

From: [Wathen, David \(Atlanta\)](#)
To: [Maillis, Patricia L. - Director, Employee Services](#)
Subject: RE: Follow-up from Meeting - FY19 Metrics
Date: Wednesday, March 27, 2019 3:25:34 PM

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Pat:

Thanks for the update. I think model Ryan provided today is good for now. We will review that and let you know if we have any questions.

Best regards,

David

From: Maillis, Patricia L. - Director, Employee Services [mailto:mailpl@jea.com]
Sent: Wednesday, March 27, 2019 8:59 AM
To: Wathen, David (Atlanta) <david.wathen@willistowerswatson.com>
Subject: Re: Follow-up from Meeting - FY19 Metrics

This is not the first time he has put it out there. No comments at this meeting. Believe he uses each opportunity to be transparent and so the topic won't be a surprise. He got board approval to change the philosophy several weeks ago.

Ryan and Aaron's goal is to reach provide market on all levels and include components that make the company on par with IOUs of similar revenues, output and customers.

I did some research on past practices and this is not the first time that JEA would have a market based compensation plan. Back in the 90's and early 2000's, the company had a plan that paid out as high as 35% of Pay for appointed (all apptd). While I do not agree with this methodology and not sure they actually did the market analysis to show this is appropriate, they definitely were seeking to be the more competitively compensated companies in the national public sector space.

Now, the kicker is, the optics. Several years later, constituents pushed back and the plan suspended. Aaron is willing and wants to take the risk on this. He knows to go for the ideal state and if we get push back, we'll deal with it.

Can you give me the specifics on what you need for the financial data for the PU plan and I will get Ryan on it right away?

Pat
Sent from my iPhone

JEA0620

On Mar 26, 2019, at 9:39 PM, Wathen, David (Atlanta) <david.wathen@willistowerswatson.com> wrote:

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Thanks Pat for sharing. How was the proposed compensation framework Aaron presented received by the Board? Anything we should be sensitive to when putting forth our recommendations on the pay adjustments and LTI plan design?

Also, do you think you will be able to provide the financial data we requested to help in determining the best approach for valuing a performance share unit?

Thanks.

David

From: Maillis, Patricia L. - Director, Employee Services [<mailto:mailpl@jea.com>]
Sent: Tuesday, March 26, 2019 3:21 PM
To: Wathen, David (Atlanta) <david.wathen@willistowerswatson.com>; Deeb, Andrea (Atlanta) <andrea.deeb@willistowerswatson.com>
Cc: Strackbine, Scott I. <strasi@jea.com>; Hwang, Paul (Atlanta) <paul.hwang@willistowerswatson.com>; Kelly, Tom (Charlotte) <thomas.kelly@willistowerswatson.com>; Meng, Patrick (Atlanta) <Patrick.Meng@willistowerswatson.com>
Subject: RE: Follow-up from Meeting - FY19 Metrics

David,

Attached are the slides from today's JEA Board of Director meeting. Suggest taking a look at slides 22 – 24. Aaron is laying the groundwork on LTI.

From: Maillis, Patricia L. - Director, Employee Services
Sent: Tuesday, March 26, 2019 11:27 AM
To: 'Wathen, David (Atlanta)' <david.wathen@willistowerswatson.com>; Deeb, Andrea (Atlanta) <andrea.deeb@willistowerswatson.com>; Hiers, Angelia R. - VP & Chief Human Resources Officer <hierar@jea.com>
Cc: Strackbine, Scott I. <strasi@jea.com>; Hwang, Paul (Atlanta) <paul.hwang@willistowerswatson.com>; Kelly, Tom (Charlotte) <thomas.kelly@willistowerswatson.com>; Meng, Patrick (Atlanta) <Patrick.Meng@willistowerswatson.com>
Subject: RE: Follow-up from Meeting - FY19 Metrics

Will send you today's pieces from the Board meeting re Compensation. Aaron referenced the methodology today.

JEA0621

Below looks good.

LTI – agree with the below. Strong emphasis on LTI and proposed plan design

Some of my notes from our meeting on LTI:

3 Financial Factors (can be measured over 5 years):

Rates

Net Book Value

Contribution to the City of Jacksonville

Dashboard is centered around the corporate measures of value:

Customer Value

Financial Value

Environmental Value

Community Impact Value

From: Wathen, David (Atlanta) <david.wathen@willistowerswatson.com>

Sent: Monday, March 25, 2019 2:40 PM

To: Maillis, Patricia L. - Director, Employee Services <mailpl@jea.com>; Deeb, Andrea (Atlanta) <andrea.deeb@willistowerswatson.com>; Hiers, Angelia R. - VP & Chief Human Resources Officer <hierar@jea.com>

Cc: Strackbine, Scott I. <strasi@jea.com>; Hwang, Paul (Atlanta) <paul.hwang@willistowerswatson.com>; Kelly, Tom (Charlotte) <thomas.kelly@willistowerswatson.com>; Meng, Patrick (Atlanta) <Patrick.Meng@willistowerswatson.com>

Subject: RE: Follow-up from Meeting - FY19 Metrics

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Pat:

Yes, based on the input from last week's meeting, we are pulling together materials for the April committee meeting that will address the following:

- Review current compensation philosophy
- Evolution as to how compensation programs got to their current state
- Current gaps to market in compensation levels – specifically calling out gaps in base salary, short and long-term incentives by organizational level and actions to take to close those gaps to market. These proposed pay adjustments will detail by

JEA0622

grade what base salary, short-term and long-term incentive opportunities should be

- Short-term incentive plan design – based on the meeting last week, our takeaway is the short-term incentive plan design you proposed was not changing materially other than the introduction of a Net Income measure. Is there anything you need from us as it relates to short-term incentive plan design?
- Long-term incentive plan design – we will provide a more detailed LTI design given Aaron's feedback around the draft strawman design we shared. It will include target incentive opportunities by level, where applicable, as well as performance measure weightings and a proposed formula for determining a Performance Share Unit (PSU) value. As it relates to the LTI plan performance measures (rates customers pay, change in net book value and contribution to the city), we would look to Ryan to provide guidance on what performance hurdles should be at Threshold, Target and Maximum, as he has insights into historical performance, future projections, business strategy, etc., but we can certainly provide guidance as to what probability payout distributions look a well-designed incentive plan
- Overview of best practices to consider for modernizing total rewards

As it relates to determining an applicable formula for valuing a PSU in the long-term incentive plan, we need some additional information. Would you please check with Ryan to see if he could provide us information on key drivers of long-term performance, such as:

- 1) Historical financials, most importantly on book value as of year-end and anything impacting that other than income/surplus generated in a year less any cash contributions/outlays made
- 2) Better understanding (and history) of cash contributions made to City and the basis by which the contribution level in a given year is determined and/or could be evaluated. Percentage of income/surplus or something else. Also understanding of timing on those contributions and how they impact book value – for example, contribution made in 2018 based on surplus generated in 2017 and so are reflected in year-end book value for 2018 but not 2017.
- 3) How “customer rates” are determined and evaluated, along with historical JEA information as well as historical/current information on relevant comparators or index
- 4) Any information on forward looking projections/estimates on these same items.

We are working to deliver the next draft of materials by the end of next week, assuming we get the financial data requested above. Please let us know if we need to schedule a call to talk through these additional data needs or if we are missing anything in the materials we are pulling together for the committee meeting.

Best regards,

David

From: Maillis, Patricia L. - Director, Employee Services [<mailto:mailpl@jea.com>]

Sent: Monday, March 25, 2019 10:08 AM

JEA0623

To: Wathen, David (Atlanta) <david.wathen@willistowerswatson.com>; Deeb, Andrea (Atlanta) <andrea.deeb@willistowerswatson.com>

Cc: Strackbine, Scott I. <strasi@jea.com>; Hwang, Paul (Atlanta) <paul.hwang@willistowerswatson.com>; Patrick, Michael (Atlanta) <michael.patrick@willistowerswatson.com>

Subject: RE: Follow-up from Meeting - FY19 Metrics

Importance: High

David,

Angie received some feedback from Aaron today regarding our meeting last week.

Aaron indicated he had expected to receive an example of a plan (not just a few options). Based on the feedback and input that you received in the meeting last week, will you be providing a draft plan that will detail more of the values by grade or level, the metrics, thresholds, timing of payouts, etc.? If so, what is the timing on receipt of this information?

Pat

From: Maillis, Patricia L. - Director, Employee Services

Sent: Thursday, March 21, 2019 8:58 AM

To: 'Wathen, David (Atlanta)' <david.wathen@willistowerswatson.com>; Deeb, Andrea (Atlanta) <andrea.deeb@willistowerswatson.com>

Cc: Strackbine, Scott I. <strasi@jea.com>; Hwang, Paul (Atlanta) <paul.hwang@willistowerswatson.com>; Patrick, Michael (Atlanta) <michael.patrick@willistowerswatson.com>

Subject: RE: Follow-up from Meeting - FY19 Metrics

As LTI structure takes form, I think we will need to state at some point where gaps in STI may be made up in LTI or reference Total Comp so that we also have flexibility to shift the mix, if the company chooses. It seems the message will or should focus on Total Comp (not just the cash components).

Again, thanks. Talk soon.

Pat

From: Wathen, David (Atlanta) <david.wathen@willistowerswatson.com>

Sent: Wednesday, March 20, 2019 6:41 PM

To: Maillis, Patricia L. - Director, Employee Services <mailpl@jea.com>; Deeb, Andrea (Atlanta) <andrea.deeb@willistowerswatson.com>

Cc: Strackbine, Scott I. <strasi@jea.com>; Hwang, Paul (Atlanta) <paul.hwang@willistowerswatson.com>; Patrick, Michael (Atlanta) <michael.patrick@willistowerswatson.com>

Subject: RE: Follow-up from Meeting - FY19 Metrics

JEA0624

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Pat:

Nice to meet you yesterday. We enjoyed getting to meet the JEA team. Also, thanks for the update on the STI plan. We are working through assessing the gaps to market based on current STI levels, not proposed, but will likely be in touch with you and Scott if we have any follow up questions or data needs.

Best regards,

David

From: Maillis, Patricia L. - Director, Employee Services [<mailto:mailpl@jea.com>]

Sent: Wednesday, March 20, 2019 9:24 AM

To: Wathen, David (Atlanta) <david.wathen@willistowerswatson.com>; Deeb, Andrea (Atlanta) <andrea.deeb@willistowerswatson.com>

Cc: Strackbine, Scott I. <strasi@jea.com>

Subject: Follow-up from Meeting - FY19 Metrics

David and Andrea,

Thank you for a great meeting yesterday.

As follow-up to our conversation yesterday, wanted to provide some clarification on the current state of the STI plan. There have been no changes to date in total opportunity for employees. There were originally discussions regarding not having a payout for 2019, but this was not communicated to employees and so employees are thinking it is status quo. At the beginning of the performance period, October 1, 2018, there was clear communication regarding the 2019 goals. These were new in many respects so it was not clear (from my perspective as to which of the goals would translate to the STI). Last week, I was asked to incorporate the new goals into the plan. No change in payout values, (except maybe the executives – this discussion has not been finalized).

Providing you the new dashboard so you can see the goals (the first 21, in four categories that align with our Corporate Measures of Value; Customer Value, Financial Value, Environmental Value and Community Impact Value. To the far right of the attached spreadsheet, is Compensation's calculations re the payout values for each metric based on the achievement of a meets or exceeds. The leadership team has confirmed that we will have these 21 measures. This is Comp's draft for cost modelling.

JEA0625

The one item that is up in the air is a comment made by the team last week re "make the spreads between the meets and exceeds wider".

The plan has progressed over the last 5 years from a set payout based on achievement of 5 operational measures, then \$500 - \$3000 for all employees, much like a Profit Sharing Plan with little to no differentiation and below the market for all managers and above. In 2014, , we incorporated individual performance factor for the appointed further differentiating the payout between line and management employees. In 2016, we increased the payouts further for the management to director level (and have done minor fine tuning since). We were not able to do this for the SLT due to optics, so we focused on making sure their base pay was at or moving towards 50th percentile. Today, the difference between a meets and exceeds for non-SLT is 160%. I am going to pitch that this is wide enough for now and that we don't want to make changes based on this project. However, I do not think that we will win this battle with the SLT pieces.

As we have discussed, with the addition of a broad based LTI plan, the LTI component can make up that difference in market value for the non-management and lower level managers that don't normally receive LTI in the market place. We probably still need to increase some levels of management STI with the addition of the LTI as well.

Pat Maillis

Director, Employee Services

Direct: (904-665-4132)

Cell : (904-703-3453)

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