

Managing Risk with Contracts and Contractors

Municipalities are in the business of providing services to the people who live within the municipal boundaries. Some municipalities have the resources to provide many services on their own, yet most will also rely on third-party vendors (contractors) to assist them with various elements related to their operation.

While municipalities enter into agreements with external parties for a wide range of services and equipment, the most common are:

- Information systems setup/management, network administration, email hosting, website services, and other IT-related functions
- Sand and road salt purchase or application
- Office equipment leasing/rental
- Infrastructure repairs (roads, traffic controls, sidewalks, water/wastewater lines, etc.)
- Engineering evaluations
- Custodial services and general facility maintenance
- Facility repairs
- Leasing of municipal roof space for the placement of solar panels
- E-bike rental or leasing
- Charging station placement
- Law enforcement or fire services (often with nearby municipalities)
- New construction or renovations of existing facilities

The one thing these have in common is that **they should all have a contract or agreement**. Such a document will specify the promises of both parties and contain important information such as insurance specifications, language regarding the assumption of liability risk, payment requirements, the period of the contract, termination stipulations, and many more important details. VLCT has developed [two model contract documents](#) that members may find useful.

Because contracts and agreements are legally binding documents, **the best practice is to have them reviewed by municipal legal counsel**. In addition, **PACIF Underwriting is also**

happy to review draft contracts to ensure that the insurance related requirements protect the member adequately.

Contracts for building construction and renovation are more complex than most other contracts because architects, engineering firms, a general contractor, and even a clerk of the works may be involved in the project – not to mention that these projects can commonly run into millions of dollars. These contracts can be quite lengthy and almost always include a provision for one party to obtain an all-risk builder's risk policy. **PACIF can help place the builder's risk coverage** if the municipality is required by contract to obtain it. We also encourage members to **send us construction contracts before they are signed so that we can review the insurance and risk transfer language**. As already mentioned, these contracts should also be reviewed by municipal counsel. [Find more information about reducing risk in construction contracts here.](#)

In summary, we recognize that municipalities engage in many different types of contract with third parties for services, equipment, and to meet a wide range of needs. The vast majority of these relationships should have a written agreement or contract in place. Ensuring that these documents are reviewed by legal counsel and also by your insurance partner, PACIF, goes a long way to protecting your municipality from inappropriately assuming liability risks and protecting the municipality's bottom line.

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.