


**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: November 7, 2014

TO: Honorable Felipe Fuentes, Chair  
Honorable Bob Blumenfield, Vice Chair  
Honorable Tom LaBonge, Member  
Honorable Jose Huizar, Member  
Honorable Paul Koretz, Member  
Energy and Environment Committee

FROM: Enrique C. Zaldivar, Director  
LA Sanitation



SUBJECT: **REPORT OF INVESTIGATION ON ADOPTION OF A PRIVATE SEWER  
LATERALS WARRANTY PROGRAM (Council File 14-0515)**

The City Council Motion 14-0515 by Councilman Parks and seconded by Councilman Blumenfield, dated April 23, 2014, directed the Bureau of Sanitation (LASAN) to prepare a report to your Committee regarding the appropriateness and feasibility of implementing and endorsing a warranty program for private sewer laterals such as that which is offered through the National League of Cities (NLC) and administered by Service Line Warranties of America (SLWA). We have completed our investigation and believe that a laterals warranty program will help our sewer customers and supplement the City's overall efforts in the proper maintenance of its sewer infrastructure.

Typically a service line warranty program offers warranties for both residential sewer laterals and water lines. Consistent with Sanitation's scope of services and per the Council Motion instruction, our investigation was limited to sewer laterals only.

**Background:**

The City's sewer system includes more than 6,700 miles of public sewers that serve approximately 700,000 customers that are connected to the system by an estimated 11,000 miles of private sewer laterals. For more than a decade the City has been implementing aggressive sewer maintenance and upgrade programs in its public sewer infrastructure. As a result, the City is enjoying an exceptionally low rate of sewer blockages and spills. The private sewer laterals maintenance, however, has been lagging behind. Based on evidence observed during the City inspection of public sewers, an estimated 70,000 or 10 percent of all laterals have defects of various degrees. They present a risk of wastewater backup in private properties and blockages and spills in public sewers.

In Los Angeles, as in most other cities and municipalities, property owners are responsible for the entire length of sewer laterals, including both upper and lower lateral reaches. The upper lateral is the portion from the building structure to property line and the lower lateral from property line to the City main. Lack of lateral maintenance has been particularly a problem in the areas of the City with high concentration of trees where laterals are susceptible to tree roots penetration, blockage, and damage. Aging and deteriorating laterals in these and other areas of the City are also at risk of failure.

Attachment 1 to this report shows the root hot spots where public sewers require frequent root-related cleaning and maintenance. Also shown is the number of root-related spills in public sewers by Fiscal Year. Root related sewer blockage increase with drought conditions as tree roots seek moisture in sewer lines. Once inside, roots continue to grow and can eventually cause sewer blockages and spills. Roots enter public sewers largely through faulty laterals. Generally the useful life of a sewer lateral is about 50 to 100 years depending on pipe material, site conditions, and maintenance. Over 50 percent of the laterals are approaching or have exceeded the end of their useful life and will continue to decay unless corrective action is taken. LASAN has a systematic and prioritized sewer renewal program in place.

## **1. The LA Sanitation's Efforts on Sewer Laterals Maintenance to Date:**

### ***Community Outreach/Education:***

Recognizing the need for refurbishment of ailing sewer laterals, the LASAN has been implementing a community outreach and education program in targeted root hot spot areas since 2005. A sewer lateral maintenance and root control pamphlet has been sent to over 70,000 properties. In addition, on a quarterly basis LASAN reaches out to property owners who are connected to public sewers with root-caused spills and provides information on lateral inspection, maintenance, rehabilitation and replacement. The LASAN has also dedicated a helpline, (323) 342-1566; an email address, sewer.root@lacity.org; and a web site <http://www.lasewers.org/sewers/roots/index.htm> to this program.

### ***The Proposed Sewer Connection Financial Assistance Program:***

In January 2012, as a part of a new sewer fee rate setting, the City Council directed the LASAN to develop and report on a proposed sewer connection financial assistance program (SCFAP) to assist homeowners to finance sewer lateral and septic-tank connections. In response, the LA Sanitation has been working diligently to develop a lateral loan program. The proposed program is being reviewed by the Mayor's Office and the CAO.

## **2. Review of the Warranty Program Offered by the National League of Cities (NLC) and Administered by the Service Line Warranties of America (SLWA) in other Cities:**

For purposes of this evaluation LASAN staff met with SLWA staff and reviewed the related contract documents provided to us. SLWA is a private company based in Pennsylvania that provides optional water and/or sewer service line warranties to residential property owners in over 200 cities including the following relatively large cities:

Atlanta, Georgia  
Phoenix, Arizona  
Milwaukee, Wisconsin  
Fort Lauderdale, Florida  
Kansas City, Missouri  
Las Vegas, Nevada  
San Diego, California

Property owners who have not set aside money to pay for an unexpected, expensive repair have an opportunity to obtain a warranty that will provide repairs for a monthly fee, with no deductibles or service fees. The work is performed by licensed, locally based plumbers who will call the customer within one hour of filing a claim. The repair is performed quickly and SLWA provides a personally

staffed 24/7 repair hotline for residents, 365 days a year. Warranty contracts are month-to-month and there is no cancellation fee should the property owners decide they no longer wish to participate.

Each repair incident is covered up to \$4,000 for the pipe repair and up to an additional \$4000 for surface restoration in public right-of-way, with no deductibles or service fees. The cost of surface refinishing on private property is not covered. In the event the covered costs exceed these caps, the property owner is responsible for the additional costs. There are no annual or lifetime caps. The warranty price is \$9.75 per month. Property owners can pay it conveniently in a number of ways.

### **3. Review of the Warranty Programs Offered by other Service Providers:**

The Bureau is not aware of any local programs similar to the one offered by SLWA. In 2013, the City of San Diego entered into a licensing agreement with SLWA for a residential water and sewer lines warranty program following a Request for Sponsorship (RFS) process. According to a San Diego city official, one other company, American Water, had also indicated interest in response to their RFS. Currently American Water Resources provides a comparable residential sewer and water lines warranty service in New York City.

#### **Discussion:**

##### **1. Evaluation of SLWA's Proposed Warranty Program for Los Angeles:**

###### ***Coverage:***

Based on experience gained in community outreach program, LA SAN believes SLWA's existing warranty coverage cap of \$8,000 for a combined sewer improvement and surface restoration work will cover a large majority of emergency response and repair incidents. The cost of a substantial number of rehab or replacement work, however, may exceed this cap. Upon realizing this fact, the SLWA representatives prepared an un-solicited informal proposal for Los Angeles, including a total coverage cap of \$10,000 at the price of \$9.00 per month per warranty. Attachment 2 to this report is SLWA's proposed licensing agreement for Los Angeles.

###### ***Response Time in Emergencies:***

Based on a research including contacts with SLWA representatives and a review of testimonials by their municipal sponsors and customers, LASAN believes that speedy response to urgent and emergency needs for repair is a distinguishing characteristic of the SLWA's warranty program. Work is performed by licensed, locally based plumbers who will call the customer within one hour of filing a claim. Repair work is performed quickly and SLWA provides a personally staffed 24/7 hotline for residents, 365 days a year.

According to SLWA representatives, the warranty program could be fully operational within 90 days of a City approval of a licensing agreement. The Sewer Connection Financial Assistance Program (SCFAP), however, is still under development and is currently planned initially for a pilot program.

###### ***Legal:***

The City Attorney's Office has been consulted regarding the proposed City sponsorship of a warranty program. They expressed concerns that such sponsorship may perhaps not pass the legal threshold set forth in Charter Section 104.g and LAMC Section 63.108. However, they offered to perform a legal analysis upon your Committee's decision to pursue the proposed program further. The following for your ready reference is the Charter Section 104.g and LAMC Section 63.108 language.

**City Charter Section 104.g:**

(g) Business Enterprises. The City shall not engage in any purely commercial or industrial enterprise, except upon a majority vote of the voters of the City voting on the question, unless the enterprise was engaged in by the City at the time the Charter becomes effective, or unless engaging in the enterprise is elsewhere specifically authorized in the Charter.

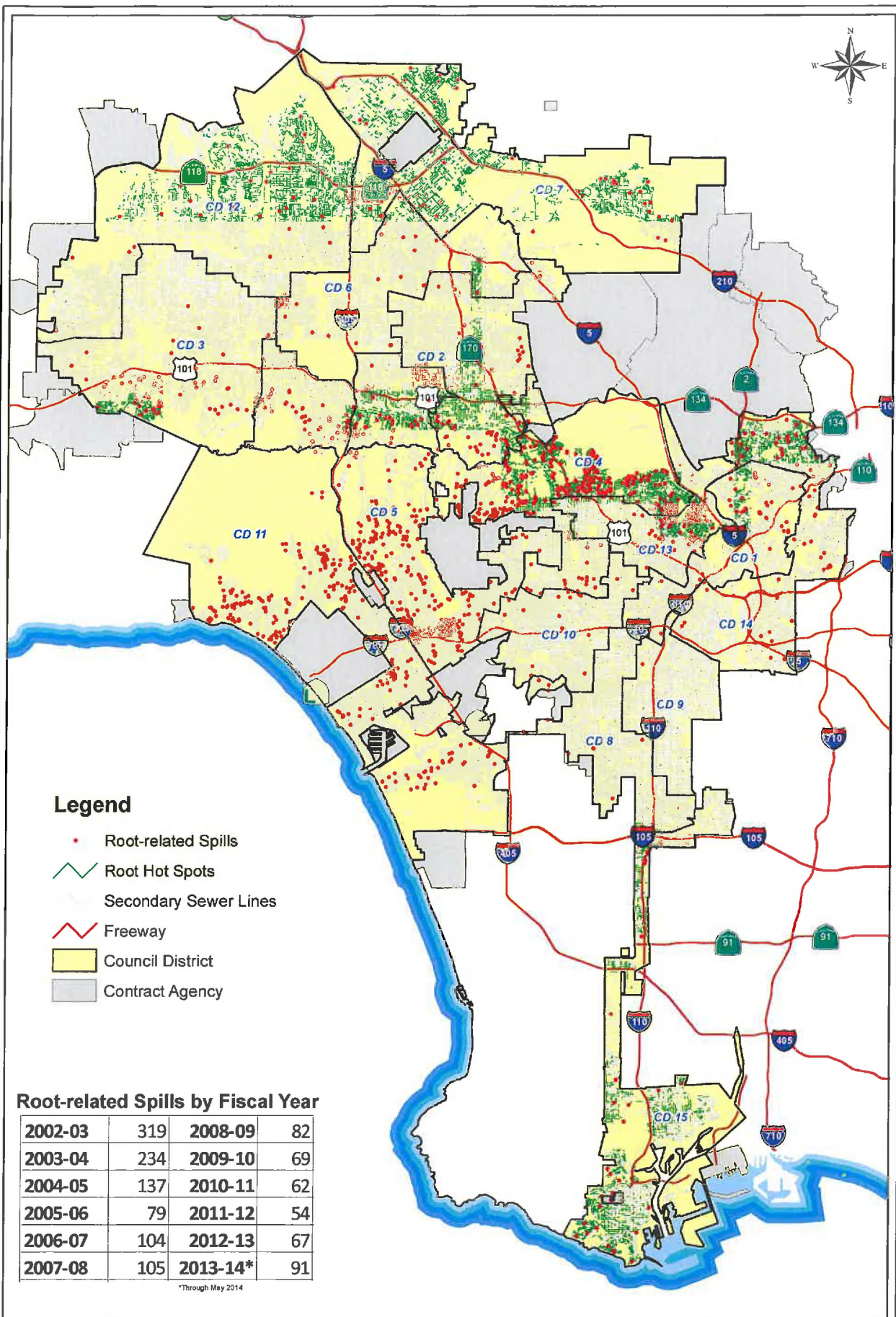
**2. How Would a Warranty Program Fit in with the City's Overall Efforts?**

**Statement of Fiscal Impact:**

In its informal unsolicited proposal which is Attachment No. 3 to this report, SLWA proposes to pay the City a one-time royalty (Brand License Fee) of \$1.5 million which will be paid in three installments of \$750,000, \$375,000, and \$375,000 in Years 1 to 3, respectively. The City will also receive \$0.75 per month per warrantv which will be paid annually. In addition, an annual Bonus of up to \$500 000 will be

1)

Enclosures



**Legend**

- Root-related Spills
- ~ Root Hot Spots
- Secondary Sewer Lines
- Freeway
- Council District
- Contract Agency

**Root-related Spills by Fiscal Year**

2002-03	319	2008-09	82
2003-04	234	2009-10	69
2004-05	137	2010-11	62
2005-06	79	2011-12	54
2006-07	104	2012-13	67
2007-08	105	2013-14*	91

\*Through May 2014

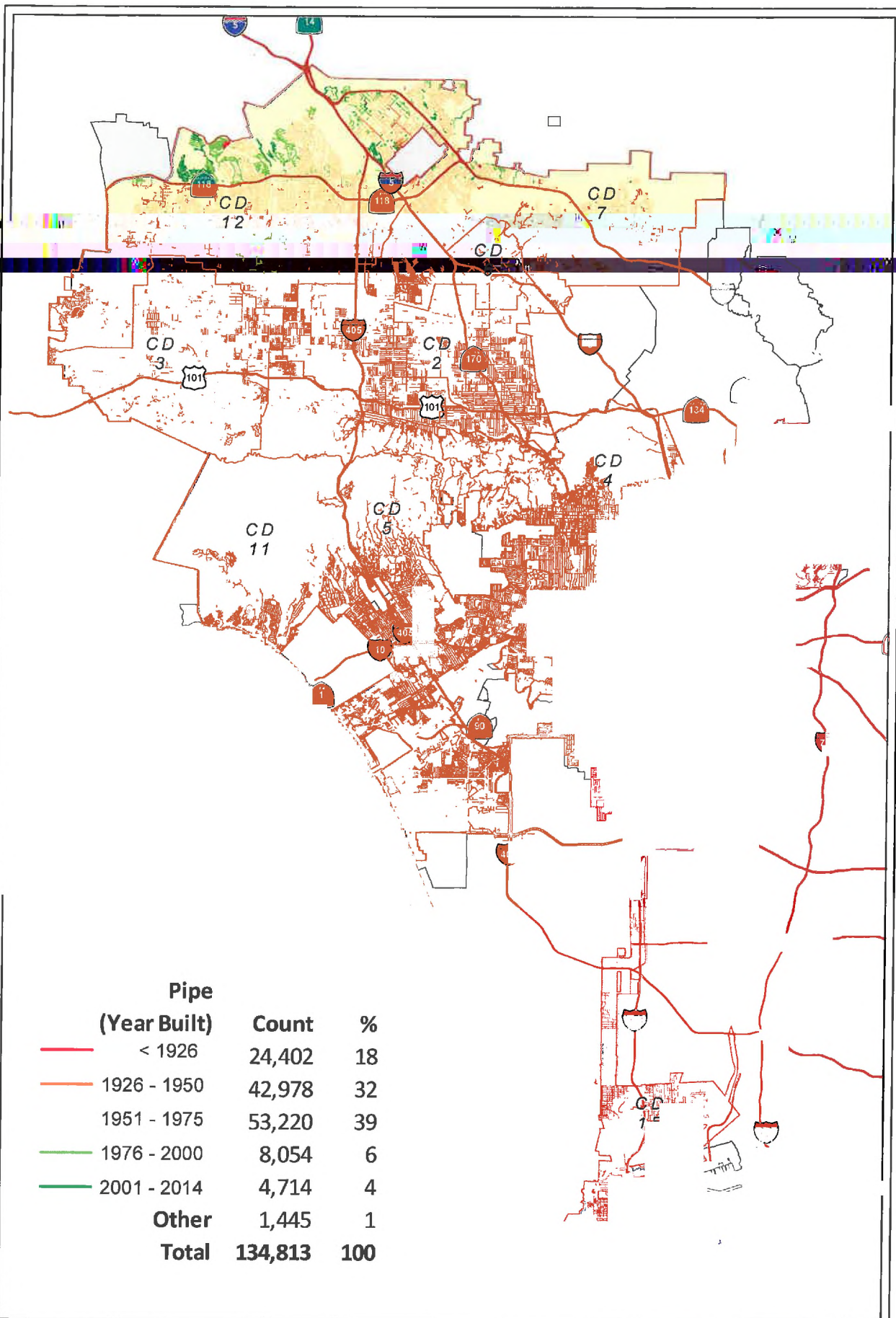
Produced by GIS Group  
Wastewater Engineering Services Division  
Bureau of Sanitation  
City of Los Angeles

Created May 12, 2014

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**Root Hot Spots  
and Root-related Spills**





Pipe (Year Built)	Count	%
< 1926	24,402	18
1926 - 1950	42,978	32
1951 - 1975	53,220	39
1976 - 2000	8,054	6
2001 - 2014	4,714	4
Other	1,445	1
<b>Total</b>	<b>134,813</b>	<b>100</b>

Produced by GIS Group  
 Wastewater Engineering Services Division  
 Bureau of Sanitation  
 City of Los Angeles

Updated May 12, 2014

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 Presentation on Condition Assessment\SewerAgeNew\_CD.mxd

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## Age Distribution of Secondary Sewers



**SEWER AND WATER LINE MARKETING LICENSE AGREEMENT BETWEEN THE  
CITY OF LOS ANGELES, CALIFORNIA, AND SERVICE LINE WARRANTIES OF  
AMERICA, INC.**

This SEWER AND WATER LINE MARKETING LICENSE AGREEMENT ("Agreement") entered into as of [\_\_\_\_\_, 20\_\_] ("Effective Date"), by and between the City of Los Angeles, California ("City"), and Service Line Warranties of America, Inc. ("SLWA"), a California corporation, herein collectively referred to singularly as "Party" and collectively as the "Parties".

**RECITALS:**

**WHEREAS**, sewer and water line laterals between the main lines and the connection on residential private property are owned by individual residential property owners ("Residential Property Owner"); and

**WHEREAS**, City desires to offer Residential Property Owners the opportunity, but not the obligation, to purchase a service line warranty ("Warranty"); and

**WHEREAS**, SLWA is a Home Protection Company, licensed by the State of California; and

**WHEREAS**, SLWA has agreed to provide the Warranty to Residential Property Owners subject to the terms and conditions contained herein; and

**NOW, THEREFORE**, in consideration of the foregoing recitals, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and with the intent to be legally bound hereby, the Parties agree as follows:

**AGREEMENT**

- 1. Purpose.** City hereby grants to SLWA the right to offer the Warranty to Residential Property Owners subject to the terms and conditions herein.
- 2. Grant of License.** City hereby grants to SLWA a non-exclusive license ("License") to use City's name and logo on letterhead, advertising, billing and marketing materials to be sent to Residential Property Owners from time to time, all at SLWA's sole cost and expense and subject to City's prior review and approval, which will not be unreasonably conditioned, delayed, or withheld. City agrees that it will not extend a similar license to any competitor of SLWA during the term of this Agreement.



3. **Term.** The term of this Agreement ("Term") shall be for three (3) years from the Effective Date. The Agreement will automatically renew for additional one (1) year terms ("Renewal Term") unless one of the Parties gives the other written notice of a minimum of ninety (90) days prior to end of the Term or of a Renewal Term that the Party does not intend to renew this Agreement. The City may terminate this Agreement thirty (30) days after giving notice to SLWA that SLWA is in material breach of this Agreement if said breach is not cured during said (30) day period. SLWA will be permitted to complete any marketing initiative initiated or planned prior to termination of this Agreement after which time, neither Party will have any further obligations to the other and this Agreement will terminate. During the Term, SLWA shall conduct a Spring and Fall campaign each year in accordance with the schedule set forth in Exhibit A. The pricing for each such campaign shall be in accordance with Exhibit A attached hereto.

4. **Consideration.**

A. As consideration for such license, SLWA will pay to City a License Fee of Seventy-Five-Cents (\$.75) for each month a Warranty shall be in force (and for which payment is received by SLWA) for a Residential Property Owner ("License Fee") during the term of this Agreement. The first payment shall be due by January 30th of the year following the conclusion of first year of the Term. Succeeding License Fee payments shall be made on an annual basis throughout the Term and any Renewal Term, due and payable on January 30th of the succeeding year. Each License Fee payment herein shall be paid within thirty (30) days after it becomes due. SLWA shall include with each

judgments, awards, attorneys' fees and court costs (individually or collectively, "Claim"), which an Indemnitee may suffer or which may be sought against or are recovered or obtainable from an Indemnitee, as a result of, or by reason of, or arising out of or in consequence of any act or omission, negligent or otherwise, of the SLWA or its officers, employees, contractors, subcontractors, agents or anyone who is directly or indirectly employed by, or is acting in concert with, the SLWA or its officers, its employees, contractors, subcontractors, or agents in the performance of this Agreement; provided that the applicable Indemnitee notifies SLWA of any such Claim within a time that does not prejudice the ability of SLWA to defend against such Claim. Any Indemnitee hereunder may participate in its, his, or her own defense, but will be responsible for all costs incurred, including reasonable attorneys' fees, in connection with such participation in such defense.

6. **Notice.** Any notice required to be given hereunder shall be deemed to have been given when notice is (i) received by the Party to whom it is directed by personal service, (ii) telephonically faxed to the telephone number below provided confirmation of transmission is received thereof, or (iii) deposited as registered or certified mail, return receipt requested, with the United States Postal Service, addressed as follows:

To: City:  
ATTN: Farsheed Farhang  
City of Los Angeles  
Mail Stop 544  
2714 Media Center Drive  
Los Angeles, CA 90065  
Phone: (323) 342-6223

To: SLWA:  
ATTN: Vice President, Business Development  
Service Line Warranties of America, Inc.  
11 Grandview Circle, Suite 100  
Canonsburg, PA 15317  
Phone: (724) 749-1003

7. **No Third Party Beneficiary.** Nothing expressed or implied in this Agreement is intended, or should be construed, to confer upon or give any person or entity not a party to this agreement any third- party beneficiary rights, interests, or remedies under or by reason of any term, provision, condition, undertaking, warranty, representation, or agreement contained in this Agreement.

8. **Modifications or Amendments/Entire Agreement.** Any and all of the representations and obligations of the Parties are contained herein, and no modification, waiver or amendment of this Agreement or of any of its conditions or provisions shall be binding upon a party unless in writing signed by that Party.

9. **Authority.** Each Party, or responsible representative thereof, has read this Agreement

and understands the contents thereof. The person(s) executing this Agreement on behalf of each Party is empowered to do so and thereby bind the respective Party.

**10. Assignment.** This Agreement and the License granted herein may not be assigned by SLWA without the prior written consent of the City, such consent not to be unreasonably withheld, except that SLWA may assign this Agreement without consent of the City to an affiliate under the common control of SLWA's parent: Utility Service Partners, Inc.

**11. Counterparts/Electronic Delivery.** This Agreement may be executed in counterparts, all such counterparts will constitute the same contract and the signature of any Party to any counterpart will be deemed a signature to, and may be appended to, any other counterpart. Executed copies hereof may be delivered by facsimile or e-mail and upon receipt will be deemed originals and binding upon the Parties hereto, regardless of whether originals are delivered thereafter.

**12. Choice of Law/Attorney Fees.** The governing law shall be the laws of the State of California. In the event that at any time during the Term or any Renewal Term either Party institutes any action or proceeding against the other relating to the provisions of this Agreement or any default hereunder, then the unsuccessful Party shall be responsible for the reasonable expenses of such action including reasonable attorney's fees, incurred therein by the successful Party.

**13. Incorporation of Recitals and Exhibits.** The above Recitals and Exhibit A attached are incorporated by this reference and expressly made part of this Agreement.

**IN WITNESS WHEREOF**, the Parties hereto have executed this Agreement on the day and year first written above.

**SEWER AND WATER LINE MARKETING LICENSE AGREEMENT BETWEEN THE CITY OF LOS ANGELES AND SERVICE LINE WARRANTIES OF AMERICA, INC.**

**CITY OF LOS ANGELES**

By: \_\_\_\_\_

**SERVICE LINE WARRANTIES OF AMERICA, INC.**

By: \_\_\_\_\_

**Brad H. Carmichael, Vice President**

By: \_\_\_\_\_

**Edwin F. Westfield, III, Chief Financial Officer**

Exhibit A  
NLC Service Line Warranty Program  
City of Los Angeles, CA  
Term Sheet  
May 30, 2014  
(Term Sheet valid for 90 days)

- I. Term of agreement
  - a. Initial term
    - i. Three years guaranteed (total of 6 campaigns)
- II. Annual royalty – \$0.75 per month per paid warranty contract
  - a. City logo on letterhead, advertising, billing, and marketing materials
  - b. Signature by City official
  - c. Selection of template #1 or template #2 for marketing letter
- III. Products offered
  - a. External sewer line warranty
  - b. External water line warranty
- IV. Scope of Coverage
  - a. External sewer line warranty
    - i. Scope is from the city main tap until line daylights inside home...of which includes the service line under the concrete floor. **[Note: If homeowner responsibility is different than this language, please advise.]**
    - ii. SLWA will take all necessary action to obtain approval from the California Department of Insurance to raise the applicable coverage limits to \$5,000.
  - b. External water line warranty
    - i. Scope is from the meter and/or curb box until it daylights inside home...of which includes the service line under the concrete floor. **[Note: If homeowner responsibility is different than this language, please advise.]**
- V. Marketing Campaigns – two seasonal campaigns per year (Spring and Fall)
  - a. 2014 Fall - Sewer
  - b. 2015 Spring - Water
  - c. 2015 Fall - Sewer
  - d. 2016 Spring - Water
  - e. 2016 Fall - Sewer
  - f. 2017 Spring - Water
- VI. Campaign Pricing
  - a. Sewer
    - i. Year 1 - \$9.00 per month; \$103.00 annually
    - ii. Year 2 - \$9.00 per month; \$103.00 annually (subject to annual review)
    - iii. Year 3 - \$9.00 per month; \$103.00 annually (subject to annual review)
  - b. Water
    - i. Year 1 - \$6.75 per month; \$76.00 annually
    - ii. Year 2 - \$6.75 per month; \$76.00 annually (subject to annual review)
    - iii. Year 3 - \$6.75 per month; \$76.00 annually (subject to annual review)

VII. Brand license fee - \$1,500,000.00 spread across three years, contingent on approval of campaign materials.

- a. Year 1 - \$750,000.00 - payment is linked to approval of campaign materials for year 1
- b. Year 2 - \$375,000.00 - payment is linked to approval of campaign materials for year 2
- c. Year 3 - \$375,000.00 - payment is linked to approval of campaign materials for year 3

VIII. Bonus license payments - initial payment would be made 15 months following the mailing of the first campaign letter, and annually thereafter. Penetration rate is defined as the number of products enrolled divided by the number of households mailed.

a. First year

- i. Penetration rate is greater than 9% but less than 10% - \$200,000.00
- ii. Penetration rate is greater than 10% but less than 11% - \$300,000.00
- iii. Penetration rate is greater than 11% - \$500,000.00

b. Second year

- i. Penetration rate is greater than 12% but less than 15% - \$200,000.00
- ii. Penetration rate is greater than 15% but less than 17% - \$300,000.00
- iii. Penetration rate is greater than 17% - \$500,000.00

c. Third year

- i. Penetration rate is greater than 15% but less than 18% - \$200,000.00
- ii. Penetration rate is greater than 18% but less than 19% - \$300,000.00
- iii. Penetration rate is greater than 19% - \$500,000.00