

## HIGHWAY CONSTRUCTION COST INDEX

Phone: (517) 373-8080  
<http://www.house.mi.gov/hfa>

**Senate Bill 515 (S-1) as passed by the Senate**  
**Sponsor: Sen. Tom Barrett**  
**House Committee: Transportation**  
**Senate Committee: Transportation and Infrastructure**  
**Complete to 6-3-20**

Analysis available at  
<http://www.legislature.mi.gov>

### SUMMARY:

Senate Bill 515 would amend 1951 PA 51 (“Act 51”) to require the Michigan Department of Transportation (MDOT) to create a highway construction cost index to measure inflation in highway construction costs for road and bridge projects in Michigan. The index would have to be created by May 1, 2020.

MDOT would have to use an accepted inflation measurement in creating the index to help project future highway construction costs, and could use a labor cost measurement to help project changes in labor costs for highway construction projects. MDOT could contract with a third party to develop the index.

The State Transportation Commission would have to approve the index. Once the index was approved, MDOT would have to submit a report by June 1, 2020, and quarterly thereafter, to the House and Senate transportation appropriations subcommittees. The report would have to include at least all of the following:

- A historic record of the index.
- A forecast of highway construction cost inflation for the next five years.
- Discussion of labor trends and economic factors that affect highway construction costs.

MDOT would have to post the index and report on its website and make the index and report available for public inspection upon request during reasonable business hours. Upon request from any local unit of government, MDOT would have to make available the methodology and measurements used to create the index.

MDOT could update the index every 10 years and could contract with a third party to do so. Any update would have to be approved by the state transportation commission.

MCL 247.661 and proposed MCL 247.661i

### FISCAL IMPACT:

Senate Bill 515 would require MDOT to create a highway construction cost index to measure inflation in highway construction costs for road and bridge projects in Michigan. The bill authorizes the department to contract with a third party to develop the index. It appears likely that the department would contract with a third party for the development

and maintenance of the index, since this is an activity that falls within the expertise of private or academic economists. Contracting for the development and maintenance of the index would result in some additional cost to the department. The bill does not appear to have a direct fiscal impact on local units of government.

Cost indexes are a way of measuring the impact over time of changes in prices of a select and fixed set of commodities or services. Cost indexes use a starting point date against which to measure price changes.

If properly designed, a highway construction cost index could provide policy makers a *general* measure of the increased cost road and bridge construction over time, a measure more specific to highway construction than other common measures of inflation, such as the Detroit Consumer Price Index.

The Federal Highway Administration maintains a highway construction price index.<sup>1</sup> Some private industry groups, such as the Engineering News Record, maintain indexes of various commodities and services used in the heavy construction industry.<sup>2</sup>

It should be noted that MDOT generally does not directly purchase material, labor, or equipment used in highway construction. Construction project work is performed under construction contracts composed of a number of pay items. Bidders submit unit prices for each construction pay item based on internal estimates of material, labor, and equipment needed to complete the pay items. The contract bids for any specific project are a function of a number local factors including project location, staging requirements, and industry or contractor capacity.

For a number of years, MDOT's Contract Service Division has tracked bid prices for contract pay items as a way of estimating pre-bid contract costs and as a way of determining the reasonableness of bids received by contractors.

Legislative Analyst: Rick Yuille  
Fiscal Analyst: William E. Hamilton

---

■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

---

<sup>1</sup> See <https://www.fhwa.dot.gov/policy/otps/nhcci/desc.cfm>

<sup>2</sup> See [https://www.enr.com/economics/historical\\_indices](https://www.enr.com/economics/historical_indices)