



Hamilton

# INFORMATION REPORT

<b>TO:</b>	Chair and Member Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	March 7, 2016
<b>SUBJECT/REPORT NO:</b>	Residential Protective Plumbing Subsidy Program (3P Program) (PW11056(h)) (City Wide) (Outstanding Business List)
<b>WARD(S) AFFECTED:</b>	City Wide
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## Council Direction:

At the December 9, 2015 Council meeting, item 15 of the Audit, Finance & Administration Committee Report 15-013, was referred back to staff for a review of the Protective Plumbing Program (3P).

## Information:

Over the last several months there have been a number of reports provided to Council respecting the Residential Protective Plumbing Program (3P). These reports have reinforced the value and popularity of this important program; however, there remain a number of issues related to the program that staff have identified which require consideration of Council. This information report presents two key issues staff have been evaluating; the first of which relates to program activity and therefore the sustainability of the program from a budget perspective, the second issue relates to opportunities to derive greater value for money from the program.

On February 8, 2016 an Information Update (HW.16.01) was provided to Council regarding the financial health of the program and highlighted options that staff would be exploring in greater detail in an effort to derive greater value for money and ensure sustainability of the program. The update also revealed that within the first six (6) weeks of the calendar year approved applications for the program exceeds the 2016 Council approved budget of \$2.5M for the program.

The following report provides a discussion of potential program changes that staff are evaluating. Each option has opportunities and challenges which this report highlights so

**SUBJECT: Residential Protective Plumbing Subsidy Program (3P Program)  
(PW11056H) (City Wide) ~ Page 2 of 5**

that Committee has the appropriate information before them to provide further direction on which option(s) they would like staff to pursue.

Improving the programs value for money can only be achieved through a competitive or negotiated process whereby the City sets an affordability cap for eligible works while preserving the principle of protecting the property owner from expense. Additionally, while the following program models appear to be viable, participation in this popular program will always be difficult to predict and as a result Council may choose to establish a “not to exceed” annual budget for the program.

**Option 1 – Contractor Roster Model**

This model includes developing a “Roster” of contractors through the Procurement Request for Pre-Qualification (RFPQ) process who are qualified and agree to perform the necessary works for a price that is at or below an “affordability cap” established by the City. Property owners would still be responsible for selecting and entering into a contract with an approved contractor from the list and be responsible for deciding whether or not they want to have a backwater valve installed. The list would be limited in some way to create competitive tension for bidders to provide best price.

*Price:* This option would allow the City to control the maximum fee that a contractor can charge a home owner for the fixed price work set out in the RFPQ.

*Quality:* By establishing a roster process staff may be able to create more rigour and oversight respecting workmanship and behaviour through a qualifying process. There would be opportunity to set standards for the work, obtain the contractors acknowledgement and warrantee that they will complete the work to those standards, conduct themselves in a certain manner and ensure that they are appropriately licensed to do the work. This process would also give the City the ability to remove a contractor from the Roster where complaints are received from home owners about their work or their conduct.

*Program Promotion:* As part of the RFPQ qualification there would be opportunity to set some parameters around contractor conduct with respect to promotion of the program. Currently contractors employ various methods of promotion; these include flyers, direct mail, door to door solicitation, vehicle wrap and websites. While promotion of the program is desired it has become evident that some of tactics currently used by the contracting community appear deceptive and create a negative image of the program. Guidelines and rules could be included as part of the requirements for a contractor to remain on the roster.

*Potential Liability Issues:* The model would preserve a grant structure where the homeowner remains responsible for choosing one of the contractors on the approved roster list thereby limiting the City’s exposure relative to liability for workmanship. Since the City controls who gets on the approved list there could be some implied responsibility for the City and therefore documentation would be developed to minimize the City’s exposure.

**SUBJECT: Residential Protective Plumbing Subsidy Program (3P Program)  
(PW11056H) (City Wide) ~ Page 3 of 5**

*Work Distribution:* Homeowners would choose their preferred contractor from the approved list. Therefore, there is no guarantee of equal distribution of the work among the contractors.

*Resourcing:* This option may require additional staffing support to manage the roster, carry out performance audits and respond to customer concerns. The amount of effort required for these tasks remains unknown at this time.

**Option 2 – Expand Service Line Warranties of Canada (SLWC) Contract**

This option involves negotiating with Service Line Warranties of Canada (SLWC) to include aspects of the 3P program in their service offerings.

*Existing Relationship:* The City already has an existing relationship with SLWC as a result of a public procurement process that has proven effective and has demonstrated a high degree of customer satisfaction. The City may be able to leverage their existing contract to expand the works to include various aspects of the 3P program. Since this relationship already exists a great deal of effort has gone into the existing contract and this may be the most expedient option.

*One Point of Contact:* In this model SLWC would utilize their network of licensed and qualified contractors to perform the work. Homeowners would be able to contact SLWC who would ensure that the work is completed by qualified licensed contractors. SLWC would also be responsible for managing any customer concerns related to the contractor's work and ensuring assessments and installations satisfy the applicable standards.

*Resources:* SLWC already has the resources to manage a program of this magnitude and the ability to communicate the program information according to standards and methods agreed to by the City. Since SLWC would be responsible for managing the contractors, monitoring performance and managing customer relations it is unlikely that additional City staffing would be required to manage the program. This option may be more cost effective and efficient from a staff resource perspective by not having to issue a competitive bid for the service.

*Single Sourcing:* This option proposes single sourcing the work to SLWC under its existing contract. This would require negotiation between the City and SLWC to determine a pricing model for the program that meets the City's objectives.

*Potential Liability:* This program would be structured so that the agreement would be between the homeowner and SLWC placing liability for the work done by SLWC's contractors on SLWC. SLWC, has a proven track record in Hamilton for settling customer concerns in a timely and positive manner through their current service offerings. That said, there remains potential for residents to claim against the City for work done through SLWC, although the existing contract with SLWC contains indemnification provisions that address these risks to the City.

*Cost:* This model would include additional value added services including program awareness and administration and requires a negotiated price which may or may not be achievable.

**SUBJECT: Residential Protective Plumbing Subsidy Program (3P Program)  
(PW11056H) (City Wide) ~ Page 4 of 5**

**Option 3 – Issue RFP to Manage Aspects of the Program**

This proposal resembles Option 2 except it would be achieved through competitive procurement. However, it is unknown if entities other than SLWC would be interested in this model. Additionally, this option would require significantly more time to achieve than option 2 but may result in greater value for money.

**Option 4 – Perform all 3P Work Through City Staff and Contractors**

This model proposes that the City take on the work related to the 3P program through hiring contractors to do the work. The City would manage all aspects of the program including awareness and customer service concerns.

*Better Program Control:* This may allow for tighter program control and improved value for money through competitive pricing.

*Liability:* This model presents the greatest risk to the City from liability perspective. By recommending or making modifications to private property the City would likely remain exposed to liability claims for any potential adverse effects of such modifications. It is possible to have homeowners sign a waiver releasing the City from claims however, it is unlikely to stop homeowners from pursuing legal action should they experience flooding after having the work done. Additionally, beyond claims made relative to workmanship there remains a variety of other claims and customer service actions that make this option least appealing.

*Staffing:* This program would require additional staffing to manage all of the various aspects of the program including, contract management, performance management, inspection, promotion, and customer complaint resolution. The amount of effort required for these tasks remains unknown at this time.

**Option 5 – Adjust the Grant Structure**

This option proposes reducing the grant value for the backwater valve component to something that presents better value for money. The maximum grant amount could remain at \$2,000 with individual works being restructured.

*Cost:* It appears that since program inception the costs associated with backwater valve installation have declined and as a result there appears to be an opportunity to reduce that portion of the grant without the homeowner incurring any financial burden.

*Quality of Work:* This option does not enhance quality of workmanship or contractor behaviour relative to the program.

*Costs:* While the costs associate with individual works may be reduced this option does not provide any mechanism for dealing with inappropriate contractor behaviour respecting advertising and promotion. As such there is limited opportunity to control program activity exposing a financial risk relative to budget. This could be addressed by imposing a “not to exceed” annual budget for the program.

**Option 6 – Eliminate the Three Quotes and Increase Budget**

This option recognizes that the three quote process has not produced the desired effect of reducing costs and improving value for money. It is also recognizes that there is

**SUBJECT: Residential Protective Plumbing Subsidy Program (3P Program)  
(PW11056H) (City Wide) ~ Page 5 of 5**

value on the cost that contractors spend promoting the program. This proposal would improve customer service by allowing property owners to work with one contractor of their choosing however, does not address the value for money proposition or sustainability of the program.

*Availability:* The program continues to be readily accessible to all. The elimination of the three quotes will make it easier for residents.

*Remains a Grant Program:* The homeowner would still be responsible for obtaining a qualified contractor and deciding if they want to have any work completed. Any agreements would be between the homeowner and their contractor. The City would continue to be in a position where they are only providing the grant and information to homeowners.

*Benefit from Contractors Promoting the Program:* There is an associated cost with promoting and advertising the program that the contracting community would continue to bear.

*Sustainability:* As observed in 2015 as well as in previous years, program expenditures can exceed \$4 Million/year creating a budget pressure on the rates and reserves. This could be offset through additional or program specific rate increases.

#### SUMMARY

This report was developed through a working group from Hamilton Water, Finance, Procurement, Legal Services and Risk Management. The report sets out program options for Committee's consideration and direction to improve the value for money and sustainability of the program.