**Building Ordinance & Law Coverage - Why you need it!**

All towns, cities and municipalities have building ordinances or laws with regards to building construction. When a building or structure is built, it must meet all current building codes. However, a building which is built to code at one time may be out of compliance at a later date. Most building and zoning laws include a "grandfather" clause that permits existing structures to continue in use without the need to conform to the new requirements. However, when a loss is suffered, additional upgrades may be required in order to comply with building codes that have changed over time. This may include regulations relating to roofs, windows, electrical components, railings and fire protection. In addition, jurisdictions have a major damage threshold requiring an entire structure to be torn down and brought up to code even when only a portion of the structure is damaged. The major damage threshold in Palm Beach County is 50% of the market value (not replacement cost) of the building.

Standard property policies are written on a replacement cost basis (like kind & quality) with the intention of returning the actual physical structure to the condition it was in prior to a covered loss and nothing more. An insurance policy is not intended to improve the building, and compliance with the most recent codes is considered an upgrade to the building.

The property coverage form specifically excludes the increased cost of rebuilding, repair or remodeling created by the application of local, state and federal building codes.

Therefore, the standard policy must be enhanced to include building ordinance or law coverage to fill in the gaps.

**How does it Work?**

Ordinance or law coverage has three distinct parts:

*Coverage A* – loss to the undamaged portion of the building

*Coverage B* – cost to demolish the undamaged portion of the building

*Coverage C* – increased cost of construction

Ordinance or law coverage is triggered when there is a loss by a covered peril and the loss breaches the major damage threshold, as defined by the local jurisdiction, and the building lacks some aspect of the local building code.

***Example -***

ABC Condominium Association is a 2 story condominium built in 1975 with a replacement cost value of $1,000,000. The association suffers a fire causing $650,000 in damage to the building exceeding 50% of the market value and triggering the ordinance & law coverage. As a result, the association is required to not only replace the damaged portion but also to demolish the undamaged portion and bring the entire structure up to code.

The total loss, including the undamaged portion of the building, demolition and increased cost of construction, is $1,050,000. ABC Condominium purchases Ordinance & Law coverage and is afforded with policy limits for Coverage A and has an additional limit equal to $50,000 for Coverage B & Coverage C. As a result, the claim payment totals $1,050,000. If ABC Condominium had elected not to purchase Ordinance & Law, the policy would only cover the loss to the damaged portion of the building, or $650,000. ABC Condominium would then be responsible for the additional $400,000. Below is an illustration outlining the following: the total loss; payment with Ordinance & Law coverage; payment without Ordinance & Law coverage.

*\*\*\*\*\*The claim payment in this example assumes deductibles have been satisfied and the building is adequately insured to value, thereby eliminating deductions for coinsurance*.

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| --- | --- | --- | --- | --- |
| ***Example 1*** |  |  |  |  |
| **Building Value** | $1,000,000  |   |   |   |
| **Value of Loss Caused by the fire** | $650,000  |  |  |   |
| **Value of the loss including the undamaged portion of the bldg., demolition & increased cost of construction** | $1,050,000  |   |   |   |
| **Claim Payment Comparison** |   | Actual Loss | Paid w/ Ordinance & Law | Paid w/out Ordinance & Law |
| **Building Damage** |   | $650,000  | $650,000  | $650,000  |
| **Coverage A - Value of Undamaged Portion of the Bldg.** |  | $350,000  | $350,000  | $0  |
| **Coverage B - Demolition** |  | $20,000  | $20,000  | 0 |
| **Coverage C - Increased Cost of Construction** |   | $30,000  | $30,000  | 0 |
|  |  |  |  |   |
| **Total** |   | $1,050,000  | $1,050,000  | $650,000  |

**How much Ordinance & Law Should be Purchased?**

For Coverage A, the building limit on the policy applies to the undamaged portion of the building. It is important to have a recent appraisal and insure to 100% of the replacement cost value. For coverage B & C, the limit is typically in addition to (although sometimes it can be part of) the building limit. This is not an exact science. When choosing a limit, the cost to demolish as well as any additional requirements (to comply with current code) should be taken into consideration.