



Senate Fiscal Agency
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Senate Bill 520 (Substitute S-1 as reported)
Sponsor: Senator Rick Outman
Committee: Transportation and Infrastructure

CONTENT

The bill would amend the Michigan Transportation Fund law to do the following:

- Require the Michigan Department of Transportation (MDOT) to secure pavement warranties for full replacement or appropriate repair for contracted construction work on pavement projects whose costs exceeded \$5.0 million, instead of \$2.0 million.
- Require MDOT to include in its annual report whether a construction contractor had posted a surety bond or had otherwise warrantied the construction work by voluntarily placing its prequalified status as security for replacement or repair.
- Require MDOT to consider a warranty claim and loss of prequalified status when reviewing subsequent applications for prequalified status from a construction contractor or any associated business entity if a construction contractor warrantied construction work by voluntarily placing its prequalified status as security for replacement or repairs.
- Modify a requirement that a county road commission, city, or village secure pavement warranties for full replacement or appropriate repair for contracted construction work on pavement projects whose cost exceeds \$2.0 million.

MCL 247.661 et al.

Legislative Analyst: Tyler VanHuyse

FISCAL IMPACT

The bill likely would have a positive fiscal impact on the Department because of slightly reduced costs for road and bridge construction and maintenance contracts. The bill would have no fiscal impact on local government.

According to the most recent warranty report, the MDOT has 235 warrantied contracts ranging in contract amounts from \$438,000 to \$223.4 million with an average warrantied contract amount of \$14.0 million and a median amount of \$4.2 million. Six warrantied contracts exceed \$100.0 million while 12 are below the \$2.0 million threshold requirement for a warranty. Of the 235 warrantied contracts, 129 would not require a warranty under the proposed language changes. The largest bond amount for warrantied contracts is 5% of the contract or \$1.0 million, whichever is lower. This means that the larger contracts do not automatically require larger bond amounts; a \$100.0 million dollar contract may have the same bond amount (\$1.0 million) as a \$20.0 million dollar contract. It also should not be assumed that a bond will not be included on a contract just because it is not required under MCL 247.661; however, if MDOT stopped requiring a warranty on every contract below \$5.0 million, the potential savings could be as high as \$17.5 million. Reaching the maximum savings amount would be unlikely. A practical estimate would be closer to \$8.0 million to \$10.0 million over a period of several years.

Date Completed: 11-12-19

Fiscal Analyst: Michael Siracuse

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Bill Analysis @ www.senate.michigan.gov/sfa

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