

JEA FINANCE & AUDIT COMMITTEE MINUTES
November 18, 2014

The Finance & Audit Committee of JEA held a special meeting on Tuesday, November 18, 2014, in the 8th Floor Conference Room, JEA Plaza Tower, 21 W. Church Street, Jacksonville, Florida, to receive staff's response to the proposal received from the Office of the Mayor on February 17, 2014.

Agenda Item I – Opening Considerations

- A. Call to Order – Chair Peter Bower called the meeting to order at 11:00 AM with Committee Members Wyman Winbush and Husein Cumber in attendance. Committee Member Helen Albee joined the meeting as noted below. Ron Townsend, Lisa Weatherby, and Mike Hightower were also present or joined the meeting in progress as observers. Others in attendance were Paul McElroy and Melissa Dykes, JEA, Jody Brooks, Office of General Counsel, Council Member Bill Bishop, and Robert Campbell, City of Jacksonville Council Auditor's Office, as well as a list of others including additional JEA staff, consultants, external guests, and members of the media, which is attached.
- B. Adoption of Agenda – The agenda was adopted on **motion** by Mr. Cumber and second by Mr. Winbush.

Agenda Item II – New Business

- A. Police and Fire Pension Fund Proposal: Financial Capacity, Pension/Retirement Benefit, and Government Transfer Analysis – Paul McElroy, Managing Director/CEO, opened discussions with a review of steps taken to compile a response to the Mayor's February 17, 2014 letter proposing JEA increase its contribution to the City of Jacksonville by \$40 million per year for 10 years to contribute to the Police and Fire Pension Fund shortfall. Mr. McElroy advised the Committee that while the plan cannot be implemented, "JEA will continue to seek ways, including engaging in partnerships with the City of Jacksonville and others, to achieve our responsibility of generating the maximum return for the City of Jacksonville in a fiscally responsible way while continuing to provide reliable and affordable utility services to our community."

Melissa Dykes, Chief Financial Officer, thanked staff and outside consultants, Jim Rizzo, Gabriel, Roeder Smith & Company, and Cindy Laquidara, Ackeman, LLP, for their contributions to this project. Mrs. Dykes' presentation reviewed JEA's financial capacity, pension/retirement benefit, and government transfer analysis which included declining sales in both JEA systems, decreased per-customer consumption driven by efficiencies and conservation, as well as comparisons of JEA to peer utilities in debt per customer and debt outstanding. JEA faces many costly regulations in both the electric and water/wastewater systems in the coming years. There continues to be a growing gap between JEA's City contribution and the millage calculation, with an estimated \$147 million cumulative premium projected to be paid to the City during the current eight-year contract. Mrs. Dykes advised the Committee that during the review of the current retirement benefit costs, Mr. Rizzo was successful in replicating the results of the pension plan and the results of the Mayor's proposal. Based on the analysis, there is no savings to be had in pension reform. JEA's portion of the unfunded liability in the General Employees Pension plan is approximately \$460 million, which is separate from and in addition to the Police and Fire Pension Fund's unfunded liability. Under new accounting rules, this will now be a balance sheet liability for JEA.

JEA employees total about one-half of the General Employee Pension Plan. By exploring separation from the General Employee Pension Plan, JEA can provide a significant piece of the

overall pension liability solution for the community. In considering such an endeavor, there are risks and responsibilities in the decision making that would need to be undertaken by the Board. However, the Board would then have more oversight of these responsibilities.

Helen Albee joined the meeting at 11:30 AM.

Based on the study, staff does not recommend proceeding with contributing to the Police and Fire Pension Fund as proposed in the February 17, 2014 letter from the Office of the Mayor.

Upon motion by Mr. Winbush, and second by Mrs. Albee, the Committee unanimously accepted the report and recommended Board acceptance.

Mr. Bower then advised the Committee that staff spent significant time looking at what JEA can do to help during this difficult economic period. One potential solution would help the City while helping JEA get back to an economical and sustainable payment to the City. He asked Mr. McElroy to explain.

Mr. McElroy shared with the Committee that over the last several weeks, JEA staff has been engaged in conversations with several leaders in the community to explore possible solutions to the City's current budget challenge. As a result, JEA has secured a tentative agreement on a comprehensive package of solutions, which is good for JEA's customers and investors, and would provide some immediate relief to the City's budget challenges. The concept includes:

- Securing a sustainable long-term contribution agreement between JEA and the City
- JEA securing control over its portion of the General Employees Pension Plan
- Support for growth and economic development, specifically related to utility services
- Governance and administrative matters, such as legal services and civil service
- One-time payment from JEA to the City

The parties recognize that any and all activities related to the finances of JEA and the City must be vetted and approved by JEA's Finance and Audit Committee and the JEA Board, as well as the City Council and Mayor.

JEA's current Contribution Agreement expires in 2016 and the proposal would extend the agreement through 2036. Beginning in 2017, the contribution would be transitioned to the formulaic calculation included in the current agreement by reducing the annual calculation by \$2.5 million per year through 2022 (\$100 million), then holding at \$100 million through 2026. It would then commence declining at a rate of \$2.5 million until such time as the contribution amount equals the contribution amount calculated by using the formulaic method contained in the agreement at which point contributions will then be solely based on the formulaic method through the end of the agreement. This methodology provides a transition path to move JEA from the 3rd quartile in utility contributions back to industry norms.

Mike Hightower joined the meeting at 11:42 AM.

The tentative agreement also includes JEA securing control over its portion of the General Employees Pension Plan and would allow JEA to pay down its unfunded liability on a cash-flow basis over an 8-10 year period.

The proposal also included support for growth and economic development, specifically related to utility services such as natural gas, solar, and combined heat recovery systems, whose revenues would be incorporated into the contribution formula. The Charter clearly states JEA can provide these utility services.

Changes in governance and administrative matters such as legal services and civil service would allow JEA to strengthen relationships between JEA and employees. When asked, Mr. McElroy suggested we use the Jacksonville Transit Authority (JTA) model of hiring an attorney and continue to use services of the Office of General Counsel when needed.

In looking at the one-time payment from JEA to the City of \$120 million, consideration was given to issuing debt for a 10-15 year period, and using the annual savings in the contribution for repayment of this debt, without having to adjust rates or jeopardize credit ratings. The solution would provide certainty, and elicit strong positive Rating Agency reactions.

Committee Members and attending Board Members complimented Mr. McElroy and staff for digging deeper to find a potential solution with the City. Mr. McElroy assured the Committee that any disagreements or changes to the current proposal would be brought back to the Board for consideration. Mr. Hightower encouraged an intense due diligence and expressed concern that issuance of this new debt would be contrary to current corporate strategy regarding no new debt. He suggested a way be found to put this forward without issuing new debt.

Mr. McElroy asked for the Committee's direction, seeking their authorization to move forward on developing a definitive agreement covering the comprehensive package of solutions discussed. Execution of the agreement will require approval by JEA's Finance and Audit Committee, JEA's Board of Directors, the Mayor, and City Council.

Upon motion by Mr. Cumber and second by Mr. Winbush, the Committee unanimously recommended that the Board authorize JEA staff to proceed with negotiating a definitive agreement on the proposed comprehensive package of solutions, including contributions, pension, and other matters discussed. The agreement, which shall incorporate the entire comprehensive package of solutions, shall not result in a rate increase nor jeopardize JEA's credit rating. Further, it is recognized that any such agreement must be vetted and approved by JEA's Finance and Audit Committee and the JEA Board, as well as the City Council and Mayor. Staff will bring the final agreement to the full Board for approval.

Agenda Item III – Closing Considerations

With no further business claiming the attention of this Committee, the meeting was declared adjourned at 12:02 PM.

APPROVED BY:



Peter Bower, Committee Chair

Date: 12-16-2014

Submitted by:



Jeanne Ryan
Executive Assistant

Please see attached for full list of attendees

Jim Piggott, WJXT
Nate Monroe, Florida Times-Union
Ron Littlepage, Florida Times-Union
Stephanie Brown, WOKV
Peter Haden, WJCT
David Chaplan, Florida News and Daily Record
Michael Munz, Jacksonville Civic Council
Jeanne M. Miller, Jacksonville Civic Council
Brince Manning, Jacksonville Chamber of Commerce
Bill Bishop, City Council
James J. Rizzo, Gabriel, Roeder Smith & Company
Jody Brooks, Office of General Counsel
Cindy Laquidara, Ackerman, LLC
Robert Campbell, COJ, Council Auditor's Office
Monica Whiting, JEA
Jane Upton, JEA
Gerri Boyce, JEA
Doris Champ, JEA
Janice Nelson, JEA
Juli Crawford, JEA
Victor Blackshear, JEA
Ross Byers, JEA
Joe Orfano, JEA
Wayne Young, JEA
Nancy Kilgo, JEA
Bud Para, JEA