

**From:** [Microsoft Outlook](#) on behalf of [Michael Munz](#)  
**To:** [Kyle, Gina A. - Manager Media Relations](#)  
**Subject:** FYI  
**Date:** Tuesday, October 15, 2019 10:25:46 AM  
**Attachments:** [FYI.msg](#)

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Subject: FYI

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Recipient: kylega@jea.com

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**From:** Michael Munz <mmunz@daltonagency.com>  
**Sent:** Tuesday, October 15, 2019 10:26 AM  
**To:** Kyle, Gina A. - Manager Media Relations  
**Subject:** FYI  
**Attachments:** 2019-10-15 Letter from AZ to CDB - vFINAL.pdf

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This is the final version of the letter that we worked on that went to the Councilman. FYI only - no action required.

The power of different.

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21 West Church Street  
Jacksonville, Florida 32202-3139

The Honorable Danny Becton  
Jacksonville City Councilman  
117 W. Duval Street, Suite 425  
Jacksonville, FL 32202



October 11, 2019

Dear Councilman Becton:

Thank you for meeting with me and Chairwoman Green. We appreciate you sharing with us your concerns about the City Council and community's understanding of: i) JEA's strategic planning process; ii) the active and competitive Invitation to Negotiate (ITN) 127-19 (JEA Strategic Alternatives); and, iii) developing a constructive communications process between JEA and Jacksonville City Council. It was beneficial for us to hear the common misunderstandings and misinformation that is currently prevalent in our community regarding each of the aforementioned points.

The intent of this letter is to set the record straight on each of the above points and provide clarity on decisions that have, and have not, been made regarding JEA's strategic plan.

**1. What is the overall timeline and expected decision timelines related to JEA's strategic planning process?**

Expected timeline of planning process: January 2019 through March 2020

In January 2019, I initiated a very open and transparent scenario-based strategic planning process that was conducted at public board meetings. Any interested person, or entity, can review the dialogue, materials, and analyses of JEA's strategic planning process by visiting: [https://www.jea.com/About/Board\\_and\\_Management/Board\\_Meetings/](https://www.jea.com/About/Board_and_Management/Board_Meetings/)). In addition, JEA has created the following website to factually answer frequently asked questions ("FAQ's") [www.whatsnextjax.com](http://www.whatsnextjax.com). The conclusion of JEA's strategic planning process is currently planned for March of 2020.

Team working on JEA's strategic planning

I am leading the strategic planning process. The strategic planning process is aimed at maximizing, both now and in the future, JEA's four basic measures of value of JEA – *Customer Value, Community Value, Environmental Value and Financial Value*. In order to be successful, JEA is evaluating and will determine the best course of action for the management of these core items, including but not limited to: i) JEA's culture; ii) JEA's assets; iii) JEA's business model and pricing to our customers; iv) JEA's liabilities and risks; v) potential growth

opportunities; vi) JEA's access to capital; and, vii) limiting factors to JEA's growth and continued ability to perform.



Input and analyses are being compiled from and by: i) the entire JEA leadership team; ii) JEA's Board; iii) over 100+ JEA directors and managers; iv) JEA's union leaders from IBEW, LIUNA, JSA, AFSME and PEA; v) employees that worked for six-months on the analytics; and iii) one of the preeminent energy consultancies, McKinsey & Co.

## **2. What should the Jacksonville City Council and the community expect at the end of the strategic planning process?**

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First and foremost, neither JEA's Board nor I, as CEO, have reached a conclusion or made a recommendation as to JEA's business strategy for the next 10 years. Neither JEA's Board nor I have made a decision that recapitalization of JEA is in the best interest of JEA, JEA's customers, or our community.

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**At the conclusion of the strategic planning process, JEA's Board is expected to approve a strategy for JEA's next 10 years. The conclusion, as mentioned above, is currently planned for March of 2020.**

The Jacksonville City Council and community should expect JEA's Board and senior leadership team to recommend one of the following five options:

- 1) Scenario #1: Status Quo Plan;
- 2) Scenario #2: Traditional Utility Response Plan;
- 3) Scenario #3: Community Ownership Plan;
- 4) Scenario #4: Initial Public Offering (IPO) Plan; or,
- 5) Scenario #5: Strategic Alternative from ITN 127-19.

At this time, JEA has completed the work and analysis necessary to outline plans and anticipated results for Scenario one: Status Quo and Scenario two: Traditional Utility Response. These plans and anticipated results were presented in-depth at the May 28, 2019, and June 25, 2019, JEA Board meetings.

For additional details on each of the five (5) potential choices and a summary of each scenario please see below: Attachment A – Summary of Scenarios and Potential Results.

JEA is still completing the work necessary to fully analyze and outline the potential results of scenarios three, four, and five. In order to fully evaluate and analyze the potential of each of these scenarios JEA's management, authorized by the JEA Board, engaged the following world class experts: JP Morgan, Morgan Stanley, Pillsbury Winthrop and Foley & Lardner.

It is absolutely critical the City Council and public understand that active competitive solicitation ITN 127-19 (JEA Strategic Alternatives) is only one of the five potential plans that will be evaluated by the Board of Directors of JEA in March 2020.



Finally, in the event JEA's Board makes a decision to pursue scenarios two, three, four or five, the Jacksonville City Council's input and partnership will be necessary to move forward.

### **3. What is the purpose of ITN 127-19 (JEA Strategic Alternatives) and why did JEA issue ITN 127-19?**

#### **The purpose of ITN 127-19**

On August 2, 2019, JEA released an Invitation to Negotiate (ITN 127-19 Strategic Alternatives) to evaluate proposals on strategic alternatives to build upon JEA's strengths and seek to eliminate certain existing business constraints. For more information on the business constraints see the July 23, 2019, JEA Board package for a detailed analysis. (Link here: [https://www.jea.com/About/Board\\_and\\_Management/Board\\_Meetings/](https://www.jea.com/About/Board_and_Management/Board_Meetings/))

The objective of the Invitation to Negotiate (ITN) is to evaluate proposals on strategic alternatives that are aligned with JEA's goal of maximizing customer, community, environmental, and financial value over the long term. JEA will consider proposals from 3<sup>rd</sup> parties that build upon JEA's strengths and seek to eliminate certain existing business constraints.

#### **Why JEA Issued ITN 127-19**

Simply, scenario five: strategic alternative from ITN 127-19, involved JEA partnering or working with third parties in a manner beyond the direct control of JEA's management team. These third parties have substantial capital and resources that may help JEA achieve its goals of maximizing customer, community, environmental, and financial value over the long term.

In all third party engagements, JEA strictly adheres to Florida Statutes and the JEA procurement code to safeguard public interests. JEA issued ITN 127-19 using applicable Florida Statutes to drive a competitive process to ensure integrity of the process and proposed responses received from third parties by JEA.

#### **Past deadlines:**

- Written questions due via email to the designated Procurement Representatives on 2:00 p.m. on September 10, 2019.
- Replies and all required documents due to the JEA Procurement Bid Office on 12:00 p.m. on October 7, 2019.

Next steps:

- Bid evaluation meeting was held at 4:00 p.m. on October 14, 2019. The meeting was live-streamed and may be watched by anyone on [www.jea.com](http://www.jea.com).
- Negotiation phase to begin October 15, 2019.



#### **4. How can City Council and JEA have constructive dialogue about JEA's future?**

Prior to my becoming CEO, the Jacksonville City Council hosted a subcommittee to study JEA. On February 20th, City Council President Anna Lopez Brosche created the special committee on the potential sale of JEA with five members: Council Members John Crescimbeni (Chair), Danny Becton, Anna Lopez Brosche, Garrett Dennis and Joyce Morgan.

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The committee was charged with four tasks:

- Understand all aspects and implications (who, what, when, where, and why) of a potential JEA sale, and the roles that various parties to such a potential sale will play in the process.
- Conduct necessary meetings and hearings to gather relevant facts the entire City Council should consider in its decision(s) related to a potential sale of JEA.
- Offer monthly (or more frequent, as necessary) updates as to the progress of this work to the City Council at its regular meetings.
- Make recommendations to ensure a transparent and open process for the citizens of Jacksonville as to the consideration of a potential sale of JEA.

The report produced by the subcommittee of City Council may be found at the following link: [http://apps2.coj.net/City\\_Council\\_Public\\_Notices\\_Repository/20180726%20Final%20Report%20Future%20of%20JEA.pdf](http://apps2.coj.net/City_Council_Public_Notices_Repository/20180726%20Final%20Report%20Future%20of%20JEA.pdf). Of special note, the City Council's report references the prior notice provided at the time (some 16+ months ago in May-June 2018) regarding JEA's approach to strategic planning and our path forward:

*"JEA's Interim CEO Aaron Zahn informed the Special Committee that the JEA board will spend the next six months to a year mapping a strategy for its future in consultation with its employees and stakeholders. He said he has instructed the employees and management of JEA to focus on five 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. Mr. Zahn plans to have the JEA board thinking strategically and planning for a changing future.*

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*He 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”.”*



JEA's Board and management team are in possession of the City Council report on the Future of JEA. JEA has utilized the findings therein to guide important decision making and planning as we pursue a future path for the organization and community.

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Lastly, I am thankful for your willingness to commit significant time to your role as City Council Liaison to JEA. JEA appreciates our partnership with the City Council. I look forward to continuing an open dialogue about how to best serve the people of Jacksonville. My hope is this letter demonstrates that we are actively listening to the concerns of the Jacksonville City Council and the community. JEA is willing to engage in constructive dialogue in order to inform and educate about our business. JEA is committed to considering the Jacksonville City Council's and the community's input in determining JEA's 2030 strategic plan.

As always, please contact me should you have any further questions or concerns around JEA and its strategic planning process.

Sincerely,

A handwritten signature in blue ink, appearing to read "Aaron Zahn", with a stylized flourish at the end.

Aaron Zahn  
Managing Director and CEO

Cc:

The Honorable Lenny Curry, Mayor  
The Honorable Scott Wilson, President  
Jason Gabriel, General Counsel  
Brian Hughes, COJ Chief Administrative Officer  
Lisa Green, Inspector General  
Herschel Vineyard, JEA Chief Administrative Officer  
Lynne Rhode, JEA Chief Legal Officer

## **Attachment A – Summary of Scenarios and Potential Results**

Below is a brief summary of the Scenario #1 and #2 plans with anticipated results.



For additional detail on all of these Scenario's you may access entire presentations and discussions with JEA's Board on [www.jea.com](http://www.jea.com).

### **Scenario #1: Status Quo Plan (Status: Planning Complete)**

Presented at the May, 28 2019 Board Meeting. The Status Quo case reflects a scenario whereby JEA maintains a business as usual strategic plan. This approach necessitates rate increases to customers as the primary lever for dealing with anticipated income shortfalls.

The Status Quo Plan results in the following outcomes:

	2018 Actual	2030 Projection	Change	Change %
<b>Rates (\$ yield per MWh)</b>	62	94	32	52%
<b>Unit Sales (MWh)</b>	12,364,340	11,382,447	(981,893)	(8)%
<b># of Customers - Energy</b>	466,411	542,502	76,091	16%
<b>Rates (\$ yield per kgal)</b>	6.45	7.42	0.97	15%
<b>Unit Sales (kgal)</b>	65,646,920	73,695,324	8,048,404	12%
<b># of Customers – Water</b>	348,159	416,470	68,311	20%
<b>Total Annual City Contribution</b>	116,620	131,256	14,636	13%
<b>Total JEA Headcount</b>	2,191	2,191	0	0%
<b>Total Long-Term Debt plus Contract Debt ('000)'</b>	\$5,110,000	\$4,834,000	(\$276,000)	(5)%
<b>Total Maintenance and Other Operating Exp.</b>	\$393,657 <sup>2</sup>	\$737,376	\$343,719	87%

<sup>1</sup> JEA Long-term debt in October 2019 2018 <sup>2</sup>Actual Maintenance and Other Operating Exp adjusted to exclude SJRPP

- Customer rates increase 52% in the electric system
- Customer rates increase 15% in the water system
- \$276 million of debt repaid, leaving \$4.8 billion of direct + contract debt outstanding
  - Contract debt amortizes through 2062, JEA obligation to pay debt service for all contract debt through 2043

### **Scenario #2: Traditional Utility Response Plan (Status: Planning Complete)**

Presented at the June 25, 2019 Board Meeting. The Traditional Utility Response Plan reflects a strategic plan that implements many of the same tools JEA has utilized over the past 10 years (2006 – 2019). JEA would pursue a combination of cost cuts, headcount reduction, a deferral of capital investment in the community, and rate increases to customers.

The Traditional Utility Response Plan results in the following outcomes as compared to the Status Quo Plan:



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## TRADITIONAL RESPONSE PREPARES JEA FOR ORGANIZED DECLINE



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	2018 Actual	2030 SQ Projection	Change vs 2018	% Change	2030 Traditional Response Projection	Change vs 2018	% Change
Rates (\$ yield per MWh)	62	94	32	52%	78	16	26%
Unit Sales (MWh)	12,364,340	11,382,447	(981,893)	(8)%	Same as SQ	-	-
# of Customers - Energy	466,411	542,502	76,091	16%	Same as SQ	-	-
Rates (\$ yield per kgal)	6.45	7.42	0.97	15%	6.36	(0.09)	(1)%
Unit Sales (kgal)	65,646,920	73,695,324	8,048,404	12%	Same as SQ	-	-
# of Customers - Water	348,159	416,470	68,311	20%	Same as SQ	-	-
Total Annual City Contribution	116,620	131,256	14,636	13%	Same as SQ	-	-
Total JEA Headcount	2,191	2,191	0	0%	1,617	(574)	(26)%
Total Long-Term Debt plus Contract Debt ('000) <sup>1</sup>	\$5,110,000	\$4,834,000	(\$276,000)	(5)%	3,523,690	(\$1,586,310)	(31)%
Annual O&M and Other Operating Exp.	\$393,657 <sup>2</sup>	\$737,376	\$343,719	87%	494,989	\$101,322	26%

<sup>1</sup> JEA Long-term debt in October 2018. <sup>2</sup> Actual Maintenance and Other Operating Exp adjusted to exclude SRRP

- Customer rates increase 52% in SQ1 for the electric system vs. SQ2 rates increase only 26%.
- Customer rates increase 15% in SQ1 for the water system vs. SQ2 rates decrease 1%.
- \$276 million of debt repaid, leaving \$4.8 billion of direct + contract debt outstanding in SQ1 vs. Reduction in debt by additional \$1.3B in SQ2.
- Contract debt amortizes through 2062, JEA obligation to pay debt service for all contract debt through 2043

Importantly, the Traditional Utility Response Plan would also include an effort to pursue constitutional, statute, charter and other legal constraints. JEA has been successful in the past in obtaining legislative changes that impact our business. In fact, in the 2018/2019 fiscal year, JEA originated, authored and led the pursuit of House Bills 327 and 591 last session to benefit all public power customers in the State of Florida.

In the July 23, 2019 JEA Board meeting our team outlined the potential timeline, costs and probabilities associated with these structural changes:

SUMMARY OF TIME, COST AND PROBABILITY OF SUCCESS			
OVERARCHING PUBLIC POLICY QUESTION: <i>Should government compete against the private sector?</i>			
	TIME	COST	PROBABILITY
FLORIDA CONSTITUTION	3-5 years	\$10-12M	<5%
PUBLIC RECORDS	2 years	\$250k	<20%
CITY CHARTER	4-6 months	\$250k	50%

### Scenario 3: Community Ownership (Status: Planning In process)

The work necessary to evaluate the merits and potential results that may be derived from Scenario #3 Community Ownership is still to be completed. The Community Ownership scenario involves changing JEA's ownership structure to a customer owned entity. This would be different than JEA's current ownership where it is a separate body politic of the State of Florida controlled by Article 21 of the Charter of the City of Jacksonville.

Under this scenario, JEA would be recapitalized and ownership of the utility would be directly with the customers. In the September 24, 2019 JEA Board meeting our team outlined the potential timeline, considerations and issues associated with these structural changes:



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#### **Conversion of JEA to an organization which is owned and run jointly by its customers as members, who share the profits or benefits**

- JEA would ultimately become a private entity, operating its utility services through applicable franchise agreements with the City of Jacksonville, and be owned by customer-members
- Steps and considerations
- Approximate timetable: 9 – 18 months from selection, subject to applicable approvals



### Scenario 4: Initial Public Offering (Status: Planning In process)

The work necessary to evaluate the merits and potential results that may be derived from Scenario #4 IPO is still to be completed. The initial public offering scenario would convert JEA into a publicly traded company by recapitalizing the business through offering stock to the public. JEA would essentially become similar to Coca-Cola, NextEra, Duke, Apple, or any other stock available to our public.

JEA's Board has considered making sure priority could be given to JEA customers in the allocation process.

In the September 24, 2019 JEA Board meeting our team outlined the potential timeline, considerations and issues associated with these structural changes:

### 3b INITIAL PUBLIC OFFERING



#### Conversion of JEA to a corporation and an offering of shares to the public in a new stock issuance

- JEA would become a public entity listed on a selected stock exchange, operating its utility services through applicable franchise agreements with the City of Jacksonville. Individual and institutional shareholders would purchase and own common stock in the public company
- Steps and considerations
- Approximate timetable: 9 – 18 months from selection, subject to applicable approvals

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#### Scenario #5: Strategic Alternative from ITN 127-19 (Status: Planning In Process)

The work necessary to evaluate the merits and potential results that may be derived from Scenario #5: Strategic Alternative from ITN 127-19 is still to be completed. The outcome of planning for this scenario quite literally will be the winning bid from the ITN. The winning bid from the ITN will be the one that best maximizes near and long-term value to our customers, community, the environment and financial value.

In the July 23, 2019 JEA Board meeting our team outlined the potential structures we would explore in the ITN process. They are outlined below as 3c-3f:

