August 2015

MAEVA Group, LLC

Highly Confidential

Introduction to The MAEVA Group

- The MAEVA Group ("MAEVA") is uniquely focused on transforming organizations so that they can reach their full potential. In that sense, we are not a traditional restructuring, consulting or advisory firm. Instead, we work on implementing comprehensive solutions, as opposed to formulating recommendations, that enable entities to reach their full potential. Our work requires a broad and unique diversity of skills: operational redesign; financial deleveraging; corporate governance improvements; and a host of other necessary expertise.
- Our collective experience is deep and varied: principal investing; public market investing; public and private company board service; investment banking; government service; pension expertise and labor negotiations. We have worked in virtually every industry and have worked across five continents. We use our wide experience to create win-win solutions.
- MAEVA's principals have significant expertise in energy and power, having spent a large amount of time in the power generation sector (both regulated and non-regulated) over the past 20 years. Among many other transactions and projects, our Chairman and CEO Harry Wilson analyzed a potential restructuring of the Los Angeles Department of Water & Power, a municipally owned utility. That early experience launched our longstanding interest in opportunities for large savings at utilities.
- MAEVA Municipal Solutions ("MMS") is a subsidiary of The MAEVA Group that focuses on the public markets and played a significant role in the City of Jacksonville's pension reform efforts connected to the Police and Fire Pension Fund. Working with the Pew Foundation for the Jacksonville Pension Reform Task Force, MMS specifically conceived of the adopted governance reforms as well as many of the plan changes accepted by the Task Force and ultimately included in the final agreement. Harry Wilson is also the Chairman of MMS.

The Jacksonville Pension Reform Effort Requires New Money

MMS is proud of its work helping the City of Jacksonville examine every aspect of its distressed Police and Fire Pension Plan ("PFPF") and then come up with a comprehensive solution to set it on a sound financial course.

- Unfortunately, the PFPF's critical funding status precluded the possibility that economic growth alone – through higher future investment returns – could pay for its inviolate liabilities.
- Even with pension reform the City is on the hook for annual payments to the PFPF over the next 13 years that come in addition to its ARCs and total $350mm:

FY 2016	FY 2017	FY 2018	FY 2019	FY 2019-28	Total
$5mm	$10mm	$15mm	$32mm	$288mm	$350mm

- This is the main reason why City Councilman Bill Gulliford has said – both privately and publicly – that the real work, figuring out how to pay for these new liabilities, starts now.

Key Point: New money is still required to ensure adequate funding for the PFPF.

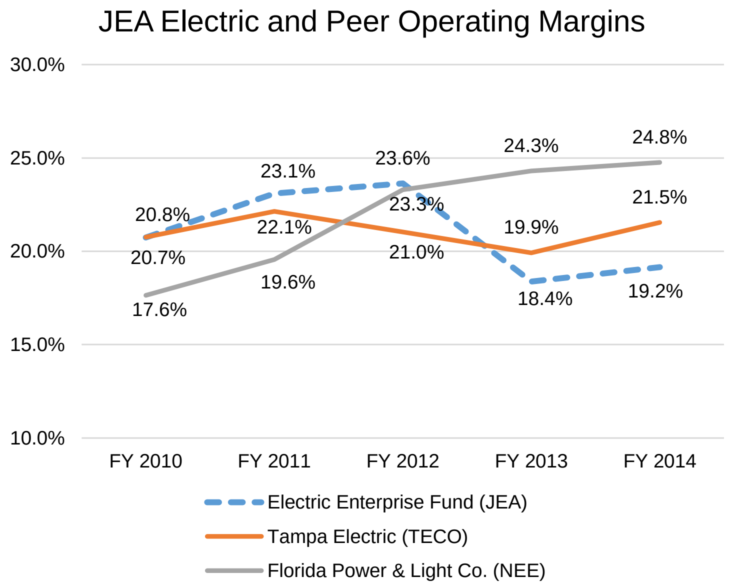
An Opportunity

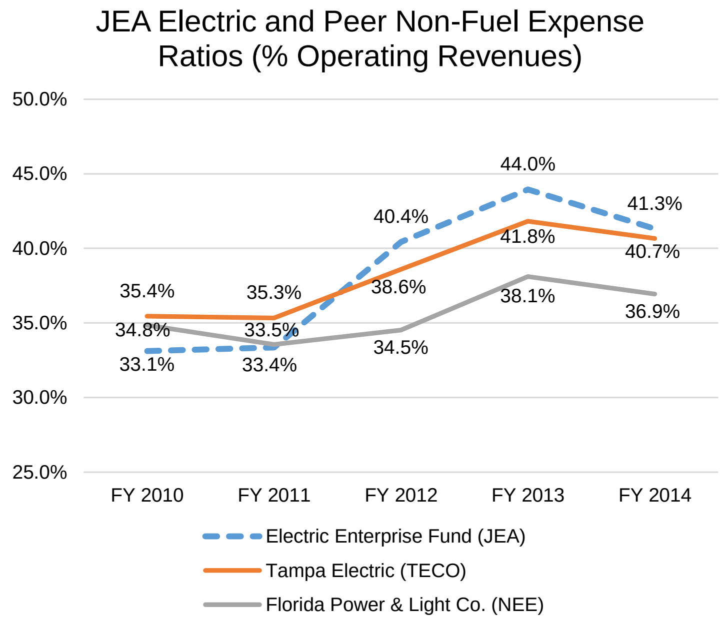
- The prior administration considered collecting additional funds from the JEA to pay for the PFPF's additional City expense; these funds were to be realized through savings largely from transferring JEA employees out of the City's General Employees' Pension Plan.
- The JEA leadership received Mayor Alvin Brown's plan with a degree of skepticism. While outside the scope of pension reform, Mayor Brown's administration reached out informally to MMS to consider the JEA as a source of new money.
- To be responsive, MAEVA made a preliminary examination of the utility and became convinced there were likely savings to be had in excess of $32mm per year—without sacrificing service, raising rates or negatively impacting the JEA's credit.
  - Our judgment was based on only an initial look, but we found no evidence of any past organizational restructurings and our deep background with utility workouts led us to believe the City could:
    1. Achieve the savings it needs to pay for its new pension costs; and
    2. Simultaneously wind up with a more effective utility.

JEA Electric Financial Performance

The following analysis focuses only on the Electric division of JEA.

- JEA Electric's operating margins were in the low 20s as recently as FY 2012 but have fallen to 18% and 19% in the last two fiscal years, respectively. Meanwhile, its peer utilities have maintained—with more consistency—operating margins in the range of the low 20s. Expense ratio comparisons tell a similar story:





Key Point: There is no reason why the JEA shouldn't be able to increase its operating margins so they are consistently in the low 20s.

Sources: JEA, TECO Energy and NextEra Energy annual reports
Note: Fiscal year ends in December for TECO Energy and NextEra Energy, in September for JEA

JEA Transfers

- The JEA currently makes transfers to the City's General Fund according to specific formulas applied to each utility system and governed by its current contract, although the *"…JEA may, in its sole discretion, utilize any of its available revenues regardless of source to satisfy its total annual obligation to the City."* *

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
JEA Contributions to Jacksonville General Fund ($mm)	$99	$102	$104	$107	$109

- Based on 2014 results, an improvement in JEA Electric's operating margin of just 2% (to ~21%) would generate an additional ~$30mm in annual operating income.
- An increase of 3% (to ~22%) would generate an additional ~$44mm in annual operating income.
  - In both cases, the JEA Electric's operating margins would remain at or below the average level of its peers, suggesting that even more savings could be achieved through greater efficiencies.
    - ➢ It seems implausible that an earnest restructuring project couldn't improve JEA Electric's operating margins by at least 2-3% and possibly more.

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Total
JEA Electric Operating Revenues ($mm)	$1,606	$1,684	$1,525	$1,433	$1,479	
+2% Operating Margin Improvement Impact ($mm)	$32	$34	$30	$29	$30	$155
+3% Operating Margin Improvement Impact ($mm)	$48	$51	$46	$43	$44	$232

*Source: JEA FY14 Annual Report (p.82)

Why This Should Work

- We have not seen evidence historically of a major organizational restructuring at the JEA; this indicates a fresh and larger opportunity.
  - It would be surprising if a thorough restructuring of a utility like the JEA couldn't achieve significant savings. There may be room to save more than the minimum the City will need to cover its increased pension payments in the coming years—and without sacrificing service or increasing rates.
- A higher transfer to the General Fund would not hurt the JEA's credit rating so long as the utility is saving an equal or greater amount.
  - The ratings agencies have said that if the JEA generated savings or raised rates to match increased transfers than it would be credit neutral.
- On the contrary, a JEA overhaul could lead to a credit positive.
  - The JEA is owned by the City of Jacksonville and there has likely never been a case where a subsidiary's rating is higher than its parent.
  - The City's credit rating is an important component of the JEA's ability to issue debt at reasonable costs.
    - JEA restructuring would help grow the pie in order to generate more cash for the JEA and the City to do with what they choose.
- Ultimately, what is done with the new money is up to Jacksonville's leaders.
  - But the City could negotiate for increased transfers from the JEA without the risk of a credit downgrade for the utility, while the City's own credit standing should improve as a consequence of finding a renewable revenue source to cover its new PFPF pension payments.
- Note, the JEA's most recent quarterly financials indicate that its LTM June 2015 operating margins were around 23% due to lower operating expenses. However, LTM operating margins for FPL still remain higher, indicating significant margin enhancement potential exists in maintenance and other operating expenses.

Restructuring the JEA is a market based solution to the City's cash needs that wouldn't rely on new taxes to pay the debts due to past services rendered but unfunded.

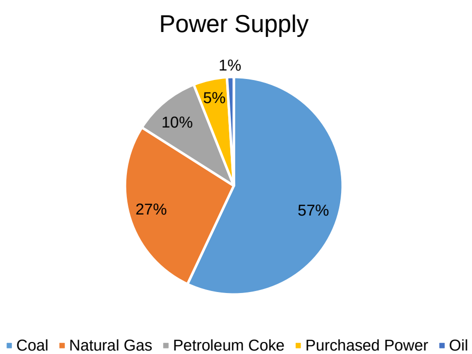
Appendix: JEA Comparables

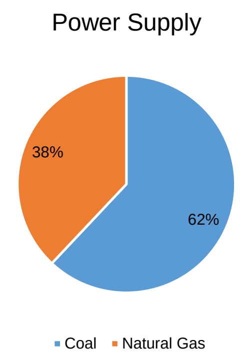
- Tampa Electric and Florida Power & Light are regional utilities that represent reasonable peers for comparison purposes.

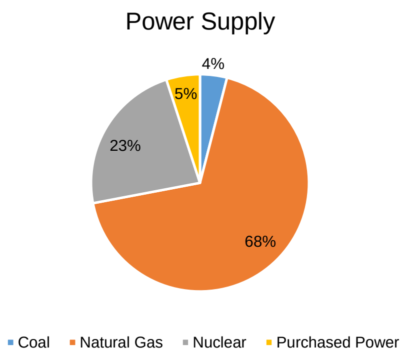
JEA

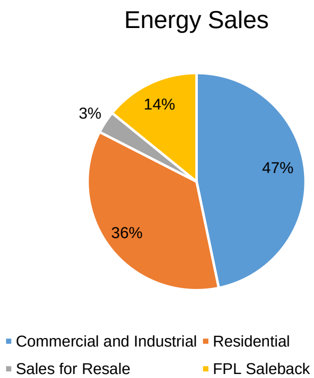
TECO TAMPA ELECTRIC

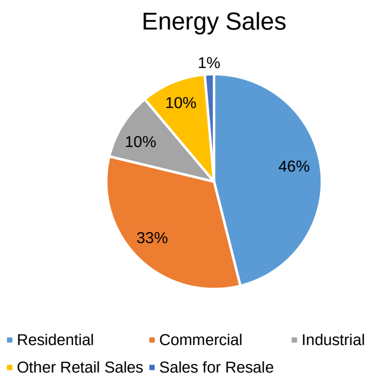
FPL

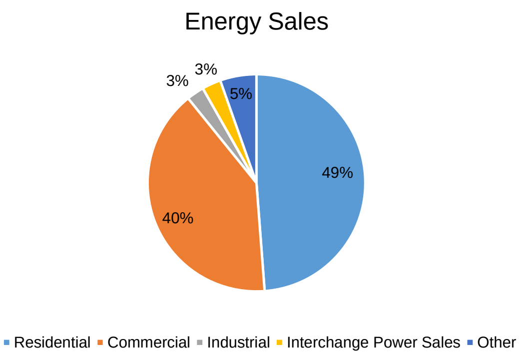












Sources: JEA, TECO Energy and NextEra Energy annual reports