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JEA Board approves exploring non-government ownership

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JEA Board of Directors (JEA web stream)

July 23, 2019 at 6:51 pm EDT

By Stephanie Brown

Jacksonville, FL – It was framed as an either-or decision: does JEA shrink in to the future, or does it grow?

“We’re talking about exploring options to grow and protect JEA from what would otherwise be a slow but certain death spiral,” says JEA Board Member Alan Howard.

After months of detailing relatively grim options for the future involving layoffs, rate hikes, and more, JEA’s Senior Leadership Team has now

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put forward details of an alternative “non-traditional” response, which would spare those consequences by removing JEA from the City of Jacksonville’s government structure. The Board of Directors voted Tuesday to move forward with exploring that “non-traditional” response to solicit and study community or private ownership of the utility.



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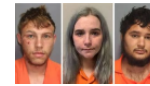
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“We did not vote today to sell JEA. I think it’s important that we say that. What we exactly did today, specifically what did today, was we gave leadership direction to pursue an unconstrained, non-traditional response to make JEA better for the employees, for the community, as a whole,” says JEA Board Chair April Green.

This all comes as part of JEA's strategic planning process. Leadership has said in recent months that continuing on JEA's path without any change would lead to [electric rates climbing 52% by 2030, with water rates up 16%](#). This is the result of several factors, including continued moves toward energy efficiency by customers, which [largely means less revenue for the utility](#). To avoid this outcome, JEA rolled out a [proposal for what they deemed "austere" changes last month](#), involving 574 layoffs and more moderate rate hikes.

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“We are accustomed as a leadership team and as a team of employees to providing excellence in everything we do for our customers. Under this scenario, the cost cuts are so deep, and the personnel cuts are so deep, that there’s no way we could continue to provide that level of excellence to our community,” says JEA President and Chief Operating Officer Melissa Dykes.

Dykes confirmed Tuesday that the layoffs were projected to take place within the first seven months of moving forward with this scenario. Last month, JEA’s Board of Directors voted to move forward with planning for that proposal, but said at that time that they wanted more information about other paths that could be taken. New concerns were raised Tuesday about whether these steps would even go far enough.

“Unfortunately, the traditional utility response doesn’t fix the problem with the declining business. Although the austere response shifts some of the financial burden of the cash gap away from our customers, at the end of this period, JEA is still left with far too much debt for a business that’s facing the external competition that we’re expecting,” Dykes says.

“When you talk about the traditional response, [option] 1 or [option] 2, it’s like writing your own obituary,” says Board Vice Chair Frederick Newbill.

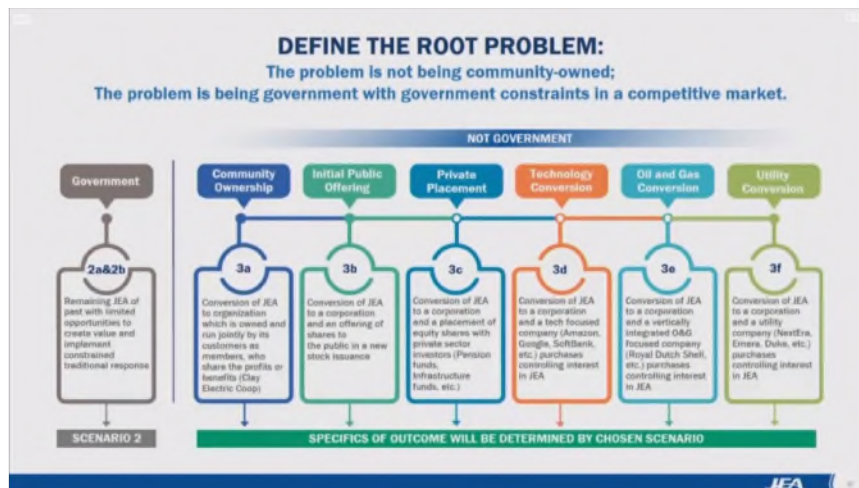
JEA leadership had previously talked about an alternate “non-traditional” approach, but Tuesday’s Board meeting was the first time more information was provided about what that would look like.



“While it would still require a process with an uncertain outcome, it is a local process, where we as a community get to decide the best path for our community utility, so that it can continue to serve this community for generations to come,” says JEA Chief Financial Officer Ryan Wannemacher.

There are several different possibilities, but the commonality is removing JEA from the city government structure and putting it in to the hands of community or private ownership. The Board ultimately voted to move forward with this option instead, saying they want to work on growing JEA in to the future, and this is the way to do it.

[JEA's Managing Director and Chief Executive Officer Aaron Zahn](#) says they only started delving in to these non-traditional options in the last month, after the Board said they wanted other ways to move forward. In that time, he says they have put together the general framework for different possibilities, although they have not yet fully analyzed how each would work with key metrics like customer rates and environmental stewardship. The options they laid out include a range from community control to running as a private operation to partnering with some other company, including major tech or oil and gas.



JEA Board approves exploring non-government ownership JEA Board approves exploring non-government ownership (JEA)

CONSTRAINT PROFILE OF ALTERNATE STRUCTURES:
While management cannot currently outline specifics of each alternative, it can provide an analysis of constraints

	2a&2b	3a	3b	3c	3d	3e	3f
BUSINESS OPPORTUNITIES	Government	Community Owned	Initial Public Offering	Private Placement	Tech Conversion	Q&Q Conversion	Utility Conversion
Sell more electric and water services	✗	✓	✓	✓	✓	✓	✓
Cut costs and workforce	✓	✓	✓	✓	✓	✓	✓
Increase customer rates	✓	✓	✓	✓	✓	✓	✓
Investment in R&D and IP for an ROI	✗	✓	✓	✓	✓	✓	✓
Sell alternative new product lines/offerings	✗	✓	✓	✓	✓	✓	✓
Sell equity and retire debt	✗	✗	✓	✓	✓	✓	✓
Acquire new businesses & customers	✗	✓	✓	✓	✓	✓	✓
Reduce investment in capax	✓	✓	✓	✓	✓	✓	✓
Reduce dividend / city contribution	✗	✓	✓	✓	✓	✓	✓
Sell assets	✗	✓	✓	✓	✓	✓	✓
Create partnerships / Joint ventures	✗	✓	✓	✓	✓	✓	✓



JEA Board approves exploring non-government ownership JEA Board approves exploring non-government ownership (JEA)

As part of this exploration, JEA says there will be "minimum requirements" to any deal. That will include customer rebates, base rate stability, protections for employee compensation and retirement benefits, [moving forward with a new Downtown headquarters](#), and more. The Board also committed to a one-time cash payment to the City of around \$3 billion, in lieu of future annual contributions. Zahn says JEA does not have that kind of liquidity, and rather this would be something they anticipate any prospective future partner to come to the table with.

Multiple Board members spoke about the importance of these measures, in wanting to ensure the community, customers, and employees alike are all cared for by the current service and as they look at what the future holds. There were concerns expressed at the start of Tuesday's meeting, with several union representatives urging the Board to act with the employees in mind.

"We advise our members to focus on safety and concentrate on their job, but it is extremely difficult after the last couple of Board meetings focused on solutions that were not only detrimental to our member's livelihoods, but were completely lacking some hope at times," says Jesse Ferraraccio, with IBEW Local 2358.

The overall purpose of this undertaking is to give JEA the strategic, financial and operational flexibility to achieve its vision to improve lives in the Northeast Florida Community.

	Status Quo	Minimum Requirements
Financial	1. <\$2 billion of value to the City of Jacksonville ¹	1. >\$3 billion of value to the City of Jacksonville
Customers	1. \$0 customer distributions 2. Significant rate increases required over next several years	1. >\$400 million of value distributed to customers (\$350+ paid to each JEA account - \$1,400+ for customers with electric, water, sewer and irrigation accounts) 2. At least 3 years of contractually guaranteed base rate stability
Environmental	1. Viable renewable energy requirements at 0% funding 2. Viable sources of alternative water capacity at 0% funding	1. Commitment to fund and provide City of Jacksonville and Duval County Public School system 100% renewable electricity by 2030 2. Commitment to fund and provide 40 million gallons per day of alternative water capacity for Northeast Florida by 2035
Community Impact	1. Status quo retirement obligations 2. No employment guarantees and termination of ~600 employees 3. No retention payments to employees 4. JEA leaves downtown, moving new headquarters to existing office space to house smaller workforce and minimize cost	1. Protection of certain employee retirement benefits 2. Guarantee of employee compensation and benefits for three (3) years 3. Retention payments to all full-time employees of 100% current base compensation 4. Commitment to new headquarters and employees in downtown Jacksonville contributing to the economic development of the community

¹NPV of JEA's expected contribution to the City of Jacksonville over the next 20 years.



JEA Board approves exploring non-government ownership JEA Board approves exploring non-government ownership (JEA)

Removing the government control element is vital for the future of JEA, according to the utility, because of the barriers for future growth that exist in the current dynamic. Leadership cited examples like provisions of the Florida Constitution that could preclude them from working in electric vehicles, terms of the City Charter that prevent geographic growth, public records laws that could put them at a competitive disadvantage in new developments, and more. While they projected they [could have some success in changing the City Charter](#), they estimated a change to the Constitution to be a costly battle with a very small chance of success.

They, therefore, believe that removing themselves from the government arena is the most effective way to get rid of those existing barriers for growth.

Tuesday's vote triggers what is expected to be a roughly year-long process, during which time the Senior Leadership team will actively solicit offers and study the different non-government ownership structures they presented, as well as any they have not. They will then present those to the JEA Board, along with the "traditional response" that involves layoffs and rate hikes. The Board will vote, and if they decide to take on a restructuring, the decision would then have to pass through the City Council, [and then the voters.](#)



Timeline for JEA's non-government ownership exploration (JEA)

Several Board Members questioned how confident the leadership team was about the grim projections and the need to act on them. Dykes acknowledged that there have been big events that have led to inaccurate projections in the industry before, but says they factored in more than two dozen variables in this analysis.

“Is it gonna be 100% right? It’s not. But this is our best guess and our best projection of where this business is headed over the next ten years,” she says.

“The true value of a projection or forecast is that it enables us to envision where we could end up in the future, while there is still time to pull the respective levers and change the course of the organization, versus getting to our destination and merely reporting back on what happened,” says Board Member Kelly Flanagan.

JEA has floated privatization in the past, which ultimately led to a politically charged debate and the creation of a special City Council committee to study the matter. At the time, the idea was put out as a [desire to understand the value of JEA](#), but leadership argues it became a debate on whether to sell, which they say is not what they had intended.

That [prior "exploration" stalled out](#) early last year, when [Jacksonville Mayor Lenny Curry said that he would not put forward any privatization plan](#) for City Council consideration. Given that, WOKV reached out to the City for a response to today's vote by JEA's Board, and a statement from

Curry says whatever path JEA takes must have guarantees to the community.

I reached out to the City for their take on today's vote by JEA's Board to explore private or community ownership. Response from Mayor Lenny Curry says whatever path JEA takes, there must be guarantees to the community: pic.twitter.com/7hF1JDz1sl



– Stephanie Brown (@SBrownReports) [July 23, 2019](#)

The City Council liaison, Danny Becton, says there needs to be some out-of-the-box thinking.

“JEA is at a crossroads. Like many companies that we see in today’s ever-changing world of technology advances and innovation, JEA is no different,” Becton says.

Privatization talks in the past raised a number of concerns, including that a private company would not be eligible for the same disaster relief funding that the municipal-owned JEA gets, and that it could also lead to a dynamic where the utility is less responsive to community needs and concerns.

WOKV asked Zahn if the utility is in a good position for the next year, so that they can stay financially sustainable while considering these options, and not have to make any immediate rate changes or layoffs.

“It is a calculated risk that we are taking to delay action today by 6-12 months to see if the minimum requirements set forth today can come to fruition,” he says.

He hopes the steps they’re taking to be deliberate in the management of JEA will prevent any fiscal crisis like he says they could face without change.

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