

JEA
BOARD MINUTES
October 16, 2018

The JEA Board met in regular session on Tuesday, October 16, 2018, on the 19th Floor, 21 W. Church Street, Jacksonville, Florida. Present were Alan Howard, Husein Cumber, Frederick Newbill, Kelly Flanagan, April Green, Camille Johnson and John Campion.

Agenda Item I – Welcome

- A. The meeting was **called to order** at 12:01 PM by Chair Howard.
- B. A **Moment of Reflection** was observed by all.
- C. The **Pledge of Allegiance** was led by Chair Howard.
- D. **Adoption of Agenda** – The amended agenda was approved on **motion** by Secretary Newbill and second by Vice Chair Cumber.
- E. The **Safety Briefing** was given by Aaron Zahn, Interim Managing Director/Chief Executive Officer.
- F. **Sunshine Law/Public Records Statement** – Jody Brooks, Office of General Counsel (OGC), stated this Board Meeting is being held in compliance with Florida’s Government in the Sunshine Law, §286.011. The complete statement can be found in section I. F. of the Board package.

Agenda Item II – Presentations and Comments

- A. **Comments from the Public** – Mr. David Bruderly addressed the Board regarding the CEO search process.
- B. **Council Liaison’s Comments** – The Honorable Matt Schellenberg thanked Mr. Zahn for the invitation to the Innovation Summit and provided comments related to the Rating Agency reports.

Agenda Item III – Operations (Discussion / Action)

- A. **Consent Agenda** – used for items that require no explanation, discussion or presentation and are approved by one motion and vote. On **motion** by Ms. Green and second by Secretary Newbill, Appendix A was unanimously approved and Appendix B through E were received for information.

Appendix A: Board Workshop Minutes September 18, 2018 – approved

Appendix B: Sole Source & Emergency Procurement Report – received for information

Appendix C: Monthly Financial Statements – received for information

Appendix D: Monthly Financial and Operational Detail – received for information

Appendix E: Monthly FY18 Communications & Engagement Calendar and Plan Update – received for information

- B. **Monthly Financial and Operations Dashboard** – Melissa Dykes, President/Chief Operations Officer, presented the revised supplemental dashboard, which was provided at the Board Member’s seat. Ms. Dykes reviewed the fiscal year 2018 year end results for financial and operational performance results in electric systems and

water/wastewater systems. Ms. Dykes reviewed the metrics are grouped based on the corporate values including: customer value, financial value, community impact value and environmental value. Ms. Dykes highlighted additional metrics as they relate to the Pay for Performance program. Chair Howard and Mr. Zahn commended the finance team, as well as the Senior Leadership Team on their work. This presentation was received for information.

- C. Contribution Agreement Extension** – Aaron Zahn, Interim Managing Director/CEO presented on June 12, 2018, the Board received a letter outlining an area of consideration for the usage of proceeds from the sale of the Southside Generating Station. The topic was discussed at the July 30, 2018 Board Meeting and at the September 18, 2018 Board Meeting, the Board unanimously approved a resolution authorizing the Interim Managing Director/CEO to negotiate final terms with the City of Jacksonville (COJ). Mr. Zahn stated the current COJ contribution agreement expires in 2021. An extension of the agreement would preserve the same terms and conditions as the existing agreement, while changing the expiration date to 2023. An amendment to the Interagency Agreement with COJ will provide for an additional one-time contribution of \$15,155,000 to COJ for the purposes of septic tank phase out and improvement of COJ infrastructure. Mr. Zahn stated the proposed use of proceeds will benefit the COJ by solving a long-standing problem around water and wastewater for underserved citizens of COJ. Mr. Zahn added this action could provide benefits to the COJ and JEA for septic tank phase-out and more stability around the contribution agreement. On **motion** by Secretary Newbill and second by Vice Chair Cumber, Board Members held discussions. Chair Howard called upon Paul Steinbrecher, Vice President & Chief Environmental Services Officer to discuss water quality trading credits. Council Liaison Schellenberg provided comments and thanked JEA for their assistance with the water quality credits. Chair Howard added this proposed action also demonstrates JEA's new bold initiatives to help find solutions for complex public problems. At the conclusion of discussions, the Board unanimously approved the draft documents; subject to final authorization by the COJ.
- D. Approval of Resolution: FY2019 Budgetary Transfers** – Ryan Wannemacher, Chief Financial Officer, presented this is an administrative item that is brought before the Board each year. Consistent with past practices and Board delegation of authority, the Managing Director is authorized to approve FY2019 budget transfers up to \$5.0 million. Mr. Wannemacher added there is an occasional need to make transfers during the fiscal year between budget line items. On **motion** by Vice Chair Cumber and second by Mr. Champion, and the Board unanimously approved Resolution 2018-11, which allows the Managing Director to process budget transfers within JEA budget for FY2019. This authorization is limited to \$5.0 million per transfer, except in the event of an emergency or year-end adjustments, where transfers over \$5.0 million will be brought to the Board for ratification.
- E. Revolving Credit Facility for Operational/Capital Purposes and Liquidity** – Ryan Wannemacher, Chief Financial Officer, presented JEA currently has a revolving credit agreement of \$300 million with JPMorgan Chase Bank. Mr. Wannemacher added that JPMorgan Chase Bank received credit approval and provided a commitment to increase JEA's current revolving credit facilities from \$300 million to \$500 million, in the aggregate, and to amend the existing revolver with JPMorgan Chase Bank, National Association to increase borrowing capacity to \$500 million with the same terms and conditions. Mr. Wannemacher highlighted this action demonstrates the confidence from the lender in our ability and our willingness to pay our obligations. Mr. Wannemacher

recognized Mr. Mark Widener and Ms. Heather Talbott with JPMorgan Chase Bank. Mr. Widener stated that JPMorgan appreciates the opportunity to support JEA in a meaningful way. In support of the longstanding relationship, JPMorgan has agreed to an increase in the capital commitment to JEA on the same terms. We place great confidence in JEA. On **motion** by Vice Chair Cumber and second by Secretary Newbill, Board Members held discussions and unanimously approved and adopted Resolution 2018-14 to execute one or more revolver(s) subject to the \$500 million limit. This resolution also delegates to the Managing Director/CEO, or his designee to extend, amend, renew or substitute such new credit agreement(s) with the incumbent bank(s) or other bank(s) or financial institution(s).

Agenda Item IV – Strategy (Discussion Only)

- A. 2018/2019 Corporate Goals** – Melissa Dykes, President/Chief Operations Officer, provided Board Members with a revised dashboard which includes the draft goals as set by the Senior Leadership Team for FY2019. Ms. Dykes stated the goals are consistent with the Strategic Framework that was approved by the Board at the August 21, 2018 JEA Board Meeting. Ms. Dykes reviewed the process stating at the Executive Leadership Team workshop on October 1, 2018, these goals were cascaded to all JEA Directors, who each set their own goals aligned both vertically and horizontally to drive corporate performance. At a separate workshop on October 17, 2018, the process was repeated with managers, ensuring alignment throughout the organization for the next fiscal year. Ms. Dykes highlighted the goals are to increase the value of JEA now and in the future by increasing customer value, financial value, community impact value and environmental value. Ms. Dykes provided a review of the goals and highlighted that the goals have been set below budget, permit compliance requirements and staff continues to set aggressive goals for operations. Board Members provided feedback and direction on JEA's proposed FY2019 corporate goals. This presentation was provided for information only.
- B. Fuel Strategy – Gas Prepay Parameters & Solar Purchase Power Agreements**
- Ryan Wannemacher, Chief Financial Officer and Steve McInall, Director, Electric Production Resource Planning, presented this as a follow-up to the Fuel Strategy presentation at the September 18, 2018 JEA Board Meeting. Mr. McInall presented that JEA is currently implementing natural gas hedge strategies for 2020 and 2021 targeting up to 50% of average annual expected volume, with plans to execute in 2019 when economic. Mr. McInall also noted the strategy includes targeting gas prices at or below the basis for the current Fuel Charge. Mr. Wannemacher reviewed gas prepayments and noted they are the best tools that municipal utilities have to lower the cost of natural gas and allow utilities to use tax-exempt financing to lock-in a long-term energy supply at below market pricing. Staff believes these transactions can save JEA more than \$5 million annually. Mr. Wannemacher stated staff is investigating gas prepay arrangements, which allow municipal utilities to contract for long-term supplies of natural gas and could offer potential savings. Mr. Wannemacher provided an overview of gas prepayments, municipal natural gas prepayments from 2003 to present and tax-exempt prepayment transaction timeline. Mr. Wannemacher noted that savings are based on market conditions and are driven by five key variables including: tax-exempt funding rate, supplier discount rate, gas prices, overall interest rates and the terms of the contract. Mr. Wannemacher stated many utilities are taking the portfolio approach to gas prepayments and is contemplating asking the Board for a delegated resolution to allow for gas prepayments under certain parameters, including: issuer vs. participant role,

varying supplier counterparties and funding structures, threshold for minimum savings, maximum individual supplier exposure and maximum prepaid volumes. Mr. Wannemacher offered to meet individually with Board Members to offer additional information. Mr. McInall reviewed the solar purchase power agreements under negotiation. Staff has secured, or contracted for, property to host the five solar facilities at Cecil Commerce Solar Center, Beaver Street Solar Center, Deep Creek Solar Center, Westlake Solar Center and Forest Trail Solar Center. Mr. McInall reviewed the procurement process and noted EDF Renewables North America won the award. This presentation was provided for information. When complete, the contracts will be brought to the Board for approval.

- C. Corporate Headquarters – Downtown Campus Update** – Nancy Kilgo, Director, Government Relations, provided Board Members with a handout and gave a brief update on the corporate headquarters stating on October 15, 2018, CBRE issued a solicitation to the development and real estate community. The pre-bid meeting will be held on November 7, 2018; interested parties may send in questions by December 14, 2018 and responses to the solicitation are due to JEA and CBRE by January 8, 2019. Responses will be evaluated by JEA and CBRE against the criteria developed by the Board. JEA and CBRE will provide a thorough quantitative and qualitative analysis of the solutions submitted and the expectation was that a short list of the top ranked respondents would be presented at the January 22, 2019 JEA Board Meeting. Board Members held discussions and called upon Michael Harrell and Stewart Green, CBRE regarding timelines. Upon discussion, the Board decided to extend the presentation of the shortlist to the February 26, 2019 JEA Board Meeting or consider a special board meeting in February. This presentation was provided for information.
- D. Transition Update and Draft Guiding Principles** – Aaron Zahn, Interim Managing Director/CEO, presented a follow-up on the transition plan and stated the plan is complete, three months earlier than anticipated. Mr. Zahn highlighted two open items including: identify a liaison to provide governance of strategic planning process and the hiring of a permanent CEO. Mr. Zahn reviewed the Guiding Principles document is intended to be a starting point for the Strategic Planning process to start in December 2018. Mr. Zahn added building upon the Board's Strategic Framework document, the Senior Leadership Team (SLT) and approximately 400 Directors and Managers have built a consensus on the draft Guiding Principles document. Mr. Zahn thanked the Board for their guidance, as well as the SLT, Directors and Managers for their support over the last six months. This presentation was received for information.

Agenda Item V – Subject Matter Exploration (Opportunities & Risks – Presentation)

- A. Electrification – An Emerging Market** – Kerri Stewart, Vice President & Chief Customer Officer, presented the purpose to today's presentation is to provide Board Members with an understanding of electrification and what it means for today, highlight JEA's existing program and to highlight the ability to scale the opportunities for JEA and its customers. Ms. Stewart provided Board Members with a review of electrification, why electrification is important to JEA, and JEA's strategy to date for the on-road and off-road electrification programs. Ms. Stewart introduced Mr. David Pickles, Senior Vice President – Commercial Energy with ICF. Mr. Pickles provided an introduction to ICF including their services provided and current utility and non-utility clients. Mr. Pickles reviewed the business drivers of Beneficial Electrification (BE), the power of improving system utilization (load factor) by increasing off-peak sales, JEA

system loadshape, possible expanded approaches to BE, considerations in electrification short-term opportunities and next steps. This presentation was received for information.

Agenda Item VI – Committee Report

A. CEO Search Committee Report – Committee Chair Cumber thanked the Committee Members for their time investment, as well as Ms. Flanagan for her work with the assistance of selecting Heidrick & Struggles to conduct the executive search. Committee Chair Cumber provided an update to the CEO search timeline highlighting the following events:

- Committee Members interviewed candidates on October 9-11, 2018.
- The Committee revised the initial timeline and will now meet on October 31, 2018 to discuss and narrow the list of candidates.
- The remaining Board Members will individually interview the finalists on November 13, 2018.
- The finalist will then come back to interview publicly before the full Board at the regularly scheduled Board Meeting on November 27, 2018.

Agenda Item VII – Other Business

A. Old Business – Chair Howard stated Paul McElroy’s transitions service agreement carried the terms of the agreement to September 30, 2018. Chair Howard stated he received from Mr. McElroy, a written notification of resignation effective September 29, 2018, which is one day prior to the contract end date. Chair Howard noted there is a financial benefit to Mr. McElroy resigning one day early in the amount of approximately \$8,000 pension value, with additional value rolling forward. Chair Howard noted he was advised by legal counsel that to accept the resignation would require a Board vote. On **motion** by Vice Chair Cumber and second by Secretary Newbill, the Board unanimously approved Mr. McElroy’s resignation date of September 29, 2018.

B. Other New Business – Ms. Brooks recognized her colleague, Gayle Petrie, Office of General Counsel who passed away the week prior. Ms. Brooks stated Mr. Petrie worked on many projects for JEA and that he will be missed.

Secretary Newbill commended the senior management, especially Mr. Zahn and Ms. Dykes, on their transition from April to date. Secretary Newbill commended management on their bold initiatives.

C. Open Discussion – Chair Howard stated a report on the Request for Proposal for the new JEA Headquarters will be provided at the October 16, 2018 meeting.

D. Interim Managing Director/CEO’s Report – Mr. Zahn, Interim Managing Director/CEO Mr. Zahn thanked Chair Howard for his partnership, the entire Board for their collaboration and professional input and to the entire JEA management team who has performed at high levels in their day-to-day jobs, while driving corporate change over the last six months. Mr. Zahn highlighted JEA’s accomplishments over the last six months including: Designed and executed on an organizational and situationally complex transition, while continuing to maintain an exceptionally run operation, worked together to debate, deliberate and unify around a strategic framework, Guiding Principles document which creates significant alignment for JEA, management team, Board of Directors, City Council, Mayor, and internal and external stakeholders

on how we measure performance, faced head on significant issues without blame concerning significant issues related to Plant Vogtle, privatization and corporate culture. Mr. Zahn added we established the corporate innovation process around telecom and dark fiber, integrated distributed energy resources, electrification, non-core real estate assets, innovation hubs, becoming a water and wastewater leader by solving a decades old problem of septic tank phase out, launched management listening tours in June 2018 meeting and cataloged and prioritized JEA employee ideas. The management team has undertaken a comprehensive fuel strategy, and managing risks around the single largest expense item, JEA new headquarters, concept of negotiation contribution agreement, to address septic tank phaseout and providing 5 years of stability for JEA should not be overlooked. Mr. Zahn added as a team we have implemented corporate controls in increasing transparency for the public, city council and the city administration, as well as customers, focused on a results-based approach by driving value and profitability. As a profitability and value driven organization, it is logical for JEA to optimize its balance sheet and restructure. Mr. Zahn invited Mr. Wannemacher, Chief Financial Officer to the table, and stated upon reviewing JEA's balance sheet has compiled a corporate efficiency and risk management plan that looks at the next four years.

Mr. Wannemacher stated JEA is an \$8 billion utility, comprised of approximately 2000 employees and serves over a million people in four counties, generates approximately \$800 million per year in net free cash flow from operations. Since 2010, JEA has paid off over \$2.5 billion in debt and invested nearly \$2.4 billion in capital projects in our community. Mr. Wannemacher reviewed that today, the Board approved to extend the proposed contribution agreement with the City of Jacksonville by an additional 2 years. The extension provides JEA a 5-year window of certainty on city contributions, while demonstrating JEA's thought leadership relative to septic tank phaseout. Mr. Wannemacher stated JEA recently obtained a commitment to increase the capacity of the revolving credit facility by \$200 million with the same terms, which demonstrates the confidence by a key lender and our ability and willingness to pay our obligations. The next step is to optimize the utilization of JEA's assets and reducing debt. Mr. Wannemacher presented a proposed plan and highlighted the following:

- JEA will repay over \$600 million in debt in 2019 and over \$1 billion by 2020.
- Continue to invest \$1.6 billion in the system over the next 4 years with no new debt and no base rate increases.
- Under this plan, operating free cash flow will increase by \$100 million per year.
- JEA will maintain strong financial metrics of liquidity and coverage.
- Will demonstrate JEA's financial strength, commitment to value and a focus on profitability.
- Demonstrates that an entire management team is dedicated to increasing the operational efficiency and reducing corporate risk.
- With this plan, JEA will have paid off over half of its debt since hitting an all-time high in 2010.

Mr. Wannemacher reviewed the electric debt and revenue history and proposal, and noted by the end of 2022, JEA's electric debt will be the lowest it has been in nearly 40 years, since 1983. Mr. Wannemacher reviewed the electric debt ratio, current versus proposed and added that this plan will continue to fund JEA's capital investments and

drive lower leverage ratios. Mr. Wannemacher highlighted the electric restructuring impacts and noted this plan increases the operating free cash flow by over \$260 million over the next 4 years. Mr. Wannemacher also covered the water debt and revenue history and proposal, water debt ratio current vs. proposed and the capital improvement plan and noted no base rate increase is needed to execute on the water plan. Mr. Wannemacher also covered the water restructuring impacts and stated JEA will experience an increase in operating cash flow by over \$140 million over the next four years, which will be reinvested into capital projects. Mr. Wannemacher concluded that these actions demonstrate JEA's credit and our willingness to pay. Board Members held discussions and Chair Howard suggested Board Members reach out to staff to obtain further information. This presentation was provided for information. Staff will bring this item back to the Board a future meeting for action.

- E. Chair's Report** – Chair Howard stated JEA sent approximately 150 team members to restore electric, water and wastewater services in the Tallahassee area in response to Hurricane Michael. Chair Howard thanked Mr. Zahn, Ms. Gina Kyle and staff for leading the Innovation Summit. Chair Howard stated staff did a great job in connection with the Jacksonville Chamber of Commerce and the Jacksonville Transportation Authority. Chair Howard thanked the members of the CEO Search Committee for their investment of time in interviewing the candidates. Mr. Howard added this national search has attracted some of the most attractive candidates. Chair Howard provided comments related to the Moody's action.

Agenda Item VIII – Closing Considerations

- A. Announcements** – Next Board Meeting – November 27, 2018
- B. Adjournment**

With no further business claiming the attention of the Board, Chair Howard adjourned the meeting at 2:21 PM.

APPROVED BY:

SECRETARY

DATE: _____

Board Meeting recorded by:

Melissa M. Charleroy
Executive Assistant