

**OFFICE OF THE CITY COUNCIL**

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4TH FLOOR, CITY HALL

JACKSONVILLE, FLORIDA 32202

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**Special Committee on the Future of JEA Meeting Minutes**

**April 26, 2018**

**3:30 p.m.**

**Topic:** Future of 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 (dep. 4:32), Lori Boyer, Garrett Dennis (arr. 3:53), Al Ferraro, Bill Gulliford, Tommy Hazouri (arr. 3:36), Jim Love, Joyce Morgan, Scott Wilson (arr. 3:35)

**Excused:** Council Members Sam Newby, Doyle Carter, Anna Lopez Brosche, Matt Schellenberg, Reggie Brown

**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**: 3:30 p.m.

Council Member Crescimbeni called the meeting to order and the attendees introduced themselves for the record.

JEA Interim CEO Aaron Zahn said that the JEA needs to be bold and innovative in charting a path forward. He thanked the Mayor and City Council leadership for their feedback and input into the JEA’s future strategic planning process. He announced that former CFO Melissa Dykes is the utility’s new President and Chief Operating Officer. Mr. Zahn said that JEA will be bold in its thinking, planning accountability, and integrity. Ms. Dykes said that JEA’s employees have continued to provide exceptional service throughout the discussion of the future of the utility and thanked them for their dedication to the agency and the community. She said that JEA’s top immediate priorities are 1) safety of employees and 2) hurricane preparation. JEA will continue to provide high quality, responsive service to its customers throughout the region.

In response to a question from Council Member Love, Ms. Dykes briefly described the storm preparations that have been made since Hurricane Irma in 2017. The JEA administration will be making a presentation on hurricane preparation to their board next month and will be holding a joint exercise with the City’s Emergency Operations Center next week. Council Member Bowman reminded everyone that Jacksonville was *not* hit by hurricanes the past 2 years – they came close, but did not hit Jacksonville directly. Council Member Gulliford said that JEA needs to make septic tank remediation one of its top priorities in conjunction with the City; planning for that needs to start immediately. In response to a question from Council Member Anderson, Ms. Dykes said that the JEA’s interim CFO and treasurer have long experience in the industry and a good relationship with the bond rating agencies. The rating agencies are very interested in JEA’s management structure as a key feature to its financial stability. In response to a question from Council Member Hazouri, Mr. Zahn said that the JEA board has begun its process for choosing a permanent CEO and is advertising for a search firm. He said the City and JEA need to sit down together and chart a path for the future of the utility. JEA management will draft an initial document and present it to the board for refinement and then discussion with the City Council. No real substantive action can be taken until consensus is reached among all the parties. Mr. Hazouri urged JEA’s management to keep working on long-standing issues (such as septic tank remediation) while the strategic planning process proceeds – these issues can’t wait.

JEA presentation

JEA awards and recognitions: Jordan Pope of JEA distributed a lengthy list of individual and corporate awards received by JEA over the past decade.

Responses to market and regulatory changes: Mr. Pope discussed a list distributed at the last meeting of JEA’s actions over the last several decades taken in response to changing market and regulatory conditions, including changes in fuel sources, construction of new generating capacity, implementation of environmental technologies, etc.

JEA grants: Mr. Pope said that the JEA has received approximately $128 million for its electric, water and sewer systems over the past couple of decades. He said that the utility needs to partner with the City to seek and apply for more grants where they can be identified. In response to a question from Council Member Boyer about a grant for sewer system expansion, Mr. Pope said he understood that it was for extension of the reclaimed water system. Ms. Boyer asked that JEA continue exploring grant opportunities for extension of both water and sewer lines and reclaimed water lines to infill areas. Chairman Crescimbeni asked Mr. Pope to investigate which of the listed grants are available to private investor owned utilities as well as municipal utilities. In response to a question from Council Member Gulliford, Mr. Pope said that JEA has a pilot program to test injection of reclaimed water back into the Floridan Aquifer, which may reduce the need for transmission lines to carry that product out into neighborhoods.

JEA’s existing power purchase agreements: Mr. Pope discussed a list of the agreements in place. He noted that several are for solar power, including several new 5 megawatt plants, one of which will have batteries to store up to 3 megawatts of solar power, which should give JEA access to 300 megawatts of solar power in the next couple of years. There are also agreements for landfill methane gas at Trail Ridge Landfill and at a landfill in Sarasota County and wind power from a wind farm in Nebraska. JEA has a purchase power agreement for full rights to 200 MW from a gas-fired plant on the Alabama/Georgia border. In response to a question from Chairman Crescimbeni, Mr. Pope said that JEA has entered into power purchase agreements for solar power with several private providers because those private companies can get tax credits for their construction for which JEA would not qualify, making it more financially feasible for them to be owned privately rather than publicly. Council Member Hazouri asked for a list of what customers in Jacksonville have facilities to generate their own solar power and what JEA pays them for net metering. In response to a question from Council Member Boyer about the amount of solar power in JEA’s portfolio, Mr. Pope discussed the need for reliable base load power from non-solar sources, which must be available regardless of the weather.

Value comparison of TECO v. JEA to a potential buyer: Mr. Pope provided some basic comparative data for the two utilities but expressed reluctance to speculate on what potential buyers might value since the utilities are very different in some respects (public utility v. private utility; JEA has water and sewer service but not natural gas, TECO has the opposite portfolio).

In response to a question from Council Member Dennis about JEA’s reactions over the years to market changes and whether JEA is looking forward at forecasting future market changes, Mr. Pope said that JEA has always tried to be future-looking and changing technology is making that practice ever more important. The new leadership at JEA has a new perspective on how the utility should be dealing with market and regulatory changes in an industry that is facing substantial changes. Council Member Dennis said that he had told Mr. Zahn earlier in the day that he wanted the conversation about potentially selling JEA to stop, not just pause as was discussed at the last meeting. Council Member Gulliford noted that JEA has been under substantial pressure from the bond rating agencies about its excessive debt level and is making good progress to rein in that debt and preserve its strong bond ratings, for which the utility should be commended.

How other utilities are diversifying: Mr. Pope briefly described a list of 6 areas in which other utilities are expanding their operations: energy marketing; oil and natural gas gathering and processing infrastructure; renewable energy development; distributed generation; liquid natural gas terminals; telecommunications (fiber/cell towers). Council Member Gulliford suggested that JEA is in a better position than most companies to market solar installations directly to its customers. He also suggested that a good strategic look at JEA’s future should probably include commissioning an outside perspective from a utility expert that could add to JEA’s internal expertise. Council Member Morgan requested definitions and examples from Mr. Pope of the 6 diversification areas.

The committee was in recess from 4:49 to 4:59 p.m.

Council Auditor report

Principal Auditor Phillip Peterson distributed and discussed several items of information requested by the committee at its last meeting.

Impact to residential bills of doubling JEA’s annual contribution to the City: the monthly impact to the residential electric bill (assuming 1,000 kWh usage) is an additional $9.18 (+7.4%); the monthly increase in the water bill (assuming 6,000 gallon consumption) is an additional $1.27 (+5.5%); the monthly increase in the sewer bill (assuming 6,000 gallon consumption) is an additional $2.34 (+4.9%).

JEA membership dues payments: supplemental to Tab 5 previously distributed, JEA’s membership dues and sponsorships over the past 5 years have ranged from $257,103 to $563,240.

Detail of JEA’s investments:

JEA Treasurer Joe Orfano said that JEA’s investment strategy is extremely conservative and primarily based on safety and preservation of capital. Investments are made in municipal bonds, commercial paper, money market funds, and U.S. Treasury funds. In response to a question from Council Member Becton about JEA’s strategy regarding holding funds in cash and very low risk assets versus paying down debt versus investing in somewhat higher risk/reward investments, Mr. Orfano said that he had previously distributed the utility’s reserve fund policy and would provide it again. Funds are segregated into several restricted use funds with different requirements and goals. In response to a question from Council Member Dennis about whether the $65 million shown on the investment portfolio as “PFM Money Market Fund” is related to the PFM consultant that produced the valuation report on JEA in January, Mr. Orfano said that the investment is actually in the Florida Education Investment Fund which is managed by PFM Asset Management a subsidiary of a company with which PFM Consulting is also affiliated, but a completely separate entity that manages $79 billion in assets. Council Member Anderson said that in his experience, this type of multi-line company is not unusual and that the various business lines are separately and tightly regulated.

In response to a question from Council Member Becton about the potential to invest JEA’s funds with Jacksonville-area investment opportunities rather than investing in funds that hold assets from all over the country, Mr. Orfano said that diversification of investments is very important, and investment decisions are often made based on availability at the time of a transaction and competitive market forces. JEA can’t always invest in the assets it most prefers because of competition from other investors for those same assets. Mr. Becton suggested that JEA could consider investing in the City’s bonds as a gesture of good faith in support of the local community. Mr. Orfano said that some of the City’s revenue bonds are rated a bit less than those in which the JEA normally invests, but he will discuss the concept with JEA’s financial team.

Public Comment

Dwight Brisbane asked what the plans are for addressing the long term obligations to the Plant Vogtle nuclear facility in Georgia and how JEA can invest its assets to provide better service to the community.

Jason Baber said that he supports Council Member Dennis’ ordinance to give the City Council control of the appointment of 4 of the 7 JEA board members and feels that it should apply to more boards and commissions. He also recommended consideration of adding elected official and City employee representation to boards. Mr. Baber said that he has seen a listing showing Jacksonville as #19 in the ranking of the top 20 cities in the U.S. for use of solar power, and JEA’s use of solar is growing.

Future items

* Crescimbeni – what water and sewer grants are available to IOUs as well as municipal utilities
* Crescimbeni – request additional information on the ownership of the solar power generators with which JEA has power purchase agreements
* Hazouri asked for a list of what commercial and residential customers (names redacted) in Jacksonville have facilities to generate their own solar power and what JEA pays them for net metering; Crescimbeni asked for solar installation growth rates in recent years; Hazouri – what’s the impact on JEA of solar net metering; Gulliford – what is the cost of producing a kilowatt hour of power by JEA’s large scale solar producers versus individual customer on-site installations; Morgan – map solar installations in Jacksonville; Wilson – describe how JEA got to the current 14MW of solar capacity and what the plan is for future expansion of solar
* Morgan - definitions and examples of the 6 utility diversification areas
* Council Auditor – look at the PFM investment and whether there is any concern about potential conflict of interest

Next meeting – May 3rd at 3:30 p.m.

**Meeting Adjourned**: 5:40 p.m.

Jeff Clements, Council Research Division

4.30.18 Posted 5:30 p.m.