

Planning Construction? Let PACIF Review the Contract!

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With many municipal facilities aging, it is not uncommon for members to pursue construction of a new building. While this is generally a major undertaking process that may involve architects, engineers, contractors, legal counsel, and certainly the citizens who ultimately approve funding for the project, don't forget that PACIF can also play a key role.

Most contracts for new buildings are complex enough to require a thorough legal review. This very important step is often best performed by municipal counsel. In addition to construction details and specifying who is responsible for what, the contract will include detailed insurance requirements for the project – contractual obligations for both the contractor and the building owner (municipality). The adequacy of the coverage limits that the contractor must maintain throughout the project, This is where PACIF can help by reviewing the contract's insurance requirements and providing feedback on several elements, such as:

- the adequacy of the coverage limits that the contractor must maintain throughout the project,
- special language or clauses that unnecessarily attempt to transfer risk to the municipality,
- verifying that the municipality's coverage limits meet the contract's requirements, and
- identifying who is responsible for providing builder's risk insurance.

The contract detail about builder's risk insurance is important. These policies cover losses to the building from a variety of perils while it is under construction and may also be extended to cover things like construction materials before they are installed, sewer backups, and materials in transit. This coverage has an important role in protecting the interests of both the building owner and the contractors until the building is occupied. Virtually every construction contract will require it, particularly the ones that use an American Institute of Architects (AIA) template.

The contract will typically specify whether the builder or the building owner (municipality) will obtain and maintain the builder's risk coverage. If the municipality is responsible for purchasing this coverage, PACIF can help. Working with our external insurance partners, we can obtain competitive quotes for coverage that meets your contractual needs.

In summary, when your municipality has received approval to build a new facility, or will be making major renovations to an existing facility, remember to contact PACIF so that we can review the contract from an insurance perspective to make sure it has appropriate coverages, limits, and risk transfer language. We are here to protect your interests. After the contract is signed, we can help you obtain builder's risk coverage if you are required to do so. Not buying builder's risk insurance when you are contractually required to do so unnecessarily exposes your municipality and PACIF to substantial liability risk.

For assistance with contract reviews or getting builder's risk insurance, contact a member of PACIF's underwriting team at 800-649-7915 or underwritingdept@vlct.org.