Implications for Schools and Communities Who Use Unsecured Construction Bonds

Hazards for Schools

School construction bonds can be classified as either secured or unsecured. Secured bonds used from the State of Michigan are backed by the faith and credit of the State. State qualified bonds allow school districts to take advantage of a credit enhancement that authorizes the use of the State's bond rating, which may lower the cost of new bonds.

Typically, schools who do not participate in the Michigan School Bond Loan Fund seek unsecured bonds for the purpose of avoiding Michigan's Prevailing Wage Law. The safety of unsecured bonds depends wholly on the faith and credit of the issuer. Unsecured bonds are not backed up by the full faith and credit of the State of Michigan. In case of bankruptcy, unsecured bond claims are taken into account only after the payment claims of secured bonds are honored.

Michigan's Prevailing Wage Law

In 1965, Michigan enacted the Prevailing Wage Act to establish labor rates within construction projects contracted by state and local governments. This act requires public-works contractors to pay trades people no less than the wages that prevail on similar projects within the same region. Included in these specifications are worker benefits, such as health insurance and pension contributions. Use of prevailing wage rates saves taxpayers' money by reducing public health costs and strengthening the local economy and tax base.

Avoiding Michigan's Prevailing Wage Law

- Attracts construction contractors who employ low-wage, low-skill and unsafe workers.
- Appeals to out-of-region construction firms who employ no local workers or minorities.
- Creates environments where serious construction injuries occur.
- Attracts construction contractors who offer little or no health insurance for workers.
- Empowers unqualified construction contractors to avoid drug-free work rules for employees.
- Attracts construction contractors who employ no formal training programs for their workers.
- On large projects, creates a decline in wages of at least 10% of all local construction workers.