



# Finance Committee

*City of Arts & Innovation*

TO: FINANCE COMMITTEE MEMBERS DATE: MAY 11, 2016

FROM: FINANCE DEPARTMENT WARDS: ALL  
PUBLIC WORKS DEPARTMENT

SUBJECT: REVIEW OF A SERVICE LINE HOME WARRANTY PROGRAM - DIRECT SUBMITTAL

## **ISSUE:**

The issue for consideration is to direct City staff to analyze whether the City should consider a partnership with a service line home warranty program provider and the potential impact that this partnership would have on City services and homeowners.

## **RECOMMENDATION:**

That the Finance Committee receive this report and provide policy direction to staff regarding home warranty program partnerships.

## **BACKGROUND:**

The City has recently been approached by two home warranty service providers: HomeServe USA and Utility Service Partners, Inc. regarding the City's interest in entering into a partnership to offer residents a service line home warranty program. Their business model is to partner with cities and utilities, who allow them to say "supported by" in their marketing efforts and in turn the city or utility has the option to receive royalty payments for each warranty policy sold to homeowners within their jurisdiction. If a homeowner decides to enroll in the program, they will sign a policy contract with the service provider directly and not the City. Programs are at no cost to the City and no public funds would be used to administer the program.

## **HOW DOES THIS PROGRAM SERVE HOMEOWNERS?**

The Service Line Warranty Program is a way for homeowners to voluntarily enroll in warranty protection against normal wear and tear on external water and sewer lines and internal plumbing and electric, which may not be covered under traditional homeowner insurance policies. The warranty program provides repairs and preventative maintenance to the portion of water or sewer lines that run between the exterior of the home to the main connection that are the responsibility of the homeowner.

This program does not include City owned service lines. Homeowners choose to participate through a monthly or annual cost structure for coverage amounts that would vary based on

program providers and the type of policy coverage the homeowner decides to select. On average, monthly sewer line coverage is approximately \$10 per month and external waterline and internal plumbing run approximately \$7 each per service coverage.

## **DISCUSSION:**

Below is a summary of the two home warranty service providers that have contacted the City with interest in entering into a partnership to offer residents a service line home warranty program as well as an analysis of potential royalty revenue and summary of the program benefits and concerns.

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### *UTILITY SERVICE PARTNER, INC.:*

#### *Utility Service Partner, Inc. Background*

Utility Service Partners (USP), out of Canonsburg, Pennsylvania, provides warranties for residential water and sewer service (external) as well basic internal plumbing. USP provides a service line home warranty program, which has been endorsed by the National League of Cities (NLC) since 2010. The City's Community and Economic Development Department was approached by NLC to discuss USP's program offerings and opportunities for revenue generation by the City. USP d/b/a Service Line Warranties of America (SLWA) administers the service for NLC Service Line Program. The services are offered nationally to over 270 municipalities for sewer or water line repair and replacement. Currently, cities such as San Diego, Phoenix and Atlanta are partnering with USP to offer this program to their homeowners.

USP received an A+ Accredited Better Business Bureau (BBB) rating for nearly a decade and received less than a handful of complaints over the last three years and USP handled these complaints satisfactorily.

#### *Utility Service Partner, Inc. Products:*

The warranties cost between \$7 to \$10 each per month per service coverage selected and would total about \$25 per month or \$300 per year for all three warranties. There are certain exclusions, but they are nominal. Warranty coverage usually begins about 30 days after enrollment, but during the initial enrollment period, the 30-day period is waived.

| Name             | Coverage   | Monthly Pricing (\$) | Annual Pricing (\$) | Limits (Per Occurrence) |
|------------------|--|----------------------|---------------------|-------------------------|
| Outside Water    | Edge of home to point of municipal responsibility              | \$6.75               | \$76.00             | \$4,000*                |
| Outside Sanitary | Edge of home to point of municipal responsibility              | \$9.75               | \$112.00            | \$4,000*                |
| In-Home Plumbing | Edge of home to edge of appliances/fixtures (i.e. piping only) | \$6.99               | \$78.99             | \$3,000                 |

\*Additional \$4,000 if public street impacted and \$500 if public sidewalk impacted

### *Coverage Highlights:*

- Warranty coverage with an additional allowance for public street and sidewalk cutting
  - Warranty covers failures due to normal wear and tear, including age, ground shifting, fluctuating temperatures, tree root invasion and frozen lines
  - Participation is voluntary and warranties can be cancelled at any time
  - No service fees, deductibles, permit fees, or lifetime or annual limits
  - Around-the-clock claims hotline, including weekends and holidays
  - Only licensed, local contractors are used for all repairs
  - All repairs are made to local code requirements
  - Most repairs are completed within 24 hours
  - USP handles all aspects of the program and it is offered at no cost to the City
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### *HOMESERVE USA:*

#### *Homeserve USA Background:*

HomeServe USA, out of Norwalk, Connecticut, provides home warranties for residential water, sewer, electrical and gas service (external) as well as interior plumbing and drainage, gas line, electrical line water heater and HVAC coverage. HomeServe also covers the cost to replace outside water/sewer lines should it fail.

Riverside Public Utilities (RPU) has met with a representative from HomeServe to discuss program offerings for City homeowners. Currently, HomeServe provides warranty services to over 7,000 residents in the City of Riverside outside of a formal partnership arrangement. Representatives from HomeServe USA indicated that in 2015, there were close to 1,500 repairs, saving Riverside homeowners over \$800,000 in out-of-pocket repair costs. Several water utilities in the state of California are currently partnering with HomeServe to reach their customers using this program. These agencies include San Jose Water Company, Alameda County Water District and Contra Costa Water District.

HomeServe received an A+ Accredited Better Business Bureau (BBB) rating for the length of time the business has been operating and the resolution of complaints filed. HomeServe has over 220 complaints closed in the last 3 years through BBB, with 77 being closed in the last 12 months. In addition, HomeServe was the recipient of two Gold Stevie Business Awards for customer service.

#### *Homeserve USA Products:*

The warranties cost between \$5 to \$17 each and would total about \$45 per month or a total of \$550 per year for four to five separate warranty policies. There are certain exclusions that include damage caused by large natural disaster, direct damage due to homeowner negligence or upgrades due to citywide mandates. Warranty coverage usually begins about 30 days after enrollment. Monthly pricing on warranties are based on regional pricing, not on individual home basis and there are no out of pocket deductibles.

| Name                    | Coverage  | Monthly Pricing (\$) | Annual Pricing (\$) | Limits (Annually)  |
|-------------------------|---|----------------------|---------------------|--------------------|
| Outside Water           | Edge of home to point of municipal responsibility   | \$5 - \$5.99         | \$70 - \$80         | \$10,000           |
| Outside Sanitary        | Edge of home to point of municipal responsibility   | \$8.50 – \$12.99     | \$105 - \$145       | \$7,000 - \$10,000 |
| Outside Electrical      | Repairs service cable and exterior weatherhead  | \$4.99               | \$60                | \$3,000            |
| Outside/Inside Gas Line | All gas piping within the home, up to meter and including piping going to any exterior features               | \$4.99               | \$60                | \$1,250            |
| In-Home Plumbing        | All internal plumbing and drainage lines within the home (Covers slab cutting)                                | \$14.50-\$17.00      | \$175-\$205         | \$2,500            |
| In-Home Electrical      | Repairs and, if they cannot be fixed, replaced breaker panel, standard light switches and outlets inside home | \$4.99               | \$60                | \$1,250            |
| HVAC                    | Air conditioning coils most all components within unit  | \$13.99              | \$170               | \$2,000            |
| Heating                 | Heating and most all components within unit   | \$12.99              | \$155               | \$2,000            |
| Water Heater            | Electric and Gas water heater   | \$6.99               | \$85                | \$1,000            |
| Surge Product           | Electrical surges that can cause mechanical or electronic damages (no lightning)                              | \$7.50               | \$90                | \$5,000            |

#### *Coverage Highlights:*

- Locally based, fully licensed and qualified contractors rapidly dispatched
- No deductibles, call out fees or out of pocket expense
- Guaranteed repairs
- No pre-inspection before joining
- Toll-free emergency number members can call 24 hours a day, 365 days a year

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#### *POTENTIAL REVENUE:*

Communities and water/sewer utilities have the opportunity to receive outside revenues through these programs by partnering with these home warranty vendors. Cities can receive royalties for endorsing a particular provider for policies sold and annual licensing fees revenue. Staff's initial

research indicates that jurisdictions often structure the partnership contracts differently and that such revenue streams are negotiated on a case by case basis with the warranty vendor.

#### *Potential Royalties through USP:*

Through this partnership, the standard program offering for cities to receive an annual royalty is about \$0.75 per month per paid warranty contract. Assuming the vendor enrolls 10,000 policies for service in year one, then the policy per customer rate of the annual revenue will be \$90,000. In addition, research found that cities can negotiate for annual licensing fees and/or royalty payments through USP. For example, the City of San Diego entered into a contract with their provider that offers both a guarantee payment and license fees. San Diego receives an annual guarantee payment of \$242,000 during the first three years of the contract plus licensing fees of 12% of annual gross revenue.

Based upon the standard program offering, the chart below shows the amount the City could potentially realize in revenue.

| Number of policies | Royalty amount per month (\$0.75) | Annual Royalty amount (\$) |
|--------------------|-----------------------------------|----------------------------|
| 10,000             | \$7,500                           | \$90,000                   |

#### *Potential Royalties through HomeServe USA:*

HomeServe provides city and utility partners with ongoing commission for each policy sold and for every policy that is renewed. HomeServe's royalty program uses a commission of 12% on all new policies and renewed policies, for the duration of the term of the agreement. For those residents in Riverside already holding the insurance policy (currently over 7,000), over the course of the first year of the contract these customer policies would be rolled into the new commission compensation. HomeServe also pays an upfront fee, prior to launching program based upon the number of single family homes, at \$1 per household. In addition, HomeServe will agree to create a fund in the amount of approximately \$10,000 annually that is established to assist low income homeowners that cannot afford to pay for a home warranty policy. If the \$10,000 is unspent, it does not roll over to the next program year. Low income qualifications are determined by the City.

Based upon the standard program offering, the chart below shows the amount the City could potentially realize in revenue.

| Number of policies | 12% Commission amount per year approximately \$0.72 per month) | Annual Royalty amount (\$) |
|--------------------|--|----------------------------|
| 10,000             | \$7,200  | \$86,400                   |

#### *WHY PROVIDERS ARE REQUESTING PARTNERSHIP:*

Home warranty programs of this sort are readily available to homeowners in the City of Riverside, however, the issue is whether the City should consider a public-private partnership endorsing a prequalified provider of these services to residents. The common method of home owner

warranty customer outreach is via direct mail to residents co-branded with both the City logo and the warranty provider logo on the letterhead offering program services. Additional marketing may include joint advertising, utility bill advertising and marketing materials. Warranty providers want the opportunity to partner with cities and utilities because it lends additional consumer confidence in their services and they often realize significant increases in homeowner participation when the warranty program is endorsed and co-branded by the City.

Each program provider will select qualified contractors to perform the warranty work. Therefore, the City would need to determine what level of involvement, if any, it will want to play in vetting contractors and establishing qualified contractor criteria.

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## **SUMMARY:**

### Pros:

The warranty program may provide various benefits to the City and residents as follows:

1. Possible new revenue stream for the City
2. These warranties are essentially “forced savings” accounts that may be beneficial to low or fixed income residents that may not be able to save money to cover the cost of property deferred maintenance
3. Educates homeowners about their service line responsibilities
4. Provides alternative to cover the unexpected costs and repairs associated with these lines that can often be substantial
5. When water or sewer lines fail, it can cost a homeowner \$1,500 to \$8,000 or more to repair
6. Addresses aging service lines on the City’s older housing stock
7. Potential to increase Riverside resident satisfaction
8. Utilizing local contractors will potentially create jobs and enhance the local economy
9. May be useful for Public Works as they commonly respond to sanitary emergencies that ultimately are the responsibility of the homeowner, but take valuable staff time and incur significant overtime costs
10. Providers usually offer a discount on policy costs to homeowners in cities that have a formal partnership

### Cons:

The following should be considered as potential concerns associated with such programs:

1. Substandard work by service provider’s contractor could negatively impact the City brand
2. Public perception that City is “pushing” a product that is of low value to citizens
3. City’s endorsement of a sole service provider may impact City reputation and brand
4. Homeowners unsatisfied with the warranty service performed may contact the City
5. Endorsement of a home warranty provider may lead to risk of legal exposure
6. Possibility of aggressive marketing tactics by home warranty providers

## **FISCAL IMPACT:**

There is no fiscal impact associated with this report. Additional research and outreach would be needed to better estimate anticipated revenue to the General Fund over the next five years should direction be received to move forward.

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Attachment: Presentation