

**OFFICE OF THE CITY COUNCIL**

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**Special Committee on the Potential Sale of JEA Meeting Minutes**

**April 19, 2018**

**9:00 a.m.**

**Topic:** Potential sale of the JEA

**Location:** City Council Chamber, 1st floor, City Hall – St. James Building, 117 West Duval Street

**In attendance:** Council Members John Crescimbeni (Chair), Greg Anderson, Danny Becton, Aaron Bowman, Lori Boyer, Anna Lopez Brosche, Katrina Brown, Reggie Brown, Garrett Dennis, Al Ferraro, Reginald Gaffney, Bill Gulliford, Tommy Hazouri, Jim Love, Joyce Morgan, Sam Newby, Matt Schellenberg

**Excused:** Council Members Doyle Carter, Scott Wilson

**Also**: Peggy Sidman, Jody Brooks, John Phillips - Office of General Counsel; Kyle Billy, Phillip Peterson, Jeff Rodda - Council Auditor’s Office; Staci Lewis – Legislative Services Division; Jeff Clements – Council Research Division; Aaron Zahn, Melissa Dykes, Mike Hightower, Nancy Kilgo, Jordan Pope - JEA

**Meeting Convened**: 9:00 a.m.

Council Member Crescimbeni called the meeting to order and the attendees introduced themselves for the record. He announced that the Jacksonville Civic Council will be making a presentation to the Special Committee at a future meeting regarding its study of JEA privatization. At its May 10th meeting the committee will get a presentation from staff of the Florida Public Service Commission discussing rate setting procedures, allowable rates of return on equity for investor-owned utilities (IOUs), etc. Council Member Anderson indicated his interest in hearing from the St. Johns River Management District about water consumption and supply issues and regulations as they relate to JEA’s operation of the water utility.

JEA’s new Interim CEO Aaron Zahn said that discord over an issue is paralyzing and dispiriting to both participants and onlookers, and the discussion of JEA’s potential sale over the past 4 months has been dispiriting to employees and the community. He said the JEA board will spend the next 6 months to a year mapping a strategy for its future in consultation with its employees and stakeholders. He plans to meet with City Council members individually in the next few weeks and then again with the council as a whole to start planning the path forward. He has instructed the employees and management of JEA to focus on 5 priorities for the present: 1) focus on core business – serving electric water and sewer customers with excellence; 2) look forward – implement a smooth transition of leadership; 3) listen and align our purpose with shareholder trustees - JEA’s board of directors, City Council and the Mayor will establish consensus around a framework upon which to measure a strategic plan for the future of JEA; 4) question the possibilities of greatness and innovate; and 5) be stewards of a united community and lead with integrity. He pledged personally to be collaborative and transparent throughout, to engage employees and stakeholders, to guide a deliberate conversation to build consensus on the future of JEA, and to communicate strategy and strategic decisions prior to action.

Council Member Reggie Brown said that portions of the community still don’t have municipal water and sewer service 50 years after city/county consolidation and is dismayed that the extension of those services to unserved communities is not one of Mr. Zahn’s five expressed priorities. Council Member Gulliford proposed that the Special Committee be renamed the Special Committee on the Future of JEA; Chairman Crescimbeni said that process is already underway. Council Member Hazouri asked about the JEA’s plan for searching for a permanent CEO. Mr. Zahn said that he would have a hand, along with senior management and the board, in developing the qualifications for the permanent CEO position. Council President Brosche said that the City Council faces a trust challenge with the JEA as a result of the events of recent months and hopes that trust can be quickly restored with both the Council and the community. In response to a question from Ms. Brosche about responsibility at the JEA for actions being taken at the direction of one board member without the participation of the rest of the board, Mr. Zahn said that a CEO ought to obtain the consensus of a majority of the board before taking any substantive action. In the event that a CEO takes action on the direction of one member, the CEO then takes personal responsibility for that action.

Mr. Zahn said that his impression is that the JEA has operated in much the same way for many years under several CEOs and boards without really thinking strategically and planning for a changing future. He plans to change that during his tenure, and said that board agendas will include several categories of issues – routine operational issues, deep dives into particular topics, and long range planning discussions. Issues will undergo a 3-step progressive process of “discuss, deliberate and decide”.

In response to a question from Council Member Dennis, Mr. Zahn said that he is not currently planning to apply for the permanent CEO position, but would consider it if his skill set matches what the board is looking for in a candidate. He briefly discussed a report in the *Florida Times-Union* about his company’s experience with a controversial project in South Florida. He said that he felt the JEA board had ample opportunity to question him and understand his vision before hiring him for the interim CEO position. Mr. Zahn reiterated that he has instructed management and employees to concentrate on the five priorities he outlined at the beginning of the meeting, which does not include privatization of the utility. In response to a question from Mr. Dennis and Chairman Crescimbeni, Mr. Zahn stated that Mike Hightower and Paul McElroy suggested to him that he would be a good fit for the JEA board. In response to a question from Council Member Katrina Brown, Mr. Zahn explained how he arrived at the five priorities he discussed earlier. Council Member Brown questioned why expansion of water and sewer infrastructure to unserved neighborhoods wasn’t one of those top priorities. She urged him to ride through council districts with council members and meet constituents who have infrastructure needs. Ms. Brown also urged him to ensure that the JEA makes better use of small and minority businesses in its contracting.

In response to a question from Council Member Anderson about Mr. Zahn’s contract term and compensation, he said that he has not yet entered into a contract. Mr. Anderson said that in his experience with other organizations, interim leaders are caretakers, so Mr. Zahn’s declaration that he intends to be a change agent is somewhat unusual. Mr. Zahn said that he felt the board selected him in part because that is what is needed in an organization that is facing a changing business landscape. In response to a question from Council Member Boyer about whether the subject of privatization might fall under one of his five initial priorities, Mr. Zahn said that it might be a function of determining JEA’s future business model and capitalization strategy, if the board feels that is important. Ms. Boyer asked for clarification about where JEA privatization falls into the “discuss, deliberate, decide” scenario. Mr. Zahn said that he intends for future actions on the subject of privatization to be very transparent. Chairman Crescimbeni said that any action on the part of JEA to continue exploration of that topic that is not very transparent to the Council and the public will subvert any attempts to restore credibility and trust.

In response to a question from Council Member Gaffney, Mr. Zahn said that, previous studies notwithstanding, there is no real way to determine the value of JEA until bids are solicited and willing buyers make proposals; anything else is merely speculation. Mr. Gaffney reiterated the importance of water and sewer extensions to unserved neighborhoods and urged JEA to make it a priority. Mr. Zahn said that it falls under the umbrella of JEA’s strategic planning process as well as rebuilding trust with the stakeholders including the City Council and the general public. In response to a question from Council Member Love about perhaps delaying development of a strategic plan until a permanent CEO is hired, Mr. Zahn said that the strategic planning process should really take place, at least in part, to help inform the hiring of the new CEO, whose skill set much match the intended future of the utility.

Council Member Morgan asked for information on how items reach the JEA agenda and how much discussion takes place on proposed items to determine whether something belongs on the agenda or not. Mr. Zahn said that the JEA is unique in his experience with its dual authorities in the form of its own board and the City Council, both of which have certain authority over the utility’s actions. In response to a question about whether the Special Committee ought to continue its work, Mr. Zahn said that the committee’s work and its eventual product will be invaluable to the JEA in helping it determine how to meet the Council’s and the public’s needs.

The committee was in recess from 10:21 to 10:31 a.m.

Council Member Ferraro asked about the magnitude of the JEA’s open-ended debt. Mr. Zahn said that he and Chief Operating Officer Melissa Dykes will have information on that subject when they meet with the councilman shortly. Council Member Bowman said that JEA’s top priority should be restoring the trust of the employees in their organization; Mr. Zahn agreed that is extremely important. Mr. Bowman said the last few months have been valuable to the Council in terms of understanding much more about JEA’s operations, problems, and future issues. In response to a question from Mr. Bowman about whether discussion of privatization should be terminated for the sake of clarity and certainty and to relieve a burden from new management, Mr. Zahn said that the process as it has progressed to date should produce a useful work product, but has put a tremendous burden on staff to produce the data being requested by the committee. Mr. Bowman suggested that the committee stand down at least for a time to let Mr. Zahn and his team address their top priorities.

Council Member Newby reiterated the concerns expressed by other council members regarding provision of water and sewer to unserved areas. He said that typically an interim CEO is a caretaker and does not start new initiatives that a subsequent permanent CEO would have to undo to pursue their own priorities. Mr. Zahn said that his priorities will address employee relations, board structure and process, and the like. With regard to whether he intends to apply for the permanent CEO position, Mr. Zahn reiterated his earlier comments about only being interested if his skill set matches what the board is looking for in a candidate. In response to a question from Council President Brosche about whether he sensed an air of distrust between the City Council and JEA, Mr. Zahn said he did have that sense as a result of the events of the last several months. The work of the Special Committee can be valuable in helping to restore a healthy relationship between the two entities by informing JEA board and management about Council’s expectations and priorities. Council Member Reggie Brown said that trust will be restored through transparency and communication, not by simply pausing discussion of privatization. In response to a question from Mr. Brown about whether he fits the qualifications for the interim CEO position, Mr. Zahn said that he thought so and the JEA board agreed that he did by hiring him. He said that one of his assets is that he comes from a very different background than JEA’s past CEOs because he comes from a private sector, innovative, entrepreneurial background very focused on changing utility marketplaces. Mr. Brown reiterated the importance of the JSEB program in JEA’s contracting

In response to a question from Council Member Dennis about his willingness to open his calendar and post notice of his meetings with any companies, agents or representatives that might be potential suitors for purchase of JEA, Mr. Zahn said that he would do so to the best of his ability. In response to a question from Council Member Gulliford about the need for a collective mission statement recognizing the value of community-owned utility and its responsibilities to and relationship with the City, Mr. Zahn agreed that would be very helpful in setting reasonable expectations on all sides.

Follow-up on previous meeting items

St. Johns River Power Park: Melissa Dykes, CFO of the JEA, said that the utility currently has excess generating capacity, which led to the decision to decommission the plant and eliminate the cost of its maintenance and operation. The decision also had the advantage of reducing the JEA’s CO² output by 30% by 2030 and offers a site for new economic development. She explained the utility’s actions to minimize the impact of the closure on Power Park employees. The total savings to JEA’s customers over 10 year resulting from the closure is estimated at $450-460 million. In response to a question from Council Member Boyer about a chart showing electric capacity and demand, Ms. Dykes explained the factors producing the growth in capacity in years beyond 2017, which is a combination of FPL terminating its use of a portion of the plant’s capacity and the receipt of power from the Plant Vogtle nuclear plant when it comes online in the future. In response to a question from Chairman Crescimbeni about whether FPL’s decision to not exercise its option to purchase capacity from the plant is reflected in the statistics presented in earlier meetings showing declining JEA electric sales, Ms. Dykes said that it did not.

In response to a question from Council President Brosche about whether a January power shortage incident was caused by closure of the SJRPP, Ms. Dykes said no; it was a result of a cold weather event combined with a system failure in FPL’s territory that affected the power grid in Jacksonville. Ms. Dykes also said that the Brandy Branch generating plant is being expanded and a combination of that expansion and purchased power agreements will meet the JEA’s capacity needs without the SJRPP until Plant Vogtle power comes online in a few years. Council Member Ferraro questioned the wisdom of closing down the SJRPP when the JEA needs more generating capacity than it has and doesn’t know when or if Plant Vogtle will ever come online. Ms. Dykes confirmed to Mr. Crescimbeni that the costs of decommissioning the plant are being split 50/50 between JEA and FPL. Council Member Becton asked for an explanation of the calculus that led to the decision to decommission the plant, given the uncertainties of Plant Vogtle and the fact that SJRPP was nearly paid off. Ms. Dykes explained that the JEA did not need to keep a 1,000 megawatt coal plant in operation when it only needs 150-200 megawatts of capacity to meet its needs. She will provide a comparison of the costs and benefits of the two plants, although she cautioned that the Plant Vogtle deal was executed in 2008 and not using that power is not an option, therefore “Plant Vogtle versus SJRPP” is not an either/or proposition. Council Member Dennis thanked Ms. Dykes for the clarity of her presentation and forthright answers to the committee’s questions. Council Member Gulliford said that long-term decisions are always difficult because of the changing nature of political and regulatory forces and changes in market conditions.

5-year revenue projections for current and future business lines

Jordan Pope of the JEA briefly discussed revenue and expense projections for several potential new or expanded business lines, including pole attachment revenues, wireless colocation leasing revenue, dark fiber leasing, natural gas sales, solar panel leasing, fuel cells and micro-turbines. In response to a question from Council Member Becton, Mr. Pope said that expansion of the current water and sewer systems are subject to both financial considerations and restrictions in bond covenants on how ratepayer revenues can be used for expansion purposes. Mr. Becton wanted more information comparing JEA versus a private utility when it comes to water and sewer expansion considerations. Council Member Boyer asked what assets JEA has that IOUs might find attractive and how JEA could take advantage of those same factors to improve its performance.

Residential rate comparisons for Florida utilities

Mr. Pope said that the residential electric rate chart will be provided monthly to City Council members as it once was. The rates shown include add-ons such as storm recovery charges. Charts for residential water and sewer charges and commercial electric rates were briefly discussed. Mr. Pope reviewed the JEA’s two economic development program discounted rates.

JEA volunteerism and ambassador hours

Mr. Pope explained that employees are eligible for 8 paid hours of leave per year to engage in volunteer activities. The utility does not otherwise track volunteer hours that employees contribute on their own time to community causes. He also distributed a list of local organizations of which JEA is a member or to which it provides sponsorship assistance. A handout described JEA’s customer assistance programs which include an aggressive outreach program to reach customers in financial difficulty.

Capital needs and funding sources

Mr. Pope said that the data provided is only for maintenance and upkeep of the existing electric and water/sewer systems, and does not encompass any system expansions. Council Member Boyer asked if the projects could be grouped by type of use (routine maintenance, replacement of outdated facilities, etc.) so that the Council could better understand how the JEA prioritizes its capital needs and how priorities change from year to year.

Electric generating sources and capacities

Mr. Pope distributed and discussed a chart showing the total energy production capabilities of all of the generating assets and the peak hour megawatt production capacity of each unit. Ryan Wannemacher of JEA explained “load factors” – the number of hours a unit operates multiplied by its capacity. Capacity increases will be made next year to Brandy Branch units 2, 3, and 4 (adding approximately 70Mw of generating capacity).

Electric sales projections for different purposes

Mr. Pope explained the difference between the projections for capacity planning purposes and financial planning forecasts, which have different purposes and therefore different methodologies. Council Member Boyer asked that the projections be extrapolated out for more than 5 years to give a longer-range perspective.

In response to a question from Council Member Becton about whether a situation ever arises that JEA needs to purchase power and finds that it’s not available, Mr. Pope said he was unaware that it is problematic for JEA or other utilities in the Southeastern U.S., where many of the utilities have excess generating capacity.

Council Auditor follow-up items

Regarding assessment of JEA properties by the Property Appraiser’s Office (PAO), Principal Auditor Phillip Peterson said that the PAO acknowledged that it does not give JEA properties the same level of scrutiny as taxable properties, and noted that utility plants are complex and specialized assets that are best appraised by an outside agency specializing in that field. Mr. Peterson also distributed a table showing JEA’s historical cash position and investments for the past 10 fiscal years. Council Member Becton requested further information on where the JEA invests its funds.

Public Comment

Raymond Olan-Diaz expressed disappointment that only seven council members remain in the meeting of the 14 who were in attendance earlier. He will continue to come to speak before the Council as long as the potential sale of JEA is unresolved. He believes that JEA management is being sacrificed by unseen forces who have an end goal in mind. He hopes the appointment of Mr. Zahn is not another part of the ultimate plan to sell JEA.

Wayne Dunn felt that the search for a new JEA CEO should get underway immediately. He said that return on equity is the fundamental statistic for investor owned utilities (currently 10.55% is allowed by the Florida PSC for IOU return on investment in Florida). He recommended calculating the return on equity for JEA so that we know how the utility is valued in the marketplace. He recommended that a new JEA CEO should have utility experience, large plant experience, and technical forecasting ability. He also recommended that the Council avail itself of independent technical analysis before making complicated decisions on complex factors (in the same way that the City hires an independent auditor or bond counsel).

Jon Lindemood said that a recent Channel 4/UNF poll found that 75% of persons surveyed opposed the sale of JEA. A decision to sell the JEA imposes long-term consequences on the city and its taxpayers, so must be made carefully. The City previously bought up the many water and sewer utilities operating in Jacksonville because the private operators ran them into the ground. Change JEA’s business model to make it run better, don’t sell it.

Tim Wayne asked the Council to vote on whether to sell JEA or not so the community knows who is on what side of the issue. Politicians don’t own the JEA – the citizens do and the elected officials are stewards, not owners. He approves of amending the City Charter to add referendum requirements regarding a sale. JEA employees put their lives on the line to serve the public and deserve respect.

Ross Byers, a retired JEA debt manager, volunteered to assist the special committee in any way that would be useful. Melissa Dykes has great skills and would make a good JEA CEO. JEA’s credit rating is crucially important and he can’t imagine what the markets must think of JEA at this point. It will be very attractive in the marketplace because IOUs need customer growth and JEA could provide that. He urged the special committee to continue its work of finding out all it can about JEA and its future.

Timothy Allen thinks the decision to close the SJRPP was a bad one done without due consideration. He believes that Plant Vogtle will never come on line and JEA is becoming too dependent on natural gas as a fuel source. Natural gas can’t be stockpiled like coal can. He is baffled by the selection of Mr. Zahn as the interim CEO.

Jeff Gray said that some of his neighbors want to keep their septic tanks and don’t want to connect to public sewer. FPL bought the Cedar Bay generating station and shut it down. He has enrolled in JEA’s “smart savings” demand rate pilot program and highly recommends it. JEA is part of the fabric of the community in ways that go beyond dollars and cents. Value isn’t just what a buyer is willing to pay. The sale of JEA keeps arising every few years and needs to be put to bed once and for all.

Council President Brosche said that the Public Utility Research Center at the University of Florida estimates that it will produce its report, commissioned by the Jessie Ball duPont Fund, in about 6 months.

Chairman Crescimbeni thanked the remaining members for staying to the end of the meeting.

Future items

* Comparison of the cost of operating SJRPP versus closing SJRPP and generating power at Plant Vogtle
* Mr. Becton wanted more information comparing JEA versus a private utility when it comes to water and sewer expansion considerations.
* Ms. Boyer asked what assets JEA has that IOUs might find attractive and how JEA could take advantage of those same factors to improve its performance.
* Ms. Boyer asked if the capital projects could be grouped by type of use (routine maintenance, replacement of outdated facilities, etc.) so that the Council could better understand how the JEA prioritizes its capital needs and how priorities change from year to year.
* Ms. Boyer asked that the electric sales projections be extrapolated out for more than 5 years to give a longer-range perspective.
* Mr. Becton requested further information on where the JEA invests its funds.

Next meeting – April 26th at 3:30 p.m.

**Meeting Adjourned**: 1:11 p.m.

Jeff Clements, Council Research Division

4.20.18 Posted 5:00 p.m.