TO: Mayor and Members  
General Issues Committee  
WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: June 6, 2012

SUBJECT/REPORT NO:  
Residential Water/Wastewater Warranty Protection Plans  
(FCS12044/PW12041) (City Wide)

SUBMITTED BY:  
Roberto Rossini  
General Manager  
Finance and Corporate Services Department

John Mater, C.E.T.  
Acting General Manager  
Public Works Department

PREPARED BY:  
Bartek Lasota  
(905) 546-2424, Extension 2790

John Savoia  
(905) 546-2424, Extension 7298

Dan McKinnon  
(905) 546-2424, Extension 5941

SIGNATURE:  

RECOMMENDATION

(a) That the General Manager of Finance and Corporate Services be authorized and directed to issue a Revenue Generating Request for Proposals (“RFP”) for Residential Water/Wastewater Warranty Protection Plans (“Plans”);

(b) That the General Manager of Finance and Corporate Services be authorized to award the contract to the Successful Proponent as identified in the RFP and to

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execute a contract with the Successful Proponent and any other documents necessary to give effect thereto, in a form acceptable to the City Solicitor.

(c) That subject to approval of Recommendations (a) and (b) of Report FCS12044/PW12041, that the City Solicitor be authorized and directed to prepare an amending By-law to the Sewer and Drain By-law 06-026, as amended, so that the City's Sewer Lateral Management Program (“SLMP”) be amended to exclude SLMP reimbursement to a third party provider of a sewer lateral warranty protection plan with respect to City owned tree sewer lateral damage.

(d) That subject to Recommendations (a) and (b) of Report FCS12044/12041, that the proceeds received through the commission sharing agreement for the Residential Water/Wastewater Warranty Protection Plans be reflected as a funding source in the Rate Supported Finance Strategy.

EXECUTIVE SUMMARY

The City’s water/wastewater system currently serves over 140,000 accounts including approximately 130,000 residential accounts. Many property owners are unaware that they are responsible for repairs when their exterior, underground water/sewer lines fail. Unfortunately, many property owners are unprepared for the associated repair bills.

Ownership and responsibility for water service lines is shared between the City and the property owner. The section of the service line from the water main to the property line is owned by the City, while the section from the property line to the dwelling is the responsibility of the property owner (refer to Figure 1 to Report FCS12044/PW12041 in the ‘Historical Background’ section of this Report). The City is responsible for maintaining the water main itself.

The Sewer Lateral (as defined in the City’s Sewer and Drain By-law 06-026, as amended) is the length of pipe that runs from a dwelling to the City’s sewer main if the property is connected to the City’s sewer system. The responsibility for the care and maintenance of the entire length of the Sewer Lateral, including the section within the municipal road allowance, rests with the property owner.

The Public Portion of the Sewer Lateral (as defined in the City’s Sewer and Drain By-law 06-026, as amended) is the part located within the public right-of-way between the property line and the City’s sewer main. The City’s Sewer and Drain By-law 06-026, as amended, states that in certain circumstances, the City will maintain, repair and replace the Public Portion, at the City’s cost. The Private Portion of the Sewer Lateral (as defined in the City’s Sewer and Drain By-law 06-026, as amended) is the part located between the dwelling and the property line. The City is not responsible for any maintenance, repairs or replacements of the Private Portion (refer to Figure 2 to Report FCS12044/PW12041 in the ‘Historical Background’ section of this Report).
As further described in the ‘Historical Background’ section of this Report, in most cases, service line failures are not covered by property insurance as insurance companies consider this a normal maintenance expense.

Failure of a service line is generally unpredictable. Repairs tend to be expensive, and individual property owners may not be prepared to respond quickly or with full knowledge of what is required to remedy the situation. Often, overwhelmed property owners will contact the City seeking assistance for infrastructure that is not the responsibility of the City.

In November 2011, HomeServe USA (“HomeServe”) approached the City about the prospect of partnering to offer residential City water/wastewater customers warranty protection plans (“Plans”) for emergency repair of residential water service lines, sewer laterals and interior plumbing and drainage.

Generally speaking, Plans of this type are not common in Canada but prevalent in the US and Europe. In many jurisdictions, the private providers of such Plans have partnered with local utilities to jointly market these Plans. In other jurisdictions, the private providers of such Plans have marketed them directly to property owners.

Plans can usually be purchased for each individual need (i.e. water line) or as a bundled package. These Plans usually cover:

- Exterior Water Service Line
- Exterior Sewer/Septic Line
- Interior Plumbing and Drainage

Further to above, there are emerging water/wastewater related Plans for:

- Inflow & Infiltration

Pricing for each of the above individual Plans range between $5 - $12 per month and are often made available as a bundled package providing for a lower combined cost for two or more product offerings. Refer to the ‘Analysis/Rationale for Recommendation’ section of this Report for further detail.

Based on staff research, the above types of Plans do not appear to be currently available in the Ontario marketplace unlike some other water/wastewater related warranty products that do exist, for example, home hot water tank warranties.

Plans are entirely optional for customers with no obligation for property owners to purchase warranty coverage for private infrastructure. The Plans present a reasonable option for property owners who may have limited funds for emergencies, or who want to avoid unexpected out-of-pocket expenses. They may provide peace of mind for property owners against the often unexpected costs of repairs for water service line, sewer lateral and internal plumbing problems caused by normal wear and tear.

In November 2011, HomeServe announced its expansion into the Canadian marketplace (Alberta) with the signing of an agreement with EPCOR Utilities Inc. (“EPCOR”). The approximately 1.3 million residential households across Alberta will soon have access to a broad array of emergency service plans. This is the first
reported instance of such Plans being offered in Canada. In addition to approaching the City of Hamilton, staff are aware that HomeServe has had discussions with the City of Toronto, the City of Ottawa and the Region of Peel.

Such contractual relationships allow the Successful Proponent to offer eligible property owners the aforementioned Plans via a no-obligation, opt-in direct mail offer under letterhead and supporting promotional material which includes the use of the City’s logo. In exchange, commission based revenues are paid to the City dependant on customer uptake. As indicated in the ‘Financial Implications’ section of this Report, commission revenues for a municipality the size of Hamilton may reach approximately $1 million over 5 years and potentially $3 million over 10 years. The contract that would be entered into with the Successful Proponent would ensure that the City has the right to review and approve all marketing materials before distribution, with the Successful Proponent expected to cover all costs of producing marketing materials and administration of the program. The Successful Proponent would become a fully independent partner for the City.

The commission based revenues would be directed towards the Rate Supported Budget specifically as a funding source for the City’s costs to maintain the Public Portion of water service lines and costs incurred by the SLMP.

It is also recommended that the contract would provide that in the future, where property owners subscribe to an exterior sewer line Plan and experience Sewer Lateral damage from a City-owned tree, the City will not be providing reimbursement to the Successful Proponent under the SLMP that may otherwise be available to property owners related to repair costs for the Private Portion of the Sewer Lateral.

Therefore, staff is seeking direction from Council to develop and issue an RFP to solicit interested proponents in providing the aforementioned Plans. Selection criteria will be comprehensive and robust, scoring the proponents on a number of quantitative and qualitative elements to ensure sufficient experience, performance history and financial capacity to effectively administer the Plans; a high level outline of the RFP is attached as Appendix “A” to Report FCS12044/PW12041. The City’s intent will be to ensure any such relationship will provide benefits to the City and to its water/wastewater customers who elect to subscribe to one or more of the Plan products.

Alternatives for Consideration - Not Applicable

FINANCIAL / STAFFING / LEGAL IMPLICATIONS

Financial: Current practice across a number of US and European utility companies (both public and privately owned) is to partner with an independent, private provider for the Plans, becoming a fully independent partner for the City. From marketing to complete claims handling, the Plans are administered and funded by the Successful Proponent.

Based on review of similar agreements in the US, the City has the opportunity to generate revenues from such a contract in one of three ways:
To receive annual commission revenues (usually up to 10% of sales) dependent upon the uptake of Plans; 
- To receive an upfront lump sum payment; or,
- Some combination of the above two options.

Table 1 to Report FCS12044/PW12041 provides a projection of potential cumulative commission revenues for the City, based on uptake assumptions.

**TABLE 1**

<table>
<thead>
<tr>
<th>Time Frame</th>
<th>Approximate # of Policies (Uptake)</th>
<th>Expected Commissions Paid to City ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over first 3 years</td>
<td>20,000 - 25,000</td>
<td>400,000 - 600,000</td>
</tr>
<tr>
<td>Over first 5 years</td>
<td>25,000 - 30,000</td>
<td>800,000 - 1,200,000</td>
</tr>
<tr>
<td>Over first 10 years</td>
<td>30,000 - 40,000</td>
<td>2,500,000 - 3,500,000</td>
</tr>
</tbody>
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Staff consultations with Louisville Water Company (a municipally owned utility) that has offered similar Plans through a contractual relationship since 2007, confirms the above assumptions are reasonable.

The commission based revenues are recommended to be directed towards the Rate Supported Budget specifically as a funding source for the City’s costs to maintain the Public Portion of water service lines and costs incurred by the SLMP.

Additional cost savings are also expected from lower utilization of the SLMP. Currently, when the Private Portion of the Sewer Lateral is affected by roots from a City-owned tree, the property owner may be eligible for a one-time reimbursement from the City for a portion of the costs, up to a maximum allowance (currently $1,500) as per the City’s Sewer and Drain By-law 06-026, as amended.

It is recommended that the contract would provide that in the future, where property owners subscribe to an exterior sewer line Plan and experience Sewer Lateral damage from a City-owned tree, the City will not be providing reimbursement under the SLMP that may otherwise be available to property owners related to repair costs for the Private Portion of the Sewer Lateral. It is difficult to estimate what those savings would amount to however statistics on current program expenditures are provided below in Table 2 to Report FCS12044/PW12041.
The City’s Water Leak Adjustment Policy provides residential water/wastewater customers limited financial relief under certain conditions and circumstances to address customers’ abnormally high water and wastewater bills associated with plumbing failures on a one-time only basis per account holder. To the extent that customers subscribe to an interior plumbing and drainage Plan and experience plumbing issues that contribute to high water usage, there may be more timely response to identify and address water leak issue(s) and hence, potentially reduce the financial cost of this adjustment policy that in 2011 resulted in revenue write-offs of approximately $138,000.

Additionally, the Plans may reduce a number of service requests received by the City to investigate water and sewer problems, reducing overall costs, which again are difficult to quantify.

**Staffing:** Minimal staffing implications are anticipated. The Water/Wastewater call centre will likely experience an initial increase in call volume from customers inquiring about the Plans; however volumes are expected to subside as the program matures. As uptake of the Plans increases, the call centre will likely experience lower call volumes related to water and sewer problems. It also stands to reason that Risk Management Services will see a decrease in claims and claim inquiries as the program matures.

**Legal:** Legal Services will assist with the drafting of any amendment that may be required to the Sewer and Drain By-law 06-026, as amended, as well as providing any assistance that may be required in preparing the RFP and its contract. As a requirement of the RFP, the Successful Proponent will be required to satisfy that it can comply with any and all legislative requirements associated with the sale and provision of a warranty product to the City’s water/wastewater customers.
HISTORICAL BACKGROUND

City staff routinely field calls from concerned citizens regarding their responsibility for the maintenance of the water/sewer service lines and/or the likelihood of these lines failing. Many residential property owners are unaware of their responsibility to maintain the aforementioned service lines. A recent national survey conducted in the United States found that less than 50 percent of property owners surveyed know that they are responsible for repairs to the water line on their property. Further, the report indicates that one-third of all property owners responding actually assume that their local utility is responsible for the cost of a broken water line between their dwelling and the street, when this is usually not the case.

Water Service Lines

Water service lines are the pipes that carry drinking water from the municipal water main, which runs down each street, into each dwelling.

Ownership and responsibility for water service lines is shared between the City and the property owner. The section of the service line from the water main to the property line is owned and maintained by the City, while the section from the property line to the dwelling is the responsibility of the property owner to maintain (refer to Figure 1 to Report FCS12044/PW12041). The City is responsible for maintaining the water main itself.

FIGURE 1

Water service lines can rupture or leak. When they do, a water line repair or replacement of the line can cost anywhere from a few hundred to several thousand dollars. The first signs of a leaky or broken water service line are usually a soft and muddy area in the yard, a loss of water pressure, or loss of water altogether. A cracked service line may be caused by shifting soil or freezing ground, general wear and tear, or crushing by heavy equipment. Galvanized or lead water lines tend to deteriorate over time and when these pipes start leaking, typically the entire line is replaced. Depending
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on the length of the line and the type of repair, costs may range between $2,000 and $4,000.

**Sewer Laterals**

The Sewer Lateral is the length of pipe that runs from a dwelling to the City’s sewer main if the property is connected to the City’s sewer system. The ownership and responsibility for the care and maintenance of the entire length of the Sewer Lateral, including the section within the municipal road allowance, rests with the property owner.

The Public Portion of the Sewer Lateral is the part located within the public right-of-way between the property line and the City’s sewer main. The City’s Sewer and Drain By-law 06-026, as amended, states that in certain circumstances, the City will maintain, repair and replace the Public Portion, at the City’s cost. The property owner or occupant will be responsible for all costs associated with reinstating sewer service in a Sewer Lateral where it is determined that the loss of sewer service is the result of Sewer Lateral Negligence. Under the by-law, negligence is deemed to have occurred when any part of the Sewer Lateral is improperly used to dispose of materials that are not intended to be in the sewer system. These materials include, but are not limited to grease, toys, diapers, feminine hygiene products, etc.

The Private Portion of the Sewer Lateral is the part located between the dwelling and the property line. The City is not responsible for any maintenance, repairs or replacements of the Private Portion (refer to Figure 2 to Report FCS12044/PW12041).

**FIGURE 2**
One of the most common causes of sewer line back-ups, cracked lines and drainage problems is root infiltration. Roots from trees and larger shrubs enter the sewer line through a joint and they grow and expand to fill up the pipe with a hair-like root mass. The masses quickly become clogged with toilet paper, debris and grease flowing from the dwelling to the main sewer line. As the roots continue to grow, pressure is exerted on the pipe and it may eventually crack.

Other common situations where the performance of a Sewer Lateral is compromised are as follows:

- shifting soil or freezing ground cracking or collapsing pipes,
- a build-up of grease, paper, waste, or foreign objects prohibiting proper flow,
- passage of time causing pipe corrosion or breaks in pipe seals,
- improper installation of the sewer lateral.

Diagnosing these sewer line problems can be difficult. The associated repair or replacement usually involves excavation work which can be labour-intensive and potentially expensive.

Property Insurance Coverage Considerations

While most property insurance policies will cover damage to the interior of the dwelling from a sewer line backup or line collapse, they do not reimburse for the cost of repair of the sewer lateral itself. Similarly, water service line leaks or breaks that occur in the section from the property line to the dwelling are typically not covered by property insurance policies. Water damage from broken or leaky interior plumbing is covered by most property insurance policies; however, repairs to the pipes themselves are not.

For most property owners, there is a gap in complete restoration expenses that may be filled by umbrella and line insurance policies that are available from private providers, for an additional charge.

In response to homeowners’ growing desire for interior plumbing and water/sewer line protection services, affordable and reliable Plans are being offered by private providers. This type of Plan offering is not common place in Canada, albeit, in the United States and Europe, Plans are becoming quite common. Although in some jurisdictions these Plans would be considered to be an insurance product, they would be marketed in Ontario as a warranty program which would in turn be backstopped by an insurance provider, of which the warranty would be designed to help homeowners avoid unexpected high repair costs associated with water service line, sewer lateral and interior plumbing repairs and failures.

Marketing Agreements

Many of the Plan providers look to partner with both private and public utilities to distribute their products and services. As such, a marketing agreement is normally prepared which allows the Successful Proponent to offer eligible property owners its Plans via a no-obligation, opt-in direct mail offer. In the case of a municipally owned utility, the provider is generally allowed the use of the municipality's or utility's logo for their mailings with review and final approval of all marketing materials before distribution.
afforded to the municipality/utility. The Plan provider covers all costs of producing, marketing and mailing materials and provides commission based revenues to the municipality/utility based on customer uptake.

**POLICY IMPLICATIONS**

City of Hamilton Procurement Policy: The recommended agreement constitutes a revenue generating contract between the City and the Successful Proponent that will yield a financial return for the City in the form of commission revenues, and as such, the City’s Procurement Policy is applicable.

Policy # 6 - Unsolicited Proposals: This Policy does not permit the award of a contract for an unsolicited proposal. The Policy further states that if there is a need for the goods and/or services offered a competitive procurement process shall be conducted.

**RELEVANT CONSULTATION**

City Manager’s Office - Legal Services Division has provided advice and guidance in the development of this report.

Corporate Services - Treasury Services, Risk Management Section has been consulted and supports the objectives and recommendations of this report.

Corporate Services - Treasury Services, Procurement Section has provided advice and guidance in the development of this report.

Public Works - Environment & Sustainable Infrastructure has provided input into the development of this report.

**ANALYSIS / RATIONALE FOR RECOMMENDATION**

In November 2011, HomeServe approached the City about the prospect of partnering to offer the City’s residential water/wastewater customers warranty and emergency repair programs for residential water service lines, sewer laterals and interior plumbing and drainage.

With a significant portion of property owners not aware of their responsibilities associated with water service lines and/or sewer laterals, unexpected and expensive repairs can often present significant financial difficulties. In light of these challenges, staff researched the merits of offering such Plans.

Generally speaking, Plans for exterior water service lines, sewer laterals and interior plumbing are not common in Canada but prevalent in the US and Europe. In many jurisdictions, the private providers of such Plans have partnered with local utilities to joint market these products. In other jurisdictions, the private providers have marketed their Plans directly to property owners.
Plans can usually be purchased for each individual need (i.e. water line) or as a combined bundled package. An on-line review of such Plans demonstrates that in general terms, the Plans are structured as follows:

**Exterior Water Service Line Coverage**
- Between $2,000 - $4,000 coverage per water service line emergency
- Typically up to two claims annually
- Between $4,000 - $8,000 coverage per year
- Estimated monthly premium between $5 - $8
- Includes basic level of restoration of existing landscaping, irrigation systems, etc.

**Exterior Sewer/Septic Line Coverage**
- Between $3,000 - $5,000 coverage per sewer/septic service line emergency
- Up to two claims annually
- Between $6,000 - $10,000 coverage per year
- Estimated monthly premium between $7 - $10
- Includes basic level of restoration of existing landscaping, irrigation systems, etc.

**Interior Plumbing and Drainage Coverage**
- Often unlimited claims annually
- Between $1,000 - $2,000 coverage per year
- Estimated monthly premium between $9 - $12

**Inflow & Infiltration (I&I) Coverage**
- A new product being introduced in response to demand from utility companies
- Pricing has not been released as of the date of this Report
- Locate and disconnect non-compliant cross connections of stormwater lines contributing to sewer overflows
- Locate and address structural integrity issues of sewer laterals that are allowing the stormwater to enter into the sewer lines
- Locate and address improper septic hook ups to City lines
- Will repair private side lines/laterals to become code compliant
- Staff have had discussions with two warranty providers who have indicated that I&I coverage could accommodate some situations where cross connections of sewer laterals contributes to sewage entering stormwater lines

**Customer Benefits**
Staff have identified that there could be significant benefits realized by making Plans available to City water and wastewater customers. Plans are in the best interest of the City, as the expeditious repair of leaking and broken service lines under such Plans would help prevent damage to City infrastructure. Additionally, damage to homes and private property may also be limited with quick, effective response by qualified licensed contractors with required permits and inspections.

Further, such a relationship will provide the City an opportunity to educate its water/wastewater customers about often misconceived water service line and Sewer Lateral responsibilities. City staff routinely field calls from concerned citizens regarding
their responsibility for the maintenance of the water/sewer service lines and/or the likelihood of these lines failing. Many residential property owners are unaware of their responsibility to maintain the aforementioned service lines. Through the Plans, a community outreach program, administered by the Successful Proponent, can be integrated to inform customers of these responsibilities, at no cost to the City. For comparative purposes, written communications from the City are costly, for instance, in December 2011, staff reviewed the costs involved with providing residential customers one-time targeted outreach materials and the cost was estimated at $107,000.

City customers who chose to subscribe to the Plans will be provided the benefit of knowing they are covered in case of often expensive plumbing system repairs, for a modest monthly fee. Through the RFP process and resulting contract, the City will ensure any such relationship will provide value to the City’s water/wastewater customers. Refer to Appendix “A” to Report FCS12044/PW12041 for a high level outline of the RFP to be developed.

City Benefits

If customer uptake is well received, the City will benefit from a commission based revenue source, as well as, likely reduced pressure on a number of the City’s programs. As indicated in the ‘Financial Implications’ section of this Report, commission based revenues may be expected to reach approximately $1 million over 5 years and $3 million over 10 years. This funding is planned to be directed towards the Rate Supported Budget; specifically as a funding source for the City’s costs to maintain the Public Portion of water service lines and costs incurred by the City’s SLMP.

Additional cost savings are also expected from lower utilization of the SLMP. It is recommended that the contract would provide that in the future, where property owners subscribe to an exterior sewer line Plan and experience sewer lateral damage from a City-owned tree, the City will not be providing reimbursement to the Successful Proponent under the SLMP that may otherwise be available to property owners related to repair costs for the Private Portion of the Sewer Lateral.

It is also expected that customers subscribing to the Plans would receive more timely response to identify and address water leak issue(s) and hence, potentially reduce the financial cost of the Water Leak Adjustment Policy that in 2011 resulted in revenue write-offs of approximately $138,000.

Finally, new inflow and infiltration (“I&I”) Plans in response to demand from wastewater utilities have been developed by warranty providers and may help to address the problem of cross-connections and/or I&I situations that contribute to sewer overflows. Staff are investigating with the warranty provider industry whether a similar I&I product would be available to address those cases where wastewater lines are being found to be connected to storm lines and draining to surrounding rivers and water bodies. Specific coverage to address this issue will be integrated into the RFP, if feasible.
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ALTERNATIVES FOR CONSIDERATION

N/A

CORPORATE STRATEGIC PLAN


Financial Sustainability

• Financially Sustainable City by 2020

Social Development

• Everyone has a home they can afford that is well maintained and safe

Environmental Stewardship

• Natural resources are protected and enhanced
• Aspiring to the highest environmental standards

APPENDICES / SCHEDULES

Appendix ‘A’ - Home Water/Wastewater Warranty Protection Plans - RFP Outline
Home Water/Wastewater Warranty Protection Plans
RFP Outline

Term
(i) for a period of 5 years, from the date of execution of the agreement, with a potential renewal at the City’s sole discretion, for up to 2 additional 5-year terms upon the same terms, conditions and pricing structure;

Products & Enrolment
(ii) to offer on a strictly optional basis, owners of residential properties affordable protection against the significant, unexpected costs of repairing or replacing leaking water service lines;
(iii) to offer on a strictly optional basis, owners of residential properties affordable protection against the significant, unexpected costs of repairing or replacing broken sewer lateral lines and, potentially, clearing blockages;
(iv) to offer on a strictly optional basis, owners of residential properties affordable protection against the significant, unexpected costs of repairing or replacing interior plumbing and/or drains;
(v) to offer on a strictly optional basis, owners of residential properties affordable protection against the significant, unexpected costs of addressing cross-connections and inflow & infiltration;

Workmanship & Quality Standards
(vi) ensure that timely, high-quality plumbing services in adherence to City/Provincial standards are provided to covered customers;
(vii) ensure all contractors possess appropriate qualifications and licensing to assure standard of repair/restoration;
(viii) high-quality repairs in adherence to the most current City/Provincial regulations, including specifications for materials and construction for service lines;
(ix) performance of all preparation, repair and restoration work in adherence with all applicable Federal, Provincial and Local environmental and health and safety regulations;
(x) restoration of ground surface features and compliance with City requirements after excavation for service line repair;
(xi) minimize damage to surrounding streets and infrastructure, and reduce expense to the property owner and the City by ensuring repairs are made in a timely manner;
(xii) minimize the impacts to homeowners, neighbours, and the public sewer system from improperly functioning sewer service lines;
Marketing

(xiii) development of an outreach plan and marketing materials, fully funded, for communicating the offering to the City’s customers;

(xiv) City review and approval all marketing materials before distribution;

Revenue

(xv) Receipt of an established commission revenue dependent upon the uptake of product offerings;

Customer Service

(xvi) staffing and maintenance of a 24-7 toll-free call centre for receiving customer calls/notifying the protection provider of service line/plumbing issues;

(xvii) timely response (within 24-48 hours) to service line leaks or other line/plumbing failures, as contracted with City customers;

(xviii) customer service accountability to the City for services provided to customers;

(xix) data recording and management that will provide the City with a detailed monthly report on the number and nature of calls, location and dates of repairs and replacements, and documentation of all work performed;

Evaluation Criteria

(xx) A level of market capitalization, or other applicable metric, to ensure sufficient economies of scale for effective completion of contract and service;

(xxi) A demonstrated history of successfully carrying out similar type contracts;

(xxii) Any other criteria, as determined during the RFP process, relevant in assessing proponents.