



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	April 8, 2021
SUBJECT/REPORT NO:	Amendment of Contract for Residential Water / Wastewater Warranty Protection Plans (FCS21024) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	John Savoia (905) 546-2424 Ext. 7298
SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

RECOMMENDATIONS

- (a) That the contract for Residential Water / Wastewater Warranty Protection Plans (C2-02-14) between the City of Hamilton and Service Line Warranties of Canada, Inc. be amended so that Service Line Warranties of Canada, Inc. may adjust Warranty Plans fees once during any 12-month period based on increases in the consumer price index for services in Ontario as defined by Statistics Canada and that any such adjustment shall not exceed the CPI percentage increase over the prior year plus two percentage points unless the Parties agree in writing;
- (b) That the Mayor and City Clerk be authorized and directed to execute all necessary documents to amend Contract C2-02-14 between the City of Hamilton and Service Line Warranties of Canada, Inc. dated April 25, 2014, to implement Recommendation (a) of Report FCS21024, in a form satisfactory to the City Solicitor and with content satisfactory to the General Manager, Finance and Corporate Services.

EXECUTIVE SUMMARY

In April 2014, Council endorsed the awarding of a Contract with Service Line Warranties of Canada, Inc. (SLWC) to offer Hamilton residents an optional water and sewer line warranty program that provides emergency repair coverage for residential water service lines, sewer laterals and interior plumbing and drainage (for details refer to Report FCS12044(a)). The Contract was for a term of two years with an option to renew for an additional maximum of two, five-year term renewals at the City's sole discretion. The City is soon to exercise the final five-year renewal term effective April 25, 2021.

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The SLWC warranty program offered in Hamilton includes three product plans:

- Sewer Line Warranty – Covers the cost of repairing broken, leaking or clogged outside sewer lines.
- Water Line Warranty – Covers the cost of repairing broken or leaking outside water lines. It should be noted that the Water Line Coverage also includes thawing frozen water lines.
- In Home Plumbing and Drainage Warranty – Covers the cost of broken, leaking or frozen water or sewer lines inside the house, including drain lines connected to the main sewer stack. This does not cover faucets or fixtures, venting issues or gas lines.

With respect to warranty plans fees, the Contract specified that SLWC would be able to re-evaluate and adjust its pricing after the initial two-year term, subject to City approval, should the City choose to exercise the contract extension. Any increase to warranty plans pricing is to be substantiated with documentation which clearly identifies that current pricing levels are not sufficient to cover associated warranty plans costs and expenses, to the satisfaction of the City. A request to increase warranty plans pricing must be submitted 60 days prior to the expiry of the term. If no request is made, the contract extension would occur on the same terms and conditions of the original Contract including price.

Since the program launch in August 2014, SLWC has completed over 6,700 repair / replacements saving residents of Hamilton over \$2.85 M. There was no change in warranty plans pricing when the initial two-year renewal term concluded in April 2016. SLWC has not increased its pricing in the seven-year relationship, to date, as it has strived to maintain the lowest price possible for its customers.

On February 12, 2021, SLWC advised the City of proposed warranty plans price increases for both new and renewing customers, with an effective date of June 1, 2021. For all existing customers, this increase would occur at renewal. SLWC has indicated the warranty plans pricing increase is necessary to maintain the level of service for its customers.

Table 1 of Report FCS21024 outlines SLWC's monthly pricing for both new and renewing customers (prices exclude applicable HST).

TABLE 1

Warranty Plan	Current Price	Price as of June 1, 2021
Water service line (WSL)	\$ 5.00	\$ 6.00
Sewer service line (SSL)	\$ 5.75	\$ 8.00
In-home Plumbing and Drainage (IPD)	\$ 6.50	\$ 9.00

SLWC recognizes costs through the construction fees associated with warranty claims and the frequency of repairs necessary to service its active customer contracts. Both cost elements have risen significantly since the partnership launched in 2014 whereas the warranty plans pricing has not increased.

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The following factors have contributed to SLWC's revised pricing summarized in Table 1 of Report FCS21024:

- Average repair costs for the Water Service Line product and the Sewer Service Line product have risen by approximately 25% and 45% respectively since 2014
- Job frequency for the Interior Plumbing and Drain product has risen by 52% since 2014

Refer to the Analysis and Rationale for Recommendation(s) section of Report FCS21024 for more details regarding the increased warranty plans costs and expenses that have led to the revised warranty plans pricing.

The SLWC warranty program has expanded across Ontario, particularly with the Association of Municipalities of Ontario (AMO) Local Authority Services' endorsement, as 61 Ontario municipalities have now joined Hamilton in becoming SLWC partners (refer to Appendix "A" to Report FCS21024). SLWC has indicated that its intent is to have consistent pricing across their Ontario partners. Many of the Ontario SLWC partners permit inflationary warranty plans price annual increases rather than solely when contractual term periods expire.

Renewal letters communicating the price increase will be sent by SLWC to Hamilton existing customers at least 45 days prior to their renewal date, which will give customers the option to opt out of their coverage should they choose.

In order to avoid a recurrence of several years' cumulative price increases when the final contractual term expires in April 2026, staff recommend that the contract for Residential Water and Wastewater Warranty Protection Plans (C2-02-14) be amended so that SLWC may adjust warranty plans fees once during any 12-month period based on increases in the consumer price index (CPI) for services in Ontario as defined by Statistics Canada and that any such adjustment shall not exceed the CPI percentage increase over the prior year plus two percentage points unless both parties agree in writing.

Alternatives for Consideration – N/A

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: All administrative costs associated with the warranty plans from marketing to complete claims handling are the full responsibility of SLWC so that the City bears no financial costs related to program delivery. Per the Contract, SLWC provides the City commission revenues based upon a 5% of premium revenue (for 2020, the City received \$37 K in commission revenues). SLWC has advised the City that, based on past experience with warranty plan price increases, it does not anticipate any major impact with respect to customer retention.

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In recognition that the City became SLWC's first Canadian partner and is a leader in offering residents an optional warranty program, the City receives from SLWC, 0.5% of commission revenues generated in other SLWC Ontario partner locales. As many of the Ontario SLWC partners are fairly recent partners, the associated commission revenues have been modest to date (nearly \$13K for 2020).

However, this revenue stream is expected to develop significantly as communities with a large number of households (for example, the City of Ottawa launched the warranty program in February 2021) become a SLWC partner and the overall continued growth in Ontario partnerships.

All revenues the City receives from SLWC are directed to the Rate Supported Budget.

Staffing: N/A

Legal: It is anticipated that the City will be required to enter into an amending agreement in order for SLWC to adjust Warranty Plans fees once during any 12-month period based on increases in the consumer price index (CPI) for services in Ontario as defined by Statistics Canada and that any such adjustment shall not exceed the CPI percentage increase over the prior year plus two percentage points unless the both parties agree in writing.

HISTORICAL BACKGROUND

In April 2014, Council endorsed the awarding of a Contract with Service Line Warranties of Canada, Inc. (SLWC) to offer Hamilton residents an optional water and sewer line warranty program that provides emergency repair coverage for residential water service lines, sewer laterals and interior plumbing and drainage (for details refer to Report FCS12044(a)). The Contract was for a term of two years with an option to renew for an additional maximum of two, five-year term renewals at the City's sole discretion. The City is soon to exercise the final five-year renewal term effective April 25, 2021.

Since the initial marketing campaign in September 2014, over 5,900 residents have chosen to enrol in over 11,900 SLWC warranty plans and over 6,700 claims have been addressed by SLWC's network of local, licensed contractors at a cost of over \$2.85 M with a claim denial rate of less than 0.8%. This significant amount of repair costs represents investment in local private infrastructure and dollars retained in the Hamilton economy. The contract with SLWC assures the City that all repairs are performed to Ontario Building Code standards and that all appropriate permits, where required, are obtained.

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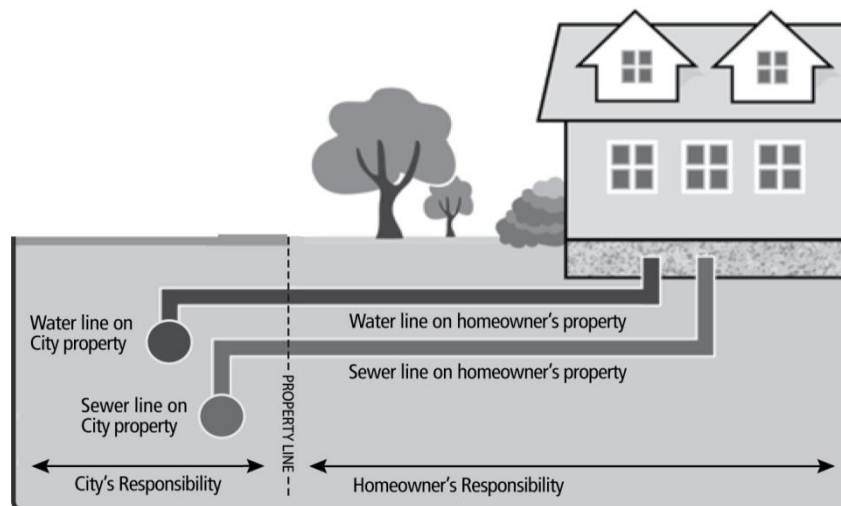
The SLWC warranty program offered in Hamilton includes three distinct coverages:

- Sewer Line Warranty – Covers the cost of repairing broken, leaking or clogged outside sewer lines.
- Water Line Warranty – Covers the cost of repairing broken or leaking outside water lines. It should be noted that the Water Line Coverage also includes thawing frozen water lines.
- In Home Plumbing and Drainage Warranty – Covers the cost of broken, leaking or frozen water or sewer lines inside the house, including drain lines connected to the main sewer stack. This does not cover faucets or fixtures, venting issues or gas lines.

A key objective for the City has been to inform Hamilton homeowners about public versus private ownership of water and sewer lines as delineated per Figure 1 of Report FCS21024. The City continues to be proactive in helping homeowners prepare and / or protect themselves against potential large expenses. The partnership formed with SLWC has met the intention of public education and to also let residents know what options they have to protect themselves from potential liabilities resulting from service line failures.

Generally, there are two marketing mail campaigns annually (usually Spring and Fall) by which SLWC reaches out to Hamilton's nearly 145,000 residential water accounts. This has provided the City the opportunity for educational outreach regarding homeowner water and sewer service line responsibilities at no cost to the City as SLWC pays 100% for all marketing. It should be noted, that all SLWC marketing materials must be approved by the City and that for the City to send out a similar mailing, it would cost approximately \$175 K per each occurrence.

FIGURE 1



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In early 2014, the City issued a competitive Request for Proposal (RFP) process so that any company interested in a partnership to offer optional service line warranty plans to Hamilton residents could compete. Ultimately, SLWC offered the lowest price, best coverage, extremely low claim-denial rates and had extensive experience with these partnerships. In 2016, SLWC became part of HomeServe USA Corp (HomeServe) who currently serves over four million customers under similar arrangements with 1,000+ other municipal, utility and association partners in Canada and the United States. HomeServe USA is the North American arm of HomeServe PLC, a London Stock Exchange listed company in the top 200 UK companies by market capitalization.

SLWC provides the City compensation of 5% of City of Hamilton enrolment revenue for allowing the use of the City logo on the warranty offering letters that homeowners receive. The support of the City via the co-branded marketing letters alerts residents of the legitimacy of the program resulting in more enrolments which, in turn, allows SLWC to offer the warranties at lower prices to residents because of the increased participation. The commission revenues received to date have amounted to approximately \$37 K in 2020 and nearly \$215 K since 2014. The revenue the City receives is directed to the Rate Supported Budget.

The SLWC warranty program has grown across Ontario, particularly, with the Association of Municipalities of Ontario (AMO) Local Authority Services' endorsement, as 61 Ontario municipalities have now joined Hamilton in becoming SLWC partners (refer to Appendix "A" to Report FCS21024). In recognition that the City became SLWC's first Canadian partner and is a leader in offering residents an optional warranty program, the City receives from SLWC 0.5% of commission revenues generated in other SLWC Ontario partner locales.

As many of the Ontario SLWC partners are fairly recent partners, the associated commission revenues have been modest to date (nearly \$13K for 2020 and \$34 K since 2014). However, this revenue stream is expected to develop significantly as communities with a large number of households (for example, City of Ottawa launched the warranty program in February 2021) have recently become a SLWC partner and the overall continued growth in Ontario partnerships.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

City of Hamilton Procurement Policy: The Contract constitutes a revenue generating contract between the City and SLWC that yields a financial return for the City in the form of commission revenues and, as such, the City's Procurement Policy is applicable.

RELEVANT CONSULTATION

Corporate Services Department – Legal and Risk Management Services Division and Procurement Section of Financial Services and Taxation Division have been consulted in the preparation of Report FCS21024.

ANALYSIS AND RATIONALE FOR RECOMMENDATIONS

With respect to warranty plans fees, the Contract specified that SLWC would be able to re-evaluate and adjust its pricing after the initial two-year term, subject to City approval, should the City choose to exercise its contract extension. Any increase to warranty plans pricing is to be substantiated with documentation which clearly identifies that current pricing levels are not sufficient to cover associated warranty plans costs and expenses, to the satisfaction of the City. A request to increase warranty plans pricing must be submitted 60 days prior to the expiry of the term. If no request is made, the contract extension would occur on the same terms and conditions of the original Contract including price.

There was no change in warranty plans pricing when the initial two-year renewal term concluded in April 2016. SLWC has not increased its pricing in the seven-year relationship, to date, as it has strived to maintain the lowest price possible for its customers.

On February 12, 2021, SLWC advised the City of proposed warranty plans price increases for both new and renewing customers, with an effective date of June 1, 2021. For all existing customers, this increase would occur at renewal. SLWC has indicated the warranty plans pricing increase is necessary to maintain the level of service for its customers.

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SLWC recognizes costs through the construction fees associated with warranty claims and the frequency of repairs necessary to service its active customer contracts. Both cost elements have risen significantly since the partnership launched in 2014 whereas the warranty plans pricing has not increased.

The following factors have contributed to SLWC's revised pricing summarized in Table 1 of Report FCS21024:

- Average repair costs for the Water Service Line product and the Sewer Service Line product have risen by approximately 25% and 45%, respectively, since 2014:
 - for Water Service Line from \$456 (2014) to \$572 (2020)
 - for Sewer Service Line from \$352 (2014) to \$505 (2020)
- Job frequency for the Interior Plumbing and Drain product has risen by 52% since the program initially launched (approximately 300 completed claims in 2015 representing 23% of IPD enrollments to 1,300 claims in 2020 representing 35% of IPD enrollments)

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- Low pricing, high acquisition costs due to relatively low resident response and increasing expenses (underwriting and other claims handling costs) have resulted in an average profit margin of 1.66% across the three warranty products
- The revised pricing will align with the pricing for all SLWC Ontario partners while remaining competitive among similar offerings in the marketplace (see pricing below plus applicable taxes):

	WSL Pricing (CAD)	SSL Pricing (CAD)	IPD Pricing (CAD)
Hamilton	\$ 6.00	\$ 8.00	\$ 9.00
New Ontario SLWC Partners	\$ 6.00	\$ 8.00	\$ 9.00
EPCOR (Alberta)	\$ 5.99	\$ 11.99	\$ 9.99
Buffalo Water (US)	\$ 8.85	\$ 15.19	\$ 18.99
Enercare (Canada)	-	-	\$ 17.99
Reliance Home Comfort (Canada)	-	-	\$ 21.99

Prior to issuing the RFP in February 2014, Risk Management Services through the City's insurance broker did conduct a scan of property insurance carriers and at that time, most home insurance policies did not provide coverage for water and sewer lines. As such, most home insurance policies had potentially expensive coverage gaps with respect to water and sewer lines.

The expansion of the SLWC warranty program in Ontario to over 60 Ontario municipalities, has seemingly motivated property insurers to offer riders (insurance endorsements) to home property insurance. Currently, many insurance companies offer optional endorsements to provide coverage for water and sewer lines as an extension of a homeowner's current property policy. For the most part, they are not automatically included in a standard policy and have to be added at the request of the policy holder.

Coverages can range in price from one insurance provider to the next such that the water and sewer line home insurance endorsement monthly cost may, in some cases, be lower than the SLWC program's monthly cost. However, due to the applicable home insurance deductible, the apparent savings are most likely to be erased when the need for a claim arises.

Typically, home insurance deductibles are \$1,000 or higher. Over the past year, the average SLWC water and sewer line claim cost related to 547 water and sewer line warranty repairs performed in Hamilton was approximately \$565. Thus, the home insurance water and sewer line rider coverage deductible negate the perceived cost benefit over the SLWC warranty program. Additional cost considerations are that filing an insurance claim may increase future premiums, deny a future claim or possibly cancel the property policy, making it more difficult for a homeowner to get home insurance in the future.

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Beyond cost considerations, the claim process with SLWC resolves the repair issue quicker and overall is less complicated for a home owner versus a home insurance claim. Under the SLWC warranty program, the home owner contacts a 24/7 repair hotline and a local, licensed, reputable plumber will make the repair in accordance with the Ontario Building Code (note, SLWC repair work carries a one-year warranty). Whereas, the typical insurance claim process regularly involves a site visit from a property insurance adjuster and often times, the property owner has to hire a contractor to perform the repairs.

In addition, 'mystery shopper' calls conducted by SLWC to Canadian insurance agencies reinforced that service line coverage cannot be purchased on its own but could be added to existing policies, with monthly pricing ranging from \$8 to \$12 for Water Service Line coverage and \$9 to \$14 for Sewer Service Line coverage (range based on applicable deductible).

The weighted average of SLWC's revised adjusted monthly pricing is \$7.48. Had there been in place an inflationary CPI pricing mechanism (as per Recommendation (a) of Report FCS21024), the 2021 weighted average of SLWC's pricing would be \$7.63, reinforcing that the SLWC's revised 2021 pricing reflects inflationary cost pressures.

SLWC has been able to provide quality value to Hamilton residents for the past seven years at a consistent price. Based on the aforementioned factors, SLWC's pricing adjustment has been demonstrated as necessary to meet the increased expenses of managing the program.

Renewal letters communicating the price increase will be sent by SLWC to Hamilton existing customers at least 45 days prior to their renewal date, which will give customers the option to opt out of their coverage should they chose.

As noted, SLWC has indicated that its intent is to have consistent pricing across their Ontario partners. Many of the Ontario SLWC partners permit inflationary warranty plans price annual increases rather than solely when contractual term periods expire.

In order to avoid a recurrence of several years' cumulative price increases when the final contractual term expires in April 2026, staff recommends that the contract for Residential Water and Wastewater Warranty Protection Plans (C2-02-14) be amended so that SLWC may adjust warranty plans fees once during any 12-month period based on increases in the consumer price index (CPI) for Services in Ontario as defined by Statistics Canada and that any such adjustment shall not exceed the CPI percentage increase over the prior year plus two percentage points unless both parties agree in writing.

ALTERNATIVES FOR CONSIDERATION

N/A

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Healthy and Safe Communities

Hamilton is a safe and supportive City where people are active, healthy, and have a high quality of life.

Clean and Green

Hamilton is environmentally sustainable with a healthy balance of natural and urban spaces.

People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS21024 – Service Line Warranties Partner List March 2021

JS/dt