Jacksonville Electrical Authority board of directors approves privatization effort

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The board of directors of the Jacksonville Electrical Authority (JEA) voted unanimously on July 22 to explore privatizing the utility company. JEA is the largest municipally owned utility company in the state of Florida and the eighth largest in the United States. If it is sold to private investors it would represent the largest municipal utility privatization in US history.

JEA was first established in 1895 as a department of the city government. In 1967, following the consolidation of the city of Jacksonville with surrounding Duval County, it was established as an “independent Authority” empowered to provide electricity to Jacksonville and neighboring areas. In 1997, JEA absorbed the city’s water and sewage operations as well.

JEA employs approximately 2,000 people. In 2018 it provided electricity to 466,000 customers and water to 348,000. It also provides sewage services to 271,000, according to the company’s website.

A proposal to privatize the company was first floated by outgoing JEA board chairman Tom Petway in November of 2017. Jacksonville’s Republican Mayor Lenny Curry, who appointed Petway and the other members of the JEA board, quickly came out in support of the idea.

In the months that followed, a series of articles from local media outlets exposed the conspiracy on the part of Mayor Curry and his wealthy backers to sell off the utility company, which paid approximately $240 million into the city budget in 2018, for several billion dollars so as to finance a variety of development schemes and enrich politically connected contractors.

An article published in the *Folio Weekly* in March of 2018 titled “The Great JEA Heist” outlined the backroom dealings and private interests that drove the attempt to sell off the company.

After Petway’s resignation, the push to sell JEA proceeded quickly. Top executives were offered incentive packages of up to twice their annual salary to remain with the company in the event of a sale, and then CEO Paul McElroy began negotiations to extend his contract, including a severance package of twice his annual salary of $520,000 if he were fired in the event of a sale.

When news of the potential incentive packages was made public, McElroy was forced to withdraw the offer, claiming it was “non-binding and unenforceable.” It was subsequently revealed by the *Folio Weekly* that the offer had been authorized by the chairman of the JEA board of directors G. Alan Howard, an action prohibited by the JEA board rules.

The *Folio Weekly* article also cited then city council president Anna Lopez Brosche, who subsequently lost the 2018 mayoral election to Curry as stating that his office had asked her to introduce emergency legislation to sell JEA, a claim the mayor’s office denied.

Public Financial Management (PFM), a longtime financial advisor to the utility, was contracted to analyze the possibilities of privatization. At a February 2018 city council meeting called by the mayor, PFM presented their report—which JEA paid the company $100,000 to produce—to a skeptical city council.

The *Folio Weekly* described the effort by PFM to pitch the sale to city council:

“In it, PFM predicted that, after paying off liabilities, selling JEA, estimated to be worth between $7.5 and $11 billion, which it noted represents a ‘VERY wide’ range, would earn $2.9-$6.4 billion for the city. PFM cited the effect of emerging renewables and increased efficiency on future revenues, and the top dollar that recent municipal utilities have fetched on the market, as reasons to sell. It did acknowledge the loss of local control and other factors that may influence some to vote against the sale, but seemed to come out in favor of selling JEA."

The *Folio* went on to report that city council members were highly critical of both Howard and McElroy in their questioning after the presentation of the report, with many believing that an offer had already been secured and that the board and the Mayor's office were conspiring in secret to sell off the utility without the consent of city council. Forced into a defensive position, both men denied that they had sought out buyers for the utility.

This was contradicted little more than a week later when *First Coast News* discovered emails revealing that in December of 2017 the city had contracted PFM to issue a 'Request For Proposals' (RFP) from financial advisors to assist the city in monetizing its assets. Though JEA was not specifically mentioned in the document there was little doubt from analysts that was the intent.

Among those who responded to the request were JP Morgan, Goldman Sachs, Morgan Stanley, and other large investment banks. In their response to the RFP, Morgan Stanley highlighted their experience in negotiating the sale of public utilities. "Morgan Stanley is Wall Street's leading Power and Utilities M&A [Mergers and Acquisitions] franchise with a history of landmark transaction in the space. The Firm has extensive experience across Regulated Power, competitive power, and Renewables. Since 2002 the group has closed $987 billion of M&A transactions."

Opposition to the sale within Jacksonville was widespread and immediate. One poll conducted in a large southside district within the city found that 76 percent of respondents were opposed to a potential sale. A straw poll added to the 2018 ballots later that year "calling for a Referendum Approval of any sale of 10 percent or more of JEA" had similar results with 73 percent, representing 257,182 voters, favoring a referendum.

The Jacksonville City Council subsequently passed a resolution requiring a majority of Duval County voters to approve any sale of more than 10 percent of JEA.

The five labor unions that bargain on behalf of the utility's 2,000 employees released a joint statement opposing the sale. Laying out the potential costs for JEA customers if a sale goes through, the statement read in part: "While we have attempted to counter much of the noise regarding the privatization of JEA, there is a very simple reason for not selling JEA that overcomes all the noise. Any company or entity willing to buy JEA, whether it is $1 billion or $20 billion, must have the resources to ensure the price it pays will definitely be paid back in full with interest."

"This is not like selling your house for a premium and walking away with no further commitment to that house. The customers of JEA will still be on the hook for the premium paid in the initial purchase price, as well as the interest or earnings above and beyond that premium paid to the city. The premium payment will either come in increased rates down the road, or by higher property taxes, or fewer services offered by the city. There is one thing we can be sure of: all these costs will be paid in full by JEA customers one way or another!"

Due to the media exposures and widespread opposition from the public, Curry was forced to temporarily disavow any attempt to privatize the utility. Now, having secured re-election earlier this year, Curry and the various business interests that he represents, who would stand to reap millions from the sale of JEA, have renewed their push to privatize the utility.