



**House
Legislative
Analysis
Section**

Washington Square Building, Suite 1025
Lansing, Michigan 48909
Phone: 517/373-6466

DEPARTMENT OF TRANSPORTATION CONTRACTS

House Bill 4631 as enrolled
Second Analysis (12-2-87)

RECEIVED

Sponsor: Rep. Alvin Hoekman
Committee: Transportation

FEB 04 1988

Michigan State Law Library

THE APPARENT PROBLEM:

At present, the Department of Transportation is required to obtain approval from the State Administrative Board when it contracts for extra work or labor in excess of \$10,000 for contracts with private entities which have a value of \$500,000 or less, or in excess of two percent of the contract amount for contracts having a value over \$500,000. For contracts with boards of county road commissioners, township boards, and municipalities of the state, it must obtain board approval for contracts in excess of \$500,000. The department may contract without approval of the board for an amount not exceeding \$5,000 for each contract for toilet vault cleaning, use of licensed sanitary landfills, pickup and disposal of refuse, pavement surfacing and patching, rental of equipment for emergency repairs and maintenance operations, curb replacement, maintenance of office equipment, installation of utility services, and installation of traffic control devices. Without approval of the board, the department may also authorize boards of county road commissioners, township boards, and municipalities under contracts for the maintenance of trunk line highways to subcontract in amounts up to \$5,000.

In recent years the department has received criticism from contractors and subcontractors due to delays in payment for completed extra work and contract work in excess of the amounts the department is permitted to approve. Both department and industry representatives feel that a more equitable limitation of the department's authority to approve and pay for extra work and contract overruns should be established.

THE CONTENT OF THE BILL:

The bill would amend Public Act 17 of 1925 (which provides for construction, improvement and maintenance of trunk line highways) to increase the amounts for which the Michigan Department of Transportation may contract for extra work or labor, or both, without approval from the State Administrative Board.

For contracts with private agencies having a value of \$800,000 or less, the Department would be able to approve extra work or labor totaling \$48,000 (instead of the present \$10,000 limitation on contracts having a value up to \$500,000); for contracts in excess of \$800,000, it would be able to approve up to six percent of the contract price (instead of the present limit of two percent of the contract price for contracts in excess of \$500,000). Any singular undertaking of extra work in excess of \$100,000, however, would require the approval of the State Administrative Board. The present \$5,000 limit for contracts for toilet vault cleaning, use of licensed sanitary landfills, pickup and disposal of refuse, pavement surfacing and patching, rental of equipment for emergency repairs and maintenance operations, curb replacement, maintenance of office equipment, installation of utility services, and installation of traffic control devices, would be raised to \$20,000. The \$5,000 limit for each county road commission, township and municipality board to subcontract for the

maintenance of trunk line highways also would be raised to \$20,000. Further, the bill would allow the department to enter into contracts in a reasonable amount, without board approval, when emergency action was required, if a written report of the nature of the contract and the emergency were transmitted to the board immediately after the contract was entered into.

MCL 250.62

BACKGROUND INFORMATION:

The Department of Transportation recently completed studies aimed at seeking methods to speed up payments to contractors, and to reduce or improve paperwork for highway contract administration. The first study analyzed 91 contracts which were submitted to the board for approval, during the period 1983-1985, with recommendations for "extras" to the contracts. According to the study, these 91 contracts resulted in 381 recommendations being submitted for board approval. Of these, 357 would not have required board approval if the limits proposed in the bill had been in effect.

The department also completed a study on contract "overruns" submitted to the board for approval, and found that the time involved in processing recommendations to the board and receiving approval of a contract "overrun" letter is approximately one month, while the period of time involved in processing recommendations and contract "extra" letters is two to three months.

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, the bill has no fiscal implications for the state. (6-5-87)

ARGUMENTS:

For:

Highway construction has changed in the last few years: the number of reconstruction type highway projects has increased, while the number of new construction projects has decreased. It is this change, according to the Department of Transportation, that has caused the normal percentage of contract changes and "overruns" to increase. In addition, the cost of projects has increased due to inflation, making the current limit of \$10,000 for "extras" an unreasonable amount.

For:

Studies have shown that the State Administrative Board has not rejected any department recommendations during the last five years. However, the time involved in processing recommendations for "overruns" and "extras" is one to three months, which results in delayed payments to contractors and subcontractors for work which has been completed. This delay has major financial impact on all contractors, both large and small. Minority contractors, especially, find it difficult to maintain working capital when they sometimes have to wait months for payments.

H.B. 4631 (12-2-87)