

Jacksonville Retirement Reform Task Force

January 29, 2014

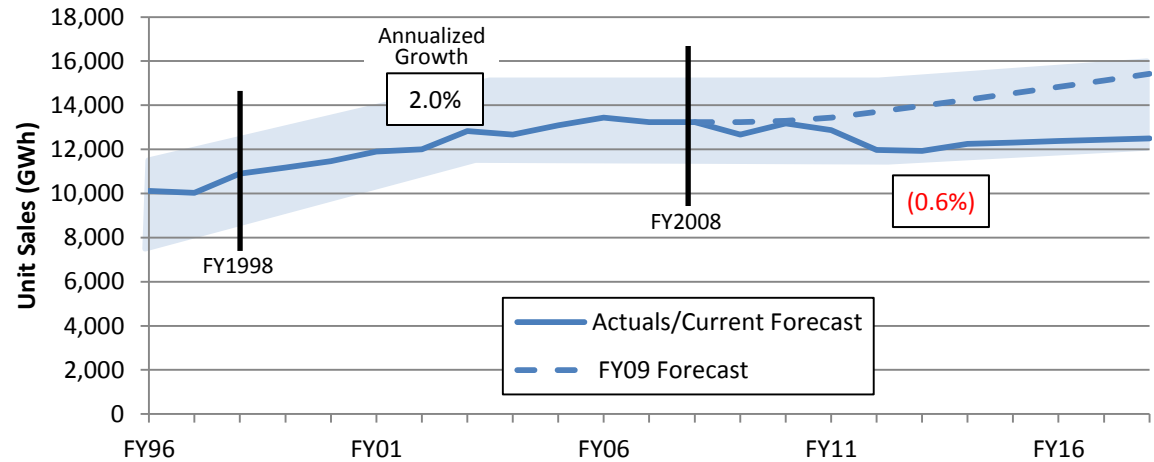
Background



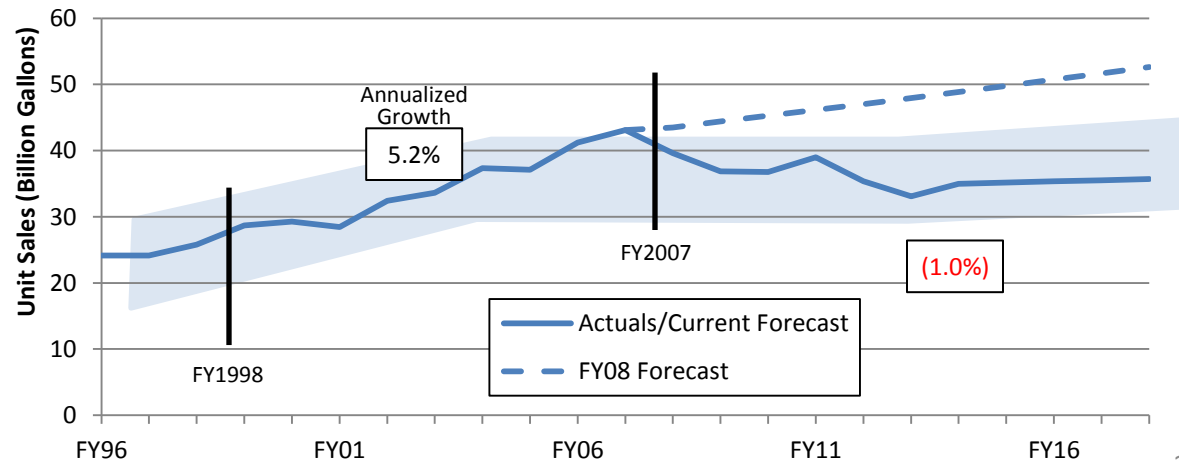
Declining Unit Sales 1996 - 2018

- Fundamental shift in utility unit sales growth has occurred in the last three years
- Do not plan on reaching historic high unit sales levels
- Lends urgency to strategies

Energy Unit Sales



Water Unit Sales



Debt Balance Declining in Recent Years But Remains Extremely High

Electric System

Total Debt:

- Low in 1999 at \$1.5B
- Peaked in 2010 at \$3.7B
- 2013 at \$3.2B

Debt to Asset Ratio:

- Low in 1999 at 67%
- Peaked in 2008 at 91%
- 2013 at 77%
- Policy Maximum Target 60%

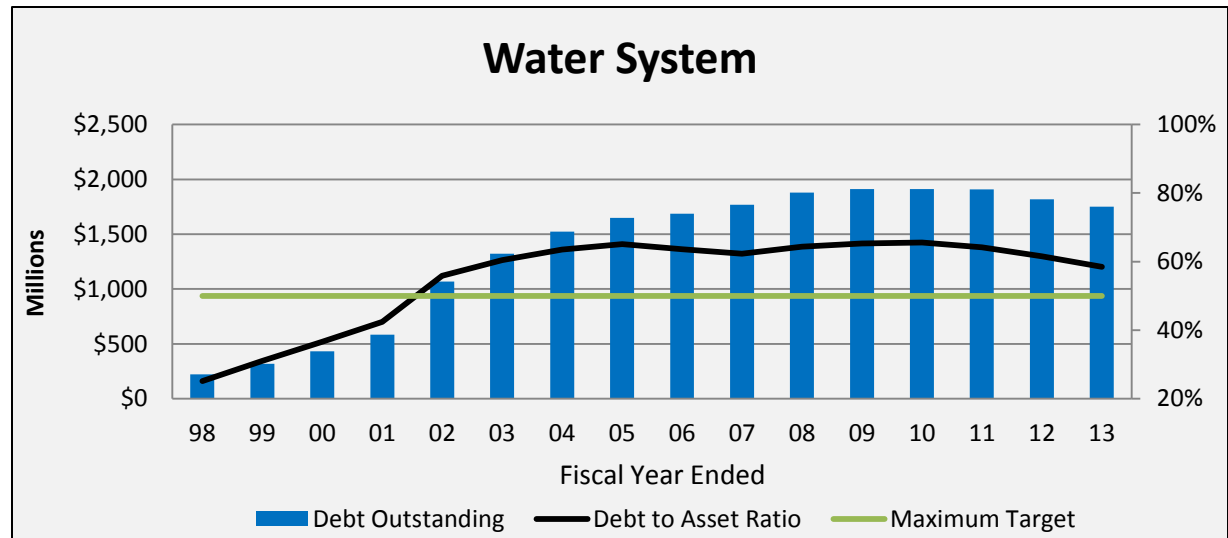
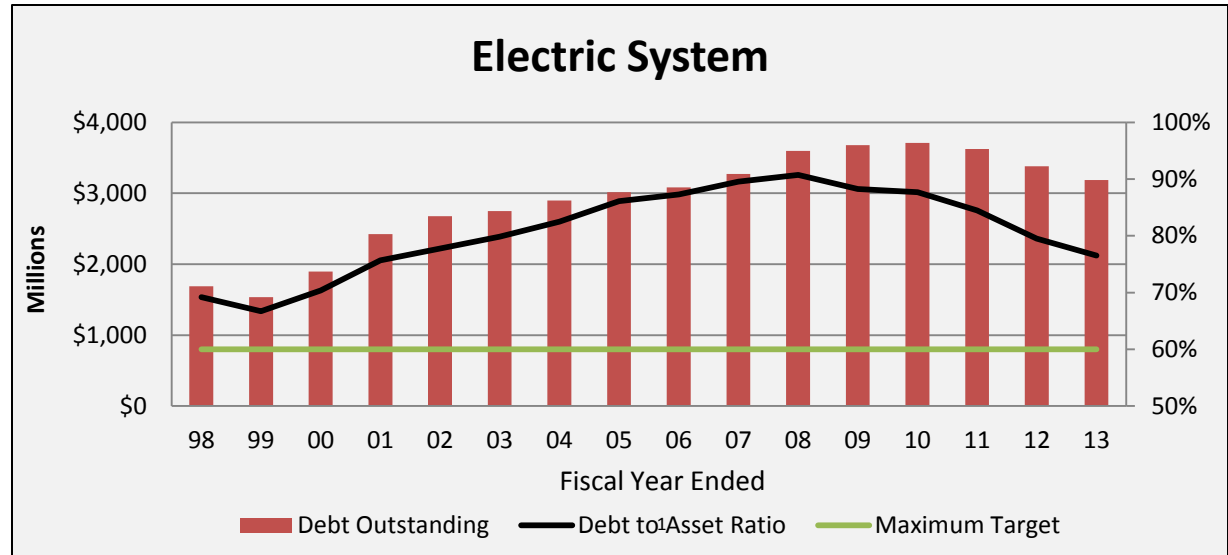
Water/Sewer System

Total Debt:

- Low in 1998 at \$0.2B
- Peaked in 2009 at \$1.9B
- 2013 at \$1.8B

Debt to Asset Ratio:

- Low in 1998 at 25%
- Peaked 2010 at 66%
- 2013 at 59%
- Policy Maximum Target 50%



¹ Includes JEA, Scherer and JEA portion of SJRPP

Regulatory Issues for Power Plants – the \$1.0 billion question

Several proposed or pending regulations regarding carbon emissions, mercury emission, water discharge, and solid fuel byproduct designations could collectively cost in excess of \$1 billion for compliance.

Water Supply Management – the \$100 million question

Costs of complying with all requirements associated with maintaining JEA's Consumptive Use Permit (CUP) including newly proposed Minimum Flow Level (MFL) projects, as well as the District's new Regional Water Supply Plan may cost in \$4M-\$100M over the next 5 years.

Revenue and Growth

Weather, the economy, conservation and efficiency have and will continue to reduce revenues.

Pensions

JEA's unfunded pension liability at October 2012 stood at \$445 million, with an annual contribution of \$38 million or 28% salary.

Adverse Fuel Pricing

Risk of rising fuel prices has subsided recently, however, even a small rise in overall fuel and electric commodity prices causes a significant real increase in JEA's approximately \$500M annual fuel costs.

Critical Infrastructure Compliance

New, more stringent federal standards and strict enforcement are expected, IID just fined \$12.0M.

New Addition: Mayor Brown's proposal to increase the JEA contribution by \$40 million per year for 14 years, for a total of \$560 million.

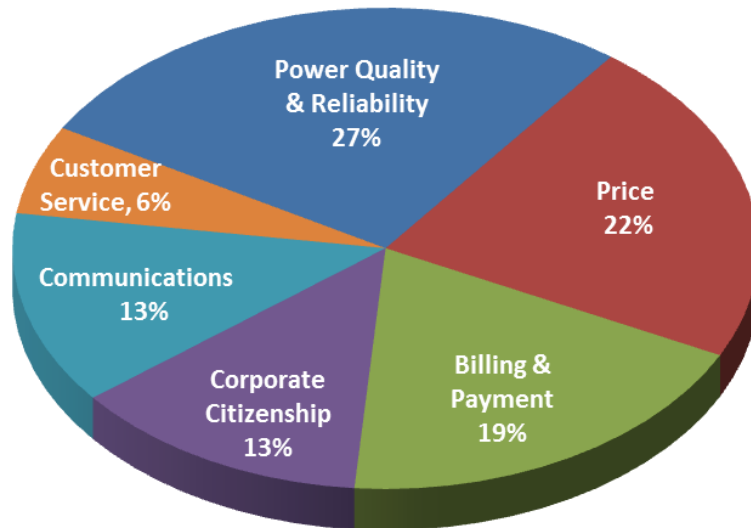
Achieve National 2nd Quartile Ranking on the J.D. Power Customer Satisfaction Study

Residential

FY13		Wave 1		Wave 2		Wave 3		Wave 4		FY14	
3Q	640	3Q	642	2Q	671					2Q	657

Business

FY13		Wave 1		Wave 2		FY14	
4Q	619	1Q	689				



2014 Residential Rankings out of 138
 2014 Business Ranking out of 96

Customer Service

	FY13	Wave 1	Wave 2	Wave 3	Wave 4	FY14
R	2Q	1Q	1Q			1Q
B	3Q	2Q				

Quality & Reliability

	FY13	Wave 1	Wave 2	Wave 3	Wave 4	FY14
R	3Q	4Q	2Q			2Q
B	4Q	2Q				

Billing & Payment

	FY13	Wave 1	Wave 2	Wave 3	Wave 4	FY14
R	2Q	3Q	1Q			1Q
B	3Q	1Q				

Communication

	FY13	Wave 1	Wave 2	Wave 3	Wave 4	FY14
R	2Q	3Q	1Q			2Q
B	4Q	1Q				

Price

	FY13	Wave 1	Wave 2	Wave 3	Wave 4	FY14
R	3Q	3Q	3Q			3Q
B	4Q	1Q				

Corporate Citizenship

	FY13	Wave 1	Wave 2	Wave 3	Wave 4	FY14
R	3Q	3Q	2Q			3Q
B	4Q	1Q				

Price is still an issue

Framework for Discussion

Background Summary

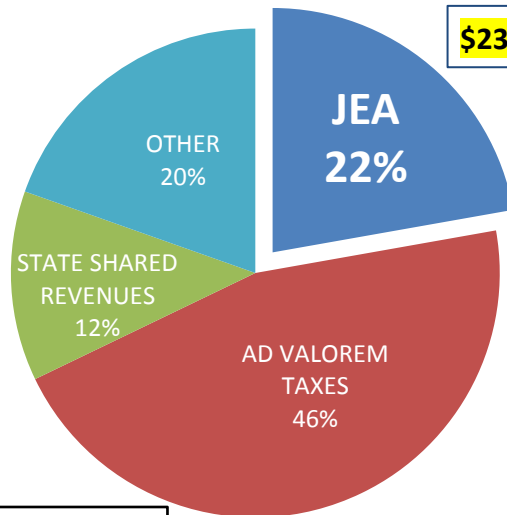
- Unit sales have fallen from pre-recession levels and expected to remain flat for the foreseeable future
 - Electric System Unit Sales -- down 10 %
 - Water System Unit Sales -- down 23 %
- Financial margins are expected to decline over the next five years
- Debt Reduction Plan
- Environmental compliance uncertainty – Potential of over \$1.0 billion in added costs
- JEA's unfunded pension liability at October 2012 stood at \$445 million, with an annual contribution of \$38 million or 28% of salary
- Price is still an issue with customers

Total Government Transfers

- COJ and JEA agreement governing minimum transfer payments runs through 2016
- JEA transfer payments are stable and projected to approach 9% of revenue

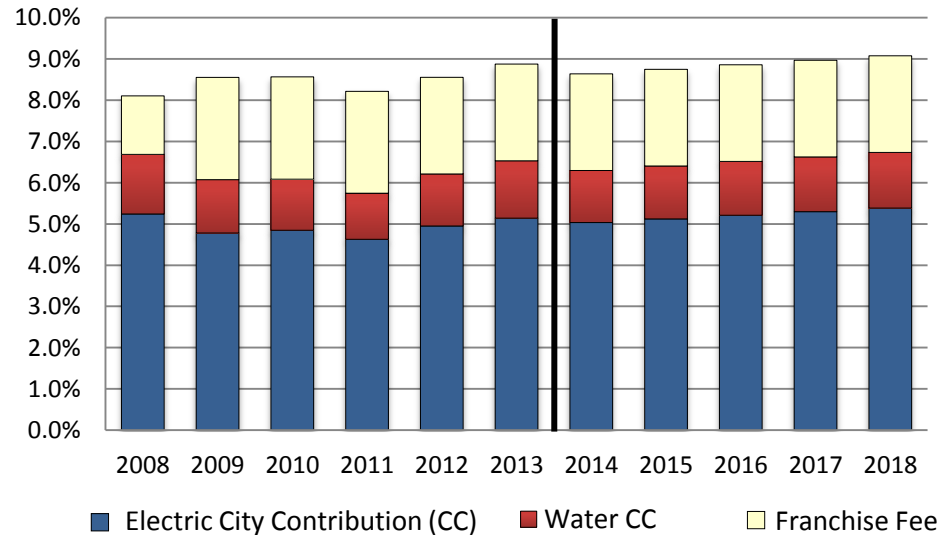
**JEA Transfer Payments to COJ
Percent of City's General Fund Budget
(Includes Public Service Tax)**

\$233 Million

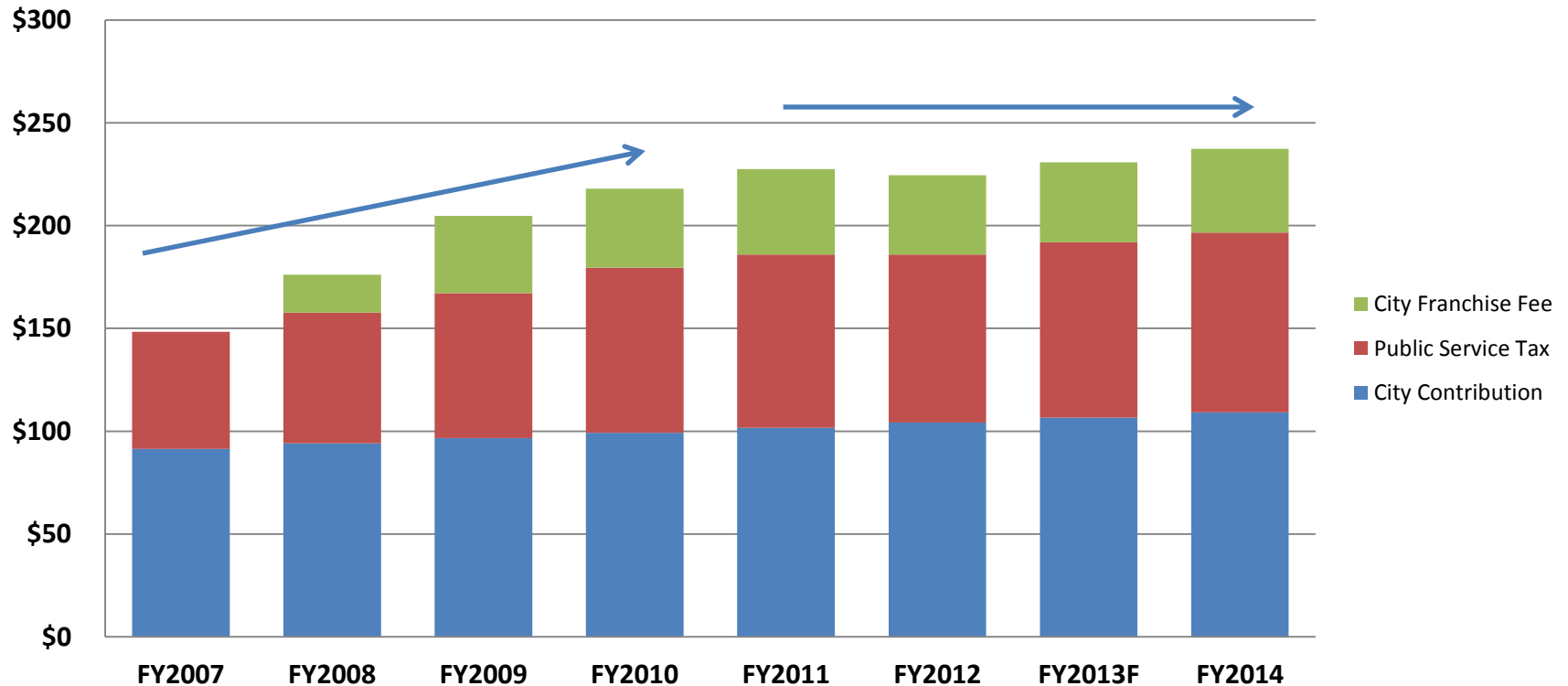


FY2014 Budget

**JEA Transfer Payments to COJ
Percent of Revenue**



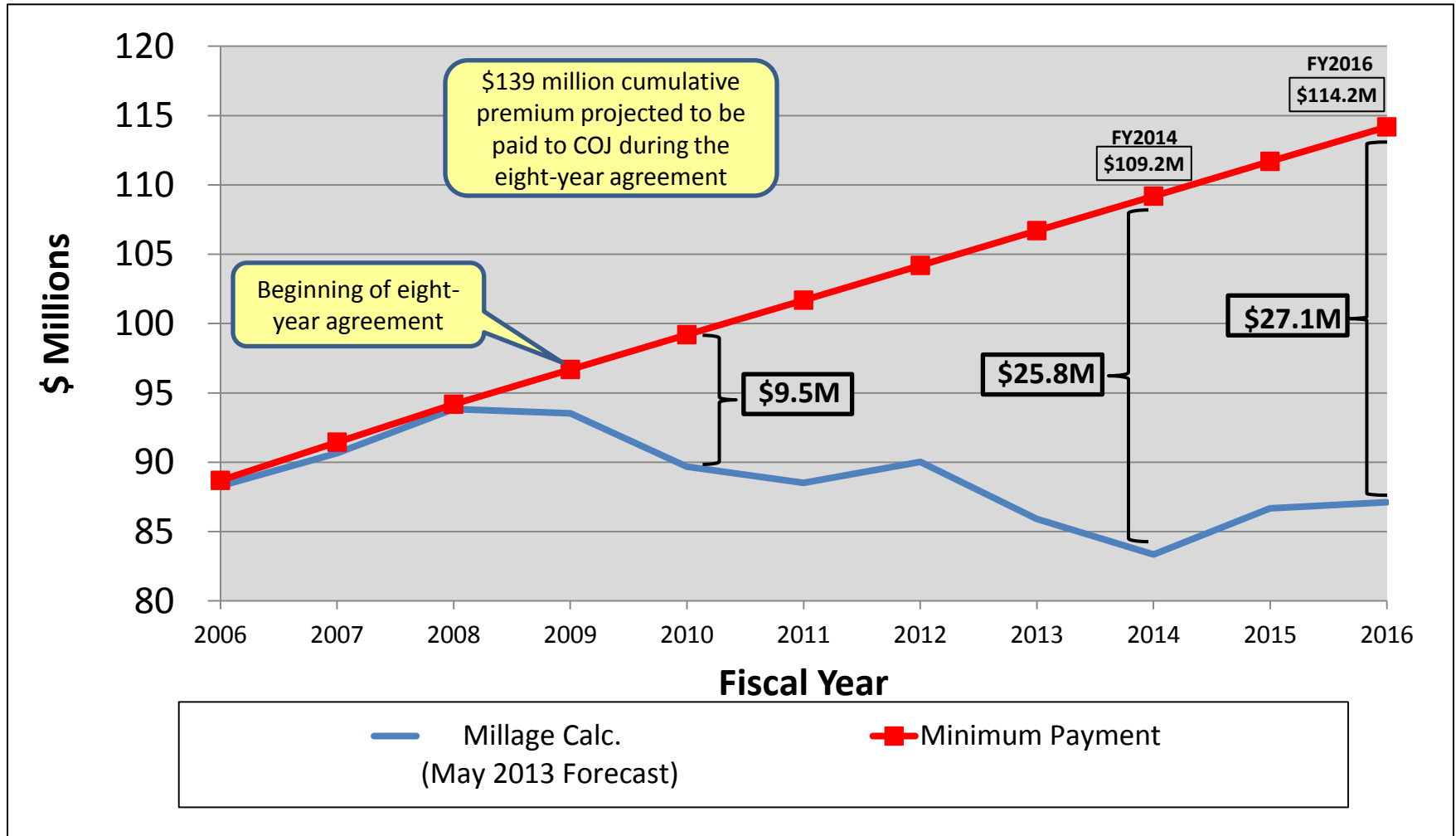
Contribution, Franchise Fee, and Public Service Tax



- During the five year period, 2008 – 2012, annual transfers to the City increased \$77 million or 51%.
- Extremely low growth in unit sales and no planned rate increase will limit future growth in Franchise Fees and Public Service Taxes.
- City contribution will continue to grow at \$2.5 million per year through 2016.

City Contribution

Formula Comparison of the Current \$2.5M Minimum Increase vs. Millage Calculation



Framework for Discussion

Total Government Transfers Summary

- Total government transfer (TGT) defined as: **contribution plus franchise fees plus public service tax**. TGTs are governed by the Charter and include a minimum annual increase of \$2.5 million in the contribution portion of the TGT through 2016.
 - JEA's 2014 TGT is forecasted to be \$233 million
 - JEA's TGT represents 22% of the City's 2014 General Fund Budget (ad valorem taxes – 46%)
 - During the six-year period, 2007 – 2013 annual TGT increased by \$77 million or 52%
 - During the four-year period, 2013 – 2016 annual TGT will increase by \$2.5 million per year
 - Since 2008, the minimum annual increase provision has been used to calculate the contribution portion of TGT; in 2014 the contribution portion of the TGT calculated using the minimum annual increase provision provides the City with a premium of \$25.8 million. This premium is being funded by cost reductions in every part of the business.

Independent Third Party Assessment

Framework for Discussion

Independent view of JEA/COJ Total Government Transfer Policies – Electric System

- “The combination of the two figures” (contribution and franchise fees) “accounted for about 11% of total operation revenues in fiscal 2013, **more than twice the percentage typically transferred by similarly rated retail systems**. While the annual transfer amount has thus far been manageable for JEA, **any meaningful escalation** beyond 2016 resulting from the mounting pressure **to address the city’s large unfunded pension liability** would be **viewed negatively**” *Fitch Ratings*
- The business profile reflects our assessment of the utility’s competitive position, which low rates afford despite substantial contributions to Jacksonville’s general fund.” *Standard & Poors*
- “When a transfer policy””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.” *Moody’s Investors Services*

Specific Questions

Framework for Discussion Clarification of Recent Public Statements

JEA reported nearly \$2 billion in total revenue and nearly \$400 million in operation income for the fiscal year 2013.

- JEA's operating income in FY2013 was \$389 million; what were these funds used for?
 - \$234 million was used to pay principal and interest on JEA's \$5.6 billion debt
 - \$106 million was transferred to the City's general fund
 - \$49 million was directed to our capital fund, to insure our \$6 billion in utility infrastructure assets are properly maintained, ensuring continued reliability and environmental compliance

Framework for Discussion

Clarification of Recent Public Statements

As of fiscal year end 2013, JEA had more than \$340 million in cash-on-hand.

- At the end of FY2013, JEA's \$8.5 billion balance sheet reflected \$341 million in unrestricted cash. JEA is a very large and complex operation which spends approximately \$5 million dollars per day to keep the lights on and the water flowing – both ways. The \$341 million represents 110 days of cash for the Water and Sewer System and 129 days of cash for the Electric System. This is considerably less cash-on-hand than a typical utility with equivalent scope, scale, and complexity to JEA would carry on its balance sheet. Benchmark data suggests that cash on hand for a utility with JEA's scope, scale, and complexities should range between 150 and 250 days.
- The City of Jacksonville understands and appreciates the need for prudent financial management to protect its credit rating and provide reserves for unplanned events. That is why it retained an unrestricted general fund reserve of \$145 million at year end.

Framework for Discussion

Clarification of Recent Public Statements

In October 2013, JEA paid nearly \$2 million in employee bonuses

- In November 2013, JEA employees were awarded their well-earned incentive compensation which in total was \$1.9 million dollars. This compensation was earned by reducing operating and maintenance expenses by \$32 million and making significant improvements to our customer service delivery.
- Simply stated, no savings, not achieving pre-established goals..... no incentive payment.

