

Bond Case Briefs

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Fitch Rtgs: Jacksonville and JEA Ratings Unaffected by Lawsuit

Fitch Ratings-New York-17 October 2018: The city of Jacksonville's Issuer Default Rating (IDR; AA/Stable) or related ratings and the Jacksonville Electric Authority's (JEA) outstanding revenue bond rating are unaffected by the litigation filed by JEA in connection with its participation in the development of the Plant Vogtle nuclear power plants, according to Fitch Ratings.

A lawsuit filed by the JEA on Sept. 11 in Duval County, FL circuit court asserts that its purchase power agreement (PPA) signed in 2008 with Municipal Electric Authority of Georgia (MEAG Power; Project J revenue bonds rated A/Negative Watch) is invalid. The PPA requires JEA to pay MEAG Power for a portion of the energy output of the Vogtle 3&4 nuclear project, once completed, for the first 20 years of operation. JEA's payments under the PPA are used to pay debt service on MEAG Power's Project J revenue bonds and certain Department of Energy (DOE) loans used to finance Vogtle 3&4. The PPA requires JEA to pay for 50% of construction costs in the event the Vogtle 3&4 projects are not completed and construction is terminated. JEA's legal claim asserts that JEA is not authorized to be a party to this PPA, given its unlimited nature, the fact that it was not approved by the Jacksonville City Council and that provisions of the PPA are in violation of the Florida constitution. In related litigation filed earlier the same day in the U.S. District Court of Georgia, MEAG Power asked for a declaratory judgement affirming JEA's obligations under the PPA.

The nature of the legal claim and its outcome are critically important to repayment of the MEAG Power Project J bonds. Potential rating outcomes for the MEAG Power Project J bonds are discussed in the most recent rating action on MEAG Power with the relevant press release listed below. However, in regards to JEA's and the city's ratings, Fitch does not believe that the filing of litigation specific to this PPA represents a repudiation by the city and/or JEA of the PPA, or an unwillingness on the part of the city or JEA to pay its debts generally. The ratings on the city and the JEA continue to reflect their fundamental credit quality.

JEA's management has indicated publicly that it will continue to honor its obligations under the PPA unless and until such time as a court determines that the PPA is not valid. JEA's obligations under the PPA are unconditional and payable as operating expenses under JEA's bond resolution. Fitch's ratings on JEA, as well as the MEAG Power Project J bonds, assume that JEA's obligations pursuant to the PPA will continue to be met. Fitch's view is based on multiple legal opinions that were provided at the PPA signing and each MEAG Power Project J bond issuance, including opinions provided by the city and JEA's General Counsel that JEA had all necessary power and authority to enter into the PPA. The PPA was additionally court-validated by the Fulton County, GA Superior Court and reviewed by the DOE as part of the federal loan security package.

While the timing and outcome of the court proceedings cannot be known, JEA has made, and expects to continue to make, all payments due under the PPA unless and until a court invalidates the PPA. JEA has set aside more than \$50 million in funds for this purpose, which it expects will be sufficient to fund its PPA obligations until the scheduled commercial operation of Vogtle Unit 4 in November 2022. JEA's legal claim with respect to the PPA appears isolated to the legal validity of this one

specific contract. Any change in JEA's current intention to continue paying its obligations under the PPA absent a court ruling striking down its validity would cause Fitch to reevaluate all relevant ratings.

Fitch has a rating of 'AA' on JEA's outstanding electric system, bulk power supply and St. John's River Power Park revenue bonds. The 'AA' rating reflects JEA's strong financial profile, rate setting authority, continued reduction in outstanding debt and a diversifying power resource portfolio. In Fitch's view, the significant cost overruns and timing delays associated with Plant Vogtle remain a concern. However, JEA has taken positive steps to minimize the impact on ratepayers by reducing operating costs and retiring debt early, leaving current cost escalations largely manageable to date. Further delays or cost overruns could erode future credit quality, depending on the severity, and will be assessed as they arise.

Fitch's 'AA' IDR on the city reflects our expectation that the city will continue to demonstrate a prudent level of fiscal management, contributing to generally stable financial results and adherence to formal reserve policies that we view as an integral part of the city's overall financial resiliency. Fitch believes JEA will continue to abide by the terms of an interlocal agreement with the city, pursuant to which it makes an annual contribution to the city's general fund budget. The JEA transfer is the second-largest revenue stream for the general fund accounting for approximately 10% of total revenue.

Payments made by the JEA under the PPA secure approximately \$1.4 billion in Project J bonds issued by MEAG that are currently rated 'A'/Rating Watch Negative by Fitch. For more information on the Vogtle project and legal disputes, see Fitch Press Releases, 'Fitch Maintains Rating Watch Negative on Municipal Electric Authority of Georgia Power Bonds Project J', dated Sept. 18, 2018 and 'Fitch Places Municipal Electric Authority of Georgia Bonds on Rating Watch Negative', dated Aug. 10, 2018.

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