

Opinion

Sunday Editorial: For JEA, change is needed, the death spiral is not acceptable

By The Florida Times-Union Editorial Board

Posted Aug 4, 2019 at 2:01 AM

Selling JEA has always been the wrong issue, a deceptive question that keeps both sides in a quagmire.

JEA CEO Aaron Zahn has consistently said this from day one, but cynics and skeptics refused to listen.

Now, after months of painstaking research into JEA's future, the real issue is clear.

Do you want JEA to shrink or grow?

The question is not academic. JEA's water and electric revenues have been shrinking for over a decade as customers have conserved. However, most people weren't aware of that fact.

JEA raised rates by 71 percent from 2006 to 2018, the work force was cut by over 400 people and other savings were made, which kept most bills from skyrocketing.

Previous management talked about the revenue pressures but the message wasn't loud and clear. Though JEA's annual contributions to the city have topped \$100 million in recent years, staying with the status quo would mean no city contributions past 2023.

Not until a special City Council task force delved into JEA did the problems become more apparent.

Even today, Zahn says, some think the revenue shrinkage is a mirage. Well, it's real. And it's not limited to JEA.

"If public power utilities do not face these challenges, we could lose our customers' business and risk being disrupted. Indeed, we could be left behind," said Sue Kelly, CEO of the American Public Power Association at the association's national conference in June.

For the future, the status quo option is continuing in a death spiral. It involves more revenue reductions, more rate increases, layoffs, more customers fleeing the system as they install solar electric systems or invest in conservation, no Downtown headquarters but leased space in the suburbs and a reduction in quality service as revenues shrink.

The JEA Board at its recent meeting was depressed by that outlook.

“It’s like writing your own obituary,” said Board Member Frederick Newbill.

Newbill used another analogy, it is like being in a boat taking on water, knowing it is about to sink.

And the revenue pressures are going to get worse. Sometime in the next decade, solar electric systems with battery backups will be cheaper than JEA service. That will put the death spiral into overdrive.

Meanwhile, eight of JEA’s top 10 customers have plans to reduce their energy usage. That includes the U.S. Navy, the biggest customer. If the Duval County school district embarks on a \$2 billion consolidation, renovation and rebuilding program, energy use may be reduced, too. The city of Jacksonville has no plans for major energy reductions.

So what’s the alternative to the death spiral? That’s the growth option, which means entering new lines of business.

As Zahn’s team looked at new revenue opportunities, they saw roadblocks at every turn. Those roadblocks are meant to keep government from competing with private business.

For instance, JEA is restricted in most cases by state and local laws from entering these lines of business:

- Selling more electric and water services.
- Selling alternative product lines.
- Selling equity to retire debt.
- Acquiring new businesses and customers.
- Expanding out of its current geographic area.
- Reducing the city contribution.

- Selling assets in some cases without City Council approval.
- Creating partnerships and joint ventures.

JEA managers evaluated the chances of eliminating the restrictions. The outlook is grim.

Changing the Florida Constitution to allow JEA to enter the private sector would take up to five years and would have less than a 5 percent chance of success.

Obtaining exemptions in public records laws that would prevent JEA's new business information from being shared would take about two years and have less than a 20 percent chance of success.

Obtaining a change in the city charter to allow JEA to enter lines of business has a better outlook, about a 50 percent chance of success.

Trying to create all of these exceptions, one at a time, would be a gauntlet that would take years and probably would fail for good reason. Government should not be competing in the private sector.

So removing JEA as a governmental entity would create all of these opportunities in one fell swoop.

As a result JEA is looking for some non-governmental structure that will free it to enter new lines of business. It could continue to be community owned, however.

A non-governmental structure could mean a lot more than just being purchased by another utility like Florida Public & Light.

Among the options mentioned by Zahn:

- Community ownership, something like a co-op; Clay Electric Co-op, for instance.
- An IPO, an Initial Public Offering, in which shares would be floated to the public. Priority could be given to JEA customers.
- Private placement with equity held by investors. Many of JEA's bond investors may be interested, such as the IBEW labor union or the state pension system.

Under JEA's conversion scenario, it would only happen if customers and employees are protected.

That would mean:

- More than \$3 billion of value to the city, which would compensate for the loss of the annual contribution.
- More than \$400 million distributed to customers, about \$350 per account.
- No increase in base rates for at least three years.
- A commitment to produce 100 percent renewable energy for the city of Jacksonville and Duval public schools by 2030.
- Protection of certain employee retirement benefits, retention payments to all full-time employees at 100 percent of compensation and maintenance of substantially comparable employee pay and benefits for three years.
- A commitment to a new headquarters building Downtown.

JEA has laid out its timeline:

- A solicitation offering has gone out.
- By February 2020, investment advisors will present recommendations on how JEA can achieve maximum value for its employees, customers and shareholders.
- By March 2020, the JEA board will vote on its recommendation and send this to City Council to review.
- If City Council approves, by midyear of 2020 the public will have a chance to vote on the proposal.

Some sort of community ownership of the utility would seem preferable.

Board members showed no enthusiasm for the status quo, the death spiral.

Sometimes the status quo is more frightening than change.