



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JANUARY 24, 2017

FROM: FINANCE DEPARTMENT WARDS: ALL
PUBLIC WORKS DEPARTMENT

SUBJECT: SERVICE LINE HOME WARRANTY PROGRAM

ISSUE:

Receive an update and refrain from an official endorsement of a service line home warranty program.

RECOMMENDATIONS:

That the City Council:

1. Refrain from an official endorsement of a service line home warranty program; and
2. Direct staff to expand public education outreach efforts to distribute information to the public regarding available service line home warranty programs.

COMMITTEE RECOMMENDATIONS:

On December 14, 2016, the Finance Department and Public Works Department presented the Service Line Home Warranty Program to the Finance Committee with Chair Soubroux, Vice Chair Burnard and Member Perry present. Following discussion, a motion was made by Vice Chair Burnard and seconded by Member Perry to: (1) refrain from an official endorsement of a service line home warranty program; and (2) direct staff to expand public education outreach efforts to distribute information to the public regarding available service line home warranty programs.

On May 11, 2016, the Finance Committee with Chair Soubroux, Vice Chair Burnard and Member Perry received a report on a Service Line Warranty Program. Following discussion, a motion was made by Member Perry and seconded by Vice Chair Burnard to: (1) receive and file the report regarding home warranty program partnerships; and (2) continue research on the proposal.

BACKGROUND:

The City has 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. Subsequently, these two companies have now merged. Their business model is to partner with cities and utilities who, pursuant to a formal agreement, will endorse their marketing efforts and in turn 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 with the City. Programs are at no cost to the City and no public funds would be used to administer the program.

A service line home 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 programs may provide coverage for repairs and preventative maintenance to the portion of water or sewer lines that run between the exterior of the home to the sewer main connection which is typically located in the public street. In the City of Riverside, the home warranty program would cover the private sewer lateral from the home to the property line. The warranty program would not include the City owned sewer lateral from the property line to the City main sewer line connection.

Homeowners can participate through a monthly or annual cost structure for coverage amounts that would vary based on program service providers and the type of policy coverage the homeowner decides to select. On average, monthly sewer line coverage is \$10 per month, whereas external waterlines and internal plumbing run approximately \$7 each.

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 fee 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. Based on available vendor information, assuming a vendor enrolls 10,000 policies for service in year one, then the policy per customer rate of the annual revenue is estimated at approximately \$90,000.

DISCUSSION:

Options Considered:

Staff has researched and evaluated possible options in considering whether or not to participate in a Service Line Home Warranty program. Below are the two options that have been identified:

Option 1 – Expand Public Education Outreach efforts by Providing Information to the Public on Available Programs

There are already established service line home warranty programs available to City residents and businesses. As reported, about 5,000 City residents currently have service line home warranty coverage. However, many may not know that they exist. To better inform the public, staff would work with the Board of Realtors and Chamber of Commerce to provide information to our residential and commercial customers. With this approach, City residents and businesses could obtain coverage if they so choose, but a formal City agreement and endorsement of a service provider program would not be necessary.

Option 2 – Issue a Request for Proposals

Issue a Request for Proposals to facilitate a competitive selection process to determine which company or companies the City would endorse based on their qualifications. With this option,

the City can gauge available service providers and determine which one, if any, would best serve residents. A formal agreement would be required along with City endorsement of selected service provider(s) program.

Legal Concerns

There are inherent risks to the City brand, or reputation, with the endorsement of a service provider. Also, there is potential liability exposure if the City opted to endorse a provider(s) for a service line home warranty program. This liability may be minimized by:

1. Due Diligence. In both selecting vendors and executing endorsements, it is essential for the City to exercise due diligence and reasonable care. This includes adequate inquiry into the company's competence and financial soundness, the product or service's quality and efficacy, and the company's claims about the product or service.
2. Disclaimers. A disclaimer should be used to clearly and accurately explain the City's limited role with respect to particular products or services. Disclaimers should be explicitly and unambiguously worded, conspicuous, and clarify that the City is not in any way guaranteeing the vendor's products.
3. Minimize Control of Vendor. The City should refrain as much as possible from involvement in, or control of, the endorsed products or services.

Staff Recommendations

Staff recommendations are to refrain from endorsing a program or service that is currently provided to the community.

Staff support the expansion of public education outreach efforts, including working with the Chamber of Commerce and Board of Realtors, to distribute information to the community regarding available service line home warranty programs.

The Public Utilities Department, City Manager's Office and City Attorney's Office concur with the recommendations in this report.

FISCAL IMPACT:

There is no fiscal impact associated with this report.

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Certified as to availability of funds: Scott G. Miller, Chief Financial Officer/City Treasurer
Approved by: Al Zelinka, FAICP, Assistant City Manager

Approved as to form: Gary G. Geuss, City Attorney

Concurs with;

Mike Soubrouse, Chair
Finance Committee