

THIS PRINT COVERS CALENDAR ITEM NO.: 14

**SAN FRANCISCO
MUNICIPAL TRANSPORTATION AGENCY**

DIVISION: Streets

BRIEF DESCRIPTION:

Authorize the Director of Transportation to execute the Seventh Amendment to SFMTA Contract No. 2014-48, for Towing and Storage of Abandoned and Illegally Parked Vehicles, with TEGSCO, LLC., to increase the contract amount by \$49 million for a total amount not to exceed \$137.2 million, and to authorize the Director of Transportation to seek approval of the Seventh Amendment from the Board of Supervisors.



SUMMARY:

- In 2016, the SFMTA executed Contract No. 2014-48 (Contract) with TEGSCO, LLC (Contractor) for towing and storage of abandoned and illegally parked vehicles in the City; the Contract was for an initial amount of \$65.4 million and an initial term of five years with an option to extend for an additional five years.
- In 2021, the SFMTA and Contractor executed the Contract's Third Amendment to exercise the option to extend the term for the additional five years, to March 31, 2026, and increase the contract amount by \$22.8 million, to \$88.2 million, to pay the first two years of the extended term.
- Staff did not seek funding for the entire five-year extension; funding was requested only for the first two years to ensure continued operation of the City's towing program during the COVID19 emergency and to provide staff time to assess funding needs as the City emerged from pandemic conditions.
- In July 2022, staff submitted to the SFMTA Board of Directors and Board of Supervisors a report describing the state of the towing program and its costs.
- The towing program operates on a cost-recovery basis, is funded by towing and storage fees and revenue from lien sales; the program does not, and cannot completely, recover its costs because of the impact on revenue from reduced fees and waivers.
- As the City emerges from pandemic conditions, tow volume and corresponding costs have increased faster than projected, leaving a shortfall of \$7 million to fund the remainder of the second year of the extended term.
- The Seventh Amendment to the Contract increases the contract amount by \$49 million to fund the remainder of the extended term.
- The Seventh Amendment requires approval of the Board of Supervisors under Section 9.118 because it increases the contract amount by more than \$500,000.

ENCLOSURES:

1. SFMTAB Resolution
2. Seventh Amendment

APPROVALS:

	DATE
DIRECTOR 	<u>August 31, 2022</u>
SECRETARY 	<u>August 31, 2022</u>

ASSIGNED SFMTAB CALENDAR DATE: September 6, 2022

PURPOSE

Authorize the Director of Transportation to execute the Seventh Amendment to SFMTA Contract No. 2014-48, for Towing and Storage of Abandoned and Illegally Parked Vehicles, with TEGSCO, LLC., to increase the contract amount by amount by \$49 million or a total amount not to exceed \$137.2 million, and to authorize the Director of Transportation to seek approval of the Seventh Amendment from the Board of Supervisors.

STRATEGIC PLAN GOALS AND TRANSIT FIRST POLICY PRINCIPLES

This item supports the following SFMTA Strategic Plan Goals:

Goal 4: Make streets safer for everyone.

Goal 8: Deliver quality projects on-time and on-budget

This item also supports the following Transit First Policy Principles:

3. Decisions regarding the use of limited public street and sidewalk space shall encourage the use of public rights of way by pedestrians, bicyclists, and public transit, and shall strive to reduce traffic and improve public health and safety.

7. Parking policies for areas well served by public transit shall be designed to encourage travel by public transit and alternative transportation.

DESCRIPTION

Background

Towing Program

The SFMTA is responsible for efficiently controlling and removing illegally parked and abandoned vehicles to maximize on-street parking, manage traffic congestion, and maintain clean, safe, and functional streets for the public's use.

The City's towing operations include dispatch, tow and impoundment of abandoned and illegally parked vehicles, operation of two customer service centers and vehicle storage facilities, and disposition (through lien-sale auction) of vehicles not retrieved by their owners.

The towing program has agency and contract cost components:

- SFMTA's Agency Costs: Include traffic enforcement, dispatch, and administrative personnel; staff overhead; leases on two tow-storage and customer services facilities in SOMA and Daly City; merchant fees for credit card payment processing; and coverage of towing enforcement by the SFPD and the Office of Emergency Management between 12 midnight and 6 AM (when Parking Control Officers [PCOs] are not available).

- Contract Costs: Descriptions of costs (i.e., a monthly fixed management fee and variable monthly passthrough fees) are discussed in the Towing Contract section, below.

The SFMTA's towing program operates on a cost-recovery basis and is funded by collecting towing and storage fees and revenue from lien sales; the program does not recover all its costs because of the volume of waivers and reductions granted, including those granted in connection with stolen vehicles, vehicles towed for other crimes, first-time tows, and for customers that qualify as low income or unhoused.

Towing Contract

In 2016, the SFMTA executed Contract No. 2014-48 for towing and storage of abandoned and illegally parked vehicles in the City; the Contract was for an initial amount of \$65.4 million and an initial term of five years with the option to extend for an additional five years.

SFMTA pays a fixed monthly management fee that covers management of the tow operator network of 12 firms, nine of which are Local Business Enterprise (LBE) firms; employment of 36 staff, 22 of which are covered under a collective bargaining agreement between Contractor and the Teamsters Union, Local 665, and subcontracts for attorney and other business support, facility maintenance, janitorial, security (personnel and cameras), and payment of utilities and other expenses.

Monthly variable fees per tow are paid for operator reimbursement; use of dolly and flatbeds, which are necessary for vehicles not suited for standard tow; lien sale processing and auction expenses; and partial reimbursement for tow operators when they are directed by SFPD or PCOs to release a tow after hookup.

Contract costs from start date (April 2016) through July 2022 are set forth in the table below:

Fiscal Year	Variable Fees	Management Fee	Other*	Total per fiscal year
FY2016 (Apr-Jun 2016)	729,520.02	1,996,068.00	270,000.00	2,995,588.02
FY2017	4,450,917.50	8,024,193.36	557,630.03	13,032,740.89
FY2018	5,376,253.11	8,264,919.16		13,641,172.27
FY2019	5,463,257.20	8,512,866.74		13,976,123.94
FY2020	4,180,965.84	8,761,709.32		12,942,675.16
FY2021	2,543,832.54	8,829,286.65		11,373,119.19
FY2022	4,308,504.56	8,475,823.44	8,892.00	12,793,220.00
FY2023 (as of July 2022 invoices)	352,976.64	1,412,637.24		1,765,613.88
Grand Total	\$ 27,406,227.41	\$ 54,277,503.91	\$ 836,522.03	\$ 82,520,253.35

* Other costs included reimbursement of rent to the Contractor for the first eight months of the Agreement, until the SFMTA took over the lease for the 7th Street storage facility; transition costs from the previous to the current agreement, and for moving vehicles caught in flood conditions from Hunter’s Point Expressway to a temporary Vehicular Triage lot in October 2021.

Since the Contract was approved, there have been six amendments, as follows:

- First Amendment: to include reference to the license agreement between Contractor and the SFMTA for property at 7th and Harrison streets for use, by Contractor, as the primary storage facility under the Contract;
- Second Amendment: to modify certain service requirements;
- Third Amendment: to exercise the option to extend the contract term for five years, ending March 31, 2026, and increase the contract amount by \$22.8 million, to \$88.2 million, to pay for the first two years of the extended term;
- Fourth Amendment: to memorialize that Contractor stopped using the dba name, San Francisco AutoReturn, and began using its legal name, TEGSCO, LLC, in San Francisco;
- Fifth Amendment: to grant Contractor access to the City’s confidential database to verify the eligibility of tow customers for reductions in towing and storage fees, and to apply the corresponding fees/waivers under the SFMTA’s income-based tow fee-reduction and fee-waiver programs; and
- Sixth Amendment: to provide the SFMTA the option of using an internet-based auction platform in addition or as an alternative to live in-person auctions.

At the time of the Third Amendment, staff did not seek funding for the entire five-year extended term; funding was requested only for the first two years to ensure continued operation of the City’s towing

program during the COVID19 emergency and to provide staff time to assess program policies and funding as the City emerges from pandemic conditions.

Controller's Memorandum

In Fall 2021, in order to identify possible cost reductions to the towing program, the SFMTA requested that the Controller's Office conduct a survey of 11 municipalities (i.e., Berkeley, Boston, Los Angeles, New York City, Oakland, Philadelphia, Portland, San Antonio, San Diego, San José, and Seattle) to identify possible benchmarks or best practices in tow program operations used by those municipalities.

Issued in March 2022, the report concluded the following:

- The largest obstacle to the effort was lack of responsiveness; of the 11 cities contacted, eight provided varying levels of information and three (New York, San Antonio and Seattle) did not respond at all.
- There were wide variances in the city departments that oversaw towing programs (e.g., police v. transportation agencies), how tow truck operators were engaged (e.g., in-house employees, contracting with one tow management company or multiple tow truck operators), and impound facilities (e.g., some used city-owned impound lots and others relied on multiple contractor-owned storage facilities);
- Tow volume may be correlated with population density, in that the denser the population, the higher the volume; but would require more study to confirm.

SFMTA Memorandum on Tow Program

In July 2022, staff submitted to the SFMTA Board of Directors and Board of Supervisors a memo describing the history of the towing program since the late 1990s, impacts to program funding during the COVID emergency, public outreach efforts, options explored to reduce costs, including closing the program's smaller storage facility, reducing service-level requirements, eliminating fee waiver and reduction programs, conducting further studies, and identifying sources for subsidies for the program.

The conclusions reached in the memo are summarized below:

- The towing program remains an essential service to the City and cannot be discontinued without consequences to traffic, health, and safety.
- Fee reductions are necessary for certain members of the public whose vehicles are stolen then towed.
- Reducing service levels would impact workers under the collective bargaining agreement and LBE tow firms and increase wait times, which would impact SFPD and PCOs (who must stay with vehicles from tow request until the vehicle is removed), as well as customer retrieval of their vehicles.
- Consolidating the two storage facilities is not possible due to the need for space, limited real estate availability and associated OSHA requirements.

Seventh Amendment

At the time of the Third Amendment, staff informed the SFMTA Board it would seek funding for the last three years of the extended term under a subsequent amendment (the Seventh Amendment). But as the City emerges from pandemic conditions, tow volume and corresponding costs have increased faster than projected, leaving a shortfall of \$7 million for the remainder of the second year of the extended term.

The Seventh Amendment to the Contract would increase the contract amount by \$49 million for the remainder the extended term, including the remaining months of the second year, for a total of \$137.2 million for the entire 10-year term of the Contract.

STAKEHOLDER ENGAGEMENT

The SFMTA works on the towing program collaboratively with the Department of Homelessness and Supportive Housing, Human Service Agency, and the Treasurer's Office Financial Justice Project, as well as several advocacy groups representing low-income and people experiencing homelessness. Because of this collaboration, the SFMTA significantly reduced the program's administrative, towing, and storage fees for these populations.

Based on input from the Board of Supervisors, the SFMTA began granting waivers for towed vehicles that are later identified as stolen and reduced administrative fees (\$50 reduction) for first-time tows.

Based on input from the SFMTA Board, the SFMTA began piloting the "Text-before-Tow" program in January 2022. To date, more than 12,504 license plates have signed up for a warning text when their vehicle is in danger of being towed for parking on an on-street space for more than 72-hours, for blocking a driveway, parking in a construction zone or at temporary no parking spaces for special events and moving trucks.

ALTERNATIVES CONSIDERED

The first alternative is to allow the Contract to expire on March 31, 2021. This is not a viable alternative because tow operations are an essential service to the City, needed to clear public streets of abandoned and illegally-parked vehicles that pose health and safety hazards, and to ensure legal parking is available to support the flow of traffic and transit, and, to support the SFPD's collection of vehicles involved in accidents and crimes.

The second alternative is to go out to bid for a new contract. This is not recommended because:

- The SFMTA extended the agreement for the full five-year term with the Third Amendment;
- The current contract caps cost increases at 3% per year and with inflation and other economic issues, new cost proposals would most likely be more expensive;
- 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% on-time requirement threshold and the average customer service wait time is two minutes which is five minutes above the seven-minute requirement.
- Based on the Controller's and SFMTA reports submitted, the scope and method of service delivery cannot be revised without further study.

FUNDING IMPACT

The estimated funding impact from this action is shown in the table below and will be paid from the annual operating budget.

Contract costs*	FY 2023 (3 months)	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

* Each contract year is from April 1 to March 31. Costs above cover the last three months of extension year 7, and extension years 8, 9 and 10.

ENVIRONMENTAL REVIEW

On August 23, 2022, the SFMTA, under authority delegated by the Planning Department, the Seventh Amendment to SFMTA Contract No. 2014-48 is not a "project" under the California Environmental Quality Act (CEQA) pursuant to Title 14 of the California Code of Regulations Sections 15060(c) and 15378(b).

A copy of the CEQA determination is on file with the Secretary to the SFMTA Board of Directors and is incorporated herein by reference.

OTHER APPROVALS RECEIVED OR STILL REQUIRED

All amendments to the Contract that seek to increase the contract amount by more than \$500,000 require approval of the Board of Supervisors under Section 9.118 of the San Francisco Charter.

The City Attorney's Office has reviewed the report.

RECOMMENDATION

Staff recommends the SFMTA Board of Directors authorize the Director of Transportation to execute the Seventh Amendment to SFMTA Contract No. 2014-48, for Towing and Storage of Abandoned and Illegally Parked Vehicles, with TEGSCO, LLC., to increase the contract amount by amount by \$49 million for a total amount not to exceed \$137.2 million, and to authorize the Director of Transportation to seek approval of the Seventh Amendment from the Board of Supervisors.

SAN FRANCISCO
MUNICIPAL TRANSPORTATION AGENCY
BOARD OF DIRECTORS

RESOLUTION No. _____

WHEREAS, In 2016, the SFMTA executed Contract No. 2014-48 (Contract) with TEGSCO, LLC (Contractor) for towing and storage of abandoned and illegally parked vehicles in the City; the Contract was for an initial amount of \$65.4 million and an initial term of five years with the option to extend for an additional five years; and

WHEREAS, There have been six amendments to the Contract, including a Third Amendment in 2021 to exercise the option to extend the contract term for five years, ending March 31, 2026, and increase the contract amount by \$22.8 million, to \$88.2 million, to pay for the first two years of the extended term; and

WHEREAS, At the time of the Third Amendment, staff did not seek funding for the entire five-year extended term; funding was requested only for the first two years to ensure continued operation of the City's towing program during the COVID19 emergency and to provide time to assess program policies and funding as the City emerges from pandemic conditions; and

WHEREAS, At the time of the Third Amendment, staff informed the SFMTA Board they would seek funding for the last three years of the extended term under a subsequent amendment (the Seventh Amendment); and

WHEREAS, As the City emerges from pandemic conditions, tow volume and corresponding costs have increased faster than projected, leaving a shortfall of \$7 million to fund the remainder of the second year of the extended term; and

WHEREAS, On August 23, 2022, the SFMTA, under authority delegated by the Planning Department, determined the Seventh Amendment to SFMTA Contract No. 2014-48 is not a "project" under the California Environmental Quality Act (CEQA) pursuant to Title 14 of the California Code of Regulations Sections 15060(c) and 15378(b); and

WHEREAS, A copy of the CEQA determination is on file with the Secretary to the SFMTA Board of Directors and is incorporated herein by reference; now, therefore, be it

RESOLVED, Staff recommends the SFMTA Board of Directors authorize the Director of Transportation to execute the Seventh Amendment to SFMTA Contract No. 2014-48, for Towing and Storage of Abandoned and Illegally Parked Vehicles, with TEGSCO, LLC., to increase the contract amount by amount by \$49 million for a total amount not to exceed \$137.2 million; and, be it further

RESOLVED, That the SFMTA Board authorizes the Director of Transportation to seek approval of the Seventh Amendment from the Board of Supervisors.

I certify that the foregoing resolution was adopted by the San Francisco Municipal Transportation Agency Board of Directors at its meeting of September 6, 2022.

Secretary to the Board of Directors
San Francisco Municipal Transportation Agency

**City and County of San Francisco
Municipal Transportation Agency
One South Van Ness Ave., 7th Floor
San Francisco, California 94103**

**Seventh Amendment
Contract No. 2014-18**

THIS AMENDMENT (Amendment) is made as of [insert date], in San Francisco, California, by and between TEGSCO, LLC (Contractor), and the City and County of San Francisco, a municipal corporation (City), acting by and through its Municipal Transportation Agency (SFMTA).

Recitals

- A. City and Contractor have entered into the Agreement (as defined below).
- B. The SFMTA Board of Directors approved the Agreement, including an option to extend the contract term for up to five years by Resolution No. 16-024 on February 16, 2016; the Board of Supervisors approved the Agreement by Resolution No. 0099-16 on March 15, 2016.
- C. Under the Agreement's Third Amendment, dated April 1, 2021, the parties extended the contract term five years, ending March 31, 2026, and increased the contract amount by \$22.8 million to \$88.2 million, to pay for the first two years of the extended term.
- D. City and Contractor desire to modify the Agreement again, on the terms and conditions set forth herein, to increase the contract amount by \$49 million, to \$137.2 million, to fund the remainder of the extended term.
- E. The Agreement was competitively procured as required by San Francisco Administrative Code Chapter 21.1 through Request for Proposal No 2014-48, issued July 26, 2015, and this Amendment is consistent with the process.
- F. The two licenses that authorize Contractor's use, in connection with the Agreement, of the vehicle storage facilities at 2650 Bayshore Boulevard, Daly City, and 450 7th Street, San Francisco (respectively, Appendices D and F of the Agreement) provide that these licenses shall be automatically extended for the same period of the Agreement's extended term.

NOW, THEREFORE, Contractor and the City agree as follows:

Article 1 Definitions

The following definitions shall apply to this Amendment:

1.1 Agreement. The term "Agreement" shall mean the Agreement dated April 1, 2016 between Contractor and City, as amended by the:

- First Amendment**, dated October 1, 2016,
- Second Amendment**, dated July 1, 2019,
- Third Amendment**, dated April 1, 2021,
- Fourth Amendment**, dated April 11, 2022,
- Fifth Amendment**, dated April 12, 2022, and
- Sixth Amendment**, dated June 17, 2022

1.2 Other Terms. Terms used and not defined in this Amendment shall have the meanings assigned to such terms in the Agreement.

Article 2 Modifications to the Agreement

The Agreement is modified as follows:

2.1 Section 3.3.1 (Payment). Section 3.3.1 of the Agreement is replaced in its entirety to read as follows:

3.3.1 Payment. Contractor shall provide an invoice to the SFMTA on a monthly basis for Services completed in the immediately preceding month, unless a different schedule is set out in Appendix B, "Calculation of Charges." Compensation shall be made for Services identified in the invoice that the SFMTA's designee, in his or her sole discretion, concludes has been satisfactorily performed. Payment shall be made within 30 calendar days of receipt of the invoice unless the City notifies the Contractor that a dispute as to the invoice exists. In no event shall the amount of this Agreement exceed \$137,200,000 (one hundred thirty seven million, two hundred thousand). The breakdown of charges associated with this Agreement appears in Appendix B, "Calculation of Charges," attached hereto and incorporated by reference as though fully set forth herein. In no event shall City be liable for interest or late charges for any late payments.

Article 3 Effective Date

Each of the modifications set forth in Section 2 shall be effective on and after the date of this agreement

Article 4 Legal Effect

Except as expressly modified by this Amendment, all of the terms and conditions of the Agreement shall remain unchanged and in full force and effect.

IN WITNESS WHEREOF, Contractor and City have executed this Amendment as of the date first referenced above.

CITY	CONTRACTOR
San Francisco Municipal Transportation Agency	TEGSCO, LLC
_____ Jeffrey P. Tumlin Director of Transportation	_____ Frank Mecklenburg CEO
Authorized By: Municipal Transportation Agency Board of Directors	City Supplier Number: 48588
Resolution No: _____	
Adopted: _____	
Attest: _____ Secretary to the Board	
Board of Supervisors	
Resolution No: _____	
Adopted: _____	
Attest: _____ Clerk of the Board	
Approved as to Form:	
David Chiu City Attorney	
By: _____ Isidro Jimenez Deputy City Attorney	