

VLCT PACIF Guidelines: Insurance Provisions to Add to Municipal Construction Contracts

EXPLANATION:

This file contains sample language and important information (“guidance”) for PACIF members to use in customizing the construction contracts that should be in place before work begins on any contracted project. This customization will require the Contractor to provide adequate amounts of specific types of insurance so that the municipality will not take on an inappropriate amount of risk.

The municipality should use a specially customized contract every time it hires a Contractor. The Contractor usually presents a contract for the municipality to sign, but the municipality should never sign it without first reading it carefully, inserting or editing whatever language is appropriate to protect the municipality’s interests for that particular project, and having the contract reviewed by both the municipal attorney and the municipal insurer (PACIF) before a municipal representative signs it.

DISCLAIMER: *Even the insurance requirements listed here may not be adequate for all contracted projects. Therefore, PACIF strongly recommends that for each project, **after** you have customized the contract and **before** the contract is signed and any contracted work begins, you **have your municipal attorney and PACIF Underwriting staff examine its contractual insurance requirements.** It is also important that you do not repost or distribute this document.*

IN THIS DOCUMENT:

- ***The passages in Italic type (such as this) are guidance*** — explanation to inform and advise the municipality as it customizes each contract. Do not insert this text into a contract.
- ***The passages in regular type (such as this) are sample language*** for the municipality to copy, possibly edit, and insert into the proposed contract.

The paragraph below establishes the quality of every type of insurance that the Contractor is required to provide to protect the municipality.

The Contractor shall agree to provide and maintain the following types and limits of insurance for the term of the contract. This insurance shall be obtained from an insurer having an A.M. Best Insurance Rating of at least A- in a financial size category of VII or greater.

Minimum Insurance Coverage Requirements for All Contracts

Most of this document is a list of the major lines of insurance coverage and the minimal amount of each that the Contractor must show proof of. Each line of coverage is listed here with a heading and accompanying text.

Commercial General Liability Insurance:

Commercial General Liability Insurance including but not limited to Bodily Injury, Personal/Advertising Injury, Broad Form Property Damage, Products and Completed Operations Liability and Contractual Liability with limits of at least \$1,000,000 per occurrence and \$2,000,000 in the aggregate annually.

Commercial Auto Liability Insurance:

Commercial Auto Liability Insurance covering all Owned & Hired and Non-Owned vehicles, with limits of at least \$1,000,000 Combined Single Limit per occurrence.

Workers' Compensation and Employers Liability Insurances:

Statutory Workers' Compensation Insurance and Employers Liability Insurance with limits of at least \$1,000,000 per occurrence.

Note: \$500,000 is the most common limit for Employers Liability coverage, so the contractor will likely need to pay a little extra to increase it to \$1,000,000.

"Optional" Insurance Coverage Requirements

*The type and scope of the project might necessitate any of the following additional coverages. **Prior to hiring the Contractor**, check with VLCT PACIF to determine whether any of these coverages are necessary for the particular project. After consulting with PACIF, use only the paragraphs in this section that are appropriate for your contract and exposures.*

Property Insurance:

"Open Perils" property coverage on a full replacement cost basis for all of the Contractor's real and personal property and the personal property of others in the Contractor's care, custody, or control located on or in any of the Named Member's premises.

Professional Liability Insurance:

This refers to Errors and Omissions Coverage, which is typically required from accountants, lawyers, architects, engineers, and surveyors.

Professional Liability Insurance for \$1,000,000 per occurrence and \$2,000,000 in the aggregate annually.

***Note:** If the project is especially expensive or large, you might choose to require Professional Liability "project coverage" to for your project. This coverage is very expensive and it is highly likely that the cost would ultimately be passed through to your municipality.*

Medical Professional Liability Coverage:

This coverage should be required any time your municipality establishes a contract with a medical professional.

Medical Professional Liability Coverage for \$1,000,000 per occurrence and \$3,000,000 in the annual aggregate.

Certificates of Insurance:

Before signing this contract and before work begins, the Contractor shall provide the municipality with one or more Certificate(s) of Insurance showing evidence of all coverages required above and naming the municipality as an Additional Insured.

All Certificates shall contain a provision stating that the coverages afforded under said policies will not be cancelled, materially changed, or not renewed without thirty (30) days written prior notice to the municipality, except ten (10) days for non-payment of premium.

IMPORTANT:

All Subcontractors must comply with the same insurance requirements as the Contractor.