

---

**From:** Stewart, Kerri - VP & Chief Customer Officer  
**Sent:** Friday, November 22, 2019 9:59 AM  
**To:** 'Michael Munz'; Melissa Stone  
**Subject:** PUPs  
**Attachments:** VI. A. 3. JEA Comp Committee 6.18.19.pptx; VI. A. 1. Comp Presentation DRAFT 7.19dmgvFINAL.pptx

I have changed my mind about Myth vs Fact re: PUPs. Mike Mendenhall (Jax Daily Record) sent over his questions today for our one-on-one and they are all about the PUPs. In doing the slightest bit of digging with Aaron, we found the attached presentations from the January and June compensation committee meetings and the July full-board meeting (sending separately because files are big). They show the genesis of and rationale for the PUPs in concert with the Total Compensation Strategy. And BTW, Aaron refused to take his contract until ALL employees total comp was agreed upon (July). I have printed these off and plan to give them to Mike to take away with him (they are already on our web site as board meeting materials. Oh, and Aaron thinks Mike AND Dave Bauerlein were both at the January Comp committee meeting (we are getting the meeting minutes to confirm). They were interested in Aaron's contract. k



# Total Market Compensation Strategy

Compensation Committee  
June 2018





## **GUIDING PRINCIPLES**

ACCELERATING UTILITY INNOVATION

### **Core Competencies**

*The things we need to be exceptionally and uniquely good at in order to yield better and better results of our Corporate Measures which drive our Mission to demonstrate our Vision*



**Work together to elevate the entire team**

Core competencies accelerate results



## ELEVATE THE ENTIRE TEAM

1. Ensure JEA's corporate compensation philosophy is aligned with JEA's Guiding Principles
2. Encourage long-term culture of value creation
3. Establish formal compensation policy to align behavior to 4 Corporate Measures of Value and market based compensation
4. Ensure policy promotes collaboration to drive Vision and Mission

Employee incentives should drive “value” & “teamwork”

# Compensation Efforts to Date

---

January

---

February - June

- Board Approval of:
- Guiding Principles
  - Development of a Compensation Framework
  - Extending CEO contract through 7/31/19
  - Change to Board Policy Manual

Status Quo developed and presented to the Board

Total Compensation Framework developed with the assistance of Willis Towers Watson

Draft CEO Contract prepared

# JEA Board Policy Manual

(Revision to Policy 2.7 adopted by JEA Board on June 17, 2014)

“With respect to employment, compensation, and benefits to employees, consultants, and contract workers, the CEO shall promote a compensation philosophy that encompasses salary/wages, retirement benefits, incentives and health and welfare benefits that align with and drive JEA’s Corporate Measures of value: 1) Customer; 2) Financial; 3) Environmental; and 4) Community Impact.

Total compensation will meet the market (50% percentile), which is where the majority of companies in the industry and geographical area reside. Total compensation will include Base Salary, Short Term Incentives and Long Term Incentives. The 50th percentile pays competitively for behavior that meets expectations. Short term and long term incentives will align to and drive JEA’s Corporate Measures of Value. Internal equity will be achieved by evaluating differences in skill, effort, responsibility and working conditions among jobs.”

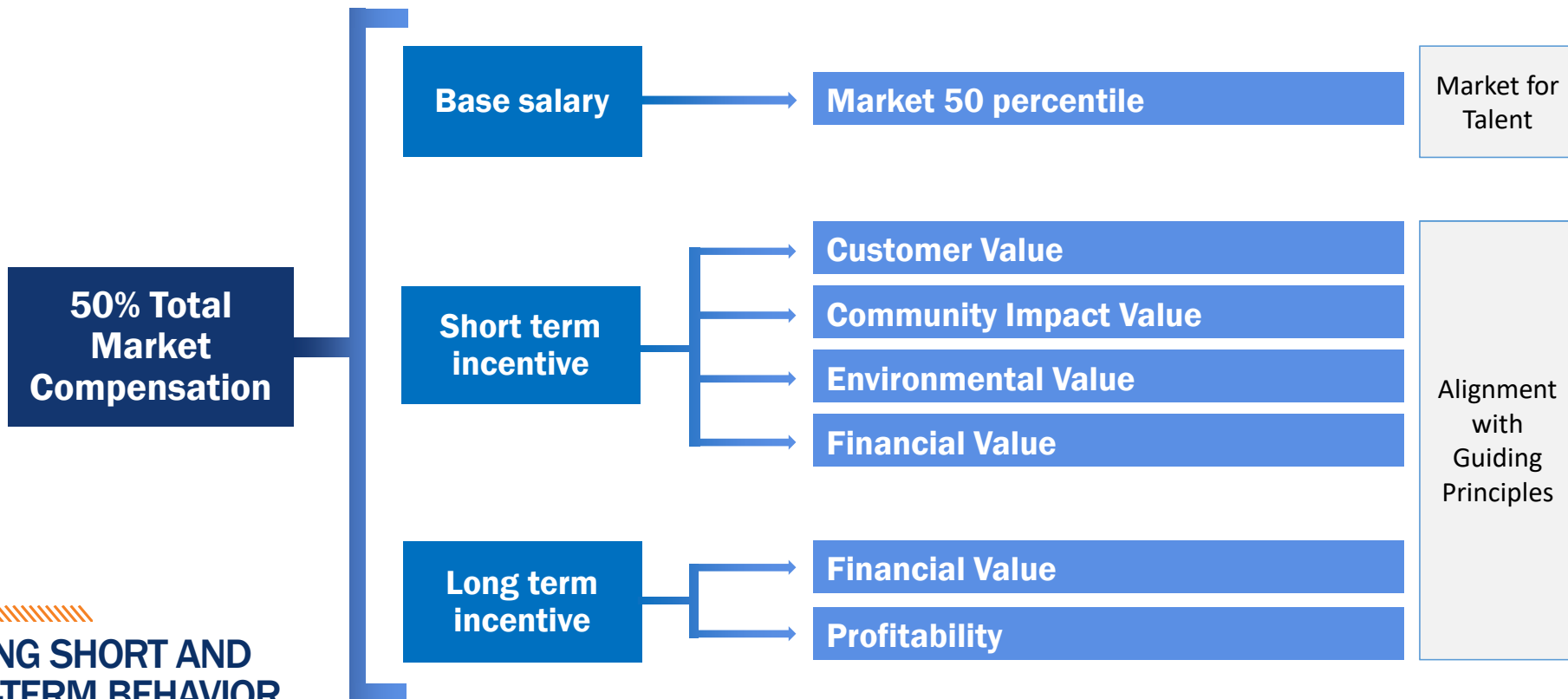
50<sup>th</sup> %



JEA’s total compensation structure should both compete with the market for talent & drive results aligned with “guiding principles”

  
**JEA’S COMPENSATION  
PHILOSOPHY**

# Establish a Formal Compensation Policy to Align with: 1) Talent Market and 2) Guiding Principles



**DRIVING SHORT AND  
LONG-TERM BEHAVIOR**

# Compensation Benchmarking Summary

## ***Appointed Population vs. Market 50<sup>th</sup> Percentile Variances By Job Level***

- The following exhibits summarize variances comparing incumbent pay data with market data from job weighted perspective for the Appointed population only
- Variances are lower to market for executives and directors at target bonus %, target TCC, and target TDC compared to the other job levels
  - JEA provided performance bonuses to Appointed employees in April to begin closing the gap on base salary – the budget was 2.5%.

### **Job Weighted:**

Level	Average Base Salary Variance	Average Target Bonus % Absolute Variance	Average Target TCC Variance	Average Long-term Incentive % Absolute Variance	Average Target TDC Variance
Executive	-12%	-33%	-28%	--	-42%
Director	-1%	-10%	-8%	--	-13%
Manager	-2%	-5%	-6%	--	-6%
Individual Contributor	-1%	-2%	-1%	--	-1%
Total	-2%	-7%	-6%	--	-7%



# Short-Term Incentive Plan Practices

## ***Target Incentive Award Opportunities***

- Target incentive opportunities typically increase with job level, and are relatively similar in both the Utility and General Industries
- Note that we have recommended STI targets as part of our analysis to “close the gap” between market and JEA’s desired competitive positioning

Target Incentive Award Opportunities – By Job Level

Role/Career Level	Target STI Opportunities	
	Utilities	General Industry
Senior Directors	25%	24%
Managers	15%	13%
Supervisors	10%	9%
Senior Level Professionals	13-20%	11-18%
Entry-Mid Level Professionals	7-10%	5-8%
Non-exempt	5%	3-5%

Source: Willis Towers Watson 2018 General Industry and Energy Services MMPS Compensation Survey Reports – U.S.

# Long-Term Incentive Plan Design

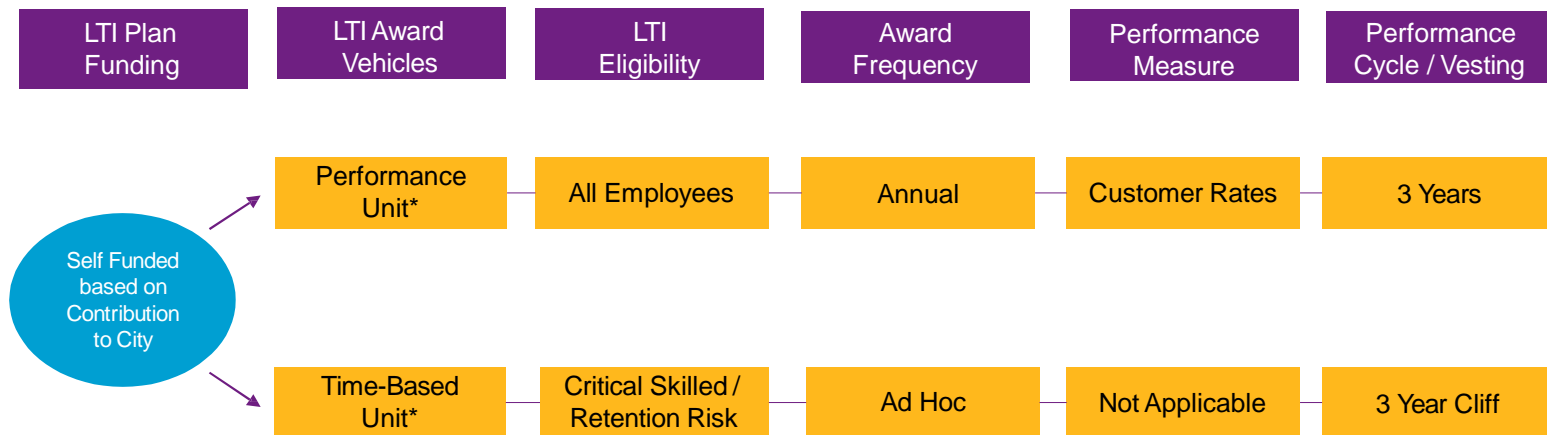
## *Introduction*

Why Companies Have Long-Term Incentive Plans	Factor Driving JEA Inclusion of LTI
Focus on long-term performance and align performance to long-term business strategies	✓
Necessary component of a market competitive compensation program for investor owned utilities	✓
Aligns the interests of employees with stakeholders	✓
Fosters long-term retention	✓
Encourages teamwork and collaboration across groups, functions, businesses, etc.	✓
Rewards for long-term shareholder/stakeholder value creation	✓
Balances focus on short-term results that are driven by annual incentives	✓

# Long-Term Incentive Plan Design

## ***Proposed Design***

- *Given consideration of the overarching goal to allow all employees the opportunity to share in the long-term success of the company, we propose a multi-pronged LTI design approach below:*



\* Value of units tied to JEA Net Book Value.

# Long-Term Incentive Plan Design

## ***Proposed Design Details: Performance Unit***

### **Performance Unit**

Plan Design Element	Plan Design Details
Award Vehicle	<ul style="list-style-type: none"> <li>Performance Unit: value of unit tied to JEA Net Book Value; unit valuation formula to be determined</li> </ul>
Eligibility	<ul style="list-style-type: none"> <li>All employees would be eligible in order to drive collective focus on JEA long-term performance</li> </ul>
Target Award Opportunity (as % of base salary)	<ul style="list-style-type: none"> <li>Award opportunities vary based on level in the organization (see page 31 for proposed targets); Management and Board's intent is to close competitive gap to market for LTI in first year of grant and ensure JEA compensation is competitive with market 50<sup>th</sup> percentile</li> </ul>
Award Frequency	<ul style="list-style-type: none"> <li>Annual</li> </ul>
Circuit Breaker	<ul style="list-style-type: none"> <li>Defined level of contribution to the City will be established for each award cycle; intent is for contribution level to ensure LTI plan is self funded</li> </ul>
Performance Measures	<ul style="list-style-type: none"> <li>Net Book Value: used to determine Performance Unit value</li> <li>Customer Rates: performance measure used to modify the number of Performance Units earned; performance goal to be determined</li> </ul>
Performance Period	<ul style="list-style-type: none"> <li>3-year performance cycle with overlapping cycles due to annual grant frequency</li> </ul>
Payout Range	<ul style="list-style-type: none"> <li>Threshold: 50% of Target</li> <li>Maximum: 150% of Target</li> </ul>
Estimated Cost	<ul style="list-style-type: none"> <li>Estimated cost of annual Performance Unit awards to all employees based on current incumbent base salaries* is \$3.4M</li> </ul>

\*Bargaining Unit costs calculated based on step structure data if incumbent data are not available.

# Proposed Compensation Adjustments

## ***Market Positioning Based on Proposed Pay Adjustments***

- The following exhibit summarizes the competitive position of JEA pay based on the target bonus % and LTI % adjustments needed to align pay with market median
  - All levels approximate or exceed the market median for target TDC, thereby aligning with the Board's articulated competitive compensation positioning
    - Proposed target bonus % and LTI % for executives bring target TDC to market competitive levels; therefore, material base salary adjustments are not required
    - Bargaining Unit variance exceeds market median target TDC due primarily to variances that are calculated based off of step structure base salaries

### **Job Weighted:**

Level	Average Base Salary/Midpoint Variance (Median)	Average Target Bonus %		Proposed Target TCC Variance (Median)	Average Long-term Incentive %		Proposed Target TDC Variance (Median)
	JEA	JEA Proposed	Market	JEA	JEA Proposed	Market	JEA
Executive	-12%	45%	43%	-6%	40%	40%	-2%
Director	-1%	20%	18%	2%	5%	8%	1%
Manager	-2%	10%	13%	-3%	3%	--	-1%
Individual Contributor	-1%	7%	10%	-1%	3%	--	2%
Bargaining Units	11%	2%	7%	8%	1%	--	9%
Total	3%	8%	12%	2%	3%	19%	3%

Note: Market data provided by JEA.

# Compensation Plans

June

Presentation to the  
Comp Committee –  
6/18

Presentation to the  
Board – 6/25

July

Hold Shade Meeting  
to discuss labor  
negotiations

Develop economic  
strategy for  
negotiations

August

Finalize Comp Plan  
and begin installing  
components

September

Publicize Comp Plan  
to employees

October

Full implementation  
of Comp Plan

Formalize Compensation Plan as directed by  
the Board

Conduct Bargaining Unit negotiations and finalize contracts



# Total Market Compensation Strategy

Performance Unit Plan  
July 2019





## **GUIDING PRINCIPLES**

ACCELERATING UTILITY INNOVATION

### **Core Competencies**

*The things we need to be exceptionally and uniquely good at in order to yield better and better results of our Corporate Measures which drive our Mission to demonstrate our Vision*



**Work together to elevate the entire team**

Core competencies accelerate results





## ELEVATE THE ENTIRE TEAM

1. Ensure JEA's corporate compensation philosophy is aligned with JEA's Guiding Principles
2. Encourage long-term culture of value creation
3. Establish formal compensation policy to align behavior to 4 Corporate Measures of Value and market based compensation
4. Ensure policy promotes collaboration to drive Vision and Mission

Employee incentives should drive “value” & “teamwork”

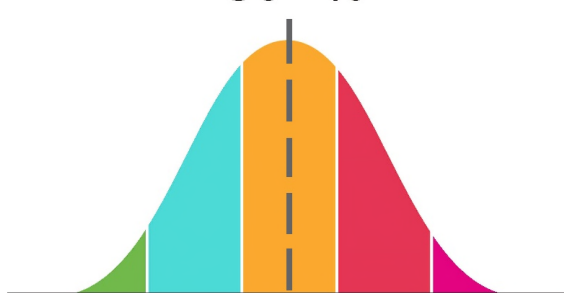
# JEA Board Policy Manual

(Revision to Policy 2.7 adopted by JEA Board on January 22, 2019)

“With respect to employment, compensation, and benefits to employees, consultants, and contract workers, the CEO shall promote a compensation philosophy that encompasses salary/wages, retirement benefits, incentives and health and welfare benefits that align with and drive JEA’s Corporate Measures of value: 1) Customer; 2) Financial; 3) Environmental; and 4) Community Impact.

Total compensation will meet the market (50% percentile), which is where the majority of companies in the industry and geographical area reside. Total compensation will include Base Salary, Short Term Incentives and Long Term Incentives. The 50th percentile pays competitively for behavior that meets expectations. Short term and long term incentives will align to and drive JEA’s Corporate Measures of Value. Internal equity will be achieved by evaluating differences in skill, effort, responsibility and working conditions among jobs.”

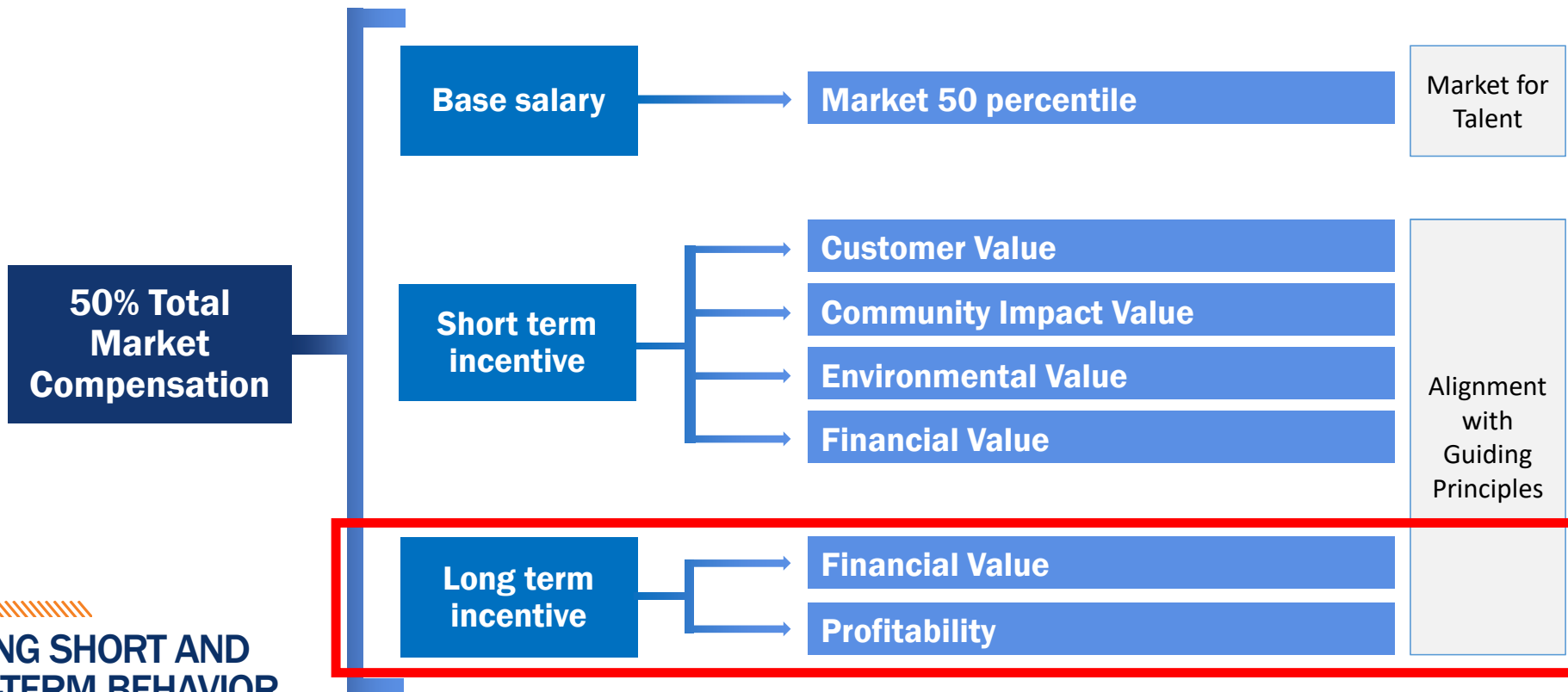
50<sup>th</sup> %



JEA’s total compensation structure should both compete with the market for talent & drive results aligned with “guiding principles”

 JEA’S COMPENSATION  
PHILOSOPHY

# Establish a Formal Compensation Policy to Align with: 1) Talent Market and 2) Guiding Principles



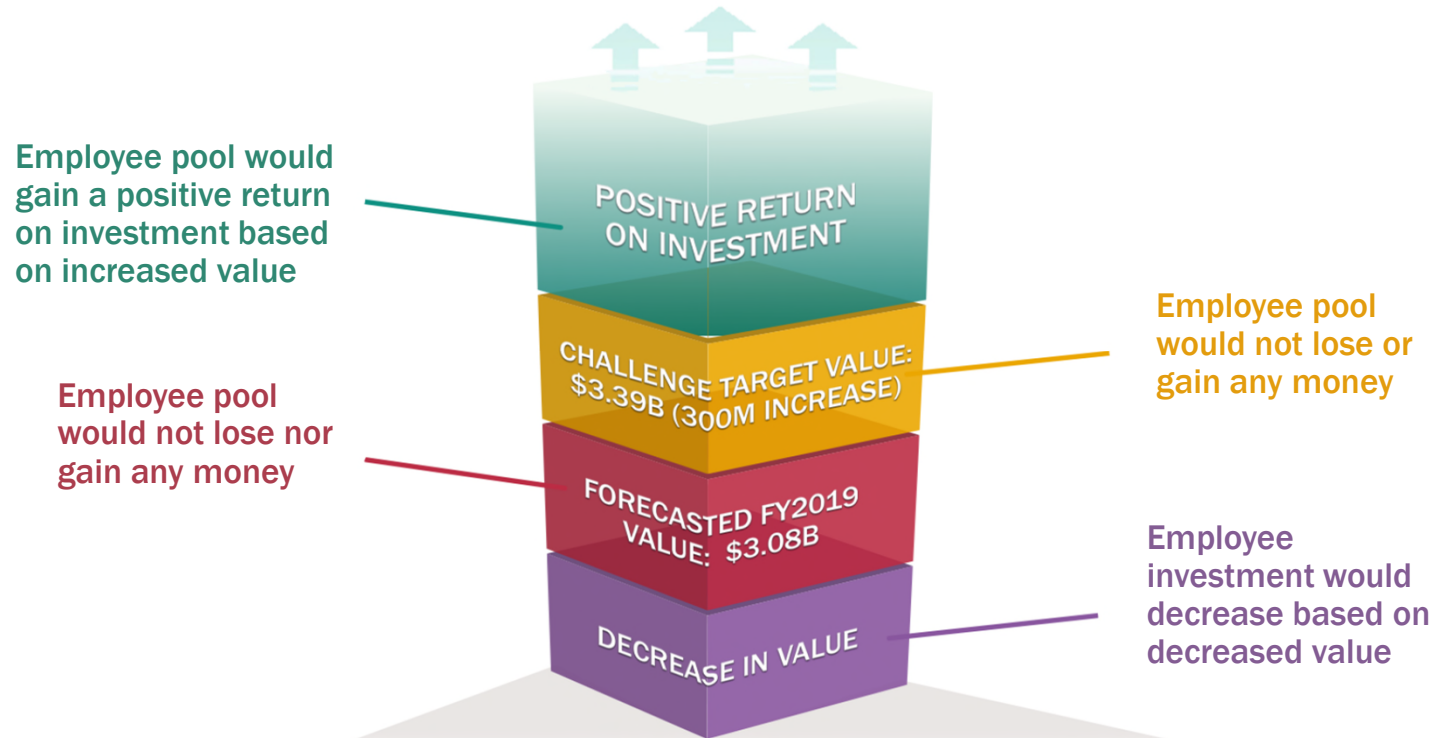
DRIVING SHORT AND  
LONG-TERM BEHAVIOR



# PERFORMANCE UNIT PROGRAM

- Compensation committee proposes adoption of a performance unit plan (“PUP”) which would be a new benefit program provided to employees
- It is designed to allow employees to participate in the upside and downside as the business changes
- Employees will be eligible to purchase JEA performance units for \$10 per unit
- Units will increase or decrease in value based on the financial performance of JEA over a 3-year performance period
- Employees will be required to remain employed through the end of the performance period to benefit from any increase in value
- For the first performance period (FY2020 to FY2022) it is recommended that 30,000 performance units be made available for purchase

# EXAMPLE REDEMPTION VALUE OF THE PUPS



- Employee PUP pool equal to 10% of value created in excess of the challenge target value
- Employees must increase the value of JEA by at least \$300 million by 2022 to receive the benefit
- Calculated value is sum of the net position, city contribution and any refunds to customers