

Senate Fiscal Agency  
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**SFA**



**BILL ANALYSIS**

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Senate Bill 813 (as enrolled)  
Sponsor: Senator Bill Bullard, Jr.  
Committee: Transportation and Tourism

Date Completed: 11-27-01

### **RATIONALE**

Road and bridge construction projects often are huge undertakings, involving hundreds of workers, thousands of tons of material, and many different contractors. Because of the scale of operations, these projects can run into unforeseen expenses; the cost of supplies can increase while a project is ongoing, for example, or the restoration of an existing structure might reveal more decay than expected. A certain amount of cost overrun is anticipated and provided for under Public Act 17 of 1925, which provides for the construction, improvement, and maintenance of trunk line highways. If a cost overrun exceeds a certain amount, however, the Michigan Department of Transportation (MDOT) must seek approval for the additional amount from the State Administrative Board.

The Department also is subject to policies established by the State Transportation Commission. Part of the Commission's responsibility is to audit the Department's operations to make sure extras and overruns do not exceed approved limits. Recently, the Commission increased MDOT's acceptable overrun limits to the amounts specified in the bill. The Department has requested that the amounts subject to Board approval be raised accordingly.

### **CONTENT**

**The bill would amend Public Act 17 of 1925 to increase the amount of contracts the Michigan Department of Transportation may enter into without approval of the State Administrative Board.**

Currently, MDOT is authorized to contract with

boards of county road commissioners, township boards or other State municipalities, and individuals or corporations for the construction, improvement, and maintenance of trunk line highways. The Department must gain approval from the State Administrative Board for any contract amount over \$48,000 per contract for contracts valued at \$800,000 or less, and any amount over 6% per contract for contracts valued at more than \$800,000, if the contract is with a private agency. If the contract is with a county road commission, township board, or municipality of the State, MDOT must seek approval for any amount over \$800,000; however, each job for additional labor in excess of \$100,000 must be approved by the Board.

The bill would increase the limit per contract from \$48,000 to \$80,000 in the case of contracts valued at less than \$800,000; from 6% to 10% in the case of private contracts valued at more than \$800,000; and from \$100,000 to \$250,000 in the case of additional labor costs.

In addition, the bill would authorize MDOT to contract for roadside mowing, roadside park and rest area maintenance, highway drainage, and other highway operational activities. Under the Act, MDOT is allowed to contract for toilet vault cleaning, pickup and disposal of refuse, pavement surfacing and patching, curb replacement, maintenance of office equipment, and other services. The Department is further authorized to subcontract with county road commissioners, township boards, and municipalities for services performed on State trunk line highways, and may do so without Board approval if the subcontract does not exceed

\$20,000. The bill would increase that amount to \$100,000 per subcontract. The bill specifies that this \$100,000 limit would be for total expenditures, including cost overruns and extras. The bill further provides that the dollar amount limits for these highway operational activities would have to be adjusted on February 1 each year, based on the percentage increase or decrease of the Detroit Consumer Price Index for the 12-month State fiscal year, ending the preceding September 30. The adjustment would be determined by multiplying the percentage increase or decrease in the Detroit Consumer Price Index, times the dollar limit provided for these highway operational activities, and adding the product to the dollar limit for the previous year, as adjusted by the bill.

MCL 250.62

## **BACKGROUND**

The State Administrative Board is created in statute (MCL 17.1 et seq.). The Board consists of the Governor, the Lieutenant-Governor, the Secretary of State, the State Treasurer, the Auditor General, the Attorney General, the Director of MDOT, and the Superintendent of Public Instruction. Subject to certain limitations, the Board is required to exercise general supervisory control over the functions and activities of all administrative departments, boards, commissioners, and officers of the State.

The State Transportation Commission is created in Article V, Section 28 of the State Constitution. The Commission consists of six members, including not more than three from the same political party, appointed by the Governor with the advice and consent of the Senate. The Commission is required to establish policies for MDOT transportation programs and facilities, and such other public works of the State, as provided by law.

## **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

In order to allow the State Administrative Board to work in tandem with the State Transportation Commission, keep pace with

the cost of doing business, and pay contractors in a timely manner, the amount of the contracts MDOT may enter into without approval from the State Administrative Board should be increased. The last time the statutory amounts were amended was in 1987, and costs of labor and materials have risen considerably since then.

### **Opposing Argument**

The recent Senate investigation into Detroit Metro Airport operations revealed a system in which building contractors frequently incurred cost overruns but did not seek approval for the increase before they proceeded. To avoid similar problems, any automatic overrun increases should be reconsidered.

**Response:** The Department's construction operations differ from the situation at Detroit Metro in that there are two agencies, the State Board and the Transportation Commission, that oversee spending. The Commission employs 33 auditors who make sure extras and overruns do not exceed approved limits. In addition, the Department's lead engineer must sign off on any extra spending. A tight regulatory system and a bipartisan auditing agency make MDOT's operations vastly different from the situation at Detroit Metro.

Legislative Analyst: C. Layman

## **FISCAL IMPACT**

There would be no fiscal impact on State or local government associated with the changes in contract amounts not requiring approval from the State Administrative Board. The last time the contract amounts were changed was in 1987.

Fiscal Analyst: C. Thiel

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.