

SLEEP NO MORE

President Biden's infrastructure plans are encouraging, but there are plenty of hurdles facing the proposals before the P3 industry can get too excited



When President Joe Biden finally unveiled his \$2trn infrastructure package just before the Easter holidays, there was a collective sigh of relief from the market.

As has been said many times over recent months and years, there is broad agreement in the US (whether among politicians or otherwise) that when it comes to infrastructure, something needs to be done. The problem has long been that no-one could agree on what that 'something' might look like.

Indeed, the infrastructure industry was beginning to get a little concerned over the fact that the plan's launch had been put back a number of times, as the administration's response to the Covid-19 pandemic had taken up a lot more time than had originally been hoped. After all, the industry has been used to warm words on infrastructure from the federal government, only to be disappointed before.

"There was never a plan published [under the previous administration]," says Roddy Devlin, partner at law firm Nixon Peabody. "The fact it has

been put out already is a very good sign."

Many had become fed up with so-called Infrastructure Week, which was increasingly treated as a bad joke. "We have been decades and decades before there has been a serious effort to address the infrastructure needs of this country," says Mike Schneider, managing principal at consultancy InfraStrategies. "It's time for it to be an infrastructure decade or generation, not just a week."

There is growing optimism that what is being planned by this administration not only goes beyond anything achieved under President Trump, but has an ambition that puts it beyond several of his predecessors. "It feels different from the Trump, Obama, and other previous administrations, because it taps into so many central policy plans," explains Devlin.

Suhrita Sen, principal at Infrastructure Advisors, agrees. "I was really impressed with the strong acknowledgement of the acute need for funding in this sector. Most important is how strongly the administration has made the point about solving

the broad needs that exists. This generates more interest from more players and improves the market environment."

Geoffrey Stricker, senior managing director at Edgemoor Infrastructure & Real Estate, points to the opportunities that the plan has in just one sector as an example. "I believe it has the potential to unlock significant new construction and development opportunities with institutes of higher education, and therefore P3 projects. The plan includes \$100bn for public education facilities, \$180bn for research and development, and \$25bn for a dedicated fund to support ambitious projects that have tangible benefits to the regional or national economy.

"As colleges and universities position themselves for delivering educational services in the post-Covid environment, new science facilities, and other assets will be a way to differentiate the institution and attract the best and brightest faculty, students, researchers, and staff."

That opportunity could be just the tip of Biden's

●● State and local authorities need to strengthen their institutional and governance capabilities. They have to beef up their project preparation capacity. ●●

infrastructure iceberg – however there remain some significant obstacles that will make getting the whole package passed into law potentially tricky.

The most obvious of these obstacles is the political aspect of the plan. Republicans have been quick to question whether the package is really ‘infrastructure’, with some arguing that aspects relating to better broadband or investing in training should not be railroaded through as part of an infrastructure package.

“It’s a legitimate question to ask ‘what is infrastructure?’ That is not a new question,” says Devlin. “For example during the New Deal discussions there was a spirited debate on whether the electric grid was ‘infrastructure’.”

“In order to get the most benefits from infrastructure investments, ancillary elements, for example training, are as important,” adds Schneider. “My sense is that there is such polarisation between the aisles of Congress that no matter what rationale is put on the table, it will be difficult for the Republicans to support

such a large proposal because it is a Democrat proposal.”

Biden has signaled a willingness to negotiate “as to the extent” of the plan, as well as “how we pay for it”.

There are signs that the Republicans are at least willing to respond with their own interpretation of ‘infrastructure’. “It will be interesting to see what the Republicans ultimately come up with as a definition for infrastructure,” says Tim Treharne, principal in Arup’s New York office. “So far the indications are highways, airports, water projects and broadband.”

One strategy believed to be under consideration by the Biden administration is to pull out different aspects of the package and drive them through as individual pieces of legislation, so that investment in, say surface transportation – something that all sides of Congress broadly agree about – can gain bipartisan approval.

Schneider, however, warns that such an approach makes it less likely that the truly bold parts of the plan – whether on broadband or training the workforce for a transition away from fossil fuel-based infrastructure to a green energy revolution – will be able to muster sufficient support to get through.

Many in the market, however, are hopeful that the fact Biden has attached the plan to the cornerstones of his presidency mean it has a better chance of being delivered than previous efforts. The administration has tied the plans to areas such as racial justice, economic redistribution and the environment. While such an overtly political approach may be seen by some as likely to antagonize an already skeptical (at best) GOP, others suggest it could be the key to the package’s success.

“If the administration can couch a vote against the plan as a vote to maintain a system that has created inequalities, then it makes a vote against it more difficult to justify,” argues Devlin.

Treharne agrees. “It must be difficult to argue as a politician that you don’t want equitable treatment or a better climate response.”

Capacity question

Even if the administration does manage to get the package – or some form of it – through Congress, that will not mean all the hurdles have been overcome. In some ways, it may be argued that only then will the really difficult work begin.

As is often noted when the US federal government makes grand plans and announcements, it is in the states and local authorities where infrastructure projects and programs are rolled out in practice. The feds may hold the purse strings, in terms of the ability to give grants and other funding mechanisms, but it will be state and municipal governments that make final decisions about how to fund projects and how they are delivered on the ground.

“If we see a leap ahead in terms of dollars

available to states and localities, some are not equipped in terms of the workforce and the administrative capability to handle that effectively,” explains Schneider.

Sen argues that the Biden plan could offer a significant opportunity to create a nationwide framework that helps to administer these investments and properly structure them. “There needs to be better structures like a national infrastructure policy and a project pipeline. I hope we could have a national policy around smart cities, for example.

“State and local authorities need to strengthen their institutional and governance capabilities. They have to beef up their project preparation capacity.”

“That is one reason why training is an important element of the package,” continues Schneider. “The administration feels it has a responsibility to help retrain those workers in the technologies of the future, including for example different forms of energy.”

For the P3 industry, the big question is when will all this money be transformed into projects? As Devlin points out, the plan is “P3-neutral”, but he and others are confident that the market will benefit from the federal package over time, whatever the final version may look like.

P3s weren’t mentioned in the plan but neither were any other types of procurement, says Treharne. “We have seen an increase generally in interest in P3s around the country. Authorities can leverage public money by using P3s to get things built that would otherwise not happen.”

“The greater the volume of overall projects, the more P3s there will be,” Devlin suggests, pointing to some of the more complex projects, such as bridges in urban settings, where he believes P3s will work well.

“P3s are going to be the likely fallout,” agrees Sen. “It doesn’t matter whether or not the administration is explicit about P3. The state and local governments can utilize P3s to do more with the federal support they get.”

She says that the federal government may reward those authorities that are able to leverage the money they are allocated – suggesting that P3 could become a model that is favored by governments across the land. “Hopefully it will be a virtuous cycle.”

However, as projects roll forward, different situations may well call for different solutions, and the P3 sector is well-placed to help here to develop innovative approaches.

“On innovative finance, there is an enormous opportunity to create different financial products that speak to risks that characterize specific sectors,” Sen concludes. “We also need the pension plans involved in broader ways as an adjunct to this funding process.”

The president has certainly gone bold on his plans for infrastructure. He has an industry that stands ready to help him deliver. It may just be possible that the sleeping giant of US infrastructure is beginning to wake up. 