State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2011

The Proposed New International Trade Crossing (NITC)
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Background

The Detroit River has long been an important crossing point for the abundant trade between the United States and Canada. The flow of goods between these nations necessitates having open, accessible routes of trade from Detroit to Windsor, Ontario. In 1921, the United States and Canada granted permission to the American Transit Company, which later became the Detroit International Bridge Company (DIBC), to build and operate a bridge over the Detroit River. Officials signed the general contract for construction on July 20, 1927, and two years later, in November 1929, the Ambassador Bridge opened.

Over the remainder of the century, trade between Canada and the United States saw numerous advancements, including the additions of the Detroit-Windsor Tunnel (DWT), the Blue Water Bridge (BWB) in Port Huron, Michigan, and the Peace Bridge (PB) in Buffalo, New York. The Ambassador Bridge, however, remains the most efficient and the most-used option for commerce because of its location and capacity. By 1970, the bridge had been connected to I-75, I-94, and I-96 on the U.S. side, making it more convenient for commercial trucking. In 1995, after 66 years of operation, Federal law recognized the Ambassador Bridge as part of the National Highway System, making it an established part of United States infrastructure.

Commerce between Canada and the U.S. totals $500.0 billion annually, averaging $1.5 billion every day. According to the Southeast Michigan Council of Governments (SEMCOG), 25.0% of U.S.-Canadian trade goes by way of the DWT or the Ambassador Bridge, and total trade between Michigan and Canada was estimated at $67.4 billion in 2008 (SEMCOG, "Economic Impact of the Border", Fall, 2009). Last year, Michigan alone exported $21.6 billion of goods to Canada (*Detroit Free Press*, "Tom Walsh: On Mackinac Island, talk turns to 2nd Detroit-Canada bridge", 6-1-11). Other states that trade with Canada include New York and California, which trade over $23.0 billion annually, while Washington trades $17.0 billion annually. The commercial traffic between the two nations is the lifeline that supports this lucrative relationship, and much of that traffic crosses the Detroit River.

The Proposed New Bridge

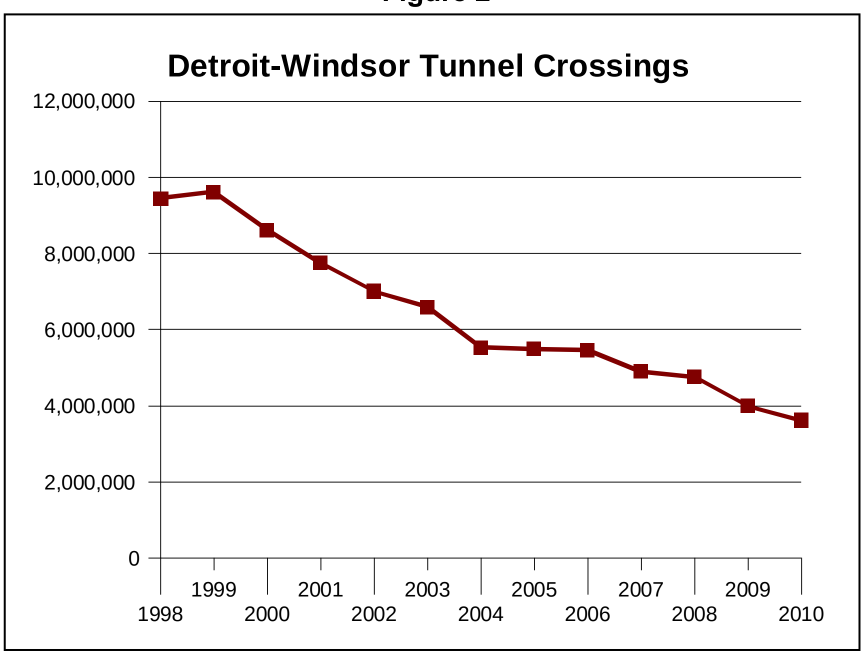
The New International Trade Crossing (NITC) is one name for a proposed bridge spanning the Detroit River between Detroit and Windsor, approximately one mile south of the existing Ambassador Bridge. According to the Snyder administration, the cost, including the connecting ramps and roads, would be approximately $3.8 billion. The cost of the span itself is estimated at $949.1 million. An estimated $413.6 million would be needed to pay for the connecting infrastructure on the Michigan side of the proposed bridge (*Detroit News*, "Snyder: Canadian Offer for Bridge is Legit", 4-12-11). Canada has offered to pay for Michigan's costs with an up-front payment of $550.0 million; the details of this offer are discussed below.

The NITC proposal is designed to encourage more efficient trade with Canada. The data reveals, however, that although trade with Canada is a vital part of the U.S. economy, traffic over the past 10 years has shown a significant downward trend. Figures 1, 2, 3, and 4 show the changes in the number of crossings from 1998 to 2010 on the Ambassador Bridge, the DWT, the BWB, and the PB. The Ambassador Bridge, which sees the most traffic, is down from its peak of over 12.0 million vehicles to 7.2 million vehicles annually.

Figure 1

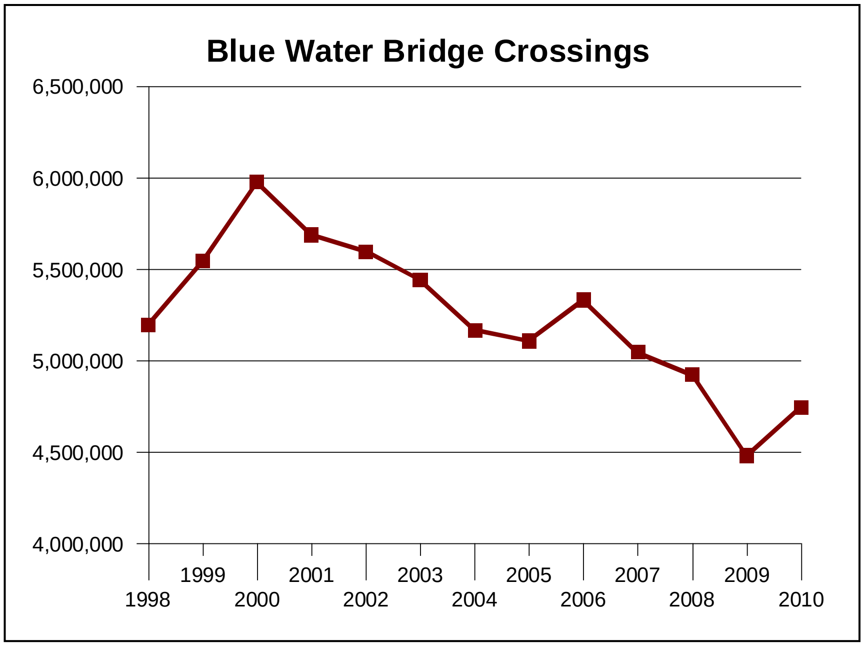
Source: 1998-2005 data provided by The Bridge and Tunnel Operator's Association; 2006-2010 data provided by the Public Border Operators Association (PBOA), a division of the International Bridge Administration

Figure 2



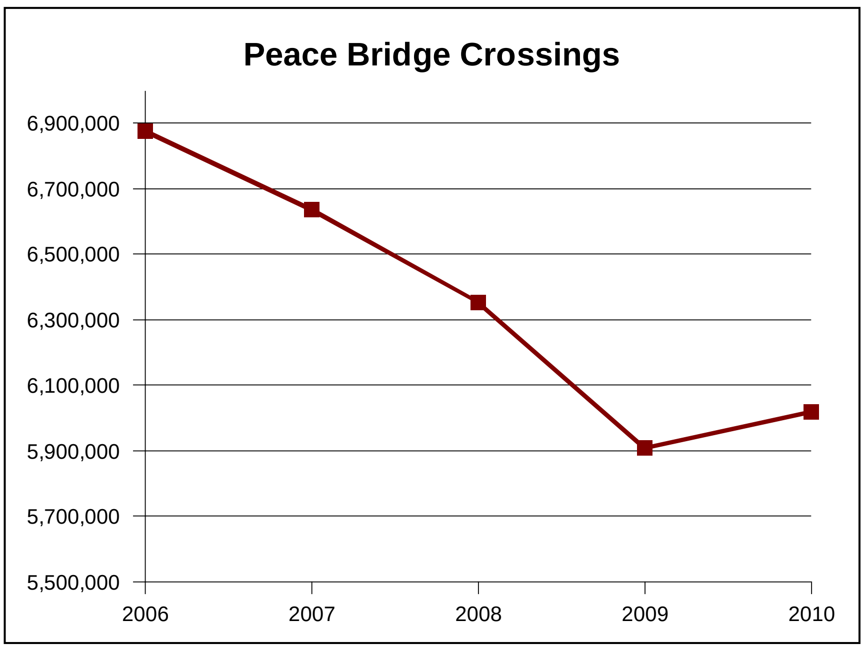
Source: 1998-2005 data provided by The Bridge and Tunnel Operator's Association; 2006-2010 data provided by the PBOA

Figure 3



Source: 1998-2005 data provided by The Bridge and Tunnel Operator's Association; 2006-2010 data provided by the PBOA

Figure 4



Source: Public Border Operators Association

Although there has been a significant downward trend over the past 10 years, traffic has increased slightly over the last year on the three bridges.

Bridge Proponents

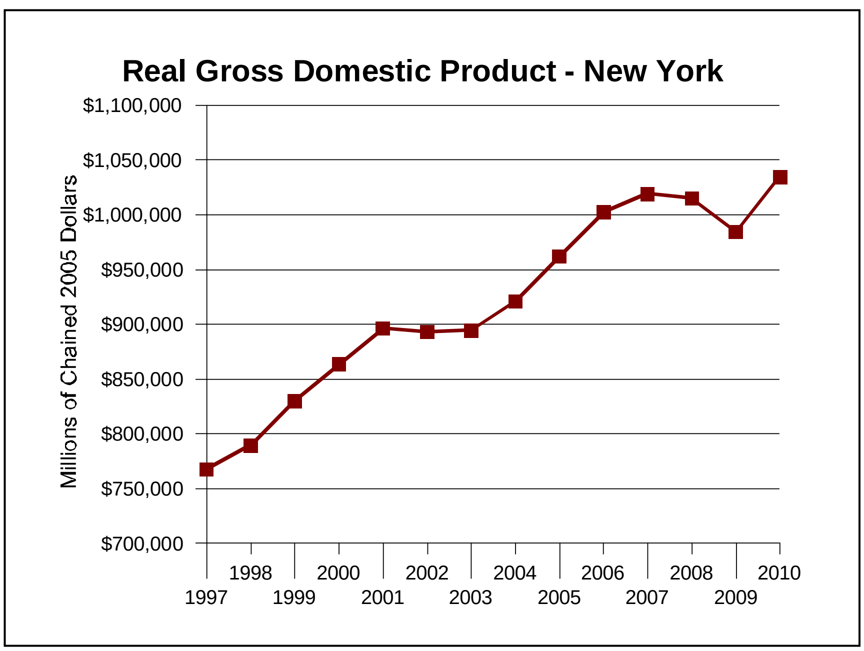
The proponents of the NITC cite several key reasons supporting the claim that a new crossing would help improve infrastructure along the border. The first of these is a new location. The NITC would be built south of the Ambassador Bridge, stretching from the Delray area of Detroit to the Brighton Beach area of Windsor. The new crossing would have direct access to freeways on both sides of the border. Supporters say that these connections, especially to the Canadian Highway 401, would reduce delays and increase efficiency for those crossing the border.

Another benefit of the new location would be security. In the event of a natural or manmade disaster, it is unlikely that both bridges would become incapacitated simultaneously. A second bridge would allow trade between the U.S. and Canada to be more reliable during times of crisis.

According to NITC advocates, the traffic between Michigan and Canada is expected to increase steadily over the next several decades, making a more integrated and updated system vital to keeping up with increasing trade volumes. In the fall of 2009, the Border Transportation Partnership, which was created in 2004 by the Federal Highway Administration, Transport Canada, the Ontario Ministry of Transportation, and the Michigan Department of Transportation, released the Detroit River International Crossing (DRIC) Study report, which projected that truck traffic will increase 128.0% in the next 30 years. It also reported that border infrastructure will surpass capacity by 2033. Proponents claim that current low traffic volumes are the result of two unexpected occurrences: the September 11, 2001, terrorist attacks and the economic recession that began in 2000 and from which Michigan is just beginning to recover.

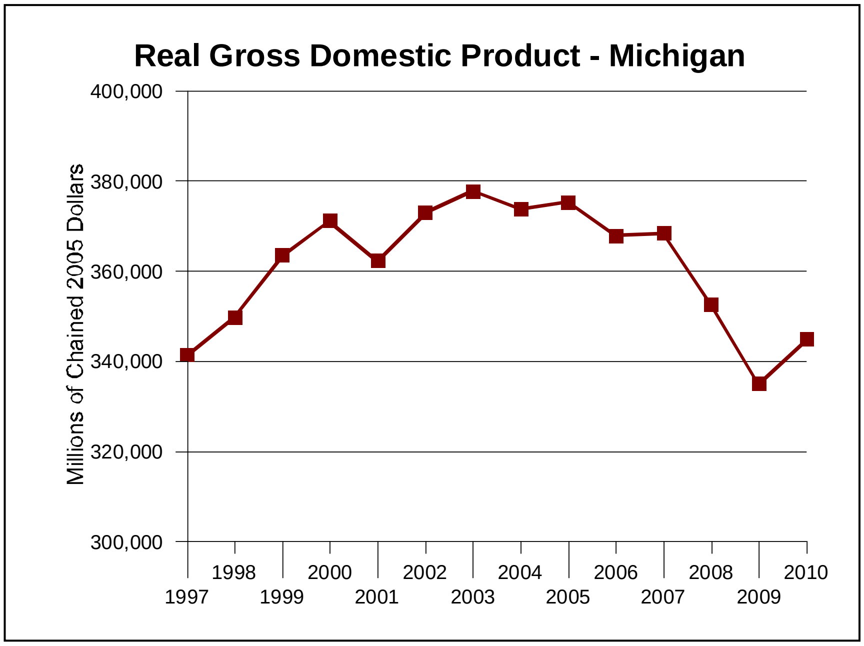
Figures 5 and 6 show the real Gross Domestic Product (GDP) in recent years for both New York and Michigan, two key border states.

Figure 5



Source: U.S. Bureau of Economic Analysis

Figure 6



Source: U.S. Bureau of Economic Analysis

This economic decline in Michigan has contributed to the low traffic levels, but the graphs do not align well with the earlier figures on traffic volume. Traffic began decreasing even before Michigan's economy began to decline, making the economy only one of the factors contributing to lower traffic. "In spite of these unprecedented events [9-11 and the recession] the commercial vehicle traffic over the most recent 25-year period still grew 74 percent", according to the DRIC Study. The Study claims that if the NITC is built, it will capture 34.5% of combined border traffic that must cross in either the Detroit or Buffalo area, making the crossing lucrative for Michigan's economy. If Michigan does not build the NITC, however, New York may build a bridge in the Buffalo area. Supporters of the new bridge, therefore, would like Michigan to act promptly in order to keep business and profits in this State.

The projections concerning traffic and revenue are varied among reports. The proponents of the bridge hold to a June 2010 report released by the DRIC Study, which claims that the bridge will provide more than enough revenue to support the cost:

> The baseline revenue estimates are forecasted in U.S. dollars to generate revenues of close to $70.4 million (nominal dollars) in the opening year (2016) and are expected to grow to $123.5 million by 2025 at an average annual rate of approximately 6.4 percent with ramp-up effects included. The nominal revenues between 2035 and 2065 are projected to grow from $196.1 million to $577.1 million, which reflects a long-term average annual growth rate of 3.7 percent over the 30 year period under a 2.3 percent inflation growth index.

This forecast of revenue, if correct, shows that the bridge would be an affordable infrastructure project.

Other financial options have been presented as reasons why the NITC would benefit the State of Michigan. On April 29, 2010, and again on March 25, 2011, the Canadian government offered to pay $550.0 million to cover Michigan's cost of connecting interchanges and a customs plaza, according to Canada's Minister of Transport. This offer from Canada would have no up-front cost to Michigan for building the bridge. Governor Snyder also has claimed that he will leverage four times the Canadian contribution in Federal funds for the State if the deal is finalized, equaling $2.2 billion (*Detroit Free Press*, "Michigan's recovery depends in large part on new bridge", 4-24-11). The validity of this claim, however, has been disputed.

In addition to the financial benefits, the public-private partnership (P3) that would be designed to oversee and construct the project would place no liability on the taxpayers of Michigan, according to supporters of the NITC. (One detailed proposal for a P3 is found in Senate Bill 410, which presently is in the Senate Committee on Economic Development.) A 2010 report by the Michigan Department of Transportation, however, summarizes potential risks and liabilities involved:

> 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.

The risk to Michigan taxpayers, argue the advocates of the new crossing, would be virtually nonexistent.

Figure 7 shows the division of payments for the proposed crossing. The low financial risk of the NITC could present Michigan with a very prudent business deal, especially in light of the benefits for Michigan business that bridge supporters repeatedly claim would be realized from the new crossing.

Figure 7

	I-75/I Interchange $385.9 M	US Customs Plaza $413.6 M	Bridge $949.1 M	Canadian Customs Plaza $387.6 M	Windsor Essex Parkway $1.4 B

MICHIGAN	$0	$0	$0	$0	$0
GSA	$0	$263.6 M	$0	$0	$0
CANADA	$385.9 M	$150.0 M	$0	$387.6 M	$1.4 B
P3 PARTNER	$0	$0	$949.1 M	$0	$0

GSA = U.S. General Services Administration

Source: Michigan Lt. Governor's office

Proponents also assert that shorter wait times to cross the border can save money for businesses. If border crossing traffic increases rapidly, as earlier discussed, delays, especially at the Ambassador Bridge, are likely to rise. "Michigan could lose up to 25,000 jobs and $4.4 billion in 2030 if the congestion issues at the Detroit River Border are not addressed", said one DRIC Study report. The auto industry is a good example of the effect wait times have on business. Vehicles produced in North America will have crossed the border an average of seven times during their production: "these customs rules and border delays could easily add an extra cost of $800 [$810.17 in U.S. dollars] per vehicle", according to the Waterloo Border Delays Report. Delays cause a serious problem to industry, especially businesses oriented around time-restricted delivery. Advocates of the NITC see the new crossing as the ideal way to address these delay problems, and provide fast, reliable routes from the U.S. to Canada.

Bridge Opponents

Opponents of the NITC argue that the proposed project is less than ideal, and could even be harmful to the State of Michigan. Manuel Moroun, the owner of the Ambassador Bridge and the DIBC, is a key opponent to the NITC. He contends that the low traffic levels, which currently are a little more than half of those in the late 1990s, do not justify the NITC (*Detroit Free Press*, "Detroit-Windsor bridge battle: Separating out the truth", 4-24-11). This lack in traffic brings into question the necessity of a new bridge. The steady decline in traffic over the past decade is the main reason that there is no need to build more infrastructure, argue those against the NITC.

Conflict between the two sides of the argument revolves around the projections of future traffic volumes and the toll revenue the NITC would generate. The DIBC hired Conway MacKenzie, a financial consulting firm, to provide an independent analysis of the costs and profits of the proposed bridge. The results claimed there would be "a shortage of $63.1 million a year", based on current traffic volumes (*Detroit News*, "Moroun: 2nd bridge span could take decade", 5-5-11). According to Conway MacKenzie's projections, by 2035 losses could mount to $4.7 billion, making the new bridge a very costly project. These results differ greatly from the DRIC Study, but each side claims its report to be valid.

Opponents of the NITC contend that the negative effect on private business would be high. The State would be entering into a private market and diverting business from the privately owned DIBC, resulting in a "45 percent reduction in the future anticipated revenue at the Ambassador Bridge", according to the June 2010 DRIC Study report. Not only would the new bridge take profits away from the DIBC's current bridge, but it also could prevent the DIBC from building a second span and "twinning" the current span (erecting a second span that would use the same plazas and roadways). The potential loss incurred by the DIBC is evident in Table 1.

The DIBC questions why the State needs to build its own bridge if the DIBC is ready and willing to build a new span. A privately owned bridge would pay income, property, and Detroit City taxes, as well as link to local freeways, and there would be little to no demolition needed to twin the Ambassador Bridge (*The Daily Tribune*, "Ambassador Bridge owners push for second span, no new bridge", 2-24-11). The DIBC representatives said on June 16, 2011, in testimony before the Senate Economic Development Committee, that when they get the permission of the Canadian and Michigan governments, they will start building their second span "the next day". They argue that the demand of the market, and not the governments of Michigan and Canada, should decide where the bridge is built, and who builds it.

Table 1

Ambassador Bridge Annual Revenue Estimates (In Millions of 2010 Dollars)			
Year	**No NITC**	**NITC Built**	**Difference**
2015	$93.90	$93.90	---
2020	107.60	57.30	($50.30)
2025	125.00	67.30	(57.70)
2030	142.20	76.90	(65.20)
2035	156.60	76.90	(71.60)
2040	169.20	76.90	(77.30)
2045	181.00	76.90	(82.50)
2050	193.30	76.90	(88.20)
2055	205.50	76.90	(93.80)
2060	218.20	76.90	(99.70)

Source: DRIC Study Report, June 2010

Conclusion

Whether the NITC is ultimately built will be decided by the Michigan Legislature. Senate Bill (SB) 410, currently before the Michigan Senate, would create the "New International Trade Crossing Act". The proposed Act would create the Michigan Governmental Authority for an NITC within the Michigan Department of Transportation. The Authority would coordinate efforts in the building of the NITC on behalf of the State of Michigan. For further information on SB 410, please follow the link to the summary of the bill http://www.legislature.mi.gov/documents/2011-2012/billanalysis/Senate/pdf/2011-SFA-0410-S.pdf.

This article has presented findings that indicate that traffic on the various crossings between Michigan and Canada was down over the last decade. However, studies indicate that traffic over the next 30 to 50 years could more than double. In an attempt to get the facts from both sides, the Senate Economic Development Committee has begun hearings on the proposed NITC. It is expected that these hearings will continue over the summer. After all the facts from both sides of the issue are gathered, the Committee will decide on whether to report the bill to the full Senate for passage.

Senate passage of SB 410 is only half the battle. If passed by the Senate, the bill then would go to the Michigan House of Representatives. The only thing that is certain regarding SB 410, or another legislative proposal on the subject, is that Governor Snyder has said that he will sign a bill to create a New International Bridge Crossing.