



Date: December 23, 2015

To: Members of the Economic Development and Finance Committee

From: Patrick H. West, City Manager *T.M.*

Subject: Utility Line Warranty Programs

Overview

On August 11, 2015, the City Council, through Agenda Item R-28, sponsored by Vice Mayor Lowenthal, requested the City Manager to work with the Economic Development and Finance Committee to assess whether the City of Long Beach should allow residential repair coverage plans to be offered to residents. This memorandum provides an overview of service line warranty programs, describes the advantages and disadvantages of city-endorsed warranty programs, and next steps should the City wish to establish a program.

The Case for Utility Line Warranties

Property owners are responsible for repairs to the utility service lines between the point of connection to the City's line (typically the gas or water meter) and the connection to the residence. For example, if there is damage to the sewer line on private property, the property owner is responsible for the repair. Many homeowners are unaware that they are responsible for maintenance of the utility lines on their property. When the water or sewer line fails unexpectedly, they often call the public utility expecting the repair to be handled. They find out, however, that they are responsible for a repair that can cost thousands of dollars out-of-pocket.

Homeowners may expect that their home insurance covers the expenses of a service line repair, but these policies often exclude service line repair or do not cover service lines. Home warranties that do cover service lines are "add-on" features, and not a part of the standard coverage.

Homeowners can purchase coverage from a number of companies that provide coverage for a range of elements on private property, including plumbing, sewer lines, electrical wiring, and appliances. It should be noted that Long Beach residents can purchase coverage today, without further action from the City. Being unaware of the responsibility, however, homeowners may not be purchasing coverage they need.

How Warranty Programs Work

Home warranty programs may vary in premiums, coverage, marketing tactics, customer satisfaction, and revenue sharing with partner municipalities. Typically, though, the programs operate similarly.

Homeowners determine which policies they want to purchase; one household may have both a sewer line and water line policy. They pay a monthly or annual premium that provides them with a fixed amount of coverage. Table 1 provides a sample of premiums and coverage amounts for the three largest utility line warranty companies in the United States: Utility Service Partners, HomeServe USA, and American Water Resources. These companies frequently form partnerships with municipalities. In fact, Utility Service Partners has a program with the National League of Cities and offers its coverage exclusively through partnerships with local governments.

Table 1: Sample Coverage for Water Line Service			
	Utility Service Partners	HomeServe USA	American Water Resources
Premium	\$6.75/month or \$76/year	\$4.99/month	\$4.80
Coverage	\$4,500	\$10,000	\$10,000
Notable Partners	National League of Cities, Las Vegas, Atlanta, San Diego, Daly City, Pomona, Duarte, Culver City	Great Oaks Water, Contra Costa, San Jose Water Company, Baltimore	

When a customer encounters an issue, s/he calls the company to make a claim. The company dispatches a certified local plumber to assess the issue and determine a remedy. The local plumbers are pre-certified and part of the company's network of local contractors. The repair is performed and the company pays the local plumber. In the rare event that the repair costs more than the policy provides, the homeowner covers any excess. Such cases, however, would be extreme and quite rare.

Partnership Opportunity

Municipalities across the nation have formed public-private partnerships with utility line warranty companies. By partnering with a specific company, a city can inform their residents of their responsibility for utility lines, and also direct residents to a program that has been vetted and subsequently endorsed by the City. Instead of waiting for an emergency, residents can proactively purchase protection. Instead of having to turn customers away during emergencies, local utilities can help customers prepare.

In addition to providing residential utility customers with low-cost coverage, forming a partnership with a specific service provider generates revenue for the City. Once the

City identifies the most qualified provider, the City would enter into an agreement allowing the provider to use the City's seal and/or logo on City-approved marketing materials. The revenue sharing formula varies by company. Some formulas include a flat fee for brand licensing payments, as well as additional profit sharing based on the percentage of eligible homeowners who purchase coverage. Estimates of potential revenue generation range significantly based on the number of customers enrolled, the company's municipal compensation model, and the penetration rate. Rough estimates range from \$200,000 to over \$2 million, depending on the assumptions used.

In order to take advantage of this opportunity, the City of Long Beach would need to amend the Municipal Code. Currently, Section 16.55.030 prohibits the City from endorsing a commercial product or service. The City should exercise caution in amending this section. The amendment should be narrowly focused and specific, as broad changes could result in unwanted endorsements of other products.

Partnership Risks

By endorsing a specific consumer service provider, over whom the City has limited influence, the City is putting its own reputation at stake. In other cities, home warranty providers have been heavily criticized by local media and residents for aggressive and bothersome marketing campaigns, fined by state insurance boards, filed bankruptcy, and have even been taken to court over predatory practices. In particular, the marketing materials from some companies scare residents into thinking they need coverage and that the onerous message is coming from the director of the utility or even elected officials.

These types of issues should not be taken lightly. The partnership is intended to increase the satisfaction of our utility customers, not generate ire. This challenge can be avoided by vetting the past history of any potential partner or by declining to participate entirely. In addition, City administrators must pay close attention to the content of any information bearing the City's seal or logo. The partnership agreement should empower the City to approve all marketing materials with the City's seal, logo, or that discuss City support for the program. Most programs already explicitly include this oversight.

Next Steps

If the City wishes to pursue this partnership opportunity, the City would need to develop desired criteria for a program and engage in a formal procurement process. The City Manager would work with the Long Beach Water Department, Long Beach Gas and Oil, and others to define the criteria that would best serve our residents. The City would use that criteria to inform the procurement process. Jurisdictions, such as the City of San Diego and the North Central Texas Council of Governments, have used Requests for Proposals, Request for Information, and Request for Qualifications processes to identify the best program. The City's Purchasing staff would assess the best method for Long

Beach. The responses would be reviewed to determine which program provides the best service for residents. Staff would work with the selected provider to develop the specific terms of the partnership. Ultimately, the City Council would approve the agreement.

In advance of the RFP/RFI/RFQ, the City Council would first need to direct the City Attorney to amend the Municipal Code to allow the partnership to be developed.

For more information, please contact Assistant City Manager Tom Modica at (562) 570-5091.

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