

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.

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

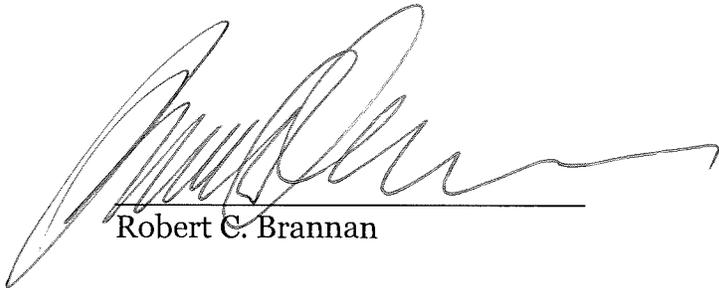
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Robert C. Brannan

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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 32nd 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 for a copy of this methodology.

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Rating Action Moody's assigns A2 to JEA Water and Sewer System senior and 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 Bonds, 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 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 20-year 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

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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

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

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From the Jacksonville Business Journal:

<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
Operating activities								
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
Noncapital and related financing activities								
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)
Capital and related financing activities								
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)
Investing activities								
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
Cash and cash equivalents at end of year	\$ 285,814	\$ 139,953	\$ -	\$ 425,767	\$ 123,061	\$ 6,954	\$ -	\$ 555,782
Reconciliation of operating income to net cash provided by operating activities								
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)
Net cash provided by operating activities	\$ 448,267	\$ 38,185	\$ -	\$ 486,452	\$ 276,604	\$ 3,880	\$ -	\$ 766,936
Non-cash activity								
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
Operating activities								
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
Noncapital and related financing activities								
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)
Capital and related financing activities								
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)
Investing activities								
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
Cash and cash equivalents at end of year	\$ 356,655	\$ 161,592	\$ -	\$ 518,247	\$ 153,732	\$ 8,243	\$ -	\$ 680,222
Reconciliation of operating income to net cash provided by operating activities								
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)
Net cash provided by operating activities	\$ 453,417	\$ 17,773	\$ -	\$ 471,190	\$ 293,244	\$ 4,896	\$ -	\$ 769,330
Non-cash activity								
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
Operating activities								
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
Noncapital and related financing activities								
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)
Capital and related financing activities								
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)
Investing activities								
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
Cash and cash equivalents at end of period	\$ 163,997	\$ 145,464	\$ -	\$ 309,461	\$ 95,664	\$ 6,769	\$ -	\$ 411,894
Reconciliation of operating income to net cash provided by operating activities								
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)
Net cash provided by operating activities	\$ 233,365	\$ 1,698	\$ -	\$ 235,063	\$ 145,844	\$ 1,487	\$ -	\$ 382,394
Non-cash activity								
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 [^]	
Unit Sales Growth					
<ul style="list-style-type: none"> ▶ Flat system sales from FY2020B to keep sales aligned with growth assumptions and trends ▶ 5.0% weather contingency 					
COJ Transfer	FY08	FY18	FY19	FY20F	FY21P
Total (\$ in millions)	\$121	\$195	\$198	\$197	\$196
O&M Expenses					
Decreases by \$29.3m or 10% versus prior year's budget					
<ul style="list-style-type: none"> ▶ Includes bargaining unit step increases per contractual agreements and estimated general increases. ▶ Includes funding for DSM/Environmental 					
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)	-			

[^]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 [^]	
Unit Sales Growth					
<ul style="list-style-type: none"> ▶ 2.7% unit sales increase to properly align sales with growth assumptions and trends ▶ 5.0% weather contingency 					
COJ Transfer	FY07	FY18	FY19	FY20F	FY21P
Total (\$ in millions)	\$27	\$50	\$50	\$51	\$53
O&M Expenses					
Decreases by \$7.9m or 4.2% versus prior year's budget					
<ul style="list-style-type: none"> ▶ Includes bargaining unit step increases per contractual agreements and estimated general increases. ▶ Includes funding for DSM/Environmental 					
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	-			

[^]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 light blue horizontal line.

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	Revenue Proof For Water				
2	Requested Rates - Residential - Monthly				
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	Total Residential Revenues				\$ 1,106,299.90
9	Average Residential Bill				\$ 46.10
10					
11	Requested Rates - General Service				
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	Total General Service Revenues				\$ 177,117.57
20	Average General Service Bill				\$ 61.50
21					
22	Revenues from Miscellaneous Charges (50% to water)	\$ 15.00	560		\$ 8,400.00
23					
24	Total Water Revenue at 80% Design Capacity				\$ 1,291,817.47
25					
26					
27	Revenue Proof For Wastewater				
28	Requested Rates - Residential - Monthly				
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	Total Residential Revenues				\$ 2,698,576.61
32	Average Residential Bill				\$ 112.44
33					
34	Requested Rates - General Service				
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	Total General Service Revenues				\$ 492,734.52
43	Average General Service Bill				\$ 171.09
44					
45	Requested Rates - Reclaimed Water				
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	Total Wastewater Revenue at 80% Design Capacity				\$ 3,212,325.53

Additional Support
Revised July 31, 2020

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

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