

**JEA**  
**FINANCE & AUDIT COMMITTEE AGENDA**

**DATE:** August 14, 2020  
**TIME:** 10:00 AM – 12:00 PM  
**PLACE:** WebEx

			Responsible Person	Action (A) Info (I)	Total Time
<b>I.</b>	<b>OPENING CONSIDERATIONS</b>		Marty Lanahan		
	A.	Call to Order			
	B.	Adoption of Agenda		A	
	C.	<a href="#">Approval of Minutes – May 18, 2020</a>	Madricka Jones	A	
<b>II.</b>	<b>NEW BUSINESS</b>				
	A.	Audit Services			
		1. <a href="#">Quarterly Audit Services Update</a>	Steve Tuten	I	5 mins.
		2. <a href="#">Annual Approval of Internal Audit Charter</a>	Steve Tuten	A	5 mins.
		3. <a href="#">Annual Approval of Internal Audit Plan</a>	Lee Montanez	A	15 mins.
	B.	<a href="#">Ethics Officer Quarterly Report</a>	Walette Stanford	I	10 mins.
	C.	<a href="#">Ernst &amp; Young FY2020 Annual Financial Audit Plan</a>	John DiSanto	A	20 mins.
	D.	<a href="#">Electric System and Water and Sewer System Reserve Fund Quarterly Report</a>	Joe Orfano	I	5 mins.
	E.	<a href="#">Water/Wastewater Cost of Service and Rates</a>	Brian Roche	I	10 mins.
	F.	<a href="#">Preliminary Five-Year Financial Projections</a>	Brian Roche	I	10 mins.
	G.	<a href="#">JEA Energy Market Risk Management Policy Report</a>	Ricky Erixton	I	5 mins.
	H.	Announcements			
		1. Next Meeting, December 11, 10:00 AM – 12:00 PM			
	.	Committee Discussions			
		1. Ernst & Young	John DiSanto	I	5 mins.
		2. Director, Audit Services	Steve Tuten	I	5 mins.
		3. Council Auditor's Office	Jeff Rodda	I	5 mins.
	I.	Adjournment			

JEA FINANCE & AUDIT COMMITTEE MINUTES  
May 18, 2020

The Finance & Audit Committee of JEA met on Monday, May 18, 2020 via WebEx (no physical location was provided for this meeting. Pursuant to State of Florida Executive Order 20-69 (Emergency Management-COVID-19-Local Government Public Meetings), this meeting is permitted to be conducted by communications media technology.

**Agenda Item I – Opening Considerations**

- A. Call to Order – Committee Chair Marty Lanahan called the meeting to order at 8:00 am. Board Chair John Baker, Bobby Stein, and Joseph DiSalvo were in attendance. Others in attendance were Paul McElroy, Steve Tuten, Walette Stanford, Joe Orfano, Caren Anders, Juli Crawford, Russell Caffey. John DiSanto and Stephanie Reynolds of Ernst & Young, were also in attendance.
- B. Adoption of Agenda – The agenda was adopted unanimously on motion by John Baker and seconded by Bobby Stein.
- C. Approval of Minutes – On motion by John Baker and seconded by Bobby Stein minutes for the December 9, 2019 Finance and Audit Committee Meeting were unanimously approved.

**Agenda Item II – New Business**

Marty Lanahan, stated that she spoke to Paul McElroy, Interim Managing Director/CEO and Joe Orfano, Interim Chief Financial Officer and decided that it was too early to discuss any COVID-19 impacts. Ms. Lanahan also stated that there has never been a breakdown for the Pay for Performance and asked that Staff conduct a Pay for Performance workshop.

- A. FY2021 Budget Presentation – Juli Crawford, Director Financial Planning and Analysis, presented the full budget for discussion and feedback. Ms. Crawford provided an eight part presentation that discussed the following: budget process summary, budget summary and consolidated schedules, energy system budget assumptions, water/wastewater budget assumptions, district energy budget assumptions, rate stabilization funds, budget timeline and action items, and supplemental schedules.

Staff recommended that the Finance and Audit Committee provide feedback and direction regarding the key strategic issues and major budget assumptions used in preparing the FY2021 operating and capital budgets including revenue. Staff also recommended that the Finance and Audit Committee provide feedback and direction for final approval by the full Board at the June 23, 2020 meeting.

- B. Quarterly Audit Services Update – Steve Tuten, Director, Audit Services, introduced himself and his department. Mr. Tuten presented the Quarterly Audit Services Update which provides information on (1) Forensic & Audit Investigations, (2) Enterprise Risk Management, and (3) Internal Audit. Mr. Tuten began the presentation by highlighting Forensic and Audit Investigation, investigative case statistics, and summaries of closed cases. In the second part of the presentation, Enterprise Risk Management, Mr. Tuten highlighted the corporate risk heat map scoring, current top risks, and current top risks criteria. Mr. Tuten concluded his presentation with the Internal Audit highlights. In this portion of the presentation, Mr. Tuten addressed the FY20

Audit calendar, summary of completed audits and projects, proposed FY20 Audit Plan postponements, open report issues, and open audit report issues with major rating.

This presentation was provided for information only.

- C. Ethics Officer Quarterly Report – Walette Stanford, Ethics Officer, introduced herself and outlined her duties as JEA’s Ethic Officer. Ms. Stanford presented the Ethics cases by year, Ethics Officers inquiry categories, FY2020 reporting categories, training and education, and oversight and responsibility.

This presentation was provided for information only.

- D. Electric System and Water and Sewer Reserve Fund Quarterly Report – Joe Orfano, Interim Chief Financial Officer, stated this report is provided for full disclosure about all of JEA’s reserve funds. Mr. Orfano also stated each fund supports bond resolution requirements, credit ratings, or operational needs. Mr. Orfano also provided highlights from the Electric System and Water and Sewer Reserve Fund Quarterly Report.

This presentation was provided for information only.

- E. Municipal Capital Market Update – Joe Orfano, Interim Chief Financial Officer, stated the Coronavirus pandemic caused a significant market disruption in the municipal variable rate debt market. Mr. Orfano also stated JEA elected to pass on the U.S. Bank proposal as the Federal Stimulus facilities stabilized the VRDO market. Mr. Orfano then provided details on JEA’s variable rate debt portfolio, JEA’s senior versus subordinated debt, proposed bond refunding opportunities, and refunding delegation resolution key components.

This presentation was provided for information only.

- F. JEA Energy Market Risk Management Policy Report – this presentation was deferred, to be presented at a workshop that will provide a deeper dive into the subject matter.

#### G. Announcements

- 1. The next Finance and Audit Committee meeting is scheduled for August 17, 2020, at 8:00 AM. Committee Chair Lanahan stated that the committee will meet in August but the current date and time is subject to change. Chair Lanahan also reviewed all of the follow up items discussed during the meeting.

#### H. Committee Discussion Sessions

- 1. Ernst & Young – At 10:03 AM, John DiSanto, Ernst & Young, introduced himself and his colleague Stephanie Reynolds, and stated historically he meets with the Committee Chair prior to the meeting, and he noted August is normally the meeting when Ernst & Young presents their Annual Audit. Mr. DiSanto also stated he is looking forward to working with Committee and Staff
- 2. Director, Audit Services – At 10:08 AM, Steve Tuten, Director, Audit Services, stated they are beginning their FY21 Audit Plan and they are open to any feedback from the Committee.
- 3. Council Auditor’s Office – There was no discussion with the Council Auditor.

**Closing Considerations**

With no further business claiming the attention of this Committee, the meeting was declared adjourned at 10:11 AM.

APPROVED BY:

\_\_\_\_\_  
Marty Lanahan, Committee Chair  
Date: \_\_\_\_\_

Submitted by:

\_\_\_\_\_  
Madricka Jones  
Executive Staff Assistant



**INTER-OFFICE MEMORANDUM**

July 30, 2020

**SUBJECT: QUARTERLY AUDIT SERVICES UPDATE**

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**FROM:** Paul McElroy, Interim Managing Director/CEO

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**TO:** JEA Finance and Audit Committee

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Marty Lanahan, Chair  
John Baker  
Robert Stein

**BACKGROUND:**

The Quarterly Audit Services Update provides the JEA Board of Directors with information on the current activities of the three groups within Audit Services: (1) Forensic Audit & Investigations; (2) Enterprise Risk Management; and (3) Internal Audit. The Forensic Audit & Investigations Group conducts internal investigations of confidential reports into JEA's Ethics Hotline (EHL) and from other sources. JEA's Enterprise Risk Management (ERM) Program identifies, assesses, measures, monitors and actively manages risk. The Internal Audit Group reviews internal control processes and ensures that departments maintain compliance with operating procedures and regulations.

**DISCUSSION:**

This update will provide an assessment of how JEA is managing risk and monitoring controls to reduce and/or prevent adverse impact to its business operations.

**RECOMMENDATION:**

No action required, as this update is for information only.

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Paul McElroy, Interim Managing Director/CEO

PEM/SVT



# Audit Services Quarterly Report

August 2020



# Audit Services Groups

- **Forensic Audit & Investigations – pp. 3-6**
- **Enterprise Risk Management (ERM) – pp. 7-9**
- **Internal Audit – pp. 10-16**

August 2020

**Table of Contents**

# Forensic Audit & Investigations (FAI)

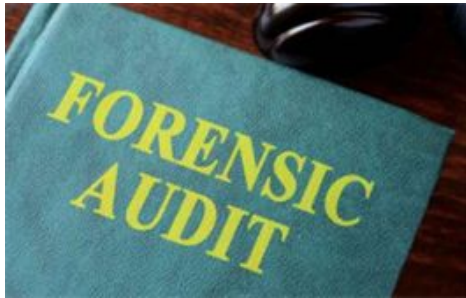


August 2020

FAI



# FAI Highlights



- ✓ During the first 5 months of 2020, Julie Moore, Manager, Forensic Audit & Investigations, and Terry Lund, Senior Forensic Auditor, assisted Corporate Records Compliance with the backlog of public records requests.
- ✓ FAI recently completed a recruitment for a Senior Forensic Auditor. This position has been open since Julie was promoted to Manager last fall. Three candidates were interviewed, but unfortunately none of them were hired.

August 2020

FAI

# Investigation Case Statistics – Q3 FY20

Open Cases 3/31/2020	Cases Opened Q3 FY20	Cases Closed Q3 FY20	Open Cases 6/30/2020
10	5	0	15
Categories For Cases Opened During Q3 FY20			
Conflict of Interest / Ethics Matters			4
Fraud / Theft / Abuse			1
Total			5

August 2020

FAI

# Summary of Closed Cases – Q3 FY20

Reporting Source	Allegation	Investigation Results

Note: No cases were closed during the 3<sup>rd</sup> quarter FY2020. The unit consists of three employees. During this period, one staff member assisted with Public Records requests, one was out on FMLA, and the third position is currently undergoing a recruitment.

# Enterprise Risk Management (ERM)



August 2020

ERM

# Current ERM Initiatives

The following initiatives are currently underway to further enhance the Enterprise Risk Management process.

- Recruitment underway for a Senior ERM Analyst to expand the resources and oversight in managing JEA's risk management process. Primary responsibilities will include assisting in conducting business unit level risk assessments, and identify and better utilize Key Risk/Key Process Indicators (KRI/KPI).
- Re-establish a Bottom-Up approach to risk management through Director level risk assessments, as a means to identify key risks and barriers which may pose significant challenges to meeting their business objectives, as well as their impact on the Top Corporate Risks.
- Developing a process for the identification, implementation and utilization of KRIs, KPSs to evaluate the effectiveness of current mitigations and/or changes to external factors/variables.
- All Tier 1 Risks are being evaluated to assess adequacy of mitigation efforts and preparedness, if the risk event occurs.

# Current ERM Initiatives

The following initiatives are currently underway to further enhance the Enterprise Risk Management process.

- Reassessing non-storm related Business Continuity planning, at the department and enterprise wide levels, to ensure effectiveness in managing events that can impact reliability and operations. Focus is on pandemics, but include other events, such as loss of critical facilities, fuel, etc.
- Risk assessment underway on Supply Chain Risk to identify and mitigate vendors whose loss of services would pose significant obstacles in meeting JEA's Operational, Reliability and customer Service.
- Identification and reassessment of all pending/potential Environmental regulations, based on their impact to JEA if they are passed, required mitigation and planning to comply, and the likelihood of the regulations passing.

# Internal Audit (IA)



August 2020

IA

# Internal Audit Highlights



- ✓ The Internal Audit team successfully completed the annual risk assessment process for the FY21 Internal Audit plan by administering 94 risk surveys, and follow-up meetings with the SLT, Directors and Managers. The FY21 Internal Audit plan will be addressed separately in this meeting.
- ✓ A special engagement audit for the certification, through Green-e, of JEA renewable energy credits for 2019 was recently completed.
- ✓ From March through July, the Internal Audit team collaborated with Corporate Records Compliance to reduce the backlog of public records requests. Several special projects were also in progress during this time.
- ✓ Laurie Gaughan, the JEA lead Auditor for the TEA engagement, has begun planning for the FY2021 audit and engaging with other utilities for the identification of additional audit resources.

August 2020

IA



# FY20 Audit Calendar

		1Q (Oct – Dec)	2Q (Jan – Mar)	3Q (Apr – Jun)	4Q (Jul – Sept)			
Internal Audits	Leadership and Development	✓	Procurement	●	POP Process Follow-Up	●	Meter Operations Follow-Up	●
	Business Development & Community Project Management	✓	Software Licensing	●	NGS Generation	●	Bulk Power and Customer Service Response	●
	P-Cards	✓	Black Belts	✗	Cloud Computing	●	Fleet Services	●
					Risk Management	●	Air & Lab Permitting and Compliance	●
					W/WW Planning	●		
Special Projects	JEA Performance Pay Audit	✓			2021 Annual Risk Assessments	✓	Fleet Services Tire Contract Review	✓
	TEA Audit	✓					Green-e Agreed-Upon Procedures Engagement	✓
	Cyber Program Assessment	●						

Not Started	●	In Progress	●	Postponed Until FY2021	●	Cancelled	✗	Report in Draft	✓	Final Report Issued	✓
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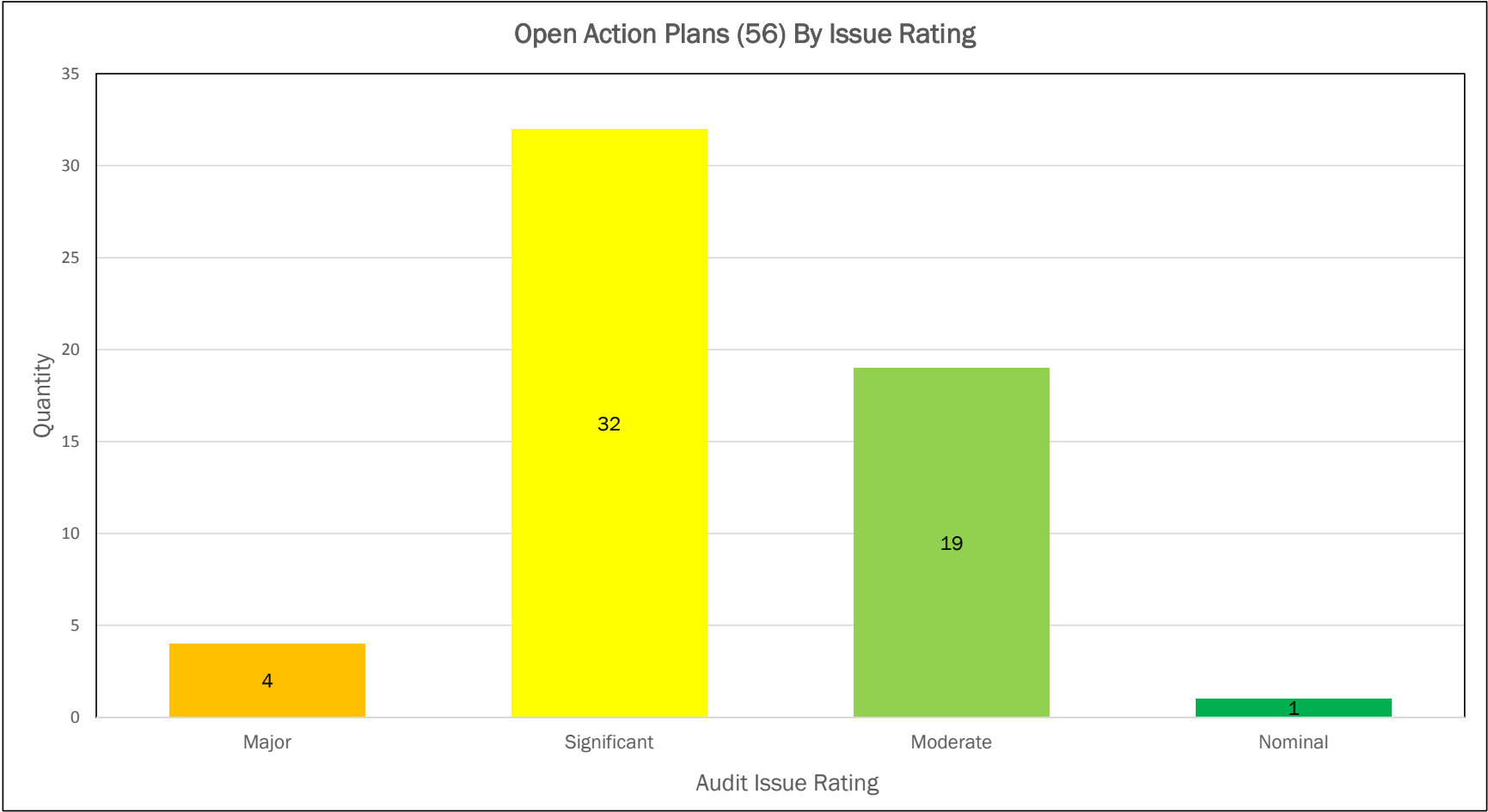
# Summary of Completed Audits & Projects for Q3

	Audit Name	Report Rating	# of Issues	Description of Significant or Greater Issue(s)
Special Projects	Fleet Services Tire Contract Review	<b>No Rating</b>		<p>Opportunities for improvement include the following:</p> <ul style="list-style-type: none"> <li>• Documenting monthly tire inspections.</li> <li>• Ensuring vendor provides alignment services.</li> <li>• Photo evidence of new tire installations.</li> <li>• Peer review to identify tire pricing errors.</li> <li>• Development of pricing criteria for recap tires.</li> </ul>
	Green-e Agreed-Upon Procedures Engagement	<b>No Rating</b>	0	No issues identified.

August 2020

IA

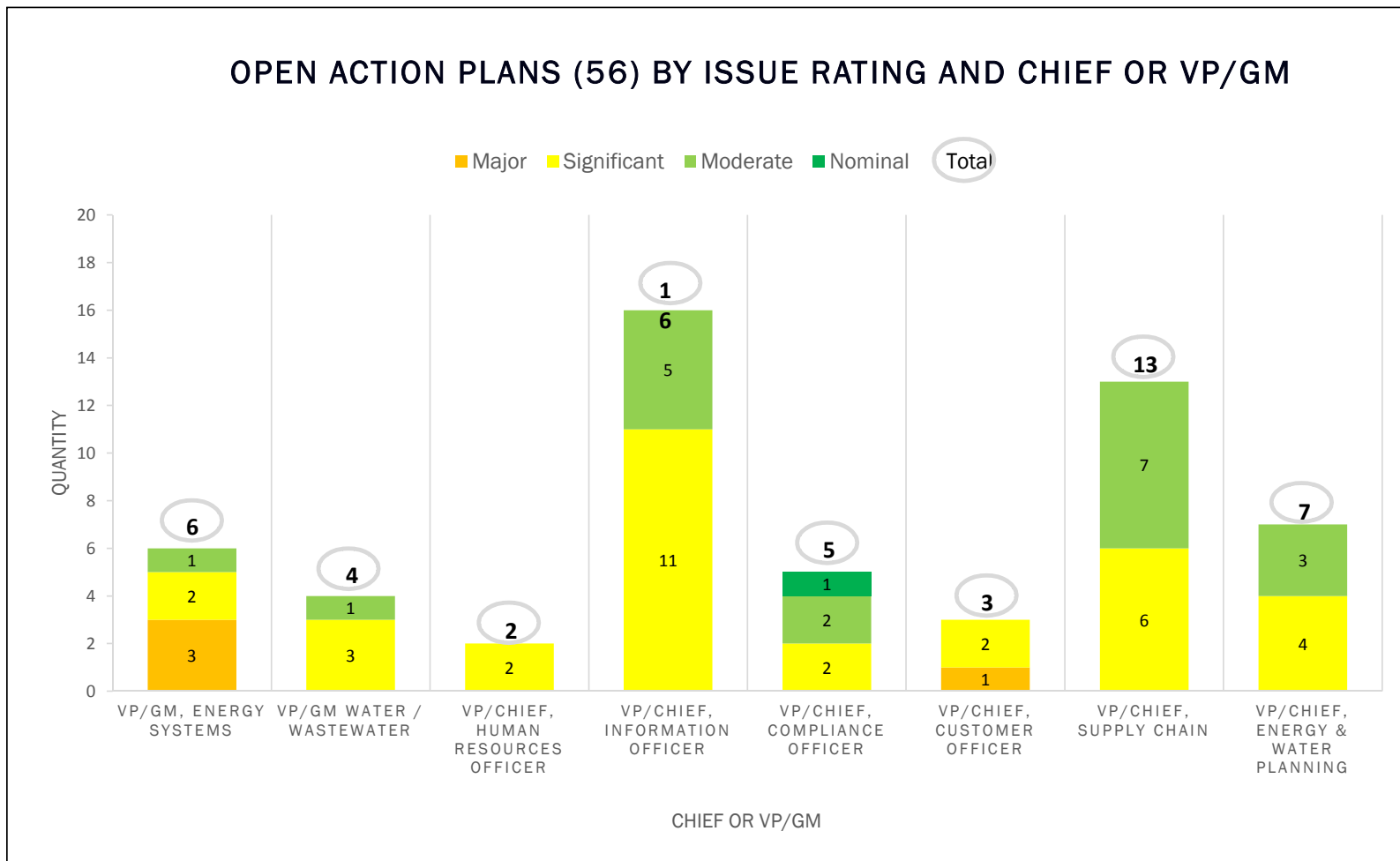
# Open Audit and Investigations Report Issues



August 2020



# Open Audit and Investigations Report Issues



August 2020



# Open Audit and Investigations Report Issues – Major Rating

VP/Chief	Director / (Audit Name)	Issue Observation	Action Plan	Current Due Date	Action Plan Status Comments
VP/GM, Energy	Director, Electric Systems Asset Management	Audit noted a lack of asset data governance.	Asset Management will develop Governance program, utilize Asset 360 barcoding project as part of the solution, review asset data completeness, assist in developing automated As-Built and complete the Asset Creation project.	9/30/20	The Governance program will need input from the Technology Services and Water/Wastewater groups. Asset 360 and mobile app are in QA testing, still working on issues related to barcode reading.
VP/GM, Energy	Director, Electric Systems Asset Management	Audit noted no process for identifying assets under warranty, including replacement while under warranty.	Asset Creation project currently under development within the scope of the TS EIM project will require the vendor/ manufacturer provide warranty data. This data will publish to the TS EIM foundational data base and will be identified on crew work orders.	12/31/20	The eAM mobile application POC is completed. Assets have been identified and published in the JEA JIM model. We are receiving warranty data from GE Prolec electronically, which is automatically published to Oracle eAM in the QA environment.
VP/GM, Energy	Director, Electric Systems Asset Management	Audit noted that there is no process for evaluation of an asset to determine if it should be replaced or refurbished.	Asset Lifecycle data will be published using Tableau visualizations. TS EIM Asset 360 project will publish asset lifecycle data to asset records including asset health and risk scoring. This view of the asset will assist Asset Management and O&M personnel in determining repair or replace decisions.	12/31/20	The process map to describe the asset lifecycle has been developed but dashboards and reports will depend on the ongoing mobile and barcoding project.
VP/GM, Customer	Director, Customer Field & Meter Services	Audit noted a lack of sewer flow meter standards, accurate count of current sewer flow meters and controls over customer installed meters.	Four phased approach to creating standards, counting meters and monitoring/documenting customer installed meters.	2/1/21	All commercial and industrial customer-owned meters have been identified and a data collection plan has been developed. Due to safety concerns related to COVID-19, the business expects delays by at least 1-2 months, perhaps more.

August 2020



IA



**INTER-OFFICE MEMORANDUM**

July 30, 2020

**SUBJECT: ANNUAL APPROVAL OF INTERNAL AUDIT CHARTER**

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**FROM:** Paul McElroy, Interim Managing Director/CEO

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**TO:** JEA Finance and Audit Committee

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Marty Lanahan, Chair  
John Baker  
Robert Stein

**BACKGROUND:**

The Internal Audit Group reviews internal control processes and ensures that the organization maintains compliance with all procedures and regulations. The Internal Audit Charter provides the JEA Board of Directors with information on the authority of the Internal Audit staff, its key roles and responsibilities, and the outline of Internal Audit's Quality Assurance Program. A separate presentation details the changes in the Charter since it was last presented for approval on August 19, 2019.

**DISCUSSION:**

The benefits to the organization are seen in risk avoidance and improved internal control processes, and the knowledge of the organization's degree of compliance with policy, procedures, rules and regulations.

**RECOMMENDATION:**

Management recommends that the Finance & Audit Committee and the Board of Directors approve the Internal Audit Charter.

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Paul McElroy, Interim Managing Director/CEO

PEM/SVT



**JEA**<sup>®</sup>



# Internal Audit Charter

# Internal Audit Charter

Steve Tuten – Interim Chief Compliance Officer  
and Director, Audit Services

August 2020



Internal Audit Charter



## Summary of Changes to Charter

- In the Roles and Responsibilities section (p. 2), the position of President/Chief Operating Officer (COO) has been removed from the reporting line for the Director of Audit Services.
- In the JEA's External Auditors section (p. 4), added that although Internal Audit will not audit JEA's financial statements, it may schedule operational audits of Finance areas.
- For this year's approval only, the Managing Director/Chief Executive Officer (CEO) signs the Charter (p. 4). It is usually signed by the Chief Compliance Officer (CCO), but the same individual currently holds both the CCO and Director of Audit Services positions.

August 2020



**Internal Audit Charter**

<b>OPP:</b>	<b>COMP</b>	<b>Corporate Policy Ref:</b>
		<b>Internal Audit Charter</b>

**POLICY STATEMENT:**

The purpose of JEA’s internal audit function is to provide independent and objective assurance and consulting services designed to add value and improve JEA’s operations. Internal Audit helps JEA to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of internal control, compliance, and governance processes.

The Institute of Internal Auditors’ (IIA’s) Mission of Internal Audit is “To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.” The specific mission of JEA’s Internal Audit is to perform comprehensive, objective audits (assurance services) and consulting reviews (consulting services) that fulfill the purpose outlined above, while conforming to the IIA’s Standard Practices, Code of Ethics, Definition of Internal Auditing, and Mission of Internal Audit.

**GENERAL DESCRIPTION of PROCEDURE:**

This procedure is intended to:

1. Address the authority of the Director, Audit Services and the Internal Audit Staff.
2. Describe the key roles and responsibilities of Internal Audit.
3. Outline Internal Audit’s Quality Assurance program.

**ASSIGNMENT of RESPONSIBILITY:**

The Director, Audit Services or designee shall establish, maintain, and disseminate this Charter and any related supporting documentation.

**DEFINITIONS:**

**Internal Auditing** – The Institute of Internal Auditors’ (IIA) definition of internal auditing is “An independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Also enhances and protects organizational value by providing risk-based and objective assurance, advice, and insight.”

**Assurance Services** – An objective examination of evidence for the purpose of providing an independent assessment of governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements. A key part of Internal Audit’s responsibilities.

**Consulting Services** – Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization’s governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training. A key part of Internal Audit’s responsibilities.

**Quality Assurance** – A program based on an IIA Standard, which is designed to enable an evaluation of Internal Audit’s conformance with the IIA’s Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of Internal Audit and identifies opportunities for improvement. Adequate supervision and quality assurance will be performed and documented for each auditor and each audit assignment as defined in Internal Audit’s Quality Assurance Improvement Program (QAIP) Procedure ASC0500QA, which includes external peer reviews as required by the IIA, at least every five years (beginning in 2005).

<b>OPP:</b>	<b>COMP</b>	<b>Corporate Policy Ref:</b>
		<b>Internal Audit Charter</b>

**PROCEDURE:**

**A. Roles & Responsibilities**

Responsibility	Action
Director, Audit Services	Oversees the execution of a program of Internal Audit projects as necessary to fulfill the purpose and mission of the department, including an annual risk assessment and development of an annual audit plan. Is also the organization's Chief Audit Executive (CAE).
VP & Chief Compliance Officer (CCO)	To whom the Director, Audit Services and Internal Audit reports administratively.
Managing Director / Chief Executive Officer (CEO)	To whom the Director, Audit Services reports when Internal Audit conducts audits of Compliance Department functions. Meets quarterly with the Director, Audit Services.
JEA Management	<p>Although the role of Internal Audit is to assess internal controls, systems, procedures, risks, etc., JEA management retains full responsibility for ensuring that JEA maintains an appropriate framework of controls to reduce business risks to an acceptable level.</p> <p>Management also has the responsibility and accountability for addressing weaknesses and inefficiencies identified in both External and Internal Audit Reports and for taking the necessary corrective action. If JEA management decides to accept a level of risk that Internal Audit believes is imprudent and improper, and this difference of opinion cannot be resolved, the CAE has the option to refer the matter to the Enterprise Compliance &amp; Risk Committee (ECRC) for discussion and resolution, as stated in the ECRC Charter.</p> <p>Management should immediately inform the CAE of any significant internal control problems, thefts, frauds, or unauthorized transactions.</p>
Internal Audit Staff	<p>Executes the program of Internal Audit projects, including the annual audit plan. Internal Audit's authority and key responsibilities are described as follows:</p> <p><b>Authority</b></p> <ul style="list-style-type: none"> <li>To have access to all JEA records, assets, properties, plants, computers, personnel, etc., with strict and absolute accountability for safekeeping and confidentiality while conducting their internal audit duties.</li> </ul> <p><b>Annual Risk Assessment and Audit Plan Activities</b></p> <ul style="list-style-type: none"> <li>Perform annual risk assessment activities and develop an annual audit plan. The Director, Audit Services will present the annual audit plan to the Finance &amp; Audit Committee for review and approval.</li> </ul> <p><b>Insurance/Audit Activities</b></p> <ul style="list-style-type: none"> <li>Evaluate the effectiveness of controls over the reliability and integrity of management information. Ascertain the level of compliance with policies, procedures, laws and regulations.</li> <li>Review operations to evaluate whether established objectives and goals are being achieved.</li> </ul>

<b>OPP:</b>	<b>COMP</b>	<b>Corporate Policy Ref:</b>
		<b>Internal Audit Charter</b>

	<ul style="list-style-type: none"> <li>• Assist management in identifying operational, financial, regulatory and reputational risks, and assess JEA’s ability to adequately mitigate these risks.</li> <li>• Conduct objective reviews of company business activities, operations, internal controls and performance management systems, and report results to JEA management.</li> <li>• The audit scope will be based on Internal Audit’s assessment of risk. Audit coverage will focus on high risk areas as defined in the annual risk assessment process.</li> <li>• Proactively consult with internal customers on recommendations and the implementation of action plans, and monitor results.</li> <li>• Perform engagement level audit planning and risk control assessment.</li> <li>• Perform action plan follow-up.</li> </ul> <p><b>Consulting Activities</b></p> <ul style="list-style-type: none"> <li>• Provide consulting services where the level of risk warrants our involvement. However, Internal Audit does not act in an operating capacity, and cannot be part of the approval process.</li> </ul> <p><b>Reporting</b></p> <ul style="list-style-type: none"> <li>• Detailed written reports will be prepared and issued to management following the completion of each audit. The contents will be discussed with auditee management before the reports are finalized, except in cases of fraud.</li> <li>• Reports will generally be distributed to the Chief/Vice President and Director/Manager of the area being audited, along with the Managing Director/Chief Executive Officer and/or the President/ Chief Operating Officer, as well as the Chief Risk and Compliance Officer. Final audit reports are also submitted to the City of Jacksonville’s Council Auditor’s office and the Office of the Inspector General. Quarterly summaries of audit results are presented to the Finance &amp; Audit Committee of the Board of Directors.</li> </ul> <p><b>Team Assignment Restrictions</b></p> <ul style="list-style-type: none"> <li>• Auditors will not be assigned to audits or projects in areas where they previously worked within the past 24 months, or where their degree of independence could be questioned in any other way.</li> </ul>
Finance and Audit Committee of JEA’s Board of Directors	Meets quarterly with the Director, Audit Services. Annual review and approval of Charter.
JEA’s External Auditors	Primary auditor of JEA’s financial statements. To minimize duplication of efforts, Internal Audit will not audit JEA’s financial statements, although operational audits of Finance areas may be scheduled

<b>OPP:</b>	<b>COMP</b>	<b>Corporate Policy Ref:</b>
		<b>Internal Audit Charter</b>

**SIGNED:**

**Title:** Managing Director / Chief Executive Officer (CEO)

**Effective Date:** August 14, 2020

Revised Dates: August 14, 2020

Origination Date: October 5, 2004, with twelve (12) subsequent annual subsequent revisions / presentations / approvals, most recently on August 14, 2020.

**Keywords:** internal audit, assurance, consulting, quality assurance



**INTER-OFFICE MEMORANDUM**

July 30, 2020

**SUBJECT: APPROVAL OF ANNUAL INTERNAL AUDIT PLAN**

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**FROM:** Paul McElroy, Interim Managing Director/CEO

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**TO:** JEA Finance and Audit Committee

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Marty Lanahan, Chair  
John Baker  
Robert Stein

**BACKGROUND:**

The Internal Audit Group reviews internal control processes and ensures that departments maintain compliance with all procedures and regulations. Annually, Internal Audit develops a risk-based work plan for the upcoming fiscal year.

**DISCUSSION:**

The benefits to the organization are seen in risk avoidance and improved internal control processes, and the knowledge of the organization's degree of compliance with policy, procedures, rules and regulations.

**RECOMMENDATION:**

Staff recommends that the Finance & Audit Committee and the Board of Directors approve the Annual Internal Audit Plan for FY21.

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Paul McElroy, Interim Managing Director/CEO

PEM/SVT



# FY21 Internal Audit Plan

August 2020



# The Role of Internal Audit

“The role of internal audit is to provide independent assurance that an organization’s risk management, governance, and internal control processes are operating effectively.”

Source: The Institute of Internal Auditors

The scope of work of Internal Audit encompasses many aspects of JEA’s operations and activities:

- Provide guidance in the development of JEA’s internal control framework;
- Monitor and test the effectiveness of the internal control framework;
- Monitor and test JEA’s operational process for compliance, efficiency, safety, etc.; and
- Follow-up on Management’s action plans for ensuring operational compliance and effectiveness.



A word cloud centered around the words "Internal" and "Audit". The words "Internal" and "Audit" are the largest and most prominent. Other words include "compliance", "risk", "independent", "add value", "effective", "improve", "efficient", "assurance", and "objective".

August 2020



**FY21 Internal  
Audit Plan**





## Risk-Based Audit Plan Guidance

The Institute of Internal Auditors (IIA) provides the following Standards for the creation of a Risk-Based Audit Plan:

- Standard 2010: The chief audit executive must **establish a risk-based** plan to determine the priorities of the internal audit activity, consistent with the organization's goals.
- Standard 2010.A1: The internal audit activity's plan of engagements must be **based on a documented risk assessment**, undertaken at least annually. The **input of senior management and the board** must be considered in this process.
- Standard 2020: The chief audit executive must **communicate the internal audit activity's plans and resource requirements**, including significant interim changes, to **senior management and the board for review and approval**. The chief audit executive must also communicate the impact of resource limitations.

August 2020



**FY21 Internal  
Audit Plan**



# Risk-Based Audit Plan Steps

The following approach was used to develop the Audit Plan:



- The JEA auditable entities structure was updated to reflect any organizational changes by JEA's leadership.
- Interviews with the Senior Leadership Team, combined with risk survey follow-up meetings with department Directors and Managers, were used to identify perceived areas of risk and potential internal audits.
- This information was developed into an audit plan designed to address critical risks in achieving JEA's objectives, as well as operational and regulatory requirements.

August 2020



**FY21 Internal  
Audit Plan**



## Risk Assessment Survey

Two risk assessment survey alternatives, sent to management based on date of the most recent audit of the entity, consisted primarily of yes/no questions that addressed the following:

- Operational risks including goals, metrics, staffing and emergency preparedness.
- Financial risks including revenues, expenses, inventory and capital projects.
- Compliance risks.
- Governance and Risk Management risks.
- Technology and Data risks.
- COVID-19 effect on all risks.
- Audit timing & additional concerns.

Internal Audit reviewed the survey results and followed up with management about these risks. We then combined the scores to determine the highest risk areas for JEA.

A copy of the surveys are shown on [Appendix pp. A4-A11](#).

August 2020



**FY21 Internal  
Audit Plan**



## Description of Scheduled Audits

- The final plan includes twenty (20) scheduled audits and projects:
  - Fourteen (14) new audits based on the FY2021 risk assessment process.
  - One (1) special project.
  - One (1) recurring project related to Performance Pay.
  - One (1) JEA-led external audit of The Energy Authority (TEA).
  - One (1) Green-e Agreed-Upon Procedures Engagement.
  - Two (2) follow-up audits.
- The proposed audit plan calendar is shown on page 7.
- A detailed list of these audits/projects, which includes an entity description is shown on [Appendix pp. A1-A3](#).

August 2020



**FY21 Internal  
Audit Plan**

# FY21 Audit Plan Calendar

	1Q (Oct – Dec)		2Q (Jan – Mar)		3Q (Apr – Jun)		4Q (Jul – Sept)	
Internal Audits	W/WW Project Engineering & Construction	Troy England (TE)	Safety & Health	DA	W/WW Asset Management & Performance	DA	Fleet Services	DA
	Customer & Community Engagement	David Arnold (DA)	Identity & Access Management	AS	Vogle Follow-Up	LG	eAM Asset Management Follow-Up	LG
	Investment Recovery Operations	Andrew Shelley (AS)	Fuel Services	LG	Cloud Computing	RB	Receivables & Collections	AS
			Treasury Cash & Investments	TE	Procurement & Contracts	TE	IT Staffing	RB
		JEA Culture	RB					







Special Projects	Cyber Program Assessment **	Rashid Brittain (RB)			FY 2022 Annual Risk Assessments	All		
	TEA Audit	Laurie Gaughan (LG) / RB			Green-e Agreed-Upon Procedures Engagement	AS		
	JEA Performance Pay Audit	TE						

\*\* Special Project expected to be carried out during all of FY21.

August 2020

**FY21 Internal Audit Plan**

# Internal Audit Team

	Name / Title	Education & Certification(s)	Audit Experience
	<b>Lee Montanez</b> Manager, Internal Audit	Master of Business Administration <ul style="list-style-type: none"> <li>▪ Certified Internal Auditor</li> <li>▪ Certified Information Systems Auditor</li> <li>▪ Certification in Risk Management Assurance</li> </ul>	15 years (9 yrs. at JEA)
	<b>David Arnold</b> Senior Auditor	Master of Business Administration	21 years (5 yrs. at JEA)
	<b>Troy England</b> Senior Auditor	BBA – Business Administration <ul style="list-style-type: none"> <li>▪ Certified Internal Controls Auditor</li> </ul>	19 years (6 yrs. at JEA)
	<b>Laurie Gaughan</b> Senior Auditor	BBA – Economics and Accounting <ul style="list-style-type: none"> <li>▪ Certified Public Accountant</li> <li>▪ Certification in Risk Management Assurance</li> </ul>	11 years (6 yrs. at JEA)
	<b>Andrew Shelley</b> Senior Auditor	Master of Accountancy	7 years (3 yrs. at JEA)
	<b>Rashid Brittain</b> Senior Information Technology Auditor	Master of Accountancy <ul style="list-style-type: none"> <li>▪ Certified Public Accountant</li> <li>▪ Certified Information Systems Auditor</li> </ul>	8 years (4 yrs. at JEA)

August 2020





## Appendix

- The following supplemental documents were cross-referenced in the preceding presentation:
  - A1-A3 – Proposed FY21 Internal Audit Plan with Details Pp. 6-7.
  - A4-A11 – Risk Assessment Survey for FY21 Internal Audit Plan (P. 5).

August 2020



**JEA AUDIT SERVICES  
PROPOSED FY21 INTERNAL AUDIT PLAN  
WITH ENTITY DESCRIPTION  
(SEE P. 7 IN PRESENTATION)**

<u>Title</u>	<u>Description</u>
<b><u>Electric Systems</u></b>	
Fuel Management Services (Audit)	Manages procurement of fuel supplies and transportation for power generation.
Vogtle Follow-Up (Audit)	Agreement between JEA and the Municipal Electric Authority of Georgia (MEAG), for the purchase of 206 Megawatts from Plant Vogtle Nuclear Power units 3 and 4.
eAM Asset Management Follow-Up (Audit)	Collaborates with all Electric System Departments to maintain a mature organizational level on PAS 55 and ISO 55001, by proper tracking of assets throughout the asset lifecycle matrix, which strengthens the overall EAM Strategy.
<b><u>Water/Wastewater Systems</u></b>	
W/WW Project Engineering & Construction (Audit)	Manages the planning, engineering, and construction processes associated with upgrades, repair or new construction of water utility infrastructure.
W/WW Asset Management & Performance (Audit)	Responsible for proper tracking of water/wastewater asset through its lifecycle.
<b><u>Human Resources</u></b>	
Safety & Health Services (Audit)	Provides support on compliance, risk identification and mitigation, and technical advice to business units on safety procedures, strategies and goals.
JEA Culture (Audit)	Represents the belief systems, values, norms and preferences of the individuals that form the organization, which are manifested through the actions, behaviors, and decisions of these individuals.



**JEA AUDIT SERVICES  
 PROPOSED FY21 INTERNAL AUDIT PLAN  
 WITH ENTITY DESCRIPTION  
 (SEE P. 7 IN PRESENTATION)**

<u>Title</u>	<u>Description</u>
<b><u>Finance</u></b>	
Treasury Cash & Investments (Audit)	Manages JEA's investment portfolio and works with cash and debt areas of the Department to invest cash that is in excess of short-term needs.
<b><u>Customer Relationships</u></b>	
Customer & Community Engagement (Audit)	Manages corporate and customer communications, advertising, JEA.com, community outreach and multimedia development to build JEA's brand, provide customer education and ensure leadership vision is supported through communication channels.
Receivables & Collections (Audit)	Responsible for the management of customer payments, collections and write-offs.
<b><u>Compliance</u></b>	
Identity and Access Management (Audit)	Manages the authorization and provisioning of JEA electronic resources and physical access.
<b><u>Information Technology</u></b>	
Cloud Computing (Audit)	Function of managing and controlling cloud applications, including secure transmission of data and user access.
IT Staffing (Audit)	Process for recruiting specialized technology resources to meet JEA's needs.
Cyber Program Assessment (Special Project)	Development, tracking and remediation of control deficiencies identified in the third-party assessment of JEA's cyber program.

**JEA AUDIT SERVICES  
PROPOSED FY21 INTERNAL AUDIT PLAN  
WITH ENTITY DESCRIPTION  
(SEE P. 7 IN PRESENTATION)**

<u>Title</u>	<u>Description</u>
<b><u>Supply Chain</u></b>	
Investment Recovery Operations (Audit)	Manages the disposition and sale of surplus materials and vehicles, disposal of hazardous materials, small engine repairs and high voltage and transformer testing.
Procurement Services (Audit)	Responsible for the procurement of materials and services for JEA.
Fleet Services (Audit)	Provides safe, reliable and cost-effective services to employees by procuring and maintaining fleet assets that align with their operational requirements. Also responsible for tracking of fleet assets.
<b><u>Recurring Audits / Administration Projects</u></b>	
JEA Performance Pay (Audit)	Determine if achieved levels of performance were calculated in conformance with the incentive plan approved by JEA's Board of Directors.
The Energy Authority (TEA) (Audit)	Final year ( <i>of three</i> ) for JEA-led audit of TEA's Operations, and performed by a team of representatives from several member utilities.
Annual Risk Assessments (Administration Project)	Identifying and prioritizing risks to the business. The FY22 audit plan will be developed from these assessments.
Action Plan Follow-Up & Reporting (Administration Project)	Ensure that management's action plans are being implemented and are working effectively to mitigate internal control deficiencies reported in Internal Audit and Forensic Audit Investigation reports.
Green-e Renewable Energy Credits (REC) (Audit)	Greene-e request of an annual agreed-upon audit of the Jacksonville Solar facility for REC certification.

Audit Services – FY 2021 Risk Assessment Survey



**Internal Audit**  
**Fiscal Year 2021 Risk Assessment Survey**

*Internal Audit* uses this survey to assess the internal controls your area has in place to mitigate risks and help achieve its goals. The results will assist us in developing our annual risk-based audit plan, including the efficient allocation of staff resources for completing the selected audits/projects.

The following three steps will help guide you through this survey:

**1**

Let us know who you are and which area are you responsible for:

Enter your name

Enter your title

Enter your department

**2**

Please read the survey questions carefully, and mark the best answer. Each questions has a field for providing additional information. We would appreciate if you could please return the survey before **June 12, 2020**.

**3**

After we receive your completed survey, we will review your responses and follow up, if necessary. The Auditor assigned for review and follow-up is:

For any additional concerns, please contact Steve Tuten or Lee Montanez at extensions 5206 and 7738, respectively.

**Your cooperation is greatly appreciated! Thank you.**

**Audit Services – FY 2021 Risk Assessment Survey**

**Section I – Operational Risk**

<b>Provide a brief description of your area including Strategic Initiatives, Goals and Complexity?</b>	Enter your comments here
--------------------------------------------------------------------------------------------------------	--------------------------

<b>Has the department (within the past 12 months):</b>	Yes	No	In-Process	Comments
Updated/Reviewed its written procedures?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Uploaded its procedures to Policy Tech?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Developed Key Metrics? (List top Key Metrics)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Completed and fully documented all asset audits (GPS) requested by Labor Relations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Outsourced any of its functions? (if yes, list outsourced functions)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Experienced a significant change in functions, funding, systems or responsibilities?	<input type="checkbox"/>	<input type="checkbox"/>		Enter your comments here
Determined if established controls or policies can be circumvented?	<input type="checkbox"/>	<input type="checkbox"/>		Enter your comments here

<b>Related to the Department’s workforce:</b>	Yes	No	Comments
Has Succession Planning documentation been reviewed and/or updated over the past 12 months?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Employees are required to maintain additional licenses or certifications?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Training gap reports are reviewed by Management for timely completion of required courses?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Has employee morale improved during the past three months?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here

**Audit Services – FY 2021 Risk Assessment Survey**

	Minimal/ None	Moderate	High	Rank Reason for Turnover (select all that apply):				
				Retirement	JEA Uncertainty	Increased Salary/Benefits	Move to other City	Undervalued/ New Challenge
<b>Workforce turnover:</b>								
Management turnover for last 12 months	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Click to Select	Click to Select	Click to Select	Click to Select	Click to Select
Employees turnover for the last 12 months	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Click to Select	Click to Select	Click to Select	Click to Select	Click to Select
Possible Management/Employee turnover over next 12 months	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Click to Select	Click to Select	Click to Select	Click to Select	Click to Select

<b>Related to Business Continuity. Has the department:</b>	Yes	No	Comments
Confirmed with employees contact information and duties during an emergency?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Created a plan for repair and restoration of essential services?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Stress tested the plan to see how it can fail?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Plan considers uncommon events (like a pandemic)?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Documented in the BCP all essential systems needs for carrying out repair and restoration?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Included a return to normal operations procedure?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
<b>Explain any effects of the COVID-19 pandemic on operations, workforce, Business Continuity and future projects or initiatives. Please distinguish between short-term and long-term effects.</b>	Enter your comments here		

**Section II – Financial Risk**

**Revenues**

<b>Does this department participate directly or indirectly in a revenue-generating activity?</b>	<input type="checkbox"/>	Yes. Direct Activities such as energy, water & sewer construction, maintenance, generation & delivery.
	<input type="checkbox"/>	Yes. Indirect activities such as real estate, timber, records requests, fiber, pole attachments & others.

**Audit Services – FY 2021 Risk Assessment Survey**

	<input type="checkbox"/>	No. Support activities such as customer care, shared services or compliance. <b><i>(Skip to the “Expense Management” section)</i></b>
--	--------------------------	---------------------------------------------------------------------------------------------------------------------------------------

<b>Effect of the COVID-19 pandemic on revenues, including any increase in receivables and collections? Please distinguish between short-term and long-term effects.</b>	<input type="checkbox"/>	Major negative effect on current revenues. No negative long-term effect expected.
	<input type="checkbox"/>	Possible negative effect on long-term revenues. Low to moderate short-term effect.
	<input type="checkbox"/>	Minimal or none

<b>Has the department:</b>	Yes	No	In-Process	Comments
Identified and ranked current and/or future internal or external conditions that may impact revenue activities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Quantified the impact to the department and organization of the revenue activities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Monitored mitigating activity effectiveness in reducing revenue activities at risk?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here

**Expense Management**

<b>Effect of the COVID-19 pandemic on expenses? Please distinguish between short-term and long-term effects.</b>	<input type="checkbox"/>	Major increase in expenses.
	<input type="checkbox"/>	Low to moderate increase in expenses.
	<input type="checkbox"/>	Minimal or none

<b>Has the department:</b>	Yes	No	In-Process	Comments
Designed and/or implemented a plan for cost/expense control?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Identified and estimated costs for assets in need of replacement or refurbishment in the next year, three years and five years?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Aligned expenditures to the most critical business objectives, evidenced by ROI calculations or cost benefit analysis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Reduced spend on P-cards by transferring purchases to fixed price contracts/purchase orders?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Actively monitored for waste, fraud or loss?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here

**Audit Services – FY 2021 Risk Assessment Survey**

**Budget and Revenue Data**

<u>Cost Center(s)</u>	<u>Budget</u>	<u>FY20 (\$)</u>	<u>FY21 Estimate (compared to FY20)</u>			
Enter Cost Center	Operating	Enter Amount	<input type="checkbox"/>	Increase	<input type="checkbox"/>	Decrease
Enter Cost Center	Capital	Enter Amount	<input type="checkbox"/>	Increase	<input type="checkbox"/>	Decrease

<u>Additional Revenue Streams (list below)</u>	<u>FY20 (\$)</u>	<u>FY21 Estimate (compared to FY20)</u>			
Enter Revenue Stream	Enter Amount	<input type="checkbox"/>	Increase	<input type="checkbox"/>	Decrease
Enter Revenue Stream	Enter Amount	<input type="checkbox"/>	Increase	<input type="checkbox"/>	Decrease
Enter Revenue Stream	Enter Amount	<input type="checkbox"/>	Increase	<input type="checkbox"/>	Decrease

Has this department received federal funds and/or grants? <i>(if yes, list below)</i>	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No
------------------------------------------------------------------------------------------	--------------------------	-----	--------------------------	----

Enter your comments here

**Inventory / Materials**

Does the department have inventory and/or materials?	<input type="checkbox"/>	Yes, including specialized items.	<input type="checkbox"/>	Yes, without specialized items.	<input type="checkbox"/>	No <i>(or minimal)</i>
------------------------------------------------------	--------------------------	-----------------------------------	--------------------------	---------------------------------	--------------------------	------------------------

FY20 Estimated Value of Inventory and/or Materials	Enter Amount
----------------------------------------------------	--------------

**Section III – Compliance Risk**

<b>Has the department:</b>	Yes	No	Comments
Complied with applicable Federal, State or local regulations?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Evaluated future compliance needs with proposed Federal, State or local regulations?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Been levied fines or reprimands from Federal, State or local regulators?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Identified Agencies/Organizations that review or monitor the department?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Determined the impact of non-compliance on financial and reputational risk?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here

**Audit Services – FY 2021 Risk Assessment Survey**

<b>Regarding data:</b>	Yes	No	Comments
Is any part of the data produced confidential?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Are safeguards in place to protect confidential data from unauthorized access or dissemination?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Does your department use information systems not supported by Corporate Applications?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Has your department conferred with JEA's Corporate Records Retention to determine appropriate records retention for your area?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here

<b>Explain any increased negative effects of the COVID-19 pandemic on compliance and safeguarding of data? Please distinguish between short-term and long-term effects.</b>	Enter your comments here
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------

**Section IV – Governance / Risk Management**

<b>Does the department:</b>	Yes	No	Comments
Document its needs and requirements in a strategic plan?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Have adequate funding to meet the organization's needs?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Complete, without exception, JEAs ethics training and acceptance of the Code of Conduct?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Encourage employees and acted on suggestions to improve productivity and quality?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Allow employees to raise issues and discuss dilemmas, without the fear of retribution?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here

<b>Does the department:</b>	Yes	No	Comments
Know which Top Corporate Risks are applicable to the area?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here



**Audit Services – FY 2021 Risk Assessment Survey**

<b>Does the department:</b>	Yes	No	Comments
Collaborate with Enterprise Risk Management in the identification, status and mitigation of Top Corporate Risks?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Identified Key Performance Indicators (KPIs) that address Top Corporate Risks?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here

<b>Explain any increased negative effects of the COVID-19 pandemic on the management and mitigation of Top Corporate Risks. Please distinguish between short-term and long-term effects.</b>	Enter your comments here
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------

**Section V – Technology**

<b>Has the Department:</b>	Yes	No	Comments
Determined if Corporate IT systems fully support your business processes?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Identified any hardware and/or software applications not supported by Corporate IT? (if Yes, please list)	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Identified any planned hardware or software project for FY2021? (if Yes, please list)	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Identified and quantified possible financial and customer impacts of disruptive technologies that may impact your area? (if Yes, please list)	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here
Developed a plan to minimize the impact of any applicable disruptive technology?	<input type="checkbox"/>	<input type="checkbox"/>	Enter your comments here

<b>Explain any increased negative effects of the COVID-19 pandemic on the current IT systems or on any planned IT project for FY2021? Please distinguish between short-term and long-term effects.</b>	Enter your comments here
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------

**Section VI – Audit Scheduling & Additional Concerns**

Please let us know of any timing issues if your business area is selected for an audit during FY2021. Also, list any requests or concerns related to other areas within JEA.

**Audit Services – FY 2021 Risk Assessment Survey**

Enter your comments here



**INTER-OFFICE MEMORANDUM**

July 30, 2020

**SUBJECT: ETHICS OFFICER QUARTERLY REPORT**

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**FROM:** Paul McElroy, Interim Managing Director/CEO

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**TO:** JEA Finance and Audit Committee

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Marty Lanahan, Chair  
John Baker  
Robert Stein

**BACKGROUND:**

Per Ordinance 2011-197-E, JEA is required to appoint an Ethics Officer to represent the agency on ethics matters and to participate in a citywide Ethics Coordination Council. The Finance and Audit Committee will receive a quarterly update from the Ethics Officer.

**DISCUSSION:**

JEA Ethics Officer ensures information is shared and advice given regarding issues and questions. This role manages ethical concerns for the organization and ensure compliance with business and governmental regulations.

**RECOMMENDATION:**

This item is for information only.

---

Paul McElroy, Interim Managing Director/CEO

PEM/SVT/WMS



**ETHICS  
OFFICER  
QUARTERLY  
REPORT**

**Walette Stanford**



**AUGUST 2020**

## Ethics and Compliance Risk



What are JEA important Assets

**#1- It's Reputation**

**#2 - Trust of stakeholders**

## Elevating our Ethical Culture

1. Set Clear Expectations for what is okay and not okay
2. Modeling desired behavior
3. Reinforce the behavior you want
4. Focus on skill building and problem solving
5. Provide the tools people need to act Provide corrective



## JEA Code of Ethics

*All employees have the ability to come forward with any issues that they perceive to be contrary to JEA policies.*

### 3 key points in the Code to remember:

1. Employees can come forward with any issue without fear of retribution, retaliation or any other adverse actions.
2. Fostering and maintaining a culture that is ethical and free of retaliation for reporting ethical issues.
3. Reports of retaliation will be fully investigated and handled.

# What we have done to reinforce Ethical behavior at JEA

## Tone From the Top

Excerpt from JEA Board letter to all JEA employees on April 28<sup>th</sup>

*Our collective intent is to work closely with JEA Leadership to ensure a financially successful future as a municipally owned independent authority of the City of Jacksonville. JEA's long history of success is one we will build upon to become not only financially sound, but to become an economic development driver for our region. We will do so with a continued and heightened focus on employee safety, operational excellence and customer service. The first step in making this happen will be the selection of a CEO to lead the organization into the next era of JEA excellence. **This process begins today, with a commitment to transparency, collaboration and efficiency.** We will be searching for a CEO that has the values, experience and vision that align with the resounding expectations of our Board Members, Senior Leadership, employees, City leaders and the Community at large.*

*While safety, operational and customer service excellence will be the focus of the board and management team, we know that all three start and end with you, the employees of JEA. We are committed to doing everything within our power to make sure that you have **the tools you need to perform the duties** of your individual and collective jobs, and the most important tool we can give you today is peace of mind: JEA is not for sale.*



## Reinforcement of Ethical behavior at JEA

- Worked with CEO to develop a JEA Code of Ethics Policy for the organization. All Senior Team Leaders and Directors signed off on the Code by June 5<sup>th</sup>.
- Elevated the Code of Conduct and placed it on the JEA Business Ethics intranet site.
- CEO expanded our JEA core values to include dignity, respect and moral character.
- Reviewed the standard annual Ethics training and solicited input from the Ethics Representatives and management for future enhancements .
- Updated the Ethics Case Categories for the Ethics Hotline to include toxic leadership, abusive climate, integrity, dignity & respect.
- Completed the Leadership Professional in Ethics & Compliance course and obtained the LPEC certification on July 13<sup>th</sup>.
- Completed Third Quarter Exit Interview Report for HR Chief Human Resource Officer, HR Directors and Chief Compliance Officer.

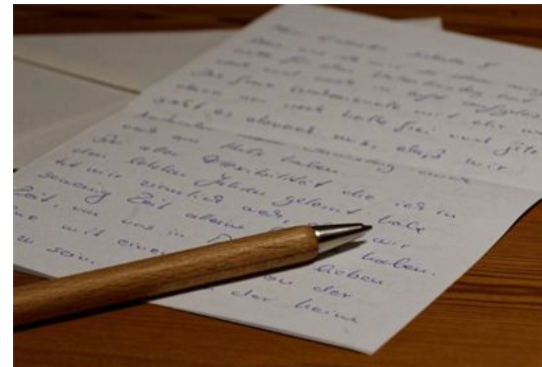


## CEO Communication to SLT and ELT on June 5<sup>th</sup>

The reputation of our company is formed by each experience that customers, business partners, colleagues, and the community have with us and each other. It is up to every employee to ensure that those experiences demonstrate our integrity. At our company, each interaction, and each decision we make, must reflect the fact that integrity and **ethical behavior is our highest priority**. Acting with uncompromised integrity and ethics is not an option at JEA. It is a must and is expected behavior of all employees.

What was included in the communication:

- ❖ Support From The Top
- ❖ What Is An Ethical Culture
- ❖ Tools for An Ethical Culture
- ❖ Everyone Is A Role Model



## JEA CEO Corner Message

Amazing team of utility professionals here now delivering exceptional services with diverse backgrounds.

I will waste no time in working to rebuilding trust – yours and our community

I have no doubt, with your help, that in the next six months we can:

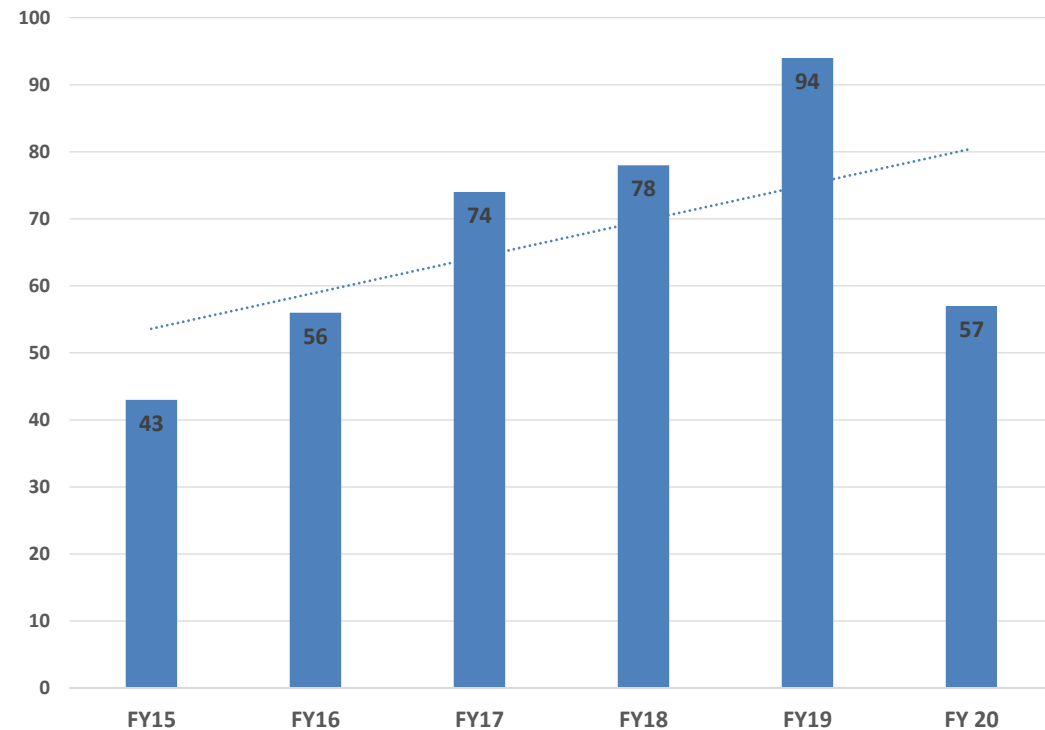
- Help the Board restore a culture of Ethics and Responsibility for Public Service.
- Help the Board restore trust and position JEA for the future.
- Help our Community by providing reassurance that their JEA is a reliable, financial healthy and safe public utility.
- Help JEA Employees by providing them with the dignity, respect and trust they deserve and earned.

## Most reports of allegations of misconduct go to managers.

- *Hotline Reports make up only 9% of the reports of misconduct.*
- *64% of initial reports of misconduct go to direct supervisor or managers.*
  - *27% of reports go to Ethics office.*

*\* Data from 2013 National Business Ethics survey of the U.S. Workforce.*

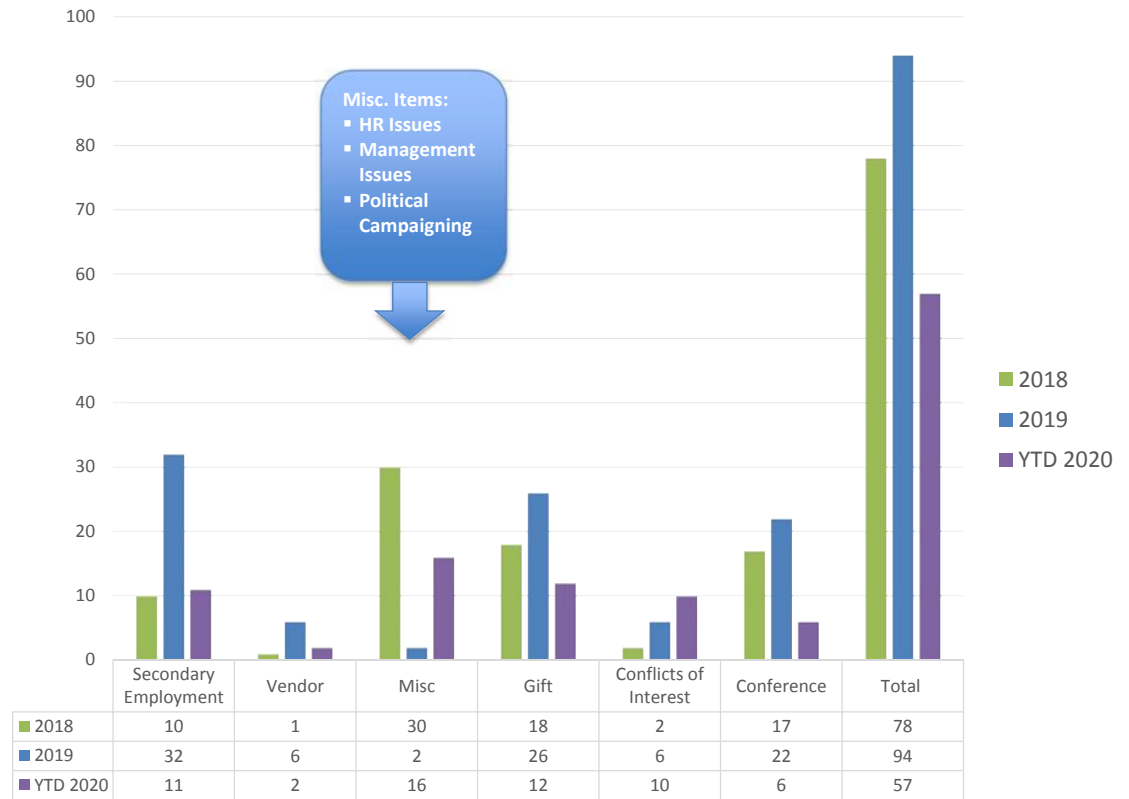
## JEA Ethics Cases by Year



## Creating an Ethical Culture

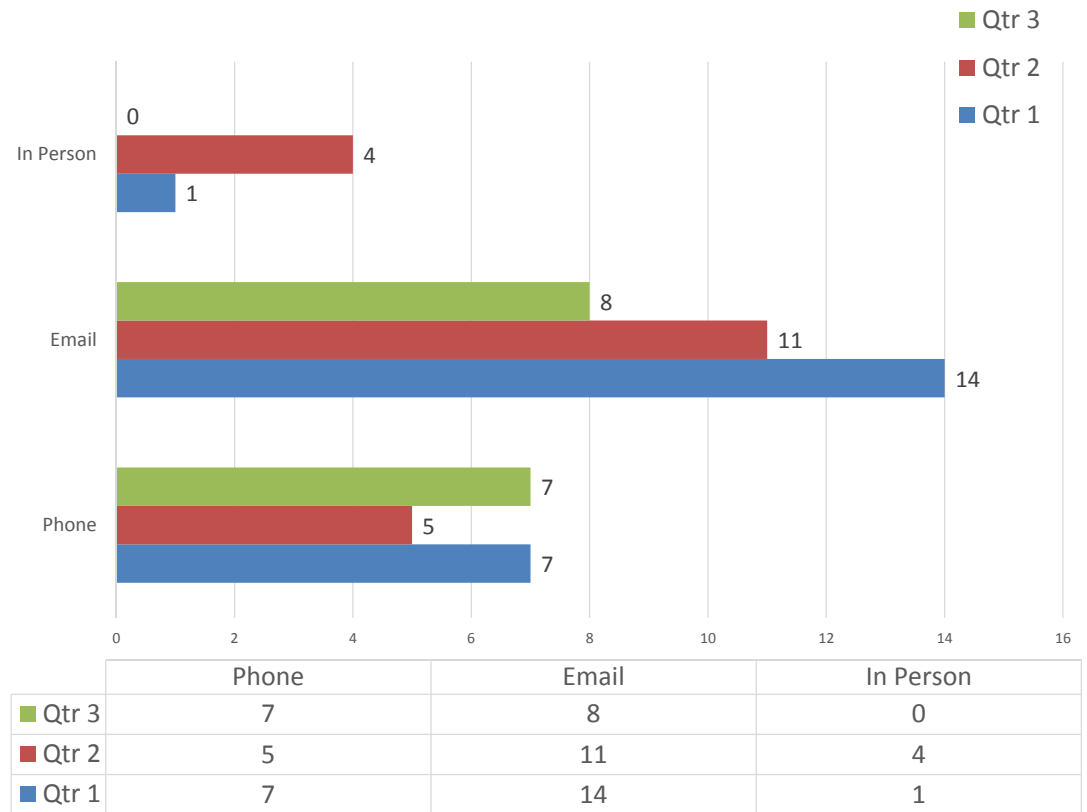
- \* Building and maintaining trust
- \* Highest standards of ethical behavior

## Ethics Officer Inquiry Categories





## FY20 Reporting Categories



## Ethical Leadership Workshops

- ❖ All managers with subordinates
- ❖ Carla Miller, COJ Director of Ethics Compliance and Oversight & Walette Stanford, JEA Ethics Officer
- ❖ Completed by November, 1 2020.

**JEA**  
Building Community  
**OCTOBER**  
**ETHICS**

# JEA BUSINESS ETHICS

★

**PREVENTING CONFLICTS.  
PROMOTING FAIRNESS**  
More on the JEA BUSINESS Ethics Page on the Grid

- GIFTS OVER \$100 OR ASKING FOR THINGS
- NOT REPORTING SECONDARY EMPLOYMENT
- TRAVEL PAID BY 3<sup>RD</sup> PARTY
- MISUSE OF TIME, SUPPLIES OR EQUIPMENT
- CONFLICTS OF INTEREST
- MISUSE OF POSITION
- SUNSHINE VIOLATIONS
- HIRING OR PROMOTING RELATIVES
- DESTROYING PUBLIC RECORDS

**IF YOU SEE SOMETHING, SAY SOMETHING**  
**ETHICS HOTLINE 1-800-805-3569**

4th Quarter Topic

## Business Ethics What's Next

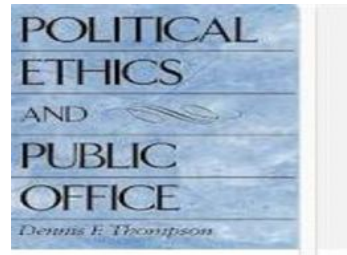


- Remapping Ethics Hotline case flow chart with Forensic Audit & Investigations.
- Developing a Business Plan with Technology Services to assess upgrading the Ethics Hotline to a newer version called *EthicsPoint* to expand system functionality. By expanding our system we will be able to get concerns reported via app and email to the hotline.
- Continue to look for ways to strengthen Ethics Compliance controls by partnering with peers in the utility industry and vendors.
- Develop an Ethical culture strategy for FY21.



When ethics are in disorder, or when citizens reasonably believe they are, one should not be surprised that disputes about ethics drive out discussion about policies.”

*Dennis F. Thompson*





**INTER-OFFICE MEMORANDUM**

August 7, 2020

**SUBJECT: ERNST & YOUNG FY2020 ANNUAL FINANCIAL AUDIT PLAN**

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**FROM:** Paul McElroy, Interim Managing Director/CEO

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**TO:** JEA Finance and Audit Committee

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Marty Lanahan, Chair  
John Baker  
Robert Stein

**BACKGROUND:**

Auditing standards require auditors to communicate certain matters to the governing board that may assist the Board in overseeing management's financial reporting process.

To keep in compliance with the Finance and Audit Committee Operating Policy, a formal approval of the annual financial audit plan is required. The formal approval demonstrates the Board has reviewed and is in agreement with the plan. Additionally, meeting with auditors to discuss the audit plan assists the Board in overseeing management's financial reporting process.

**DISCUSSION:**

Ernst & Young (E&Y) has prepared the FY2020 annual financial audit plan. The plan outlines the scope of their services, identifies the E&Y team that will perform the audit and presents key considerations that will affect the FY2020 audit. E&Y has been invited to attend the August 14, 2020 Finance and Audit Committee meeting to review and discuss the FY2020 annual financial audit scope and approach.

**RECOMMENDATION:**

Staff recommends that the Finance and Audit Committee and Board approve the FY2020 Annual Financial Audit Plan.

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Paul McElroy, Interim Managing Director/CEO

PEM/BJR/RJC



JEA

2020 audit plan

**August 14, 2020**



Building a better  
working world

# Executive summary: 2020 audit plan

## 2020 audit plan\*

### Audit timeline

- ▶ We will perform our interim procedures during the months of August and September and our year-end procedures during the months of October through December.

### Audit strategy, including significant risks identified

- ▶ Our audit strategy, including significant risks identified, for the 2020 audit is outlined in the [Areas of audit emphasis](#). Our approach is consistent with prior years

### Involvement of internal audit and others

- ▶ We plan to use the work of the city council auditors in selected areas of our 2020 audit similar to previous years. Refer to the [Involvement of Council Auditors](#) section.

## Important updates\*

- ▶ See [New GASB Pronouncements](#) section. No new accounting or auditing standards affecting the 2020 audit.

## Significant 2020 considerations

- ▶ Plant Vogtle
- ▶ Covid-19 Impacts
- ▶ 2019 Uniform Guidance Audit (FEMA) and Florida Single Audit results.
  - No findings
  - Unmodified opinions on compliance

## Audit innovation\*

We continue to benefit from and improve upon the digital audit technology implemented during our previous audits, including:

- ▶ **Canvas client portal:** Shared audit team access to documentation to ensure status of requests is shared; segregated access of sensitive data to appropriate users.
- ▶ **EY Helix:** Executed the Revenue and payroll expense audit programs which resulted in a reduction of traditional tests of details.
- ▶ **Trade Receivables Analyzer:** Identified key items that pose the greatest risk of material misstatement by analyzing aggregated accounts receivable transactions.

## Inquiries\*

- ▶ Inquiries of the audit committee are intended to assess the awareness of important matters pertaining to the audit.

\* These matters are addressed on the following pages within our presentation.

Note: This report is intended solely for the information and use of the those charged with governance, Board of Directors and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

# COVID-19: power and utilities risk factors and audit considerations

01

## Effects on the business

- ▶ **Demand.** There has been an overall fall in demand, as economies slow due to social distancing and lockdown policies. A 3% to 15% reduction of peak demand and energy use is anticipated. Load shapes are largely unchanged with the reduction in magnitude.
  - Fall in commercial and industrial demand has been mitigated to some extent by increased residential demand.
  - Impact has been less marked in gas, where residential is a higher proportion of overall demand.
- ▶ **Operations.** Utilities have maintained supply by sequestering control center staff, utilizing backup control centers and introducing working from home where possible.
  - Supply chains are under growing pressure, with utilities facing issues in accessing equipment and supplies.
- ▶ **Customers.** Many are in financial distress as a result of economic turmoil.
  - Utilities are responding by, e.g., suspending disconnections and waiving late payment and reconnection fees.
- ▶ **Regulation.** Regulatory recovery may vary, in nature and extent, by jurisdiction.

02

## Overall risk factors

- ▶ **Changing pattern of operating costs:**
  - Employee costs: Increased cost base due to changing shift patterns, need for overtime, sequestration of staff, introduction of remote working
  - Welfare costs: Provision of personal protective equipment (PPE) and mental health initiatives
  - IT costs: Additional infrastructure required to support distributed workforce
  - Repairs and maintenance: R&M schedules flexed in order to maintain service; disruption to supply chains
- ▶ **Pressure on balance sheet.** Liquidity risks in the face of reduced cash flow from customers.
- ▶ **Implications of evolving government policies and regulatory decisions.** Issues include access to job protection measures (e.g., furloughing initiatives); evolving approaches to late payment and disconnections; and potential recovery mechanisms.
- ▶ **Capex plans shifting.** Nonessential projects are typically being deferred as resources are devoted to service continuity.

## Four areas to consider for COVID-19

03

## Account-specific risk factors

- ▶ **Fixed assets and impairments/carrying value of noncurrent assets.** Noncurrent assets (including intangibles) may not generate future value sufficient to support carrying values in the face of falling demand. In particular, the potential exists for stranded costs/assets, absent regulatory relief.
- ▶ **Revenue recognition.** Unmetered or unbilled revenue already typically requires significant estimation or manual intervention; inability to perform up-to-date meter reads is likely to increase the level of judgment involved. Rate relief for additional expenses may be required.
- ▶ **Debtors.** Financial stress on customers may increase levels of bad debt. Impacts of deferred payment policies (varying by geography) that have been introduced to protect vulnerable customers will have to be considered.
- ▶ **Cost of sales/commodity management.** Hedging approach and supporting framework and governance to manage net commodity positions may have had to change in response to the crisis.
- ▶ **Disclosures.** Additional explanatory disclosures are likely to be required to cover the unique circumstances related to the pandemic.

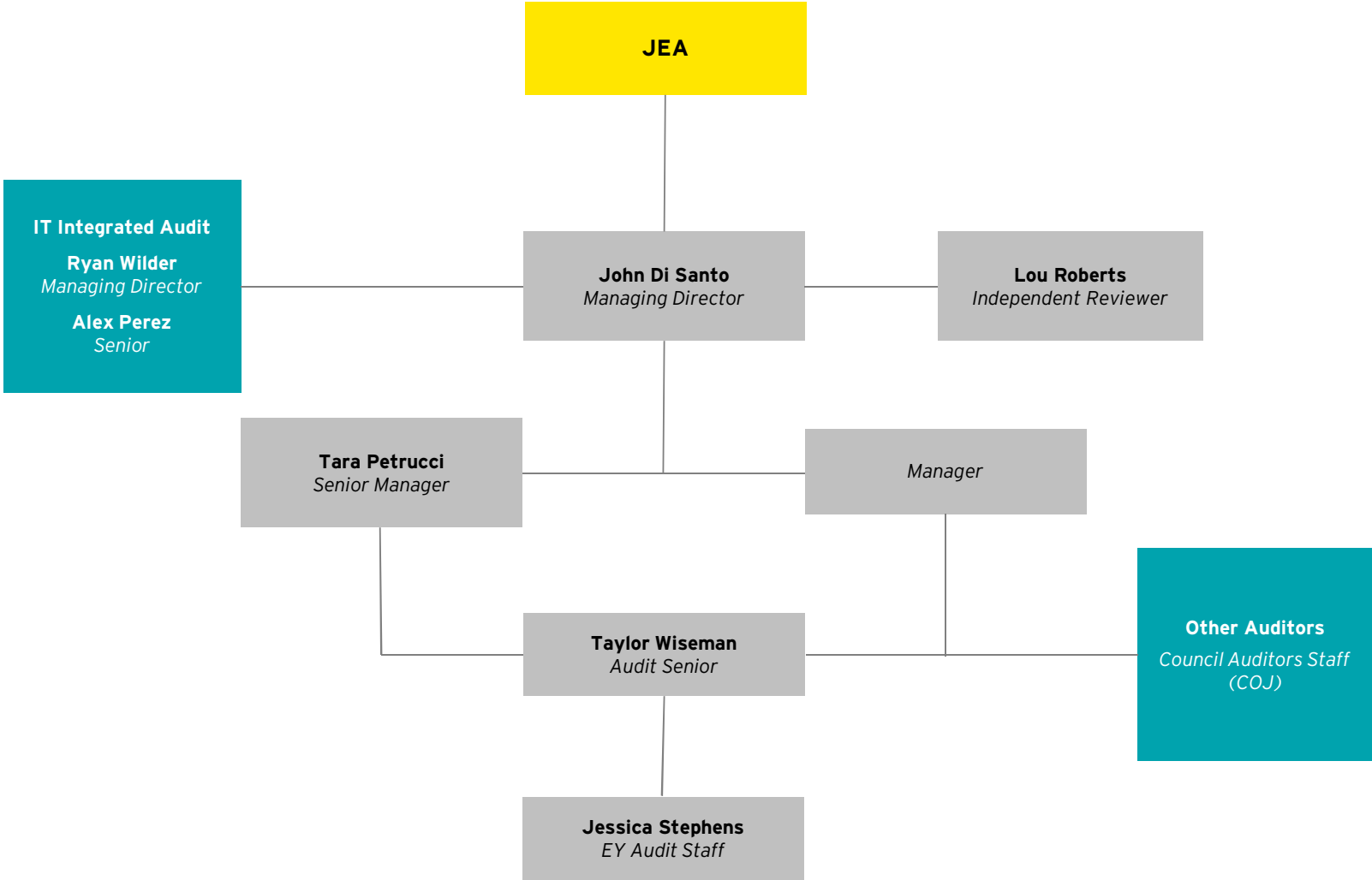
04

## Considerations impacting our audit

- ▶ **Planned audit approach.** It is likely that risk assessment and proposed responses to identified risks will need to be revisited.
- ▶ **New disclosures.** Nonstandard amounts or disclosures may be added to the financial statements, in which case additional work, outside our normal scope, may be needed.
- ▶ **Audit evidence.** There may be a need to assess whether alternative evidence offered is appropriate and sufficient. Internal control may be affected by factors such as remote work locations, furloughs of staff, etc., so auditors must consider whether alternative work is necessary, and which alternative audit procedures they can carry out. Deferred costs may require proof of regulatory approval.
- ▶ **Going concern.** Given the current uncertainty and volatility, utilities and their auditors may need to consider reporting on material uncertainties. In particular, attention will need to be paid to whether the business has access to sufficient liquidity and can remain solvent through the period of public health restrictions and beyond.
- ▶ **Governance.** Sufficient contact with the audit committee will be needed to ensure complete and informed communication on modified audit reports.

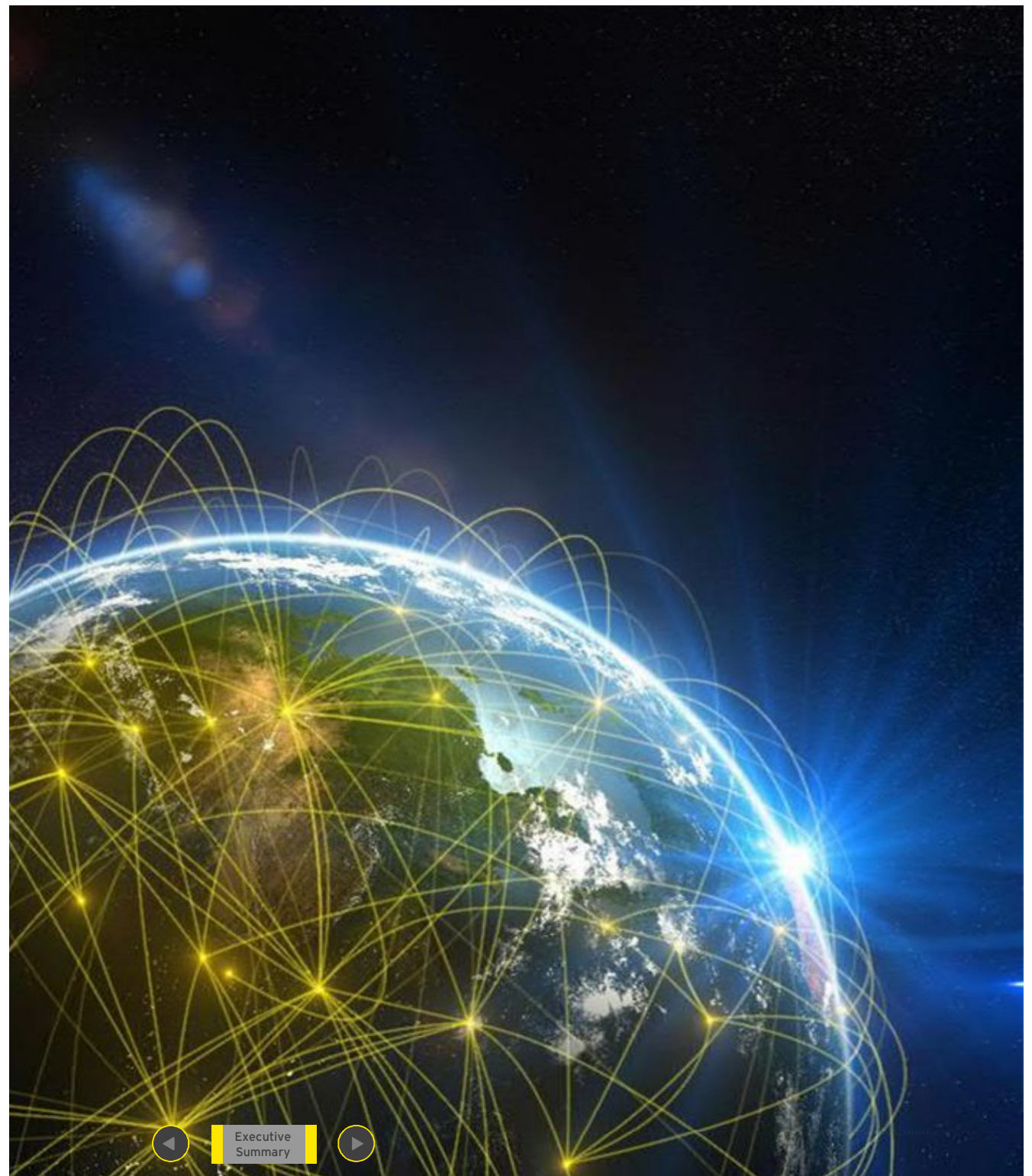


# Client service team



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# 2020 audit plan



# 2020 audit plan: Areas of audit emphasis

Our audit procedures emphasize testing those processes, accounts, contracts or transactions where we believe there is the greatest risk of material misstatement to the financial statements, whether due to error or fraud. We consider the effects of current market risk factors on JEA, and also place emphasis on those areas requiring subjective determinations by management. We will reassess our risk assessment and other internal and external factors influencing JEA throughout our audit, and communicate to you any changes to our initial plan, as necessary. Our areas of audit emphasis, including areas with identified significant risks, are as follows. Our proposed audit plan to address specific areas of emphasis is detailed in Appendix A.

## Areas of audit emphasis

- ▶ Revenue
- ▶ Asset retirement obligations (SJRPP Decommissioning) <sup>(A)</sup>
- ▶ Regulatory accounts
- ▶ Risk of management override of controls <sup>(B)</sup>
- ▶ Derivative instruments and hedging activities <sup>(A)</sup>
- ▶ Other post retirement benefits liabilities (OPEB) <sup>(A)</sup>
- ▶ Pension accounting, including valuation of pension assets <sup>(A)</sup>
- ▶ Investments <sup>(A)</sup>
- ▶ Capital assets

<sup>(A)</sup> We will utilize the assistance of internal EY valuation subject-matter professionals in performing our procedures.

<sup>(B)</sup> Professional standards require that we consider the risk of management override of controls to be a significant risk on all audits. Our audit procedures, including our journal entry testing, are designed to be responsive to this risk.



# 2020 audit plan: Involvement of Council Auditors

As required by AICPA standards, we have evaluated the competence and objectivity of the Jacksonville City Council auditors (“Council Auditors”) and its application of a systematic and disciplined approach, including its quality control processes. We have also considered whether, and to what extent, we can use the work of the Council Auditors in our 2020 audit. We have discussed with the Council Auditors their 2020 audit involvement. We expect the Council Auditors to provide assistance consistent with previous audits. The table below represents the areas where we plan to use the Council Auditors in the 2020 audit.

We will work with Council Auditors in a direct assistance model, which involves us performing:

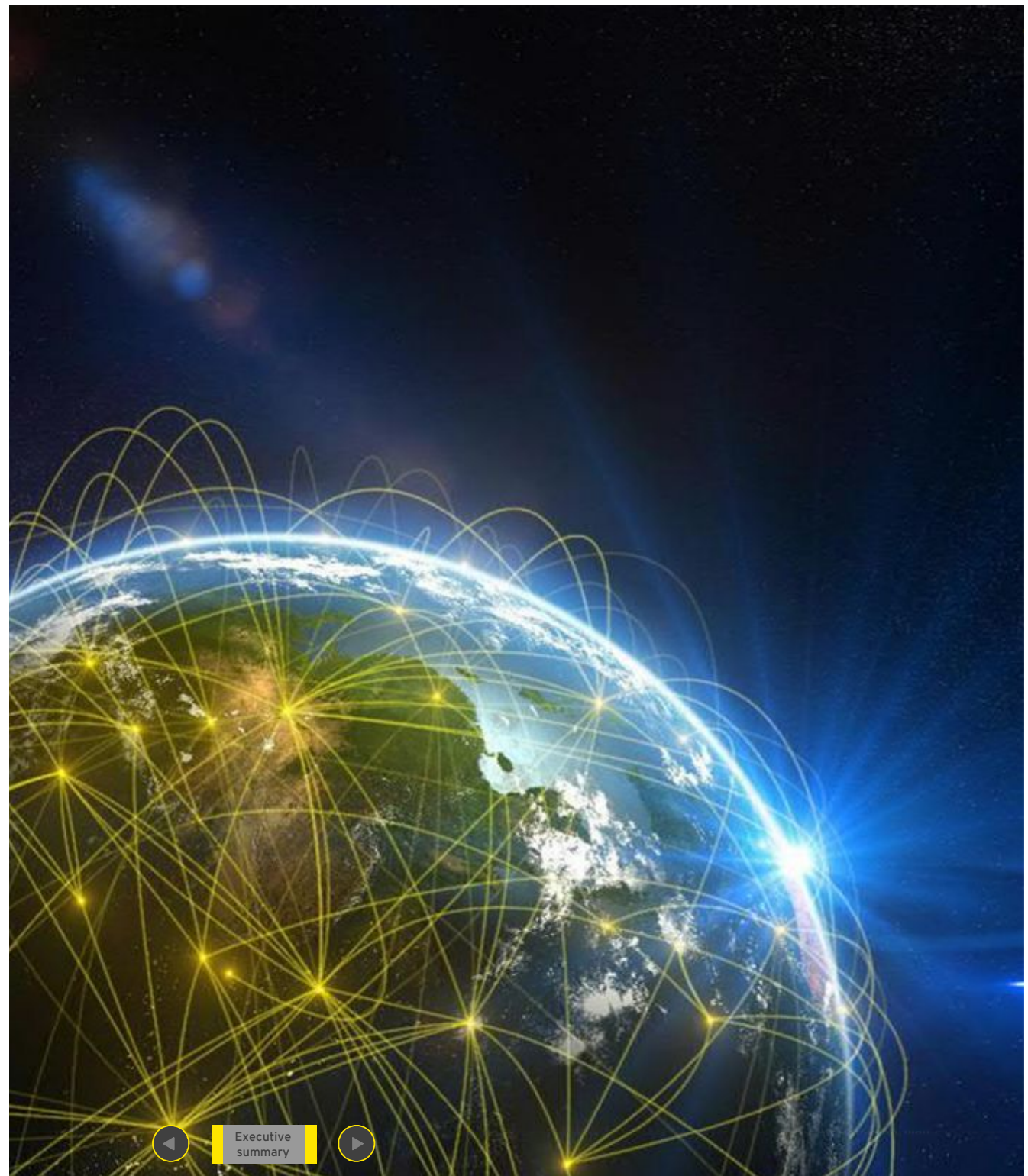
- Direction and supervision
- Detailed review of working papers
- Reperforming their work on a test basis

## Areas/significant class of transactions where EY is planning to use the work of the Council Auditors

- Test of transactions
- Substantive procedures for certain audit areas (including cash and investments, AR, capital assets, AP, taxes)

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## Important updates



# Important Updates : New GASB Pronouncements

GASB Pronouncement	Effective for Fiscal Year Ending	Description
GASB Statement No. 84, Fiduciary Activities	September 30, 2021	Requires fiduciary activities to be presented in the financial statements (separate funds). Affects SJRPP pension plan and JEA OPEB plan.
GASB Statement No. 87, Leases	September 30, 2022	Requires all leases to be recorded as assets and liabilities on the balance sheet. (Note certain purchase power agreements are specifically excluded).
GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period	September 30, 2022	Requires that all interest cost incurred on long-term debt borrowing during the period of construction to be expensed, rather than capitalized. Requires retroactive application.



# Important Updates : New GASB Pronouncements

GASB Pronouncement	Effective for Fiscal Year Ending	Description
GASB Statement No. 90, Majority Equity Interests	September 30, 2021	Requires that majority equity interests be reported as either an investment following the equity method or a component unit depending on the facts and circumstances. JEA will need to evaluate its investment in TEA and any other majority equity interests to determine if any accounting changes will be warranted.
GASB Statement No. 91, Conduit Debt Obligations	September 30, 2023	Clarifies definition of conduit debt, establishes that conduit debt is not an obligation of the issuer, requires the third-party obligor to record the liability for the debt and requires additional footnote disclosures.
GASB Statement No. 92, Omnibus 2020	September 30, 2022	This Statement establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments.



# Important Updates : New GASB Pronouncements

GASB Pronouncement	Effective for Fiscal Year Ending	Description
<p>GASB Statement No. 93, Replacement of Interbank Offered Rates</p>	<p>September 30, 2022</p>	<p>This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments.</p>
<p>GASB Statement No. 94, Public – Private and Public – Public Partnerships and Availability Payment Arrangements</p>	<p>September 30, 2023</p>	<p>This Statement establishes standards of accounting and financial reporting for PPPs and APAs for governments. The requirements of this Statement apply to financial statements of all state and local governments.</p>
<p>GASB Statement No. 95, Postponement of Effective Dates of Certain Authoritative Guidance</p>	<p>September 30, 2020</p>	<p>The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. This Statement extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. The requirements of this Statement apply to the financial statements of all state and local governments.</p>



# Important Updates : New GASB Pronouncements

<b>GASB Pronouncement</b>	<b>Effective for Fiscal Year Ending</b>	<b>Description</b>
GASB Statement No. 96, Subscription – Based Information Technology Arrangements	September 30, 2023	Provides accounting guidance on subscription-based information technology arrangements (“SB ITAs”), such as cloud computing arrangements. Requires recognition of a right-to-use asset and a corresponding liability for SB ITAs, and requires expensing of certain costs associated with SB ITAs.



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## Appendices

- A Areas of audit emphasis
- B 2020 EY services
- C Inquiries
- D Peer review report
- E Required communications



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summary



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## Appendix A



Areas of audit emphasis



Executive  
summary





# Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
<p><b>Revenue</b></p> <p>JEA recognizes revenues for estimated services provided by its electric and water and sewer infrastructure. Unbilled revenue relates to services that have not yet been billed to the end customer at fiscal period-end. The calculation is based upon approved rates and historical consumption trends.</p> <p>JEA is a member of The Energy Authority (TEA), a municipal power marketing and risk management joint venture. In addition to providing its members with wholesale power marketing and resource management services, TEA also assists JEA with natural gas procurement and related gas hedging activities. JEA records energy marketing activity in the period when the energy is delivered.</p> <p>Intergovernmental revenues are recognized when the applicable eligibility requirements, including time requirements, are met. Resources remitted before the eligibility requirements are met should, under most circumstances, be reported as deferred revenue. JEA receives revenue from various federal and state-assisted grant programs.</p> <p>Programs are generally reimbursement-based, and JEA records revenue once expenditures for allowable purposes are made or upon compliance with the terms and conditions of grant agreements and applicable regulations.</p>	<ul style="list-style-type: none"> <li>▶ Review calculation of unbilled revenue</li> <li>▶ Test contractual arrangements, including unique terms and conditions, to obtain reasonable assurance of compliance with the applicable accounting standards</li> <li>▶ Test timing of revenue recognition based on the terms of the arrangement</li> <li>▶ Confirm terms and conditions with both customers and management as considered necessary</li> <li>▶ Test account reconciliations to determine timely completion and review</li> <li>▶ Perform detailed analytical review procedures, by system, including predictive analytics based on verifiable consumption and production data</li> <li>▶ Perform detailed tests over a sample of revenue transactions to assess the appropriateness and accuracy of recorded amounts</li> <li>▶ Through the use of data analytics we will analyze 100% of the revenue data within the general ledger and perform a correlation analysis between revenue, AR and cash</li> </ul>

# Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
<p><b>Regulatory accounts</b></p> <p>Regulatory accounts are recorded when either future revenues are expected to recover incurred expenses or when amounts have been collected through rates in advance. JEA's regulatory accounts are associated with the Electric, Waster &amp; Sewer, SJRPP and Bulk Power systems pursuant to 3rd party agreements, and generally relate to the timing differences between recognition of capital asset and other costs (depreciation), amounts collected in rates to cover debt service requirements and pension and OPEB costs.</p>	<ul style="list-style-type: none"> <li>▶ Test approval of any new regulatory assets/liabilities</li> <li>▶ Verify that amortization and expense recognition are consistent with rate recovery</li> <li>▶ Vouch significant activity</li> <li>▶ Test account reconciliations</li> <li>▶ Perform projection tests to determine that regulatory accounts will be recovered/amortized over the remaining maturities/useful lives of related debt and capital assets</li> </ul>
<p><b>Derivative instruments and hedging activities</b></p> <p>JEA uses derivative contracts to manage its exposure to changes in energy commodity prices and interest rates. Derivative contracts are accounted for in accordance with GASB 53. The gains and losses from the change in fair market value of JEA's derivative instruments are deferred if hedge effectiveness is maintained.</p>	<ul style="list-style-type: none"> <li>▶ Test assessment of hedge effectiveness documentation, including re-performance where quantitative methods are used</li> <li>▶ Confirm instruments with counterparties</li> <li>▶ Test recorded market values using independently developed estimates</li> <li>▶ Test fuel hedge contract settlements</li> <li>▶ Evaluate disclosures</li> <li>▶ Reconsider normal purchase/normal sales assumptions for commodity contracts</li> </ul>

# Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
<b>Asset retirement obligations (SJRPP and Scherer Decommissioning)</b>	
<p>In accordance with GASB 83, JEA records an asset retirement obligation liability that represents their best estimate of the current value of outlays expected to be incurred and is offset by a deferred outflow.</p> <p>▶ Disclosure requirements include:</p> <ul style="list-style-type: none"> <li>• General description of AROs and related assets</li> <li>• Methods/assumptions used</li> <li>• Any restricted assets set aside for ARO</li> </ul>	<ul style="list-style-type: none"> <li>▶ We will engage and work with EY internal specialists to assist the audit team with the review of assumptions and other inputs used in order to estimate JEA's ARO liability as of year end.</li> <li>▶ As part of our review of the financial statements we will assess any required disclosures in accordance with GASB 83.</li> <li>▶ We will obtain and inspect the annual asset retirement obligation roll forward and perform substantive procedures over material activity within the balance.</li> </ul>
<b>Other postretirement benefits liabilities</b>	
<p>JEA engages an actuary to calculate the liability related to the other post-employment benefit liability.</p> <p>JEA's benefit obligations recognizable under applicable GASB standards are significantly affected by certain assumptions, among which are the discount rate, long-term rate of return on plan assets, life expectancies and the assumed health care cost trend rate assumption.</p>	<ul style="list-style-type: none"> <li>▶ We will review the actuary's report and ensure that disclosures, Required Supplementary Information, and funding for the OPEB liability are in accordance with requirements of GASB 75.</li> <li>▶ We will review significant assumptions used by the actuary for reasonableness and test data provided by JEA used in the actuary's calculations.</li> <li>▶ We will engage and work with EY internal specialists to assist the audit team with the review of the actuarial assumptions used in order to estimate JEA's OPEB liability as of year end.</li> <li>▶ We will audit Plan assets held by the Florida Municipal Pension Trust Fund for JEA's OPEB trust.</li> <li>▶ We will review the note disclosure and Required Supplementary Information to ensure it is complete and accurate.</li> </ul>

# Areas of audit emphasis

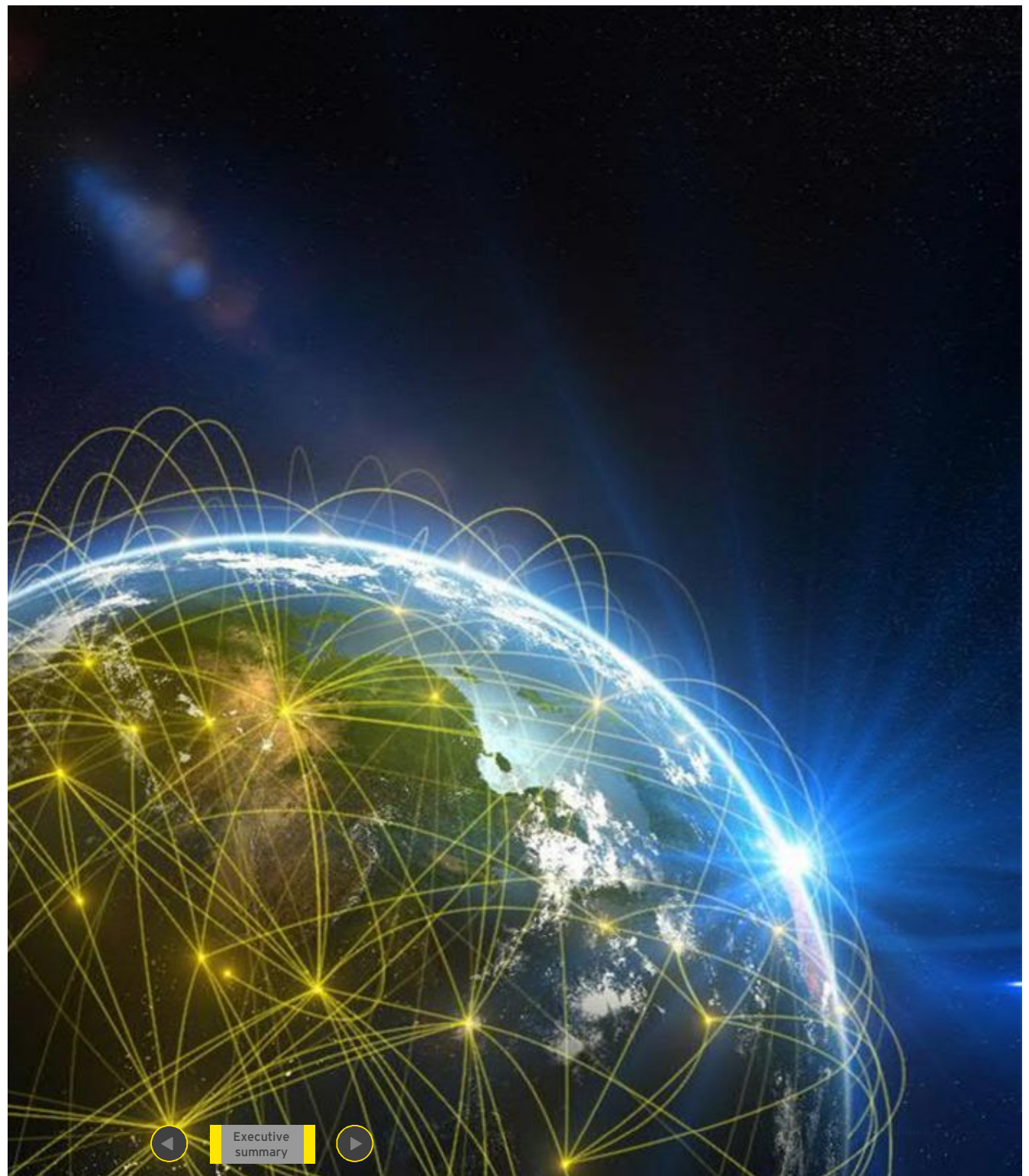
Area of emphasis	Summary of planned audit procedures
<b>Pension plan accounting and reporting – COJ Plan</b>	
<p>In accordance with GASB 68 JEA is required to record a liability for its share of unfunded pension obligations for the City of Jacksonville (COJ) cost-sharing multi-employer pension plan.</p>	<ul style="list-style-type: none"> <li>▶ Review actuary reports for reasonableness of assumptions and methodology</li> <li>▶ Obtain audited allocation schedule to determine the City’s liabilities, expenses, deferred inflows and outflows</li> <li>▶ In accordance with AU-C 805, obtain a report on elements from CRI, the Plan’s auditors.</li> <li>▶ Census data testing for JEA plan participants</li> <li>▶ Assess reasonableness of required disclosures</li> </ul>
<b>Pension plan accounting and reporting – SJRPP Plan</b>	
<p>In accordance with GASB 68 JEA is required to record a liability for its unfunded pension obligations for the frozen SJRPP single employer pension plan.</p>	<ul style="list-style-type: none"> <li>▶ Review actuary reports for reasonableness of assumptions and methodology</li> <li>▶ Obtain actuary’s reports and procedures performed by plan auditors</li> <li>▶ Census data testing for JEA plan participants</li> <li>▶ Assess reasonableness of required disclosures</li> <li>▶ Substantively test plan assets</li> </ul>
<b>Investments</b>	
<p>All investments are stated at fair value based on quoted market prices or other observable market inputs (e.g., matrix pricing for fixed income securities).</p>	<ul style="list-style-type: none"> <li>▶ Assess estimation uncertainty for significant classes of securities in JEA’s portfolio</li> <li>▶ Confirm investments with custodial institutions and managers</li> <li>▶ Test valuation for selected securities using alternative pricing sources</li> <li>▶ Test selected transactions</li> <li>▶ Evaluate GASB 40 risk disclosures</li> <li>▶ Evaluate GASB 72 fair market value disclosures</li> </ul>

# Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
<p><b>Capital assets</b></p> <p>Property and equipment is carried at historical cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets ranging from 5 to 50 years.</p>	<ul style="list-style-type: none"> <li>▶ Review items capitalized to determine whether they should be capitalized versus expensed</li> <li>▶ Test selection of assets added, retired, and disposed of during the fiscal year</li> <li>▶ Review depreciation for reasonableness</li> </ul>
<p><b>Asset impairments</b></p> <p>JEA assesses recoverability of long-lived assets as indicators of impairment become known, as required by GASB Statement No. 42. If an indicator or change in circumstance affecting the value of the asset has occurred, JEA would evaluate the need for an impairment charge by determining whether the carrying value is recoverable based on expected future cash flows of the asset. The assets are reduced to reflect their fair value if they are determined to be unrecoverable.</p>	<ul style="list-style-type: none"> <li>▶ Review and evaluate impairment indicators through inquiries and review of other records and meeting minutes</li> <li>▶ Discuss and understand management's assessment if a change in circumstance potentially affects the value of an asset</li> <li>▶ If applicable, test impairment computations and disclosures</li> </ul>
<p><b>Plant Vogtle</b></p> <p>Management will continue to monitor the developments of the nuclear power plant construction at Plant Vogtle to evaluate the possible impact on JEA's financial statements including any possible contingent liabilities and required disclosures.</p>	<ul style="list-style-type: none"> <li>▶ As part of our procedures we will continue to inquire of management and legal counsel and evaluate the possible impact on JEA's financial statements including possible contingent liabilities and required disclosures</li> </ul>

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## Appendix B: 2020 EY services



# 2020 EY services

## Services and deliverables

### Audit and audit-related services

- ▶ Express an opinion on, and report to the Finance and Audit Committee, the results of our audit of:
  - ▶ The financial statements of JEA - the audit will meet the requirements of Florida Statutes and Rules of the Auditor General of the State of Florida and will be conducted in accordance with auditing standards related to financial statement audits as set forth in the US Government Accountability Office's Government Auditing Standards.
- ▶ Provide negative assurance on JEA's Electric System, Water and Sewer System, Bulk Power Supply, and St. John's River Power Park System schedules of debt service coverage
- ▶ Other reports:
  - ▶ Issue a report on internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts, and grants and other matters in accordance with Government Audit Standards.
  - ▶ Issue a report on compliance with requirements applicable to each major federal awards program and internal control over compliance in accordance with the Uniform Guidance
  - ▶ Issue a report on compliance with each major state financial assistance project and report on internal control over compliance and report on schedule of expenditures of state financial assistance required by Chapter 10.550, Rules of the Auditor General
  - ▶ Issue a management letter including recommendations for improvements of internal controls and other opportunities based on observations made during the course of the audit
  - ▶ Report on other matters as required by Chapter 10.550, Rules of the Auditor General, which govern the conduct of local government entity audits in Florida

### Other services

- ▶ Prepare a schedule of findings and questioned costs pursuant to the Uniform Guidance and Chapter 10.550 Rules of the Auditor General
- ▶ Issue a summary results report to the Audit Committee
- ▶ Provide comfort and consent letters for bond offerings, if applicable
- ▶ Provide agreed upon procedures reports related to FDEP and others, if applicable



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## Appendix C

# Inquiries



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summary





# Inquiries

Inquiries of the audit committee are intended to assess the awareness of important matters pertaining to the audit, including:

- ▶ Your views about the risks of material misstatements due to fraud, including the risks of management override of controls.
- ▶ Your knowledge of any actual, alleged or suspected fraud.
- ▶ Your awareness of tips or complaints regarding JEA's financial reporting (including those received through the "whistleblower" program), other matters relevant to the audit (such as violations or possible violations of laws or regulations) or any significant unusual transactions.
- ▶ How you exercise oversight over JEA's assessment of fraud risks and the establishment of controls to address these risks.
- ▶ Your understanding of relationships and transactions with related parties that are significant to JEA and any concerns related to those relationships or transactions.



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## Appendix D

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Peer review report



Executive  
summary



# Peer Review

 Grant Thornton

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**GRANT THORNTON LLP**  
201 S. College Street, Suite 2500  
Charlotte, NC 28244

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**REPORT ON THE FIRM'S SYSTEM OF QUALITY CONTROL**

November 18, 2019  
To the Partners of Ernst & Young LLP and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Ernst & Young LLP (the firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2019. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

**Firm's Responsibility**  
The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

**Peer Reviewer's Responsibility**  
Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.


**Required Selections and Considerations**  
Engagements selected for review included engagements performed under Government Auditing Standards, including compliance audits under the Single Audit Act; audits of employee benefit plans, an audit performed under FDICIA, audits of broker-dealers, and examinations of service organizations [SOC 1 and SOC 2 engagements].

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

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**GT.COM**

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**Opinion**  
In our opinion, the system of quality control for the accounting and auditing practice of Ernst & Young LLP, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2019, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. Ernst & Young LLP has received a peer review rating of pass.

*Grant Thornton LLP*



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## Appendix E



Required communications



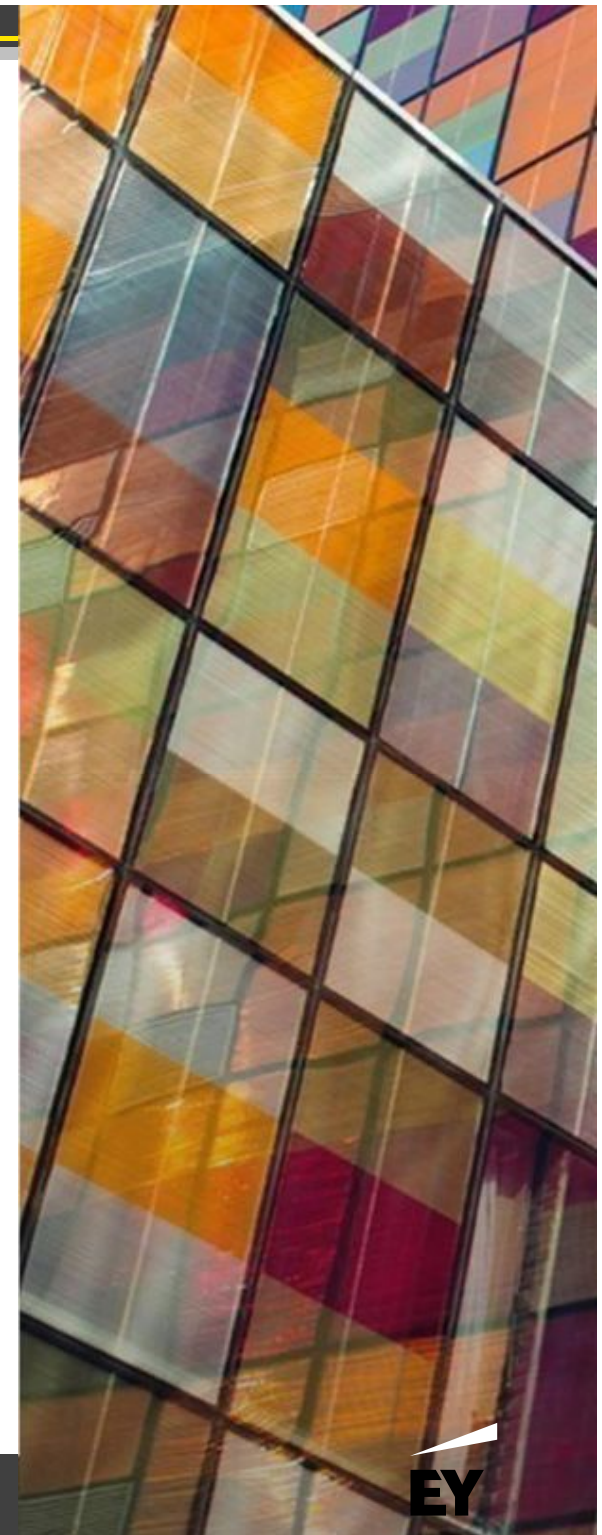
Executive  
summary



# Required communications

Area	Comments
<ul style="list-style-type: none"> <li>▶ Terms of the audit engagement, including the objective of the audit, the auditor's responsibilities under generally accepted auditing standards and management's responsibilities</li> </ul>	Refer to the engagement letter.
<ul style="list-style-type: none"> <li>▶ Overall planned scope and timing of the audit, and significant risks identified and any changes thereto</li> </ul>	Refer to the executive summary and areas of emphasis for additional information.
<ul style="list-style-type: none"> <li>▶ Significant issues discussed with management in connection with the auditor's initial appointment or recurring retention</li> </ul>	There are no matters to communicate.
<ul style="list-style-type: none"> <li>▶ Independence matters</li> </ul>	None.
<ul style="list-style-type: none"> <li>▶ Inquiries regarding:               <ul style="list-style-type: none"> <li>– Risks of material misstatement</li> <li>– Fraud and noncompliance with laws and regulations (illegal acts)</li> <li>– Related-party relationships and transactions</li> </ul> </li> </ul>	Inquiries regarding these matters are to be performed at this meeting.

As required, provided above is a summary of required communications between the audit team and those charged with governance, as required by AICPA Clarified US Auditing Standard (AU-C) 260, *The Auditor's Communication With Those Charged With Governance*, and other applicable auditing standards.



# Business insights: rethinking strategy, enabling innovation

Today's products and services can become obsolete overnight. Conventional strategic planning processes are no longer robust enough, as companies must also strive to keep tabs on disrupters that present both threats and opportunities.

## Three things organizations can do to help secure a future in the age of disruption

- 1 Disrupt before you are disrupted.** Use demographic, environmental, social and other megatrends as prompts for evaluating potential strategic opportunities and risks. Have ongoing discussions with management to constantly review the company's strategy and innovation initiatives.
- 2 Develop a road map for growth.** Consider the four drivers of long-term growth the Embankment Project for Inclusive Capitalism identified: talent, innovation and consumer trends, society and the environment, and corporate governance.
- 3 Bring the outside in.** Consult with customers, suppliers, investment analysts, regulators, academics and others to challenge internal biases and incorporate external perspectives into the strategic planning process.

## Questions to consider

- ▶ How often and when do the board and JEA management discuss strategic issues, especially the interplay between short- and long-term objectives?
- ▶ What is the role of JEA management and the board in determining the mix, scope and risk level of your organization's innovation efforts?
- ▶ Are developing industry trends being considered and what-if exercises performed to scope out the near- and long-term implications?



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Our assurance services help our clients meet their reporting requirements by providing an objective and independent examination of the financial statements that are provided to investors and other stakeholders. Throughout the audit process, our teams provide a timely and constructive challenge to management on accounting and reporting matters and a robust and clear perspective to audit committees charged with oversight.

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**INTER-OFFICE MEMORANDUM**

August 5, 2020

**SUBJECT:** ELECTRIC SYSTEM AND WATER AND SEWER SYSTEM RESERVE FUND QUARTERLY REPORT

**FROM:** Paul E. McElroy, Interim Managing Director/CEO

**TO:** JEA Finance and Audit Committee

Marty Lanahan, Chair  
John Baker  
Robert Stein

**BACKGROUND:**

At the May 7, 2012 Finance and Audit Committee meeting, JEA staff presented schedules reflecting historical and projected activity in JEA's Electric System and Water and Sewer System unrestricted and restricted fund balances. Many of these reserves are required under the respective System's bond resolutions or under Board approved policies such as Pricing Policy or Debt Management Policy. JEA staff also stated that these schedules would be provided to the JEA Board on a quarterly basis beginning August 2012.

**DISCUSSION:**

Attached are the reserve fund schedules referenced above for the period ending June 30, 2020.

**RECOMMENDATION:**

No action required; provided for information only.

Paul E. McElroy, Interim Managing Director/CEO

PEM/BJR/JEO/THM





# **Quarterly Reserve Report**

**For the Third Quarter Ending  
June 2020**



## Electric System and Water & Sewer System Reserve and Fund Balances (1)

For the Years Ending September 30  
(In Thousands of Dollars)

### Electric System

	<u>Actual</u> <u>Fiscal Year</u> <u>2017</u>	<u>Actual</u> <u>Fiscal Year</u> <u>2018</u>	<u>Actual</u> <u>Fiscal Year</u> <u>2019</u>	<u>Projected</u> <u>Fiscal Year</u> <u>2020</u>	<u>Detail</u> <u>Page #</u>
<b>Unrestricted</b>					
Operations/Revenue Fund	\$ 54,800	\$ 85,482	\$ 34,611	\$ 44,542	
Debt Management Strategy Reserve	-	-	-	-	
Self Insurance Reserve Fund					
• Property	10,000	10,000	10,000	10,000	3
• Employee health insurance	9,214	8,138	11,210	10,852	4
Rate Stabilization					
• Fuel	131,716	74,376	47,152	81,912	5
• DSM/conservation	3,695	3,470	4,363	4,924	6
• Environmental	36,417	42,163	25,632	18,558	7
• Debt Management	29,884	29,884	29,884	-	8
• Non-Fuel Purchased Power	25,189	53,493	56,870	37,434	9
Environmental	17,672	16,818	16,568	16,568	10
Customer Deposits	42,105	44,242	44,785	44,580	11
<b>Total Unrestricted</b>	<b>360,692</b>	<b>368,066</b>	<b>281,075</b>	<b>269,370</b>	
<b>Days of Cash on Hand (2)</b>	234	218	146	166	
<b>Days of Liquidity (3)</b>	337	316	308	345	
<b>Restricted</b>					
Debt Service Funds (Sinking Funds)	167,087	159,656	145,520	86,107	12
Debt Service Reserve Funds	60,582	60,582	60,582	50,994	13
Renewal and Replacement Funds/OCO	201,368	189,922	81,964	102,343	14
Environmental Fund [Capital Projects]	-	-	-	687	15
Construction Funds	-	203	-	-	16
<b>Total Restricted</b>	<b>429,037</b>	<b>410,363</b>	<b>288,066</b>	<b>240,131</b>	
<b>Total Electric System</b>	<b>\$ 789,729</b>	<b>\$ 778,429</b>	<b>\$ 569,141</b>	<b>\$ 509,501</b>	

### Water and Wastewater System

<b>Unrestricted</b>					
Operations/Revenue Fund	\$ 69,232	\$ 43,461	\$ 44,479	\$ 28,045	
Rate Stabilization					
• Debt Management	14,209	14,209	14,209	-	17
• Environmental	5,214	12,914	15,687	21,822	18
Customer Deposit	15,086	15,616	16,289	17,079	19
<b>Total Unrestricted</b>	<b>103,741</b>	<b>86,200</b>	<b>90,664</b>	<b>66,946</b>	
<b>Days of Cash on Hand (2)</b>	496	434	186	171	
<b>Days of Liquidity (3)</b>	596	527	334	347	
<b>Restricted</b>					
Debt Service Funds (Sinking Funds)	82,208	81,241	80,775	43,772	20
Debt Service Reserve Funds	107,488	102,850	63,441	58,227	21
Renewal and Replacement Funds	150,319	141,415	48,796	29,693	22
Environmental Fund [Capital Projects]	1,839	1,159	1,891	1,346	23
Construction Funds	15	284	28,968	24,412	24
<b>Total Restricted</b>	<b>341,869</b>	<b>326,949</b>	<b>223,871</b>	<b>157,450</b>	
<b>Total Water &amp; Sewer System</b>	<b>\$ 445,610</b>	<b>\$ 413,149</b>	<b>\$ 314,535</b>	<b>\$ 224,396</b>	

(1) This report does not include Scherer, SJRPP, DES or funds held on behalf of the City of Jacksonville.

(2) Days of Cash on Hand includes R&R Fund in the cash balances, and includes the Contribution to the City of Jacksonville General Fund with the Operating Expenses net of Depreciation.

(3) Days of Liquidity includes R&R Fund in the cash balances, and includes the Contribution to the City of Jacksonville General Fund with the Operating Expenses, net of Depreciation. Revolving credit facility is allocated between Electric and Water & Sewer Systems based on their portion of the Operating Expenses, net of Depreciation.

## Funds Established Per the Bond Resolutions

Fund/Account Description	Electric System	Water and Sewer System
Revenue Fund	Net Revenues (i.e. Revenues minus Cost of Operation and Maintenance), pledged to bondholders, balance available for any lawful purpose after other required payments under the bond resolution have been made.	Pledged to bondholders; balance available for any lawful purpose after other required payments under the bond resolution have been made, however, revenues representing impact fees may only be used to finance costs of expanding the system or on the debt service on bonds issued for such expansion purposes.
Rate Stabilization Fund	Not pledged to bondholders; available for any lawful purpose.	Pledged to bondholders; able to transfer to any other fund or account established under the resolution or use to redeem Bonds.
Subordinated Rate Stabilization Fund	Pledged to bondholders; available for any lawful purpose.	Pledged to bondholders; available for any lawful purpose.
Debt Service Account	Pledged to bondholders; used to pay debt service on bonds.	Pledged to bondholders; used to pay debt service on bonds.
Debt Service Reserve Account	Pledged to bondholders; used to pay debt service on bonds in the event revenues were insufficient to make such payments.	Pledged to bondholders; used to pay debt service on bonds in the event revenues were insufficient to make such payments.
Renewal and Replacement Fund	Not pledged to bondholders but required amounts deposited into this Fund pursuant to the bond resolution are limited as to what they can be spent on (e.g. capital expenditures and, bond redemptions) .	Pledged to bondholders; but required amounts deposited into this Fund pursuant to the bond resolution are limited as to what they can be spent on (e.g. capital expenditures and, bond redemptions).
Construction Fund	Pledged to bondholders; applied to the payment of costs of the system.	Pledged to bondholders; applied to the payment of costs of the system.
Subordinated Construction Fund	Pledged to bondholders; applied to the payment of costs of the system	Pledged to bondholders; applied to the payment of costs of the system
Construction Fund - Construction Reserve Account	Pledged to bondholders; applied to fund downgraded reserve fund sureties.	Pledged to bondholders; applied to fund downgraded debt service reserve fund sureties.
General Reserve Fund	Not pledged to bondholders; available for any lawful purpose.	n/a

Regardless of whether the Funds/Accounts are designated as pledged, in the event that monies in the Debt Service Account are insufficient to pay debt service on the bonds, pursuant to the respective bond resolutions, amounts in the various Funds/Accounts are required to be transferred to the respective Debt Service Accounts and used to pay debt service.

## Electric System Self Insurance - Property

**For the Third Quarter Ending June 30, 2020**

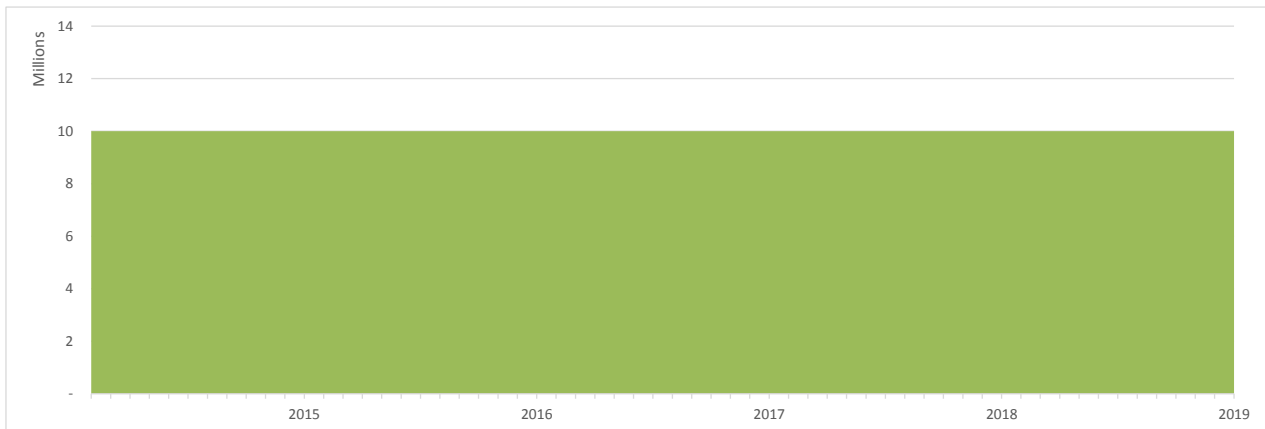
### Definitions and Goals

JEA's self-insurance fund is for catastrophic damage to JEA's electric lines (transmission and distribution) caused by the perils of hurricanes, tornadoes, and ice storms. This fund was established in October, 1992, as an alternative to JEA's procurement of commercial property insurance.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	<u>2020</u>	<u>2021</u>	<u>2022</u>
Opening Balance	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Additions:					
Contributions					
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Withdrawals					
Ending Balance	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>

### Historical Activity

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Opening Balance	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Additions:					
Contributions	-	-	-	-	-
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Withdrawals					
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Ending balance	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>



### Observations

- Reserve/Fund Authorization: Budget Appropriation.

## Electric System Self Insurance - Employee Health Insurance

For the Third Quarter Ending June 30, 2020

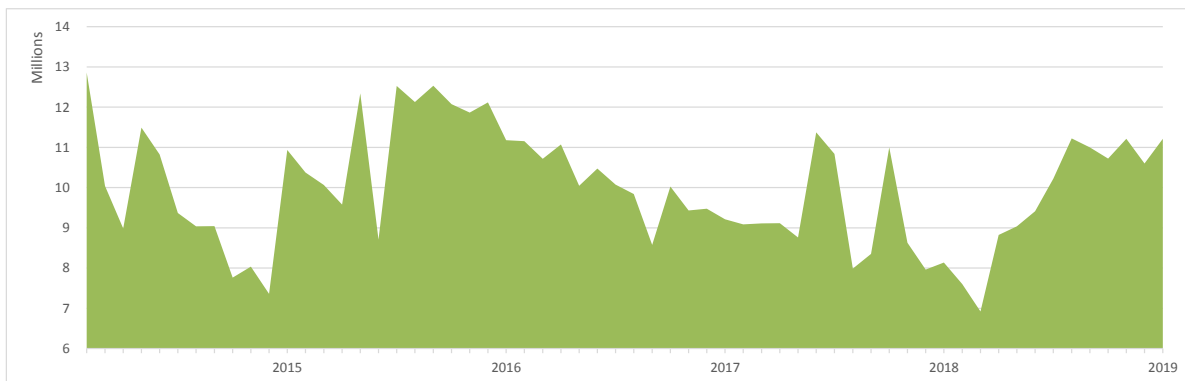
### Definitions and Goals

This reserve fund is a requirement under Florida Statute 112.08 that requires self insured government plans to have enough money in a reserve fund to cover the Incurred But Not Reimbursed (IBNR) claims and a 60 day surplus of claims. The IBNR claims are claims that would still need to be paid if the company went back to a fully insured plan or dropped coverage all together. An actuary calculates this amount annually.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	2020	2021	2022
Opening Balance	\$ 10,224	\$ 11,210	\$ 11,210	\$ 10,852	\$ 8,778
Additions:					
Employee Contributions	1,627	4,902	6,863	7,000	7,140
Retiree & Other Contributions	1,967	5,484	7,678	7,831	7,988
Employer Contributions	4,723	14,215	21,361	17,200	21,572
Sub-total	<u>\$ 8,317</u>	<u>\$ 24,601</u>	<u>\$ 35,902</u>	<u>\$ 32,031</u>	<u>\$ 36,700</u>
Withdrawals:					
Payments for Claims	6,703	22,692	33,908	31,683	34,205
Actuary & Other Payments	352	1,633	2,352	2,422	2,495
Sub-total	<u>\$ 7,055</u>	<u>\$ 24,325</u>	<u>\$ 36,260</u>	<u>\$ 34,105</u>	<u>\$ 36,700</u>
Ending Balance	<u>\$ 11,486</u>	<u>\$ 11,486</u>	<u>\$ 10,852</u>	<u>\$ 8,778</u>	<u>\$ 8,778</u>

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 10,749	\$ 10,937	\$ 11,179	\$ 9,214	\$ 8,138
Additions:					
Employee Contributions	5,447	5,460	5,862	6,158	6,423
Retiree & Other Contributions	5,141	5,694	6,443	7,273	8,270
Employer Contributions	22,220	24,231	19,004	18,378	20,662
Sub-total	<u>\$ 32,808</u>	<u>\$ 35,385</u>	<u>\$ 31,309</u>	<u>\$ 31,809</u>	<u>\$ 35,355</u>
Withdrawals:					
Payments for Claims	30,408	32,946	30,994	30,933	29,860
Actuary & Other Payments	2,212	2,197	2,280	1,952	2,423
Sub-total	<u>\$ 32,620</u>	<u>\$ 35,143</u>	<u>\$ 33,274</u>	<u>\$ 32,885</u>	<u>\$ 32,283</u>
Ending balance	<u>\$ 10,937</u>	<u>\$ 11,179</u>	<u>\$ 9,214</u>	<u>\$ 8,138</u>	<u>\$ 11,210</u>



Maximum Balance: 12,860  
Minimum Balance: 6,922

Average Balance: 10,035

### Observations

- Self Insurance for Employee Health Insurance began in July 2009.

## Electric System Rate Stabilization - Fuel Management

**For the Third Quarter Ending June 30, 2020**

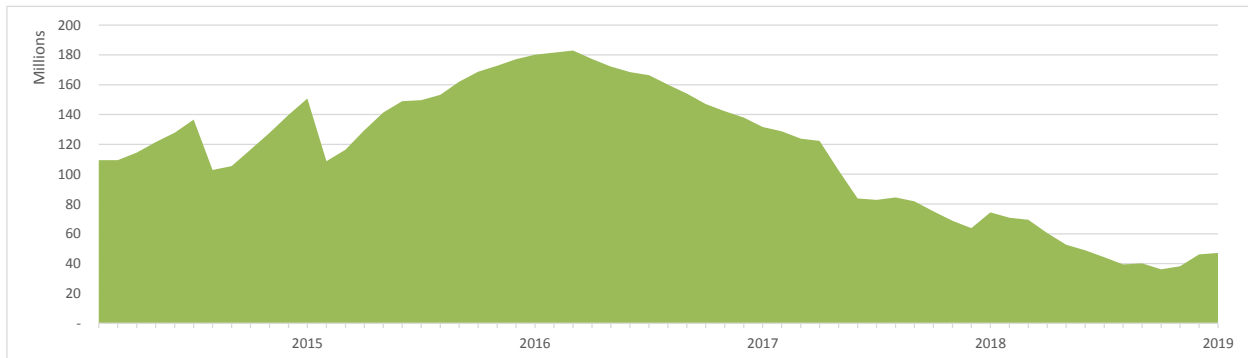
### Definitions and Goals

The Electric System Bond Resolution authorizes the establishment of a Rate Stabilization Fund in which contributions or withdrawals shall be made as set forth in the current annual budget or an amount otherwise determined by an authorized officer of JEA. The Rate Stabilization Fund provides a means to minimize the year-to-year impact to customer charges and support financial metrics by providing consistent revenue collection for expenditures impacted by external factors such as fuel, debt management and regulatory requirements or initiatives. Established pursuant to the section VII and Section IX of the Pricing Policy, the Fuel Reserve target is 15% of the greater of (i) the maximum fiscal year fuel cost in the preceding five fiscal years or (ii) the projected fiscal year fuel cost. Withdrawals from the Rate Stabilization Fund for fuel stabilization are limited to the following purposes: (a) to reduce the variable fuel rate charge to the customers for a determined period of time; (b) to reduce the excess of the actual fuel and purchased power expense for the fiscal year over the variable fuel rate revenues; (c) to be rebated back to the customers as a credit against the electric bill; and/or (d) to reimburse the costs associated with any energy risk management activities.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year-to-Date	2020	2021	2022
Opening Balance	\$ 67,874	\$ 47,152	\$ 47,152	\$ 81,912	\$ 117,418
Additions:					
Contributions	6,884	27,713	48,427	35,506	11,800
Sub-total	\$ 6,884	\$ 27,713	\$ 48,427	\$ 35,506	\$ 11,800
Withdrawals:					
Withdrawals	13,560	13,667	13,667	0	0
Sub-total	\$ 13,560	\$ 13,667	\$ 13,667	\$ -	\$ -
Ending Balance	\$ 61,198	\$ 61,198	\$ 81,912	\$ 117,418	\$ 129,218

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 105,457	\$ 150,742	\$ 180,115	\$ 131,716	\$ 74,376
Additions:					
Contributions	95,224	85,979	2,845		11,597
Sub-total	\$ 95,224	\$ 85,979	\$ 2,845	\$ -	\$ 11,597
Withdrawals:					
Withdrawals			51,244	57,340	38,821
Fuel Rebate Credit	49,939	56,606			
Sub-total	\$ 49,939	\$ 56,606	\$ 51,244	\$ 57,340	\$ 38,821
Ending balance	\$ 150,742	\$ 180,115	\$ 131,716	\$ 74,376	\$ 47,152



Maximum Balance: 182,960  
Minimum Balance: 36,191

Average Balance: 111,704

### Observations

- Actual and historical numbers reflect fuel recovery contributions and withdrawals on a gross basis. Forecast and projected numbers reflected on a net basis. The fuel recovery charge ended 12/31/11.

## Electric System Rate Stabilization - Demand Side Management (DSM)

**For the Third Quarter Ending June 30, 2020**

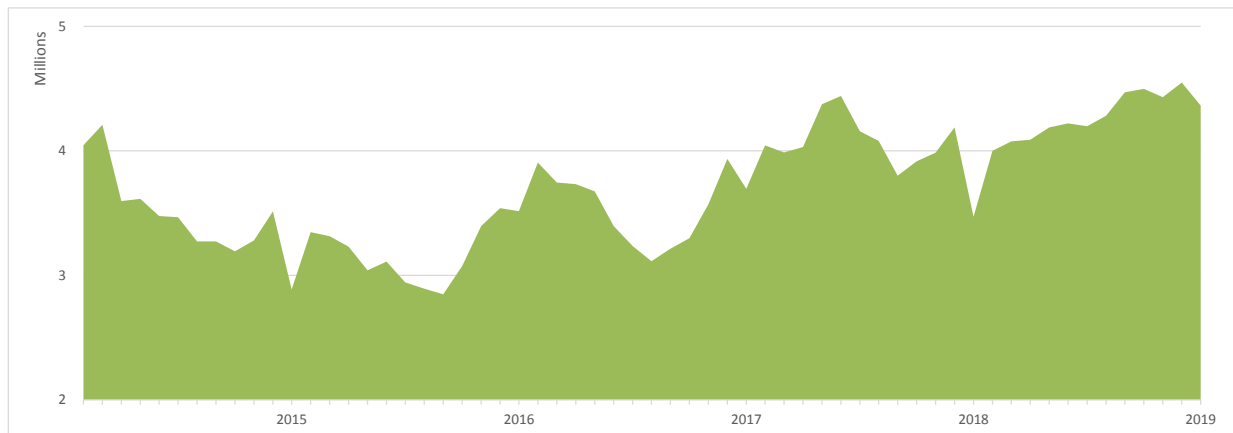
### Definitions and Goals

The Electric System Bond Resolution authorizes the establishment of a Rate Stabilization Fund in which contributions or withdrawals shall be made as set forth in the current annual budget or an amount otherwise determined by an authorized officer of JEA. The Rate Stabilization Fund provides a means to minimize the year-to-year impact to customer charges and support financial metrics by providing consistent revenue collection for expenditures impacted by external factors such as fuel, debt management and regulatory requirements or initiatives. Pursuant to section VII of the Pricing Policy, \$0.50 per 1,000 kWh plus \$0.01 per kWh residential conservation charge for consumption greater than 2,750 kWh monthly. These revenue sources are to fund demand side management and conservation programs.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	2020	2021	2022
Opening Balance	\$ 4,616	\$ 4,363	\$ 4,363	\$ 4,924	\$ 5,675
Additions:					
Contributions	1,607	4,614	6,618	7,174	6,619
Sub-total	\$ 1,607	\$ 4,614	\$ 6,618	\$ 7,174	\$ 6,619
Withdrawals:					
Withdrawals	1,268	4,022	6,057	6,423	6,598
Sub-total	\$ 1,268	\$ 4,022	\$ 6,057	\$ 6,423	\$ 6,598
Ending Balance	\$ 4,955	\$ 4,955	\$ 4,924	\$ 5,675	\$ 5,696

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 3,570	\$ 2,886	\$ 3,515	\$ 3,695	\$ 3,470
Additions:					
Contributions	7,059	7,232	6,685	7,088	7,042
Sub-total	\$ 7,059	\$ 7,232	\$ 6,685	\$ 7,088	\$ 7,042
Withdrawals:					
Withdrawals	7,743	6,603	6,505	7,313	6,149
Sub-total	\$ 7,743	\$ 6,603	\$ 6,505	\$ 7,313	\$ 6,149
Ending balance	\$ 2,886	\$ 3,515	\$ 3,695	\$ 3,470	\$ 4,363



Maximum Balance:	4,793	Average Balance:	3,757
Minimum Balance:	2,848		

### Observations

- Rate Stabilization Fund for Demand Side Management began in April 2009.

## Electric System Rate Stabilization - Environmental

**For the Third Quarter Ending June 30, 2020**

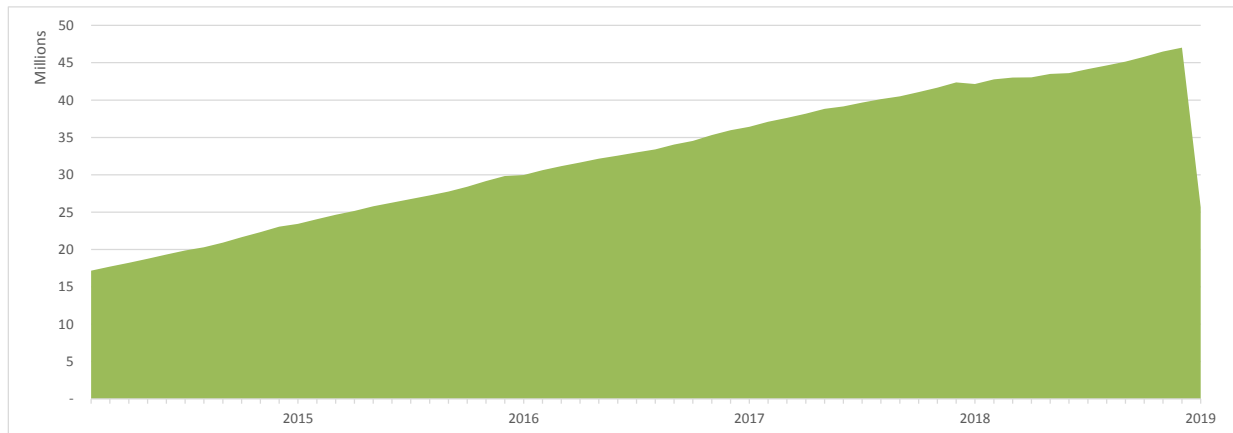
### Definitions and Goals

The Electric System Bond Resolution authorizes the establishment of a Rate Stabilization Fund in which contributions or withdrawals shall be made as set forth in the current annual budget or an amount otherwise determined by an authorized officer of JEA. The Rate Stabilization Fund provides a means to minimize the year-to-year impact to customer charges and support financial metrics by providing consistent revenue collection for expenditures impacted by external factors such as fuel, debt management and regulatory requirements or initiatives. Deposits to this fund began in fiscal year 2010 for amounts representing the Electric System Environmental Charge (\$0.62 per 1000 kWh). Withdrawals from this reserve will represent payments for regulatory initiatives such as the premium cost of renewable energy generation which is considered available for JEA's capacity plans.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	2020	2021	2022
Opening Balance	\$ 22,717	\$ 25,632	\$ 25,632	\$ 18,558	\$ 11,026
Additions:					
Contributions	1,843	5,238	7,421	7,814	7,320
Sub-total	\$ 1,843	\$ 5,238	\$ 7,421	\$ 7,814	\$ 7,320
Withdrawals:					
Withdrawals	2,512	8,822	14,495	15,346	7,597
Ending Balance	<u>\$ 22,048</u>	<u>\$ 22,048</u>	<u>\$ 18,558</u>	<u>\$ 11,026</u>	<u>\$ 10,749</u>

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 16,639	\$ 23,430	\$ 29,975	\$ 36,417	\$ 42,163
Additions:					
Contributions	7,586	7,700	7,384	7,572	7,578
Sub-total	\$ 7,586	\$ 7,700	\$ 7,384	\$ 7,572	\$ 7,578
Withdrawals:					
Withdrawals	795	1,155	942	1,827	24,109
Sub-total	\$ 795	\$ 1,155	\$ 942	\$ 1,827	\$ 24,109
Ending balance	<u>\$ 23,430</u>	<u>\$ 29,975</u>	<u>\$ 36,417</u>	<u>\$ 42,163</u>	<u>\$ 25,632</u>



Maximum Balance:	47,018	Average Balance:	32,694
Minimum Balance:	17,155		

### Observations

- Rate Stabilization Fund for Environmental began in June 2010.



## Electric System Rate Stabilization - Debt Management

For the Third Quarter Ending June 30, 2020

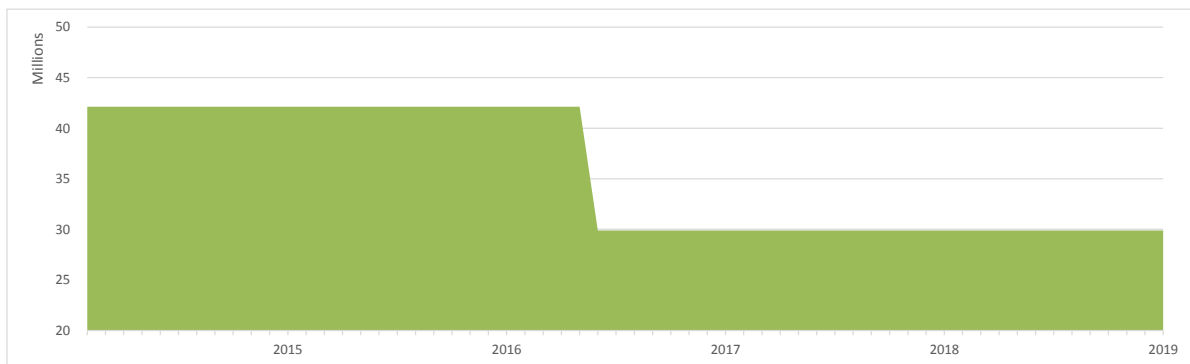
### Definitions and Goals

The Electric System Bond Resolution authorizes the establishment of a Rate Stabilization Fund in which deposits or withdrawals shall be made as set forth in the current annual budget or an amount otherwise determined by an authorized officer of JEA. Deposits are made to this Rate Stabilization Fund for the purpose of managing JEA's debt portfolio. Deposits to this reserve reflect the difference in the actual interest rates for interest expense on the unhedged variable rate debt as compared to the budgeted assumptions for interest expense on the unhedged variable rate debt. Additionally, deposits can be made from excess debt service budget over the actual debt service expense for any fiscal year. However, the total amounts deposited (in addition to actual debt service costs for the fiscal year) cannot exceed the total amount of the budgeted debt service for any fiscal year. At a minimum, 50% of the calculated reserve contribution, if any, will be recorded and deposited each fiscal year. Debt and Investment Committee will review and record at their option an additional contribution amount, up to the full value of the calculated reserve contribution (the remaining 50%). The reserve contributions will be calculated on a system by system basis; however, based on the calculation, any mandatory deposit will exclude the District Energy System. The reserve contributions shall cease in the event the reserve balance exceeds the cap of five percent of the par amount of the total outstanding variable rate debt of all systems. Withdrawals from the Rate Stabilization Fund for Debt Management Strategy can be made for expenses related to market disruption in the capital markets, disruption in availability of credit or unanticipated credit expenses, or to fund variable interest costs in excess of budget. Funds used in October 2019 for defeasance of debt.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year-to-Date	2020	2021	2022
Opening Balance	\$ -	\$ 29,884	\$ 29,884	\$ -	\$ -
Additions:					
Contributions	-	-			
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Withdrawals:					
Withdrawals	-	29,884	29,884		
Sub-total	\$ -	\$ 29,884	\$ 29,884	\$ -	\$ -
Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ -

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 42,126	\$ 42,126	\$ 42,126	\$ 29,884	\$ 29,884
Additions:					
Contributions					
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Withdrawals:					
Withdrawals			12,242		
Sub-total	\$ -	\$ -	\$ 12,242	\$ -	\$ -
Ending balance	\$ 42,126	\$ 42,126	\$ 29,884	\$ 29,884	\$ 29,884



Maximum Balance: 42,126      Average Balance: 33,902  
 Minimum Balance: -

### Observations

- Rate Stabilization Fund for Debt Management began in May 2009. Funds used for defeasances in October 2019.

## Electric System Rate Stabilization - Non-Fuel Purchased Power

**For the Third Quarter Ending June 30, 2020**

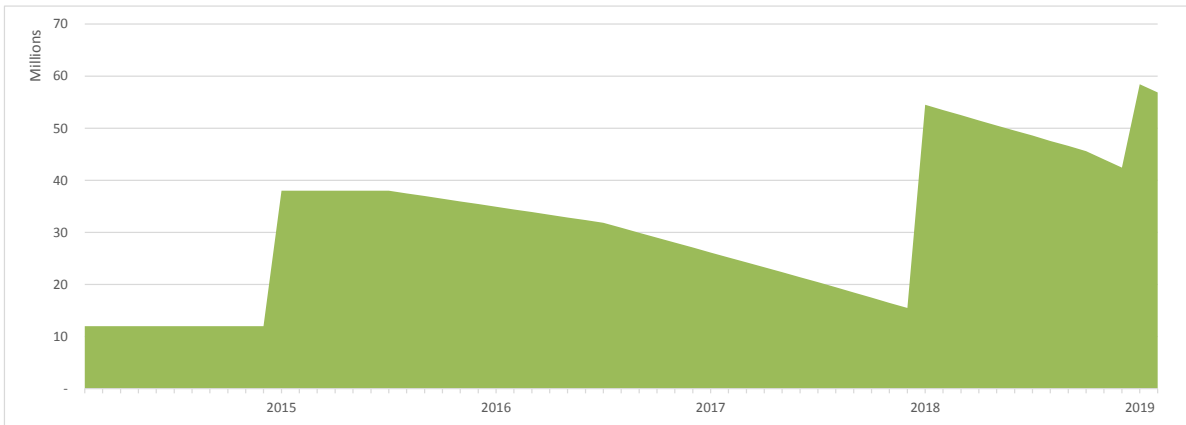
### Definitions and Goals

The Electric System Bond Resolution authorizes the establishment of a Rate Stabilization Fund in which deposits or withdrawals shall be made as set forth in the current annual budget or an amount otherwise determined by an authorized officer of JEA. The Rate Stabilization Funds provide a means to minimize the year-to-year impact to customer charges and support financial metrics by providing consistent revenue collection for expenditures impacted by external factors such as fuel, debt management and regulatory requirements or initiatives. Deposits to the Rate Stabilization Fund for Non-Fuel Purchased Power Stabilization during the fiscal year are made with the approval of the CEO or CFO, provided such deposits are not in excess of JEA's total operating budget for the current fiscal year. Withdrawals from the Rate Stabilization Fund for Non-Fuel Purchased Power are to reimburse the costs associated with any non-fuel purchased power activities. Withdrawals can be made as necessary during the fiscal year and requires the approval of the CEO or the CFO.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	2020	2021	2022
Opening Balance	\$ 47,515	\$ 56,870	\$ 56,870	\$ 37,434	\$ 933
Additions:					
Contributions	-	-			
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Withdrawals:					
Withdrawals	4,679	14,034	19,436	36,501	933
Ending Balance	<u>\$ 42,836</u>	<u>\$ 42,836</u>	<u>\$ 37,434</u>	<u>\$ 933</u>	<u>\$ -</u>

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 12,000	\$ 38,000	\$ 34,400	\$ 25,189	\$ 53,493
Additions:					
Contributions	26,000			40,000	17,566
Sub-total	<u>\$ 26,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 17,566</u>
Withdrawals:					
Withdrawals		3,600	9,211	11,696	14,189
Sub-total	<u>\$ -</u>	<u>\$ 3,600</u>	<u>\$ 9,211</u>	<u>\$ 11,696</u>	<u>\$ 14,189</u>
Ending balance	<u>\$ 38,000</u>	<u>\$ 34,400</u>	<u>\$ 25,189</u>	<u>\$ 53,493</u>	<u>\$ 56,870</u>



Maximum Balance:	58,436	Average Balance:	32,709
Minimum Balance:	12,000		

### Observations

- The Non-Fuel Purchased Power Rate Stabilization Fund began in FY 2014.

## Electric System Environmental Reserve

For the Third Quarter Ending June 30, 2020

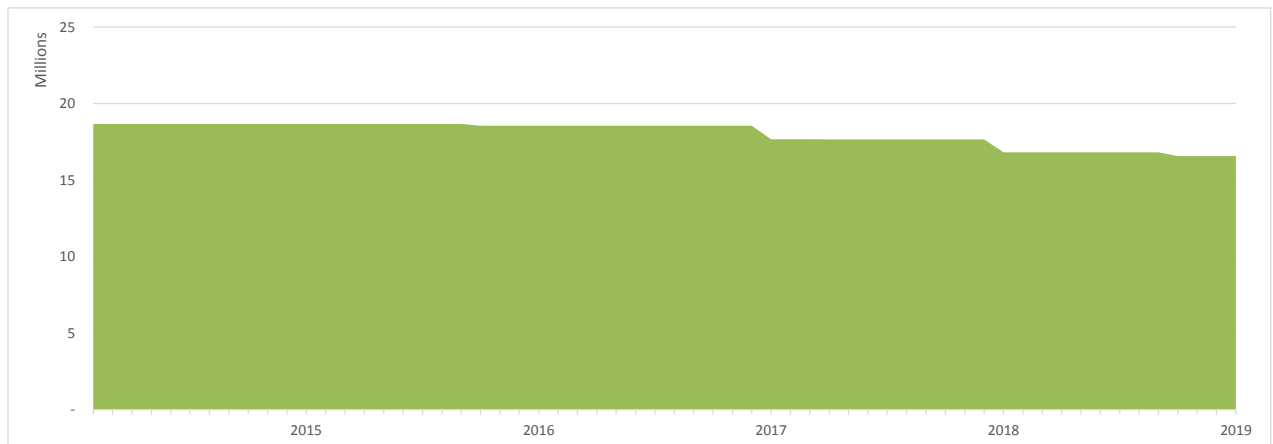
### Definitions and Goals

This reserve represents the initial amounts collected from the Electric System Environmental Charge and will be deposited until the balance in this reserve equals the balance in the environmental liability account. Withdrawals from this account will represent payments for these liabilities.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	<u>2020</u>	<u>2021</u>	<u>2022</u>
Opening Balance	\$ 16,568	\$ 16,568	\$ 16,568	\$ 16,568	\$ 16,068
Additions:					
Contributions	-	-			
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Withdrawals:					
Withdrawals	-	-		500	5,000
Ending Balance	<u>\$ 16,568</u>	<u>\$ 16,568</u>	<u>\$ 16,568</u>	<u>\$ 16,068</u>	<u>\$ 11,068</u>

### Historical Activity

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Opening Balance	\$ 18,662	\$ 18,662	\$ 18,556	\$ 17,672	\$ 16,818
Additions:					
Contributions					
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Withdrawals:					
Withdrawals		106	884	854	250
Sub-total	\$ -	\$ 106	\$ 884	\$ 854	\$ 250
Ending balance	<u>\$ 18,662</u>	<u>\$ 18,556</u>	<u>\$ 17,672</u>	<u>\$ 16,818</u>	<u>\$ 16,568</u>



Maximum Balance: 18,662  
Minimum Balance: 16,568

Average Balance: 17,948

### Observations

- The Environmental Reserve began in FY 2008.

## Electric System Customer Deposits

**For the Third Quarter Ending June 30, 2020**

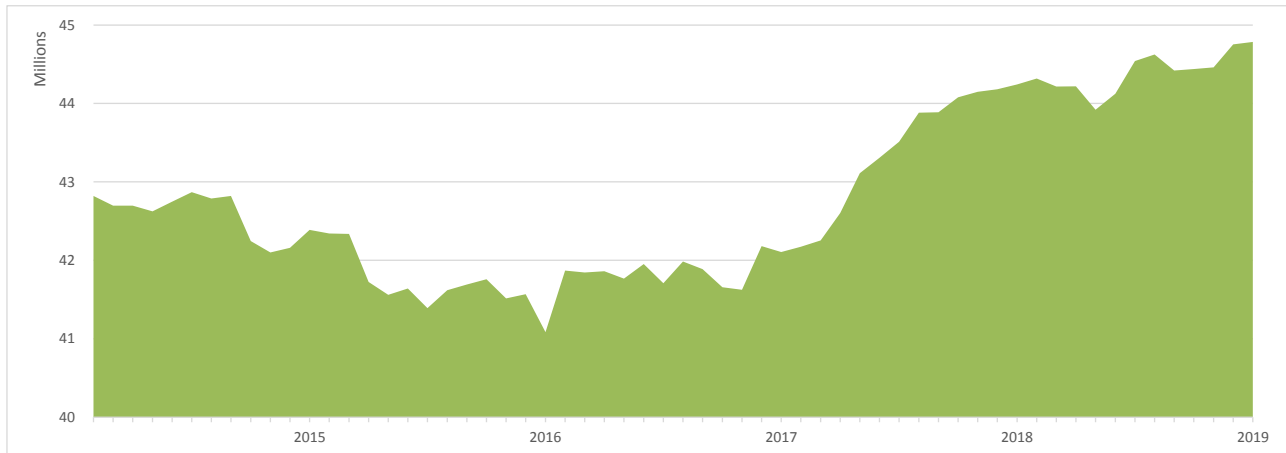
### Definitions and Goals

Pursuant to internal procedure CR40400 MBC302 Credit and Collections, JEA accesses customers a deposit that may be used to offset any future unpaid amounts during the course of providing utility service to a customer.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	<u>2020</u>	<u>2021</u>	<u>2022</u>
Opening Balance	\$ 44,338	\$ 44,785	\$ 44,785	\$ 44,580	\$ 45,814
Additions:					
Net Customer Activity	118	226	350	1,234	1,305
Sub-total	\$ 118	\$ 226	\$ 350	\$ 1,234	\$ 1,305
Withdrawals:					
Net Customer Activity	429	984	555		
Ending Balance	\$ 44,027	\$ 44,027	\$ 44,580	\$ 45,814	\$ 47,118

### Historical Activity

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Opening Balance	\$ 42,688	\$ 42,389	\$ 41,084	\$ 42,105	\$ 44,242
Additions:					
Net Customer Activity			1,021	2,137	543
Sub-total	\$ -	\$ -	\$ 1,021	\$ 2,137	\$ 543
Withdrawals:					
Net Customer Activity	299	1,305			
Sub-total	\$ 299	\$ 1,305	\$ -	\$ -	\$ -
Ending balance	\$ 42,389	\$ 41,084	\$ 42,105	\$ 44,242	\$ 44,785



Maximum Balance:	44,795	Average Balance:	42,890
Minimum Balance:	41,084		

### Observations

## Electric System Debt Service Sinking Fund

**For the Third Quarter Ending June 30, 2020**

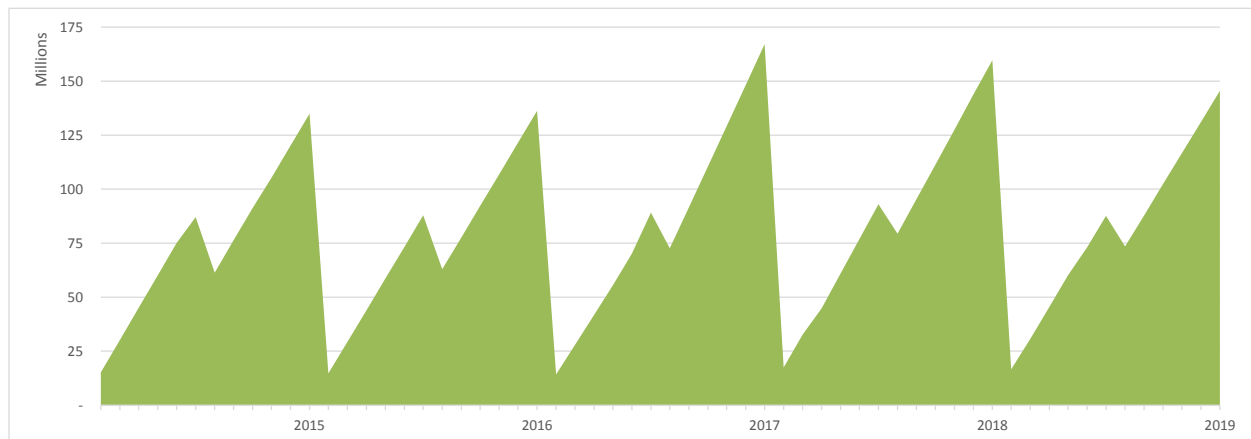
### Definitions and Goals

JEA is required monthly to fund from revenues an amount equal to the aggregate of the Debt Service Requirement for senior and subordinated bonds for such month into this account. On or before such interest payment date, JEA shall pay out of this account to the paying agents the amount required for the interest and principal due on such date.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	2020	2021	2022
Opening Balance	\$ 56,536	\$ 145,520	\$ 145,520	\$ 86,107	\$ 83,335
Additions:					
Revenue Fund Deposits	28,654	88,791	116,950	120,699	109,311
Sub-total	<u>\$ 28,654</u>	<u>\$ 88,791</u>	<u>\$ 116,950</u>	<u>\$ 120,699</u>	<u>\$ 109,311</u>
Withdrawals:					
Principal and Int Payments	27,007	176,128	176,363	123,471	124,471
Sub-total	<u>\$ 27,007</u>	<u>\$ 176,128</u>	<u>\$ 176,363</u>	<u>\$ 123,471</u>	<u>\$ 124,471</u>
Ending Balance	<u>\$ 58,183</u>	<u>\$ 58,183</u>	<u>\$ 86,107</u>	<u>\$ 83,335</u>	<u>\$ 68,175</u>

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 120,458	\$ 134,927	\$ 136,232	\$ 167,087	\$ 159,656
Additions:					
Revenue Fund Deposits	181,006	177,847	209,450	201,359	186,135
Sub-total	<u>\$ 181,006</u>	<u>\$ 177,847</u>	<u>\$ 209,450</u>	<u>\$ 201,359</u>	<u>\$ 186,135</u>
Withdrawals:					
Principal and Int Payments	166,537	176,542	178,595	208,790	200,271
Sub-total	<u>\$ 166,537</u>	<u>\$ 176,542</u>	<u>\$ 178,595</u>	<u>\$ 208,790</u>	<u>\$ 200,271</u>
Ending balance	<u>\$ 134,927</u>	<u>\$ 136,232</u>	<u>\$ 167,087</u>	<u>\$ 159,656</u>	<u>\$ 145,520</u>



Maximum Balance: 167,087      Average Balance: 77,699  
 Minimum Balance: 9,945

### Observations

- September 30th ending balances are used to pay the October 1st interest and principal payments.
- This report does not include any Scherer debt service sinking funds.
- Timing differences occur due to the accrual of debt service during one fiscal year and the payment in the following fiscal year (primarily fixed rate principal and interest on October 1st of the following fiscal year).
- Projections are based on the debt outstanding as of June 30, 2020.

## Electric System Debt Service Reserve Account

**For the Third Quarter Ending June 30, 2020**

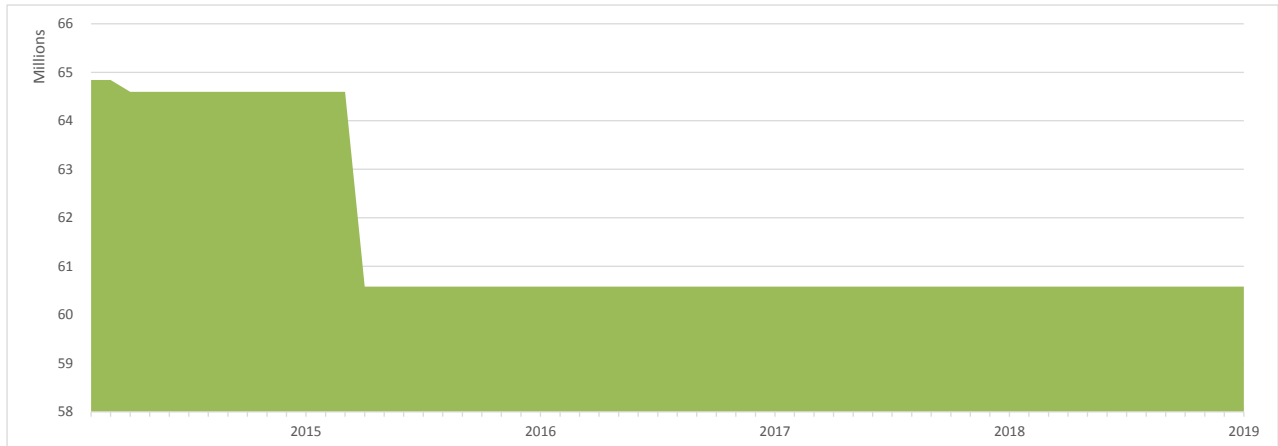
### Definitions and Goals

This reserve will be funded, maintained and held for the benefit of bondholders as specified in the Supplemental Resolution authorizing the sale of the bonds to pay principal and/or interest on the bonds should revenues from operations not be sufficient for such purpose in accordance with the appropriate bond resolution. It is JEA's current practice to fund this reserve account with cash from the sale of bonds; however, revenues may be utilized to fund this reserve if necessary.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	2020	2021	2022
Opening Balance	\$ 53,949	\$ 60,582	\$ 60,582	\$ 50,994	\$ 50,994
Additions:					
Proceeds from Bonds					
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Withdrawals:					
Release to Refunding Defeasance			2,955		
Release for STAR Plan Defeasance		6,633	6,633		
Ending Balance	<u>\$ 53,949</u>	<u>\$ 53,949</u>	<u>\$ 50,994</u>	<u>\$ 50,994</u>	<u>\$ 50,994</u>

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 64,841	\$ 64,595	\$ 60,582	\$ 60,582	\$ 60,582
Additions:					
Proceeds from Bonds					
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Withdrawals:					
Release to Revenue Fund	246	4,013			
Sub-total	\$ 246	\$ 4,013	\$ -	\$ -	\$ -
Ending balance	<u>\$ 64,595</u>	<u>\$ 60,582</u>	<u>\$ 60,582</u>	<u>\$ 60,582</u>	<u>\$ 60,582</u>



Maximum Balance:	64,841	Average Balance:	61,166
Minimum Balance:	53,949		

### Observations

- This report does not include any Scherer debt service reserves.

## Electric System Renewal and Replacement (R&R) / Operating Capital Outlay (OCO)

**For the Third Quarter Ending June 30, 2020**

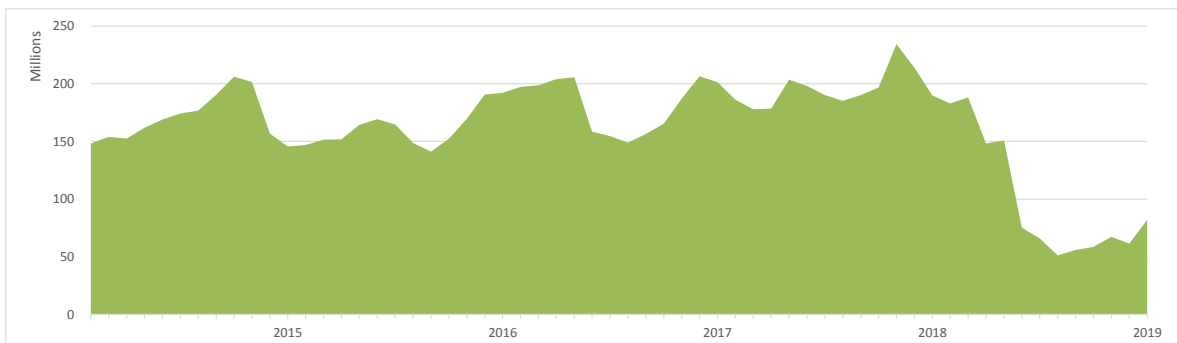
### Definitions and Goals

Pursuant to the bond resolution and Article 21 of the City of Jacksonville Charter, JEA is required to deposit from the revenue fund annually an amount for Renewal and Replacement of system assets. According to the bond resolutions the amount is equal to the greater of 10% of the prior year defined annual net revenues or 5% of the prior year defined gross revenues. The funds shall be used for the purposes of paying the cost of extensions, enlargements or additions to, or the replacement of capital assets. In addition, as a portion of the base rate, JEA will recover from current revenue a formula driven amount for capital expenditures known as Operating Capital Outlay. This amount is calculated separately from the R&R deposit and may be allocated for use between capacity or non-capacity related expenditures based on the most beneficial economic and tax related financing structure incorporating the use of internal and bond funding.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	2020	2021	2022
Opening Balance	\$ 57,492	\$ 81,964	\$ 81,964	\$ 102,343	\$ 110,943
Additions:					
R&R/OCO Contribution	71,833	172,643	247,955	235,053	193,999
Transfers betw Capital Fds					
Other	1,643	8,290	5,990	12,975	8,705
Sub-total	<u>\$ 73,476</u>	<u>\$ 180,933</u>	<u>\$ 253,945</u>	<u>\$ 248,028</u>	<u>\$ 202,704</u>
Withdrawals:					
Capital Expenditures	42,830	156,122	214,929	189,428	191,409
Transfers betw Capital Fds					
Debt Defeasance	-	18,637	18,637	50,000	
Other					
Sub-total	<u>\$ 42,830</u>	<u>\$ 174,759</u>	<u>\$ 233,566</u>	<u>\$ 239,428</u>	<u>\$ 191,409</u>
Ending Balance	<u>\$ 88,138</u>	<u>\$ 88,138</u>	<u>\$ 102,343</u>	<u>\$ 110,943</u>	<u>\$ 122,238</u>

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 146,910	\$ 145,711	\$ 192,179	\$ 201,368	\$ 189,922
Additions:					
R&R/OCO Contribution	110,351	200,692	196,589	148,105	197,623
Loans betw Capital Fds					
Other	970	3,744	5,074	35,675	39,521
Sub-total	<u>\$ 111,321</u>	<u>\$ 204,436</u>	<u>\$ 201,663</u>	<u>\$ 183,780</u>	<u>\$ 237,144</u>
Withdrawals:					
Capital Expenditures	112,483	157,201	113,987	181,263	275,042
Transfers/loans b/w Capital Fds	37	765	37,200		
Debt Defeasance					70,000
Other		2	41,287	13,963	60
Sub-total	<u>\$ 112,520</u>	<u>\$ 157,968</u>	<u>\$ 192,474</u>	<u>\$ 195,226</u>	<u>\$ 345,102</u>
Ending balance	<u>\$ 145,711</u>	<u>\$ 192,179</u>	<u>\$ 201,368</u>	<u>\$ 189,922</u>	<u>\$ 81,964</u>



Maximum Balance: 234,504  
Minimum Balance: 43,840

Average Balance: 156,712

### Observations

- Other includes Sale of Property and miscellaneous billings.





## Electric System Construction / Bond Fund

For the Third Quarter Ending June 30, 2020

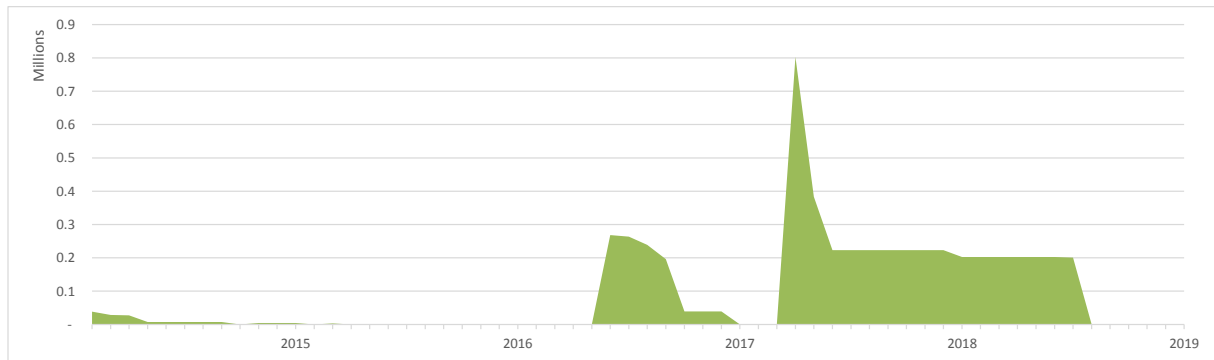
### Definitions and Goals

JEA maintains a senior and subordinated construction fund of which bonds proceeds are deposited and used for the payment of the costs of additions, extensions and improvements to the Electric System. The senior construction fund is limited to the costs of additions, extension and improvements relating to non-generation capital expenditures. The subordinated construction fund is used for capital projects relating to all categories of capital expenditures but primarily targeted to fund generation capital expenditures.

	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	2020	2021	2022
(In Thousands)					
Opening Balance	\$ -	\$ -	\$ -	\$ -	\$ -
Additions:					
Bond Proceeds					
Loans betw Capital Fds					
Other					
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Withdrawals:					
Transfers betw Capital Fds					
Other					
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ -

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 42	\$ 4	\$ -	\$ -	\$ 203
Additions:					
Bond Proceeds			429	805	
Loans betw Capital Fds					
Other	37	2			
Sub-total	\$ 37	\$ 2	\$ 429	\$ 805	\$ -
Withdrawals:					
Capital Expenditures	75	6			
Transfers/loans b/w Capital Fds					201
Other			429	602	2
Sub-total	\$ 75	\$ 6	\$ 429	\$ 602	\$ 203
Ending balance	\$ 4	\$ -	\$ -	\$ 203	\$ -



Maximum Balance: 803  
Minimum Balance: -

Average Balance: 86

### Observations

- JEA's philosophy has been to borrow bond funds on a "just-in-time" basis. Staff has used revolving credit facility borrowings and loans between capital funds to decrease borrowing costs.

## Water and Sewer System Rate Stabilization - Debt Management

**For the Third Quarter Ending June 30, 2020**

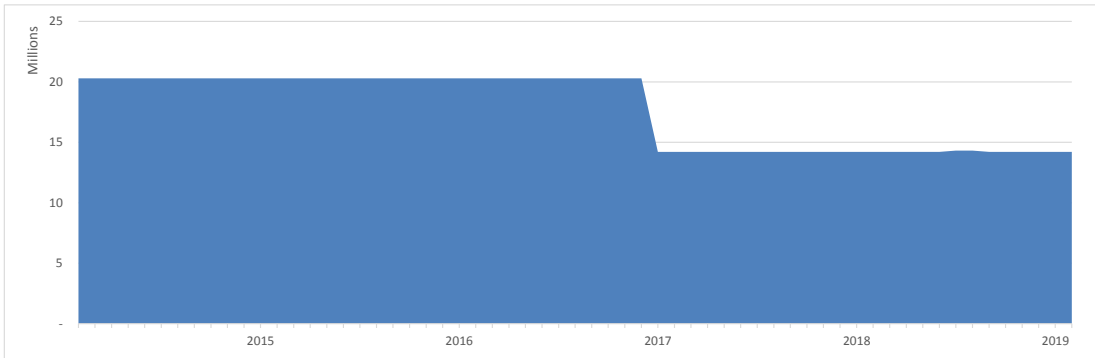
### Definitions and Goals

The Water & Sewer System Bond Resolution authorizes the establishment of a Rate Stabilization Fund ("RSF") in which deposits or withdrawals shall be made as set forth in the current annual budget or an amount otherwise determined by an authorized officer of JEA. The Rate Stabilization Funds provide a means to minimize the year-to-year impact to customer charges and support financial metrics by providing consistent revenue collection for expenditures impacted by external factors such as fuel, debt management and regulatory requirements or initiatives. Deposits are made to this RSF for the purpose of managing JEA's debt portfolio. Deposits to this reserve reflect the difference in the actual interest rates for interest expense on the unhedged variable rate debt as compared to the budgeted assumptions for interest expense on the unhedged variable rate debt. Additionally, deposits can be made from excess debt service budget over the actual debt service expense for any fiscal year. However, the total amounts deposited (in addition to actual debt service costs for the fiscal year) cannot exceed the total amount of the budgeted debt service for any fiscal year. At a minimum, 50% of the calculated reserve contribution, if any, will be recorded and deposited each fiscal year. Debt and Investment Committee will review and record at their option an additional contribution amount, up to the full value of the calculated reserve contribution (the remaining 50%). The reserve contributions will be calculated on a system by system basis; however, based on the calculation, any mandatory deposit will exclude the District Energy System. The reserve contributions shall cease in the event the reserve balance exceeds the cap of five percent of the par amount of the total outstanding variable rate debt of all systems. Withdrawals from the Rate Stabilization Fund for Debt Management Strategy can be made for expenses related to market disruption in the capital markets, disruption in availability of credit or unanticipated credit expenses, or to fund variable interest costs in excess of budget.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	2020	2021	2022
Opening Balance	\$ 14,209	\$ 14,209	\$ 14,209	\$ -	\$ -
Additions:					
Contributions					
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Withdrawals:					
Withdrawals	14,209	14,209	14,209		
Sub-total	\$ 14,209	\$ 14,209	\$ 14,209	\$ -	\$ -
Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ -

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 20,290	\$ 20,290	\$ 20,290	\$ 14,209	\$ 14,209
Additions:					
Contributions					
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Withdrawals:					
Withdrawals			6,081		
Sub-total	\$ -	\$ -	\$ 6,081	\$ -	\$ -
Ending balance	\$ 20,290	\$ 20,290	\$ 14,209	\$ 14,209	\$ 14,209



Maximum Balance:	20,290	Average Balance:	16,818
Minimum Balance:	-		

### Observations

- Contributions began in June 2009. Funds used for defeasances in October 2019.

## Water & Sewer System Rate Stabilization - Environmental

**For the Third Quarter Ending June 30, 2020**

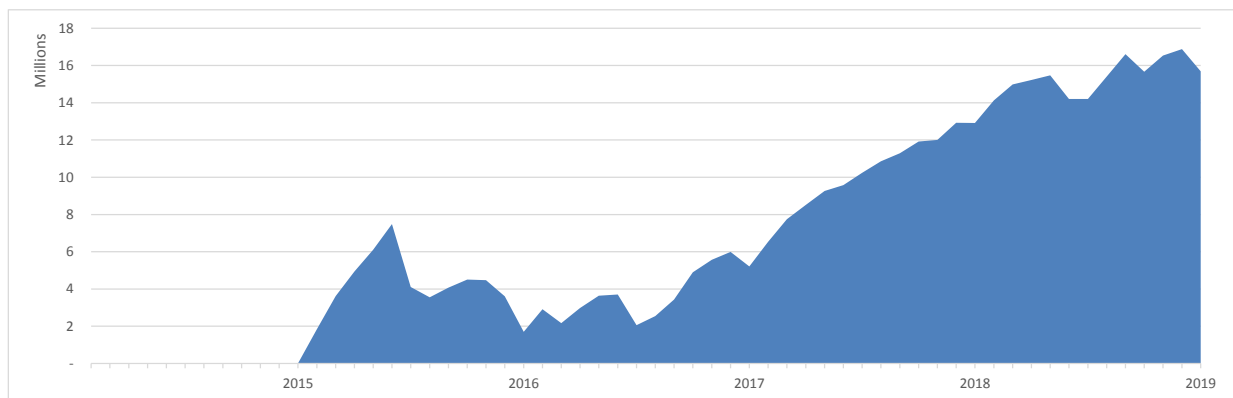
### Definitions and Goals

The Water & Sewer System Bond Resolution authorizes the establishment of a Rate Stabilization Fund in which contributions or withdrawals shall be made as set forth in the current annual budget or an amount otherwise determined by an authorized officer of JEA. The Rate Stabilization Fund provides a means to minimize the year-to-year impact to customer charges and support financial metrics by providing consistent revenue collection for expenditures impacted by external factors such as debt management and regulatory requirements or initiatives.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	2020	2021	2022
Opening Balance	\$ 19,617	\$ 15,687	\$ 15,687	\$ 21,822	\$ 13,381
Additions:					
Contributions	6,740	19,042	26,191	25,735	26,250
Sub-total	<u>\$ 6,740</u>	<u>\$ 19,042</u>	<u>\$ 26,191</u>	<u>\$ 25,735</u>	<u>\$ 26,250</u>
Withdrawals:					
Withdrawals	5,232	13,604	20,056	34,176	37,395
COJ Septic Tank Agreement			-		
Sub-total	<u>\$ 5,232</u>	<u>\$ 13,604</u>	<u>\$ 20,056</u>	<u>\$ 34,176</u>	<u>\$ 37,395</u>
Ending Balance	<u><u>\$ 21,125</u></u>	<u><u>\$ 21,125</u></u>	<u><u>\$ 21,822</u></u>	<u><u>\$ 13,381</u></u>	<u><u>\$ 2,236</u></u>

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ -	\$ -	\$ 1,699	\$ 5,214	\$ 12,914
Additions:					
Contributions		23,635	24,362	23,829	25,099
Sub-total	<u>\$ -</u>	<u>\$ 23,635</u>	<u>\$ 24,362</u>	<u>\$ 23,829</u>	<u>\$ 25,099</u>
Withdrawals:					
Withdrawals		21,936	20,847	16,129	22,326
Sub-total	<u>\$ -</u>	<u>\$ 21,936</u>	<u>\$ 20,847</u>	<u>\$ 16,129</u>	<u>\$ 22,326</u>
Ending balance	<u><u>\$ -</u></u>	<u><u>\$ 1,699</u></u>	<u><u>\$ 5,214</u></u>	<u><u>\$ 12,914</u></u>	<u><u>\$ 15,687</u></u>



Maximum Balance: 18,101  
Minimum Balance: 1,699

Average Balance: 8,957

### Observations

- Rate Stabilization Fund for Environmental began in June 2010.

## Water and Sewer System Customer Deposits

**For the Third Quarter Ending June 30, 2020**

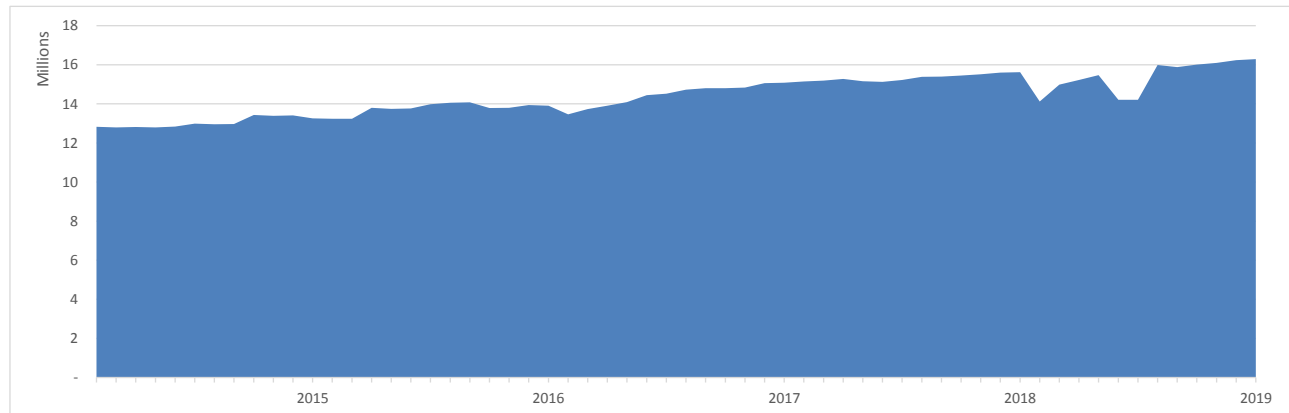
### Definitions and Goals

Pursuant to internal procedure CR40400 MBC302 Credit and Collections, JEA accesses customers a deposit that may be used to offset any future unpaid amounts during the course of providing utility service to a customer.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	2020	2021	2022
Opening Balance	\$ 16,555	\$ 16,289	\$ 16,289	\$ 17,079	\$ 17,315
Additions:					
Allocated from Electric	524	790	790	236	239
Sub-total	<u>\$ 524</u>	<u>\$ 790</u>	<u>\$ 790</u>	<u>\$ 236</u>	<u>\$ 239</u>
Withdrawals:					
Allocated from Electric			-		
Sub-total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending Balance	<u>\$ 17,079</u>	<u>\$ 17,079</u>	<u>\$ 17,079</u>	<u>\$ 17,315</u>	<u>\$ 17,554</u>

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 12,787	\$ 13,255	\$ 13,910	\$ 15,086	\$ 15,616
Additions:					
Allocated from Electric	468	655	1,176	530	673
Sub-total	<u>\$ 468</u>	<u>\$ 655</u>	<u>\$ 1,176</u>	<u>\$ 530</u>	<u>\$ 673</u>
Withdrawals:					
Allocated from Electric					
Sub-total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance	<u>\$ 13,255</u>	<u>\$ 13,910</u>	<u>\$ 15,086</u>	<u>\$ 15,616</u>	<u>\$ 16,289</u>



Maximum Balance: 16,554  
Minimum Balance: 12,619

Average Balance: 14,253

### Observations

## Water and Sewer System Debt Service Sinking Fund

For the Third Quarter Ending June 30, 2020

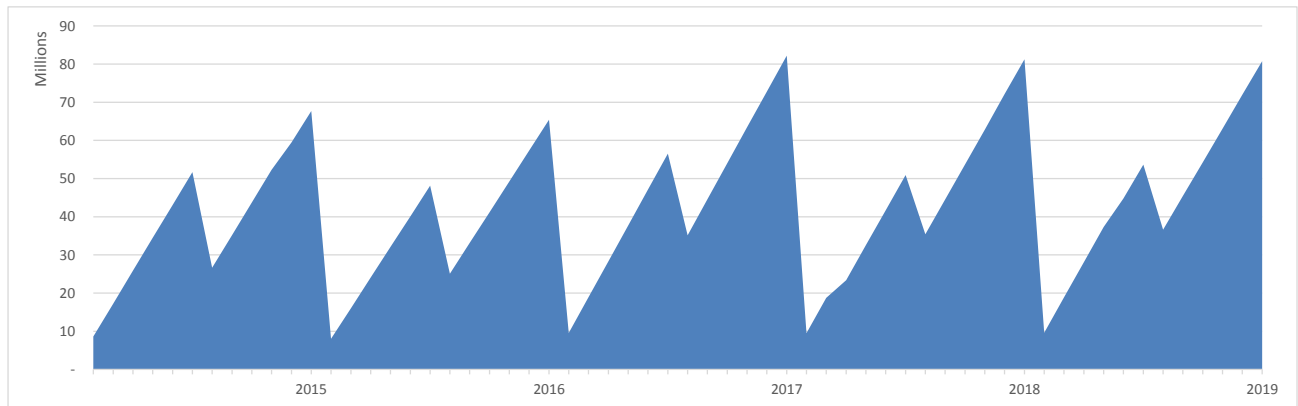
### Definitions and Goals

JEA is required monthly to fund from revenues an amount equal to the aggregate of the Debt Service Requirement for senior and subordinated bonds for such month into this account. On or before such interest payment date, JEA shall pay out of this account to the paying agents the amount required for the interest and principal due on such date.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	<u>2020</u>	<u>2021</u>	<u>2022</u>
Opening Balance	\$ 34,270	\$ 80,775	\$ 80,775	\$ 43,772	\$ 33,060
Additions:					
Revenue fund deposits	17,119	52,678	69,821	62,647	64,960
Sub-total	<u>\$ 17,119</u>	<u>\$ 52,678</u>	<u>\$ 69,821</u>	<u>\$ 62,647</u>	<u>\$ 64,960</u>
Withdrawals:					
Principal and interest payments	24,550	106,614	106,824	73,359	64,441
Sub-total	<u>\$ 24,550</u>	<u>\$ 106,614</u>	<u>\$ 106,824</u>	<u>\$ 73,359</u>	<u>\$ 64,441</u>
Ending Balance	<u>\$ 26,839</u>	<u>\$ 26,839</u>	<u>\$ 43,772</u>	<u>\$ 33,060</u>	<u>\$ 33,579</u>

### Historical Activity

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Opening Balance	\$ 75,019	\$ 67,720	\$ 65,410	\$ 82,208	\$ 81,241
Additions:					
Revenue fund deposits	102,789	97,077	114,873	113,636	112,251
Sub-total	<u>\$ 102,789</u>	<u>\$ 97,077</u>	<u>\$ 114,873</u>	<u>\$ 113,636</u>	<u>\$ 112,251</u>
Withdrawals:					
Principal and interest payments	110,088	99,387	98,075	114,603	112,717
Sub-total	<u>\$ 110,088</u>	<u>\$ 99,387</u>	<u>\$ 98,075</u>	<u>\$ 114,603</u>	<u>\$ 112,717</u>
Ending balance	<u>\$ 67,720</u>	<u>\$ 65,410</u>	<u>\$ 82,208</u>	<u>\$ 81,241</u>	<u>\$ 80,775</u>



Maximum Balance:	82,208	Average Balance:	42,113
Minimum Balance:	8,019		

### Observations

- September 30th ending balances are used to pay Oct 1st interest and principal payments.
- Timing differences occur due to the accrual of debt service during one fiscal year and the payment in the following fiscal year (primarily fixed rate principal and interest on Oct 1st of the following fiscal year).
- Projections are based on the debt outstanding as of June 30, 2020.

## Water and Sewer System Debt Service Reserve Account

For the Third Quarter Ending June 30, 2020

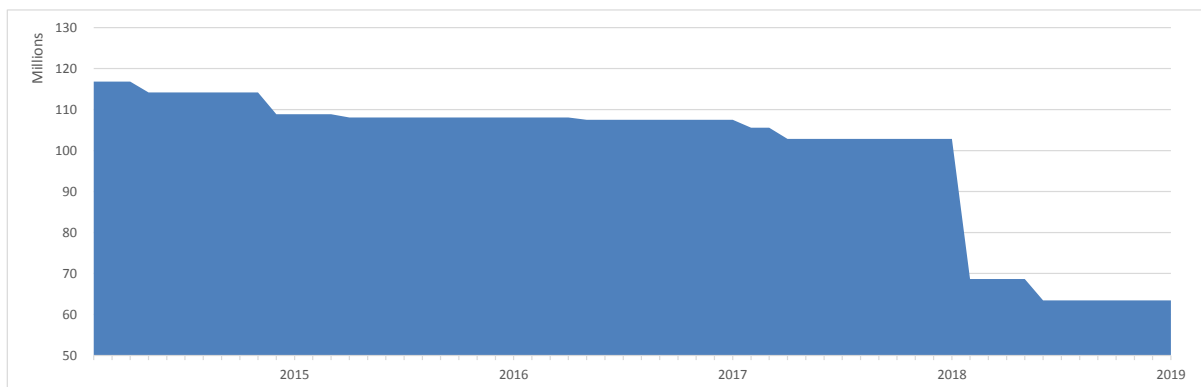
### Definitions and Goals

This reserve will be funded, maintained and held for the benefit of bondholders as specified in the Supplemental Resolution authorizing the sale of the bonds to pay principal and/or interest on the bonds should revenues from operations not be sufficient for such purpose in accordance with the appropriate bond resolution. It is JEA's current practice to fund this reserve account with cash from the sale of bonds; however, revenues may be utilized to fund this reserve if necessary.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	2020	2021	2022
Opening Balance	\$ 59,323	\$ 63,441	\$ 63,441	\$ 58,227	\$ 58,591
Additions:					
Bond Issue - Deposit Revenue Fund			737	364	941
Sub-total	\$ -	\$ -	\$ 737	\$ 364	\$ 941
Withdrawals:					
Revenue Fund		1,327	1,690		
Release for STAR Plan Defeasance		2,791	2,791		
Release to Refunding Defeasance			1,470		
Sub-total	\$ -	\$ 4,118	\$ 5,951	\$ -	\$ -
Ending Balance	\$ 59,323	\$ 59,323	\$ 58,227	\$ 58,591	\$ 59,532

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 116,829	\$ 108,849	\$ 108,086	\$ 107,488	\$ 102,850
Additions:					
Construction reserves/bond issues Revenue fund					
Sub-total	\$ -	\$ -	\$ -	\$ -	\$ -
Withdrawals:					
Revenue fund	7,980	763	598	4,638	5,525
Construction fund					33,884
Sub-total	\$ 7,980	\$ 763	\$ 598	\$ 4,638	\$ 39,409
Ending balance	\$ 108,849	\$ 108,086	\$ 107,488	\$ 102,850	\$ 63,441



Maximum Balance: 116,829      Average Balance: 97,737  
 Minimum Balance: 59,324

### Observations

- In 2008, debt service reserve sureties downgraded and JEA began replacing those downgraded sureties with cash/investments as required by the bond resolutions. Sureties of \$149.8 million are still outstanding but are not eligible to be utilized as debt service reserve deposits per the Bond Resolutions.
- 2018 Bond Resolution amendment will allow the use of \$33 million AA+ rated Berkshire Hathaway Assurance surety policy to be included in Debt Service Reserve Fund funding calculation which allowed the release of \$33.8 million to the Construction Fund.

## Water and Sewer System Renewal and Replacement (R&R) / Operating Capital Outlay (OCO)

**For the Third Quarter Ending June 30, 2020**

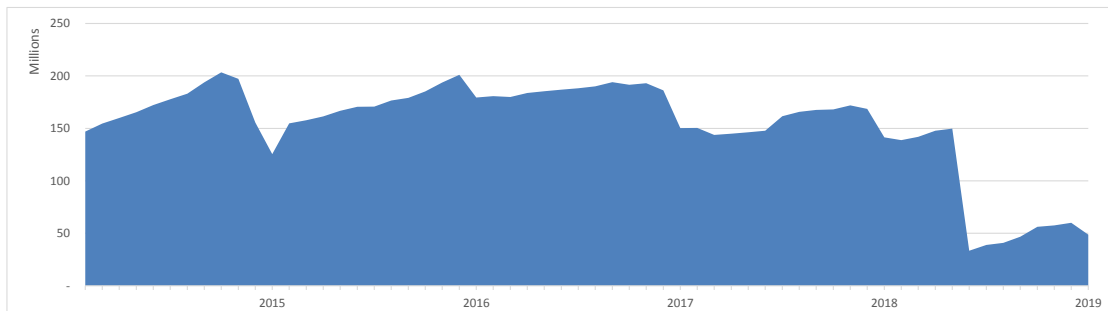
### Definitions and Goals

Pursuant to the Water and Sewer System bond resolutions and Article 21 of the City of Jacksonville Charter, JEA is required to deposit from the revenue fund annually an amount for Renewal and Replacement of system assets. According to the bond resolutions the amount is equal to the greater of 10% of the prior year defined annual net revenues or 5% of the prior year defined gross revenues. The funds shall be used for the purposes of paying the cost of extensions, enlargements or additions to, or the replacement of capital assets of the Electric System. In addition, as a portion of the base rate, JEA will recover from current revenue a formula driven amount for capital expenditures which is referred to as Operating Capital Outlay. This amount is calculated separately from the R&R deposit. In accordance with the Pricing Policy, by 2013, the objective is to fund an amount equal to all non-capacity capital expenditures with current year internally generated funds. Capacity fees are charged to customers as a one-time fee for a new connection to the Water System and a one-time fee for a new connection to the Sewer System. Capacity charges may be used and applied for the purpose of paying costs of expansion of the Water and Sewer System or paying or providing for the payment of debt that was issued for the same purpose.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	2020	2021	2022
	Opening Balance	\$ 39,370	\$ 48,796	\$ 48,796	\$ 29,693
Additions:					
R&R/OCO Contribution	47,361	138,531	169,694	164,905	187,105
Capacity Fees	7,494	23,657	31,903	31,265	33,175
Transfer from Capital Fds			-	-	-
Other		7,387	10,601	9,658	9,051
Sub-total	\$ 54,855	\$ 169,575	\$ 212,198	\$ 205,828	\$ 229,331
Withdrawals:					
Capital Expenditures	50,407	143,357	200,105	216,492	232,733
Debt Defeasance	-	31,196	31,196		
Other			-		-
Sub-total	\$ 50,407	\$ 174,553	\$ 231,301	\$ 216,492	\$ 232,733
Ending Balance	\$ 43,818	\$ 43,818	\$ 29,693	\$ 19,029	\$ 15,627

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 136,182	\$ 128,249	\$ 179,431	\$ 150,319	\$ 141,415
Additions:					
R&R/OCO Contribution	62,793	124,574	108,119	153,372	150,171
Capacity Fees	19,579	21,995	24,777	28,002	29,389
Loans betw Capital Fds	22		137		268
Other (incl septic tank)	904	31,041	8,050	6,383	16,390
Sub-total	\$ 83,298	\$ 177,610	\$ 141,083	\$ 187,757	\$ 196,218
Withdrawals:					
Capital Expenditures	91,231	126,322	165,242	196,637	189,626
Loan Repayment					99,189
Transfer to Constr. Fund		106			
Other (incl septic tank)	-	-	4,953	24	22
Sub-total	\$ 91,231	\$ 126,428	\$ 170,195	\$ 196,661	\$ 288,837
Ending balance	\$ 128,249	\$ 179,431	\$ 150,319	\$ 141,415	\$ 48,796



Maximum Balance: 203,406  
Minimum Balance: 12,847

Average Balance: 146,531

### Observations

- Other includes the Septic Tank Phase-out project, Sale of Property, and the transfer of RSF - Environmental in FY 2016 - 2025.

## Water and Sewer System - Environmental Fund [Capital Projects]

For the Third Quarter Ending June 30, 2020

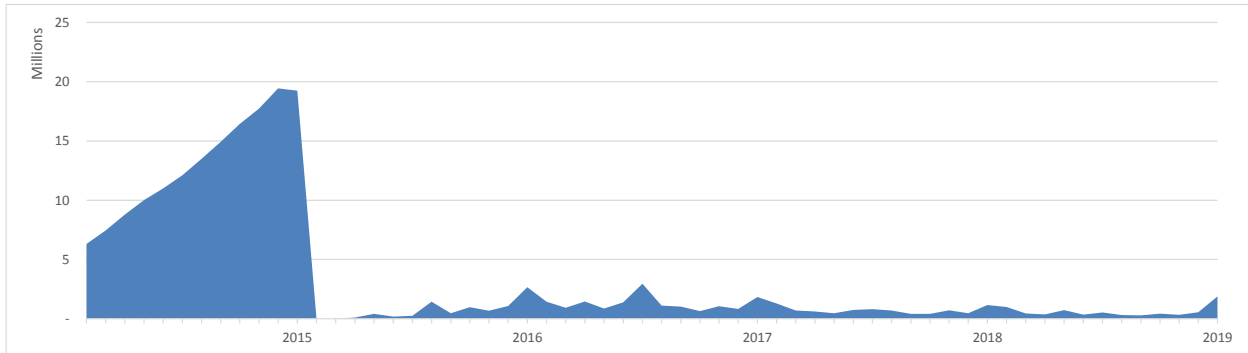
### Definitions and Goals

The Environmental Charge will be applied to all water, sewer, irrigation and non bulk user reclaimed consumption. The environmental charge revenue will be collected from customers to partially offset current and future environmental and regulatory needs as specified in the Pricing Policy for specific environmental and regulatory programs.

	Current Activity		Projected Activity		
	Quarter-End	Year-to-Date	2020	2021	2022
<i>(In Thousands)</i>					
Opening Balance	\$ 575	\$ 1,891	\$ 1,891	\$ 1,346	\$ 1,000
Additions:					
Environmental Contributions	2,189	5,174	8,119	32,600	24,372
Loans betw Capital Fds					
Other					
Sub-total	\$ 2,189	\$ 5,174	\$ 8,119	\$ 32,600	\$ 24,372
Withdrawals:					
Capital Expenditures	2,204	6,505	8,664	32,946	24,372
Other					
Sub-total	\$ 2,204	\$ 6,505	\$ 8,664	\$ 32,946	\$ 24,372
Ending Balance	\$ 560	\$ 560	\$ 1,346	\$ 1,000	\$ 1,000

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 5,299	\$ -	\$ 2,659	\$ 1,839	\$ 1,159
Additions:					
Environmental Contributions	22,056	15,539	12,394	6,691	10,656
Loans betw Capital Fds					
Other					
Sub-total	\$ 22,056	\$ 15,539	\$ 12,394	\$ 6,691	\$ 10,656
Withdrawals:					
Capital Expenditures	7,318	12,880	13,214	7,370	9,924
Septic Tank Phase Out	203				
Other	19,834			1	
Sub-total	\$ 27,355	\$ 12,880	\$ 13,214	\$ 7,371	\$ 9,924
Ending balance	\$ -	\$ 2,659	\$ 1,839	\$ 1,159	\$ 1,891



Maximum Balance: 19,439      Average Balance: 3,137  
 Minimum Balance: -

### Observations



## Water and Sewer System - Construction / Bond Fund

For the Third Quarter Ending June 30, 2020

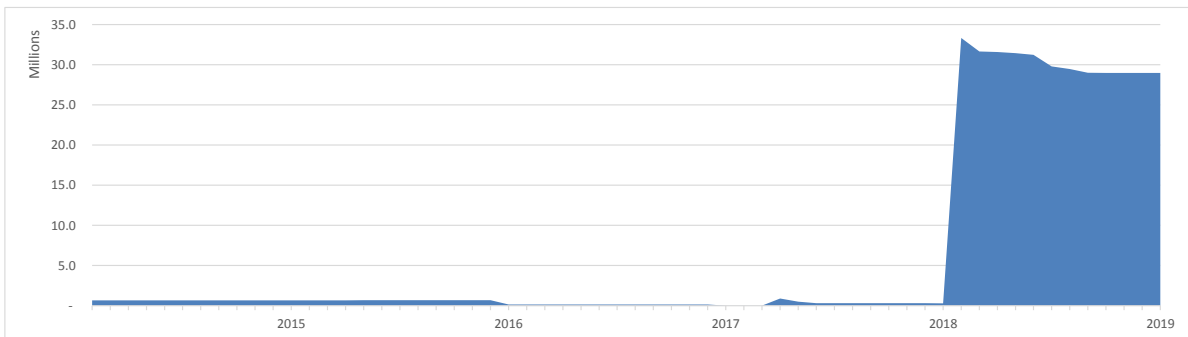
### Definitions and Goals

JEA maintains a senior and subordinated construction fund of which bonds proceeds are deposited and used for the payment of the costs of additions, extensions and improvements to the Water and Sewer System.

(In Thousands)	Current Activity		Projected Activity		
	Quarter-End	Year -to-Date	2020	2021	2022
Opening Balance	\$ 28,331	\$ 28,968	\$ 28,968	\$ 24,412	\$ 27,920
Additions:					
Bond Proceeds			-	50,000	150,000
Revolving credit facility					
Other	81	374	375		
Sub-total	\$ 81	\$ 374	\$ 375	\$ 50,000	\$ 150,000
Withdrawals:					
Capital Expenditures / Bond Issue Costs	813	1,743	4,931	46,492	123,014
Other					
Sub-total	\$ 813	\$ 1,743	\$ 4,931	\$ 46,492	\$ 123,014
Ending Balance	\$ 27,599	\$ 27,599	\$ 24,412	\$ 27,920	\$ 54,906

### Historical Activity

	2015	2016	2017	2018	2019
Opening Balance	\$ 326	\$ 664	\$ 152	\$ 15	\$ 284
Additions:					
Bond Proceeds				894	33,884
Revolving credit facility					
Loans/transfers b/w Capital Fds					
Other	344	17			
Sub-total	\$ 344	\$ 17	\$ -	\$ 894	\$ 33,884
Withdrawals:					
Capital Expenditures	6			623	4,930
Bond Proceeds					
Loans/trnsf btw CapFds					
Other		529	137	2	270
Sub-total	\$ 6	\$ 529	\$ 137	\$ 625	\$ 5,200
Ending balance	\$ 664	\$ 152	\$ 15	\$ 284	\$ 28,968



Maximum Balance: 33,333      Average Balance: 7,474  
 Minimum Balance: 15

### Observations

- JEA's philosophy has been to borrow bond funds on a "just-in-time" basis. Staff has used revolving credit facility borrowings and loans between capital funds to decrease borrowing costs. Release of Debt Service Reserve Funds in Oct 2018.



**INTER-OFFICE MEMORANDUM**

August 4, 2020

**SUBJECT: WATER/WASTEWATER COST OF SERVICE AND RATES**

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**FROM:** Paul McElroy, Interim Managing Director/CEO

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**TO:** JEA Finance and Audit Committee

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Marty Lanahan, Chair  
John Baker  
Robert Stein

**BACKGROUND:**

To align with one of the elements of the pricing policy, JEA conducts a cost of service study at a minimum of every five years to support that the rates charged by class are based on cost. The Water and Sewer Cost of Service Study was conducted by Stantec and was completed in fiscal year 2019 based upon the FY2018 budget and FY2016 billing data for allocation purposes.

**DISCUSSION:**

The results of the water and sewer system cost of service study show that JEA's revenues for the water and sewer systems, on a combined basis, are adequate to recover the System revenue requirements. There are several findings JEA is reviewing that may require board action in the future. The two elements of the Cost of Service that have a significant variance between costs and fees are Capacity Charges and Meter Tap and Set Fees.

Capacity Charges & Growth Line Extension Fees are paid by customers connecting to the system to recover the cost of constructing and expansion of the water and sewer system capacity based upon the maximum quantities of water and sewer permitted by the customers. Meter Tap and Set Fees are based upon the cost of the meter and tap materials and labor to install new metered services. The cost of service study included an evaluation of Capacity Fees compared to the cost to expand the system for new customers in order to ensure adequate cost recovery.

Annual Capacity Charges and Growth Line Extension Fees and Meter Tap and Set Fees have been averaging \$27 million and \$4 million per year respectively. Costs to build new capacity and install new connections are significantly greater than the current charges and fees.

**RECOMMENDATION:**

The Board receive the presentation for consideration and provide feedback, where staff will provide additional information and recommendations in the future. No action by the Board is required at this time.

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Paul McElroy, Interim Managing Director/CEO

PEM/BRJ/JEC

# Water/Wastewater Cost of Service and Rates

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*JEA Finance and Audit Committee Meeting*

August 14, 2020



## Water & Sewer Cost Of Service Study

To align with one of the elements of the pricing policy, JEA conducts a cost of service study at a minimum of every five years to support that the rates charged by class are based on cost. The most recent study was conducted by Stantec and completed in **Fiscal Year 2019** based on the FY2018 Budget and FY 2016 Billing Data.

The topics for today's discussion are:

1. **Revenue Requirements**
2. **Cost of Service and Class Allocations**
3. **Surplus/Deficit**
4. **Bill Comparisons**
5. **Rate Benchmarks**
6. **Capacity and Meter Set Fees**
7. **JEA Rate Making/Rate Hearing Process**

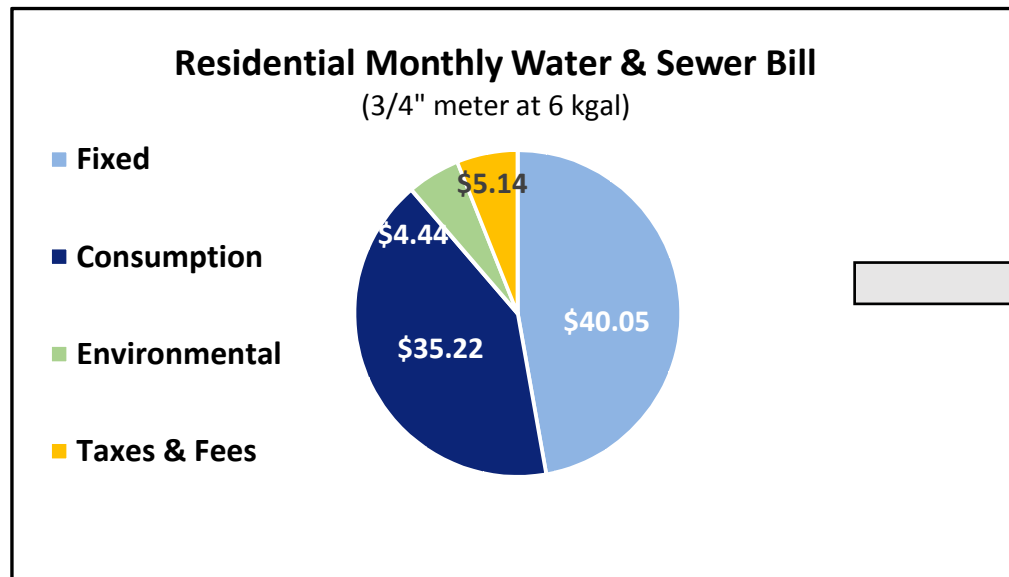


# Revenue Requirements

Revenue Requirements <u>FY2018</u> (\$ in millions)	Water	Sewer <sup>1</sup>	Total
Operating and Maintenance	\$83.8	\$120.3	\$204.1
Debt Service	53.3	67.8	121.1
Cash Funded Capital Projects	82.1	109.4	191.5
(Less) Non-Rate Revenue and Reconciling Adjustment <sup>2</sup>	(56.6)	(72.9)	(129.5)
<b>Total Rate Revenue Requirement (from Monthly Bill)</b>	<b>\$162.6</b>	<b>\$224.6</b>	<b>\$387.2</b>

1. Includes reclaimed cost directly identified and the portion of effluent disposal cost to achieve reclaimed water supply standards

2. Rate revenue requirement test year costs are based upon FY2018 Budget reconciled downward by deducting system growth, weather and contingencies based upon 2016 billing data allocations



Water	\$26.70
Sewer	53.01
Utility Charges	<b>\$79.71</b>
Taxes and Fees	5.14
<b>Total</b>	<b>\$84.85</b>

$\$79.71 \times 12 \text{ months/yr} = \sim\$950/\text{yr}$  for O&M, Renewal & Replacement (R&R), Debt Service (D/S), Environmental, City Contribution. Not for System Expansion or Growth in Capacity.

# Class Cost Allocation

Water	Unit COS	FY2016 Revenues	FY2016 Net COS	(Surplus) / Deficit	
				Amount	Percent
Residential	\$ 4.64	\$ 82,161,382	\$ 79,299,409	(\$ 2,861,972)	-3.5%
Irrigation - Residential	6.04	24,898,705	26,020,844	(1,122,138)	4.5%
Multifamily	3.14	10,539,958	12,706,318	<b>2,166,360</b>	<b>20.6%</b>
Commercial	3.08	28,015,899	28,796,254	780,355	2.8%
Irrigation - Commercial	4.67	16,121,863	15,780,004	(341,858)	-2.1%
<b>Total</b>	<b>\$ 21.57</b>	<b>\$ 161,737,807</b>	<b>\$ 162,602,829</b>	<b>\$ 865,022</b>	<b>0.5%</b>

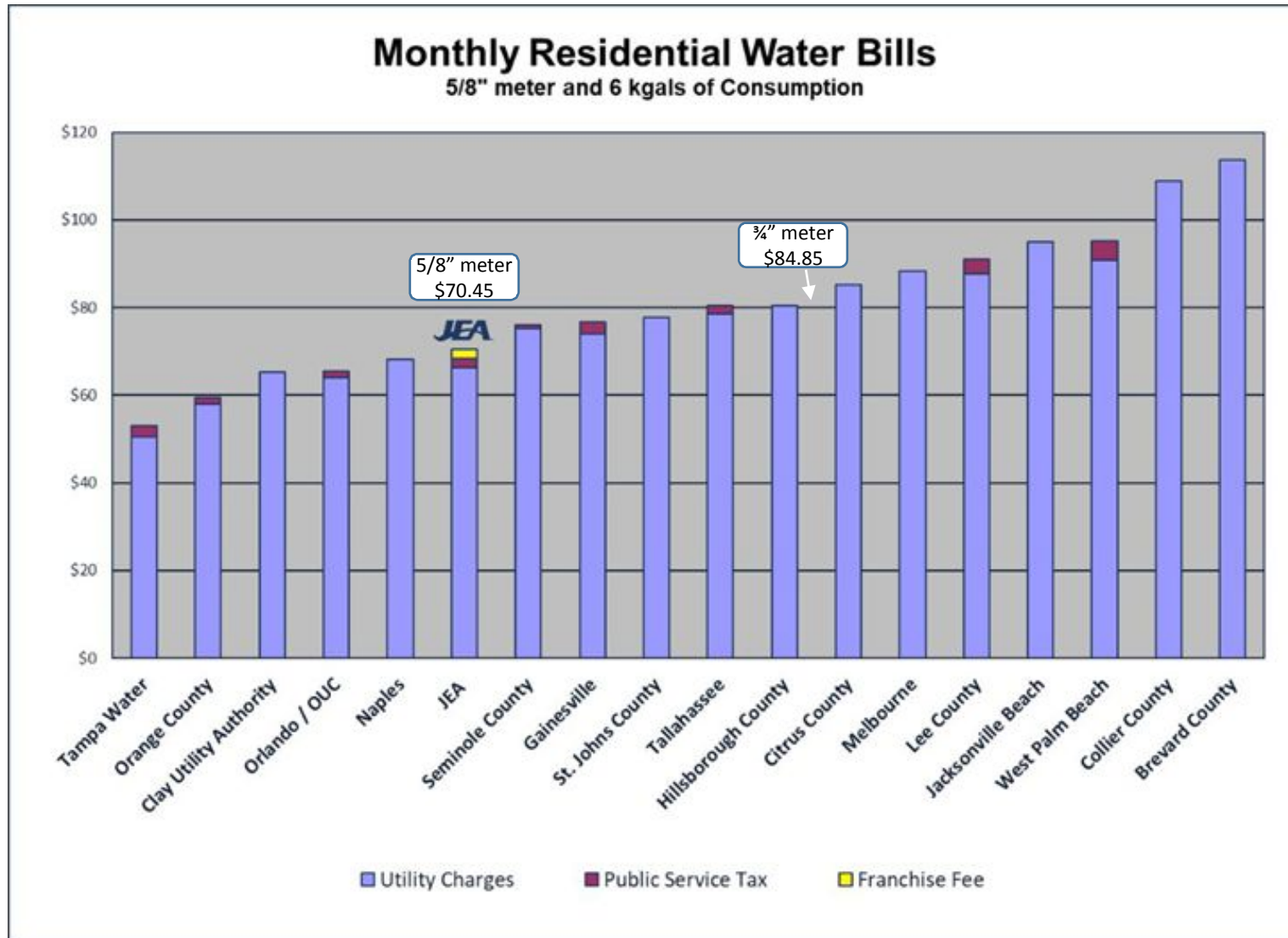
Sewer	Unit COS	FY2016 Revenues	FY2016 Net COS	(Surplus) / Deficit	
				Amount	Percent
Residential	\$ 9.13	\$ 127,383,920	\$ 127,724,626	\$ 340,706	0.3%
Multifamily	8.27	32,077,759	32,597,321	519,562	1.6%
Commercial	8.16	63,300,905	58,584,461	<b>(4,716,444)</b>	<b>-7.5%</b>
Sewer Surcharge	-	2,072,260	5,464,515	<b>3,392,256</b>	
Hauled Waste	70.03	131,816	205,602	73,786	
<b>Total</b>	<b>\$ 95.60</b>	<b>\$ 224,966,660</b>	<b>\$ 224,576,526</b>	<b>\$ (390,134)</b>	<b>-0.2%</b>

The **\$387 million** represents the FY16 revenues excluding environmental charges and capacity related fees. The cost of service indicates that Multifamily Water and Sewer Surcharge were under-collected in FY2016, and Commercial Sewer was over-collected in FY2016, with other customer classes adequately within a +/- 5% variance.



Building Community

# Rate Benchmarks



JEA currently has approximately 120,000 5/8" meters and 160,000 3/4" meters

### How is Capital Outlay for growth collected for each system?

#### For Electric System:

The costs of electric system infrastructure are recovered through the basic monthly charges and the per kWh consumption charge.

#### For Water & Sewer System:

**On-Site:** by Developer

**Off-Site direct extension:** by Developer

**Off-Site joint use:** by JEA through Capacity Fees



**Capacity Fees** are one-time fees paid by new customers connecting to the system to recover the cost of water and sewer system capacity expansion. The charges are also assessed to existing customers requiring increased system capacity.





# Capacity Fee

## Equivalent Residential Connection (ERC)

### Current JEA Capacity Fees

\$/gal

**\$0.97      \$3.64      \$0.97**

	Water	Sewer	Reclaimed	Total
<b>Residential Home</b>				
<b>Without Reclaimed</b>	\$340	\$1,274	-	<b>\$1,614</b>
<b>With Reclaimed</b>	\$340	\$1,274	\$340	<b>\$1,953</b>

**Growth Line Extension Fee + \$1,695**

### JEA Plant Expansion Cost

Estimated cost in FY2021 \$/gal

**\$4      \$15      \$3**

	Water	Sewer	Reclaimed	Total
<b>Residential Home</b>				
<b>Without Reclaimed</b>	\$1,400	\$3,000	-	<b>\$4,400</b>
<b>With Reclaimed</b>	\$800	\$3,000	\$1,260	<b>\$5,060</b>

2.7x

2.6x

**Growth Line Extension Fee + \$1,695**

**\$6,755**

#### Qualifying expenditures for Capacity fees include:

- 1) Treatment plants and capacity expansion
- 2) Treatment plant configuration
- 3) Wastewater master pump stations and force mains directly upstream of the wastewater plant

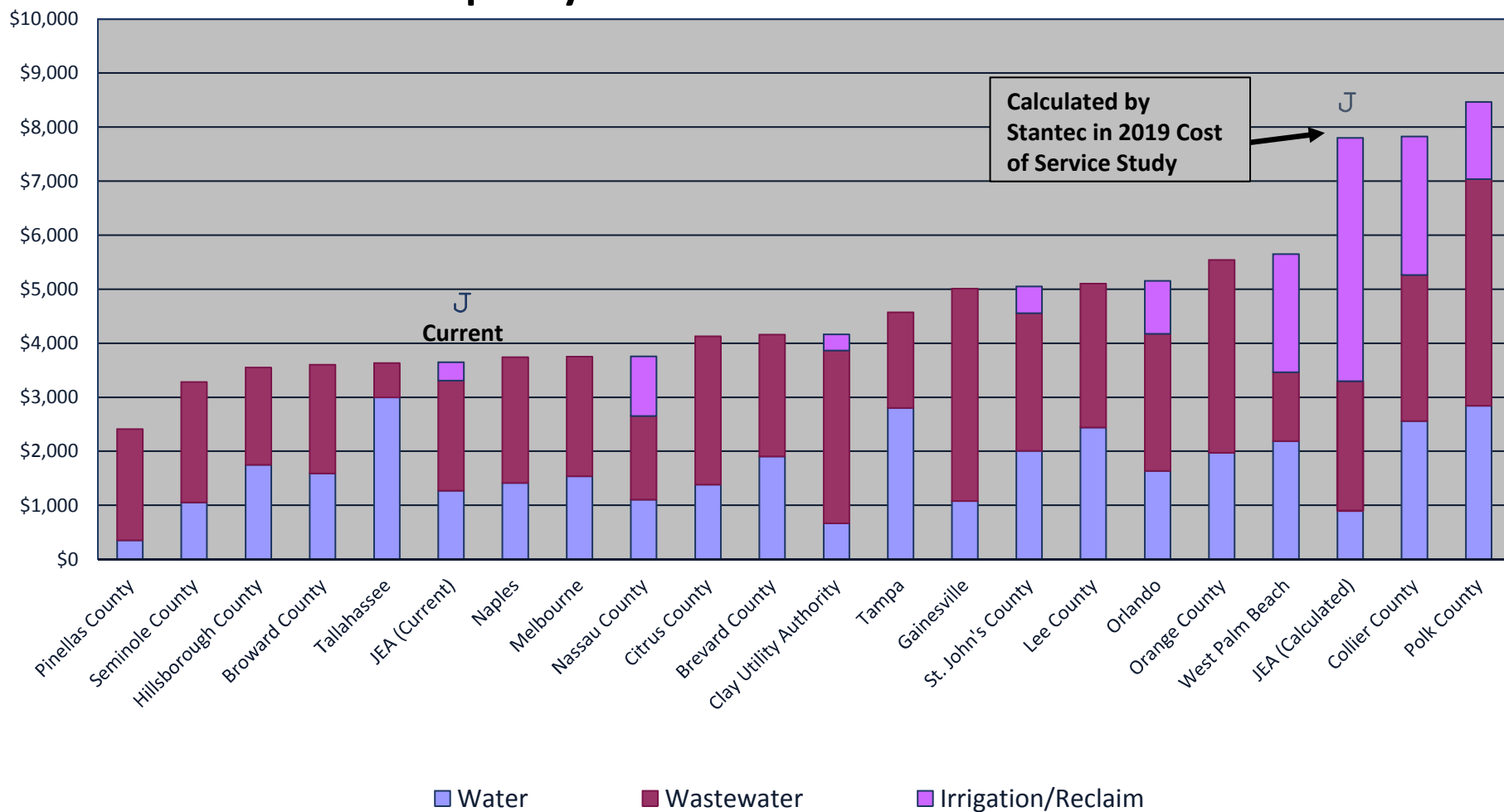
#### Expenditures for Growth Line Extension fees include:

- 1) Water mains greater than or equal to 10" in diameter
- 2) Water re-pump stations
- 3) Remote storage facilities
- 4) Force mains greater than or equal to 10" in diameter
- 5) Interceptor (trunk) gravity lines

- The 2019 Cost of Service calculated a **\$7,798** fee for a Residential ERC with Reclaimed Irrigation service.
- JEA will engage the rate consultant to update the Capacity Fee element of the cost of service analysis to reflect 2020 actual cost and FY21-25 CIP project cost estimates.

# ¾" Capacity Charge Comparison

## Water / Wastewater and Irrigation/Reclaim Capacity Fees for New ¾" Connection



# Current Meter Tap and Set Fees


**Meter and Tap Fees** are paid by customers connecting to the system to recover the cost of the meter and tap materials and labor to sufficiently serve the maximum quantities of water and sewer permitted by the customers.

The associate costs includes, but not limited to, meters, modules, cable, piping and outdoor casing.

For ¾ inch Meter & 1" Tap		
Components	Cost	Current Fee
Meter	\$105	
Module	\$130	
Cable	\$30	
Labor	\$40	
<b>Set Estimate Total</b>	<b>\$305</b>	<b>\$202.33</b>

Lid & Box	\$65	
Other Materials	\$135	
Site Rehabilitation	\$550	
Labor & Equipment	\$450	
<b>Tap Estimate Total</b>	<b>\$1,200</b>	<b>\$610</b>

- In the past year, approximately 10,000 “pre-pave” meter sets were installed by JEA where the developer previously installed the water service line and meter box. These 10,000 new meter installs were under-collected by approximately \$100 each.
- Additionally, approximately 800 taps were installed by JEA with an estimated \$600 under-collection of costs.
- JEA is under-collecting an approximately **\$1.5M annually on ¾” meter sets and taps alone.**

- Cost of Service overview at Finance and Audit Committee meeting 
- Confirm Benchmark comparisons with other comparable utilities
- Capacity Fee Analysis updated for FY2021-FY2025 Capital Costs
- Met Set and Tap Fees Costs determined for FY2021
- Board discussion
- Outreach/communication
- Staff recommendations for Board consideration
- Public Rate Hearing at a Board meeting for BOD action



**INTER-OFFICE MEMORANDUM**

July 28, 2020

**SUBJECT: PRELIMINARY FIVE-YEAR FINANCIAL PROJECTIONS**

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**FROM:** Paul McElroy, Interim Managing Director/CEO

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**TO:** JEA Finance and Audit Committee

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Marty Lanahan, Chair  
John Baker  
Robert Stein

**BACKGROUND:**

Each year, JEA presents the Five-Year Financial Projections to the Finance and Audit Committee and the Board of Directors to establish revenue and expense expectations and the resulting metrics used to evaluate financial health. Members of the Board and Executive Management then meet with Rating Agencies to provide an update of the current and projected financial state of JEA. The Five-Year Financial Projections are an essential component of the Rating Agency presentations that significantly influences the bond ratings, efficient access to capital markets, and customer rates.

**DISCUSSION:**

JEA's Five-Year Financial Projections are centered on the following:

- Stable electric unit sales and growth in the water/wastewater system
- Lower fuel costs associated with adding Vogtle and 250 MWs of solar in the generating fleet, additional operating efficiencies with the 200 MW Purchase Power Agreement in conjunction with Plant Scherer Unit 4 closure, as well as favorable commodity markets
- Additional net revenue requirements in FY2023 – FY2025
- New debt to support a robust capital program
- Stable with slight variances in O&M, Debt Service and City Contribution expenditures
- Stable financial metrics to support JEA's current Credit Ratings.

Staff is actively monitoring JEA's unhedged variable rate debt portfolio of \$340 million.

The Five-Year Financial Projections with moderate additional revenue requirements illustrate a strong financial outlook with favorable debt service coverage metrics, debt to asset ratios that achieve peer median, and liquidity metrics that surpass targets and support strong credit ratings. The Five-Year Financial Projections uphold the objectives to maintain long-term Competitive Rates, Operational Excellence, and Environmental Stewardship, while improving overall Customer Experience.

**RECOMMENDATION:**

The Board receive the presentation for consideration and provide Staff feedback and direction regarding the FY2021 – FY2025 Financial Assumptions and Projections.

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Paul McElroy, Interim Managing Director/CEO

PEM/BRJ/JEC



Building Community<sub>sm</sub>

## Five-Year Financial Assumptions and Projections

JEA Finance and Audit Committee Meeting

August 14, 2020

### **Assumptions/Projections**

1. Unit Sales Growth
2. Residential Rates
3. Capital Expenditures and Internal Funding
4. Total Debt and Variable Debt
5. Key Financial Metrics
6. Financial Schedules
7. Summary



# Unit Sales Growth

## FY2021 – FY2025 Financial Assumptions and Projections

### Electric System

- Trends: 3.6%, 2.0%, (0.6%)
- FY21-25: 0% annual growth

#### Unit Sales Driver

	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>
Growth	(4.1%)	2.6%	0.0%
Deg Days	3,737	4,256	4,294
30-yr Avg			4,014

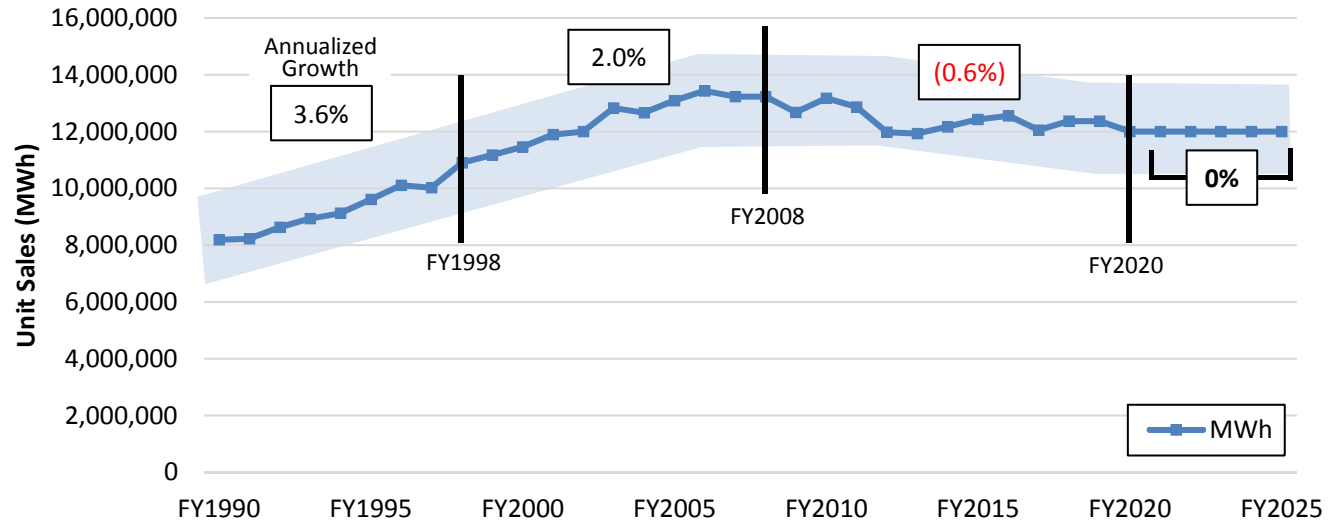
### Water/Wastewater

- Trends: 3.4%, 4.4%, (0.4%)
- FY21-25: 1.5% annual growth

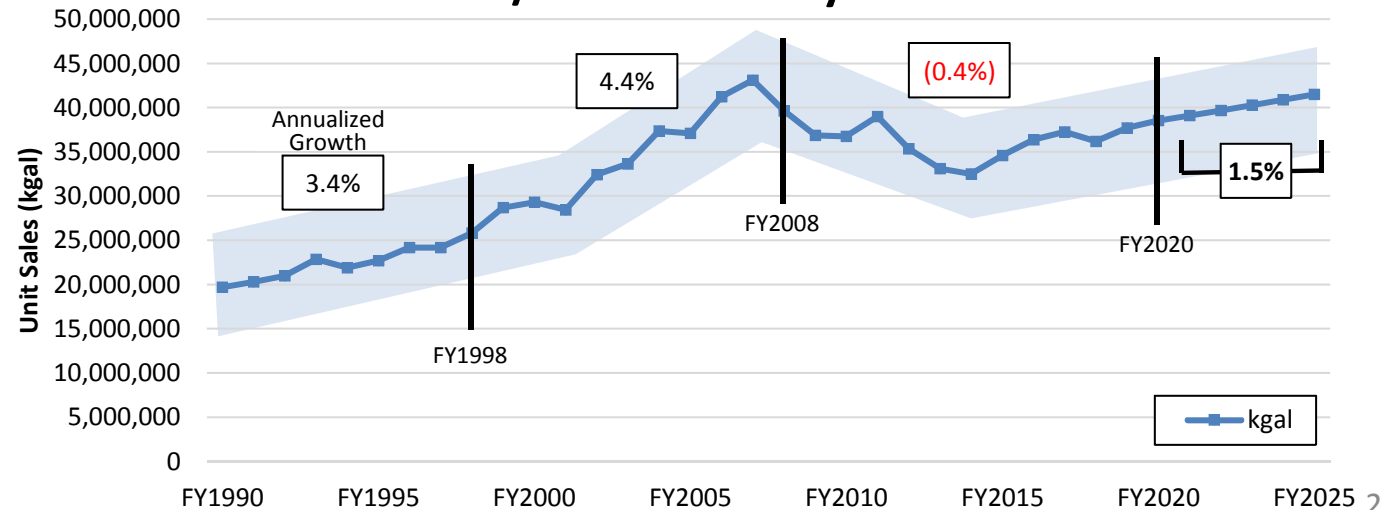
#### Unit Sales Driver

	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>
Growth	2.4%	(2.8%)	4.2%
Rainfall"	98	120	123
30-yr Avg			114

### Electric System



### Water/Wastewater System





# Residential Customer Rates

## FY2021 – FY2025 Financial Assumptions and Projections

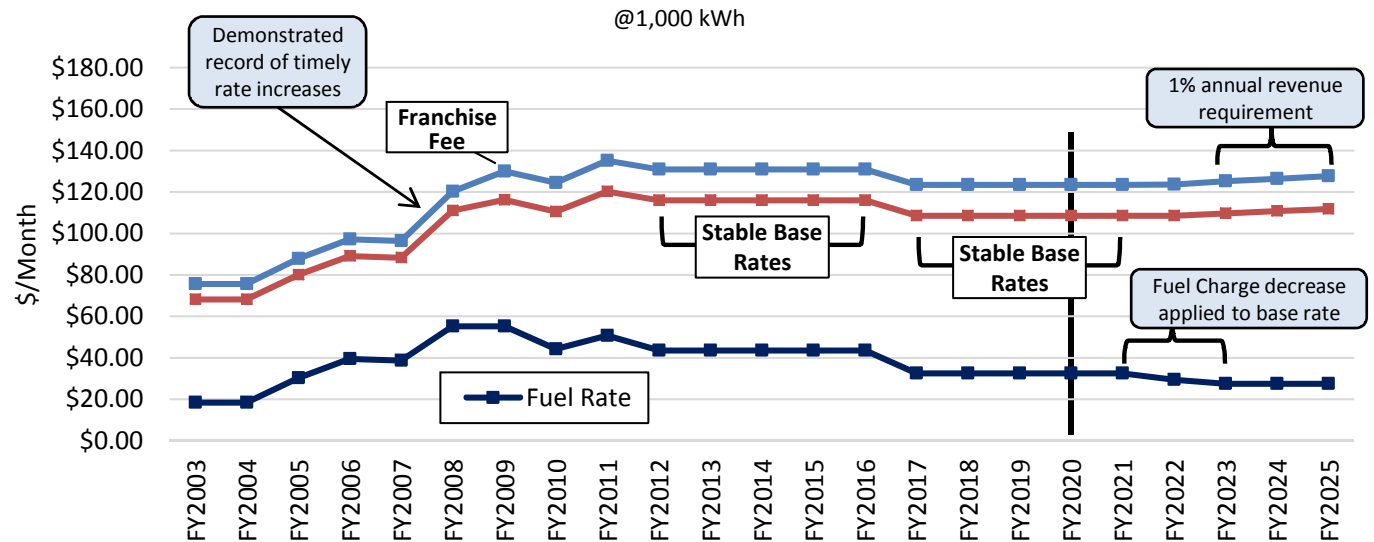
### Electric System

- Total rate has been stable or lower since Oct 1, 2010
- FY23 Fuel/Base Rate Adjustment incorporates Vogtle and 250 MWs solar favorable Fuel expenses and higher base charges
- Annual revenue requirement of approximately 1% in FY23 – FY25
- Environmental regulations, if material, will be recovered via Environmental Charge

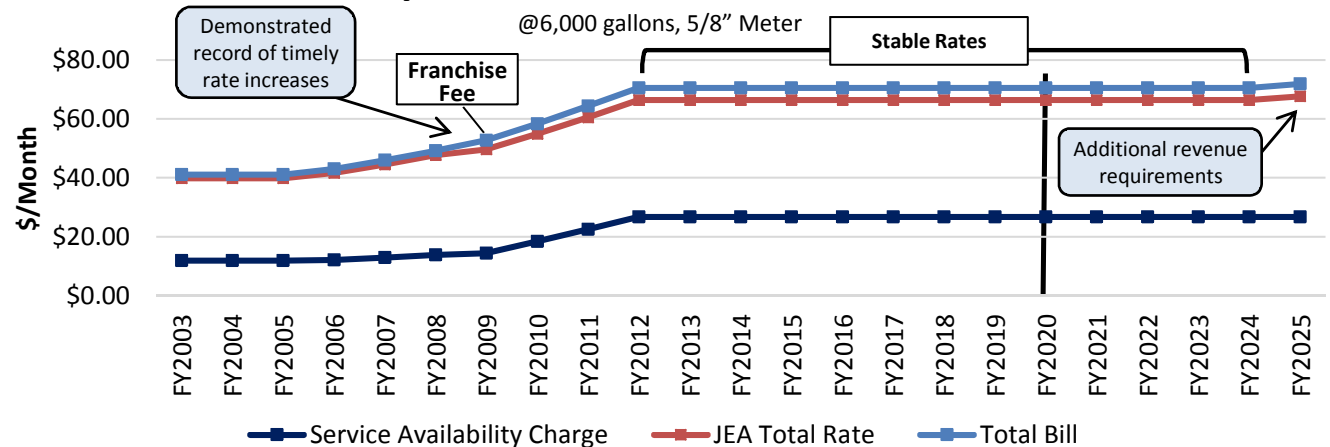
### Water/Wastewater System

- Rates have been stable since Oct 1, 2012
- Environmental regulations, if material, will be recovered via Environmental Charge

### Electric Residential Rates



### Water/Wastewater Residential Rates







# Capital Expenditures and Internal Funding FY2021 – FY2025 Financial Assumptions and Projections

## Pricing Policy

- Recurring capital projects funded from current year revenues

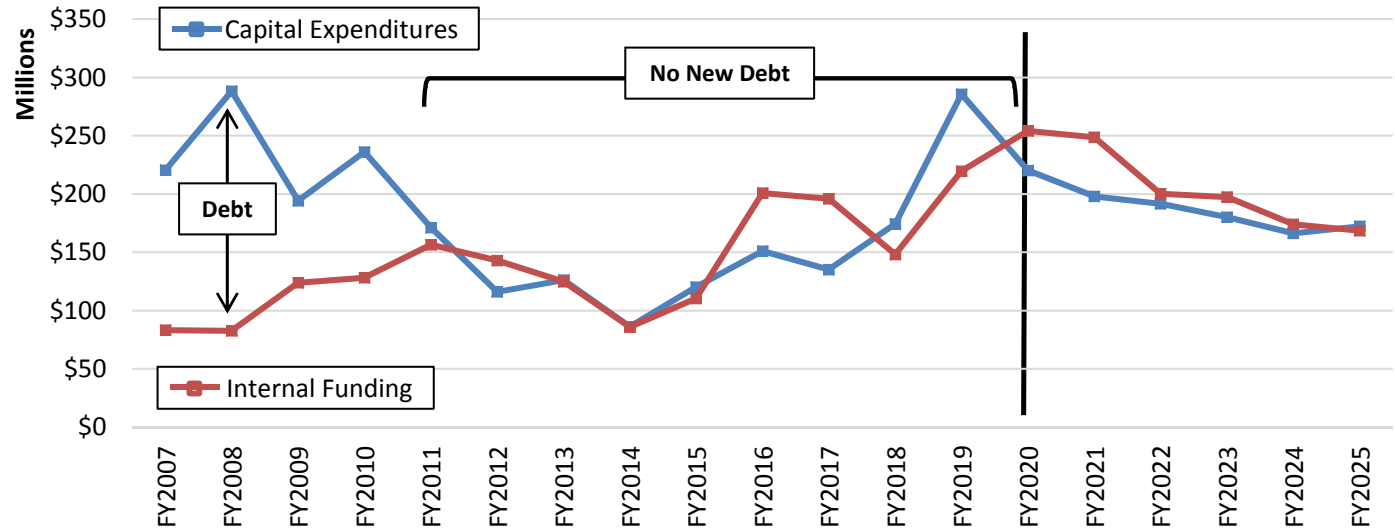
## FY2015 – FY2019

- Major projects included Brandy Branch Combined Cycle Upgrade & Two-Way Electric Meter Conversion, Blacksford Water Reclamation Facility Expansion, NW Water Treatment Plant

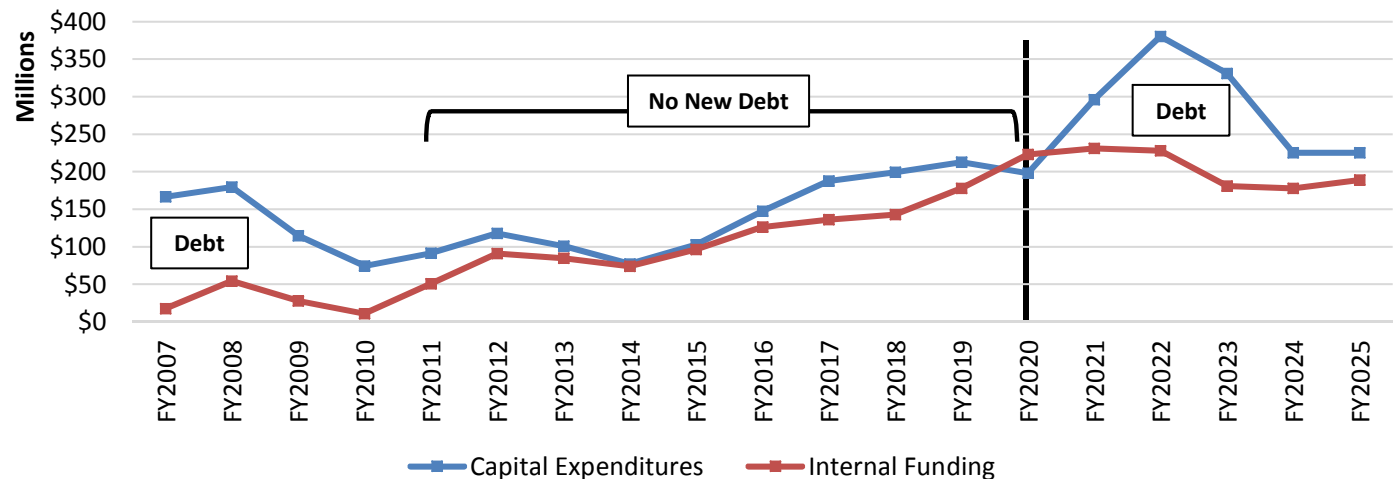
## FY2020 – FY2025

- Debt issuance projected to be \$400M from FY21 – FY24 primarily for wastewater treatment plant and raw water transmission main expansion

## Electric System



## Water/Wastewater System





# Total Debt and Variable Debt

## FY2021 – FY2025 Financial Assumptions and Projections

### Electric System

- \$100M new debt by FY25
- \$400M bond buyback FY21-FY25
- Variable Debt at \$587M
- Total Debt reduced to \$1.4B
- Debt/Asset: FY 2025 projected @ 46%, under 50% JEA target and equals 46% peer average

### Water/Wastewater

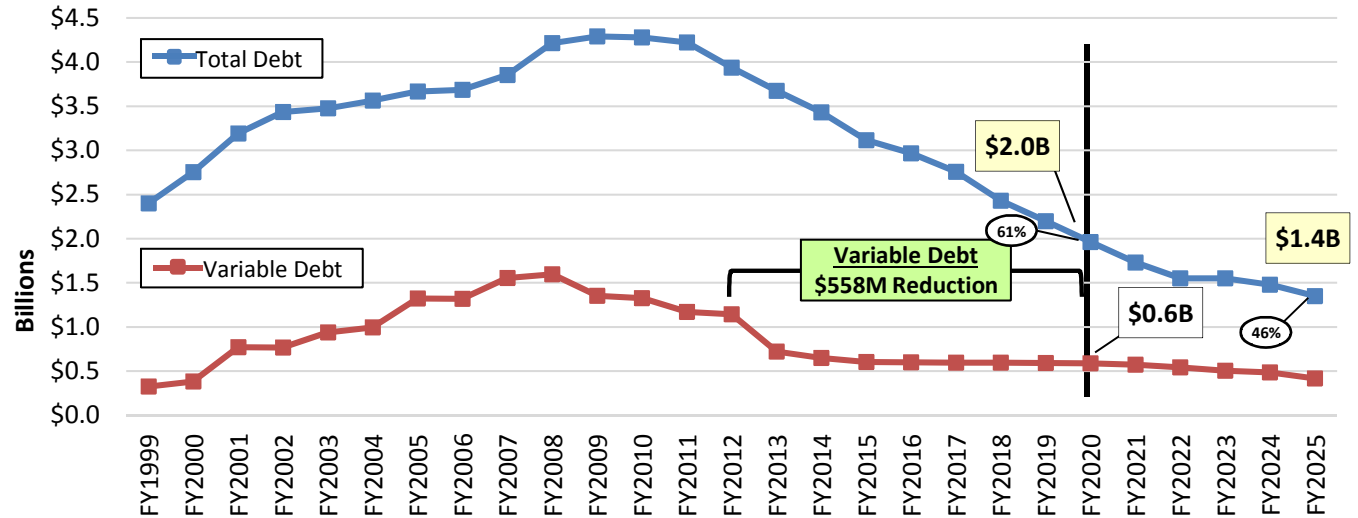
- \$400M new debt by FY25
- Variable debt at \$264M
- Total Debt increases to \$1.5B with \$1.45B five-year CAPEX
- Debt/Asset in low 40%

### Variable Interest Rates<sup>2</sup>

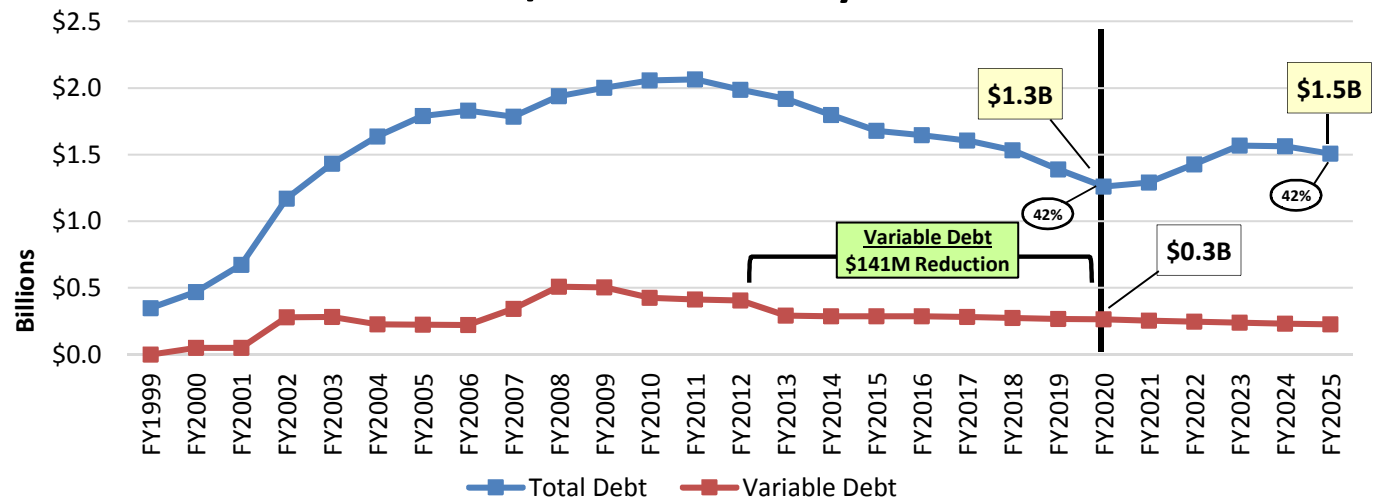
FY20	FY21	FY22	FY23
1.5%	2.0%	3.0%	3.0%

Current variable rates at 0.75%

### Electric System<sup>1</sup>



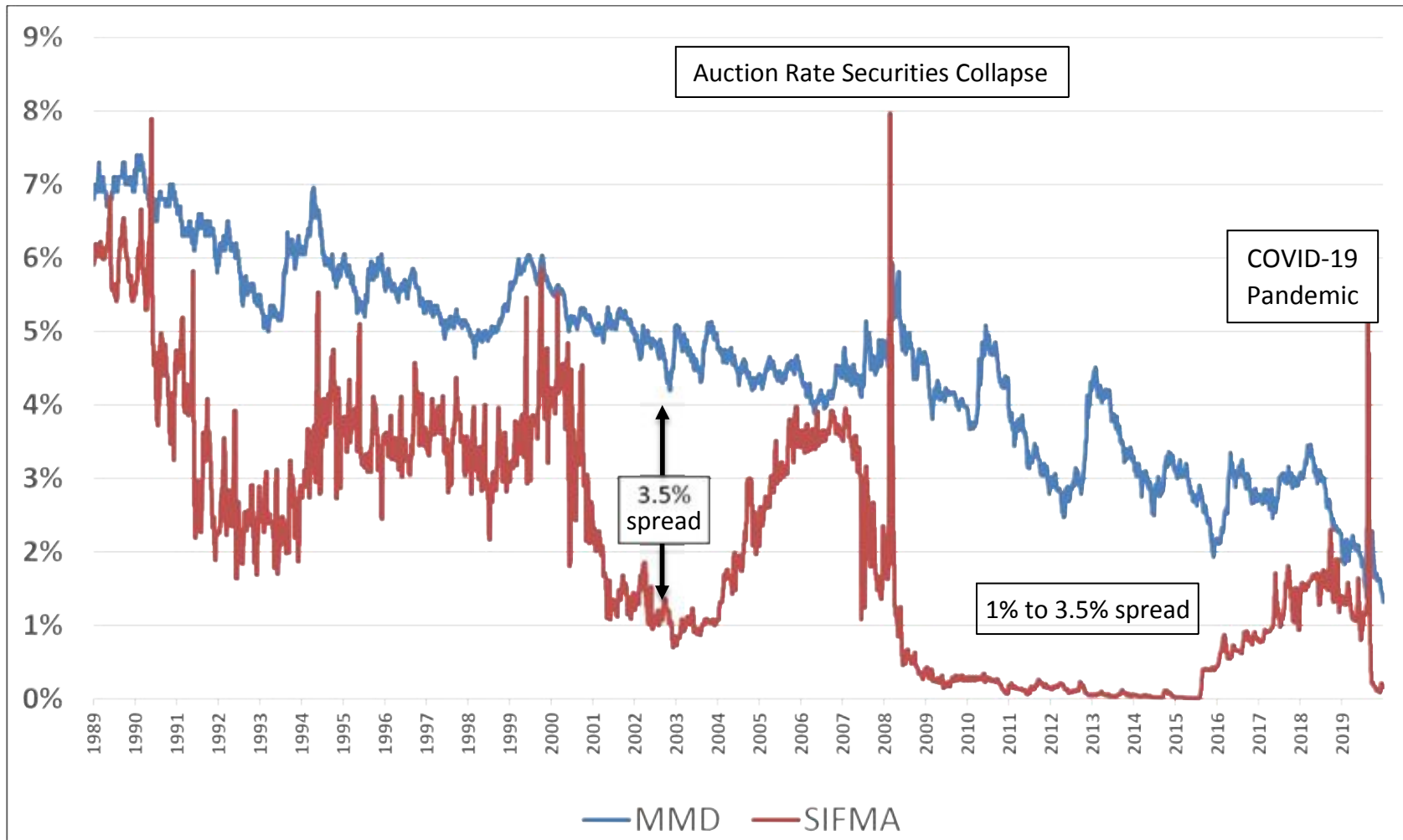
### Water/Wastewater System



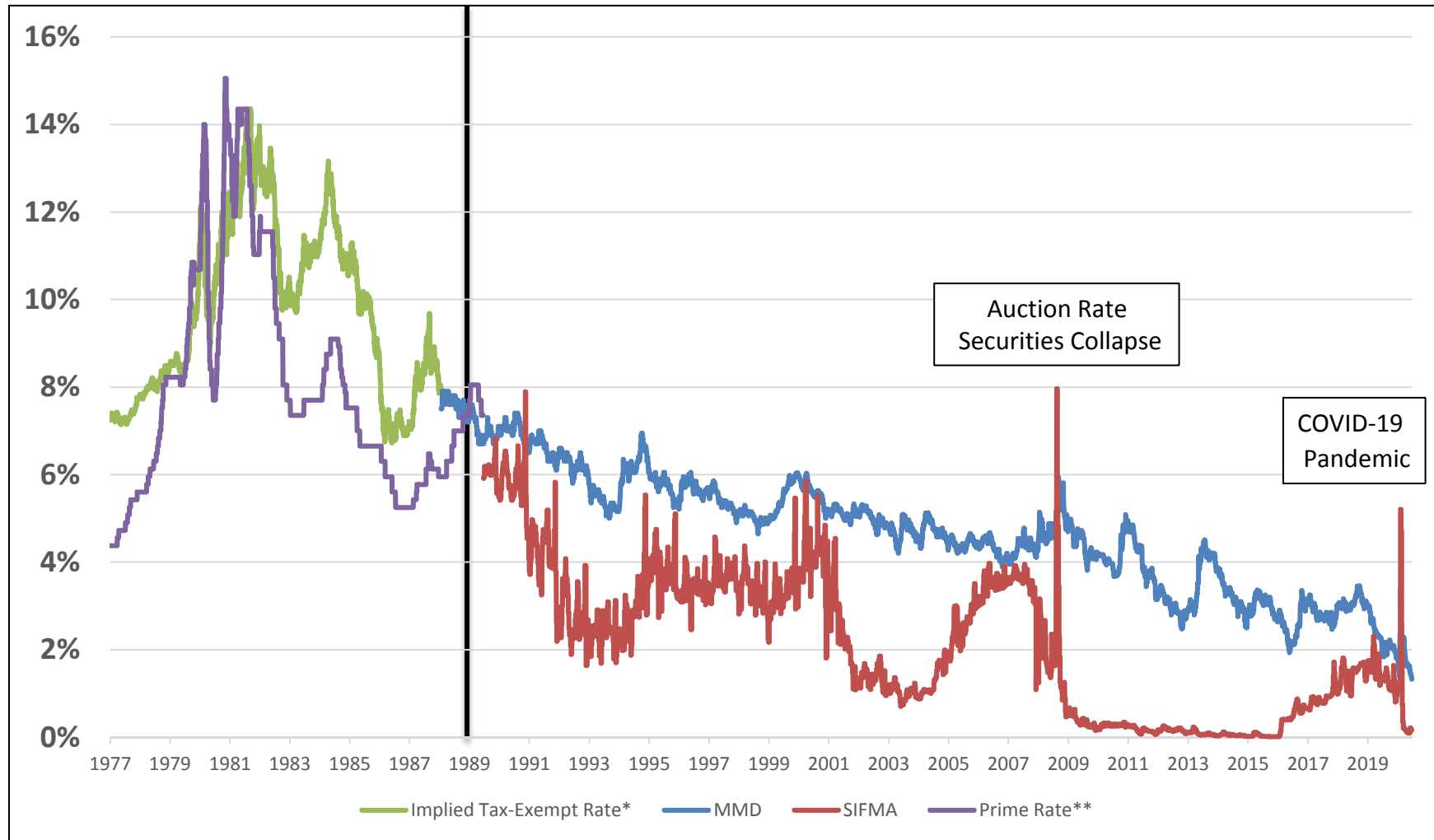
<sup>1</sup> Includes JEA's portion of SJRPP and Plant Scherer Debt.

<sup>2</sup> All-in interest cost

## 30 Year MMD and SIFMA Rate History (August 1989 – August 2020)



## 30 Year MMD and SIFMA Rate History (February 1977 – August 2020)



\*The Implied Tax-Exempt Rate takes the historical 30 Year MMD/Treasury ratio from 1988 to 2020 (0.944004) and multiplies it by the respective time period's 30 Year Treasury Rate

\*\*The Prime Rate shown reflects 70% of the original Prime Rate.

## JEA Unhedged Variable Rate Debt Portfolio

June 30, 2020 (\$ amounts in millions)	Electric System	Water & Sewer System	Total
Total variable rate debt	\$587	\$264	\$851
Unhedged variable rate debt	<b>\$181</b>	<b>\$160</b>	<b>\$341</b>
Current all-in variable rate	0.75%	0.70%	
Current all-in fixed rate	2.00%	2.50%	
Weighted average life (years)	10	15	
Final maturity	2040	2042	

*Treasury Staff will continue to monitor JEA's unhedged variable rate debt portfolio and the relationship between fixed and variable interest rates*

- ❑ Analysis utilizes all-in fixed rates of 2.00% for the Electric System and 2.50% for the Water & Sewer System
- ❑ JEA's variable rate bonds are remarketed at rates approximating the SIFMA index; SIFMA has averaged 0.53% and 1.28% for the past 10 and 20 years, respectively
- ❑ Based on the current fixed rates, the breakeven all-in variable interest rate is 2.25%
- ❑ A 1% increase in this rate would result in an NPV cost of about \$29 million
- ❑ Cost to fix out unhedged variable rate debt would currently total about \$5 million annually



# Key Financial Metrics

FY2021 – FY2025 Financial Assumptions and Projections

## Electric System

- FY20-FY25 favorable coverage from prior targeted bond buyback
- Debt / Asset % makes significant reduction with projected ~400M bond buyback FY21-FY25, reaching median peer benchmark of 46% in FY25

## Water/Wastewater

- FY20-FY25 favorable coverage
- Debt/Asset % maintained below 49% peer median benchmark, including \$400M new debt
- \$1.45B CAPEX is a major variable in the five-year projection

## Electric System

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	JEA Target
DS Coverage	2.8x	4.3x	4.0x	3.9x	5.0x	4.2x	4.0x	2.2x - 2.5x
Fixed Charge Coverage	2.0x	2.7x	2.4x	2.0x	1.9x	1.7x	1.7x	1.6x
Days Liquidity	308	344	314	302	317	306	276	150 to 250 days
Debt / Asset %	65%	61%	55%	50%	52%	50%	46%	50%
CAPEX (\$M)	\$286	\$220	\$198	\$191	\$180	\$166	\$172	
Depreciation (\$M)	\$207	\$206	\$206	\$213	\$220	\$224	\$224	

## Water/Wastewater System

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	JEA Target
DS Coverage	3.0x	4.6x	5.4x	4.8x	2.7x	2.7x	2.8x	1.8x to 2.0x
Fixed Charge Coverage	2.7x	4.2x	5.0x	4.4x	2.5x	2.4x	2.6x	N/A
Days Liquidity	334	347	320	336	334	337	281	100 days
Debt / Asset %	45%	42%	42%	44%	45%	44%	42%	50%
CAPEX (\$M)	\$213	\$198	\$296	\$380	\$331	\$225	\$225	
Depreciation (\$M)	\$152	\$159	\$160	\$166	\$172	\$180	\$186	



# Electric System

## FY2021 – FY2025 Preliminary Financial Assumptions and Projections

(\$ in millions)	Actual			Projected					
	2017	2018	2019	2020	2021	2022	2023	2024	2025
Unit Sales - Territorial (1000 MWh)	12,050	12,364	12,366	12,000	12,000	12,000	12,000	12,000	12,000
<b>Total System Rate Revenues % Change</b>				0%	0%	0%	1%	1%	1%
Fuel Rate in Model \$/MWh	\$33.21	\$32.50	\$32.50	\$32.50	\$32.50	\$29.50	\$27.50	\$27.50	\$27.50
<b>Fuel Rate Revenues</b>	<b>\$394</b>	<b>\$398</b>	<b>\$399</b>	<b>\$362</b>	<b>\$386</b>	<b>\$350</b>	<b>\$326</b>	<b>\$326</b>	<b>\$326</b>
<b>Fuel Rate Revenue Change \$</b>				\$0	\$0	(\$36)	(\$24)	\$0	\$0
<b>System Sales Base Rate Revenues</b>	<b>\$742</b>	<b>\$764</b>	<b>\$766</b>	<b>\$745</b>	<b>\$745</b>	<b>\$745</b>	<b>\$781</b>	<b>\$816</b>	<b>\$827</b>
<b>Additional Base Rev Requirements/Exp Reduction \$</b>				\$0	\$0	\$36	\$35	\$11	\$12
Environmental Charge Revenues	\$7	\$8	\$8	\$7	\$7	\$7	\$7	\$7	\$7
Conservation Charge Revenues	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Other Revenues <sup>1</sup>	\$103	\$37	\$150	\$59	\$185	\$133	\$68	\$68	\$107
<b>Total Revenues</b>	<b>\$1,247</b>	<b>\$1,208</b>	<b>\$1,323</b>	<b>\$1,175</b>	<b>\$1,324</b>	<b>\$1,272</b>	<b>\$1,219</b>	<b>\$1,230</b>	<b>\$1,280</b>
Fuel & Purchased Power Expense	\$443	\$456	\$426	\$328	\$349	\$338	\$327	\$324	\$325
Transfer to/(from) Fuel Stabilization Fund	(\$48)	(\$57)	(\$27)	\$34	\$37	\$12	(\$1)	\$2	\$2
O&M (Excludes DSM, Environmental)	\$191	\$198	\$209	\$221	\$236	\$243	\$252	\$257	\$263
Non-Fuel Purchased Power (NFPP) - Nuclear	\$0	\$40	\$18	\$0	\$0	\$103	\$156	\$166	\$169
Non-Fuel Purchased Power (NFPP) - Other	\$76	\$101	\$83	\$76	\$68	\$62	\$62	\$63	\$63
<b>Net Revenues</b>	<b>\$585</b>	<b>\$471</b>	<b>\$615</b>	<b>\$515</b>	<b>\$634</b>	<b>\$514</b>	<b>\$422</b>	<b>\$418</b>	<b>\$460</b>
Total Debt Service	\$225	\$215	\$199	\$135	\$131	\$111	\$83	\$95	\$99
Bond Buyback - Electric System <sup>1</sup>	\$69	\$0	\$109	\$54	\$50	\$22	\$34	\$35	\$77
Bond Buyback - SJRPP & Scherer <sup>1</sup>	\$0	\$0	\$0	\$0	\$102	\$75	\$0	\$0	\$0
R&R and Other Capital Outlay (OCO)	\$196	\$148	\$198	\$241	\$234	\$194	\$192	\$174	\$169
Environmental OCO	\$0	\$0	\$22	\$13	\$14	\$6	\$6	\$0	\$0
City Contribution	\$92	\$92	\$93	\$94	\$95	\$96	\$97	\$98	\$99
Other Expenses	\$3	\$16	(\$5)	(\$22)	\$7	\$11	\$11	\$17	\$17
<b>Balance</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Beginning Capital Balance</b>	<b>\$192</b>	<b>\$201</b>	<b>\$190</b>	<b>\$82</b>	<b>\$103</b>	<b>\$112</b>	<b>\$123</b>	<b>\$209</b>	<b>\$183</b>
Pay Go Current Year Internal Funding	\$196	\$148	\$198	\$241	\$234	\$194	\$192	\$174	\$169
Environmental OCO	\$0	\$0	\$22	\$13	\$14	\$6	\$6	\$0	\$0
Debt Issuance Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$100	\$0	\$0
<Annual CAPEX>	(\$135)	(\$174)	(\$286)	(\$220)	(\$198)	(\$191)	(\$180)	(\$166)	(\$172)
Other	(\$52)	\$15	(\$42)	(\$13)	(\$42)	\$2	(\$31)	(\$34)	(\$77)
<b>Ending Capital Balance</b>	<b>\$201</b>	<b>\$190</b>	<b>\$82</b>	<b>\$103</b>	<b>\$112</b>	<b>\$123</b>	<b>\$209</b>	<b>\$183</b>	<b>\$103</b>

<sup>1</sup>Note: Other Income on budget basis on this schedule includes prior year balances, stabilization funds utilized for bond buy back



# Water/Wastewater System

FY2021 – FY2025 Preliminary Financial Assumptions and Projections

(\$ in millions)	Actual			Projected					
	2017	2018	2019	2020	2021	2022	2023	2024	2025
Unit Sales – Water (mgals)	37,245	36,187	37,696	38,514	39,092	39,678	40,273	40,877	41,491
Unit Sales – Sewer (mgals)	26,713	29,460	27,727	28,067	28,243	28,667	29,097	29,533	29,976
<b>Rate Revenue % Change</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>2%</b>
System Sales Revenues	\$400	\$398	\$418	\$423	\$432	\$441	\$450	\$459	\$478
Revenue Requirements/Expense Reduction \$	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$10
Environmental Charge Revenue	\$24	\$24	\$25	\$27	\$26	\$27	\$27	\$28	\$28
Capacity Charges	\$25	\$28	\$29	\$32	\$31	\$33	\$36	\$36	\$36
Other Income <sup>1</sup>	\$18	\$43	\$153	\$51	\$14	\$14	\$14	\$14	\$15
<b>Total Revenues</b>	<b>\$468</b>	<b>\$493</b>	<b>\$625</b>	<b>\$532</b>	<b>\$503</b>	<b>\$514</b>	<b>\$527</b>	<b>\$537</b>	<b>\$557</b>
O&M	\$139	\$147	\$158	\$170	\$177	\$183	\$188	\$194	\$200
<b>Net Revenues</b>	<b>\$328</b>	<b>\$346</b>	<b>\$467</b>	<b>\$363</b>	<b>\$327</b>	<b>\$331</b>	<b>\$339</b>	<b>\$343</b>	<b>\$357</b>
Total Debt Service	\$120	\$118	\$121	\$77	\$65	\$74	\$127	\$134	\$137
Bond Buyback <sup>1</sup>	\$6	\$0	\$99	\$48	\$0	\$0	\$0	\$0	\$0
R&R and OCO	\$141	\$188	\$198	\$208	\$216	\$214	\$166	\$163	\$173
Environmental OCO	\$15	\$14	\$13	\$15	\$15	\$15	\$15	\$16	\$16
City Contribution	\$24	\$25	\$40	\$27	\$27	\$28	\$28	\$29	\$30
Other Expenses	(\$6)	\$1	(\$4)	(\$12)	\$3	\$2	\$2	\$2	\$2
<b>Balance</b>	<b>\$28</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Debt Service Coverage (Target 1.8x - 2.0x)</b>	<b>2.99 x</b>	<b>2.79 x</b>	<b>3.02 x</b>	<b>4.60 x</b>	<b>5.39 x</b>	<b>4.80 x</b>	<b>2.74 x</b>	<b>2.65 x</b>	<b>2.79 x</b>
Days Cash	496	434	186	161	162	184	186	193	140
Days Liquidity (Target > 100 days)	596	527	334	318	320	336	334	337	281
Debt to Asset Ratio (Target 50%)	52.9%	49.5%	44.8%	42.0%	41.9%	43.8%	44.5%	43.8%	41.8%
Total Debt (in billions)	\$1.61	\$1.53	\$1.39	\$1.29	\$1.32	\$1.46	\$1.59	\$1.58	\$1.52
<b>Beginning Capital Fund Balance</b>	<b>\$181</b>	<b>\$155</b>	<b>\$154</b>	<b>\$64</b>	<b>\$63</b>	<b>\$63</b>	<b>\$79</b>	<b>\$83</b>	<b>\$91</b>
Pay Go Current Year Internal Funding	\$156	\$202	\$211	\$223	\$231	\$228	\$181	\$178	\$189
<Annual CAPEX Combined>	(\$188)	(\$199)	(\$213)	(\$198)	(\$296)	(\$380)	(\$331)	(\$225)	(\$225)
<Bond Buyback> <sup>1</sup>	(\$6)	\$0	(\$95)	(\$45)	\$0	\$0	\$0	\$0	\$0
Debt Issuance Proceeds	\$0	\$0	\$0	\$0	\$50	\$150	\$150	\$50	\$0
Other	\$11	(\$3)	\$6	\$19	\$15	\$18	\$4	\$4	\$4
<b>Ending Capital Fund Balance</b>	<b>\$155</b>	<b>\$154</b>	<b>\$64</b>	<b>\$63</b>	<b>\$63</b>	<b>\$79</b>	<b>\$83</b>	<b>\$91</b>	<b>\$59</b>

<sup>1</sup>Note: Other Income on budget basis on this schedule includes prior year balances, stabilization funds utilized for bond buy back





# Summary

## FY2021 – FY2025 Financial Assumptions and Projections

### Assumptions and Projections

1. Unit Sales Growth
2. Residential Rates
3. Capital Expenditures and Internal Funding
4. Total Debt and Variable Debt
5. O&M, Debt Service, and City Contribution
6. Financial Metrics – Coverage, Liquidity and Debt

### Projected Results

- Stable electric sales, 1.5% water sales growth
- Additional revenue required FY23-25
- \$2.4B five year capital program
- \$500M new debt to support capital program
- Stable with Slight Variance
- Stable metrics through FY2025

- JEA's Five-Year Financial Projection is centered on stable electric unit sales and growth in the water/wastewater system, lower fuel costs associated with commodity markets and efficient generation, additional net revenue requirements in FY2023 – FY2025, new debt to support a robust capital program, stable with slight variances in O&M, Debt Service and City Contribution expenditures, and stable financial metrics to support JEA's current Credit Ratings
- The Five-Year Financial Projection upholds the objectives to maintain long-term Competitive Rates, Operational Excellence, and Environmental Stewardship, while improving the overall Customer Experience



**INTER-OFFICE MEMORANDUM**

July 22, 2020

**SUBJECT: JEA ENERGY MARKET RISK MANAGEMENT POLICY REPORT**

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**FROM:** Paul McElroy, Interim Managing Director/CEO

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**TO:** JEA Finance and Audit Committee

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Marty Lanahan  
John Baker  
Robert Stein

**BACKGROUND:**

The JEA Board approved the Energy Market Risk Management (EMRM) Policy in March 2014. The Policy was developed to codify the risk, governance, limits, and criteria associated with managing energy market exposure, and to comply with requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The reporting section of the Policy requires a quarterly report on JEA's financial and physical fuel and power transactions. This report includes physical transactions one year or greater and all financial transactions.

**DISCUSSION:**

The Policy governs JEA's wholesale energy market risk management and allows JEA to execute certain physical and financial transactions. The attached report is provided to the Board Finance and Audit Committee and satisfies the requirements of the reporting section of the EMRM Policy. The costs of financial transactions are reflected in comparison to market indices. The benefits include establishment of a stable fuel price for the future.

**RECOMMENDATION:**

None required. The report is required by the EMRM Policy and is provided as information.

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Paul McElroy, Interim Managing Director/CEO

PEM/RDE/WGB

**Energy Market Risk Management: Physical and Financial Positions**

Summary as of 7/1/2020		
Projected FY20 Fuel Expense (Budget = \$373M)	\$332M	☺
Projected FY20 Fuel Fund Ending Balance (Target = \$68M)	\$82M	☺
Projected FY21 Fuel Expense (Budget = \$357M)	\$355M	☺
Proposed FY21 Fuel Fund Ending Balance (Target = \$68M)	\$118M	☺
EMRM Compliance	Yes	☺
Counterparty Credit Limit Exceptions	No	☺
Any Issues of Concern	No	☺

**Table 1: Physical Counterparties (Contracts One Year or Greater) as of 7/1/2020**

Generating Unit	Fuel Type	Supplier/Counterparty	Contract Type	Remaining Contract Value	Remaining Contract Term
Scherer 4	Coal	CY20 Blackjewel - Eagle Butte - 001	Fixed Price	\$2,217,288	16 months
Scherer 4	Coal	CY20 Peabody Caballo - 019	Fixed Price	\$572,782	16 months
Scherer 4	Coal	CY20 Buckskin - 006	Fixed Price	\$239,323	12 months
Scherer 4	Coal	CY20 Cloud Peak Cordero Rojo - 013	Fixed Price	\$275,073	6 months
Scherer 4	Coal	CY20 Peabody NARM North - 014	Fixed Price	\$234,472	12 months
Scherer 4	Coal	CY21 Blackjewel - Eagle Butte - 002	Fixed Price	\$691,264	12 months
Scherer 4	Coal	CY21 Peabody Caballo - 003	Fixed Price	\$616,200	12 months
Scherer 4	Coal	CY21 Peabody Caballo - 004	Fixed Price	\$367,785	12 months
Scherer 4	Coal	CY21 Blackjewel - Eagle Butte - 005	Fixed Price	\$276,500	12 months
Scherer 4	Coal	CY22 Blackjewel - Eagle Butte - 001	Fixed Price	\$426,657	12 months
Scherer 4	Coal	CY22 Peabody Caballo - 002	Fixed Price	\$315,968	12 months
Scherer 4	Coal	CY22 Peabody Caballo - 004	Fixed Price	\$471,630	12 months
Scherer 4	Coal	CY22 Blackjewel - Eagle Butte - 005	Fixed Price	\$568,800	12 months
Scherer 4	Coal	CY22 Peabody Caballo - 007	Fixed Price	\$314,420	12 months
NS CFB	Limestone	CY17-CY21 Vulcan	Fixed Price	\$14,599,210	1.5 years
NG Fleet	Natural Gas	Shell Energy	Index w/Fixed Price Option	\$575,701,937	10.92 years
NG Fleet	Natural Gas	Main Street/MGAG	Index w/Discount	\$111,180,604	28.75 years
NG Fleet	Natural Gas	Main Street/MGAG	Index w/Discount	\$103,428,350	28.91 years
NG Fleet	Natural Gas	Main Street/MGAG	Index w/Discount	\$65,544,000	18.75 years
NG Fleet	Natural Gas	Main Street/MGAG	Index w/Discount	\$100,634,893	29 years

**Table 2: Financial Positions as of 7/1/2020**

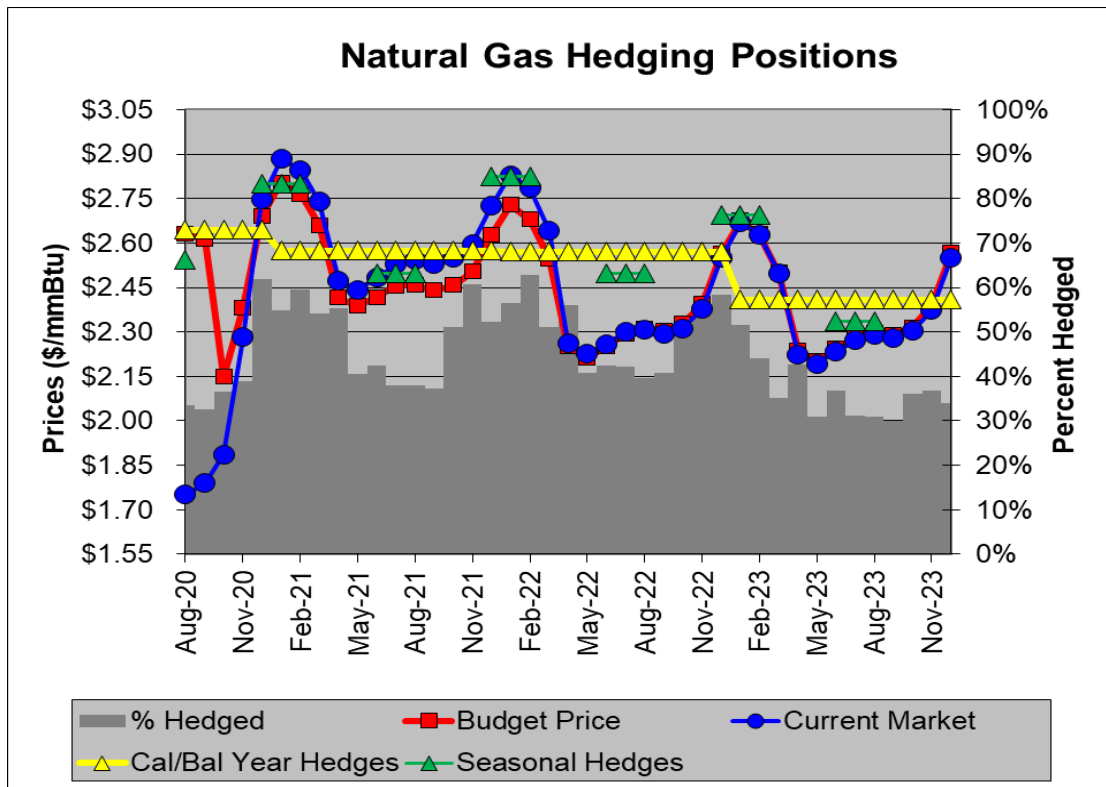
Year	Commodity	Physical Volume (mmBtu)	Hedged Volume (mmBtu)	Percent Hedged	Unhedged Cost	Hedge Type	Hedge Price	Mark-to-Market Value	Counter Party
FY20	Natural Gas	12,021,804	3,970,000	33.0%	\$ 1.77	Swap	\$ 2.64	\$ 3,445,810	Wells Fargo & RBC
FY21	Natural Gas	52,941,248	23,720,000	44.8%	\$ 2.53	Swap	\$ 2.60	\$ 1,305,700	Wells Fargo & RBC
FY22	Natural Gas	49,127,015	23,720,000	48.3%	\$ 2.48	Swap	\$ 2.58	\$ 2,232,210	Wells Fargo & RBC
FY23	Natural Gas	45,255,178	18,260,000	40.3%	\$ 2.38	Swap	\$ 2.47	\$ 1,487,700	Wells Fargo & RBC
FY24	Natural Gas	45,350,456	3,680,000	8.1%	\$ 2.41	Swap	\$ 2.41	\$ (7,560)	Wells Fargo & RBC

**Table 3: Fuel & Purchase Power Procurement as of 7/1/2020**

Fuel Type	Natural Gas	Coal	Petcoke	Limestone	Purchased Power	Oil/Diesel	Renewables	Vogle	
FY20 Remaining / Energy Mix	61%	13%	16%	N/A	9%	0%	1%	-	
Expected Spend (\$)	38.3M	12.1M	11.9M	1.9M	8.0M	0.9M	4.0M	-	
% Procured	38%	94%	98%	100%	0%	100%	100%	-	
% Hedged	42%	94%	0%	100%	0%	100%	100%	-	
FY21 Budget / Energy Mix	53%	18%	21%	N/A	7%	0%	1%	-	
Expected Spend (\$)	138.1M	58.8M	49.8M	8.3M	27.4M	2.1M	14.5M	-	
% Procured	53%	42%	0%	100%	0%	100%	100%	-	
% Hedged	42%	42%	0%	100%	0%	100%	100%	-	
	Natural Gas	Coal	Petcoke	Limestone	FPL PPA	PurchPwr	Oil/Diesel	Renewables	Vogle
FY22 Projection / Energy Mix	50%	11%	18%	N/A	8%	5%	0%	2%	6%
Expected Spend (\$)	127.9M	36.6M	45.2M	7.4M	21.7M	18.1M	2.0M	16.6M	13.9M
% Procured	56%	15%	0%	25%	0%	0%	100%	100%	100%
% Hedged	48%	15%	0%	25%	0%	0%	100%	100%	100%

**Supporting Notes:**

- Renewable purchase power agreements are not included in Table 1
- Solid fuel procurement - annually at Scherer CY2019-2022 and quarterly at Northside
- Scherer 4 retires on 1/1/22; will work to sell previously committed coal purchases for Scherer 4 in CY22 to owners of Scherer Units 1 – 3
- Table 3: FY Energy Mix based on MWH; the procured percent relates to inventory on hand, or contracted and the percent hedged is inventory on hand or contracted with fixed pricing or financial hedges
- Renewables in Table 3 represent signed agreements and an estimated cost for pending contracts
- Table 3: FY22 Projections include assumed Scherer 4 retirement as of 1/1/2022 with an FPL PPA agreement as replacement
- Table 1: Natural Gas discount; Municipal Gas Authority of Georgia (MGAG) issues municipal bonds to prepay for gas, allowing them to offer discounts to JEA for qualified use



as of 7/1/2020