



Risk & Insurance Implications due to Project Delays

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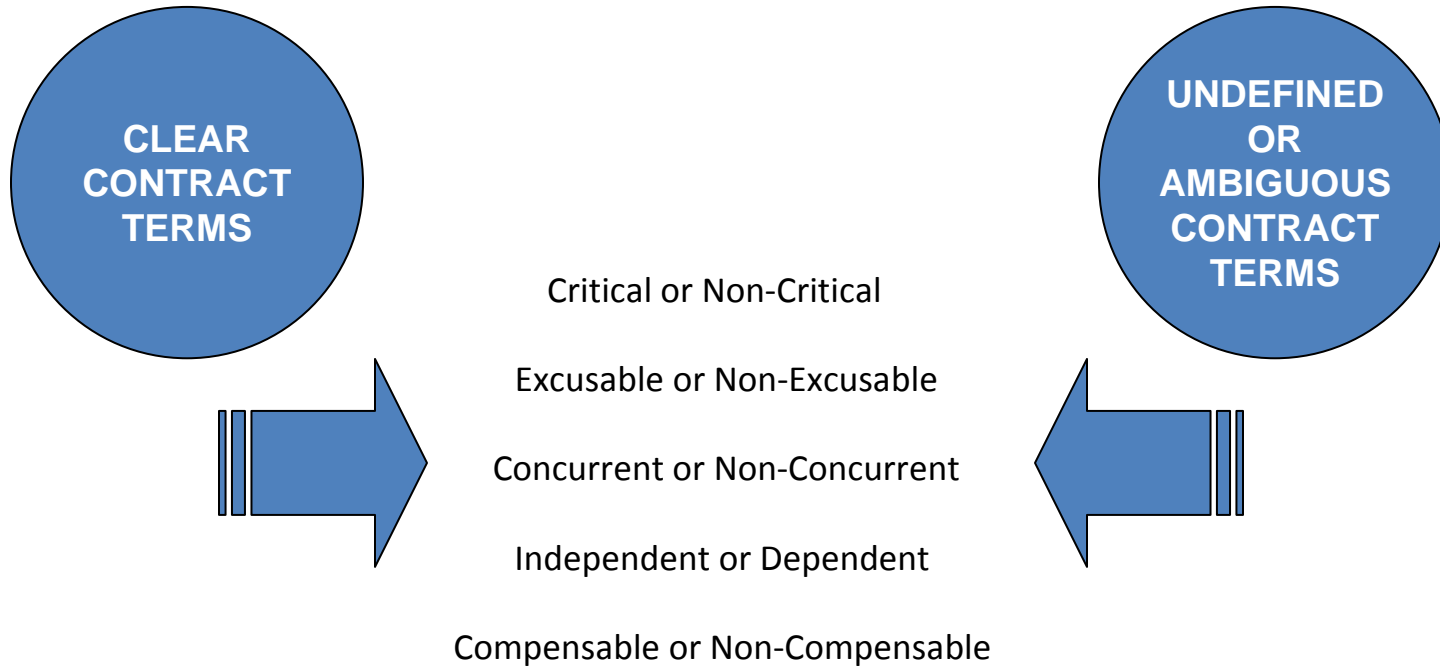
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WHAT CONSTITUTES A PROJECT DELAY?



MAJOR CAUSES OF PROJECT DELAYS

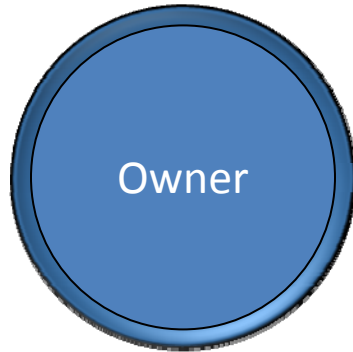
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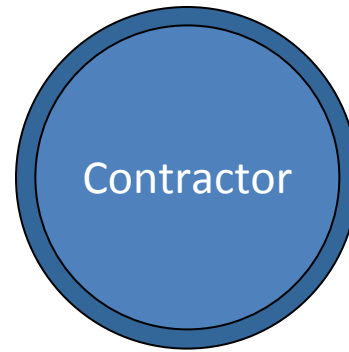
MAJOR CAUSES OF PROJECT DELAYS

- Improper planning
- Poor management
- Differing site conditions
- Permits and approvals
- Lack of project funding
- Regulatory changes
- Failure to provide site access
- Defective drawings
- Environmental issues
- Major subcontractor default
- Change in scope of work
- Labor shortages
- Productivity issues
- Document review/approval
- Testing and inspections
- Inclement weather
- Force majeure events
- Materials shortages/delays
- Failure to accept completed work
- Major site accidents

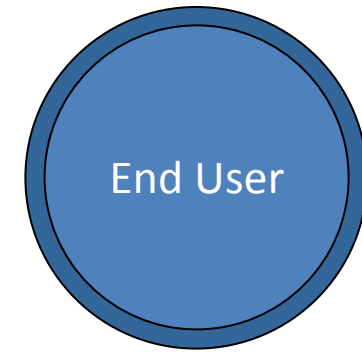
MAJOR EFFECTS OF PROJECT DELAYS



- Loss of Use
- Loss of Revenue
- Higher Project Costs
- Higher Financing Costs



- Acceleration Costs
- Material Escalation
- Increased G&A
- Lost Interest
- Preservation of Property
- Demolition Costs
- Contractual Penalties
- Missed Opportunities
- Strain on Cash Flow
- Reputational Issues



- Loss of Use
- Temporary Costs
- Aggravation
- Noise Issues
- Dust Issues
- Safety Issues
- Traffic Concerns

IMPACT OF PROJECT DELAYS ON INSURANCE PROGRAMS

AFFECTED PROGRAMS



- Workers' Compensation
- General Liability
- Umbrella Liability
- Builder's Risk
- Contractor's Pollution
- Professional Liability
- Surety Bonding
- Subguard

IMPACT OF PROJECT DELAYS ON INSURANCE PROGRAMS

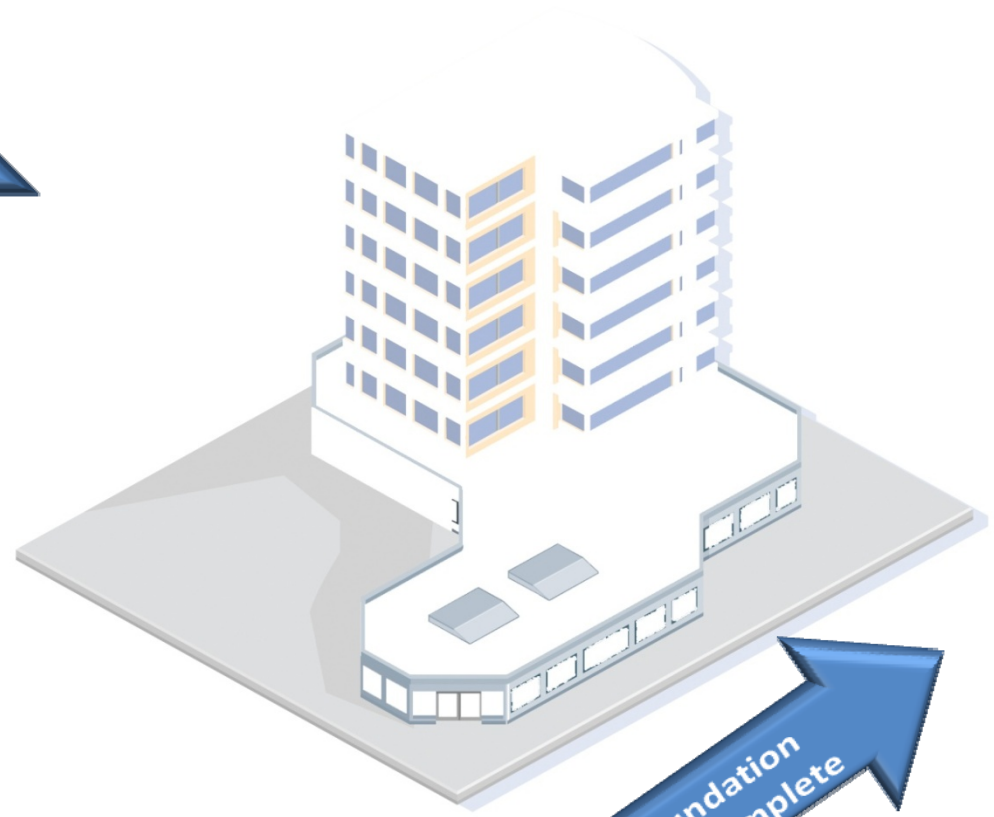
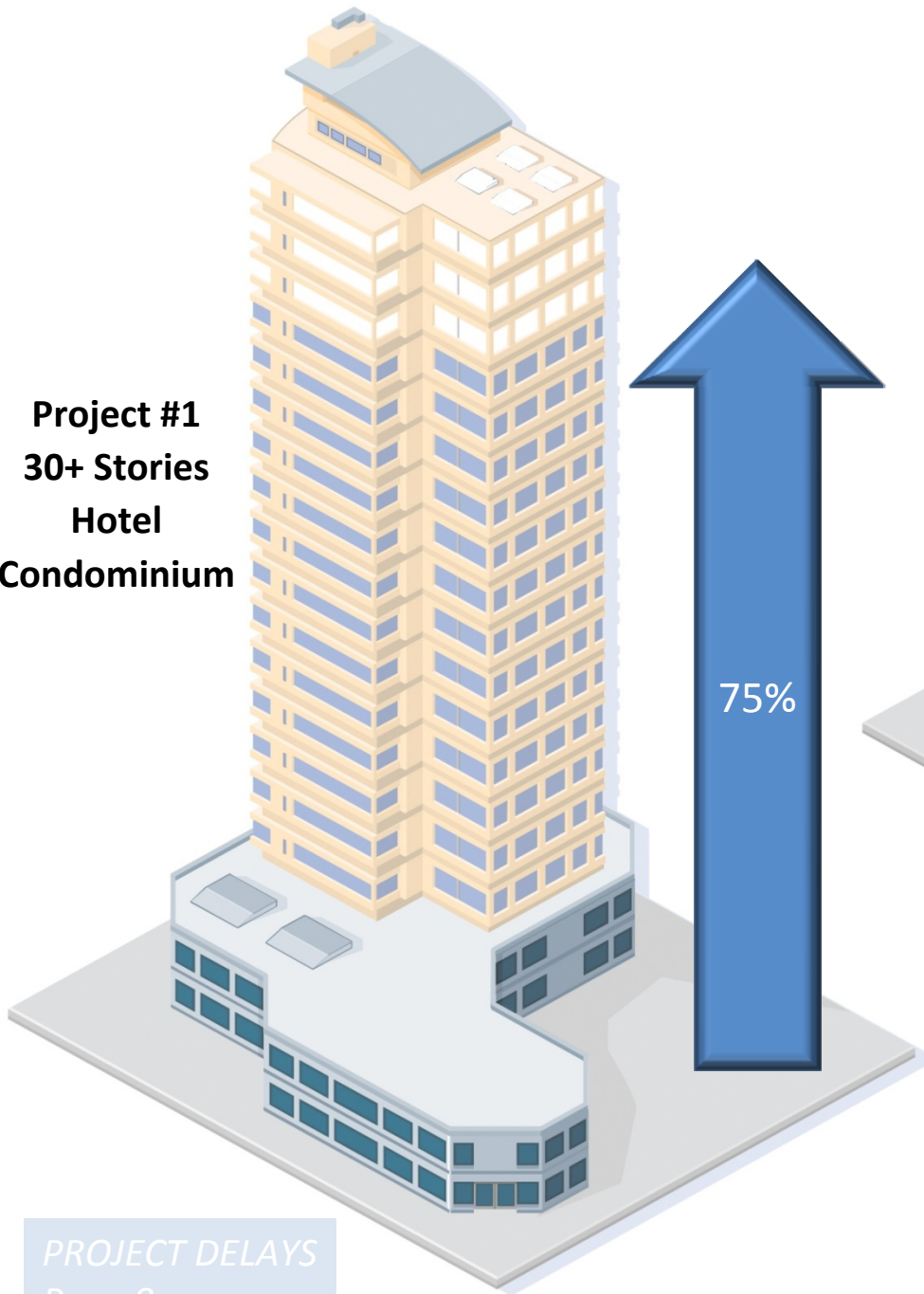
AFFECTED TERMS & CONDITIONS

- Policy Term
- Minimum Premium
- Maximum Rate
- Collateral Obligation
- Payment Plan
- Completed Operations
- Cancellation Clause
- Minimum Volume
- Preservation of Property
- Delay in Start Up
- Notice of Claim

Case Study

Owner	Developer
Type of Project	Two Mixed Use Construction Towers
Cause for Delay	Lack of Funding for Second Phase of Project
Type of Wrap-Up	Owner Controlled Insurance Program (OCIP)
Construction Value	\$125,000,000+

Project #1
30+ Stories
Hotel
Condominium



Project #2
10+ Stores/Hotel

Case Study

Key Program Issues	<ul style="list-style-type: none"> • Limited time constraint, 30 months to complete the two projects. Construction on the second project was delayed by a year. • Premium payments contemplated construction of both projects. • Collateral requirement was based on projected losses for both projects. • There was no further funding for the insurance costs related to completing the foundation on the second project. • Once the foundation was completed there was a need to insure the dormant site. • Once the financing was obtained (for second project), coverage would need to resume. • A new completion date would need to be established for the second project.
Negotiation Strategy	<ul style="list-style-type: none"> • Negotiate a reduction in premium to reflect a single site but maintain coverage for the second site's foundation. • Get carrier to reduce the collateral requirement to reflect only one project. • Procure a site-specific dormant policy. • Once new funding is obtained, extend policy period to cover both projects through completion.
Results Obtained	<ul style="list-style-type: none"> • Continuation of OCIP at reduced construction values with minor rate increase was secured. • Carrier agreed to include coverage for the completion of the foundation for no additional premium. • Carrier agreed to waive any future collateral step ups until project resumed. • A vacant site GL policy was obtained to protect the second project's foundation for a nominal cost. • A coverage extension of 6 months was secured once financing was obtained for no additional premium. • The maximum rate on the program was reduced significantly. • The collateral obligation was reduced significantly with no step up required until project resumption.

PROJECT LOCATION WHY IT MATTERS

- All states and towns/cities have varying laws and local codes
- Discuss with local counsel your responsibilities and liabilities regarding the project site
- Work with local counsel to produce a list of mandatory tasks to eliminate/reduce exposure for the construction site

RISK & INSURANCE MITIGATION STRATEGIES

KEY TAKE AWAYS

- ☑ Policy Term grace period
- ☑ Eliminate minimum premium requirement
- ☑ Negotiate collateral step ups
- ☑ Payment Terms
- ☑ Acceleration costs wording
- ☑ Wrap-Ups: parties should have copies of policies
- ☑ Negotiate pro-rata cancellation provisions
- ☑ Have a back-up insurer strategy
- ☑ Determine the need for a site-specific policy
- ☑ Ensure preservation of property
- ☑ Site security
- ☑ Understand notice of claim to preserve policy rights

RISK MITIGATION STRATEGIES – BEYOND INSURANCE PREPARING FOR THE DELAY IN ADVANCE

- Take advantage of the “present” and document today
- Construction schedules and daily construction reports are key
- Make sure all human resource files are up to date
- Convert files to digital ones

RISK MITIGATION STRATEGIES – BEYOND INSURANCE

KEY DELAY DOCUMENTATION

- ☑ Construction schedules
- ☑ Meeting minutes
- ☑ Daily logs and diaries
- ☑ Change order logs
- ☑ Inspection & progress reports
- ☑ Cost accounting records
- ☑ Construction contracts
- ☑ Invoices
- ☑ Purchase orders
- ☑ Estimates and bids
- ☑ Equipment use logs
- ☑ Financial statements
- ☑ Reports to sureties
- ☑ Claim notice



PROJECT DELAYS

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