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Forming a P3 Under the IIJA: A Roadmap

The Infrastructure Investment and Jobs Act (IIJA) is changing the landscape for public-private partnerships (P3s) in the U.S., ushering in historic new opportunities. Signed in late 2021, the IIJA allocated $1.2 trillion to improving U.S. infrastructure over several years. It has a wide scope, and seeks to spur improvements to roads and bridges, public transportation, water and power plants, and high-speed internet access, among other areas.

But the IIJA is more than just a sizable investment in American infrastructure — it carries the potential to significantly accelerate the growth of P3s within the U.S. By prioritizing innovative project funding methods and offering technical assistance to underserved communities, the IIJA takes concrete steps to incentivize these symbiotic partnerships.

As of November 2023, there is approximately [$495 billion yet to be allocated] through 2026 — at which time the IIJA funding will expire. Over $200 billion of this funding is directed toward transportation projects, but significant amounts remain across all sectors. With just two years remaining, firms interested in taking part in these high-impact opportunities should not wait. But they should also approach these projects with a clear understanding of their own goals and of any relevant requirements, processes, and risks.

Here are several project benchmarks to establish when exploring a P3 under the IIJA:

Assess the Opportunity

Smaller government entities, as well as many private organizations, do not always have the knowledge or resources on-hand to adequately research or evaluate a potential P3 project. Consequently, P3s in the U.S. are usually formed with larger, wealthier municipalities or even the federal government itself. Many smaller communities with fewer resources are therefore locked out of the social and economic benefits that a P3-backed project can provide.

The IIJA is changing this dynamic, providing technical assistance in project evaluations for rural and tribal governments — covering areas which, in many cases, would benefit most from infrastructure improvements. Firms interested in forming a P3 can now feel more empowered to go where there is need, rather than limit themselves to jurisdictions that are already well resourced. Those looking to increase the chances of their project receiving funding should align with the government's prioritization of these underserved areas.

When investigating a potential project, take stock of any potential location-related hurdles or red flags. For example, political risk can pose a substantial threat to the success of a P3. A negative outcome in a local election could scuttle an otherwise profitable and secure agreement. Unfamiliar local structures or laws can also hamper a project. For international companies or investors, who may not have experience operating within the complex and distributed network of U.S. regulations, it may be worth enlisting knowledgeable external help.

Fund the Project

Competitive IIJA funding is administered through a number of federal agencies, such as the Department of the Interior and the Department of Transportation. P3-backed projects could see an advantage over projects that are wholly reliant on public money, thanks to the additional resources made available by a second, private funding track. However, additional resources do not guarantee the success of a proposal. There are still significant requirements to meet.

Any project seeking IIJA funding must undergo a Value-for-Money (VfM) analysis. A VfM provides a high-resolution picture of the whole project, going beyond upfront costs to cover other important factors like cost of maintenance, lifespan, and projected use. It also includes a risk register, which defines and predicts potential problems, assigning associated costs and responsibilities as appropriate. Both public partner entities and federal funding agencies will use the results of a VfM to inform their decisions, making it an essential component of any competitive proposal. The IIJA does mandate VfMs for projects with a value of $750 million or greater, but projects of all sizes can benefit from this process.

Beyond the financial analysis, the IIJA also contains environmental and social mandates. Much of its funding is dedicated to supporting clean energy and electric vehicles. But even when a proposed project does relate directly to energy, the application will be stronger if it contains well-documented social and environmental benefits and considers related risks. Prioritize infrastructure that supports the success of communities rather than impedes them.

Communicate the Benefits

If competing for IIJA funding is the “official” part of the proposal process, then communicating with the public is an “unofficial” but equally important part.

The public, or even state or local officials, might not necessarily know what a P3 entails, or why a given project is necessary. Failing to explain the scope and intentions of the work can expose a project to political risk in response to public opposition. If the opposition is substantial enough, the project could ultimately be derailed. Keep an open line of communication with the public throughout the process. Overcommunicating won’t hurt, but under-communicating could prove costly.

Firms should be doubly sensitive to public concerns in areas known for infrastructure-connected discrimination — such as redlining, or highways built through minority neighborhoods — or that have faced other forms of exploitation under the guise of public improvement. Given the IIJA's efforts to reach rural and tribal communities, this may be many residents' first exposure to a P3. International or multinational organizations, especially, may be unfamiliar to residents and should be prepared to face skepticism, distrust, or perceptions of opportunism.

In public communications, emphasize the productive and mutually beneficial nature of the P3. The added private sector funding might mean that a project can be larger in scope or built to a higher quality. It may even be the deciding factor in whether a project is economically feasible altogether. When applicable, consider providing the public with the same environmental and social considerations that were supplied to federal agencies.

In crafting these public-facing communications, external partners with knowledge of local politics and interests can be helpful, as they may be able to provide valuable insights into how to tailor messaging to best fit the audience.

Execute the Plan

Project execution is the final step, but does not represent the end of each partner's obligations.

When work begins, consistent and up-to-date risk monitoring, assignment, and mitigation will be critical to project success. Keep track of any established KPIs and continually monitor for unforeseen issues. Provided a quality risk register was created, it will be clear who bears responsibility for dealing with each of these elements. Be sure they understand how any identified risks, as well as the partnership itself, will be viewed by federal funding agencies, and tailor their approaches to risk mitigation and project management accordingly.

When work is completed, ongoing maintenance responsibilities — which will also have been projected out and pre-assigned — will kick in. Here, too, projects will benefit from comprehensive upfront work, helping to ensure there are no surprises.

How BDO Can Help

For organizations looking to pursue a P3 under the IIJA, BDO can help at every step of the process. The BDO Infrastructure team can provide private sector firms seeking to enter the U.S. market with a full suite of financial advisory services, from financial modeling to project structuring, negotiation, and closing. Our professionals have localized knowledge and relationships that can help firms navigate local needs, politics, and regulations. We can aid in project evaluation and technical analysis, as well as shoring up recordkeeping or controls ahead of a funding application.

Interested in exploring a P3? We can help you prepare. Contact us to learn more.

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