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Julie Kirschbaum, Acting Director of Transportation

January 14, 2025

**The Honorable Members of the Board of Supervisors
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102**

**Subject: Approval of spending authority for the remaining extension term of
the towing agreement with TEGSCO, LLC.**

Honorable Members of the Board of Supervisors:

The San Francisco Municipal Transportation Agency (SFMTA) respectfully requests that the Board of Supervisors approve the Ninth Amendment with TEGSCO, LLC, to approve spending authority for the balance of the five-year extension approved in 2021. The \$15.3 million request will raise the not-to-exceed amount from \$121.4 to \$136.7 million to support the remainder of the 10-year term of the agreement. The requested spending authority will allow services to continue while the SFMTA develops and releases a Request for Proposals and conducts a competitive procurement process for a new contract to be awarded prior to the current agreement's expiration date of March 31, 2026.

The following summarizes the timeline for the agreement:

- In April 2016, the SFMTA executed Contract No. 2014-48 (Contract) with TEGSCO, LLC (TEGSCO), or towing and storage services for abandoned and illegally parked vehicles in San Francisco. The Contract's initial term was five years, totaling \$65.4 million, with an option to extend for up to five additional years. A contract budget increase to cover the extension years was not requested at the time of contract award.
- In 2021, through the Contract's 3rd Amendment, the SFMTA exercised the five-year option, extending the term through March 21, 2026, and increased the contract amount by \$22.8 million, to \$88.2 million, to cover the first two years of the extension. The Request to cover spending for the last three years was deferred due to the COVID-19 emergency and to reassess the City's towing policy and funding needs as the City recovered from the pandemic.
- In 2022, SFMTA came back to the Board of Supervisors with the 7th Amendment to request spending authority for the remaining three years of the agreement for a not to exceed amount of \$137.2 million; however, the Board reduced the Contract approval amount to \$121.4 million, enough to support the extension for two of the three years, and requested that the Agency submit quarterly reports on any modifications to the existing tow program that might reduce costs, and to specifically report if there less expensive real estate options available for buying property for vehicle storage, customer service centers and auction facilities. The agency could then return to request spending authority for the final year of the agreement.



- On December 3, 2024, the MTA board approved the 9th Amendment, which would add \$17 million to the not-to-exceed amount, for a total of \$138.4 million. However, staff has since updated expense estimates, and have revised the spending request down to \$15.3 million, for a total not-to-exceed amount of \$136.7 million.
- Currently, the towing program, although operating on a cost-recovery basis through towing fees and lien sales; post-pandemic towing volume has not increased to pre-pandemic levels, and steady increases to policy-driven fee reductions and waivers for qualifying members of the public have resulted in a cost-recovery shortfall. Fee reduction and waivers include First-Time Tows, reimbursement for tow fees incurred for stolen vehicles, low-income fee reductions, and waivers for the unhoused.

Response to Board of Supervisors Inquiries

To address storage challenges and related costs, staff responded to the Board of Supervisors inquiries, SFMTA submitted a report in March 2023 analyzing current rental costs and exploring property purchase options for towed vehicle storage. Findings showed that current leases were below average market rates, with no comparable properties available for purchase in San Francisco or the immediate Bay Area; the closest option was in Pittsburg, CA, and alternative leases close enough for easy customer pickup were significantly higher than rates currently paid to Caltrans.

The SFMTA periodically inquired if the Board had additional requests for report submittals but did not receive any responses.

Upcoming Request for Proposals Process

The Ninth Amendment will increase the contract amount by \$16.4 million, for a total of \$137.8 million, to cover contract services from March 2025 to March 2026.

In preparation for the end of TEGSCO's contract after March 2026, staff are developing a Request for Proposals (RFP), with an estimated release in April 2025. After completing the competitive procurement process. The SFMTA will return to the Board of Supervisors in late Fall 2025 to discuss the overall status of the SFMTA Tow Program and request approval of a new towing agreement.

Thank you for your consideration of this item. If you have further questions, please contact Janet Martinsen at janet.martinsen@sfmta.com or 415.994.3143.

Sincerely,

A handwritten signature in black ink, appearing to read 'Julie', with a long, sweeping underline.

Julie Kirschbaum
Acting Director of Transportation

Attachment: Tow Contract History

TOW CONTRACT HISTORY

TEGSCO, LLC, under contract by the SFMTA, oversees a network of towing subcontractors, coordinating vehicle tows across San Francisco to ensure efficient removal of abandoned and illegally parked vehicles, and vehicles towed for accidents or crime. Vendor scope includes operating a short-term storage and customer service facility on 7th Street with 24/7 access and managing a long-term storage site at 2650 Bayshore Boulevard. Additionally, TEGSCO organizes bi-weekly online and onsite lien sale auctions for unclaimed vehicles and handles customer interactions and payments for vehicle retrievals at both storage locations.

The City's towing program operates on a cost-recovery basis, following California Vehicle Code provisions that restrict local agency charges to covering only the actual administrative and operational costs of vehicle removal, impound, storage, and release. In line with these state-law guidelines, the City's program is structured to recoup necessary expenses, including enforcement, contract administration, and related program costs. To support equitable access, City policies provide fee waivers and reductions for qualifying low-income, unhoused, first-time towed customers. While these waivers promote equity, they also reduce revenue, impacting the program's ability to fully recover its costs.

Under the contract, TEGSCO collects fees from the owners of towed vehicles and remits those fees to SFMTA. SFMTA then pays TEGSCO a fixed management fee¹ and reimburses TEGSCO for towing and storage management services. TEGSCO's variable fees are adjusted annually based on the lesser of three percent or the regional Consumer Price Index (CPI). Fees charged to vehicle owners are set by SFMTA. A \$52 fee waiver is granted to owners of first-time towed vehicles, and waivers are also available to low-income or homeless residents. In addition, victims of vehicle theft have their towing, administrative, and storage fees waived.

SFMTA leases 556,050 square feet of space at a facility located at 2650 Bayshore Boulevard in Daly City. Under the contract, TEGSCO uses 330,771 square feet for storage and transfer of vehicles, public lien sale auctions, and office space. TEGSCO does not pay rent but pays for all utilities, services, and security for the space. SFMTA also rents 450 7th Street for TEGSCO to use as its short-term storage facility.

Current fees are: (1) Administrative Fee: \$304 for first-time tow, \$360 for repeat tows, no fees for low-income vehicle owners or unhoused; (2) Tow Fee: \$297, \$104 for low-income residents, one-time waiver for the unhoused; (3) Storage Fee: no fee for first four hours, \$64 for the first day after four hours, \$77 for subsequent days; and (4) Dolly Fee (if applicable) \$53.

Towing Contract Statistics

Historical and projected revenue, expenditures, non-contract costs for the program, towing volumes and prior amendments are attached below.

¹ The Management Fee was bid out as a flat fee to maintain a consistent level of service, rather than a negotiated amount based on costs to TEGSCO. Costs include staffing, security, office and network infrastructure, storage lot equipment, repairs, capital improvements, administrative costs, and profit.

Contract Expenditures:

Fiscal Year	Contract Start	End	Year	Management Fee	Variable Fee	Total Expenditures
fy17	4/1/2016	3/1/2017	Year 1 ⁴	\$8,704,272	\$4,413,678	\$13,117,950
fy18	4/1/2017	3/1/2018	Year 2	\$8,203,839	\$4,776,759	\$12,980,598
fy19	4/1/2018	3/1/2019	Year 3	\$8,449,856	\$5,441,590	\$13,891,446
fy20	4/1/2019	3/1/2020	Year 4	\$8,703,444	\$5,198,730	\$13,902,174
fy21	4/1/2020	3/1/2021	Year 5	\$8,928,568	\$2,155,762	\$11,084,330
fy22	4/1/2021	3/1/2022	Year 6	\$8,515,097	\$3,880,922	\$12,396,019
fy23	4/1/2022	3/1/2023	Year 7	\$8,475,823	\$4,664,564	\$13,140,388
fy24	4/1/2023	3/1/2024	Year 8	\$9,164,983	\$5,238,125	\$14,403,107
fy25	4/1/2024	3/1/2025	Year 9 (projected)	\$9,455,702	\$5,654,504	\$15,110,206
fy26	4/1/2025	3/1/2026	Year 10 (projected)	\$9,810,000	\$5,898,000	\$15,708,000
					Contingency	\$1,000,000
Total				\$88,411,584	\$47,322,634	\$136,734,218

Tow Volume:

April to March	
Year 1	42,647
Year 2	42,442
Year 3	44,737
Year 4	43,223
Year 5	15,701
Year 6	31,088
Year 7	37,960
Year 8	37,294
Year 9	25,960 thru 11/24

Waiver Programs	FY2020*	FY2021	FY2022	FY2023	FY2024	FY2025 (thru November 2024)
Stolen Vehicle	\$1,135,281	\$1,489,009	\$1,569,303	\$1,679,801	\$1,316,540	\$420,176
First-time Tow	\$1,464,838	\$249,102	\$707,716	\$797,505	\$880,964	\$395,049
Low income		\$2,303,628	\$3,605,652	\$4,539,059	\$5,567,900	\$2,797,495
Unhoused**	\$1,318,262	\$91,893	\$342,734	\$661,454	\$485,169	\$249,477
TOTALS	\$3,918,381	\$4,133,631	\$6,225,405	\$7,677,818	\$8,250,573	\$3,862,197

* Statistics by Contract Year are not available.

**Unhoused tows not tracked separately until FY2020.

Tow Program:

Tow Contract:

SFMTA Costs:

Cost/Revenue:

Fiscal Year	Contract Year Start Date	Contract Year End Date	Contract Year	Annual Contract Costs	Rent	SFMTA Admin & Enforcement Cost	Total Program Cost	Tow Revenues	Net Program Cost
fy17	4/1/2016	3/1/2017	Year 1	\$13,117,950	\$1,995,469	\$9,247,156	\$24,360,575	\$20,769,426	\$3,591,149
fy18	4/1/2017	3/1/2018	Year 2	\$12,980,598	\$2,772,010	\$9,475,761	\$25,228,369	\$22,421,291	\$2,807,078
fy19	4/1/2018	3/1/2019	Year 3	\$13,891,446	\$2,909,838	\$10,166,840	\$26,968,124	\$23,768,374	\$3,199,750
fy20	4/1/2019	3/1/2020	Year 4	\$13,902,174	\$3,143,580	\$10,545,264	\$27,591,018	\$23,083,883	\$4,507,135
fy21	4/1/2020	3/1/2021	Year 5	\$11,084,330	\$3,312,260	\$11,252,133	\$25,648,723	\$8,142,522	\$17,506,201
fy22	4/1/2021	3/1/2022	Year 6	\$12,396,019	\$3,377,856	\$11,570,196	\$27,344,071	\$17,029,944	\$10,314,127
fy23	4/1/2022	3/1/2023	Year 7	\$13,140,388	\$3,508,304	\$11,882,881	\$28,531,573	\$22,210,186	\$6,321,387
fy24	4/1/2023	3/1/2024	Year 8	\$14,403,107	\$3,634,742	\$11,463,391	\$29,501,240	\$23,679,217	\$5,822,023
fy25	4/1/2024	3/1/2025	Year 9 (Est.)	\$15,110,206	\$3,766,849	\$12,355,710	\$31,232,765	\$23,392,809	\$7,839,956
fy26	4/1/2025	3/1/2026	Year 10 (Est.)	\$15,708,000	\$3,903,843	\$12,546,262	\$32,158,105	\$23,392,809	\$8,765,296
Total				\$135,734,2	\$32,324,75	\$110,505,593	\$278,564,56	\$207,890,46	\$70,674,102

Past Towing Contract Amendments:

Extension and funding amendments that required Board approval

- First Amendment (2016): This amendment established a license agreement between the SFMTA and TEGSCO for use of the property at 7th Street as the short-term storage facility under the Contract. *(required MTAB approval only)*
- Third Amendment (2021): The SFMTA exercised the five-year extension option during the pandemic, initially requesting an increase in contract authority for only the first two years (2021-2023) This amendment increased the contract by \$22.8 million, bringing it to a not-to-exceed amount of \$88.2 million. A request for contract authority for the last three years of the contract term was deferred due to the COVID-19 emergency.
- Seventh Amendment (2023): This amendment increased the not-to-exceed amount by \$33.2 million, for a total of \$121.4 million, extending coverage through March 2025. Staff committed to providing updates to the Board of Supervisors' Budget and Finance Committee on program progress and policy reassessment, with plans to return later to seek additional contract authority to support final-year contract services

Administrative Amendments (No Board Approvals Needed)

- First Amendment (2017²): This amendment revised procedures for SFPD investigative holds.
- Second Amendment (2019): This amendment modified specific service requirements to improve operational efficiency within the towing program.
- Fourth Amendment (2021): This amendment formalized the rebranding of TEGSCO from the "doing business as" name "San Francisco AutoReturn" to its legal name, "TEGSCO, LLC."
- Fifth Amendment (2022): This amendment granted TEGSCO access to confidential City databases to verify eligibility for income-based tow fee reductions and waivers, supporting the City's tow fee-reduction program for low-income individuals.
- Sixth Amendment (2022): This amendment introduced an internet-based auction platform as an alternative option to traditional in-person auctions.
- Eighth Amendment (2023): This amendment provided for the temporary relocation of the short-term storage facility to allow Caltrans to conduct structural maintenance and painting at the 7th Street location.

² This amendment was assigned as the 1st amendment due to clerical error. Because this was not discovered until recently, the CAT recommended distinguishing between the two documents by using the year they were approved.