers to the extent that it provides quality service at an affordable price.

These intangible values are counterbalanced by risks or uncertainties that potential buyers must consider, not the least of which are the uncertain costs of the JEA's participation in the Plant Vogtle nuclear power plant and the increased regulatory oversight that would come with transition to an investor-owner.

### THE COMPLEXITY FACTOR

In addition, both the City of Jacksonville and potential buyers must wrestle with the complexity of the JEA. The utility operates three distinct lines of business: an Electric utility, a Water and Wastewater utility and a District Energy Systems division. While the Electric and DES lines are comparatively straightforward, the Water and Wastewater division is extremely complicated.

To meet the needs of a growing community and region, JEA has scores of agreements with neighboring counties and private entities to provide water/wastewater services, many with buy-back provisions that would be triggered in the event of a JEA sale. Untangling these agreements could take years and greatly increase the degree of difficulty for a smooth transition.

At the same time, the prospect of unbundling the Water/Wastewater division from the Electric division (in the event the City decided to sell only part of the utility) would be highly complex. Facilities, administrative services, easements, rights of way, legal agreements and other items are shared across the lines of business, once again escalating the degree of difficulty for a smooth transition.

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## WHAT FACTOR DOES TIMING PLAY?

In any valuation, timing is a factor, both in the price a buyer may be willing to pay and the price a seller is willing to accept.

In considering the value of the JEA, it is important to remember that, in the event of a sale, the timeline will be long.

In November 2018, Jacksonville City Council approved a bill requiring that any sale of more than 10% of the JEA receive prior approval from Duval County voters. This adds to the front end the additional time required to execute a voter referendum.

Even once a willing buyer has been identified, it can take years to execute a sale. A closely watched Florida case involves the sale to Florida Power & Light of the municipally-owned City of Vero Beach electric utility, a much smaller utility than JEA. FPL filed a letter of intent to buy COVB in April 2011. After multiple reviews of challenges and questions, the Florida Public Service Commission gave final approval of the sale in November 2018 – more than seven years later.

## SHOULD THE CITY SELL THE JEA?

The PURC assessment was not intended to answer that question. The Jessie Ball duPont Fund – and the researchers at PURC – think that is a decision best made by elected officials with the input of the public and the open decision-making required by Florida law. This research was intended to provide those decision makers with an informed, independent analysis to aid them in their deliberations.

## IN CONCLUSION...

There is no doubt that the landscape of the energy industry is changing rapidly, posing new challenges for utilities. (PURC offers an appendix to its report discussing these challenges.)

Decision makers have a civic obligation to remain well-informed, to ask questions and demand fact-based answers.

Citizens, too, have an obligation to remain informed, as they ultimately will vote on whether to keep or sell their municipal utility.

This report should not be viewed as the final word on JEA's valuation, but today's best assessment. Going forward, as circumstances change, additional studies may be required. We encourage policy-makers and citizens to invest in good research, in order to make good decisions.

### *Valuing Municipal Utilities : The Case of the Potential Sale of JEA in Jacksonville*

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*A copy of the full report with appendices can be  
found at [www.dupontfund.org](http://www.dupontfund.org).*



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