

CITY OF OAKLAND



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OFFICE OF THE MAYOR,
IGNACIO DE LA FUENTE, PRESIDENT
AND MEMBERS OF THE CITY COUNCIL
OAKLAND, CA

Attention: Chairperson Danny Wan
Finance and Management Committee

**SUBJECT: REPORT ON SURVEY OF TOWING CONTRACTS IN SELECTED BAY
AREA CITIES**

As discussed at the September 23, 2003 meeting of the Finance and Management Committee, the Office of the City Auditor has completed a telephone survey on Oakland's towing contract award process and administration, towing statistics and fees, and revenues as compared to other Bay Area cities. The survey results are attached.

Prepared by:

Issued by:

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City Auditor

Report Completion Date:
October 31, 2003

Attachment

Item # _____
Finance and Management Committee
December 9, 2003

04-039

**OAKLAND CITY AUDITOR
REPORT ON SURVEY OF TOWING CONTRACTS
IN SELECTED BAY AREA CITIES**

PURPOSE

The purpose of this survey was to compare the amounts and sources of revenues derived by Bay Area cities from towing, storing, releasing and selling vehicles. We also included in our survey the towing contract award process and selected data regarding the contracts, in order to determine whether changes are needed in Oakland's process for awarding contracts.

SCOPE AND METHODOLOGY

We made a telephone survey of three cities (San Francisco, San Jose and Berkeley) that the Finance and Management Committee specifically mentioned in its September 23, 2003 meeting, as well as five additional cities (Hayward, Vallejo, San Mateo, Walnut Creek and Pleasanton) in order to provide a wide range of survey data. The results of our survey are based on the most recent date for which information was available.

RESULTS

Amounts and Sources of Revenues

City Revenues Collected from Towing Contractors

Approximately half of the cities surveyed collect revenue from their contractor towing companies while the other half do not. This result appears to be strongly influenced by the number of tows that a city handles in any given year. Cities with high levels of towing are more likely to collect fees from the contractor and the vehicle owner than cities with low levels of towing. This result is probably the product of the cost to administer and maintain sufficient facilities to store a large number of vehicles. Cities with high volumes of vehicles are unlikely to be able to pay for the cost of this program through their budgets, while cities with low volumes reported that they were able to meet the costs of their programs through their city budgets.

As shown on Exhibit A, three cities (Oakland, San Francisco and San Jose) collect revenues from towing contractors, based on the number of vehicles towed. Moreover, San Francisco collects storage fees from its towing contractor in the form of rent for using city-owned storage facilities.

Prior to April 1, 2003, San Jose collected 50 percent of storage fees pertaining to vehicles that are subject to mandatory 30-day impounds or mandatory forfeitures, after deducting the first four days of storage, until the vehicles were claimed. San Jose was the only city that collected a

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portion of the proceeds from lien sales. Under its contract San Jose was entitled to collect, from the proceeds of all lien sales, 50 percent of storage fees, after deducting the first four days of storage and various costs of selling the vehicles. As shown on Exhibit A, during calendar year 2002 San Jose did not distinguish between those storage fees that were collected from owners who claimed their vehicles or through vehicles sold at lien sales.

Effective April 1, 2003, San Jose's contract has provided for charging contractors a flat fee of \$50.00 for every type of tow, plus \$5.00 for every dispatch that is made. The change is expected to be revenue neutral because San Jose anticipates that it will collect approximately the same amount of revenue under the new fee structure as compared to the old fee structure. The new procedure should also be easier to administer.

City Payments to Contractors

Berkeley and Pleasanton are the only cities that pay a contractor to tow vehicles. Berkeley pays A&B Vehicle Processing \$60.00 to tow each abated vehicle. Pleasanton requires the contractor to attempt to collect any towing charges associated with abated or abandoned vehicles from the vehicle owner. If the contractor is not able to collect the towing charges from the vehicle owner, Pleasanton pays the contractor a flat fee of \$50.00 for each vehicle.

City Revenues Collected from Vehicle Owners

As shown on Exhibit A, six cities (Oakland, San Francisco, San Jose, Hayward, Vallejo and Berkeley) charge the owner of a vehicle that has been towed what is called a "release fee" in order to claim a vehicle. The three cities (San Mateo, Walnut Creek and Pleasanton) that do not charge an owner a "release fee" are the cities with some of the smallest number of tows per year. For these three cities, the cost of monitoring the towing companies is already accounted for in their budgets so there is no need to charge a release fee.

Contractor Revenues Collected from Vehicle Owners

Towing contractors are allowed to charge vehicle owners for towing and storing their vehicles. Gate fees are also charged in some cities for vehicle owners who want to claim their vehicles during non-working hours.

Most cities have some type of bidding process whereby prospective contractors submit their bids for towing, storage and gate fees. If their bids are reasonable, they are awarded contracts or participation in the system. Exhibit A summarizes the towing, storage and gate fees that are charged by the cities that we surveyed.

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Costs to Vehicle Owners

As shown on Exhibit B, in order to claim a towed vehicle the owner must pay the contractor anywhere from a low of \$176.90 in Oakland to a high of \$285.00 in San Mateo. This assumes that the vehicle has been stored outside for three days, and that a gate fee will be charged in those cities that allow one.

As stated above, some cities also collect release fees, which would bring the total costs for a vehicle owner anywhere from a low of \$190.00 in Walnut Creek to a high of \$375.00 in Hayward.

Contract Award and Selected Contract Data

Type of Contract

The primary goal in this section was to identify the type of relationship that the city has with its contractors and which department is responsible for administering the contract. All of the cities except Oakland and San Francisco have either a formal or informal contract with multiple vendors. (See Exhibit C).

For those cities that award contracts, the contract period usually runs approximately three to five years. Some contracts have renewal extensions that will extend the terms of the contract. For cities that do not award contracts, most provide a set of requirements that the towing companies must meet. These cities accept applicants that meet the criteria on an annual basis.

Most of the cities surveyed give regulatory authority for compliance with the towing contracts to the Police Department. Two cities do not give this authority directly to the Police Departments: San Francisco and San Jose. In San Francisco, the Department of Parking and Traffic is responsible for monitoring contractor compliance, whereas in San Jose the Department of City Planning, Building and Code Enforcement is responsible.

Generally, most cities were happy with their current process for awarding contracts. Many cities like to have multiple contractors on a rotating basis. Some tows are more profitable than other tows, and contractors prefer to make only the more profitable tows. Under the rotating schedule, any contractor who does not want to make an unprofitable tow can be penalized by being skipped in the rotation for a set period of time. This creates more incentive for contractors to tow abandoned and abated vehicles as well as more lucrative tows. On the negative side, one police sergeant who uses this system noted that the costs of administering a multiple contractor system are higher than a single contractor system.

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Towing Statistics

The number of vehicles that were towed varies depending on the size of the city and the vehicle population. For the year 2002, San Francisco leads the group with a high of 74,725 tows while Berkeley is at the bottom of the group with a low of 585 tows. The towing statistics are useful because they help to determine the potential costs associated with towing services and how cities must plan to pay for those costs. Cities with low annual tow rates often do not need to obtain sources of revenue to pay for the program outside of their annual budgets, while cities with higher tow rates are more likely to collect revenue from towing to help support the costs of the program.

RECOMMENDATIONS MADE BY CITIES THAT WERE SURVEYED

Recommendations for Increasing City Revenue from Towing Contracts

As was reported in the prior section, many of the cities surveyed do not collect revenues from the towing companies. The police departments for these cities are able to cover all of the costs of this service through their budgets allocated by the cities. For these cities, they would only consider collecting revenue if they did not have sufficient revenue in the budget to cover the costs of providing the service. In addition, one city representative commented that by not collecting revenue, the city limits its liability if the customers sue the towing companies for negligence.

For the cities that do collect revenue from the towing companies, there were several good recommendations provided to increase city revenues:

- (1) Several cities suggested that the ownership of the storage facility should belong to the city. This would allow the city to directly collect all revenue from storage. These advocates believe that storage is the most profitable part of the towing business because it is the least costly part of the towing process. By owning their own facilities, the cities could keep all of the revenues collected for storage.
- (2) A suggestion was made to charge all contracted towing companies a licensing fee as a way to collect revenue.
- (3) One city is looking into using the internet more extensively for the towing service so that clients will be able to access information to their vehicles on-line. Using this service will allow for faster processing of vehicles and greater ability for feedback from vehicle owners who use the service.
- (4) A suggestion was made to charge any contractor who did not return vehicles to their owners in a timely manner.

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As the above list demonstrates, there are many potential innovative ideas that could be implemented to increase the city's revenues from towing.

Recommendations for Future Towing Contracts

Our survey also generated many good recommendations for future towing contracts. The recommendations include:

- (1) The city should make sure that the administration that regulates the industry is properly funded so that it can do its job correctly.
- (2) The city needs to make sure that there are effective enforcement measures in place to insure contractor compliance with the rules.
- (3) The contract should include the requirement of a 200-hour audit payable by the contractors as part of the contract.
- (4) The city should make the contractors legally responsible for any acts of negligence committed by their employees while conducting towing services for the city.
- (5) The city should review the rates established for towing and storage to insure that the contractors are receiving a reasonable rate of compensation for their services.

As the above list shows, proper establishment and enforcement of rules and independent certification of the financial statements will help to maintain credibility for the city with its towing operations.

CONCLUSION

This survey has presented the comparative results of several Bay Area cities' towing contracts and how they manage relations with their towing company contractors. The survey has shown that certain factors such as the volume of towed vehicles in a given year can help to frame the choices for establishing proper pricing of fees. Several good recommendations were also provided for the City of Oakland to consider when negotiating the next towing contract.

Survey of Vehicle Towing Contracts
Schedule of Fees and Revenues

EXHIBIT A

	Oakland	San Francisco	San Jose	Hayward	Vallejo	San Mateo	Walnut Creek	Pleasanton	Berkeley
Number of Vehicles Towed	<u>24,500</u>	<u>74,725</u>	<u>28,000</u>	<u>4,765</u>	<u>3,500</u>	<u>1,600</u>	<u>1,530</u>	<u>1,100</u>	<u>585</u>
Schedule of Fees (as of October 31, 2003):									
City Release Fee	\$ 100.00	\$ 50.00	\$ 97.00	\$ 100.00	\$ 85.00	\$ -	\$ -	\$ -	\$ 75.00
Regular Vehicle Towing Fee	\$ 88.40	\$ 121.00 ¹	\$ 110.00	\$ 120.00	\$ 90.00	\$ 135.00	\$ 80.00	\$ 110.00	\$ 75.00
Gate Fee	\$ -	\$ -	\$ 30.00	\$ 35.00	\$ 50.00	\$ 45.00	\$ 25.00	\$ 50.00	\$ -
Inside Storage Fee	\$ 29.50	\$ 34.75	\$ 46.00	\$ 45.00	\$ 25.00	\$ 35.00	\$ 20.00	\$ 35.00	\$ 25.00
Outside Storage Fee	\$ 29.50	\$ 34.75	\$ 36.00	\$ 40.00	\$ 30.00	\$ 35.00	\$ 20.00	\$ 30.00	\$ 20.00
Other Fees	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25.00</u>	<u>\$ -</u>	<u>\$ 45.00</u>
City Revenues (as of December 31, 2002):									
Contractor Fees:									
Storage Fees	\$ -	\$ 1,931,821 ²	\$ 780,000 ³	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Towing Fees	<u>441,000</u>	<u>1,079,515</u>	<u>420,000</u>	-	-	-	-	-	-
Total Contractor Fees	<u>\$ 441,000</u>	<u>\$ 3,011,336</u>	<u>\$ 1,200,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Fees:									
City Release Fees	<u>\$ 704,977</u> ⁴	<u>\$ 1,791,380</u>	<u>\$ 670,000</u>	<u>\$ 241,400</u>	n/a	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,375</u>
Total City Towing Revenues	<u><u>\$ 1,145,977</u></u>	<u><u>\$ 4,802,716</u></u>	<u><u>\$ 1,870,000</u></u>	<u><u>\$ 241,400</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 36,375</u></u>

- Footnote 1: San Francisco collects the \$121.00 towing fee if the vehicle owner picks up the vehicle within the first four hours of being towed. If the owner picks up the vehicle between the fifth hour and the twenty-fourth hour, the towing fee plus the prorated storage fee is \$149.25.
- Footnote 2: San Francisco does not collect storage fees on a per vehicle basis. Instead, it charges rent to its contractor for using city-owned storage facilities.
- Footnote 3: During 2002, San Jose collected 50 percent of storage fees pertaining to vehicles that are subject to mandatory 30-day impounds or mandatory forfeitures, after deducting the first four days of storage, until the vehicles were claimed. San Jose did not distinguish between storage fees that were collected from owners or through lien sales.
Effective April 1, 2003, San Jose's contract has provided for charging contractors a flat fee of \$50.00 for every type of tow, plus \$5.00 for every dispatch that was made. The change is expected to be revenue neutral because San Jose anticipates that it will collect approximately the same amount of revenue under the new fee structure as compared to the old fee structure. The new fee procedure should also be easier to administer.
- Footnote 4: 2001 vehicle release fee data.

Survey of Vehicle Towing Contracts
Effective Tow Rate Schedule
As Of October 31, 2003

EXHIBIT B

	Oakland	San Francisco	San Jose	Hayward	Vallejo	San Mateo	Walnut Creek	Pleasanton	Berkeley
Number of Vehicles Towed	<u>24,500</u>	<u>74,725</u>	<u>28,000</u>	<u>4,765</u>	<u>3,500</u>	<u>1,600</u>	<u>1,530</u>	<u>1,100</u>	<u>585</u>
Schedule of Fees:									
City Release Fee	\$ 100.00	\$ 50.00	\$ 97.00	\$ 100.00	\$ 85.00	\$ -	\$ -	\$ -	\$ 75.00
Regular Vehicle Towing Fee	\$ 88.40	\$ 121.00 ¹	\$ 110.00	\$ 120.00	\$ 90.00	\$ 135.00	\$ 80.00	\$ 110.00	\$ 75.00
Gate Fee	\$ -	\$ -	\$ 30.00	\$ 35.00	\$ 50.00	\$ 45.00	\$ 25.00	\$ 50.00	\$ -
Inside Storage Fee	\$ 29.50	\$ 34.75	\$ 46.00	\$ 45.00	\$ 25.00	\$ 35.00	\$ 20.00	\$ 35.00	\$ 25.00
Outside Storage Fee	\$ 29.50	\$ 34.75	\$ 36.00	\$ 40.00	\$ 30.00	\$ 35.00	\$ 20.00	\$ 30.00	\$ 20.00
Other Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25.00	\$ -	\$ 45.00
Vehicle Owner Costs:									
Contractor Fees:									
Regular Vehicle Towing Fee	\$ 88.40	\$ 121.00	\$ 110.00	\$ 120.00	\$ 90.00	\$ 135.00	\$ 80.00	\$ 110.00	\$ 75.00
Storage Fee	88.50	104.25	108.00	120.00	90.00	105.00	60.00	90.00	60.00
Gate Fee	-	-	30.00	35.00	50.00	45.00	25.00	50.00	-
Other Fees	-	-	-	-	-	-	25.00	-	45.00
Total Contractor Fees	<u>\$ 176.90</u>	<u>\$ 225.25</u>	<u>\$ 248.00</u>	<u>\$ 275.00</u>	<u>\$ 230.00</u>	<u>\$ 285.00</u>	<u>\$ 190.00</u>	<u>\$ 250.00</u>	<u>\$ 180.00</u>
City Fees:									
City Release Fee	<u>\$ 100.00</u>	<u>\$ 50.00</u>	<u>\$ 97.00</u>	<u>\$ 100.00</u>	<u>\$ 85.00</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75.00</u>
Effective Tow Rate (see Footnote 2 below)	<u>\$ 276.90</u>	<u>\$ 275.25</u>	<u>\$ 345.00</u>	<u>\$ 375.00</u>	<u>\$ 315.00</u>	<u>\$ 285.00</u>	<u>\$ 190.00</u>	<u>\$ 250.00</u>	<u>\$ 255.00</u>

Footnote 1: San Francisco collects the \$121 towing fee if the vehicle owner picks up the vehicle within the first four hours of being towed.

If the owner picks up the vehicle between the fifth hour and the twenty-fourth hour, the towing fee plus the prorated storage fee is \$149.25.

Footnote 2: The effective tow rate represents the average charges that a vehicle owner must pay both the towing contractor and the city for a vehicle that has been towed and stored outside for three days.