

**OFFICE OF THE CITY COUNCIL**

**RESEARCH DIVISION**

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**CITY COUNCIL LUNCH-AND-LEARN MEETING MINUTES**

**JEA PRESENTATION**

**April 17, 2019**

**11:00 a.m.**

**Location:** Lynwood Roberts Room, 1st floor, City Hall – St. James Building; 117 West Duval Street

**In attendance:** Council Members Aaron Bowman (President), Danny Becton, Anna Lopez Brosche, John Crescimbeni, Al Ferraro, Terrance Freeman, Bill Gulliford, Tommy Hazouri, Jim Love, Ju’Coby Pittman, Matt Schellenberg, Randy White, Scott Wilson

**Excused**: Council Members Reggie Gaffney, Garrett Dennis

**Also**: Council Members-elect Ron Salem, Matt Carlucci, Rory Diamond, Michael Boylan; Cheryl Brown – Council Secretary/Director; Kyle Billy, Phillip Peterson and Jeff Rodda – Council Auditor’s Office; Carol Owens and Jessica Matthews – Legislative Services Division; Jeff Clements – Council Research Division; Aaron Zahn, Herschel Vinyard, Jordan Pope, Kerri Stewart, Mike Hightower, Ryan Wannemacher - JEA

**Meeting Convened**: 11:14 a.m.

Council President Bowman convened the meeting and welcomed the attendees and gave a brief safety overview. He introduced JEA Chief Executive Officer Aaron Zahn to make the presentation.

Mr. Zahn introduced the JEA leadership team in attendance and announced that today was his one-year anniversary as JEA’s CEO. He reviewed JEA’s guiding principles (customer value, financial value, environmental value and community impact value) and five focus areas for future success (create an adaptive culture, align to a pervasive commitment to profitability and value, create a platform for customer choice, de-risk the business, and adopt a 10-year strategic plan in line with the Guiding Principles). He said that profitability is a key value because the utility has billions of dollars of debt that needs to be repaid in the future, which can’t be done without financial security. He invited the City Council to opine on its four guiding principles and propose others if they believe they are mutually important to JEA and the City. He said that the JEA corporate culture is changing from “not failing” to “succeeding” and JEA is creating an adaptive culture to face a changing world. A 10-year strategic plan is being developed to address the new realities of the marketplace.

Accelerating water innovation – JEA is at an all-time low in discharging nitrogen to the river despite a growing number of customers (nitrogen down 60% while the population grew by 37%). As a result, Jacksonville did not see the red tide and blue/green algae problems that many other Florida jurisdictions did last summer. An RFP is in the works to find new, innovative ways to replace septic tanks. A looming concern is the water supply constraint of the Floridan Aquifer, which may not be sufficient to meet future needs as the area’s population grows. JEA is issuing an RFP for a regional biologics recycling facility (combination of sewage solids and food waste) that could generate methane for sale. Water conservation is vitally important and an aquifer recharge project is being explored. The emphasis has changed from an open system model of pulling water from the aquifer to use and then dispose into the river via a wastewater treatment plant to considering water as closed system the emphasizes treatment, recovery and re-use. Mr. Zahn said that JEA’s water system is one of the strongest water utilities in the country. The utility has invested $4 billion since 1997 in water infrastructure, has $1.2 billion of expenditures planned over the next 5 years and potentially $3 billion planned for expenses beyond 2024, depending on how the septic tank issue is solved. The water/sewer system requires $210 million per year in recurring operating expenses.

Septic tank phase-out – the JEA and City have jointly committed $45 million to the initial phase of septic tank phase-outs; 1 project is out to bid, 1 is in the design phase, and 1 is in the community approval process. An RFP for new, innovative septic tank replacement methodologies is in the works looking for a less costly option.

Electricity – since 2005 and the adoption of the Federal Energy Policy Act (with its heavy conservation focus), electic sales have declined despite 65,000 new accounts so rates have had to increase to cover the costs of the system and the annual contribution to the City. 408 jobs have eliminated since 2008 and customer rates have increased by 71%, going from lowest in the state to the middle of the pack. Over $1 billion of potential infrastructure investment has been diverted to accelerate debt reduction payments to deal with an over-leveraged debt position.

Solar power – its growth is increasingly cutting into JEA sales ($2.5 million lost revenue per year) and caused JEA to change its net metering policy from retail cost of electricity to JEA’s avoided cost. In February 2019 the first house in Jacksonville left JEA’s electric system to go wholly to self-generated solar power and batteries – it’s the beginning of a trend that JEA must address.

JEA will be doing a 10-year financial and business model study for how to deal with the future of its industries. It will be a 3-point study – what if JEA maintains its current business model status quo and don’t change, what if it make the changes its charter currently allows to enter other business lines, and what if the sky is the limit and the authority could do anything it wants. Mr. Zahn said will be coming back to the City Council to request changes in JEA’s charter to deal with its new business realities. JEA is searching for ways to replace internal combustion engines with electric engines (i.e. Jaxport cranes, JTA buses, etc.) to grow sales and save customers money. The same goes for the water side of the business. JEA has to think outside the box and not be dictated to by the changing marketplace.

Questions and answers

Council Member Ferraro – what’s the future for septic tank phase-out? Zahn – JEA is going back to the drawing board to see what it will take to get rid of all 65,000 septic tanks in the county. Extension of the centralized sewer system can’t be the solution because it’s too expensive (estimated at $2.5 billion), so distributed treatment systems like package plants (once again feasible because of much better technology than they used to utilize) may be the answer.

Council Member Ferraro - can downtown buildings be solar energy self-sufficient? Zahn – likely no, but solar micro-grids are coming for larger developments like business parks and JEA has to find a way to be a part of that solution.

Council Member Ferraro – are batteries for solar system storage being produced domestically? Zahn – yes they are. Solar power/storage battery systems will be competitive with JEA’s rates by 2024 or 2025, so the utility needs to get into that business to protect is future revenue stream.

Council Member Gulliford – will sewer package plants be practical for new developments and will their use require legislation? Zahn – yes, legislation will be necessary to change City development standards after it becomes clear what new standards are needed.

Council Member Hazouri – what’s the long-term plan for financing septic tank phaseouts? Zahn - the $45M program currently funded allows homeowners to avoid the cost of connection fees for the first few neighborhoods. Replacing all 65,000 existing septic tanks would cost $2.5B which is too much – new technology needs to be identified that brings the cost way down. JEA has not committed to future funding of septic tank phase-outs since it’s the City’s liability not JEA’s and their bond covenants don’t allow differential rates among customers.

Council Member-elect Salem – what’s the status of the JEA annual contribution agreement and what is the prospect for undergrounding utilities? The contribution is currently $118M and will grow 1% each year through 2023; in the latest agreement extension the JEA also agreed to fund some river gauges and to transfer water quality credits to the City at no cost. The City put out an RFP for such credits recently and found they’re worth $200,000 apiece. JEA’s credit transfers have a value of $8.5M, and it will pay for the research on new septic tank phase-out technologies.

Council Member Schellenberg – big industrial companies (like Anheuser Busch) are actively working on achieving energy independence. Zahn – the big tech companies (Amazon, Google) are all getting into the energy business to feed the power needs of their server farms, so JEA has to respond. Commercial and industrial solar power is beginning to be cost effective for companies so will be an increasing challenge. JEA must carry the fixed cost and debt load for maintaining and operating 12M Mwh of legacy infrastructure.

Council Member Carlucci – aren’t all electric utilities in the same boat? Zahn - yes, everyone’s facing the same problems. JEA intends to be data-driven and transparent in its deliberations and to give customers the best possible service.

Council Member Pittman – how do we educate customers about the importance of water supply? Zahn – JEA has to heavily promote conservation because it’s a relatively easy and cost-effective part of the overall solution, and JEA plans to reach out to the entire community by all available means.

Council Member Love – what’s the future of sewage package plants? Zahn – JEA has an RFP out for the latest technology and will be looking for a range of technologies that work in many different kinds of neighborhoods.

Council Member Love - when is JEA going to get into the natural gas? Zahn – JEA would love to get into business if and when the City Council approves a charter change to allow it. TECO/People’s Gas currently holds the franchise to serve this area with gas. JEA has changed its mission from “electricity” provision to “energy” provision, which could be gas, could be solar, could be LNG, could be lots of things beyond just electricity. The City is the major shareholder of JEA and the City Council has an important role to play in determining what business lines the utility will be in.

Council President Bowman – going to New York with JEA to brief the bond rating agencies is an eye-opening experience. He urged the council members to read all the data in the briefing books provided by JEA to get into the details of their finances. He commended the JEA for being a good economic development partner with the City. He noted that the decennial Charter Revision Commission will be coming up soon and that will be an opportunity to deal with proposed JEA changes.

Council Member Hazouri - is there any work that JEA needs done at the state and federal levels aside from the amendments to the local JEA charter? Zahn - JEA wrote a bill that the Legislature will soon pass that deals with utility cybersecurity and the confidentiality of JEA’s internal security procedures. Another bill protecting JEA customer data from public disclosure is also pending. JEA will send both bills to City Council for their information.

Mr. Zahn reported that the annual statewide hurricane preparedness drill will be coming up the first week of May. JEA will be doing a cybersecurity preparedness drill as well this year.

President Bowman announced that the on May 13th the Jacksonville Port Authority will host a “brunch and learn” at the Jacksonville cruise ship terminal to make its annual report, and the Jacksonville Aviation Authority lunch and learn will be on May 30th in City Hall.

**Meeting adjourned:** 12:28 p.m.

Minutes: Jeff Clements, Council Research Division

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4.17.19 Posted 5:00 p.m.

Tape: City Council Lunch-and-Learn meeting 4.17.19

JEA presentation - LSD