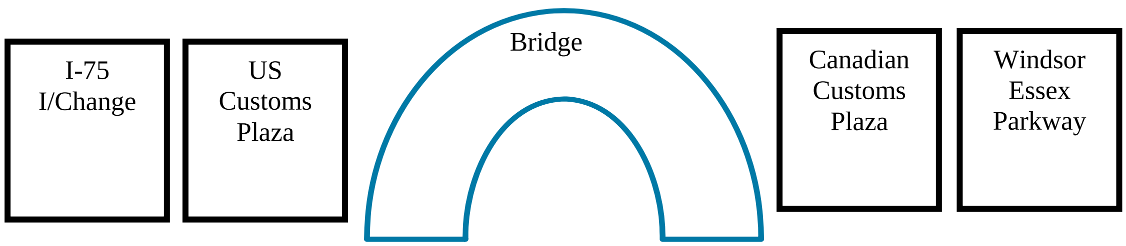
Backgrounder

Detroit River International Crossing
<u>Financial Arrangements under a Public-Private Partnership (P3)</u>

Questions have been raised by Representatives and Senators of the Michigan Legislature concerning the proposed public-private partnership (P3) arrangement for the new Detroit River International Crossing project and the financial liability this could pose for Michigan in the future. This document explains the proposed P3 arrangement and how financial risks would be allocated. It also addresses the issue of whether anticipated toll revenues could cover future costs, and demonstrates that Michigan would not be liable for any costs for the DRIC project.

1) Project Component Costs and Funding Sources



Net Cost* ($Millions)	**385.9**	**413.6**	**949.1**	**387.6**	**1,670**
Michigan/ FHWA*	0	0	0	0	0
GSA	0	263.6	0	0	0
Canada	385.9	150.0	0	387.6	1,670**
P3 Partner	0	0	949.1	0	0

Source: Figure 8.1 Project Cost Breakdown by Element – "Report to the Legislature of the State of Michigan Responding to Public Act 116 of 2009, Section 384" – May 1, 2010 (page 21)

* Since FHWA is assumed not to contribute to the DRIC project, the FHWA management contingency has been excluded for a) US Plaza (~$7 million) and b) I-75 interchange (~$34.2 million). If FHWA funding became available for these project elements, then these management contingencies would be added back in, but would be covered by the FHWA funding.

**Canada and Ontario to fund 50/50.

Allocation of Canada's $550 Million:

US Plaza	$150.0 Million
I 75 I/Change	$<u>385.9 Million</u>
TOTAL	$535.9 Million

Risk allocation

Q. If the P3 Partner goes bankrupt or fails to complete the project will Michigan be financially responsible for any additional costs?

A. No. If a default were to occur during the construction period, the P3's lenders (e.g., financial institutions) bear all the risks to complete the project. The lenders would have the obligation to complete the project at no additional costs to government – i.e., the private lenders bear all the risks as this is a contractual obligation under the P3 concession agreement.

Similarly, if the default were to occur over the operating period, again the lenders would bear all the risks associated with covering the default and continuing with the operations. This obligation is secured by the payments for the construction costs of the bridge, which are only paid out from toll revenues during the operating period if the facility performs in line with the contractual obligations of the concessionaire.

2) Operating revenues and costs

The table below reflects projected traffic volumes from the Wilber Smith and Associates study prepared for MDOT. Revenue is calculated using current (non-inflation adjusted) toll rates charged by the Ambassador Bridge.

	Average Weekday Traffic			Annual Revenue (US$ 000's)+		
Year	**Cars**	**Truck**	**Total**	**Cars**	**Truck**	**Total**
2016	9,000	9,500	18,700	$11,880	$48,020	$59,900
2025	12,800	13,500	26,500	$16,896	$68,238	$85,134
2035	17,500	16,900	34,600	$23,100	$85,424	$108,524
2040	18,500	18,400	37,100	$24,420	$93,006	$117,426

Source: Figure 7.1 DRIC – Average Weekday Traffic – "Report to the Legislature of the State of Michigan Responding to Public Act 116 of 2009, Section 384" – May 1, 2010 (page 19). Annual Revenues

+ Annual Revenues derived utilizing existing Ambassador Bridge toll rates of US$4.00 for passenger vehicles (cars) and a blended rate of US$17.43 for trucks.

	DRIC Bridge Annual Costs (US$ 000's)		
Year	**Operating**	**Major Maintenance**	**Total**
2016	$2,790	0	$2,790
2025	$2,793	0	$2,793
2035	$2,795	0	$2,795
2040	$3,047	125	$3,172

Source: Parsons

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Revenue shortfall

Q. Are there years when there may be insufficient revenues to cover all costs?

A. For such projects, there is normally a "ramp up" period of traffic and revenues during the initial years of a project's operations. Any shortfalls will be capitalized and repaid in subsequent years. Over the concession period, projections show that there will be more than sufficient funds to cover costs, that is, Michigan will not incur any future financial liability.

3) Operating Income (Fiscal 2009) at comparable international crossings

For other major Canada-U.S. bridges, as shown below, none of them reported operating losses in 2009 despite traffic declines due to the recession.

Blue Water Bridge Corporation (Canadian-half)	$4.7 million (US$)
Niagara Falls Bridge Commission	$10 million (US$)
Peace Bridge Authority	$8.2 million (US$)

Source: audited financial statements (revenues in excess of costs)

Prepared by Transport Canada and Michigan Department of Transportation

May 27, 2010