

# **Task Force on Consolidation - JEA**

## **I. Central Service Type Activities**

Recently, the Task Force has heard suggestions about consolidating central service type activities (legal, IT, procurement, fleet management, personnel, copy services, janitorial, building maintenance, marketing, etc.). With that understanding, please advise the Task Force on the following questions.

**1. Please discuss which of these services your organization has in house and why it is beneficial. Please go beyond simple preference to have it in house.**

**Is it to improve the quality of service, reduce cost, etc.?**

In House Service Activities. By order of the City Council as implemented through the City Charter, Article 21, JEA has grown in complexity from just being Jacksonville Electric Authority to being a complex utility provider delivering four diverse and vital services - electric/water/sewer/district energy system (DES). To support these operations the City Council made revisions to the charter that provided JEA with responsibility and accountability to operate the principle service activities of **Technology Services (TS), Human Resources (HR) and Financial and Logistics Support (FLS).**

The services provided under these areas are designed to maximize cost, operational and service efficiencies while also working under the same regulatory and fiscal constraints as JEA's operating activities. The uniqueness of the multifaceted utility industry calls for dedicated service activities to fulfill short to long term operational requirements. Each area employs skilled workers, apply standardized support processes and create cost saving initiatives to improve customer satisfaction. For example, to ensure that rigid federal compliance requirements are consistently met, the TS area designed and actively utilizes unique service level agreements to support JEA's electric and water operation services to ensure that quantitative feedback on system operations is immediately received and acted upon. The high tempo area of procurement, which transitioned from COJ in 1993 is an example where establishing a resident service activity resulted in reduced costs, increased product quality, and enhanced professionalism from contractors and vendors. Today's very dynamic financial environment requires having a dedicated, focused team constantly available to manage market opportunities. JEA's TS, HR and FLS activities are recognized as the best-in-class in supporting JEA's mission and servicing its internal customers. Their actions promote a high-performance workplace which motivates employees to provide top quality customer service - JEA's top priority.

The most recent major revisions to the City Charter (Article 21) were implemented by the City Council to increase financial contributions and provide JEA management the support needed to enhance utility services to the city of Jacksonville.

- In 1993 the City Council passed an Ordinance revising parts of Article 21 (JEA Charter) of the City Charter. The revisions established a formula for contribution to the city and also provided JEA with greater flexibility and responsibility to carry out its duties in the most effective and efficient manner possible. In addition to increasing JEA's financial contribution to the city, the City Council recognized the importance of aligning services to support operational requirements. As a result, JEA was given responsibility

and accountability for: the acquisition and sale of property; making contracts and agreements and other financial considerations; furnishing electricity and establishing rates; transfer, sale, provision and financing of services; having limited exemption from using city departments and service personnel; increasing staff and defining compensation; being exempted from city purchasing code in purchasing and award of contracts; payment of bonds, notes or revenue certificates; providing for construction; establishing and administering a disadvantaged business enterprise program.

- In 1997 the City Council passed an Ordinance revising parts of Article 21 to allow JEA to engage in other forms of utility service beyond just electric. Later in 1997 the city of Jacksonville Water Department was transferred to JEA for responsibility and accountability of operations. Subsequent to that JEA established DES operations.

In fulfilling its service requirements JEA is driven by stringent regulatory, legal, security and fiscal constraints in addition to high standards for customer satisfaction. To meet these high standards, JEA has fused multiple service and operational business activities into a single service-oriented organization focused on promoting and sustaining operational excellence. Article 21 has been amended over time but generally works fairly well in meeting the balance needed to operate effectively as a municipal utility. As it stands at present the current service activity structure provided by the charter is adequate to meet the complex operating requirements within the utility industry.

## **2. What central services are you currently using? Why? Or why have you chosen not to utilize the service?**

Centralized Service Activity. JEA uses the central service of the Office of General Council (OGC). The relationship that exists allows JEA the flexibility to utilize, with permission of and through coordination with OGC, outside legal services as required.

## **3. Specifics as to number of employees, budget size, etc do not need to be discussed but should be given to the Task Force as a hand out.**

Specifics of In House Services. (number of employees, budget size, mission).

### **Technology Services:**

Budgeted Regular Employees: 124; FY13 Budget O&M: \$27.5M/Capital \$16.4M

Mission: Responsible for installing and maintaining technologies necessary to provide electric, water, wastewater and district energy services to JEA customers. Examples of systems include an extensive fiber communications network, a SCADA remote monitoring system, an outage management system, a customer billing system, enterprise management system, GIS system, telephony systems, interactive voice response system, and customer web and mobile sites, among others.

Specifics:

- Utility technology architecture is complex, often real-time and requires significant built-in cyber security, while ensuring ease of design for our customers' use.
- Our customer utility billing and metering systems calculate and bill 20,000 bills daily and have more than fifty interfaces combined.
- Jea.com and the interactive-voice response systems provide an automated utility gateway into all our customer utility services.

**Human Resources:**

Budgeted Regular Employees: 83; FY13 Budget O&M: \$12.4M/ Capital: \$0M

Mission: Responsible for supporting a highly technical workforce of approximately 2400 employees. Services include payroll, benefits, compensation, labor relations (five bargaining units), recruitment, cultural competence, professional development, technical development (multiple apprenticeship programs), safety and health services, performance management and Six Sigma performance improvement training and services and strategic support of Oracle applications for financials, HRMS, supply chain and business intelligence.

Specifics:

- Providing Safety and Health Services to a combined utility like JEA is highly specialized work requiring unique knowledge, skill, and experience to help protect JEA workers and the general public from the hazards of electricity and wastewater.
- Establishing and running multiple apprenticeship programs for utility workers – These are typically four-year programs designed to train a utility worker in the highly technical and potentially dangerous tasks.

**Financial and Logistical Support:**

Budgeted Regular Employees: 209; FY13 Budget O&M: \$48.1M/Capital: \$35.9M

Mission: Responsible for ensuring the financial health of JEA, financial sustainability, responsible budgeting, long-term strategic planning, rate setting for JEA's Customers, tax and financial compliance, and accurate, complete, and timely financial reporting. The Group is also responsible for logistical support of JEA's business lines, including supply chain management, facilities, real estate, technical business line support, fleet, and emergency preparedness.

Procurement specifics:

- Majority of procurement spend is for highly engineered systems and components that are unique to utility operations.
- Procurement processes are complex, JEA's process involves 18 different process elements streamlined to support quick turnaround times required for outages and emergencies.
- Procurement processes are strategic and provide significant savings to JEA customers. JEA leverages over \$40 Million of its spend per year with other utilities to increase market size, and saves over \$6 Million per year through these efforts.

Fleet specifics:

- Utility Fleets are complex, highly engineered and critical to sustaining and restoring Electric and Water operation.
- Maintenance is highly specialized and safety sensitive, (e.g. dielectric testing is required on all aerial components to prevent electrocution to JEA crews.)
- JEA outsourced Fleet Maintenance from COJ since 2006, has improved serviced levels and is currently saving \$438K per year over COJ prices from most recent solicitation.
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## **II. Unity of Purpose**

### **1. What is the mission statement of JEA?**

JEA Mission: Energizing our community through high-value energy and water solutions.

COJ Mission: Serving you, meeting today's challenges, focusing on the future.

JEA Vision: JEA is a premier service provider, valued asset and vital partner in advancing our community.

COJ Vision: To make Jacksonville's local government the most responsive and effective city government in America, and Jacksonville the best place in the nation to live, work and raise a family.

### **2. Do you feel there is a clear, consistent mission & goal for the City of Jacksonville?**

#### **a. What is it?**

#### **b. How does your authority fit in?**

Yes, COJ's mission is to serve its citizenry by providing stability in quality of life issues through daily operations and future planning.

JEA mission is simpatico. JEA is focused on continuously improving the quality of life for our customers by delivering high value electric and water solutions.

### **3. How could the City of Jacksonville have one clear, consistent mission & goal that ensures cooperation and focus between the city, independent authorities, and constitutional officers?**

The COJ mission statement can be supported by written objectives or guiding principles that explicitly state the supporting role that independent authorities and constitutional officers will carry out in fulfilling the COJ mission. Other actions that could be taken: adopt a single shared mission statement; have each mission statement reference a common element, i.e. COJ, Northeast FL, Duval County, etc.

## **III. Budget Effects**

The Task Force recognizes that JEA makes a substantial annual contribution to the City General Fund. Even so, net profit impacts JEA's ability to borrow and build for the future as well as its ability to contribute to the City. Net profit must be balanced against the cost of services.

### **1. How does JEA balance the rates charged, the expenditures it makes, and the City's need for funding?**

JEA has a pricing policy to provide broad guidance and to facilitate the management, control and oversight of JEA's pricing structure. Its primary goal is to establish revenue requirements to fully recover the costs necessary to operate and maintain the utility, consistent with its mission, through fair and equitable pricing. This includes sufficient revenue for required transfers to the City, debt service coverage for bondholders and balance sheet liquidity. The policy recognizes the operational challenges of managing dynamic businesses with major cost drivers such as significant regulatory reform, as well as fuel and debt service, which are dependent on global market conditions.

The policy also contains the guiding parameters that JEA utilizes to develop its annual Five Year Projection, Budget and ratemaking decisions. The JEA Board is responsible for setting rates. As part of this responsibility the Board acknowledges that the rate setting policy and practices utilized will govern JEA's accounting under current generally accepted accounting principles, meaning that rate actions by the Board now will impact when certain costs and revenues are recognized for financial statement purposes. The purpose of the policy is to establish JEA rates based on cost to serve its customers.

## **2. Is the impact on City finances a factor in decision-making?**

Calculation of JEA's annual transfer to the city is made independently of city finances as put forth in the annual city budget. The JEA transfer will consist of: a contribution based on the current formula plus an annual \$2.5M increase (until 2016), taxes collected based on sales revenue, and funds collected through the franchise fee currently at 3%.

JEA transfer payments are currently in the top decile (highest) of AA rated municipal utilities. It is a transfer policy which represents a substantial portion of the utility's own revenues. This could have a negative rating impact if it produces uncompetitive electric rates or leaves limited internal funds available for utility operations, maintenance, and repairs. JEA maintains constant awareness of the impact that our transfer policy will have on credit ratings.

## **IV. Sale of JEA**

The topics of the potential sale of JEA and its market value have been revisited by the City several times.

### **1. Explain for the task force the most recent Auditor's recommendation and comment.**

The Council Auditor's concluded that JEA is a greater asset to the city than it would be to an investor owned utility. The report estimated the value of JEA to the City to be a range between \$2.0 and \$2.5 billion taking several assumptions into consideration. It was estimated that the range in value of JEA could be \$1.0 billion at a minimum and as high as \$1.2 billion to an investor owned utility assuming that a willing and able buyer exists to purchase all JEA utilities – electric, water, sewer, district energy system. The City's current contribution from JEA has a guaranteed floor. Whereas annual revenues to the general fund resulting from the sale of JEA would be uncertain and dependent on newly created tax revenue and, if invested, unpredictable market conditions. It is recommended that the Council Auditor's Report be read for full comprehension of assumptions considered.

### **2. Besides its annual budget contribution, how does the City benefit from owning JEA?**

- Keeping JEA as a city owned utility retains over 700 jobs in Jacksonville with salaries, benefits and economic impact totaling more than \$70 million annually
- Provides certainty that a minimum level of revenue will go to the City's general fund
- JEA employees remain a part of the City's General Employees Pension Fund
- As a municipal JEA has access to tax-exempt electric/water system long term debt which would make it more attractive to support capital investment projects

- JEA has assisted the City in numerous instances in the past. An example is JEA's purchase of approximately \$26 million of preservation land to complement the City's Preservation Project and the expense of approximately \$28 million to construct Chilled Water plants serving Better Jacksonville Plan buildings; Courthouse Complex, Main Library, Arena and Ballpark. It is doubtful that an IOU based outside of Jacksonville would partner as closely with the City as JEA

## V. Questions/requests from Task Force Meeting 12 Sep 2013

### 1. How much of the annual nitrogen load to the river comes from Duval County and who is responsible for how many tons? How many tons from upstream?

JEA continues to meet or exceed expectations as an environmental steward with respect to reducing nutrient discharge to the ST Johns River. Below are the starting and current (where data is available) levels of discharge to the river (tons per year).

	<u>START</u>	<u>CURRENT (2012 data)</u>
JEA:	1536	685
COJ:	268	146
<b>Total:</b>	<b>1804</b>	<b>831</b>

Upstream of Duval Co.

<b>Various Total:</b>	<b>11,500</b>	<b>10,000</b>
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Other Duval Co. Sources (estimates)

US Navy:	38
Beaches Comm:	120
Anheuser Busch:	27
Stone Container:	161
<b>Total:</b>	<b>346</b>

### 2. There was discussion by committee members on the availability of water/sewer services to already established neighborhoods that were permitted for development based on well water and septic tank utilization. The question was raised as to what commitment or obligation, if any, exists on the part of the City of Jacksonville or JEA to fund water infrastructure to areas where issues may exist with the quality of well service.

Based on current research JEA has neither committed to nor is obligated to fund water infrastructure to areas where issues exist with the quality of well service. Research is continuing to determine what role, if any, other entities (City of Jacksonville, former Water and Sewer Expansion Authority) might have had in the this matter. Presently, for existing neighborhoods permitted for development based on well water and septic tank utilization the costs associated with installing water infrastructure is the responsibility of the users benefiting from the conversion. Research will be completed by Sep 23, 2013.