

Agenda Report

November 8, 1999

TO: City Council
FROM: City Manager
SUBJECT: Towing Franchise Agreement

RECOMMENDATION

It is recommended that the City Council:

1. Defer action regarding modifying the Municipal Code regarding the establishment of an exclusive towing franchise and
2. Authorize the City Manager to enter into modified towing franchise agreements with the current tow operators under the terms and conditions described below.

BACKGROUND

In 1998, the Police Department received City Council approval to issue a Request for Proposals (RFP) to solicit bids from interested companies to provide towing services for the Pasadena Police Department. The successful bidder(s) would be awarded an exclusive franchise with the City and would be required to pay a fee for that franchise.

Prior to issuing the RFP, the Police Department calculated the value of the towing franchise based upon estimated towing volume. Conservatively, police staff determined that the successful franchisee could pay \$150,000 annually for the franchise and still make a profit. This was the amount communicated to the City Council and incorporated into the RFP. Based upon the recommendation of the Police Department, the City ended up splitting the award among three Pasadena towing companies with each agreeing to pay the City \$50,000 a year for the franchise rights. Service is rotated among the three companies and each is expected to remit \$12,500 quarterly to the City.

Shortly after the agreements were entered into, all three companies began claiming that they could not afford the fee since they were not making the projected money. There were several meetings between City Staff, the tow operators and their attorney and an audit of one company's financial records regarding their revenues was completed by the Department of Finance. Following the results of the audit and the lack of responsiveness on the part of the tow operators, staff recommended to the City Council that it authorize the City Attorney to revise the City's ordinance to allow an exclusive franchise and that the City re-bid the franchise.

DISCUSSION

Following the Council's approval for the City Attorney to prepare a modified Ordinance, several additional meetings between the City and the tow operators were held. The tow operators have submitted a compromise proposal to resolve the disagreements with the City. After a careful review of the proposal and a survey of the franchise fees collected in other cities, a counter proposal was prepared. Following a number of further exchanges, staff is prepared to recommend that the City continue to use the three tow operators to provide tow services to the Police Department.

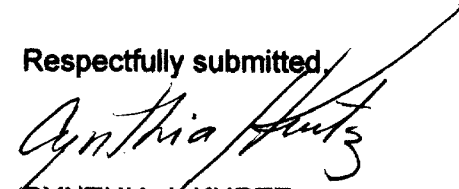
The terms and conditions of this proposal are as follows:

1. For the initial period of the franchise agreement (April 1998 through April 1999) each tow operator will pay the City \$25,000. This is a 50% reduction from the previously agreed upon amount of \$50,000.
2. For each month following the initial period, May 1999 through and including October 1999, each tow operator will agree to pay the City \$2,083.33. This represents one-twelfth of annual \$25,000.
3. Beginning November 1999, the annual amount each tow operator agrees to pay the City will be \$30,000. This will be paid to the City in monthly installments of \$2,500, payable by the 15th of each month, and will continue through October 2001 (a two-year period).
4. Beginning November 2001, the annual amount each tow operator agrees to pay the City will increase to \$35,000. This will be paid to the City in monthly installments of \$2,916.67, payable by the 15th of each month, and will continue through October 2004 (a three-year period).
5. The City will agree to monitor the number of tows it refers to each operator on a quarterly basis. If the monthly average for a given quarter drop below 70 vehicles per month per operator, the City will meet with each tow operator to determine if the month franchise fee should be reduced for that period. The final determination as to whether a reduction is made, however, will be solely the City's.
6. In addition, should the monthly average for a given quarter exceed 100 vehicles per month per operator, the tow operators will meet with the City to determine if the monthly franchise fee should be increased for that period.
7. The City will recommend an adjustment in the tow and storage rates to equal the City of Los Angeles and will meet with the tow operators to further discuss the imposition of a 10% franchise fee on top of all other fees currently imposed.
8. These terms and conditions will remain in affect through the five years of the agreement; however, should there be a change in State laws that affect this program, all parties agree to meet and determine if an adjustment to the terms of this agreement are necessary. If any tow operator becomes delinquent in its payments to the City, the City will terminate its agreement with that operator and will seek an alternative provider. The City will first hold discussions with any of the remaining tow operators to determine capacity before meeting with other potential operators.

FISCAL IMPACT


The City will receive \$90,000 annually for the first two years and \$105,000 annually for the remaining three years if staff's recommendation is approved by the City Council. In addition, the City will receive \$112,500 for past obligations of the tow operators. This is less than the amount originally proposed by the City and agreed to by each operator; however, a more careful review of surrounding areas reveal that the new proposed fee structure is reasonable.

Respectfully submitted,



CYNTHIA J. KURTZ
City Manager

Approved by:



Jay M. Goldstone
Director of Finance