

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Sub-Committee
FROM: Budget and Legislative Analyst 
SUBJECT: March 2, 2016 Budget and Finance Sub-Committee Meeting

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Item 2 File 16-0134	Department: Municipal Transportation Agency (MTA)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve: (1) a new agreement between the San Francisco Municipal Transportation Agency (SFMTA) and Tegsco, LLC d.b.a. San Francisco AutoReturn (AutoReturn) for services related to the towing, storage, and disposal of abandoned and illegally-parked vehicles in an amount not-to-exceed \$65,400,000 and for a term of five years, from April 1, 2016 through March 31, 2021, with the option to extend the agreement for up to five additional years; (2) a license between the SFMTA and AutoReturn for AutoReturn to use a portion of the premises leased by the SFMTA at 2650 Bayshore Boulevard in Daly City as a long-term vehicle storage for a term of five years with the option to extend for five additional years; and (3) the Planning Department’s determination that the actions contemplated by this resolution comply with the California Environmental Quality Act (CEQA). <p>Key Points</p> <ul style="list-style-type: none"> • On July 31, 2005, the SFMTA entered into a towing service agreement and property use license with AutoReturn following a competitive Request for Proposals (RFP) process. Under this existing service agreement, AutoReturn provides towing of abandoned and illegally parked vehicles on behalf of the San Francisco Police Department and the SFMTA. AutoReturn’s services include: dispatch for towed cars, tow subcontractor management, customer service (phone and in-person), and storage and disposal of unclaimed vehicles. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The estimated payments to AutoReturn over the initial five-year term are \$65,393,232, including the management fee to be paid by SFMTA to AutoReturn and the estimated charges to be reimbursed by SFMTA to AutoReturn. <p>Policy Consideration</p> <ul style="list-style-type: none"> • Tow fees charged by the City of San Francisco to owners of vehicles are based on the tow program costs and the number of towed vehicles. If the number of towed vehicles decreases, SFMTA will have to consider increasing tow fees to cover program costs, including the management fee. Based on the inquiry of the of the Budget and Legislative Analyst’s Office, SFMTA has included a clause in the contract stating that should tow volume increase or decrease significantly, the SFMTA and AutoReturn will renegotiate the fixed management fee to ensure that the cost per tow to the public is not impacted. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

City Charter Section 9.118(b) states that any agreement entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

BACKGROUND

On July 31, 2005, the San Francisco Municipal Transportation Agency (SFMTA) entered into a towing service agreement and property use license with Tegsco, LLC d.b.a. San Francisco AutoReturn (AutoReturn) following a competitive Request for Proposals (RFP) process. Under this existing service agreement, AutoReturn provides towing of abandoned and illegally parked vehicles on behalf of the San Francisco Police Department and the SFMTA. AutoReturn's services include: dispatch for towed cars, tow subcontractor management, customer service (phone and in-person), and storage and disposal of unclaimed vehicles.

Under the existing agreement, AutoReturn collects towing, storage, and administrative fees from vehicle owners for each towed vehicle. The fees from towed vehicles are collected by AutoReturn and are used to pay for its operating expenses. AutoReturn pays SFMTA an administrative fee, referral fees, and one percent of gross revenues.

In June 2007, the Board of Supervisors approved the first amendment to the agreement with AutoReturn to increase the towing and storage fee rate, payable by the owners of towed vehicles to AutoReturn. The increase to the towing fee and storage fee was to offset decreases in AutoReturn's gross revenue from declining tow volumes and fixed agreement costs. In July 2010, the Board of Supervisors approved a five-year extension of the existing service agreement and property use license between the SFMTA and AutoReturn from August 1, 2010 through July 31, 2015.

On July 8, 2015, the Board of Supervisors approved the second amendment to the agreement which: (1) extended the agreement for an eight-month period from August 1, 2015 through March 31, 2016 while the SFMTA completed the RFP process for awarding a new towing service agreement; and (2) authorized rent credits to AutoReturn totaling \$424,000 to compensate for the increased monthly rent paid by Auto Return for the rental of a short-term storage facility located at 7th and Harrison Streets.

As shown in Table 1 below, AutoReturn has paid \$80,872,990 in fees to SFMTA in fees during the ten-year period from FY 2005-06 through FY 2014-15, which includes \$67,165,652 in administrative fees to cover SFMTA's tow program costs.

Table 1: Revenues Received by SFMTA through FY 2014-15 from the AutoReturn Agreement

Fiscal Years	Referral Fee	1% Gross Revenue Fee	Subtotal	Administrative Fee	Total
FY 05-06	\$1,261,905	\$153,739	\$1,415,644	\$3,230,140	4,645,784
FY 06-07	1,332,164	166,903	1,499,067	3,309,830	4,808,897
FY 07-08	1,373,579	208,090	1,581,669	4,108,025	5,689,694
FY 08-09	1,409,100	216,911	1,626,011	4,135,314	5,761,325
FY 09-10	1,227,336	187,087	1,414,423	7,229,706	8,644,129
FY 10-11	1,146,828	186,268	1,333,096	8,485,983	9,819,079
FY 11-12	1,123,498	186,491	1,309,989	8,117,300	9,427,289
FY 12-13	979,811	163,580	1,143,391	9,042,696	10,186,087
FY 13-14	1,043,354	160,935	1,204,289	9,723,295	10,927,584
FY 14-15	1,021,482	158,277	1,179,759	9,783,363	10,963,122
Total	\$11,919,057	\$1,788,281	\$13,707,338	\$67,165,652	\$80,872,990

Request For Proposals Process

On June 26, 2015, SFMTA issued an RFP to award a new towing services agreement. SFMTA received three proposals in response to the RFP. SFMTA convened a panel to review the proposals consisting of two members of the San Francisco Police Department, two members of the SFMTA, and one member of the Metropolitan Transportation Commission. Of the three proposals received by the SFMTA, AutoReturn received the highest point total with 877 points out of a possible 1,000.

On February 16, 2016, the SFMTA Board of Directors recommended a new towing services agreement to AutoReturn for an amount not-to-exceed \$65,400,000 for a term of five years with an option to extend the agreement for an additional five years, subject to Board of Supervisors approval.

Fee Waiver for Stolen Vehicles

A new fee waiver policy for towed vehicles that are determined to have been stolen went into effect on December 1, 2015. The new fee waiver policy will require AutoReturn to waive or reimburse fees paid by San Francisco residents as well as non-residents whose vehicles were stolen and then subsequently towed. This policy was adopted by the SFMTA in response to the November 2014 Board of Supervisors request made to SFMTA to evaluate the feasibility of waiving or mitigating towing and storage fees for owners of vehicles that were towed and then identified by the SFPD as having been stolen. The SFMTA estimates that the fee waiver for stolen vehicles will reduce fee revenues to SFMTA by \$1,108,578 per year.

Towing Fee Reduction

The cost of retrieving a towed vehicle in San Francisco is determined by two factors: (1) SFMTA's administrative costs to implement the tow program; and (2) costs of the tow company to provide tows. On February 16, 2016, the SFMTA Board of Directors approved a resolution reducing the tow fee and administrative fee paid by vehicle owners to retrieve towed vehicles from \$491.25 to \$469.00, a reduction of \$22.25, or 4.5 percent. According to Mr. Steven Lee, Senior Manager of Financial Services and Contracts at SFMTA, the tow fee and the

administrative fee reductions were made possible because of technological improvements which made SFMTA's administration more efficient, and lower costs per tow proposed under the new towing services agreement. Mr. Lee estimates that the reduced fees will reduce overall fee revenues to SFMTA by \$769,987 per year.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve: (1) a new agreement between the SFMTA and AutoReturn for services related to the towing, storage, and disposal of abandoned and illegally-parked vehicles in an amount payable by the SFMTA to AutoReturn not-to-exceed \$65,400,000 and for a term of five years, from April 1, 2016 through March 31, 2021, with the option to extend the agreement for up to five additional years; (2) a license between the SFMTA and AutoReturn at no cost to AutoReturn for AutoReturn to use a portion of the premises leased by the SFMTA at 2650 Bayshore Boulevard in Daly City as a long-term vehicle storage and auction facility for a term of five years with the option to extend for five additional years; and (3) the Planning Department's determination that the actions contemplated by this resolution comply with the California Environmental Quality Act (CEQA). Key provisions of the AutoReturn agreement are included as Table 2 below.

Table 2: Key Provisions of the AutoReturn Agreement

Services Provided by AutoReturn	Customer service for towed vehicles Dispatching trucks for tows Storage of vehicles Lien Processing and Auctioning vehicles
Term	Five years from April 1, 2016 through March 31, 2021
Options to Extend	SFMTA has one option to extend the agreement for a period of up to five years
Total Agreement Not-to-Exceed Amount Payable by SFMTA to AutoReturn	\$65,400,000 including Management Fees and Reimbursable Charges detailed below
Management Fee Payable by SFMTA to AutoReturn	\$7,984,274 in year one
Charges for Services Provided by AutoReturn and Reimbursed by SFMTA	Tow charge by towing subcontractor to AutoReturn (per vehicle towed) - \$66.55 Dolly/flatbed charge (per vehicle) - \$40.63 Transfer charge (per vehicle) - \$31.05 Lien processing charge (per vehicle) - \$15.72 Auction charge (per vehicle sold) - \$73.59 Dropped Tow charge (per vehicle) - \$14.51
Annual Increases to Management and Reimbursable Charges which are Payable by SFMTA to AutoReturn	The lower of 3 percent or increase to the Consumer Price Index

AutoReturn Agreement Payment Structure

Under the proposed agreement, AutoReturn will collect fees from the owners of towed vehicles, and remit these fees to SFMTA. SFMTA will then pay AutoReturn a fixed management fee and reimburse AutoReturn for towing and related services, including a per tow charge paid to tow truck subcontractors, in an amount not-to-exceed \$65,400,000 over the proposed initial five-year agreement. This differs from the existing agreement, as noted above, in which AutoReturn collects fees, pays their operating expenses from these fees, and then AutoReturn pays SFMTA an administrative fee, one percent of gross fee revenues, and a referral fee for each towed vehicle.

Bayshore License

SFMTA currently leases 556,055 square feet of space at a facility located at 2650 Bayshore Blvd. in Daly City from Prologis, a firm specializing in industrial real estate. The lease was previously approved by the Board of Supervisors. The proposed Bayshore License would allow AutoReturn to use 330,771 square feet space for storage and transfer of vehicles, public lien sale auctions, and office space for AutoReturn. AutoReturn would not pay any rent for the License and SFMTA would continue to pay the full rent to Prologis. All utilities, services, and security would be paid by AutoReturn. SFMTA will continue to use the remaining 225,284 square feet for its Signal Shop.

CEQA Determination

The San Francisco Planning Department has determined that the proposed new towing services agreement with AutoReturn complies with CEQA and that determination is affirmed by the Board of Supervisors.

FISCAL IMPACT

The estimated payments to AutoReturn over the initial five-year term are \$65,393,232, including the management fee to be paid by SFMTA to AutoReturn and the estimated charges to be reimbursed by SFMTA to AutoReturn, as shown in Table 3 below.

Table 3: Total Payments from SFMTA to AutoReturn

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Management Fee Reimbursable	\$7,984,274	\$8,223,802	\$8,470,516	\$8,724,632	\$8,986,371	\$42,389,595
Charges	<u>4,227,161</u>	<u>4,353,976</u>	<u>4,484,595</u>	<u>4,619,133</u>	<u>4,757,707</u>	<u>22,442,572</u>
Subtotal	12,211,435	12,577,778	12,955,111	13,343,765	13,744,078	64,832,167
Contingency	105,679	108,849	112,115	115,478	118,943	561,064
Total	\$12,317,114	\$12,686,628	\$13,067,226	\$13,459,243	\$13,863,020	\$65,393,232

SFMTA's total estimated cost in FY 2016-17 for the tow program, including the cost of the AutoReturn agreement and SFMTA's administrative and storage facilities costs are \$24,136,250, as shown in Table 4 below.

Table 4: Total Estimated Cost to SFMTA for Towing Services Program

Expenditure	FY 2016-17
Management fee and reimbursements paid by SFMTA to AutoReturn	\$12,303,021 ^a
SFMTA administrative costs	9,125,577
Storage facilities	2,707,652
Total Cost	\$24,136,250

^a Costs in Table 4 are estimates for FY 2016-17, whereas the AutoReturn agreement commences in April 2016 and will cross FY 2015-16 and FY 2016-17.

Under the proposed new agreement between SFMTA and AutoReturn, SFMTA will pay AutoReturn for its towing services in an amount not-to-exceed \$65,400,000 over the five-year term, as shown in Table 3 above.

POLICY CONSIDERATION

Under the existing agreement between SFMTA and AutoReturn, AutoReturn collects all tow fees, pays their expenses from these fees, and remits various fee revenues to SFMTA. Under the proposed new agreement between SFMTA and AutoReturn, AutoReturn will collect tow fees and remit all fees to SFMTA; and SFMTA will pay AutoReturn a management fee and reimburse AutoReturn for the towing services provided by AutoReturn. According to Mr. Lee, SFMTA proposed the management fee structure as part of the RFP to allow for a more consistent form of payment to the selected contractor.

The management fee proposed by AutoReturn in response to the RFP was based on staff, administrative, and operating costs to implement a tow program for approximately 44,000 towed vehicles per year. Because the tow fees charged to owners of vehicles are based on the tow program costs and the number of towed vehicles, if the number of towed vehicles decreases, SFMTA will have to consider increasing tow fees to cover program costs, including the management fee.

Based on the inquiry of the of the Budget and Legislative Analyst’s Office, SFMTA has included a clause in the contract stating that should tow volume increase or decrease significantly, the SFMTA and AutoReturn will renegotiate the fixed management fee to ensure that the cost per tow to the public is not impacted.

RECOMMENDATION

Approve the proposed resolution.

Item 3 File 16-0046	Department: General Services Agency - City Administrator's Office (CAO)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the San Francisco Office of Contract Administration (OCA) to enter into a contract with Golden Gate Petroleum to supply City departments with renewable diesel for a three-year term from April 1, 2016, through March 31, 2019, in an amount not to exceed \$60,000,000. The contract will have two one-year options to extend for a total of five years through March 31, 2021. <p>Key Points</p> <ul style="list-style-type: none"> • Diesel equipment and vehicles used by City departments are currently fueled by petroleum diesel or biodiesel supplied through a contract between OCA and Golden Gate Petroleum that goes through August 31, 2016. • The City is seeking to replace the use of petroleum diesel and biodiesel with renewable diesel to meet its air pollution and greenhouse gas reduction goals as part of the Healthy Air and Clean Transportation Program. • Renewable diesel is a fuel derived from biomass that is distinct from biodiesel and chemically similar to petroleum diesel. It has lower lifecycle carbon emissions than petroleum diesel or B20 biodiesel. • OCA solicited competitive bids for renewable diesel in October 2015 and has issued a notice of conditional award to Golden Gate Petroleum. The bid prices are fixed as a markup or markdown from market prices for the entire term of the agreement. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • Funding for the proposed fuel contract was included in the FY 2015-16 budgets of the City departments that will utilize renewable diesel, as previously appropriated by the Board of Supervisors. City departments that will use renewable diesel will request funding in their FY 2016-17 through FY 2018-19 fuel budgets, subject to appropriation approval by the Board of Supervisors. • Both the existing contract for petroleum diesel and biodiesel and the proposed contract for renewable diesel are indefinite quantity contracts, such that the City is not obligated to purchase specific quantities of fuel. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

BACKGROUND

Diesel equipment and vehicles used by City departments are currently fueled by petroleum diesel or biodiesel supplied through a contract between the San Francisco Office of Contract Administration (OCA) and Golden Gate Petroleum. The existing contract to provide gasoline, biodiesel, and petroleum diesel, which was awarded based on a competitive process and was previously approved by the Board of Supervisors, is in an amount not to exceed \$94,000,000 for a three-year term from September 1, 2013, through August 31, 2016, with two one-year options to extend for a total of five years through August 31, 2018 (File No. 13-0688; Resolution No. 297-13).

The City is seeking to replace the use of petroleum diesel and biodiesel with renewable diesel to meet its air pollution and greenhouse gas reduction goals as part of the Healthy Air and Clean Transportation Program (San Francisco Environment Code, Chapter 4). Renewable diesel is a fuel produced from various bio-feedstock sources, including fats, oils, and greases. Although renewable diesel and biodiesel are both derived from biomass, they are distinctly different fuels due to the ways they are produced. Biodiesel is produced through an esterification process¹ and is chemically different from petroleum diesel and renewable diesel because biodiesel contains oxygen and esters (i.e., the chemical compound combined of carboxylic acid and alcohol). Renewable diesel is produced through a hydrogenation process and is chemically similar to petroleum diesel and does not contain esters. According to the California Air Resources Board, lifecycle carbon emissions from renewable diesel are approximately 60 percent lower than carbon emissions from petroleum diesel or B20 biodiesel (a blend of 20 percent biodiesel and 80 percent petroleum diesel).

According to Ms. Kofo Domingo, Assistant Director of Purchasing & Strategic Planning at OCA, if the City suspends purchases of petroleum diesel and biodiesel, the existing fuel contract with Golden Gate Petroleum would not be affected because it is an indefinite quantity contract, so City departments are not obligated to purchase any specific quantities.

In October 2015, OCA solicited competitive bids for renewable diesel from ten diesel suppliers and received responses from two suppliers. Golden Gate Petroleum was the only responsive bidder. According to Ms. Domingo, Golden Gate Petroleum was the only responsive bidder because renewable diesel is a relatively new product and there are very few suppliers and distributors of it. Golden Gate Petroleum's bid is expressed as a markup or markdown from the daily price per gallon of biodiesel, as published by the industry group known as the Oil Price

¹ The esterification process is a chemical reaction between carboxylic acid and alcohol to create the compound, ester.

Information Services (OPIS).² There is currently no OPIS price index for renewable diesel because it is a relatively new product.

OCA issued a notice of conditional award to Golden Gate Petroleum on January 8, 2016. The bid prices are fixed as a markup or markdown from OPIS biodiesel prices for the entire term of the agreement, including options to extend. While the markup or markdown price remains fixed, the OPIS price per gallon fluctuates daily. Golden Gate Petroleum's bid prices range from \$0.06 per gallon below the OPIS daily price to \$0.65 per gallon above the OPIS daily price, depending on location and quantity of delivery. Therefore, the actual price that the City pays for fuel will fluctuate throughout the term of the contract. If OPIS begins publishing a renewable diesel price index during the term of the contract, the daily price per gallon will switch to the renewable diesel index at that time.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize OCA to enter into a contract with Golden Gate Petroleum to supply City departments, which utilize diesel equipment and vehicles, with renewable diesel for a three-year term from April 1, 2016, through March 31, 2019, in an amount not to exceed \$60,000,000. The contract will have two one-year options to extend for a total of five years through March 31, 2021.

Under the proposed contract, Golden Gate Petroleum will deliver renewable diesel to Central Shops, the San Francisco Municipal Transportation Agency (SFMTA), San Francisco Fire Department (SFFD), the San Francisco Public Utilities Commission (PUC), San Francisco International Airport (SFO), and the Recreation and Park Department (RPD).

FISCAL IMPACT

According to Ms. Domingo, funding for the proposed fuel contract was included in the FY 2015-16 budgets of the City departments that will utilize renewable diesel, as previously appropriated by the Board of Supervisors. City departments that will use renewable diesel will request funding in their FY 2016-17 through FY 2018-19 fuel budgets, subject to appropriation approval by the Board of Supervisors.

The \$60,000,000 initial three year not-to-exceed contract amount is based on the gallons of diesel usage in FY 2014-15 and includes a 10 percent contingency for fluctuations in fuel price or usage, as shown in Table 1 below.

Table 1: Proposed Contract Amount

Gallons Used in FY 2014-15	Total Estimated Annual Cost	Three-year Cost	10 Percent Contingency	Proposed Contract Amount
5,800,000	\$18,000,000	\$54,000,000	\$6,000,000	\$60,000,000

² The OPIS purchase price is a standard market purchase price for a particular fuel and is not controlled by the City or the fuel distribution vendor.

The proposed contract assumes a continued average annual consumption of an estimated 5,800,000 gallons of diesel. Actual fuel consumption over the next three to five years could be higher or lower than this amount.

At this time, the average price per gallon that will be paid for renewable diesel over the term of the contract is unknown because fuel prices fluctuate daily and are tied to delivery quantities.

The proposed contract is an indefinite quantity contract, such that the City is not obligated to purchase any specific quantities of renewable diesel.

POLICY CONSIDERATION

The proposed contract with Golden Gate Petroleum for renewable diesel would take effect prior to expiration of the City's existing contract, for petroleum diesel and biodiesel, with Golden Gate Petroleum. According to Ms. Domingo, OCA is seeking to enter into the proposed contract at this time in response to requests from City departments for a greener fuel alternative. Although the existing contract with Golden Gate Petroleum for petroleum diesel and biodiesel will still be in place, the City is not obligated to continue purchasing petroleum diesel or biodiesel, as noted above.

RECOMMENDATION

Approve the proposed resolution.