# THE AMERICAN JOBS PLAN:

## Considerations for Cooperative Utilities

*by Andy Miller*

On March 31, 2021, the Biden administration published its proposed American Jobs Plan (the Plan). One can download the 27-page fact sheet from the White House website and see this is really an infrastructure plan where the extensive scope is focused on building, and rebuilding, much of the US infrastructure. Roads, bridges, ports, waterways, airports, water and sewer pipes, expanding broadband access, electric transmission and distribution and renewable energy generation are among the many areas targeted by this proposal. The size of the proposed investment is significant and historic by any measure.

It is clear from the fact sheet that the Biden administration intends to channel billions of dollars through electric cooperatives in the form of block grants, direct grants, low-cost loans and subsidies. How cooperatives apply for these billions, manage the construction projects and report on their progress could be a challenge for organizations that are already stretched thin and they will need to gear up to manage this new opportunity for their respective communities. Although the final form of this legislative initiative will undoubtedly change before it is enacted, there is little doubt that Congress will enact something to address poor grades on infrastructure[1] and whatever gets through will be significant.

No matter what, you're going to need to prepare and pull your plan together so you can identify projects, submit applications, manage projects, and report progress as part of the grant program. The application process for new projects or the redevelopment of existing infrastructure may require detailed information about existing infrastructure. For example, an application to replace existing assets in an electric system may require details about the location, age, cost, etc. of the current system along with the estimated costs for the removal and replacement. Solutions like PowerPlan can can help with reporting in this area of project accounting and asset detail, and even optimize processes like month-end close. Many utilities may need to reevaluate their data and processes before applying to be sure they are prepared to supply the supporting details and report project progress down the road.

*1 - ACSE American Society of Civil Engineers. (2021) 2021 Infrastructure Report Card. Retrieved from https://www.infrastructurereportcard.org/*

## Key Considerations

One may want to take a closer look at what is outlined in the fact sheet provided by the Biden administration. Released late in May, the "Green Book" provides more details around the revenue proposals supporting the proposed budget.[2] This gives more insight into the tax changes they are proposing. It is important to note there are applications for utilities beyond the section on power infrastructure. Here is a brief summary of key areas included in the Plan that electric cooperatives should consider:

### Broadband Networks

The Plan includes $100 billion dedicated to "digital infrastructure." The Biden administration wants to expand high-speed broadband access to 100% of the country. The Plan would prioritize support for broadband networks owned, operated by, or affiliated with electric cooperatives. As part of the Plan, they intend to lift barriers that prevent electric co-ops from competing with private providers; the Plan would require internet providers to clearly disclose prices they charge. The fact sheet for the Plan indicates that they would provide "subsidies" in the short term but look for long-term solution to reduce the cost of broadband access. This looks to be an entirely new program and it is not clear who would administer it or how an electric cooperative would apply for funds.

### Power Infrastructure

There is $100 billion allocated in the Plan to "reenergize power infrastructure." They are proposing a new "targeted" investment tax credit that would provide an incentive to build out 20 gigawatts of high-voltage power lines. A new "Grid Deployment Authority" would be established in the Department of Energy that would determine the best use of existing rights-of-way and would also develop/deploy "creative financing tools." The Plan would extend and expand the existing tax credit system for another ten years (investment tax credits and production tax credits). The "Green Book" budget proposal indicates these credits would be "direct pay" credits which means the credit would essentially be refundable (not subject to limitation).

The Plan proposes new "Clean Energy" block grants. A new "Energy Efficiency and Clean Electricity Standard" (EECES) would be established that is aimed at cutting electricity bills and electricity pollution, increasing competition in the market, incentivizing more efficient use of existing infrastructure and leveraging carbon pollution-free sources like nuclear and hydropower.

These are new programs and it is not clear who in the federal government will administer them. The block grant program could be disbursed through the state governments. The existing tax credit program for renewable power generation is proposed to be expanded to a "direct pay" credit along with the new targeted investment tax credit for transmission line development. Query, will these credits be made available to electric cooperatives to be used as their capital investment in the new transmission lines?

## How to Prepare for What's Next

As of the writing of this article we are early in the legislative process and there are a number of details yet to be determined surrounding the entire package. As noted above, the process for disbursing grants for many of these programs will need to be detailed in the legislation. How will a grantee organization apply for funding? What data must be gathered to apply for the relevant grant? What are the criteria for funding a particular project? How will the relevant agency assess each application?

Once a project is approved, the federal government has robust processes for monitoring progress on projects that typically require the grantee to report periodically to the granting authority on its progress. Although it is not always required, due to the size of these projects, the grantee may need to engage an independent auditor to audit their reports for compliance which would include the proper accounting for direct and indirect costs. Note that indirect costs that may be included in a given grant may be limited and may not be aligned to an organization's existing accounting policies or practices. Point there may be a different basis of accounting for the reporting to the federal (or state) government on these projects.

*2 - US Department of the Treasury. (2021) Revenue Proposals. Retrieved from https://home.treasury.gov/policy-issues/tax-policy/revenue-proposals*

As noted above, the Plan includes new and expanded tax credit programs that are "direct pay" (refundable – cash payment). If they are direct pay credits then it is possible that tax exempt organizations – electric cooperatives – may be eligible to receive them. The Internal Revenue Service has extensive rules for what expenditures (including indirect costs) might qualify for investment tax credits and what facilities will produce energy that qualify for production tax credits. These rules will be updated and expanded with any legislation but it is highly likely the direct and indirect costs eligible for the tax credit will be different from the accounting for these costs that may be applied for the organization's financial reporting. Again, there may be a difference in the accounting of indirect costs for purposes of applying for and obtaining these tax credits.

The legislation will likely provide rules that would prevent a rural electric cooperative from passing through the tax credit to their members in the form of lower rates in the year the credit is received. After all, the intent of allowing the tax credits would be to support the capital investment and not to immediately provide a benefit to the customers. (There are extensive accounting rules imposed on investor-owned utilities that prevent tax credits from "flowing through" directly to their customers in the form of lower rates for services.)

We are early in the process – however, an electric cooperative should consider identifying someone (or a team) to monitor the legislation and engage with your trade group (e.g., NRECA) as the legislation is debated in Congress. Your trade group will be engaged in the legislative process and will provide information to members of Congress. Contact your representatives in Congress, as they will want your input on the details of this legislation. As the legislation develops you will need to prepare for whatever process is required to get funding for your project (or projects). Although there will likely be sizable funding provided, there is only so much and not all projects will get funded. Develop the details for your project and consider the reporting considerations for your application, progress expenditures if your project is funded and the long-term reporting that may be required once a project is completed. Of course, information systems in your organization will be critical – particularly those applied to plant and equipment accounting and reporting. Understanding your current system's capabilities and what you may need should be an integral part of your planning process.

### About the Author

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