

# 7 Bonds, Insurance, and Taxes

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# 7 Bonds, Insurance, and Taxes

This chapter addresses the provision of bonds and insurance pursuant to construction and A/E contracts.

## 7.1 Bonds

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### 7.1.1 General

### 7.1.2 Performance and Payment Bonds for Construction Contracts

#### 7.1.2.a General

##### 7.1.2.a-10 *Receipt and Review of Construction Bonds*

Prior to award of contract, review the performance and payment bonds to ensure the amounts are correct. Check Treasury Department Circular 570 to ensure (1) the surety company identified for bonding appears on the list and (2) the amount of the bond does not exceed the underwriting limit stated for the surety.

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##### 7.1.2.a.5 *Amount*

##### 7.1.2.a.5-10 *Calculation of Bond Amount for Indefinite-Quantity Construction Contracts*

See PM 7.1.2.a.5.

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#### 7.1.2.b **Notice to Sureties**

Review the bonds to determine when notice to the surety is required. Consider sending notice to the surety, or copying the surety on letters to the contractor, in the following situations:

- a. The supplier demonstrates ongoing problems in performance.
- b. Termination for convenience or default is being considered.
- c. Credible notice is received from the subcontractor(s) that contract payments are not being received from the contractor.

Promptly notify the surety when the contractor's contract is terminated for convenience or default.

- 7.1.3 **Performance and Payment Bonds for Other Than Construction Contracts** 
- 7.1.4 **Patent Infringement Bonds** 
- 7.1.5 **Fidelity Bonds**
- 7.1.6 **Contract Postal Unit Bonds**
- 7.1.7 **Other Types of Bonds** 
- 7.1.8 **Execution of Bonds** 
- 7.1.9 **Sureties** 
- 7.1.10 **Contract Administration** 

## 7.2 **Insurance**

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- 7.2.1 **Policy** 
- 7.2.1-10 ***Insurance Requirements Under A/E and Construction Contracts***

The contracting officer considers the following to determine the appropriate types and levels of insurance coverage to require under A/E and construction contracts:

- a. Special, unusual, or hazardous circumstances including environmental conditions (for example, demolition, excavation, past use of the site, construction methods likely to be employed, and damage to adjoining property).
- b. Risk of third party damages.
- c. Value of Postal Service property involved.
- d. Value of the contract involved.

7.2.2 **Types of Insurance** 

7.2.2-10 ***Builder's Risk Insurance***

In accordance with Clause FB-263, *Builder's Risk Insurance*, the Postal Service does not carry builder's risk insurance coverage. The contractor may elect to do so at its own expense. Builder's risk insurance covers the contractor's responsibility for physical loss or damage to the construction, temporary buildings, and work in transit prior to acceptance by the Postal Service.

7.2.2-20 ***Environmental Liability Insurance***

The contracting officer should require a minimum of \$1,000,000 environmental liability insurance for environmental A/E or construction contracts, and, in consultation with the purchase team, should give consideration to requiring higher coverage.

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7.2.2.b ***General Liability Insurance***

The contracting officer must require construction contractors and construction management support services contractors to carry general liability insurance in at least the amounts set forth in PM 7.2.2.b.1, and, in consultation with the purchase team, should give strong consideration to requiring higher coverages. Construction and construction management contracts must include Clause 7-4, *Insurance*, as modified to reflect appropriate levels of insurance coverage. Construction and construction management contracts must also include Clause B-39, *Indemnification*.

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7.2.3 **Self-Insurance** 

7.2.4 **Errors and Omissions Insurance** 

7.2.4-10 ***Coverage for A/E Errors and Omissions***

Before entering into a contract with an A/E firm, the contracting officer must ensure that the firm has errors and omissions (malpractice) insurance and that the level of coverage is commensurate with the size, scope, and complexity of the design contract. Follow these guidelines to determine the level of coverage:

- a. For projects with an estimated construction cost of \$5,000,000 or less, the \$200,000 coverage required by PM 7.2.4.b is considered the minimum coverage.
- b. For projects with a construction cost estimated to exceed \$5,000,000, coverage equal to a minimum of five percent of the construction cost estimate or \$500,000, whichever is greater, should be specified.

Review the insurance coverage to ensure the required coverage is not subject to offsets and deductibles.

7.2.4-11 ***Commerce Business Daily Announcement Requirements***

Include the requirement for errors and omissions insurance in the *Commerce Business Daily* announcement.

7.2.4-12 ***Waiver of A/E Errors and Omissions Insurance***

The contracting officer may consider waiving the requirement for A/E errors and omissions insurance in accordance with PM 7.2.4.c.

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## 7.3 **Taxes**

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