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September 13, 2022

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 funding 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 Seventh Amendment with TEGSCO, LLC, to fund the balance of the five-year extension approved in 2021. The \$49 million request, for a total not-to-exceed amount of \$137.2 million, will fully fund the 10-year term of the agreement. The funding 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.

Background

The five-year towing agreement with TEGSCO, LLC, then doing business as San Francisco AutoReturn was approved in 2016 for \$64 million. We have executed six amendments to the agreement. In 2021, the agreement was extended for five years under the Director of Transportation's authority, however funding was needed for the extension term, which required approval from both Boards.

Due to budgeting concerns during the pandemic and shelter-in-place, funding was requested for the first two years of the extension only. The Board of Supervisors approved funding in the amount of 22.8 million through the third amendment. The proposed seventh amendment will fund the agreement for the remaining term, including \$7 million needed for the balance of extension year two, due to a faster than expected recovery of towing service demands since commute towing was reinstated in October 2021.

The tow program costs consist of:

- Contract Costs:
 - Monthly Vendor Management Fee; customer service, tow dispatch, vehicle maintenance, forklift operators, lien sale processor – including 22 employees under a collective bargaining agreement with Teamsters Local 665 – janitorial and security services, utilities, auction management and administrative support.
 - Monthly Variable Fees (per vehicle): Passthrough fees for tow operators (an average of 65 trucks); dolly or flatbed tows (which require special equipment); lien sale and auction administrative costs.
- SFMTA Administrative Costs:
 - Staffing and fringe: Parking control officers, dispatch and administrative support
 - Overhead



SFMTA

- Credit card processing fees
- Rent for two facilities
- Tow coverage between 12 midnight and 6 am, from San Francisco Police Department and the Office of Emergency Management.

Cost Recovery and Waivers

Public towing fees as of July 1, 2022 are:

- Administrative Fee: \$336
- Tow Operator Fee: \$277
- Storage Fee: \$60 (first day), \$72 (additional days)

To address public concern over the fees above, SFMTA established the following fee reduction/waiver programs:

- First Time Tow:* \$50 reduction in the admin. Fee (\$286)
- Low income: Admin. and tow fee reduced to \$100; storage fees waived for up to 15 days
- Unhoused: Admin and tow fees waived completely (1st time tow); storage fees waived up to 30 days
- Stolen Vehicles:* All admin and tow fees waived; all storage waived
If the vehicle is picked up within 48 hours

*** Recommendations from prior Boards of Supervisors.**

TABLE 1 Fees collected, Costs and Waivers

Category	FY2019	FY2020**	FY2021**	FY2022
Fees Collected	\$32,387,506	\$26,581,640	\$16,888,752	\$29,568,037
Tow Program Costs	(\$27,867,285)	(\$27,542,992)	(\$26,682,591)	(\$28,641,229)
Total Recovery w/o Waivers	\$4,520,221	(\$961,352)	(\$9,793,839)	\$926,808
Waiver amounts	(\$4,620,627)	(\$3,918,381)	(\$4,133,631)	(\$6,225,395)
Total Recovery with Waivers	(\$100,406)	(\$4,879,733)	(\$13,927,470)	(\$5,298,587)

***Cost recovery impacted by pandemic

Without the waiver programs, the SFMTA would meet cost recovery goals (excluding pandemic period). However, when waivers are subtracted from fees collected, the towing program operates at a net loss.



Contract Costs to Date:

TABLE 2 – Contract Costs for Contract Years 1-7.

(Each contract year is from April 1 to March 31. FY 2023 amounts are for July and August 2022.)

Fiscal Year	Management Fee	Variable Fee	Total Expenditures
2016	\$1,996,068	\$1,106,464	\$3,372,532
2017	\$8,024,193	\$4,479,336	\$13,061,159
2018	\$8,264,901	\$4,980,891	\$13,245,792
2019	\$8,512,777	\$5,463,257	\$13,976,034
2020	\$8,761,709	\$4,180,966	\$12,942,675
2021	\$8,829,287	\$2,543,833	\$11,373,119
2022	\$8,475,823	\$4,308,505	\$12,784,328
2023	\$1,412,637	\$793,205	\$2,206,004
Total Spent			\$82,961,643

Actions Taken Since Funding in 2021

- **Controller’s Memorandum:** Requested by the SFMTA in Fall 2021, The SF Controller’s Office contacted 18 Municipalities throughout the US to determine any benchmarks or best practices and issued their findings in March 2022. The results were inconclusive due to inconsistent response from the cities contacted, and the wide variance in business models, what agency oversee services, storage facility availability, population density and method of acquiring tow operators.
- **(Fourth Amendment)** Documented Contractor name change, from TEGSCO, LLC, dba San Francisco Auto Return to TEGSCO LLC.
- **(Fifth Amendment)** Documented Contractor responsibilities in accessing HSA data to verify and process waiver requests..
- **(Sixth Amendment)** Established online auctions to widen customer pool for lien sales (auctions).
- Continued support to SFPD with towing, holds and denial of waiver applications for vehicles involved in **“motor vehicle stunt driving”**.
- Established **“Text for Tow” Program** that allows the public to register their vehicle license numbers to receive advanced notification of potential tows for 72-hour parking (abandoned vehicles), blocked driveways, construction zone parking, temporary parking restriction for special events and moving trucks.
- In late October 2021, when a major storm system brought significant flooding to the Hunters Point Expressway, **Enforcement and the Contractor coordinated emergency relocation** for 109 occupied vehicles and three boats to a Vehicle Triage Center at 1236 Carroll Ave.
- **Submitted a report to the Board of Supervisors in July 2022** to provide historical context, outreach efforts, pandemic and citywide shelter-in-place impact to program funding and options explored to mitigate cost challenges.



Projected Budget

TABLE 3 – Estimated Costs for the Remainder of the Contract

Contract costs	FY 2023 (partial)	FY2024	FY 2025	FY 2026 (Jul'25-Mar'26)	Total
Fixed Management	\$4,368,897	\$9,308,062	\$9,587,304	\$7,369,345	\$30,633,608
Variable Fees	\$2,688,335	\$5,532,766	\$5,726,412	\$4,419,348	\$18,366,861
Total	\$7,057,232	\$14,840,827	\$15,313,716	\$11,788,693	\$49,000,469

Option to Release an RFP

The option to release an RFP was rejected for the following reasons:

1. The SFMTA extended the agreement for the full five-year term with the Third Amendment;
2. The current contract caps cost increases at 3 percent per year and with inflation and other economic issues, new cost proposals would most likely be more expensive;
3. The Contractor continues to meet or exceed performance measures under the Contract. For example:
 - Revenue is consistently deposited to city bank accounts within the required 24 hours);
 - 93 percent of tow trucks arrive within the peak and non-peak times, which is significantly above the 90 percent on-time requirement threshold;
 - The average customer service wait time is two minutes which is five minutes above the seven-minute requirement;
 - The required Local Business Enterprise participation is 20 percent; the Contractor’s current level is 44 percent, accomplished primarily through tow truck operator firms.
 - Successful negotiations between the Contractor and Teamsters Local 665 for a third CBA completed August 2021.

Conclusion and Recommendation

The SFMTA has opted to request the funding needed for the remainder of the contract term and recommends approval of funding for the remainder of the agreement to allow the agency to assess towing needs in light of pandemic emergence, develop a new RFP, evaluate proposals, conduct negotiations with the highest-ranked proposer and return for approval of a new towing agreement prior to the Contract’s expiration in March 2026.

Thank you for your consideration,

Sincerely
Jeffrey Tumlin