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December 12, 2025

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

***Subject: Request for Approval – Tenth Amendment to Contract No. 2014-48 with
TEGSCO, LLC for Towing and Storage Services for Abandoned and Illegally
Parked Vehicles for \$22,800,000***

Honorable Members of the Board of Supervisors:

The San Francisco Municipal Transportation Agency (SFMTA) requests that the San Francisco Board of Supervisors authorize the Director of Transportation to execute the Tenth Amendment to Contract No. 2014-43 with TEGSCO, LLC for towing and storage for abandoned and illegally parked vehicles. The proposed Tenth Amendment would add \$22.8 million to the contract's not-to-exceed amount, for an amended total not-to-exceed amount of \$158.8 million, and it would add 15 months to the contract term, for an amended contract term of 11 years and three months.

The term extension is necessary to allow staff sufficient time to conduct a revised competitive solicitation process focused on reducing costs and improving efficiency in the City's tow program.

BACKGROUND

Tow Program Background

The City's towing program is essential to public safety and traffic management. It helps clear vehicles involved in crashes and crimes, removes abandoned or illegally parked vehicles, and addresses other hazards that block streets or disrupt transit operations.

State law limits what local agencies can charge for towing and related services, requiring programs to operate on a cost-recovery basis. In compliance with these provisions, the SFMTA structures its towing program to recover actual costs, including enforcement, storage, contract administration, and other program expenses. In recent years, because of both increased costs and the implementation of several waiver programs, the agency is not recouping all program costs but is rather spending about \$8 million to run the tow program.

Recent vendor contracts for towing services have included costs split into two buckets: 1) a fixed monthly fee for management, customer-service staffing, IT services and software licenses, back-office staff, etc. and 2) variable, per-tow fees, that fluctuate month-to-month based on the actual number of tows conducted. This is different than prior contracts where management and overhead costs were rolled up within a per-tow fee. The current structure is preferred because it removed an incentive whereby the vendor made more money the more vehicles they towed.

In addition to the contract-format change, the agency has adopted other customer-friendly policies and procedures, including the text-before-tow program and fee waiver for vehicles towed for the first time. To reduce financial barriers for low-income and unhoused vehicle owners, the SFMTA's tow program offers fee reductions and waivers. While these policies promote customer service and improve access and fairness, they also limit the program's ability to fully recover its costs. Over the last two fiscal years, running the tow program has cost the agency \$8 to \$9 million annually.

Contract with TEGSCO, LLC and Facility Operations

TEGSCO, LLC (TEGSCO) operates the City's tow and storage services for illegally parked and abandoned vehicles under SFMTA Contract No. 2014-48, which was awarded in April 2016 through SFMTA Board Resolution No. 16-024 and Board of Supervisors Resolution No. 99-16.

Through this contract, TEGSCO supports the SFMTA, San Francisco Police Department (SFPD), and Department of Public Health by removing vehicles involved in crimes, crashes, and other hazardous situations, and by towing and storing abandoned and illegally parked vehicles.

TEGSCO oversees a network of subcontracted tow operators and coordinates towing services citywide. It manages customer service, payments, lien sales for unclaimed vehicles, and vehicle retrievals. In FY2025, TEGSCO's subcontractors towed about 38,744 vehicles.

TEGSCO operates two key facilities under license agreements with the SFMTA: the Primary Storage Facility at 450 7th Street, which includes a 24/7 customer service center, and the Long-Term Storage Facility at 2650 Bayshore Boulevard, which offers full service to customers 8 am – 5 pm on weekdays and coordinates vehicle releases 24/7. The SFMTA leases both properties from third-party landlords and grants TEGSCO license rights for their use, as required under the contract.

The Primary Storage Facility at 450 7th Street is located on property owned by the State of California, acting through its Department of Transportation (Caltrans). On October 1, 2016, the City, as tenant, entered an SF Parking Airspace Lease with Caltrans to use this site. That same day, the SFMTA granted TEGSCO a Revocable License to Enter and Use Property (7th Street License), requiring TEGSCO to operate the Primary Storage Facility under the contract. The tow program also uses an annex to the Primary Storage Facility located on Port of San Francisco

property at Pier 68, which supports storage needs of the City's new large vehicle buyback program. The SFMTA, as tenant, entered a Memorandum of Understanding with the Port regarding usage of the Pier 68 location, and the SFMTA subsequently granted TEGSCO a Revocable License to Enter and Use Property related to the Pier 68 site.

Reimbursement for Increased Insurance Costs at Primary Storage Facility

On November 11, 2024, Caltrans notified the SFMTA of revised insurance requirements for continued use of the 7th Street site as the Primary Storage Facility. The updated requirements increased the general liability coverage (including umbrella) from \$5 million to \$20 million. This change is understood to be part of a broader shift in Caltrans' leasing practices following a fatal accident on Caltrans-owned property in Los Angeles, which prompted the agency to reassess its risk exposure and adopt more stringent insurance requirements for high-risk or operational sites across the state.

On June 24, 2025, the SFMTA and TEGSCO amended the 7th Street License to incorporate these new Caltrans-imposed insurance terms, with TEGSCO responsible for obtaining and maintaining the increased coverage.

The cost to TEGSCO for the additional coverage is about \$212,500 per year. This increase will be paid by the SFMTA because mid-year cost increases are only incorporated into the fees paid by customers every other year during the budget cycle. SFMTA decision to absorb the cost increase reflects the agency's role as lessee of the property and its commitment to maintaining stable, compliant operations under lease terms imposed by the State. Neither the SFMTA nor TEGSCO could have reasonably anticipated this change at the time the contract was awarded.

Prior Contract Amendments

The contract has undergone 10 amendments, including seven administrative amendments and three major amendments affecting the term and funding. Note that two separate amendments executed in 2016 and 2017 were each labeled the "First Amendment."

Administrative Amendments

- **First Amendment (2016):** Incorporated the 7th Street License for use of the Primary Storage Facility under the contract.
- **First Amendment (2017):** Revised procedures for SFPD investigative holds.
- **Second Amendment (2019):** Modified specific service requirements to improve operational efficiency within the towing program.
- **Fourth Amendment (2021):** Updated the contract to reflect TEGSCO's transition from operating under the "doing business as" name San Francisco AutoReturn to its legal name, TEGSCO, LLC.

- **Fifth Amendment (2022):** 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):** Introduced an internet-based auction platform as an alternative or supplement to traditional in-person auctions.
- **Eighth Amendment (2023):** Provided for the temporary relocation of the Primary Storage Facility to a nearby location in the South of Market neighborhood to allow Caltrans to perform structural maintenance and painting at the 7th Street location.

Extension and Funding Amendments

- **Third Amendment (2021):** Exercised the contract's five-year extension option during the COVID-19 pandemic but requested additional funding for only the first two years (2021-2023). This amendment increased the contract amount by \$22.8 million, raising the not-to-exceed amount of \$88.2 million.

The request for funding for the last three years of the contract term was intentionally deferred due to the uncertainties of the COVID-19 emergency and the need to reassess the City's towing policy and funding requirements during the recovery period. A program study submitted to the Board of Supervisors in June 2022 identified the need for further spending authority and funding to support continued tow operations as the City emerged from the pandemic.

- **Seventh Amendment (2023):** Increased the contract amount by \$33.2 million, to a total not-to-exceed amount of \$121.4 million. This funding was intended to cover services through the end of calendar year 2024 and allow continued operations into early 2025, through March. As part of this amendment, staff committed to providing updates to the Board of Supervisors' Budget and Finance Committee on program progress and policy reassessment, with the understanding that a future request for funding would be needed to support services through the final year of the contract.
- **Ninth Amendment (2025):** Increased the contract amount by \$15.3 million, for a total not-to-exceed amount of \$136.7 million. This funding was intended to cover services through March 2026, the end of the contract term.

Contract Budget History

Contract Document	Budget	Years	Cumulative Budget
Agreement (2016)	\$65.4 million	5	\$65.4 million
Third Amendment (2021)	\$22.8 million	2	\$88.2 million
Seventh Amendment (2023)	\$33.2 million	2	\$121.4 million
Ninth Amendment (2025)	\$15.3 million	1	\$136.7 million

The SFMTA had planned to complete a new Request for Proposals (RFP) process during 2025, including preparing and issuing the solicitation, selecting a vendor, and negotiating a new contract to take effect on April 1, 2026. In the process of preparing the RFP, SFMTA determined there may be opportunities to reduce costs of running the program and to reduce fees charged to customers. To begin a full reassessment of the program and its costs, the Agency put out a Request for Information (RFI), discussed on page six of this staff report. Information from the RFI and other research will inform a new RFP that is anticipated to be published in the winter of 2026. In the meantime, the SFMTA is seeking a Tenth Amendment to extend the existing contract and allow for this process to take place.

Proposed Tenth Amendment and Upcoming Procurement Process

Purpose and Scope of the Tenth Amendment

The proposed Tenth Amendment would extend the contract term by nine months, from April 1, 2026, through December 31, 2026, with up to six additional one-month extensions through June 30, 2027. The addition of the six, one-month optional extensions is a contingency to ensure the current contract lasts until a new, long-term contract takes effect. The Director of Transportation will have the authority to administratively approve the one-month extensions. It would also increase the contract not-to-exceed amount by \$22.1 million, bringing the total spending authority to \$158.8 million. This funding would cover continued towing and storage services during the extended term and offset increased insurance costs imposed by Caltrans under the SFMTA's lease for the Primary Storage Facility at 450 7th Street.

Given current SFMTA budget challenges, the agency requested that TEGSCO waive during the extension term the annual cost-of-living adjustments (COLA) included in the contract. TEGSCO agreed to waive these annual increases. Should the current contract stay in place for the full potential extension term of 15 months, the COLA waiver will save the agency \$471,000.

Beyond the COLA waiver, agency staff are actively working with TEGSCO and other stakeholders on potential policy and operational changes that could deliver additional expenditure savings within the tow program. If expenditure-saving changes are agreed to, staff will coordinate their implementation as soon as possible. If required, a new contract amendment will be drafted to memorialize any such changes.

Rationale for Extension and Revised Procurement Approach

The term extension is necessary to allow staff sufficient time to conduct a revised competitive solicitation process focused on reducing costs and improving efficiency in the City's tow program. As of May 2025, program costs under the current contract total approximately \$1.3 million per month—comprised of a fixed monthly management fee of \$829,400 and variable costs of \$474,600 tied to the number of vehicles towed.

The tow program is limited by cost-recovery laws to charging owners of towed vehicles no more than the actual cost to the agency. In recent years, because of both increased costs and the implementation of several waiver programs the agency is not recouping all program costs but is rather spending about \$8 million to run the tow program.

The SFMTA had planned to complete a new RFP process within this timeframe, including preparing and issuing the solicitation, selecting a vendor, and negotiating a new contract to take effect on April 1, 2026. In the process of preparing the RFP, it became clear that it would be fiscally responsible to explore every opportunity to reduce costs of running the program and potentially reduce costs to customers.

Request for Information Process

To inform the next contract, the SFMTA conducted a market-sounding process through a Request for Information (RFI) to engage potential vendors on ways to reduce costs and improve operational efficiency.

On July 1, 2025, the SFMTA issued an RFI to the vendor community to solicit feedback on opportunities to reduce costs while maintaining service quality. The RFI asked vendors to evaluate the impact of various operational elements—such as operating hours, staffing levels, tow response-time requirements, and customer service metrics—on overall program costs.

Respondents were advised that the agency wishes to reduce the fixed monthly management cost under the next contract from the current level of approximately \$830,000 to \$700,000. Vendors were asked to respond to sixteen specific questions by July 29, 2025. Staff are reviewing all responses to help inform the structure and scope of the upcoming RFP.

Request for Proposals Development, Review, and Transition Timeline

Following the RFI process, staff have started drafting a new RFP for presentation to the SFMTA Board of Directors in winter of 2026. Based on past experience, a comprehensive RFP process—including development, release, evaluation, award, and contract negotiation—can take up to one year. Additionally, if a new vendor is selected, system integrations (e.g., with enforcement and citation-processing software) could require up to six months before the vendor is fully operational.

For this reason, the proposed Tenth Amendment requests a contract extension of up to 15 months, through June 30, 2027, to ensure uninterrupted service while the SFMTA completes its procurement process and transitions to a new long-term contract.

ALTERNATIVES CONSIDERED

Staff considered the following alternatives:

1. Allow the contract to lapse at the current funding cap

This alternative would end all towing services provided under the current contract once available funds are exhausted. This is not viable. Tow operations are essential for public safety, traffic management, and clearing the public right-of-way of abandoned or illegally parked vehicles. Disruptions to service would create immediate public safety risks, degrade traffic flow, and hinder SFPD operations related to accidents, crimes, and stolen vehicles.

2. Reprocure the contract immediately based on the existing scope of services

Staff considered issuing a new RFP under the current scope of services, without completing a cost-reduction analysis. However, this would likely result in higher long-term costs. The current scope reflects prior policy-driven expansions in service (e.g., fee waivers, text alerts, customer support requirements) that may be unsustainable under current budget constraints. Proceeding with an immediate RFP would also risk excluding smaller or more cost-efficient vendors that need time to prepare. Moreover, issuing an RFP prior to gathering vendor feedback gathered through the July 2025 RFI process is not advisable.

3. Issue a short-term bridge contract with a different vendor

This alternative was deemed impractical. A temporary vendor would still require extensive technical integrations, staffing, and facility readiness to operate within City systems and could not be expected to meet service expectations for such a short term. Transitioning vendors twice within a 15-month period would increase administrative burden and could reduce service quality.

STAKEHOLDER ENGAGEMENT

Tow Program staff communicate regularly with various stakeholders, including SFMTA staff in the Enforcement, Administrative Hearings, and Customer Service groups, as well as staff at SFPD and the Human Services Agency. Tow program staff solicit feedback and work to confirm these stakeholders are receiving effective service from both in-house Tow Program staff and contractor staff. Over the years, this input has led to meaningful improvements to the program.

For example, based on stakeholder feedback, the SFMTA has established waiver and discount programs to reduce the financial burden of tows and storage for people experiencing homelessness and other low-income individuals.

Moreover, as detailed above, staff on July 1, 2025, issued a Request for Information (RFI) to the vendor community seeking input on the current tow-program scope of services. The goal of the RFI process is to work collaboratively with the potential vendor community to develop a retooled scope of services that maintains a high level of program service while also reducing program expenses.

FUNDING IMPACT

The projected contract expenditures for FY25-26 and FY26-27 are detailed within the table below. Funding for the first three quarters of FY25-26 was authorized with the Ninth Amendment. The proposed Tenth Amendment would provide additional contract authority to cover contract services provided during the fourth quarter of FY25-26 and throughout the full FY26-27. Funding to support the additional requested contract authority for the fourth quarter of FY25-26 is available within the adopted annual operating budgets for FY25-26. Funding required for FY26-27 will be requested within the agency's overall budget request that will be submitted to the SFMTA Board of Directors in 2026.

Contract Costs	Approved within Ninth Amendment	Requested within Proposed Tenth Amendment		
	FY25-26 (Q1-Q3)	FY25-26 (Q4)	FY26-27	Total Request
<i>Fixed Management Fees</i> includes customer service staff, TVMS software system, management of tow yards, payment processing and reporting, auction/lien sale management, admin, overhead, insurance premiums and profit	\$6.6 million	\$3.5 million	\$10.1 million	\$13.6 million
<i>Variable Fees</i> fees that apply per vehicle towed, including towing, lien sale, dolly/flatbed and dropped tow	\$4.0 million	\$2.1 million	\$6.4 million	\$8.5 million
Totals	\$10.6 million	\$5.6 million	\$16.5 million	\$22.1 million

**Note: Additional spending authority requested for Q4 FY25-26 will cover additional costs, including the increased insurance costs detailed earlier in this report, incurred earlier in the year, thus they appear higher on a per-month basis.*

Amendment includes about \$19.9 million plus an additional \$2.2 million in contingency. The \$19.9 million over 15 months represents continuation of recent actual contract expenditures of about \$1.33 million per month. The contingency within the total \$22.1 million request is needed because actual contract usage is variable. The number of tows conducted each month moves up and down in response to requests. To ensure that the contract includes enough spending authority to cover the possibility of increased tow volume, the contingency amount is required.

REQUEST FOR APPROVAL

The SFMTA respectfully requests that the Board of Supervisors authorize the Director of Transportation to execute the Tenth Amendment to Contract No. 2014-43 with TEGSCO, LLC for towing and storage for abandoned and illegally parked vehicles. The Tenth Amendment adds \$22.8 million to the contract's not-to-exceed amount, for an amended total not-to-exceed amount of \$158.8 million, and it adds fifteen months to the contract term, for an amended contract term of 11 years and three months.

Sincerely,

Julie Kirschbaum

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Director of Transportation